

ParkwayLife REIT

10 January 2024

Non-Rated

BBG	PREIT SP
Market cap	S\$2,214m
Price (10 January 2024)	S\$3.66
52-week range	S\$3.34 – S\$4.30
Shares Outstanding	605.0m
Free Float	64.0%
Major Shareholder	Parkway Holdings 35.8% Cohan & Steers 5.9%

P/NAV (1H2023)	1.6x
Gearing (1H2023)	35%

Source: Company data, Bloomberg, SAC Capital

Analyst

Matthias Chan
mchan@saccapital.com.sg

It's Now or Never

Much-touted Mount-E Novena acquisition finally on the cards? Referring to the title, no, the timeline is not as dramatic as Elvis Presley's song. While management is understandably coy about details, we feel that the circumstances are ripe for the acquisition to proceed.

Firstly, on the sponsor, IHH's side. As IHH focuses on its growth strategy, to maximise balance sheet efficiency, the asset-light/capital recycling model is likely to be brought to the fore. Among its various assets for review, Mount Elizabeth Novena Hospital stands out as the hospital in IHH's portfolio that synergises best with PLife REIT's assets. PLife REIT has a Right-of-First-Refusal on the acquisition.

Also, Mount Elizabeth Novena celebrated its 10th year last July since its opening. During this period, the hospital has developed into a stable asset: stable operations with stable cash flow; an ideal target for capital recycling.

Yield-accretive acquisition. Mount Elizabeth Novena is likely to be valued at S\$2bn, according to some estimates in the market. Comparable to its market cap of S\$2.2bn, the deal size will require PLife REIT to break the acquisition down into more digestible bite sizes. We believe it is probably going to acquire a third stake at a time over a 5-6 years period ie about S\$650m to S\$700m for each tranche.

Gearing stands at 36% as at 30 Sep 2023. Raising it to 45% gives the REIT a debt headroom of about S\$370m. Assuming PLife REIT sets aside its debt for other opportunities and funds the acquisition purely through new equity, the deal will still be yield-accretive. The current cap rate of Singapore hospitals is circa 5%. This compares favourably with its distribution yield of 4%.

Lease feature on existing SG properties favourable to DPU lift till 2042. From FY2026, the Annual Rent Review Formula will kick in. The formula involves (1) a Base Rent plus a 3.8% of Adjusted Hospital Revenue (AHR) OR (2) a CPI + 1% increase on the preceding year's rent – whichever is HIGHER. In the meantime till FY2026, rental increase has been locked at in 2-3% per annum.

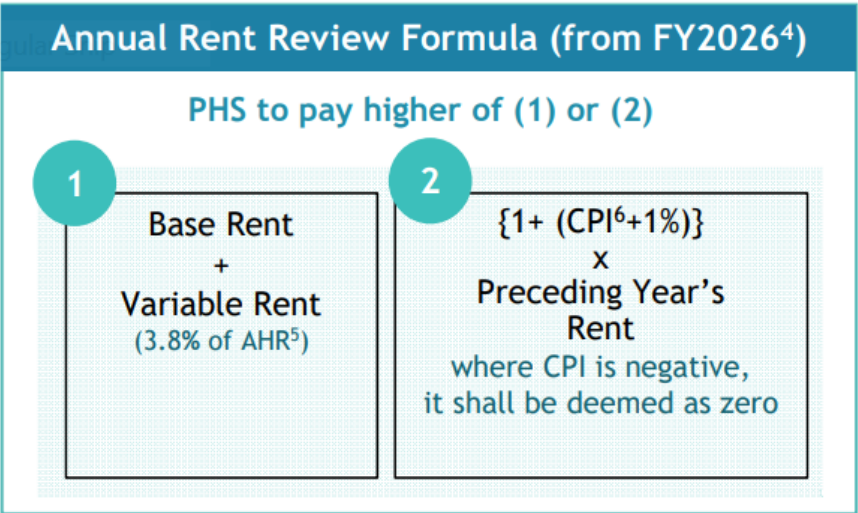
Singapore's Consumer Price Index (CPI) has averaged 2.5% over the past 10 years. So based on the CPI formula, PLife REIT stands to enjoy an annual rental step-up in excess of 3%. If IHH works the properties harder, the 3.8% AHR formula will likely kick in and provide a stronger fillip to PLife REIT's revenue than the CPI formula.

YE 31 Dec (\$m)	FY19A	FY20A	FY21A	FY22A	1H23A
Revenue	115.2	120.9	120.7	130.0	74.4
NPI	108.2	112.5	111.2	121.9	70.1
Net profit	123.4	87.2	331.9	41.1	47.4
EPU (cents)	20.4	14.4	54.9	6.8	7.8
DPU (cents)	13.2	13.8	14.1	14.4	7.3
Net cash / (debt)	(718.2)	(768.9)	(800.1)	(809.8)	(773.2)
Valuation					
NPI yield (%)	5.5	5.7	4.9	5.5	6.5 (annualised)
Gearing (%)	37	39	35	36	35
Distribution yield (%)	3.6	3.8	3.9	3.9	4.0 (annualised)

The jewel – Mount Elizabeth Novena Hospital

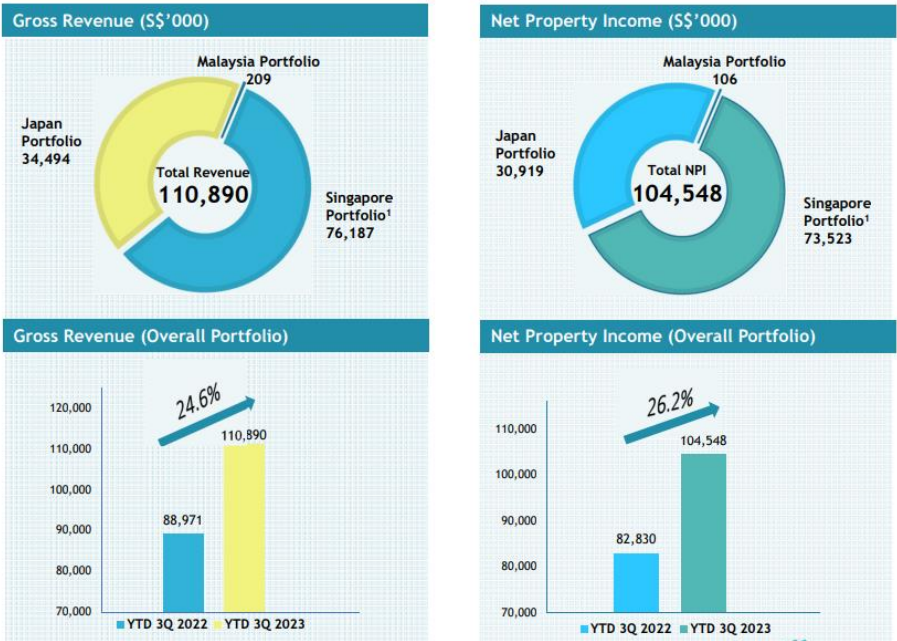


Favourable Annual Rent Review Formula - Details

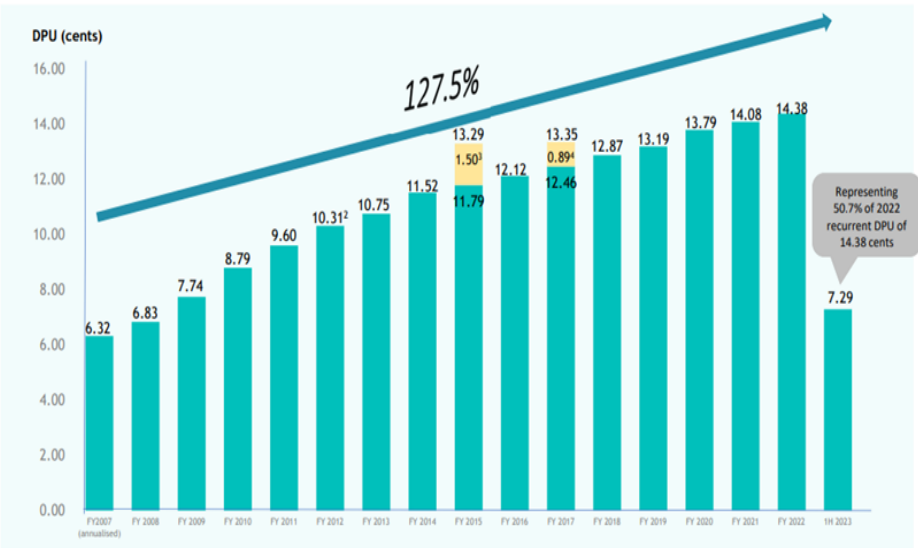


SG Jap split – Revenue and Net Property Income 65:35

YTD 3Q 2023 Revenue and NPI Composition



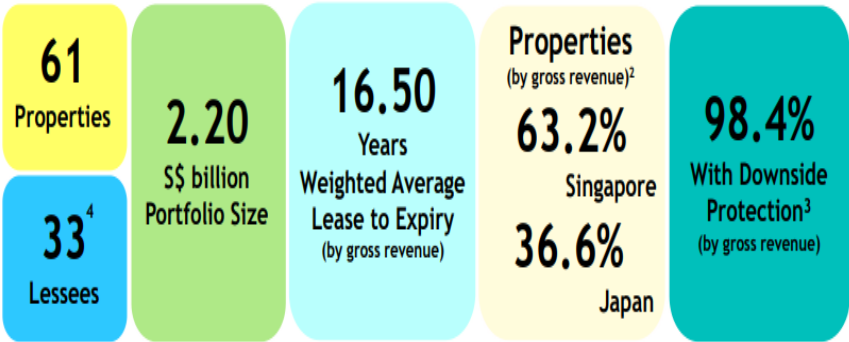
Impressive – Consistent DPU growth since IPO



Key data at a glance

Core Strengths:

- Defensive long term lease structure with downside protection
- Stable income stream supported by regular rental revision
- Diversified portfolio of high quality and yield accretive properties
- Well-positioned in fast growing healthcare sector within the Asia-Pacific region



PLife REIT SG Portfolio – Mount Elizabeth Hospital



PLife REIT SG Portfolio –Gleneagles Hospital



PLife REIT SG Portfolio –Parkway East Hospital



Income Statement

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22A	1H23A
Gross revenue	115.2	120.9	120.7	130.0	74.4
Property expenses	(7.0)	(8.4)	(9.5)	(8.1)	(4.3)
Net property income	108.2	112.5	111.2	121.9	70.1
Management fees	(11.9)	(12.6)	(12.9)	(13.8)	(7.3)
Trust expenses	(3.1)	(3.7)	(3.4)	(3.3)	(1.8)
Interest income	0.0	0.0	-	-	0.0
Finance costs	(6.6)	(5.2)	(4.7)	(5.8)	(5.1)
Other expenses	-	(1.2)	-	-	-
Net foreign exchange gain	(0.1)	0.1	1.9	3.4	3.6
Other income	45.5	6.6	248.5	-	-
Profit before tax	132.0	96.4	340.8	48.2	51.0
Tax expense	(8.6)	(9.2)	(8.9)	(7.1)	(3.5)
Net profit	123.4	87.2	331.9	41.1	47.4

Balance Sheet

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22A	1H23A
Receivables	12.0	18.1	12.7	15.6	3.7
Financial derivatives	0.0	-	0.6	0.5	3.7
Cash and equivalent	21.9	22.7	25.8	40.0	32.1
Advance payments	-	-	-	18.5	37.0
Asset held for sale	-	30.9	-	-	-
Total current assets	33.9	71.6	39.0	29.2	76.5
Investment properties	1,966.1	1,991.0	2,290.8	2,205.9	2,167.2
Financial derivatives	3.0	4.4	15.3	34.0	37.4
Advance payments	-	-	-	27.7	9.2
Total non-current assets	1,969.2	1,995.4	2,306.1	2,267.6	2,213.9
Total assets	2,003.0	2,067.0	2,345.1	2,342.1	2,290.3
Financial derivatives	2.5	2.3	-	-	-
Payables	21.9	26.9	21.9	23.7	21.9
Security deposits	0.7	0.6	1.0	0.8	0.4
Lease liabilities	0.0	0.0	0.0	0.0	0.0
Borrowings	77.7	163.0	94.7	56.6	131.6
Provision	0.0	0.0	-	-	-
Total current liabilities	102.9	192.8	117.6	81.2	154.0
Financial derivatives	0.8	0.3	0.2	0.0	0.0
Security deposits	18.1	19.9	19.2	17.8	16.4
Lease liabilities	2.1	2.1	2.1	2.1	2.1
Borrowings	662.3	628.5	731.2	793.2	673.7
Deferred income	2.3	2.1	1.9	1.7	1.7
Deferred tax liabilities	32.6	37.7	38.3	35.8	34.5
Total non-current liabilities	718.3	690.6	792.8	792.8	728.3
Net assets	1,181.8	1,183.6	1,434.7	1,431.5	1,408.1
NAV per unit (S\$)	1.95	1.96	2.37	2.33	2.33

Movements in Unitholders' Funds

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22A
Unitholders' funds at beginning of year	1,136.4	1,181.8	1,183.6	1,434.7
Operations				
Total return for the year	123.4	87.2	331.9	41.1
Unitholders' transactions				
Distribution to Unitholders	(79.4)	(82.1)	(85.2)	(64.3)
Total (decr)/incr in funds before movement	44.0	5.2	246.7	(23.2)
Other reserves				
Net movement in hedging reserve	0.3	(2.6)	3.8	7.0
Net movement in cost of hedging reserve	0.3	0.1	-0.1	0.4
Exchange differences on hedge of net investment in foreign operations	0.5	(19.7)	49.1	98.6
Translation differences arising on consolidation of foreign operations	0.4	18.8	(48.4)	(107.0)
Net (decrease)/increase in other reserves	1.5	(3.4)	4.4	(1.0)
Unitholders' funds at end of year	1,181.8	1,183.6	1,434.7	1,410.5

Ratios

YE 31 Dec (S\$m)	FY20A	FY21A	FY22E	1H23A
Profitability (%)				
NPI yield	5.7	4.9	5.5	6.5 (annualised)
Liquidity				
Current ratio (x)	0.4	0.3	0.4	0.5
Gearing (%)	39	35	36	35
Valuation (x)				
P/NAV	1.9	1.5	1.6	1.6
Returns (%)				
Return on equity	7.4	23.1	2.9	3.3
Return on assets	4.2	14.2	1.8	2.1
Distribution yield	3.8	3.9	3.9	4.0 (annualised)

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