

## Issuer Profile:

# OUE Limited (“OUE”)

Neutral (5)

## Ticker:

OUESP

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### New Issue

- OUE is looking to price a **SGD5Y senior unsecured bond with IPG at the 3.7% area.**
- OUE is a known issuer in the SGD-space. Similar to other senior unsecured bonds issued by OUE, the new senior unsecured bond is proposed to be issued by OUE Treasury Pte Ltd, guaranteed by OUE.
- The use of proceeds for the bond is to be on-lent to the group for general working capital purposes, general corporate funding (including investments and capital expenditures) purposes of the group and/or refinancing the existing borrowings of the group.

### Recommendation

- We are Underweight the OUE proposed 5Y bond at IPG of 3.7% and we place **fair value at a floor of 4.2% YTM**. We note that as of writing, the broader Asia high yield market is in a relatively volatile state and expect that from a technical demand perspective in this environment, investors are likely to seek additional compensation from true high yield issuers.
- We take primary reference to the bonds issued by OUE Commercial Trust (“OUE-CT”, Issuer profile: Unrated) as we maintain our preference for bonds from OUE-CT over OUE. In our view, OUE-CT provides better yield pick-up for a more manageable credit profile versus OUE and as such this forms our starting point. REITs are subject to an aggregate leverage cap of 50%. We take OUE’s own curve as a secondary reference.
- OUE-CT is a diversified REIT (stapled with business trust), ~48%-owned by OUE and its financial performance is consolidated into OUE’s financials as a subsidiary. Notwithstanding its smaller scale prima facie, OUE-CT sits closer to key investment properties of the group and hence also closer to the direct rental income streams.
- In contrast, OUE functions as a holding company and has in the recent years invested in businesses and geographies outside its traditional core property-based operations in Singapore.
- We maintain OUE’s issuer profile at Neutral (5), albeit with a cautious outlook over a 12-month period. We do not officially cover OUE-CT on a standalone basis, though see its credit profile which is partly exposed to the hospitality sector as somewhat weaker than the bulk of the mid-size REITs under our coverage.

### Relative Value:

Bond	Maturity / Call date	Net Gearing	Ask YTM/YTC	Spread	Recommendation
<b>New OUE 5Y bond</b>	<b>2026</b>	<b>41%</b>	<b>3.7% (IPG)</b>	<b>254bps</b>	<b>UW</b>
OUESP 3.75% ‘22s	17/04/2022	41%	1.59%	137bps	UW*
OUESP 3.55% ‘23s	10/05/2023	41%	2.40%	199bps	UW*
OUECT 4.0% ‘25s	24/06/2025	53%	3.58%	263bps	-
OUECT 3.95% ‘26s	02/06/2026	53%	3.59%	247bps	-

*Indicative prices as at 14 September 2021 Source: Bloomberg*

*Note: (1) Reported net gearing based on latest available financials and business updates*

*\*Based on monthly credit view (02 September 2021)*

### Background

- OUE Limited (“OUE”), an investment holding company is listed on the Singapore Stock Exchange with a market cap of SGD1.2bn as at 14 September 2021. OUE also owns investment properties and has increased its exposure to the healthcare segment and China property businesses.
- OUE owns a ~48%-stake in OUE-Commercial REIT (“OUE-CT”) that combined with OUE-Hospitality Trust (“OUE-HT”) in September 2019 and increased its stake in OUE Lippo Healthcare Ltd (“OUE-LH”) to ~70.4% since 31 March 2021 (from 64.4% earlier). Both OUE-CT and OUE-LH are consolidated as subsidiaries of OUE.
- Additionally, OUE owns a deemed 100%-stake in the REIT Manager of First Real Estate Investment Trust (“First REIT”, Issuer profile: Negative (7)), a deemed ~28.0%-stake in First REIT itself and a

~23.0%-stake in Hong Kong-listed Gemdale Properties and Investment Corporation Limited ("Gemdale").

- OUE is ~70.1%-indirectly owned by Lippo ASM Asia Property Limited ("LAAPL"). Hong Kong listed Lippo Limited has a deemed 50%-voting rights of LAAPL although has ~94.3% of the profit share. Argyle Street Management Limited ("ASM") is deemed interested in OUE as well via its voting rights in LAAPL. The remaining shareholding in OUE is dispersed.
- OUE is incorporated in Singapore. OUE's SGD-bonds are issued by OUE Treasury Pte Ltd, unconditionally and irrevocably guaranteed by OUE.
- The company's consolidated revenue for 1H2021 was down by 49.5% y/y at SGD152.0mn, driven by declines in the Investment Properties, Development Properties and Hospitality Properties segment. EBITDA (based on our calculation which does not include other income and other expenses) was SGD74.5mn in 1H2021, resulting in EBITDA/Interest of 1.5x (1H2020: 1.3x). Unadjusted net gearing based on book value had declined to 41% as at 30 June 2021 from 52% as at end-2020, driven by debt repayments. In 1H2021, OUE's repayment of debt (net of new borrowings) was SGD882.2mn, mainly from proceeds from divestments in 2H2020 and 1H2021.
- OUE's market implied net gearing whilst remaining high at 1.8x, has declined from the reduction in debt and a ~19% increase in its market cap since end-2020. In our view, OUE is more reliant on potential asset sales versus new equity raising as a means of funding.

#### Recent Write-ups on OUE and comparable issuers from OCBC Credit Research

- [OUE Limited: Credit Update \(11 June 2021\)](#)
- [Asian Credit Daily \(04 August 2021\)](#)

### Explanation of Issuer Profile Rating / Issuer Profile Score

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

**Please note that Bond Recommendations are dependent on a bond’s price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.**

### Explanation of Bond Recommendation

**Overweight (“OW”)** – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral (“N”)** – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight (“UW”)** – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

### Other

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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#### Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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