Singapore Company Guide

Ascendas Hospitality Trust

Version 8 | Bloomberg: ASCHT SP | Reuters: ASHP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Feb 2018

BUY

Last Traded Price (2 Feb 2018): S$0.885 (STI : 3,529.82)
Price Target 12-mth: S$0.97 (10% upside) (Prev S$0.91)

Analyst
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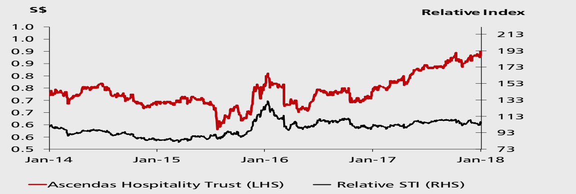
What's New

- 3QFY18 DPU of 1.41 Scts (-14% y-o-y) below expectations
- Decline in DPU was expected due to absence of one-off gains in 3Q17 but Australian contribution lower than projected
- NAV per unit to rise to c.S$1.02 post the sale of the Beijing hotels at more than twice book value

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	224	224	209	209
Net Property Inc	99.2	98.5	95.0	95.3
Total Return	48.5	34.1	34.8	37.7
Distribution Inc	67.2	66.9	69.1	70.5
EPU (S cts)	3.49	3.02	3.06	3.30
EPU Gth (%)	3,515	(13)	2	8
DPU (S cts)	5.68	5.49	5.77	5.85
DPU Gth (%)	5	(3)	5	2
NAV per shr (S cts)	91.7	93.3	102	102
PE (X)	25.4	29.3	28.9	26.8
Distribution Yield (%)	6.4	6.2	6.5	6.6
P/NAV (x)	1.0	0.9	0.9	0.9
Aggregate Leverage (%)	32.2	31.8	20.4	20.3
ROAE (%)	3.9	3.3	3.1	3.2
Distn. Inc Chng (%):		-	(2)	(1)
Consensus DPU (S cts):		5.80	6.10	6.10
Other Broker Recs:		B: 1	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Still offers upside

Tighter yields ahead. We maintain our BUY call with a revised TP of S$0.97. While we expect Ascendas Hospitality Trust's (ASCHT) DPU to take a breather in FY18 and its yield differential to other hospitality REITs has now compressed to its average differential spread of 0.6% as we had projected in 2017, we believe the sale of its Beijing hotels at more than twice the book value demonstrates the valuation upside potential of its portfolio. This we believe should allow ASCHT's yield differential to tighten further from here.

Where we differ (DBS is the sole broker covering the stock) – Misunderstood exposure. ASCHT's has been ignored by many investors due to its small market cap and its large exposure outside Singapore. We believe this is an opportunity, as its key markets of Australia (c.52% of 9M18 NPI) and Japan (c.25%) are in a secular uptrend over the medium term, thanks to their low penetration of international visitors. For example, a small country like Singapore attracts c.16m visitors annually versus Japan and Australia with around 24m and 8m, respectively.

Upside from acquisitions. With its gearing expected to drop to c.28% post the sale of its Beijing hotels, ASCHT is in a strong position to pursue DPU accretive acquisitions. We also believe the trust's ability to execute on non-organic opportunities is enhanced by having Mr Miguel Ko as Chairman. Mr Ko, who is the CEO of ASCHT's sponsor, was formerly the Chairman and President of Starwood Hotels & Resorts (Asia Pacific Division) and Deputy Chairman and CEO of CDL Hotels International.

Valuation:

After lowering our beta assumptions to better reflect the upside potential of its property values, we raised our DCF-based TP to S$0.97 from S$0.91.

Key Risks to Our View:

Key risk to our positive view is if there are large falls in the AUD/JPY and there is excess supply in ASCHT's respective markets, resulting in downside risks to our DPU estimates.

At A Glance

Issued Capital (m shrs)	1,129
Mkt. Cap (Sm/USm)	999 / 757
Major Shareholders (%)	
Ascendas Pte Ltd	27.1
Tang Yigang	6.2
Jinquan Tong	4.9
Free Float (%)	56.9
3m Avg. Daily Val (US$m)	0.60

ICB Industry : Financials / Real Estate Investment Trust

DBS

ed: JS / sa:YM, PY, CS

WHAT'S NEW

Soft quarter

(-) 3QFY18 DPU down 14% y-o-y

- ASCHT's 3Q18 DPU came in at 1.41 Scts down 14% y-o-y. While we had expected a drop largely on account of the absence of one-off income (realised FX gains in 3Q17), the results were weaker than expected due to softer performance from ASCHT's Melbourne properties due to a lower amount of conference activities following the reopening of the convention centre in Sydney.
- The decline in DPU was also a function of lower revenue (-1.8% y-o-y) and NPI (-4.7% y-o-y) as ASCHT suffered from a weaker AUD, RMB and JPY as well as higher amount of income that was retained (c.7% versus c.5% previously).

(-) Lower contribution from Australia and Japan with stable performance from China

- Over the quarter, the Australian property recorded a 1.9% improvement in revenue per available room (RevPAR) to A$160. The increase in RevPAR was mainly boosted by an increase at the Novotel Sydney Central (+7.9% y-o-y) and Courtyard by Marriott Sydney-North Ryde (+6.1% y-o-y) which benefited from recent room refurbishments.
- However, due to the lower contribution from its Melbourne property which was impacted by higher land tax and weaker conference activities, NPI in AUD and SGD terms fell 6.4% and 7.6% y-o-y respectively.
- Contribution from ASCHT's Japan portfolio was also down 5.4% y-o-y in SGD terms. This was largely due to a weaker JPY with underlying NPI in JPY terms up 2.1% y-o-y. The improvement in JPY terms was attributed to RevPAR at Oakwood Apartments Ariake Tokyo rising 5.9% y-o-y, with growth in inbound guests driving earnings from Hotel Sunroute Osaka Namba higher.
- Meanwhile, earnings from the Beijing hotels were marginally up 0.7% due to a weaker RMB. NPI in RMB terms was up 1.4% y-o-y as the Novotel Beijing Sanyuan saw stronger public and corporate demand. This contributed to the China RevPAR being up 0.9% y-o-y to RMB349.
- Finally, the Singapore operations recorded a 6.3% y-o-y increase in NPI largely due to some variable income received as RevPAR for the property improved.

(+/-) Gearing to drop

- On the back of currency fluctuations, ASCHT's gearing rose to 33.2% from 32.6% at end 2Q18. This is expected to fall to 21-22% once ASCHT completes the sale of its Beijing hotels at end May 2018.
- Over the quarter, ASCHT's average borrowing costs fell to 2.7% from 2.9% as it achieved some savings following the refinancing of some its debt.
- The proportion of fixed rate debt was relatively stable at c.77% with NAV per unit falling to S$0.86 from S$0.89 at end 2Q18 largely due to a higher number of shares on issue.

(-) Trimming DPU estimates

- On the back of a weaker than expected 3Q18 DPU, we trimmed our FY18-19F DPU by 2% p.a.
- However, we raised our DCF-based TP to S$0.97 from S$0.91 as we lowered our beta assumptions to capture the expected increase in NAV per unit as ASCHT is expected to complete the sale of its Beijing hotels for more than double its book value and on a 3.3% exit NPI yield. For more details, please refer to our recent report "Disposal of China hotels at double its book value". ASCHT's NAV per unit is projected to rise to S$1.02 from S$0.86 currently.
- We have pegged our TP slightly below ASCHT's proforma NAV per unit of S$1.02 to account for ASCHT's lower than average trading liquidity and uncertainty over where the trust will deploy its proceeds.

(+/-) Near term headwinds but recovery on the horizon

- While we expect ASCHT to continue to face some near-term headwinds from a weaker JPY and AUD relative to the levels a year ago and some softness at its Melbourne property from a reduction in conference activities, we expect a recovery going into FY19 as the Singapore hospitality market recovers and ASCHT benefits from its Ariake property being converted to a Sunroute brand versus a mix of Sunroute and Oakwood Apartments.
- Beyond this, we also expect ASCHT to lift its earnings as it pursues acquisitions given its gearing will fall to 21-22% once it completes the sale of its Beijing hotels.

Maintain BUY with revised TP of S$0.97

- We continue to like ASCHT for its medium-term leverage to the Australian and Japanese hospitality markets and c.13% discount to its proforma book value of S$1.02.
- Therefore, with more than 10% total return projected over the coming 12 months, we maintain our BUY call with a revised TP of S$0.97.

Quarterly / Interim Income Statement (S$m)

FY Mar	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Gross revenue	59.2	58.4	58.1	(1.8)	(0.6)
Property expenses	(32.7)	(33.9)	(32.9)	0.5	(3.1)
Net Property Income	26.4	24.5	25.2	(4.7)	2.7
Other Operating expenses	(2.5)	(10.1)	(46.3)	nm	360.4
Other Non Opg (Exp)/Inc	0.0	2.70	0.0	0	-
Net Interest (Exp)/Inc	(4.0)	(3.7)	(3.6)	11.5	3.9
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**19.9**	**13.5**	**(24.7)**	**nm**	**nm**
Tax	(1.9)	(1.9)	(1.6)	(13.6)	(13.8)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**18.0**	**11.6**	**(26.3)**	**nm**	**(327.8)**
Total Return	18.0	11.6	(26.3)	nm	(327.8)
Non-tax deductible Items	1.54	5.63	43.5	nm	672.1
Net Inc available for Dist.	19.5	17.2	17.2	(12.1)	(0.2)
Ratio (%)					
Net Prop Inc Margin	44.7	42.0	43.4		
Dist. Payout Ratio	94.8	93.6	93.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Australia – the largest contributor. ASCHT's Australian portfolio contributed c.52% of 9M18 NPI. With continued growth in tourist arrivals and modest new hotel supply in the business districts of Sydney and Melbourne in the near term, we expect ASCHT's properties in these two locations to drive the REIT's performance going forward. However, contribution from the Australian operations is tempered by near-term supply pressures in the Brisbane and suburban Sydney markets as well as drag from lower conference activity in Melbourne. Moving into 2019, the Australian portfolio should also receive a boost as ASCHT has inked an agreement to acquire the serviced apartment component at Aurora Melbourne Central for A$120m, on an NPI yield of 7.6%. Construction of Aurora Melbourne Central is due to be completed in 2H19. Due to uncertainty over how ASCHT will fund the acquisition of Aurora Melbourne and RevPAR in 2019, we have yet to include this investment in our estimates.

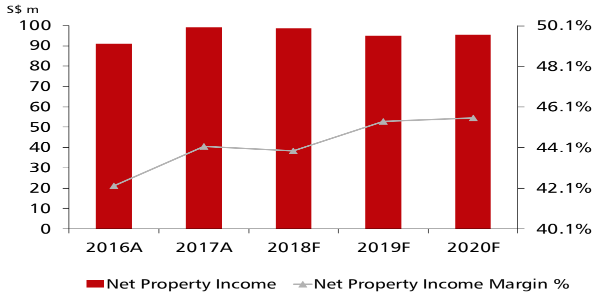
Japan is medium growth driver. Despite the potential softening in ASCHT's Japanese operations due to the recent strengthening of the JPY and potential supply pressures, we remain positive on the outlook for ASCHT's Japanese properties (c.25% of 9M18 NPI) in the medium term. This is because while the pace of inbound tourists may slow, it should remain on an uptrend as the Japanese government continues to support the tourism sector through the relaxation of visa requirements.

New operator for Osaka Namba hotel. Another boost for ASCHT going forward is the 13% uplift in annual fixed rents for its Osaka Namba Washington Hotel, as ASCHT recently appointed a new operator, Sunroute Co Ltd. As part of the new 10-year agreement, the hotel will undergo a refurbishment and be rebranded under the "Sunroute" name.

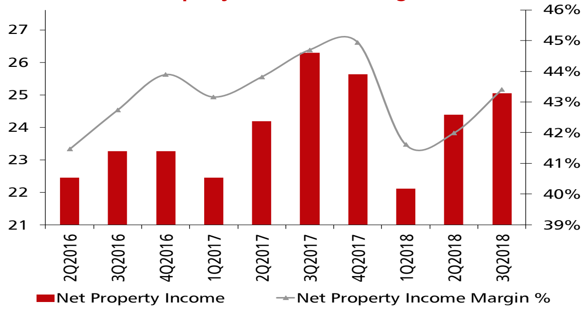
Modest contribution from Singapore. We forecast a modest contribution from ASCHT's Singapore operation (13% of 9M18 NPI) given the near-term oversupply situation, limiting the variable rent that Park Hotel Clarke Quay will generate. Nevertheless, downside from Singapore is limited given an annual fixed rent of c.S$12m with a 3% annual escalation.

Upside from acquisitions. Following the sale of its Beijing hotels for more than double its book value at end May 2018, ASCHT's gearing is expected to fall to 21-22% which provides significant debt headroom to pursue acquisitions including the acquisition of Aurora Melbourne in 2019.

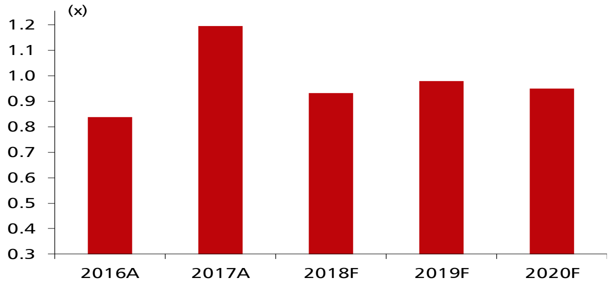
Net Property Income and Margins (%)



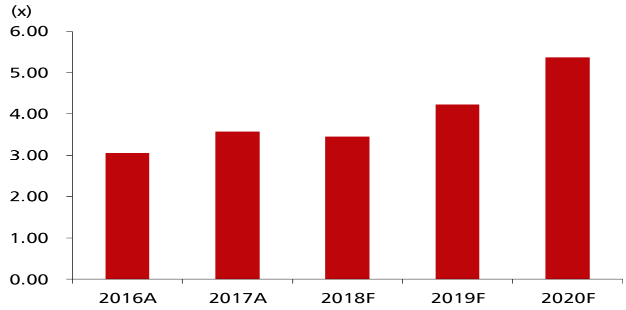
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Fall in gearing. Post the sale of its Beijing hotels, we expect ASCHT's gearing to fall to 21-22% from c.33%.

Moderate exposure to rising interest rates. With average debt maturity of 2.8 years and c.77% of its borrowings on fixed rates ASCHT has moderate exposure to rising interest rates. In terms of refinancing risks, there is about S$173m and S$161m worth of debt due in 2018 and 2019 respectively.

Share Price Drivers:

Inorganic drivers. While ASCHT's ability to raise equity in the short term is constrained by the fact the trust is trading on a relative high distribution yield (6.3-6.5%), we think its gearing of 21-22% provides ASCHT with some headroom to pursue debt-funded acquisitions.

Leverage to upturn in Australia and Japan. ASCHT's key markets of Australia (c.52% of 9M18 NPI) and Japan (c.25%) are in a secular uptrend over the medium term, thanks to their relatively low penetration of international visitors. For example, a small country like Singapore attracts c.16m visitors annually versus Japan and Australia with around 24m and 8m, respectively. Thus, we believe there is an opportunity for investors to gain exposure to the growing Australian and Japanese hospitality markets at the early stages of their upturn.

Key Risks:

Interest-rate risk. As the US Federal Reserve is expected to continue raising interest rates, ASCHT faces the challenge of higher interest costs. Nevertheless, with c.77% of the group's debt on fixed rates, ASCHT is partially insulated in the near term.

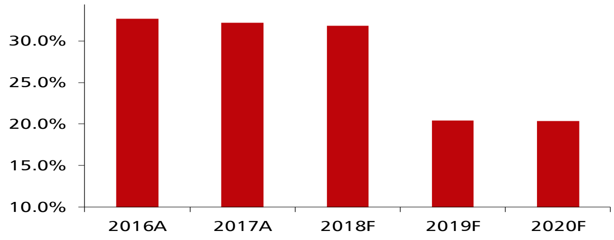
FX risks. Significant volatility in AUD and JPY would negatively impact our DPU estimates. However, this risk is tempered by ASCHT entering into 15-month rolling hedges.

Supply risk. Any significant increase in the number of hotel rooms without commensurate growth in demand could limit income growth for the REIT, as hotels may have to lower their room rates to remain competitive and maintain high occupancies.

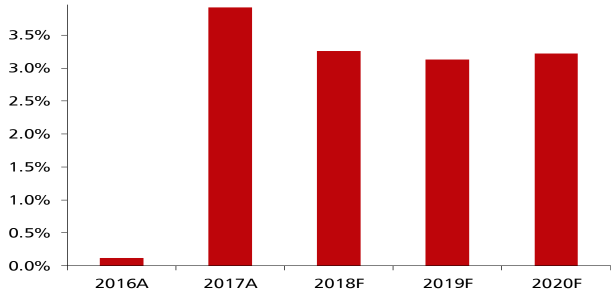
Company Background

A-HTRUST is a stapled group comprising Ascendas Hospitality Business Trust (A-HBT) and Ascendas Hospitality REIT (A-HREIT), established to invest in a diversified portfolio of hotel assets in Asia, Australia, and New Zealand.

Aggregate Leverage (%)

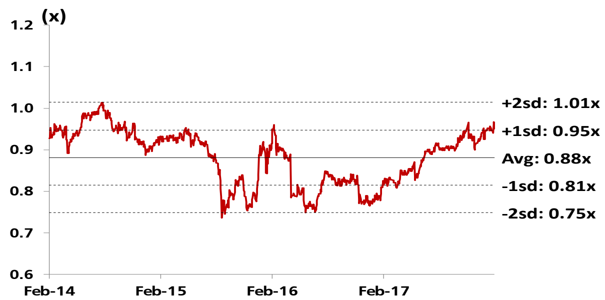


ROE (%)



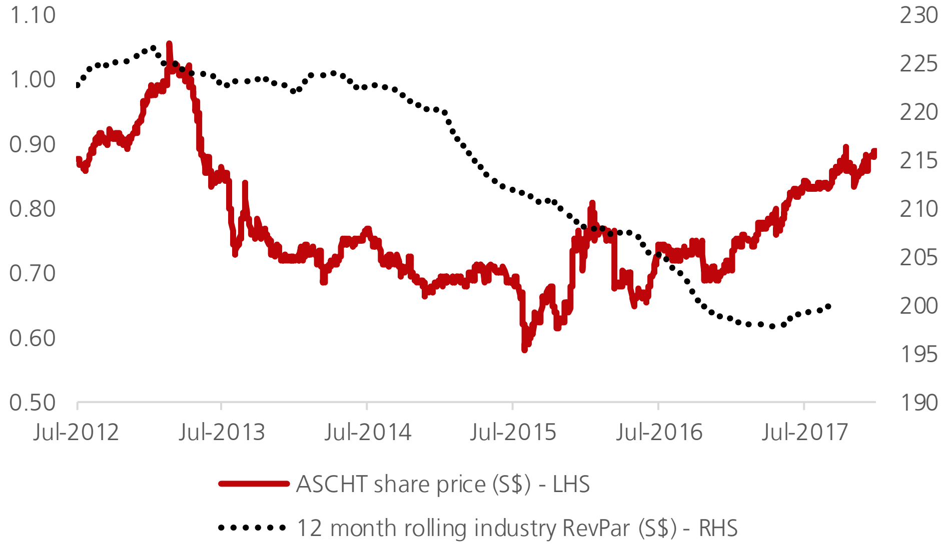
Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

ASCHT share price versus Singapore industry RevPAR



Source: Bloomberg Finance L.P., STB, DBS Bank

Remarks

ASCHT's share price typically tracks the direction of overall Singapore RevPAR despite its small exposure to Singapore.

With RevPAR declining over the past few years, ASCHT's share price fell accordingly until late 2015, when it started rising on a potential takeover.

Going forward, we believe the recovery of the Singapore market in 2018, combined with steady DPU growth, should be supportive of ASCHT's share price going forward.

Income Statement (S$m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Gross revenue	215	224	224	209	209
Property expenses	(124)	(125)	(126)	(114)	(114)
Net Property Income	**90.9**	**99.2**	**98.5**	**95.0**	**95.3**
Other Operating expenses	(36.2)	(39.0)	(40.1)	(39.6)	(39.7)
Other Non Opg (Exp)/Inc	(2.4)	3.96	0.0	0.0	0.0
Net Interest (Exp)/Inc	(17.9)	(16.8)	(16.9)	(13.1)	(10.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**38.5**	**47.3**	**41.5**	**42.3**	**45.2**
Tax	(37.4)	(8.2)	(7.5)	(7.5)	(7.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**1.08**	**39.2**	**34.1**	**34.8**	**37.7**
Total Return	147	48.5	34.1	34.8	37.7
Non-tax deductible Items	62.6	28.0	32.8	34.3	32.8
Net Inc available for Dist.	63.7	67.2	66.9	69.1	70.5
Growth & Ratio					
Revenue Gth (%)	(5.3)	4.3	(0.2)	(6.7)	0.0
N Property Inc Gth (%)	(2.7)	9.1	(0.7)	(3.6)	0.3
Net Inc Gth (%)	(94.2)	3,535.6	(13.0)	2.1	8.2
Dist. Payout Ratio (%)	95.0	95.1	93.0	95.0	95.0
Net Prop Inc Margins (%)	42.2	44.2	44.0	45.4	45.6
Net Income Margins (%)	0.5	17.4	15.2	16.6	18.0
Dist to revenue (%)	29.6	29.9	29.9	33.0	33.7
Managers & Trustee's fees	16.8	17.4	17.9	18.9	19.0
ROAE (%)	0.1	3.9	3.3	3.1	3.2
ROA (%)	0.1	2.3	2.0	2.1	2.3
ROCE (%)	0.1	3.4	3.2	3.1	3.3
Int. Cover (x)	3.1	3.6	3.5	4.2	5.4

Source: Company, DBS Bank

Growth driven by ASCHT's properties in the CBD of Sydney properties and recovery of the Singapore hospitality market

Quarterly / Interim Income Statement (S$m)

FY Mar	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Gross revenue	59.2	57.4	53.5	58.4	58.1
Property expenses	(32.7)	(31.6)	(31.2)	(33.9)	(32.9)
Net Property Income	26.4	25.8	22.3	24.5	25.2
Other Operating expenses	(2.5)	(10.4)	(9.9)	(10.1)	(46.3)
Other Non Opg (Exp)/Inc	0.0	(1.0)	(1.4)	2.70	0.0
Net Interest (Exp)/Inc	(4.0)	(3.9)	(3.7)	(3.7)	(3.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**19.9**	**10.4**	**7.21**	**13.5**	**(24.7)**
Tax	(1.9)	(2.8)	(1.3)	(1.9)	(1.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**18.0**	**7.60**	**5.89**	**11.6**	**(26.3)**
Total Return	18.0	17.0	5.89	11.6	(26.3)
Non-tax deductible Items	1.54	8.57	9.95	5.63	43.5
Net Inc available for Dist.	19.5	16.2	15.8	17.2	17.2
Growth & Ratio					
Revenue Gth (%)	6	(3)	(7)	9	(1)
N Property Inc Gth (%)	9	(3)	(14)	10	3
Net Inc Gth (%)	92	(58)	(22)	96	(328)
Net Prop Inc Margin (%)	44.7	44.9	41.6	42.0	43.4
Dist. Payout Ratio (%)	94.8	95.3	93.0	93.6	93.0

Balance Sheet (S$m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Investment Properties	788	824	830	719	725
Other LT Assets	733	796	796	796	796
Cash & ST Invts	94.6	86.2	104	99.6	96.8
Inventory	0.37	0.43	0.43	0.43	0.43
Debtors	10.9	13.8	9.54	8.90	8.90
Other Current Assets	5.01	5.25	5.25	5.25	5.25
Total Assets	**1,632**	**1,726**	**1,745**	**1,629**	**1,633**
ST Debt	58.0	64.3	64.3	64.3	64.3
Creditor	47.6	39.8	29.6	26.9	26.8
Other Current Liab	6.27	4.21	9.98	9.99	10.1
LT Debt	475	491	491	268	268
Other LT Liabilities	81.4	93.5	93.5	93.5	93.5
Unit holders' funds	963	1,033	1,057	1,167	1,170
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,632**	**1,726**	**1,745**	**1,629**	**1,633**
Non-Cash Wkg. Capital	(37.7)	(24.5)	(24.4)	(22.3)	(22.3)
Net Cash/(Debt)	(439)	(469)	(451)	(233)	(235)
Ratio					
Current Ratio (x)	1.0	1.0	1.2	1.1	1.1
Quick Ratio (x)	1.0	1.0	1.1	1.1	1.1
Aggregate Leverage (%)	32.7	32.2	31.8	20.4	20.3
Z-Score (X)	1.0	1.0	1.0	0.9	0.9

Source: Company, DBS Bank

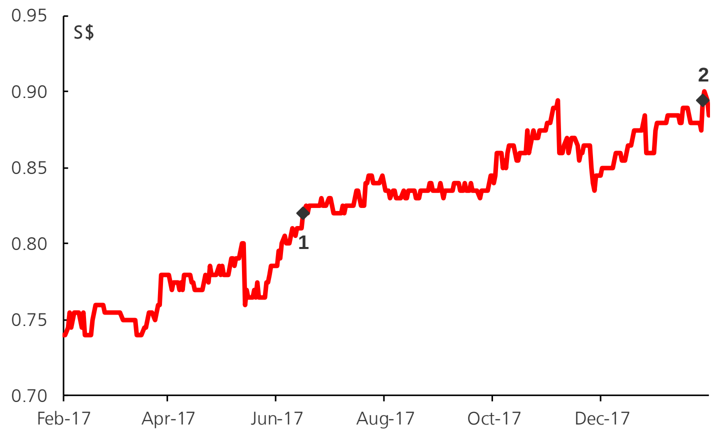
Impact from the sale of the Beijing hotels with net proceeds of c.S$218.7m mostly used to initially pay down debt

Cash Flow Statement (S$m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	38.5	47.3	41.5	42.3	45.2
Dep. & Amort.	26.0	27.0	28.5	29.0	29.5
Tax Paid	(3.1)	(6.2)	(1.7)	(7.5)	(7.5)
Associates &JV Inc/(Loss)	(4.0)	0.00	0.0	0.0	0.0
Chg in Wkg.Cap.	9.19	(14.0)	(5.9)	(2.1)	(0.1)
Other Operating CF	2.92	(3.3)	4.33	5.28	3.34
Net Operating CF	**69.5**	**50.9**	**66.7**	**67.0**	**70.5**
Net Invt in Properties	(11.4)	(10.4)	(5.6)	111	(6.3)
Other Invts (net)	29.5	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	1.02	0.0	0.0	0.0	0.0
Other Investing CF	(13.8)	(0.9)	19.3	106	0.0
Net Investing CF	**5.26**	**(11.2)**	**13.7**	**217**	**(6.3)**
Distribution Paid	(58.2)	(60.8)	(62.2)	(65.6)	(67.0)
Chg in Gross Debt	(8.8)	11.2	0.0	(223)	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**(67.0)**	**(49.6)**	**(62.2)**	**(289)**	**(67.0)**
Currency Adjustments	(1.2)	1.58	0.0	0.0	0.0
Chg in Cash	6.48	(8.4)	18.2	(4.9)	(2.7)
Operating CFPS (S cts)	5.40	5.77	6.43	6.08	6.19
Free CFPS (S cts)	5.19	3.61	5.41	15.7	5.63

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Jun 17	0.82	0.88	BUY
2:	30 Jan 18	0.90	0.91	BUY

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Mervin SONG, CFA
Derek TAN

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FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
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Share price appreciation + dividends

Completed Date: 5 Feb 2018 07:50:56 (SGT)
Dissemination Date: 5 Feb 2018 09:36:33 (SGT)

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