REAL ESTATE EQUITY RESEARCH

PARAGON REIT

SGX: SK6U
Bloomberg: PARAGONREIT:SP
ISIN code: SG2G02994595

Country: Singapore
Industry: Real Estate, Commercial REITs

16 March 2023
RECOMMENDATION: NEUTRAL

Current price: S$0.960
Target price: S$1.000
Issued units: 2,810.85 million (31 Dec 22)
Market capitalisation: S$2,698.42 million

52-week range: S$0.790 - S$1.000

PRICE PERFORMANCE

COMPANY DESCRIPTION

With effect from 3 January 2023, SPH REIT has officially been renamed Paragon Real Estate Investment Trust (collectively defined herein as Paragon REIT). Paragon REIT is a Singapore-based retail real estate investment trust. Paragon REIT primarily invests in a portfolio of income-producing real estate, which is used primarily for retail purposes in Asia Pacific, as well as real estate-related assets. Paragon REIT's portfolio consists of five commercial properties, which include Paragon, The Clementi Mall and The Rail Mall located in Singapore; Westfield Marion Shopping Centre and Figtree Grove Shopping Centre located in Australia.

SUMMARY

For the 16 months ended 31 December 2022 (FY2022), Paragon REIT recorded 1.8% yoy increase in gross revenue to S$376.4 million from S$369.8 million over the same period a year ago. The increase was mainly due to strong recovery in tenant sales to near pre-Covid levels. Property operating expense decreased by 2.3% yoy to S$96.5 million in FY2022 from S$98.7 million in FY2021. Accordingly, Paragon REIT recorded a 3.3% yoy increase in net property income of S$279.9 million in FY2022 compared to S$271.1 million the same period a year ago. During this period, Paragon REIT reported total return after taxes and before distribution of S$243.5 million. Consequently, total return attributable to unitholders amounted to S$225.6 million, translating to an earning per unit of 8.02 cents. Meanwhile, with higher total return attributable to unitholders, amount distributed to unitholders increased by 9.9% yoy to S$203.2 million in FY2022 from S$184.9 million in FY2021. This led to a distribution per unit of 7.24 cents for FY2022.

RECOMMENDATION

Based on Paragon REIT's reported NAV per unit of S$0.91 and 12 months trailing earning per unit of 5.26 cents, Paragon REIT has a P/B multiple of 1.05x and P/E multiple of 18.25x, which is higher than its peer average P/B of 0.83x and P/E of 14.07x respectively. In addition, we note that Paragon REIT's distribution yield of 6.25% is relatively less attractive than the peer average distribution yield of 6.41%. However, based on the current market environment, Paragon REIT's latest financial results and our projections, we believe that there is upside potential to Paragon REIT's share price. Considering the above, we believe that it is possible that Paragon REIT will trade at its 52-week high of S$1.000. Accordingly, our target price of S$1.000 implies an upside potential of 4.17% from the current price of S$0.960. Considering the above, we believe a neutral recommendation is warranted on Paragon REIT.

KEY FINANCIALS

Year ended Dec 31	Revenue (S$ million)	Return [3] (S$ million)	EPU (cents)	P/E (x)	DPU (cents)	Distribution yield (%)	NAV per unit (S$)	P/B (x)
2021 actual [1]	277.2	137.3	4.93	19.47	5.40	5.6%	0.91	1.05
2022 actual [2]	376.4	225.6	8.02	11.97	7.24	7.5%	0.91	1.05
2023 forecast	290.3	133.7	4.73	20.30	5.58	5.8%	-	-
2024 forecast	297.4	138.3	4.89	19.62	5.75	6.0%	-	-

NM: not meaningful
Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.960
(1) Year ended Aug 31
(2) 16 months ended 31 December
(3) Attributable to Unitholders
Source: Paragon REIT, FPA Financial

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CONTENTS

FINANCIAL ANALYSIS

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

In our initiation report in August 2022, we noted that Paragon REIT announced that it is changing its financial year end from 31 August to 31 December. Therefore, the FY2022 financial year will be a 16-month period from 1 September 2021 to 31 December 2022. Thereafter, Paragon REIT's financial year will be a 12-month period ending on 31 December each year.

(I) Financial review

Review of Full Year 2022 Results (16 months)

For the 16-month period ended 31 December 2022 (FY2022), Paragon REIT recorded a gross revenue of S$376.4 million. This represents a 1.8% yoy increase from the S$369.8 million gross revenue recorded for the 16-month period ended 31 December 2021 (FY2021). With the easing of Covid-19 restrictions, Paragon REIT registered strong recovery in tenant sales to near pre-Covid levels. In Singapore, Covid-19 safe-distancing measures were substantially lifted in April 2022, which led to increased visitation and spending. Paragon REIT's portfolio in Singapore recorded a 24% increase both in tenant sales and footfall over. Australia largely ended its Covid-19 social distancing requirements in early 2022. PARAGON REIT's portfolio in Australia recorded a 7% increase in tenant sales

At the same time, property operating expense decreased by 2.3% yoy from S$98.7 million in FY2021 to S$96.5 million in FY2022. Consequently, net property income increased by 3.3% yoy from S$271.1 million in FY2021 to S$279.9 million in FY2022

For FY2022, Trust expenses increased by 30.4% mainly due to higher professional fees paid. Manager's management fees and Investment management fees remained relatively stable. Manager's management fees increased by 2.4% yoy to S$27.8 million and Investment management fees increased by 0.3% yoy to S$3.9 million. Impairment loss on trade receivables decreased by 83.2% yoy due to lower allowance for rental arrears and reliefs for Singapore and Australia properties. In addition, Paragon REIT recorded higher finance income and finance cost due to higher interest rates.

Accordingly, total return of S$243.5 million for FY2022 includes the fair value gain on investment properties of S$33.8 million. Investment properties recorded a fair value gain of S$34.9 million for Singapore and this was offset by a S$1.1 million loss mainly due to capital expenditure written down for investment properties in Australia. The fair value gain/loss has no impact on the income available for distribution. For the period, income tax expense of S$3.7 million was recorded compared to S$2.0 million a year ago. Total return attributable to unitholder of the Trust, perpetual securities holders and non-controlling interest amounted to S$225.6 million, S$16.4 million and S$1.5 million respectively. Accordingly, Paragon REIT reported an earnings per unit of 8.02 cents for FY2022.

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

Exhibit 1: Paragon REIT's FY2022 and FY2021 Financial Results

S$'000	16M Ended 31 December		
	FY2022	FY2021	y-o-y change
Gross revenue	376,411	369,769	1.8%
Property operating expenses	(96,482)	(98,708)	-2.3%
Net property income	**279,929**	**271,061**	3.3%
Net property income margin	*74.4%*	*73.3%*	*NM*
Manager's management fees	(27,971)	(27,314)	2.4%
Investment Management fees	(3,885)	(3,872)	0.3%
Trust expense	(3,684)	(2,825)	30.4%
Impairment loss on trade receivables	(732)	(4,370)	-83.2%
Finance income	1,181	359	229.0%
Finance cost	(35,562)	(31,263)	13.8%
Grant income	-	2,903	-
Grant expense	-	(2,903)	-
Net income	**209,276**	**201,776**	3.7%
Fair value change on investment properties	33,780	34,930	3.3%
Net foreign currency exchange differences	4,131	(747)	NM
Total return before taxes and distribution	**247,187**	**235,959**	5%
Less: income tax	(3,688)	(1,978)	86.5%
Total return after taxes and before distribution	**243,499**	**233,981**	4.1%
Attributable to:			
Unitholders of the Trust	225,602	215,043	4.9%
Perpetual securities holders	16,411	16,411	0.0%
non-controlling interests	1,486	2,527	-41.2%
Earnings per unit (cents)	**8.02**	**7.72**	**3.9%**

Source: Paragon REIT

Meanwhile, after accounting for amount reserved for distribution to perpetual securities holders and non-tax-deductible item, income available for distribution amounted to S$210.2 million for FY2022. Paragon REIT's distribution policy is to distribute at least 90% of its specified taxable income, comprising rental and other property related income from its business of property letting, interest income and top-up payments from income support and after deducting allowable expenses and applicable tax allowances. The actual level of distribution will be determined at the Manager's discretion, taking into consideration the Trust's capital management and funding requirements. Accordingly, the distribution to unitholders amounted to S$203.2 million in FY2022. Taking into consideration the total number of units in issue of 2,810,851,000, Paragon REIT's distribution per unit increased from 7.12 cents in FY2021 to 7.24 cents in FY2022 as shown in **Exhibit 2** on the next page.

Exhibit 2: Paragon REIT's FY2022 and FY2021 Statement of Distribution

S$'000	16M Ended 31 December		
	FY2022	FY2021	y-o-y change
Total return for the period attributable to Unitholders and perpetual securities holders	**242,013**	**231,454**	**4.6%**
Less: Amount reserved for distribution to perpetual securities holders	(16,411)	(16,411)	0.0%
Add: Non-tax deductible item	(15,418)	(12,155)	NM
Income available for distribution	210,184	202,888	3.6%
Add: Tax-exempt income	-	6,149	NM
Distributable income to unitholders	**210,184**	**209,037**	**0.5%**
Distribution to Unitholders	**203,157**	**198,362**	**2.4%**
Total number of units in issue	2,810,851	2,799,823	0.4%
Distribution per unit	**7.24**	**7.12**	**1.6%**

Source: Paragon REIT

(II) Capital Management

Review of Full Year Balance Sheet

Paragon REIT reported total assets of S$4,256.9 million as at 31 December 2022 compared to S$4,246.6 million as at 31 August 2021. The increase in total assets was mainly attributable to the increase in derivative financial instruments and cash & cash equivalents. At the same time, total liabilities decreased to S$1,377.8 million as at 31 December 2022 from S$1,398.7 million as at 31 August 2021 mainly due to lower derivative financial instruments and borrowings.

Consequently, Paragon REIT recorded total equity/ net assets of S$2,879.1 million as at 31 December 2022 compared to S$2,847.9 million as at 31 August 2021. Of which, the net assets represented by Unitholders' fund amounted to S$2,563.1 million as at 31 December 2022. Accordingly, Paragon REIT's net asset value (NAV) per unit stood at S$0.91 based on 2.810 billion units in issue. A summary of Paragon REIT's balance sheet as at 31 December 2022 and 31 August 2021 is shown in **Exhibit 3**.

Exhibit 3: Summary of Paragon REIT's Balance Sheet

S$'000	31-Dec-22	31-Aug-21
Total assets	4,256,892	4,246,565
Total liabilities	1,377,792	1,398,697
Total equity/ net assets	2,879,100	2,847,868
Net assets represented by Unitholders' fund	2,563,069	2,535,243
Units in issue ('000)	2,810,851	2,799,823
Net asset value per unit (S$)	0.91	0.91

Source: Paragon REIT

Borrowings

We note that Paragon REIT's net borrowings remained relatively unchanged from 31 August 2021 to 31 December 2022. Paragon REIT's secured term loan amounted to S$1.3 billion as at 31 December 2022 as shown in **Exhibit 4**. This consist of a term loan of S$995 million secured by way of a first legal mortgage on Paragon, a term loan of A$105 million secured by way of mortgage on Figtree Grove Shopping Centre and a term loan of A$200 million secured by way of mortgage on Paragon REIT's 50% interest in Westfield Marion Shopping Centre.

Exhibit 4: Paragon REIT's Net Borrowings as at 31 December 2022

S$'000	31-Dec-22	31-Aug-21
Amount repayable within one year	94,974	154,943
Amount repayable after one year	1,176,653	1,138,111
Net borrowings	**1,271,627**	**1,293,054**

Source: Paragon REIT

In respect of bank borrowings, where appropriate, Paragon REIT's policy is to manage its interest rate risk exposure by entering into fixed rate loan and/or interest rate swaps over the duration of its borrowing. Accordingly, Paragon REIT entered into interest rate swap contracts to swap floating rates for fixed interest rates as part of their interest rate risk management. Under the interest rate swaps, Paragon REIT agreed with other parties to pay/receive at specified intervals.

Gearing Ratio and Debt Maturity Profile

Paragon REIT's gearing ratio as computed by net debt divided by total assets, stood at approximately 29.8% as at 31 December 2022 compared to 30.3% as at 31 August 2021. A breakdown of Paragon REIT's total debt and gearing ratio is shown in **Exhibit 5**.

Exhibit 5: Paragon REIT's Gearing Ratio

S$'000	31-Dec-22	31-Aug-21
Net debt	1,271,627	1,293,054
Total assets	4,256,892	4,246,565
Gearing (1)	**29.8%**	**30.3%**

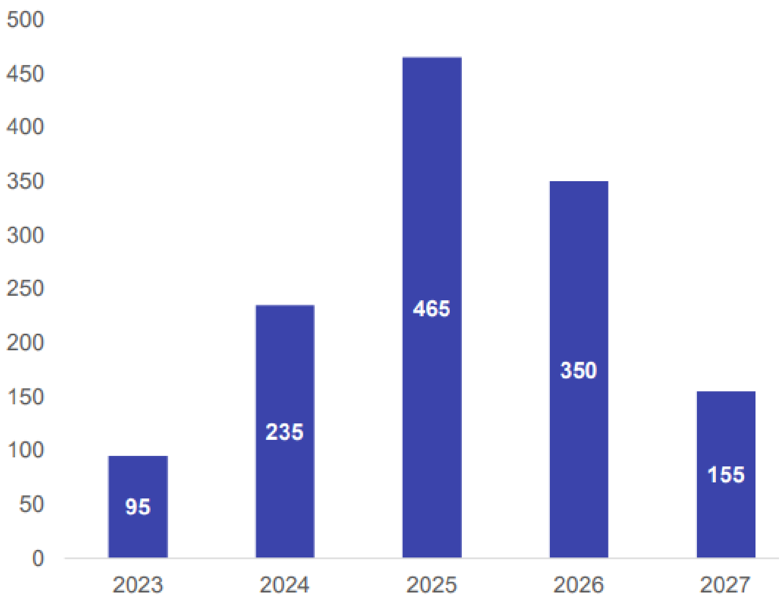
(1) Figures may differ due to rounding differences

Source: Paragon REIT

Further, approximately 16% of its debt is on a floating rate while 84% is on a fixed rate basis, which could help to mitigate the potential impact of interest rate fluctuations. The average cost of debt for FY2022 (16M) for Paragon REIT's debt was 2.05% per annum. In December 2022, Paragon REIT successfully completed various loan refinancings of approximately S$235 million. Effective interest rate as at 31 December 2022 was 3.09%. There is no major concentration of loans maturing in FY 2023, with only S$95 million or 7% of total debt, scheduled to be refinanced. The weighted average term to maturity of Paragon REIT's borrowings is 2.8 years.

The summary of Paragon REIT's debt maturity profile for its total debt is shown in **Exhibit 6**.

Exhibit 6: Paragon REIT's Debt Maturity Profile as at 31 December 2022



Gearing [1]	29.8%
Average Cost of Debt for 16M FY2022	2.05%
Effective Interest Rate as at 31 December 2022	3.09%
Weighted Average Term to Maturity	2.8 years
Floating rate % Fixed rate %	16% 84%
Interest Coverage Ratio [2]	6.8 times
Adjusted Interest Coverage Ratio [2] (includes perpetual securities)	4.7 times
Available Facilities	S$225m

Source: Paragon REIT

OPERATIONAL UPDATE

Since our last initiation report on 12 August 2022, there has been a few new developments announced by Paragon REIT. We will now provide an operational update on the development.

(I) SPH REIT Changes Name To Paragon REIT

On 29 December 2022, SPH REIT Management Pte. Ltd., in its capacity as the Manager of SPH REIT (the Trust), announced that it had obtained the approval of DBS Trustee Limited, in its capacity as Trustee of the Trust (the Trustee), to change the name of the Trust from “SPH REIT” to “PARAGON REIT” with effect from 3 January 2023.

The new name, Paragon REIT, is synonymous with quality and excellence, and better reflects the Trust’s vision and mission to capture unique opportunities in the Asia-Pacific retail landscape. The Trust has grown significantly from two Singapore assets at its initial public offering in July 2013, to five assets in Singapore and Australia, over almost a decade of listing. This is a key milestone which will be celebrated with the change in name.

Paragon REIT will continue to be led by the current management team, retain its investment mandate, and manage its existing portfolio of assets. The Trust will be bolstered by the deep real estate sector knowledge and strong relationships of the new Sponsor, Cuscaden Peak Investments Private Limited (formerly known as Singapore Press Holdings Private Limited) (the Sponsor), a wholly owned subsidiary of Cuscaden Peak Pte. Ltd., a consortium made up of three shareholders – Hotel Properties Limited, Mapletree Investments Pte. Ltd., and CLA Real Estate Holdings Pte. Ltd.

Comments From Key Management

Chairman of Paragon REIT, Dr Leong Horn Kee said: “Paragon – the pinnacle of excellence – is also the name of our crown jewel, Paragon Shopping Centre. We have always striven for excellence; to be a premier retail real estate investment trust in Singapore and Asia Pacific, with a portfolio of quality income-producing retail properties. Our change in name underscores our mission to be the landlord of choice, and to provide our Unitholders with sustainable long-term growth.”

CEO of Paragon REIT, Ms Susan Leng said: “Our new brand fully aligns with the excellence that we aim to achieve for all our stakeholders. This enhances our brand equity and positioning as we continue to evolve and grow the business. We have intentionally retained certain elements from our previous logo, such as the colours and typography, as a reminder of the practices and values which have contributed to our strong foundation and brought us success over the last 10 years of listing. This is an exciting new chapter, and we look forward to another decade and beyond of sustainable growth and maximising value for our stakeholders.”

(II) Changes to Key Management of the Company

On 15 August 2022, Paragon REIT Management Pte Ltd (manager of Paragon REIT) appointed Ms. Jennie Chua, Mr. Eugene Lai, and Mr. Gerald Yong to its Board with effect from 15 August 2022.

Ms. Jennie Chua is appointed as an Independent Director and will also be designated as the Deputy Chairman of the Board. She will serve as Chairman of the Nominating & Remuneration Committee, as well as a member of the Audit & Risk Committee.

Mr. Eugene Lai is appointed as the Lead Independent Director. He will serve as Chairman of the Audit & Risk Committee, as well as a member of the Nominating & Remuneration Committee.

Mr. Gerald Yong is appointed as a Non-Independent Director and will serve as a member of the Audit & Risk Committee, as well as a member of the Nominating & Remuneration Committee.

On the same day, Mr. Soon Tit Koon, current Chairman of the Audit & Risk Committee, and member of the Nominating & Remuneration Committee, will retire from the Board, having served more than nine years on the Board since the IPO of Paragon REIT. As Chairman of the Audit & Risk committee, Mr. Soon had helped oversee the internal controls, risk, and sustainability programmes of the company, and had contributed immensely to its strong foundation and steady growth since its IPO.

Considering the above, the summary of the new compositions of the Company's board committees is shown in **Exhibit 7**.

Exhibit 7: New Compositions Of The Company's Board Committees

Nominating & Remuneration Committee	Audit & Risk Committee
Ms Chua Kheng Yeng Jennie (Chairman)*	Mr Eugene Paul Lai Chin Look (Chairman)*
Dr Leong Horn Kee	Ms Chua Kheng Yeng Jennie*
Mr Eugene Paul Lai Chin Look*	Ms Hoo Sheau Farn*
Mrs Trina Loh nee Ng Soh Yong*	Mr Bernard Phang Sin Min*
Mr Raymond John Ferguson*	Mr Yong Choon Miao, Gerald
Mr Yong Choon Miao, Gerald	

* Independent Directors

Source: Paragon REIT

Paragon REIT also announced the resignation of Ng Yat Chung as Director. Mr. Ng has served as a non-executive and non-independent Director of Paragon REIT since August 2017. As part of the renewal process of the Board, Mr. Ng has indicated his desire to step down as Director with effect from 1 January 2023.

(III) Extension of Appointment Of Property Manager

Paragon REIT Management Pte. Ltd. (the Manager), as manager of Paragon REIT, wishes to announce that the appointment of Straits Retail Property Management Services Pte. Ltd. (the Property Manager) in relation to the Property Management Agreements has been extended. The term of each of the Property Management Agreements shall be extended for a period of five years commencing on 23 July 2023.

Rationale

The Manager is of the view that the renewal of the Property Management Agreements will benefit the unitholders as the Property Manager has extensive operating experience in managing Paragon REIT's Singapore retail malls. Since its appointment, the Property Manager has consistently performed and delivered results. In addition, the renewal of the Property Management Agreements ensures seamless continuity and operational efficiency in the management of the properties.

(IV) Change to Half-Yearly Distribution

On 28 February 2023, Paragon REIT announced that after due deliberation (including taking into consideration the compliance costs and administrative resources required in connection with quarterly distributions), it will change its distribution frequency from quarterly distributions to half-yearly distributions with effect from the financial year ending 31 December 2023 (FY2023).

As announced on 13 February 2022, Paragon REIT's distribution to unitholders for the period from 1 September 2022 to 31 December 20221 will be paid on 28 March 2023 (the Final FY2022 Distribution). Thereafter, Paragon REIT will make distributions on a half-yearly basis and accordingly, Paragon REIT's next distribution to unitholders for FY2023 (i.e. the distribution after the Final FY2022 Distribution) will be for the half-year period ending 30 June 2023.

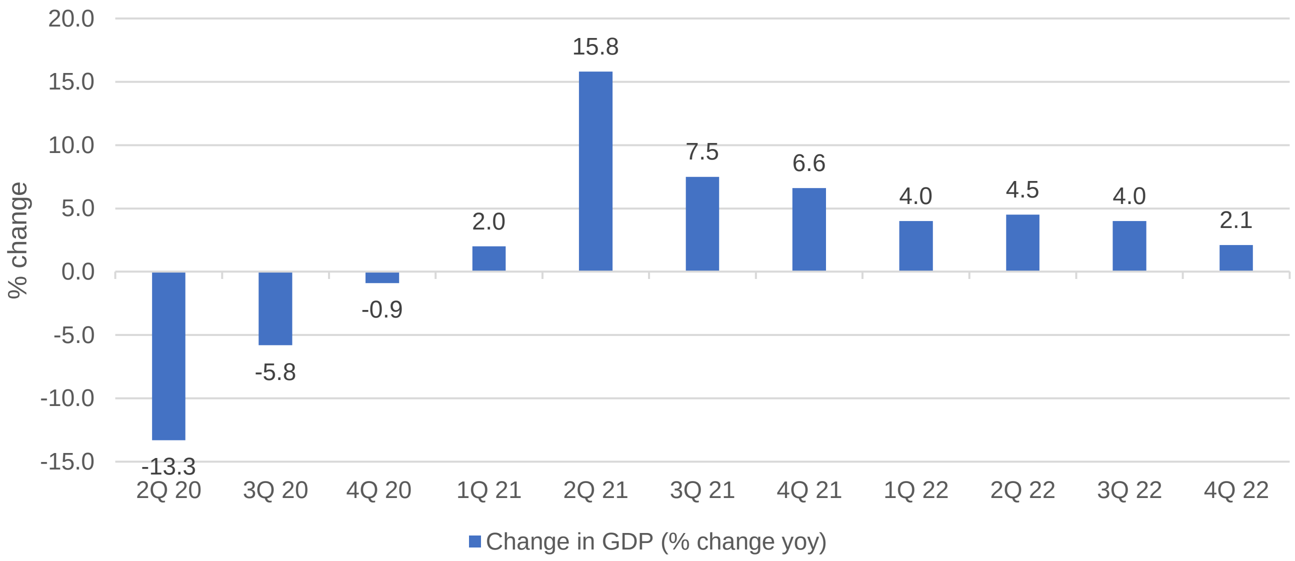
INDUSTRY OUTLOOK

(I) Singapore Retail

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 8**. For the whole of 2022, the economy grew by 3.6% yoy, slower than the 8.9% yoy growth in 2021.

Exhibit 8: Change in Singapore quarterly GDP (%, yoy)



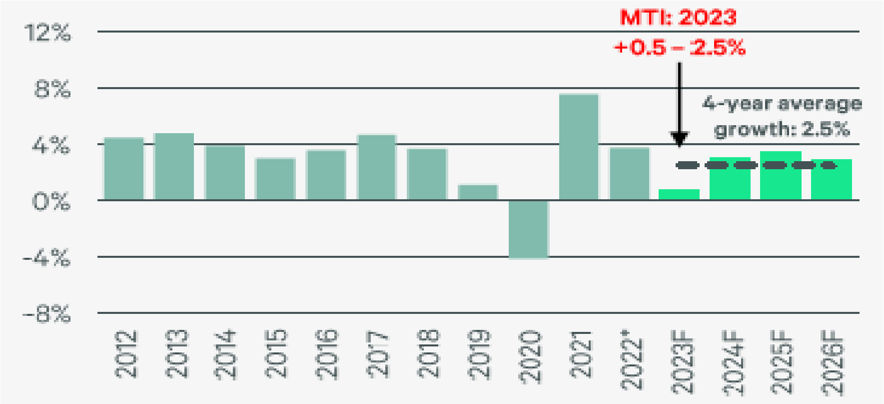
Source: Data compiled from MTI

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 9**.

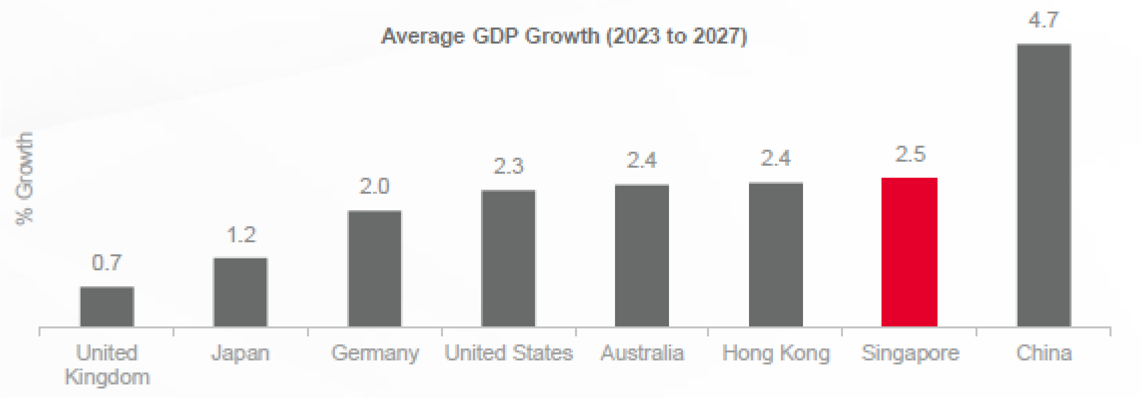
Exhibit 9: Singapore Projected Growth (CBRE) (% change yoy)



Source: CBRE

Similarly, Cushman & Wakefield (C&W) believes that Singapore remains supported from 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 10**. This bodes well for property demand.

Exhibit 10: Singapore Projected Growth (C&W) (% change yoy)

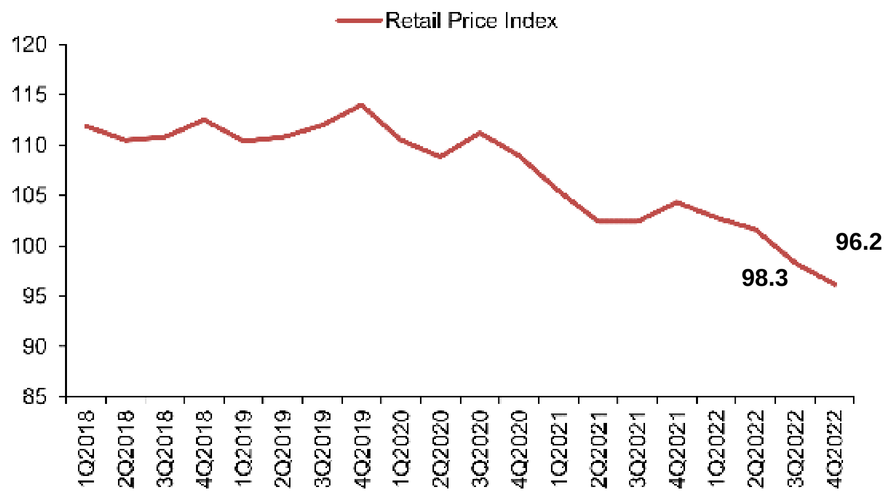


Source: C&W

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 11**. For the whole of 2022, prices of retail space decreased by 7.8%, compared with the decrease of 4.2% in 2021.

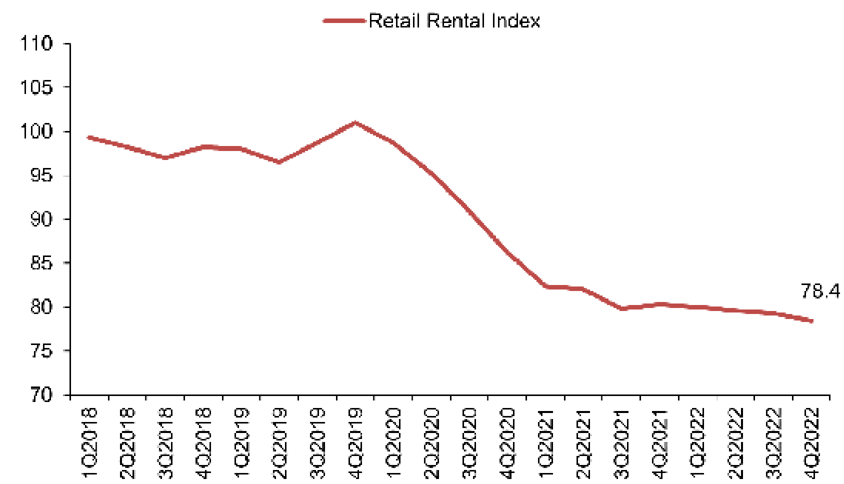
Exhibit 11: Property Price Index for Retail Space



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 12**. For the whole of 2022, rentals of retail space decreased by 2.4%, compared with the decrease of 6.8% in 2021

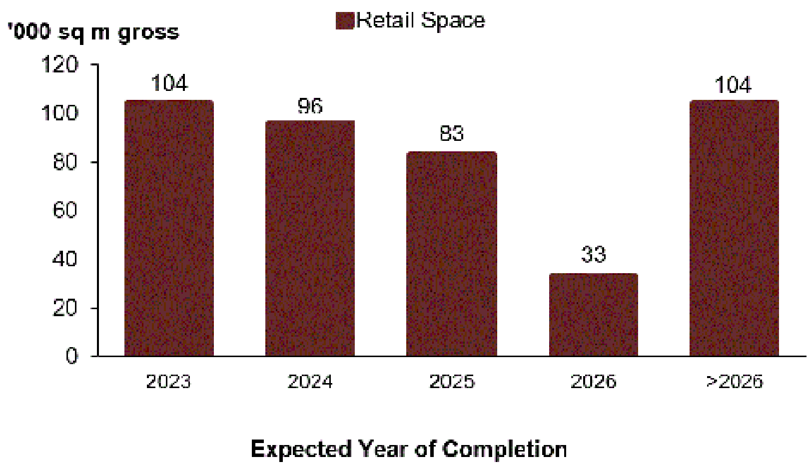
Exhibit 12: Rental Index Of Retail Space



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 13**.

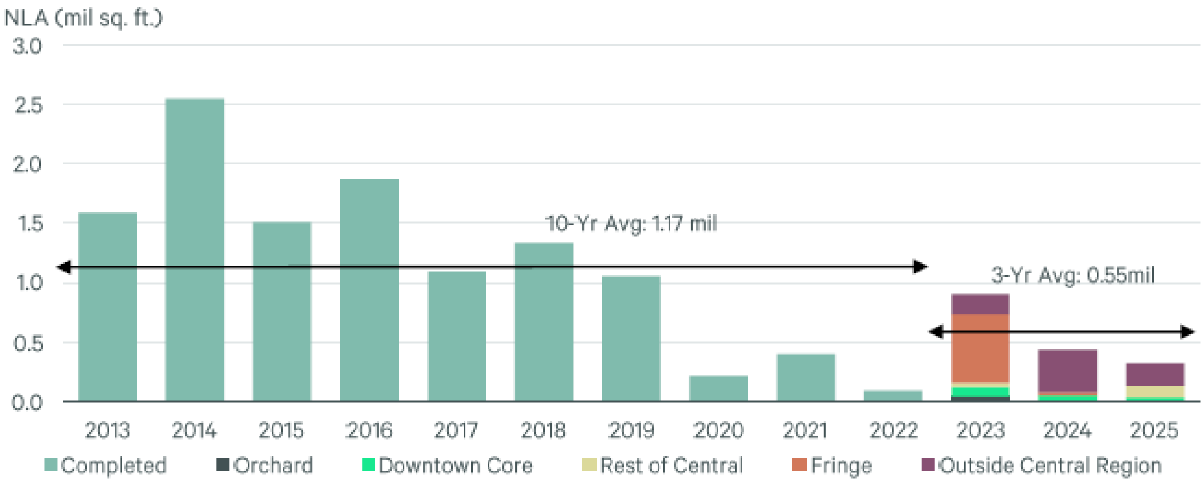
Exhibit 13: Pipeline Supply Of Retail Space



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 14**.

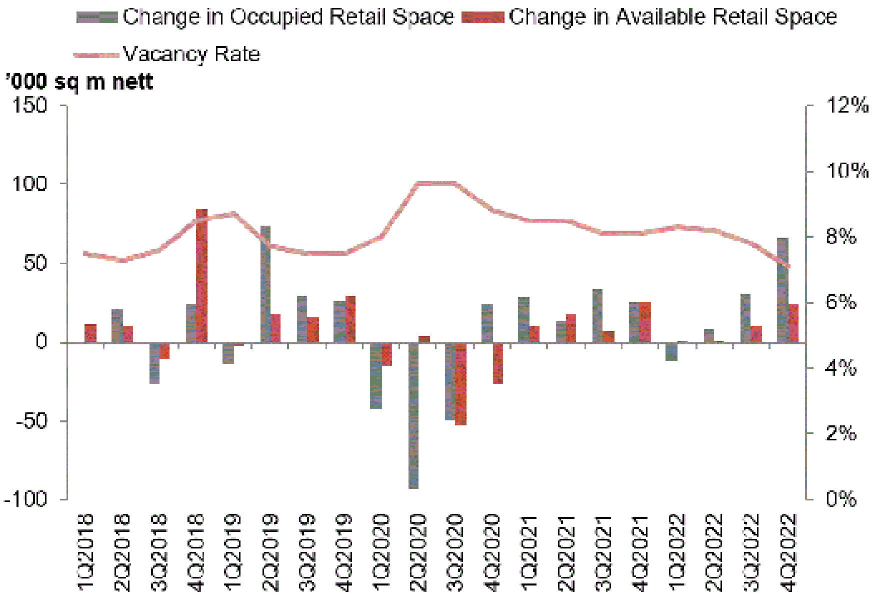
Exhibit 14: CBRE's Expected Future Supply Pipeline



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 15**.

Exhibit 15: Stock And Vacancy Of Retail Space



Source: URA

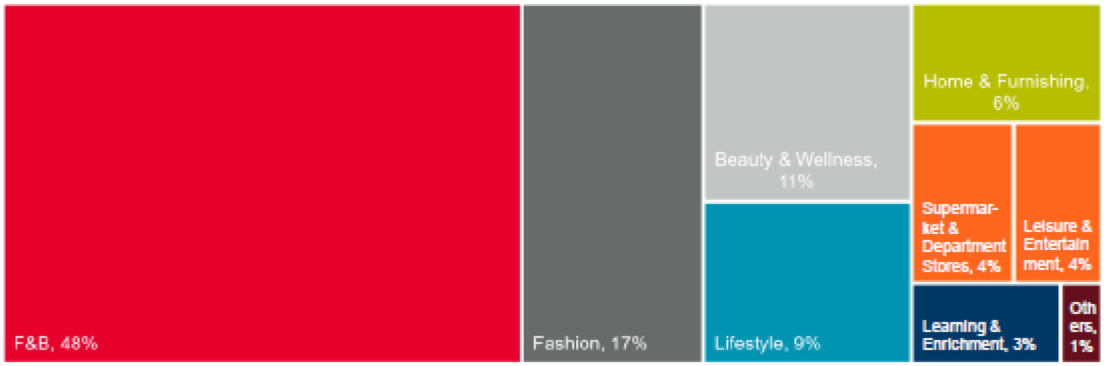
More Optimistic Outlook For Retailers

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.

F&B Demand Remains Key

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 16** on the next page.

Exhibit 16: C&W's Estimated Share Of Store Openings In Prime Malls



Source: Cushman and Wakefield

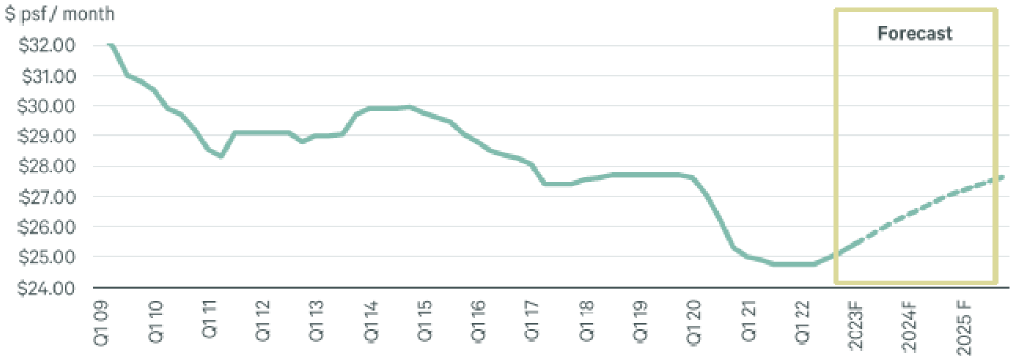
Expect Higher Tenant Turnover Rate

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 17**.

Exhibit 17: 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 a 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.

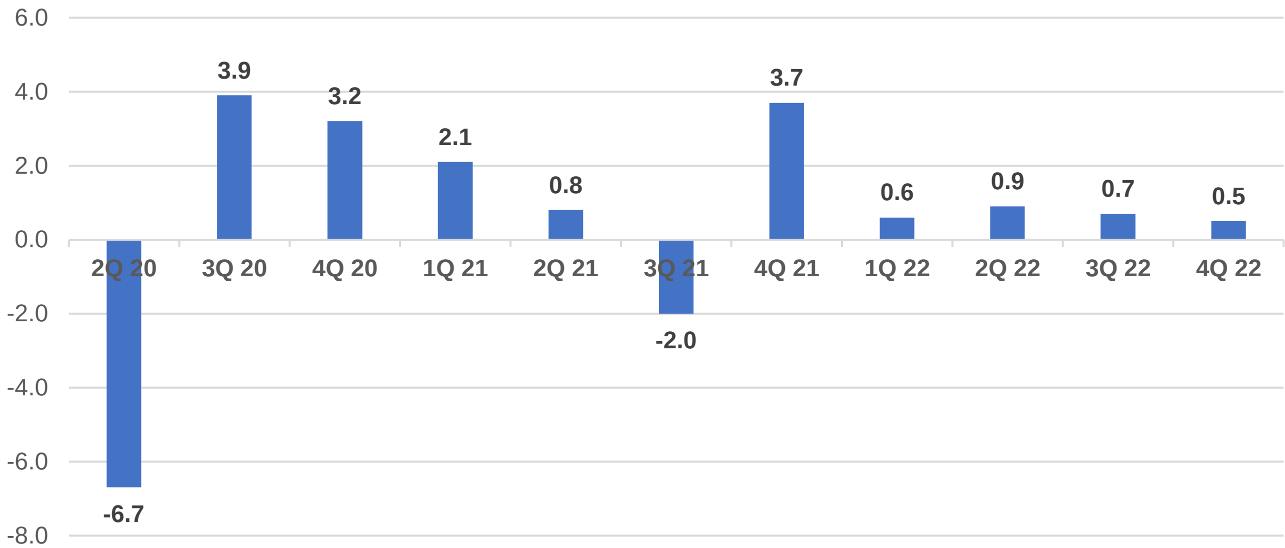
Savills noted that going forward, because of the pandemic induced reset, the travel and consumer sectors are expected to continue recovering. This is despite the slowing global economy. However, growth may slow for the rest of the year and also in 2023 due to challenges on the economic and inflation 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

(II) Australia Retail

Australia's Economy

According to Australia Bureau of Statistic, Gross Domestic Product (GDP) rose 0.5% in the 4th quarter and 2.7% through 2022, as shown in **Exhibit 18**. Australia's economy grew at its weakest pace in a year last quarter as strength in trade was offset by rising interest rates and high inflation, and all the signs are a further slowdown lies ahead. Although this is the fifth consecutive increase, growth slowed in each of the last two quarters. Net trade (increased exports and fall in imports) and consumption were the primary contributors to GDP growth in the December quarter.

Exhibit 18: Change in Australia Quarterly GDP (%, qoq)



Source: Data compiled from Australia Bureau of Statistic

Australia's Retail Real Estate Market

JLL noted that South Australia's (SA) retail turnover growth a new high in 2022. This was driven largely by increased spending in the take-home food category as well as spending in discretionary categories of clothing, footwear & accessories and household goods. Despite positive retail trade growth, retailers are expected to be cautious with expansion plans, given rising interest rates. Over the quarter, vacancy rates increased for Adelaide's regional centres while decreasing or remaining unchanged in the remaining sub-sectors. Gross rents marginally increased across all sub-sectors, with the strongest growth recorded in the neighborhood sub-sectors. In terms of outlook, JLL believes that retail spending is likely to slow in 2023 as inflationary pressures and increasing interest rates impact household spending. This is likely to impact retailer demand for space in the next 12 months. Retail rental growth is forecasted to remain relatively stable despite weaker consumer sentiment, given the improvement in retailer profitability in the last 2 years.

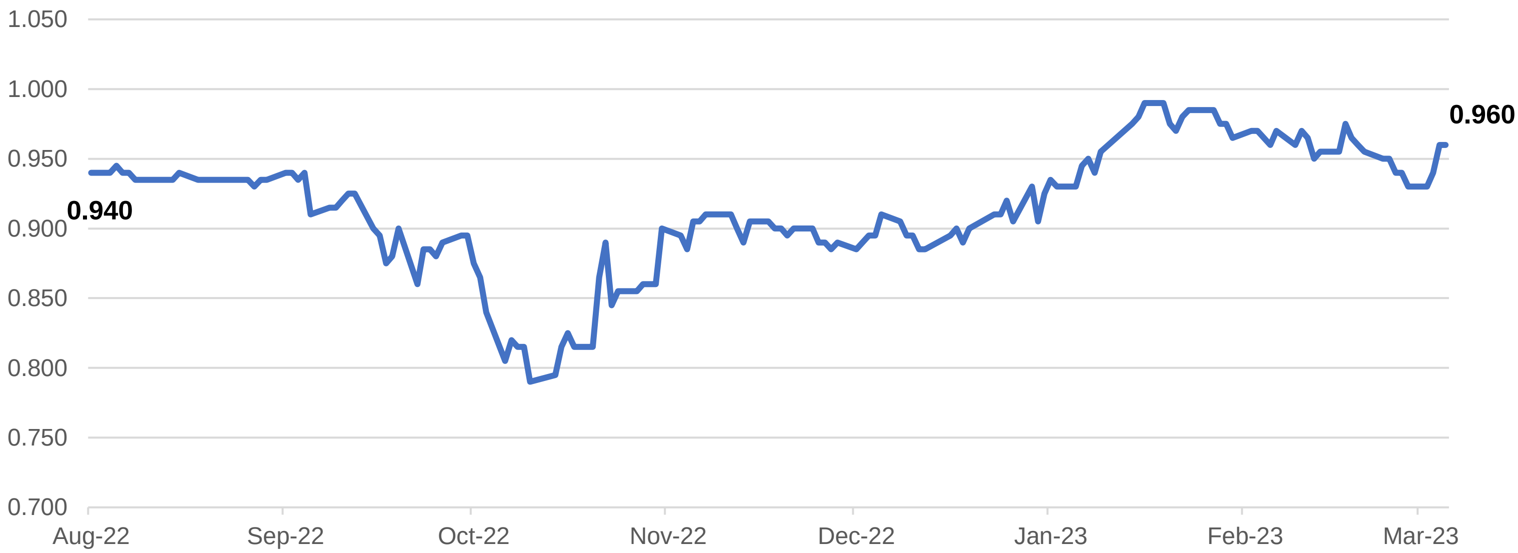
Colliers noted that Australia's regional Shopping Centers have rebounded following the adverse impact felt throughout the pandemic, with footfall improving and stabilizing nationally. The impact of the pandemic only solidified the place that Regional Retail assets have in their catchments and communities, as prime destinations for retail, dining and everyday needs, goods and services. The diversification of retail mixes continues to be an area of focus, in particular the shift towards customer experiences and engagement. Many large Regional centers are now dedicating up to 30-40% of their tenant mix towards an experience-based retail offering. Colliers noted that Regional retail rents remain stable, with no movement over the quarter across the major markets. Regional Retail yields remain stable nationally, with the national average weighted yield being 5.50%.

CBRE noted that with most Covid-19 restrictions in Australia now eased, visitation to CBDs across the country is gradually improving as a level of normality returns. However, daytime visitation remains well below pre-pandemic levels as many office workers continue working from home a couple of days a week. CBRE also noted that rents were rising in major markets with yields holding. Rents rose 0.9% on average across all markets and shopping center asset type with regional centers seeing the largest rise of 1.7%. neighborhood centers rose 1.6% on average with New South Wales recording the largest neighborhood rental growth of 6.4% qoq. Sub-regional centers saw a decrease in rents in Queensland and New South Wales. CBRE forecast yield to soften and rents to continue to increase in response to rising cost pressures.

SHARE PRICE DEVELOPMENT REVIEW

When our initiation report was issued on 12 August 2022, Paragon REIT's share price closed at S$0.940. From then till present, the share price is up about 2.10% to the current price of S$0.960 as shown in **Exhibit 19**.

Exhibit 19: Paragon REIT's Share Price



Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S$0.790 and S$1.00. 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 27 January 2023. As at 16 March 2023, Cuscaden Peak Pte. Ltd holds 60.57% share interest of Paragon REIT.

On 8 October 2022, Paragon REIT reported its financial results for 12 months ended 31 August 2022. Gross revenue for 12M FY2022 came in 1.7% higher at S$281.9 million, while net property income (NPI) grew 3.5% to S$209.7 million. The portfolio occupancy rate stood at 97.5 per cent. Paragon REIT also posted an improvement in rental reversions, with a -2.8% portfolio rental reversion rate in 12M FY2022, compared to -8.4% the previous year. Weighted average lease expiry stood at 5.3 years by net lettable area and three years by gross rental income. During the period, Paragon REIT announced distribution per unit (DPU) of 5.52 Singapore cents a 2.2% yoy increase from the previous year. As a result, Paragon REIT's share price closed 0.56% higher at S$0.895 at the end of the day.

On 29 December 2022, Paragon REIT announced that it will be renamed to Paragon REIT (previously known as SPH REIT) as the name change will better reflect the trust's vision and mission to capture unique opportunities in the Asia-Pacific retail landscape. The names of its security, counter and manager – along with the REIT's logo and website – will reflect the new name with effect from 9 am on Jan 3, 2023. The REIT manager added that the trust will be "bolstered by the deep real estate sector knowledge and strong relationships" of its sponsor, Cuscaden Peak Investments. Upon the announcement, Paragon REIT's share price rose by 1.1% to S$0.900.

On 28 February 2023, Paragon REIT announced that after due deliberation (including taking into consideration the compliance costs and administrative resources required in connection with quarterly distributions), it will change its distribution frequency from quarterly distributions to half-yearly distributions with effect from the financial year ending 31 December 2023 (FY2023). Paragon REIT's share price fell by 1.0% to S$0.965 following the announcement.

POTENTIAL CATALYSTS

(I) Potential Recovery in Retail Rents

As highlighted in the 'Industry Outlook' section recent retail indicator 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 20**.

Exhibit 20: 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

FINANCIAL PROJECTION

In this section, we will be providing our projections for Paragon REIT's revenue, earnings and dividends in FY2023 and FY2024.

(I) Revenue Projection

FY2023

Singapore

Paragon REIT's Singapore assets are Paragon, The Clementi Mall and The Rail Mall. To determine each properties' rent (S$/ sqft per month), we considered the individual property's revenue, net lettable area (NLA), occupancy and ownership interest for the 12-month period ended 31 December 2022 (CY2022). Accordingly, the estimated rent for Paragon, The Clementi Mall and the Rail Mall for CY2022 would be S$19.46, S$18.32 and S$10.17 (S$/sq ft per month) respectively as shown in **Exhibit 21**. The calculations are as follows:

- Estimated rent (S$/sq ft per month) for Paragon = S$167.5 million (CY2022 actual revenue) / 718,000 sq ft (NLA)) / 99.90% (occupancy rate) / 100% (ownership interest)/ 12 (period) = S$19.46 /sq ft per month

- Estimated rent (S$/sq ft per month) for The Clementi mall = S$43.1 million (CY2022 actual revenue) / 196,000 sq ft (NLA) / 100.00% (occupancy rate) / 100% (ownership interest)/ 12 (period) = S$18.32 /sq ft per month

- Estimated rent (S$/sq ft per month) for The Rail Mall = S$6.1 million (CY2022 actual revenue) / 50,000 sq ft (NLA) / 100.00% (occupancy rate) / 100% (ownership interest)/ 12 (period) = S$10.17 /sq ft per month

Exhibit 21: Estimated Rent for Singapore's Properties

Property	CY2022 (12-month period ended 31 December 2022)					
	Revenue (S$ million) (1)	NLA (sq ft)	Occupancy	Period (months)	Ownership (%)	Rent (S$/sq ft per month)
Paragon	167.5	718,000	99.90%	12	100%	19.46
The Clementi Mall	43.1	196,000	100.00%	12	100%	18.32
The Rail Mall	6.1	50,000	100.00%	12	100%	10.17

(1) Revenue is net of rental relief to tenants

Source: Paragon REIT, FPA Financial

As highlighted in the 'Industry Outlook' section, various commercial real estate services companies believe that there would be a recovery in Singapore retail industry as supported by a healthy pipeline of events and limited new retail supply. 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. Considering the above, we would assume the mid-point of the range and project a 3% increase in rents for FY2023. Hence, the projected rent for each of the properties are as follows:

- Projected rent (S$/sq ft per month) for Paragon = S$19.46 (projected rent in CY2022) x 103% (projected growth rate) = S$20.04

- Projected rent (S$/sq ft per month) for The Clementi Mall = S$18.32 (projected rent in CY2022) x 103% (projected growth rate) = S$18.87

- Projected rent (S$/sq ft per month) for The Rail Mall= S$10.17 (projected rent in CY2022) x 103% (projected growth rate) = S$10.47

We would also assume the occupancy rate to remain the same for CY2022 as compared to FY2023. Accordingly, the projected revenue for Paragon REIT's Singapore properties is S$223.2 million as shown in **Exhibit 22**. The calculations are as follows:

- Projected revenue for Paragon = S$20.04 (projected rent) x 718,000 sq ft (NLA) x 99.90% (occupancy rate) x 12 (months) = S$172.5 million

- Projected revenue for The Clementi mall = S$18.87 (projected rent) x 196,000 sq ft (NLA) x 100.00% (occupancy rate) x 12 (months) = S$44.4 million

- Projected revenue for The Rail Mall = S$10.47 (projected rent) x 50,000 sq ft (NLA) x 100.00% (occupancy rate) x 12 (months) = S$6.3 million

Exhibit 22: Projected Paragon REIT's Singapore Revenue for FY2023

Property	FY2023				
	Rent (S$/sq ft per month)	NLA (sq ft)	Occupancy	Period (months)	Revenue (S$'000)
Paragon	20.04	718,000	99.90%	12	172,525
The Clementi Mall	18.87	196,000	100.00%	12	44,393
The Rail Mall	10.47	50,000	100.00%	12	6,283
Total gross revenue	-	-	-	-	**223,201**

Source: Paragon REIT, FPA Financial

Australia

Paragon REIT's Australia assets are Figtree Glove and Westfield Marion. To determine each properties' rent (S$/ sqft per month), we considered the individual property's revenue, net lettable area (NLA), occupancy and ownership interest for CY2022. Accordingly, the estimated rent for Figtree Glove and Westfield Marion for CY2022 would be S$6.62 and S$5.86 (S$/sq ft per month) respectively as shown in **Exhibit 23**. The calculations are as follows:

- Estimated rent (S$/sq ft per month) for Figtree Glove = S$15.9 million (CY2022 actual revenue) / 237,000 sq ft (NLA) / 99.40% (occupancy rate) / 85% (ownership interest)/ 6 (period) = S$6.80 /sq ft per month

- Estimated rent (S$/sq ft per month) for Westfield = S$51.2 million (CY2022 actual revenue) / 1,495,000 sq ft (NLA) / 97.40% (occupancy rate) / 50% (ownership interest)/ 12 (period) = S$5.85 /sq ft per month

Exhibit 23: Estimated Rent for Australia's Properties

Property	CY2022 (12-month period ended 31 December 2022)					
	Revenue (S$ million) (1)	NLA (sq ft)	Occupancy	Period (months)	Ownership (%)	Rent (S$/sq ft per month)
Figtree Glove	15.9	237,000	99.40%	12	85%	6.62
Westfield Marion	51.2	1,495,000	97.40%	12	50%	5.86

(1) Revenue is net of rental relief to tenants

Source: Paragon REIT, FPA Financial

As highlighted in the 'Industry Overview' section, various commercial real estate services companies highlighted that Australia's retail conditions are mixed and regional rents to remain stable. Considering the above, in our projections, we would assume the rent of each of Paragon REIT's Australia properties to remain unchanged for FY2023. Similarly, we would also assume the occupancy rate to remain the same for FY2023 as compared to CY2022. Accordingly, the projected revenue for Paragon REIT's Australia properties is S$67.1 million as shown in **Exhibit 24**. Assuming the AUDSGD exchange rate remains unchanged, the calculations are as follows:

- Projected revenue for Figtree Glove = S$6.62 (projected rent) x 237,000 sq ft (NLA) x 99.40% (occupancy rate) x 12 (months) x 85% ownership = S$15.9 million

- Projected revenue for Westfield Marion = S$5.85 (projected rent) x 1,495,000 sq ft (NLA) x 97.40% (occupancy rate) x 12 (months) x 50% ownership = S$51.2 million

Exhibit 24: Projected Paragon REIT's Australia Revenue for FY2023

Property	FY2023					
	Rent (S$/sq ft per month)	NLA (sq ft)	Occupancy	Period (months)	Ownership (%)	Revenue (S$'000)
Figtree Glove	6.62	237,000	99.40%	12	85%	15,900
Westfield Marion	5.86	1,495,000	97.40%	12	50%	51,200
Total gross revenue	-	-	-	-	-	**67,100**

Source: Paragon REIT, FPA Financial

Given the above, our projected revenue for FY2023 is S$290.3 million as follows:

- Paragon REIT revenue for FY2023 = S$223.2 million (projected Singapore FY2023) + S$67.1 million (projected Australia FY2023) = S$290.3 million

FY2024

For FY2024, we would 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 help to support retail sales levels and could improve Paragon REIT's revenue.

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% while Australia's GDP growth is expected to be 2.30% in 2027. Considering the above, we would project Paragon REIT's revenue based on the GDP forecast for Singapore and Australia by IMF. As a result, the projected revenue for Paragon REIT for FY2024 would be S$297.4 million as follows:

- Projected revenue for Paragon for FY2024 = $172.5 million (projected FY2023 revenue) x 102.50% (projected growth rate) = S$176.8 million

- Projected revenue for The Clementi mall for FY2024 = S$44.4 million (projected FY2023 revenue) x 102.50% (projected growth rate) = S$45.5 million

- Projected revenue for The Rail Mall for FY2024 = S$6.3 million (projected FY2023 revenue) x 102.50% (projected growth rate) = S$6.4 million

- Projected revenue for Figtree Glove for FY2024 = S$15.9 million (projected FY2023 revenue) x 102.30% (projected growth rate) = S$16.3 million

- Projected revenue for Westfield Marion for FY2024 = S$51.2million (projected FY2023 revenue) x 102.30% (projected growth rate) = S$52.4 million

Our projected revenue for FY2023 and FY2024 is summarized in **Exhibit 25.**

Exhibit 25: Projected Revenue for FY2023 and FY2024

S$'000	Actual	Forecast	
	CY2022	FY2023	FY2024
Paragon	167,500	172,525	176,838
The Clementi Mall	43,100	44,393	45,503
The Rail Mall	6,100	6,283	6,440
Figtree Glove	15,900	15,900	16,266
Westfield Marion	51,200	51,200	52,378
Total gross revenue (1)	**283,800**	**290,301**	**297,424**

(1) Figures may differ due to rounding differences

Source: Paragon REIT, FPA Financial

(II) Earnings Projection

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

Net Property Income

For our net property income (NPI) projections, we will consider Paragon REIT's historical NPI margins. We note that Paragon REIT's NPI margin remained relatively stable between 73.1% and 75.4% between FY2020 and FY2022. For FY2023 and FY2024, we would assume the 3-year average NPI margin of 74.3% = [(75.4% (FY2020) + 73.1% (FY2021) + 74.4% (FY2022)) / 3]. Accordingly, the projected NPI for FY2023 and FY2024 would be S$215.6 million and S$220.9 million as shown in **Exhibit 26**.

Exhibit 26: Projected Net Property Income for FY2023 and FY2024

S$'000	Actual			Forecast	
	FY2020	FY2021	FY2022 (1)	FY2023	FY2024
Gross revenue	241,463	277,179	376,411	290,301	297,424
Property operating expenses	(59,520)	(74,552)	(96,482)	(74,683)	(76,516)
Net property income (NPI)	**181,943**	**202,627**	**279,929**	**215,618**	**220,908**
NPI margin	75.4%	73.1%	74.4%	74.3%	74.3%

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

<u>Manager's Management Fees and Investment Management Fees</u>

The Manager is entitled to management fees comprising of a Base fee of 0.25% per annum of the value of Deposited Property and an annual Performance fee of 5.0% per annum of the Net Property Income. The management fees payable to the Manager will be paid in the form of cash and/or units. As Paragon REIT has not released any plan or announcement of any potential acquisition or divestment, for FY2023 and FY2024, we will assume the deposited properties of Paragon REIT to be S$ 4,256.9 million, which is the total assets of Paragon REIT as at 31 December 2022.

Given the deposited properties of Paragon REIT to be S$4,280.7 million the projected Manager's management fee would be as follows:

- Projected Manager's management fee for FY2023 = (0.25% (base fee) x S$4,256.9 million (deposited properties)) + (5.0% (performance fee) x S$215.6 million (projected NPI for FY2023) = S$21.4 million

- Projected Manager's management fee for FY2024 = (0.25% (base fee) x S$4,256.9 million (deposited properties)) + (5.0% (performance fee) x S$220.9 million (projected NPI for FY2024) = S$21.7 million

We note that Paragon REIT's investment management fees was S$3.0 million in FY2021 and S$3.9 million in FY2022. We note that for Figtree Grove Shopping Centre and Westfield Marion Shopping Centre, the Manager appointed an established firm (Investment Manager), which holds an Australian Financial Services License and has asset management capabilities, to oversee the acquisition and management of both assets. This appointment is part of a tax efficient structure to qualify for a reduced Australian tax rate as advised by independent Australian tax advisors. Hence, the investment management fees incurred were in relation to this Investment Manager.

As we do not have sufficient information to appropriately estimate Paragon REIT's investment management fees, we would assume the same investment management fees of S$3.0 million recorded in the 12-month period ended 31 December 2021 (FY2021) for FY2023. We would also assume for the investment management fees to remain unchanged in FY2024 from FY2023 for the 12 months period as shown in **Exhibit 27**.

<u>Exhibit 27: Projected Investment Management Fees For FY2023 and FY2024</u>

S$'000	Actual		Forecast	
	FY2021	FY2022 (1)	FY2023	FY2024
Investment Management fees	(2,950)	(3,885)	(2,950)	(2,950)

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

The summary of Paragon REIT's Manager's Management Fees and Investment Management Fees is shown in **Exhibit 28**.

<u>Exhibit 28: Projected Paragon REIT's Manager's Management Fees and Investment Management Fees for FY2023 and FY2024</u>

S$'000	Actual		Forecast	
	FY2021	FY2022 (1)	FY2023	FY2024
Manager's management fees	(20,434)	(27,971)	(21,423)	(21,688)
Investment Management fees	(2,950)	(3,885)	(2,950)	(2,950)

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

Trust Expenses

We note that Paragon REIT's trust expenses was S$2.3 million, S$2.0 million and S$3.7 million in FY2020, FY2021 and FY2022 respectively. The trust expenses include recurring trust expenses such as trustee's fees, valuation fees, audit and tax adviser's fees, legal & other professional fees and cost associated with the preparation of annual reports. Given the above, we would assume the same trust expenses recorded in FY2022 for FY2023 and FY2024

However, as FY2022 would be for a period of 16 months, the adjusted trust expenses forecast for FY2023 would be S$2.8 million = [S$3.7 million x (FY2022) x 12/16 (months)]. We would also assume for the trust expenses to remain unchanged in FY2024 from FY2023 for the 12 months period as shown in **Exhibit 29**.

Exhibit 29: Projected Paragon REIT's Trust Expenses for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022 (1)	FY2023	FY2024
Trust expenses	(1,995)	(3,684)	(2,763)	(2,763)

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

Impairment Loss On Trade Receivables

As mentioned on page 3, Paragon REIT recorded an impairment loss on trade receivables of S$0.7 million in FY2022 compared to S$4.4 million in FY2021. The impairment loss on trade receivables comprises of the allowance for rental arrears and reliefs for Singapore and Australia properties. For both FY2023 and FY2024, we would assume no impairment loss on trade receivables.

Finance Income and Finance Cost

As shown on page 6 and page 7, Paragon REIT's total borrowings were S$1.3 billion and the average cost of debt for FY2022 was 2.05% while its effective interest rate as at 31 December 2022 was 3.09%. In addition, we also note that approximately 84% of its total debt is on a fixed rate basis. Further, as shown in Exhibit 6, S$95 million and S$235 million of debt is set to mature in 2023 and 2024 respectively. However, we note that as at 31 December 2022, Paragon REIT's cash and cash equivalents amounted to S$125.6 million. Hence, we believe that Paragon REIT is likely to refinance their debt of S$95 million and S$235 million when it matures in 2023 and 2024 respectively. Considering the above, the estimated total borrowings for FY2022 and FY2023 would remain at S$1.3 billion.

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 3.18%. The average Singapore's SGS 10-year bond yield for the first 3 months of 2023 increased by 0.43 percentage points (ppts) = [3.18% (CY2023) – 2.75% (CY2022)] versus the average yield for 2022 as shown in **Exhibit 30** on the next page.

Exhibit 30: Singapore SGS 10-Year Bond Yield

CY2022	10-year bond yield (%)	CY2023	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)	3.23%
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**	**3.18%**

(1) As at 10 March 2023

Source: MAS, FPA Financial

Considering that the SGS 10-year bond yield increased by 0.43ppts 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 3.52% =[3.09% (FY2022) +0.43%]. 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 0.43 ppts in FY2024. Accordingly, the effective interest rate for FY2023 would be 3.95% =[3.52% (projected FY2023) +0.43%].

Accordingly, the projected interest paid/ payable to banks for FY2023 and FY2024 would be S$40.2 million and S$41.0 million respectively as shown in **Exhibit 31**.

Exhibit 31: Projected Finance Cost For FY2023 and FY2024

S$'000	Total debt	Fixed rate debt (84%)	Float rate debt (16%)	Fixed cost of debt (%)	Variable cost of debt (%)	Period (months)	Finance cost		
							Fixed	Variable	Total
FY2023	1,271,627	1,068,167	203,460	3.09%	3.52%	12	33,006	7,162	40,168
FY2024	1,271,627	1,068,167	203,460	3.09%	3.95%	12	33,006	8,037	41,043

Source: Paragon REIT, FPA Financial

For finance income, we note that Paragon REIT recorded finance income of S$1.2 million and cash and cash equivalents of S$125.6 million. Considering the above, the effective cost of saving would be 0.71% =[S$1.2 million (finance income FY2022) / S$125.6 million (cash and cash equivalents) x 12/16 (12 months period)]. Given that we assumed the variable cost of debt to increase by 0.43 ppts in FY2023 and FY2024, we would assume the effective cost of saving to increase by 0.43ppts in both FY2023 and FY2024. Accordingly, the effective cost of saving for FY2023 would be 1.14% =[0.71% (12-months period for FY2022) +0.43%] and for FY2024 would be 1.57% =[1.14% (FY2023) + 0.43%].

As a result, assuming the cash and cash equivalents remain unchanged at S$125.6 million the projected finance income for FY2023 and FY2024 would be S$1.4 million and S$2.0 million as follows:

- Finance income for FY2023 = 1.14% (projected cost of saving for FY2023) x S$125.6 million (cash and cash equivalents) = S$1.4 million

- Finance income for FY2024 = 1.57% (projected cost of saving for FY2024) x S$125.6 million (cash and cash equivalents) = S$2.0 million

The projected finance income and finance cost is shown in **Exhibit 32**.

Exhibit 32: Projected Finance Income and Finance Cost for FY2023 and FY2024

S$'000	Actual			Forecast	
	FY2020	FY2021	FY2022 (1)	FY2023	FY2024
Finance income	1,775	200	1,181	1,426	1,966
Finance cost	(32,905)	(31,263)	(35,562)	(40,168)	(41,043)

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

Fair Value Change On Investment Properties

As shown on **Exhibit 1** (Page 4), the increase in fair value change on investment properties of S$3.8 million in FY2022 was mainly due to the fair value gain in Singapore properties. For FY2023 and FY2024, we would assume net change in fair value of investment properties to be zero.

Net Foreign Currency Exchange Differences

As shown on **Exhibit 1** (Page 4), net foreign currency exchange differences increased to S$4.1 million in FY2023 from a net loss of S$0.7 million in FY2021. For FY2023 and FY2024 we would assume net foreign currency exchanges differences to be zero.

Total Return Before Taxes and Distribution

Given the above projections, we estimate a total return before taxes and distribution of S$149.7 million in FY2023 and S$154.4 million in FY2024 as shown in **Exhibit 33**.

Exhibit 33: Total Return Before Taxes and Distribution For FY2023 and FY2024

S$'000	Actual (16M)	Forecast	
	FY2022	FY2023	FY2024
Gross revenue	376,411	290,301	297,424
Property operating expenses	(96,482)	(74,683)	(76,516)
Net property income	**279,929**	**215,618**	**220,908**
Manager's management fees	(27,971)	(21,423)	(21,688)
Investment management fees	(3,885)	(2,950)	(2,950)
Trust expense	(3,684)	(2,763)	(2,763)
Impairment loss on trade receivables	(732)	-	-
Finance income	1,181	1,426	1,966
Finance cost	(35,562)	(40,168)	(41,043)
Net income	**209,276**	**149,739**	**154,431**
Fair value change on investment properties	33,780	-	-
Net foreign currency exchange differences	4,131	-	-
Total return before taxes and distribution	**247,187**	**149,739**	**154,431**

Source: Paragon REIT, FPA Financial

Income Tax

The Inland Revenue Authority of Singapore (IRAS) has issued a tax ruling on the income tax treatment of Paragon REIT. Subject to meeting the terms and conditions of the tax ruling which includes a distribution of at least 90% of its taxable income, Paragon REIT will not be assessed for tax on the portion of its taxable income that is distributed to Unitholders. Any portion of taxable income that is not distributed to Unitholders will be taxed at the prevailing corporate tax rate. Given the above, we believe that Paragon REIT's income tax expense may be attributable to the income generated from its Australia's property.

Accordingly, we note that Paragon REIT's effective tax rate for FY2021 and FY2022 was 0.91% and 1.49% respectively. As we do not have sufficient information to appropriately estimate the effective tax rate, we would assume the effective tax rate of 1.49% recorded for FY2022 for FY2023 and FY2024. As a result, the income tax for FY2023 and FY2024 would amount to S$2.2 million and S$2.3 million respectively as shown in **Exhibit 34**.

Exhibit 34: Projected Income Tax for FY2023 and FY2024

S$'000	Actual		Forecast	
	FY2021	FY2022 (1)	FY2023	FY2024
Total return before taxes and distribution	153,485	247,187	149,739	154,431
Income tax	(1,397)	(3,688)	(2,234)	(2,304)
Effective tax rate	0.91%	1.49%	1.49%	1.49%

Source: Paragon REIT, FPA Financial

Total Return After Taxes And Before Distribution

On 30 August 2019, Paragon REIT issued S$300.0 million of subordinated perpetual securities at a rate of 4.10% per annum, with the first distribution rate reset falling on 30 August 2024 and subsequent resets occurring every five years thereafter. The perpetual securities have no fixed redemption date and redemption is at the option of Paragon REIT in accordance with the terms of issue of the securities. The distribution is payable semi-annually at the discretion of the Trust and is noncumulative.

Given the above, the total return after taxes and before distribution attributable to perpetual securities holders would amount to S$12.3 million for FY2023 and FY2024 = [S$300.0 million x 4.10%].

We note that profit attributable to non-controlling interest (NCI) for FY2022 was S$1.5 million. We would assume for NCI to remain unchanged at S$1.5 million in FY2023 and FY2024. Accordingly, total return after taxes and before distribution attributable to unitholders of the Trust would amount to S$147.5 million and S$152.1 million for FY2023 and FY2024 respectively, as shown in **Exhibit 35** on the next page.

Exhibit 35: Projected Total Return After Taxes and Before Distribution for FY2023 and FY2024

S$'000	Actual (16M)	Forecast	
	FY2022	FY2023	FY2024
Gross revenue	376,411	290,301	297,424
Property operating expenses	(96,482)	(74,683)	(76,516)
Net property income	**279,929**	**215,618**	**220,908**
Manager's management fees	(27,971)	(21,423)	(21,688)
Investment management fees	(3,885)	(2,950)	(2,950)
Trust expense	(3,684)	(2,763)	(2,763)
Impairment loss on trade receivables	(732)	-	-
Finance income	1,181	1,426	1,966
Finance cost	(35,562)	(40,168)	(41,043)
Net income	**209,276**	**149,739**	**154,431**
Fair value change on investment properties	33,780	-	-
Net foreign currency exchange differences	4,131	-	-
Total return before taxes and distribution	**247,187**	**149,739**	**154,431**
Less: income tax	(3,688)	(2,234)	(2,304)
Total return after taxes and before distribution	**243,499**	**147,505**	**152,127**
Attributable to:			
Unitholders of the Trust	225,602	133,719	138,341
Perpetual securities holders	16,411	12,300	12,300
Non-controlling interests	1,486	1,486	1,486

Source: Paragon REIT, FPA Financial

Earnings Per Unit

Earnings per unit is calculated by dividing the total return after taxes and before distribution attributable to Unitholders of the Trust by the weighted average number of units during the financial year. Assuming the latest available number of ordinary shares outstanding of 2,827,881,000 shares as at 31 December 2022, we projected an earnings per share of 4.73 cents and 4.89 cents for FY2023 and FY2024 as shown in **Exhibit 36**.

Exhibit 36: Projected Earnings Per Unit for FY2023 and FY2024

S$'000	Actual	Forecast	
	FY2022 (1)	FY2023	FY2024
Total return after taxes and before distribution attributable to Unitholders of the Trust	225,602	133,719	138,341
Weighted average number of Units ('000) (2)	2,811,343	2,827,881	2,827,881
Earnings per Unit (cents)	**8.02**	**4.73**	**4.89**

(1) 16 months ended 31 December

(2) The weighted average number of units was based on the number of units in issue and issuable units to the Manager.

Source: Paragon REIT, FPA Financial

(III) Distributions Projection

With our projected total return after taxes and before distribution, we would now estimate Paragon REIT's income available for distribution to unitholders. Following the adjustment to the amount reserved for distribution to perpetual securities holders, Manager's management fees payable in units and Trustee's fees, the projected distributable income to unitholders would be S$162.4 million and S$167.3 million for FY2023 and FY2024 as shown in **Exhibit 37**.

We note that for FY2022, the percentage distribution of income was 97%. For FY2023 and FY2024, we would also assume to pay 97% of the income available as distribution. Accordingly, distribution to unitholders amounted to S$156.9 million and S$161.7 million in FY2023 and FY2024 respectively, and the distribution per unit would be 5.58 cents and 5.75 cents respectively, as shown in **Exhibit 37**.

Exhibit 37: Projected Distribution for FY2023 and FY2024

S$'000	Actual	Forecast	
	FY2022 (1)	FY2023	FY2024
Total return for the period attributable to Unitholders and perpetual securities holders	242,013	146,019	150,641
Less: Amount reserved for distribution to perpetual securities holders	(16,411)	(12,300)	(12,300)
Add: Non-tax deductible item			
Manager's management fees	26,571	21,423	21,688
Trustees's fees	798	798	798
Amortisation of upfront fee for loan facility	994	994	994
Fair value change on investment properties	(33,780)	-	-
Net foreign currency exchange differences	(4,131)	-	-
Net income from subsidiarires	(11,301)	-	-
Straight-line rental adjustments	(410)	(410)	(410)
Other items	5,841	5,841	5,841
Income available for distribution	**210,184**	**162,365**	**167,251**
Add: Tax-exempt income	-	-	-
Distributable income to unitholders	**210,184**	**162,365**	**167,251**
Percentage distribution	97%	97%	97%
Distribution to Unitholders	**203,157**	**156,937**	**161,660**
Total number of units in issue ('000)	2,810,851	2,810,851	2,810,851
Distribution per unit (cents)	**7.24**	**5.58**	**5.75**

(1) 16 months ended 31 December

Source: Paragon REIT, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how Paragon REIT is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to Paragon 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 38**. Considering the above, we selected Singapore listed REITs with exposure to Singapore retail properties.

Exhibit 38: Peer Comparison

Company	Stock code	Price (S$) as at initiation report (1)	Price as at 16 March 2023	Market cap (million)	EPU (2) (cents)	P/E (x)	DPU (2) (cents)	Distribution yield (%)	NAV per unit (3)	P/B (x)
Paragon REIT	SK6U	0.940	0.960	2,698.42	5.26	18.25	6.00	6.25	0.91	1.05
Peer companies:										
Frasers Centrepoint Trust (4)	J69U	2.330	2.240	3,816.43	12.18	18.39	12.23	5.46	2.33	0.96
Lendlease Global Commercial REIT	JYEU	0.835	0.665	1,520.85	8.16	8.15	4.90	7.37	0.78	0.85
Starhill Global Real Estate Investment Trust	P40U	0.585	0.535	1,203.51	2.40	22.29	3.84	7.18	0.77	0.69
Mapletree Pan Asia Commercial Trust	N2IU	1.920	1.730	9,058.39	13.66	12.66	10.08	5.83	1.78	0.97
Suntec Real Estate Investment Trust	T82U	1.620	1.430	4,127.95	16.12	8.87	8.88	6.21	2.12	0.67
Peer average	-		-	-	-	**14.07**	-	**6.41**	-	**0.83**

Figures have been rounded
(1) As at 12 Aug 2022
(2) Trailing 12-month data
(3) NAV as at 31.12.22
(4) NAV as at 30.09.22
Source: Respective company data, Yahoo Finance, FPA Financial

(a) P/B Multiple

Based on the results in **Exhibit 38**, we note that Paragon REIT is currently trading at a P/B multiple of 1.05x, which is higher than the peer average P/B of 0.83x, which may suggest that it is overvalued at the current share price of S$0.960. Adopting a relative valuation approach, we estimate a target price of S$0.755 if Paragon REIT were to trade at the peer average P/B multiple of 0.83x as follows:

- Estimated target price = [peer average P/B] x [Paragon REIT's NAV per unit] = 0.83 x S$0.91 = S$0.755

The estimated target price of S$0.755 would imply a downside potential of 21.35% from the current price of S$0.960.

(b) P/E Multiple

Based on the results in **Exhibit 38** above, we note that Paragon REIT is currently trading at a P/E multiple of 18.25x, which is higher than the peer average P/E of 14.07x, Adopting a relative valuation approach, we estimate a target price of S$0.740 as follows:

- Estimated target price = [peer average P/E] x [Paragon REIT's EPS] = 14.07 x S$0.0526 = S$0.740

The estimated target price of S$0.740 would imply a downside potential of 22.92% from the current price of S$0.960.

(c) Distribution Yield

Furthermore, based on the results in **Exhibit 38** on the previous page, we note that Paragon REIT's distribution yield of 6.25% is relatively less attractive than the peer average distribution yield of 6.41%. Adopting a relative valuation approach, we estimate a target price of S$0.936 as follows:

- Estimated target price = [(Paragon REIT's distribution yield/ peer average distribution yield) x Paragon REIT's current price] = (6.25% / 6.41%) x S$0.960 = S$0.936

The estimated target price of S$0.936 would imply a downside potential of 2.50% from the current price of S$0.960.

(d) Estimated target price

Considering the above, adopting a relative valuation approach, we estimate a target price of S$0.755, S$0.740 and S$0.936 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$0.810 as follows:

- Estimated target price = [(Estimated target price from P/B analysis + Estimated target price from distribution yield analysis) / 3] = (S$0.755 + S$0.740 +S$0.936) / 3) = S$0.810

The estimated target price of S$0.810 would imply a downside potential of 15.63% from the current price of S$0.960.

(II) Valuation Summary

However, based on the current market environment, Paragon REIT's latest financial results and our projections, we believe that there is upside potential to Paragon REIT's share price. Considering the above, we believe that there could be upside potential and it is possible that Paragon REIT will trade at its 52-week high of S$1.000. Accordingly, our target price of S$1.000 implies an upside potential of 4.17% from the current price of S$0.960.

INVESTMENT RECOMMENDATION

Based on the reported NAV per unit of S$0.91 as at 31 December 2022, Paragon REIT is currently trading at a P/B of 1.05x. Our peer comparison analysis results show that Paragon REIT's P/B of 1.05x is higher than the peer average P/B of 0.83x. We adopted a relative valuation approach to derive an estimated target price of S$0.755 if Paragon REIT were to trade at the peer average P/B of 0.83x

At the same time, based on Paragon REIT's earnings per unit of 5.26 cents as at 31 December 2022, it currently has a P/E multiple of 18.25x. Our peer comparison analysis results show that Paragon REIT's P/E of 18.25x is higher than the peer average P/E of 14.07x. Adopting a relative valuation approach, we estimate a target price of S$0.740 if Paragon REIT were to trade at the peer average P/E of 14.07x.

Furthermore, our peer comparison analysis results show that Paragon REIT's distribution yield of 6.25% is relatively less attractive than the peer average distribution yield of 6.41%. Adopting a relative valuation approach, we estimate a target price of S$0.936.

In terms of financials, we note that Paragon REIT has maintained a healthy set of financial results over the years and has managed to provide stable returns to its shareholders. Considering a stronger revenue performance amid the end to China's Covid-Zero policy & the reopening of its borders, the continuing increase in visitor arrivals and resumption of business events could help to support retail sales levels and could improve Paragon REIT's revenue. This could provide some upside potential for Paragon REIT.

Based on the current market environment, Paragon REIT's latest financial results and our projections, we believe that there is upside potential to Paragon REIT's share price. Considering the above, we believe it is possible that Paragon REIT will trade at its 52-week high of S$1.000. Accordingly, our target price of S$1.000 implies an upside potential of 4.17% from the current price of S$0.960. Considering the above, we believe a neutral recommendation is warranted on Paragon REIT. 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 Paragon 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 spending and the performance of Paragon REIT's earnings performance going forward.

(II) Currency Risk

Paragon REIT is exposed to currency risk on distributions from its Australia operations. As at the 31 December 2022, Paragon REIT had entered into cross currency swap contracts with a total notional amount of S$48,248,000 (2021: S$98,137,000) whereby Paragon REIT agreed with counterparties to repay its loan interests and principals in Australian Dollar (AUD) in exchange of receiving Singapore Dollar in return at specified rates, on specified dates. As at 31 December 2022, Paragon REIT's exposure to currency risk is shown in **Exhibit 39**.

<u>Exhibit 39: Paragon REIT's Net Currency Exposure as at FY2022 and FY2021</u>

	31 Dec 2022 AUD S$'000	31 Aug 2021 AUD S$'000
Loan to a subsidiary (Note 6)	-	-
Trade and other receivables	-	-
Cash and cash equivalents	7,875	28,130
Statements of Financial Position exposure	7,875	28,130
Add: Effect of cross currency swaps	48,248	98,137
Less: Cross currency swaps designated for net investment hedge	(48,248)	(98,137)
Net exposure	7,875	28,130

Source: Paragon REIT

In terms of sensitivity analysis, a 5% strengthening (weakening) of the Singapore Dollar against Australian Dollar would increase/(decrease) total return (before any tax effects) by the amounts as shown in **Exhibit 40**. This analysis assumes that all other variables remain constant.

Exhibit 40: Sensitivity Analysis on Paragon REIT's Total Return (Before Tax Effects)

	31 Dec 2022 S$'000	31 Aug 2021 S$'000
Statements of Total Return		
5% strengthening	394	1,407
5% weakening	(394)	(1,407)

Source: Paragon REIT

(III) Rise in Online Retailing

According to Singapore Department of Statistic (Singstat), the estimated total retail sales value in January 2023 was $4.2 billion. Of which, online retail sales made up an estimated 11.5%, lower than the 13.0% recorded in December 2022. Excluding motor vehicles, the total retail sales value was about $3.8 billion, of which 12.6% came from online retail sales. Online retail sales of the Computer & Telecommunications Equipment, Furniture & Household Equipment and Supermarkets & Hypermarkets industries made up 45.5%, 29.6% and 11.3% of the total sales of their respective industry.

The rise in online retailing has impacted the retail industry, affecting consumer purchasing behaviour which may reduce the need for retail spaces. Owing to lockdowns and control measures, the pandemic has driven the surge in adopting online platforms for consumer to obtain goods and services. The ease of purchase via online channel may potentially reduce the attractiveness of retail malls and could impact Paragon REIT's financial performance.

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