FPA FINANCIAL
Investment Perspectives

30 March 2023

REAL ESTATE EQUITY RESEARCH

OUE Commercial REIT

SGX: TS0U
Bloomberg: OUECT:SP
ISIN code:SG2G60000004

Country: Singapore
Industry: Real Estate, Commercial REITs

30 March 2022
RECOMMENDATION: BUY

Current price: S$0.315
Target price: S$0.375
Issued units: 5,470.95 million (31 Dec 22)
Market capitalisation: S$1,723.35 million

52-week range: S$0.305 - S$0.430

PRICE PERFORMANCE

COMPANY DESCRIPTION

OUE Commercial Real Estate Investment Trust (collectively defined herein as OUE C-REIT) is a real estate investment trust listed on the Mainboard of Singapore Exchange Limited (SGX) since 27 January 2014. It has a portfolio of seven properties across the commercial and hospitality segments in Singapore and Shanghai. OUE C-REIT's property portfolio comprises more than 2.1 million square feet of prime office and retail space and 1,643 upscale hotel rooms.

SUMMARY

For the financial year ended 31 December 2022 (FY2022) OUE C-REIT recorded revenue of S$241.5 million, a 3.4% decrease from S$249.9 million over the same period a year ago. Net property income (NPI) also decreased by 3.6% from S$204.2 million in FY2021 to S$196.9 million in FY2022. This was mainly due to the deconsolidation of OUE Bayfront's performance post the divestment of a 50% interest in the property on 31 March 2021. Consequently, the total return attributable to unitholders and CPPU holder amounted to S$275.6 million, translating to an earnings per share of 5.01 cents for FY2022. Meanwhile, due to the redistribution of S$4.6 million capital gain distribution from the divestment of OUE Bayfront, amount to be distributed amounted to S$116.2 million in FY2022. This led to a distribution per unit (DPU) of 2.12 cents for FY2022. For the second half of 2022 (2H2022), OUE C-REIT declared and paid a distribution of 1.04 cents per unit.

RECOMMENDATION

Based on OUE C-REIT reported NAV of S$0.59, OUE C-REIT currently has a P/B multiple of 0.53x and is trading at a discount of approximately 47% to NAV. Our peer comparison results show that OUE C-REIT could be undervalued, given a lower P/B of 0.53x compared to its peer average P/B of 0.70x. at the same time, based on OUE C-REIT trailing 12 months earnings of 5.01 cents as at FY2022, the share is trading at a P/E of 6.29x, which is lower than its peer average P/E of 7.70x, which suggest that it could be undervalued. In addition, we note that OUE C-REIT is relatively attractive in terms of distribution yield. Adopting a relative valuation approach, we estimated a target price of S$0.413, S$0.386 and S$0.327 based on the peer average P/B, P/E and distribution yield comparison analysis respectively. By taking the average of our estimated target price from peer comparison analysis, we derived an estimated target price of S$0.375. This target price is a 19.05% upside from the current share price of S$0.315. We believe this upside could be justified by a potential improvement in OUE C-REIT's earnings as supported by the positive outlook of Singapore's economy, potential growth in rental and the improvement in hospitality sector. Further, the reopening of the Orchard Wing of Hilton Singapore Orchard could also underpin revenue and profit growth. Given the above, we maintain our buy recommendation on OUE C-REIT.

KEY FINANCIALS Year ended Dec 31	Revenue (S$ million)	Returns [1] (S$ million)	EPU (cents)	P/E (x)	DPU (cents)	Distribution yield (%)	NAV per unit (S$)	P/B (x)
2021 actual	249.9	38.9	0.67	47.18	2.61	8.3%	0.57	0.55
2022 actual	241.5	275.6	5.01	6.29	2.12	6.7%	0.59	0.53
2023 forecast	266.4	131.2	2.36	13.36	2.23	7.1%	-	-
2024 forecast	273.1	135.1	2.43	12.96	2.31	7.3%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.315

(1) Return attributable to Unitholders and CPPU holder

Source: OUE C-REIT, FPA Financial

Contributor: Tan Jiong Wen
(+65 6323 1788)

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FINANCIAL ANALYSIS

In this section, we will provide a review of OUE C-REIT's financial performance and capital management.

(I) Financial review

Review of Full Year 2022 Results

For the financial year under review from 1 January 2022 to 31 December 2022 (FY2022), revenue and net property income (NPI) decreased by 5.1% and 3.6% to S$241.5 million and S$196.9 million respectively compared to FY2021. The Commercial segment recorded lower revenue and net property income mainly due to divestment of 50% interest in OUE Bayfront on 31 March 2021 which resulted in the performance of the property being equity accounted as share of joint venture results versus being consolidated prior to the divestment. This was partially mitigated by lower rental rebates and other support measures granted to tenants compared to FY2021. The Hospitality segment recorded higher revenue and net property income mainly due to variable rent recognised during the year.

Other income comprises income support relating to the top-up payments from OUE Limited's subsidiary pursuant to the Deed of Income Support dated 1 November 2018 and miscellaneous income such as utilities & annual license fee, which are recognised over time as the service is provided. Other income for FY2022 decreased to $8.8 million as the income support of $60 million was fully drawn down in 2H2022.

Manager's management fee is calculated as 0.3% p.a. of the value of the deposited properties of OUE C-REIT. The performance fee is payable if the DPU in any financial year exceeds the DPU in the preceding financial year. A performance fee of 25% per annum of the difference in DPU in a financial year with the DPU in the preceding full financial year (calculated before accounting for the performance fee but after accounting for the base fee in each financial year) multiplied by the weighted average number of Units in issue for such financial year. Manager's performance fees were recognised in line with the increase in DPU in FY 2021. No performance fee was recognised in FY 2022. Meanwhile, net finance cost decreased by $17.8 million mainly attributable to higher fair value movements arising from the financial derivatives. This was slightly mitigated by higher interest cost.

Net fair value gain on investment properties for FY2022 was $139.7 million as compared to net fair value loss of $56.3 million in the prior year. Share of joint venture results represents OUE C-REIT's 50.0% interest in OUE Bayfront [(1)] results, upon completion of sale on 31 March 2021.

As a result, OUE C-REIT reported a return before tax of S$298.9million in FY2022 compared to S$70.0 million in FY2021. For the period, income tax expense of S$11.2 million was recorded as compared to the income tax expense of S$14.1 million a year ago. After adjusting for income tax expense, the total return after tax of S$287.7 million was recorded in FY2022. This comprised a S$275.6 million return attributable to unitholders and Convertible Perpetual Preferred Units (CPPU). Accordingly, OUE C-REIT reported an earnings per unit of 5.01 cents for FY2022.

OUE C-REIT's FY2022 and FY2021 financial results are summarised in **Exhibit 1** on the next page.

(1) On 31 March 2021, OUE C-REIT completed the divestment of OUE Bayfront. OUE Bayfront is now wholly-owned by a limited liability partnership known as BPH Propco LLP (BPH LLP), with DBS Trustee Limited, in its capacity as trustee of the Group, holding 50.0% of BPH LLP and the ACRE Angsana Pte. Ltd. (the Allianz Investor), a special purpose vehicle managed by Allianz Real Estate Asia Pacific Pte. Ltd, holding the remaining 50.0% of BPH LLP.

Exhibit 1: OUE C-REIT's FY2022 and FY2021 Financial Results

S$'000	FY2022	FY2021	y-o-y change
Revenue			
Commercial	173,137	182,384	-5.1%
Hospitality	68,370	67,500	NM
Total revenue	241,507	249,884	-3.4%
Property operating expenses	(44,592)	(45,679)	-2.4%
Net property income	**196,915**	**204,205**	**-3.6%**
Other income	8,766	15,194	-42.3%
Amortisation of intangible assets	(3,750)	(5,000)	NM
Write-off of intangible asset	(5,417)	-	NM
Manager's management fees	(15,756)	(16,075)	-2.0%
Manager's performance fees	-	(2,174)	NM
Divestment cost	-	(7,363)	NM
Trustee's fee	(998)	(1,304)	-23.5%
Other expenses	(2,755)	(2,674)	3.0%
Finance income	27,001	4,164	NM
Finance cost	(81,818)	(76,187)	7.4%
Net finance cost	(54,817)	(72,023)	-23.9%
Foreign exchange differences	(149)	230	NM
Net income	**122,039**	**113,016**	**8.0%**
Share of joint venture results	37,108	13,236	NM
Net change in fair value of investment properties	139,727	(56,284)	NM
Total return/ (loss) for the period/year before tax	**298,874**	**69,968**	**NM**
Tax (expense)/ credit	(11,191)	(14,061)	NM
Total return/ (loss) for the period / year	**287,683**	**55,907**	**NM**
Attributable to:			
Unitholders and CPPU holder	275,574	38,876	NM
Non-controlling interests	12,109	17,031	NM
Earnings per unit (cents)			
Total return/ (loss) attributable to Unitholders and CPPU holder	275,574	38,876	NM
Less: Amount reserved for distribution to CPPU holder	(2,200)	(2,582)	-14.8%
Total (loss)/return attributable to Unitholders	273,374	36,294	NM
Weighted average number of Units during the period/year	5,457,206	5,435,597	0.4%
Earnings per unit (cents)	**5.01**	**0.67**	**NM**

Source: OUE C-REIT, FPA Financial

Meanwhile, after accounting for amount reserved for distribution to CPPU holders, amount retained for working capital requirements and distributable adjustments, income available for distribution amounted to S$111.6 million for FY2022. OUE C-REIT's distribution policy is to distribute at least 90% of its taxable income, on a semi-annual basis, with the actual level of distribution to be determined at the Manager's discretion.

We note that In FY2022, OUE C-REIT released $4.6 million capital distribution from divestment of OUE Bayfront. In FY2021, OUE C-REIT released $5.4 million capital distribution from divestment of OUE Bayfront and balance $5.0 million from the $10.8 million of tax-exempt income and capital distribution retained in FY2020.

Accordingly, the distribution to unitholders amounted to S$116.2 million in FY2022. Taking into consideration the total number of units in issue of 5,470,950,009, OUE C-REIT's distribution per unit amounted to 2.12 cents in FY2022 as shown in **Exhibit 2**.

Exhibit 2: OUE C-REIT's FY2022 and FY2021 Statement of Distribution

S$'000	FY2022	FY2021	y-o-y change
Total (loss)/return for the period/year attributable to Unitholders and CPPU holder	**275,574**	**38,876**	**NM**
Less: Amount reserved for distribution to CPPU holder	(2,200)	(2,582)	-14.8%
Less: Amount retained for working capital requirements	(6,000)	(6,000)	0.0%
Distribution adjustments			
Net change in fair value of investment properties	(139,727)	56,284	NM
Amortisation of intangible asset	3,750	5,000	-25.0%
Write-off of intangible asset	5,417	-	NM
Amortisation of debt establishment costs	14,740	10,339	42.6%
Ineffective portion of changes in fair value of cash flow hedges	(2,177)	(1,364)	59.6%
Net change in fair value of financial derivatives	(1,778)	(1,756)	1.3%
Hedging reserve transferred (to)/ from unitholders' funds due to discountation of hedge accounting	(22,058)	1,892	NM
Manager's management fees paid/ payable in Units	7,878	9,124	-13.7%
Trustee's fee	998	1,304	-23.5%
Foreign exchange differences	149	(230)	NM
Deferred tax (credit)/expense	(1,222)	1,375	NM
Straight-lining of lease incentives	(1,986)	2,044	NM
Transfer to statutory reserve	(1,207)	(1,236)	-2.3%
Other items	(18,525)	18,562	NM
Total distribution adjustment	**(155,748)**	**101,338**	**NM**
Amount available for distribution for the current period/year	**111,626**	**131,632**	**NM**
Add/(Less): Amount released/(retained)	4,600	10,400	-55.8%
Amount to be distributed to Unitholders	116,226	142,032	NM
No of Units entitled to distribution	5,470,950,009	5,449,684,538	0.4%
Distribution per Unit (cents)	**2.12**	**2.61**	**NM**

Source: OUE C-REIT, FPA Financial

(II) Capital Management

Review of Full Year Balance Sheet

OUE C-REIT reported total assets of S$5,989.1 million as at 31 December 2022 compared to S$5,832.5 million a year ago. The increase in total assets was largely due to the valuation gain in investment properties in FY2022. At the same time, total liabilities increased to S$2,281.7 million as at 31 December 2022 from S$2,244.0 million as at 31 December 2021 mainly due to the increase in borrowings.

Consequently, OUE C-REIT recorded total equity or net assets of S$3,707.4 million as at 31 December 2022 compared to S$3,588.5 million a year ago. Excluding Convertible Perpetual Preferred Units (CPPU) holder's fund and non-controlling interest, net assets attributable to unitholders amounted to S$3,240.1 million as at 31 December 2022. Accordingly, OUE C-REIT's net asset value (NAV) per share stood at S0.59 based on 5,471.0 million units in issue and to be issued as at 31 December 2022.

A summary of OUE C-REIT's balance sheet as at 31 December 2022 and 31 December 2021 is shown in **Exhibit 3**.

Exhibit 3: Summary of OUE C-REIT's Balance Sheet

S$'000	31-Dec-22	31-Dec-21
Total assets	5,989,105	5,832,521
Total liability	2,281,738	2,244,006
Total equity/ net assets	3,707,367	3,588,515
Net assets attributable to Unitholders	3,240,073	3,127,996
Units in issue and to be issued	5,470,950	5,449,685
Net asset value per unit ($)	0.59	0.57

Source: OUE C-REIT

Aggregate Leverage

We note from OUE C-REIT's FY2022 Financial Statement that OUE C-REIT's total borrowings were S$2,049.5 million as at 31 December 2022. Meanwhile, total debt amounted to S$2,321 million as at 31 December 2022. This is because the total debt of S$2,321 million takes into account the proportionate share of loans from OUB Centre Limited and BPH Propco LLP for One Raffles Place and OUE Bayfront respectively. However, while OUB Centre Limited's loan is fully consolidated into the OUE C-REIT's balance sheet, BPH Propco LLP's loan is not, as it is equity accounted as investment in joint venture. Given the above, we would adopt the amount of S$2,321 million as OUE C-REIT's total debt as at 31 December 2022.

Aggregate leverage, as computed by total debt divided by total assets was 38.8%, with the weighted average cost of debt increasing to 3.4% per annum. Approximately 71.5% of total debt is on a fixed rate basis, mitigating the potential impact of interest rate fluctuations as shown in **Exhibit 4** on the next page.

Exhibit 4: OUE C-REIT's Aggregate Leverage as at 31 Dec 2022

	As at 31 Dec 2022	As at 30 Sep 2022
Aggregate leverage	38.8%	40.3%
Total debt(1)	S$2,321m	S$2,371m
Weighted average cost of debt(2)	3.4% p.a.	3.2% p.a.
Average term of debt	2.9 years	3.1 years
% fixed rate debt	71.5%	69.2%
% unsecured debt	69.4%	70.1%
Interest coverage ratio ("ICR")(3)	2.6x(4)	2.9x(5)
Adjusted ICR(6)	2.5x(4)	2.9x(5)

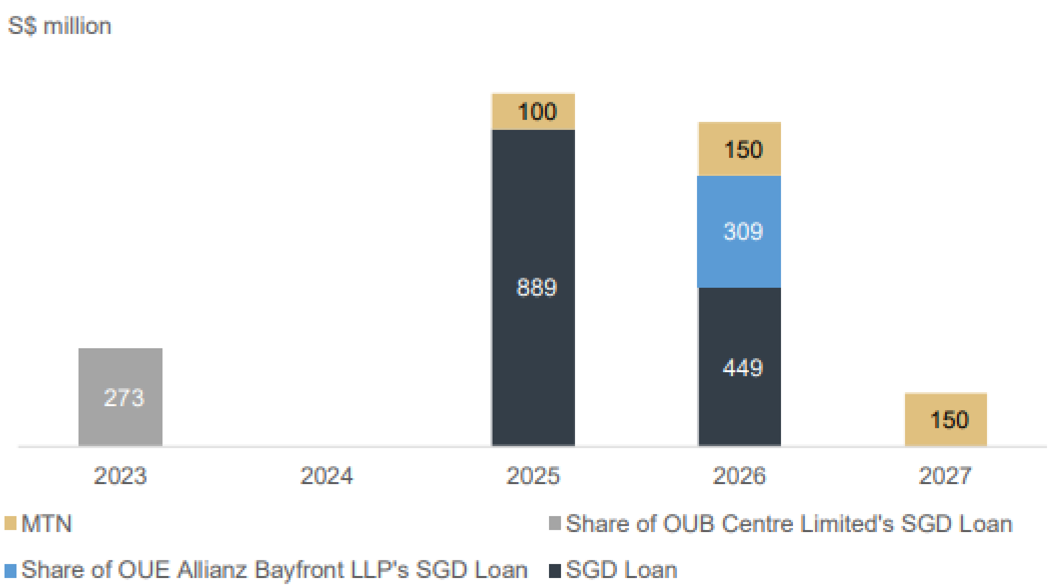
(1) Includes OUE C-REIT's share of OUB Centre Limited's loan and OUE Allianz Bayfront LLP's loan
(2) Including the write-off of upfront fees from early refinancing, weighted average cost of debt is 3.7% p.a. as at 31 December 2022 and 3.6% p.a. as at 30 September 2022
(3) As prescribed under Appendix 6 of the Monetary Authority of Singapore's Code on Collective Investment Schemes (last revised on 3 March 2022)
(4) Including the write-off of upfront fees from early refinancing, both ICR and adjusted ICR are 2.4x as at 31 December 2022
(5) Including the write-off of upfront fees from early refinancing, both ICR and adjusted ICR are 2.7x as at 30 September 2022
(6) As above in (3) and including distributions on hybrid securities in the denominator

Source: OUE C-REIT

Debt Maturity Profile

The debt maturity profile is also well-spread out with an average term to maturity of 2.9 years. Of which only S$273 million, or 11.8% of total debt are due in FY2023 as shown in **Exhibit 5**.

Exhibit 5: OUE C-REIT's Debt Maturity Profile



Source: OUE C-REIT

Breakdown Of Borrowings

(a) Secured Bank Loans

OUE C-REIT has secured term loans and revolving credit facilities of 4 to 5 years which are secured on the following:

- Investment property with a total carrying amount of $930,000,000
- Assignment of insurance policies on the above investment property, except public liability insurance
- Assignment of all rights, titles, benefits and interests in connection with the sale and tenancy agreements, tenancy deposits/proceeds, sales deposits/proceeds, property management agreements and the receivables of certain property
- Assignment of all rights, titles, benefits and interests in connection with any master lease, entered into by OUE H-Sub-Trust and lease or tenancy deposits/proceeds in connection with such master lease in respect of Hilton Singapore Orchard in 2021
- A debenture incorporating a fixed charge over book debt, charged accounts, goodwill, intellectual property and plant and machinery and floating charge over generally all of the present and future assets of the Trust in connection with OUE Downtown; and for Hilton Singapore Orchard and Mandarin Gallery in 2021 only
- The account control or charge over certain bank accounts of the Trust.

(b) Unsecured bank loans

OUE C-REIT has in place the following unsecured bank loans:

- A total of $1,308.0 million committed bank loans and revolving credit facilities with banks. At the reporting date, $1,266.0 million (31 December 2021: $325.0 million) was drawn down
    - On 29 August 2022, the Group, through OUE H-Sub-Trust, completed the refinancing of a $978.0 million unsecured sustainability-linked loan. The unsecured facility is to refinance an existing secured term loan facility of $978.0 million and it incorporates interest rate reductions linked to predetermined sustainability performance targets which will allow the Group to enjoy savings in interest costs when targets are achieved. On 29 December 2022, $40.0 million of the loan was repaid.

- $15.0 million (31 December 2021: $35.0 million) uncommitted revolving credit facility with a bank. At the reporting date, Nil (31 December 2021: $8.0 million) was drawn down. The uncommitted revolving credit facility is repayable on demand.

(c) Unsecured notes

In March 2020, OUE C-REIT, through its wholly-owned subsidiary, OUE CT Treasury Pte. Ltd., established a $2.0 billion Multicurrency Debt Issuance Programme (the 2020 Programme). Under the 2020 Programme, OUE CT Treasury Pte. Ltd. may from time-to-time issue notes and/or perpetual securities in series or tranches.

During the year, OUE CT Treasury Pte. Ltd. issued notes amounting to $150 million under the 2020 Programme.

The unsecured notes outstanding as at 31 December 2022 under the 2020 Programme is $400.0 million. The unsecured notes have fixed rates ranging from 3.95% to 4.20% per annum payable semi-annually in arrears and mature between 2025 and 2027.

The unsecured notes and the coupons relating thereto of all series will constitute direct, unconditional, unsubordinated and unsecured obligations of OUE CT Treasury Pte. Ltd. and shall at all times rank pari passu, without any preference or priority among themselves, and pari passu with all other present and future unsecured obligations (other than the subordinated obligations and priorities created by law) of OUE CT Treasury Pte. Ltd.. All sums payable in respect of the unsecured notes will be unconditionally and irrevocably guaranteed by the Trustee, in its capacity as trustee of the Group.

The Notes will bear interest at the rate of 4.20% per annum (Original Rate) and interest on the Notes will be payable semi-annually in arrear. If any of S&P, Moody's or Fitch (each, a Rating Agency) assigns an investment grade rating to both OUE C-REIT and the Notes within 18 months of the issue date of the Notes, the Original Rate will step down by 0.25% to 3.95% ("Stepped Down Rate").

The interest rate will step up back to the Original Rate if at any time thereafter, (i) a rating of OUE C-REIT and/or the Notes is withdrawn by all Rating Agencies that have previously assigned ratings, or (ii) if the investment grade ratings for both OUE C-REIT and the Notes are not maintained. Following the reversion to the Original Rate, the interest rate will be reduced to the Stepped Down Rate if the ratings for both OUE C-REIT and the Notes have reverted back to investment grade.

OPERATIONAL UPDATE

Since our last initiation report on 17 March 2022, there has been a new development announced by OUE C-REIT. We will now provide an operational update on the development.

(I) Changes to Key Management of the Company

On 30 December 2022, OUE C-REIT announced the resignation of Mr Loh Lian Huat as Lead Independent Director and a Member of the Audit and Risk Committee (ARC) and the Nominating and Remuneration Committee (NRC) with effect from 1 January 2023. At the same time, the REIT announced the appointment of Mr Tan Huay Lim as Independent Director and the Chairman of the ARC with effect from 1 January 2023.

Following the above, there were also changes to the compositions of its Board and the Board Committees with effect from 1 January 2023 as follows:

- Mr Liu Chee Ming will be appointed as Lead Independent Director in place of Mr Loh Lian Huat. Mr Liu Chee Ming is currently an Independent Director and the Chairman of the ARC. He will cease to be the Chairman of the ARC but will remain as a Member of the ARC;

- Mr Tan Huay Lim will be appointed as the Chairman of the ARC in place of Mr Liu Chee Ming. The Board considers Mr Tan to be independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited; and

- Ms Usha Ranee Chandradas will be appointed as a new member of the NRC. Ms Usha Ranee Chandradas is currently an Independent Director and a Member of the ARC.

Following the abovementioned changes, the revised composition of the Board and Board Committees with effect from 1 January 2023 is shown in **Exhibit 6**.

<u>Exhibit 6: New Compositions Of The Company's Board Committees</u>

Director	Board	Audit and Risk Committee	Nominating and Remuneration Committee
Mr Lee Yi Shyan	Chairman	-	-
Mr Liu Chee Ming	Lead Independent Director	Member	-
Mr Tan Huay Lim	Member	Chairman	-
Mr Ong Kian Min	Member	Member	Chairman
Ms Usha Ranee Chandradas	Member	Member	Member
Mr Brian Riady	Member	-	Member
Mr Han Khim Siew	Member	-	-

Source: OUE C-REIT

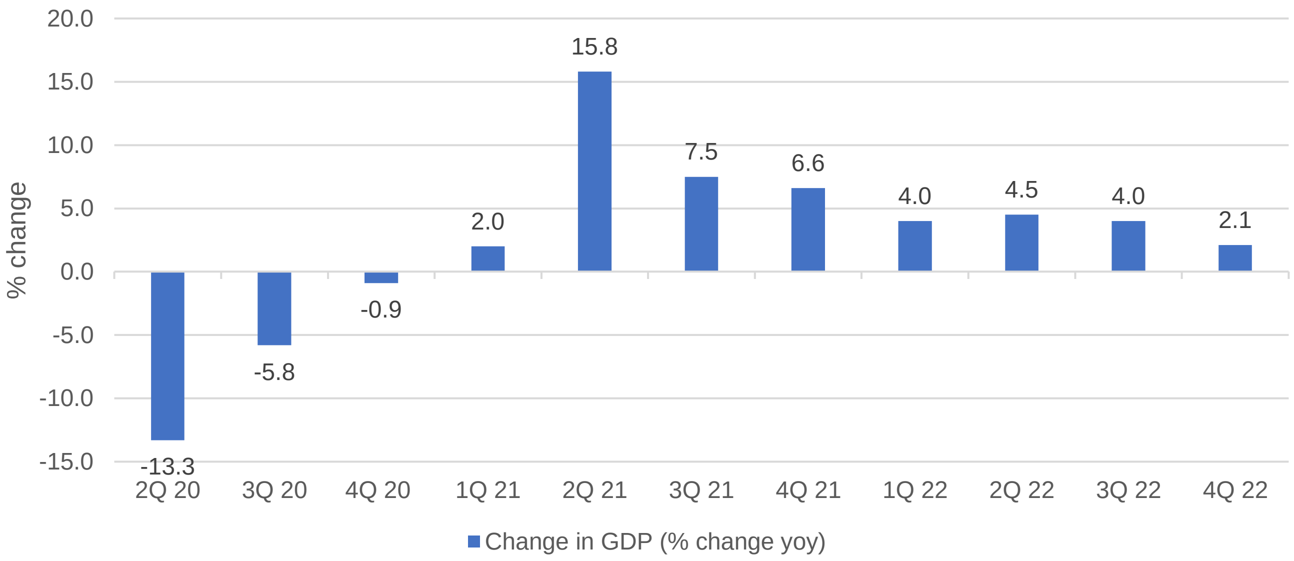
INDUSTRY OUTLOOK

(I) Singapore

Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that based on advance estimates, the Singapore economy grew by 2.1% on a yoy basis in the fourth quarter of 2022, moderating from the 4.0% yoy growth in the previous quarter as shown in **Exhibit 7**. For the whole of 2022, the economy grew by 3.6% yoy, slower than the 8.9% yoy growth in 2021.

Exhibit 7: Change in Singapore quarterly GDP (%, yoy)



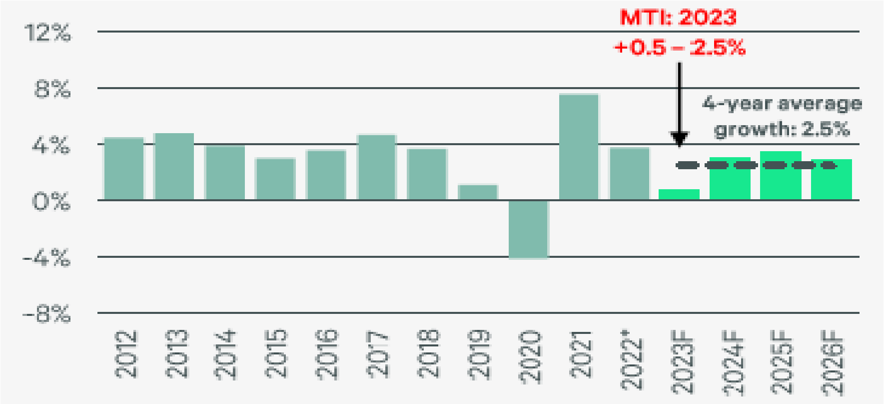
Source: Data compiled from MTI

For 2023, MTI expects GDP growth rates in most major economies to moderate further from 2022 levels, with sharp slowdowns projected in the US and Eurozone. Meanwhile, global supply disruptions are likely to continue into 2023 as the war in Ukraine drags on, even though the extent and frequency of disruptions is expected to ease. MTI also highlighted significant uncertainties and downside risks in the global economy. First, with many advanced economies raising interest rates simultaneously to combat high inflation, the impact of tightening financial conditions on global growth could be larger than expected. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. A sharp re-pricing of assets could trigger capital outflows from the region and increase debt servicing burdens, thereby dampening regional economies' growth outlook. Third, further escalations in the war in Ukraine and geopolitical tensions among major global powers could worsen supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Considering the above, MTI expects the growth of outward-oriented sectors in Singapore to weaken in tandem with the deterioration in external demand conditions. However, the growth prospects of several sectors remain positive. In particular, the continued recovery in air travel and international visitor arrivals will support the expansion of aviation- and tourism-related sectors. Taking these factors into account, and barring the materialisation of downside risks, MTI expects the Singapore economy to grow by "0.5 to 2.5 per cent" in 2023.

CBRE noted that GDP growth in 2022 was largely supported by the services sector following the reopening of Singapore's borders, with retail and labour market indicators in 2022 exceeding pre-pandemic levels. This has helped to offset sluggish performance in the manufacturing sector. Significant headwinds lie ahead for Singapore's economy in 2023. A global economic slowdown is expected amid tighter financial conditions from repeated rate hikes in the US and Europe as central banks attempt to reel in inflation. This slump is likely to weigh further on Singapore outward-oriented manufacturing sector. However, growth prospect remain positive in several sectors with the reopening of China's borders and the continued recovery in international travel and tourism which could lend support to aviation and tourism-related sectors and cushion the overall slowdown. Beyond the MTI's 2023 GDP forecast of between 0.5% -2.5%, CBRE believes the Singapore's 4-year average growth would be 2.5% as shown in **Exhibit 8**.

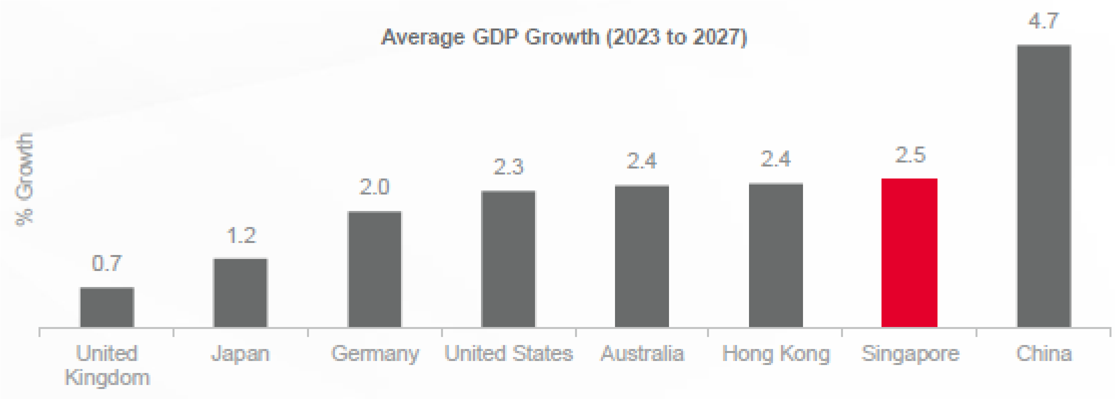
Exhibit 8: Singapore Projected Growth (CBRE) (% change yoy)



Source: CBRE

Similarly, Cushman & Wakefield (C&W) believes that Singapore remains supported from a flight to safety as capital gravitates towards "safe havens" for wealth preservation and diversification amidst global uncertainties. Singapore's strategic geographical location, pro business policies and stable political situation are key advantages that continue to attract inbound investments. Companies with a long-term South-east Asia or Asia Pacific strategy would be less inclined to drastically cut budgets in Singapore, supporting Singapore's resilience. Over the mid term, Singapore's GDP growth is expected to average about 2.5% per annum from 2023 to 2027, outperforming the US, Australia, Hong Kong, Japan, Germany and the UK as shown in **Exhibit 9**. This bodes well for property demand.

Exhibit 9: Singapore Projected Growth (C&W) (% change yoy)

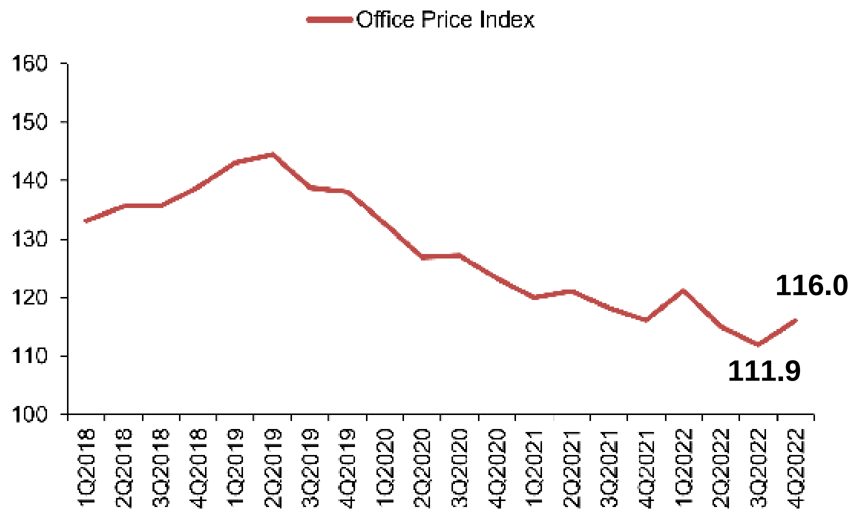


Source: C&W

Singapore Office Real Estate Sector

According to data from the Urban Redevelopment Authority (URA), prices of office space increased by 3.7% quarter-on-quarter (q-o-q), as reflected by an increase in the Office Price Index to 116.0 from 111.9, as shown in **Exhibit 10**. For the whole of 2022, prices of office space decreased by 0.1%, compared with the decrease of 5.8% in 2021

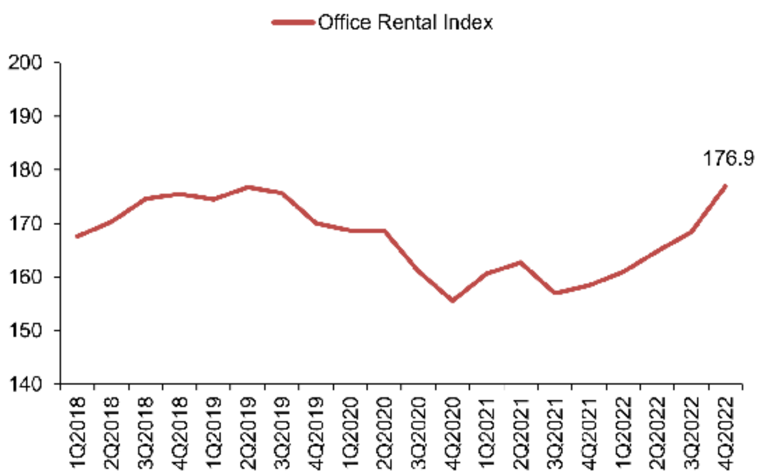
Exhibit 10: Property Price Index Of Office Space



Source: URA

According to URA, rentals of office space increased by 5.1% qoq in 4th Quarter 2022, compared with the 2.1% qoq increase in the previous quarter, as reflected by an increase in the Office Rental Index to 116.0 from 111.9, as shown in **Exhibit 11**. For the whole of 2022, rentals of office space increased by 11.7%, compared with the increase of 1.9% in 2021.

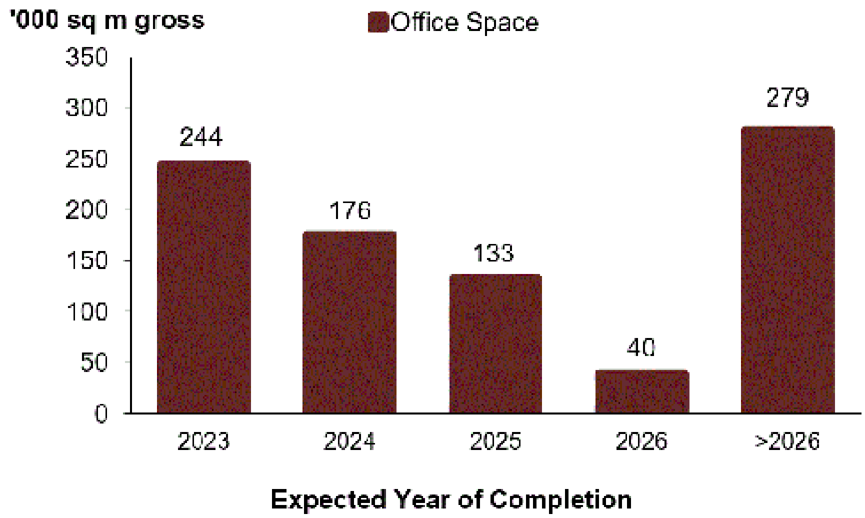
Exhibit 11: Rental Index Of Office Space



Source: URA

URA noted that as at the end of 4th Quarter 2022, there was a total new supply of about 872,000 sq m GFA of office space in the pipeline, compared with that of 858,000 sq m in the previous quarter. Of which, 244,000 sq m are expected to be completed in 2023 as shown in **Exhibit 12**.

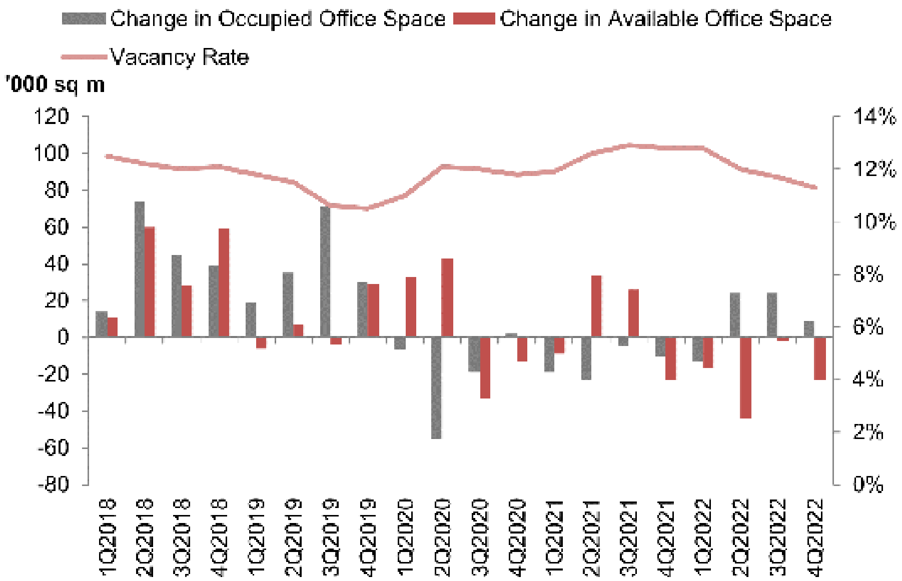
Exhibit 12: Pipeline Supply Of Office Space



Source: URA

The amount of occupied office space increased by 9,000 sq m in 4th Quarter 2022, compared with the increase of 24,000 sq m in the previous quarter. The stock of office space decreased by 23,000 sq m in 4th Quarter 2022, compared with the decrease of 2,000 sq m in the previous quarter. As a result, the island-wide vacancy rate of office space decreased to 11.3% as at the end of 4th Quarter 2022, from 11.7% as at the end of the previous quarter as shown in **Exhibit 13**.

Exhibit 13: Stock And Vacancy Of Office Space

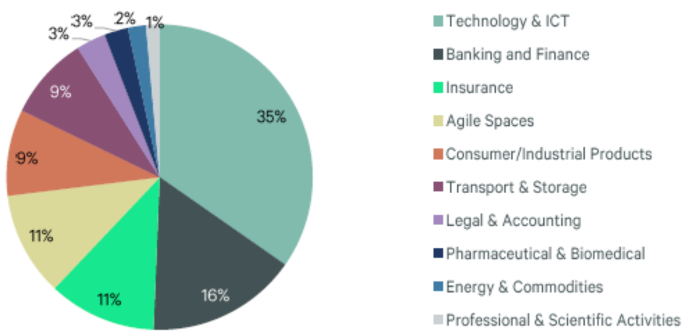


Source: URA

Broad-based Demand Drivers in 2023

CBRE noted that 2022 ended on a high note for the office sector, as it continued to outperform expectations with the full relaxation of pandemic-related measures and gradual return to office. Island wide net absorption for the year totaled 1.15 mil sq ft, which was 3.6 times 2021's net demand of 0.32 mil sq ft, and 17.9% higher than the 10-year average of 0.97 mil sq ft. In terms of leasing demand, the tech sector accounted for 35% of leasing demand among the top 10 sectors in 2022 as shown in **Exhibit 14**. Although it has traditionally been a dominant force, having taken up some of the best quality space in CBD, expansion activity from this sector is likely to take a breather due to cost cutting measures. Some tech companies have also begun rightsizing or offering their office space on an early surrender basis.

Exhibit 14: CBRE 2022's Leasing Demand Among Top 10 Sectors



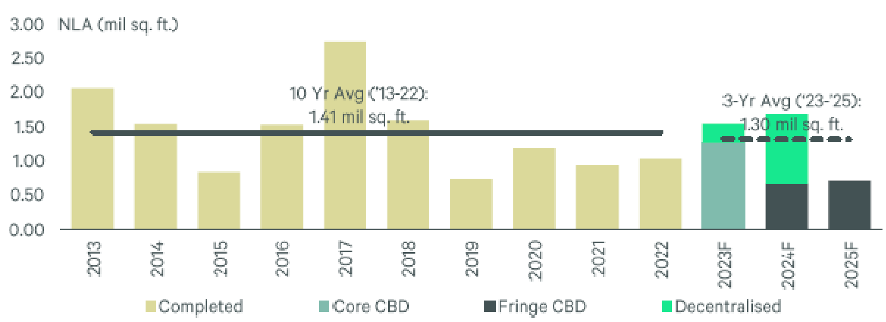
Source: CBRE

CBRE believes leasing demand in 2023 is likely to be more broad-based. Given Singapore's status as a key financial and wealth management hub, non-banking financial sectors, such as private wealth and asset managers have been expanding. This has also created higher demand for supporting industries, such as legal & tax advisory, real estate and insurance sectors.

New Supply To Be Below Historical Average

According to CBRE, over the next three years (2023-2025), total new supply is estimated at 1.30 mil sq ft per annum, which is 7.6% lower than the historical 10-year annual average new supply as shown in **Exhibit 15**. Core CBD future supply remains extremely limited in the horizon with IOI Central Boulevard Towers, the only new CBD Grade A development in 2023. The tight supply situation will also be compounded by the removal of existing stock in the CBD as well as potential redevelopments.

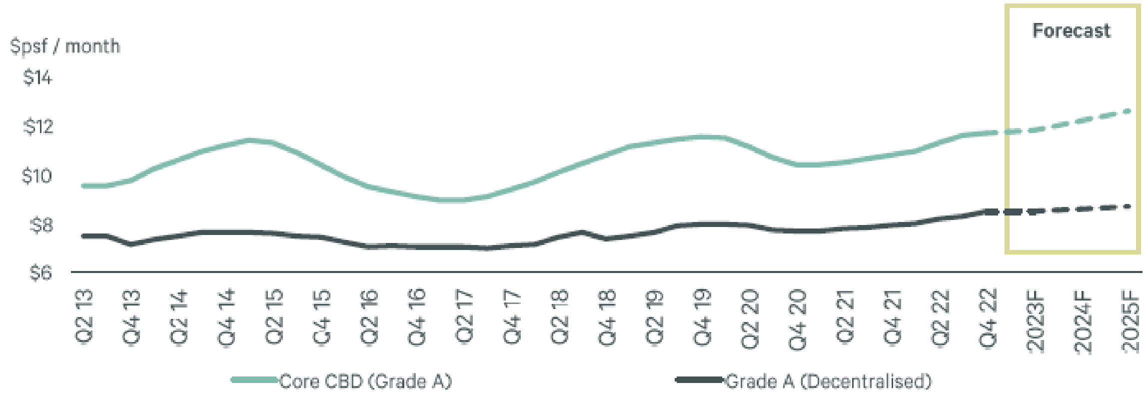
Exhibit 15: Historical Completions and Gross Future Supply



Outlook

CBRE noted that on the back of firm return-to-office demand and healthy building occupancies, Core CBD rents grew by 8.3% to $11.70 psf/month in 2022, surpassing rental growth of 3.8% in 2021. That said, the pace of rental increase in the last quarter of 2022 has slowed as sentiment soured and turned more cautious. On the back of weaker economic conditions and a pullback in expansionary activity from the tech sector, vacancy rates could potentially increase. CBRE expects mild rental growth in the short-term and Core CBD rents could rise by about 1.0% yoy in 2023, while Decentralized rents are likely to remain stable before making a more meaningful recovery in the next couple of years as the economy picks up. CBRE's rental forecast is shown in **Exhibit 16**.

Exhibit 16: CBRE's Office Rental Forecast for Core CBD and Decentralized



Source: CBRE

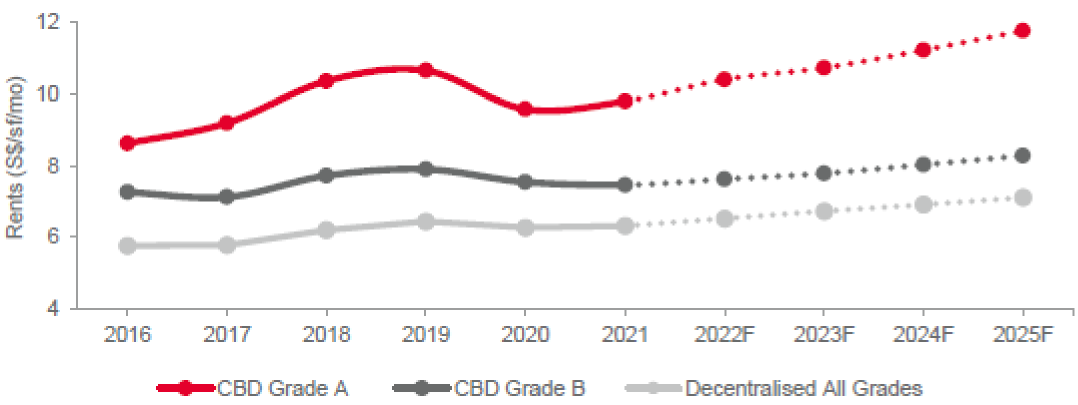
Colliers noted that leasing demand continued to be broad-based, with net absorption coming in stronger in the fourth quarter. However, the changing economic outlook and drought in funding has led to a slowdown in demand from technology firms. These firms have switched their focus from growth to profitability; hence, many are putting their expansion plans on hold, reducing their footprints or withdrawing from prior commitments. This trend is likely to extend to the other sectors, particularly the financial sector, and lead to more shadow space emerging, thereby capping rental growth. However, there should be other industries or new entrants backfilling this space, unless there is a prolonged economic downturn.

For 2023, rental growth would come in at a more modest pace due to weaker GDP growth, but this will be mitigated by the lower supply situation, as well as the fact that Singapore remains an attractive destination for businesses regionally and globally. Colliers expects full year 2023 rental growth forecast for the core CBD Premium & Grade A segment to ease to between 2 to 3% yoy. The availability of higher quality offices in the Core CBD remains tight due to a lack of new supply and withdrawal of existing office stock for redevelopment. In addition, Colliers expects more global firms to set up their regional headquarters in Singapore to hedge against geopolitical risks. There are also more family offices and asset managers setting up here, attracted to Singapore's reputation as an international financial hub. In turn, this will lead to the growth of ancillary business services such as law firms, management consultancies, insurance companies and accounting firms expanding their operations and looking for office space. It is likely to remain a landlord's market for the next few quarters due to the tight supply situation, with most maintaining their rents. However, with leasing activity slowing, and should there be a sharp downturn in economic conditions, landlords might have to start prioritizing occupancy and offer more competitive incentives and/or rents.

C&W noted that as firms reassess expansion plans against the backdrop of economic headwinds, leasing demand for office spaces could cool in 2023 and lead to slower office rental growth. CBD Grade A office rental growth is projected to grow by 2% to 4% yoy in 2023, With higher supply in 2023, vacancy rates are expected to increase, though remain at relatively tight levels. Potential redevelopments in the CBD could tighten office supply and drive displacement demand.

Also, the progressive expiry of transitional office sites over the next few years would accentuate this trend and bolster pre commitment rates at upcoming developments. Limited available space in the CBD Grade A market has driven some demand to the Grade B office market, where rents are lower and there are more available options. CBD Grade B office rents are poised to rise by 2.1% yoy in 2023. Given a combination of higher CBD office rents and uncertain economic conditions, some occupiers could look towards the more cost-efficient decentralized office space. Given the rental gap between CBD and decentralized office markets, and an expected increase in property service charge, C&W could see a faster rent growth in decentralized markets, growing by 3 to 5% yoy in 2023. The office could emerge stronger post 2023 as an economic slowdown may encourage higher office attendance, which would stimulate future office demand. C&W's rental forecast is shown in **Exhibit 17**.

Exhibit 17: C&W's Office Rental Forecast



Source: C&W

Meanwhile, Jones Lang LaSalle (JLL) noted that demand slowed in 4Q22 as global economic headwinds intensified and weighed on business sentiment. The ongoing consolidation in the tech sector also moderated its appetite for office space. CBD investment grade office rent growth decelerated for the first time since recovering from the COVID-19 pandemic in 2Q21. With interest rates climbing further and investors staying on the sidelines in 4Q22, CBD investment grade office capital values fell for the first time since turning around in 2Q21. Singapore's office market is expected to cool further over 2023 with limited impetus for rental growth. This could put office investment assets under greater re-pricing pressure as interest rates are expected to stay elevated.

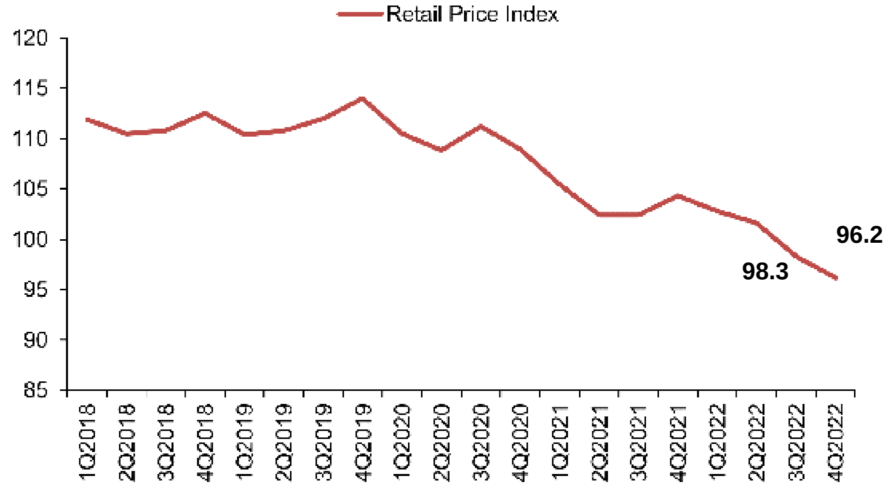
Knight Frank believes that slower growth is expected in 2023, due to inflation and volatility in the technology sector. Nevertheless, demand is likely to be sustained by corporates shifting business functions from other parts of Asia with Singapore as a flight-to-safety destination as uncertainty grows. International firms poised to gain from the receding pandemic in growth regions such as South-East Asia are also looking to set up or expand in the city-state from which to reach the steadily growing middle class in these countries. With these sources of demand and with IOI Central Boulevard Towers the only substantial new office development completing in the CBD, rents are likely to increase by around 3% for the whole of 2023, barring any further substantial pre-termination or reduction of space from technology companies.

Savills believes that coming into 2023, a new movement is gaining greater momentum, namely the need for multinational tenants to comply with the ESG standards of their respective country of origin. As shareholders and clients expect greener practices, tenants from countries with strict ESG standards may have little choice but to locate in offices, even for their branches offshore, which are graded Green. This mandate would result in skewed demand towards green rated Grade A offices. While the challenges encountered on the economic front may take away demand, for Grade A offices, it may be partially offset by the flight of MNCs to these buildings. In conjunction with inflation working its way through the service charge component, and the constant flow of family offices setting up here, the overall gross rents for its basket of offices may still eke out a 2% yoy increase in 2023. However, there may be quarters which we may see either no or slight negative qoq rental changes amongst the sub-grades in our basket of CBD Grade A offices.

Singapore's Retail Real Estate Market

According to data from URA, prices of retail space decreased by 2.1% qoq in 4th Quarter 2022, compared with the 3.2% qoq decrease in the previous quarter, as reflected by the decrease in the Retail Price Index to 96.2 from 98.3 as shown in **Exhibit 18**. For the whole of 2022, prices of retail space decreased by 7.8%, compared with the decrease of 4.2% in 2021.

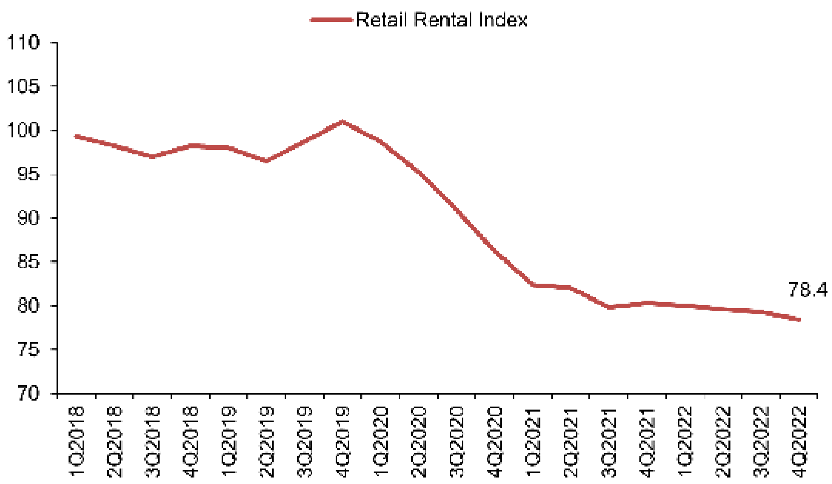
Exhibit 18: Property Price Index for Retail Space



Source: URA

According to URA, rentals of retail space decreased by 1.1% qoq in 4th Quarter 2022, compared with the 0.4% qoq decrease in the previous quarter, as reflected by the decrease in the Retail Rental Index to 78.4 from 79.3 as shown in **Exhibit 19**. For the whole of 2022, rentals of retail space decreased by 2.4%, compared with the decrease of 6.8% in 2021

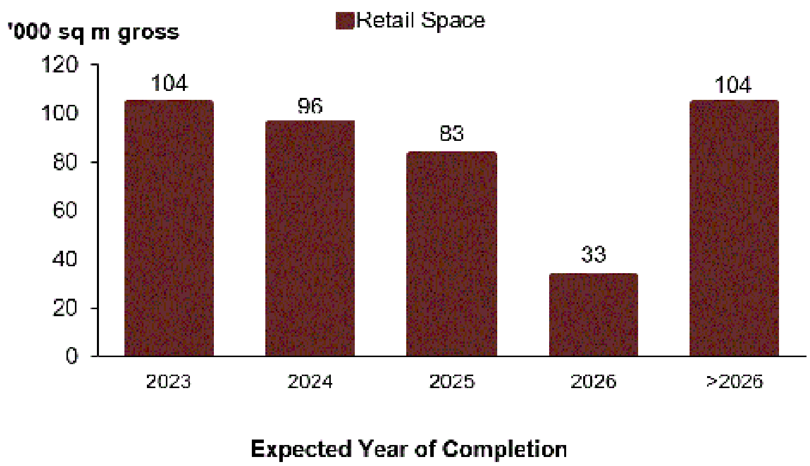
Exhibit 19: Rental Index Of Retail Space



Source: URA

URA noted that as at the end of 4th Quarter 2022, there was a total supply of 420,000 sq m GFA of retail space from projects in the pipeline, compared with the 415,000 sq m GFA of retail space in the pipeline in the previous quarter as shown in **Exhibit 20**.

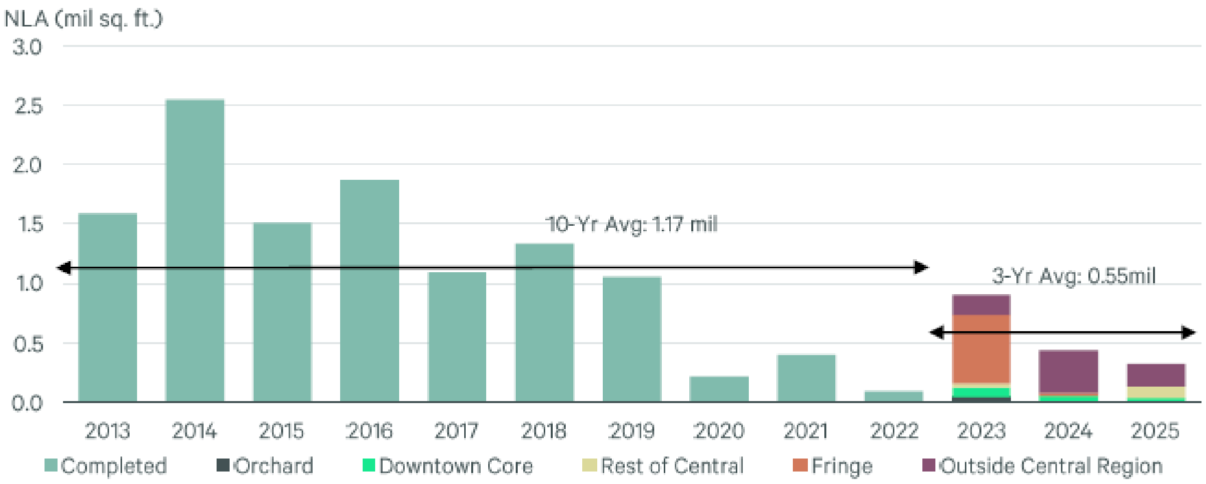
Exhibit 20: Pipeline Supply Of Retail Space



Source: URA

According to CBRE, approximately 0.9 mill sq ft of retail space is expected to complete in 2023, almost a three-fold increase from the average completion levels seen from 2020-2022 during the pandemic. Nonetheless, the average future supply over the next three years is 52.8% below 10-year historical averages, which should lend support to retail rents. CBRE's projections for future supply pipeline is shown in **Exhibit 21**.

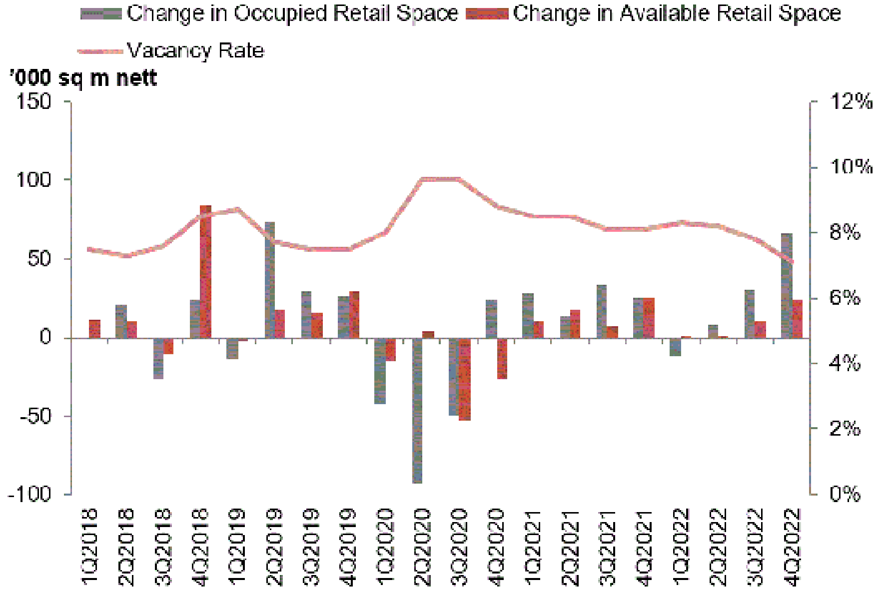
Exhibit 21: CBRE's Expected Future Supply Pipeline



Source: CBRE

The amount of occupied retail space increased by 66,000 sq m (net) in 4th Quarter 2022, compared with the increase of 30,000 sqm m (net) in the previous quarter. The stock of retail space increased by 24,000 sq m (net) in 4th Quarter 2022, compared with the increase of 10,000 sq m (net) in the previous quarter. As a result, the island-wide vacancy rate of retail space decreased to 7.1% as at the end of 4th Quarter 2022, from 7.8% as at the end of the previous quarter as shown in **Exhibit 22**.

Exhibit 22: Stock And Vacancy Of Retail Space



Source: URA

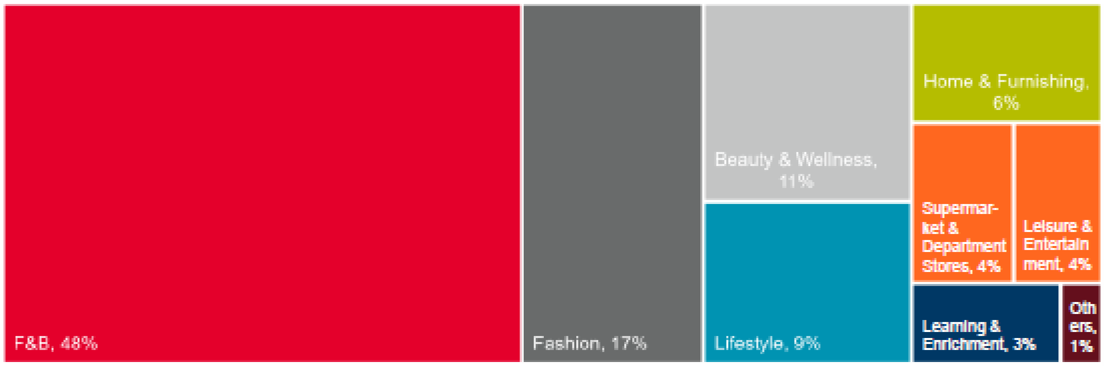
<u>More Optimistic Outlook For Retailers</u>

With over 70% of retailers in CBRE's 2023 Asia Pacific Retail Flash Survey expecting an improvement in sales performance in 2023, majority of them (71%) displayed a strong appetite for expansion this year. Retailers remain optimistic about discretionary consumption and an eventual return of tourist spending. Among Asia Pacific destinations, Singapore ranked as the second top destination for cross-border expansion.

<u>F&B Demand Remains Key</u>

C&W noted that activity-based tenants continue to drive retail demand as e-commerce continues to shape the retail landscape. Food & Beverage (F&B) remains the top retail driver with about 48% of store openings of prime malls in Singapore in 2022. The F&B sector is highly competitive and increasing operating costs would increase an already high tenant turnover. This could result in higher vacancy cost for retail landlords given more frequent fit-out periods. C&W's estimated share of store openings in prime malls is shown in **Exhibit 23**.

<u>Exhibit 23: C&W's Estimated Share Of Store Openings In Prime Malls</u>



Source: Cushman and Wakefield

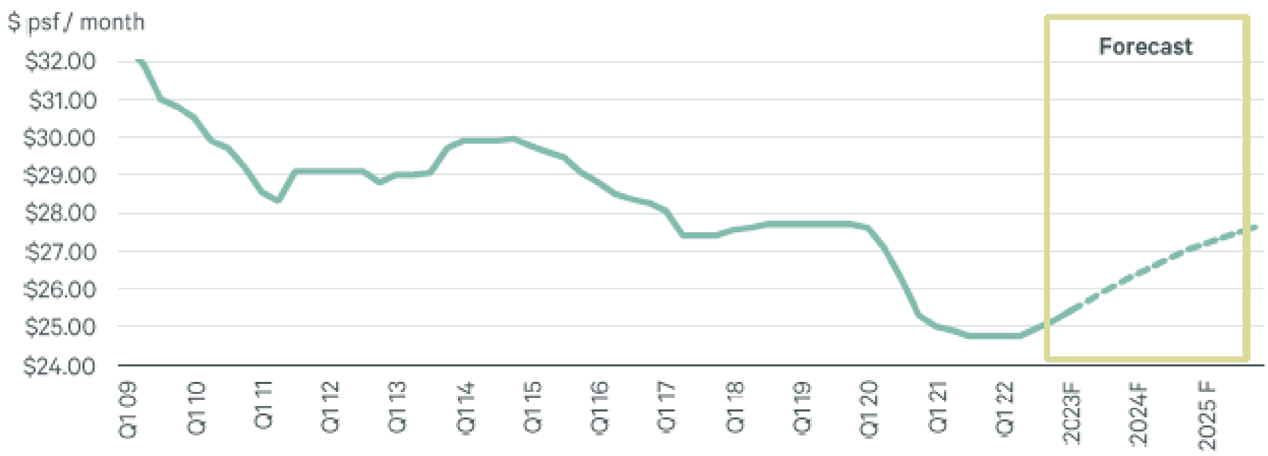
<u>Expect Higher Tenant Turnover Rate</u>

C&W noted that while the economy has reopened, lifting sales, retailers are facing higher operating costs from manpower shortages and higher energy and food costs. Retail sales growth may also slow in the next two years, given an impending step up in government service taxes and consumers front loading their spending for big ticket items in 2022. Additionally, rising interest rates and prices could lower consumer disposable income and spending. Discretionary retail sectors such as fashion and department stores could see lower tenant sales. Although F&B spending should remain healthy due to a secular trend of dining out in Singapore, higher cost pressures could lead to some tenants calling it quits.

Outlook

CBRE expects island wide retail rents to increase by 4.1% in 2023. Tourist-dependent submarkets such as Orchard Road are likely to register higher rental increase. This is especially so with the recent re-opening of China's borders, which is forecasted to bring tourism receipts to about $18 – S$21 billion, 67% - 75% of 2019 levels. CBRE expects Singapore's prime rental (island wide retail) to continue increasing in 2024 and 2025 as shown in **Exhibit 24**.

Exhibit 24: CBRE's Singapore Prime Rental Forecast



Source: CBRE

C&W noted that rising cost pressures from higher wages, utility expenses and cost of goods sold could result in higher retailer turnover. Nonetheless, inflation, a healthy pipeline of events and limited new retail supply are expected to buoy rents in 2023. New retail stock island wide will only come up to 0.3 million sf per annum from 2023 to 2027, less than half the 0.8 million sf per annum from 2017 to 2022. While Suburban retail market will remain supported by hybrid work and low availability of prime spaces, the retail market in Orchard and Other City Areas will grow in tandem with the recovery of international travel. Particularly, China's latest step towards reopening borders could bolster confidence of retail businesses in Orchard area. However, as international travel recovers, Singapore consumer outbound spending would increase and sap domestic retail spending. Higher airfares and rising economic concerns could weigh on inbound tourism recovery. Against this backdrop, prime rental growth across the key retail submarkets should persist for 2023 albeit at a slower pace of about 1.5%-2.5% yoy

Jones Lang LaSalle (JLL) noted that firm retail sales continued to underpin occupier demand in 4Q22. Despite macro-economic headwinds, Singapore's safe-haven status and resilient domestic and tourist consumption should encourage strategic business expansion, albeit prudently. Rents are expected to extend growth in 2023 amidst a falling vacancy rate outlook, while a positive retail rent outlook should underpin retail asset prices.

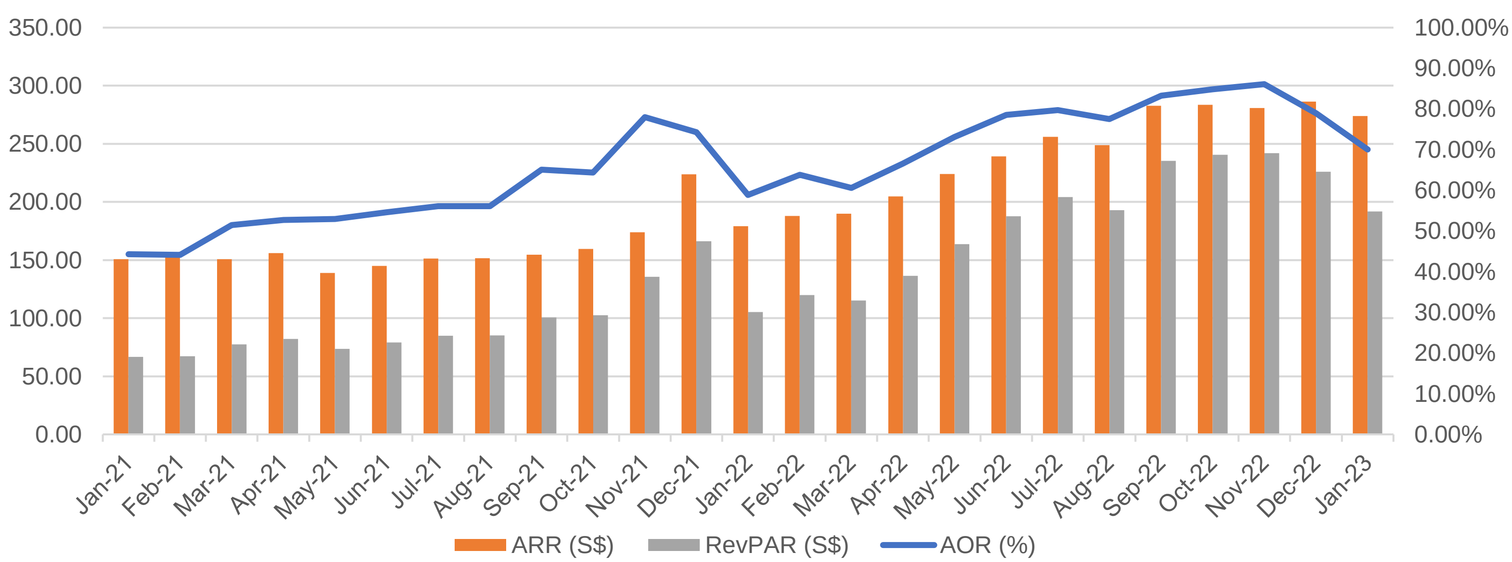
Knight Frank noted that looking ahead, as local consumers continue to grow in affluence and sophistication, the next stage in the retail evolution could see the rise of personalization and bespoke services for a tailored retail experience, especially for the premium shopper. There could be more curated retail events, entertainment services and even dining menus. This personal and customized touch would sit well with the influx of new private wealth in Singapore. The retail sector endured and has come through an extremely difficult time of unprecedented challenge, only starting to gain traction from the removal of measures from Q2 onwards. Prime rents of retail space are likely to grow between 3% and 5% for the whole of 2023, with the prime shopping belt Orchard Road leading the recovery.

Savills noted that going forward, because of the pandemic induced reset, the travel and consumer sectors are expected to continue recovering. This is despite the slowing global economy. However, growth may slow for the rest of the year and also in 2023 due to challenges on the economic and inflation fronts. In the face of rising inflation and interest rate hikes, consumer spending growth is expected to be inhibited. Although the continuing increase in visitor arrivals and resumption of business events could help to support retail sales levels, both local and foreign consumers are likely to cut back on discretionary spending amid the effects of increased inflation. Moreover, the effects of the GST increase from 2023 could also likely keep private consumption growth low. As landlords' rental expectations rise, tenants operating at thin margins amid escalating operating costs could either be forced to cease their business or relocate to fewer prime locations. The vacated space will be backfilled by well-performing retailers or new entrants who are willing to match up to the new rental expectations. This could potentially alter retail mix in the market as reshuffling of tenants continues, attracting different kind of retailers. With the above, Savills forecasts Prime Orchard retail rents to increase by 1% - 2% yoy in 2023

<u>Singapore's Hospitality Real Estate Market</u>

In recent months, a moderate improvement in key hotel indicators like average occupancy rate (AOR), average room rate (ARR) and revenue per available room (RevPAR) as reflected in **Exhibit 25**, suggest that Singapore's hotel industry experienced an encouraging year due to stronger demand for leisure and business travel. We believe that the drop in AOR in December 2022 could be reflective of seasonal trends, where figures peak in event-packed September and October before normalising in December and January.

<u>Exhibit 25: Trend in Performance of Key Hotel Indicators in Singapore</u>



Source: STB, FPA Financial

In 2022, the overall hotel performance showed signs of improvement, as reflected by latest data from the Singapore Tourism Board (STB). During the period, Singapore's hotel industry registered an AOR of 75.8%. This is an increase of 18.9 percentage point compared to the previous year. ARR increased by 55.16% year-on-year (yoy) to $248.97 in 2022 from $160.46 in 2021, while RevPAR increased by 106.73% yoy to $188.64 in 2022 from $91.25 in 2021. As at January 2023, Singapore's hotel industry recorded AOR, ARR and RevPAR of 70.0%, S$273.94 and S$191.78 respectively as shown in **Exhibit 26**.

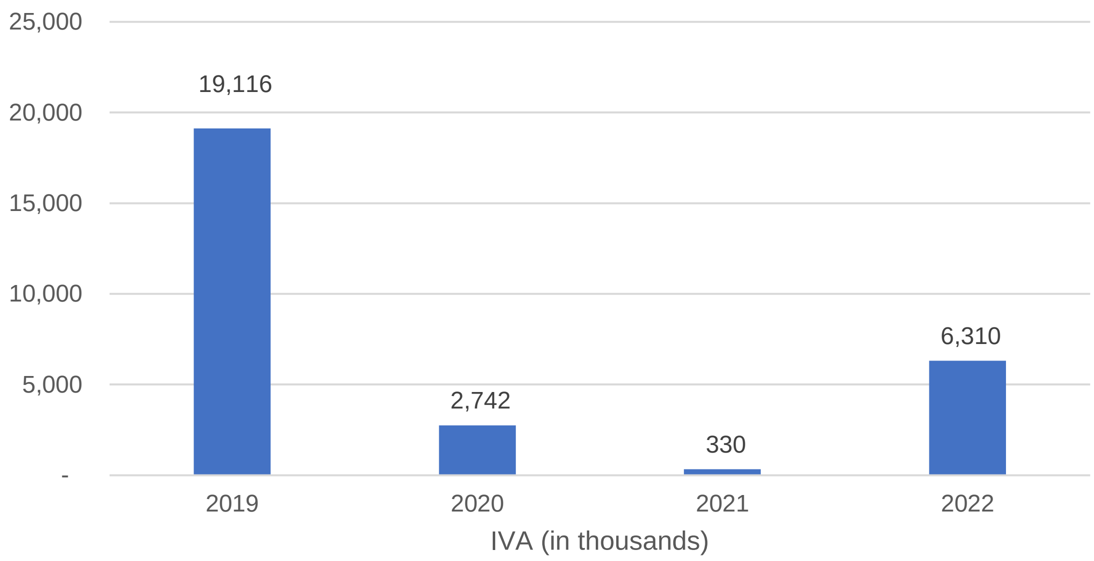
Exhibit 26: AOR, ARR and RevPAR Comparison for 2021, 2022 and 2023 (Jan)

Performance indicator	FY2021	FY2022	Jan-23
AOR (%)	56.9%	75.8%	70.0%
ARR (S$)	160.46	248.97	273.94
RevPAR (S$)	91.25	188.64	191.78

Source: STB

Further, in 2022, international visitor arrivals (IVA) totalled 6.3 million, reaching approximately 33% of the pre-pandemic of 19.1 million in 2019, but exceeded STB's forecast of between 4 million and 6 million visitors. The IVA recorded in 2022 also far exceeded the numbers recorded in 2020 and 2021 as shown in **Exhibit 27**.

Exhibit 27: International Visitor Arrivals in 2019-2022 (in thousands)



Source: STB, FPA Financial

Outlook

In terms of outlook, STB expects the tourism sector to continue its growth momentum in 2023, on the back of increasing flight connectivity and capacity, and China's gradual reopening. International visitor arrivals are expected to reach around 12 to 14 million visitors, bringing in approximately $18 to 21 billion in tourism receipts – around two-thirds to three-quarters of the levels in 2019. In the meantime, STB will continue efforts to increase Singapore's destination attractiveness. To support tourism recovery, STB will front load $110 million of the $500 million set aside for Singapore's tourism recovery to ramp up business and leisure events over these two years. STB will continue to attract more high-quality MICE events, such as the Herbalife APAC Extravaganza 2023 and the 25th World Congress of Dermatology 2023. On the leisure events front, 2023 has already kicked off strongly with Art SG, Southeast Asia's largest ever art fair as part of the Singapore Art Week, and Sail GP, which made its Asian debut last week. New events like the Olympic Esports Week and Professional Triathletes Organisation Asian Open will also take place in Singapore for the first time.

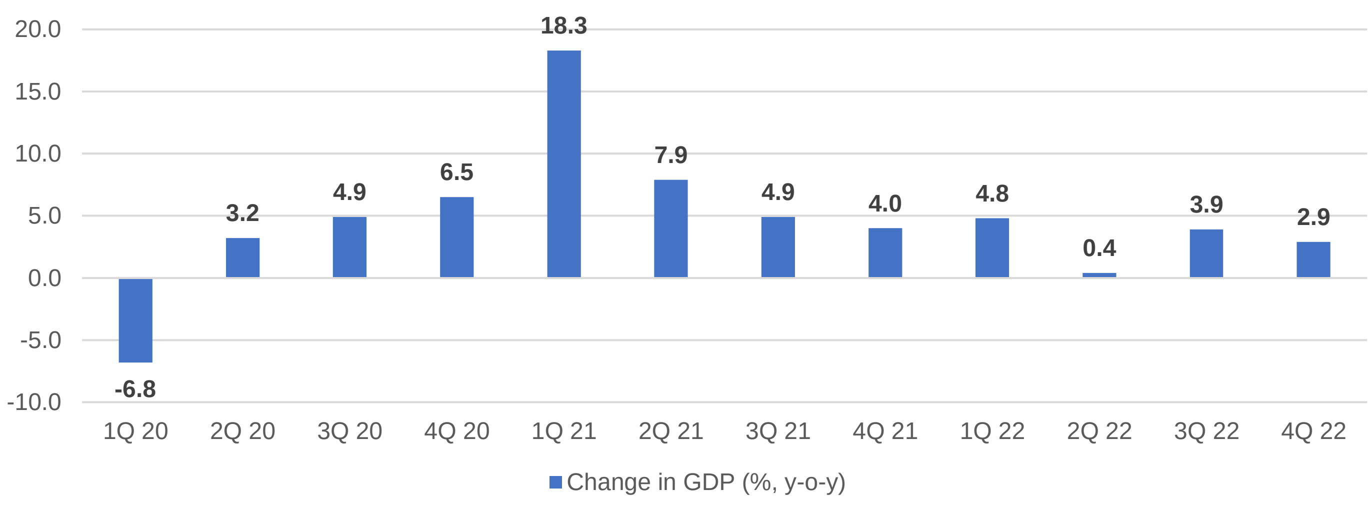
To support the pace of recovery, STB will continue to help the tourism sector ramp up hiring. As of September 2022, the total tourism workforce is around 65,000 – about 78 per cent of 2019 levels. STB will continue to support manpower needs through the Tourism Careers Hub, which has placed more than 500 workers in the tourism sector since its launch in 2022 by providing career coaching, skills upgrading and job matching. STB will also continue to support digital transformation for the industry through Tcube, which has already helped more than 1,000 local tourism companies through its various programmes.

(II) China

China's Economy

China's economy slowed sharply in the fourth quarter due to stringent Covid curbs, dragging down 2022 growth to one of its worst in nearly half a century and raising pressure on policymakers to unveil more stimulus this year. Gross domestic product grew 2.9% in Q4 from a year earlier, data from the National Bureau of Statistics (NBS) showed, slower than the third-quarter's 3.9% pace. The rate still exceeded the second quarter's 0.4% expansion as shown in **Exhibit 28**. According to preliminary estimates, the GDP was 121,020.7 billion yuan in 2022, an increase of 3.0% over last year at constant prices.

Exhibit 28: Change in China quarterly GDP (%, y-o-y)



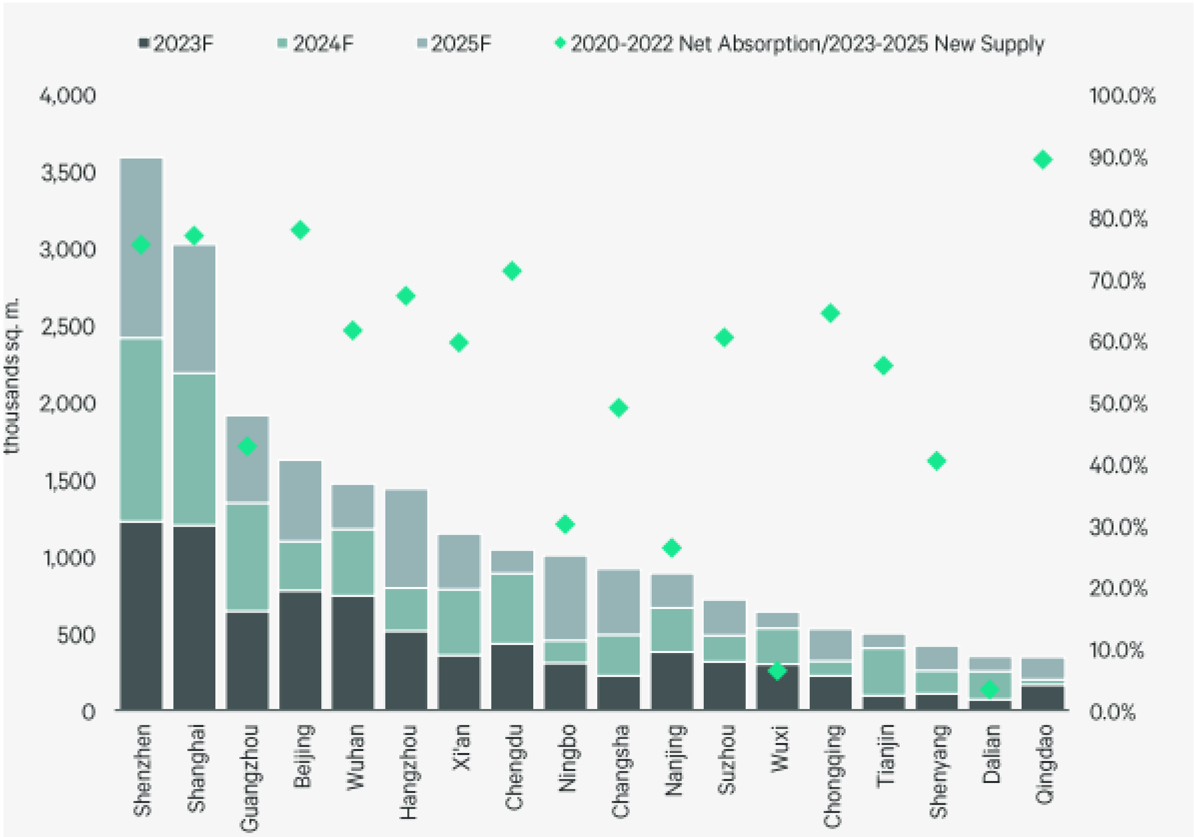
Source: National Bureau of Statistics of China

IMF believes that China's economy is set to rebound this year as mobility and activity pick up after the lifting of pandemic restrictions, providing a boost to the global economy. The economy will expand 5.2% in 2023, according to its latest projections, versus 3% in 2022. That's good news for China and the world as the Chinese economy is now expected to contribute a third of global growth this year. Even so, China still faces significant economic challenges. The contraction in real estate remains a major headwind, and there is still some uncertainty around the evolution of the virus. Longer-term, headwinds to growth include a shrinking population and slowing productivity growth.

China Office Real Estate Market

CBRE believes the new supply is expected to match demand in 2023. CBRE noted that measures to contain the spread of Covid-19 resulted in the suspension of 34% of nationwide pipeline office supply in 2022. With much of this new stock due to come on stream this year, CBRE expects new supply in the 18 major cities to reach 8 million sq.m in 2023, not far from the pre-pandemic 5-year average. New supply in the next 3 years is forecasted to reach 21.6 million sq.m, 19% higher than the previous 3 years. While new supply in tier I cities will exceed that in tier II cities over the next 3 years, the former will see a far more equitable supply-demand balance. The ratio of net absorption and new supply in Beijing, Shanghai and Shenzhen has exceeded 75% in the past 3 years and is forecasted to continue to do so over the next 3 years. CBRE's new supply forecast by cities is shown in **Exhibit 29**.

Exhibit 29: CBRE's new supply forecast by cities (2023-2025)

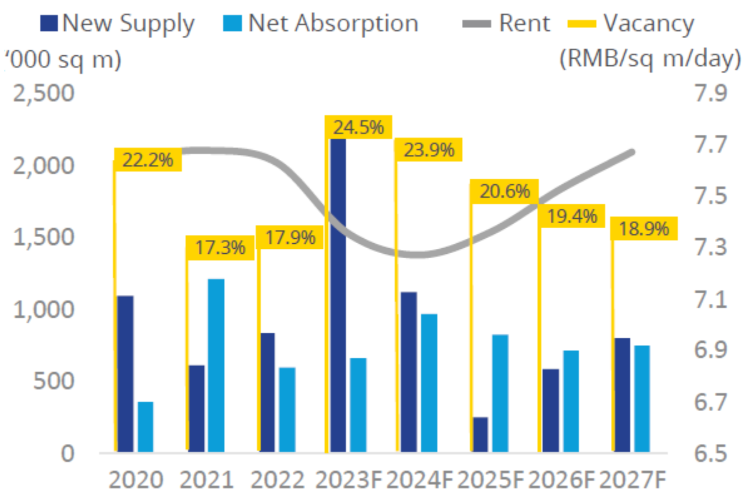


Source: CBRE

In terms of rental outlook, along with the recovery of demand, CBRE expects nationwide office average face rents to drop by 0.7% yoy in 2023, 1.1 percentage points less than the fall registered in 2022. However, the influx of new supply will intensify competition among landlords to attract occupiers, ensuring rents continue to experience downward pressure in most tier II cities. With the shortage of leasable space set to underpin the rental rebound in core CBDs of tier I cities, overall rents in tier I markets are forecasted to stabilise from 2H2023 to 2024.

As shown in **Exhibit 30**, Colliers expects annual average supply of over 1.6 million sq metres in 2023 and 2024 to intensify competition in the leasing market. As a result, rents should remain under pressure before a gradual rebound starts in late 2024. Also, as decentralized (DBD) areas buildings have lower rents, the rising proportion of buildings located in the DBD will likely lead to slower overall rental growth.

Exhibit 30: Shanghai Office Market Trends (2020-2027F)



Source: Colliers

In terms of rental outlook, Colliers noted that Shanghai office market demand rebounded steadily, with net absorption reaching 166,000 sqm, up 37.7% qoq in Q4 2022. With a few new projects entering the market, vacancies declined, and rents remained at historic lows. Since optimizing the Covid-19 response has been announced, it is expected that the market still needs a quarterly adjustment period, and Colliers remains cautiously optimistic about the market in H1 2023. Therefore, Colliers believes that the large amount of new supply coming to market in 2023 will put pressure on the leasing market and rental performance. However, with the release of epidemic situation, it will greatly boost the confidence of all parties, and the Shanghai office market is expected to gradually move towards full recovery.

Shanghai Retail Real Estate Market

Savills noted that three new projects within the Outer Ring Road were launched onto the market in 2022, with the total stock reaching 14.9 million sqm. All new projects opened in 4Q2022 and are located in Jing'an District, introducing designer brands and trendy concept stores that cater to consumers' personalised lifestyle concepts, while enhancing the retail atmosphere. In addition to the new supply, the renovation of Zhangyuan West Zone along Nanjing West Road was completed and opened to the public in Q4/2022. Outside the Outer Ring Road, Longfor Fengxian Paradise Walk was launched in the final quarter.

After the city lockdown in 2Q2022, the proportion of newly leased areas to service sector tenants fell sharply, though it recovered quickly in 4Q2202. Specialised fitness categories such as Pilates and entertainment venues including KTV and stand-up comedy stores were particularly active. General retail tenants overall proportion increased in 2022 with a better-balanced range of subcategories and new concepts. The adjustment and reconfiguration of store networks resulted in supermarkets, accounting for a smaller percentage of total retail space.

According to Savills, the impact of the city lockdown on the market has lingered, but the decline in rental and occupancy rates slowed significantly in 4Q2022. The citywide shopping mall vacancy rates grew by 0.4 ppts in 4Q2022 to 12.2%, up 3.9 ppt yoy. First-floor rents fell by 0.1% in 4Q2022 to an average of RMB26.1 psm pday, down 1.4% yoy.

In terms of outlook, Savills noted that six shopping malls are expected to open in 2023, adding 659,000 sqm of retail space to the market. Zhenru will receive the lion's share with three new projects opening, including Love @ Metropolis, UniMall Max and Xintai Centre. Smaller-scale developments targeting niche consumer groups, specialising in a particular retail category or integrating local elements will likely attract more attention. The public's willingness to go out and consume and the number of tourists is expected to gradually recover as the epidemic rapidly peaks. The number of tourists also is expected to increase as Shanghai remains to be a popular tourist destination in China. Traditional business areas, including Nanjing Road (E), are expected to benefit from the recovery of the tourism market.

SHARE PRICE DEVELOPMENT REVIEW

Since our initiation report issued on 17 March 2022, when OUE C-REIT's share price closed at S$0.405, we note that the share price has fallen. From then till present, the share price is down about 22.22% to the current price of S$0.315 as shown in **Exhibit 31**.

Exhibit 31: OUE C-REIT's Share Price

Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S$0.305 and S$0.430 The 52-week low of S$0.790 was reached on 25 October 2022 and the 52-week high of S$1.00 was reached on 4 May 2022. As at 31 December 2022, OUE Group, the Sponsor, holds 48.30% share interest of OUE C-REIT. We also noted Lippo Limited has a deemed interest of 71.08% in OUE Group, as at 23 March 2022.

On 12 May 2022, OUE C-REIT announced its 1Q2022 business update for the first quarter ended Mar 31, 2022. Revenue and net property income (NPI) fell by 20.3% and 21.5% yoy respectively, mainly due to deconsolidation of OUE Bayfront's performance post the divestment of a 50% interest in the property on 31 March 2021. At the same time, amount available for distribution was 15.8% yoy lower at S$31.2 million. As a result, OUE C-REIT's share price closed 3.66% lower at S$0.395 at the end of the day.

On 3 January 2023, OUE C-REIT announce the reopening of the 446-room Orchard Wing at Hilton Singapore Orchard. Following an extensive 10-month rejuvenation, the refurbished rooms and suites welcomed its first guests on 1 January 2023. The reopening marks the successful completion of the final phase of the asset enhancement initiative which was announced in March 2020. Hilton Singapore Orchard is now operating the full inventory of 1,080 rooms and is well positioned to capture increasing demand from international business and leisure travellers as well as local Singapore residents. OUE C-REIT's share price rose by 1.47% to S$0.345 the following day.

On 30 January 2023, OUE C-REIT announced its FY2022 financial results.. Committed occupancy of Singapore office properties as of 31 December 2022 remained high at 95.5% with positive rental reversions of 3.2% to 8.3% in 4Q 2022. Overall hospitality segment RevPAR for 4Q 2022 increased 18.4% QoQ to S$310, supported by the successful re-branding of Hilton Singapore Orchard, as well as the continued recovery of the tourism, business travel and MICE sectors in Singapore. Nonetheless, OUE C-REIT's share price fell by 5.41% to S$0.350 following the announcement.

POTENTIAL CATALYSTS

(I) Potential Recovery in Rents

Singapore Office

The outlook for the Singapore office market appears to have improved, and leasing demand has remained broad-based. Vacancy rates, however, could potentially rise as a result of weaker economic conditions and a slowdown in expansionary activity from the tech sector. The tech industry's ongoing consolidation has also reduced its appetite for office space. For 2023, office rental growth would come in at a more modest pace due to weaker GDP growth, but this would likely be offset by the lower supply situation and the fact that Singapore is still a desirable location for businesses on a regional and international scale. The summary of the rental growth projections from various real estate firms is shown in **Exhibit 32**.

Exhibit 32: Summary Of Real Estate Firms' 2023 Office Rental Growth Forecast

	2023 Rental Growth Forecast	
	CBD	Decentralized
CBRE	1.00%	0.00%
Colliers	2.00%-3.00%	-
C&W	2.00%-4.00%	2.10%
Knight Frank	3.00%	-
Savills	2.00%	-

Source: Respective real estate firms

It was recently reported on Business Times (BT) that office rents in the Central Business District (CBD) rose in the first quarter of 2023, driven by tight supply and buoyant demand for flexible and scalable office space. This is despite worsening economic sentiment and layoffs in the tech sector. Knight Frank Singapore indicated that prime-grade office rents in the Raffles Place/Marina Bay precinct increased 1.3% quarter on quarter in Q1 while occupancy levels in the CBD remained broadly unchanged compared with the previous quarter, with 94.1% of office buildings occupied. It was also reported that there is a high demand for quality office spaces that foster a superior work experience. This comes as companies seek to attract their employees to return to the office as productivity becomes key, in view of the deteriorating business outlook. As supply of new office inventory continues to remain tight, especially in the CBD, the upward rental trend continued to reflect a resilient market.

Singapore Retail

As highlighted in the 'Industry Outlook' section, recent retail indicators suggest that Singapore retail market could be set for a recovery going forward. As it stands, rising cost pressures brought on by higher wages, utility costs, and cost of goods sold could result in higher retailer turnover. Consumer spending growth is anticipated to be constrained in the face of rising inflation and interest rate increases. However, the retail sector is also in a much better position now than it was when the pandemic was in full swing, when trading was severely constrained and there was a negative impact on domestic consumption from the increase in the Goods & Services Tax (GST) and rising labor costs. Nevertheless, it is anticipated that the travel and consumer sectors will keep improving because of the pandemic-induced reset. In addition, a healthy pipeline of events and limited new retail supply are expected to buoy rents in 2023. Various real estate firms believe that rental growth across the key retail markets should persist for 2023, albeit at a slower pace and are projected to grow by between 1% and 5% for 2023 as shown in **Exhibit 33** on the next page.

Exhibit 33: Summary of Real Estate Firms' Retail Rental Growth Forecast

	2023 Rental Growth Forecast
CBRE [(1)]	4.10%
C&W [(2)]	1.5%-2.5%
Knight Frank [(2)]	3%-5%
Savills [(3)]	1%-2%

(1) Islandwide rent

(2) Prime rent

(3) Prime Orchard Rent

Source: Respective real estate firms

(II) Hilton Singapore Orchard Reveals New Orchard Wing

On 3 January 2023, OUE C-REIT announced the reopening of the 446-room Orchard Wing at Hilton Singapore Orchard, the Hilton brand's flagship hotel in Singapore. The reopening marks the successful completion of the final phase of the asset enhancement initiative which was announced in March 2020. Hilton Singapore Orchard is now operating the full inventory of 1,080 rooms and is well positioned to capture increasing demand from international business and leisure travellers as well as local Singapore residents

Strong Brand Differentiation & Global Sales Network Drive Sustainable Growth

The re-branding of Hilton Singapore Orchard was a strategic decision to fully leverage its prime location in the Orchard Road area and to unlock greater value from the property by repositioning it as one of the top luxury hotels in Singapore. Since its relaunch with the 634-room Mandarin Wing in February 2022, demand for the refurbished rooms has been strong from corporate and leisure guests with the return of tourism and recovery of the meetings, incentives, conventions and exhibitions (MICE) sector on the back of Singapore's border reopening

Meanwhile, Hilton's strong brand recognition and global sales and distribution network have also diversified the business mix and tourist source. Apart from drawing locals and visitors from Southeast Asia, the hotel also witnessed a significant increase in guests from North America.

Consequently, the revenue per available room (RevPAR) for the period 1 July 2022 to 30 September 2022 (3Q 2022) increased 10.2% quarter-on-quarter to S$332 and surpassed the previous RevPARs of the property before its re-branding.

Future-proofed with Advance MICE Amenities and Sustainability Initiatives

Amidst Singapore's growing commitment to sustainability, the Singapore Tourism Board (STB) and Singapore Association of Convention & Exhibition Organisers & Suppliers (SACEOS) have launched the MICE sustainability roadmap which sets out clear targets and strategies to raise sustainability standards across Singapore's MICE industry over the next few years. Perfectly timed to support the recovery of Singapore's MICE industry, Hilton Singapore Orchard has launched Smart Oasis, a unique meeting space located on level five of the hotel that comprises seven function rooms and two breakout areas designed for collaboration and connection. Guided by Hilton's global Meet with Purpose programme, thoughtful eco-friendly details abound, from glass water bottles courtesy of the hotel's in-house Nordaq water filtration system, to ecoconscious stationery.

According to OUE C-REIT's Deputy Chief Executive Officer and Executive Director, the opening of the Orchard Wing brings the re-branding and rejuvenation of the hotel to a timely completion. Now operating at full room capacity, Hilton Singapore Orchard is set to further capitalise on the continued recovery in travel demand in both the business and leisure sectors. The REIT looks forward to resharpening the hotel's position for more growth, attracting a wider audience of guests with its refreshed room, MICE and Food & Beverage experiences in 2023.

FINANCIAL PROJECTION

In this section, we will be providing our projections for OUE C-REIT's revenue, earnings and distribution for FY2023 and FY2024.

(I) Revenue Projection

(a) FY2023

Singapore Commercial Segment

We note that since FY2021, the divestment of 50% interest in OUE Bayfront on 31 March 2021 resulted in the performance of the property being equity accounted as share of joint venture results versus being consolidated prior to the divestment. Hence, for the Singapore commercial segment's revenue projections, we would be projecting the revenue for One Raffles Place and OUE Downtown.

For FY2023, we note a positive outlook for Singapore's Office industry. As noted on page 28, various commercial real estate services companies such as CBRE, Colliers, C&W, Knight Frank and Savills are projecting CBD office rental growth of between 1.00%-4.00% for FY2023. Further, we also noted that as at 4Q2022, the average "expired" office rents for One Raffles Place and OUE Downtown were S$10.15 /sq ft per month and S$8.56 /sq ft per month respectively. With a positive outlook for Singapore Office industry, we would be assuming the mid-point range of the rental growth projection from various commercial real estate services companies of 2.50% as a proxy for rental growth in FY2023. Accordingly, the projected rent for the two properties for FY2023 would be as follows:

The revenue contribution of the respective properties would be calculated as follows:

- Estimated rent for One Raffles Place (S$/sq ft per month) = S$10.15/sq ft per month x 102.50% (projected growth rate) = $10.40 /sq ft per month

- Estimated rent for OUE Downtown (S$/sq ft per month) = S$8.56/sq ft per month x 102.50% (projected growth rate) = $8.77 /sq ft per month

Assuming the occupancy rates to remain the same in FY2023 from FY2022, and taking into consideration of the rent, net lettable area (NLA) & occupancy for each property, the revenue contribution of the properties would be calculated as follows:

- Office revenue contribution from One Raffles Place for FY2023 = [S$10.40 (rent/ sq ft per month) x 605,497 (NLA) x 95.20% (Occupancy) x 12 months] = S$72.0 million

- Office revenue contribution from OUE Downtown Office for FY2023 = [S$8.77 (rent/ sq ft per month) x 529,850 (NLA) x 93.40% (Occupancy) x 12 months] = S$52.1 million

Accordingly, the projected Singapore Office revenue would be S$124.1 million as shown in **Exhibit 34**.

Exhibit 34: Projected OUE C-REIT's Singapore Office Revenue for FY2023

Property	Office (FY2023)			
	Rent (S$/sq ft per month)	NLA (sq ft)	Occupancy	Revenue (S$'000)
One Raffles Place	10.40	605,497	95.20%	71,965
OUE Downtown Office	8.77	529,850	93.40%	52,105
Total				**124,070**

Source: OUE C-REIT, FPA Financial

Meanwhile, for Singapore's Retail industry, in FY2023, recent retail indicator suggest that Singapore retail market could be set for a recovery going forward. With the increase in footfall, we believe this would bode well for OUE C-REIT's retail properties in FY2023. Considering the slightly positive outlook for the retail industry, we expect a 3.0% increase in rental for FY2023.

We note from OUE C-REIT that the average passing rent for Mandarin Gallery was S$20.78 (per sq ft/ month) in 4Q2022. However, we do note that passing rent is the current contractual rent on the property and there could be rental rebates or other support measures to be offered to the tenants. Hence, we would be conservative in our projections and assume a 20% reduction in our projected rent. According, our projected rent for Mandarin Gallery would be S$17.12 (per sq ft/ month) = [S$20.78 (passing rent) x 103.0% (projected growth) x 80% (account for rental rebates or other support measures)].

Meanwhile, for our rental projections for One Raffles Place, we would be using Mandarin Gallery's rent of S$17.12 (per sq ft/ month) as a proxy. However, we note that Mandarin Gallery is located in the heart of Singapore's shopping belt, Orchard Road while One Raffles Place is located in Singapore's central business district at Raffles Place. Considering the above, we would allocate a 10% discount on Mandarin Gallery's rent of S$17.12 (per sq ft/ month) for our rental projections for One Raffles Place. This is to account for the premium that OUE C-REIT would be able to charge for the prime Orchard Road area. Accordingly, our projected rent (S$/ sq ft per month) for OUE Raffles place would be S$15.41 (per sq ft/ month) = [S$17.12 x 90.0%].

We would also expect occupancy rates for both Mandarin Gallery and One Raffles Place to remain the same in FY2023 from FY2022. Given the above and taking into consideration of the rent, net lettable area (NLA) and occupancy for each property, the revenue contribution of the properties would be calculated as follows:

- Retail revenue contribution from One Raffles Place for FY2023 = [S$15.41 (rent/ sq ft per month) x 99,370 (NLA) x 88.80% (Occupancy) x 12 months] = S$16.3million

- Retail revenue contribution from Mandarin Gallery for FY2023 = [S$17.12 (rent/ sq ft per month) x 126,283 (NLA) x 91.90% (Occupancy) x 12 months] = S$23.8 million

Accordingly, the projected Singapore Retail revenue would be S$40.2 million as shown in **Exhibit 35**.

Exhibit 35: Projected OUE C-REIT's Singapore Retail Revenue for FY2023

Property	Retail (FY2023)			
	Rent (S$/sq ft per month)	NLA (sq ft)	Occupancy	Revenue (S$'000)
One Raffles Place	15.41	99,370	88.80%	16,318
Mandarin Gallery	17.12	126,283	91.90%	23,846
Total				**40,164**

Source: OUE C-REIT, FPA Financial

Shanghai Commercial Segment

OUE C-REIT currently has one property in Shanghai namely Lippo Plaza.

Further, we also noted that as at 4Q2022, the average "expired" office rents for Lippo Plaza was RMB9.36 /sq m per day. Assuming SGD:CNY exchange rate of 1 : 5.13612, the projected office rent in SGD for Lippo Plaza would be S$1.82 (sq m per day) = [RMB 9.36 / 5.13612 (exchange rate)].

For Shanghai Office industry, for FY2023, both CBRE and Colliers believe that the influx of new supply will increase the competition but with the easing of the Covid situation, Shanghai office rental is expected to stabilize. In our projections, we would assume the occupancy rate for Lippo Plaza to remain unchanged in FY2023 from FY2022. Given the above and taking into consideration of the rent, net lettable area (NLA) and occupancy for Lippo Plaza, the office revenue contribution of Lippo Plaza would be calculated as follows:

- Office revenue contribution from Lippo Plaza for FY2023 = [S$1.82 (rent/ sq m per day) x 33,539 (NLA) x 79.90% (Occupancy) x 360 days] = S$17.6 million

Accordingly, the projected Office revenue from Lippo Plaza would be S$17.6 million as shown in **Exhibit 36**.

Exhibit 36: Projected OUE C-REIT's Shanghai Office Revenue for FY2023

Property	Office (FY2023)				
	Rent (RMB/sq m per day)	Rent (1) (S$/sq m per day)	NLA (2) (sq m)	Occupancy	Revenue (S$'000)
Lippo Plaza	9.36	1.82	33,539	79.90%	17,581

(1) Calculated based on the SGD:CNY exchange rate of 1:5.13612

(2)Calculated based on the reported NLA of 361,007 sq ft

Source: OUE C-REIT, FPA Financial

According to Savills, Shanghai's first-floor retail rents fell by 0.1% qoq in 4Q2022 to an average of RMB 26.10 per square meter/ day. Hence, for the projections for Lippo Plaza's retail revenue, we would be using Savills' Shanghai first floor retail rent of RMB 26.10 per square meter/ day as a proxy. Similarly, assuming an SGD:CNY exchange rate of 1 : 5.13612, the projected retail rent for Lippo Plaza would be S$5.08 (sq m per day) = [RMB 26.10 / 5.13612 (exchange rate)]. We would also assume for Lippo Plaza to maintain its high occupancy of 97.8% in FY2022 for FY2023.

Accordingly, taking into consideration of the rent, net lettable area (NLA) and occupancy for Lippo Plaza, the retail revenue contribution of Lippo Plaza would be calculated as follows:

- Retail revenue contribution from Lippo Plaza for FY2023 = [S$5.08 (rent/ sq meter per day) x 5,649 (NLA) x 97.80% (Occupancy) x 360 days] = S$10.1 million

Accordingly, the projected Retail revenue from Lippo Plaza would be S$10.1 million as shown in **Exhibit 37**.

Exhibit 37: Projected OUE C-REIT's Shanghai Retail Revenue for FY2023

Property	Retail (FY2023)				
	Rent (RMB/sq m per day)	Rent [1] (S$/sq m per day)	NLA [2] (sq m)	Occupancy	Revenue (S$'000)
Lippo Plaza	26.10	5.08	5,649	97.80%	10,108

(1) Calculated based on the SGD:CNY exchange rate of 1:5.13612

(2)Calculated based on the reported NLA of 60,810 sq ft

Source: OUE C-REIT, FPA Financial

Consequently, our projected revenue for OUE C-REIT's commercial segment amounted to S$191.9 million for FY2023 as shown in **Exhibit 38**.

Exhibit 38: Projected OUE C-REIT's Commercial Revenue for FY2023

Property (S$'000) (FY2023)	Office	Retail	Total
One Raffles Place	71,965	16,318	88,283
OUE Downtown Office	52,105	-	52,105
Mandarin Gallery	-	23,846	23,846
Lippo Plaza	17,581	10,108	27,688
Total	**141,650**	**50,272**	**191,922**

Source: OUE C-REIT, FPA Financial

Singapore Hospitality Segment

We note that OUE C-REIT's hospitality segment revenue for FY2021 was S$67.5 million, which is the minimum rent under the master lease arrangements for OUE C-REIT's hotel properties. For FY2022, the total revenue for its hospitality segment increased to S$68.4 million. Benefitting from the successful re-branding and asset enhancement initiatives, Hilton Singapore Orchard's revenue surpassed its minimum rent under the master lease arrangement despite the limited inventory. With the return of tourism and recovery of the meetings, incentives, conventions and exhibitions (MICE) sector on the back of Singapore's border reopening, the overall hospitality segment RevPAR for 4Q2022 was 18.4% qoq higher.

For FY2023, with the positive outlook in the growth momentum for the tourism sector from STB and the reopening in China's borders, we believe it could help uplift the overall performance of the hotel industry. Considering the above, we would assume a 9% yoy increase in total hospitality revenue for FY2023, which is half of the overall hospitality segment RevPAR qoq growth recorded in 4Q2022. Accordingly, the projected total hospitality revenue for FY2023 would be S$74.5 million as follows:

- Projected total hospitality revenue for FY2023 = S$68.4 million (FY2022 actual) x 109% (projected growth rate) = S$74.5 million

The summary of the projected hospitality revenue for FY2023 is shown in **Exhibit 39**.

Exhibit 39: Projected Hospitality Revenue For FY2023

Hospitality	FY2021	FY2022	FY2023
Fixed master lease revenue	67,500	67,500	67,500
Variable master lease revenue	-	870	7,023
Total hospitality revenue	**67,500**	**68,370**	**74,523**

Source: OUE C-REIT, FPA Financial

(b) FY2024

Looking ahead in FY2024, we expect a stronger revenue performance amid the end to China's Covid-Zero policy and the reopening of its borders. The continuing increase in visitor arrivals and resumption of business events could increase the demand for office space and hotel rooms, leading to increase in the rental rates of OUE C-REIT's properties and thus raising the revenue of OUE C-REIT. Further, with STB's commitment to the tourism sector, we believe a stronger hotel market recovery is likely in FY2024 and there is a possibility that the international visitor could recover to its pre-pandemic levels. The return of business travel, as well as MICE tourism (meetings, incentives, conferencing, and exhibitions), could also support an increase in demand for luxury hotels.

Considering the above, we would assume International Monetary Fund's (IMF) 5-year GDP growth projections as a proxy for the revenue growth in FY2024. According to IMF, in its 5-year GDP projections, Singapore's GDP is expected to grow by 2.50% in 2027. Considering the above, we would project OUE C-REIT's revenue based on the GDP forecast for Singapore by IMF. As a result, the projected revenue for OUE C-REIT for FY2024 would be S$273.1 million as shown in **Exhibit 40**.

Exhibit 40: Projected Total Revenue for FY2023 and FY2024

S$'000	Actual		Forecast		
	FY2021	FY2022	FY2023	FY2024	yoy change
Revenue					
Commercial	182,384	173,137	191,922	196,720	2.50%
Hospitality	67,500	68,370	74,523	76,386	2.50%
Total revenue	**249,884**	**241,507**	**266,445**	**273,106**	**2.50%**

Source: OUE C-REIT, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2023 and FY2024, we will now estimate OUE C-REIT's earnings for these periods.

Net Property Income

For our net property income (NPI) projections, we will consider OUE C-REIT's historical NPI margins. With reference to **Exhibit 41**, we note that OUE C-REIT's NPI margins remained relatively stable at 82% over the last 2 years. For FY2023 and FY2024, we would assume the same NPI margin of 82% as in FY2021 and FY2022. Accordingly, the projected NPI for FY2023 and FY2024 would be S$217.2 million and S$222.7 million respectively, as shown in **Exhibit 41**.

Exhibit 41: Projected Net Property Income for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Revenue	249,884	241,507	266,445	273,106
Property operating expenses	(45,679)	(44,592)	(49,197)	(50,427)
Net property income	**204,205**	**196,915**	**217,249**	**222,680**
Net property income margin	82%	82%	82%	82%

Source: OUE C-REIT, FPA Financial

Other Income

We note that the other income is related to the income support receivable by OUE C-REIT relating to OUE Downtown Office, which were recognised over time as the service is provided. Considering that the income support was fully drawn down, we would assume the other income for FY2023 and FY2024 to be zero as shown in **Exhibit 42**.

Exhibit 42: Projected Other Income for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Other income	15,194	8,766	-	-

Source: OUE C-REIT, FPA Financial

Amortisation Of Intangible Assets

Intangible asset represents the unamortised income support receivable by OUE C-REIT relating to OUE Downtown Office. As the income support has been fully drawn down in 2H2022, the remaining balance of the intangible asset has been written off as at 31 December 2022. Considering the above, we would assume the amortisation and write off of intangible assets for FY2023 and FY2024 to be zero as shown in **Exhibit 43**.

Exhibit 43: Projected Amortisation of Intangible Assets for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Amortisation of intangible assets	(5,000)	(3,750)	-	-
Write-off of intangible asset	-	(5,417)	-	-

Source: OUE C-REIT, FPA Financial

Manager's Management and Performance Fees

The Manager's base management fee is calculated as 0.3% p.a. of the value of the deposited properties of OUE C-REIT. As OUE C-REIT has not released any plans or announcement of any potential acquisition or divestment, for FY2023 and FY2024, we will assume the deposited properties of OUE C-REIT to be S$5,989.1 million, which the total assets of OUE C-REIT as at 31 December 2022.

Given the deposited properties of OUE C-REIT to be S$5,989.1 million the projected Manager's base management fee would be as follows:

- Projected Manager's base management fee for FY2023 = 0.3% x S$5,989.1 million = S$18.0 million

- Projected Manager's base management fee for FY2024 = 0.3% x S$5,989.1 million = S$18.0 million

The Manager's performance fee is payable if the DPU in any financial year exceeds the DPU in the preceding financial year. A performance fee of 25% per annum of the difference in DPU in a financial year with the DPU in the preceding full financial year (calculated before accounting for the performance fee but after accounting for the base fee in each financial year) multiplied by the weighted average number of Units in issue for such financial year. We note from OUE C-REIT that, for the purposes of the calculation of performance fees, the DPU has been adjusted for the impact of any management fees paid in units.

Considering the above, as we are projecting a higher DPU for FY2023 and FY2024, we would assume the Manager's performance fee of S$2.2 million recorded in FY2021 for FY2023 and FY2024.

The summary of the Manager's management and performance fees is shown in **Exhibit 44**.

Exhibit 44: Projected Manager's Management and Performance Fees for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Manager's management fees	(16,075)	(15,756)	(17,967)	(17,967)
Manager's performance fees	(2,174)	-	(2,174)	(2,174)

Source: OUE C-REIT, FPA Financial

Divestment Cost

As shown in **Exhibit 1** on page 4, the divestment cost of S$7.4 million in FY2021 relates to costs incurred in relation to the divestment of the 50% interest in OUE Bayfront. As OUE C-REIT has not released any plans or announcements of any divestment and we are not projecting any divestment for FY2023 and FY2024, we would assume the divestment cost to be zero for FY2023 and FY2024.

Trustee's Fee

The Trustee's fee is presently charged at a scaled basis of up to 0.02% per annum of the value of the Deposited Property. Similar to the projections for Manager's fee, we will assume the deposited properties of OUE C-REIT to be S$5,989.1 million for both FY2023 and FY2024, which the total assets of OUE C-REIT as at 31 December 2024.

Accordingly, the projected Trustee's fees for FY2022 and FY2023 would be as follows:

- Projected Trustee's fee for FY2022 = 0.02% x S$5,989.1million = S$1.2 million

- Projected Trustee's fee for FY2023 = 0.02% x S$5,989.1 million = S$1.2 million

Other Expenses

Other expenses include legal, professional & other fees associated with OUE C-REIT's operations and amounted to S$2.8 million in FY2022 compared to S$2.7 million in FY2021. For FY2022 we would assume the same other expense as in FY2022 of S$2.8 million. We will further assume this figure for FY2023 as shown in **Exhibit 45**.

Exhibit 45: Projected Other Expense for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Other expenses	(2,674)	(2,755)	(2,755)	(2,755)

Source: OUE C-REIT, FPA Financial

Net Finance Cost

As shown in **Exhibit 4** on page 6, OUE C-REIT total borrowings were S$2,321 million and the weighted average cost of debt for FY2022 was 3.4% pa. In addition, we also note that approximately 71.5% of its total debt is on a fixed rate basis. Further, as shown in **Exhibit 5** on page 7, only S$273 million of the total debt is set to mature in the next two years. However, we note that as at 31 December 2022, OUE C-REIT cash and cash equivalents amounted to S$49.5 million. Hence, we believe that OUE C-REIT is likely to refinance their debt of S$273 million when it matures in FY2023. Considering the above, the estimated total borrowings for FY2023 and FY2024 would remain at S$2,321 million.

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for 2022 was 2.75% while the average 10-year bond yield for the first 3 months of 2023 was 3.05%. The average Singapore's SGS 10-year bond yield for the first 3 months of 2023 increased by 0.30 percentage points (ppts) = [3.05% (FY2023) – 2.75% (FY2022)] versus the average yield for 2022 as shown in **Exhibit 46**.

Exhibit 46: Singapore SGS 10-Year Bond Yield

FY2022	10-year bond yield (%)	FY2023	10-year bond yield (%)
Jan-22	1.77%	Jan-23	2.97%
Feb-22	1.90%	Feb-23	3.34%
Mar-22	2.34%	Mar-23 (1)	2.83%
Apr-22	2.53%		
May-22	2.71%		
Jun-22	2.98%		
Jul-22	2.66%		
Aug-22	2.98%		
Sep-22	3.48%		
Oct-22	3.43%		
Nov-22	3.07%		
Dec-22	3.09%		
Average	**2.75%**	**Average**	**3.05%**

(1) As at 20 March 2023

Source: MAS, FPA Financial

Considering that the SGS 10-year bond yield increased by 0.30ppts in the first 3 months of 2023 from 2022, we would assume the increase in SGS 10-year bond yield as a proxy for the increase in effective interest rate for FY2023 (variable rate debt). Accordingly, the effective interest rate (variable rate) for FY2023 would be 3.70% =[3.40% (FY2022) +0.30%]. For FY2024, while there is a possibility of a potential slowdown in both economic growth and the rate of increase of interest rate, we would be conservative and assume the effective interest rate to increase by another 0.30 ppts in FY2024. Accordingly, the effective interest rate for FY2023 would be 4.00% =[3.70% (projected FY2023) +0.30%].

Accordingly, the projected interest paid/ payable to banks for FY2023 and FY2024 would be S$80.9 million and S$82.9 million respectively as shown in **Exhibit 47**.

Exhibit 47: Projected Interest Paid/Payable to Banks for FY2023 and FY2024

S$'000	Total debt	Fixed rate debt (71.5%)	Float rate debt (28.5%)	Fixed cost of debt (%)	Variable cost of debt (%)	Period (months)	Finance cost		
							Fixed	Variable	Total
FY2023	2,321,000	1,659,515	661,485	3.40%	3.70%	12	56,424	24,486	80,909
FY2024	2,321,000	1,659,515	661,485	3.40%	4.00%	12	56,424	26,481	82,905

Source: OUE C-REIT, FPA Financial

For finance income, we note that OUEC-REIT recorded interest income of S$1.0 million and cash and cash equivalents of S$49.5 million. Considering the above, the effective finance income interest rate would be 2.00% =[S$1.0 million (interest income FY2022) / S$49.5 million (cash and cash equivalents)]. Given that we assumed the variable cost of debt to increase by 0.30 ppts in FY2023 and FY2024, we would assume the effective finance income interest rate to increase by 0.30 ppts in both FY2023 and FY2024. Accordingly, the effective finance income interest rate for FY2023 would be 2.30% =[2.00% (FY2022) +0.30%] and for FY2024 would be 2.60% =[2.30% (FY2023) + 0.30%].

As a result, assuming the cash and cash equivalents remain unchanged at S$49.5 million the projected interest income for FY2023 and FY2024 would be S$1.1 million and S$1.3 million respectively as follows:

- Finance income for FY2023 = 2.30% (projected finance income interest rate for FY2023) x S$49.5 million (cash and cash equivalents) = S$1.1 million

- Finance income for FY2024 = 2.60% (projected finance income interest rate for FY2024) x S$49.5 million (cash and cash equivalents) = S$1.3 million

Meanwhile, we would assume the ineffective portion of changes in fair value of cash flow hedges, net change in fair value of derivatives and financial liability measured at amortised cost – interest expense to remain the same as recorded in FY2022. For hedging reserve transferred from unitholders' funds due to discontinuation of hedge accounting and net foreign exchange gain/loss which will be recorded as income and cost depending on the market conditions, we would assume it to be zero for both FY2023 and FY2024. Consequently, the net finance cost for FY2022 and FY2023 would be S$76.7 million and S$78.5 million respectively as shown in **Exhibit 48**.

Exhibit 48: Projected Net Finance Cost for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Finance income				
Interest income	1,044	988	1,136	1,285
Ineffective portion of changes in fair value of cash flow hedges	1,364	2,177	2,177	2,177
Net change in fair value of derivatives	1,756	1,778	1,778	1,778
Hedging reserve transferred from unitholders' funds due to discontinuation of hedge accounting	-	22,058	-	-
Net foreign exchange gains	230	-	-	-
Finance cost				
Amortisation of debt-related transaction costs and Interest paid/payable to banks	(73,420)	(80,948)	(80,909)	(82,905)
Hedging reserve transferred from unitholders' funds due to discontinuation of hedge accounting	(1,892)	-	-	-
Net foreign exchange loss	-	(149)	-	-
Financial liability measured at amortised cost – interest expense	(875)	(870)	(870)	(870)
Net finance cost	**(71,793)**	**(54,966)**	**(76,688)**	**(78,535)**

Source: OUE C-REIT, FPA Financial

Share Of Joint Venture Results

As noted on page 3, share of joint venture results of S$37.1 million represents the net income contribution from OUE Bayfront based on OUE C-REIT's 50.0% interest in BPH Propco LLP upon completion of sale of 50% interest in OUE Bayfront on 31 March 2021.

Considering the positive outlook for Singapore office industry, we would assume a 2.50% yoy increase in share of joint venture results for FY2023. This is inline with the projected growth in rental for OUE C-REIT's Singapore Office properties. Further, as we are projecting another 2.50% yoy increase in total revenue for FY2024, we would also assume another 2.50% yoy increase in share of joint venture results for FY2024. Accordingly, the projected share of joint venture results for FY2023 and FY2024 would amount to S$38.0 million and S$39.0 million as follows:

- Share of joint venture results for FY2023 = [(S$37.1 million (FY2022 actual) x 102.50%] = S$38.0 million

- Share of joint venture results for FY2024 = [(S$38.0 million (projected for FY2023) x 102.50%] = S$39.0 million

The summary of the share of joint venture results for FY2023 and FY2024 is shown in **Exhibit 49**.

Exhibit 49: Projected Share of Joint Venture Results for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Share of joint venture results	13,236	37,108	38,036	38,987

Source: OUE C-REIT, FPA Financial

Net Change In Fair Value Of Investment Properties

As noted on page 4, the increase in fair value loss on investment properties in FY2021 was mainly due to fair value gain on investment properties. For FY2023 and FY2024, we would assume net change in fair value of investment properties to be zero

Total Return/ (Loss) For The Period/Year Before Tax

Given the above projections, we estimate a total return before tax of S$154.5 million in FY2023 and S$159.0 million in FY2024 as shown in **Exhibit 50** on the next page.

Exhibit 50: Projected Total Return for FY2023 and FY2024 Before Tax

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Revenue				
Commercial	182,384	173,137	191,922	196,720
Hospitality	67,500	68,370	74,523	76,386
Total revenue	249,884	241,507	266,445	273,106
Property operating expenses	(45,679)	(44,592)	(49,197)	(50,427)
Net property income	**204,205**	**196,915**	**217,249**	**222,680**
Other income	15,194	8,766	-	-
Amortisation of intangible assets	(5,000)	(3,750)	-	-
Write-off of intangible asset	-	(5,417)	-	-
Manager's management fees	(16,075)	(15,756)	(17,967)	(17,967)
Manager's performance fees	(2,174)	-	(2,174)	(2,174)
Divestment cost	(7,363)	-	-	-
Trustee's fee	(1,304)	(998)	(1,198)	(1,198)
Other expenses	(2,674)	(2,755)	(2,755)	(2,755)
Finance income	4,164	27,001	5,091	5,240
Finance cost	(76,187)	(81,818)	(81,779)	(83,775)
Net finance cost	(72,023)	(54,817)	(76,688)	(78,535)
Foreign exchange differences	230	(149)	-	-
Net income	**113,016**	**122,039**	**116,466**	**120,051**
Share of joint venture results	13,236	37,108	38,036	38,987
Net change in fair value of investment properties	(56,284)	139,727	-	-
Total return/ (loss) for the period/year before tax	**69,968**	**298,874**	**154,502**	**159,037**

Source: OUE C-REIT, FPA Financial

Tax Expense

We note from OUE C-REIT that the tax expense pertains only to the income from OUB Centre (the company which holds 81.54% interest in One Raffles Place), as well as tax on the income from Lippo Plaza in China. The other properties which include OUE Bayfront, OUE Downtown, Mandarin Gallery, Lippo Plaza, Hilton Singapore Orchard and Crowne Plaza Changi Airport are held under the trust/sub-trust structures which enjoy tax transparency and are not subjected to tax.

Given the above, as we do not have sufficient information to appropriately estimate the effective tax rate, we would use the proportion of OUE C-REIT's FY2022's tax expense over its total return for the period. As we are not projecting any net change in fair value of investment properties in FY2023 and FY2024, we would also adjust FY2022's total return for the period before accounting for net change in fair value of investment properties as shown in **Exhibit 51**.

Exhibit 51: Adjusted Total Return for FY2022

S$'000	FY2022	
	Actual	Adjusted
Net income	122,039	122,039
Share of joint venture results	37,108	37,108
Net change in fair value of investment properties	139,727	-
Total return for the period/year before tax	**298,874**	**159,147**

Source: OUE C-REIT, FPA Financial

With reference to **Exhibit 52**, based on the adjusted total return for FY2022 of S$159.1 million and the tax expense of S$11.2 million, the effective tax rate amounted to 7.0%.

Hence, we would assume the effective tax rate of 7.0% for our tax expense projections for FY2023 and FY2024. Accordingly, the projected tax expense for FY2023 and FY2024 would be S$10.9 million and S$11.2 million respectively as follows:

- Projected tax expense for FY2023 = [7.0% x S$154.5 million] = S$10.9 million

- Projected tax expense for FY2024 = [7.0% x S$159.0 million] = S$11.2 million

Exhibit 52: Projected Tax Expense for FY2023 and FY2024

S$'000	Adjusted	Forecast	
	FY2022	FY2023	FY2024
Total return for the period/year before tax	159,147	154,502	159,037
Tax expense	(11,191)	(10,864)	(11,183)
Effective tax rate	7.0%	7.0%	7.0%

Source: FPA Financial

Total Return/ (Loss) For The Period / Year

Adjusting for tax expense, the projected total return for the year for FY2023 and FY2024 would be S$143.6 million and S$147.9 million respectively. We note that return attributable to non-controlling interest (NCI) for FY2022 of S$12.1 million was due to the 16.67% ownership interest held by NCI of OUB Centre Limited. As we are expecting an improvement in revenue for One Raffles Place, we would assume a 2.50% yoy increase for FY2023 and another 2.50% yoy increase for FY2024.

Hence, return attributable to non-controlling interest for FY2023 would be S$12.4 million = [S$12.1 million (FY2022 actual) x 102.50%] and S$12.7 million for FY2024 = [S$12.4 million (FY2023 projected) x 102.50%]. Accordingly, profit attributable to unitholders and CPPU holder would amount to S$131.2 million and S$135.1 million for FY2023 and FY2024 respectively, as shown in **Exhibit 53**.

Exhibit 53: Projected Total Return for the Year for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Revenue				
Commercial	182,384	173,137	191,922	196,720
Hospitality	67,500	68,370	74,523	76,386
Total revenue	249,884	241,507	266,445	273,106
Property operating expenses	(45,679)	(44,592)	(49,197)	(50,427)
Net property income	**204,205**	**196,915**	**217,249**	**222,680**
Other income	15,194	8,766	-	-
Amortisation of intangible assets	(5,000)	(3,750)	-	-
Write-off of intangible asset	-	(5,417)	-	-
Manager's management fees	(16,075)	(15,756)	(17,967)	(17,967)
Manager's performance fees	(2,174)	-	(2,174)	(2,174)
Divestment cost	(7,363)	-	-	-
Trustee's fee	(1,304)	(998)	(1,198)	(1,198)
Other expenses	(2,674)	(2,755)	(2,755)	(2,755)
Finance income	4,164	27,001	5,091	5,240
Finance cost	(76,187)	(81,818)	(81,779)	(83,775)
Net finance cost	(72,023)	(54,817)	(76,688)	(78,535)
Foreign exchange differences	230	(149)	-	-
Net income	**113,016**	**122,039**	**116,466**	**120,051**
Share of joint venture results	13,236	37,108	38,036	38,987
Net change in fair value of investment properties	(56,284)	139,727	-	-
Total return/ (loss) for the period/year before tax	**69,968**	**298,874**	**154,502**	**159,037**
Tax (expense)/ credit	(14,061)	(11,191)	(10,864)	(11,183)
Total return/ (loss) for the period / year	**55,907**	**287,683**	**143,638**	**147,854**
Attributable to:				
Unitholders and CPPU holder	38,876	275,574	131,226	135,132
Non-controlling interests	17,031	12,109	12,412	12,722

Source: OUE C-REIT, FPA Financial

Earnings Per Unit

In October 2015, OUE C-REIT issued 550 million Convertible Perpetual Preferred Units (CPPU) at $1 per Unit to Clifford Development Pte. Ltd. (a subsidiary of OUE Limited), as part payment of the purchase consideration to OUE Limited for OUE C-REIT's acquisition of an 83.33% indirect interest in OUB Centre Limited which owns 81.54% of the beneficial interest in One Raffles Place. The CPPU holder has the right to receive preferential non-cumulative distribution of an amount equivalent to 1.0% per annum of the issue price which may be declared by the Manager at its sole discretion.

We note that on 2 November 2017, 2 January 2018 and 1 June 2021, there was a partial redemption of 75.0 million, 100.0 million and 155.0 million CPPUs. After the 3 redemptions of a total of 330.0 million CPPUs =[75.0 million + 100.0 million + 155.0 million], a total number of 220.0 million CPPUs remain outstanding.

Given the above, assuming that there is no further redemption of CPPUs, the amount reserved for distribution to CPPU holder would amount to S$2.2 million = [220.0 million (CPPUs) x 1.0% (preferential non-cumulative distribution)]

Accordingly, the total return attributable to unitholders for FY2023 and FY2024 would be S$129.0 million and S$132.9 million as shown in **Exhibit 54**. Assuming the latest number of units in issue as at FY2022 for our FY2023 and FY2024 projections, taking into consideration the return attributable to unitholders, we projected an earnings per unit of 2.36 cents for FY2023 and 2.43 cents for FY2024 as shown in **Exhibit 54**.

Exhibit 54: Projected Earnings Per Unit for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Earnings per unit (cents)				
Total return/ (loss) attributable to Unitholders and CPPU holder	38,876	275,574	131,226	135,132
Less: Amount reserved for distribution to CPPU holder	(2,582)	(2,200)	(2,200)	(2,200)
Total return attributable to Unitholders	36,294	273,374	129,026	132,932
Weighted average number of Units during the period/year	5,435,597	5,457,206	5,470,950	5,470,950
Earnings per unit (cents)	**0.67**	**5.01**	**2.36**	**2.43**

Source: OUE C-REIT, FPA Financial

(III) Distributions Projection

With our projected total return for the year after tax, we would now estimate OUE C-REIT's amount available for distribution for the current period/ year. Following the distribution adjustment as shown in **Exhibit 56**, the projected income available for distribution would be S$122.3 million and S$126.2 million for FY2023 and FY2024 respectively.

As mentioned on page 5, in FY2022, OUE C-REIT released $4.6 million capital distribution from divestment of OUE Bayfront. In FY2021, OUE C-REIT released $5.4 million capital distribution from divestment of OUE Bayfront and balance $5.0 million from the $10.8 million of tax-exempt income and capital distribution retained in FY2020. For FY2023 and FY2024, we would assume the amount released/ (retained) to be zero. Accordingly, assuming the latest available number of Units entitled to distribution in FY2022 for FY2023 and FY2024, the projected distribution per unit would be 2.23 cents and 2.31 cents respectively, as shown in **Exhibit 55**.

Exhibit 55: Projected Distribution for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Total (loss)/return for the period/year attributable to Unitholders and CPPU holder	**38,876**	**275,574**	**131,226**	**135,132**
Less: Amount reserved for distribution to CPPU holder	(2,582)	(2,200)	(2,200)	(2,200)
Less: Amount retained for working capital requirements	(6,000)	(6,000)	(6,000)	(6,000)
Distribution adjustments				
Net change in fair value of investment properties	56,284	(139,727)	-	-
Amortisation of intangible assets	5,000	3,750	-	-
Write-off of intangible asset	-	5,417		
Amortisation of debt establishment costs	10,339	14,740	14,740	14,740
Ineffective portion of changes in fair value of cash flow hedges	(1,364)	(2,177)	(2,177)	(2,177)
Net change in fair value of financial derivatives	(1,756)	(1,778)	(1,778)	(1,778)
Hedging reserve transferred from unitholders' funds due to discontinuation of hedge accounting	1,892	(22,058)	-	-
Manager's management fees paid/payable in Units	9,124	7,878	8,984	8,984
Trustee's fee	1,304	998	1,198	1,198
Foreign exchange differences	(230)	149	-	-
Deferred tax expense/(credit)	1,375	(1,222)	-	-
Straight-lining of lease incentives	2,044	(1,986)	(1,986)	(1,986)
Transfer to statutory reserve	(1,236)	(1,207)	(1,207)	(1,207)
Other items	18,562	(18,525)	(18,525)	(18,525)
Amount available for distribution for the current period/year	**131,632**	**111,626**	**122,275**	**126,180**
Add/(Less): Amount released/(retained)	10,400	4,600	-	-
Amount to be distributed to Unitholders	142,032	116,226	122,275	126,180
No of Units entitled to distribution	5,449,684,538	5,470,950,000	5,470,950,000	5,470,950,000
Distribution per Unit (cents)	**2.60**	**2.12**	**2.23**	**2.31**

Source: OUE C-REIT, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how OUE C-REIT is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to OUE C-REIT in terms of industry and business operations and did a comparison by considering the peer's P/E, P/B and distribution yield as shown in **Exhibit 56**. OUE CREIT is a REIT with exposure to both the commercial and hospitality industry. We believe that OUE C-REIT does not have any direct peer company given its portfolio of both commercial and hospitality properties. Considering the above, we selected Singapore listed REITs with similar market capitalisation and has exposure to Singapore properties in the commercial and/or hospitality industry.

Exhibit 56: Peer Comparison

Company	Stock code	Price ($) as at 30 March 2023	Market cap (S$ million)	EPU [1] (cents)	P/E (x)	DPU [1] (cents)	Distribution yield (%)	NAV per share [2] (S$)	P/B (x)
OUE Commercial REIT	TS0U	0.315	1,723.35	5.01	6.29	2.12	6.73	0.59	0.53
Peer companies:									
Keppel REIT	K71U	0.870	3,255.73	10.89	7.99	5.92	6.80	1.37	0.64
Suntec Real Estate Investment Trust	T82U	1.420	4,099.09	16.12	8.81	8.88	6.26	2.12	0.67
Lendlease Global Commercial REIT	JYEU	0.680	1,555.15	8.16	8.33	4.90	7.21	0.78	0.87
Far East Hospitality Trust	Q5T	0.580	1,156.89	10.24	5.66	3.27	5.64	0.90	0.64
Peer average	-	-	-	-	**7.70**	-	**6.48**	-	**0.70**

Figures have been rounded

(1) Trailing 12-month data

(2) NAV as at 31 Dec 22

Source: Respective company data, FPA Financial

(a) P/B Multiple

Based on the results in **Exhibit 56**, we note that OUE C-REIT is currently trading at a P/B multiple of 0.53x, which is lower than the peer average P/B of 0.70x, which may suggest that it is undervalued at the current share price of S$0.315. Adopting a relative valuation approach, we estimate a target price of S$0.413 if OUE C-REIT were to trade at the peer average P/B multiple of 0.70x as follows:

- Estimated target price = [peer average P/B] x [OUE C-REIT's NAV per unit] = 0.70 x S$0.59 = S$0.413

The estimated target price of S$0.413 would imply an upside potential of 31.11% from the current price of S$0.315.

(b) P/E Multiple

Based on the results in **Exhibit 56** above, we note that OUE C-REIT is currently trading at a P/E multiple of 6.29x, which is lower than the peer average P/E of 7.70x, which may suggest that it is undervalued at the current share price of S$0.315. Adopting a relative valuation approach, we estimate a target price of S$0.386 if OUE C-REIT were to trade at the peer average P/B multiple of 7.70x as follows:

- Estimated target price = [peer average P/E] x [OUE C-REIT's EPS] = 7.70 x S$0.0501 = S$0.386

The estimated target price of S$0.386 would imply an upside potential of 22.54% from the current price of S$0.315.

(c) Distribution Yield

Furthermore, based on the results in **Exhibit 56** on the previous page, we note that OUE C-REIT's distribution yield of 6.73% is relatively more attractive than the peer average distribution yield of 6.48%. Adopting a relative valuation approach, we estimate a target price of S$0.327 as follows:

- Estimated target price = [(OUE C-REIT's distribution yield/ peer average distribution yield) x OUE C-REIT's current price] = (6.73% / 6.48%) x S$0.315 = S$0.327

The estimated target price of S$0.327 would imply an upside potential of 3.81% from the current price of S$0.315.

(d) Estimated target price

Considering the above, OUE C-REIT is currently undervalued compared to its peers in terms of P/B and P/E. In addition, OUE C-REIT is also relatively attractive in terms of distribution yield. Adopting a relative valuation approach, we estimate a target price of S$0.413, S$0.386 and S$0.327 based on the peer average P/B, P/E and distribution yield comparison analysis respectively. By taking the average of our estimated target price, we derived a target price of S$0.375 as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from P/E analysis) + Estimated target price from distribution yield analysis / 3] = (S$0.413 + S$0.386 + S$0.327) / 3 = S$0.375

The estimated target price of S$0.375 would imply an upside potential of 19.05% from the current price of S$0.315.

INVESTMENT RECOMMENDATION

Based on OUE C-REIT's reported book value of S$0.59 as at 31 December 2022, it currently has a P/B of 0.53x and is trading at a discount of approximately 47% to NAV. While we note that other comparable real estate companies are also trading at, or discount to NAV, our peer comparison results suggest that OUE C-REIT is trading at a steeper discount. OUE C-REIT's current PB of 0.53x is lower compared to the peer average PB of 0.70x. We adopted a relative valuation approach to derive an estimated target price of S$0.413 if OUE C-REIT were to trade at its peer average P/B of 0.70x.

At the same time, based on OUE C-REIT's trailing 12 months earnings of 5.01 cents as at 31 December 2022, it currently has a P/E of 6.29x. Our peer comparison analysis results show that OUE C-REIT's P/E of 6.29x is lower than the peer average P/E of 7.70x, which suggest that it could be undervalued. We adopted a relative valuation approach to derive an estimated target price of S$0.386 if OUE C-REIT were to trade at its peer average P/E of 7.70x

Our peer comparison analysis results also show that OUE C-REIT's distribution yield of 6.73% is relatively more attractive than the peer average distribution yield of 6.48%. Adopting a relative valuation approach, we estimated a target price of S$0.327.

Considering the potential recovery in rentals and the strong growth momentum in the tourism sector, we are expecting an improvement in OUE C-REIT's revenue, earnings & distribution for FY2023 and FY2024. Further, the reopening of the Orchard Wing of Hilton Singapore Orchard could also underpin revenue and profit growth. This could provide some upside potential for OUE C-REIT. Accordingly, by calculating the average of our estimated target price based on the P/B, P/E and distribution yield peer comparison analysis, we derived a target price of S$0.375 = [(S$0.413 + S$0.386 + S$0.327) / 3].

Considering the above, we will maintain our buy recommendation on OUE C-REIT. Our target price of S$0.375 implies a potential upside of 19.05% from the current share price of S$0.315 However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside to OUE C-REIT's target price.

(I) Weak Global Economic Recovery

Global growth is slowing sharply in the face of elevated inflation, higher interest rates, bank stresses, concerns over earnings and geopolitical risks. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. In its latest World Economic Outlook, the International Monetary Fund (IMF) projects the global economy to grow by 2.7% in 2023. For 2024, IMF projects the global economy to grow by 3.2%.

Given fragile economic conditions, any new adverse development—such as higher-than-expected inflation, abrupt rises in interest rates to contain it, a resurgence of the COVID-19 pandemic, or escalating geopolitical tensions—could push the global economy into recession. Given this, it is possible that inflation will rise even more, global growth will continue to slow down, and this will hinder the recovery of the world economy. This could weigh on consumer, business & tourist spending which will negatively affect the performance of OUE C-REIT's earnings going forward.

(II) Currency Risk

We note that OUE C-REIT has exposure to foreign exchange risk with respect to its investments, distribution income and interest income from its foreign subsidiaries. There is a possibility that Singapore Dollar (SGD) could strengthen. Hence, a stronger SGD could have a negative impact on OUE C-REIT's earnings due to currency exchange losses.

In order to manage the currency risk involved in investing in assets outside Singapore, OUE C-REIT adopts the currency risk management strategies that may include: the use of foreign currency denominated borrowings to match the currency of the asset investment as a natural currency hedge; and entering into currency forward contracts to hedge the foreign currency income received from its foreign subsidiaries, back into Singapore Dollars.

(III) Financing Risk

It was recently reported that Lippo Malls Indonesia Retail Trust (LMIRT) would not be paying a distribution to holders of its S$140 million perpetual securities issued in September 2016. The manager added that it has no obligation to pay the March 2023 distribution and that the unpaid sum is noncumulative and does not accrue in distribution. Unit holders of LMIRT, as well as those who bought its June 2017 perpetual securities worth S$120 million, are also at risk of not receiving any payments from the issuer. We also noted that prior to the announcement, both Moody and Fitch downgraded their ratings for the issuer, citing its refinancing risk.

As noted on page 29, Lippo Limited has a deemed interest of 71.08% in OUE Group. OUE Group, the sponsor, holds 48.30% share interest in OUE C-REIT. There is a possibility that this may weigh on the sentiment of the investors. In addition, it might also affect the coupon rate in which OUE C-REIT has to offer, to compensate the higher risk, should it consider issuing a new bond. Lastly, it might also make it harder for OUE C-REIT to refinance its loans and may potentially negatively affect its share price.

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