

COMPANY UPDATE

**OUE Commercial REIT (OUECT SP)**

Recovery From Hospitality Assets; Office Portfolio Stays Resilient

OUECT completed enhancements for HSO in Jan 23 and CPCA in Jan 24, ready to receive the rising numbers of leisure and business travellers visiting Singapore. Its office portfolio is resilient, generating positive rental reversion at 18.4% and stable committed occupancy at 95.7% in 3Q23. OUECT trades at 2024 distribution yield of 7.1% based on consensus DPU of 2.0 S cents and P/NAV of 0.47x.

WHAT'S NEW

- Enhancing CPCA.** Crowne Plaza Changi Airport (CPCA) has completed its S\$22m Asset Enhancement Initiative (AEI) in Jan 24. The enhancement will add: a) 12 new guest rooms, comprising 10 Premier Pool Rooms and two Suites, to cater to higher-yielding long-stay guests and their families, b) new all-day dining restaurant Allora offering Italian cuisine at the ground floor with direct access to and from Changi Airport Terminal 3, c) 352sqm multi-function room to host a wide array of meetings and events, and d) the existing bar space will be transformed into a contemporary Club Lounge with modernised space for meetings. CPCA was crowned the World's Best Airport Hotel for eight consecutive years by Skytrax.
- HSO is largest revenue contributor.** Mandarin Orchard Singapore was re-branded as Hilton Singapore Orchard (HSO) in Feb 22. HSO was repositioned as a top luxury hotel in Singapore. It is Hilton brand's flagship hotel in Singapore and its largest in Asia Pacific. It underwent three years of extensive refurbishment. The 634-room Mandarin Wing was relaunched in Feb 22. The 446-room Orchard Wing was reopened with a distinctive botanical-inspired interior design in Jan 23. HSO has operated with full inventory of 1,080 rooms since Jan 23. Contribution from HSO is expected to surpass the minimum rent of S\$45.0m in 2023.
- Positive reversions for both the office and retail segments.** OUECT achieved positive rental reversion of 18.4% for office lease renewals in 3Q23. Committed occupancy was healthy at 95.7%. The average passing rent had increased 1.3% qoq to S\$10.35psf per month in Sep 23. Mandarin Gallery's committed occupancy improved 0.7ppt qoq to 97.1%. The mall generated strong positive rental reversion of 31.1% due to recovery in retail sales and visitor arrivals.
- Riding on recovery in the hospitality sector.** RevPAR for the hospitality segment increased 12.8% yoy to S\$295 in 3Q23. RevPAR for HSO expanded 3.8% yoy to S\$345 while RevPAR for CPCA jumped 9.6% yoy to S\$199.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2018	2019	2020	2021	2022
Net turnover	176	257	292	250	242
EBITDA	120	181	203	170	168
Operating profit	125	186	208	175	172
Net profit (rep./act.)	123	124	(32)	44	279
Net profit (adj.)	51	103	148	100	140
EPU (S\$ cent)	2.6	2.8	2.7	1.8	2.6
DPU (S\$ cent)	3.2	3.3	2.4	2.6	2.1
PE (x)	10.8	9.9	10.3	15.2	10.9
P/B (x)	0.4	0.5	0.5	0.5	0.5
DPU Yld (%)	11.5	11.8	8.7	9.3	7.6
Net margin (%)	69.6	48.3	(10.9)	17.6	115.7
Net debt/(cash) to equity (%)	69.8	71.4	73.7	57.7	57.9
Interest cover (x)	2.5	2.7	2.5	2.4	3.1
ROE (%)	5.9	4.1	n.a.	1.3	8.2
Consensus DPU (S\$ cent)	n.a.	n.a.	2.1	2.0	2.1
UOBKH/Consensus (x)	-	-	1.16	1.30	1.01

Source: OUE Commercial REIT, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$0.28
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

OUECT is a diversified S-REIT with total assets of S\$6.0b. It has seven properties across the commercial and hospitality segments in Singapore and Shanghai with 2.2m sf of prime office and retail space and 1,655 upper upscale hotel rooms.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	OUECT SP
Shares issued (m):	5,485.9
Market cap (S\$m):	1,536.1
Market cap (US\$m):	1,146.1
3-mth avg daily t'over (US\$m):	0.6

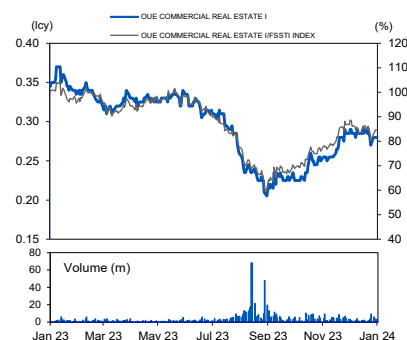
Price Performance (%)

52-week high/low	S\$0.370/S\$0.205			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.8)	21.7	(11.1)	(17.6)	(1.8)

Major Shareholders

	%
OUE Realty	49.0
Gordon Tang	9.0
NAV/Share (S\$)	0.57
Net Debt/Share (S\$)	0.35

PRICE CHART



Source: Bloomberg

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- Investment grade rating lowers cost of debt.** S&P Global Ratings has assigned a BBB-rating with stable outlook to OUECT and its S\$150m 4.2% notes due in 2027. Under the terms and conditions of the notes, interest rate was stepped down by 25bp from 4.20% to 3.95% with effect from 5 Nov 23.
- Completed refinancing.** Subsidiary OUB Centre Ltd has obtained an unsecured sustainability-linked loan (SLL) of S\$430m to refinance existing borrowings and for general corporate purposes. SSL accounted for 70% of its borrowings, one of the highest among S-REITs. OUECT's weighted average term of debt has lengthened from 2.7 years to 3.2 years. It has no refinancing requirement until 2025. OUECT targets to reduce energy and water intensities by 25% below 2017's level by 2030.
- Recognised for commitment to sustainability.** OUECT was awarded a three-star rating in the 2023 Global Real Estate Sustainability Benchmark assessment. It was accorded the "Green Star" status with an improved overall score of 77 points. Its portfolio is 96% green certified. Green leases accounted for 21.1% of its Singapore commercial segment's NLA.

### STOCK IMPACT

- Diversified exposure to different asset classes in Singapore.** OUECT has diversified exposures across the hospitality, office and retail segments, which accounted for 35%, 48% and 17% of revenue. It has three office assets, two hotels and one downtown retail mall in Singapore and one office asset in Shanghai, China. OUECT would benefit from a recovery in the hospitality sector and resiliency of the office market in Singapore.

### VALUATION/RECOMMENDATION

- OUECT trades at 2024 distribution yield of 7.1% based on consensus DPU of 2.0 S cents and P/NAV of 0.47x.

### SHARE PRICE CATALYST

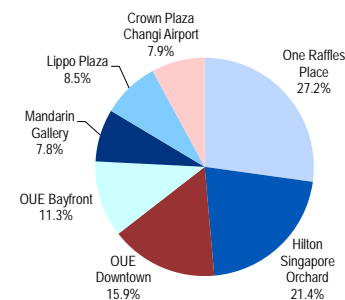
- Recovery from the hospitality sector driven by rising tourist arrivals.
- Resilient office portfolio benefitting from low vacancy for grade A core CBD, employees returning to work at their office premises and absorption of shadow office space.

### PEER COMPARISON – LARGE CAP DIVERSIFIED S-REITS

Name	Ticker	Rec	Price 12 Jan 24	Target Price	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
						Hist	Curr	Fwd	Fwd 2Y			
CapLand Int Comm Trust	CICT SP	BUY	2.01	2.24	10,059	5.3	5.3	5.3	5.3	68.3	40.8	0.95
Mapletree Pan Asia	MPACT SP	BUY	1.50	1.87	5,919	6.4	6.1	5.8	5.9	74.7	40.7	0.86
OUE Comm REIT	OUECT SP	NR	0.27	n.a.	1,113	7.9	7.8	7.4	7.8	72.9	39.4	0.46
Suntec REIT	SUN SP	HOLD	1.23	1.23	2,679	7.2	5.9	5.2	5.4	70.2	42.7	0.59
<b>Average</b>						<b>6.7</b>	<b>6.3</b>	<b>5.9</b>	<b>6.1</b>	<b>71.5</b>	<b>40.9</b>	<b>0.72</b>

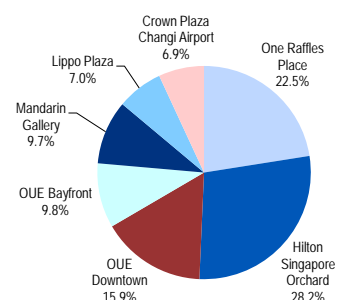
Source: Bloomberg, UOB Kay Hian

### ASSET VALUE BY PROPERTY



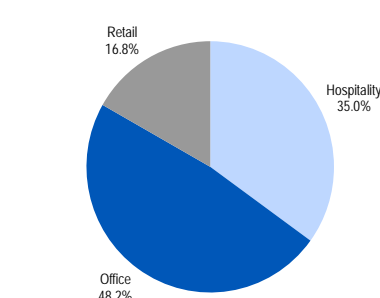
Source: OUECT

### REVENUE BY PROPERTY



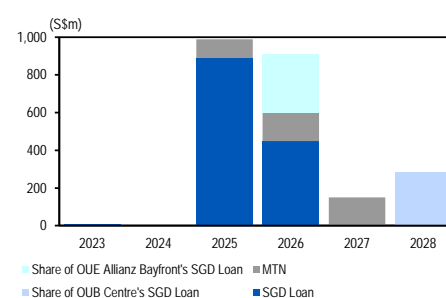
Source: OUECT

### REVENUE BY SEGMENT



Source: OUECT

### DEBT MATURITY PROFILE



Source: OUECT

### PROFIT & LOSS

Year to 31 Dec (\$m)	2019	2020	2021	2022
Net turnover	257.3	292.0	249.9	241.5
EBITDA	180.5	203.4	169.6	168.2
Deprec. & amort.	(5.3)	(5.0)	(5.0)	(3.8)
EBIT	185.8	208.4	174.6	172.0
Total other non-operating income	17.2	16.5	15.2	8.8
Associate contributions	0.0	0.0	13.2	37.1
Net interest income/(expense)	(67.8)	(81.4)	(71.8)	(55.0)
<b>Pre-tax profit</b>	<b>156.3</b>	<b>(36.1)</b>	<b>75.0</b>	<b>302.6</b>
Tax	(17.4)	(0.3)	(14.1)	(11.2)
Minorities	(14.5)	4.5	(17.0)	(12.1)
<b>Net profit</b>	<b>124.4</b>	<b>(32.0)</b>	<b>43.9</b>	<b>279.3</b>
Net profit (adj.)	103.3	147.7	100.2	139.6

### CASH FLOW

Year to 31 Dec (\$m)	2019	2020	2021	2022
<b>Operating</b>	<b>160.9</b>	<b>234.4</b>	<b>166.8</b>	<b>183.5</b>
Pre-tax profit	133.2	(40.7)	55.9	287.7
Associates	0.0	0.0	(13.2)	(37.1)
Working capital changes	(3.1)	(5.6)	14.0	(3.4)
Non-cash items	13.0	12.8	9.1	7.9
Other operating cashflows	17.7	267.9	101.0	(71.5)
<b>Investing</b>	<b>(58.1)</b>	<b>(7.0)</b>	<b>902.5</b>	<b>(30.8)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(7.9)	(7.8)	(56.9)	(47.8)
Proceeds from sale of assets	0.0	0.0	950.6	0.0
Others	(50.2)	0.8	8.8	17.0
<b>Financing</b>	<b>(79.4)</b>	<b>(200.5)</b>	<b>(1,100.7)</b>	<b>(159.1)</b>
Distribution to unitholders	(100.6)	(113.5)	(144.5)	(133.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	168.4	1,281.7	915.0	1,383.0
Loan repayment	(69.2)	(1,266.1)	(1,785.0)	(1,321.0)
Others/interest paid	(78.0)	(102.6)	(86.1)	(87.5)
<b>Net cash inflow (outflow)</b>	<b>23.4</b>	<b>26.9</b>	<b>(31.3)</b>	<b>(6.4)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>37.1</b>	<b>59.4</b>	<b>88.5</b>	<b>59.5</b>
Changes due to forex impact	(1.0)	2.2	2.4	(3.6)
<b>Ending cash &amp; cash equivalent</b>	<b>59.4</b>	<b>88.5</b>	<b>59.5</b>	<b>49.5</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2019	2020	2021	2022
Fixed assets	6,770.5	5,370.6	5,409.9	5,539.4
Other LT assets	23.3	18.2	336.1	373.3
Cash/ST investment	59.4	88.5	59.5	49.5
Other current assets	35.0	1,289.1	27.0	27.0
<b>Total assets</b>	<b>6,888.2</b>	<b>6,766.4</b>	<b>5,832.5</b>	<b>5,989.1</b>
ST debt	575.5	371.3	172.2	327.6
Other current liabilities	97.5	126.9	104.3	91.1
LT debt	2,111.6	2,325.1	1,813.2	1,721.8
Other LT liabilities	175.4	167.4	154.3	141.1
Shareholders' equity	3,680.3	3,539.9	3,340.3	3,452.4
Minority interest	247.9	235.8	248.2	255.0
<b>Total liabilities &amp; equity</b>	<b>6,888.2</b>	<b>6,766.4</b>	<b>5,832.5</b>	<b>5,989.1</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
<b>Profitability</b>				
EBITDA margin	70.2	69.7	67.9	69.7
Pre-tax margin	60.8	(12.4)	30.0	125.3
Net margin	48.3	(10.9)	17.6	115.7
ROA	2.2	n.a.	0.7	4.7
ROE	4.1	n.a.	1.3	8.2
<b>Growth</b>				
Turnover	45.9	13.5	(14.4)	(3.4)
EBITDA	50.6	12.7	(16.6)	(0.8)
Pre-tax profit	0.4	(123.1)	n.a.	303.7
Net profit	1.3	(125.7)	n.a.	536.6
Net profit (adj.)	101.1	42.9	(32.2)	39.4
EPU	9.3	(3.5)	(32.5)	38.8
<b>Leverage</b>				
Debt to total capital	40.6	41.7	35.6	35.6
Debt to equity	73.0	76.2	59.4	59.4
Net debt/(cash) to equity	71.4	73.7	57.7	57.9
Interest cover (x)	2.7	2.5	2.4	3.1

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