

OUE REIT

Sound operational performance dragged by financing cost



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Singapore | REIT | 1H24 RESULTS

26 July 2024

- Gross revenue for 1H24 met expectations, climbing 5.7% YoY to S\$146.7mn. The growth was underpinned by a robust rental reversion (office + 11.7% and retail +28.4%) and hospitality segment which saw a revenue increase of 12.9% YoY to S\$51.7mn.
- Despite the sound operational performance, with NPI inching up by 1.6% YoY and forming 48% of our FY24e estimates, DPU declined 11.4% YoY at 46% of our FY24e forecast, landing at S\$0.93 cents. This weakness was attributed to the rising financing costs (+18.5% YoY), higher retention of earnings for working capital (+67% YoY to S\$5mn), and the payment of 100% base management fees in cash (65% in 1H23).
- We lowered our DPU by 10% to factor in higher base management fees and proceeds released from the divestment of OUE Bayfront for distribution top-up. We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.33 and FY24e-25e DPU of 1.85 to 2.8 cents. We expect FY24e earnings to be supported by the high single-digit rental reversion for both retail and office segments, with additional upside captured by the two well-positioned hotels. However, DPU may remain stagnant in 2H24 before picking up in FY25e, reflecting the fading headwind from financing costs in the upcoming year.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.28
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 0.33
TOTAL RETURN	46.4%

COMPANY DATA

BLOOMBERG CODE:	OUREIT SP Equity
O/S SHARES (MN):	5,493
MARKET CAP (USD mn / SGD mn):	1124 / 1511
52 - WK HI/LO (SGD):	0.32 / 0.2
3M Average Daily T/O (mn):	2.06

MAJOR SHAREHOLDERS

OUE Reality Pte Ltd	22.3%
Tang Gordon	9.1%

PRICE PERFORMANCE (%)

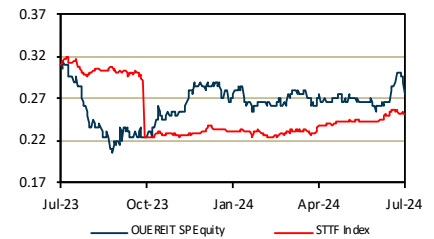
	1MTH	3MTH	YTD
COMPANY	13.7	7.4	5.7
STTF RETURN	4.1	6.8	9.1

Result at a glance

(\$'000)	1H24	1H23	YoY	Comments
Gross Revenue	146.70	138.80	5.7%	Resilience of Singapore commercial properties and higher hospitality sector contributions.
Net Property Income	117.10	115.30	1.6%	
DPU (pence)	0.93	1.05	-11.4%	Increased finance costs, higher retention for working capital,+35% payment of base management fees in cash
Cost of debt	4.7%	4.5%	4.4%	Refinancing
Gearing	38.7%	38.8%	(0.1ppt)	
NAV per share	0.60	0.60	-	
Revenue from Hospitality	51.70	45.80	12.9%	RevPAR increased by 15.8%YoY

Source: Company, PSR

PRICE VS. STTF



Source: Bloomberg, PSR

The Positives

+ Rental reversion to support earnings. 1H24 ended with a strong rental reversion for both the retail and office segments, at 11.7% and 28.4% respectively. The office sector experienced a silent flight to quality phenomenon and expansionary demand from the small tech sector and foreign businesses. OUE REIT observed increased retention demand for OUE Bayfront. Despite competing directly with the new IOI Building, there has been no loss of tenants to competitors. Rental reversion for the retail sector was slower, as low rental leases during COVID are gradually phasing out. We expect high single-digit rental reversion for both the retail and office sectors in FY24e.

+ Strong hotel contribution. Chinese, American, and Indonesian markets rebounded strongly in 1H24, contributing c.65% of total hotel revenue. RevPAR for Hilton and Crowne Plaza rose by 18.3% and 10.6%, respectively, on the back of successful rebranding and AEI. Forward bookings appear strong currently due to various events in 2H24, such as the F1 in September and several concerts in October (e.g., Andy Lau, Jay Chou). ADR may moderate due to the high base last year, and Aug may be the only month showing outperformance. Overall, we expect hotel revenue to increase by 4.7% in FY24e.

+ Strengthened capital position. OUE REIT issued its first investment-grade green notes and was 3.2 times oversubscribed, leading to an upsized amount of S\$250mn. Pricing tightened to 4.10%, reflecting a 25-basis point compression. Aggregate leverage decreased by 0.1 ppt, reaching 38.7% as of 2Q24.

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	241.5	285.1	299.3	309.8
Dist. Inc. (\$mn)	116.2	115.3	101.6	154.8
P/NAV (x)	0.47	0.46	0.46	0.46
DPU (cents)	2.12	2.09	1.85	2.82
Dist. Yield (%)	7.57	7.46	6.61	10.07

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity:10.2%; Terminal g: 1%)

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The Negative

- **Performance was dragged down by Shanghai.** The occupancy rate for Lippo Plaza improved by 0.7% QoQ to 76.2%, while passing rent marginally declined by 0.4% QoQ. With new supply for FY24 in CBD reaching a record high of 1.57mn sqm since 2019, amid ongoing economic uncertainty and weak demand, the office market remains under pressure.

Outlook

OUE REIT aims to achieve a 40% revenue contribution from the hotel segment by 2028 through both organic and inorganic efforts. It is considering an acquisition in Hong Kong with a cap rate of approximately 6% and no positive carry. However, given the distressed local bank balance sheets, opportunities may arise from fire sales. At the same time, divestment is a top priority, with Lippo Plaza Shanghai being a key focus due to the building's age and the need for more CAPEX. We believe this could be a turnaround year, as interest rates may ease with the slowing US economy. With 61% of its debt at fixed rates, OUE REIT is well-positioned to benefit from potential rate cuts.

Maintain BUY with an unchanged TP of S\$0.33

OUE REIT is currently trading at an FY24e dividend yield of 6.6% with an attractive valuation of 0.47x P/NAV. We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.33 and FY24e-25e DPU of 1.85 to 2.8 cents. FY24 DPU will be supported by resilient rental reversion, increasing hospitality demand, and an additional S\$2.5mn capital top-up in 2H24.

Financials

Income Statement

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
Revenue	249,884	241,507	285,055	299,293	309,831
Property Expense	45,679	44,592	50,088	54,172	56,079
Net Property Income	204,205	196,915	234,967	245,121	253,751
Net financing cost	(71,793)	(54,966)	(111,843)	(111,843)	(75,091)
Total return before tax	69,968	298,874	208,258	127,272	173,905
Tax Expense	(14,061)	(11,191)	(12,502)	(12,502)	(3,478)
Net income after Tax	55,907	287,683	195,756	114,770	170,427
Amount to be distributed	131,632	111,626	115,307	101,605	154,826
Distribution to unitholders	142,032	116,226	115,307	101,605	154,826

Per unit data

Y/E Dec, (S\$)	FY21	FY22	FY23	FY24e	FY25e
NAV (S\$)	0.57	0.59	0.60	0.61	0.61
DPU (S cents)	2.60	2.12	2.09	1.85	2.82

Cash Flow

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total return before tax	55,907	287,683	205,779	114,770	170,427
Adjustments	142,231	(93,599)	16,003	71,306	57,923
WC changes	(3,086)	941	(1,139)	(5,070)	(958)
Tax paid and interest received	(15,749)	(11,615)	(11,253)	(12,502)	(3,478)
Cash generated from ops	166,801	183,534	213,387	169,605	225,419
CFI					
CAPEX	(56,896)	(47,639)	(10,568)	-	-
Cashflow from investments	902,523	(30,848)	1,458	31,688	32,191
CFF					
Proceeds from borrowing	764,973	-	-	-	-
Proceeds from issue of Notes	150,000	150,000	-	-	-
Interest Paid	(66,487)	(65,289)	(85,912)	(102,982)	(90,109)
Cashflow from financing	(1,100,651)	(159,120)	(209,647)	(212,787)	(253,135)
Net change in cash	(31,327)	(6,434)	5,198	(11,493)	4,474
Cash at the start of the period	88,508	59,549	49,482	53,522	42,029
Ending cash	59,549	49,482	53,522	42,029	46,503

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Cash and short term deposit	59,549	49,482	54,225	42,029	46,503
Trade and other receivables	27,028	20,592	22,138	27,208	28,166
Total current assets	86,577	76,464	79,637	72,511	77,943
Investment properties	5,409,748	5,539,164	5,630,357	5,630,357	5,630,357
Trade and other receivables	3,867	4,334	4,805	4,988	5,164
Total non-current assets	5,745,944	5,912,641	5,989,074	5,989,244	5,989,415
Total Assets	5,832,521	5,989,105	6,068,711	6,061,756	6,067,359
LIABILITIES					
Trade and other payables	87,132	76,271	-	-	-
Loans and borrowings	172,199	327,618	90,340	90,340	90,340
Current tax liabilities	14,594	14,741	16,151	16,151	16,151
Total current liabilities	2,244,006	2,281,738	2,290,681	2,268,966	2,270,472
Borrowings	1,813,196	1,721,841	2,055,119	2,055,119	2,055,119
Trade and other payables	38,860	39,878	41,655	42,756	44,262
Total non-current liabilities	1,967,536	1,862,974	2,184,090	2,162,475	2,163,981
Total Liabilities	2,244,006	2,281,738	2,290,681	2,268,966	2,270,472
Net assets	3,588,515	3,707,367	3,778,030	3,792,789	3,796,887

Valuation Ratios

Y/E Dec, (S\$)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.49	0.47	0.46	0.46	0.46
Distribution Yield (%)	9.29	7.57	7.46	6.61	10.07

Growth & Margins (%)

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	-	-3.4%	18.0%	5.0%	3.5%
Distributable income	-	-15.2%	3.3%	-11.9%	52.4%
DPU	-	-18.5%	-1.4%	-11.5%	52.4%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	1.5%	7.7%	5.2%	3.0%	9.0%
Gearing	34.0%	34.2%	35.4%	35.4%	35.4%



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