Singapore Industry Focus

Singapore Hotel REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Apr 2020

The next privatisation candidate

- Hotel S-REITs are trading below replacement cost, and are attractive privatisation candidates
- Cost to privatise FEHT and FHT is cheaper than the latest land price for a hotel site in Singapore
- FY20F earnings cut by c.40%, but a recovery when it happens will be swift
- Upgrade FEHT and FHT to BUY, pick ART for recovery

Trading below replacement cost; are hotel S-REITs the next privatisation candidates? The four Singapore hospitality focused S-REITs have borne the brunt of the sell-off from the COVID-19 outbreak since late Feb'2020 and are now trading at 0.5-0.6x P/NAV, at -2 standard deviation (SD) of their 10-year mean. On an enterprise value (EV)/room basis, we found all four S-REITs trade at an implied valuation/room of S$0.5-1.2m/room, with CDLHT and FEHT the lowest at <S$0.6m/room. This is even cheaper than recently transacted land costs for hotel sites in recent years. If hotel S-REITs continue to trade at such low valuations, we believe that their Sponsors may consider taking them private given that most have not been active in raising capital and/or recycling assets.

Outlay to privatise FHT and FEHT to cost less than latest land cost for a hotel site in Singapore. Among the four hotel S-REITs, **FHT** and **FEHT** could be attractive privatisation candidates as they have been least active in tapping capital since listing. We estimate that it will cost the Sponsors c. S$450m-600m to buy out the minorities, assuming a 25% premium to current price. While the amount may sound hefty in the current climate, this compares favorably to the S$562m paid for the hotel site in Club Street in Singapore in Jan'19. The Sponsors of FHT and FEHT will then gain control of a diversified portfolio of 3,000 rooms (FEHT) and 4,000 rooms (FHT), which will return higher when operating conditions improve. We upgrade **FEHT** and **FHT** to BUY, and revise TPs to S$0.60 and S$0.65 respectively.

A swift recovery when global lockdown lifts, earnings normalisation from FY21F. We have adjusted our portfolio valuation estimates across the hospitality S-REITs to factor in a sharp decline in global travel demand in FY20F. Yields are largely supported by fixed rents for master leases, which are mainly payable by the Sponsors. Our estimates are conservative, assuming more than two years for operations to normalize. Our RevPAR estimates for FY20/21F are 47%/ 88% of FY19 levels before rebounding back from FY22F onwards. The hotel S-REITs are trading at c.7%-8% FY21F yields. Our pick is **ART (BUY, TP S$1.10)** to leverage on the global recovery.

Risks: Prolonged travel shutdown due to COVID-19 outbreak.

STI : 2,597.85

Analyst
Derek TAN +65 6682 3716
derektan@dbs.com

Singapore Research Team
equityresearch@dbs.com

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	Performance (%) 12 mth	Rating
CDL Hospitality Trusts	0.95	811	1.30	(42.8)	(41.0)	BUY
Ascott Residence Trust	0.89	1,920	1.10	(34.9)	(26.3)	BUY
Frasers Hospitality Trust	0.50	672	0.65	(30.1)	(32.9)	BUY
Far East Hospitality Trust	0.49	671	0.60	(36.8)	(26.9)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 20 Apr 2020

Legend:
CDLHT : CDL Hospitality Trust
ART: Ascott Residence Trust
FEHT: Far East Hospitality Trust
FHT: Frasers Hospitality Trust

Live more, Bank less

ed: JS/ sa: AS, PY, CS

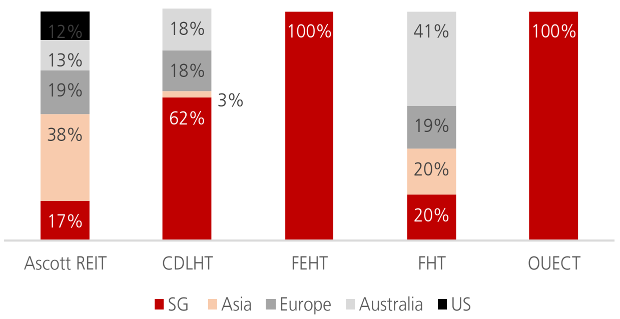
Hospitality REITs – it is all about the Sponsor

Curtailed travel demand weigh heavily on prices. The share prices of the hospitality S-REITs' have understandably been under pressure since the start of the COVID-19 outbreak given the restrictions in travel on the back of lockdown by various governments across the world. In response to this change in operating environment, we note that some hospitality S-REITs have closed their hotel operations (especially hotels in Singapore) or are actively looking to manage costs in order to maintain profitability or in many cases, stem further operating losses (gross operating profits or GOP) in the midst of more restrictions to corporate travel and leisure activities globally.

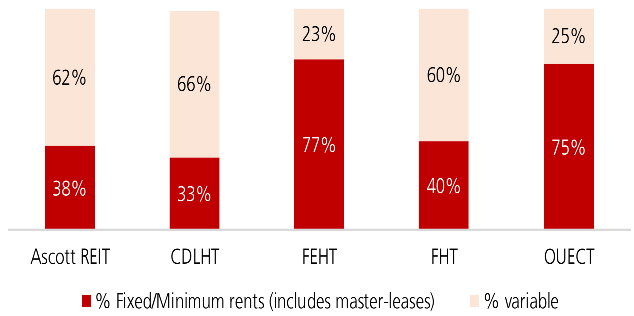
Master leases offer protection. Hospitality S-REITs earn their rental income pegged to the higher of (i) a ratio of underlying operating income (% of revenues and % of gross operating profits) or (ii) fixed rent (or a revenue floor). Based on our estimates, the fixed rent component contributes around 33% to as high as 77% of our revenue estimates. Far East Hospitality Trust (FEHT) and OUE Commercial Trust (hotel component only) have the highest (70+% range).

On our estimates and assuming only the fixed rent is payable (including those with minimum income guarantees) across the various hospitality assets, we find that the distribution per unit ("DPU") ranges from 1.5 Scts to 2.6 Scts, translating to a yield of c.2%-5% at current prices.

Exposure of Hospitality S-REITs by geography (by revenue)

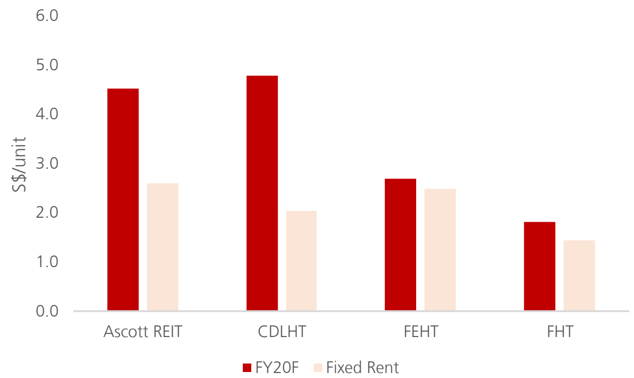


Income structure for Hospitality S-REITs (FY19)

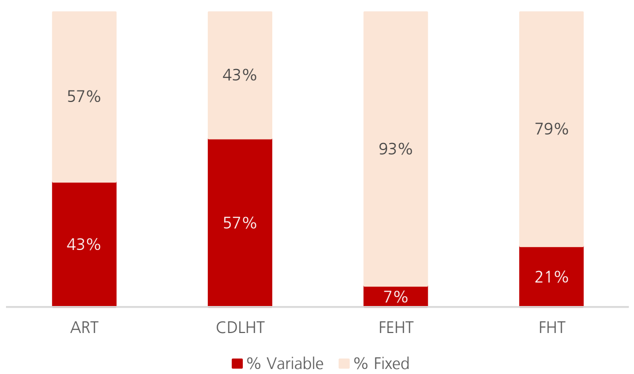


Source: DBS Bank

FY20F projections (DPU)



Percentage of FY20F DPU from fixed rent



Source: DBS Bank

Hospitality REITs – it is all about the Sponsor

Sponsor support important. Based on reported RevPARs from the various S-REITs, we estimate that most hotels generate more than the rental commitment that the master-lessee pays to the REITs as rental income. The difference is a form of buffer for (i) payment of hotel operator management fees, (ii) Furniture, Fittings, and Equipment Reserve (FF&E) reserves, and (iii) reserves for the master lessee for use during a "rainy season".

With the expected drop in revenues in 2020, we believe that most of the hospitality S-REITs will depend on their own master-lessee for support (or top up to the minimum rent), if underlying operating income falls below the fixed rent component of the revenue structure. Given that most of the master-lessees for the hospitality S-REITs are mainly subsidiaries (and affiliates) of their respective Sponsors, we believe that such top-ups can be counted upon, given the symbiotic relationships that the Sponsor and S-REITs have, and as major shareholder of the S-REITs.

We however note that for Ascott Residence Trust (ART) and CDL Hospitality Trusts (CDREIT) who have over the years expanded overseas and as such fixed rent component only contribute c.33%-38% of revenues.

Earnings weakness this year, with light in FY21F. We have revised our estimates across the hospitality SREITs to factor in a sharp decline in global travel demand. Our base case scenario assumes that: (i) FY20F portfolio occupancy will drop to 50%, on par with levels experienced during GFC, (ii) FY20F ADR to decline by 20% y-o-y compared to our previous growth forecast of 2-3% and (iii) a recovery only in FY21F, as occupancy rises to 75% and ADR to rebound to normal rates. On the basis of a 2-year normalisation period across FY20 and FY21, our RevPAR will be 47% and 88% of FY19 levels for FY20 and FY21 respectively. Based on our revised DPUs, FY20F dividend yields will be compressed to the range of 3.8% to 5.6% (previously 4.9% - 5.4%) on current share prices.

Adjusted assumptions to price in negative sentiment. Over and above a cut to our earnings estimates, we have adjusted our risk-free rate down by 50bps and increased our beta estimates by 20bps. Our new target prices are adjusted accordingly to **S$1.10 (BUY) for ART**, **S$1.30 (BUY) for CDLHT**, **S$0.60 (BUY) for FEHT** and **S$0.65 (BUY) for FHT**.

Variance between our revised FY20F/21F revenue against previous estimates

Revenue (S$m)		Previous Estimates		Revised Estimates		Variance	Growth y-o-y	Payout ratio (%)
	FY19A	FY20F	FY21F	FY20F	FY21F	FY20F	(YF21F)	
ART	515	723	780	421	709	-42%	68%	100%
CDLHT	197	204	232	125	217	-39%	74%	90%
FEHT	115	120	124	93	107	-23%	15%	100%
FHT	150	146	151	86	132	-41%	53%	100%

Variance between our revised FY20F/21F distributable income against previous estimates

Distributable Income (S$m)		Previous Estimates		Revised Estimates		Variance	Growth y-o-y	Payout ratio (%)
	FY19A	FY20F	FY21F	FY20F	FY21F	FY20F	(YF21F)	
ART	166	235	243	140	220	-41%	58%	100%
CDLHT	119	116	114	59	95	-49%	61%	90%
FEHT	74	78	83	54	66	-31%	23%	100%
FHT	84	81	84	35	70	-57%	99%	100%

Source: DBS Bank estimates

DPU revision comparison and FY20F current and target yield

DPU revision	FY19A DPU (scts)	Previous Estimates (scts)		Revised Estimates (Scts)		Variance		DPU Growth y-o-y (FY21F)	FY20F Yield (%)	FY21F Yield (%)
		FY20F	FY21F	FY20F	FY21F	FY20F	FY21F			
ART	7.6	7.6	7.9	4.5	7.1	-41%	-9%	58%	5.1%	8.1%
CDLHT	9.0	9.0	9.0	4.8	7.7	-47%	-15%	61%	5.2%	8.1%
FEHT	3.8	3.9	4.1	2.7	3.3	-31%	-20%	21%	5.6%	6.7%
FHT	4.4	4.2	4.4	1.8	3.6	-57%	-17%	98%	3.8%	7.3%

Drivers for our DPU estimates

Change in assumptions	REIT	Revised DPU (Scts)		Target Price (S$)		Target Yield (%)	
		Previous	Revised	Previous	Revised	FY20F	FY21F
(i) RevPAR in FY20 to dip 53% y-o-y (47% of pre-COVID-19 levels),	ART	4.5	7.1	1.50	1.10	4.1%	6.5%
(ii) A partial recovery in FY21 as RevPAR rebounds to 88% of pre-COVID-19 levels (FY19),	CDLHT	4.8	7.7	1.75	1.30	3.8%	5.9%
and	FEHT	2.7	3.3	0.80	0.60	4.5%	5.4%
(iii) 20-bp increase in beta, 50-bp decrease in risk free rate	FHT	1.8	3.6	0.78	0.65	2.8*	5.6%

RevPAR = ADR x OCC
FY20 RevPAR = (0.8 ADR) x (0.5/0.85 OCC) = (0.47 RevPAR)
FY21 RevPAR = (ADR) x (0.75/0.85 OCC) = (0.88 RevPAR)

Key:
RevPAR : Revenue per available room
ADR: Average Daily Rate
OCC: Occupancy Rate

Source: DBS Bank

Hospitality REITs – the next privatisation candidates?

Given the depressed share prices, hospitality S-REITs are trading at an implied 0.7x-0.8x EV/Asset and most are trading below replacement costs. Thus, we believe that current levels are attractive entry points for hospitality S-REITs at 0.5x-0.6x P/NAV, which is close to -2 SD of their mean, and reflects negatives of a plunge in earnings in 2020.

Hotel stocks trading below replacement costs. Implied valuations on a per room basis (or key) is attractive at S$0.5m-1.2m/room (even after stripping off an assumed 20% discount to valuations of its overseas hotels), which means that it is far cheaper to buy these stocks than a physical hotel. As hotel sites in Singapore are rare and only periodically offered in the government land sales (GLS) programme, transaction prices and bids tend to be robust and prices have trended higher over the years with implied development cost for a hotel averaging S$780k/key. The latest land bid in Club Street to Worldwide Development for S$562m (c.S$2,190psf) in Jan'19 is the highest price ever for a hotel site in Singapore, and replacement cost will likely trend even higher.

In fact, given that the hospitality S-REITs have not been active in raising equity in recent years, we believe that the current share price levels maybe a buy-out opportunity for Sponsors, if they do decide to take the S-REITs private. Based on our estimates, even at a 25% premium to current prices, Sponsors of FHT and FEHT would require between S$450m to S$600mto gain control of an attractive portfolio of hotel properties.

Implied trading yields

	Price (S$)	Mkt Cap (S$'m)	EV (S$'m)	Valuation (S$'m)	% SG	% overseas	EV/Asset (x)	P/NAV (X)
CDREIT	0.95	1,155	2,219	3,061	60%	40%	0.72	0.65
FEHT	0.49	956	1,956	2,700	100%	0%	0.72	0.57
ART	0.89	2,830	5,922	7,092	16%	84%	0.84	0.72
FHT	0.49	939	1,802	2,330	36%	64%	0.77	0.68
OUE CT	0.37	1,968	5,016	6,744	26%	74%	0.74	0.59
							0.76	**0.64**

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

Implied Valuation of SG hotels

	EV (S$'m)	Less: overseas*	Implied discount	Implied SG	Rooms (in SG)	EV/SG room (S$'m)
CDREIT	2,219	-980	20%	1,240	2,718	0.456
FEHT	1,956	-	20%	1,956	3,123	0.626
ART	5,922	-4,760	20%	1,163	907	1.282
FHT	1,802	-1,195	20%	607	665	0.913
OUE CT	5,016	- 4,015	20%	1,001	1,640	0.611

**assumed 20% discount to overseas properties valuation. For OUECT, its office properties are in SG.*

Source: Bloomberg Finance L.P. , DBS estimates

Amount that Sponsor would need to privatise the stock

	Rooms (SG)	Mkt Cap (S$'m)	Sponsor stake	Current Px	10%	15%	25%	NAV
CDREIT	2,718	1,155	38%	716	788	824	895	1,109
FEHT	3,123	956	51%	469	516	540	587	825
ART	907	2,830	40%	1,692	1,862	1,946	2,115	2,362
FHT	665	939	62%	355	390	408	444	523
OUE CT	1,640	1,968	40%	1,181	1,299	1,358	1,476	1,991

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

DBS
Live more, Bank less

Trading Ranges for Hotel S-REITs

REIT	Price 17/4/20 (S$)	P/NAV (x)	P/NAV Range Mean	+1 SD	-1 SD	-2 SD	trough	% from current price Mean	-1 SD	-2 SD	trough
ART	0.88	0.70	0.92	1.01	0.83	0.74	0.50	30.7%	17.9%	5.1%	-29.0%
CDREIT	0.95	0.63	1.10	1.26	0.94	0.78	0.50	76.0%	50.4%	24.8%	-20.0%
FEHT	0.49	0.57	0.81	0.95	0.67	0.53	0.53	42.4%	17.8%	-6.8%	-6.8%
FHT	0.50	0.68	0.97	1.03	0.91	0.85	0.85	42.5%	33.7%	24.9%	24.9%

Source: URA, DBS Bank estimates

Hotel Land sites (GLS) – Estimated development cost

Table	Location	GFA (m'sqft)	Developer	Land (S$'m)	Est Devt Cost (S$'m)	Rooms	Devt Cost/ Room (S$)	Hotels
1Q19	Club Street	0.262	Worldwide Group	562	747	Est. 900	830,000	n.a.
1Q14	East Coast Road	0.266	Master Contracts / Keong Hong	353	506	582	870,000	Holiday Inn Express Katong
4Q13	Havelock Road	0.023	I Hotel Pte. Ltd.	30	43	37	1,170,000	Warehouse Hotel
4Q12	Jurong Town Hall Road	0.204	Genting Singapore	238	354	557	640,000	Genting Jurong
4Q12	Victoria Street / Jalan Sultan	0.333	Forward Land Pte Ltd	331	519	1,000	520,000	Hotel Boss
2Q12	Rangoon Road / Farrer Park Station Road	0.140	RB Capital	151	230	300	767,000	Park Hotel Farrer Road
4Q11	Jalan Bukit Merah / Alexandra Road	0.239	Chip Eng Seng	189	323	442	729,000	Park Hotel Alexandra
			Average				780,000	
			Lowest				520,000	
			Highest				870,000*	

**we excluded the comparison of Warehouse hotel given its fairly small transaction size and niche nature of the product.*

Source: URA, DBS Bank estimates

Company Guides

Ascott Residence Trust

BUY

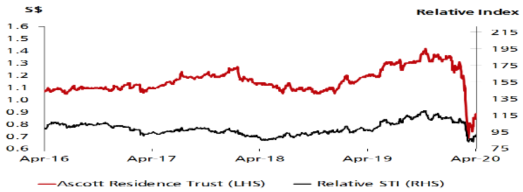
Last Traded Price (20 Apr 2020): S$0.89 **(STI :** 2,597.85)
Price Target 12-mth: S$1.10 (24% upside) (Prev S$1.50)

Analyst
Singapore Research Team equityresearch@dbs.com..
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Medium-term catalysts remain intact with short-term cash buffers from accumulated divestment gains
- ART currently trades at a -2 SD P/bk of 0.72x, discount to historical mean at 0.9x
- Acquisition growth may escalate with depressed hotel valuations and a debt headroom of c.S$1.5bn

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	514	515	421	709
Net Property Inc	239	253	236	363
Total Return	128	197	96.5	185
Distribution Inc	155	166	140	220
EPU (S cts)	4.32	(1.9)	3.13	5.98
EPU Gth (%)	(16)	nm	nm	91
DPU (S cts)	7.16	7.61	4.53	7.13
DPU Gth (%)	1	6	(40)	58
NAV per shr (S cts)	122	125	124	123
PE (X)	20.5	nm	28.3	14.8
Distribution Yield (%)	8.1	8.6	5.1	8.1
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	39.6	34.3	37.7	38.4
ROAE (%)	3.5	(1.5)	2.5	4.8
Distn. Inc Chng (%):			(41)	(9)
Consensus DPU (S cts):			6.50	7.50
Other Broker Recs:		B: 4	S: 1	H: 4

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

Setting sights on far horizons

Maintain BUY. We are maintaining our BUY call on Ascott Residence Trust (ART) with a revised TP of S$1.10. Despite current portfolio weakness across ART's global diversified portfolio due to COVID-19, we remain confident as ART's medium-term catalysts remain intact. Short-term cash buffers are also in place from accumulated divestment gains estimated at S$160m. Acquisition growth may escalate as hotel assets are at depressed valuations, given low gearing. ART currently trades at a price/book (P/Bk) of 0.72x (-2 SD level), compared to historical mean of 0.9x. Our revised target price implies a target yield of 6.5% in FY21F and an attractive current yield of 8.1%.

Where we differ: Privatisation candidate with depressed valuations. Medium-term catalysts remain intact in our view, being inorganic growth with an enlarged debt headroom of c.S$1.5bn following the merger with Ascendas Hospitality Trust (ASCHT) and inclusion within the FTSE EPRA NAREIT Developed Index. Undistributed capital reserve of c.S$160m and incoming cash proceeds of S$163m from the Somerset Liang Court divestment should serve as a comfort to investors to supplement cash flow in the short term.

Portfolio weakness from overseas markets. Markets with higher transient demand such as Australia, Japan Europe and US experienced a greater decline in occupancy last month compared to properties catering to the longer-stay segments in China, Vietnam and Singapore. Fifteen out of 88 properties are currently closed in response to government mandates or to optimise resources. With expectations for normalisation to occur only in FY22, our RevPAR estimates will be 47%/88% of FY19 levels for FY20/FY21.

Valuation:
Our TP of S$1.10 factors in our new RevPAR estimates for FY20/FY21 and a higher beta to reflect recessionary sentiments.

Key Risks to Our View:
Slower recovery in FY21 as COVID-19 protracts.

At A Glance

Issued Capital (m shrs)	3,083
Mkt. Cap (Sm/USm)	2,729 / 1,917
Major Shareholders (%)	
CapitaLand Ltd	24.8
AIA	15.4
Free Float (%)	59.8
3m Avg. Daily Val (US$m)	9.4

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

CRITICAL DATA POINTS TO WATCH

Critical Factors

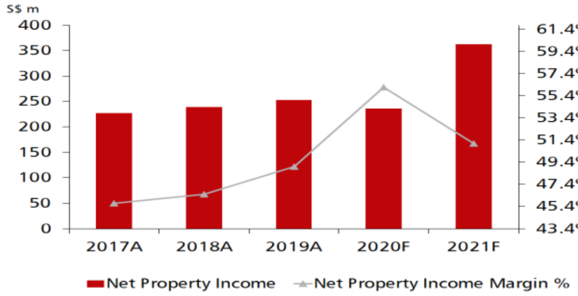
Asset reconstitution. ART has engaged in a more active asset reconstitution strategy whereby it sells properties which are low yielding or have limited growth potential and recycles the proceeds into assets which are better yielding and/or provide a longer sustainable growth profile. Beyond increasing its overall portfolio earnings power and a resultant higher DPU, the strategy has allowed the trust to crystallise the value of its book. In addition, the ability to recycle capital reduces the reliance on equity-raising to fund its expansion plans. These two factors should help reduce doubts that investors may have on the true value of ART's NAV per share and eliminate the discount to book that the market has placed on ART.

Boost from merger with ASCHT and acquisitions. We expect the merger with AHT to enhance ART's medium-term earnings profile. ART has also completed several acquisitions over the past 1-2 years including Ascott Orchard Singapore, Citadines Michel Hamburg, Citadines City Centre Frankfurt, and DoubleTree by Hilton New York, Times Square South. These acquisitions should help to underpin DPU growth ahead.

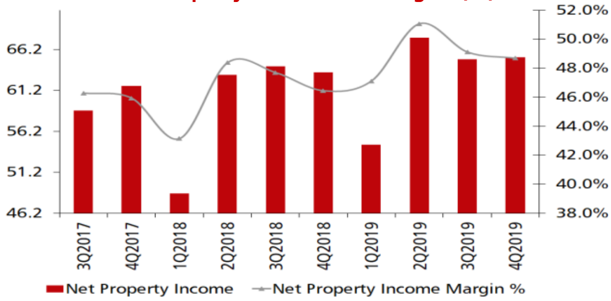
Steady income base. Around 38% of ART's NPI comes from properties under master leases and properties with income guarantees which offer strong income visibility. The remaining c.62% are diversified across nine markets which are expected to see varying levels of growth.

Seeing far horizons. Notwithstanding the near-term uncertainty of the COVID-19 global pandemic, we believe that the long-term trajectory of ART remains undeterred by the short-term headwinds. Asset reconstitution strategy remains intact as ART may look to escalate growth once the short-term risks dissipate, fuelled by the recent merger with ASCHT and debt headwind in excess of S$1.5bn. Catalysts that were previously timed for FY20 will likely be revisited in FY21/FY22. These include the Tokyo 2020 Olympics that will be postponed to 2021, and favourable supply and demand matrix for ART's operations in the US.

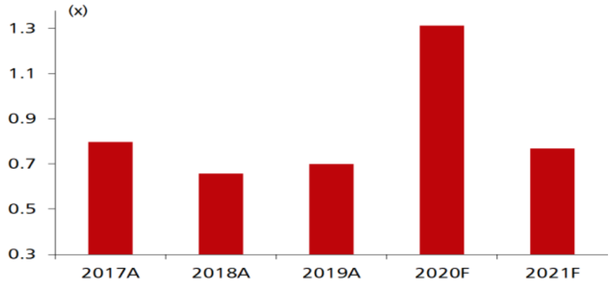
Net Property Income and Margins (%)



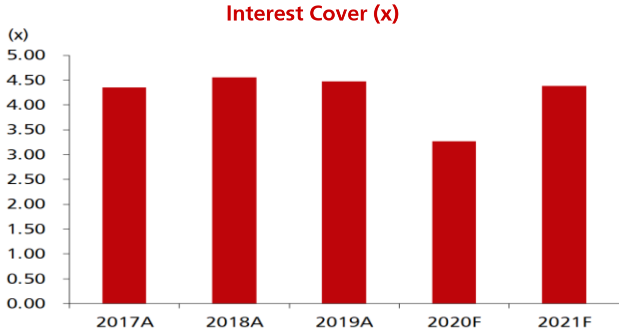
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to settle around 37-38%. With assumed acquisitions, we project gearing to head up towards the 37-38% level, which we believe is optimal vs the current c.<34%.

Share Price Drivers:

Crystallisation of book value. Going forward, we believe as ART continues to demonstrate its ability to sell its assets at or above the latest valuations as it executes its portfolio reconstitution strategy, we believe ART's share price will head higher to trade at a premium to book. There remains to be hidden value in ART as its properties are conservatively valued. The conservative valuation can be demonstrated by several properties being sold at 16-69% premium to book in the past year.

Index inclusion post merger. We believe post the merger of ART and ASCHT, the enlarged ART should meet the criteria to be added to various property indexes. This should translate into greater investor interest and potentially additional fund flows which may in turn trigger a further re-rating of ART's share price and ART trading at a structurally lower yield.

Key Risks:

Interest rate risks. Any increase in interest rates will result in higher interest payments and reduce the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders. As at 31 December 2019, 86% of ART's debts were on fixed rates.

Currency risk. As ART earns rental income in various currencies, a depreciation of any foreign currency against the SGD could negatively impact DPU.

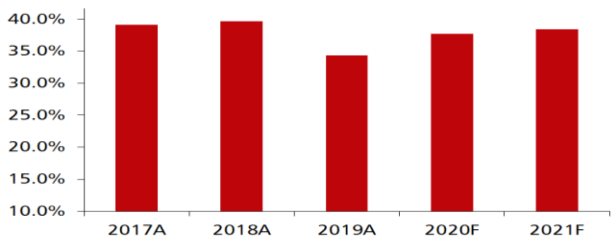
Environment, Social, Governance:

ART hosts a regular ESG review, assessment, and feedback project which involves an annual CapitaLand Group-wide Risk and Control Self-Assessment exercise. This entails the identification, assessment, and documentation of physical risks and corresponding internal controls. The ART team has also spearheaded numerous environmental, health, and safety initiatives to ensure the safety of its employees and sustainability of its assets.

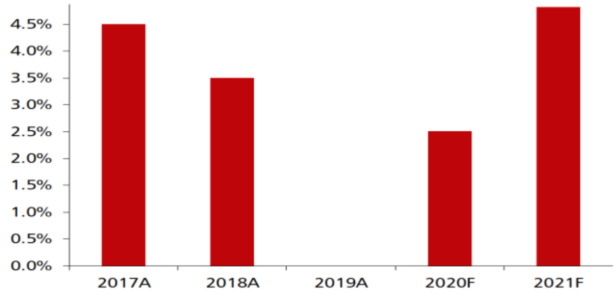
Company Background

Ascott REIT's (ART's) investment portfolio primarily comprises real estate used mainly for hospitality purposes or as rental housing properties (including investments in real estate-related assets and/or other related value-enhancing assets or instruments).

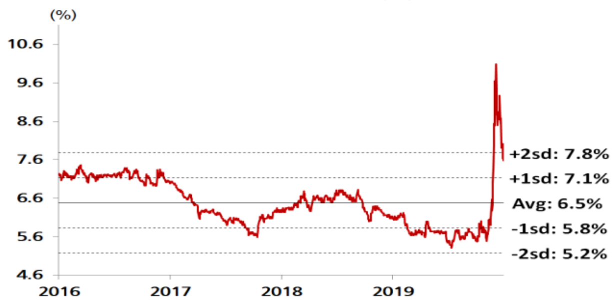
Aggregate Leverage (%)



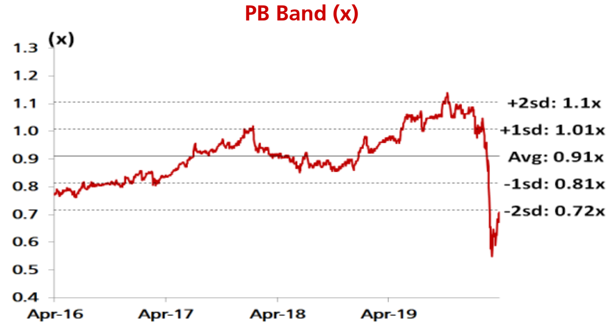
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	496	514	515	421	709
Property expenses	(269)	(275)	(262)	(184)	(346)
Net Property Income	**227**	**239**	**253**	**236**	**363**
Other Operating expenses	(30.6)	(30.3)	(30.2)	(33.4)	(38.6)
Other Non Opg (Exp)/Inc	38.2	(2.9)	1.96	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.20	0.20
Net Interest (Exp)/Inc	(45.1)	(45.9)	(49.7)	(62.1)	(74.0)
Exceptional Gain/(Loss)	0.0	0.0	(160)	0.0	0.0
Net Income	**189**	**160**	**14.8**	**141**	**250**
Tax	(51.9)	(43.5)	(44.7)	(24.7)	(43.8)
Minority Interest	(8.3)	(4.2)	(0.1)	(3.5)	(6.2)
Preference Dividend	(19.2)	(19.2)	(19.7)	(16.5)	(15.5)
Net Income After Tax	**110**	**93.3**	**(49.7)**	**96.5**	**185**
Total Return	195	128	197	96.5	185
Non-tax deductible Items	(49.4)	19.9	(48.5)	33.1	35.7
Net Inc available for Dist.	152	155	166	140	220
Growth & Ratio					
Revenue Gth (%)	4.4	3.6	0.1	(18.3)	68.5
N Property Inc Gth (%)	2.0	5.5	5.5	(6.4)	53.3
Net Inc Gth (%)	16.3	(15.2)	nm	nm	91.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	45.7	46.5	49.1	56.2	51.2
Net Income Margins (%)	22.2	18.1	(9.6)	22.9	26.1
Dist to revenue (%)	30.7	30.1	32.1	33.2	31.1
Managers & Trustee's fees	6.2	5.9	5.9	7.9	5.4
ROAE (%)	4.5	3.5	(1.5)	2.5	4.8
ROA (%)	2.1	1.7	(0.8)	1.3	2.4
ROCE (%)	2.9	2.9	(7.2)	2.3	3.5
Int. Cover (x)	4.4	4.6	4.5	3.3	4.4

Source: Company, DBS Bank

Revised from previous revenue forecast of S$723m

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	137	116	132	132	134
Property expenses	(73.1)	(61.3)	(64.8)	(67.4)	(68.8)
Net Property Income	63.4	54.6	67.7	65.0	65.3
Other Operating expenses	(7.5)	(7.0)	(7.7)	(7.5)	(7.9)
Other Non Opg (Exp)/Inc	(4.0)	0.20	3.75	(0.5)	(1.5)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(11.5)	(13.0)	(12.6)	(12.3)	(11.8)
Exceptional Gain/(Loss)	3.70	0.0	0.0	0.0	(160)
Net Income	**44.1**	**34.8**	**51.0**	**44.7**	**(116)**
Tax	(19.0)	(4.3)	(12.7)	(6.2)	(21.5)
Minority Interest	2.71	(1.6)	1.20	(1.7)	1.99
Net Income after Tax	**27.9**	**28.9**	**39.6**	**36.8**	**(135)**
Total Return	36.4	164	48.6	36.8	(33.1)
Non-tax deductible Items	14.9	(128)	(0.6)	6.03	87.4
Net Inc available for Dist.	46.5	31.5	43.1	41.6	49.3
Growth & Ratio					
Revenue Gth (%)	2	(15)	14	0	1
N Property Inc Gth (%)	(1)	(14)	24	(4)	0
Net Inc Gth (%)	(36)	4	37	(7)	(467)
Net Prop Inc Margin (%)	46.4	47.1	51.1	49.1	48.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	4,908	4,745	6,171	6,527	6,577
Other LT Assets	65.7	64.2	657	656	665
Cash & ST Invts	257	228	276	226	276
Inventory	0.21	0.33	0.67	0.67	0.67
Debtors	66.6	56.9	62.5	46.2	77.0
Other Current Assets	195	215	256	256	256
Total Assets	**5,493**	**5,309**	**7,423**	**7,712**	**7,852**
ST Debt	264	70.1	355	355	355
Creditor	237	141	173	114	189
Other Current Liab	3.76	6.80	37.1	37.1	37.1
LT Debt	1,681	1,835	2,286	2,655	2,726
Other LT Liabilities	135	125	229	229	229
Unit holders' funds	3,082	3,041	4,257	4,234	4,220
Minority Interests	89.4	89.7	85.5	89.0	95.1
Total Funds & Liabilities	**5,493**	**5,309**	**7,423**	**7,712**	**7,852**
Non-Cash Wkg. Capital	20.8	124	109	152	107
Net Cash/(Debt)	(1,688)	(1,678)	(2,366)	(2,784)	(2,804)
Ratio					
Current Ratio (x)	1.0	2.3	1.1	1.0	1.0
Quick Ratio (x)	0.6	1.3	0.6	0.5	0.6
Aggregate Leverage (%)	39.1	39.6	34.3	37.7	38.4
Z-Score (X)	1.2	1.1	1.2	1.2	1.2

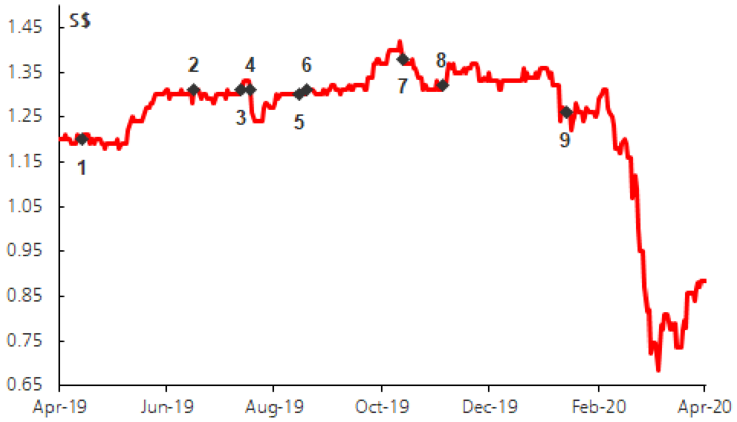
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	189	160	14.8	141	250
Dep. & Amort.	13.3	13.3	13.3	13.3	13.3
Tax Paid	(20.2)	(19.8)	(23.2)	(24.7)	(43.8)
Associates &JV Inc/(Loss)	0.04	0.02	0.01	(0.2)	(0.2)
Chg in Wkg.Cap.	(42.2)	0.92	(6.0)	(43.0)	44.7
Other Operating CF	41.0	72.0	230	19.9	22.5
Net Operating CF	**181**	**227**	**229**	**106**	**287**
Net Invt in Properties	(26.2)	(27.6)	(31.7)	(12.6)	(21.3)
Other Invts (net)	(366)	25.1	304	(356)	(50.0)
Invts in Assoc. & JV	0.0	0.0	(15.5)	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.64	1.78	1.95	0.0	0.0
Net Investing CF	**(390)**	**(0.7)**	**259**	**(369)**	**(71.3)**
Distribution Paid	(145)	(149)	(160)	(140)	(220)
Chg in Gross Debt	106	(35.0)	(198)	369	71.3
New units issued	438	0.0	(1.2)	0.0	0.0
Other Financing CF	(72.1)	(69.7)	(80.5)	(16.5)	(15.5)
Net Financing CF	**328**	**(254)**	**(440)**	**213**	**(165)**
Currency Adjustments	(2.2)	(1.9)	(0.7)	0.0	0.0
Chg in Cash	117	(29.7)	47.2	(49.7)	50.7
Operating CFPS (S cts)	10.4	10.5	8.96	4.85	7.83
Free CFPS (S cts)	7.21	9.23	7.52	3.04	8.59

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 May 19	1.20	1.35	BUY
2:	04 Jul 19	1.31	1.45	BUY
3:	31 Jul 19	1.31	1.45	BUY
4:	05 Aug 19	1.31	1.45	BUY
5:	02 Sep 19	1.30	1.45	BUY
6:	06 Sep 19	1.31	1.45	BUY
7:	31 Oct 19	1.38	1.45	BUY
8:	22 Nov 19	1.32	1.45	BUY
9:	31 Jan 20	1.26	1.50	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

Singapore Company Guide

CDL Hospitality Trusts

Version 20 | Bloomberg: CDREIT SP | Reuters: CDLT.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 21 Apr 2020

BUY

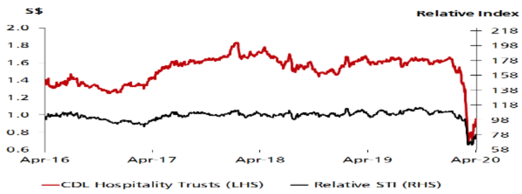
Last Traded Price (20 Apr 2020): S$0.95 (**STI :** 2,597.85)
Price Target 12-mth: S$1.30 (37% upside) (Prev S$1.75)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Decent 5.1% yield for FY20F on revised estimates despite vulnerability of variable rents (c.60% of total rents)
- Previous catalysts of Tokyo Olympics and breakeven of Maldives resorts may be revisited in 2022
- Implied price per key at c.S$460k for Singapore hotels, a sharp discount to replacement costs

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	202	197	126	217
Net Property Inc	146	141	89.9	130
Total Return	110	115	26.9	61.8
Distribution Inc	123	119	66.5	105
EPU (S cts)	6.23	5.46	2.21	5.04
EPU Gth (%)	6	(12)	(60)	128
DPU (S cts)	9.26	9.01	4.91	7.72
DPU Gth (%)	0	(3)	(46)	57
NAV per shr (S cts)	153	152	151	151
PE (X)	15.3	17.5	43.3	19.0
Distribution Yield (%)	9.7	9.4	5.1	8.1
P/NAV (x)	0.6	0.6	0.6	0.6
Aggregate Leverage (%)	34.1	34.8	35.0	34.8
ROAE (%)	4.1	3.6	1.5	3.3
Distn. Inc Chng (%):			(43)	(8)
Consensus DPU (S cts):			6.6	7.7
Other Broker Recs:		B: 6	S: 3	H: 6

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

Unwarranted valuation for prime Singapore hotels

Maintain BUY. We maintain our BUY call on CDL Hospitality Trusts (CDREIT) with a revised target price (TP) of S$1.30, factoring in portfolio weakness in FY20F and FY21F. The global travel shutdown will impact near term earnings but the delay of the Tokyo Olympics to 2021 will be a catalyst for a synchronised recovery across CDREIT's portfolio when the travel bug returns for tourists and corporates. CDREIT currently trades at a price/book (P/Bk) of 0.6x (beyond -2 SD (standard deviation) levels) and a sharp discount from its mean P/Bk of 1.0x. Our revised TP of S$1.30 implies an upside of 36% from current levels.

Where we differ – Unwarranted valuations from prime assets. The implied price per key for CDREIT's Singapore portfolio currently stands at c.S$460k/key, below replacement cost which is in excess of S$1m per key. Given the mid-tier to luxury category of CDREIT's room inventory and its successful track record, we believe that the short term dent due to COVID-19 should not warrant such valuations.

Gunning for attractive yields on a normalised basis. Our new forecast is based on a 53% y-o-y dip in revenue per available room (RevPAR) in FY20, and a partial recovery in FY21 with RevPAR rebounding to 88% of pre-COVID-19 levels before a return to normalised levels in FY22F. Fixed rent contributes c.40% to CDREIT's revenue top line, with c.60% of revenues vulnerable to a dip in RevPAR. Despite a 47% y-o-y dip in distribution per unit (DPU) for FY20F in our new forecasts, revised yield is maintained at a decent 5.1% with a sharp rebound to 8.3% in FY21F, 2 ppt higher than mean yields of 6.2%.

Valuation:
We lower our discounted cash flow (DCF)-based target price (TP) to S$1.30 factoring in portfolio RevPAR weakness in FY20F, FY21F and the delay of the Novotel CQ and W Hotel Sentosa transactions from end-April to early July this year.

Key Risks to Our View:
Slower recovery in FY21 as COVID-19 drags longer could pose a major risk.

At A Glance

Issued Capital (m shrs)	1,213
Mkt. Cap (Sm/USm)	1,153 / 814
Major Shareholders (%)	
Hospitality Holdings Pte Ltd	25.9
M & C Reit Management Ltd	6.7
Republic Hotels & Resorts	5.2
Free Float (%)	62.2
3m Avg. Daily Val (US$m)	6.2

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

CRITICAL DATA POINTS TO WATCH

Critical Factors

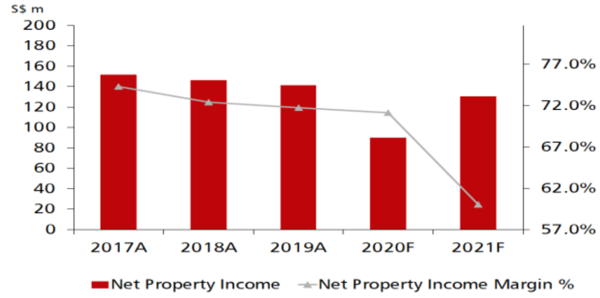
Recovery in Singapore on the medium term horizon. CDREIT's profitability is largely dependent on earnings from its Singapore hotels. We expect a recovery in RevPAR (3-5% growth p.a.) as supply pressures ease. New supply over the next three years is expected to grow by 1-2% versus 4-7% in the past 2-4 years. With the global COVID-19 pandemic, a sharp decline in global travel will likely have a significant impact on hoteliers such as CDREIT and its geographically diversified portfolio.

A double trade-up with Novotel CQ and The W (Sentosa). The proposed sale of Novotel CQ for S$375.9m acts as a strategic value unlocking opportunity for the REIT in the longer term. CDREIT can subsequently trade up for a new 475-room hotel that will be part of the new Clarke Quay integrated development, operated by Moxy Hotels, an upper-mid scale brand owned by Marriott. CDREIT's subsequent acquisition of W Singapore will help mitigate the rental income gap post-divestment of Novotel CQ. With occupancy averaging at 76% in FY18, we believe there is upside potential to increase RevPAR with the S$4.5bn expansion of Resorts World Sentosa and transformation of Sentosa Island.

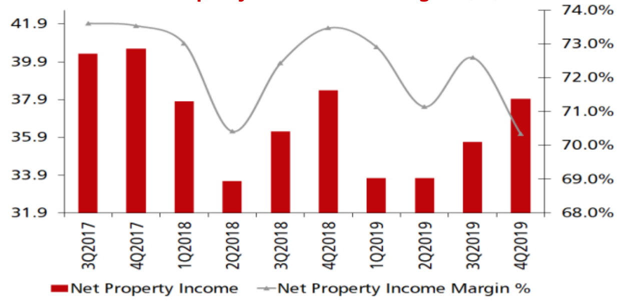
Softness from Maldives. We expect the performance of CDREIT's Maldives operations to be soft for the coming two years due to the COVID-19 pandemic. Furthermore, earnings may be impacted by startup losses from the new Raffles resort (refurbished and rebranded ex Dhevanafushi Maldives Luxury Resort) which we only expect to breakeven in FY22. In the medium term, a pick-up in European and Indian visitors would help drive room demand for both Maldives hotels as the government in Maldives is planning to moderate the supply of new resorts in the country.

Asset optimisation. In the medium term, we believe CDREIT can further maximise the returns of its portfolio by undertaking asset enhancement initiatives (AEIs) such as the recently completed refurbishments at Grand Copthorne Waterfront Hotel and M Hotel in Singapore.

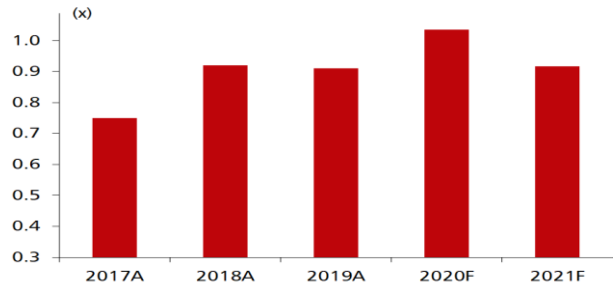
Net Property Income and Margins (%)



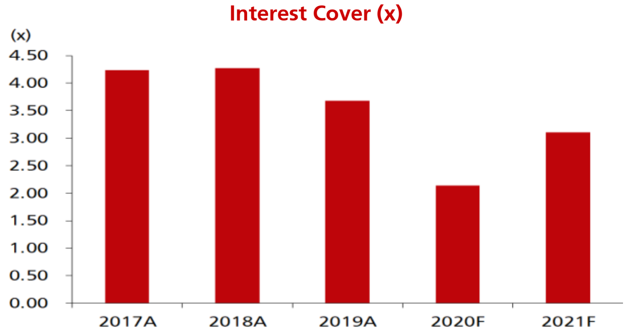
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Low gearing. We anticipate CDREIT's gearing to stabilise at around 35% for FY20F and FY21F following the divestment of Novotel CQ and acquisition of W Hotel.

Moderate exposure to rising interest rates. Approximately 55% of CDREIT's borrowings were on fixed interest rates as at 31 December 2019. This provides a moderate hedge against rising interest rates.

Share Price Drivers:

Medium term recovery in Singapore's hotel industry. We believe that the expected upturn in Singapore's hospitality market post COVID-19, and completion of recent AEI works at Copthorne King's hotel and CDREIT's Maldives assets, should boost DPU growth at a compound annual growth rate (CAGR) of 2.5% from 2022.

Discount to recent market transactions. CDREIT offers one of the cheapest exposures to the upturn in the Singapore market. The implied price per key for CDREIT's Singapore portfolio stands at c.S$500,000 at the current share price of S$0.94, below asking prices for hotels in Singapore which are in excess of S$1m per key. Given the mid-tier to luxury category of CDREIT's room inventory and its successful track record, we conservatively believe that CDREIT's Singapore portfolio should trade closer to S$650,000 or a price/book value (P/Bv) of 1.0x.

Key Risks:

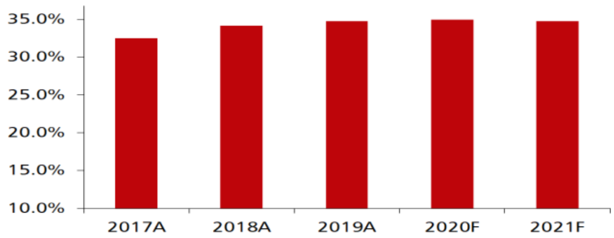
Interest rate risk. Any increase in interest rates will result in higher interest payments, which could result in lower DPU for unitholders.

Currency risk. As CDREIT earns rental income in various currencies (Australian Dollar (AUD), British Pound Sterling (GBP), Japanese Yen (JPY), New Zealand Dollar (NZD) and US Dollar (USD)), a depreciation of any foreign currency against the Singapore Dollar (SGD) could negatively impact distribution income which is distributed in SGD.

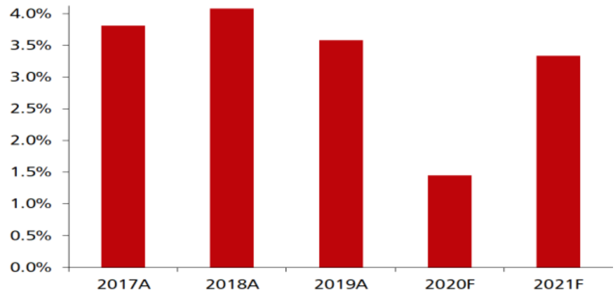
Company Background

CDL Hospitality Trusts (CDREIT) is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust (REIT) that invests in a portfolio of income-producing hospitality-related properties while HBT is a business trust. CDREIT currently owns hotels in Singapore, Australia, Japan, Germany, Maldives, New Zealand, and the UK.

Aggregate Leverage (%)

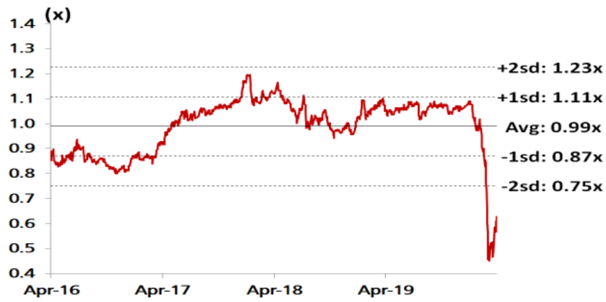


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	204	202	197	126	217
Property expenses	(52.6)	(55.8)	(55.7)	(36.6)	(87.0)
Net Property Income	152	146	141	89.9	130
Other Operating expenses	(36.3)	(30.4)	(36.2)	(30.8)	(32.9)
Other Non Opg (Exp)/Inc	(11.1)	2.57	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(27.3)	(27.1)	(28.5)	(27.7)	(31.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	77.1	91.1	76.4	31.4	66.1
Tax	(12.4)	(15.7)	(11.5)	(4.1)	(4.0)
Minority Interest	(0.1)	(0.2)	1.33	(0.4)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	64.6	75.2	66.3	26.9	61.8
Total Return	129	110	115	26.9	61.8
Non-tax deductible Items	(7.1)	5.34	32.1	30.0	31.6
Net Inc available for Dist.	122	123	119	66.5	105
Growth & Ratio					
Revenue Gth (%)	13.0	(1.2)	(2.4)	(35.8)	71.8
N Property Inc Gth (%)	10.3	(3.8)	(3.3)	(36.3)	44.9
Net Inc Gth (%)	(9.0)	16.5	(11.9)	(59.4)	129.4
Dist. Payout Ratio (%)	90.5	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	74.3	72.4	71.7	71.1	60.0
Net Income Margins (%)	31.6	37.3	33.7	21.3	28.4
Dist to revenue (%)	59.7	60.7	60.6	52.6	48.4
Managers & Trustee's fees	17.8	15.1	18.4	24.4	15.1
ROAE (%)	3.8	4.1	3.6	1.5	3.3
ROA (%)	2.4	2.6	2.2	0.9	2.0
ROCE (%)	3.6	3.3	3.0	1.7	3.0
Int. Cover (x)	4.2	4.3	3.7	2.1	3.1

Source: Company, DBS Bank

Revised from pre-COVID estimate of S$204m due to portfolio weakness and a delay in Novotel CQ and W Hotel transactions

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	52.3	46.3	47.5	49.1	54.0
Property expenses	(13.9)	(12.6)	(13.7)	(13.5)	(16.0)
Net Property Income	38.4	33.8	33.8	35.7	38.0
Other Operating expenses	(7.8)	(8.2)	(8.3)	(8.4)	(11.4)
Other Non Opg (Exp)/Inc	(3.9)	0.0	0.06	0.0	0.0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(7.8)	(5.7)	(9.0)	(8.3)	(5.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**19.0**	**19.9**	**16.5**	**19.0**	**21.0**
Tax	(11.1)	(1.6)	(4.2)	(2.9)	(2.8)
Minority Interest	(0.1)	(0.3)	(0.2)	(0.1)	(0.8)
Net Income after Tax	**7.81**	**18.0**	**12.1**	**16.0**	**17.5**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	(6.5)	6.16	11.2	9.60	(40.9)
Net Inc available for Dist.	36.3	24.1	23.3	25.7	25.7
Growth & Ratio					
Revenue Gth (%)	5	(11)	2	4	10
N Property Inc Gth (%)	6	(12)	0	6	6
Net Inc Gth (%)	(65)	130	(32)	32	9
Net Prop Inc Margin (%)	73.5	72.9	71.1	72.6	70.3
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,331	2,429	2,513	2,465	2,472
Other LT Assets	340	360	11.7	11.7	11.7
Cash & ST Invts	95.9	140	135	181	183
Inventory	0.0	0.0	1.77	0.0	0.0
Debtors	20.8	32.8	28.9	14.1	24.2
Other Current Assets	74.3	1.08	371	371	371
Total Assets	**2,862**	**2,962**	**3,061**	**3,042**	**3,061**
ST Debt	286	249	78.7	78.7	78.7
Creditor	41.9	41.8	43.6	27.5	47.2
Other Current Liab	4.09	11.9	8.98	8.98	8.98
LT Debt	644	763	985	985	985
Other LT Liabilities	40.7	41.9	82.1	82.1	82.1
Unit holders' funds	1,840	1,848	1,854	1,851	1,850
Minority Interests	4.99	7.66	8.32	8.73	9.01
Total Funds & Liabilities	**2,862**	**2,962**	**3,061**	**3,042**	**3,061**
Non-Cash Wkg. Capital	49.0	(19.7)	349	348	339
Net Cash/(Debt)	(834)	(872)	(929)	(883)	(881)
Ratio					
Current Ratio (x)	0.6	0.6	4.1	4.9	4.3
Quick Ratio (x)	0.4	0.6	1.2	1.7	1.5
Aggregate Leverage (%)	32.5	34.1	34.8	35.0	34.8
Z-Score (X)	1.3	1.4	1.3	1.3	1.3

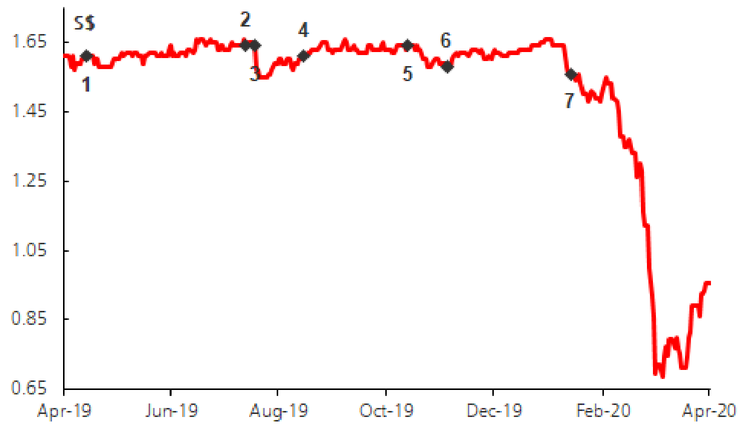
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	77.1	91.1	76.4	31.4	66.1
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(4.1)	(2.8)	(15.0)	(4.1)	(4.0)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.2)	(12.1)	7.55	0.50	9.66
Other Operating CF	68.2	46.9	51.9	30.0	31.6
Net Operating CF	**139**	**123**	**121**	**57.8**	**103**
Net Invt in Properties	(269)	(4.5)	(46.5)	48.1	(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	0.22	1.31	1.98	0.0	0.0
Net Investing CF	**(269)**	**(3.2)**	**(44.6)**	**48.1**	**(6.5)**
Distribution Paid	(104)	(113)	(110)	(59.8)	(94.6)
Chg in Gross Debt	13.1	62.3	56.3	0.0	0.0
New units issued	251	0.0	0.0	0.0	0.0
Other Financing CF	(15.6)	(21.8)	(23.2)	0.0	0.0
Net Financing CF	**145**	**(72.8)**	**(77.0)**	**(59.8)**	**(94.6)**
Currency Adjustments	(1.0)	(3.6)	(2.7)	0.0	0.0
Chg in Cash	13.9	43.6	(3.4)	46.1	2.13
Operating CFPS (S cts)	12.8	11.2	9.34	4.70	7.64
Free CFPS (S cts)	(11.8)	9.83	6.13	8.68	7.89

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 May 19	1.61	1.85	BUY
2:	31 Jul 19	1.64	1.80	BUY
3:	05 Aug 19	1.64	1.80	BUY
4:	02 Sep 19	1.61	1.80	BUY
5:	31 Oct 19	1.64	1.80	BUY
6:	22 Nov 19	1.58	1.80	BUY
7:	31 Jan 20	1.56	1.75	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

Far East Hospitality Trust

Version 17 | Bloomberg: FEHT SP | Reuters: FAEH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Apr 2020

BUY (upgrade from HOLD)

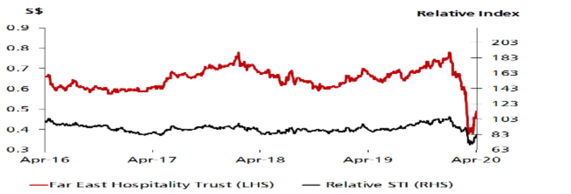
Last Traded Price (20 Apr 2020): S$0.49 (**STI :** 2,614.60)
Price Target 12-mth: S$0.60 (22% upside) (Prev S$0.69)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Limited downside earnings risk with 97% of FY20F projections supported by fixed rent
- Despite expected RevPAR dip in FY20F, recovery should be swift when travel demand returns
- Trading below replacement costs; potential privatisation candidate if valuation remains low

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	114	116	92.6	107
Net Property Inc	103	104	83.9	95.6
Total Return	90.6	60.4	39.7	53.9
Distribution Inc	75.4	73.9	53.6	65.7
EPU (S cts)	3.16	2.61	1.98	2.66
EPU Gth (%)	6	(17)	(24)	35
DPU (S cts)	4.00	3.80	2.70	3.27
DPU Gth (%)	3	(5)	(29)	21
NAV per shr (S cts)	84.7	84.1	84.7	84.1
PE (X)	15.5	18.7	24.8	18.4
Distribution Yield (%)	8.2	7.8	5.5	6.7
P/NAV (x)	0.6	0.6	0.6	0.6
Aggregate Leverage (%)	40.3	39.0	38.7	38.7
ROAE (%)	3.7	3.1	2.3	3.2
Distn. Inc Chng (%):			(31)	(21)
Consensus DPU (S cts):			3.20	3.70
Other Broker Recs:		B: 3	S: 1	H: 3

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

Master leases a strong safety net

Upgrade to BUY. We upgrade our recommendation on Far East Hospitality Trust (FEHT) to BUY. While its operations remain under pressure, we see limited downside from the master leases for its hospitality and commercial assets. FEHT currently trades at a price/book (P/Bk) of 0.6x (- 2SD (standard deviation) levels) and a discount from its mean P/Bk of 0.75x. FEHT is also trading at an implied valuation 630k/room, below replacement cost, which makes it an attractive takeover target. Our new target price (TP) of S$0.60 implies a target FY21F yield of 5.45% (in line with its historical mean).

Where we differ: Downside risk is limited. We remain comfortable that FEHT can continue to deliver steady returns of c.6.0% at current levels, backed by the fixed rent of its master leases which we estimate to contribute c.97% of our revised FY20F revenues (c.70% on normalised levels). The master lessees are entities and affiliates of its sponsor, Far East Organization, which is expected to support FEHT in these tough times.

Revenue to normalise from FY22F onwards. We revised our portfolio estimates as the COVID-19 pandemic took a turn for the worse in Singapore. Our new forecast is on the basis of a 53% y-o-y dip in revenue per available room (RevPAR) in FY20F, with a partial recovery in FY21F with RevPAR rebounding to 88% of pre-COVID-19 levels, before normalising in FY22F.

Valuation:

Our RevPAR assumes a portfolio-wide RevPAR weakness in FY20 with a partial recovery in FY21 across the sector, while factoring in a higher cost of equity and lower risk-free rate.

Key Risks to Our View:

A slower recovery in FY21 if COVID-19 drags longer could pose a major risk.

At A Glance

Issued Capital (m shrs)	1,946
Mkt. Cap (Sm/USm)	953 / 670
Major Shareholders (%)	
Golden Development Pte Ltd	22.9
Golden Landmark Pte Ltd	10.6
Far East Organization Centre	10.1
Free Float (%)	43.4
3m Avg. Daily Val (US$m)	1.7

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

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.

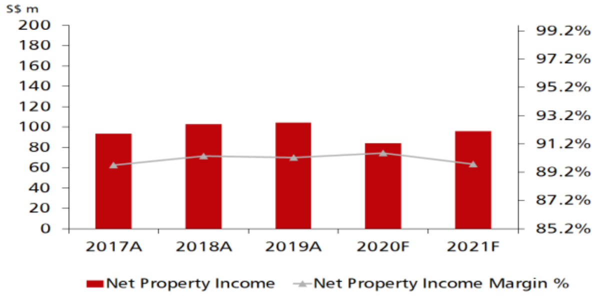
Global travel bans are headwinds to FEHT's operations. Cautious sentiment shrouding hoteliers in Singapore continues alongside the COVID-19 pandemic, with a sharp 52% y-o-y decline in international tourist arrivals in February 2020. Demand for hotel stays for both corporate and leisure travellers will likely trough this year, given the government's push for citizens to restrain from leaving individual households. With ongoing headwinds likely to persist for the rest of FY20, we are estimating 50% portfolio occupancy in FY20, from 88% in FY19, alongside a 25% decline in average daily room rates.

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.

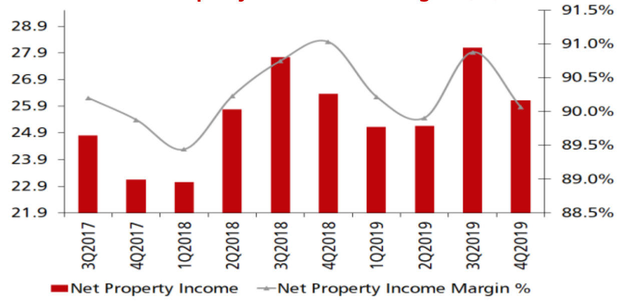
Boost from asset enhancement initiatives (AEI). FEHT has completed several AEIs across its portfolio over the past 12-18 months. Refurbishments should enable FEHT to remain competitive but more importantly drive room rates higher.

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 distribution per unit (DPU).

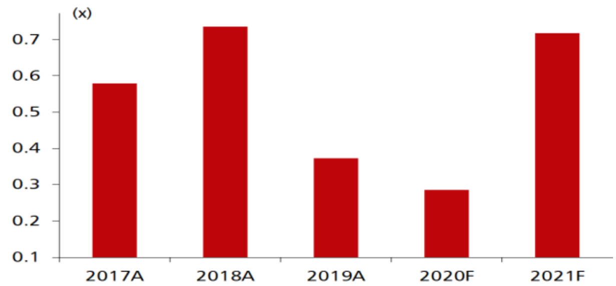
Net Property Income and Margins (%)



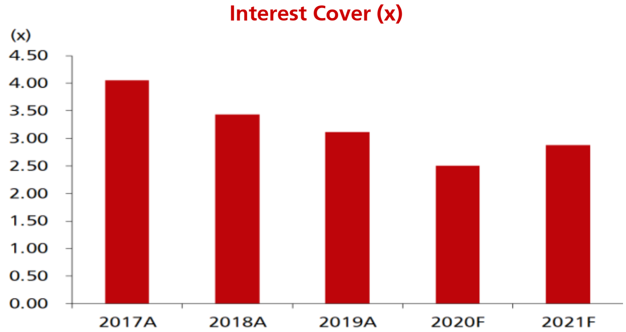
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing at c.40%. FEHT's gearing now stands at c.39% (as at 31 December 2019) post the debt funded acquisition of Oasia Hotel Downtown and drawdown of construction loans for the Sentosa development. With the use of its Distribution Reinvestment Plan (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:

Current P/Bk near -2 S.D levels. We see valuation support as FEHT trades at 0.6x P/Bk, or a 5-year historical low. FEHT's share price will likely find strong upward momentum and trade towards its historical P/Bk mean of 0.75x once the COVID-19 situation settles down. As the only pure play hospitality real estate investment trust (REIT) in Singapore, we expect mean P/Bk valuation to trade nearer to book.

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 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.

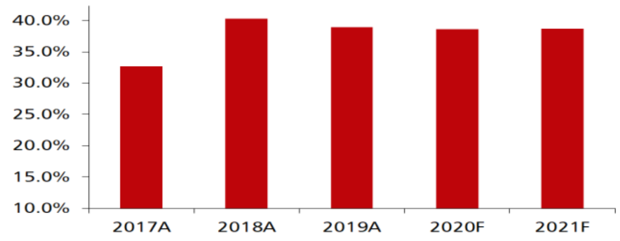
Environmental, Social, Governance (ESG)

FEHT regularly monitors and assesses compliance levels while staying up to date on policy changes to ensure the effectiveness of the 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. It has also created Company Emergency Response Teams where employees participate in health and safety training to perform emergency response roles.

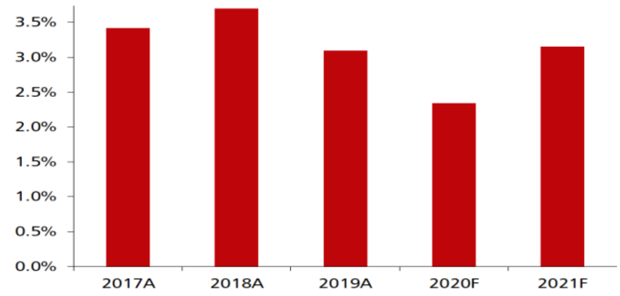
Company Background

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 (REIT) which invests in hospitality assets. It owns nine hotels and four serviced residences.

Aggregate Leverage (%)

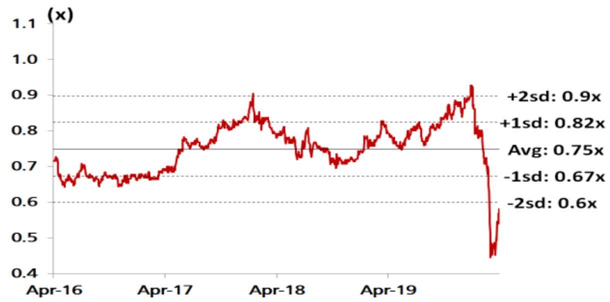


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	104	114	116	92.6	107
Property expenses	(10.7)	(10.9)	(11.2)	(8.7)	(10.9)
Net Property Income	93.2	103	104	83.9	95.6
Other Operating expenses	(12.8)	(13.2)	(14.1)	(13.7)	(14.1)
Other Non Opg (Exp)/Inc	(4.6)	(1.0)	0.0	0.0	0.0
Associates & JV Inc	(0.1)	(2.1)	(6.3)	(2.5)	0.64
Net Interest (Exp)/Inc	(19.8)	(26.1)	(28.9)	(28.1)	(28.3)
Exceptional Gain/(Loss)	0.0	0.0	(3.3)	0.0	0.0
Net Income	55.8	60.5	51.7	39.7	53.9
Tax	0.0	(0.1)	(0.1)	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	51.6	39.7	53.9
Total Return	14.3	90.6	60.4	39.7	53.9
Non-tax deductible Items	16.1	15.0	13.5	13.9	11.8
Net Inc available for Dist.	72.0	75.4	73.9	53.6	65.7
Growth & Ratio					
Revenue Gth (%)	(4.8)	9.5	1.6	(19.9)	15.0
N Property Inc Gth (%)	(5.3)	10.3	1.5	(19.6)	14.0
Net Inc Gth (%)	(6.3)	8.3	(14.6)	(23.1)	35.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	89.7	90.4	90.3	90.6	89.8
Net Income Margins (%)	53.7	53.1	44.6	42.8	50.6
Dist to revenue (%)	69.4	66.3	64.0	57.8	61.7
Managers & Trustee's fees	12.3	11.6	12.2	14.8	13.3
ROAE (%)	3.4	3.7	3.1	2.3	3.2
ROA (%)	2.3	2.4	1.9	1.5	2.0
ROCE (%)	3.3	3.5	3.4	2.6	3.1
Int. Cover (x)	4.1	3.4	3.1	2.5	2.9

Source: Company, DBS Bank

Revised from pre-COVID-19 estimates of S$120m factoring in a 53% y-o-y dip in

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	28.9	27.8	27.9	30.9	28.9
Property expenses	(2.6)	(2.7)	(2.8)	(2.8)	(2.9)
Net Property Income	26.3	25.1	25.1	28.1	26.1
Other Operating expenses	(3.4)	(3.4)	(3.4)	(3.7)	(3.5)
Other Non Opg (Exp)/Inc	(3.9)	1.08	(2.8)	(0.5)	0.22
Associates & JV Inc	0	(2)	(6)	(2)	1
Net Interest (Exp)/Inc	(7.3)	(7.4)	(7.5)	(7.1)	(7.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(1.2)
Net Income	**9.86**	**12.8**	**11.7**	**16.4**	**12.4**
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	**9.85**	**12.8**	**11.7**	**16.4**	**12.4**
Total Return	40.0	12.8	11.7	16.4	21.2
Non-tax deductible Items	9.25	4.61	5.89	4.02	(2.4)
Net Inc available for Dist.	19.1	17.4	17.6	20.4	18.8
Growth & Ratio					
Revenue Gth (%)	(5)	(4)	1	11	(6)
N Property Inc Gth (%)	(5)	(5)	0	12	(7)
Net Inc Gth (%)	(44)	30	(9)	40	(24)
Net Prop Inc Margin (%)	91.0	90.2	89.9	90.9	90.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,381	2,634	2,646	2,648	2,652
Other LT Assets	16.7	14.4	8.03	7.78	7.84
Cash & ST Invts	3.91	12.8	5.84	42.0	38.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	36.4	38.5	40.0	30.3	33.8
Other Current Assets	0.10	0.44	0.01	0.01	0.01
Total Assets	**2,438**	**2,700**	**2,700**	**2,729**	**2,732**
ST Debt	249	153	16.5	16.5	16.5
Creditor	3.62	4.11	3.67	3.23	3.72
Other Current Liab	9.33	11.0	11.1	11.0	11.0
LT Debt	549	875	976	978	982
Other LT Liabilities	8.41	9.13	11.3	11.3	11.3
Unit holders' funds	1,619	1,648	1,681	1,708	1,708
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,438**	**2,700**	**2,700**	**2,729**	**2,732**
Non-Cash Wkg. Capital	23.6	23.9	25.2	16.1	19.1
Net Cash/(Debt)	(794)	(1,015)	(986)	(953)	(959)
Ratio					
Current Ratio (x)	0.2	0.3	1.5	2.4	2.3
Quick Ratio (x)	0.2	0.3	1.5	2.4	2.3
Aggregate Leverage (%)	32.7	40.3	39.0	38.7	38.7
Z-Score (X)	1.0	0.9	0.9	1.0	1.0

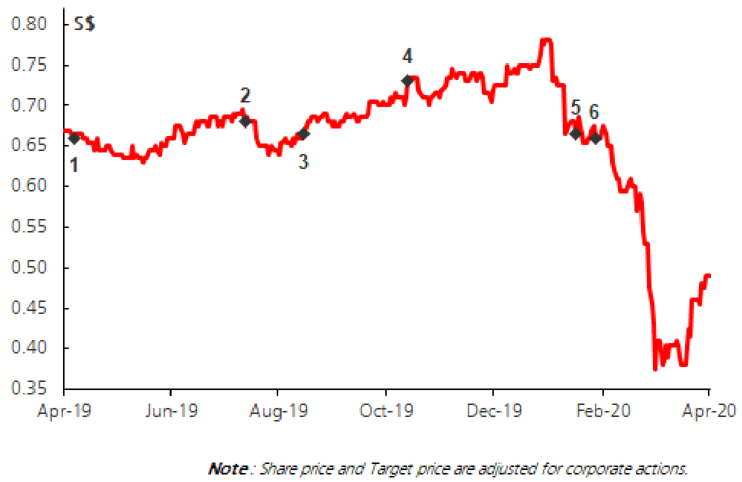
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	55.8	60.5	60.5	39.7	53.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	(0.1)	0.0
Associates &JV Inc/(Loss)	0.14	2.09	6.33	2.49	(0.6)
Chg in Wkg.Cap.	(1.8)	0.45	(0.8)	9.18	(3.0)
Other Operating CF	34.4	37.8	35.2	42.7	41.2
Net Operating CF	**88.5**	**101**	**101**	**93.9**	**91.5**
Net Invt in Properties	(3.1)	(222)	(2.8)	(2.8)	(3.2)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(1.2)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	(2.2)	0.57
Other Investing CF	0.02	0.01	(1.2)	0.0	0.0
Net Investing CF	**(3.1)**	**(223)**	**(4.0)**	**(5.0)**	**(2.6)**
Distribution Paid	(51.2)	(74.1)	(37.7)	(26.8)	(65.7)
Chg in Gross Debt	(25.0)	231	(66.5)	2.78	3.20
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(20.7)	(26.4)	0.0	(28.8)	(29.4)
Net Financing CF	**(96.9)**	**131**	**(104)**	**(52.8)**	**(91.9)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(11.5)	8.93	(7.0)	36.1	(3.0)
Operating CFPS (S cts)	4.84	5.25	5.17	4.22	4.67
Free CFPS (S cts)	4.58	(6.3)	4.99	4.54	4.36

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Apr 19	0.66	0.70	BUY
2:	31 Jul 19	0.68	0.70	HOLD
3:	02 Sep 19	0.67	0.70	HOLD
4:	31 Oct 19	0.73	0.80	BUY
5:	03 Feb 20	0.67	0.69	HOLD
6:	14 Feb 20	0.66	0.69	HOLD

Source: DBS Bank

Analyst: Singapore Research Team
Derek TAN

Frasers Hospitality Trust

Version 17 | Bloomberg: FHT SP | Reuters: FRHO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Apr 2020

BUY (upgrade from HOLD)

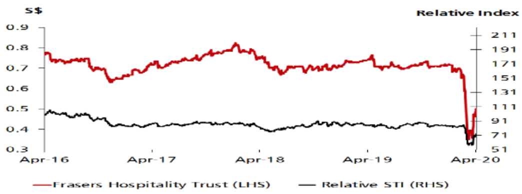
Last Traded Price (20 Apr 2020): S$0.50 (**STI :** 2,597.85)
Price Target 12-mth: S$0.65 (30% upside) (Prev S$0.78)

Analyst
Singapore Research Team equityresearch@dbs.com..
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Prime candidate for privatisation given Frasers Group's existing 62% stake in FHT
- FHT's 15 master leases come with minimum rents that serve as a floor to DPUs
- FY21F dividend yield of 7.2% as we anticipate a recovery led by Singapore assets

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	156	150	86.2	132
Net Property Inc	117	112	62.8	101
Total Return	66.5	66.9	14.3	46.2
Distribution Inc	89.4	83.9	34.9	69.4
EPU (S cts)	3.65	3.52	0.75	2.41
EPU Gth (%)	2	(3)	(79)	223
DPU (S cts)	4.76	4.41	1.83	3.61
DPU Gth (%)	(6)	(7)	(59)	98
NAV per shr (S cts)	77.0	72.4	72.4	71.8
PE (X)	13.7	14.2	67.0	20.8
Distribution Yield (%)	9.5	8.8	3.7	7.2
P/NAV (x)	0.6	0.7	0.7	0.7
Aggregate Leverage (%)	66.9	69.8	68.7	34.2
ROAE (%)	4.6	4.7	1.0	3.3
Distn. Inc Chng (%):			(57)	(17)
Consensus DPU (S cts):			4.30	4.60
Other Broker Recs:		B: 2	S: 0	H: 2

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

Prime candidate for privatisation

Upgrade to BUY; revised TP of S$0.65. FHT's current price/book (P/Bk) of 0.7x is beyond the -2 standard deviation (S.D) level, and a steal compared to its historical mean of 0.92x. This is coupled with the sponsor's majority stake in the REIT, making FHT the prime candidate for privatisation, in our view. With replacement cost of hotels trending higher over the years, and attractive valuations of FHT's portfolio, sponsor Frasers Group may look to privatise the REIT to realise the underlying value of the individual assets in the longer term. Our new target price of S$0.65 implies a target P/Bk of 0.9x (back to historical mean), and a revised FY21F yield of 7.2% at the current share price.

Where we differ: Buyout opportunity at current levels. The sponsor's 62% stake in FHT stands as the highest across the sector, with FHT a prime candidate for privatisation at current levels. The implied valuation of S$910k/room for quality assets Intercontinental Singapore and Fraser Suites Singapore trends below development costs/room, especially given the superior locations of the two assets. We estimate that a buyout opportunity will cost S$444m at a 25% premium to current share price to gain full control of the hotel portfolio, below book value of S$523m.

Temporary closure in Australia and UK. FHT has temporarily closed all the food and beverage outlets in its hotels in Sydney and Melbourne and will be progressively closing UK assets also on a temporary basis, as tighter measures are enforced by the Australian and UK government to prevent the spread of COVID-19. We adjust our RevPAR forecasts in line with the rest of the sector, with normalisation expected to occur only in FY22. Revised RevPAR estimates will be 47%/88% of FY19 levels for FY20/FY21. Our revised FY20F DPU of 1.83 Scts and yield of 3.7% constitute primarily of fixed rent (66%) from FHT's 15 master leases.

Valuation:

We revise our RevPAR forecast and beta estimates to derive a TP of S$0.65. Upgrade to BUY.

Key Risks to Our View:

Slower recovery in FY21 as COVID-19 protracts.

At A Glance

Issued Capital (m shrs)	1,910
Mkt. Cap (Sm/USm)	955 / 671
Major Shareholders (%)	
TCC Hospitality Limited	37.0
TCC Assets Ltd	25.2
Far East Organization	10.2
Free Float (%)	27.6
3m Avg. Daily Val (US$m)	0.73

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

CRITICAL DATA POINTS TO WATCH

Critical Factors

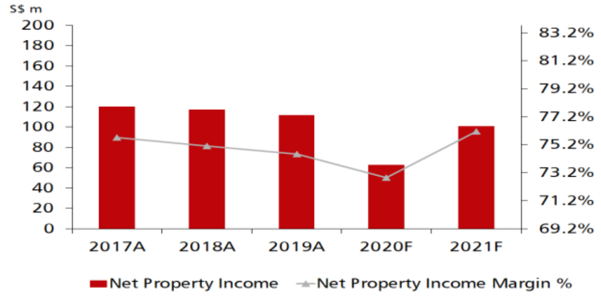
Portfolio weakness given COVID-19. FHT has temporarily closed all the food and beverage outlets in its hotels in Sydney and Melbourne and will be progressively closing UK assets also on a temporary basis, as tighter measures are enforced by the Australian and UK government to prevent the spread of COVID-19. We adjust our RevPAR forecasts in line with the rest of the sector, with normalisation expected to occur only in FY22.

Medium-term upside at InterContinental Singapore. FHT completed a S$26m renovation project at InterContinental Singapore, a key asset for FHT, a couple of years ago. The project involved: (1) refurbishment of the public space, and (2) renovation of rooms. As awareness on the repositioned hotel improves, we believe ADRs will improve over the medium term.

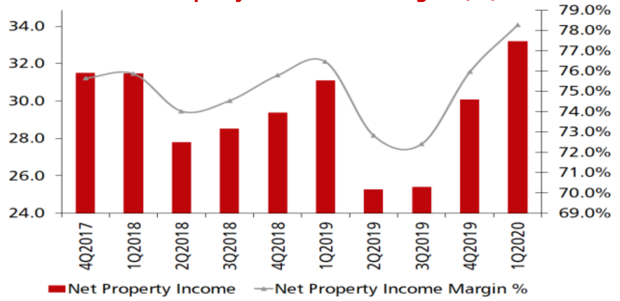
Near-term headwinds in Sydney and Melbourne but long-term positive outlook remains intact. We understand demand from Australian domestic corporates has been weak and an expected increase in supply could result in soft RevPAR performance at FHT's Sydney and Melbourne properties. Our Australia revenue forecasts comprise primarily of fixed rents with limited downside risks, while leaving room for upside should the hotels deliver outperformance in the medium term once the market has absorbed the near-term supply glut.

Tokyo Olympics in 2021 still a positive for Japan. The medium-term outlook for FHT's Japanese property, ANA Crown Plaza Kobe, remains bright. This is premised on relaxation of visa requirements by the Japanese government, proximity to the growing outbound market of China, and near-term catalyst of the Tokyo 2020 Olympics, which has been postponed to 2021 due to COVID-19. Near-term supply pressures from neighbouring Osaka market may cap upside for the property.

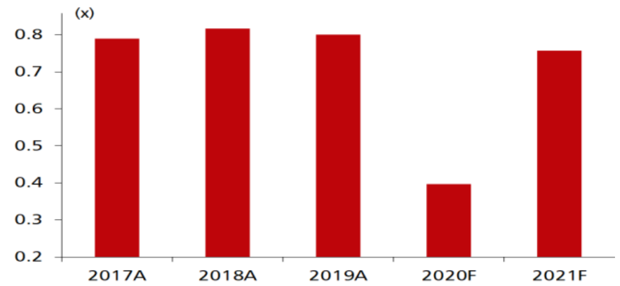
Net Property Income and Margins (%)



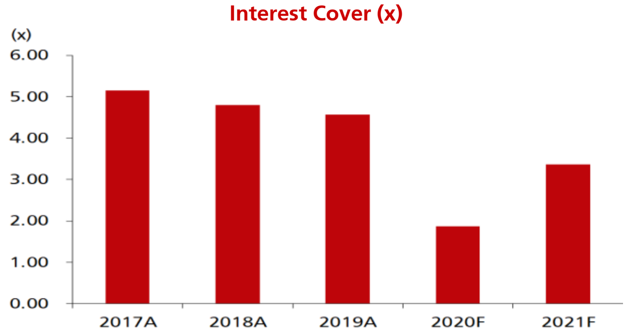
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Stable gearing. FHT's gearing as at 31 December 2019 stood at c.35.5%. We expect FHT to maintain its gearing at around 35% going forward unless FHT deploys its strong balance sheet for acquisitions.

Share Price Drivers:

Short-term volatility in DPU. Near term, we believe potential volatility in FHT's DPU may put a cap on FHT's share price performance as severity of the COVID-19 outbreak heightens within FHT's key markets (Singapore, Australia, US). We are forecasting a 60% decline in DPU y-o-y for FY20 as a global travel ban and social distancing measures are tightened in Singapore, taking a toll on both leisure and corporate demand. We noted that the SARS outbreak in early 2003 lasted a good six to nine months, and will likely be matched by COVID-19.

Earnings upside from deploying a strong balance sheet. FHT is now in a strong position to pursue acquisition opportunities given its current gearing of c.35.5%, which provides upside to our earnings. These acquisitions could arise from third parties but also from the clear and visible pipeline of its sponsor (Frasers Centrepoint Limited) and strategic partner (TCC Group). FHT has rights of first refusal (ROFR) over 17 hotels and serviced residences located across Asia, Australia, and Europe. Further capital recycling could happen with a potential sale of Sofitel Wentworth property in Sydney at above book value.

Key Risks:

Interest rate risks. Any increase in interest rates will result in higher interest payments which will reduce the income available for distribution. To mitigate this risk, FHT has fixed c.73% of its debt.

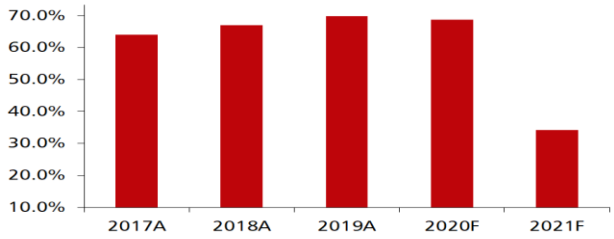
Foreign currency risks. Exposure to multi-currency earnings (GBP, AUD, JPY, and MYR) could lead to DPU volatility as DPU is paid in SGD.

Hospitality business is volatile. Exposure to volatility in regional economies and seasonal factors could affect the performance of the assets located in different countries. FHT manages this risk by having a diversified portfolio.

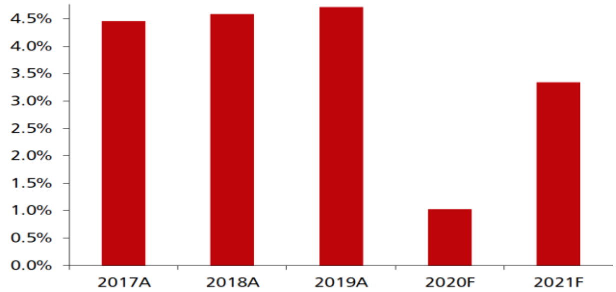
Company Background

Frasers Hospitality Trust (FHT) is a hospitality stapled group comprising FH-REIT and FH-BT. FH-REIT is a Singapore-based REIT which invests in hospitality assets. FHT operates 14 mid- and upper-scale hotels and serviced residences in key gateway cities located in Singapore, Japan, UK, Germany, Australia, and Malaysia.

Aggregate Leverage (%)

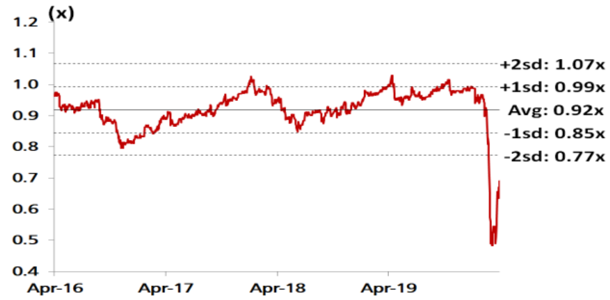


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Gross revenue	159	156	150	86.2	132
Property expenses	(38.5)	(38.8)	(38.1)	(23.4)	(31.6)
Net Property Income	**120**	**117**	**112**	**62.8**	**101**
Other Operating expenses	(23.9)	(20.5)	(19.6)	(20.9)	(23.0)
Other Non Opg (Exp)/Inc	10.5	(2.7)	(1.1)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.7)	(20.1)	(20.2)	(22.5)	(23.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**88.1**	**73.8**	**70.8**	**19.4**	**54.5**
Tax	(28.9)	(5.9)	(4.0)	(5.2)	(8.2)
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	**59.1**	**67.9**	**66.9**	**14.3**	**46.2**
Total Return	157	66.5	66.9	14.3	46.2
Non-tax deductible Items	(58.6)	27.3	36.6	25.1	27.6
Net Inc available for Dist.	93.5	89.4	83.9	34.9	69.4
Growth & Ratio					
Revenue Gth (%)	28.4	(1.8)	(3.9)	(42.5)	53.3
N Property Inc Gth (%)	15.3	(2.6)	(4.6)	(43.8)	60.3
Net Inc Gth (%)	44.5	14.9	(1.5)	(78.7)	224.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	75.7	75.1	74.5	72.8	76.1
Net Income Margins (%)	37.2	43.6	44.6	16.5	35.0
Dist to revenue (%)	58.9	57.4	56.0	40.4	52.5
Managers & Trustee's fees	15.0	13.1	13.1	24.2	17.4
ROAE (%)	4.5	4.6	4.7	1.0	3.3
ROA (%)	2.5	2.7	2.7	0.6	1.8
ROCE (%)	3.0	3.8	3.8	1.4	3.0
Int. Cover (x)	5.2	4.8	4.6	1.9	3.4

Source: Company, DBS Bank

Revised from pre-COVID-19 estimates of

Quarterly / Interim Income Statement (S$m)

FY Sep	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	40.6	34.6	35.0	39.5	42.4
Property expenses	(9.6)	(9.4)	(9.7)	(9.5)	(9.2)
Net Property Income	31.1	25.2	25.4	30.0	33.2
Other Operating expenses	(5.0)	(4.6)	(4.7)	(5.3)	(5.5)
Other Non Opg (Exp)/Inc	0.03	0.0	(0.4)	0.0	0.08
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(4.9)	(5.0)	(4.8)	(5.7)	(5.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**21.2**	**15.6**	**15.4**	**19.1**	**22.8**
Tax	(1.7)	(1.1)	(0.9)	(0.3)	(2.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**19.4**	**14.6**	**14.6**	**18.8**	**20.8**
Total Return	19.4	14.6	14.6	3.23	20.8
Non-tax deductible Items	5.42	5.23	5.75	4.64	5.79
Net Inc available for Dist.	23.7	18.7	19.2	22.3	26.6
Growth & Ratio					
Revenue Gth (%)	5	(15)	1	13	7
N Property Inc Gth (%)	6	(19)	1	18	10
Net Inc Gth (%)	21	(25)	0	29	11
Net Prop Inc Margin (%)	76.5	72.8	72.4	76.0	78.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,172	2,152	2,107	2,110	2,114
Other LT Assets	268	254	243	243	243
Cash & ST Invts	79.8	77.1	85.0	134	151
Inventory	0.06	0.03	0.03	0.03	0.03
Debtors	11.9	9.55	9.52	5.48	8.40
Other Current Assets	1.66	2.27	2.29	2.29	2.29
Total Assets	**2,534**	**2,495**	**2,446**	**2,494**	**2,518**
ST Debt	135	408	25.0	25.0	25.0
Creditor	18.0	15.6	15.0	59.6	80.3
Other Current Liab	5.63	3.02	2.48	2.48	2.48
LT Debt	676	427	829	832	836
Other LT Liabilities	93.2	88.5	91.1	91.1	91.1
Unit holders' funds	1,606	1,553	1,484	1,484	1,484
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,534**	**2,495**	**2,446**	**2,494**	**2,518**
Non-Cash Wkg. Capital	(10.0)	(6.8)	(5.6)	(54.3)	(72.1)
Net Cash/(Debt)	(731)	(758)	(769)	(723)	(709)
Ratio					
Current Ratio (x)	0.6	0.2	2.3	1.6	1.5
Quick Ratio (x)	0.6	0.2	2.3	1.6	1.5
Aggregate Leverage (%)	64.0	66.9	69.8	68.7	34.2
Z-Score (X)	1.7	1.5	1.7	1.6	1.6

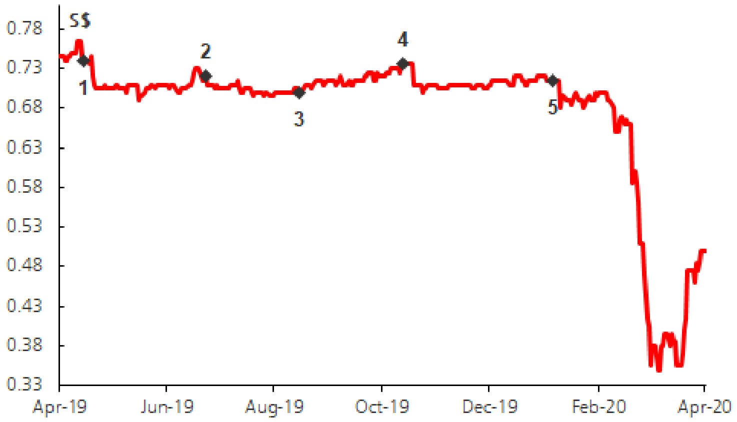
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	88.1	73.8	70.8	19.4	54.5
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(5.7)	(6.1)	(4.6)	(5.2)	(8.2)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.3)	1.27	(0.6)	48.7	17.8
Other Operating CF	33.4	43.8	42.5	25.1	27.6
Net Operating CF	**113**	**113**	**108**	**88.0**	**91.7**
Net Invt in Properties	(247)	(26.9)	(12.2)	(2.6)	(4.0)
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	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(247)**	**(26.9)**	**(12.2)**	**(2.6)**	**(4.0)**
Distribution Paid	(89.6)	(92.1)	(86.5)	(34.9)	(69.4)
Chg in Gross Debt	0.62	40.0	23.4	2.59	3.97
New units issued	263	30.2	0.0	0.0	0.0
Other Financing CF	(22.3)	(65.1)	(24.4)	(4.5)	(4.5)
Net Financing CF	**152**	**(87.1)**	**(87.6)**	**(36.7)**	**(69.9)**
Currency Adjustments	(2.8)	(1.5)	(0.4)	0.0	0.0
Chg in Cash	15.4	(2.7)	7.92	48.7	17.8
Operating CFPS (S cts)	7.03	5.99	5.73	2.06	3.85
Free CFPS (S cts)	(8.1)	4.61	5.05	4.47	4.57

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:	03 May 19	0.74	0.77	HOLD
2:	11 Jul 19	0.72	0.77	HOLD
3:	02 Sep 19	0.70	0.77	HOLD
4:	31 Oct 19	0.74	0.78	HOLD
5:	24 Jan 20	0.72	0.78	HOLD

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

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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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 21 Apr 2020 08:30:07 (SGT)
Dissemination Date: 21 Apr 2020 08:35:40 (SGT)

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DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com