

COMPANY RESULTS

Keppel Pacific Oak US REIT (KORE SP)

3Q24: Gradual And Steady Recovery With Stable Occupancy

Portfolio occupancy eased 2.0ppt qoq to 88.7% in 3Q24 due to known vacates at The Plaza Buildings in Bellevue, which management has cautioned previously. Leasing activities increased 9.6% qoq at growth cities in the Sun Belt. KORE's physical occupancy improved 3ppt qoq to 73% in 3Q24. The gradual but steady recovery paves the way for KORE to resume distribution in 2026. KORE trades at 2026 distribution yield of 15.9% and P/NAV of 0.37x. Maintain BUY. Target price: US\$0.38.

3Q24 RESULTS

Year to 31 Dec (US\$m)	3Q24	yoy % Chg	Remarks
Gross Revenue	37.6	-2.0	Slight dip in portfolio occupancy, which was offset by built-in
Net Property Income (NPI)	20.1	-8.8	average rental escalation of 2.6% per year.
Adjusted NPI	21.2	-6.6	Exclude non-cash straight-line rent and lease incentives.
Finance & Trust Expenses	(7.6)	+9.3	
Distributable Income	11.9	-8.8	

Source: KORE, UOB Kay Hian

RESULTS

- Keppel Pacific Oak US REIT (KORE) reported distributable income of US\$11.9m for 3Q24 (-8.8% yoy), which is broadly in line with our expectation.
- Slight decline in revenue.** Gross revenue and NPI declined 2.0% and 8.8% yoy respectively in 3Q24. Excluding non-cash adjustments, such as lease incentives and amortisation of straight-line rent and leasing commissions, adjusted NPI declined 6.6% yoy due to higher repair & maintenance expense in 3Q24 and the absence of one-off termination fee in 3Q23. Finance expenses rose 9.3% yoy due to higher interest rates.
- KORE incurred mild negative rental reversion of 1.2%** for 721,392sf of office space leased in 9M24, which is equivalent to 15% of its portfolio NLA. KORE incurred negative rental reversion of 3.5% in 3Q24, dragged lower by new leases at The Plaza Buildings in Bellevue, which come with lower rents but also lower tenant incentives. It benefits from built-in average annual rental escalation of 2.6% across its portfolio.
- Portfolio occupancy eased 2.0ppt qoq to 88.7% in 3Q24.** Occupancy at The Plaza Buildings in Bellevue dropped 8.0ppt qoq to 80.5% due to bunching up of lease expiries, which management has cautioned previously. KORE has built one full floor of spec suites at The Plaza Buildings to attract prospective tenants. There are frictional vacancies at Bellevue Technology Center in Bellevue and The Westpark Portfolio in Redmond, which are expected to be backfilled in subsequent quarters.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	148	151	139	142	142
EBITDA	74	77	75	76	77
Operating profit	74	77	75	76	77
Net profit (rep./act.)	48	(68)	45	46	46
Net profit (adj.)	56	84	45	46	46
EPU (US\$ cent)	5.4	8.0	4.3	4.5	4.4
DPU (US\$ cent)	5.8	2.5	0.0	0.0	4.2
PE (x)	4.9	3.3	6.1	6.0	6.0
P/B (x)	0.3	0.4	0.4	0.3	0.3
DPU Yld (%)	21.9	9.4	0.0	0.0	15.9
Net margin (%)	32.8	(44.9)	32.5	32.8	32.5
Net debt/(cash) to equity (%)	60.8	76.9	75.1	70.8	74.9
Interest cover (x)	4.0	3.2	2.7	2.8	2.7
ROE (%)	5.7	(8.6)	6.1	5.9	5.7
Consensus DPU (US\$ cent)	-	-	0.0	0.0	4.2
UOBKH/Consensus (x)	-	-	n.a.	n.a.	1.00

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

BUY

(Maintained)

Share Price	US\$0.265
Target Price	US\$0.38
Upside	+43.4%
(Previous TP)	US\$0.39

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):	276.8
Market cap (US\$m):	276.8
3-mth avg daily t'over (US\$m):	0.8

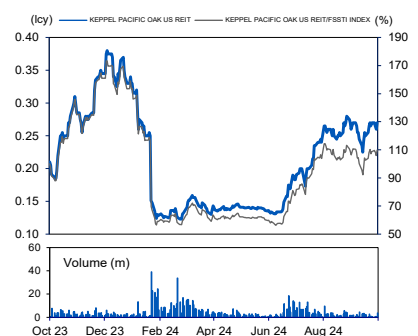
Price Performance (%)

52-week high/low	US\$0.385/US\$0.122			
1mth	3mth	6mth	1yr	YTD
(3.6)	44.8	94.9	29.3	(29.3)

Major Shareholders

	%
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 early refinancing.** Aggregate leverage was relatively unchanged at 42.6% as of Sep 24. KORE completed early refinancing and extension for loans totalling US\$170m in Jul 24 and Oct 24. The bulk of loan maturity was pushed into 2026 and beyond. Average cost of debt was 4.55% for 9M24, slightly higher than 4.47% for 1H24. Interest coverage ratio remains healthy at 2.7x.

STOCK IMPACT

- **Leasing activities have recovered.** According to Jones Lang LaSalle, leasing activities for the US office market increased 0.4% qoq in 3Q24 and accounted for 86% of pre-pandemic levels. Growth cities in the Sun Belt, which accounted for 51.6% of KORE's NPI, outperformed with leasing activities up 9.4% qoq and reaching 96% of pre-pandemic levels. On average, Fortune 100 companies require their employees to work in the office 3.3 days per week. For KORE, physical occupancy improved 3ppt qoq to 73% in 3Q24.
- **Portfolio occupancy to remain above industry average.** Management has cautioned regarding known vacancies at Westmoor Center in Denver (100,000sf) and The Plaza Buildings in Bellevue (40,000sf) in 2025. Portfolio occupancy is expected to hover sideways at 88-89% in 4Q24, and take a small dip in 1Q25 before recovering back to 88-89% by end-25. Management expects rental reversion to range from -5% to +5% in 2025.
- **Pre-emptive move to shore up balance sheet.** KORE will recapitalize its balance sheet by suspending distributions in 2024 and 2025. Management intends to resume distribution in 1H26. Capex is estimated at US\$60m for 2024 and US\$50m for 2025. These investments are necessary to retain tenants and attract new ones. Retaining cash to fund capex reduces the risk of KORE breaching regulatory limit on aggregate leverage.
- **Conditions for earlier resumption of distribution.** Management would explore divesting Iron Point in Sacramento and 1800 West Loop South in Houston. However, banks remain reluctant to lend to buyers of office buildings. Thus, KORE is expected to stick to its planned schedule to resume distribution in 1H26 given that it is unlikely to be able to deleverage through divestment in 2025.

EARNINGS REVISION/RISK

- We tweaked our DPU forecast for 2026 down by 2% due to marginally lower occupancy.

VALUATION/RECOMMENDATION

- KORE provides 2026 distribution yield of 15.9% and trades at P/NAV of 0.37x (63% discount to NAV per unit at US\$0.71).
- **Maintain BUY.** Our target price of US\$0.38 based on DDM (cost of equity: 9.75%, terminal growth: 0.5%).

SHARE PRICE CATALYST

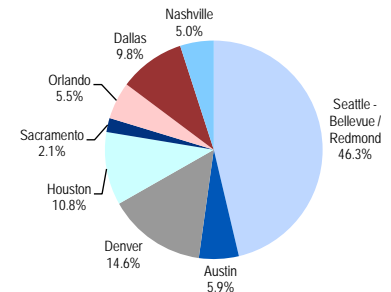
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from built-in average annual rental escalation of 2.6%.

KEY OPERATING METRICS

Key Metrics	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % chg	qoq % chg
DPU (US cents)	n.a.	0.00	n.a.	0.00	n.a.	n.a.	n.a.
Occupancy	91.4%	90.3%	90.1%	90.7%	88.7%	-2.7ppt	-2ppt
Aggregate Leverage	39.1%	43.2%	43.0%	42.7%	42.6%	3.5ppt	-0.1ppt
Average Cost of Debt	3.95%	4.00%	4.34%	4.36%	4.48%	0.53ppt	0.12ppt
WALE by NLA (years)	3.4	3.6	3.7	3.6	3.7	0.3yrs	0.1yrs
Average Debt Maturity (years)	2.9	2.7	2.5	2.3	2.3	-0.6yrs	0yrs
Rental Reversions	3.8%	-4.4%	-1.4%	1.2%	-1.2%	-5.0%	-2.4%

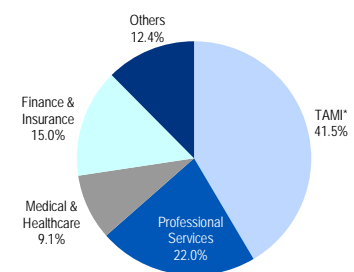
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (JUN 24)



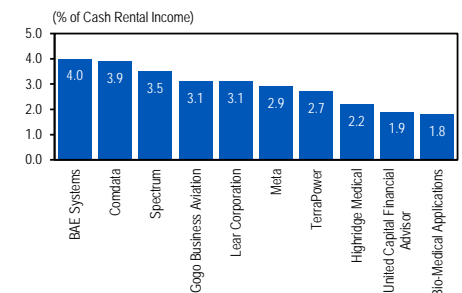
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (SEP 24)



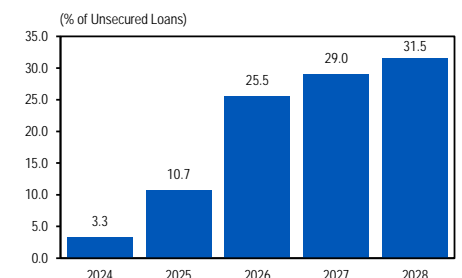
*Technology, Advertising, Media & Information
Source: KORE

TOP 10 TENANTS (SEP 24)



Source: KORE

DEBT MATURITY PROFILE AFTER REFINANCING AND EXTENSION OF LOANS



Source: KORE

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	150.8	139.0	141.5	142.5
EBITDA	76.8	75.1	76.4	77.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	76.8	75.1	76.4	77.0
Total other non-operating income	(151.7)	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(23.8)	(27.6)	(27.5)	(28.3)
Pre-tax profit	(98.8)	47.6	48.9	48.7
Tax	31.0	(2.4)	(2.4)	(2.4)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	(67.7)	45.2	46.5	46.3
Net profit (adj.)	84.0	45.2	46.5	46.3

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	47.5	47.3	47.3
Other current assets	4.6	4.0	4.1	4.1
Total assets	1,393.7	1,456.8	1,506.7	1,546.7
ST debt	75.0	75.0	75.0	75.0
Other current liabilities	41.1	31.6	32.2	32.4
LT debt	524.6	550.0	550.0	585.0
Other LT liabilities	29.8	31.7	34.2	36.7
Shareholders' equity	723.2	768.5	815.3	817.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,393.7	1,456.8	1,506.7	1,546.7

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	84.2	65.7	77.0	77.2
Pre-tax profit	(98.8)	45.2	46.5	46.3
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	6.3	(9.5)	0.6	0.2
Non-cash items	151.7	0.0	0.0	0.0
Other operating cashflows	25.0	30.1	29.9	30.7
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)	(2.0)	(27.2)	(37.3)
Distribution to unitholders	(55.1)	0.1	0.3	(44.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.7	25.4	0.0	35.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(24.6)	(27.6)	(27.5)	(28.3)
Net cash inflow (outflow)	(19.7)	3.7	(0.2)	(0.0)
Beginning cash & cash equivalent	63.4	43.8	47.5	47.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	43.8	47.5	47.3	47.3

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)	34.2	34.6	34.2
Net margin	(44.9)	32.5	32.8	32.5
ROA	(4.7)	3.2	3.1	3.0
ROE	(8.6)	6.1	5.9	5.7
Growth				
Turnover	1.9	(7.8)	1.8	0.7
EBITDA	3.4	(2.2)	1.7	0.7
Pre-tax profit	n.a.	n.a.	2.9	(0.4)
Net profit	n.a.	n.a.	2.9	(0.4)
Net profit (adj.)	49.5	(46.2)	2.9	(0.4)
EPU	49.4	(46.2)	2.9	(0.4)
Leverage				
Debt to total capital	45.3	44.8	43.4	44.7
Debt to equity	82.9	81.3	76.7	80.7
Net debt/(cash) to equity	76.9	75.1	70.8	74.9
Interest cover (x)	3.2	2.7	2.8	2.7

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