Singapore Company Guide

Ascendas Hospitality Trust

Version 10 | Bloomberg: ASCHT SP | Reuters: ASHP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Nov 2018

BUY

Last Traded Price (31 Oct 2018): S$0.79 (**STI :** 3,018.80)
Price Target 12-mth: S$0.98 (24% upside)

Analyst
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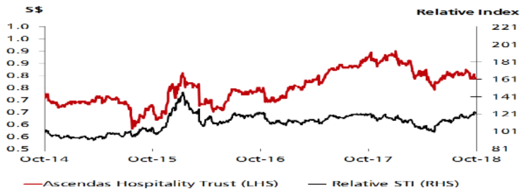
What's New

- 2Q19 results in line; boosted by contributions from recent acquisitions and lower interest costs
- Australia operations hazy in the near term given new supply
- Strategic refurbishments to keep hotels competitive and attractive to guests
- Potential upside from acquisitions

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	203	205	212	216
Net Property Inc	87.2	93.5	99.4	101
Total Return	21.3	34.7	38.7	39.2
Distribution Inc	71.3	69.5	72.7	73.6
EPU (S cts)	(0.1)	3.06	3.40	3.41
EPU Gth (%)	nm	nm	11	1
DPU (S cts)	5.86	5.80	6.03	6.08
DPU Gth (%)	3	(1)	4	1
NAV per shr (S cts)	91.9	101	101	101
PE (X)	nm	25.8	23.3	23.1
Distribution Yield (%)	7.4	7.3	7.6	7.7
P/NAV (x)	0.9	0.8	0.8	0.8
Aggregate Leverage (%)	30.8	29.0	28.9	28.9
ROAE (%)	(0.1)	3.2	3.4	3.4
Distn. Inc Chng (%):		-	-	-

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

Waiting to be rediscovered

Buy low, sell high. We maintain our BUY call with a TP of S$0.98. Ascendas Hospitality Trust's (ASCHT) management has demonstrated the ability to buy low and sell high as seen by the sale of its Beijing hotels at more than twice the book value, exit yield of 3.6%, and redeploying the proceeds into properties with net property income (NPI) yield above 4.1%. However, this value add has not been recognised with ASCHT's still trading c.24% below our fair value. Attractive yields of 7.3%-7.6% provides support to share price.

Where we differ (DBS is the sole broker covering the stock) - Misunderstood stock. ASCHT has been ignored by many investors due to its small market cap and its large exposure outside Singapore. We believe the stock offers compelling value, as its key markets of Australia (c.50% of FY18 NPI) and Japan (c.25%) are in a secular uptrend, thanks to the low penetration of international visitors. For example, a small country like Singapore attracts c.16m visitors annually versus Japan and Australia with c.24m and 8m, respectively.

Upside from acquisitions. ASCHT has delivered on acquisitions post sale of its properties in China, underpinning strong growth momentum from 2H19 onwards. We also believe ASCHT's ability to execute on its non-organic strategy is enhanced by having Mr Miguel Ko as Chairman. He is the CEO of ASCHT's Sponsor and was formerly the Chairman and President of Starwood Hotels & Resorts (Asia Pacific Division) and Deputy Chairman and CEO of CDL Hotels International.

Valuation:

We maintain our DCF-based TP of S$0.98. With 31% total return (24% capital upside and 7.3% yield), we reiterate our BUY call.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,133
Mkt. Cap (Sm/USm)	895 / 646
Major Shareholders (%)	
Temasek Holdings	28.9
Tang Yigang	7.7
Free Float (%)	63.4
3m Avg. Daily Val (US$m)	0.31
ICB Industry : Financials / Real Estate Investment Trust	

Live more, Bank less

ed: JS/ sa: AS, CW, CS

WHAT'S NEW

Robust results despite headwinds

(+) 2Q19 DPU of 1.42 Scts (+2.8% y-o-y) – IN LINE
2Q19 gross revenue and NPI fell 11.9% and 7.5% y-o-y to S$52.7m and S$22.1m, respectively. This was mainly due to the ongoing challenges faced by the REIT's Australia operations due to increasing supply competition, coupled with the weakness of the AUD vs SGD exchange rate. The full quarter's contribution from the recent acquisition of a hotel in Seoul has helped to partially offset the weaker performance.

Distributable income increased 3.6% y-o-y, mainly on interest cost savings and partial distribution of proceeds from the divestment of the China portfolio, resulting in 2.8% y-o-y growth in DPU to 1.42 Scts. Overall, 1H19 DPU of 2.73 Scts (+2.9% y-o-y) – based on a c.93% payout of distributable income - formed c.47% of our FY19F estimates.

(-/+) Softness in Australia offset by improved rent structure anchors resilience ahead.
NPI fell 19.9% y-o-y to S$10.3m, partly dragged by the softer AUD which weakened by c.7% y-o-y against the SGD. In Australia: RevPAR was down 4.7% y-o-y in 2Q19 as average daily rates (ADR) were lowered to defend market share, and as such, the occupancy rates for its hotels in Sydney remained strong at c.90% while achieving mid-80% levels across its hotels in Melbourne and Brisbane.
Upcoming 2019 elections is a dampener on business travel but initiatives in place to increase competitiveness and drive performance, particularly in the leisure segment. In addition, the refurbishment of the café at Pullman and Mercure Brisbane are ongoing, and the proposed refurbishment of rooms in Novotel Sydney will commence in 2019.

Japan: Hampered by poor weather conditions, but otherwise resilient. RevPar was down 5% y-o-y as the Japan market was dragged by the earthquake and typhoon in Osaka. Notwithstanding disruptive weather conditions, NPI held relatively steady (-1.6% y-o-y) at S$5.9m in 2Q19.

Higher contributions from Korea and Singapore.
NPI from the Korea market more than doubled q-o-q to S$0.9m in 2Q19 on the first full quarter contributions from Splaisir Seoul Dongdaemum, which was acquired in May 2018. Whilst variable rents have yet to kick in, the hotel delivered strong underlying performance with RevPAR growth of 8.9% y-o-y.

Back home, Park Hotel Clarke Quay continued to ride on the recovery in the local hotel sector. RevPAR in Singapore improved 2.5% y-o-y, driving a 3.9% increase in NPI to S$3.4m

Enhanced rent structure improves earnings visibility. Following the divestment of the China portfolio, which was under a management contract, and initiation of a master lease contract for the newly acquired hotel in Seoul, the proportion of master lease vs management contract based income rose from 38% in 2Q18 to 50% in 2Q19.

Ahead of the bottoming out of the Australia market, we believe that the improved income visibility under the current balanced rent structure enhances stability, which bodes well for future distributions.

Quarterly / Interim Income Statement (S$m)

FY Mar	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Gross revenue	58.4	44.9	46.4	(20.7)	3.2
Property expenses	(33.9)	(26.2)	(25.9)	(23.6)	(1.2)
Net Property Income	24.5	18.7	20.5	(16.6)	9.4
Other Operating expenses	(10.1)	(8.5)	(8.5)	(15.0)	0.6
Other Non Opg (Exp)/Inc	2.70	150	(2.0)	nm	nm
Net Interest (Exp)/Inc	(3.7)	(3.2)	(2.0)	46.9	38.7
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**13.5**	**157**	**7.94**	**(41.0)**	**(94.9)**
Tax	(1.9)	(1.3)	(0.9)	(53.0)	(31.5)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**11.6**	**155**	**7.03**	**(39.2)**	**(95.5)**
Total Return	11.6	155	7.03	(39.2)	(95.5)
Non-tax deductible Items	5.63	(139)	10.8	91.4	nm
Net Inc available for Dist.	17.2	16.4	17.8	3.6	8.3
Ratio (%)					
Net Prop Inc Margin	42.0	41.6	44.1		
Dist. Payout Ratio	93.6	93.0	93.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Australia – largest contributor. ASCHT's Australian portfolio contributed around half of FY18 NPI. With continued growth in tourist arrivals, we expect ASCHT's properties in Sydney and Melbourne to drive the Real Estate Investment Trust's (REIT) 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 a drag from lower conference activities 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 uncertainties over how ASCHT will fund the acquisition of Aurora Melbourne and RevPAR in 2019, we have yet to include this investment in our estimates. The potential boost from Aurora should temper any pressure on earnings from increased supply in Melbourne and Singapore.

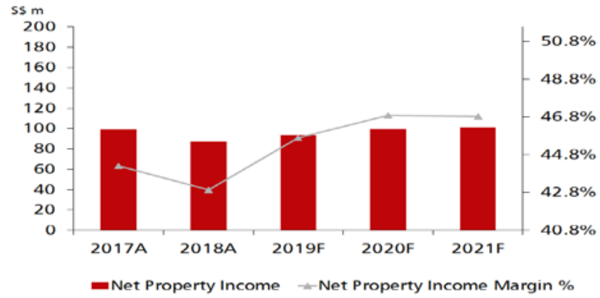
Japan - medium growth driver. Despite the potential softening in ASCHT's Japanese operations due potential supply pressures, we remain positive on the outlook for ASCHT's Japanese properties (c.26% of FY18 NPI) in the medium term. While the pace of inbound tourists may slow down, it should remain on 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 is the 13% uplift in annual fixed rents for its Osaka Namba Washington Hotel, as ASCHT has 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.

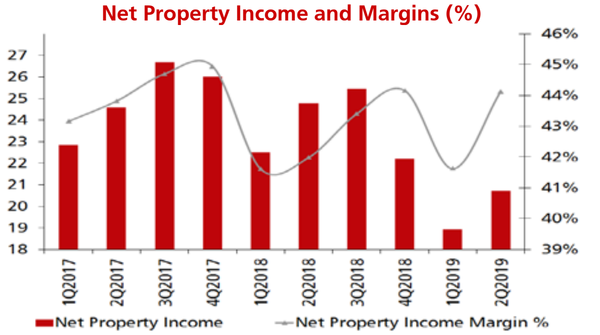
Modest contribution from Singapore. We forecast a modest contribution from ASCHT's Singapore operations (14% of FY18 NPI) given the near-term oversupply situation, limiting the variable rent that Park Hotel Clarke Quay will generate. Nevertheless, downside from Singapore is limited given an annual fixed rent of c.S$12m with a 3% annual escalation.

Boost from recent acquisitions. Following the sale of its Beijing hotels in May 2018 at double the prior book value, recycling the proceeds into a hotel in Seoul Korea and a portfolio of three hotels in Osaka, Japan at higher entry yield than exit yield for the Beijing properties, we boost to ASCHT's near term DPU.

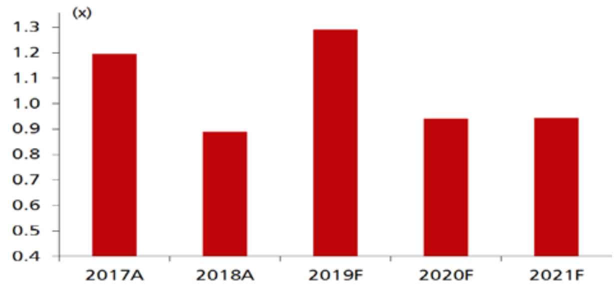
Net Property Income and Margins (%)



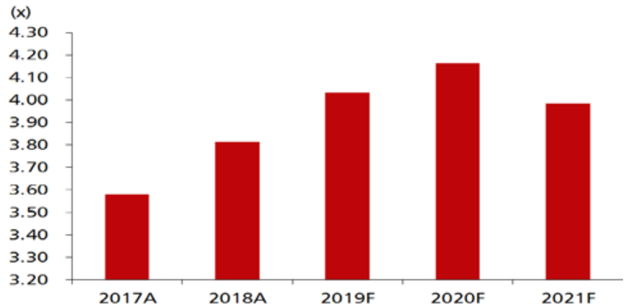
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Strong balance sheet. Post ASCHT's asset reconstitution, and acquisitons, gearing as at 30 September 2018 stood at 30.8% which puts the REIT in a strong financial position.

Moderate exposure to rising interest rates. After refinancing, average debt maturity of 4.0 years and c.78% of its borrowings on fixed rates, ASCHT has moderate exposure to rising interest rates.

Share Price Drivers:

Non-organic drivers. While ASCHT's ability to raise equity in the short term is constrained by the fact that the trust is trading on a relative high distribution yield, but its gearing of c.31% empower the REIT with financial capacity to debt fund any potential acquisition opportunities.

Leverage to upturns in Australia and Japan. ASCHT's key markets of Australia (c.50% of FY18 NPI) and Japan (c.26%) 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. 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 continues raising interest rates, ASCHT faces the challenge of higher interest costs. Nevertheless, with c.78% of the group's debt on fixed rates, ASCHT is partially insulated in the near term.

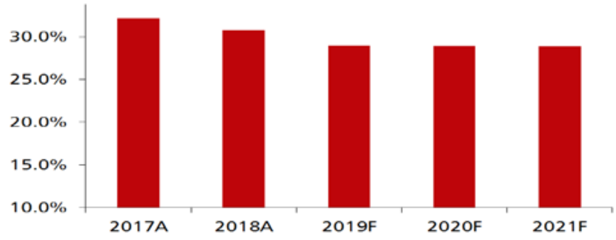
FX risks. Significant volatility in AUD and JPY would negatively impact our DPU estimates. However, this risk is tempered by ASCHT entering into 15-month rolling hedges.

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.

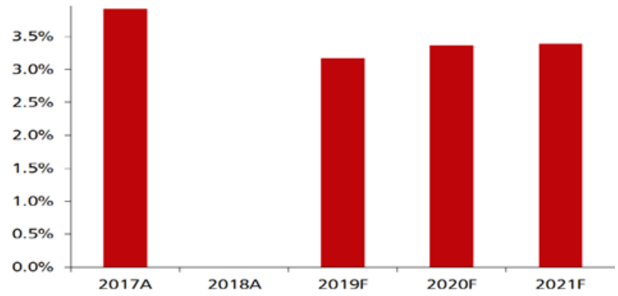
Company Background

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 (%)

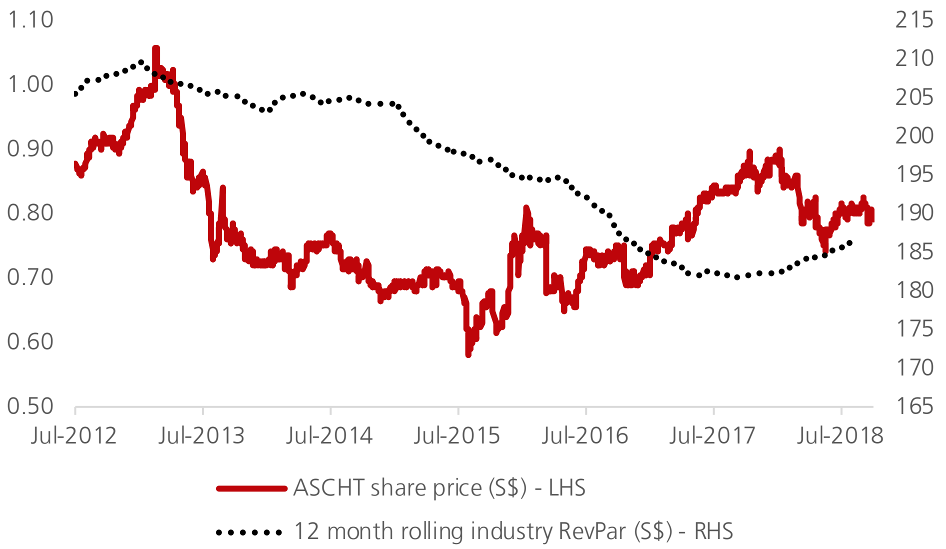


Distribution Yield (%)

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 ona potential takeover.

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

Income Statement (S$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Gross revenue	224	203	205	212	216
Property expenses	(125)	(116)	(111)	(113)	(115)
Net Property Income	**99.2**	**87.2**	**93.5**	**99.4**	**101**
Other Operating expenses	(39.0)	(31.2)	(35.2)	(35.5)	(35.7)
Other Non Opg (Exp)/Inc	3.96	(32.2)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(16.8)	(14.7)	(14.5)	(15.3)	(16.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**47.3**	**9.15**	**43.8**	**48.5**	**49.0**
Tax	(8.2)	(9.8)	(9.1)	(9.8)	(9.9)
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	**39.2**	**(0.7)**	**34.7**	**38.7**	**39.2**
Total Return	48.5	21.3	34.7	38.7	39.2
Non-tax deductible Items	28.0	50.0	34.8	33.9	34.5
Net Inc available for Dist.	67.2	71.3	69.5	72.7	73.6
Growth & Ratio					
Revenue Gth (%)	4.3	(9.4)	0.7	3.6	1.8
N Property Inc Gth (%)	9.1	(12.0)	7.2	6.3	1.7
Net Inc Gth (%)	3,535.6	nm	nm	11.6	1.1
Dist. Payout Ratio (%)	95.1	92.9	95.0	95.0	95.0
Net Prop Inc Margins (%)	44.2	42.9	45.7	46.9	46.8
Net Income Margins (%)	17.4	(0.3)	16.9	18.3	18.1
Dist to revenue (%)	29.9	35.1	33.9	34.3	34.1
Managers & Trustee's fees	17.4	15.3	17.2	16.7	16.5
ROAE (%)	3.9	(0.1)	3.2	3.4	3.4
ROA (%)	2.3	0.0	2.0	2.1	2.1
ROCE (%)	3.4	(0.3)	2.9	3.1	3.2
Int. Cover (x)	3.6	3.8	4.0	4.2	4.0

Source: Company, DBS Bank

Stable returns

Quarterly / Interim Income Statement (S$m)

FY Mar	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Gross revenue	58.4	58.1	49.7	44.9	46.4
Property expenses	(33.9)	(32.9)	(27.8)	(26.2)	(25.9)
Net Property Income	24.5	25.2	22.0	18.7	20.5
Other Operating expenses	(10.1)	(46.3)	(3.5)	(8.5)	(8.5)
Other Non Opg (Exp)/Inc	2.70	0.0	0.93	150	(2.0)
Net Interest (Exp)/Inc	(3.7)	(3.6)	(2.2)	(3.2)	(2.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**13.5**	**(24.7)**	**13.9**	**157**	**7.94**
Tax	(1.9)	(1.6)	(5.7)	(1.3)	(0.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**11.6**	**(26.3)**	**8.23**	**155**	**7.03**
Total Return	11.6	(26.3)	30.2	155	7.03
Non-tax deductible Items	5.63	43.5	(9.1)	(139)	10.8
Net Inc available for Dist.	17.2	17.2	21.1	16.4	17.8
Growth & Ratio					
Revenue Gth (%)	9	(1)	(14)	(10)	3
N Property Inc Gth (%)	10	3	(13)	(15)	9
Net Inc Gth (%)	96	(328)	(131)	1,788	(95)
Net Prop Inc Margin (%)	42.0	43.4	44.2	41.6	44.1
Dist. Payout Ratio (%)	93.6	93.0	92.1	93.0	93.0

Balance Sheet (S$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Investment Properties	824	843	947	954	960
Other LT Assets	796	689	689	689	689
Cash & ST Invts	86.2	67.4	46.4	44.4	42.0
Inventory	0.43	0.36	0.36	0.36	0.36
Debtors	13.8	12.7	8.72	9.03	9.20
Other Current Assets	5.25	127	127	127	127
Total Assets	**1,726**	**1,739**	**1,818**	**1,823**	**1,827**
ST Debt	64.3	156	156	156	156
Creditor	39.8	55.9	26.2	26.6	27.1
Other Current Liab	4.21	15.7	23.0	23.7	23.8
LT Debt	491	379	372	372	372
Other LT Liabilities	93.5	93.1	93.1	93.1	93.1
Unit holders' funds	1,033	1,039	1,149	1,152	1,156
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,726**	**1,739**	**1,818**	**1,823**	**1,827**
Non-Cash Wkg. Capital	(24.5)	68.3	86.7	86.0	85.6
Net Cash/(Debt)	(469)	(468)	(481)	(483)	(485)
Ratio					
Current Ratio (x)	1.0	0.9	0.9	0.9	0.9
Quick Ratio (x)	1.0	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	32.2	30.8	29.0	28.9	28.9
Z-Score (X)	0.9	0.7	0.8	0.8	NA

Source: Company, DBS Bank

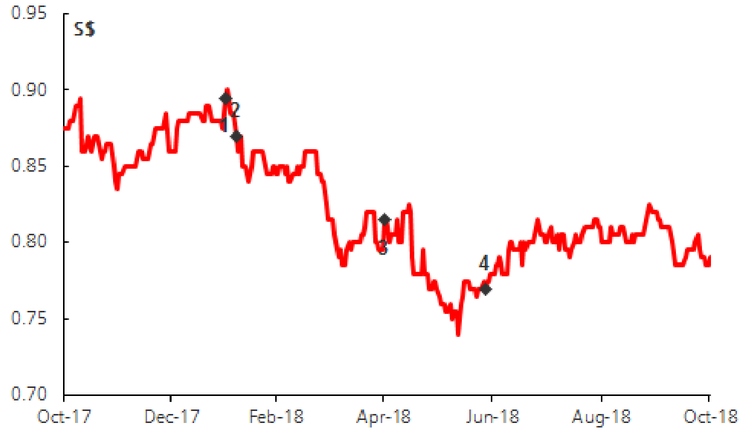
Strong balance sheet to pursue acquisitions

Cash Flow Statement (S$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	47.3	9.15	43.8	48.5	49.0
Dep. & Amort.	27.0	28.5	29.0	29.5	30.0
Tax Paid	(6.2)	(6.2)	(1.8)	(9.1)	(9.8)
Associates &JV Inc/(Loss)	0.00	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(14.0)	(3.4)	(25.7)	0.03	0.35
Other Operating CF	(3.3)	44.7	5.80	4.43	4.47
Net Operating CF	**50.9**	**72.7**	**51.1**	**73.4**	**74.0**
Net Invt in Properties	(10.4)	(13.0)	(104)	(6.4)	(6.5)
Other Invts (net)	0.0	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	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.9)	18.7	106	0.0	0.0
Net Investing CF	**(11.2)**	**5.71**	**1.76**	**(6.4)**	**(6.5)**
Distribution Paid	(60.8)	(64.7)	(66.0)	(69.0)	(69.9)
Chg in Gross Debt	11.2	(5.9)	(7.9)	0.0	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	**(49.6)**	**(70.6)**	**(73.9)**	**(69.0)**	**(69.9)**
Currency Adjustments	1.58	(0.7)	0.0	0.0	0.0
Chg in Cash	(8.4)	7.10	(21.0)	(2.0)	(2.4)
Operating CFPS (S cts)	5.77	6.74	6.77	6.43	6.43
Free CFPS (S cts)	3.61	5.29	(4.7)	5.87	5.89

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Jan 18	0.90	0.91	BUY
2:	05 Feb 18	0.87	0.97	BUY
3:	30 Apr 18	0.82	0.97	BUY
4:	26 Jun 18	0.77	0.98	BUY

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 1 Nov 2018 09:45:14 (SGT)
Dissemination Date: 1 Nov 2018 10:09:49 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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