

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jul 2020

## Ascott Residence Trust (ART SP) : BUY

**Mkt. Cap:** US\$2,292m | **3m Avg. Daily Val:** US\$6.5m

**Last Traded Price ( 9 Jul 2020):** S\$1.03

**Price Target 12-mth:** S\$1.10 (7% upside)

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### Company Guide



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

[Ascott Residence Trust- iBanking Login](#)

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### Profit warning but negatives priced in

- Profit warning: DPU for 1H20 to be reduced by 65-75% from 3.43 Scts in 1H19
- Worst is likely over with phased-in reopening; six out of 88 assets are still not scheduled for reopening
- We estimate that ART will be able to deliver at least 1.9-2.0 Scts of DPU purely based on its master lease contributions
- ART currently trades at 0.80x P/NAV; negatives priced in at -1 SD P/NAV

### What's New

**Profit Warning.** Ascott Residence Trust (ART) issued a profit warning this morning. This is in relation to the upcoming 1H20 results where the group expects:

- (i) Distributable income for 1H20 to be reduced by 55-65% y-o-y from S\$74.6m in 1H19.
- (ii) DPU for 1H20 to be reduced by 65-75% from 3.43 Scts in 1H19.
- (iii) Total returns for 1H20 to be reduced by 80-90% from the S\$212.5m recorded in 1H19, which included a fair value gain of S\$135m from the divestment of Ascott Raffles Place Singapore.
- (iv) Annual valuations to be only reported on an annual basis at the end of FY20 as the REIT adopts half-year reporting.

### Our thoughts

#### Operations scathed by global dip in tourism

- International tourist arrivals fell 22% y-o-y globally in the first quarter of 2020, with the World Tourism Organisation forecasting a 58-78% decline for 2020.
- We understand that only six out of ART's 88 portfolio assets are still not scheduled for reopening.
- Profit warning is apt due to the widespread toll on global tourism, which we had previously forecasted to be reflected as a 53% y-o-y dip in RevPAR forecast for FY20.
- Our full-year estimates for distributable income and DPU of S\$140m and 4.53 Scts respectively may look high for now, but we are keeping our estimates intact due to the recovery curve anticipated for 2H20.
- The emergence of a stronger-than-expected second wave may delay our initial assumption of a travel normalisation by FY22.

#### Domestic travel to triumph over international demand

- International demand in APAC and Europe is expected to recover ahead of the US, with ART having a 68% and 20% exposure in these two markets respectively.
- The worst is likely over for ART since April when 18 properties were temporarily closed.



Live more, Bank less

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- We view phased reopening as a positive sign that most ART's portfolio assets have attained at least a breakeven level of operations and the relaxation of mandatory hotel closures to be a positive sign within the respective markets.
- 1H20 results will likely represent a trough, and we do not see this being extrapolated for the full year.
- Domestic travel will lead recovery as international borders remain largely closed, with ART in a good position to ride this trend within large domestic markets such as Europe, Australia and China.

### Master leases should contribute c. 1.9-2.0 Scts

- With the inclusion of assets from Ascendas Hospitality Trust, 45% of gross profit on a normalised basis will originate from master lease and MCMGI assets (35 master leases and seven management contracts with minimum guaranteed income – MCMGI), which will form some level of downside protection.
- Given the significant drop in revenues in FY20F, we estimate that ART can deliver a DPU ranging from 1.9-2.0 Scts based on master lease contributions.
- That said, there may be near-term downside as the manager is in discussions to potentially offer rental assistance or abatement to selected master lessees based on government regulations or for goodwill purposes, which we think will be the worse-case scenario for the year.

### What can we look out for in 2020?

- Pent-up demand for travel remains strong but may not materialise in 2020 given international border closures.
- It remains to be seen whether staycations will act as a potential substitute to satisfy wanderlust, although ART's concentration within the service residence segment may limit its profitability from this trend.
- Within Singapore, government hotel bookings for stay-home-notice residences may reflect occupancy strength in 2Q20 but may see a declining momentum for the rest of the year.
- RevPAR statistics and future guidance from the various hotel REITs (ART, Far East Hospitality Trust, CDL Hospitality Trust, Frasers Hospitality Trust) will be key to watch in the coming quarters.
- We also believe that investors may want to understand the risks posed by structural shifts in travel post COVID-19 (if any) such as web conferencing services replacing corporate travels.

ART dipped 3.4% to S\$1.00 as at 11:30am. We maintain our BUY call and TP of S\$1.11.

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### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jul 19	1.31	1.45	BUY
2:	05 Aug 19	1.31	1.45	BUY
3:	02 Sep 19	1.30	1.45	BUY
4:	06 Sep 19	1.31	1.45	BUY
5:	31 Oct 19	1.38	1.45	BUY
6:	22 Nov 19	1.32	1.45	BUY
7:	31 Jan 20	1.26	1.50	BUY
8:	21 Apr 20	0.85	1.10	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek Tan

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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*

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