

# OUE REIT

## DPU growth from financing savings



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### Singapore | REIT | 1H25 RESULT

- 1H25 DPU rose 5.4% YoY to S\$0.98, in line with our expectations and forming 50% of our FY25e forecast. The improvement was driven by a 17.3% YoY drop in financing costs, which offset the income vacuum from the divestment of Lippo Plaza and a 12.9% decline in hospitality segment revenue.
- Revenue and NPI on a same-store basis declined 2.7% YoY and 2.0% YoY, respectively, despite strong office and retail rental reversions of 9.1% and 34.3%. Hospitality segment NPI fell 11.7% YoY to S\$40.2mn in 1H25, due to a high base in 2024 and rising hotel supply in the Orchard area.
- Cost of borrowing is expected to decline further by c.0.2ppts in 2H25 (1H25: 4.2%), and we see potential DPU upside from refinancing and loan repayment. Assuming full repatriation of proceeds (c.S\$313.2mn) from the Lippo Plaza divestment is used to pare down debt, gearing would fall to 37.2%, resulting in c.14% savings in interest expense in FY26e. We reiterate our BUY recommendation with an unchanged DDM-based TP of S\$0.40 and no changes to our financial forecasts. OUEREIT is trading at 0.54x P/NAV and offers an FY25e dividend yield of 6.4%, which we view as undervalued relative to other pure-play Singapore REITs (FCT: 0.99x).

#### Result at a glance

(\$ Mm)	1H25	1H24	(%)	Comments
Gross Revenue	131.1	146.7	-10.6%	Divestment of Lippo Plaza Shanghai & lower contribution from hospitality segment
Net Property Income	105.3	117.1	-10.1%	
DPU (cents)	0.98	0.93	5.4%	17.3%YoY saving in finance cost
RevPAR (\$)	233	269	-13.4%	High base in 2024 and increase supply in Orchard area
Average cost of debt	4.20%	4.70%	(0.5ppt)	
Leverage Ratio	40.6%	38.7%	1.9ppt	

Source: Company, PSR

#### The Positives

**+ Strong performance from the Commercial segment.** OUEREIT achieved a strong rental reversion of 9.1% for office and 34.3% for its retail segment. This drove a 3.6% YoY increase in commercial segment revenue to S\$86.1mn, while NPI margin rose 1.1ppts YoY to 75.7% on lower operating expenses. We expect office rental reversion to remain in the mid-single digits in FY25e, supported by sustained flight to quality. Near-term supply pressure has eased, with 85% of IOI Central Boulevard Towers now occupied.

The high retail rental reversion in 1H25 was driven by the low base rents signed during the COVID period. Tenant sales remain at c.80% of pre-COVID levels, with luxury brands underperforming while F&B continues to contribute more meaningfully. OUEREIT is taking a more proactive approach to boost footfall, including initiatives like the Popmart collaboration. Retail rental reversion is projected to stay in the high single digits in FY25e, supported by below-historical-average new supply in the CBD area.

**+ DPU upside from savings in finance expenses.** Despite the cost of debt staying flattish QoQ at 4.2% in 2Q25, finance expense fell by 17.3% YoY. We expect further DPU upside from financing cost savings, as OUEREIT is refinancing a S\$311mn loan ahead of its 2026 maturity at a margin half of the original, bringing overall cost of borrowing down to c.4% by end-FY25e. Furthermore, OUEREIT is in the process of repatriating c.S\$313.2mn in divestment proceeds back to Singapore. Assuming the entire amount is used to pare down debt, gearing will fall to c.37%, potentially driving another c.14% decline in interest expense in FY26e.

25 July 2025

#### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.31
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.40
TOTAL RETURN	34.0%

#### COMPANY DATA

BLOOMBERG CODE:	OUEREIT SP Equity
O/S SHARES (MN):	5,507
MARKET CAP (USD mn / SGD mn):	1332 / 1707
52 - WK HI/LO (SGD):	0.34 / 0.25
3M Average Daily T/O (mn):	1.65

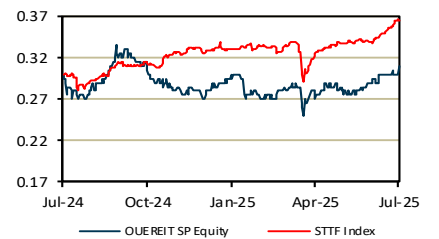
#### MAJOR SHAREHOLDERS

OUE Reality Pte Ltd	22.3%
Tang Gordon	9.1%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.4	7.1	9.6
STTF RETURN	7.7	13.6	14.1

#### 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)	0.51	0.53	0.53	0.53
DPU (cents)	2.09	2.06	2.00	2.03
Dist. Yield (%)	6.74	6.65	6.44	6.56

Source: Company, PSR

#### VALUATION METHOD

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

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## The Negative

- **Hospitality segment performance dragged by Hilton.** RevPAR declined by 13.4% YoY, driven by a 21% YoY plunge at Hilton amid cautious travel sentiment, a lacklustre event calendar, and an increase in hotel supply in the Orchard area (e.g. Grand Hyatt). The REIT also observes less contribution from American guests amidst the highlighted political uncertainties in the US. The Lady Gaga concert had little impact on RevPAR, but OUEREIT sees Hilton having reached the bottom of its RevPAR cycle, with signs of stabilisation from Jul25. In contrast, Crowne Plaza Changi Airport remained resilient, with RevPAR rising 4.8% YoY. While 2H is typically seasonally stronger, Golden Week overlaps with the F1 period in 2025, and the REIT anticipates a weaker contribution from Chinese tourists in Oct25. As such, we expect hospitality revenue to decline by c.10.5% YoY for FY25e.

## Outlook

Amid ongoing geopolitical tensions and economic uncertainty, expansion plans by both retailers and corporates are expected to remain cautious. OUEREIT noted that the number of office viewings remained flat YoY, with new demand primarily coming from Chinese companies' overseas expansion plans.

Tourism recovery remained on track, with international visitor arrivals rising by 4.5% YoY in April and accelerating to 7.6% YoY in May. Singapore recorded 8.3mn visitor arrivals in 1H25, representing a 1.9% YoY increase. Despite persistent operating cost pressures for retailers, the recovery in tourism, driven by a robust line-up of MICE events and concerts, is expected to support demand for retail and hospitality segment 2H25.

## Maintain BUY with an unchanged TP of S\$0.40

We expect office rental reversion to remain in the mid-single digits while retail is likely to be in the high single digits in FY25e. If the full c.S\$313.2mn in proceeds from the Lippo Plaza divestment is repatriated and used to repay borrowings, gearing could decline to 37.2%, translating into c.14% savings in interest expense for FY26e. We maintain our BUY rating with an unchanged DDM-TP of S\$0.40 and no revisions to our financial forecasts. At 0.54x P/NAV and an FY25e dividend yield of 6.4%, OUEREIT appears undervalued relative to peers such as FCT (0.99x P/NAV).

## Financials

### Income Statement

Y/E Dec, (S\$'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, (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	2.00	2.03

### Cash Flow

Y/E Dec, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
<b>CFO</b>					
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
<b>CFI</b>					
CAPEX	(47,639)	(10,568)	(24,075)	-	-
Cashflow from investments	(30,848)	1,458	287,721	23,409	23,924
<b>CFF</b>					
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

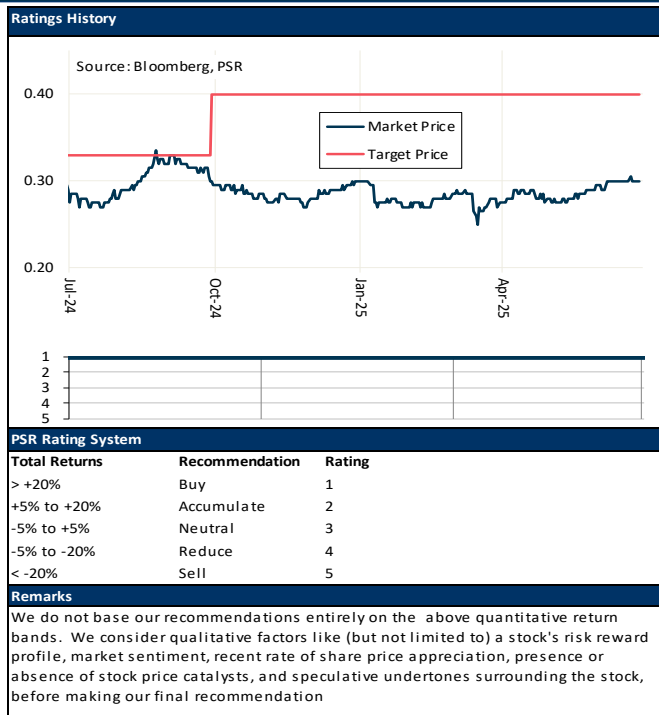
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
<b>ASSETS</b>					
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
<b>LIABILITIES</b>					
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)	0.52	0.51	0.53	0.53	0.53
Distribution Yield (%)	6.84	6.74	6.65	6.44	6.56
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
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%
<b>Key Ratios</b>					
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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