Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: OUE Hospitality REIT Management Pte. Ltd.

Security: OUE Hospitality Trust

Meeting details:
Date: 30 April 2019
Time: 10.00 a.m.
Venue: Mandarin Orchard Singapore Mandarin Ballroom I, II and III 6th Floor, Main Tower 333 Orchard Road Singapore 238867

Company Description

OUE Hospitality Trust (OUE H-Trust) is a Singapore-based stapled group comprising OUE Hospitality Real Estate Investment Trust (OUE H-REIT) and OUE Hospitality Business Trust (OUE H-BT). OUE H-REIT is an REIT established with the principal investment strategy of investing, directly or indirectly, in a portfolio of income-producing real estate, which is used primarily for hospitality and/or hospitality-related purposes, whether wholly or partially, as well as real estate-related assets. Real estate, which is used for hospitality purposes includes hotels, serviced residences, resorts, whether in existence by themselves as a whole or as part of larger mixed-use developments, which may include commercial, entertainment, retail and leisure facilities. Properties, which are used for hospitality-related purposes include retail and/or commercial assets, which are either complementary to or adjoining hospitality assets. OUE H-REIT is managed by OUE Hospitality REIT Management Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=SK7)

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Q1. Would the manager provide unitholders with better clarity on the following operational matters? Specifically:

(i) **Mandarin Orchard Singapore (MOS):** The hotel was affected in December 2018 when the banquet operation was suspended following a bout of food poisoning that affected 333 people at several events held at MOS[1]. The National Environment Agency (NEA) only lifted the suspension after nearly two months in late January 2019. **Can the REIT manager help the stapled securityholders understand how it works with the master lessee (and the hotel manager) to operate the hotel in a sustainable and profitable manner to deliver consistent and long term value to the stapled securityholders? Does the REIT manager evaluate and benchmark the performance of the master lessee and the hotel manager?**

(ii) **Crowne Plaza Changi Airport (CPCA):** Since 3Q2017, the group has fully drawn down its income support for CPCA. The group currently benefits from the downside protection accorded by the minimum rent of $22.5 million per annum as part of the CPCA master lease agreement. This would allow CPCA to mature in a competitive hotel market. **Can the REIT manager help stapled securityholders understand the actual level of income achieved by CPCA? What is the shortfall from the minimum rent of $22.5 million? What are the key targets (in occupancy, rates or RevPAR) that would allow CPCA to report income exceeding the $22.5 million?**

(iii) **Mandarin Gallery (MG):** Despite the retail mall reporting the highest ever committed occupancy of 99.1%, rental reversion for 8% of net lettable area at MG was (8.9)%. This was due to "a strategic move to optimise leasing strategy". The effective rent has slipped from $23.3 per square feet per month (psfpm) to $22.5 psfpm. In 4Q2018, the effective rent was just $22.2 psfpm. **Would the REIT manager elaborate in greater detail the new "strategic move to optimise leasing strategy"? With a lower effective rent of $22.2 psfpm achieved in 4Q2018, does it mean that the topline from MG will continue to fall in the new financial year and the net property income will be under pressure?**

Q2. The stapled group has a strategy that includes (a) Optimising assets and delivering operational excellence, (b) Prudent capital management and (c) Growth through strategic acquisitions.

Notwithstanding that the portfolio has grown from the two initial assets worth $1.15 billion to $2.22 billion with the addition of the 563-room Crowne Plaza Changi Airport

[1] https://www.straitstimes.com/singapore/nea-lifts-suspension-on-mandarin-orchard-premises-after-norovirus-outbreak-concerns

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("CPCA"), the distribution per stapled security has been on a downward trend. The financial highlights from page 7 of the annual report is reproduced below for reference:

	FY2014	FY2015	FY2016	FY2017	**FY2018**
Gross Revenue (S$ million)	115.9	124.6	122.5	131.1	**129.7**
Net Property Income (S$ million)	103.2	109.1	107.4	112.7	**112.8**
Distributable Income (S$ million)	89.0	87.4	82.5	92.9	**90.8**
Distribution Per Stapled Security (DPS) (S cents)	6.74	6.55	4.61	5.14	**4.99**
Distribution Yield[1]	7.5%	8.5%	7.0%	6.1%	**7.4%**

(Source: Annual report 2018)

(i) **Has the board reviewed the performance of the group? What deliberations did the board have on the trend of the distribution?**

(ii) **How has the manager's acquisition strategy been further finetuned given the experience of previous acquisitions made by the trust? Has the board/management re-evaluated the role of income support in its acquisition?**

(iii) **Has the REIT manager evaluated any other third party asset? What is the experience of the REIT manager in sourcing for good quality hospitality/hospitality-related assets?**

Q3. On 8 April 2019, the potential merger between OUE Commercial Trust (OUECT) and OUE Hospitality Trust (OUEHT) through a trust arrangement was announced. It has been proposed that OUECT would offer to buy OUEHT via a cash and stock deal.

The combined OUECT and OUEHT would have an estimated market cap of $2.8bn and assets worth $6.7bn, with hospitality assets accounting for 25% of the enlarged portfolio.

(i) Would the manager help **stapled securityholders understand if it was OUECT who made the move in this proposed merger?**

(ii) **Is the merger in line with the group's strategic growth plans?**

(iii) What synergies are there between the group's hospitality operations and the commercial assets in OUECT?

(iv) Can the directors help **stapled securityholders understand their roles in this proposed merger?**