

# OUE REIT (OUEREIT SP)

## Stable performance

# BUY

Share Price	SGD 0.30
12m Price Target	SGD 0.34 (+21%)
Previous Price Target	SGD 0.36

### Commercial segment offsets weakness in hotels

3Q business update saw NPI down 3.7% YoY. Higher property taxes for hotels, lower contribution from Lippo Plaza Shanghai and high base effect for hotels from prior year led to the decline. Singapore office occupancy inched up while reversion was positive but moderating. Hotel RevPAR stayed relatively flat with HSO declining from a high base last year. Gearing and debt cost inched up. We cut estimates on lower margins and trim our TP to SGD0.34 from 0.36. Retain BUY on 6.5% yield and 0.4x PB.

### Mixed drivers

3Q revenue and NPI was SGD74.8m and SGD60.3m, -1.3% and -3.7% YoY, respectively. Excluding impact of higher property taxes, NPI was -1.2%YoY. Among sub-segments, NPI for commercial grew 0.3% YoY. This was due to better cost management despite a 1.1% drop in revenue. NPI for hotels fell 8.9% YoY (-3.2% excluding impact of taxes). Singapore office occupancy inched up to 95.4% from 95.2%; accompanied by +10.8% rent reversion (+11.7% in 2Q). Mandarin Gallery occupancy fell to 95.3% (vs. 97.7% in 2Q) and reversion was +16% (2Q +28.4%). Office in Lippo Plaza Shanghai saw occupancy weaken further along with negative reversions. 3Q hotel RevPAR was SGD296, +0.3%YoY. RevPAR for HSO fell 8.6% to SGD315 from a high base last year and from changing mix of visitor arrivals. RevPAR for CPCA was up 30.3% to SGD259 as AEI affected performance last year.

### Focus on tenant retention

Gearing and debt cost inched up to 39.3% (38.7% in 2Q) and 4.8% (4.7% in 2Q) respectively. Fixed rate hedge ratio rose to 70.5% from 61.0%. Coverage inched down to 2.1x from 2.2x. Management expects operating environment for hotels to moderate next year due to lack of events with a target of 2-3% RevPAR growth (vs. c.12% growth YTD). Office is likely to see transitional vacancies. Focus is on tenant retention and optimizing occupancy. Offset will be lower funding cost.

### Retain BUY

We cut our FY24-26E DPU estimates by 2.2% to 7.5%, factoring in lower NPI margins. This results in a lower DDM-based target price of SGD0.34 from SGD0.36. Retain BUY on attractive valuation at 6.5% yield and 0.4x PB.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	273	286	292	297	304
Net property income	208	217	217	218	223
Core net profit	278	202	114	119	123
Core EPU (cts)	5.0	3.6	2.1	2.2	2.2
Core EPU growth (%)	647.8	(27.9)	(42.5)	4.6	3.4
DPU (cts)	2.1	2.1	2.0	2.0	2.1
DPU growth (%)	(18.5)	(1.4)	(6.2)	4.6	3.4
P/NTA (x)	0.6	0.5	0.4	0.4	0.4
DPU yield (%)	6.3	7.3	6.5	6.8	7.1
ROAA (%)	4.7	3.4	1.9	1.9	2.0
Debt/Assets (x)	0.35	0.34	0.34	0.34	0.34
Consensus DPU	-	-	1.9	2.2	2.1
MIBG vs. Consensus (%)	-	-	2.6	(7.7)	0.9

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### Company Description

OUE Real Estate Investment Trust invests in income-producing commercial and hospitality properties in financial and business hubs.

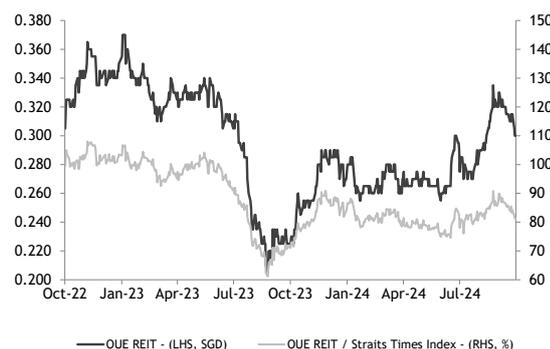
### Statistics

52w high/low (SGD)	0.34/0.23
3m avg turnover (USDm)	0.9
Free float (%)	36.9
Issued shares (m)	5,493
Market capitalisation	SGD1.6B USD1.2B

### Major shareholders:

OUE Ltd.	48.6%
TANG GORDON	9.1%
YANG CHAN ZHEN	4.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	2	33
Relative to index (%)	(5)	(2)	13

Source: FactSet

### Abbreviations:

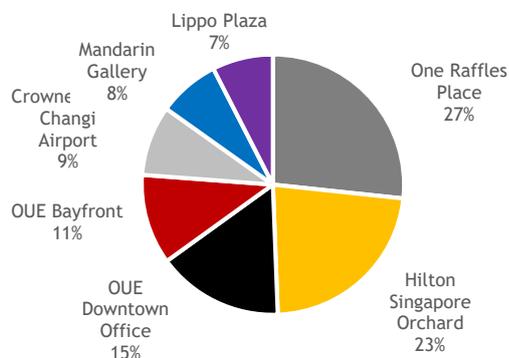
NPI - Net property income  
HSO - Hilton Singapore Orchard  
CPCA - Crowne Plaza Changi Airport  
RevPAR - Revenue per Available Room  
AEI - Asset Enhancement Initiatives

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Tear Sheet Insert

## Value Proposition

- OUE REIT is one the largest diversified Singapore REITs with total AUM of SGD6.3b as of end FY23. Owns hotels, offices and a mall in Singapore and Shanghai comprising 1,655 hotel keys and 2.2m sq. ft. of prime office and retail space.
- In Singapore, the REIT owns 2 hotels, Hilton Singapore Orchard and Crowne Plaza Changi Airport. Adjoining the Orchard hotel is Mandarin Gallery, a high-end mall. Office assets are in the CBD, which include OUE Bayfront, One Raffles Place and OUE Downtown Office. In Shanghai, it owns Lippo Plaza, a Grade-A commercial asset.
- Externally managed REIT, listed on SGX in Jan 2014. Sponsor OUE Limited is a leading real estate and healthcare group with a SGD9.5b of portfolio, most of which are in REITs.
- The REIT intends to grow organically and inorganically by acquiring third-party commercial assets in developed markets.

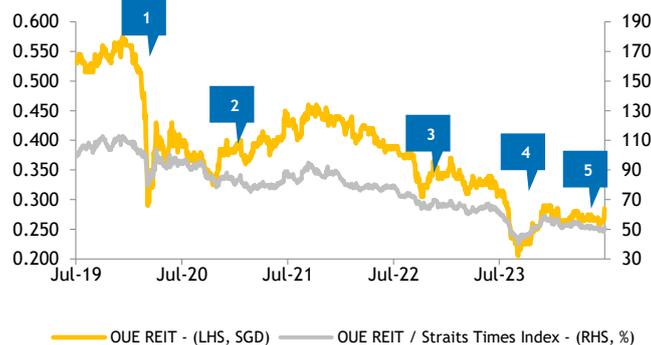
### 92.5% of OUE REIT's AUM is in Singapore



Source: Company

## Price Drivers

### Historical share price trend



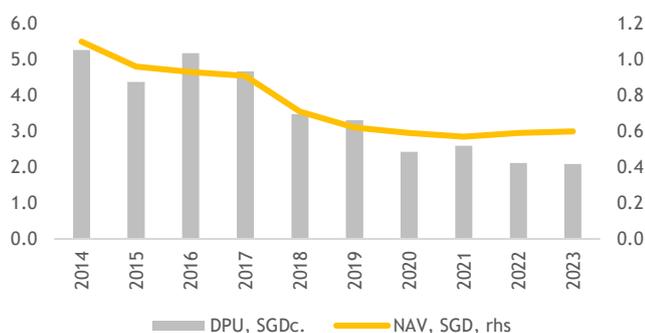
Source: Company, Maybank IBG Research

1. Mar 2020: pandemic-related closures, and rebrands Mandarin Orchard Singapore to Hilton Singapore Orchard.
2. Jan 2021: divests 50% of OUE Bayfront.
3. Aug 2022: completes unsecured facility refinancing with the largest sustainability-linked loan in Singapore real estate.
4. June 2023 & Nov 2023: SREIT Index fell by 15% from June to Oct. In Nov, S&P assigns investment grade 'BBB-' long-term issuer credit rating to OUE REIT with a stable outlook.
5. Jun 2024: first investment grade green note issuance of SGD250m at 4.1%; order book 3.2x over subscribed.

## Financial Metrics

- DPU fell 1.4% YoY in FY23. 1Q24 revenue and NPI grew 9.5% and 6.9% YoY, respectively. We forecast annual DPU CAGR of 2.7% for FY23-26E.
- DPU growth is premised upon low single-digit growth in hotel RevPAR and Singapore CBD office rents.
- OUE REIT's gearing is 38.8% with an adjusted ICR of 2.3x, as of 1Q24.
- Investment grade rating 'BBB-', with a stable outlook by S&P.

### DPU and NAV history



Source: Company

## Swing Factors

### Upside

- Upswing in office demand
- Accretive overseas acquisition.
- Interest rate cuts, lower spread due to IG rating.
- Offers significant value - 7.7% dividend yield and trading at 55% below book.

### Downside

- Higher supply on Orchard Road, capping RevPAR growth.
- Higher-for-longer interest rates.
- Dilutive capital market transaction or overhang from shares owned by the sponsor.

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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- OUE REIT’s principal investing strategy is to invest directly, or indirectly, in a diversified portfolio of stabilised income-producing real estate assets used primarily for hospitality, retail and/or office purposes. It may be critically analysed by ESG-focused investors given the real estate sector’s contribution to GHG emissions and OUE REIT’s continued need to access capital for growth.
- The Sustainability Steering Committee drives the implementation of sustainability initiatives and monitors its progress. It is chaired by the CEO and reports to the Board on at least a bi-annual basis. OUE REIT’s sustainability framework guides its initiatives and defines 3 key areas of focus: stewarding the environment, strengthening the social fabric and building trust.
- The manager continues to improve its ESG data collection process. In 2023, OUE REIT submitted and validated its ESG performance to GRESB and attained a Three-Star Rating. The manager may externally assure its sustainability report in future.
- Sustainable financing is about two-thirds of the debt (Dec 2023) and green buildings are > 95% of its portfolio. OUE REIT is making progress in ESG, notwithstanding relatively older building specs. We expect more improvements, such as setting net-zero target, reporting of Scope 3 emissions data, disclosure of management’s remuneration, improvement in board diversity, and lowering employee turnover.

### Material E issues

- Under stewarding the environment, OUE REIT’s goal is to reduce the environmental impact of its buildings,
- The material topics include climate resilience, water efficiency and waste minimization. These are measured by energy use and efficiency, GHG emissions, monitoring the sources, consumption and recycling.
- Established Green Financing Framework assessed by Sustainable Fitch. Sustainable financing is 69.5% of total debt as of 2023, one of the highest among S-REITs.
- 95.7% of its portfolio are green certified and 50.3% are green leases as of 2023.
- Investment in solar roof tops for One Raffles Place Tower 2, replacement or optimization of HVAC systems, upgrade of the Building Management System of Crowne Plaza Changi Airport and new LED lightings are some of the capex.

### Material S issues

- OUE REIT’s goal is to create social environments that generate positive changes for its stakeholders, including the community.
- Material topics: health & safety, employee engagement, service quality, innovation and creating social ecosystems.
- OUE REIT targets to maintain zero incidents resulting in employee fatality or permanent disability, which was achieved in FY23.
- Regularly achieves more than 25 training hours per employee per year.
- Subscribes to the bizSAFE programme, administered by the Singapore Workplace Health and Safety Council, to enhance overall workplace health and safety capabilities.

### Key G metrics and issues

- The material topics include compliance, ethical business practices and cyber security. Targets to maintain zero incidents of non-compliance with laws and/or regulations, including competition and environmental laws.
- OUE REIT is an externally managed REIT and the manager is a wholly owned subsidiary of its sponsor OUE Group, which supports its growth via a pipeline of development assets, and access to capital markets and funding partners.
- Board independence is high and progress is being made on board diversity. The Board currently comprises 7 directors with 4 independent non-executive Directors. Accordingly, more than half of the Board is independent. As out FY23, 1 out of 7 directors is female. The Board is committed to a target of at least 25% female directors by the end of 2030. 71.6% of OUE REIT’s employees are females. The group supports UN’s Women Empowerment Principles. Independent directors chair the Audit and Risk Committee, and the Nominating and Remuneration Committee.
- Management fee is aligned with unitholders’ interest. Per annum base fee is 0.3% of the value of the portfolio. Performance fee is 25% of distribution growth for the year. Acquisition and divestment fees are 1% and 0.5% respectively. Property management fees are 1-2% of gross revenue as well as NPI and lease management fees are 0.25-0.5% of NPI.
- Remuneration paid to senior management in FY23 is not disclosed and can’t be normalized to distribution paid.
- Since its IPO in Jan 2014, it has grown by acquiring sponsor’s assets (One Raffles Place, OUE Downtown Office), merging with sister hospitality REIT and AEs (Lippo Plaza, HSO).
- OUE REIT is a member of the FTSE EPRA Nareit Global Developed Index as well as iEdge indices (S-REIT Index, S-REIT Leaders Index and ESG Transparency Index).

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## 1. Results highlights

Fig 1: Result details

SGDm	3Q23	2Q24	3Q24	%QoQ	%YoY	9M23	9M24	%YoY
<b>Hospitality</b>								
Revenue	28.3	24.8	27.8	12.1	-1.8	74.1	79.5	7.3
NPI	27.0	21.7	24.6	13.4	-8.9	70.0	70.1	0.1
<b>Commercial</b>								
Revenue	47.5	47.0	47.0	0.0	-1.1	140.5	142.0	1.1
NPI	35.6	35.0	35.7	2.0	0.3	107.6	107.4	-0.2
<b>Group</b>								
Revenue	75.8	71.8	74.8	4.2	-1.3	214.6	221.5	3.2
NPI	62.6	56.6	60.3	6.5	-3.7	177.9	177.4	-0.3
Share of JV results	1.7	2.3	2.1	-8.7	23.5	6.0	6.6	10.0
Aggregate leverage, %	39.4	38.7	39.3					
ICR, x	2.4	2.2	2.1					
Borrowing cost, %	4.2	4.7	4.8					
NPI margins	82.6	78.8	80.6			82.9	80.1	
NPI margins - hospitality	95.4	87.5	88.5			94.5	88.2	
NPI margins - commercial	74.9	74.5	76.0			76.6	75.6	
<b>Operating performance</b>	<b>3Q23</b>	<b>2Q24</b>	<b>3Q24</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>9M23</b>	<b>9M24</b>	<b>%YoY</b>
<b>SG office performance</b>								
Occupancy, %	95.7	95.2	95.4					
Rent reversion for Qtr., %	18.4	11.7	10.8					
Passing rent YTD, SGD psf pm	10.35	10.57	10.61					
<b>Shanghai Lippo Plaza</b>								
Office occupancy, %	88.7	76.2	74.6					
Retail occupancy, %	97.8	94.5	97.8					
Office passing rent YTD, RMB psm per day	8.48	8.37	8.22					
<b>Mandarin Gallery</b>								
Occupancy, %	98.7	98.3	95.3					
Rent reversion for Qtr., %	31.1	28.4	16.0					
Passing rent YTD, SGD psf pm	20.71	21.1	21.84					
<b>Hospitality</b>								
RevPAR YTD - HSO, SGD	345	301	315		-8.7			
RevPAR YTD - CPCA, SGD	199	204	259		30.2			
RevPAR YTD - Both hotels, SGD	295	268	296		0.3			

Source: Maybank IBG Research, Company Data

## 2. Estimate changes

Fig 2: Estimate changes

	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
	Old	Old	Old	New	New	New	% chng	% chng	%chng
Gross revenue	285.1	297.9	301.0	292.2	297.5	303.7	2.5	-0.1	0.9
NPI	236.3	247.2	249.7	233.9	236.1	240.8	-1.0	-4.5	-3.6
Mgmt fee & trust expense	-17.0	-20.3	-18.2	-17.0	-18.5	-18.3	0.0	-8.8	0.4
Borrowing cost	-104.5	-96.6	-97.6	-104.6	-96.8	-97.9	0.2	0.3	0.3
Net operating income	114.8	130.4	133.9	112.3	120.7	124.6	-2.2	-7.4	-7.0
OUE Bayfront Dividend	9	10	11	9	10	11	0.0	0.0	0.0
Less CPPU payout	-2	-2	-2	-2	-2	-2	0.0	0.0	0.0
Less retention of working capital	-10	-10	-10	-10	-10	-10	0.0	0.0	0.0
Total Distribution	116	129	132	114	119	123	-2.2	-7.5	-7.1
Units outstanding, mn.	5493	5493	5493	5493	5493	5493	0.0	0.0	0.0
DPU, SGD c	2.00	2.22	2.28	1.96	2.05	2.12	-2.2	-7.5	-7.1

Source: Maybank IBG Research

### 3. Valuation

We value OUE REIT using a three-stage dividend discount model. We apply a cost of equity of 7.0% (based on risk free rate of 2.75%) and a medium-term growth rate of 2%. We lower DPU forecast by 2.2%-7.5% for FY24-26e. This is mainly due to factoring in lower NPI margins especially for hotels. Our earlier input was NPI margin of 82.4% (hotel 94.1%, commercial 76.4%). Our current NPI margin is 80% (hotel 88.2%, commercial 75.5%) in line with YTD9M reported figures. Other inputs remain broadly in-line except for assuming transitional vacancy in office assets. This results in a lower TP of SGD0.34c. Keep our BUY rating on a projected FY24E 6.5% yield and its 60% discount to book value.

### 4. Risks

Redemption/conversion of hybrid securities, hybrid work pattern and non-renewal of office leases, short land lease of the portfolio

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Price/DPU(x)	15.8	13.6	15.3	14.6	14.2
P/BV (x)	0.6	0.5	0.5	0.5	0.5
P/NTA (x)	0.6	0.5	0.4	0.4	0.4
DPU yield (%)	6.3	7.3	6.5	6.8	7.1
FCF yield (%)	nm	0.8	13.2	12.7	13.2
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	273.2	286.0	292.2	297.5	303.7
<b>Net property income</b>	<b>208.0</b>	<b>217.2</b>	<b>216.9</b>	<b>217.6</b>	<b>222.5</b>
Management and trustee fees	4.0	(19.2)	0.0	0.0	0.0
Net financing costs	(81.8)	(93.5)	(104.6)	(96.8)	(97.9)
Associates & JV	0.0	0.0	12.9	18.3	15.1
Exceptionals	0.0	0.0	28.2	56.6	28.6
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>261.8</b>	<b>191.4</b>	<b>153.4</b>	<b>195.6</b>	<b>168.3</b>
Income tax	(11.2)	(2.5)	(1.8)	(2.3)	(2.0)
Minorities	(12.1)	(5.7)	(5.7)	(5.7)	(5.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Total return avail to unitholders</b>	<b>275.6</b>	<b>200.1</b>	<b>145.9</b>	<b>187.6</b>	<b>160.6</b>
Core net profit	277.8	202.3	113.7	118.9	122.9
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	49.5	54.2	69.6	95.4	109.1
Accounts receivable	22.3	24.7	22.7	23.1	23.6
Property, Plant & Equip (net)	0.2	0.2	0.2	0.2	0.2
Investment properties	5,539.2	5,630.4	5,658.5	5,715.1	5,743.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	347.3	353.7	356.2	362.3	365.0
Other assets	30.6	5.6	8.1	8.1	8.1
<b>Total assets</b>	<b>5,989.1</b>	<b>6,068.7</b>	<b>6,115.2</b>	<b>6,204.2</b>	<b>6,249.7</b>
ST interest bearing debt	327.8	0.1	0.0	0.0	0.0
Accounts payable	0.0	0.0	98.2	104.2	105.8
LT interest bearing debt	1,747.0	2,077.8	2,093.6	2,123.7	2,139.1
Other liabilities	207.0	212.7	122.5	122.5	122.5
<b>Total Liabilities</b>	<b>2,281.7</b>	<b>2,290.7</b>	<b>2,314.3</b>	<b>2,350.4</b>	<b>2,367.4</b>
Shareholders Equity	3,452.4	3,523.5	3,546.4	3,599.3	3,627.8
Minority Interest	255.0	254.5	254.5	254.5	254.5
<b>Total shareholder equity</b>	<b>3,707.4</b>	<b>3,778.0</b>	<b>3,801.0</b>	<b>3,853.8</b>	<b>3,882.3</b>
<b>Total liabilities and equity</b>	<b>5,989.1</b>	<b>6,068.7</b>	<b>6,115.2</b>	<b>6,204.2</b>	<b>6,249.7</b>
<b>CASH FLOW (SGD m)</b>					
Cash flow from operations	135.2	140.2	224.2	223.1	223.6
Capex	(0.2)	(10.6)	(7.0)	(14.1)	(7.1)
Acquisitions & investments	(47.6)	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	8.6	10.4	10.5
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(47.8)</b>	<b>(10.6)</b>	<b>1.6</b>	<b>(3.8)</b>	<b>3.4</b>
Dividends paid	(135.8)	(116.6)	(113.7)	(118.9)	(122.9)
Interest expense	65.3	85.3	(104.6)	(96.8)	(97.9)
Change in debt	49.0	(0.0)	15.8	30.1	15.4
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(6.0)	(6.0)	(7.9)	(7.9)	(7.9)
<b>CF from financing activities</b>	<b>(93.8)</b>	<b>(123.6)</b>	<b>(210.4)</b>	<b>(193.5)</b>	<b>(213.3)</b>
Effect of exchange rate changes	(3.6)	(1.2)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(10.1)</b>	<b>4.7</b>	<b>15.3</b>	<b>25.9</b>	<b>13.7</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	3.4	4.7	2.2	1.8	2.1
Net property income growth	7.2	4.4	(0.1)	0.3	2.3
Core net profit growth	570.0	(27.2)	(43.8)	4.6	3.4
Distributable income growth	na	na	na	na	na
<b>Profitability ratios (%)</b>					
Net property income margin	76.1	76.0	74.2	73.1	73.3
Core net profit margin	nm	70.7	38.9	40.0	40.5
Payout ratio	42.3	57.9	73.6	59.9	72.3
<b>DuPont analysis</b>					
Total return margin (%)	100.9	70.0	49.9	63.1	52.9
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	na	na	na	na	na
ROAA (%)	4.7	3.4	1.9	1.9	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.6	2.6	2.6	2.6	2.6
Net gearing (%) (excl. perps)	54.6	53.6	53.3	52.6	52.3
Net interest cover (x)	2.6	2.1	2.1	2.2	2.3
Debt/EBITDA (x)	10.1	10.5	9.7	9.8	9.6
Capex/revenue (%)	0.1	3.7	2.4	4.8	2.4
Net debt/ (net cash)	2,025.3	2,023.7	2,024.0	2,028.3	2,030.0
Debt/Assets (x)	0.35	0.34	0.34	0.34	0.34

Source: Company; Maybank IBG Research

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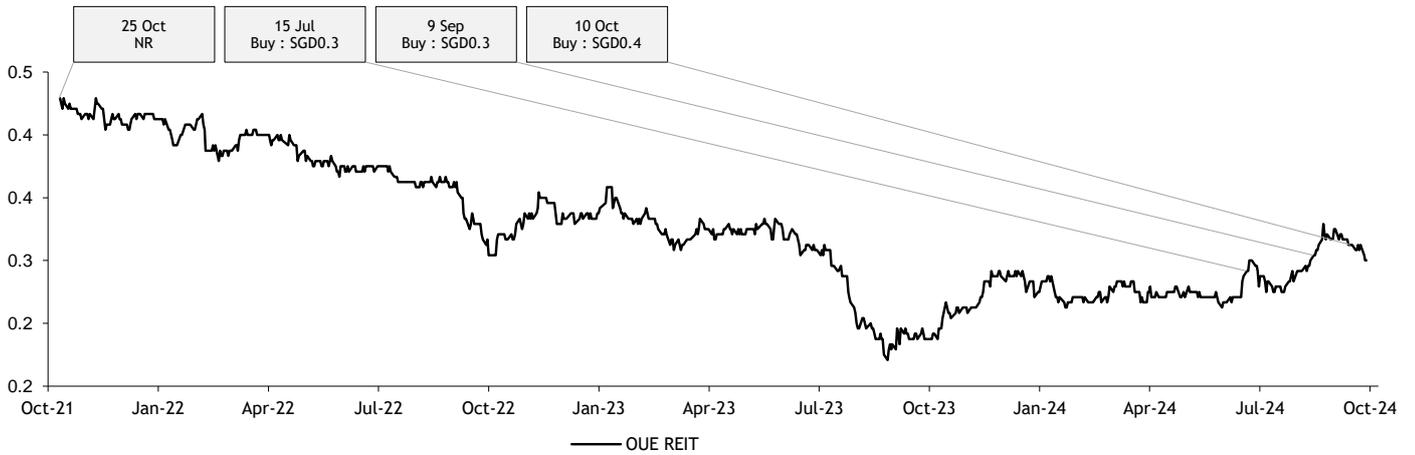
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