

Singapore

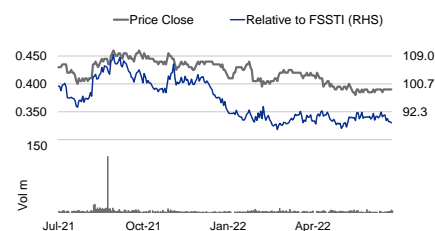
HOLD (no change)

Consensus ratings*: Buy 1 Hold 1 Sell 0	
Current price:	S\$0.39
Target price:	S\$0.39
Previous target:	S\$0.43
Up/downside:	0.0%
CGS-CIMB / Consensus:	-9.3%
Reuters:	OUEC.SI
Bloomberg:	OUECT SP
Market cap:	US\$1,532m
	S\$2,127m
Average daily turnover:	US\$0.58m
	S\$0.81m
Current shares o/s:	5,450m
Free float:	64.2%

*Source: Bloomberg

Key changes in this note

- FY22F DPU decreased by 9.8%
- FY23F DPU decreased by 6.9%
- FY24F DPU decreased by 9.3%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.3	-6	-9.3
Relative (%)	-1.3	-2.1	-11

Major shareholders

	% held
OUE	17.7
Gordon and Celine Tang	18.1

Analyst(s)



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OUE Commercial REIT

Riding recovery and demand-supply tailwinds

- OUECT's 1H22 DPU of 1.08 Scts came in below at 39.9% of our FY22F.
- Strong recovery in the hospitality and retail portfolio, while healthier office occupancy and limited supply give OUECT the ability to drive rents.
- Reiterate a Hold rating with a lower DDM-based TP of S\$0.39.

1HFY22 results highlights

OUECT's 1HFY22 revenue/NPI of S\$115.8m/S\$93.6m were down 13.3%/14.2% yoy, below at 46.3%/47.2% of our FY22F estimate. Lower revenue was due to S\$5m in rental rebates at Lippo Plaza due to lockdowns in Shanghai in Apr-May 22 and deconsolidation of OUE Bayfront upon divestment of a 50% stake on 31 March 21 vs. one quarter of contribution in 1H21. 1H22 DPU of 1.08 Scts (-12.2% yoy) missed at 39.9% of our forecast.

Hospitality and retail segments nearing pre-COVID trading levels

RevPAR at Hilton Singapore Orchard (HOS) tripled qoq to S\$302 as tourist numbers picked up, doubling portfolio RevPAR to S\$226. Occupancy and average daily rates for HOS improved from c.60% and S\$300/night to c.80% and S\$500/night as at end-Jun 22. Despite 2Q being a seasonally slow quarter, HOS's RevPAR of S\$302 surpassed Mandarin Hotel's 4Q19 (seasonal high) RevPAR of S\$226, validating the decision to rebrand the hotel. However, due to manpower shortages, operational capacity is capped at 80%. Despite the remarkable ramp-up in operations since Mar 22, we think HOS will generate minimum rents for FY22 given the reduced room inventory for FY22. Crowne Plaza Changi Airport's RevPAR jumped 12.2% qoq to S\$142 in 2Q22 after taking public bookings. Mandarin Gallery's occupancy rose 1.6ppts qoq to 90.3% with shopper traffic and sales at c.90% and 85% of pre-COVID levels.

Healthier Singapore office occupancy shifts focus to driving rents

Singapore's office portfolio occupancy ticked up from 90.9% to 92.9% as at end-1H22. Occupancy at OUE Bayfront dipped 3.1ppts qoq to 96.2% due to non-renewals. Average passing rents at OUE Bayfront were S\$12.55 psf/mth, the highest since its IPO, due to positive reversions in the past several months. However, reversions for the quarter came in at -3.7% (1Q22: +2.5%) due to above-market expiring rents of S\$14.32 psf/mth (1Q22: S\$12.93). Signing of a large tenant at OUE Downtown pushed occupancy from 87.8% to 93.0%, while One Raffles Place (ORP) was stable qoq at 95.6%. Lippo Plaza (LP) saw occupancy dip from 91.6% to 87.7% as a tenant opted not to renew its lease citing business uncertainties. 2Q22 reversions for OUE Downtown, ORP and LP came in at -0.9%, +4.0% and -1.7%, respectively. Leasing activity was hindered by lockdowns in Shanghai in Apr-May 22, although management has seen a pick-up in physical tours towards end-Jun.

Maintain Hold, with a lower DDM-based TP of S\$0.39

FY22-24F DPU estimates lowered by 6.9-9.8% on higher cost of borrowing assumptions and S\$5m in rental relief provided for Lippo Plaza. We lower our DDM-based TP to S\$0.39. Potential upside/downside risks include faster/slower-than-expected recovery.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (S\$m)	292.0	249.9	245.0	255.4	256.2
Net Property Income (S\$m)	231.9	204.2	194.7	202.6	203.2
Net Profit (S\$m)	(40.92)	28.61	89.46	85.22	85.69
Distributable Profit (S\$m)	132.8	142.0	133.4	136.5	133.6
Core EPS (S\$)	0.026	0.013	0.016	0.015	0.015
Core EPS Growth	7.7%	(48.6%)	24.2%	(5.3%)	(0.1%)
FD Core P/E (x)	15.19	29.61	23.83	25.18	25.19
DPS (S\$)	0.024	0.026	0.024	0.025	0.024
Dividend Yield	6.23%	6.67%	6.26%	6.36%	6.19%
Asset Leverage	39.8%	34.0%	33.9%	33.8%	33.7%
BVPS (S\$)	0.59	0.57	0.57	0.57	0.57
P/BV (x)	0.67	0.68	0.68	0.68	0.68
Recurring ROE	4.27%	2.27%	2.85%	2.70%	2.71%
% Change In DPS Estimates			(9.77%)	(6.87%)	(9.35%)
CGS-CIMB/Consensus DPS (x)			0.94	0.99	2.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results Comparison


FYE Dec (S\$ m)	1H	1H	yoy %	2H	hoh %	Prev.	Comments
	FY22	FY21	chg	FY21	chg	FY22F	
Revenue	115.8	133.5	(13.3)	116.3	(0.4)	250.0	Below. 1H22 at 46.3% of our FY21F. Lower due to S\$5m in rental rebates for Lippo Plaza and deconsolidation of OUE Bayfront upon divestment of 50% stake on 31 Mar 21 vs one qtr of contribution in 1H21
Operating costs	(23.5)	(24.9)	(5.7)	(14.6)	60.6	(64.0)	
EBITDA	92.4	108.7	(15.0)	101.7	(9.2)	186.1	
EBITDA margin (%)	79.8	81.4	-	87.4	-		
Depn & amort.	(2.5)	(2.5)	-	(2.5)	-	(5.0)	
EBIT	89.9	106.2	(15.3)	99.2	(9.4)	181.1	
Interest expense	(33.4)	(39.1)	(14.7)	(37.3)	(10.4)	(59.6)	Lower interest expense on deconsolidation of loans related to OUE Bayfront
Interest & invt inc	2.0	1.7	18.9	3.0	nm	4.4	
Associates' contrib	8.3	-	na	-	na	16.5	
Exceptionals & revaln	-	(7.4)	na	(56.3)	na	-	
Pretax profit	66.8	61.3	8.8	8.6	673.5	142.4	
Tax	(6.3)	(6.9)	(7.6)	(7.2)	(11.8)	(14.2)	
Tax rate (%)	9.5	11.2		83.3		-	
Minority interests	(3.0)	(3.1)	na	(13.9)	(78.4)	(7.0)	
Net profit	57.4	51.3	11.9	(12.4)	561.3	121.1	
Distr profit	59.5	67.2	(11.4)	74.8	(20.4)	153.8	Below. 1H22 formed 40.2% of our FY21F forecast
Core net profit	57.4	58.7	(2.2)	(33.1)	31.0	121.1	
DPU (S cts)	1.08	1.23	(12.2)	1.37	(21.2)	2.7	Below. 1H22 formed 39.9% of our FY21F forecast

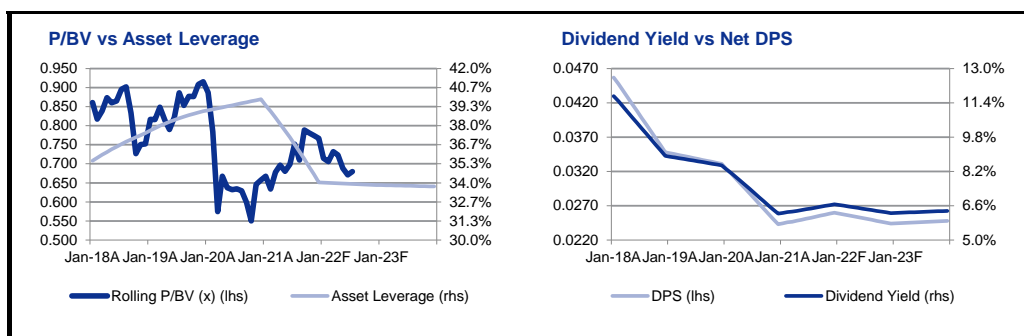
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Earnings revision

	New			Prev.			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue (S\$m)	245	255	256	250	255	256	-2.0%	0.0%	0.0%
NPI (S\$m)	195	203	203	198	203	203	-1.9%	0.0%	0.0%
DI (S\$m)	133	136	134	148	146	147	-9.7%	-6.8%	-9.2%
DPU (S cts)	2.44	2.48	2.41	2.71	2.66	2.66	-9.8%	-6.9%	-9.3%

SOURCES: CIMB, COMPANY REPORTS

ESG in a nutshell		Refinitiv ESG Scores					
		B- ESG Score	A+ ESG Controversies Score	B- ESG Combined Score	B ESG Environment Pillar Score	B- ESG Social Pillar Score	C- ESG Government Pillar Score
<p>OUECT scored a B- in its ESG combined score by Refinitiv in FY21. It scored well in ESG controversies (A+), Environmental (B) and the Social pillars (B-). Governance pillar improved to (C-). OUECT has set out its 2030 sustainability targets, as well as aspirations for each sustainability focus area, which are also linked to the United Nations' Sustainable Development Goals. Some of its 2030 targets include reducing energy intensity, water use intensity and Scope 2 greenhouse gas (GHG) emissions intensity by 25% (from the base year of FY17). It also targets to increase recycling rate by 12.5% by FY30. Within its portfolio, five of its eight properties have been awarded BCA Green Mark Gold, with one property having a BCA Green Mark Platinum. Its Crowne Plaza Changi Airport has the Green Hotel Award from the Singapore Hotel Association, while Lippo Plaza has a LEED O+M v4.0 – Gold rating.</p>							
<p>Keep your eye on</p> <p>According to Refinitiv, OUECT's Governance pillar is ranked lower at D, potentially affected by lower management (D-) and shareholders (D+) scores</p>	<p>Implications</p> <p>Our current valuations have not ascribed a premium/discount to this pillar. An improvement in its Governance pillar would boost its overall ESG score.</p>						
<p>ESG highlights</p> <p>In FY21, Refinitiv ranked OUECT 49th out of 96 companies in Singapore and 17th out of 27 real estate companies/ REITs in Singapore. It showed an improvement in its overall ESG scores, with higher ratings for its Environmental (B) and Social (B-) pillars, while its Governance pillar is improved to (C-). It scored well in ESG controversies (A+).</p>	<p>Implications</p> <p>OUECT generally appears to fare well in environmental and social issues and can be valued at a premium by some investors. We have not applied any premium/discount for ESG in our fundamental valuations.</p>						
<p>Trends</p> <p>Within the different ESG pillars, OUECT's ESG score shines in resource use (B+), workforce (A-), product responsibility (A+) and emissions (B+) segments but is weighed down by human rights (D-) and management (D-) scores.</p>	<p>Implications</p> <p>We have not applied any premium/discount for ESG in our fundamental valuations. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.</p>						
SOURCES: CGS-CIMB RESEARCH, REFINITIV							

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	292.0	249.9	245.0	255.4	256.2
Other Revenues					
Gross Property Revenue	292.0	249.9	245.0	255.4	256.2
Total Property Expenses	(60.1)	(45.7)	(50.4)	(52.8)	(53.0)
Net Property Income	231.9	204.2	194.7	202.6	203.2
General And Admin. Expenses					
Management Fees	(19.7)	(18.2)	(17.0)	(17.0)	(17.0)
Trustee's Fees	(1.5)	(1.3)	(0.8)	(0.8)	(0.8)
Other Operating Expenses	(2.3)	(2.7)	(2.7)	(2.7)	(2.7)
EBITDA	208.4	182.0	174.1	182.1	182.7
Depreciation And Amortisation	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
EBIT	203.4	177.0	169.1	177.1	177.7
Net Interest Income	(85.3)	(76.2)	(67.5)	(69.5)	(69.5)
Associates' Profit					
Other Income/(Expenses)	16.5	15.2	8.1	0.0	0.0
Exceptional Items	(179.7)	(56.3)	0.0	0.0	0.0
Pre-tax Profit	(45.1)	59.7	109.7	107.6	108.2
Taxation	(0.3)	(14.1)	(13.3)	(14.9)	(15.0)
Minority Interests	4.5	(17.0)	(7.0)	(7.4)	(7.5)
Preferred Dividends					
Net Profit	(40.9)	28.6	89.5	85.2	85.7
Distributable Profit	132.8	142.0	133.4	136.5	133.6

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Pre-tax Profit	(45.1)	59.7	109.7	107.6	108.2
Depreciation And Non-cash Adj.	90.3	81.2	72.5	74.5	74.5
Change In Working Capital	6.2	(15.6)	6.6	5.3	0.4
Tax Paid	(12.2)	(15.7)	(13.3)	(14.9)	(15.0)
Others	195.0	57.3	31.8	29.5	29.7
Cashflow From Operations	234.4	166.8	207.4	201.9	197.8
Capex	(7.7)	(56.9)	0.0	0.0	0.0
Net Investments And Sale Of FA					
Other Investing Cashflow	0.7	959.4	4.4	4.4	4.4
Cash Flow From Investing	(7.0)	902.5	4.4	4.4	4.4
Debt Raised/(repaid)					
Equity Raised/(Repaid)	0.0	0.0	15.3	15.3	15.3
Dividends Paid	(113.5)	(144.5)	(133.4)	(136.5)	(133.6)
Cash Interest And Others	(87.0)	(956.1)	(67.5)	(69.5)	(69.5)
Cash Flow From Financing	(200.5)	(1,100.7)	(185.6)	(190.6)	(187.7)
Total Cash Generated	26.9	(31.3)	26.2	15.7	14.5
Free Cashflow To Firm	227.4	1,069.3	211.8	206.3	202.2
Free Cashflow To Equity	142.0	993.1	144.3	136.8	132.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Investments	5,371	5,410	5,410	5,410	5,410
Intangible Assets	0	0	0	0	0
Other Long-term Assets	18	336	336	336	336
Total Non-current Assets	5,389	5,746	5,746	5,746	5,746
Total Cash And Equivalents	89	60	86	101	116
Inventories					
Trade Debtors					
Other Current Assets	1,289	27	33	35	35
Total Current Assets	1,378	87	119	136	151
Trade Creditors	84	87	96	101	101
Short-term Debt	371	172	172	172	172
Other Current Liabilities	43	17	17	17	17
Total Current Liabilities	498	276	285	290	290
Long-term Borrowings	2,325	1,813	1,813	1,813	1,813
Other Long-term Liabilities	167	154	158	160	161
Total Non-current Liabilities	2,493	1,968	1,972	1,974	1,974
Shareholders' Equity	3,178	3,128	3,148	3,158	3,172
Minority Interests	236	248	248	248	248
Preferred Shareholders Funds	362	212	212	212	212
Total Equity	3,776	3,589	3,608	3,619	3,633

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	13.5%	(14.4%)	(1.9%)	4.2%	0.3%
NPI Growth	13.1%	(11.9%)	(4.7%)	4.1%	0.3%
Net Property Income Margin	79.4%	81.7%	79.4%	79.3%	79.3%
DPS Growth	(26.6%)	7.0%	(6.1%)	1.6%	(2.7%)
Gross Interest Cover	2.38	2.32	2.51	2.55	2.56
Effective Tax Rate	0.0%	23.6%	12.1%	13.9%	13.9%
Net Dividend Payout Ratio	NA	454%	135%	141%	136%
Current Ratio	2.76	0.31	0.42	0.47	0.52
Quick Ratio	2.76	0.31	0.42	0.47	0.52
Cash Ratio	0.18	0.22	0.30	0.35	0.40
Return On Average Assets	(0.60%)	0.45%	1.53%	1.45%	1.45%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net lettable area ('000sf)	2,216.9	2,216.9	2,216.9	2,216.9	2,216.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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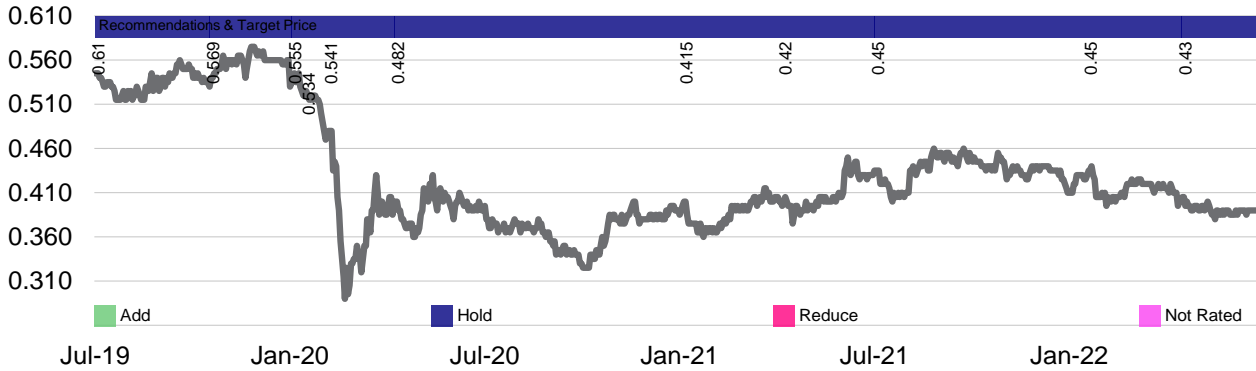
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

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— Price Close



Recommendation Framework

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