

### COMPANY RESULTS

## Keppel Pacific Oak US REIT (KORE SP)

2Q24: Overcoming Adversity To Achieve Higher Portfolio Occupancy

**Portfolio occupancy improved 0.6ppt qoq to 90.7% in 2Q24 with higher occupancies at Westech 360 in Austin, One Twenty Five in Dallas and Iron Point in Sacramento. KORE had completed an early refinancing of loan facilities of US\$55.0m and extended a loan facility of US\$115.0m by 12 months in Jul 24. Management plans to resume distribution in 2026. KORE trades at 2026 distribution yield of 21.5% and P/NAV of 0.28x (72% discount to NAV). Maintain BUY. Target price: US\$0.34.**

### 2Q24 RESULTS

Year to 31 Dec (US\$m)	2Q24	yoy % Chg	Remarks
Gross Revenue	37.3	-4.0	Lower carpark income and recoveries, which was offset by built-in average rental escalation of 2.6% per year.
Net Property Income (NPI)	21.0	-7.4	
Adjusted NPI	21.8	-3.6	Exclude non-cash straight-line rent and lease incentives.
Distributable Income	11.9	-8.8	Financing cost increased 17.5% yoy.
DPU (US cents)	0.00	-100.0	

Source: KORE, UOB Kay Hian

### RESULTS

- Keppel Pacific Oak US REIT (KORE) reported distributable income of US\$11.9m for 2Q24, which is in line with our expectations. No distribution was declared for 1H24 due to its recapitalisation plan.
- Resilient performance despite tough operating environment.** Gross revenue and NPI declined 4.0% and 7.4% respectively in 2Q24. Excluding non-cash adjustments, such as lease incentives and amortisation of straight-line rent and leasing commissions, adjusted NPI declined 3.6% yoy due to lower carpark income from The Plaza Buildings at Bellevue and lower recoveries. Finance expenses increased 17.5% yoy to US\$13.8m in 1H24.
- Chalking up mild positive rental reversion.** KORE registered mild positive rental reversion of 1.2% for 199,494sf of office space leased, representing 4.2% of portfolio NLA, in 2Q24. Bellevue/Redmond, Denver and Orlando contributed to most of the leasing completed in 1H24. KORE benefits from built-in average annual rental escalation of 2.6% across its portfolio.
- Portfolio occupancy improved 0.6ppt qoq to 90.7% in 2Q24.** Occupancies at Westech 360 in Austin, One Twenty Five in Dallas and Iron Point in Sacramento improved 6.4ppt, 2.7ppt and 5.9ppt qoq to 76.6%, 95.0% and 65.9% respectively. KORE had built spec suites at these three properties, which were well taken up.
- BAE Systems has become KORE's second largest tenant** after acquiring Ball Aerospace, its anchor tenant at Westmoor Center in Denver, for US\$5.6b in Feb 24. BAE Systems is the largest defence contractor in Europe. Ball Aerospace builds spacecraft, instruments and sensors for military and civilian satellites.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	148	151	139	142	144
EBITDA	74	77	75	77	78
Operating profit	74	77	75	77	78
Net profit (rep./act.)	48	(68)	46	47	47
Net profit (adj.)	56	84	46	47	47
EPU (US\$ cent)	5.4	8.0	4.4	4.5	4.5
DPU (US\$ cent)	5.8	2.5	0.0	0.0	4.3
PE (x)	3.7	2.5	4.5	4.4	4.4
P/B (x)	0.2	0.3	0.3	0.3	0.3
DPU Yld (%)	29.0	12.5	0.0	0.0	21.5
Net margin (%)	32.8	(44.9)	33.1	33.1	32.8
Net debt/(cash) to equity (%)	60.8	76.9	74.9	70.6	74.7
Interest cover (x)	4.0	3.2	2.8	2.8	2.8
ROE (%)	5.7	n.a.	6.2	5.9	5.8
Consensus DPU (US\$ cent)	n.a.	n.a.	n.a.	n.a.	3.1
UOBKH/Consensus (x)	-	-	-	-	1.38

Source: Keppel Pacific Oak US REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$0.20
Target Price	US\$0.34
Upside	+70.0%

### COMPANY DESCRIPTION

KORE invests in a diversified portfolio of income-producing office real estate in growth cities driven by innovation and technology. It owns 13 freehold office buildings and business campuses in eight markets, namely Seattle – Bellevue/Redmond, Austin, Denver, Nashville, Houston, Dallas, Orlando and Sacramento.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KORE SP
Shares issued (m):	1,044.5
Market cap (US\$m):	208.9
Market cap (US\$m):	208.9
3-mth avg daily t'over (US\$m):	0.5

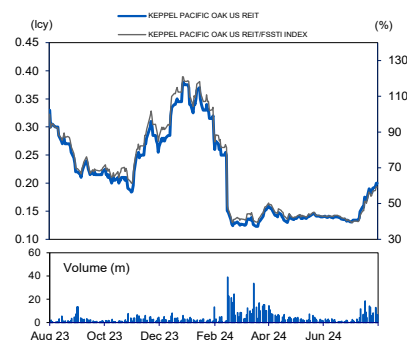
### Price Performance (%)

52-week high/low	US\$0.38/US\$0.123			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
49.3	46.0	(37.5)	(41.2)	(46.7)

### Major Shareholders

Shareholder	%
Temasek Hldgs	7.2
Hillsboro Capital	8.7
FY24 NAV/Share (US\$)	0.74
FY24 Net Debt/Share (US\$)	0.55

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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• **Completed refinancing prior to maturity.** Aggregate leverage improved 0.5ppt to 42.7% in 1H24 due to withholding of distribution. Interest coverage ratio is healthy at 2.9x. All-in cost of debt was stable at 4.47% in 1H24. KORE had completed an early refinancing of loan facilities of US\$55.0m (original maturity: 4Q24) and extended a loan facility of US\$115.0m by 12 months (original maturity: 3Q25) in Jul 24, amounting to US\$170.0m in total. Margin for the refinanced loan has increased by a manageable 30-40bp. Assuming the refinancing and loan extension occurred on 1 Jan 24, all-in cost of debt would have increased only marginally to 4.56%.

• **NAV per unit has increased 2.9% to US\$0.71** due to withholding of distribution.

### STOCK IMPACT

• **Navigating office downturn without diluting unitholders' interests.** By halting distribution in 2024 and 2025, KORE can fund its capex internally, while avoiding divesting its assets at depressed fire-sale prices. Assuming no further revaluation losses from its investment properties at end-24, KORE will provide an attractive distribution yield of 21.5% for 2026 when it resumes normal distribution. P/NAV is already at a distressed level of 0.28x despite KORE not breaching any loan covenants.

• **Pre-emptive move to shore up balance sheet.** KORE will recapitalize its balance sheet by suspending distributions for 2024 and 2025. KORE intends to resume distribution in 1H26. The pre-emptive move will keep leverage and interest coverage within MAS' and banks' limits. Management has evaluated other options:

a) KORE is unable to divest any properties at reasonable prices that are beneficial to its unitholders. Many potential buyers are unable to access financing from banks. Persisting on divestment at low valuation would destroy unitholders' value.

b) Management has estimated capex at US\$60m for 2024 and US\$50m for 2025. These investments are necessary to retain tenants and attract new ones. Relying on bank borrowings to fund capex would risk KORE eventually breaching regulatory leverage limits or its debt covenants.

• **Conditions for earlier resumption of distribution.** Banks are still reluctant to lend for acquisitions of commercial real estate. KORE will consider an earlier resumption of distribution if banks resume funding for commercial real estate, as it will lead to improved liquidity in the transaction market for physical office properties. It would then be able to divest some of its office properties to deleverage, which would pave the way for KORE to begin paying its usual distribution.

### EARNINGS REVISION/RISK

• We maintain forecast DPU of 4.3 US cents for 2026.

### VALUATION/RECOMMENDATION

• KORE provides 2026 distribution yield of 21.5% and trades at P/NAV of 0.28x (72% discount to NAV per unit at US\$0.71).

• **Maintain BUY.** We maintain BUY with an unchanged target price of US\$0.34 based on DDM (cost of equity: 10.25%, terminal growth: 0.0%).

### SHARE PRICE CATALYST

• Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration.

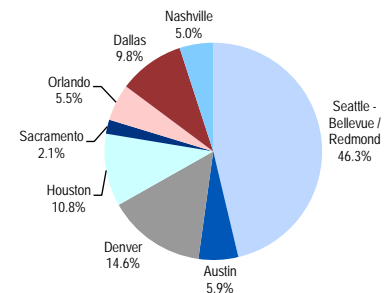
• Growth from built-in average annual rental escalation of 2.6%.

### KEY OPERATING METRICS

Key Metrics	2Q23	3Q23	4Q23	1Q24	2Q24	yoy % chg	qoq % chg
DPU (US cents)	2.50	n.a.	0.00	n.a.	0.00	-100.0%	n.a.
Occupancy	90.8%	91.4%	90.3%	90.1%	90.7%	-0.1ppt	0.6ppt
Aggregate Leverage	38.4%	39.1%	43.2%	43.0%	42.7%	4.3ppt	-0.3ppt
Average Cost of Debt	3.89%	3.95%	4.00%	4.34%	4.36%	0.47ppt	0.02ppt
WALE by NLA (years)	3.5	3.4	3.6	3.7	3.6	0.1yrs	-0.1yrs
Average Debt Maturity (years)	3.1	2.9	2.7	2.5	2.3	-0.8yrs	-0.2yrs
Rental Reversions	2.6%	3.8%	-4.4%	-1.4%	1.2%	-1.4%	2.6%

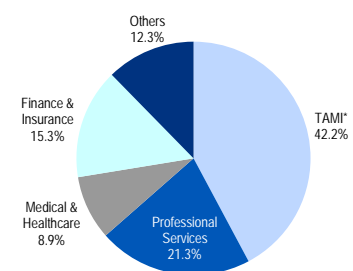
Source: KORE

### GEOGRAPHICAL DIVERSIFICATION BY NPI (JUN 24)



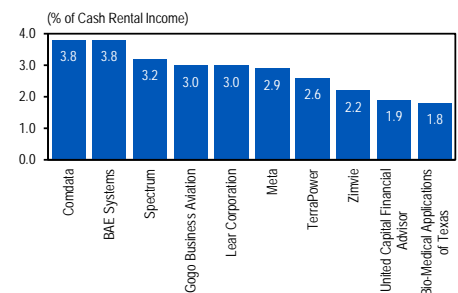
Source: KORE

### INDUSTRY DIVERSIFICATION BY NLA (JUN 24)



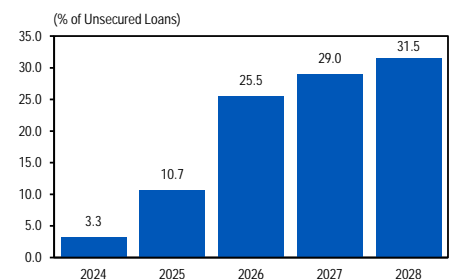
Source: KORE \*Technology, Advertising, Media & Information

### TOP 10 TENANTS (JUN 24)



Source: KORE

### DEBT MATURITY PROFILE POST REFINANCING AND EXTENSION OF LOANS



Source: KORE

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	150.8	139.3	142.2	143.5
EBITDA	76.8	75.2	76.7	77.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	76.8	75.2	76.7	77.5
Net interest income/(expense)	(23.8)	(26.6)	(27.2)	(27.9)
Pre-tax profit	(98.8)	48.5	49.6	49.6
Tax	31.0	(2.4)	(2.5)	(2.5)
Net profit	(67.7)	46.1	47.1	47.1
Net profit (adj.)	84.0	46.1	47.1	47.1

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	84.2	65.9	77.4	77.8
Pre-tax profit	(98.8)	46.1	47.1	47.1
Working capital changes	6.3	(9.4)	0.7	0.3
Non-cash items	151.7	0.0	0.0	0.0
Other operating cashflows	25.0	29.2	29.7	30.4
Investing	(45.9)	(60.0)	(50.0)	(40.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(46.7)	(60.0)	(50.0)	(40.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	0.0	0.0	0.0
Financing	(58.0)	(1.2)	(27.2)	(37.7)
Distribution to unitholders	(55.1)	0.0	0.0	(44.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.7	25.4	0.0	35.0
Others/interest paid	(24.6)	(26.6)	(27.2)	(27.9)
Net cash inflow (outflow)	(19.7)	4.6	0.3	0.1
Beginning cash & cash equivalent	63.4	43.8	48.4	48.7
Ending cash & cash equivalent	43.8	48.4	48.7	48.8

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,326.3	1,386.3	1,436.3	1,476.3
Other LT assets	19.0	19.0	19.0	19.0
Cash/ST investment	43.8	48.4	48.7	48.8
Other current assets	4.6	4.0	4.1	4.1
Total assets	1,393.7	1,457.7	1,508.0	1,548.2
ST debt	75.0	75.0	75.0	75.0
Other current liabilities	41.1	31.7	32.3	32.6
LT debt	524.6	550.0	550.0	585.0
Other LT liabilities	29.8	31.8	34.3	36.9
Shareholders' equity	723.2	769.3	816.4	818.7
Total liabilities & equity	1,393.7	1,457.7	1,508.0	1,548.2

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	50.9	54.0	54.0	54.0
Pre-tax margin	(65.5)	34.8	34.8	34.5
Net margin	(44.9)	33.1	33.1	32.8
ROA	n.a.	3.2	3.2	3.1
ROE	n.a.	6.2	5.9	5.8
Growth				
Turnover	1.9	(7.6)	2.1	1.0
EBITDA	3.4	(2.1)	2.1	1.0
Pre-tax profit	(305.6)	n.a.	2.1	0.0
Net profit	(239.7)	n.a.	2.1	0.0
Net profit (adj.)	49.5	(45.1)	2.1	0.0
EPU	49.4	(45.1)	2.1	0.0
Leverage				
Debt to total capital	45.3	44.8	43.4	44.6
Debt to equity	82.9	81.2	76.5	80.6
Net debt/(cash) to equity	76.9	74.9	70.6	74.7
Interest cover (x)	3.2	2.8	2.8	2.8

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