

Perennial Real Estate Holdings (PREH SP) : BUY

Mkt. Cap: US\$1,096m | **3m Avg. Daily Val:** US\$0.09m

Last Traded Price (3 Jan 2018): S\$0.88

Price Target 12-mth: S\$1.05 (19% upside)

Analyst

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Expanding via a 'healthcare fund'

- PREH (45%) partners Shun Tak (30%) to lead a consortium to invest in high-speed railway healthcare integrated projects with up to US\$1.2bn capital commitment
- First close of capital commitment of US\$500m
- Positive move for PREH in moving its healthcare portfolio into an asset-light model and building recurring income
- Separately, PREH and Pontiac Land have signed a settlement agreement, expected to complete within 19 weeks

Forecasts and Valuation				
FY Dec (\$m)	2016A	2017F	2018F	2019F
Revenue	110	93.9	114	115
EBITDA	115	199	104	105
Pre-tax Profit	53.9	125	29.5	31.2
Net Profit	35.1	78.9	13.5	13.8
Net Pft (Pre Ex.)	35.1	78.9	13.5	13.8
Net Pft Gth (Pre-ex) (%)	(55.7)	125.1	(82.9)	2.2
EPS (S cts)	2.11	4.74	0.81	0.83
EPS Pre Ex. (S cts)	2.11	4.74	0.81	0.83
EPS Gth Pre Ex (%)	(56)	125	(83)	2
Diluted EPS (S cts)	2.11	4.74	0.81	0.83
Net DPS (S cts)	0.40	0.40	0.40	0.40
BV Per Share (S cts)	163	167	168	168
PE (X)	41.8	18.6	108.6	106.2
PE Pre Ex. (X)	41.8	18.6	108.6	106.2
P/Cash Flow (X)	nm	14.0	nm	nm
EV/EBITDA (X)	45.5	26.0	51.1	51.0
Net Div Yield (%)	0.5	0.5	0.5	0.5
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.7	0.7	0.7	0.7
ROAE (%)	1.3	2.9	0.5	0.5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

'Healthcare fund' with Shun Tak and others.

Perennial Real Estate Holdings (PREH) just announced the setup of a 'healthcare fund' which the company spoke about one year ago. The anchors for the healthcare fund are PREH (45%) and Shun Tak (30%) with remaining partners including Bangkok Bank (10%), Breadtalk Group (5%), Mr Kuok Khoon Hong (4%), S1F Pte Ltd (4%) and Wilmar (2%).

We see this as a positive move for PREH that could potentially i) increase its "fire-power" to US\$2.0bn (based on an estimated debt/equity level of 60%) to scale up its integrated real estate and healthcare business with its equity contribution of only US\$0.54bn, ii) provide the company with an asset-light platform for its two existing high-speed railway healthcare integrated projects in Chengdu and Xi'an, and iii) build its recurring income platform from asset/property management fees.

PREH expects to finalise the details of the new partnership by this year.

Key details of the fund:

- Total capital commitment of up to US\$1.2bn (S\$1.61bn).
- First close of the total capital commitment to the JV of US\$500.0m (S\$672.04m), which will be drawn down progressively

Flash Note

- Fund life of 6-8 years (subject to approval by the board of the JV Co)
- Targeted investment assets are healthcare integrated mixed-use developments which are connected to high-speed railway stations, located in Tier 1 or strong Tier 2 cities and provincial capitals in China.
- PREH, together with the fund is expected to grow up to eight projects with a total GFA of over 4m sqm.
- Separately, PREH and Shun Tak will set up two JV companies (JV Co) for both i) asset and project management, and ii) hotel management, while PREH will be the sole property manager.)

Resolution of the dispute on The Capitol Singapore

In addition to the announcement on the 'healthcare fund', PREH announced that it has, together with its partner Pontiac Land (via Chesham Properties Pte Ltd), signed a settlement agreement which provides a mechanism by which either PREH or Pontiac will purchase all of the others' shares in The Capitol Singapore project. The sale and

purchase of shares is expected to be completed within 19 weeks (by May/June 2018) of the date of the Settlement Agreement.

Share buyback

PREH has been buying back its shares at below 90 Scents per share since December 2017.

Maintain BUY; TP S\$1.05

We remain positive on its medium- to long-term development plans, especially as its investments in China (and its healthcare hub) slowly comes to fruition despite potential near-term financial risks.

Once again, Mr Pua continues to get support and strength from its stakeholders and like-minded partners within the industry to invest and expand into development assets with growth opportunities in the future.

JV Vehicle's consortium of partners

Partners	% stakes	First close (US\$'mn)	Total capital commitment (US\$'mn)
PREH	45%	225	540
Shun Tak	30%	150	360
Bangkok Bank	10%	50	120
Breadtalk	5%	25	60
S1F Pte Ltd	4%	20	48
Mr Kuok Khoon Hong	4%	20	48
Wilmar	2%	10	24
Total	100%	500	1,200

Source: Company, SGX

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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