

OUE REIT

Resilient rental reversion from SG office


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Singapore | REIT | 1Q25 UPDATE

28 April 2025

- While DPU was not disclosed for 1Q25, NPI fell 12.1% YoY to S\$53.2mn, in line with our forecast and forming 25% of FY25e estimates. The decline was mainly due to the income vacuum following the Lippo Shanghai divestment. On a same-store basis, NPI declined 4.1% YoY due to weaker performance from the hospitality segment.
- Hospitality segment NPI declined 12.5% YoY to S\$20.8mn in 1Q25, due to the high base in 1Q24 when Chinese tourism surged following the visa-free policy and the Taylor Swift effect in Mar24. RevPAR fell 11.2% YoY to S\$248 at the portfolio level, although Crowne Plaza supported overall performance with an 8.9% YoY increase.
- FY25e DPU is likely to be supported by savings in finance costs, as the cost of debt inched down by 50bps. OUEREIT will utilise much of the Lippo Plaza divestment proceeds (c.S\$313.2mn) to pare down debt, lowering gearing to c.37% by year-end. We have raised our FY25e-26e DPU forecasts by 4% to reflect the sharper-than-expected drop in financing cost. OUEREIT is currently trading at 0.48x P/NAV and FY25e dividend yield of 7.1%, which we believe is undervalued compared to other pure-play Singapore REITs (FCT: 0.99x, FEHT: 0.61x). We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.40.

Result at a glance

(\$ Mn)	1Q25	1Q24	(%)	Comments
Gross Revenue	66.0	74.9	-11.9%	Divestment of Lippo Plaza & lower hospitality income
Net Property Income	53.2	60.5	-12.1%	
RevPAR	248.0	280.0	-11.4%	High base in 1Q24
Average cost of debt	4.20%	4.70%	(0.5ppt)	
Leverage Ratio	40.6%	39.9%	0.7ppt	
Adjusted ICR	2.1x	2.2x	-4.5%	

Source: Company, PSR

The Positives

+ Sound operating metrics. Office occupancy rate rose by 1.7ppts QoQ to 96.3%, while retail occupancy inched up 1.3ppts QoQ to 99.5% in 1Q25. Retail rental reversion moderated to 4.9%, as most renewals were concentrated on the higher floors of Mandarin Oriental, which yield lower rents. The resilience of Singapore's office market persisted into 1Q25, with rental reversion at 9.9% despite cautious expansionary demand, as average passing rents remain below market levels. We expect rental reversion for office to remain in the mid-single digits in FY25e, supported by tight new CBD supply, given that Keppel South Central is the only completion in 2025. Retail rental reversion is expected to be supported by eased overseas consumption leakage, underpinned by market anticipation of SGD depreciation, alongside the continuous recovery of international tourism. As a result, we project retail rental reversion of mid-to-high single-digit in FY25e.

+ Cost of borrowing is trending down. The cost of debt declined by 0.5ppts QoQ to 4.2% in 1Q25, driven by a lower financing margin, indicating an apparent reversal in the upward trend of borrowing costs. We believe the upside of DPU in FY25e will likely be supported by financing cost savings, which fell by 11.3% YoY in 1Q25.

The Negative

- Weaker Hilton Singapore performance. Due to the high base in Mar24 and the absence of catalysts such as the Taylor Swift concert in 1Q25, RevPAR for Hilton declined by 19.1% YoY, primarily driven by a drop in occupancy. At the same time, ADR remained resilient due to limited hotel supply. Contributions from Indonesian and Chinese guests have softened amid a strong SGD and a cautious macro environment. Meanwhile, Crowne Plaza continued to support overall performance, with RevPAR rising 8.9% YoY as more Chinese tourists opted to stay near Jewel. We expect hospitality revenue to decline by c.10.5% YoY on a full-year basis.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.28
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.40
TOTAL RETURN	48.4%

COMPANY DATA

BLOOMBERG CODE:	OUEREIT SP Equity
O/S SHARES (MN) :	5,500
MARKET CAP (USD mn / SGD mn) :	1172 / 1540
52 - WK HI/LO (SGD) :	0.34 / 0.25
3M Average Daily T/O (mn) :	2.28

MAJOR SHAREHOLDERS

OUe Realty Pte Ltd	22.3%
Tang Gordon	9.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.8)	(4.6)	0.5
STTF RETURN	(2.1)	1.2	2.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY23	FY24	FY25e	FY26e
Gross Rev (\$mn)	285.1	295.5	264.7	271.7
Dist. Inc. (\$mn)	115.3	113.7	110.0	112.0
P/NAV (x)	0.46	0.48	0.47	0.48
DPU (cents)	2.09	2.06	2.00	2.03
Dist. Yield (%)	7.46	7.36	7.13	7.27

Source: Company, PSR

VALUATION METHOD

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

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Outlook

OUREIT is actively repatriating the c.S\$313.2mn in divestment proceeds back to Singapore, with completion targeted by 3Q25. Assuming the entire amount is used to pare down debt, gearing will decline to c.37%.

On the retail front, occupier demand remains resilient, with new and innovative concepts entering from overseas markets beyond China. OUREIT has observed a shift in Chinese travellers' spending patterns, with F&B spending tripling while luxury purchases have nearly halved. The REIT is rebalancing its tenant mix to align with these trends, including introducing pop-up store concepts to attract footfall.

Maintain BUY with an unchanged TP of S\$0.40

OUE REIT is currently trading at an FY25e dividend yield of 7.1% and offers an attractive valuation at 0.48x P/NAV. We expect potential upside in DPU, driven by interest savings in FY25e, with resilient mid-single-digit rental reversions from retail and office segments. We maintain our BUY recommendation with an unchanged DDM-TP of S\$0.40, and have raised our FY25e–26e DPU forecasts by 4% to 2.00–2.03 cents to reflect the sharper-than-expected drop in financing cost.

Financials

Income Statement

Y/E Dec, (\$'000)	FY22	FY23	FY24	FY25e	FY26e
Revenue	241,507	285,055	295,521	264,693	271,689
Property Expense	44,592	50,088	61,486	53,997	55,425
Net Property Income	196,915	234,967	234,035	210,696	216,265
Net financing cost	(54,966)	(111,843)	(113,056)	(90,284)	(83,985)
Total return before tax	298,874	208,258	(47,016)	120,386	130,685
Tax Expense	(11,191)	(12,502)	(11,892)	(8,427)	(9,148)
Net income after Tax	287,683	195,756	(58,908)	111,959	121,537
Amount to be distributed	111,626	115,307	108,660	110,012	112,047
Distribution to unitholders	116,226	115,307	113,660	110,012	112,047

Per unit data

Y/E Dec, (\$)	FY22	FY23	FY24	FY25e	FY26e
NAV (\$)	0.59	0.60	0.58	0.59	0.59
DPU (\$ cents)	2.12	2.09	2.06	2.00	2.03

Cash Flow

Y/E Dec, (\$'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Total return before tax	287,683	205,779	(58,908)	111,959	121,537
Adjustments	(93,599)	16,003	274,559	80,458	66,361
WC changes	941	(1,139)	(1,764)	1,551	(636)
Tax paid and interest received	(11,615)	(11,253)	(11,750)	(8,427)	(9,148)
Cash generated from ops	183,534	213,387	200,619	193,939	179,113

CFI

CAPEX	(47,639)	(10,568)	(24,075)	-	-
Cashflow from investments	(30,848)	1,458	287,721	23,409	23,924

CFF

Proceeds from borrowing	-	-	-	-	-
Proceeds from issue of Notes	150,000	-	550,000	-	-
Interest Paid	(65,289)	(85,912)	(90,795)	(96,583)	(90,284)
Cashflow from financing	(159,120)	(209,647)	(180,404)	(214,795)	(210,531)

Net change in cash	(6,434)	5,198	307,936	2,552	(7,493)
Cash at the start of the period	59,549	49,482	53,522	360,967	363,519
Ending cash	49,482	53,522	360,967	363,519	356,026

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Cash and short term deposit	49,482	54,225	361,670	363,519	356,026
Trade and other receivables	20,592	22,138	25,614	24,063	24,699
Total current assets	76,464	79,637	387,284	387,582	380,725
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	4,412	4,528
Total non-current assets	5,912,641	5,989,074	5,552,617	5,527,842	5,527,958
Total Assets	5,989,105	6,068,711	5,939,901	5,915,424	5,908,682
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	2,196,567	2,197,567
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	37,813	38,813
Total non-current liabilities	1,862,974	2,184,090	2,055,471	2,041,256	2,042,256
Total Liabilities	2,281,738	2,290,681	2,282,647	2,196,567	2,197,567
Net assets	3,707,367	3,778,030	3,657,254	3,718,857	3,711,116

Valuation Ratios

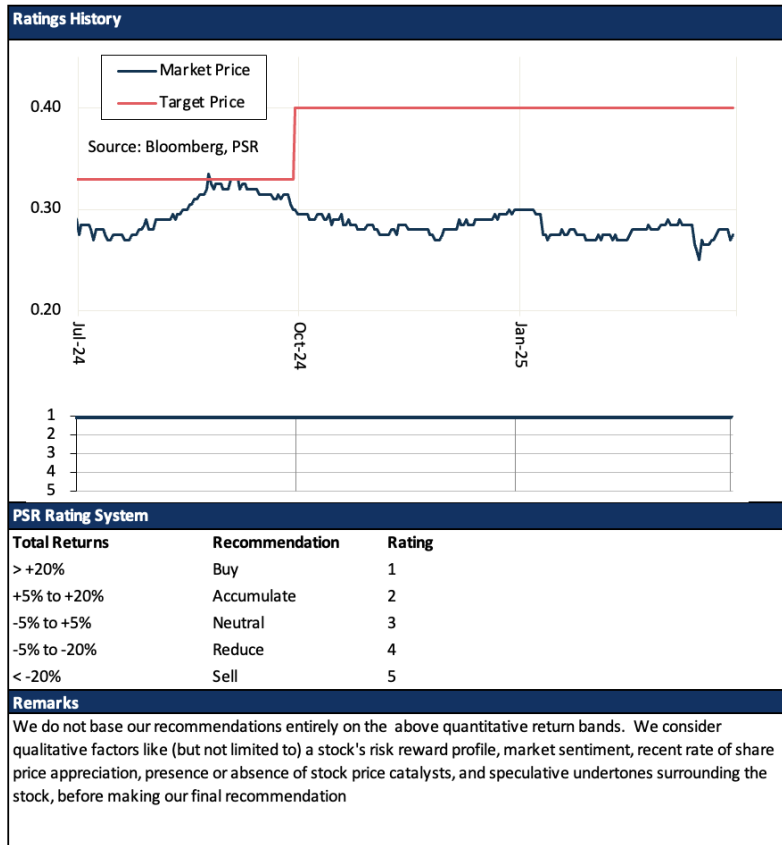
Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	0.47	0.46	0.48	0.47	0.48
Distribution Yield (%)	7.57	7.46	7.36	7.13	7.27

Growth & Margins

Growth					
Revenue		18.0%	3.7%	-10.4%	2.6%
Distributable income		3.3%	-5.8%	1.2%	1.8%
DPU		-1.4%	-1.4%	-3.0%	1.8%

Key Ratios

ROE	7.7%	5.3%	-1.6%	6.0%	6.5%
Gearing	34.2%	35.4%	35.3%	35.5%	35.5%



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