

Singapore Company Update

Frasers Hospitality Trust

Bloomberg: FHT SP | Reuters: FRHO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Nov 2020

BUY

Last Traded Price (25 Nov 2020): S\$0.475 (STI : 2,869.55)

Price Target 12-mth: S\$0.70 (47% upside) (Prev S\$0.65)

Analyst

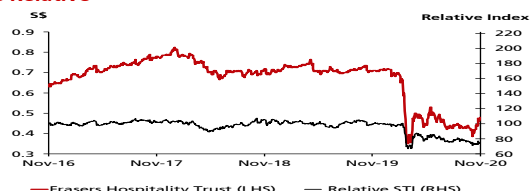
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What's New

- Anticipate FHT to ride the impending recovery in the travel sector in 2021 post vaccine distribution
- Portfolio anchored in key markets of Australia, UK and Singapore with potential for gradual border re-opening.
- Earnings rebased to assume a 4-year normalisation period but growth is in excess of 20% CAGR
- BUY maintained, TP raised to S\$0.70 on lower WACC assumption

Price Relative



Forecasts and Valuation

| FY Sep (\$m) | 2019A | 2020A | 2021F | 2022F |
|------------------------|-------|-------|-------|-------|
| Gross Revenue | 150 | 88.6 | 110 | 142 |
| Net Property Inc | 112 | 59.8 | 82.5 | 108 |
| Total Return | 66.9 | (113) | 34.3 | 55.8 |
| Distribution Inc | 83.9 | 29.9 | 53.1 | 75.8 |
| EPU (\$ cts) | 3.52 | 1.70 | 1.77 | 2.86 |
| EPU Gth (%) | (3) | (52) | 4 | 61 |
| DPU (\$ cts) | 4.41 | 1.40 | 2.74 | 3.88 |
| DPU Gth (%) | (7) | (68) | 95 | 41 |
| NAV per shr (\$ cts) | 72.4 | 65.1 | 64.6 | 64.0 |
| PE (X) | 13.5 | 28.0 | 26.8 | 16.6 |
| Distribution Yield (%) | 9.3 | 3.0 | 5.8 | 8.2 |
| P/NAV (x) | 0.7 | 0.7 | 0.7 | 0.7 |
| Aggregate Leverage (%) | 69.8 | 75.1 | 36.8 | 36.7 |
| ROAE (%) | 4.7 | 2.5 | 2.7 | 4.5 |

Distn. Inc Chng (%): (23) (12)
 Consensus DPU (\$ cts): 2.30 3.30
 Other Broker Recs: B: 2 S: 0 H: 1

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBS Institutional Sales contact for a demonstration.

Rebound is underway

Investment Thesis

Compelling value. We maintain our view that Frasers Hospitality Trust (FHT) offers compelling value at 0.7x P/NAV, which is below replacement costs. The current price which is 40% below pre-COVID level remains an attractive level for investors for an overlooked stock. Prospective FY22F yields of c.8.0% is attractive.

A laggard no longer. We see FHT price catching up with peers, supported by a robust c.30% CAGR in DPUs over the medium term. Its portfolio of Australia and European hotels (50% portfolio exposure) should start to see better prospects on the back of loosening of domestic travel restrictions while Singapore (36% exposure) sees incrementally stronger earnings come 2H21. Our earnings cut is to reflect our latest updated sector growth profile.

A privatisation candidate? Given the Sponsor's significant 62% stake in FHT and relative illiquidity vs peers, we believe that the stock remains an attractive take-over target given that it cost less than S\$500m to take it private and gain control of FHT's portfolio of c.4000 room keys and landmark Singapore hotels.

Valuation:

Our DCF-based TP is raised to S\$0.70 as we assume lower WACC assumption as the sector heads towards an early cyclical recovery phase despite a cut in earnings.

Where we differ:

We are generally higher than consensus on expectations that FHT can drive RevPAR on the back of a rebound in operating metrics.

Key Risks to Our View:

Slower recovery in FY21 as COVID-19 remain protracted.

At A Glance

| | |
|---|-----------|
| Issued Capital (m shrs) | 1,926 |
| Mkt. Cap (\$m/US\$m) | 915 / 683 |
| Major Shareholders (%) | |
| TCC Hospitality | 36.7 |
| TCC Assets Ltd | 25.6 |
| Free Float (%) | 37.7 |
| 3m Avg. Daily Val (US\$m) | 0.16 |
| GIC Industry : Real Estate / Equity Real Estate Investment (REITs) | |



Live more, Bank less

Frasers Hospitality Trust

WHAT'S NEW

Rebound is underway

Strong rebound in operating metrics projected. While we believe that 2021 brings much promise for the hospitality sector, the growth trajectory will likely differ drastically between markets and hospitality asset types. Given that most governments will likely be more cautious and gradual in their plans to re-open their borders to allow international tourists post the mass distribution of a vaccine, the focus will be on domestic travel markets in the meantime.

Therefore, countries with good domestic market demand such as China, Japan, Europe, the USA and Australia would recover first. Destinations with a focus on international travel, like Singapore, while starting to re-open her borders in 4Q20 to selected countries, will most likely see a more lagged pace of recovery.

Domestic markets to lead the rebound. Frasers Hospitality Trust (FHT) is one of the more diversified S-REITs among its peers with many opportunities to tap on the gradual re-opening of the global hospitality sector. Its exposures – UK and Australia are starting to relax its domestic travel restrictions which bodes well for its portfolio performance in the coming quarters while its Singapore hotels should benefit from the robust demand for staycations and gradual re-opening of the borders.

While the path back to pre-COVID levels may be a couple of years away, we are optimistic on FHT's growth trajectory

upon the mass distribution of a vaccine globally. Distributions (or distributions per unit (DPU)) should accelerate accordingly. We conservatively assume a 4-year trajectory back to normalcy in our estimates (on front end loaded growth) but acknowledge that the timing remains fluid for now.

Ability to outperform our estimates. In our scenario analysis of a 68%/89%/95%/100% catch up in RevPARs compared to pre-COVID levels in our models, FHT should achieve 90% of its pre-COVID-19 DPU by FY22, driven from a mix of organic growth and acquisitions. In a more bullish scenario, FHT may exceed its pre-COVID-19 DPU by FY23.

A laggard no longer? FHT remains one of the laggards amongst hospitality S-REITs and remain 40% below transaction levels from the start of 2020 (pre-COVID) levels. We see compelling value at 0.7x P/NAV and for a stock is trading below replacement costs and a potential take-over target if it continues to trade at such depressed levels.

Company Background

FHT provides investors exposure to one of the largest international hospitality portfolios by number of keys. Its geographically diversified portfolio of 15 quality assets are in prime locations across 9 key cities in Asia, Australia and Europe.

Our growth assumption (% recovery vs pre-COVID levels)

| Scenario | Metrics | Yr 2021 | Yr 2022 | Yr 2023 | Yr 2024 | Remarks |
|----------|----------------|---------|---------|---------|---------|---|
| Base | Occupancy rate | 60% | 72% | 75% | 80% | Pent-up travel demand starting in 2H21. Near pre-COVID levels by end FY22-early FY23. |
| | RevPAR growth | +45% | +30% | +7% | +5% | |
| | % of pre-COVID | 68% | 89% | 95% | 100% | |
| Bull | % of pre-COVID | 80% | 96% | 103% | 108% | RevPAR forecasts |
| Bear | % of pre-COVID | 33% | 60% | 74% | 100% | RevPAR forecasts |

Source: DBS Bank estimates

Recovery rate in DPUs vs pre-COVID levels (Scenario analysis)

| Scenarios | Pre-COVID DPU (scts) | Pandemic | DPU Recovery vs FY19 | | | | 4-year CAGR |
|-----------|----------------------|----------|----------------------|---------|---------|---------|-------------|
| | Yr 2019 | Yr 2020 | Yr 2021 | Yr 2022 | Yr 2023 | Yr 2024 | (FY20-FY24) |
| Bull | 4.4 | 42% | 75% | 96% | 105% | 112% | 28% |
| Base | 4.4 | 42% | 62% | 88% | 99% | 108% | 27% |
| Bear | 4.4 | 42% | 48% | 53% | 71% | 101% | 25% |

Source: DBS Bank estimates

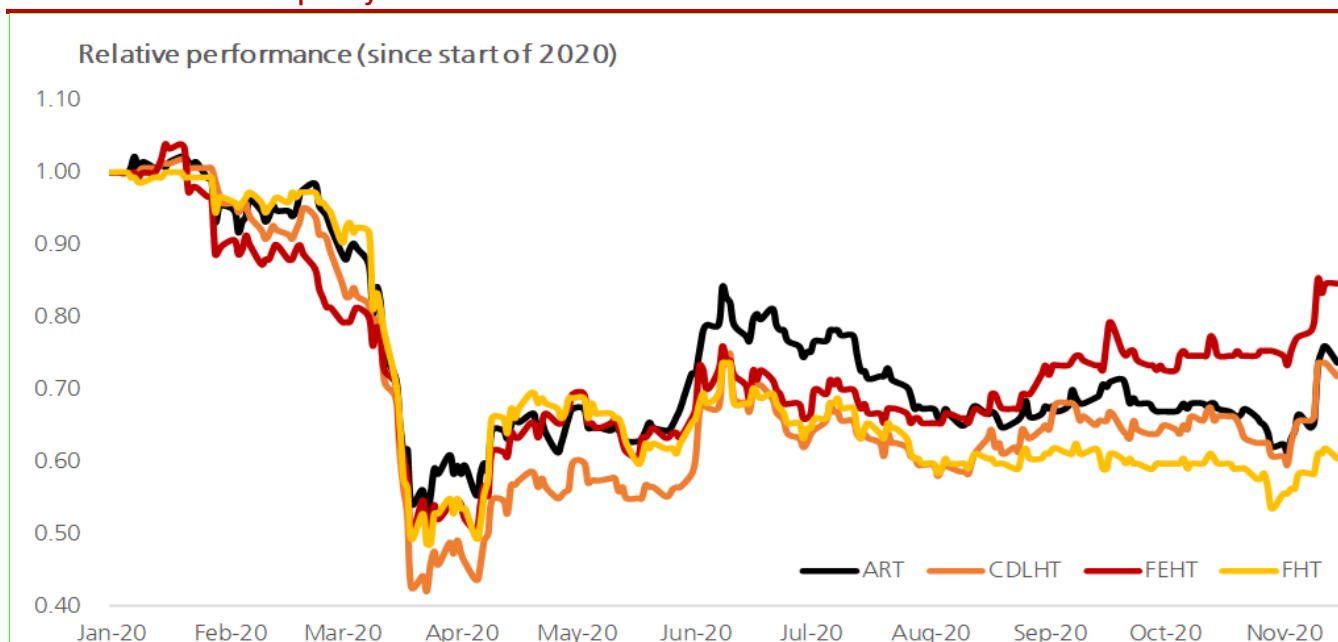
Frasers Hospitality Trust

Summary of geographic exposures by latest asset valuation

| | Others | | Domestic markets | | | | |
|----------------------------|------------|--------------|------------------|------------|------------|-----------|-------------------------|
| | Singapore | Rest of Asia | China | Japan | UK/ Europe | USA | Australia / New Zealand |
| Ascott Residence Trust | 17% | 11% | 8% | 20% | 19% | 12% | 13% |
| CDL Hospitality Trust | 66% | 5% | 0% | 3% | 16% | 0% | 10% |
| Frasers Hospitality Trust | 36% | 6% | 0% | 9% | 18% | 0% | 32% |
| Far East Hospitality Trust | 100% | 0% | 0% | 0% | 0% | 0% | 0% |
| Average exposure | 40% | 7% | 4% | 13% | 16% | 6% | 14% |

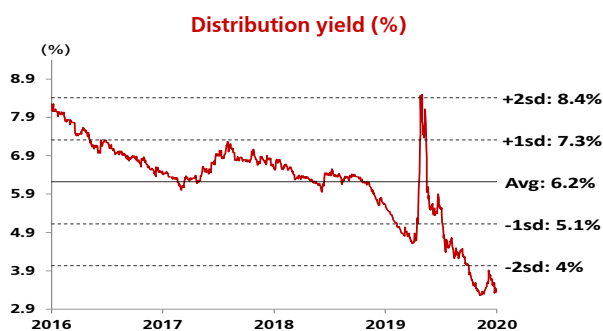
Source: various companies, DBS Bank

Performance vs other hospitality S-REITs



Source: Bloomberg Finance L.P., DBS Bank

Historical Dividend yield and PB band



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



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

Fraser's Hospitality Trust

Income Statement (\$m)

| FY Sep | 2018A | 2019A | 2020A | 2021F | 2022F |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Gross revenue | 156 | 150 | 88.6 | 110 | 142 |
| Property expenses | (38.8) | (38.1) | (28.7) | (27.8) | (33.2) |
| Net Property Income | 117 | 112 | 59.8 | 82.5 | 108 |
| Other Operating expenses | (20.5) | (19.6) | (16.8) | (17.2) | (18.6) |
| Other Non Opg (Exp)/Inc | (2.7) | (1.1) | (1.1) | 0.0 | 0.0 |
| Associates & JV Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Interest (Exp)/Inc | (20.1) | (20.2) | (19.4) | (24.2) | (24.9) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | 73.8 | 70.8 | 22.6 | 41.1 | 64.8 |
| Tax | (5.9) | (4.0) | 9.98 | (6.8) | (9.1) |
| 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 | 67.9 | 66.9 | 32.6 | 34.3 | 55.8 |
| Total Return | 66.5 | 66.9 | (113) | 34.3 | 55.8 |
| Non-tax deductible Items | 27.3 | 36.6 | 148 | 23.3 | 24.5 |
| Net Inc available for Dist. | 89.4 | 83.9 | 29.9 | 53.1 | 75.8 |
| Growth & Ratio | | | | | |
| Revenue Gth (%) | (1.8) | (3.9) | (40.9) | 24.6 | 28.3 |
| N Property Inc Gth (%) | (2.6) | (4.6) | (46.4) | 37.9 | 31.3 |
| Net Inc Gth (%) | 14.9 | (1.5) | (51.3) | 5.2 | 62.8 |
| Dist. Payout Ratio (%) | 100.0 | 100.0 | 90.0 | 100.0 | 100.0 |
| Net Prop Inc Margins (%) | 75.1 | 74.5 | 67.5 | 74.8 | 76.5 |
| Net Income Margins (%) | 43.6 | 44.6 | 36.8 | 31.0 | 39.4 |
| Dist to revenue (%) | 57.4 | 56.0 | 33.8 | 48.1 | 53.5 |
| Managers & Trustee's fees | 13.1 | 13.1 | 18.9 | 15.6 | 13.2 |
| ROAE (%) | 4.6 | 4.7 | 2.5 | 2.7 | 4.5 |
| ROA (%) | 2.7 | 2.7 | 1.4 | 1.4 | 2.3 |
| ROCE (%) | 3.8 | 3.8 | 2.0 | 2.6 | 3.7 |
| Int. Cover (x) | 4.8 | 4.6 | 2.2 | 2.7 | 3.6 |

Source: Company, DBS Bank

Balance sheet remains stable

Balance Sheet (\$m)

| FY Sep | 2018A | 2019A | 2020A | 2021F | 2022F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Investment Properties | 2,152 | 2,107 | 2,030 | 2,033 | 2,037 |
| Other LT Assets | 254 | 243 | 234 | 234 | 234 |
| Cash & ST Invts | 77.1 | 85.0 | 92.5 | 141 | 152 |
| Inventory | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 |
| Debtors | 9.55 | 9.52 | 3.14 | 7.01 | 9.00 |
| Other Current Assets | 2.27 | 2.29 | 2.51 | 2.51 | 2.51 |
| Total Assets | 2,495 | 2,446 | 2,361 | 2,417 | 2,435 |
| ST Debt | 408 | 25.0 | 50.0 | 50.0 | 50.0 |
| Creditor | 15.6 | 15.0 | 18.9 | 70.9 | 84.6 |
| Other Current Liab | 3.02 | 2.48 | 1.74 | 1.74 | 1.74 |
| LT Debt | 427 | 829 | 836 | 840 | 844 |
| Other LT Liabilities | 88.5 | 91.1 | 101 | 101 | 101 |
| Unit holders' funds | 1,553 | 1,484 | 1,353 | 1,353 | 1,353 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Funds & Liabilities | 2,495 | 2,446 | 2,361 | 2,417 | 2,435 |
| Non-Cash Wkg. Capital | (6.8) | (5.6) | (15.0) | (63.0) | (74.8) |
| Net Cash/(Debt) | (758) | (769) | (794) | (749) | (742) |
| Ratio | | | | | |
| Current Ratio (x) | 0.2 | 2.3 | 1.4 | 1.2 | 1.2 |
| Quick Ratio (x) | 0.2 | 2.3 | 1.4 | 1.2 | 1.2 |
| Aggregate Leverage (%) | 66.9 | 69.8 | 75.1 | 36.8 | 36.7 |
| Z-Score (X) | 1.2 | 1.4 | 1.2 | 1.3 | 1.3 |

Source: Company, DBS Bank

Driven by organic earnings recovery

Frasers Hospitality Trust

Cash Flow Statement (\$m)

| FY Sep | 2018A | 2019A | 2020A | 2021F | 2022F |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Pre-Tax Income | 73.8 | 70.8 | 22.6 | 41.1 | 64.8 |
| Dep. & Amort. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax Paid | (6.1) | (4.6) | 9.98 | (6.8) | (9.1) |
| Associates & JV Inc/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Chg in Wkg. Cap. | 1.27 | (0.6) | 6.69 | 48.1 | 11.8 |
| Other Operating CF | 43.8 | 42.5 | 21.1 | 23.3 | 24.5 |
| Net Operating CF | 113 | 108 | 60.3 | 106 | 92.0 |
| Net Invt in Properties | (26.9) | (12.2) | (9.6) | (3.3) | (4.2) |
| Other Invt (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Invt 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 | (26.9) | (12.2) | (9.6) | (3.3) | (4.2) |
| Distribution Paid | (92.1) | (86.5) | (52.3) | (53.1) | (75.8) |
| Chg in Gross Debt | 40.0 | 23.4 | 25.0 | 3.31 | 4.25 |
| New units issued | 30.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Financing CF | (65.1) | (24.4) | (18.3) | (4.5) | (4.5) |
| Net Financing CF | (87.1) | (87.6) | (45.6) | (54.2) | (76.0) |
| Currency Adjustments | (1.5) | (0.4) | 2.39 | 0.0 | 0.0 |
| Chg in Cash | (2.7) | 7.92 | 7.48 | 48.1 | 11.8 |
| Operating CFPS (S cts) | 5.99 | 5.73 | 2.80 | 2.98 | 4.11 |
| Free CFPS (S cts) | 4.61 | 5.05 | 2.65 | 5.29 | 4.50 |

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: | 24 Jan 20 | 0.72 | 0.78 | HOLD |
| 2: | 21 Apr 20 | 0.49 | 0.65 | BUY |
| 3: | 12 May 20 | 0.48 | 0.65 | BUY |

Source: DBS Bank

Analyst: Derek TAN

Geraldine WONG

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 26 Nov 2020 07:41:37 (SGT)
 Dissemination Date: 26 Nov 2020 08:17:40 (SGT)

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