Singapore Industry Focus

Singapore Hospitality & Retail REITs

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DBS Group Research . Equity

3 Feb 2020

Reeling from the travel ban

- SG Authorities move to ban travellers from China with an aim to curb further spread of coronavirus
- Chinese travellers are one of the largest visitor source markets
- Knee-jerk reaction of hospitality S-REITs expected; chance to accumulate if it hits -1 SD P/NAV level
- Prefer Frasers Centrepoint Trust (FCT) amongst landlords as tourist malls likely to feel the heat

Nipping the issue at the bud. The Singapore Government's latest entry ban on travellers with history of visiting China in the past 14 day (prior to entry), will have significant wide-ranging impact on tourism-sensitive industries like hotels, followed by tourist-focused shopping malls in our view. Based on our estimates, the Chinese market is one of largest visitor source markets for Singapore and accounts for close to 20% of total visitor arrivals (c.18.8m in 2019) and is also one of the largest spenders. Based on Singapore Tourism Board (STB) data, 70% of Chinese visitors are leisure tourists and spend a larger proportion on shopping (51%), accommodation (17%), F&B (c.6%) and others (26%).

Hotels: Knee-jerk reaction anticipated; but we turn buyers at -1 SD levels. We anticipate a near-term knee-jerk negative reaction amongst the hospitality REITs as we see heightened near-term earnings risk. Our scenario analysis implies at least a near-term 4-8% drop in occupancies assuming a 3- to 6-month travel ban. We believe that a further risk of a snowball effect to other travellers (for business or leisure to Singapore) who may delay their travel is high, compounded by WHO's health emergency warning. We downgrade Far East Hospitality Trust to HOLD but maintain our BUY calls on Ascott Residence Trust and CDL Hospitality Trust given their diversified exposure but ample capital distributions to defend DPUs, if necessary. Using P/NAV as a metric (given the volatility of its yield), we would turn buyers if the hospitality REITs hit close to – 1 SD of their 10-year P/NAV (x) mean.

Pick Frasers Centrepoint Trust (FCT) for its suburban resiliency. Consumer behaviours are already changing, especially in the near term. Compounded by "fear of the unknown" amongst residents, we expect tourist-focused malls to underperform on a relative basis, especially when tenant sales are projected to turn down. We believe that suburban landlord, FCT should deliver resilient performance.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Ascott Residence Trust	1.26	2,012	1.50	(8.0)	5.9	BUY
Far East Hospitality Trust	0.68	968	0.69	(7.5)	4.6	HOLD
Frasers Centrepoint Trust	2.88	2,358	2.95	6.3	27.0	BUY
CDL Hospitality Trusts	1.56	1,386	1.75	(4.9)	(4.3)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 31 Jan 2020

What has happened.

Nipping the issue at the bud. The Singapore Government has ramped up travel restrictions to prevent the spread of the Wuhan Coronavirus by banning visitors from mainland China (including foreigners) who have been there for the past 14 days from entering or transiting in Singapore. These measures kicked in on 11.59pm on Saturday (1 Feb).

This new measure comes on the back of the World Health Organisation's (WHO) declaration that the Wuhan Coronavirus is a public health emergency as the outbreak appears to spread outside China. The concern is that the virus will spread to countries with weaker health systems.

Our thoughts and Impact on sectors:

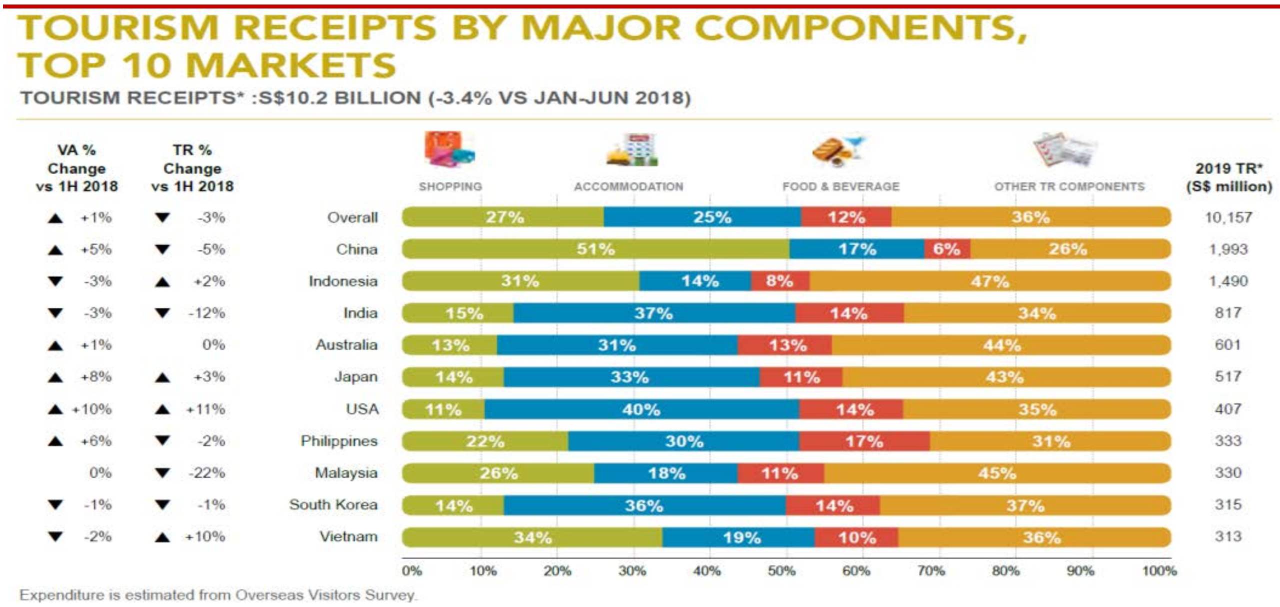
Prevention is better than cure; the Singapore economy could be negatively impacted but the risk of repeat of a SARs-like community spread is minimised, in our view. This travel ban follows various resolute and rapid moves by the Chinese Government to lock down selected cities from 23 January 2020, banning of travel tour groups out of China, amongst others, to curb the spread overseas. This will, in our view, considerably reduce the number of visitors to regional economies, especially with ASEAN where Thailand, Japan and Singapore are top destinations for outbound travel from China.

This travel ban by the Singapore government is, in our view, a rapid response towards minimising the risk of a community spread within Singapore. This is especially when all the 18 confirmed cases (as of 1 February 2020, 12am) have recent travel history to Wuhan or Hubei. In fact, we believe that this travel ban will go towards preventing a repeat of a scenario of the former severe acute respiratory syndrome (SARs) back in 2003 where an infected person returned to Singapore and set off a series of transmissions which lasted five months (March to July 2003) before being eradicated. Given the swift measures from the authorities and more awareness from businesses and the community, we believe it will take a shorter period to stem the spread in this episode.

China is one of Singapore's largest sources of tourists. While the length of this new travel ban is unknown at this moment, we believe that it would have an impact on Singapore's economy, of which tourism is a key pillar. China is one of Singapore's key visitor source markets, historically contributing c.20% of total visitors annually and also the largest spenders.

As of 1H19, according to statistics from the Singapore Tourism Board (STB), visitors from China contribute the lion's share (c.20%) of the S$10.2bn tourism receipts. A majority of its (51%) when into shopping, followed by accommodation (17%), F&B (12%) and others* (36%).

1H19 Tourist arrivals statistics



Source: DBS Bank, Bloomberg Finance L.P.

How does your average Chinese tourist look like?

We found that the average Chinese traveller to Singapore spends a larger proportion on consumables (shopping, F&B) compared to a "typical" visitor to Singapore (as shown in the table below). We believe that this is mainly due to the fact that c.70% of visitors from China are tourists (leisure travellers) rather than for business or MICE activities.

Comparison of spending categories of a visitor from China vs the average

Categories	Average tourist	Chinese tourist	Average tourist (S$)	A Chinese tourist (S$)
Shopping	27%	51%	295	561
Accommodation	25%	17%	273	187
F&B	12%	6%	131	66
Others	36%	26%	393	286
	100%	**100%**	**1,092**	**1,100**

Source: STB, DBS estimates

Impact on Retail: Divergent performance; suburban landlords to shine

"Netflix and order-in"; prefer Frasers Centrepoint Trust (FCT) for its resilience. Consumer behaviors are already changing, especially in the near term. How many of us have decided to delay that weekend trip to the downtown Orchard Road for that weekend movie date or shopping therapy but rather stay home to watch Netflix and order in our meals? We believe that the impact to retail industry will be varied, with the Orchard Road malls negatively impacted given a larger proportion of tourist traffic coupled with residents potentially opting to take a trip to a nearby suburban mall instead. On that front, **SPH REIT** and **Starhill Global REIT** may report weaker tenant sales turnover (GTO) in the subsequent quarters' results given their exposure in Orchard Road. CapitaLand may also be impacted, although minimal from its retail mall at Changi Airport, Jewel. We believe that pure play suburban landlord, **Frasers Centrepoint Trust (FCT)** will benefit most given its malls (Causeway Point, Northpoint, Waterway Point) are dominant within the suburban retail scene.

Key metrics for retail-focused players

REIT	Centrally located Malls (% revenue)	Suburban Malls (% revenues)	Overseas (% revenues)	Last Price 31/1/2020 (S$)	% Drop From 20/1/2020	Yield (%)	P/NAV (x)
CapitaLand Mall Trust	30%	70%	0%	2.52	-3.8%	4.8%	1.22
Frasers Centrepoint Trust	0%	100%	0%	2.88	0.3%	4.4%	1.31
SPH REIT	70%	5%	25%	1.06	-4.5%	5.2%	1.12
Starhill Global REIT	52%	0%	48%	2.52	0.7%	1.7%	2.90

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

Impact on hotels: No longer the run we are looking for

The risk of a snowball effect. While we had previously pitched the hospitality sub-sector as a "dark horse" in 2020, the travel ban has made us rethink our view as we believe this to be the final straw that will break the camel's back for the hotel industry. With the Chinese tourist numbers to be considerably lower in the coming months, we believe that the risk of a snowball effect to other travellers (for business or leisure to Singapore) who may delay their travel is high, compounded by WHO's health emergency warning. However, at this point, we do not anticipate any major cancellations or delays of the major MICE events like the Singapore Air Show (February 2020) but the Food & Hotel Asia (April 2020) and smaller conferences with a larger Chinese participation may carry a larger risk of cancellation.

Occupancy rates to dip 4% to 8%; RevPARs even more in the near term. Assuming a 3- to 6 month travel ban for Chinese travellers while visitors from other markets remain constant, we estimate that total demand for accommodation may fall by c.-4% to -8% (purely from the impact of fewer Chinese travellers) of which we expect RevPAR after accounting for possible cuts to average daily rates (ADR) may range from -8% to -15%. A return of confidence to travel may also take some time even after the breakout subsides, for leisure travellers.

A knee-jerk reaction is an opportunity to accumulate. In anticipation of the negative sentiment amongst investors, we see a near-term knee-jerk reaction to share prices. In the spotlight would be Singapore-focused plays like **Far East Hospitality Trust (FEHT)** and **CDL Hospitality Trusts (CDLHT)** which feel the brunt given their 100% and 65% exposure to the Singapore hospitality market. Selected developers like UOL and City Developments may also see near-term earnings risk arising from their hotel portfolio (Pan Pacific for UOL and selected 5-star hotels for City Developments in Singapore). Using P/NAV as a metric (given the volatility of its yield), we will turn buyers if the hospitality REITs hit close to – 1 SD of its 10-year P/NAV (x) mean. In this environment, **Ascott Residence Trust (ART)** should hold up better given its small exposure in Singapore.

Impact on hospitality REITs are buffered by rental formula where 55-60% of revenues are fixed. In recent meetings with various hospitality players, we understand that the net exposure to travellers from China are limited to c.4-10%, which implies that the direct impact from the travel ban may not be as bad as the sector average. That said, with the overall tourism market turning soft, revenues will likely be impacted in the near term as hoteliers fight to fill rooms as demand constricts. As most hospitality REITs derive revenues from a formula that encapsulates a fixed rent + variable rent component, the impact of a significant fall in revenues is somewhat shielded from the fixed rents, which form 55-60% of revenues.

Estimates of the impact of the ban

	Est 2019	3 mth ban	6 mth ban	Assumption
Total Rooms	69,000			
Total Available Room Nights ('m)	22.0	22.0	22.0	2019 est, assume constant
Visitors to SG (ex China) ('m)	15.1	15.1	15.1	2019 est
China ('m)	3.7	2.8	1.9	2019 est
Total Visitors ('m)	18.8	17.8	16.9	Estimated (est)
Est accommodation demand (others) ('m)	15.9	15.9	15.9	Based on ALOS* : 3.4 days ; average party size of 3.4
Est accommodation demand (China) ('m)	3.40	2.51	1.68	Based on ALOS: 2.5 days ; average party size of 3.2
Est accommodation demand ('m)	19.3	18.4	17.6	Estimated (est)
Average occupancy rate	**87.7%**	**83.7%**	**79.9%**	**Demand / Available Rooms**
Impact to occupancy rate		**-4%**	**-8%**	**Ppt point Change**

**ALOS::average length of stay*
Source: STB, DBS estimates

Key Metrics for hospitality focused players

Hospitality REITs	SG Hotels (% revenue)	Exposure to China tourists on books	Last Price 31/1/2020	% Drop 20/1/2020	Current Yield	Current P/NAV (x)	10-yr P/NAV (x) Mean	10-y P/NAV (x) -1 SD	Implied prices Mean	-1 SD	% from
Ascott Residence Trust	9%	10%	1.26	-7.4%	6.0%	1.03	0.95	0.85	1.16	**1.04**	-18%
CDL Hospitality Trusts	65%	10%	1.56	-6.0%	5.8%	1.02	1.15	0.95	1.76	**1.45**	-7%
Far East Hospitality Trusts	100%	10%	0.68	-12.8%	5.8%	0.79	0.80	0.70	0.69	**0.60**	-11%
Frasers Hospitality Trust	19%	4%	0.69	-4.2%	6.1%	0.96	0.95	0.90	0.68	**0.65**	-6%
Average				**-7.6%**	**5.9%**						
Others:											
OUE Commercial Trust	23%	10%	0.545	-4.4%	6.2%	0.88	0.80	0.70	0.50	**0.43**	-20%

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

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**Share price appreciation + dividends*

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