Ascott Residence Trust

Recovery and rebalancing

SINGAPORE | REAL ESTATE (HOSPITALITY) | FY21 UPDATE

10 February 2022

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.050
FORECAST DIV	SGD 0.043
TARGET PRICE	SGD 1.230
TOTAL RETURN	21.3%

COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN) :	3,277
MARKET CAP (USD mn / SGD mn) :	2563 / 3440
52 - WK HI/LO (SGD) :	1.14 / 0.92
3M Average Daily T/O (mn) :	4.95

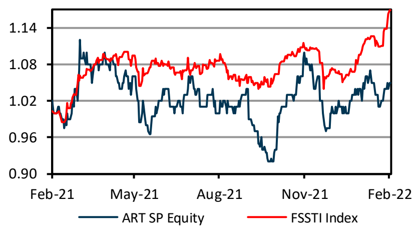
MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	40.6

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.0	(3.0)	2.6
STI RETURN	6.8	6.0	9.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (S$mn)	370	394	526	618
Gross Profit (S$mn)	150	173	236	291
Dist. Inc. (S$mn)	110	151	187	215
P/NAV (x)	0.91	0.88	0.90	0.91
DPU (cents)	3.03	4.32	5.22	6.03
Distribution Yield	2.9%	4.1%	5.0%	5.7%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 8.14%; Terminal g: 1.75%)

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- FY21 DPU of 4.32 Scts (+17%) was in line, forming 99% of our forecast, supported by new acquisitions and recovery of existing portfolio.
- AUM in extended-stay segment increased from 5% to 16% following S$785mn in acquisitions in FY21. Medium-term target raised to 25-30% of AUM.
- Maintain ACCUMULATE, DDM-TP raised from S$1.19to S$1.22. FY22e-25e DPUs have been lowered by 4.9-11.5% as we push back recovery from FY23 to FY24. Despite a slight increase in cost of equity from 8.10% to 8.14%, our DDM-based TP rises from S$1.19 to S$1.23 as we roll forward our forecast. ART remains our top pick in the sector owing to its mix of stable and growth revenue and geographical diversification. Current share price implies FY22e/23e DPU yield of 5.0%/5.7%.

Results at a glance

(SGD mn)	2H21	2H20	YoY	FY21	FY20	YoY	Comments
Gross revenue	**209.4**	**161.4**	**29.7%**	**394.4**	**369.9**	**6.6%**	Higher revenue from its existing portfolio and contributions from the acquisition of 7 student accommodation assets in the USA and 3 rental housing properties in Japan in FY21, partially offset by loss of revenue from divestment of 6 assets over FY20-21
Gross Profit	91.2	61.0	49.4%	173.3	149.6	15.8%	Higher gross profit margins on the back of higher revenue and cost savings
Distributable income	73.5	61.7	19.1%	**137.3**	**94.2**	**45.7%**	FY20 and FY21 DI include S$45mn in divestment gains distributed to replace income lost from divested assets and to mitigate impact of COVID-19 on distributions
DPS (cents)	**2.27**	**1.99**	**14.1%**	4.32	3.03	42.6%	

Source: Company, PSR

The Positives

\+ **Sixth quarter of RevPAU recovery; FY21 gross profit up 15.8% YoY** (Figure 1 and 2). 4Q21 RevPAU grew 24%/74% QoQ/YoY) on the back of higher occupancy and ADRs. Average portfolio occupancy improved QoQ from c.55% to c.60%. Demand from both corporate and leisure segments returned as travel restrictions were eased and economic activities picked up. Amongst ART's key markets, US (-275.7%), UK (92.3%) and Australia (+54.2%) registered the strongest YoY gross profit growth. US reversed its S$7mn gross loss in FY20 and recorded FY21 gross profit of S$12mn, of which c.S$7mn or 57% was attributed to the acquisition of five student accommodation assets in FY21. The impact of reopening of borders and relaxation of domestic mobility was reflected in the 48% growth in gross profit from a management contract. Revenue and gross profit from master leases and MCMGI were stable, down 2-5% due to closure of two WBF properties in Japan, reclassification of Park Hotel Clarke Quay from master lease to management contract in 2H21, divestment of two properties in France and change in rent structure of French master leases, partially offset by the absence of rent abatement in FY21.

\+ **Portfolio reconstitution into long-stay assets to shore up stable revenues.** ART divested S$580mn in assets at exit yields of c.2% in FY20/21. In FY21, it invested S$785mn into the long-stay segment at higher EBITDA yields of c.5%. Long-stay assets acquisitions announced in FY21 included eight US student accommodation assets and three Japan rental housing assets. Apart from replacing divested income, these long-stay assets provide income visibility, providing a stable base of earning for ART.

The Negative

\- **Fragile recovery.** Throughout the year, operations affected by the tightening and easing of restrictions. Restrictions were imposed and travel bubbles were delayed in various countries due to the emergence of the Delta and Omicron variants, resulting in softer demand in certain months. Demand for travel was evident from the uptick in bookings during periods when restrictions were eased. While more governments are adopting an endemic stance, knee-jerk effects from new, severe variants could still trigger the imposition of restrictions.

Outlook

Two assets turned operational in Nov 21 - Lyf One-North Singapore (LONS) and vovo Times Square. ART received strong demand for LONS, achieving 96% occupancy for the 140 of 324 units launched in the first phase of opening. LONS secured 1–6-month bookings from companies and educational institutions in the vicinity. LONS received its TOP in Jan 22 and the remaining units are expected to be operational by end-February. Given that the development of LONS began in 2018/19, construction costs were not significantly impacted by higher costs during the pandemic. As such, the yield on cost for this asset was in line with initial projection of c.6%. The launch of voco Times Square in Nov 21 was timely, given the pick-up in domestic and international travel in the US, which resulted in a 68% QoQ RevPAU growth in 4Q21.

A base of stable earnings is highly valued in a hospitality counter, in our view. ART raised its medium-term target allocation in long-stay assets from 15-20% of AUM to 25-30%. Long-stay assets, such a student accommodation and rental housing properties, cater primarily to the domestic demand and have maintained occupancy above 95% throughout FY20-21. The average length of stay ranges 1-2 years with bookings secured several months ahead, providing income visibility and stability to mitigate the more volatile corporate and leisure travel-related earnings.

Maintain ACCUMULATE, DDM-based TP raised from S$1.19 to S$1.23

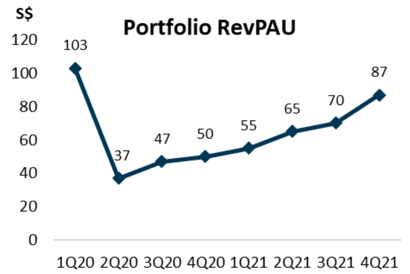
FY22e-25e DPUs have been lowered by 4.9-11.5% as we push back recovery from FY23 to FY24. Despite a slight increase in cost of equity from 8.10% to 8.14%, our DDM-based TP rises from S$1.19 to S$1.23 as we roll forward our forecast. ART remains our top pick in the sector owing to its mix of stable and growth revenue and geographical diversification. Current share price implies FY22e/23e DPU yield of 5.0%/5.7%.

Figure 1: Portfolio RevPAU recovery

	S$	QoQ	YoY	Portfolio Occupancy
1Q20	103	-36%	-23%	Above breakeven
2Q20	37	-64%	n.a.	c.30%
3Q20	47	27%	-70%	c.40%
4Q20	50	6%	-69%	c.45%
1Q21	55	10%	-47%	c.50%
2Q21	65	18%	76%	c.55%
3Q21	70	8%	49%	c.55%
4Q21	87	24%	74%	c.60%

Source: Company, PSR

Figure 2: Six quarters of RevPAU recovery



Source: ART, PSR

Figure 3: Summary of performance by geography

	Gross Profit	FY19	FY20	FY21	Δ S$ mn	YoY	Vs 2019	
*	**Australia**	17.8	14.2	21.9	7.7	54.2%	123%	Better performance from hotels upon progressive easing of restrictions and block bookings by the government at some properties, partially offset by rent waivers provided to master lessee and higher OPEX at for MC properties due to absence of government wage credits and property tax discounts
	Belgium	5.6	1.3	0.5	-0.8	-61.5%	9%	
	China	20.4	11.4	6.9	-4.5	-39.5%	34%	Lower due to divestments of Ascott Guangzhou in Dec20 and Somerset Xu Hui Shanghai in May21. Revenue and gross profit were higher on a same-store basis as domestic travel picked up in tandem with corporate activity, events and conventions
*	**France**	30.3	21.2	24.8	3.6	17.0%	82%	Higher due to absence of rent abatement which was recorded in FY20, and higher variable rent at the properties, partially offset by the divestment of Citadines City Centre Grenoble and Citadines Didot Montparnasse Paris in 1H21 and change in rent structure for 11 properties. Benefitted from leisure demand during the summer holidays, registering an average occupancy of c.80%
*	**Germany**	14.2	13.4	14.2	0.8	6.0%	100%	Higher due to higher variable rent, partially offset by rental waiver granted on one master lease
	Indonesia	5.5	2.0	2.6	0.6	30.0%	47%	
*	**Japan**	29.9	40.5	38.9	-1.6	-4.0%	130%	Divestment of Somerset Azabu East Tokyo in Dec20; 3 SBF properties remain closed throughout FY21 due to weak demand in Osaka, partially offset by acquisition of 2 rental housing properties in Jun21, 3Q21 RevPAU boosted by the Olympic Games
	Malaysia	0.9	0.2	0	-0.2	-100.0%	0%	Borders were closed for the majority of FY21
	Phillippines	8.9	1.5	3.3	1.8	120.0%	37%	
*	**Singapore**	27.3	25.4	19.2	-6.2	-24.4%	70%	Ascott Orchard continue to pull corporate long stays and relocation bookings, while staycation and vaccinated travel lane (VTL) bookings provided an uplift during the December holidays. Citadines Mount Sophia Singapore (CMSS) and Riverside Hotel Robertson Quay (RHRQ) were contracted by the government for self-isolation in 2H21; CMSS is expected to remain block-booked until Feb22
	South Korea	0	4.6	4.0	-0.6	-13.0%	n.a.	
	Spain	4.2	1.5	1.5	0	0.0%	36%	Higher revenue was offset by higher operational cost
*	**UK**	24.1	6.5	12.5	6	92.3%	52%	Travel demand picked up as the economy and borders reopened. In 3Q21, the UK properties benefitted from domestic and international leisure demand during the summer holidays, while being supported by long stays and student groups
*	**US**	40.9	-7	12.3	19.3	-275.7%	30%	S$7m attributed to acquisitions. Stronger domestic leisure demand, corporate groups and transient travellers
	Vietnam	22.6	12.9	10.7	-2.2	-17.1%	47%	
		252.6	**149.6**	**173.3**	**23.7**	**15.8%**	**69%**	

Source: ART, PSR

* Denotes key market

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	**515**	**370**	**394**	**526**	**618**
Direct expenses	(262)	(220)	(221)	(290)	(327)
Gross Profit	**253**	**150**	**173**	**236**	**291**
Net finance (expense)/inc.	(50)	(58)	(53)	(50)	(52)
Manager's fees	(23)	(25)	(25)	(28)	(31)
Others	(6)	11	(19)	(16)	(18)
Net income	175	59	74	124	174
FV changes	249	(406)	147	-	-
Others	(6)	11	(19)	(16)	(18)
Total return before tax	261	(268)	375	124	174
Taxation	(45)	43	(65)	(21)	(30)
Total return after tax	**216**	**(225)**	**310**	**103**	**145**
Distribution adjustments	(31)	332	(158)	86	73
Distributable income	**185**	**110**	**151**	**187**	**215**

Per share data (cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV	1.25	1.15	1.19	1.17	1.15
DPU	7.61	3.03	4.32	5.22	6.03

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net income	**261**	**(268)**	**375**	**124**	**174**
Adjustments	(163)	417	(179)	106	109
WC changes	(6)	(51)	(46)	69	23
Cash generated from ops	92	97	150	300	307
Others	(23)	(22)	(4)	(4)	(7)
Cashflow from operations	**69**	**75**	**145**	**295**	**300**
CFI					
CAPEX, net	(22)	(20)	(101)	(57)	(57)
Net Investments in SR & PPE	280	198	(621)	(46)	(5)
Others	0	118	184	4	5
Cashflow from investments	**259**	**296**	**(539)**	**(99)**	**(57)**
CFF					
Share issuance, net	-	-	150	-	-
Loans, net of repayments	(198)	52	332	-	-
Dividends	(183)	(156)	(157)	(189)	(217)
Others	(59)	(62)	(67)	(54)	(57)
Cashflow from financing	**(440)**	**(166)**	**259**	**(243)**	**(274)**
Net increase (decrease) in CCE	**48**	**204**	**(134)**	**(68)**	**(43)**
Ending cash	**270**	**484**	**344**	**276**	**233**
Restricted cash deposits	5	3	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

**NPI and and gross profit are used interchangeably*

Balance Sheet

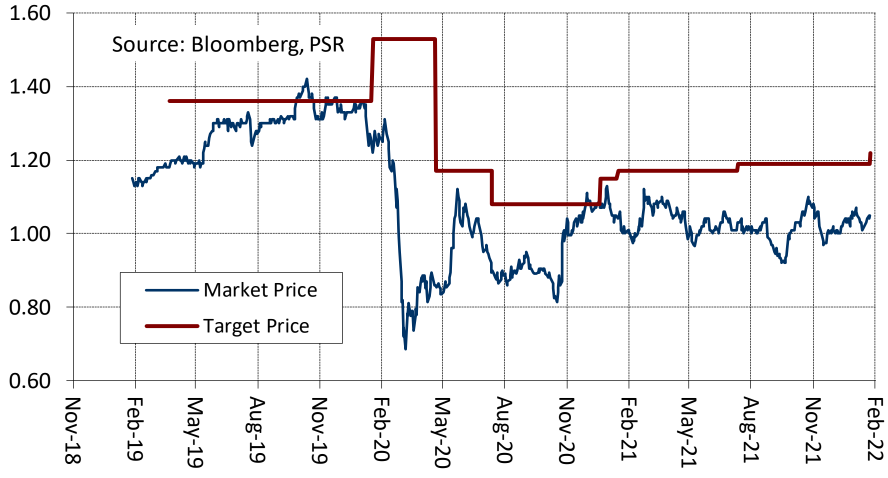
Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
SR properties and PPE	6,800	6,527	7,225	7,298	7,331
Others	28	15	44	66	77
Total non-current assets	**6,828**	**6,542**	**7,270**	**7,364**	**7,409**
Trade Receivables	62	103	104	79	93
Cash	276	487	346	278	235
Others	28	15	44	66	77
Total current assets	**595**	**622**	**463**	**368**	**339**
Total Assets	**7,423**	**7,164**	**7,733**	**7,733**	**7,748**
LIABILITIES					
LT Borrowings	2,012	2,129	1,965	2,188	2,278
Others	503	455	429	438	454
Total non-current liabilities	**2,515**	**2,584**	**2,394**	**2,626**	**2,731**
Trade Payables	173	185	167	210	247
ST Borrowings	337	333	764	541	451
Others	503	455	429	438	454
Total non-current liabilities	**2,515**	**2,584**	**2,394**	**2,626**	**2,731**
Total Liabilities	**3,080**	**3,122**	**3,366**	**3,419**	**3,471**
Net assets	**4,342**	**4,042**	**4,368**	**4,314**	**4,277**
Represented by:					
Unitholders' funds	**3,861**	**3,567**	**3,892**	**3,838**	**3,800**
Perpetual securities holders	396	396	396	396	396
Non-controlling interests	85	79	79	80	80

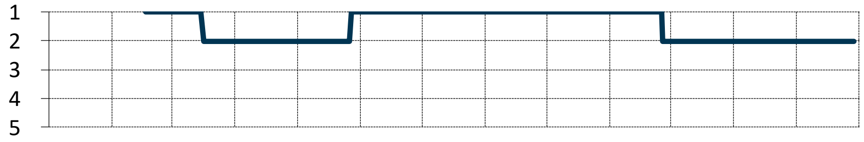
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.84	0.91	0.88	0.90	0.91
Distribution Yield (%)	7.2%	2.9%	4.1%	5.0%	5.7%
NPI** yield (%)	3.8%	2.4%	2.5%	3.4%	4.2%
Growth & Margins (%)					
Growth					
Revenue	0.1%	-28.2%	6.6%	33.4%	17.6%
Gross profit	5.5%	-40.8%	15.8%	36.3%	23.3%
Net income	11.1%	-66.3%	26.7%	66.4%	40.7%
DPU	6.3%	-60.2%	42.6%	20.8%	15.6%
Margins					
Gross profit	49.1%	40.4%	43.9%	44.9%	47.1%
NPAT	42.0%	-60.9%	78.7%	19.5%	23.4%
Key Ratios					
Gearing	34.5%	37.7%	37.8%	37.4%	37.2%
ROA	3.4%	-3.1%	4.2%	1.3%	1.8%
ROE	6.6%	-6.0%	8.3%	2.6%	3.7%

Ratings History





PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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