

ParkwayLife REIT

10 June 2022

HOLD (Initiation)

BBG	PREIT SP
Market cap	S\$2,982.7m
Price (9 Jun 2022)	S\$4.93
52-week range	S\$4.28 – S\$5.22
Target Price	S\$4.69
Shares Outstanding	605.0m
Free Float	64.0%
Major Shareholder	Parkway Holdings 35.8% Cohan & Steers 7.1%

P/NAV (12/21)	2.1x
Net Debt to Equity (12/21)	0.6x

Source: Company data, Bloomberg, SAC Capital

Analyst

Lam Wang Kwan
lamwk@saccapital.com.sg

Stable growth with potential catalysts await

Master lease renewal to provide growth. PLife renewed the master leases for its 3 Singapore hospitals for 20.4 yrs till Dec 2042, with a 10 yr extension option. Existing lease terms, in which rental escalation is calculated based on the higher of 3.8% of respective adjusted hospital revenue or CPI + 1%, will run until existing lease expiry on 22 Aug 22. During the interim period (Aug 22 to Dec 22), rent is guaranteed to increase by 2.0%. Subsequently, the REIT will invest S\$150m between FY23 to FY25 in asset enhancement works to improve the productivity and efficiency of its Singapore hospitals portfolio. During this period, rents are guaranteed to increase 3% annually after adjusting for rental rebate due to capex work. Thereafter, existing rental review formula will be reinstated. This translates to a minimum 1% annual rental growth for the three hospitals in Singapore. Capex for AEI is expected to be funded with debt. The Singapore properties are on a triple net lease basis, as such PLife will not be affected by rising operating costs.

Japan nursing home portfolio to provide stable income. 48 out of the 52 (95.2% of Japan's revenue) are insulated from rent reduction. Of these, 45 properties are subjected to rental review every 2 – 5 years. Rent will be adjusted upwards if market rate is higher than existing rate. Rent of the remaining 4 of the 52 properties will be renegotiated every 2 – 3 years. JPY net income is 100% hedged till 3Q26. The Japan portfolio will provide income stability with potential upside coming from periodic rental review.

Prudent capital management. PLife's next refinancing need is in Jun 23. Its gearing ratio is at 34.5% (as at 31 Mar 22), coupled with its ICR ratio of 20.2x, gives the REIT a debt headroom of S\$715.6m at 50% leverage limit. This allows PLife the financial freedom to pursue inorganic growth. PLife has S\$796m of debt, with ~80% denominated in JPY. Cost of debt is at 0.57%. 81% of the net interest exposure hedged with a combination of interest rate swaps and interest rate caps. We estimate that for every 100 bps increase in interest rate, effective interest rate will increase by 0.7%. We assume effective interest rate to rise to 1.2% in our forecasts.

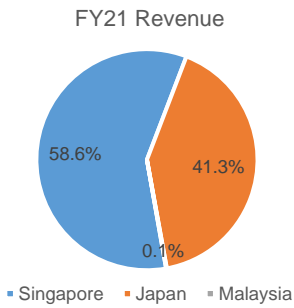
Initiate HOLD at TP of S\$4.69. We expect the DPU to continue its growth trajectory over our 3 year-forecast largely based on the 3% rental escalation from the master lease renewal. Our DDM-derived TP is S\$4.69 (COE 5.6%). We like PLife for its income stability and built-in rental escalation, however TP is capped by a lack of near-term catalysts. PLife is trading at a yield of ~2.9%, compared to SG 10Y bond yield of 2.8% and its cost of funds of 0.6%. The REIT is trading at FY22E P/NAV of 2.1. ~15% of the NAV denominated in JPY, the depreciating JPY (-11% YTD) will impact the share price.

Potential price catalysts. 1) PLife was granted the ROFR to acquire Mount Elizabeth Novena by its sponsor IHH Healthcare for 10 years. The property has 13 operating theatres and ~300 beds and is currently valued at RM3,997m (~S\$1,248m), increasing the REIT's AUM by ~54% when acquired. 2) It is estimated that rental income of its Singapore portfolio will go up by 25% in FY26 following the end of rental rebate and the successful completion of AEI works. 3) PLife is also looking to resume AEI works on its Japan portfolio, which were put on hold because of the pandemic. Any AEI works should return higher than 5%, which is the REIT's NPI yield of its Japan portfolio and the current cap rate of Japan nursing home assets.

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	115.2	120.9	120.7	125.1	130.4
NPI	108.2	112.5	111.2	116.9	122.1
Net profit	123.4	87.2	331.9	82.0	85.4
EPU (cents)	20.4	14.4	54.9	13.6	14.1
DPU (cents)	13.2	13.8	14.1	14.1	14.2
Net cash / (debt)	(718.2)	(768.9)	(800.1)	(810.4)	(865.8)
Valuation					
NPI margin (%)	93.9	93.1	92.2	93.5	93.6
ROIC (%)	4.1	4.2	3.6	3.8	3.8
Net debt to equity	0.6	0.6	0.6	0.6	0.6
Dividend yield (%)	2.7	2.8	2.9	2.9	3.0

Background

Parkway Life REIT focuses on investing in income-producing healthcare and healthcare-related real estate assets. It is one of the largest listed healthcare REITs by asset size (~S\$2.3 billion). PLife currently owns a portfolio of 56 properties, including 3 private hospitals in Singapore, 52 nursing homes in Japan and strata units in a medical centre in Malaysia.

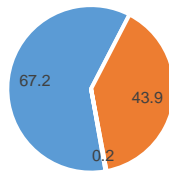


PLife's Singapore portfolio consists of 3 Singapore hospitals with a total of 745 beds and 30 operating theatres, including Mount Elizabeth Hospital (345 beds, 13 operating theatres), Gleneagles Hospital (257 beds, 12 operating theatres) and Parkway East Hospital (143 beds, 5 operating theatres). They are all leased by Parkway Hospitals Singapore Pte Ltd, a wholly subsidiary of Parkway Pantai Limited. Parkway Pantai is largest private healthcare provider in Southeast Asia and a wholly subsidiary of listed entity IHH Healthcare Berhad. Singapore and Malaysia-listed private healthcare group IHH Healthcare Berhad owns ~36% of PLife. Its wholly-owned subsidiary, Parkway Trust Management Limited, is the manger of the REIT. As part of the renewal agreement, PLife was granted the right of first refusal for Mount Elizabeth Novena Hospital for 10 years. The property is IHH's largest asset and is valued at RM\$ 3,997m as at 31 Dec 2021 and has 13 operating theatres and ~300 beds.

As at 2020, Singapore has 11,561 hospital beds in acute hospitals. There are 8 hospitals and specialty centres development in the pipeline, however only 3 of them provide acute hospital services. Singapore has allocated ~S\$19b on healthcare expenditure for 2022 to build up the long-term care capability and to maintain COVID public health measures. Frost & Sullivan estimated that the Singapore private hospitals generated a revenue of US\$3b in 2020 and will grow at a CAGR of 10% between 2021 and 2025. The 3 Singapore hospitals are expected to benefit from the return of medical tourists.

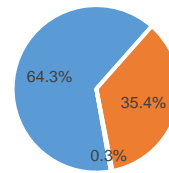
PLife's Japan portfolio has a more diverse tenant base with 28 operators running its 52 nursing home properties. PLife has a first right of refusal from Japan-listed residential care company Uchiyama Holdings Co., Ltd for the future sales of its 94 nursing homes.

FY21 NPI (S\$m)



■ Singapore ■ Japan ■ Malaysia

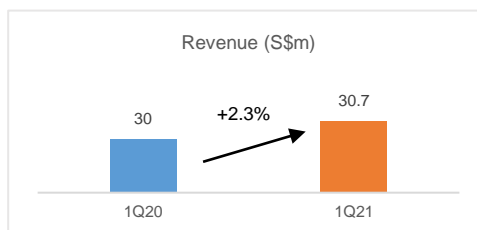
Asset mix by geography



■ Singapore ■ Japan ■ Malaysia

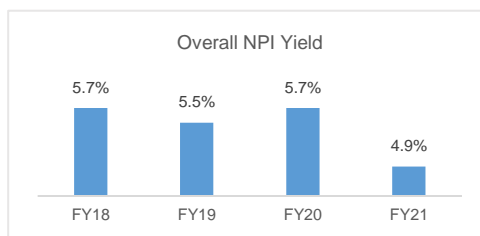
SG assets form 64.3% of the REITs portfolio and contribute 60.4% of FY21 NPI.

Revenue (S\$m)

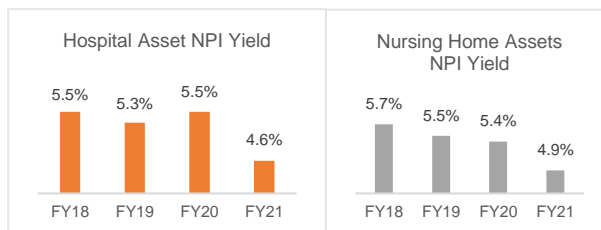


Higher revenue recorded in 1Q22 contributed by 3 JP acquisitions and higher rental from SG hospitals

Background



The portfolio NPI yield was stable at ~5.5% but dropped to 4.9% due to higher revaluation of SG Hospitals assets following the master lease renewal



NPI yield is expected to be at ~5% going forward

Peer comparison

	BBG	Year End	Mkt Cap (\$m)	FY22E Div Yield	P/NAV	Gearing	Cost of Debt
Parkway Life REIT	PREIT SP	Dec-21	2,940.3	2.9%	2.1x	34.5%	0.6%
First REIT	FIRT SP	Dec-21	475.3	8.8%	0.8x	35.7%	3.4%

Source: Bloomberg, Company data, SAC Capital
As at 30 May 2022

Income Statement

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Gross revenue	115.2	120.9	120.7	125.1	130.4
Property expenses	(7.0)	(8.4)	(9.5)	(8.1)	(8.3)
Net property income	108.2	112.5	111.2	116.9	122.1
Management fees	(11.9)	(12.6)	(12.9)	(13.1)	(13.5)
Trust expenses	(3.1)	(3.7)	(3.4)	(3.4)	(3.5)
Interest income	0.0	0.0	-	-	-
Finance costs	(6.6)	(5.2)	(4.7)	(10.1)	(10.9)
Other expenses	-	(1.2)	-	-	-
Net foreign exchange gain	(0.1)	0.1	1.9	-	-
Other income	45.5	6.6	248.5	-	-
Profit before tax	132.0	96.4	340.8	90.3	94.1
Tax expense	(8.6)	(9.2)	(8.9)	(8.7)	(9.0)
Net profit	123.4	87.2	331.9	81.6	85.0
Adjusted net profit	78.0	80.5	81.5	81.6	85.0

Cash Flow

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit	132.0	96.4	340.8	90.3	94.1
Net change in FV of financial derivatives	(2.4)	0.8	(4.2)	-	-
Net change in FV of investment properties	(43.0)	(7.4)	(239.2)	-	-
Finance costs	6.6	5.2	4.7	10.1	10.9
Change in working capital	1.3	0.6	(2.3)	(2.1)	(0.0)
Income tax paid	(4.9)	(5.1)	(5.5)	(8.7)	(9.0)
Others	(0.3)	(0.3)	(4.3)	-	-
Operating cash flow	89.2	90.3	89.9	89.6	95.9
Capex on investment properties	(9.6)	(4.6)	(11.7)	(5.0)	(55.0)
Purchase of investment properties	(51.5)	(24.0)	(99.2)	-	-
Net proceeds from sale of investment property	-	-	35.9	-	-
Investing cash flow	(61.1)	(28.6)	(75.0)	(5.0)	(55.0)
Distribution to Unitholders	(79.4)	(82.0)	(85.2)	(84.8)	(85.4)
Change in borrowings	56.4	25.7	79.0	-	50.0
Interest paid	(5.4)	(5.1)	(3.8)	(10.1)	(10.9)
Financing cash flow	(28.4)	(61.5)	(10.0)	(94.9)	(46.3)
Net change in cash	(0.3)	0.3	4.9	(10.3)	(5.4)

Balance Sheet

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Receivables	12.0	18.1	12.7	13.2	13.7
Financial derivatives	0.0	-	0.6	0.6	0.6
Cash and equivalent	21.9	22.7	25.8	15.5	10.1
Asset held for sale	-	30.9	-	-	-
Total current assets	33.9	71.6	39.0	29.2	24.4
Investment properties	1,966.1	1,991.0	2,290.8	2,295.8	2,350.8
Financial derivatives	3.0	4.4	15.3	15.3	15.3
Total non-current assets	1,969.2	1,995.4	2,306.1	2,311.1	2,366.1
Total assets	2,003.0	2,067.0	2,345.1	2,340.3	2,390.5
Financial derivatives	2.5	2.3	-	-	-
Payables	21.9	26.9	21.9	20.3	20.9
Security deposits	0.7	0.6	1.0	1.0	1.0
Lease liabilities	0.0	0.0	0.0	0.0	0.0
Borrowings	77.7	163.0	94.7	94.7	94.7
Provision	0.0	0.0	-	-	-
Total current liabilities	102.9	192.8	117.6	116.0	116.6
Financial derivatives	0.8	0.3	0.2	0.2	0.2
Security deposits	18.1	19.9	19.2	19.2	19.2
Lease liabilities	2.1	2.1	2.1	2.1	2.1
Borrowings	662.3	628.5	731.2	731.2	781.2
Deferred income	2.3	2.1	1.9	1.9	1.9
Deferred tax liabilities	32.6	37.7	38.3	38.3	38.3
Total non-current liabilities	718.3	690.6	792.8	792.8	842.8
Net assets	1,181.8	1,183.6	1,434.7	1,431.5	1,431.1
NAV per unit (S\$)	1.95	1.96	2.37	2.37	2.37

Ratios

YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Profitability (%)					
NPI margin	93.9	93.1	92.2	93.5	93.6
Liquidity (x)					
Current ratio	0.3	0.4	0.3	0.2	0.2
Interest coverage ratio	14.1	18.1	20.7	9.9	9.6
Net Debt to Equity	0.6	0.6	0.6	0.6	0.6
Valuation (x)					
P/NAV	2.5	2.5	2.1	2.1	2.1
Returns (%)					
Return on equity	10.4	7.4	23.1	5.7	5.9
Return on assets	6.2	4.2	14.2	3.5	3.6
Return on invested capital	4.1	4.2	3.6	3.8	3.8
Dividend yield	2.7	2.8	2.9	2.9	2.9

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