

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Jan 2019

Ascott Residence Trust (ART SP) : BUY

Mkt. Cap: US\$1,759m | 3m Avg. Daily Val: US\$1.3m

Last Traded Price (9 Jan 2019): S\$1.10

Price Target 12-mth: S\$1.25 (14% upside and 6.1% yield)

Analyst

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Cashing in

- Disposal of Ascott Raffles Place for S\$353m at an estimated 2% exit NPI yield
- Sale price c.64% above the latest valuation
- Transaction highlights the inherent value of the stock which the market has under appreciated
- Maintain BUY, S\$1.25 TP

Forecasts and Valuation

FY Dec (S\$m)	2017A	2018F	2019F	2020F
Gross Revenue	496	513	533	555
Net Property Inc	227	243	254	264
Total Return	195	108	113	118
Distribution Inc	152	145	148	149
EPU (S cts)	5.12	5.00	5.23	5.42
EPU Gth (%)	(12)	(2)	5	4
DPU (S cts)	7.09	6.74	6.82	6.87
DPU Gth (%)	(11)	(5)	1	1
NAV per shr (S cts)	125	123	122	121
PE (X)	21.5	22.0	21.0	20.3
Distribution Yield (%)	6.4	6.1	6.2	6.2
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	35.4	35.1	35.7	36.2
ROAE (%)	4.5	4.0	4.3	4.5

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Sale of Ascott Raffles Place 64% higher than latest valuation

- ART announced the sale of Ascott Raffles Place Singapore for S\$353.3m to an unrelated third party. Based on press reports, the buyer is Mr Cheong Sim Lam, a private investor whose family developed International Plaza and the Hyatt Regency Singapore.
- The sale price is 64.3% above the property's last valuation of S\$215m as at 31 December 2018 and the original purchase price of S\$220m in 2012.
- We estimate the property was sold on an exit NPI yield of around 2%.
- Ascott Raffles Place is a serviced apartment with 146 units. The property sits on a 999-year leasehold land and was first opened in 2008. The property is located in Raffles Place, in the heart of Singapore's CBD.
- ART is expected to realise an estimated net gain of S\$134m with the net proceeds to be deployed into new investment opportunities that offer better growth prospects. We suspect ART may look to redeploy its capital into Europe or US which offers higher assets yield or yield spreads.
- The disposal is expected to be completed in May 2019.
- According to ART's estimates, proforma FY17 NAV per unit is expected to increase to S\$1.31 from S\$1.27 post the sale, while proforma FY17 DPU will drop 2.4% to 6.92 Scts.
- Assuming all the proceeds are used to pare down debt, we expect gearing to drop to c.32% from 36.5% at end September 2018.



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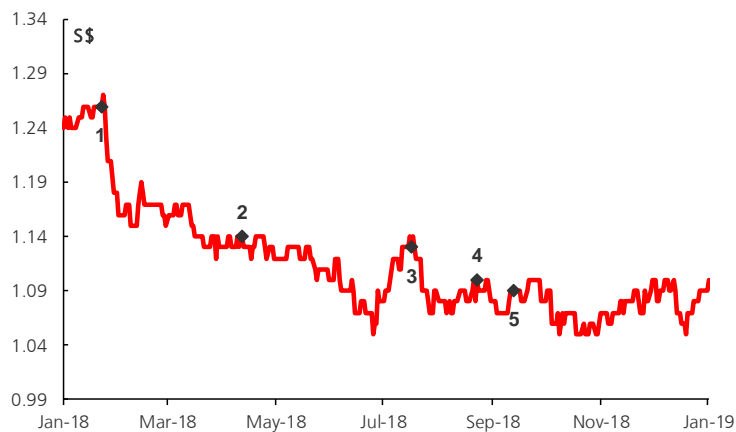
Our thoughts

- With ART having announced earlier its intention to rebalance/optimize its portfolio and with previous market speculation that ART was looking at selling Ascott Raffles Place, we believe this transaction may not surprise some investors, albeit the timing was uncertain. Nevertheless, we believe the market should react positively to the large capital gain from the disposal as well as management being “unemotional” about its properties and willing to sell them at the right price.
- We do not see this transaction as an “exit” from Singapore or Singapore’s CBD but rather an optimization of its capital. After the disposal ART will still own three properties in Singapore, Ascott Orchard Singapore, Somerset Liang Court and Citadines Mount Sophia. In the pipeline are potential acquisitions of the serviced residence component at CapitaSpring and Funan located in

the vicinity will re-anchor its position as a major landlord in the serviced residence space in Singapore. These two properties are currently owned by ART’s Sponsor CapitalLand and its sister REITs.

- In addition, this transaction supports our investment thesis that there is significant “hidden” value in ART and the 10-15% discount to book that ART has been trading at over the past year is unwarranted given its track record of adding value as demonstrated by c.S\$304m worth of net divestment gains from ten property disposals which raised S\$1.3bn over the last ten years.
- Thus, we reiterate our BUY call and TP of S\$1.25.

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 18	1.26	1.34	BUY
2:	19 Apr 18	1.14	1.30	BUY
3:	24 Jul 18	1.13	1.30	BUY
4:	30 Aug 18	1.10	1.25	BUY
5:	20 Sep 18	1.09	1.25	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

Flash Note

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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: 10 Jan 2019 10:56:45 (SGT)

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

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