Singapore Industry Focus

Singapore Hospitality

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Dec 2020

Waiting for lift-off

- Travel plans back on the cards in 2021; strong pent up demand from leisure to drive a "V-shaped" recovery
- Some business travel disruption as companies adopt more virtual meetings but we expect most corporate travel should resume
- Based on a 4-year normalization trend, we project hospitality S-REITs to post 4-year DPU CAGR of 17%-30%
- Our picks are ART and CDLHT for their attractive valuations

Travel plans back on the cards in 2021. The hospitality sector has borne the brunt of the COVID-19 pandemic but there is now light at the end of the tunnel. With vaccine candidates clearing final trials and entering production, mass travel (especially for leisure) is likely to resume in 2021. While some portion of future business trips may be permanently disrupted with the adoption of more virtual meetings, we expect that a majority of business meetings (including MICE) requiring travel will restart. Together with the strong pent-up demand for leisure travel, we see a "V-shaped" recovery taking shape as early as 2H21, assuming the mass distribution of COVID-19 vaccines is possible in the first half of 2021.

Despite a 4-year runway to normalisation, the sector is still expected to post a robust 17%-30% CAGR in DPUs. Prior to the lifting of border restrictions globally, demand for travel in the near term will likely come from domestic travel especially in countries like China, Australia, the USA and Europe, where internal flights have already started. As such, with their global portfolios, ART, CDLHT and FHT have the potential to post a faster recovery. The Singapore market, which contributes c.40% of hospitality S-REITs overall exposure, will likely see weaker metrics in 4Q20-1Q21 before posting a recovery, due to the tapering off in Government's quarantine business, partially offset by limited foreign travel and local staycations. Therefore, we believe it would take hospitality S-REITs to achieve pre-COVID DPUs only in 2-3 years' time. Even then, the sector is still projected to deliver a robust 4-year DPU growth CAGR of 17%-30%. (FY20-FY24)

Hospitality S-REITs to rebound ahead of earnings recovery. The sector is still at an early cyclical upturn stage and coupled with good value at P/NAV of 0.77x, close to -1.5 standard deviation (SD) of its historical range. With a close historical correlation between RevPAR changes and P/NAV multiples, the sector will continue to re-rate. We prefer ART and CDLHT for their more global portfolio, followed by FEHT. Target price levels at P/NAV of -0.5 SD to -1.0 SD of their mean implies attractive upside.

STI : 2,805.95

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

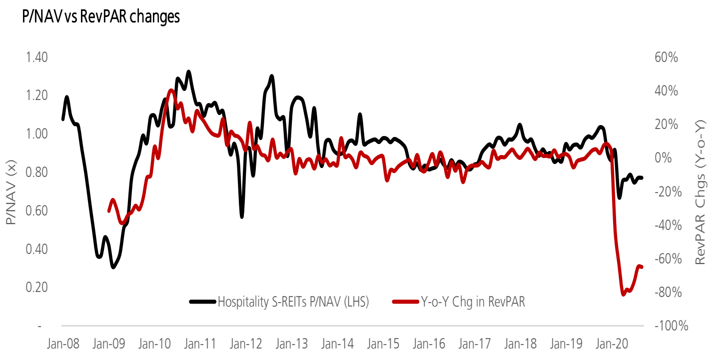
Geraldine WONG +65 6682 3719
geraldinew@dbs.com

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Ascott Residence	1.04	2,415	1.20	15.6	(23.0)	BUY
CDL Hospitality	1.26	1,150	1.40	18.9	(22.2)	BUY
Far East Hospitality	0.635	931	0.70	15.5	(14.2)	BUY
Frasers Hospitality Trust	0.53	763	0.70	20.5	(25.4)	BUY

Closing price as of 30 Nov 2020
Source: DBS Bank, Bloomberg Finance L.P.

Hospitality S-REITs to see a P/NAV compression as RevPAR rebounds



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

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

DBS
Live more, Bank less

Travel revival on the cards

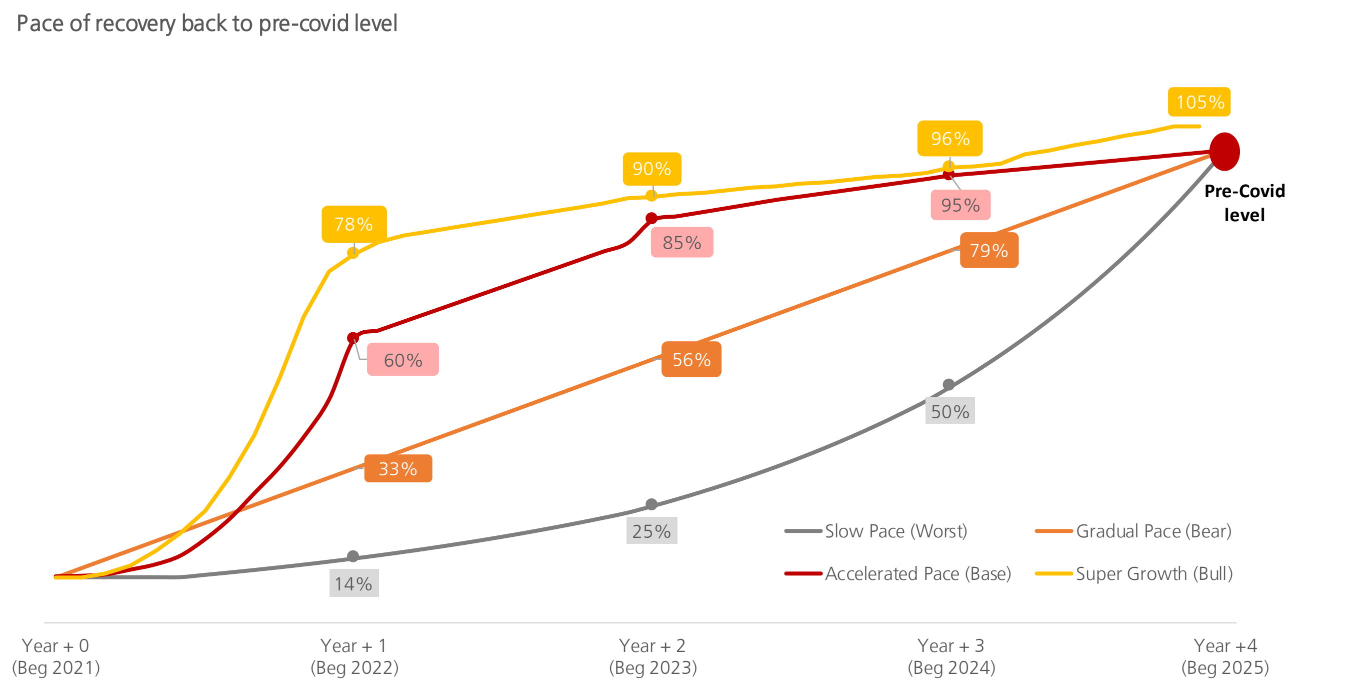
Travel rebound back on the cards. The hospitality sector has borne the brunt of the COVID-19 pandemic and we believe there are green shoots on the horizon. The recent encouraging results in the final trials of vaccine candidates with strong efficacy from Pfizer and Moderna is fueling optimism that travel will return sooner than originally thought. Therefore, while international air travel and hospitality is said to only fully recover in 2024 according to International Air Transport Association (IATA), we believe that the chance of an earlier than anticipated recovery is there and if so, the recovery will most likely be front-end loaded.

Pent-up demand for leisure travel while marginal business travel may be disrupted. We believe that the hospitality sector will likely emerge with a new face after the battle with COVID-19. With technology enabling virtual meetings through either Cisco Webex, Zoom and other conferencing platforms, we believe that businesses and employees have adjusted to this "new normal" of having virtual meetings replacing actual meetings to a certain degree.

We anticipate that business travel of the future will be more focused and less frequent for the typical traveler who may drop selected trips (e.g. 1-2 business meetings) and replace them with virtual meetings due to cost savings. That said, we believe that that the bulk of corporate travel for meetings, incentive-travel, conventions and exhibitions (MICE) will most likely continue given that many aspects of business engagement, networking and interaction cannot be replicated or replaced.

Leisure travel – get me on the next flight out! Demand for leisure travel will likely remain robust with pent up demand from would-be holiday makers, as a holiday can never be replaced virtually. The catalyst for a return in leisure travel for the masses will likely hinge on the distribution of a vaccine, and we believe the return of mass travel will likely come in 2H21 onwards. When that happens, we believe it is important to consider how hotels will reposition themselves to capture this upside when it happens.

DBS's timeline of projected recovery path from 2021 to 2025



Where is the growth coming from?

Projecting a steady rebound in operating metrics. While we believe that 2021 brings much promise of a recovery for the 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 tourist arrivals post the mass distribution of a vaccine, the focus will be on domestic travel markets in the meantime. Countries like China, Japan, Europe, the USA and Australia with strong domestic market demand, should 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. The hospitality S-REITs have diversified and invested in global hospitality markets and now have just c.40% of their portfolio exposed to assets from Singapore. In overseas markets, we note that that the S-REITs have c.53% exposure in "domestic markets" which we deem to have strong potential for a travel rebound come early 2021 and the majority of these overseas assets are in UK/Europe (16%), Australia (14%) and Japan (13%). These markets have seen domestic travel and flights restarting and thus, operational metrics (RevPAR, occupancy rates) will likely rebound back to pre-COVID levels earlier than Singapore.

According to data from OAG, the number of seats on domestic flights in China have already exceeded pre-COVID levels by October, while hospitality players in their recent outlook guidance have also indicated that RevPAR has headed up towards 60%-70% of pre-COVID levels. If we use this as a guide on the potential trajectory in other domestic markets, we believe the outlook for other domestic markets can be equally bright as the pandemic gets under control.

In this respect, **Ascott Residence Trust (ART)** and **Frasers Hospitality Trust (FHT)** have the biggest exposure in these overseas domestic markets at 72% and 59% of asset exposure respectively. This is followed by **CDL Hospitality Trusts (CDLHT)** and **Far East Hospitality Trust (FEHT).**

Summary of geographic exposure 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 Trusts	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

Summary of exposure by key markets

	Domestic Markets	Singapore	Others	Key earnings drivers
Ascott Residence Trust	72%	17%	11%	• UK/Europe, Australia and Singapore hotels to drive earnings. • Gearing up for acquisitions (e.g. US multi-family portfolio).
CDL Hospitality Trusts	29%	66%	5%	• Singapore hotels and Europe rebound to drive earnings. • Redeployment of sales proceeds to acquisition of dividend top-up.
Frasers Hospitality Trust	59%	36%	6%	• Australia, Europe and Singapore hotels to drive earnings. • Potential asset recycling activities.
Far East Hospitality Trust	0%	100%	0%	• Near term staycation business to support revenues in 2021. • Sentosa hotel to turn potentially turn profitable in 2021-2022.
Average exposure	53%	40%	7%	

Source: various companies, DBS Bank

Singapore – a cautious relaxation of borders point towards a sustainable recovery

Singapore is re-opening her borders gradually. With the sector deriving 40% of assets from Singapore, the health of the Singapore hospitality market is key in driving earnings going forward. While there are many comparisons with the 2003 Severe Acute Respiratory Syndrome (SARS), the COVID-19 pandemic has been far more disruptive, and borders remained substantially closed 7 months after the first incidence of COVID-19 in Singapore.

The impact of the COVID-19 pandemic on the hospitality industry has been far more protracted with a steep drop in RevPARs as average daily rates (ADRs) fell significantly. In fact, occupancies were supported by the Singapore government mandatory quarantine or stay-home-notice (SHN) at these facilities (including hotels) for returning citizens and workers during the pandemic.

Hospitality S-REITs outperformed market averages. Most hospitality S-REITs have managed their occupancies by participating in the quarantine business and also housing those workers who could not return to Malaysia. This has helped to buffer the drop in RevPAR to -25% to -60% during 2Q/3Q2020 despite border restrictions, outperforming the average 70%-80% plunge in the sector.

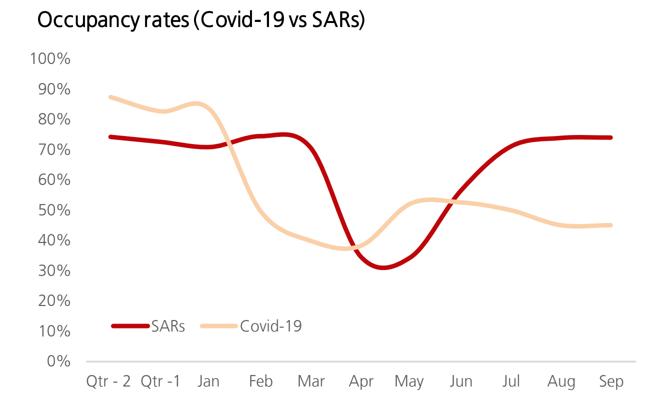
With low to zero community cases coupled with single digit imported COVID-19 cases, the government's quarantine business should be tapering off from 4Q20 onwards for most hotels. In the near term, alternative sources of business that hoteliers can rely on will be locals booking staycations (weekends and upcoming school holidays at end Nov-20 to Dec-20) and potential travelers from an increasing number of travel bubbles. That said, sources of demand in the near term is unlikely to compensate for the drop in the government quarantine business.

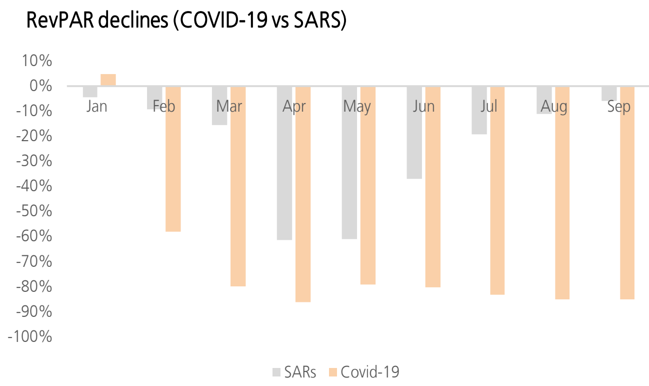
RevPAR declines over the past year (Singapore only)

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Ascott Residence Trust	2%	8%	-30%	-24%	-62%
CDL Hospitality Trust	0%	5%	-40%	-61%	-61%
Far East Hospitality Trust	0%	-1%	-33%	-43%	-56%
Frasers Hospitality Trust	5%	7%	-36%	-55%	-59%
Upscale Hotels (STB)	3%	4%	-44%	-80%	-78%
Midscale Hotels (STB)	6%	13%	-32%	-73%	-70%

Source: Singapore tourism board, companies, DBS Bank

Operational performance for SG hotels (COVID-19 vs SARs)





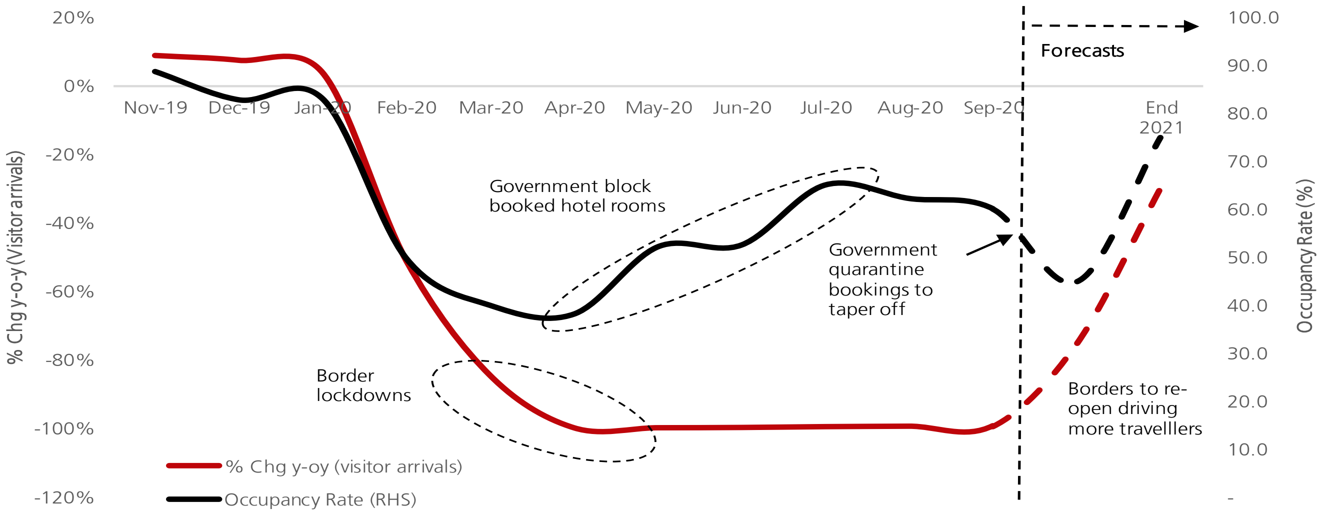
Source: Singapore Tourism Board, Horwath HTL, DBS Bank

Filling up capacities in 2021 is the focus. Going forward, we expect the operational performance to further drop in 4Q20-1Q21 before improving from 2Q21 onwards. The reason for this is excess capacities (supply > demand). On a positive note, this should be quickly absorbed with the potential formation of new travel bubbles with more countries with low COVID-19 cases. The re-opening of travel bubbles to key visitor source markets of China, Indonesia, Australia, India and Malaysia for leisure and business will be key to see a more meaningful rebound in operational metrics.

With expectations of a mass distribution of a vaccine sometime in 2021, we remain optimistic on the accelerating growth momentum for the Singapore hospitality sector.

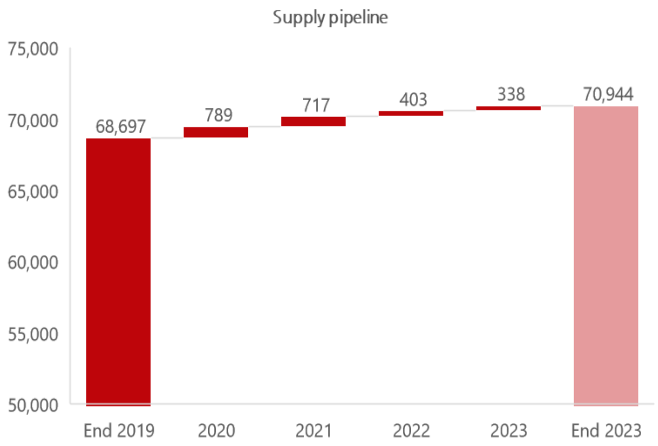
Supply growth is manageable. Supply of hotel rooms in Singapore is not a key issue in our view as the pandemic has delayed the construction pipeline. According to STB and Horwath HTL (as at end 2019), the supply pipeline over the next 3 years is manageable at less than a compounded annual growth rate (CAGR) of 0.8% up till 2023, while some of this could face further delays.

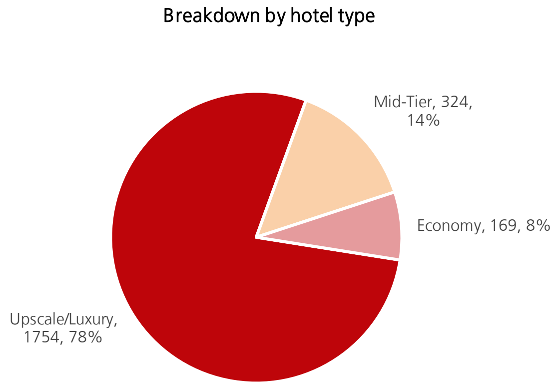
Recovery curve for Singapore to come in 2021



Source: Singapore tourism board, DBS Bank

Supply growth of 0.8% CAGR over end-2019 to end-2023





Source: Singapore Tourism Board, Horwath HTL, DBS Bank

Key overseas markets.

Key markets that are noteworthy include the likes of China, the USA, Europe/UK and Australia, which are at different phases of their own recovery from the COVID-19 pandemic. Given the respective countries large domestic travelling base, where flights have restarted, and in the case of China, we have seen a "V-shaped" recovery taking place.

Selected countries like Japan are encouraging locals to tour their own backyard in the hope of restarting the tourism industry. This will be a near term driver for hotels' operating metrics in the near term prior to the re-opening of the borders to international travel.

Exposure to key cities

Countries	S-REITs exposure	Newsflow
Europe/UK	ART (19% of assets) CDLHT (16% of assets FHT (18% of assets)	Europe • General recommendation of suspending non-essential travel (except those in essential services) within Europe but this may be relaxed. • Current lockdowns may be relaxed for the upcoming Christmas season but impact to travel is minimal. • Most of the S-REIT exposure is in France and Germany, where both countries are in lockdown; gradual rebound in operating metrics once restrictions are lifted during in Dec 2020 UK • To introduce a 3-tier system of local restrictions for locals to meet after the lockdown ends on 2 Dec 2020 in view of upcoming Christmas festivities. • Domestic travel may weaken in the near term but impact would not be as significant given this is typical low season. • With most exposures by S-REITs anchored within London, a global city which attracts significant tourists and business travelers, we expect the hotels in London to rebound strongly in the medium term.
Japan	ART (20% of assets) CDLHT (3% of assets) FHT (9% of assets)	• Go To Travel domestic tourism campaign to spur locals to tour own backyard through travel subsidies offered by the government. • However, recent rise in COVID-19 infections have halted this campaign for Osaka and Sapporo . • Tokyo Olympics (delayed from 2020) is expected to be held in the middle of 2021 but remains to be seen if a COVID-19 vaccine can be distributed by then and the community achieving herd community.
Australia	ART (13% of assets) CDLHT (10% of assets FHT (32% of assets)	• Borders remain closed to most international visitors (except New Zealand) as of Nov 2020. • However, interstate travel is generally allowed in most states and territories, where locals can travel but have to adhere to safe distancing requirements. • Victoria's lockdown has been successful in flattening the COVID-19 infection curve and travel to Victoria requires a permit for interstate travel. • Domestic travel for business and leisure likely a near term driver for demand.
China	ART (8% of assets)	• COVID-19 is somewhat of a "past" with the country seeing domestic flights resuming and achieved close to 85% of pre-COVID levels in Sept 2020, and expected to continue to rise steadily. • Most hoteliers are seeing China as the first market to achieve pre-COVID operating levels in 2021 and will be the leader in the post pandemic recovery.
USA	ART (12% of assets)	• Interstate travel is allowed and expected to remain strong, especially for the upcoming thanksgiving holidays. • 4Q is a seasonally weaker quarter; but should rebound in 2021 as vaccine production gains momentum.

Source: various government agencies, HTL, DBS Bank

Revision of estimates and valuation

Accelerating growth path. While the road back to pre-COVID levels may be a couple of years away, we are optimistic on the forward growth trajectory in distributions (or distribution per unit (DPU)) which should accelerate upon the mass distribution of a vaccine globally. We conservatively assume a 4-year trajectory to normalcy in our estimates (on front end loaded growth) but acknowledge that the timing remains fluid for now.

We present three scenarios, with our base case assumptions of a 68%/89%/95%/100% catch up in RevPARs compared to pre-COVID levels in our models for the various hospitality S-REITs. Our assumptions are summarised in the table below.

Based on our scenario analysis, most hospitality S-REITs would be able to exceed their pre-COVID-19 DPUs between 2023-2024 (base case) while a stronger than anticipated recovery will see this happening a year earlier (bull case). In our bear case scenario, the hospitality S-REITs will only be able to achieve close to its pre-COVID RevPARs by 2024.

Summary of Scenario analysis (% recovery vs pre-COVID levels)

Scenarios	Metrics	Yr 2021	Yr 2022	Yr 2023	Yr 2024	Remarks
	Occupancy rate	65%	80%	85%	88%	Travel restarts strongly in early 2021, rebound towards pre-COVID before the end of FY2022 and above.
Bull	RevPAR growth	+70%	+20%	+7%	+5%	
	% pre-COVID	80%	96%	103%	108%	
	Occupancy rate	60%	72%	75%	80%	Pent-up travel demand starting in 2H21. Achieving pre-COVID levels by end FY22-early FY23.
Base	RevPAR growth	+45%	+30%	+7%	+5%	
	% pre-COVID	68%	89%	95%	100%	
	Occupancy rate	52%	55%	60%	80%	Travelers remain cautious resulting in a more gradual recovery pace. Pre-COVID levels achieved in 2024.
Bear	RevPAR growth	+10%	+15%	+25%	+35%	
	% pre-COVID	33%	60%	74%	100%	

Source: DBS Bank estimates

Recovery rate in DPUs vs pre-COVID levels

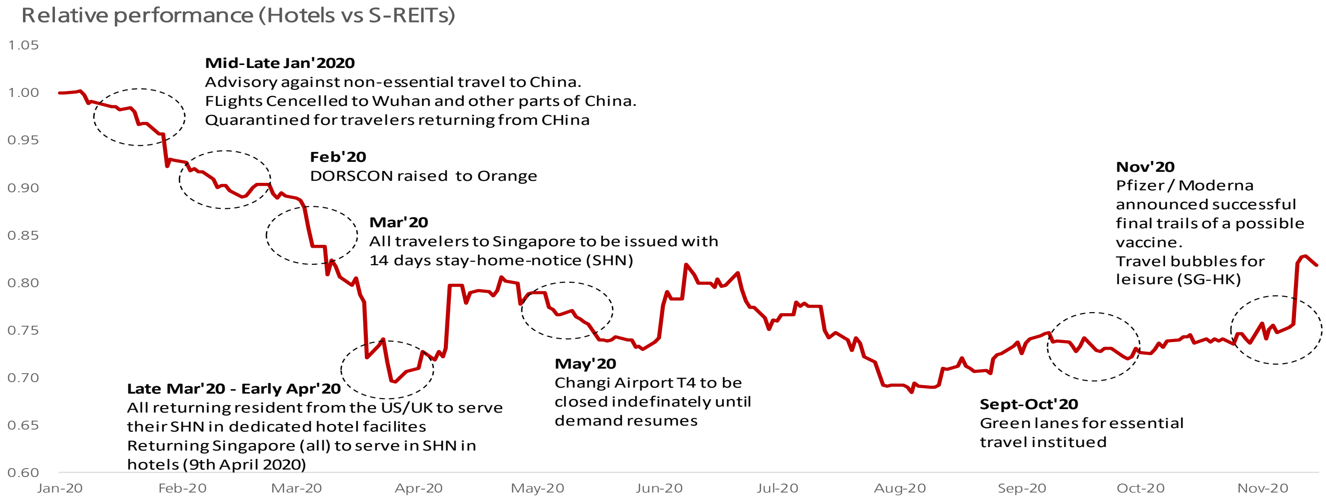
Scenarios	REITs	Pre-COVID DPU (Scts)	Pandemic	DPU Recovery vs FY19				4-year CAGR
		Yr 2019	Yr 2020	Yr 2021	Yr 2022	Yr 2023	Yr 2024	(FY20-FY24)
	CDLHT	9.02	53%	84%	93%	100%	107%	19%
Bull	FEHT	3.80	61%	77%	102%	115%	126%	20%
	FHT	4.40	42%	75%	96%	105%	112%	28%
	ART	7.60	35%	61%	95%	100%	103%	31%
	CDLHT	9.02	53%	70%	86%	92%	100%	17%
Base	FEHT	3.80	61%	73%	93%	105%	115%	17%
	FHT	4.40	42%	62%	88%	99%	108%	27%
	ART	7.60	35%	55%	90%	94%	100%	29%
	CDLHT	9.02	53%	61%	65%	73%	89%	17%
Bear	FEHT	3.80	61%	71%	71%	75%	102%	13%
	FHT	4.40	42%	48%	53%	71%	101%	25%
	ART	7.60	35%	47%	68%	79%	98%	30%

Source: DBS Bank estimates

Market to price ahead a recovery. While we do not anticipate a quick rebound in DPUs in the immediate term, we believe the market will most likely price the stocks ahead of their recovery, with expectations that the approach towards pre-COVID-19 travel days is likely to be sooner rather than later. While share prices of hospitality S-REITs have increased by 15%-20% in the past weeks, the sector is still trading close to -1 to -2 standard deviation of the respective stock's average historical level, which is attractive.

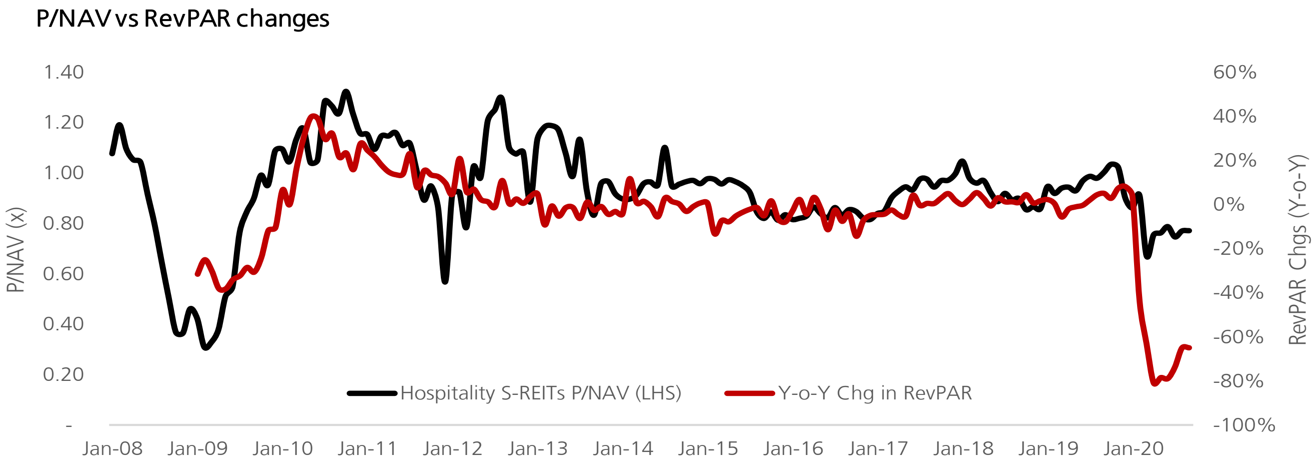
Close correlation to RevPAR growth. Based on historical share price performance for the hospitality sector, we have seen a close correlation between (i) y-o-y changes in RevPAR and (ii) P/NAV multiples. In anticipation of a sustained rebound in RevPAR from 2021 onwards, we believe the sector can continue to re-rate.

Relative performance of Hospitality S-REITs vs S-REIT sector (YTD-2020)



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

Relationship between RevPAR changes to P/NAV



Source: Bloomberg Finance L.P., Singapore Tourism Board, DBS Bank

Estimates and TP changes. We have refreshed our DPU estimates in accordance with our latest base case scenarios and have raised our target prices for ART to S$1.25, CDLHT to S$1.40, FEHT to S$0.70 and FHT to S$0.70, implying total returns ranging 15% - 60%

Deep value play. While hospitality S-REITs tend to trade up together in a basket, we prefer Ascott Residence Trust (ART) and CDL Hospitality Trusts (CDLHT) for their global portfolios with varied demand drivers, followed by Far East Hospitality Trust (FEHT). We believe that a near term target should be -0.5 standard deviation to -1.0 standard deviation of their respective P/NAV mean, which implies upside **ranging 10% - 20% among** our preferred hospitality S-REITs.

Peer Comparison range

	Price	Rec	Target Price	Mkt Cap (S$'bn)	Total Return	DPU (FY19)	DPU (FY20)	DPU (FY21)	DPU (FY22)	Yield (FY19)	Yield (FY20)	Yield (FY21)	Yield (FY22)
ART	1.00	BUY	1.20	3.07	25%	7.61	2.65	4.18	6.82	7.6%	2.7%	4.2%	6.9%
CDREIT	1.19	BUY	1.40	1.44	23%	9.02	4.73	6.30	7.77	7.6%	4.1%	5.3%	6.5%
FEHT	0.64	BUY	0.70	1.23	15%	3.80	2.343	2.76	3.52	6.0%	3.7%	4.4%	5.5%
FHT	0.46	BUY	0.70	0.88	58%	4.41	1.40	2.74	3.88	9.6%	3.0%	5.9%	8.4%
Ave										7.6%	3.1%	4.8%	6.8%

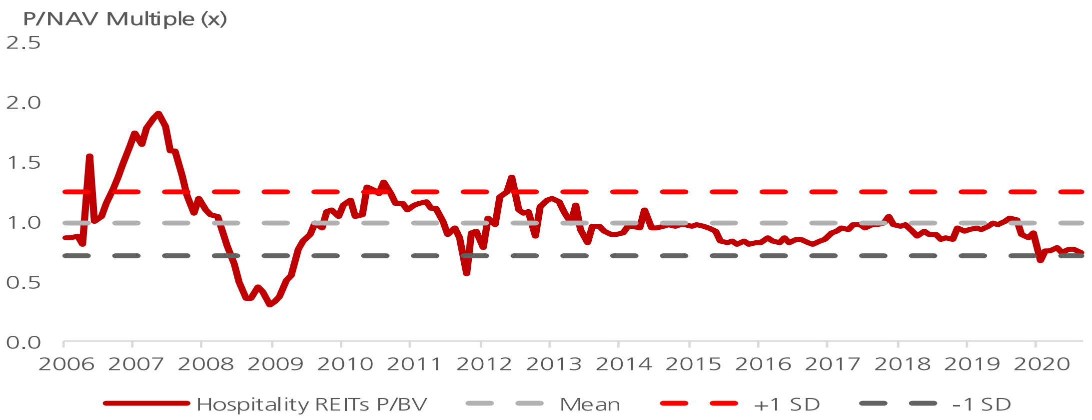
Source: Bloomberg Finance L.P., DBS Bank estimates

Price to NAV range

	Price*	P/NAV	Mean	+1 SD	- 0.5 SD	-1 SD	-2 SD	Trough
ART	1.00	**0.80**	0.92	1.01	0.92	0.83	0.74	0.50
CDLHT	1.19	**0.78**	1.10	1.26	1.10	0.94	0.78	0.50
FEHT	0.64	**0.74**	0.81	0.95	0.81	0.67	0.53	0.53
FHT	0.46	**0.64**	0.97	1.03	0.97	0.91	0.80	0.80
Average		0.77	0.95	1.06	0.95	0.84	0.73	0.55

**Price taken as of 20 Nov'2020*
Source: Bloomberg Finance L.P, DBS Bank estimates

Price to NAV historical chart



Source: Bloomberg Finance L.P, DBS Bank estimates

Book valuation risk priced in

Valuation deterioration priced in and unlikely to be as significant as feared. The significant cashflow disruptions will likely result in valuers re-evaluating their cashflow projections to support valuations and we expect downward pressure possibly to the tune of 10% come year end 2020.

FHT's latest valuation saw a dip of 3.5% in SGD terms (but c.5%-11% in local currency terms, with the biggest drop from Germany) as at Sept 2020. This in our view provides investors with a possible yardstick into how valuations may look like come their respective year ends in Dec 2020. Based on our estimated 5%-15% drop in hotel valuations, most hotel REITs are expected to see their gearing levels increase from the current c.39% to c.42%, with the exception of FEHT, with gearing possibly hitting 46% (on the assumption of a 15% drop in valuations).

We believe that this scenario of a 20% decline in asset prices is unlikely given (i) tight cap rates for transactions in Singapore (hotels are transacted at < 3% yield) and (ii) cashflows are not as severely impacted given the government quarantine business in 2020, while the gradual re-opening of borders will be positive for the local hospitality industry over time, and (iii) low interest rates which is supportive for cap rates to not expand significantly.

Gearing sensitivity to asset declines

Leverage		Asset Decline					
Latest reported		-5%	-10%	-15%	-20%	-25%	-30%
ART	36%	38%	40%	42%	44%	46%	49%
CDLHT	37%	39%	40%	42%	44%	47%	49%
FEHT	39%	41%	44%	46%	49%	52%	56%
FHT	36%	38%	40%	42%	44%	47%	50%

Source: companies, DBS Bank

Singapore Company Update
Ascott Residence Trust

Bloomberg: ART SP | Reuters: ASCO.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 1 Dec 2020

BUY

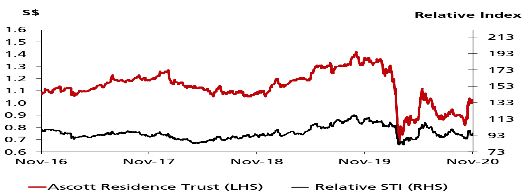
Last Traded Price (30 Nov 2020): S$1.04 **(STI :** 2,805.95)
Price Target 12-mth: S$1.20 (15% upside) (Prev S$1.10)

Analyst
Geraldine WONG 65 6682 3719 geraldinew@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Pent-up travel demand, especially for leisure, to drive a "V-shaped" recovery for global travel
- ART's global portfolio enables the REIT to capture demand within domestic and international travel, ahead of its peers
- Revision of estimates to align with sector estimated road to normalization of four years, which is conservative
- TP raised to S$1.20 on lower WACC assumptions

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	515	413	527	673
Net Property Inc	253	175	236	342
Total Return	197	50.0	101	181
Distribution Inc	166	81.8	129	212
EPU (S cts)	(1.9)	1.62	3.28	5.85
EPU Gth (%)	nm	nm	102	79
DPU (S cts)	7.61	2.65	4.18	6.82
DPU Gth (%)	6	(65)	58	63
NAV per shr (S cts)	125	125	124	123
PE (X)	nm	64.2	31.7	17.8
Distribution Yield (%)	7.3	2.6	4.0	6.6
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	34.3	37.3	36.3	37.0
ROAE (%)	(1.5)	1.3	2.6	4.7
Distn. Inc Chng (%):		1	(25)	(12)
Consensus DPU (S cts):		2.90	4.90	6.10
Other Broker Recs:		B: 6	S: 3	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 DBSV Institutional Sales contact for a demonstration.

Ahead of the pack

Investment Thesis

Compelling value. We see compelling value in Ascott Residence Trust (ART) at 0.8x P/NAV, more than -1.5 SD of its historical 10-year mean, with an attractive 6.9% FY22 dividend yield with upside if travel rebound occurs faster than expected. Our TP is raised to S$1.20, offering total returns in excess of 21%. Our target price implies a target P/NAV multiple of 1.0x.

Distracted but not disrupted. Focus on big domestic travel markets and long-stay segment should pay off. Phased reopening a positive sign that portfolio has attained at least a breakeven level of operations. With a diversified portfolio deriving c.70% exposure from these "domestic markets", we believe ART can rebound ahead of peers. Our earnings estimates are cut by 12%-25% in reflection of our revised view of a 4-year normalization period for the sector.

Asset recycling to drive earnings and NAV upside. Healthy 36% gearing level and S$2bn debt headroom could mean that acquisition of sponsor's > S$1.0bn US multi-family portfolio may be considered in 2021.

Valuation:

We lower our operating margin assumptions for FY20 and FY22. Our DCF-backed target price is raised to S$1.20 as we roll forward to FY21 earnings on lower WACC assumptions as the sector moves into an "early cyclical recovery" phase. Our S$300m acquisition assumption is now expected to occur sometime at end-2021 (previously end-2020).

Where we differ:

We believe that the recovery in travel demand will be front-end loaded post the distribution of a COVID-19 vaccine in 2021.

Key Risks to Our View:

Slower recovery in FY21 as the COVID-19 pandemic protracts.

At A Glance

Issued Capital (m shrs)	3,108
Mkt. Cap (Sm/USm)	3,232 / 2,415
Major Shareholders (%)	
CapitaLand Ltd	25.2
The Ascott Limited	15.32
Free Float (%)	59.5
3m Avg. Daily Val (US$m)	3.5

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

WHAT'S NEW

Ahead of the pack

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 reopen their borders to international tourists post the mass distribution of a vaccine, before that happens, the focus will be on domestic travel markets. Therefore, markets like China, Japan, Europe, US and Australia, which have deeper domestic demand, will recover first. Destinations with a focus on international travel, like Singapore, while starting to reopen their borders in 4Q20 to selected countries, will most likely see a more lagged pace of recovery.

Domestic markets to lead the rebound. ART is one of the more diversified S-REITs as shown in the table 3, amongst its peers for which we see many opportunities to tap on the gradual reopening of the global hospitality sector, with close to 72% of assets in these "domestic markets", we anticipate ART to see positive results come early 1H21. While the path back to pre-COVID levels may be a couple of years away, we are optimistic on this forward growth trajectory in distributions (or distributions per unit [DPU]) which should accelerate upon the mass distribution of a vaccine globally. We conservatively assume a 4-year trajectory back to normalcy in our estimates (though front-end-loaded growth) but acknowledge that this timing remains fluid for now and our estimates reflect these updated sector estimates and cut it by 12%-25% for FY21-22.

Potential to exceed our forecasts. In our scenario analysis of a 68%/89%/95%/100% catch-up for FY21/22/23/24 in RevPARs compared to pre-COVID levels in our models, ART should achieve 90% of its pre-COVID-19 DPU by FY22, driven by a mix of organic growth and acquisitions. In a more bullish scenario, ART may exceed its pre-COVID-19 DPU by FY23.

Company Background

Ascott Residence Trust's (ART) 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).

Table 1: Our growth assumption (% recovery vs pre-COVID levels)

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

Source: DBS Bank estimates

Table 2: Recovery rate in DPUs vs pre-COVID levels

Scenarios	REITs	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)
	CDLHT	9.02	53%	70%	86%	92%	100%	17%
Base	FEHT	3.80	61%	73%	93%	105%	115%	17%
	FHT	4.40	42%	62%	88%	99%	108%	27%
	ART	7.60	35%	55%	90%	94%	100%	29%

Source: DBS Bank estimates

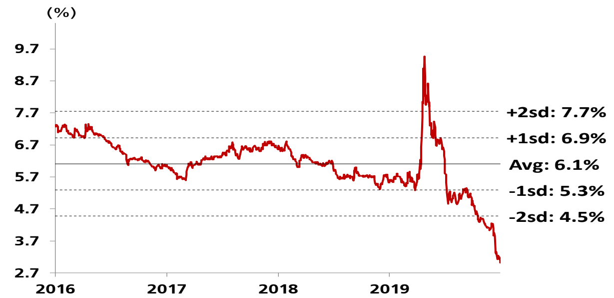
Table 3: Summary of geographic exposures by latest asset valuation

	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

Historical Dividend yield and PB band

Distribution yield (%)



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

PB band (x)

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

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	514	515	413	527	673
Property expenses	(275)	(262)	(238)	(291)	(331)
Net Property Income	239	253	175	236	342
Other Operating expenses	(30.3)	(30.2)	(30.8)	(32.9)	(37.4)
Other Non Opg (Exp)/Inc	(2.9)	1.96	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.20	0.20	0.20
Net Interest (Exp)/Inc	(45.9)	(49.7)	(61.5)	(59.9)	(62.0)
Exceptional Gain/(Loss)	0.0	(160)	0.0	0.0	0.0
Net Income	160	14.8	83.1	143	243
Tax	(43.5)	(44.7)	(14.5)	(25.1)	(42.6)
Minority Interest	(4.2)	(0.1)	(2.1)	(3.5)	(6.0)
Preference Dividend	(19.2)	(19.7)	(16.5)	(13.3)	(13.3)
Net Income After Tax	93.3	(49.7)	50.0	101	181
Total Return	128	197	50.0	101	181
Non-tax deductible Items	19.9	(48.5)	26.9	27.9	30.1
Net Inc available for Dist.	155	166	81.8	129	212
Growth & Ratio					
Revenue Gth (%)	3.6	0.1	(19.8)	27.6	27.9
N Property Inc Gth (%)	5.5	5.5	(30.6)	34.6	45.2
Net Inc Gth (%)	(15.2)	nm	nm	102.6	79.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	46.5	49.1	42.4	44.8	50.9
Net Income Margins (%)	18.1	(9.6)	12.1	19.2	26.9
Dist to revenue (%)	30.1	32.1	19.8	24.5	31.4
Managers & Trustee's fees	5.9	5.9	7.5	6.3	5.6
ROAE (%)	3.5	(1.5)	1.3	2.6	4.7
ROA (%)	1.7	(0.8)	0.7	1.3	2.4
ROCE (%)	2.9	(7.2)	1.6	2.2	3.4
Int. Cover (x)	4.6	4.5	2.3	3.4	4.9

Rebound in RevPAR + acquisitions in FY22

Source: Company, DBS Bank

Quarterly 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	0.02	0.0	0.0	0.01	0.01
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	2018A	2019A	2020F	2021F	2022F
Investment Properties	4,745	6,171	6,477	6,347	6,397
Other LT Assets	64.2	657	656	659	666
Cash & ST Invts	228	276	228	248	278
Inventory	0.33	0.67	0.67	0.67	0.67
Debtors	56.9	62.5	45.4	57.2	73.2
Other Current Assets	215	256	256	256	256
Total Assets	**5,309**	**7,423**	**7,664**	**7,569**	**7,671**
ST Debt	70.1	355	355	355	355
Creditor	141	173	112	141	180
Other Current Liab	6.80	37.1	37.1	37.1	37.1
LT Debt	1,835	2,286	2,604	2,490	2,560
Other LT Liabilities	125	229	229	229	229
Unit holders' funds	3,041	4,257	4,239	4,225	4,212
Minority Interests	89.7	85.5	87.5	91.1	97.1
Total Funds & Liabilities	**5,309**	**7,423**	**7,664**	**7,569**	**7,671**
Non-Cash Wkg. Capital	124	109	153	136	113
Net Cash/(Debt)	(1,678)	(2,366)	(2,731)	(2,597)	(2,638)
Ratio					
Current Ratio (x)	2.3	1.1	1.1	1.1	1.1
Quick Ratio (x)	1.3	0.6	0.5	0.6	0.6
Aggregate Leverage (%)	39.6	34.3	37.3	36.3	37.0
Z-Score (X)	0.9	0.6	0.6	0.7	0.7

Source: Company, DBS Bank

Conservative gearing

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	160	14.8	83.1	143	243
Dep. & Amort.	13.3	13.3	13.3	13.3	13.3
Tax Paid	(19.8)	(23.2)	(14.5)	(25.1)	(42.6)
Associates &JV Inc/(Loss)	0.02	0.01	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	0.92	(6.0)	(44.3)	17.0	23.3
Other Operating CF	72.0	230	13.6	14.7	16.8
Net Operating CF	**227**	**229**	**50.9**	**163**	**254**
Net Invt in Properties	(27.6)	(31.7)	(12.4)	(15.8)	(20.2)
Other Invts (net)	25.1	304	(306)	130	(50.0)
Invts in Assoc. & JV	0.0	(15.5)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.78	1.95	0.0	0.0	0.0
Net Investing CF	**(0.7)**	**259**	**(318)**	**114**	**(70.2)**
Distribution Paid	(149)	(160)	(81.8)	(129)	(212)
Chg in Gross Debt	(35.0)	(198)	318	(114)	70.2
New units issued	0.0	(1.2)	0.0	0.0	0.0
Other Financing CF	(69.7)	(80.5)	(16.5)	(13.3)	(13.3)
Net Financing CF	**(254)**	**(440)**	**220**	**(257)**	**(155)**
Currency Adjustments	(1.9)	(0.7)	0.0	0.0	0.0
Chg in Cash	(29.7)	47.2	(47.4)	20.4	29.1
Operating CFPS (S cts)	10.5	8.96	3.09	4.72	7.44
Free CFPS (S cts)	9.23	7.52	1.25	4.76	7.54

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jan 20	1.26	1.50	BUY
2:	21 Apr 20	0.85	1.10	BUY
3:	13 Jul 20	1.00	1.10	BUY
4:	29 Jul 20	0.90	1.10	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG
Derek TAN

Singapore Company Update

CDL Hospitality Trusts

Bloomberg: CDREIT SP | Reuters: CDLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Dec 2020

BUY

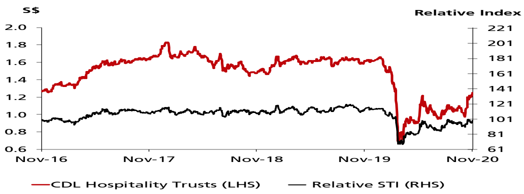
Last Traded Price (30 Nov 2020): S$1.26 (**STI :** 2,805.95)
Price Target 12-mth: S$1.40 (11% upside) (Prev S$1.30)

Analyst
Geraldine WONG 65 6682 3719 geraldinew@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Pent-up demand, especially for leisure, to drive a "V-shaped" recovery for CDLHT to capture
- Portfolio well-positioned to capture demand from domestic demand and Singapore staycations
- Refreshed estimates to assume a 4-year normalisation period; upside if demand runs ahead of expectations
- TP raised to S$1.40, implying total returns of 20%

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	197	123	180	219
Net Property Inc	141	87.4	110	138
Total Return	115	25.8	47.1	71.5
Distribution Inc	119	65.3	85.9	106
EPU (S cts)	5.46	2.11	3.84	5.80
EPU Gth (%)	(12)	(61)	82	51
DPU (S cts)	9.01	4.81	6.31	7.77
DPU Gth (%)	(3)	(47)	31	23
NAV per shr (S cts)	152	151	151	151
PE (X)	23.1	59.6	32.8	21.7
Distribution Yield (%)	7.2	3.8	5.0	6.2
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	34.8	33.9	33.7	33.6
ROAE (%)	3.6	1.4	2.5	3.9
Distn. Inc Chng (%):		(2)	(18)	(12)
Consensus DPU (S cts):		4.00	6.00	7.50
Other Broker Recs:		B: 6	S: 3	H: 6

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 DBSV Institutional Sales contact for a demonstration.

Trading below replacement costs

Investment Thesis

Attractive valuation buffers. CDL Hospitality Trust (CDLHT) currently trades at a price/book (P/NAV) of 0.8x (close to -1.5 SD [standard deviation] levels) and a sharp discount from its mean P/Bk of 1.0x. We believe that the stock remains on track to ride the travel demand recovery in 2021 and beyond. Our BUY TP is raised to S$1.40 on lower WACC assumptions.

Trading below replacement costs. CDLHT trades at an implied average price/room of S$0.6m for its Singapore hotels, which is below replacement cost of S$0.75m/room in Singapore. Investors are essentially getting exposure to the hotel sector at below the cost to rebuild.

Positioned for a recovery. The global travel shutdown will impact near-term earnings which is reflected in our refreshed estimates (-2% to -18% across FY20-22F) but with c.26% of its exposure in Australia and Europe should see uptick in domestic demand in 1H21. With a vaccine distribution and upcoming Tokyo Olympics in 2H21, we see a synchronised recovery across CDLHT's portfolio when the travel bug returns.

Valuation:

We lower our operating margin assumptions for FY20 and FY22. Our DCF-backed target price is raised to S$1.40 as we roll forward to FY21 earnings on lower WACC assumptions as the sector moves into an "early cyclical recovery" phase. We have not priced in any acquisitions.

Where we differ:

Even after our estimates reset, we remain ahead of consensus as we see its hotels (especially Maldives and Singapore) capturing the pent-up demand for leisure travel.

Key Risks to Our View:

Slower than expected recovery in FY21 as COVID-19 drags longer could pose a major risk to earnings.

At A Glance

Issued Capital (m shrs)	1,221
Mkt. Cap (Sm/USm)	1,539 / 1,150
Major Shareholders (%)	
Hospitality Holdings Pte Ltd	25.7
M&C REIT Management Ltd	7.3
Republic Hotels & Resorts	5.1
Free Float (%)	61.9
3m Avg. Daily Val (US$m)	1.5

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

WHAT'S NEW

Trading below replacement costs

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 reopen their borders to international tourists post the mass distribution of a vaccine, before that happens, the focus will be on domestic travel markets. Therefore, markets like China, Japan, Europe, US and Australia, which have deeper domestic market demand, will recover first. Destinations with a focus on international travel, like Singapore, while starting to reopen their borders in 4Q20 to selected countries, will most likely see a more lagged pace of recovery.

Domestic markets to lead the rebound. CDLHT is one of the more diversified S-REITs amongst its peers with a strategy to pivot away from Singapore to capture alpha from attractive overseas markets in Europe. We see many opportunities for CDLHT to tap on the gradual reopening of the global hospitality sector.

With CDLHT deriving 66% of its exposure in Singapore, the re-opening of our borders remain key driver to earnings in 2021. In addition, its exposure in Australia and Europe (collective contribute c.26% of assets) are expected to see a rebound in domestic demand ahead of international travel, while its Maldives hotels should see a pick-up in leisure travel sometime in 2021.

While the path back to pre-COVID levels may be a couple of years away, we are optimistic on this forward growth trajectory in distributions (or distributions per unit [DPU]) which should accelerate upon the mass distribution of a vaccine globally. We conservatively assume a 4-year trajectory back to normalcy in our estimates (though front-end-loaded growth) but acknowledge that this timing remains fluid for now and our estimates (dip between 12%-18% in FY21-22F) reflect these updated sector estimates.

In our scenario analysis of a 68%/89%/95%/100% catch-up in RevPARs compared to pre-COVID levels in our models, CDLHT should achieve 70-80% of its pre-COVID-19 DPU by FY22, driven by a mix of organic growth and acquisitions. In a more bullish scenario, CDLHT may exceed its pre-COVID-19 DPU by FY23.

Company Background

CDL Hospitality Trusts (CDLHT) was established with the principal investment strategy of investing in a portfolio of hospitality and/or hospitality-related real estate assets globally.

CDLHT currently owns 18 properties with a total of 4,630 hotel rooms, comprising six hotels and a retail mall in Singapore, two hotels in Australia, one hotel in New Zealand, two hotels in Japan, two hotels in United Kingdom, one hotel in Germany, one hotel in Italy and two resorts in Maldives.

Table1: Our growth assumption (% recovery vs pre-COVID levels)

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

Source: DBS Bank estimates

Table 2: Recovery rate in DPUs vs pre-COVID levels

Scenarios	REITs	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)
	CDLHT	9.02	53%	70%	86%	92%	100%	17%
Base	FEHT	3.80	61%	73%	93%	105%	115%	17%
	FHT	4.40	42%	62%	88%	99%	108%	27%
	ART	7.60	35%	55%	90%	94%	100%	29%

Source: DBS Bank estimates

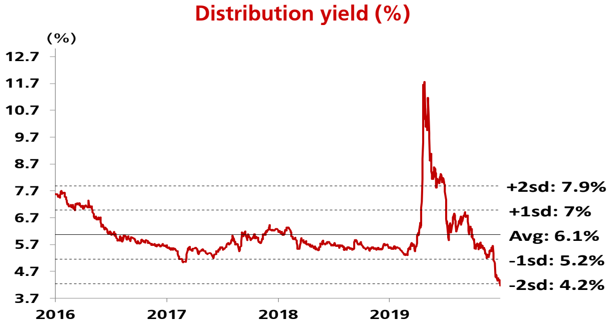
Table 3: Summary of geographic exposures by latest asset valuation

	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

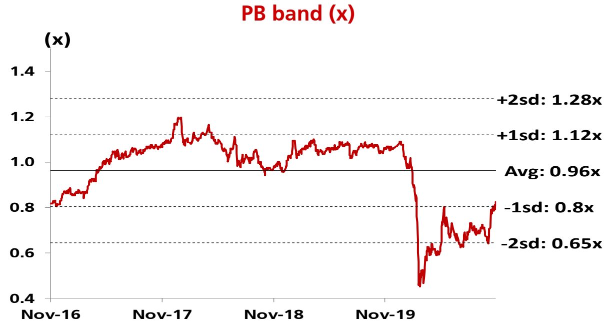
Historical Dividend yield and PB band

Distribution yield (%)



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

PB band (x)



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

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	202	197	123	180	219
Property expenses	(55.8)	(55.7)	(35.3)	(70.3)	(81.2)
Net Property Income	146	141	87.4	110	138
Other Operating expenses	(30.4)	(36.2)	(30.7)	(31.8)	(33.2)
Other Non Opg (Exp)/Inc	2.57	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(27.1)	(28.5)	(26.5)	(26.9)	(28.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	91.1	76.4	30.2	50.9	75.8
Tax	(15.7)	(11.5)	(4.0)	(3.5)	(4.0)
Minority Interest	(0.2)	1.33	(0.4)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	75.2	66.3	25.8	47.1	71.5
Total Return	110	115	25.8	47.1	71.5
Non-tax deductible Items	5.34	32.1	29.9	30.8	31.9
Net Inc available for Dist.	123	119	65.3	85.9	106
Growth & Ratio					
Revenue Gth (%)	(1.2)	(2.4)	(37.7)	46.6	21.6
N Property Inc Gth (%)	(3.8)	(3.3)	(38.1)	25.5	25.6
Net Inc Gth (%)	16.5	(11.9)	(61.1)	82.8	51.7
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	72.4	71.7	71.2	60.9	62.9
Net Income Margins (%)	37.3	33.7	21.0	26.2	32.7
Dist to revenue (%)	60.7	60.6	53.2	47.7	48.6
Managers & Trustee's fees	15.1	18.4	25.0	17.7	15.2
ROAE (%)	4.1	3.6	1.4	2.5	3.9
ROA (%)	2.6	2.2	0.9	1.6	2.4
ROCE (%)	3.3	3.0	1.6	2.4	3.3
Int. Cover (x)	4.3	3.7	2.1	2.9	3.6

Broad-based recovery in RevPAR

Source: Company, DBS Bank

Quarterly 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	0.0	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	2018A	2019A	2020F	2021F	2022F
Investment Properties	2,429	2,513	2,465	2,470	2,477
Other LT Assets	360	11.7	11.7	11.7	11.7
Cash & ST Invts	140	135	131	132	138
Inventory	0.0	1.77	0.0	0.0	0.0
Debtors	32.8	28.9	13.6	20.0	24.3
Other Current Assets	1.08	371	371	371	371
Total Assets	**2,962**	**3,061**	**2,992**	**3,005**	**3,021**
ST Debt	249	78.7	78.7	78.7	78.7
Creditor	41.8	43.6	26.7	39.1	47.6
Other Current Liab	11.9	8.98	8.98	8.98	8.98
LT Debt	763	985	935	935	935
Other LT Liabilities	41.9	82.1	82.1	82.1	82.1
Unit holders' funds	1,848	1,854	1,851	1,852	1,859
Minority Interests	7.66	8.32	8.73	9.01	9.31
Total Funds & Liabilities	**2,962**	**3,061**	**2,992**	**3,005**	**3,021**
Non-Cash Wkg. Capital	(19.7)	349	349	343	338
Net Cash/(Debt)	(872)	(929)	(883)	(882)	(876)
Ratio					
Current Ratio (x)	0.6	4.1	4.5	4.1	3.9
Quick Ratio (x)	0.6	1.2	1.3	1.2	1.2
Aggregate Leverage (%)	34.1	34.8	33.9	33.7	33.6
Z-Score (X)	1.0	1.1	1.0	1.1	0.5

Source: Company, DBS Bank

Ample capacity to grow with lower gearing of <35% post sale of Australia hotel

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	91.1	76.4	30.2	50.9	75.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(2.8)	(15.0)	(4.0)	(3.5)	(4.0)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.1)	7.55	0.10	6.08	4.14
Other Operating CF	46.9	51.9	29.9	30.8	31.9
Net Operating CF	**123**	**121**	**56.2**	**84.2**	**108**
Net Invt in Properties	(4.5)	(46.5)	48.2	(5.4)	(6.6)
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	1.31	1.98	0.0	0.0	0.0
Net Investing CF	**(3.2)**	**(44.6)**	**48.2**	**(5.4)**	**(6.6)**
Distribution Paid	(113)	(110)	(58.7)	(77.3)	(95.8)
Chg in Gross Debt	62.3	56.3	(50.0)	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(21.8)	(23.2)	0.0	0.0	0.0
Net Financing CF	**(72.8)**	**(77.0)**	**(109)**	**(77.3)**	**(95.8)**
Currency Adjustments	(3.6)	(2.7)	0.0	0.0	0.0
Chg in Cash	43.6	(3.4)	(4.4)	1.55	5.51
Operating CFPS (S cts)	11.2	9.34	4.60	6.38	8.42
Free CFPS (S cts)	9.83	6.13	8.56	6.43	8.22

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jan 20	1.56	1.75	BUY
2:	21 Apr 20	0.92	1.30	BUY
3:	30 Jul 20	0.97	1.30	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG
Derek TAN

Singapore Company Update
Far East Hospitality Trust

Bloomberg: FEHT SP | Reuters: FAEH.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 1 Dec 2020

BUY

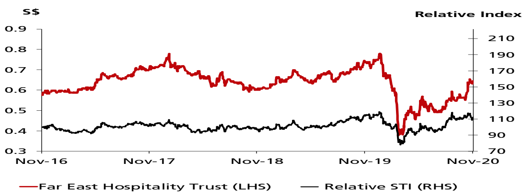
Last Traded Price (30 Nov 2020): S$0.635 (STI : 2,805.95)
Price Target 12-mth: S$0.70 (10% upside) (Prev S$0.60)

Analyst
Geraldine WONG 65 6682 3719 geraldinew@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Pent-up travel demand to drive a "V-shaped" recovery in the sector
- Singapore's gradual reopening of its borders to prevent a resurgence in COVID-19 cases a sustainable strategy
- Near-term staycation demand to compensate for fall-off in government quarantine business
- BUY maintained, TP raised to S$0.70 on lower WACC assumptions

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	116	92.6	95.1	110
Net Property Inc	104	83.9	85.2	98.5
Total Return	60.4	39.7	42.7	57.9
Distribution Inc	73.9	53.6	54.5	69.9
EPU (S cts)	2.64	2.02	2.15	2.90
EPU Gth (%)	(17)	(24)	7	35
DPU (S cts)	3.80	2.33	2.76	3.52
DPU Gth (%)	(5)	(39)	19	27
NAV per shr (S cts)	85.8	85.5	84.8	84.1
PE (X)	24.1	31.5	29.5	21.9
Distribution Yield (%)	6.0	3.7	4.4	5.5
P/NAV (x)	0.7	0.7	0.7	0.8
Aggregate Leverage (%)	39.0	38.9	39.0	39.1
ROAE (%)	3.1	2.4	2.5	3.4
Distn. Inc Chng (%):		0	(17)	(21)
Consensus DPU (S cts):		2.50	3.00	3.60
Other Broker Recs:		B: 6	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 DBSV Institutional Sales contact for a demonstration.

Paid while waiting out a recovery

Investment Thesis

Attractive earnings floor support downside. The stock offers an attractive 4.4% forward yield with c.90% of rental income for FY21 supported by fixed master lease rents from sponsor and FEHT's commercial assets.

Local staycation business may flourish. Far East Hospitality Trust's (FEHT) hotels that are currently block-booked by the government may taper off towards end-2020; and will be opened for staycation bookings. We anticipate this to benefit selected hotels that are uniquely positioned in this segment, such as The Barracks Hotel in Sentosa.

Robust rebound in earnings. Overall portfolio metrics should recover in FY21F-22F, where we see an acceleration post a vaccine distribution. Our numbers remain conservative and below consensus as we reflect our latest estimates (cut FY21-22F estimates by 17%-21%) on a projected 4-year normalisation trend.

Valuation:

Our RevPAR assumptions are for a stronger rebound in FY22 with DPU at 90% of pre-COVID levels. Our TP is raised to S$0.70 as we reduce our WACC assumptions as the sector approaches an "early cyclical" recovery.

Where we differ:

Our estimates are more conservative as we believe Singapore-focused S-REITs will recover later than peers. That said, its revenue structure should support downside to earnings.

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)	1,961
Mkt. Cap (Sm/USm)	1,245 / 931
Major Shareholders (%)	
Golden Development Pte Ltd	22.8
Golden Landmark Pte Ltd	10.5
Far East Organization Centre Pte Ltd	10.0
Free Float (%)	43.2
3m Avg. Daily Val (US$m)	0.75

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

WHAT'S NEW

Paid while waiting out a recovery

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 reopen their borders to international tourists post the mass distribution of a vaccine, before that happens, the focus will be on domestic travel markets. Therefore, markets like China, Japan, Europe, US and Australia, which have deeper domestic market demand, will recover first. Destinations with a focus on international travel, like Singapore, while starting to reopen their borders in 4Q20 to selected countries, will most likely see a more lagged pace of recovery.

Domestic markets to lead the rebound. FEHT is a pure play Singapore S-REITs. While it is not able to capture domestic demand in overseas markets, Singapore remains on a firm footing as she opens her borders selectively to international business travel and tourists through "green lanes" and "travel bubbles. The path back to pre-COVID levels may be a couple of years away, but we are optimistic on this forward growth trajectory in distributions (or distributions per unit [DPU]) which should accelerate upon the mass distribution of a vaccine globally. We conservatively assume a 4-year trajectory back to normalcy in our estimates (though front-end-loaded growth) but acknowledge that this timing remains fluid for now and our estimates reflect these updated sector estimates.

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

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.

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

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

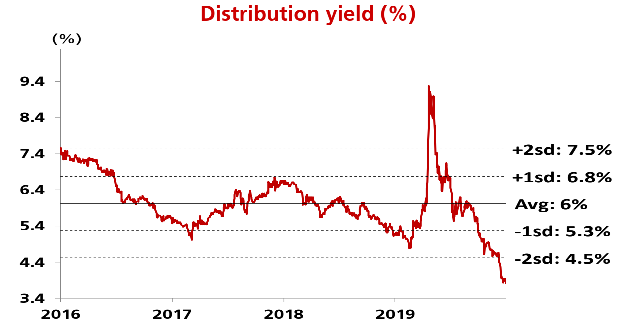
Source: DBS Bank estimates

Recovery rate in DPUs vs pre-COVID levels

Scenarios	REITs	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)
	CDLHT	9.02	53%	70%	86%	92%	100%	17%
Base	FEHT	3.80	61%	73%	93%	105%	115%	17%
	FHT	4.40	42%	62%	88%	99%	108%	27%
	ART	7.60	35%	55%	90%	94%	100%	29%

Source: DBS Bank estimates

Historical Dividend yield and PB band



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

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

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	114	116	92.6	95.1	110
Property expenses	(10.9)	(11.2)	(8.7)	(9.9)	(11.1)
Net Property Income	103	104	83.9	85.2	98.5
Other Operating expenses	(13.2)	(14.1)	(13.7)	(13.7)	(14.3)
Other Non Opg (Exp)/Inc	(1.0)	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.1)	(6.3)	(2.5)	(0.4)	2.29
Net Interest (Exp)/Inc	(26.1)	(28.9)	(28.1)	(28.5)	(28.6)
Exceptional Gain/(Loss)	0.0	(3.3)	0.0	0.0	0.0
Net Income	60.5	51.7	39.7	42.7	57.9
Tax	(0.1)	(0.1)	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	60.4	51.6	39.7	42.7	57.9
Total Return	90.6	60.4	39.7	42.7	57.9
Non-tax deductible Items	15.0	13.5	13.9	11.8	11.9
Net Inc available for Dist.	75.4	73.9	53.6	54.5	69.9
Growth & Ratio					
Revenue Gth (%)	9.5	1.6	(19.9)	2.8	15.2
N Property Inc Gth (%)	10.3	1.5	(19.6)	1.6	15.5
Net Inc Gth (%)	8.3	(14.6)	(23.1)	7.5	35.8
Dist. Payout Ratio (%)	100.0	100.0	85.0	100.0	100.0
Net Prop Inc Margins (%)	90.4	90.3	90.6	89.6	89.9
Net Income Margins (%)	53.1	44.6	42.8	44.8	52.9
Dist to revenue (%)	66.3	64.0	57.8	57.3	63.8
Managers & Trustee's fees	11.6	12.2	14.8	14.4	13.0
ROAE (%)	3.7	3.1	2.4	2.5	3.4
ROA (%)	2.4	1.9	1.5	1.6	2.1
ROCE (%)	3.5	3.4	2.6	2.7	3.2
Int. Cover (x)	3.4	3.1	2.5	2.5	2.9

Source: Company, DBS Bank

Rebound in operating metrics largely organic in nature

Quarterly 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	(1.9)	(2.4)	0.23	(0.4)	(1.9)
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	2018A	2019A	2020F	2021F	2022F
Investment Properties	2,634	2,646	2,648	2,651	2,655
Other LT Assets	14.4	8.03	7.78	7.74	7.97
Cash & ST Invts	12.8	5.84	23.2	23.5	20.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	38.5	40.0	30.3	30.2	33.7
Other Current Assets	0.44	0.01	0.01	0.01	0.01
Total Assets	2,700	2,700	2,710	2,713	2,717
ST Debt	153	16.5	16.5	16.5	16.5
Creditor	4.11	3.67	3.23	3.32	3.82
Other Current Liab	11.0	11.1	11.0	11.0	11.0
LT Debt	875	976	978	981	985
Other LT Liabilities	9.13	11.3	11.3	11.3	11.3
Unit holders' funds	1,648	1,681	1,689	1,689	1,689
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,700	2,700	2,710	2,713	2,717
Non-Cash Wkg. Capital	23.9	25.2	16.1	15.9	18.9
Net Cash/(Debt)	(1,015)	(986)	(972)	(974)	(981)
Ratio					
Current Ratio (x)	0.3	1.5	1.7	1.7	1.7
Quick Ratio (x)	0.3	1.5	1.7	1.7	1.7
Aggregate Leverage (%)	40.3	39.0	38.9	39.0	39.1
Z-Score (X)	0.7	0.8	0.8	0.8	0.8

Gearing remains at an optimal level at just below 40%

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	60.5	60.5	39.7	42.7	57.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	(0.1)	0.0	0.0
Associates &JV Inc/(Loss)	2.09	6.33	2.49	0.37	(2.3)
Chg in Wkg.Cap.	0.45	(0.8)	9.18	0.24	(3.0)
Other Operating CF	37.8	35.2	42.7	41.2	41.4
Net Operating CF	101	101	93.9	84.5	94.1
Net Invt in Properties	(222)	(2.8)	(2.8)	(2.9)	(3.3)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(1.2)	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	(2.2)	(0.3)	2.06
Other Investing CF	0.01	(1.2)	0.0	0.0	0.0
Net Investing CF	(223)	(4.0)	(5.0)	(3.2)	(1.2)
Distribution Paid	(74.1)	(37.7)	(45.5)	(54.5)	(69.9)
Chg in Gross Debt	231	(66.5)	2.78	2.85	3.29
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(26.4)	0.0	(28.8)	(29.4)	(29.5)
Net Financing CF	131	(104)	(71.6)	(81.0)	(96.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	8.93	(7.0)	17.4	0.28	(3.2)
Operating CFPS (S cts)	5.25	5.22	4.31	4.25	4.85
Free CFPS (S cts)	(6.3)	5.04	4.63	4.12	4.54

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Feb 20	0.67	0.69	HOLD
2:	14 Feb 20	0.66	0.69	HOLD
3:	21 Apr 20	0.48	0.60	BUY
4:	30 Jul 20	0.49	0.60	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG
Derek TAN

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

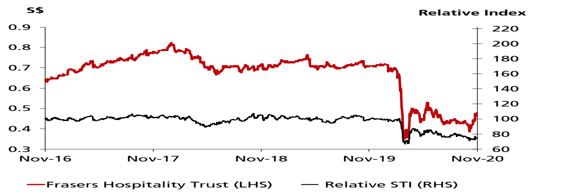
Last Traded Price (25 Nov 2020): S$0.475 (**STI :** 2,869.55)
Price Target 12-mth: S$0.70 (47% upside) (Prev S$0.65)

Analyst
Derek TAN +65 6682 3716 derektan@dbs.com
Geraldine WONG +65 6682 3719 geraldinew@dbs.com

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 (S$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 (S cts)	3.52	1.70	1.77	2.86
EPU Gth (%)	(3)	(52)	4	61
DPU (S cts)	4.41	1.40	2.74	3.88
DPU Gth (%)	(7)	(68)	95	41
NAV per shr (S 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 (S 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 DBSV 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 (Sm/USm)	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)

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 staring 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
	Occupancy rate	60%	72%	75%	80%	Pent-up travel demand starting in 2H21. Near pre-COVID levels by end FY22-early FY23.
Base	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%

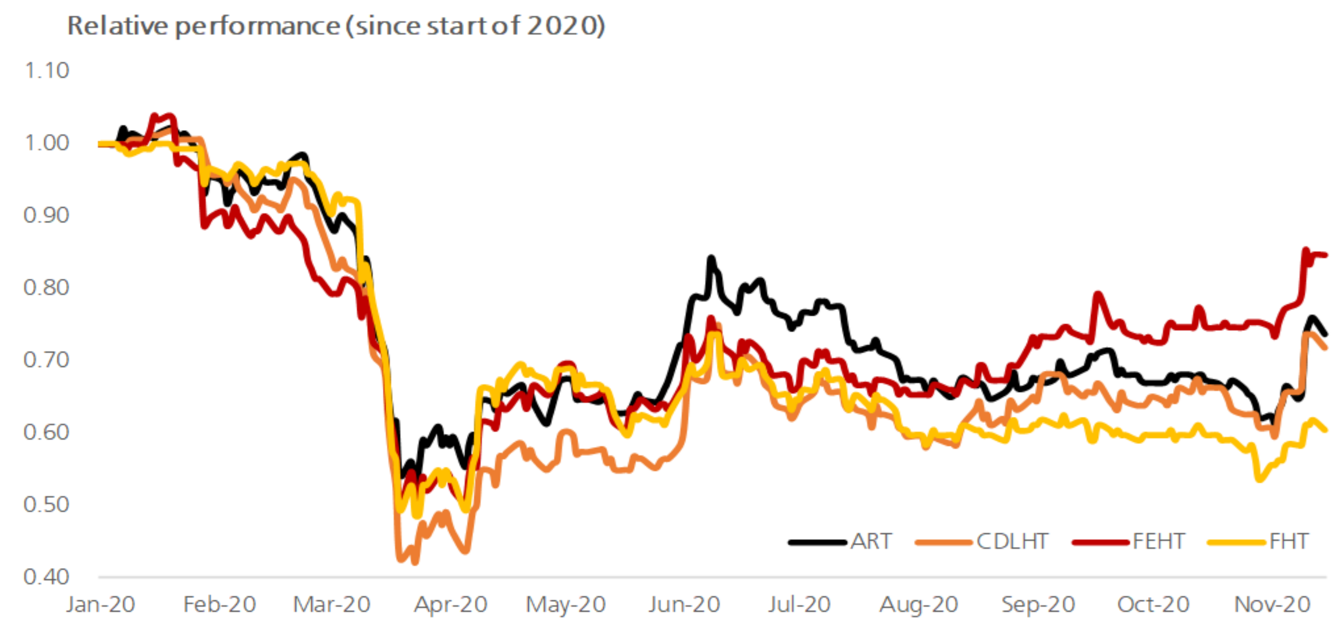
Source: DBS Bank estimates

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%

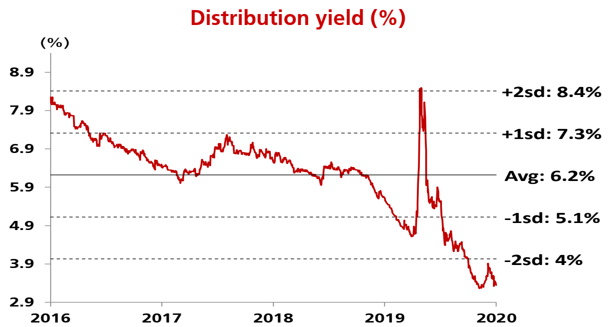
Source: various companies, DBS Bank

Performance vs other hospitality S-REITs

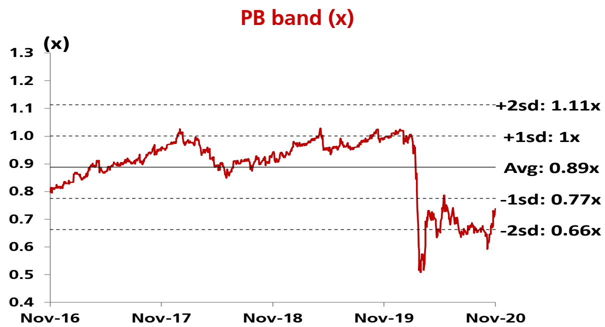


Source: Bloomberg Finance L.P., DBS Bank

Historical Dividend yield and PB band



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



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

Income Statement (S$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 (S$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

Cash Flow Statement (S$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 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	**(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

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

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

Source: DBS Bank

Analyst: Derek TAN
Geraldine WONG

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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)
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**Share price appreciation + dividends*

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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
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
Co. Regn No. 198401015984 (128540-U)

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@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