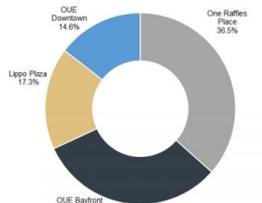


**Company Overview**

Figure 1. OUECT revenue contribution by property



Top 5 Tenants (by Gross Rental Income)	
BAML	7.8%
Deloitte	5.6%
L Brands	3.6%
Hogen Lovells Lee & Lee	2.2%
OUE Limited	2.2%

OUECT is a Singapore-based REIT that invests in real estate used primarily for commercial purposes in financial and business hubs in key gateway cities. It has 3 key properties: OUE Bayfront, One Raffles Place, and Lippo Plaza (Shanghai), that provide prime Grade-A office spaces. In 4Q18, OUECT acquired OUE Downtown, further reinforcing its portfolio of prime properties.

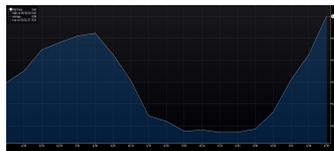
(\$ M)	FY17A	FY18A	FY19E	FY20E
Revenue	179.6	183.6	223.3	234.3
Gr Rate (%)	(0.4)	2.2	26.6	4.9
NPI	138.2	138.2	159.0	169.0
Margin (%)	77.0	75.3	71.2	72.1
Net Income	82.1	79.0	98.3	103.1
Margin (%)	45.7	43.0	44.0	44.0
ROA	3.9	2.9	1.7	1.8
ROE	10.4	6.8	3.8	4.1
EV/EBITDA	22.6	27.1	23.6	27.1
P/E Ratio	8.2	8.0	17.2	19.1

**Investment Thesis**

Figure 4. OUECT's occupancy outperforming core CBD office spaces



Figure 2. Singapore office rent growth to act as positive tailwind



- Market leader in a niche field.** OUECT's portfolio is focussed on the Grade A CBD market, allowing it to fully capture the benefits of favorable demand and supply dynamics going forward. OUECT's ability to charge a premium in rents relative to its peers and its strong tenant base further highlight its leadership position.
- Strategic acquisition to drive DPU growth.** OUE downtown to result in DPU accretion in the long term. Current rent of S\$7 psf/mth at OUE Downtown is below the Shenton Way/Tanjong Pagar submarket of S\$8.43 psf/mth. Reversion to market rates expected to come into force by 2020 based on lease expiry profile. Income support from Sponsor (\$60m over the next 5 years) to act as a safety net if reversion to market rates does not materialize.
- Strong portfolio performance.** Positive rental reversions achieved in 4Q18 at OUE Bayfront and Lippo Plaza, whilst One Raffles Place attained flat reversions. Post increment average office passing rent is currently \$11.60 psf per month at OUE Bayfront, and RMB9.81 psm/day at Lippo Plaza. Core properties continue to achieve above market average occupancy rates, indicating robust demand for OUECT's premium office spaces.

**12M Industry Outlook**

Figure 2. Rising proportion of fixed rate borrowing counters interest rate risk

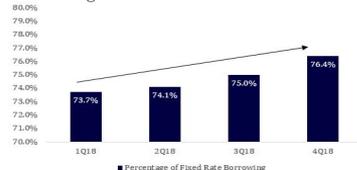
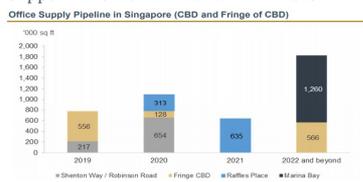


Figure 3. Benign Office Supply in core CBD supportive of continued rent increases



- Demand** for Singapore office spaces underpinned by strong growth in the finance and technology sectors. MAS is looking to add 3,000 jobs in the financial sector by 2020. Government initiatives to expand the ICT sector (Smart Nation Project) are expected to create over 42,000 jobs in the next 3 years. Step up hiring will act as a tailwind for office rentals.
- Supply** expected to remain tight. Limited availability of CBD office space coupled with elevated demand saw Grade A CBD core office rents rising 3.3% q-o-q in 4Q18. FY18 net absorption slightly exceeded net supply by 80,000 sqft to generate higher occupancy of 94.8%. Favorable trends expected to continue through 2020/2021 on the backdrop of a constrained supply pipeline.
- Risk:** Rising interest rates. Post acquisition gearing stands at 39.3% as at 31 Dec 2018 (compared to 37.3% as at 31 Dec 2017). However, 76.4% of borrowings were on fixed rate basis, mitigating effects of potential interest rate hikes. Debt profile also indicates no major refinancing risk in the future.

**Valuations**

Key assumptions for dividend discount model:

- FY2019 dividend: \$ 0.0343
- Terminal dividend growth rate: 2.2% (in line with forecasted long term GDP growth rate of Singapore)
- Cost of equity: 7.98%



Figure 6. Blended 12m forward P/E valuation

12M blended price target stands at \$0.585 (average of both valuation methods). Implied upside of +17.0% based on last closing price of \$0.500 as at valuation date.

Primary valuation method: DDM achieved a price target of \$0.593. Historic payout ratio was assumed.

Secondary valuation method: Historic 12M forward P/E with a 5 year lookback period. Currently trading at 17.3x forward P/E. Expectations of a reversion to the mean of 19.1x forward P/E yields target price of \$0.573.

Dividend yield analysis: OUECT's forward yield of 6.86% is over 210 bps above those of peers like Keppel and CCT. This exceeds the historic average of ~140 bps. Target price of \$0.585 implies a forward spread of ~120 bps over the peer group, which is justifiable post acquisition due to a more diversified asset base.