

Singapore Company Update

ARA US Hospitality Trust

Bloomberg: ARAUS SP | Reuters: ARAU.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY

Last Traded Price (25 Feb 2022): US\$0.500 (STI : 3,294.47)
Price Target 12-mth: US\$0.70 (40% upside) (Prev US\$0.75)

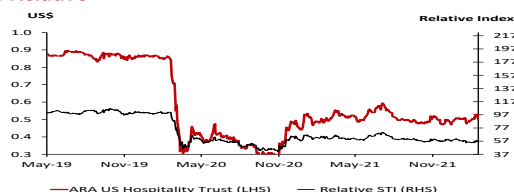
Analyst

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What's New

- FY21 DPU of 0.355 UScts missed our estimates; gearing level falls back to safe zone below 45%
- Non-core hotel assets in portfolio added to divestment radar
- Slower corporate travel priced into estimates; cut FY22F/FY23F estimates by 4%/5%
- Maintain BUY with lower TP of US\$0.70; forward yields of 9.4% on last close price

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Gross Revenue	78.2	131	154	186
Net Property Inc	10.5	38.1	47.5	58.2
Total Return	(94.5)	(13.8)	4.06	13.0
Distribution Inc	0.0	2.02	26.7	35.0
EPU (US cts.)	(16.2)	(2.4)	0.70	2.23
EPU Gth (%)	nm	85	nm	220
DPU (US cts.)	0.0	0.36	4.68	6.09
DPU Gth (%)	(100)	nm	1,216	30
NAV per shr (US cts.)	60.0	68.7	68.7	68.7
PE (X)	nm	nm	71.6	22.4
Distribution Yield (%)	0.0	0.7	9.4	12.2
P/NAV (x)	0.8	0.7	0.7	0.7
Aggregate Leverage (%)	48.2	44.3	45.1	45.3
ROAE (%)	(22.4)	(3.7)	1.0	3.3

Distn. Inc Chng (%):			(4)	(5)
Consensus DPU (US			4.90	6.40
Other Broker Recs:	B: 1	S: 0	H: 0	

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

Better geared to maximise portfolio winners

Investment Thesis

Maintain BUY with lower TP of US\$0.70, implying 40% upside and an attractive FY22F yield of 9.4%. We cut our estimates slightly as the spike in Omicron cases has resulted in a more cautionary pace in the recovery trajectory for higher yielding corporate demand. With the worst over, conditions are beginning to look ripe for a pick up – high vaccination rates, lifting of restrictions and increased global and domestic travel confidence, kicking off a positive momentum.

A turn-around in gearing as valuations play catch up. With travel demand turning up, we believe that an improvement in cashflows in FY22 will continue to support a re-rating in portfolio valuations, which are currently c.8% below FY19 levels. This should suffice in bringing gearing down to the low c.40% level from the current 44.3% in the medium term.

Portfolio rejuvenation has also been earmarked as a catalyst going forward, with non-core assets added to the divestment radar. This will comprise of ARAHT's assets within structurally weaker markets, such as the Mid-West markets that are faced with population decline. Capital could be recycled to pare down debt or go towards higher yielding acquisitions, specifically Marriott or Hilton branded assets.

Valuation:

Our DCF-derived TP of US\$0.70 is based on a WACC of 7.52% and a terminal growth rate of 2.25%.

Where we differ:

We are slightly more conservative on the recovery of corporate travel demand.

Key Risks to Our View:

Delay in return of corporate travel and resurgence of the COVID-19 pandemic from the new Omicron virus strain.

At A Glance

Issued Capital (m shrs)	567
Mkt. Cap (US\$m/US\$m)	284 / 284
Major Shareholders (%)	
Fairshore Asset Mgt Co	9.5
Yu Duan	8.5
Yang Shi Ying	8.0
Free Float (%)	59.5
3m Avg. Daily Val (US\$m)	0.09
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Anticipating the return of corporate travel

Turnaround in net property income (NPI) for FY21. ARA US Hospitality Trust (ARAHT) reported FY21 revenue of US\$130.7m, 67.2% y-o-y higher than US\$78.2m in FY20. NPI turned positive to US\$24.8m from a loss of US\$5.0m a year ago. Distributable income rose to S\$2.0m (FY20: NIL) and full year DPU 0.36 UScts was declared.

Encouraging portfolio performance amid pandemic. We continue to see recovery across the portfolio indicators. Occupancy grew 16.1pp to 57.1% in FY21 from 41.0% in FY20; ADR rose 9.0% y-o-y to US\$112 in FY21 from S\$102 in FY20; and RevPAR improved 51.8% y-o-y to US\$64 in FY21 from US\$42 in FY20.

Lower gearing from increase in portfolio valuation. Portfolio valuation rose by 5.2% y-o-y to US\$722.6m as end FY21, which is also higher than the valuation of US\$704.7m as at end FY19. The NAV uplift was 13% y-o-y to US\$0.70 and gearing improved to 44.3% as at end FY21 from 48.2% as at end FY20. We expect to see a further uplift in portfolio valuation this year as the path to recovery continues and cashflows improve.

Adding more winners. ARAHT will be looking to potentially divest low hanging fruits within the portfolio. Older assets, and assets that are located within structurally weaker hospitality markets within the Mid-West regions have been added to the divestment radar. These assets have generally been weaker in terms of recovery compared to ARAHT's hotels located along the southern parts of US, that are generally more frequented by both leisure and corporate travellers. Divestment proceeds could potentially go towards a further reduction of debt in a hawkish interest rate environment, or recycled towards acquisitions. Given that ARAHT's IPO portfolio comprise fully of Hyatt branded hotels, brand diversification has long been a key priority in portfolio rejuvenation, with specific interest in Marriott and Hilton branded hotels. ARAHT's maiden acquisition of three Marriott branded hotels has exceeded expectations in terms of recovery and sets the stage for future acquisition targets.

Delay in the return of business travel and group events.

The spike in cases due to the Omicron wave has resulted in a push back of the recovery trajectory for corporate travel. Leisure travel was the first segment to rebound and has been the main driver of demand on the back of pent-up demand and improved sentiments. Nonetheless, we still anticipate a resumption of corporate travel as restrictions lift and employees return to office, albeit slightly slower than expected.

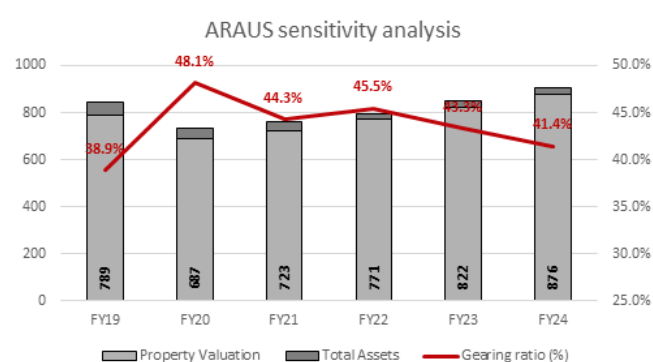
Cut FY22F/FY23F distributable income by 4%/5%. We revise our estimates downwards slightly to account for the less favourable profitability mix as leisure travellers are more price-sensitive than corporate travellers.

New estimates	FY22F	FY23F
NPI (US\$m)	47.5	58.2
Distributable income (US\$m)	26.7	35.0
DPU (US cts)	4.68	6.09

Prev estimates	FY22F	FY23F
NPI (US\$m)	51.5	63.1
Distributable income (US\$m)	27.7	36.8
DPU (US cts)	4.86	6.39

Source: DBS Bank Estimates

ARAUS sensitivity analysis



Source: DBS Bank Estimates

We maintain our BUY recommendation with a lower DCF-based TP of US\$0.70.

ARA US Hospitality Trust

Company Background

ARA US Hospitality Trust (AUHT) is a Singapore-listed stapled security that comprises ARA US Hospitality Property Trust (ARA H-REIT) and ARA US Hospitality Management Trust (ARA H-BT). The trust is the first pure-play US upscale select-service hospitality trust to be listed in Singapore and Asia.

Interim Income Statement (US\$m)

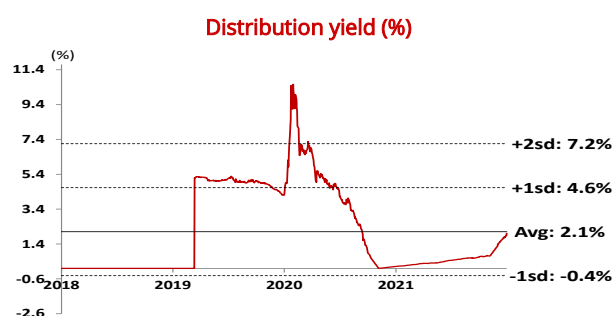
FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Gross revenue	38.8	52.9	77.8	100.5	47.3
Property expenses	(41.8)	(43.7)	(62.1)	48.3	42.0
Net Property Income	(3.0)	9.12	15.8	nm	72.7
Other Operating expenses	(5.2)	(13.2)	(11.9)	131.1	(10.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(6.0)	(6.1)	(6.1)	(1.7)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	(14.2)	(10.2)	(2.2)	84.2	78.1
Tax	8.84	0.69	3.66	(58.6)	434.2
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	(5.3)	(9.5)	1.43	nm	(115.0)

Ratio (%)

Net Prop Inc Margin	(7.8)	17.3	20.3
Dist. Payout Ratio	na	na	100.0

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



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



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

ARA US Hospitality Trust

Income Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	115	78.2	131	154	186
Property expenses	(74.0)	(67.7)	(92.6)	(106)	(127)
Net Property Income	41.0	10.5	38.1	47.5	58.2
Other Operating expenses	(17.7)	(19.6)	(25.1)	(31.1)	(31.2)
Other Non Opg (Exp)/Inc	0.0	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	(6.0)	(11.7)	(12.2)	(12.1)	(13.1)
Exceptional Gain/(Loss)	0.0	(67.0)	(5.7)	0.0	0.0
Net Income	8.91	(103)	(18.2)	4.34	13.9
Tax	1.80	8.83	4.34	(0.3)	(0.9)
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	10.7	(94.5)	(13.8)	4.06	13.0
Total Return	10.7	(94.5)	(13.8)	4.06	13.0
Non-tax deductible Items	13.2	94.5	15.8	22.7	22.0
Net Inc available for Dist.	23.9	0.0	2.02	26.7	35.0
Growth & Ratio					
Revenue Gth (%)	(35.8)	(32.0)	67.2	17.6	20.7
N Property Inc Gth (%)	(23.0)	(74.5)	264.3	24.7	22.5
Net Inc Gth (%)	(32.6)	nm	85.4	nm	220.0
Dist. Payout Ratio (%)	100.0	0.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	35.6	13.4	29.1	30.9	31.4
Net Income Margins (%)	9.3	(120.9)	(10.6)	2.6	7.0
Dist to revenue (%)	20.8	0.0	1.5	17.4	18.9
Managers & Trustee's fees	15.4	25.1	19.2	20.2	16.8
ROAE (%)	2.2	(22.4)	(3.7)	1.0	3.3
ROA (%)	1.4	(12.6)	(1.8)	0.5	1.7
ROCE (%)	2.1	(3.6)	0.0	2.1	3.5
Int. Cover (x)	2.5	(2.1)	0.0	1.4	2.1

Lowered FY22F and
FY23F NPI by 8%

Source: Company, DBS Bank

ARA US Hospitality Trust

Interim Income Statement (US\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Gross revenue	86.2	39.4	38.8	52.9	77.8
Property expenses	(63.5)	(41.4)	(41.8)	(43.7)	(62.1)
Net Property Income	22.7	(2.0)	(3.0)	9.12	15.8
Other Operating	(13.4)	(14.5)	(5.2)	(13.2)	(11.9)
Other Non Opg (Exp)/Inc	0.0	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	(4.6)	(5.7)	(6.0)	(6.1)	(6.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	4.70	(22.2)	(14.2)	(10.2)	(2.2)
Tax	1.80	0.0	8.84	0.69	3.66
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	6.50	0.0	(5.3)	(9.5)	1.43
Total Return	6.50	(22.2)	(72.3)	(9.5)	1.43
Non-tax deductible Items	9.73	22.2	5.3	9.5	1.43
Net Inc available for Dist.	16.2	0.0	0.0	0.0	0.0
Growth & Ratio					
Revenue Gth (%)	N/A	(54)	(1)	36	47
N Property Inc Gth (%)	nm	nm	(50)	nm	73
Net Inc Gth (%)	nm	(441)	(76)	78	(115)
Net Prop Inc Margin (%)	26.3	(5.1)	(7.8)	17.3	20.3
Dist. Payout Ratio (%)	100.0	N/A	N/A	N/A	100.0

Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	0.0	0.0	0.0	0.0	0.0
Other LT Assets	706	707	739	744	750
Cash & ST Invt	45.2	26.8	19.2	12.8	14.8
Inventory	0.43	0.33	0.41	0.41	0.41
Debtors	6.45	2.75	4.75	3.02	3.02
Other Current Assets	0.0	0.0	0.41	0.41	0.41
Total Assets	759	736	764	761	768
ST Debt	0.0	0.30	10.3	10.3	10.3
Creditor	11.6	16.0	17.7	9.60	11.6
Other Current Liab	0.08	0.09	0.17	0.17	0.17
LT Debt	244	354	328	332	338
Other LT Liabilities	9.98	16.4	8.36	8.36	8.36
Unit holders' funds	493	349	400	400	400
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	759	736	764	761	768
Non-Cash Wkg. Capital	(4.8)	(13.0)	(12.3)	(5.9)	(7.9)
Net Cash/(Debt)	(199)	(328)	(319)	(330)	(334)
Ratio					
Current Ratio (x)	4.5	1.8	0.9	0.8	0.8
Quick Ratio (x)	4.4	1.8	0.9	0.8	0.8
Aggregate Leverage (%)	32.1	48.2	44.3	45.1	45.3

Source: Company, DBS Bank

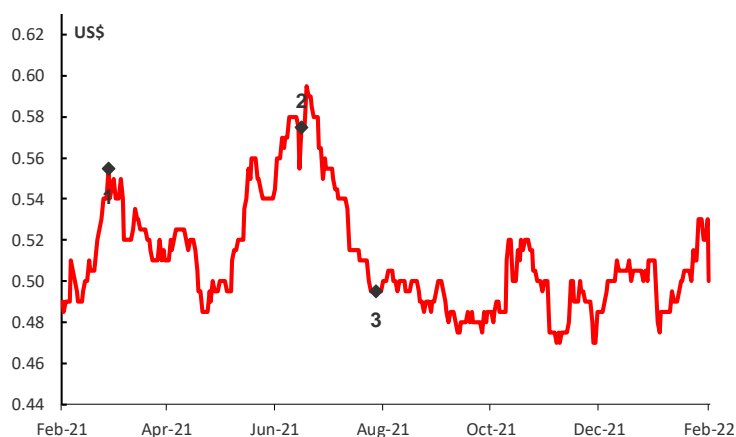
ARA US Hospitality Trust

Cash Flow Statement (US\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	8.91	(103)	(18.2)	4.34	13.9
Dep. & Amort.	13.7	25.6	24.1	24.1	24.1
Tax Paid	1.80	0.0	0.80	(0.3)	(0.9)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1.3)	8.55	(1.3)	(6.3)	1.99
Other Operating CF	(0.5)	67.2	6.22	(1.5)	(2.1)
Net Operating CF	22.6	(2.0)	11.7	20.4	37.0
Net Invnt in Properties	(14.2)	(85.3)	0.0	(4.6)	(5.6)
Other Invnts (net)	(0.6)	0.0	0.0	0.0	0.0
Invnts 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	(9.1)	(9.3)	0.0	0.0
Net Investing CF	(14.8)	(94.4)	(9.3)	(4.6)	(5.6)
Distribution Paid	(23.9)	(23.9)	0.0	(26.7)	(35.0)
Chg in Gross Debt	0.0	103	(10.0)	4.61	5.57
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(6.0)	(12.2)	(12.2)	(12.1)	(13.1)
Net Financing CF	(29.9)	66.8	(22.2)	(34.2)	(42.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(22.0)	(29.6)	(19.8)	(18.4)	(11.1)
Operating CFPS (US cts.)	4.10	(1.8)	2.23	4.59	6.02
Free CFPS (US cts.)	1.44	(15.0)	2.01	2.71	5.40

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:	22 Mar 21	0.56	0.69	BUY
2:	09 Jul 21	0.58	0.79	BUY
3:	20 Aug 21	0.50	0.75	BUY

Source: DBS Bank

Analyst: Geraldine WONG

Singapore Research Team

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

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

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

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

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

*Share price appreciation + dividends

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