

Singapore Flash Note

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DBS Group Research . Equity

16 Oct 2019

Keppel Pacific Oak US REIT (KORE SP): **BUY**

Mkt. Cap: US\$622m | **3m Avg. Daily Val:** US\$0.92m

Last Traded Price (15 Oct 2019): US\$0.755

Price Target 12-mth: US\$0.90 (19% upside)

Analyst

Derek TAN +65 6682 3716; derektan@db.com

Rachel TAN +65 6682 3713; racheltanlr@db.com

Riding the Technology boom

- 3Q19 results in line with expectations
- Positive leasing momentum; reversions up 13.4% YTD
- Key cities of Seattle, Austin and Denver seeing strong absorption
- Awaiting positive contribution from proposed acquisition of One Twenty Five in Dallas

Forecasts and Valuation

FY Dec (US\$m)	2018A	2019F	2020F	2021F
Gross Revenue	93.5	118	125	132
Net Property Inc	56.7	72.6	77.5	81.6
Total Return	47.4	41.5	44.4	47.1
Distribution Inc	38.6	50.6	53.8	56.9
EPU (US cts.)	5.76	4.99	5.28	5.55
EPU Gth (%)	58	(13)	6	5
DPU (US cts.)	5.23	6.08	6.40	6.53
DPU Gth (%)	44	16	5	2
NAV per shr (US cts.)	80.1	79.2	78.3	77.6
PE (X)	13.1	15.1	14.3	13.6
Distribution Yield (%)	6.9	8.1	8.5	8.6
P/NAV (x)	0.9	1.0	1.0	1.0
Aggregate Leverage (%)	34.8	39.2	40.0	40.7
ROAE (%)	8.0	6.3	6.7	7.2

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

Boost from recent acquisitions; 9M19 DPU in line.

- Keppel Pacific Oak US REIT (KORE) reported 3Q19 DPU of 1.50 UScts, which was 5.1% lower compared to our projection but flat on a q-o-q basis. YTD DPU was 4.55cts (which rose 31.2% y-o-y after applying the rights adjustment factor to 9M19 DPU. Overall results were in line with our expectations with DPU forming c.74% of our full-year forecast.
- The improved performance over the quarter was underpinned by 34.0% and 36.2% y-o-y growth in revenue and NPI respectively. KORE's performance benefitted from the recent acquisition of Westpark Portfolio, Seattle in November 2018, and Maitland Promenade I in Orlando in January 2019. Occupancy was stable while rental reversion was positive in 9M19 (+13.4%, increased momentum compared to 8.6% in 1H19).
- Overall portfolio committed occupancy held up at 93.8% (vs 94.0% in 2Q19). Building on the positive take-up in prior quarters, The Plaza's occupancy inched higher to 98.6%, while Bellevue Tech Center's occupancy dipped marginally to 97.3% in 3Q19. Furthermore, occupancy at Westmoor Center (one of KORE's key properties) continues to inch higher to 97.4% (vs 91.2% in 2Q19, 83.7% in 1Q19). Other notable increases were Westech 360 (Austin) and Great Hills (Austin) which saw occupancy increasing to 98.5% and 100% respectively. However, occupancy rate at 1800 West Loop dipped to 77.1% in 3Q19 (vs 81.9% in 2Q19), due to a tenant vacating the space (which was already on a monthly renewal).



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Rental reversion momentum accelerated in 3QFY19.

- During 3Q19, KORE leased a total of c.232k sqft of space with positive rental reversions of 13.4% YTD (vs 8.6% in 1H19), which we understand was largely from its Seattle properties which continue to see strong absorption trends.
- With 14.3% of the portfolio's NLA renewed in 9M19, income is fairly secured for the year given that only 2.3% of its NLA is left to be negotiated for the rest of the year. In FY20 and FY21, another 11.8% and 14.8% of leases are set to expire, respectively.

Stable gearing; potential fund raising for the purchase for One Twenty Five in Dallas.

- As at end-Sep 2019, KORE's gearing was relatively stable at c.38.5% with all-in average cost of debt at 3.74%.
- The proportion of borrowings on fixed rates remains high at c.83%.
- KORE does not face any significant refinancing until FY21 when 33% of debt is due.
- NAV per unit stood at US\$0.79.

Positive momentum to continue

- On the back of continued positive net absorption, in general KORE's key markets should see 3-10% increase in rents in the coming 12 months, according to Co-Star, a US property consultant. This is a continuation of c.1%-10% rental growth that the various markets had seen in the previous months.

- Meanwhile, rentals at KORE core markets in Seattle, Austin and Denver (which represent c.60% of the portfolio by gross income) are projected to grow at a faster 5-10% as these cities are seeing strong demand from the technology sector. Beyond the expansion of Amazon and Microsoft whose headquarters are located there, Seattle is also becoming the choice location for other tech giants such as Google, Apple and Facebook. In addition, these technology companies are flocking to suburban neighbourhoods where KORE's properties are located. Meanwhile, KORE's Austin properties are expected to benefit from the opening of a new Apple camp.
- Thus, we expect KORE to continue reporting positive rental reversions over the next few quarters.

Maintain BUY, TP of US\$0.90

- With KORE's 3Q19 results in line with expectations, we maintain our BUY call with a TP of US\$0.90 based on DCF.
- Our favourable view on KORE is premised on its large exposure to the Seattle, Austin and Denver markets which are benefitting from the growth in the technology sector and are seeing rising rents.
- With the proposed acquisition of One Twenty Five in Dallas and accompanying fund raising exercise, we anticipate the proposed deal (funded by 65% equity and 35% debt) to be accretive to distributions. Our forecast has yet to factor in this deal.

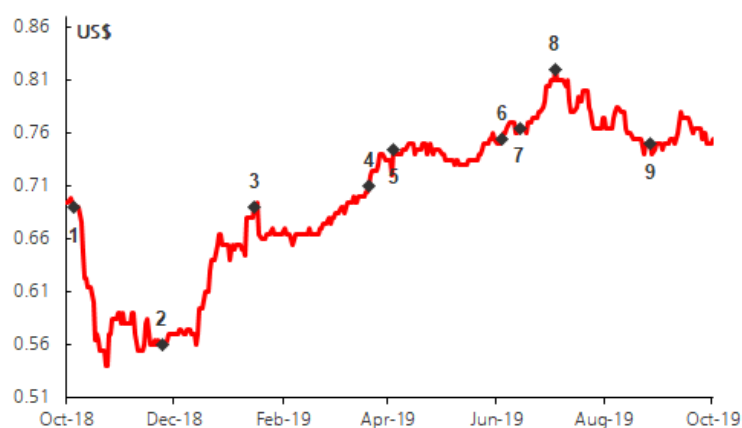
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Quarterly / Interim Income Statement (US\$m)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Gross revenue	22.7	29.3	30.4	34.0	3.8
Property expenses	(9.1)	(11.3)	(11.9)	30.9	5.2
Net Property Income	13.6	18.0	18.5	36.2	2.9
Other Operating expenses	(1.5)	(1.9)	(2.3)	53.0	15.9
Other Non Opg (Exp)/Inc	0.96	(5.6)	(1.0)	nm	(82.4)
Net Interest (Exp)/Inc	(2.6)	(4.0)	(4.0)	(56.6)	(1.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	10.5	6.49	11.2	7.0	73.1
Tax	(0.9)	(1.8)	(1.6)	82.8	(10.4)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	9.60	4.66	9.61	0.1	106.3
Total Return	9.60	4.66	9.61	0.1	106.3
Non-tax deductible Items	(0.1)	7.74	2.79	nm	(64.0)
Net Inc available for Dist.	9.47	12.4	12.4	31.0	0.0
Ratio (%)					
Net Prop Inc Margin	60.0	61.4	60.9		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Oct 18	0.69	0.90	BUY
2:	07 Dec 18	0.56	0.78	BUY
3:	28 Jan 19	0.69	0.80	BUY
4:	03 Apr 19	0.71	0.80	BUY
5:	17 Apr 19	0.75	0.80	BUY
6:	17 Jun 19	0.76	0.90	BUY
7:	27 Jun 19	0.77	0.90	BUY
8:	17 Jul 19	0.82	0.90	BUY
9:	09 Sep 19	0.75	0.90	BUY

Source: DBS Bank

Analyst: Derek TAN

Rachel TAN

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DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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Flash Note**DBS Regional Research Offices**

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

MALAYSIA**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
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