

### COMPANY RESULTS

#### Ascott Residence Trust (ART SP)

2H21: Benefitting From Pent-up Demand For Travel

**Portfolio RevPAU rebounded 24% qoq to S\$87 in 4Q21, powered by countries with huge domestic markets, such as the US, the UK and Australia. France and Japan also registered healthy growth in 2H21. ART plans to raise the asset allocation target in longer-stay assets, such as student accommodation and rental housing, by 10ppt to 25-30% of portfolio value in the medium term. ART's distribution yield is expected to improve from 5.3% for 2022 to 5.9% for 2023. Maintain BUY. Target price: S\$1.29.**

#### 2H21 RESULTS

Year to 31 Dec (S\$m)	2H21	Yoy % chg	Remarks
Revenue	209.4	+30	Growth from existing properties and newly acquired student
Gross Profit	91.2	+49	accommodation and rental housing properties.
Distributable Income	73.5	+19	Included distribution of divestment gain of S\$25m.
DPU (S cents)	2.27	+14	
RevPAU (S\$/day)	79	+61	Sixth consecutive quarter of sequential recovery.

Source: ART, UOB Kay Hian

#### RESULTS

- Ascott Residence Trust (ART) reported 2H21 DPU of 2.27 S cents (+14% yoy)**, which is in line with our expectations. 2H21 and 2H20 results included distribution of divestment gains of S\$25m and S\$40m respectively. Excluding distribution from divestment gains, 2H21 DPU would have increased 119% yoy.
- Combination of organic recovery and acquisitions of longer-stay properties.** Revenue and gross profit increased 30% and 49% yoy respectively in 2H21 due to higher revenue from its existing portfolio and contributions from newly acquired student accommodation properties in the US and rental housing properties in Japan.
- The sixth consecutive quarter of sequential recovery.** RevPAU maintained an upward trajectory and increased 78% yoy and 24% qoq to S\$87 in 4Q21, powered by higher occupancy (which improved from 50% to 60% on a portfolio basis) and higher average daily rate. The easing of travel restrictions led to a recovery in corporate and leisure travel. Countries with large domestic markets, such as the US, the UK and Australia, registered the strongest recovery. Its long-stay properties, such as student accommodation and rental housing, continued to provide income stability.
- The US: Recovery driven by leisure demand and corporate groups.** RevPAU recovered 186% yoy and 68% qoq to US\$146 in 4Q21. Element New York Times Square and Sheraton Tribeca New York benefitted from a pick-up in domestic and international travel. ART completed the acquisitions of five student accommodation properties in 2H21. Occupancy for its student accommodation properties was close to 100%.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	509	630	672
EBITDA	128	146	235	306	323
Operating profit	94	114	201	272	289
Net profit (rep./act.)	(238)	296	93	146	158
Net profit (adj.)	67	(1)	93	146	158
EPU (S\$ cent)	2.2	(0.0)	2.8	4.4	4.7
DPU (S\$ cent)	3.0	4.3	5.4	6.0	6.3
PE (x)	47.0	n.m.	36.0	23.2	21.5
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	3.0	4.2	5.3	5.9	6.2
Net margin (%)	(64.4)	75.0	18.3	23.2	23.6
Net debt/(cash) to equity (%)	49.8	55.6	65.8	67.9	70.2
Interest cover (x)	2.2	2.8	3.7	4.5	4.6
ROE (%)	n.a.	7.2	2.2	3.5	3.8
Consensus DPU (S\$ cent)	n.a.	n.a.	5.3	6.2	7.3
UOBKH/Consensus (x)	-	-	1.02	0.97	0.87

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.02
Target Price	S\$1.29
Upside	+26.5%

#### COMPANY DESCRIPTION

ART invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ART SP
Shares issued (m):	3,276.5
Market cap (S\$m):	3,342.1
Market cap (US\$m):	2,476.9
3-mth avg daily t'over (US\$m):	4.1

#### Price Performance (%)

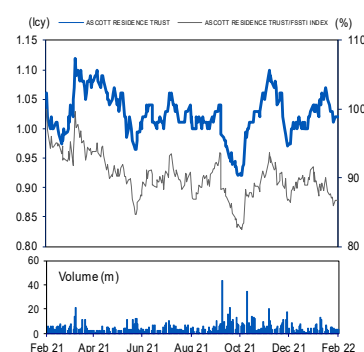
52-week high/low S\$1.12/S\$0.92

1mth	3mth	6mth	1yr	YTD
(1.0)	(3.8)	(1.0)	(1.9)	(1.0)

#### Major Shareholders

	%
CLA Real Estate Hldgs	38.9
FY22 NAV/Share (S\$)	1.15
FY22 Net Debt/Share (S\$)	0.84

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- The UK: Bright prospects for sustained recovery.** RevPAU increased 232% yoy and 45% qoq to £93 in 4Q21. Three serviced residences registered higher revenue and gross profit as travel demand rebounded. Travel restrictions were tightened in Dec 21 but were lifted again in Jan 22. The British government no longer requires COVID-19 tests and quarantine for vaccinated and unvaccinated travellers starting Feb 22. Management sees an encouraging outlook as Omicron cases have declined and bookings from corporate customers and project groups have picked up.
- Australia: Benefitted from reopening of inter-state borders.** RevPAU increased 45% yoy and 24% qoq to A\$71 in 4Q21. Movement restrictions were eased and inter-state borders were reopened in Oct 21. The recovery was driven by hotels but gross margin was affected by lower wage subsidies. ART benefitted from block bookings for three hotels, of which one is expected to continue through 1Q22.
- Resilient balance sheet.** Aggregate leverage was healthy at 37.1% as of Dec 21. Cost of debt was maintained at a low level of 1.6%. ART has cash on hand of S\$340m and committed credit facilities of S\$225m. It is well positioned to refinance bank loans and medium-term notes of S\$765m due in 2022.
- Appreciation in capital values.** ART recognised revaluation gains of S\$147.3m for properties located in Australia, France, Japan, the UK and the US. NAV per unit increased 3.5% yoy to S\$1.19.

### STOCK IMPACT

- New cases of Omicron variant have plateaued in Europe.** Several European countries have eased restrictions as the Omicron variant causes milder symptoms. Belgium, France and the UK have reported fewer patients with COVID-19 admitted to intensive care units compared with previous COVID-19 waves. In the UK, the British government no longer recommends people to work from home and masks are no longer required at shops and classrooms. Denmark has lifted most mandatory restrictions on 1 Feb 22. Austria has ended its lockdown for unvaccinated residents, who are now allowed to leave their homes. In the US, the number of patients with COVID-19 hospitalised is also on a decline.
- Value creation through asset recycling.** ART divested six properties at an average exit yield of 2% and total proceeds of S\$580m. The capital freed up was reinvested in 11 yield-accretive rental housing and student accommodation properties for total consideration of S\$780m and an average EBITDA yield of 5%. ART's longer-stay assets currently accounted for 16% of AUM.
- Setting sights on a higher goal.** Management plans to raise the asset allocation target in longer-stay assets by 10ppt from 15-20% to 25-30% in the medium term.
- Contributions from development projects and asset enhancements.** ART's maiden development project, the 324-unit co-living property lyf one-north, had a soft opening in Nov 21 and has achieved an occupancy rate of 96%. The 224-room voco Times Square South underwent a US\$10m refurbishment and rebranding and was relaunched in Nov 21. Bookings have been encouraging.

### EARNINGS REVISION/RISK

- Our DPU forecasts for 2022, 2023 and 2024 are largely unchanged as optimism over a smooth recovery is negated by a potential rise in cost of debt.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.29 is based on DDM (cost of equity: 6.5%, terminal growth: 1.8%). ART trades at P/NAV of 0.86x, a 14% discount to NAV.

### SHARE PRICE CATALYST

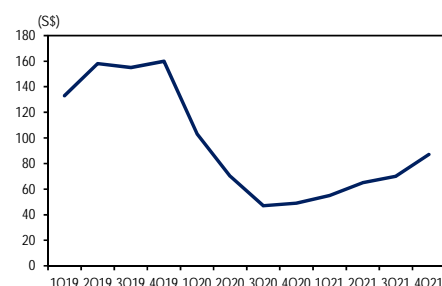
- Yield-accretive acquisitions for student accommodation and rental housing.
- Maiden development project lyf one-north, which had a soft opening in Nov 21.
- Recovery of the hospitality industry in Europe, Americas, Japan and Singapore, followed by other countries in the Asia Pacific region.

### KEY OPERATING METRICS – ART

	1Q21	2Q21	3Q21	4Q21	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.045	n.a.	2.270	14.1%	11.0%
Aggregate Leverage	36.1%	35.9%	35.3%	37.1%	0.8ppt	1.2ppt
Weighted All-in-Financing Cost	1.7%	1.6%	1.6%	1.6%	-0.2ppt	0ppt
% Borrowings in Fixed Rate	78%	80%	79%	74%	-5ppt	-6ppt
Weighted Debt Maturity (years)	3.0	3.2	2.9	2.7	-0.2yrs	-0.5yrs

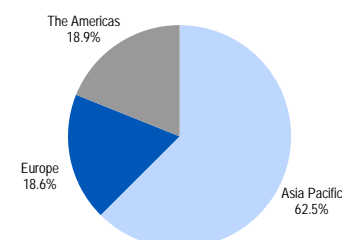
Source: ART, UOB Kay Hian

### PORTFOLIO REVPAU



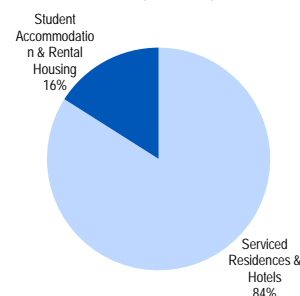
Source: ART

### TOTAL ASSETS BY GEOGRAPHICAL REGION (DEC 21)



Source: ART

### AUM BY ASSET CLASS (DEC 21)



Source: ART

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	394.4	509.1	630.3	671.6
EBITDA	146.3	234.9	306.1	322.8
Deprec. & amort.	32.6	34.0	34.0	34.0
EBIT	113.7	200.9	272.1	288.8
Total other non-operating income	17.3	0.4	0.4	0.4
Associate contributions	(0.2)	0.0	0.0	0.0
Net interest income/(expense)	(52.9)	(63.5)	(68.7)	(69.9)
<b>Pre-tax profit</b>	<b>374.9</b>	<b>137.7</b>	<b>203.8</b>	<b>219.3</b>
Tax	(64.5)	(27.5)	(40.8)	(43.9)
Minorities	(1.1)	(3.6)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.5)	(13.5)	(13.5)
<b>Net profit</b>	<b>295.8</b>	<b>93.1</b>	<b>145.9</b>	<b>158.3</b>
Net profit (adj.)	(1.3)	93.1	145.9	158.3

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>145.6</b>	<b>(78.5)</b>	<b>254.3</b>	<b>252.4</b>
Pre-tax profit	374.9	137.7	203.8	219.3
Tax	(4.4)	(27.5)	(40.8)	(43.9)
Deprec. & amort.	32.6	34.0	34.0	34.0
Associates	0.2	0.0	0.0	0.0
Working capital changes	(45.6)	34.8	19.8	4.3
Non-cash items	(283.5)	22.4	24.9	25.5
Other operating cashflows	71.3	(279.9)	12.6	13.2
<b>Investing</b>	<b>(538.6)</b>	<b>(53.0)</b>	<b>(36.5)</b>	<b>(20.0)</b>
Capex (growth)	(733.1)	(33.0)	(16.5)	0.0
Capex (maintenance)	(37.7)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	253.4	0.0	0.0	0.0
Others	(21.1)	0.0	0.0	0.0
<b>Financing</b>	<b>258.6</b>	<b>136.4</b>	<b>(224.5)</b>	<b>(208.6)</b>
Distribution to unitholders	(142.5)	(178.1)	(198.4)	(211.4)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	385.3	50.0	80.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(70.8)	(76.0)	(77.2)
<b>Net cash inflow (outflow)</b>	<b>(134.3)</b>	<b>4.8</b>	<b>(6.6)</b>	<b>23.8</b>
Beginning cash & cash equivalent	486.7	346.3	351.2	344.6
Changes due to forex impact	(6.1)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>346.3</b>	<b>351.2</b>	<b>344.6</b>	<b>368.3</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,549.7	7,566.2	7,566.2
Other LT assets	44.3	44.3	44.3	44.3
Cash/ST investment	346.3	351.2	344.6	368.3
Other current assets	117.1	148.4	173.8	179.2
<b>Total assets</b>	<b>7,733.2</b>	<b>8,093.5</b>	<b>8,128.8</b>	<b>8,158.0</b>
ST debt	764.2	764.2	764.2	764.2
Other current liabilities	207.7	269.5	311.9	321.0
LT debt	1,964.7	2,350.0	2,400.0	2,480.0
Other LT liabilities	428.9	423.5	415.3	404.9
Shareholders' equity	4,287.2	4,202.2	4,149.7	4,096.6
Minority interest	80.6	84.2	87.8	91.4
<b>Total liabilities &amp; equity</b>	<b>7,733.2</b>	<b>8,093.5</b>	<b>8,128.8</b>	<b>8,158.0</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	37.1	46.1	48.6	48.1
Pre-tax margin	95.1	27.1	32.3	32.7
Net margin	75.0	18.3	23.2	23.6
ROA	4.0	1.2	1.8	1.9
ROE	7.2	2.2	3.5	3.8
<b>Growth</b>				
Turnover	6.6	29.1	23.8	6.5
EBITDA	13.9	60.5	30.3	5.4
Pre-tax profit	n.a.	(63.3)	47.9	7.6
Net profit	n.a.	(68.5)	56.8	8.5
Net profit (adj.)	(102.0)	n.a.	56.8	8.5
EPU	(102.0)	n.a.	55.6	7.7
<b>Leverage</b>				
Debt to total capital	38.5	42.1	42.7	43.7
Debt to equity	63.7	74.1	76.3	79.2
Net debt/(cash) to equity	55.6	65.8	67.9	70.2
Interest cover (x)	2.8	3.7	4.5	4.6

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