

OUE REIT

De-risked portfolio



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Singapore | REIT | FY24 RESULT

- Gross revenue for FY24 grew by 3.7% YoY to S\$295.5mn, in line with our forecast and achieving 99% of full-year estimates. Improvement driven by hospitality segment, where revenue surged by 8.9% YoY, while commercial premises delivered a stable performance, with revenue increasing by 1% YoY. NPI met our expectations, forming 99% of FY24 forecast, but declined by 0.4% YoY to S\$234.0mn due to the upward revision of taxes on hotel assets. NPI would have risen by 0.3% YoY without the tax.
- DPU slipped by 1.4% YoY to 2.06 cents, outperforming our forecast by 12%, due to 1) reduced capital retention (S\$5mn in FY24 vs. S\$8mn in FY23) and 2) an additional S\$5mn capital top-up from the 50% divestment of OUE Bayfront.
- OUEREIT successfully divested its only overseas property, Lippo Plaza Shanghai, 5% below the last valuation. We believe it has been substantially de-risked by transforming into a pure-play Singapore REIT with 100% of its revenue generated from AA-rated assets. We have lowered our FY25e-26e DPU forecasts by 12%/10%, respectively, to account for the divestment of Lippo Plaza and higher-for-longer interest rate. Meanwhile, DPU will be supported by resilient mid-single-digit rental reversion for office and high-single digit retail rental reversion in. We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.40, as we revise the cost of equity down to 7% following the divestment. OUEREIT is currently trading at 0.52x P/NAV and FY25e-26e DPU of 1.88 to 1.95 cents, which we believe is undervalued compared to other pure-play Singapore REITs (FCT: 0.93x, FEHT: 0.65x).

Result at a glance

(\$ mn)	FY24	FY23	YoY	Comments
Gross Revenue	295.50	285.10	3.6%	Due to higher contributions from the hospitality segment
Net Property Income	234.00	235.00	-0.4%	Due to pward revision of prior years' property tax for 2 hotels, would have increased by 2.3% YoY otherwise.
DPU	2.06	2.09	-1.4%	S\$5.0mn capital topup, higher payout ratio and higher JV income
Revenue from Hospitality	105.90	97.30	8.8%	Robust concerts and MICE pipeline in 1H24
Cost of debt	4.70%	4.80%	(0.1ppt)	
Gearing	39.90%	39.30%	0.6ppt	
NAV per share	0.58	0.60	-3.3%	Divestment of Lippo Plaza

Source: Company, PSR

The Positives

+ Robust rental reversion sustained. Strong rental reversion extended into FY24 with 19.8% for the Mandarin Gallery and 10.7% for the Singapore office segment. Office occupancy rate dipped marginally by 0.8ppt YoY due to an influx of CBD supply in 2024. We expect vacancy pressures to ease in 2025, given 1) the construction delay of Shaw Tower, 2) c.80% committed occupancy for IOI, and 3) Keppel South Tower being the only new supply in the CBD area. This supports our forecast of mid-single-digit rental reversion in 2025e.

On retail, OUEREIT is rebalancing its tenant mix to align with the consumption downtrading among Chinese tourists, shifting toward more affordable fashion offerings. While tenant sales in Singapore have been subdued, occupancy costs for Mandarin Gallery remain stable in the high teens. We expect retail rental reversion to stabilize in 2025, as leases signed at low rental rates during COVID-19 have rolled mainly off. However, firm occupier demand and healthy office footfall in the surrounding area may sustain expansionary demand in 2025. As a result, we project rental reversion to normalize to high single-digit levels.

27 January 2025

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.30
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.40
TOTAL RETURN	39.1%

COMPANY DATA

BLOOMBERG CODE:	OUEREIT SP Equity
O/S SHARES (MN):	5,493
MARKET CAP (USD mn / SGD mn):	1214 / 1648
52 - WK HI/LO (SGD):	0.35 / 0.25
3M Average Daily T/O (mn):	2.04

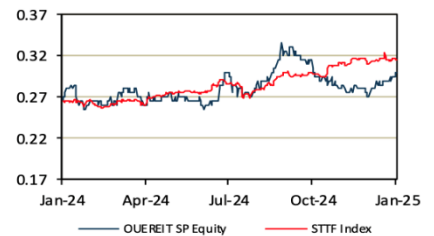
MAJOR SHAREHOLDERS

OUE Realty Pte Ltd	22.3%
Tang Gordon	9.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	11.1	(4.8)	5.3
STTF RETURN	1.8	5.2	0.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY23	FY24	FY25e	FY26e
Gross Rev (\$mn)	285.1	295.5	279.9	287.0
Dist. Inc. (\$mn)	115.3	113.7	103.8	107.2
P/NAV (x)	0.50	0.52	0.51	0.51
DPU (cents)	2.09	2.06	1.88	1.95
Dist. Yield (%)	6.97	6.87	6.28	6.49

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.0%; Terminal g: 1%)

Liu Miaomiao (+65 62121851)
 Research Analyst
 liumm@phillip.com.sg
 Paul Chew (+65 62121851)
 Head Of Research
 paulchewk1@phillip.com.sg

+ Cost of borrowing has peaked. The cost of debt decreased by 0.1ppt to 4.7% in Dec24, and we foresee the benefits of lower borrowing costs from the most recent refinancing, which are expected to become more pronounced in 2025. As such, we believe borrowing costs will start to taper off, and interest rate pressures are set to ease in 2025. Additionally, OUEREIT may consider using the proceeds from the Lippo Plaza divestment to reduce debt if no attractive acquisition opportunities arise. Assuming all the S\$313.2mn will be repatriated from China and used for debt repayment, there will be c. S\$14mn interest saving, translating to c.2% DPU improvements.

The Negative

- Valuation for Mandarin Gallery and Hilton Singapore Orchard declined by 0.6% YoY and 2% YoY, respectively. The decrease is attributed not to cap rate expansion but to a moderated outlook for the hospitality and retail sectors, following a high base in 2024. However, the valuation for other assets is holding up well, with OUE Bayfront seeing a 3.6% YoY uplift due to strengthened operating metrics. Overall, the portfolio valuation improved by 0.2% YoY.

- Soggy hospitality outlook. RevPAR increased by 9.2% YoY to S\$269 in FY24, with Crowne Plaza's performance surging by 18% YoY due to successful marketing on transient groups and corporate travelers. In comparison, Hilton Orchard climbed by 5.8% YoY. OUEREIT expects RevPAR growth to be moderate in 2025, given a lackluster event schedule and the absence of mega concerts. We anticipate demand to remain supported by Chinese travelers, as their contribution has doubled compared to pre-COVID levels, offsetting the slower recovery of Indonesian customers, currently at c.73% of pre-COVID levels.

Outlook

OUEREIT is eyeing acquisitions of hospitality assets in Tokyo or Sydney, with a projected NPI yield of 5.5% to 6%. There are no plans for additional capital top-ups in FY25e, as all proceeds from the 50% divestment of OUE Bayfront have been utilized, and the sale price for Lippo Plaza was 7% lower than its acquisition cost. The sale consideration of c.S\$313.2 million for Lippo Plaza accounts for potential withholding tax. We believe this is an opportune time for OUEREIT to pare down its debt using the proceeds from the Lippo Plaza divestment, as the property had an NPI yield of c.4.2%, which is lower than the current average cost of debt at 4.7%.

Maintain BUY with an unchanged TP of S\$0.40

OUEREIT is currently trading at an FY25e dividend yield of 6.3% and offers an attractive valuation at 0.52x P/NAV. A well-absorbed office supply, healthy occupier expansionary demand, and continued recovery in travel are expected to support FY25e DPU. We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.40 and FY25e-26e DPU forecasts of 1.88 to 1.95 cents.

Financials

Income Statement

Y/E Dec, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
Revenue	241,507	285,055	295,521	279,937	287,016
Property Expense	44,592	50,088	61,486	59,067	60,560
Net Property Income	196,915	234,967	234,035	220,870	226,456
Net financing cost	(54,966)	(111,843)	(113,056)	(107,081)	(98,683)
Total return before tax	298,874	208,258	(47,016)	112,941	125,263
Tax Expense	(11,191)	(12,502)	(11,892)	(7,906)	(8,768)
Net income after Tax	287,683	195,756	(58,908)	105,035	116,495
Amount to be distributed	111,626	115,307	108,660	103,759	107,205
Distribution to unitholders	116,226	115,307	113,660	103,759	107,205

Per unit data

Y/E Dec, (S\$)	FY22	FY23	FY24	FY25e	FY26e
NAV (S\$)	0.59	0.60	0.58	0.59	0.59
DPU (S cents)	2.12	2.09	2.06	1.88	1.95

Cash Flow

Y/E Dec, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Total return before tax	287,683	205,779	(58,908)	105,035	116,495
Adjustments	(93,599)	16,003	274,559	97,506	80,885
WC changes	941	(1,139)	(1,764)	165	(644)
Tax paid and interest received	(11,615)	(11,253)	(11,750)	(7,906)	(8,768)
Cash generated from ops	183,534	213,387	200,619	205,376	188,979
CFI					
CAPEX	(47,639)	(10,568)	(24,075)	-	-
Cashflow from investments	(30,848)	1,458	287,721	23,577	24,098
CFF					
Proceeds from borrowing	-	-	-	-	-
Proceeds from issue of Notes	150,000	-	550,000	-	-
Interest Paid	(65,289)	(85,912)	(90,795)	(113,380)	(104,982)
Cashflow from financing	(159,120)	(209,647)	(180,404)	(225,340)	(220,387)
Net change in cash	(6,434)	5,198	307,936	3,613	(7,309)
Cash at the start of the period	59,549	49,482	53,522	360,967	364,580
Ending cash	49,482	53,522	360,967	364,580	357,271

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Cash and short term deposit	49,482	54,225	361,670	364,580	357,271
Trade and other receivables	20,592	22,138	25,614	25,449	26,092
Total current assets	76,464	79,637	387,284	390,029	383,363
Investment properties	5,539,164	5,630,357	5,169,536	5,169,536	5,169,536
Trade and other receivables	4,334	4,805	4,438	4,666	4,784
Total non-current assets	5,912,641	5,989,074	5,552,617	5,528,096	5,528,213
Total Assets	5,989,105	6,068,711	5,939,901	5,918,125	5,911,576
LIABILITIES					
Trade and other payables	76,271	-	71,594	-	-
Loans and borrowings	327,618	90,340	115,265	115,265	115,265
Current tax liabilities	14,741	16,151	40,046	40,046	40,046
Total current liabilities	2,281,738	2,290,681	2,282,647	2,198,745	2,199,756
Borrowings	1,721,841	2,055,119	1,984,370	1,984,370	1,984,370
Trade and other payables	39,878	41,655	29,416	39,991	41,002
Total non-current liabilities	1,862,974	2,184,090	2,055,471	2,043,434	2,044,445
Total Liabilities	2,281,738	2,290,681	2,282,647	2,198,745	2,199,756
Net assets	3,707,367	3,778,030	3,657,254	3,719,380	3,711,820

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	0.51	0.50	0.52	0.51	0.51
Distribution Yield (%)	7.07	6.97	6.87	6.28	6.49
Growth & Margins					
Growth					
Revenue		18.0%	3.7%	-5.3%	2.5%
Distributable income		3.3%	-5.8%	-4.5%	3.3%
DPU		-1.4%	-1.4%	-8.5%	3.3%
Key Ratios					
ROE	7.7%	5.3%	-1.6%	5.6%	6.3%
Gearing	34.2%	35.4%	35.3%	35.5%	35.5%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)		
Head of Research Paul Chew – paulchewkl@phillip.com.sg		Research Admin Qystina Azli – qystina@phillip.com.sg
Technical Analyst Zane Aw – zaneawyx@phillip.com.sg	Property REITs Darren Chan – darrenchanrx@phillip.com.sg	Property REITs Liu Miaomiao – liumm@phillip.com.sg
Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg	US Tech Analyst (Hardware/E-commerce/ETF) Helena Wang – helenawang@phillip.com.sg	Construction Yik Ban Chong (Ben) – chongyb@phillip.com.sg
Contact Information (Regional Member Companies)		
SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg	MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my	HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk
JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website: www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com
UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com	AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapital.com.au	CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh
INDIA PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapital.in	TURKEY PhillipCapital Menkul Degerler Esentepe Mah. Harman 1 Sk. Nida Kule Kat 3-12 Levent-Şişli 34394, İstanbul Turkey Tel: +90 (212) 239 10 00 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr	DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGEX) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895

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