

COMPANY UPDATE

Keppel Pacific Oak US REIT (KORE SP)

Rising With Organic Growth From Magnet Cities

KORE benefits from the dispersion of tech jobs to rising star cities, such as Atlanta, Dallas, Denver and Orlando, which account for 34.4% of its AUM. Management guided positive rent reversion at mid-single-digit in 2022 driven by Seattle and Sacramento. The redevelopment of multi-family units atop the car park at The Plaza Buildings will be finalised over the next two quarters. KORE provides attractive distribution yield of 9.0% for 2022. Maintain BUY. Target price: US\$1.07.

WHAT'S NEW

- **Benefitting from in-migration of companies and population to rising star cities.** Tech jobs have migrated to rising star cities outside the Silicon Valley. These regional tech hubs are growing at a faster pace. Major tech companies Hewlett Packard, Oracle, Palantir and Tesla have moved their headquarters from California to Texas. Keppel Pacific Oak US REIT (KORE) has presence in four rising star cities Atlanta, Dallas, Denver and Orlando, which accounted for 34.4% of its AUM.
- **Decentralisation and dispersion of tech jobs.** According to a study by Brookings Institute, technology employment at nine rising star cities, Atlanta, Dallas, Denver, Miami, Orlando, San Diego, Kansas City, St Louis and Salt Lake City, grew at CAGR of 5% between 2015 to 2019. These rising star cities have increased their share of postings for tech jobs from 14.5% in 2016 to 16.0% in 2021. During the same period, share of traditional hubs, such as Boston, Bay Area, New York and Los Angeles, contracted from 40% to 31%. Rising star cities have increased vibrancy and gained share in the number of technology start-ups at the expense of San Francisco and San Jose.
- **Organic growth from positive rent reversion and rental escalation.** Management guided positive rent reversion at mid-single-digit in 2022, driven by Seattle (Bellevue/Redmond) and Sacramento. In-place passing rents are 8.9% below asking rents on a portfolio-wide basis, which underpins organic growth from sustained positive rent reversion. In addition, KORE also benefits from built-in average annual rental escalation of 2.4%.
- **Locking in higher rents at Bellevue CBD and Redmond.** According to CBRE, leasing on the Eastside continues to be dominated by tech companies, which accounted for 40% of new and renewed leases in 1Q22. Vacancy at Bellevue CBD sub-market is low at 4.5%. 86% of the 3.8m sf of office space under construction is pre-committed to tenants, such as Amazon (e-commerce) and Bungie (video game). Vacancy at Redmond sub-market is tight at 3.2% as there is no new construction. KORE is expected to achieve positive rent reversion for The Plaza Buildings at Bellevue CBD and The Westpark Portfolio at Redmond, which have 6.3% and 13.2% of NLA up for renewal in 2022.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	140	141	150	151	152
EBITDA	74	74	79	82	82
Operating profit	74	74	79	82	82
Net profit (rep./act.)	56	77	62	62	62
Net profit (adj.)	45	46	62	62	62
EPU (US\$ cent)	4.8	4.8	6.0	5.9	5.8
DPU (US\$ cent)	6.2	6.3	6.3	6.1	6.0
PE (x)	14.5	14.7	11.8	11.8	12.0
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	8.9	9.1	9.0	8.7	8.6
Net margin (%)	40.4	54.8	41.6	41.3	40.8
Net debt/(cash) to equity (%)	57.8	59.8	63.2	66.4	69.7
Interest cover (x)	4.7	5.1	4.7	4.3	4.1
ROE (%)	7.4	9.5	7.3	7.3	7.3
Consensus DPU (US\$ cent)	n.a.	n.a.	6.2	6.7	6.7
UOBKH/Consensus (x)	-	-	1.01	0.90	0.90

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

BUY

(Maintained)

Share Price	US\$0.70
Target Price	US\$1.07
Upside	+52.9%

COMPANY DESCRIPTION

KORE invests in a diversified portfolio of income-producing office real estate in growth cities driven by innovation and technology. It owns 15 freehold office buildings and business campuses in nine markets, namely Seattle – Bellevue/Redmond, Austin, Denver, Nashville, Houston, Dallas, Orlando, Sacramento and Atlanta.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KORE SP
Shares issued (m):	1,044.5
Market cap (US\$m):	731.1
Market cap (US\$m):	731.1
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

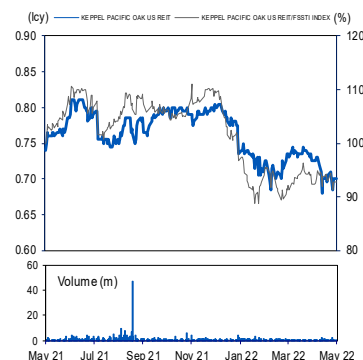
52-week high/low			US\$0.81/US\$0.68	
1mth	3mth	6mth	1yr	YTD
(4.1)	(2.1)	(11.4)	(4.8)	(12.5)

Major Shareholders

	%
Temasek Hldgs	11.1
Hillsboro Capital	8.7
-	-

FY22 NAV/Share (US\$)	0.81
FY22 Net Debt/Share (US\$)	0.51

PRICE CHART



Source: Bloomberg

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- **Sacramento helps to retain tech companies within California.** Sacramento continues to attract tech companies relocating from the Bay Area. It is a stone's throw away from Silicon Valley and in close proximity to UC Berkeley and UC Davis. Vacancy at Folsom sub-market is low at 6.2%. KORE is expected to achieve positive rent reversion for Iron Point at Folsom, which have 35.2% of NLA up for renewal in 2022.
- **Employees returning to their offices.** Sunbelts markets have outperformed gateway cities in workplace occupancy. Texas is leading with Austin, Houston and Dallas registering workplace occupancy of 62.4%, 56.3% and 51.8% respectively.
- **Asset enhancement for The Plaza Buildings.** KORE has hired Pastakia + Associates for permitting and entitlement work on a new five-storey multi-family building in downtown Bellevue atop an existing six-storey car park at The Plaza Buildings. The site is in close proximity to lots of lifestyle amenities, including Bellevue Square (Macy's and Nordstrom) and The Shops At Bravern (European-inspired upscale retailers and restaurants). It is 380m away from Bellevue Downtown Station, where light rail service is scheduled to commence in 2023.
- **Weighing the best option.** The redevelopment is in line with KORE's mandate to invest in commercial assets in key growth markets in the US. Management is weighing its options: a) holding the multi-family units for recurrent rental income, or b) asset recycling by divesting the multi-family units. KORE will disclose more details when the redevelopment plan is finalised over the next two quarters.

STOCK IMPACT

- **Rents in magnet cities started to increase.** According to CoStar Office Report, average growth in rents for growth markets over the past 12 months was 1.2% as of Apr 22. Notable increases were seen at Sacramento, Folsom (+1.7%), Austin, Northwest (+2.4%), Seattle, Eastside Bellevue (+2.6%), Seattle, Redmond (+2.6%) and Orlando, Maitland (+3.0%). Average growth in rents over the next 12 months is projected to be 3.4%.
- **Continue to invest in growth from magnet cities.** KORE has presence in six out of the 20 fastest growing states in the US. Management continues to scout for opportunities to invest in growth markets, such as Phoenix in Arizona, Raleigh and Durham in North Carolina, Salt Lake City in Utah, San Antonio in Texas and Tampa and Miami in Florida. Many companies adopt the hub-and-spoke model where they retain their main office in gateway cities but open smaller satellite offices in key growth markets.

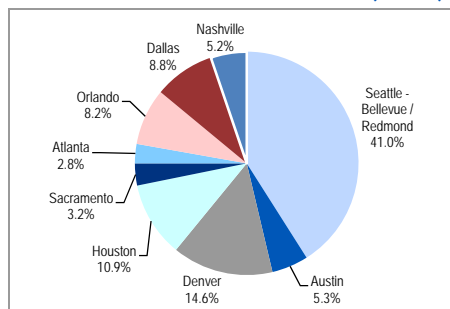
VALUATION/RECOMMENDATION

- **Growth from in-migration and magnet cities.** Our target price of US\$1.07 is based on DDM (cost of equity: 7.0%, terminal growth: 1.5%).
- **KORE is unique due to its focus on suburban offices in magnet cities.** KORE provides a distribution yield of 9.0% and yield spread of 7.3% for 2022. It trades at P/NAV of 0.86x. KORE offers brighter growth prospects due to growth from in-migration at Super Sun Belt and 18-hour cities and technology tenants.

SHARE PRICE CATALYST

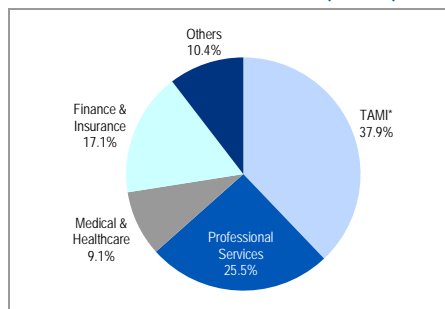
- Growth from Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from continued positive rental reversion.

GEOGRAPHICAL DIVERSIFICATION BY NPI (MAR 22)



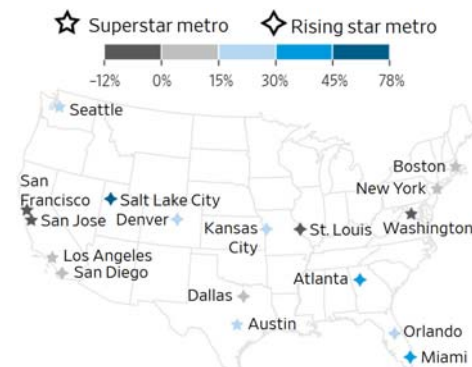
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (MAR 22)



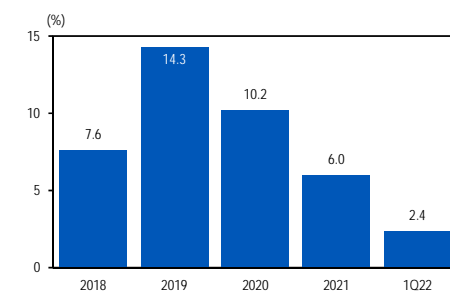
Source: KORE
*Technology, Advertising, Media & Information

TECH JOB POSTINGS BY METRO AREA IN 2021, CHG FROM 2019



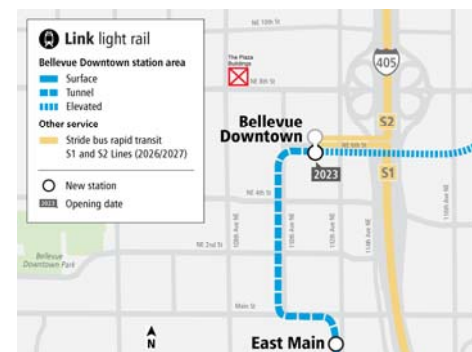
Source: Brookings Institute

POSITIVE RENTAL REVERSION



Source: KORE

BELLEVUE DOWNTOWN STATION



Source: Sound Transit

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	141.3	149.7	151.0	152.2
EBITDA	73.9	79.3	81.5	82.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	73.9	79.3	81.5	82.0
Net interest income/(expense)	(14.6)	(17.0)	(19.2)	(19.9)
Pre-tax profit	90.3	62.3	62.3	62.1
Tax	(13.0)	0.0	0.0	0.0
Net profit	77.4	62.3	62.3	62.1
Net profit (adj.)	46.3	62.3	62.3	62.1

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	1,455.8	1,480.8	1,505.8	1,530.8
Other LT assets	2.6	2.6	2.6	2.6
Cash/ST investment	51.0	55.7	49.5	48.1
Other current assets	4.2	5.1	5.2	5.2
Total assets	1,513.6	1,544.2	1,563.1	1,586.7
ST debt	123.2	123.2	123.2	123.2
Other current liabilities	31.3	33.8	34.1	34.4
LT debt	438.4	470.0	490.0	515.0
Other LT liabilities	66.7	66.8	66.9	66.9
Shareholders' equity	853.9	850.3	848.9	847.2
Total liabilities & equity	1,513.6	1,544.2	1,563.1	1,586.7

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	82.9	81.0	81.8	82.2
Pre-tax profit	90.3	62.3	62.3	62.1
Working capital changes	1.8	1.7	0.3	0.3
Non-cash items	(24.8)	6.9	5.5	5.8
Other operating cashflows	15.6	10.2	13.6	14.1
Investing	(130.9)	(25.0)	(25.0)	(25.0)
Capex (growth)	(103.5)	0.0	0.0	0.0
Capex (maintenance)	(27.5)	(25.0)	(25.0)	(25.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.1	0.0	0.0	0.0
Financing	41.6	(51.3)	(63.0)	(58.7)
Distribution to unitholders	(65.5)	(65.8)	(63.8)	(63.8)
Issue of shares	65.0	0.0	0.0	0.0
Proceeds from borrowings	57.7	31.6	20.0	25.0
Others/interest paid	(15.6)	(17.0)	(19.2)	(19.9)
Net cash inflow (outflow)	(6.3)	4.7	(6.2)	(1.4)
Beginning cash & cash equivalent	57.3	51.0	55.7	49.5
Ending cash & cash equivalent	51.0	55.7	49.5	48.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Turnover	1.2	6.0	0.9	0.8
EBITDA	(0.2)	7.3	2.8	0.5
Pre-tax profit	30.2	(31.1)	0.1	(0.5)
Net profit	37.2	(19.5)	0.1	(0.5)
Net profit (adj.)	2.4	34.4	0.1	(0.5)
EPU	(1.4)	25.2	(0.6)	(1.1)
Profitability				
EBITDA margin	52.3	53.0	54.0	53.8
Pre-tax margin	63.9	41.6	41.3	40.8
Net margin	54.8	41.6	41.3	40.8
ROA	5.4	4.1	4.0	3.9
ROE	9.5	7.3	7.3	7.3
Leverage				
Debt to total capital	39.7	41.1	41.9	43.0
Debt to equity	65.8	69.8	72.2	75.3
Net debt/(cash) to equity	59.8	63.2	66.4	69.7
Interest cover (x)	5.1	4.7	4.3	4.1

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