

Singapore Company Guide

Far East Hospitality Trust

Version 16 | Bloomberg: FEHT SP | Reuters: FAEH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Feb 2020

HOLD (Downgrade from BUY)

Last Traded Price (31 Jan 2020): S\$0.68 (STI : 3,153.73)

Price Target 12-mth: S\$0.69 (1% upside) (Prev S\$0.80)

Analyst

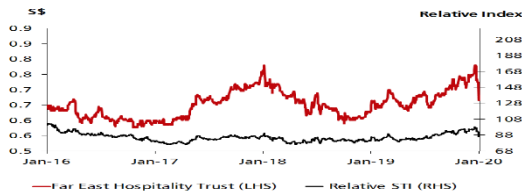
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What's New

- Recent travel ban on inbound travelers from China to curb coronavirus spread in Singapore
- Hotel operating environment facing near term uncertainty
- Anticipate downside to RevPAR in the near term to cap share price performance.
- Downgrade to HOLD, TP cut to S\$0.69

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019F	2020F	2021F
Gross Revenue	114	115	120	124
Net Property Inc	103	104	108	113
Total Return	90.6	58.0	65.4	70.8
Distribution Inc	75.4	73.9	78.0	83.2
EPU (S cts)	3.16	2.93	3.23	3.46
EPU Gth (%)	6	(7)	10	7
DPU (S cts)	4.00	3.83	3.90	4.10
DPU Gth (%)	3	(4)	2	5
NAV per shr (S cts)	84.7	83.4	84.7	84.0
PE (X)	21.5	23.2	21.1	19.6
Distribution Yield (%)	5.9	5.6	5.7	6.0
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	40.3	39.8	39.3	39.4
ROAE (%)	3.7	3.5	3.8	4.1

Distn. Inc Chng (%)	-	-	-
Consensus DPU (S cts)	4.00	4.10	4.20
Other Broker Recs:	B: 5	S: 1	H: 1

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

Pure play status a double-edged sword

Downgrade to HOLD. We downgrade our recommendation on Far East Hospitality Trust (FEHT) to HOLD. Cautious sentiment shrouding hoteliers in Singapore as a result of the coronavirus outbreak is likely to affect FEHT's DPU performance this year. In view of FEHT's exposure to the Singapore market only and c.70% exposure to hotels by gross revenue (balance: c.12% serviced residences and c.18% commercial), we believe FEHT's operations would be adversely impacted.

Where we differ – more conservative estimates with downside risk to room rates. Our forecast is below consensus as we have only projected 3% recovery in RevPAR in 2020-2021 but we see downside risk in the near term as travellers stay away in the near term.

Approximately c.58% of rent revenues fixed, hence downside shielded. Approximately 58% of income from the hotel and serviced residence components are fixed within a master lease structure. The remaining c.19% and c.23% are derived from commercial premises with longer lease tenures and variable rents from hotels and service residences. While the master lease structure incorporates elements of stability, variable rents from hotels and service residences may be shaved off, which will hit FY20F DPU.

Valuation:

Our TP is reduced to S\$0.69 is pegged to 0.85x P/NAV in line with its historical mean.

Key Risks to Our View:

The risk to our view is a smaller than anticipated fall in AOR and ADR within FEHT's portfolio in the coming quarters.

At A Glance

Issued Capital (m shrs)	1,943
Mkt. Cap (\$m/US\$m)	1,321 / 968
Major Shareholders (%)	
Golden Development Pte Ltd	22.0
Golden Landmark Pte Ltd	10.5
Far East Organization Centre	9.8
Free Float (%)	49.4
3m Avg. Daily Val (US\$m)	1.00
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

Positive medium-term outlook for hotels but there are short term concerns. The medium-term outlook for FEHT remains bright. With no new hotel land sites released by the Singapore government during 2014-2017, supply is constrained. We project new room supply will only grow by 1-2% p.a. during 2020-2023 versus 4-7% over the past few years. We believe the supply curtailment and growing travel demand due to rising Asian affluence should lead to an increase in RevPAR. In addition, FEHT's earnings should benefit from the opening of the first phase of the 850-room Sentosa going forward. However, we believe soft corporate demand on the back of the current macro uncertainties and stiff price competition from recently opened hotels in 2018 will likely cap RevPAR performance in the near term.

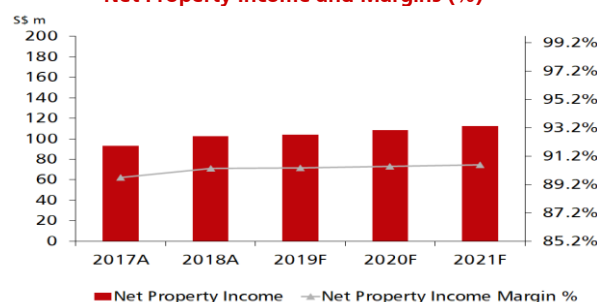
Further uncertainty from recent travel ban from Singapore authorities. Cautious sentiment shrouding hoteliers in Singapore post news of coronavirus outbreak and subsequent travel ban on China passport holders and foreigners that have visited China in the past 14 days will have a negative impact on pure play hotel REITs like FEHT. We believe that a fall in tourist traffic will result in higher competition and likely to affect FEHT's DPU performance this year.

Some headwinds in the serviced residence segment. Following the change in regulations to allow private residential units to be rented out for a minimum of 3 months instead of 6 months previously, the serviced residence industry is facing additional competition. While business sentiment has picked up, corporates remain cautious on their business expenditure. Therefore, room rates for FEHT's serviced residence segment may continue to face some near-term pressure, partially offset by FEHT's strategy to target shorter term leisure guests.

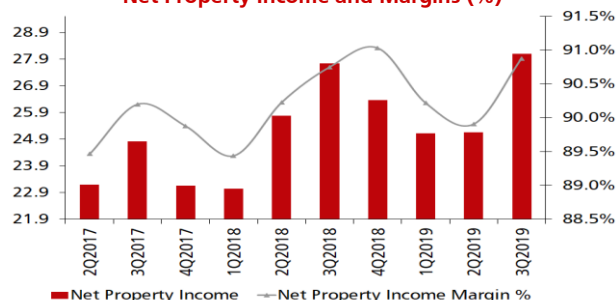
Boost from asset enhancement initiatives (AEI). FEHT has completed several AEIs across its portfolio over the past 12-18 months. These refurbishments should enable FEHT to remain competitive but more importantly be able to drive room rates higher.

Further acquisitions from FEHT's Sponsor. Through its Sponsor, Far East Organization, FEHT has a visible acquisition pipeline. In particular, it has the right of first refusal over seven properties. Should FEHT purchase these properties and subject to price, we anticipate further accretion to FEHT's DPU.

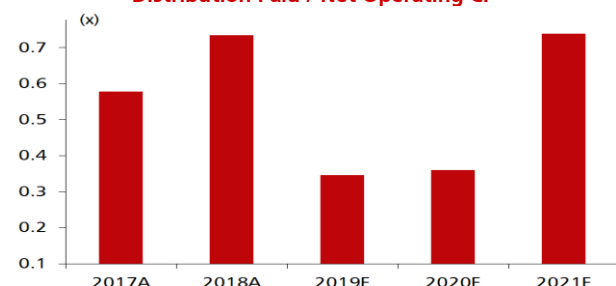
Net Property Income and Margins (%)



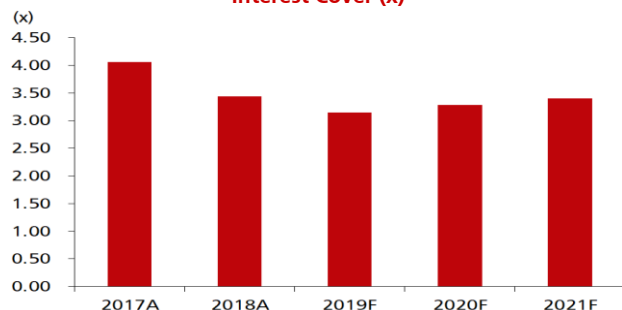
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Far East Hospitality Trust

Balance Sheet:

Gearing at c.40%. FEHT's gearing now stands at c.40% post debt funded acquisition of Oasia Hotel Downtown and drawdown of construction loans for the Sentosa development. With the use of DRP, FEHT's gearing should moderate going forward.

Some exposure to rising interest rates. Around 75% of FEHT's borrowings are under fixed rates, reducing its exposure to volatility in interest rates.

Share Price Drivers:

Near term cap on share price performance. While we see valuation support as FEHT trades at 0.8x P/Bk, we believe FEHT's share price will break away from its historical trading range if the Singapore hospitality market strengthens. As the only pure play hospitality REIT in Singapore, we expect a valuation to hit a new range. However, in the near term, we expect the uncertainty brought about by the coronavirus to be an overhang.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT makes annually to service its loans. This reduces the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders.

Competitive landscape. While supply pressures should increase going forward, the Singapore hospitality market remains competitive and should demand turn weaker than expected, FEHT's earnings may be impacted.

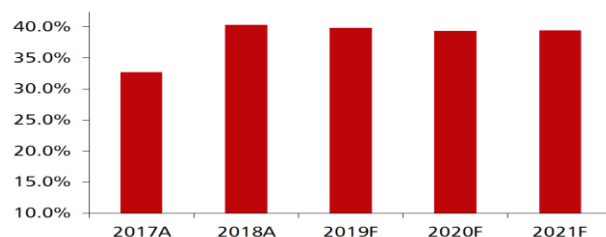
Environment, Social, Governance:

The Manager regularly monitor and assess compliance levels while staying up to date on policy changes to ensure the effectiveness of their corporate governance framework. Energy consumption per occupied hotel room and per occupied serviced residence have been reduced by 3.42% and 4.13% respectively during the year – a testament to the Trust's commitment to sustainability. The Manager has also created Company Emergency Response Teams where employees participate in health and safety training to perform emergency response roles.

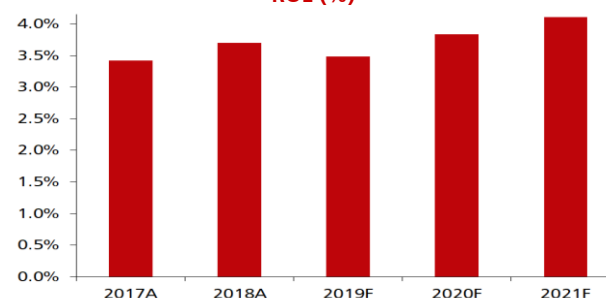
Company Background

Far East Hospitality Trust (FEHT) is a hospitality stapled group comprising Far East H-REIT and Far East H-Business Trust. Far East H-REIT is a Singapore-based real estate investment trust, which invests in hospitality assets. It owns nine hotels and four serviced residences.

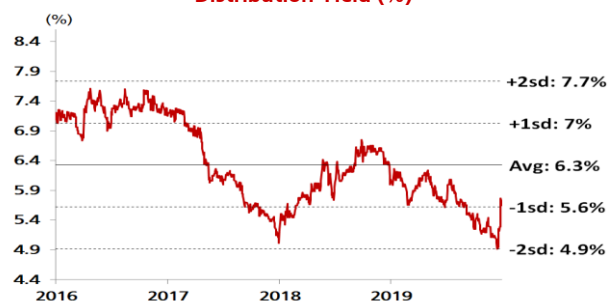
Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Far East Hospitality Trust

Income Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Gross revenue	104	114	115	120	124
Property expenses	(10.7)	(10.9)	(11.0)	(11.3)	(11.6)
Net Property Income	93.2	103	104	108	113
Other Operating expenses	(12.8)	(13.2)	(13.6)	(13.7)	(13.9)
Other Non Opg (Exp)/Inc	(4.6)	(1.0)	0.0	0.0	0.0
Associates & JV Inc	(0.1)	(2.1)	(3.8)	(0.3)	1.18
Net Interest (Exp)/Inc	(19.8)	(26.1)	(28.7)	(28.7)	(29.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	55.8	60.5	58.0	65.4	70.8
Tax	0.0	(0.1)	0.0	0.0	0.0
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	55.8	60.4	58.0	65.4	70.8
Total Return	14.3	90.6	58.0	65.4	70.8
Non-tax deductible Items	16.1	15.0	15.9	12.6	12.4
Net Inc available for Dist.	72.0	75.4	73.9	78.0	83.2
Growth & Ratio					
Revenue Gth (%)	(4.8)	9.5	1.2	3.9	3.8
N Property Inc Gth (%)	(5.3)	10.3	1.3	4.0	4.0
Net Inc Gth (%)	(6.3)	8.3	(3.9)	12.7	8.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	89.7	90.4	90.4	90.5	90.6
Net Income Margins (%)	53.7	53.1	50.4	54.7	57.0
Dist to revenue (%)	69.4	66.3	64.2	65.2	67.0
Managers & Trustee's fees	12.3	11.6	11.8	11.5	11.2
ROAE (%)	3.4	3.7	3.5	3.8	4.1
ROA (%)	2.3	2.4	2.1	2.4	2.5
ROCE (%)	3.3	3.5	3.4	3.5	3.7
Int. Cover (x)	4.1	3.4	3.2	3.3	3.4

Stable growth projected

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Gross revenue	30.5	28.9	27.8	27.9	30.9
Property expenses	(2.8)	(2.6)	(2.7)	(2.8)	(2.8)
Net Property Income	27.7	26.3	25.1	25.1	28.1
Other Operating expenses	(3.5)	(3.4)	(3.4)	(3.4)	(3.7)
Other Non Opg (Exp)/Inc	0.67	(3.9)	1.08	(2.8)	(0.5)
Associates & JV Inc	0	(2)	(4)	0	1
Net Interest (Exp)/Inc	(7.2)	(7.3)	(7.4)	(7.5)	(7.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	17.6	9.86	12.8	11.7	16.4
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	17.5	9.85	12.8	11.7	16.4
Total Return	17.5	40.0	12.8	11.7	16.4
Non-tax deductible Items	2.55	9.25	4.61	5.89	4.02
Net Inc available for Dist.	20.1	19.1	17.4	17.6	20.4
Growth & Ratio					
Revenue Gth (%)	7	(5)	(4)	1	11
N Property Inc Gth (%)	8	(5)	(5)	0	12
Net Inc Gth (%)	5	(44)	30	(9)	40
Net Prop Inc Margin (%)	90.7	91.0	90.2	89.9	90.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Investment Properties	2,381	2,634	2,637	2,641	2,644
Other LT Assets	16.7	14.4	14.0	13.9	14.1
Cash & ST Invt	3.91	12.8	49.6	88.6	88.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	36.4	38.5	39.0	39.2	39.4
Other Current Assets	0.10	0.44	0.44	0.44	0.44
Total Assets	2,438	2,700	2,740	2,783	2,787
ST Debt	249	153	153	153	153
Creditor	3.62	4.11	4.01	4.17	4.33
Other Current Liab	9.33	11.0	11.0	11.0	11.0
LT Debt	549	875	879	882	886
Other LT Liabilities	8.41	9.13	9.13	9.13	9.13
Unit holders' funds	1,619	1,648	1,685	1,724	1,724
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,438	2,700	2,740	2,783	2,787
Non-Cash Wkg. Capital	23.6	23.9	24.4	24.5	24.5
Net Cash/(Debt)	(794)	(1,015)	(982)	(946)	(950)
Ratio					
Current Ratio (x)	0.2	0.3	0.5	0.8	0.8
Quick Ratio (x)	0.2	0.3	0.5	0.8	0.8
Aggregate Leverage (%)	32.7	40.3	39.8	39.3	39.4
Z-Score (X)	1.0	0.9	0.9	1.0	1.0

Gearing level stable

Source: Company, DBS Bank

Far East Hospitality Trust

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	55.8	60.5	58.0	65.4	70.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	0.14	2.09	3.76	0.32	(1.2)
Chg in Wkg.Cap.	(1.8)	0.45	(0.6)	0.0	(0.1)
Other Operating CF	34.4	37.8	45.4	42.5	43.0
Net Operating CF	88.5	101	107	108	113
Net Invnt in Properties	(3.1)	(222)	(3.5)	(3.6)	(3.7)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	(1.2)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	(3.4)	(0.3)	1.06
Other Investing CF	0.02	0.01	0.0	0.0	0.0
Net Investing CF	(3.1)	(223)	(6.8)	(3.9)	(2.7)
Distribution Paid	(51.2)	(74.1)	(36.9)	(39.0)	(83.2)
Chg in Gross Debt	(25.0)	231	3.45	3.59	3.72
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(20.7)	(26.4)	(29.5)	(29.9)	(30.6)
Net Financing CF	(96.9)	131	(63.0)	(65.4)	(110)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(11.5)	8.93	36.8	39.0	(0.2)

Operating CFPS (S cts)

4.84

5.25

5.41

5.34

5.51

Free CFPS (S cts)

4.58

(6.3)

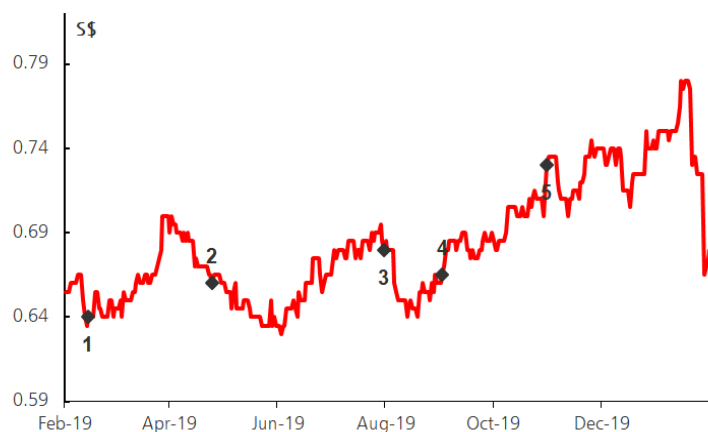
5.20

5.16

5.32

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:	14 Feb 19	0.64	0.70	BUY
2:	25 Apr 19	0.66	0.70	BUY
3:	31 Jul 19	0.68	0.70	HOLD
4:	02 Sep 19	0.67	0.70	HOLD
5:	31 Oct 19	0.73	0.80	BUY

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

DBS Bank recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 2 Feb 2020 08:18:22 (SGT)

Dissemination Date: 3 Feb 2020 08:23:39 (SGT)

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