Singapore Company Guide

Keppel-KBS US REIT

Version 2 | Bloomberg: KORE SP | Reuters: KPEL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Dec 2018

BUY

Last Traded Price (6 Dec 2018): US$0.56 (**STI :** 3,115.52)
Price Target 12-mth: US$0.78 (39% upside) (Prev US$0.95)

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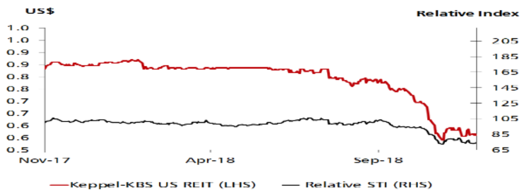
What's New

- Acquisitions of Westpark Portfolio and Maitland Promenade I deepen exposure to growing technology sector
- Under-rented portfolio provides medium term upside
- Concerns over tax structure and disappointment over impact of recent rights issue largely priced in

Price Relative



Forecasts and Valuation

FY Dec (US$m)	2017P	2018F	2019F	2020F
Gross Revenue	84.6	93.8	118	126
Net Property Inc	48.5	55.3	71.6	76.9
Total Return	22.9	32.7	40.8	43.5
Distribution Inc	n/a	38.5	49.7	52.5
EPU (US cts.)	n/a	3.97	4.91	5.17
EPU Gth (%)	n/a	n/a	24	5
DPU (US cts.)	n/a	5.21	5.98	5.98
DPU Gth (%)	n/a	n/a	15	0
NAV per shr (US cts.)	83.7	76.1	75.4	74.7
PE (X)	15.4	14.1	11.4	10.8
Distribution Yield (%)	n/a	9.3	10.7	10.7
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	34.4	36.1	40.6	41.0
ROAE (%)	4.4	5.7	6.5	6.9
DPU Chng (%):	(12)	(5)	(6)	
Consensus DPU (US cts.):	N/A	N/A	N/A	
Other Broker Recs:	B: 1	S: 0	H: 1	

** 2017P based on proforma numbers. 2017P is also based on annualised 1H17 numbers. 2018-2020F are based on DBS estimates*

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

Once in a blue moon opportunity

Catch the next wave. We maintain our BUY call and a revised TP of US$0.78 for Keppel-KBS US REIT (KORE). We continue to believe that KORE offers investors the opportunity to catch the next leg of the US office market upturn. KORE's 12 freehold office assets are located in seven key regional markets in the US which are seeing positive dynamics and should also benefit from tenants seeking cheaper rents and the flow of capital as investors pursue markets where asset prices have yet to rally as much as some gateway cities. This thesis has been borne out with KORE exceeding its IPO forecast since its listing a year ago.

Where we differ: Concerns priced in. KORE's share price has corrected over the last few months due to the disappointment over having a rights issue so soon after its listing, potential for another US office REITs listing and concerns over a negative ruling on its tax structure. However, we believe the majority of these concerns have also been priced in given KORE now trades at a 10-11% forward yield (or in the worst-case 7% assuming the current tax structure is ruled invalid) and c.25% discount to book value during a period when rents are still on an upswing.

Continue delivering or exceeding IPO projections. The correction in KORE's share price has cast doubts over the quality and ability of KORE's portfolio to perform. Thus, we believe as KORE delivers or exceeds its IPO forecasts, investors' concerns should be allayed resulting in a re-rating of the stock.

Valuation:

After incorporating the recent acquisition and rights issue, we lowered our DCF-based TP to US$0.78 from US$0.95.

Key Risks to Our View:

The key risk to our view is lower-than-expected rental income arising from loss of tenants or slower upturn in spot office rents, and changes to tax regulations in the US.

At A Glance

Issued Capital (m shrs)	816
Mkt. Cap (US$m/US$m)	457 / 457
Major Shareholders (%)	
Cornerstone Investors	30.1
Hillsboro Capital	9.0
KBS Sor Properties	7.0
Free Float (%)	46.9
3m Avg. Daily Val (US$m)	0.59
ICB Industry : Financials / Real Estate Investment Trust	

Live more, Bank less

WHAT'S NEW

Pricing in recent rights issue and acquisitions

295-for-1000 rights issue raising US$93.1m

- In late September 2018, KORE announced its maiden acquisition with the signing of an agreement with KBS Strategic Opportunity REIT (SOR), the REIT that originally seeded KORE, to purchase the Westpark Portfolio for US$169.4m, a 4.8% and 6.6% discount to two independent valuations by Cushman & Wakefield and JLL respectively. The acquisition price translates into an initial NPI yield of 6.80-6.85%.
- However, the transaction was then subject to EGM approval and KORE had yet to finalise plans for an equity raising.
- Subsequently, KORE obtained unitholder approval for the acquisition and announced a 295-for-1000 rights issue raising US$93.1m. The rights price was set at US$0.50.
- The remainder of the purchase consideration for Westpark Portfolio was funded with onshore five-year debt with an all-in borrowings cost of c.4.5%.
- Post the rights issue, in late November, KORE announced the acquisition of Maitland Promenade I (MP1) for US$48.5m, which is located next to its existing property Maitland Promenade II in Orlando, Florida. We understand the property was acquired on a cap rate of 7.7% with completion of the acquisition slated for mid-to-late January 2019.
- The purchase of MP1 is expected to be 100% debt funded at an interest cost of c.4.7%.

Westpark Portfolio overview

- The Westpark Portfolio is a business campus comprising 21 freehold buildings in Seattle-Tacoma-Bellevue Metropolitan Statistical Area (Seattle MSA).
- Strategically located in Redmond, the property is within the strongly performing Eastside office market in Seattle MSA, where KORE's two other properties, The Plaza Buildings and Bellevue Technology Center, are located.
- Redmond is a key technology hub with the headquarters of Microsoft Corporation and Nintendo America's headquarters.
- According to Cushman and Wakefield, Seattle MSA is experiencing strong leasing demand from the technology and professional services sectors. Coupled with a supply-constrained market with limited available site for new development, it is expected to be one of the strongest US office markets with steady rent growth of c.4% by 2020.
- The Westpark Portfolio is a freehold property has a total net lettable area of 781,966 sqft with a current committed occupancy of 97.7%.
- The weighted average lease expiry (WALE) stands at 4.3 years with the top 10 largest tenants having a WALE of 5.3 years. In the near term, 7.2%, 12.0% and 17.9% of leases by cash rental income (CRI) are due to expire in 2018, 2019 and 2020 respectively.
- All leases at the property have inbuilt rental escalations of between 2% and 3% p.a.
- Since the acquisition of KBS SOR in February 2016, the Westpark Portfolio has been repositioned with extensive capital improvements including the conversion of underutilised space to an amenities centre. This has resulted in increased demand from the technology and professional services sector.
- The high-growth technology sector now contributes 34.8% of the property by NLA, with professional services forming 38.2% of its NLA. The top ten tenants contributed c.44.1% of June 2018 CRI, with the largest tenant being Oculus VR Inc, an American Technology company backed by Facebook Inc, at 15.6% of CRI.
- As Oculus only entered into three leases on 10 August 2018, as per the terms of the lease agreement, it has not commenced paying rent. Thus, KBS SOR and KORE have entered into a free rent agreement whereby KBS SOR will pay KORE from the date of the closing of the acquisition until the lease commencement dates of December 2018 and by May 2019, a total rent of US$145,390, as compensation for the period prior to the commencement of the leases. In addition, as the three leases with Oculus contains three months of free rent, KBS SOR will pay KORE an amount equal to the agreed free rent of US$463,058.
- We understand that existing rents are 8-10% below market rents, which present potential positive rental reversions going forward.

Maitland Promenade I overview

- Maitland Promenade I is a freehold property with access to a three-storey parking deck.
- Total net lettable area (NLA) stands at 230,371 sqft with committed occupancy as at 25 October 2018 of 98.1%.
- The building is easily accessible to the Interstate 4 (I-4), thus it is just a short commute to Orlando International

Airport, CBD and residential options in the nearby Winter Park.

- We understand the weighted average lease expiry (WALE) of the property is c.4.2 years, with no lease expiries due in 2019. Most leases also have inbuilt-rental escalations of 2-3% per annum.
- Furthermore, we understand passing rents for the property is c.10% below asking/market rents.
- The acquisition is expected to deepen its presence in the growing Maitland submarket which based on CoStar estimates is projected to experience a 3.4% rental growth, slightly higher than 3.1% rental growth over the last 12 months.
- Moreover, the submarket provides exposure to the technology sector as well as the finance insurance companies, which is unlike the majority of the Orlando metro area which is largely driven by the leisure and hospitality sectors.

Financial impact of acquisitions

- After incorporating the recent rights issue and acquisitions of Westpark Portfolio and MP1, we have lowered our FY18/19/20F DPU by 12/5/6%. A larger 12% cut in our FY18F DPU is due to only one month's worth of contribution for the Westgate Portfolio but full impact of additional units from the rights issue in 2H18.
- Based on our new forecast, we expect KORE to deliver a c.15% jump in FY19 DPU largely on the back of the boost from the acquisition of Westpark Portfolio and impact from positive rental reversions in the prior year. Thereafter, we expect a flattish DPU profile, despite underlying earnings growing, as we have assumed a cut in the payout ratio from 100% in FY19 to 90% in the medium term and eventual implementation of a distribution reinvestment program. This is to ensure that KORE's gearing does not exceed the 45% regulatory cap in the medium term as we have assumed that KORE funds the majority of its tenant improvement with debt and we typically do not forecast portfolio revaluation gains.
- On the back of lower earnings and incorporating our DBS economists more hawkish interest rate outlook (we now use 3.6% risk-free rate and 5.0% cost), we have also lowered our DCF-based TP to S$0.78 from US$0.95.
- Post the acquisition and rights issue, we expect gearing to settle around 40-41% by end-FY19 (assuming no revaluation gains) from c.34% at end-September 2018. However, we believe the likelihood of KORE reporting positive revaluation gains is high, as the majority of KORE's properties have reported healthy income growth year to date, which should result in gearing being below 40%.
- In addition, Westpark Portfolio is expected to contribute c.17% and c.14% of KORE's enlarged portfolio by valuation and FY19 revenue respectively. For MP1, it should contribute c.5% and c.5% of KORE's enlarged portfolio by valuation and estimated FY19 revenue respectively.
- In addition, the Seattle MSA will represent c.52% and c.42% of KORE's enlarged portfolio by valuation and revenue, respectively, up from c.46% and c.35% previously. While we are positive on the deepening of KORE's presence in Seattle MSA given the favourable demand/supply dynamics and expectations of rising market rents over the next few years, we do acknowledge some potential investor concerns over the increased concentration risk to a single market, which KORE may need to address in the medium term.

Recent tax controversy

- Recently, there were concerns raised that KORE's DPU could be cut by 30%, due to an unfavourable tax ruling on the back of US tax reforms late last year, in particular Section 267A.
- The fears over the cut in DPU arise from the US tax authorities potentially ruling that its Barbados entity, which is used to repatriate cash from the US to Singapore, is deemed as a "hybrid entity".
- Under the new US tax laws, we understand that should there be a hybrid entity within a tax structure that conducts a transaction, the REIT is unable to claim an interest tax deduction. If this was to occur, KORE would have to repatriate the majority of cash back to Singapore as a dividend where a 30% withholding tax is applied.
- In addition, there were fears that a negative tax ruling would be applied retrospectively.

What is a hybrid entity? A new tax structure already in place to mitigate tax risk

- We understand an entity is deemed to be a hybrid entity, if an entity is (1) classified differently in the US and another jurisdiction, and (2) due to the differences in classification, no tax is paid in either the US or the foreign jurisdiction.
- To mitigate against the risk that the Singapore Financing SPV (receiving cash from US Parent REIT in the form of interest on shareholder loan) is being deemed a hybrid entity, a decision was made by KORE to stream this cashflow via Barbados entities earlier this year.

- Under Barbados tax laws, the entities formed by KORE are subject to tax ranging from
  - 2.5% on income received up to US$5m,
  - 2.0% on income received in excess of US$5m up to US$10m
  - 1.5% on income received in excess of US$10m up to US$15m
  - 0.25% on income received in excess of US$15m
- Thus, by using the Barbados entity which pays corporate tax, it avoids one of the criteria for being deemed a hybrid entity, namely no tax being paid.
- Furthermore, as the Barbados entities are (1) currently treated as a Barbados limited partnership and a partnership for Barbados tax purposes, and (2) based on legal and tax advice, these Barbados entities are treated as partnerships under the US tax laws, it also avoids another condition of the Barbados entity deemed to be a hybrid entity i.e. an entity being treated and classified as a different entity in the US and in a foreign jurisdiction.
- Do note when cash is repatriated back to Singapore from Barbados, we understand no withholding taxes are payable.

Areas of potential risk for the Barbados entity classification

- As the US tax authorities have not provided any rulings or guidance on the validity of the use of Barbados entities since the start of the year and there is no clarity on timing on when this may happen, this creates some degree of uncertainty and regulatory/tax risk for KORE.
- However, we believe the following are potential areas which may cause the US tax authorities to rule that the Barbados entities are hybrid entities:
  1. The US tax authorities may decide that Barbados entities are not partnerships under the US tax code
  2. While the Barbados entities pay tax, the tax paid is too low
  3. The US authorities may look at KORE's tax structure in its entirety or on a look through basis and ignore the Barbados entities and focus on the Singapore Financing SPV.

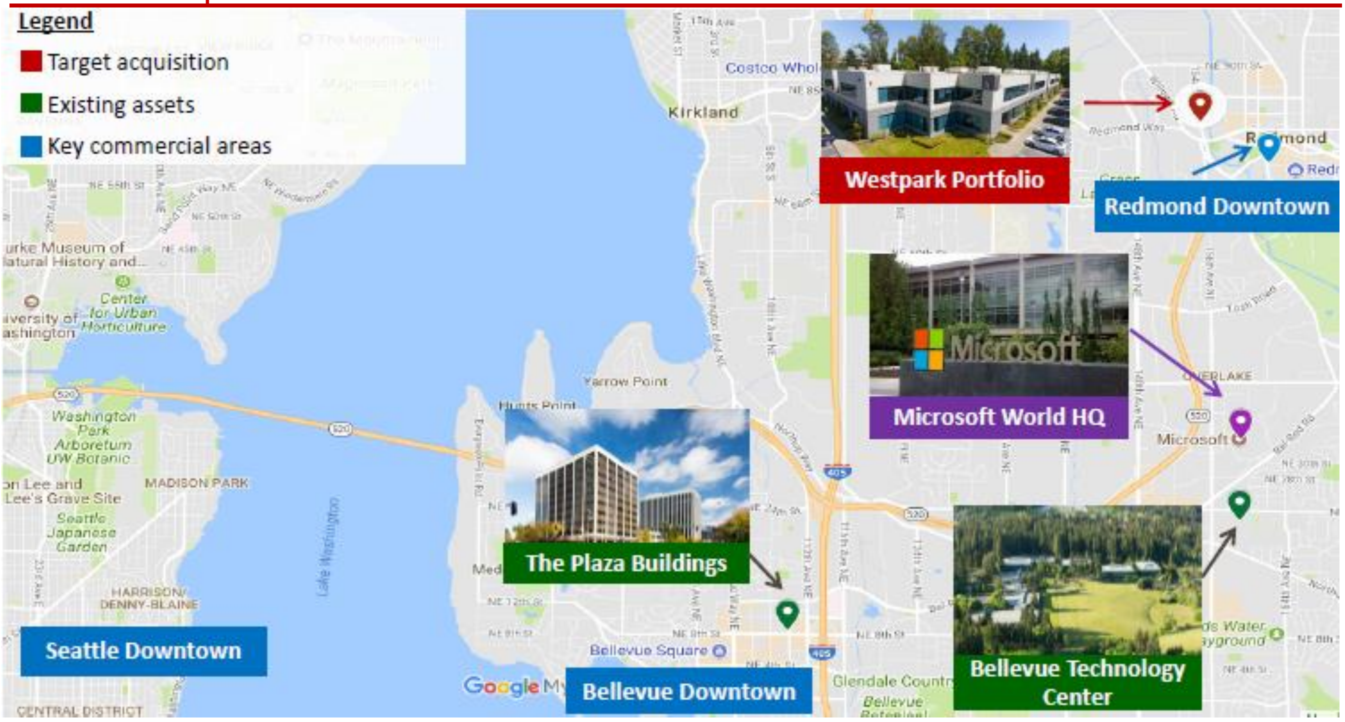
Financial impact on potential negative ruling

- Based on KORE's estimates, in the worst-case scenario, if it is unable to claim tax deduction on interest on shareholder loans at the US Parent entity level, and income needs to be streamed back to Singapore for dividends where 30% withholding tax is applied, the impact on DPU would be approximately 30%.
- This is higher than 15% impact for Manulife US REIT, given KORE primarily uses interest on shareholder loans as a tax shield, in comparison to MUST who also uses depreciation of its properties as a tax shield.
- Furthermore, we understand that in the event of a negative ruling occurring, KORE would explore other potential structures and other jurisdictions that may reduce its effective tax rate. While KORE has contingency plans, it is still unclear what is the exact ruling of the US tax authorities, and thus it is difficult to make a determination on the effective tax rate going forward and whether it would rise from current 1%.

Our thoughts post recent acquisition, rights issue and tax concerns

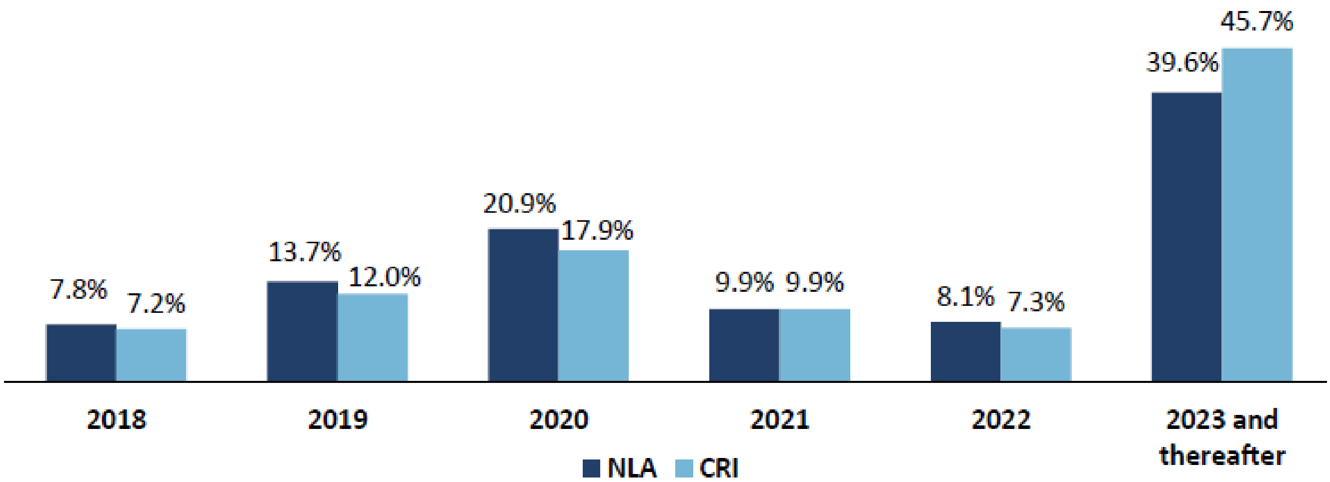
- While acknowledging investors disappointment over the KORE's funding of its maiden acquisition via a rights issue and it first transaction could have been more compelling in terms of yield accretion, we believe the correction has more than compensated for these issues given KORE is now trading at a 10-11% forward yield.
- Typically S-REITs only trade at such a high yield unless there are fundamental problems with their portfolio. However, this is not the case for KORE given it has outperformed its IPO forecasts, overall portfolio occupancy remains at high at 90.1% as at 30 September 2018 and it continues to report positive rental reversions.
- In addition, while there remains risk that KORE may face a negative tax ruling, this risk has been present since KORE's listing and thus far, we understand KORE's existing tax structure is in compliance with the current US tax laws based on legal advice given to KORE. Moreover, the negative dispersion made by some market commentators ignores the fact that the potential 30% cut in DPU is a worst-case scenario and the ability for the REIT to amend its tax structure to minimise tax leakage. At c.10-11% yield, we believe after adjusting for a 30% cut, KORE remains attractive at c.7% forward yield in the worst-case scenario with the stock trading at a c.25% discount to book.
- Thus, we maintain our BUY call with a revised TP of US$0.78.

Location of Westpark Portfolio



Source: KORE

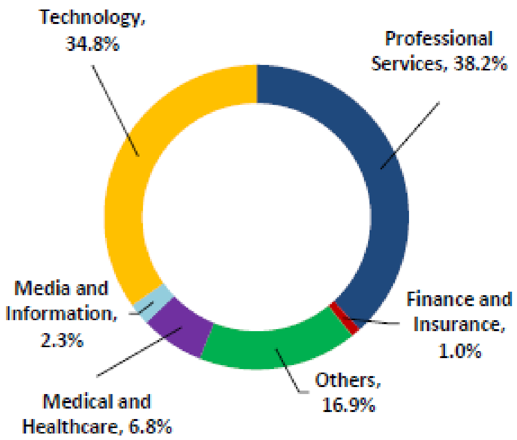
Weighted average lease profile of Westpark Portfolio



Source: KORE

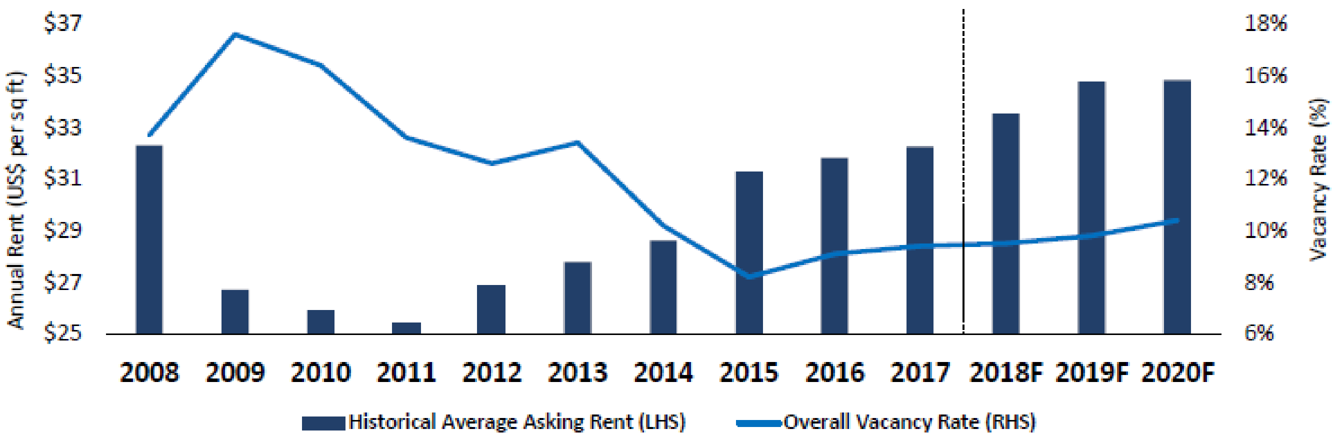
Top ten tenants and sectoral breakdown of Westpark Portfolio by NLA

Tenant	Sector	% of CRI [2]
Oculus VR, Inc.	Technology	15.6%
Echonous, Inc.	Technology	4.6%
Wildlife Computers, Inc.	Technology	3.6%
Micronics, Inc.	Medical and Healthcare	3.4%
Microsurgical Technology, Inc.	Medical and Healthcare	3.4%
Helion Energy, Inc.	Technology	3.2%
Majiq, Inc.	Technology	3.2%
Xtreme Consulting Group	Professional Services	2.8%
Seattle Aero, LLC	Engineering	2.4%
Kone Inc.	Engineering	1.9%
Total		**44.1%**



Source: KORE

Rising market rents in Eastside suburban office market – Overall vacancy rate and average asking rents



Source: KORE

CRITICAL DATA POINTS TO WATCH

Critical Factors

Leveraging on the US office market upturn. KORE, in our view, is well positioned to benefit as a majority of its properties are located in markets where the projected GDP growth of 2.6-5.8% per annum exceeds the national average of 2%. With businesses expanding and hiring, we believe this should translate into higher demand for office space. Supported by limited new completions in the coming years, we believe that rental growth and occupancy rates remain on an uptrend, a view shared by Cushman & Wakefield. In addition, KORE's portfolio is generally located in markets where property values offer relative value compared to some US gateway cities which have experienced significant price appreciation. KORE should benefit from the flow of capital into these regional markets.

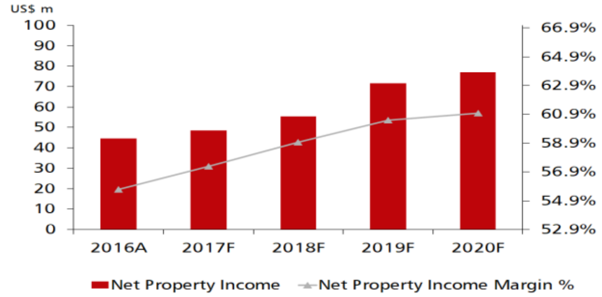
Embedded rental escalations offer certainty of growth. With c.98% of leases having inbuilt rental escalations of 2-3% per annum and a weighted average lease expiry of 3.8 years by net lettable area (NLA) as at 30 September 2018, we believe KORE provides a visible income profile to investors.

Upside from under-rented portfolio. Average expiring rents for the initial portfolio (before the acquisitions of Westpark and Maitland Promenade II) in 2019 are 26.0% below the current average market rents. KORE has a favourable lease expiry profile where 13.6% of leases by cash rental income are due to expire in FY19 respectively. In our view, there is an opportunity to not only mark up leases to market rates but also capture the expected upturn in market rents.

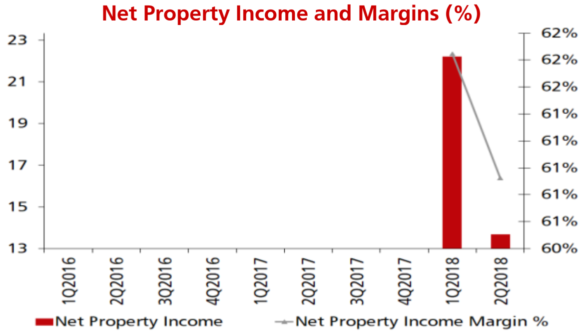
Exposure in either the growth or defensive sectors. KORE's properties enjoy good tenant demand and serve a well-diversified group of tenants with the top 10 tenants contributing only c.23% of cash rental income as of 30 September 2018. Tenant base by NLA is further broken down into Professional Services (37%), Finance and Insurance (20%), Technology (23%), Medical and Healthcare (6%), Media and information (3%) and Others (10%). The majority of these tenants are either seeing strong employment growth or are in defensive industries.

Boost from Westpark and Maitland Promenade I acquisitions. KORE recently acquired Westpark Portfolio, a business campus comprising 21 freehold buildings in Seattle for US$169.4m (initial NPI yield of 6.80-6.85%) as well as Maitland Promenade I for US$48.5m (cap rate of c.7.7%). Beyond deepening its exposure to growing Seattle market and diversifying KORE's income, with both properties being under-rented by 8-10%, the acquisitions provide a medium-term boost to KORE's earnings.

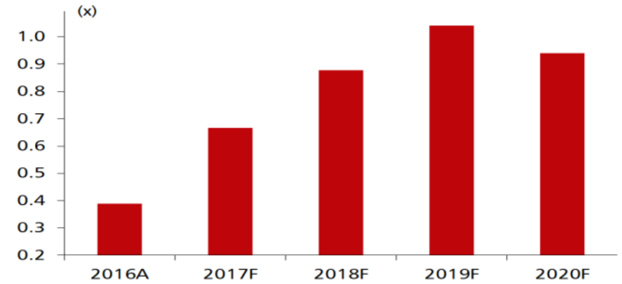
Net Property Income and Margins (%)



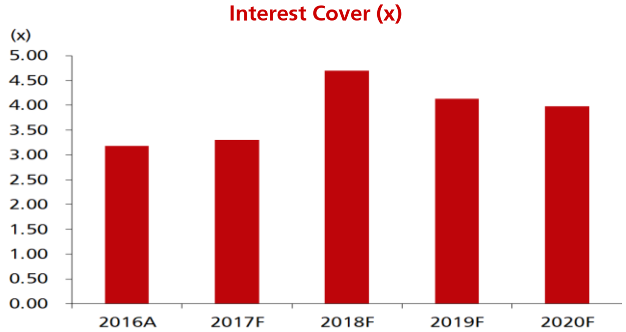
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to settle around 40-41% assuming no revaluation gains. We expect KORE's gearing to settle between 40-41% following the recent acquisitions and rights issue as we typically do not forecast revaluation gains. Nevertheless, with the majority of KORE's properties reporting healthy income growth, we expect some revaluation gains at year end, which may result in gearing at or below 40%.

Conservative interest rate profiles. To manage its interest rate risk, we expect around 75-80% of KORE's borrowings to be on fixed rates.

Share Price Drivers:

Delivery of IPO forecasts. Following the recent share price correction, some investors have questioned the quality and ability of KORE's portfolio to perform. Going forward, we believe as KORE delivers or exceeds its IPO forecasts, these investor concerns should be allayed and confidence in the key investor markets that KORE is invested in are indeed on an uptrend should return. This should then translate into a re-rating of KORE's share price.

Clarity over tax structure. While we understand that KORE's current tax structure is in compliance with the new US tax laws, there remains some risk that there may be a negative ruling. Thus, we believe the full overhang over KORE will only be lifted once there is some clarity from the US tax authorities.

Key Risks:

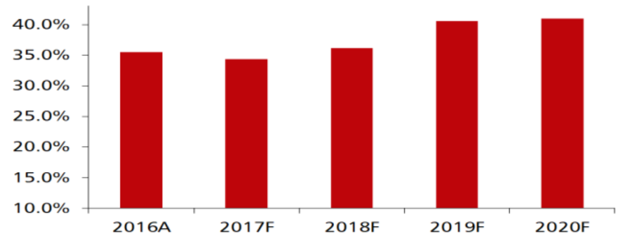
Risk of non-renewal and non-replacement of leases. KORE's financials, results of operations, and capital growth may be adversely affected by bankruptcy, insolvency or downturn in the businesses of one or more of the tenants, as well as the decision by one or more of these tenants not to renew their lease/s at the end of a lease cycle.

Regulatory risks. KORE's tax efficiency relies in part on its Parent US REIT being able to maintain their status as US REITs as well as qualifying for US portfolio interest exemption when repatriating cashflows back to Singapore as interest. Distributions paid to KORE's unitholders may be adversely impacted should there be any changes in tax or REIT regulations in either the US or Singapore which affects the current REIT structure or ability to repatriate cash in a tax-efficient manner.

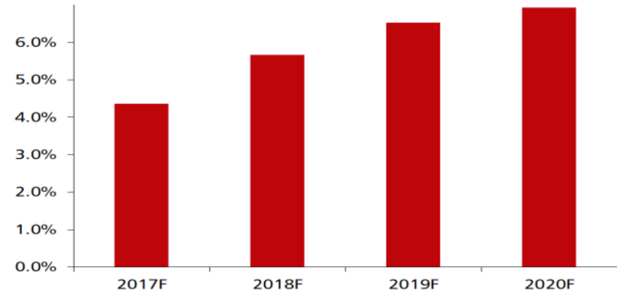
Company Background

Keppel-KBS US REIT is a pure-play US office REIT listed in Asia. Its portfolio consists of 13 freehold office assets located in Austin, Atlanta, Denver, Houston, Sacramento, Seattle and Orlando with aggregate net lettable area of around 4.2m sqft.

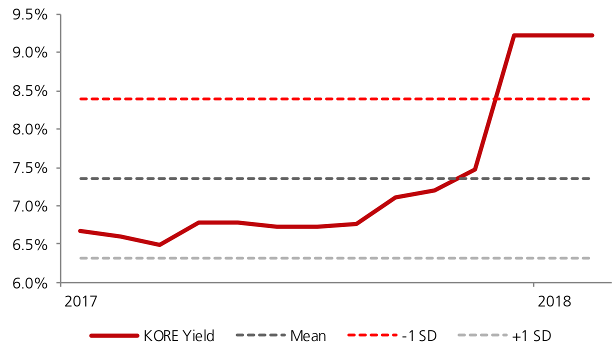
Aggregate Leverage (%)



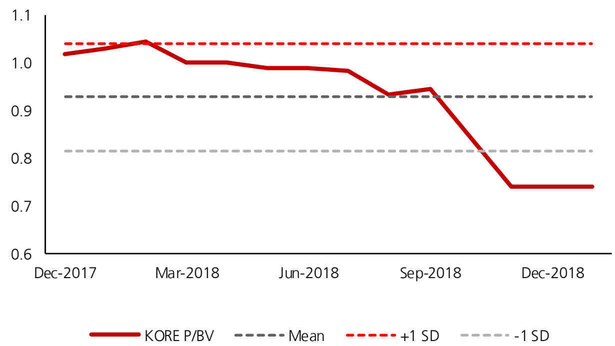
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (US$m)

FY Dec	2016P	2017P	2018F	2019F	2020F
Gross revenue	80.1	84.6	93.8	118	126
Property expenses	(35.5)	(36.1)	(38.5)	(46.8)	(49.2)
Net Property Income	**44.6**	**48.5**	**55.3**	**71.6**	**76.9**
Other Operating expenses	(7.2)	(8.3)	(6.6)	(7.9)	(9.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(11.8)	(12.2)	(10.4)	(15.4)	(17.0)
Exceptional Gain/(Loss)	(1.6)	0.73	0.0	0.0	0.0
Net Income	**24.0**	**28.8**	**38.3**	**48.3**	**50.8**
Tax	(5.7)	(5.8)	(5.7)	(7.5)	(7.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**18.3**	**22.9**	**32.7**	**40.8**	**43.5**
Total Return	18.3	22.9	32.7	40.8	43.5
Non-tax deductible Items	N/A	N/A	5.79	8.88	9.02
Net Inc available for Dist.	N/A	N/A	38.5	49.7	52.5
Growth & Ratio					
Revenue Gth (%)	N/A	5.7	10.9	26.2	6.5
N Property Inc Gth (%)	nm	8.7	14.1	29.4	7.3
Net Inc Gth (%)	nm	25.2	42.6	25.0	6.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	95.8
Net Prop Inc Margins (%)	55.7	57.3	59.0	60.5	61.0
Net Income Margins (%)	22.9	27.1	34.8	34.5	34.5
Dist to revenue (%)	22.9	27.1	41.0	42.0	41.6
Managers & Trustee's fees	9.0	9.8	7.1	6.7	7.2
ROAE (%)	N/A	4.4	5.7	6.5	6.9
ROA (%)	N/A	2.7	3.5	3.8	3.9
ROCE (%)	N/A	4.1	4.7	5.3	5.5
Int. Cover (x)	3.2	3.3	4.7	4.1	4.0

Increase in earnings due to inbuilt rental escalations, impact from positive rental reversions and acquisition of the Westpark Portfolio and Maitland Promenade I

** 2016P and 2017P based on proforma numbers. 2017P is also based on annualised 1H17 numbers. 2018-2020F are based on DBS estimates*
Source: Company, DBS Bank

Quarterly / Interim Income Statement (US$m)

FY Dec	1Q2018*	2Q2018
Gross revenue	36.1	22.6
Property expenses	(13.8)	(8.8)
Net Property Income	22.3	13.8
Other Operating expenses	(2.7)	(1.6)
Other Non Opg (Exp)/Inc	4.80	1.37
Net Interest (Exp)/Inc	(3.9)	(2.5)
Exceptional Gain/(Loss)	0.0	0.0
Net Income	**20.5**	**11.1**
Tax	(1.3)	(1.0)
Minority Interest	0.0	0.0
Net Income after Tax	**19.1**	**10.0**
Total Return	19.1	10.0
Non-tax deductible Items	(4.5)	(0.6)
Net Inc available for Dist.	14.6	9.45
Growth & Ratio		
Revenue Gth (%)	N/A	(37)
N Property Inc Gth (%)	nm	(38)
Net Inc Gth (%)	nm	(48)
Net Prop Inc Margin (%)	61.8	60.9
Dist. Payout Ratio (%)	100.0	100.0

** For period 9 November 2017 to 31 March 2018*

Balance Sheet (US$m)

FY Dec	2016P	2017P	2018F	2019F	2020F
Investment Properties	804	804	995	1,071	1,089
Other LT Assets	0.0	0.0	7.00	7.00	7.00
Cash & ST Invts	29.0	29.0	20.4	18.4	13.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	0.0	0.0	3.13	3.95	4.20
Other Current Assets	0.46	0.46	0.46	0.46	0.46
Total Assets	**833**	**833**	**1,026**	**1,101**	**1,114**
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	12.4	12.4	20.9	19.7	21.0
Other Current Liab	3.91	3.91	3.91	3.91	3.91
LT Debt	287	287	371	447	456
Other LT Liabilities	4.79	4.79	4.79	4.79	4.79
Unit holders' funds	526	526	626	626	628
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**833**	**833**	**1,026**	**1,101**	**1,114**
Non-Cash Wkg. Capital	(15.8)	(15.8)	(21.2)	(19.2)	(20.3)
Net Cash/(Debt)	(258)	(258)	(350)	(428)	(443)
Ratio					
Current Ratio (x)	1.8	1.8	1.0	1.0	0.7
Quick Ratio (x)	1.8	1.8	1.0	1.0	0.7
Aggregate Leverage (%)	35.5	34.4	36.1	40.6	41.0
Z-Score (X)	1.5	1.5	1.5	1.5	1.5

Increase in gearing post acquisition of Westgate Portfolio and Maitland Promenade I

Source: Company, DBS Bank

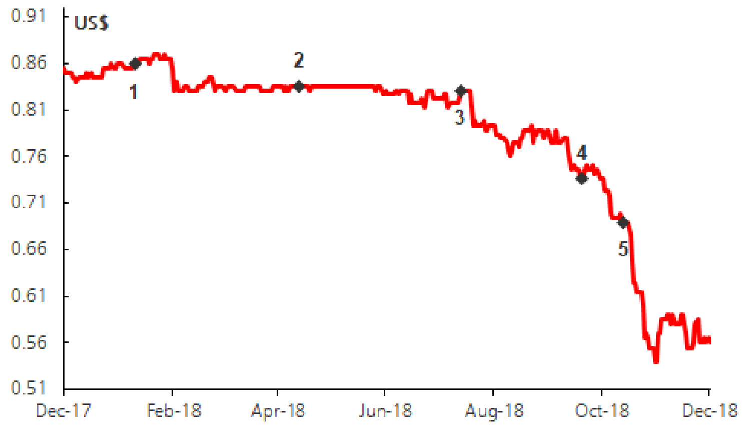
Cash Flow Statement (US$m)

FY Dec	2016P	2017P	2018F	2019F	2020F
Pre-Tax Income	25.6	28.0	38.3	48.3	50.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(5.7)	(5.8)	(5.7)	(7.5)	(7.4)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1.0)	0.0	5.35	(1.9)	1.02
Other Operating CF	20.3	0.73	5.79	8.88	9.02
Net Operating CF	**39.2**	**22.9**	**43.8**	**47.8**	**53.5**
Net Invt in Properties	(805)	(10.2)	(191)	(75.9)	(17.5)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.2)	0.0	0.0	0.0	0.0
Net Investing CF	**(814)**	**(10.2)**	**(191)**	**(75.9)**	**(17.5)**
Distribution Paid	(15.3)	(15.3)	(38.5)	(49.7)	(50.3)
Chg in Gross Debt	310	10.2	84.3	75.9	9.61
New units issued	529	0.0	89.7	0.0	0.0
Other Financing CF	(10.1)	(5.0)	0.0	0.0	0.0
Net Financing CF	**813**	**(10.0)**	**136**	**26.2**	**(40.7)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	38.3	2.65	(12.1)	(1.9)	(4.6)
Operating CFPS (US cts.)	6.40	3.64	4.67	5.98	6.24
Free CFPS (US cts.)	(122)	2.02	(17.9)	(3.4)	4.29

295 for 1000 rights issue

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Jan 18	0.86	0.90	BUY
2:	18 Apr 18	0.84	0.90	BUY
3:	18 Jul 18	0.83	0.90	BUY
4:	25 Sep 18	0.74	0.90	BUY
5:	18 Oct 18	0.69	0.90	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
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

Completed Date: 7 Dec 2018 07:36:47 (SGT)
Dissemination Date: 7 Dec 2018 09:06:57 (SGT)

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