

COMPANY RESULTS

Keppel Pacific Oak US REIT (KORE SP)

2H24: Sequential Uptick In Occupancy; Stable Portfolio Valuation

Portfolio occupancy improved 1.3ppt qoq to 90.0% in 4Q24, driven by gains at Bellevue Tech Center in Bellevue and Maitland Promenade in Orlando. KORE clocked a positive rental reversion of 1.7% in 4Q24, a turnaround compared with negative 1.2% for 9M24. Portfolio valuation was stable, while aggregate leverage edged slightly higher by 1.1ppt qoq to 43.7%. KORE is expected to resume distribution in 2026. It trades at a 2026 distribution yield of 15.6% and P/NAV of 0.35x. Maintain BUY. Target price: US\$0.33.

2H24 RESULTS

Year to 31 Dec (US\$m)	2H24	yoy % Chg	Remarks
Gross Revenue	72.1	-3.7	Sequential uptick in portfolio occupancy.
Net Property Income (NPI)	36.3	-14.1	Built-in average rental escalation of 2.6% per year.
Adjusted NPI	40.0	-7.9	Exclude non-cash straight-line rent and lease incentives.
Finance & Trust Expenses	(15.6)	+9.7	Negative impact from higher interest rates.
Distributable Income	23.8	-8.8	
DPU (US cents)	0.0	n.m.	Suspended distribution in 2024 and 2025.

Source: KORE, UOB Kay Hian

RESULTS

- Keppel Pacific Oak US REIT (KORE) reported distributable income of US\$23.8m for 2H24 (-8.8% yoy), in line with our expectation. It had suspended distribution in 2H24 due to its Recapitalisation Plan.
- Drag from higher repair & maintenance expenses.** Gross revenue and NPI declined 3.7% and 14.1% yoy respectively in 2H24. Excluding non-cash adjustments such as lease incentives and amortisation of straight-line rent and leasing commissions, adjusted NPI fell 7.9% yoy due to higher repair & maintenance expenses. NPI margin narrowed 6.1ppt yoy to 50.3%. Finance expenses rose 9.7% yoy due to higher interest rates.
- Portfolio occupancy improved 1.3ppt qoq to 90.0% in 4Q24.** Occupancy for Bellevue Tech Center improved 8.3ppt qoq to 95.6% due to expansion by anchor tenant TerraPower of 18,000sf and securing two new tenants in the medical and technology sectors. Occupancy for Maitland Promenade rose 4.6ppt qoq to 92.8% after securing a new pharmaceutical tenant.
- Turned around to positive reversion.** KORE achieved a positive rental reversion of 1.7% in 4Q24 due to contributions from Maitland Promenade in Orlando and One Twenty-Five in Dallas (9M24: -1.2%). Some 938,655sf of office space was leased in 2024, which is equivalent to 19.6% of its portfolio NLA, the highest since the COVID-19 pandemic. KORE benefits from built-in average annual rental escalation of 2.6% across its portfolio.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2023	2024	2025F	2026F	2027F
Net turnover	151	146	149	150	150
EBITDA	77	69	72	74	75
Operating profit	77	69	72	74	75
Net profit (rep./act.)	(68)	(7)	40	41	39
Net profit (adj.)	84	47	40	41	39
EPU (US\$ cent)	8.0	4.5	3.8	3.9	3.7
DPU (US\$ cent)	2.5	0.0	0.0	3.8	3.6
PE (x)	3.0	5.3	6.3	6.2	6.4
P/B (x)	0.3	0.3	0.3	0.3	0.3
DPU Yld (%)	10.4	0.0	0.0	15.6	15.0
Net margin (%)	(44.9)	(4.7)	26.8	27.0	25.9
Net debt/(cash) to equity (%)	76.9	78.3	75.2	80.1	85.1
Interest cover (x)	3.2	2.6	2.4	2.3	2.2
ROE (%)	(8.6)	(1.0)	5.4	5.4	5.1
Consensus DPU (US\$ cent)	-	-	0.0	4.1	4.1
UOBKH/Consensus (x)	-	-	n.m.	0.92	0.88

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

BUY

(Maintained)

Share Price	US\$0.24
Target Price	US\$0.33
Upside	+37.5%
(Previous TP)	US\$0.32

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):	250.7
Market cap (US\$m):	250.7
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low	US\$0.285/US\$0.122			
1mth	3mth	6mth	1yr	YTD
17.1	(7.7)	23.1	(12.7)	17.1

Major Shareholders

Temasek Hldgs	7.2
Hillsboro Capital	8.7
FY25 NAV/Share (US\$)	0.72
FY25 Net Debt/ Share (US\$)	0.54

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Portfolio valuation was stable at US\$1.3b.** Negative impact from higher discount rates was offset by better operating performance, such as higher rents and stable occupancies. Fair value loss of US\$46.7m reflected the capex and tenant improvements incurred in 2024. NAV per unit was unchanged at US\$0.69.
- **Completed early refinancing.** Aggregate leverage grew marginally by 1.1ppt qoq to 43.7% in 4Q24. KORE successfully refinanced loan facilities of US\$20m and early refinanced loan facilities of US\$40m that were due in 1Q25. Average cost of debt was stable at 4.45%. We expect cost of debt to be higher at 5.0% in 2025 due to expiry of the interest rate swap of US\$100m in 3Q25. Interest coverage ratio remains healthy at 2.6x.

STOCK IMPACT

- **Make work-from-office the default again.** The federal government has taken the lead to return to a five-day workweek, providing the impetus for the private sector to do likewise. Successful implementation of the work-from-office model by large corporations, such as Amazon, JPMorgan and AT&T, paves the way for other companies to likewise switch to the same model. Some companies have downsized prematurely and would need additional office space to accommodate more employees returning to the office. The work-from-office momentum would underpin the recovery in demand for office space.
- **Recovery gains momentum and breadth.** Sun Belt states, such as Texas, North Carolina, South Carolina, Florida and Tennessee, continue to benefit from interstate migration. Growth cities in the Sun Belt accounted for 38.2% of KORE's NPI as of Dec 24. Sun Belt markets led the recovery with leasing activities reaching 95% of pre-pandemic levels in 2H24. The recovery has broadened to gateway markets with leasing activities at 76% of pre-pandemic levels.
- **Portfolio occupancy to remain above industry average.** Management has cautioned regarding known vacates at Westmoor Center in Denver (100,000sf) and The Plaza Buildings in Bellevue (40,000sf) in 2025. Portfolio occupancy is expected to 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.
- **Physical occupancy on upward trend.** Physical occupancy was 72% in 4Q24, reflecting hybrid work arrangements with an average of 3.5 days spent working from the office per week. Management expects physical occupancy to improve to a normalised level of 70-80% in 2025.
- **Shoring up balance sheet.** KORE will recapitalise its balance sheet by suspending distributions in 2024 and 2025. Management intends to resume distribution in 1H26. Capex is estimated at 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 the regulatory limit on aggregate leverage.

EARNINGS REVISION/RISK

- We trimmed our DPU forecast for 2026 and 2027 by 4% due to lower NPI margin.

VALUATION/RECOMMENDATION

- KORE provides 2026 distribution yield of 15.6% and trades at P/NAV of 0.35x (65% discount to NAV per unit at US\$0.69).
- **Maintain BUY.** Our target price of US\$0.33 is based on DDM (cost of equity: 10.5%, terminal growth: 0.5%).

SHARE PRICE CATALYST

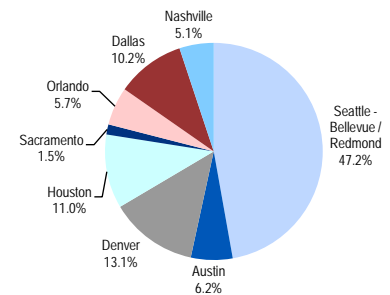
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration; growth from built-in average annual rental escalation of 2.6%.

KEY OPERATING METRICS

Key Metrics	4Q23	1Q24	2Q24	3Q24	4Q24	yoy % chg	qoq % chg
DPU (US cents)	0.00	n.a.	0.00	n.a.	0.00	n.a.	n.a.
Occupancy	90.3%	90.1%	90.7%	88.7%	90.0%	-0.3ppt	1.3ppt
Aggregate Leverage	43.2%	43.0%	42.7%	42.6%	43.7%	0.5ppt	1.1ppt
Average Cost of Debt	4.00%	4.34%	4.36%	4.48%	4.45%	0.45ppt	-0.03ppt
WALE by NLA (years)	3.6	3.7	3.6	3.7	3.8	0.2yrs	0.1yrs
Average Debt Maturity (years)	2.7	2.5	2.3	2.3	2.4	-0.3yrs	0.1yrs
Rental Reversions	-4.4%	-1.4%	1.2%	-1.2%	1.7%	6.1%	2.9%

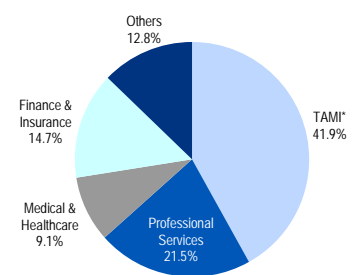
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (DEC 24)



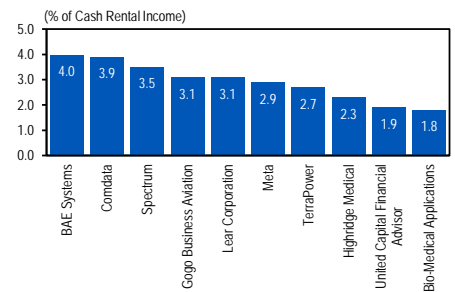
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INDUSTRY DIVERSIFICATION BY NLA (DEC 24)



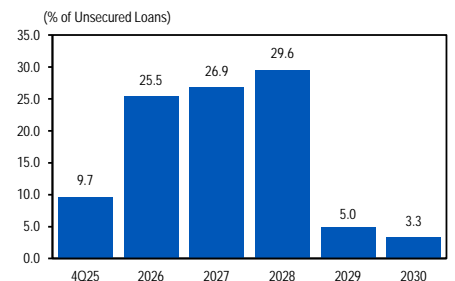
*Technology, Advertising, Media & Information
Source: KORE

TOP 10 TENANTS (DEC 24)



Source: KORE

DEBT MATURITY PROFILE



Source: KORE

PROFIT & LOSS

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
Net turnover	146.4	148.9	149.9	150.2
EBITDA	69.3	72.4	74.3	74.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	69.3	72.4	74.3	74.7
Total other non-operating income	(53.9)	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(26.3)	(30.5)	(31.7)	(33.7)
Pre-tax profit	(10.9)	41.9	42.6	41.0
Tax	4.0	(2.1)	(2.1)	(2.0)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	(6.9)	39.8	40.5	38.9
Net profit (adj.)	47.0	39.8	40.5	38.9

BALANCE SHEET

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
Fixed assets	1,326.4	1,376.4	1,416.4	1,456.4
Other LT assets	11.4	11.4	11.4	11.4
Cash/ST investment	44.2	45.4	47.0	48.4
Other current assets	6.0	4.3	4.3	4.3
Total assets	1,388.0	1,437.5	1,479.2	1,520.5
ST debt	59.0	59.0	59.0	59.0
Other current liabilities	41.2	40.0	38.2	36.2
LT debt	545.8	555.0	595.0	635.0
Other LT liabilities	25.6	27.4	29.6	31.6
Shareholders' equity	716.3	756.1	757.4	758.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,388.0	1,437.5	1,479.2	1,520.5

CASH FLOW

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
Operating	74.0	72.6	72.6	72.7
Pre-tax profit	(10.9)	39.8	40.5	38.9
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	(0.9)	(0.3)	(1.8)	(2.0)
Non-cash items	53.9	0.0	0.0	0.0
Other operating cashflows	31.8	33.0	33.8	35.7
Investing	(50.6)	(50.0)	(40.0)	(40.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(51.9)	(50.0)	(40.0)	(40.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1.3	0.0	0.0	0.0
Financing	(23.0)	(21.4)	(30.9)	(31.3)
Distribution to unitholders	(139.0)	(0.0)	(39.2)	(37.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	144.3	9.2	40.0	40.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(28.3)	(30.5)	(31.7)	(33.7)
Net cash inflow (outflow)	0.4	1.2	1.7	1.4
Beginning cash & cash equivalent	43.8	44.2	45.4	47.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	44.2	45.4	47.0	48.4

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	47.3	48.6	49.6	49.7
Pre-tax margin	(7.4)	28.2	28.5	27.3
Net margin	(4.7)	26.8	27.0	25.9
ROA	(0.5)	2.8	2.8	2.6
ROE	(1.0)	5.4	5.4	5.1
Growth				
Turnover	(2.9)	1.7	0.7	0.2
EBITDA	(9.8)	4.5	2.7	0.5
Pre-tax profit	n.a.	n.a.	1.7	(3.9)
Net profit	n.a.	n.a.	1.7	(3.9)
Net profit (adj.)	(44.0)	(15.2)	1.7	(3.9)
EPU	(44.0)	(15.2)	1.7	(3.9)
Leverage				
Debt to total capital	45.8	44.8	46.3	47.8
Debt to equity	84.4	81.2	86.3	91.5
Net debt/(cash) to equity	78.3	75.2	80.1	85.1
Interest cover (x)	2.6	2.4	2.3	2.2

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