

COMPANY UPDATE

Parkway Life REIT (PREIT SP)

Maiden Acquisition In Third Core Market France

The acquisition of 11 nursing homes in France provides NPI yield of 6.5% and is DPU accretive by 1.6% despite being fully funded by an equity fund raising. The nursing home market in France is highly regulated and very fragmented. PREIT gained a foothold and strategic partner for further expansion in Europe. PREIT's defensive strength is supported by its healthcare orientation, long WALE of 15.3 years and healthy aggregate leverage of 33.3%. Maintain BUY. Target price: S\$5.12.

WHAT'S NEW

- **Entry into third core market France.** Parkway Life REIT (PREIT) has entered into a sale and leaseback arrangement with DomusVi, the third largest aged care operator in Europe. It will acquire 11 nursing home properties with 850 beds in France for €111.2m (S\$159.9m), representing a discount of 3.6% compared with Cushman & Wakefield's valuation of S\$165.8m. The properties will be leased to and operated by DomusVi for 12 years upon completion of the acquisition, which is expected by 4Q24.
- **Highly regulated with high barriers to entry.** France is one of the largest private nursing home markets in Europe with real estate value of €19b. France has an ageing population and over 22% of its residents are over 65 years old. The government subsidises 60-65% of nursing home bills, while the remaining 35-40% is paid out of pocket. The industry is highly regulated with no new nursing beds expected to be authorised till 2028. There is a shortage of aged care facilities with less than one bed available for every 10 senior citizens over 65 years old.
- **Enhancing geographical and tenant diversification.** The acquisition increases the size of PREIT's healthcare portfolio by 7% to S\$2.4b. France is expected to account for 6.6% of its portfolio valuation. The exposure to nursing homes is estimated to expand from 32.9% to 37.3% of portfolio valuation. The proportion of its revenue hedged against inflation will increase by 4.8ppt from 62.6% to 65.6%. DomusVi will become its second largest tenant accounting for 8.1% of gross revenue. The reliance on its sponsor IHH Healthcare would be reduced from 62.6% to 57.5%.
- **DomusVi is an established Pan-European operator** with significant presence across western Europe and more than 40 years of track record. It operates in France, Germany, Ireland, Netherlands, Portugal and Spain. The group currently operates close to 600 nursing homes and assisted living homes. The nursing home industry in France is highly fragmented. The acquisition provides PREIT with a foothold to grow via acquisitions as the industry consolidates. PREIT and DomusVi are strategically aligned for collaborative growth and expansion across Europe.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	130	147	150	166	160
EBITDA	105	122	127	140	132
Operating profit	105	122	127	140	132
Net profit (rep./act.)	41	100	111	223	199
Net profit (adj.)	92	103	111	123	114
EPU (S\$ cents)	15.2	17.0	18.3	18.9	17.6
DPU (S\$ cents)	14.4	14.8	14.4	15.0	17.8
PE (x)	26.3	23.4	21.8	21.2	22.7
P/B (x)	1.7	1.7	1.5	1.5	1.4
DPU Yld (%)	3.6	3.7	3.6	3.8	4.5
Net margin (%)	31.6	68.1	73.5	134.6	124.6
Net debt/(cash) to equity (%)	57.4	56.4	49.8	47.4	45.4
Interest cover (x)	18.2	11.3	12.8	13.8	12.8
ROE (%)	2.9	7.1	7.3	13.3	11.2
Consensus DPU (S\$ cent)	-	-	14.8	15.0	17.8
UOBKH/Consensus (x)	-	-	0.97	1.00	1.00

Source: Parkway Life REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.99
Target Price	S\$5.12
Upside	+28.3%
(Previous TP)	S\$5.07

COMPANY DESCRIPTION

Parkway Life REIT (PREIT) is one of Asia's largest listed healthcare REITs. It invests primarily in income-producing real estate and real estate-related assets used primarily for healthcare and healthcare-related purposes.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PREIT SP
Shares issued (m):	605.0
Market cap (S\$m):	2,414.0
Market cap (US\$m):	1,833.5
3-mth avg daily t'over (US\$m):	2.0

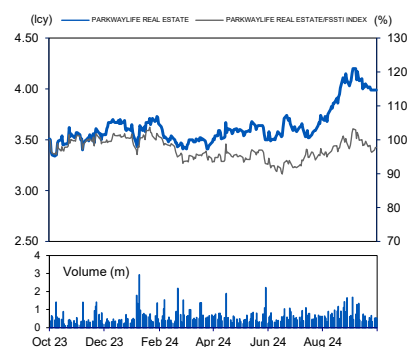
Price Performance (%)

52-week high/low	S\$4.30/S\$3.34			
1mth	3mth	6mth	1yr	YTD
(2.4)	10.2	15.0	15.7	8.7

Major Shareholders

Parkway Hldgs	35.5%
Cohen & Steers	7.0%
FY24 NAV/Share (S\$)	2.67
FY24 Net Debt/Share (S\$)	1.33

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **A new horizon to pursue growth.** We view the acquisition positively as PREIT has identified its third core market, which provides a foothold for further expansion into Europe. PREIT has also found a new strategic partner.
- **Yield-accretive despite being fully funded by equity fund raising.** The 11 nursing home properties provide NPI yield of 6.5%. Occupancy cost of 20-30% is in line with its healthcare assets in Singapore and Japan. The acquisition is fully funded by a private placement of new units to raise S\$180m and is accretive to pro forma 2023 DPU by 1.6% assuming new units are issued at S\$3.84. NAV per unit is expected to increase 4.4% to S\$2.44. The acquisition will lower aggregate leverage as of Jun 24 by 2.6ppt from 35.3% to 32.7%. PREIT's headroom for debt-funded acquisitions has increased by 36% to S\$558m based on aggregate leverage of 45%.

EARNINGS REVISION/RISK

- We raised our 2025 DPU forecast by 2% to 15.0 S cents due to the acquisition of 11 nursing homes in France.

VALUATION/RECOMMENDATION

- **Maintain BUY.** PREIT appeals to risk-averse investors who value PREIT's defensive strength due to its healthcare orientation and long WALE of 15.3 years.
- Our target price of S\$5.12 is based on DDM (cost of equity: 6.25%, terminal growth: 3.0%).

SHARE PRICE CATALYST

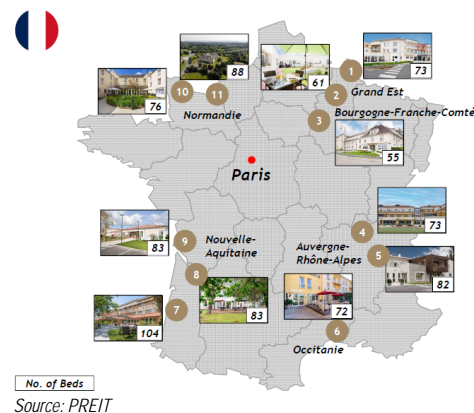
- Higher contributions from the extended leases for Singapore hospitals.
- Yield-accretive acquisitions in Singapore.

KEY OPERATING METRICS – PREIT

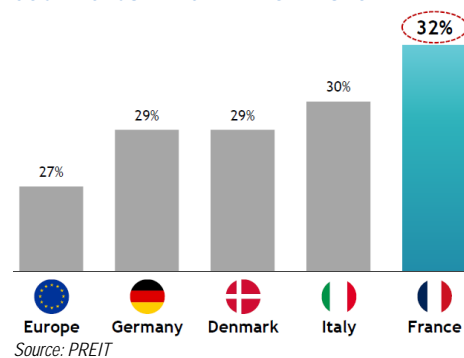
	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % change	qoq % change*
DPU (S cents)	3.70	3.78	3.79	3.75	3.76	1.6%	0.3%
Occupancy	99.7%	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	36.0%	35.6%	36.4%	35.3%	37.5%	1.5ppt	2.2ppt
Average Cost of Debt	1.32%	1.27%	1.30%	1.35%	1.36%	0.04ppt	0.01ppt
WALE by Gross Revenue (years)	16.5	16.3	16.2	16.1	15.8	-0.7yrs	-0.2yrs
Weighted Average Debt Maturity (years)	2.8	2.8	3.4	3.3	3.0	0.2yrs	-0.3yrs

Source: PREIT, UOB Kay Hian

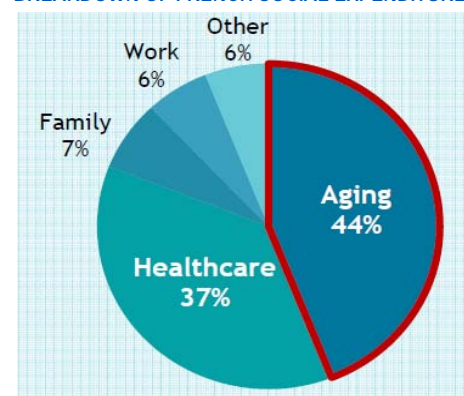
OVERVIEW OF FRANCE ACQUISITION



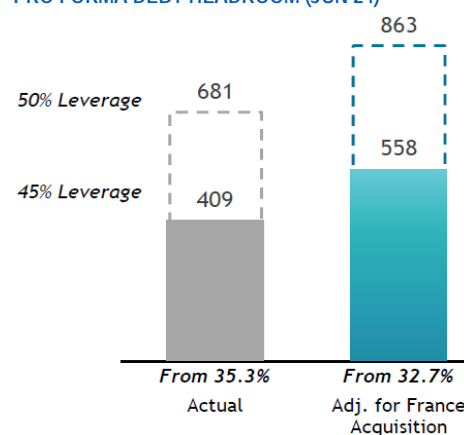
SOCIAL SECURITY SPENDING IN EUROPE



BREAKDOWN OF FRENCH SOCIAL EXPENDITURE



PRO FORMA DEBT HEADROOM (JUN 24)



PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	147.5	150.3	165.7	159.8
EBITDA	121.6	127.3	140.2	131.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	121.6	127.3	140.2	131.8
Total other non-operating income	(2.6)	0.0	100.0	84.7
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(10.8)	(9.9)	(10.2)	(10.3)
Pre-tax profit	108.3	117.4	230.0	206.2
Tax	(7.8)	(6.9)	(7.0)	(7.1)
Minorities	0.0	0.0	0.0	0.0
Perpetual Securities	0.0	0.0	0.0	0.0
Net profit	100.5	110.6	223.0	199.1
Net profit (adj.)	103.0	110.6	123.0	114.4

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	108.7	141.7	139.4	128.8
Pre-tax profit	118.3	117.4	130.0	121.5
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	0.0	0.0	0.0	0.0
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(9.7)	24.3	9.4	7.3
Investing	(49.6)	(232.6)	(52.0)	(5.0)
Capex (growth)	(31.0)	(52.0)	(52.0)	(5.0)
Capex (maintenance)	(18.6)	(180.6)	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(67.9)	89.8	(83.3)	(121.8)
Distribution to unitholders	(88.4)	(87.0)	(97.6)	(116.0)
Issue of shares	0.0	180.0	0.0	0.0
Proceeds from borrowings	31.3	7.2	25.0	5.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(10.9)	(10.4)	(10.7)	(10.8)
Net cash inflow (outflow)	(8.8)	(1.1)	4.1	1.9
Beginning cash & cash equivalent	40.0	28.5	27.4	31.5
Changes due to forex impact	(2.7)	0.0	0.0	0.0
Ending cash & cash equivalent	28.5	27.4	31.5	33.4

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,231.0	2,461.7	2,611.7	2,696.4
Other LT assets	67.0	39.3	39.3	39.3
Cash/ST investment	28.5	27.4	31.5	33.4
Other current assets	7.7	9.7	10.6	10.2
Total assets	2,334.1	2,538.1	2,693.0	2,779.3
ST debt	53.5	53.5	53.5	53.5
Other current liabilities	33.0	27.7	30.4	29.3
LT debt	772.8	780.0	805.0	810.0
Other LT liabilities	60.2	58.6	60.5	59.7
Shareholders' equity	1,414.6	1,618.2	1,743.6	1,826.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	2,334.1	2,538.1	2,693.0	2,779.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	82.4	84.7	84.6	82.5
Pre-tax margin	73.4	78.1	138.8	129.0
Net margin	68.1	73.5	134.6	124.6
ROA	4.3	4.5	8.5	7.3
ROE	7.1	7.3	13.3	11.2
Growth				
Turnover	13.5	1.9	10.2	(3.6)
EBITDA	16.0	4.7	10.1	(6.0)
Pre-tax profit	124.5	8.5	95.8	(10.4)
Net profit	144.2	10.0	101.7	(10.7)
Net profit (adj.)	12.0	7.3	11.2	(7.0)
EPU	12.0	7.3	3.2	(7.0)
Leverage				
Debt to total capital	36.9	34.0	33.0	32.1
Debt to equity	58.4	51.5	49.2	47.3
Net debt/(cash) to equity	56.4	49.8	47.4	45.4
Interest cover (x)	11.3	12.8	13.8	12.8

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