

SECTOR UPDATE

Hospitality REITs – Singapore

Resumption Of Reopening

Bookings for hotels and serviced residences are expected to pick up as the overcast from the Omicron variant fades. Singapore has reinstated daily VTL (air) quota back to 15,000 and should benefit from a gradual pick-up in MICE events. The UK and EU no longer require testing and quarantine for vaccinated travellers. The easing is timely, coming before the summer holidays. Maintain OVERWEIGHT. BUY ART (Target: S\$1.29), CDREIT (Target: S\$1.45) and FEHT (Target: S\$0.76).

WHAT'S NEW

- COVID-19 makes transition from pandemic to endemic.** Humankind has weathered the COVID-19 pandemic for two years already. During this time, the speed of detecting new variants has accelerated, and effective vaccines and anti-viral drugs, such as Pfizer Paxlovid have been developed. These developments have led Bill Gates, co-chair of the Bill & Melinda Gates Foundation, to predict that COVID-19 would become an endemic in 2022. According to Tedros Adhanom Ghebreyesus, Director General of World Health Organisation, the acute phase of the COVID-19 pandemic will end when the target of vaccinating 70% of the world's population is achieved by mid-22.
- Omicron variant wave starts to fade.** New cases of COVID-19 infections are falling across North America and Western Europe. The Omicron variant wave looks to be already over in Canada and the US. In Europe, the Omicron variant wave has receded in Belgium, France, Italy, Luxembourg, Portugal, Spain and Sweden. In Asia Pacific, there have been improvements in Australia, India and the Philippines.
- Singapore has one of the highest vaccination rates in the world.** Singaporeans overcame vaccine hesitancy and are well adapted to living with COVID-19 as an endemic. As of 19 Feb 22, 92% of the total population had completed their full regimen and received at least two doses of COVID-19 vaccines, of which 66% have received their booster shots.
- Singapore: Resumption of reopening through VTLs.** Singapore will fully restore daily vaccinated travel lanes (VTL) (air) quota back to 15,000 by 4 Mar 22. VTLs with Qatar, Saudi Arabia and the United Arab Emirates, which were previously deferred, will be launched on 25 Feb 22. VTL (land) quota with Malaysia via the Causeway will be reinstated back to 2,160 per day on 22 Feb 22, which is equivalent to 48 bus trips,. Singapore will launch VTL (sea) for Indonesian Islands of Bintan and Batam with weekly quotas of 350 each on 25 Feb 22.
- UK: Implements full-blown reopening.** The British government has eased restrictions on wearing of face masks in shops, public transport and classrooms with effect from 26 Jan 22. The guidance to work-from-home has also been scrapped. The British government no longer requires COVID-19 tests and quarantine for vaccinated travellers starting Feb 22. The easing of restrictions was timely, coming just before the surge in bookings for the mid-term break in February and Easter holidays.
- EU: Unrestricted travel within continental Europe.** The European Union (EU) has lifted travel restrictions and no longer requires testing and quarantine for vaccinated travellers within the bloc. Doing away with testing will reduce the hassle and cost of travelling.
- Australia: Progressive and staggered reopening of international border in stages.** Movement restrictions were eased and inter-state borders were reopened in Oct 21. Vaccinated international students, skilled migrants and people holding work holiday visas were able to travel to and from Australia starting 15 Dec 21. Australia will reopen its border to fully vaccinated tourists starting 21 Feb 22.

PEER COMPARISON – HOSPITALITY REITS

Company	Ticker	Rec	Price	Target	Mkt Cap	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
			21 Feb 22 (\$)	Price (\$)		2021	2022F	2023F	2024F			
Ascott Trust	ART SP	BUY	1.05	1.29	2,558	4.1	5.2	5.7	6.0	70.4	37.1	0.88
CDL HTrust	CDREIT SP	BUY	1.22	1.45	1,117	3.5	3.9	5.0	5.9	72.8	39.1	0.92
Far East HTrust	FEHT SP	BUY	0.60	0.76	882	4.4	4.7	6.4	6.6	57.6	38.3	0.72
Frasers HTrust	FHT SP	NR	0.46	n.a.	659	2.1	4.8	6.7	6.7	78.2	42.5	0.71

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT (Maintained)

TOP BUYS

Company	Ticker	Rec	Share Price (\$)	Target Price (\$)
ART	ART SP	BUY	1.05	1.29
CDREIT	CDREIT SP	BUY	1.22	1.45
FEHT	FEHT SP	BUY	0.60	0.76

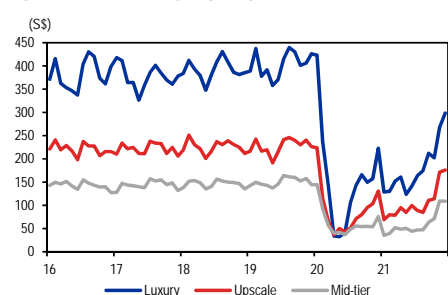
Source: UOB Kay Hian

P/NAV FOR HOSPITALITY REITS



Source: UOB Kay Hian

HOTEL REVPAR – SINGAPORE



Source: URA

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- New Zealand: Transitioning from zero-tolerance to suppression strategy.** New Zealand will cautiously reopen its border by allowing New Zealanders residing in neighbouring Australia to return without serving two weeks of quarantine on 28 Feb 22. New Zealanders residing elsewhere and skilled workers can return starting 13 Mar 22. Travellers from 60 visa-waiver countries will be able to visit New Zealand in July. New Zealand will fully reopen its border for visitors from all countries in Oct 22.

ACTION

- Singapore Airshow 2022 a notable success.** The biennial Singapore Airshow, the first large-scale event since the COVID-19 pandemic started, was held at the Changi Exhibition Centre during 15-18 Feb 22. It received 13,000 trade visitors and 600 exhibitors from 39 countries, a respectable performance albeit less impressive compared with 30,000 trade visitors and 1,000 exhibitors from 110 countries in 2020. Key exhibitors include Airbus, Aviation Industry Corporation of China, Boeing, Lockheed Martin, Rafael Advanced Defense Systems, Rolls-Royce, ST Engineering and Thales. More than 70% of the 20 global aerospace companies attended.
- MICE events gradually picking up steam.** Singapore Association of Conventions & Exhibition Organisers & Suppliers (SACEOS) is confident that MICE events will see stabilisation in 2022 and normalcy (recovery back to pre-pandemic levels) in 2023. Upcoming MICE events include Asia Pacific Maritime, Singapore Fintech Festival, Singapore International Agri-Food Week and World Cities Summit.

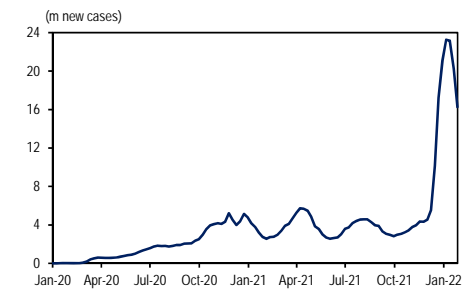
MICE EVENT CALENDAR - 2022

Event	Date	Location
Asia Pacific Maritime	16-18 Mar	Sands Expo & Convention Centre
CleanEnviro Summit Singapore	17-21 Apr	Sands Expo & Convention Centre
Singapore International Water Week	17-21 Apr	Sands Expo & Convention Centre
Milipol Asia-Pacific	18-20 May	Sands Expo & Convention Centre
Redesigning Pedagogy International Conference (Hybrid)	30 May - 1 Jun	National Institute of Education
Geo Connect Asia (Hybrid)	1 Jun	Sands Expo & Convention Centre
Restaurant, Pub & Bar Asia (Hybrid)	22-24 Jun	Suntec Singapore Convention & Exhibition Centre
Speciality & Fine Food Asia (Hybrid)	22-24 Jun	Suntec Singapore Convention & Exhibition Centre
Speciality Coffee & Tea Asia (Hybrid)	22-24 Jun	Suntec Singapore Convention & Exhibition Centre
Food2Go (Hybrid)	22-24 Jun	Suntec Singapore Convention & Exhibition Centre
World Cities Summit	31 Jul - 3 Aug	Suntec Singapore Convention & Exhibition Centre
Occupational Safety + Health (OS+H) Asia Exhibition	14-16 Sep	Suntec Singapore Convention & Exhibition Centre
FINND - Design Fair Asia	22-24 Sep	Sands Expo & Convention Centre
IDEM 2022 (Hybrid)	7-9 Oct	Sands Expo & Convention Centre

Source: STB

- F1 Night Race makes a comeback after a two-year absence.** Singapore Tourism Board and promotor Singapore GP have inked a deal to continue hosting the Singapore Grand Prix for seven years from 2022 till 2028. This year's Formula One Night Race will be held at the Marina Bay Street Circuit from 30 Sep to 2 Oct 22. Hotels located downtown are expected to enjoy near full occupancy during the race week.
- Anticipating a summer of recovery.** Home-rental giant Airbnb has reported that bookings have exceeded pre-COVID-19 levels for the first time for 1Q22. Bookings for summer holidays have already exceeded the same period in 2019 by 25%. According to hotel group Hyatt, there is a surge in activities and bookings for group business events exceeded pre-COVID-19 levels by 14% in Jan 22. Walt Disney has reported a doubling of revenue yoy from its domestic and international theme parks for the quarter ending Jan 22. Sign of revenge spending abounds.
- Singapore committed to reopening.** Singapore needs to stay connected to the world to maintain its stature as a regional air hub. According to Deputy Prime Minister Heng Swee Keat, Singapore is committed to reopening its economy and borders to the rest of the world. Singapore will extend VTLs to more countries when the situation permits. As of Dec 21, visitor arrivals were 5.4% of pre-pandemic levels in 2019.
- Maintain OVERWEIGHT.** Hospitality REITs will benefit from pent-up demand for travel, the earlier-than-anticipated restoration of VTL quota and the resumption of reopening. We expect resumption of reopening with expansion of capacity for existing VTLs and introduction of new VTLs by 2Q22.

WEEKLY NEW COVID-19 CASES - WORLDWIDE



Source: Johns Hopkins Coronavirus Center

WEEKLY COVID-19 DEATHS - WORLDWIDE



Source: Johns Hopkins Coronavirus Center

Ascott Residence Trust (ART SP/BUY/Target: S\$1.29)

- **Benefitting from pent-up demand for travel.** 2H21 DPU dropped 14 % yoy to 2.27 S cents. The results included distribution of divestment gains of S\$25m. 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.
- **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. Countries with large domestic markets, such as the US, the UK and Australia, registered the strongest recovery. France and Japan also registered healthy growth in 2H21.
- **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 account for 16% of assets under management (AUM). Occupancy for its student accommodation properties was close to 100%.
- **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.
- **Re-iterate BUY.** Our target price of S\$1.29 is based on DDM (cost of equity: 6.5% and terminal growth of 1.8%).

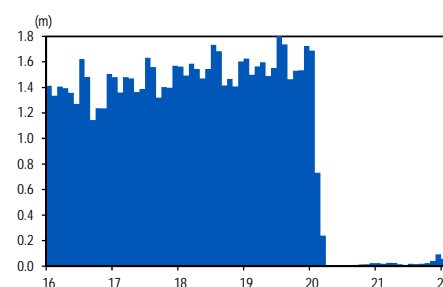
CDL Hospitality Trusts (CDREIT SP/BUY/Target: S\$1.45)

- **Green shots of recovery locally and overseas.** 2H21 DPU dropped 11% yoy to 3.06 S cents. The results included partial distribution of proceeds from divestment of Novotel Clark Quay and Novotel Brisbane of S\$12.5m. On a same-store basis, valuation of its investment properties increased 1% or S\$26.8m. NAV per unit increased 0.8% yoy to S\$1.33.
- **Singapore hotels benefitting from staycation demand and VTLs.** RevPAR for its six Singapore hotels rebounded 20% yoy and 41% qoq to S\$107 in 4Q21 due to strong local demand for staycation and foreign visitors utilising the 24 VTLs in Nov and Dec 21. RevPAR for W Hotel increased 12% yoy to S\$348. Only two hotels remain under government contracts.
- **Recovery in the UK, Maldives and Japan.** RevPAR for the UK eased 7% qoq to £109 in 4Q21 due to the emergence of the Omicron variant in Dec 21. Hilton Cambridge City Centre was supported by its base crew business, while The Lowry Hotel benefitted from the return of spectator-filled football matches. RevPAR for Maldives tripled yoy to S\$410 in 4Q21 after the reopening of its border on 15 Jul 21. Angsana Velavaru successfully captured the Maldives' top source markets of Russia and India. Raffles Maldives Meradhoo reopened in Jul 21 after undergoing maintenance works for six weeks. RevPAR for Japan improved 9% qoq due to a recovery in domestic demand after the state of emergency was lifted in early-Oct 21. Grand Millennium Auckland in New Zealand continued to serve as a managed isolation facility.
- **Maintain BUY.** Our target price of S\$1.45 is based on DDM (cost of equity: 6.5% and terminal growth of 1.8%).

Far East Hospitality Trust (FEHT SP/BUY/Target: S\$0.76)

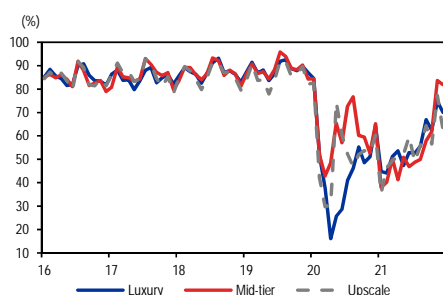
- **Pure play on the hospitality sector in Singapore.** 2H21 DPU dropped 10.9% yoy to 1.53 S cents. The results included undistributed taxable income from previous period of S\$3.5m. FEHT recognised gain in fair value of investment properties of S\$77m mainly from Central Square. NAV per unit increased 5.1% yoy to S\$0.83.
- **Both hotels and serviced residences segments saw recovery** due to the easing of border restrictions and introduction of VTLs. RevPAR for hotels recovered 29% qoq to S\$67 in 4Q21. Average daily rate improved 23% qoq to S\$81 due to the shift towards corporate business and leisure travel, including staycations. RevPAR for Serviced Residences recovered 24% qoq to S\$158. Occupancy improved 14ppt qoq to 86% due to an increase in inbound corporate travellers requiring long-stay accommodation. Fixed rent component from its 13 hospitality properties accounted for 80% of gross revenue in 2021.

VISITOR ARRIVALS TO SINGAPORE



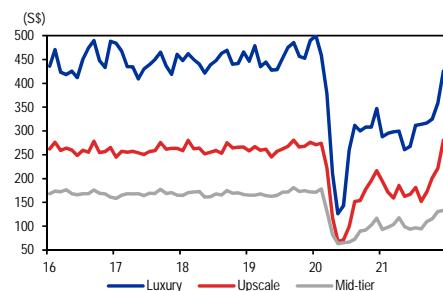
Source: STB

HOTEL ROOM OCCUPANCY RATE – SINGAPORE



Source: URA

HOTEL AVERAGE ROOM RATE – SINGAPORE



Source: URA

- Downside protection from master leases.** Government contracts for Elizabeth Hotel, Quincy Hotel and Village Hotel Albert Court ended in Dec 21. Currently, FEHT has only three out of nine hotels on government contracts. The remaining three government contracts are likely to be extended till mid-22. There is downside protection as its nine hotels are under master lease agreements with fixed rent component totalling S\$57m per year.
- Deleveraged and well positioned for future expansion.** FEHT has entered into a put-and-call option agreement to divest Central Square for S\$313.2m. Exit yield is attractive at 1.8%. The estimated divestment gain is S\$112m. There is an additional incentive fee of S\$18m if certain conditions are fulfilled by Dec 23. The divestment is on track for completion on 24 Mar 22. Assuming 84% of the divestment proceeds is utilised to repay outstanding borrowings, aggregate leverage will fall 7.8ppt to 33.5%. FEHT will consider distributing a portion of the divestment proceeds S\$50.4m (2.6 S cents per unit) to unitholders.
- Maintain BUY.** Our target price of S\$0.76 based on DDM (cost of equity: 6.75%, terminal growth: 1.8%).

SECTOR CATALYSTS

- Expansion of capacity for existing VTLs and introduction of new VTLs by 2Q22 after Singapore has weathered the Omicron variant wave.
- Current share prices for hospitality REITs represent an average discount of 19% to NAV. P/NAV is 0.88x for ART, 0.92x for CDREIT and 0.72x for FEHT.

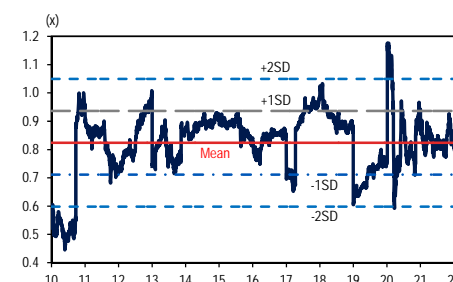
ASSUMPTION CHANGES

- As per mentioned above.

RISKS

- New variant of COVID-19 that is more transmissible and virulent.
- Recovery centred on developed countries while developing countries are still struggling to cope with the COVID-19 pandemic.

P/NAV – ART



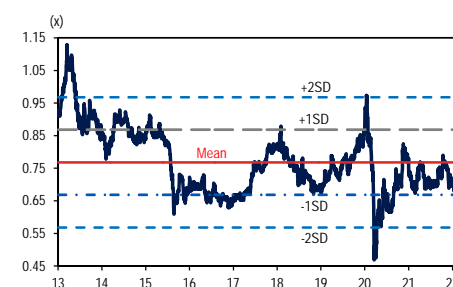
Source: UOB Kay Hian

P/NAV – CDREIT



Source: UOB Kay Hian

P/NAV – FEHT



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