

SECTOR UPDATE

REITs – Singapore

Hospitality: Recovery Is Delayed But Not Derailed

Existing VTLs have been kept open although capacity will be scaled down by half starting 21 Jan 22. Singapore has to weather a new wave of Omicron variant infections in 1Q22. We expect the reopening of borders with expansion of capacity for existing VTLs and introduction of new VTLs to resume in 2H22. **BUY ART (Target: S\$1.29), CDREIT (Target: S\$1.42) and FEHT (Target: S\$0.74), which trade at discounts to NAV of 11%, 7% and 24% respectively. Maintain OVERWEIGHT.**

WHAT'S NEW

- Omicron variant less lethal than previously thought.** Several studies have concluded that the Omicron variant is less likely to cause severe illnesses. A study in England published by UK's Health Security Agency shows that a person infected with the Omicron variant is 50-70% less likely to be hospitalised compared with those who caught the Delta variant. A study in Scotland published by University of Edinburgh shows that a person infected with the Omicron variant is two-thirds less likely to be hospitalised. The majority of those who succumbed to breakthrough infections or reinfections experienced mild symptoms.
- Singapore's borders remain open.** The Singapore government has established quarantine-free vaccinated travel lanes (VTL) with 24 countries/regions, which accounted for 56% of visitor arrivals pre-COVID-19 during 2019. The existing VTLs by air and land remain quarantine-free and have been kept open, although capacity will be scaled down by half starting 21 Jan 22. Besides the pre-departure and on-arrival polymerase chain reaction (PCR) tests, the government has also imposed daily antigen rapid tests (ART) for seven consecutive days (unsupervised ARTs on the 2nd, 4th, 5th and 6th days and supervised ARTs at Quick Test Centres on the 3rd and 7th days) to prevent imported cases of Omicron variant infections.
- The Causeway remains open.** The border between Singapore and Malaysia remains open although the government has instituted a supervised on-arrival ART and the same seven-day enhanced ART protocol.
- Enhancing immunity through booster shots.** Booster shots are currently the best protection against the highly transmissible Omicron variant. Singapore has commenced its booster programme since Sep 21. Singaporeans will be able to receive their booster dose of the mRNA vaccine five months after completing their primary series vaccination regime. The Pfizer-BioNTech COVID-19 vaccine (paediatric doses) was approved for children aged 5 to 11 years and vaccination for children has commenced in Dec 21.
- Singapore has one of the highest vaccination rates.** Singaporeans overcame vaccine hesitancy and are well adapted to living with COVID-19 as an endemic. As of 3 Jan 22, 87% of the total population has completed their full regimen and received at least two doses of COVID-19 vaccines, of which 42% have received their booster shots.
- Pharmaceutical companies working on updated COVID-19 vaccines.** Pharmaceutical companies are racing to develop new vaccines and booster shots specifically designed to combat the new Omicron variant. Pfizer-BioNTech has said it will be able to adapt its mRNA vaccine within six weeks and ship initial batches within 100 days. Moderna expects a reformulated vaccine to be ready by Mar 22.

PEER COMPARISON – HOSPITALITY REITs

| Company | Ticker | Rec | Price 5 Jan 22 (S\$) | Target Price (S\$) | Mkt Cap (US\$m) | Yield (%) | | | | Debt to Equity (%) | Debt to Assets (%) | P/NAV (x) |
|-----------------|-----------|-----|-------------------------|-----------------------|--------------------|-----------|-------|-------|-------|-----------------------|-----------------------|--------------|
| | | | | | | 2020 | 2021F | 2022F | 2023F | | | |
| Ascott Trust | ART SP | BUY | 1.04 | 1.29 | 2,513 | 2.9 | 3.8 | 5.4 | 5.7 | 66.9 | 35.3 | 0.89 |
| CDL HTrust | CDREIT SP | BUY | 1.20 | 1.42 | 1,089 | 4.1 | 2.2 | 3.0 | 4.9 | 69.8 | 40.1 | 0.93 |
| Far East HTrust | FEHT SP | BUY | 0.60 | 0.74 | 874 | 4.0 | 4.3 | 4.7 | 6.4 | 64.5 | 41.6 | 0.76 |
| Frasers HTrust | FHT SP | NR | 0.475 | n.a. | 675 | 2.1 | 4.6 | 6.5 | 6.5 | 79.2 | 42.2 | 0.73 |

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT (Maintained)

TOP BUYS

| Company | Ticker | Rec | Share Price (S\$) | Target Price (S\$) |
|---------|-----------|-----|----------------------|-----------------------|
| ART | ART SP | BUY | 1.04 | 1.29 |
| CDREIT | CDREIT SP | BUY | 1.20 | 1.42 |
| FEHT | FEHT SP | BUY | 0.60 | 0.74 |

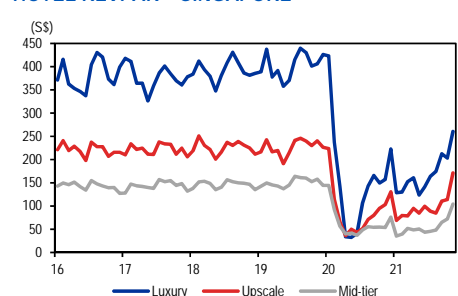
Source: UOB Kay Hian

YIELD SPREAD FOR HOSPITALITY REITs



Source: UOB Kay Hian

HOTEL REVPAR – SINGAPORE



Source: URA

ANALYST(S)

Jonathan Koh, CFA
+65 6590 6620
jonathankoh@uobkayhian.com

ACTION

- **Maintain OVERWEIGHT.** Singapore has to weather a new wave of Omicron variant infections in 1Q22. We expect the reopening of borders with expansion of capacity for existing VTLs and introduction of new VTLs to resume in 2H22. The anticipated recovery in the hospitality industry has been delayed and postponed to 2H22.
- **Bumpy transition on the path towards reopening.** Self-isolation and recovery at home has become the default arrangement, including those infected with the Omicron variant and their close contacts. Thus, the government might terminate the contracts for some of the dedicated isolation facilities. The affected hotels have to switch to serving transient corporate and leisure travellers and staycation demand. Nevertheless, there is downside protection for hotels under master leases.

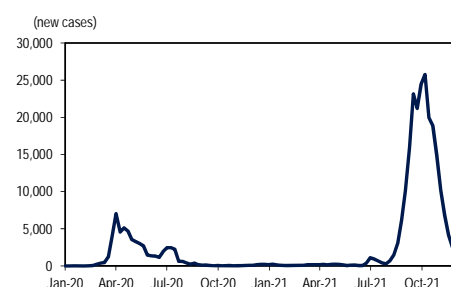
Ascott Residence Trust (ART SP/BUY/Target: S\$1.29)

- **Further expansion in student accommodation.** ART has completed the acquisition of four student accommodation assets in the US with a total of 1,651 beds for US\$213.0m (S\$291.2m) in Dec 21. The Link University City is located in Pennsylvania, while Latitude on Hillsborough and Uncommon Wilmington are in North Carolina, and Latitude at Kent is in Ohio. They serve five reputable universities in three states with strong athletics programmes. They were newly completed between 2019 and 2020 and have a weighted average occupancy rate of 94% for academic year 2021.
- The four assets are expected to provide EBITDA yield of 4.9%. The acquisition is estimated to increase pro forma 2020 DPU by 3.0%. The acquisition will be 92% funded by debt and 8% funded by the remaining proceeds from private placement completed in Sep 21. ART's gearing remains healthy 37.8% post-acquisition.
- **Scaling up in student accommodation.** ART has acquired a diversified portfolio of eight student accommodation assets with 4,400 beds within a year. They are strategically located in Sunbelt states, Ivy League and 'Power 5' athletics conference markets. They serve over 250,000 students in six states. Student accommodation and rental housing properties now make up 16% of total portfolio value.
- **Re-iterate BUY.** We raised our 2022 and 2023 DPU forecast by 2.4% and 4.2% respectively due to the four newly acquired student accommodation assets. We roll forward our valuation to 2022. We raised our target price from S\$1.20 to S\$1.29 based on DDM (cost of equity: 6.5% and terminal growth of 1.8%).

CDL Hospitality Trusts (CDREIT SP/BUY/Target: S\$1.42)

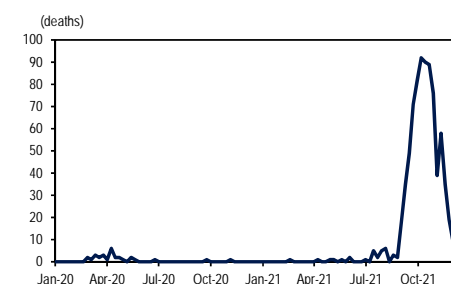
- **Contribution from W Hotel boosted by staycation demand.** W Hotel benefits from buoyant staycation demand as Sentosa Island provides Singaporeans with the closest semblance to an overseas holiday. W Hotel is a popular destination for staycations due to its expansive view of the marina and seafront. We estimate that W Hotel's RevPAR has rebounded 28% qoq to S\$221 in 3Q21. We expect further upside with RevPAR increasing 27% qoq to S\$280 in 4Q21.
- **Grand Millennium Auckland has served as a managed isolation facility** since 2Q20. The government contract is expected to continue into 1Q22. The hotel, which is the largest in Auckland and centrally located within the CBD and in close proximity to Auckland Conventions, contributed a sizeable 29.6% of NPI in 3Q21.
- **The UK: Anticipating a rapid recovery after weathering the Omicron variant wave.** The UK was hit by a tidal wave of Omicron variant infections, which overtook Delta as the dominant coronavirus variant in mid-December. The British government has ramped up its booster programme. While new cases have skyrocketed, deaths have trended lower. We expect confidence to be gradually restored after Europe weathers the new wave of Omicron variant infections in 1Q22. Recovery should resume in 2Q22, driven by domestic and intra-regional corporate and leisure travel.
- **Maintain BUY.** Our target price of S\$1.42 is based on DDM (cost of equity: 6.5% and terminal growth of 1.8%).

WEEKLY NEW CASES – SINGAPORE



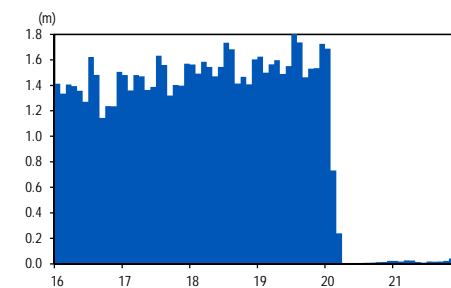
Source: Johns Hopkins Coronavirus Center

WEEKLY DEATHS – SINGAPORE



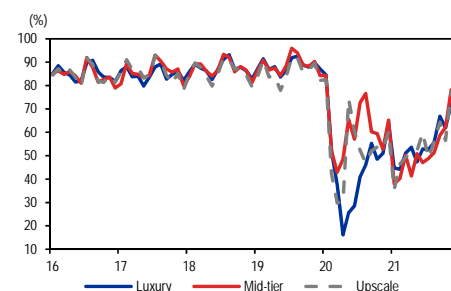
Source: Johns Hopkins Coronavirus Center

VISITOR ARRIVALS TO SINGAPORE



Source: STB

HOTEL ROOM OCCUPANCY RATE – SINGAPORE



Source: URA

Far East Hospitality Trust (FEHT SP/BUY/Target: S\$0.74)

- Judicious divestment of Central Square.** FEHT has entered into a put-and-call option agreement with wholly-owned subsidiary of City Developments to divest Central Square for S\$313.2m. Central Square is located at 20 Havelock Road and comprises a serviced residence and commercial spaces including offices and retail units. The divestment consideration represents a 57.9% premium on the independent valuation of S\$198.3m as of Dec 20 and a 70.8% premium on the original purchase price of S\$183.3m in Aug 12.
- FEHT (owner of Central Square) and City Developments (owner of the adjacent Central Mall) have received an outline advice from the Urban Redevelopment Authority (URA) to redevelop Central Square and Central Mall under the strategic development incentive scheme.** The maximum permissible GFA has increased 78% to 341,840sf. Knight Frank was appointed as the marketing agent to carry out a tender exercise and City Developments has emerged as the highest bidder.
- The divestment proceeds will be used to pare down debt to strengthen FEHT's balance sheet.** Aggregate leverage is expected to decrease from 41.3% to 33.5%.
- Downside protection from high fixed rent component.** FEHT is the most defensive hospitality REIT in Singapore. FEHT nine hotels and three serviced residences are under master lease agreements with subsidiaries within sponsor Far East Organisation (FEO). The fixed rent component from its master leases totalled S\$67m per year, which is equivalent to 72% of total gross revenue from its hotels and SRs in 2019 (pre-COVID-19). These fixed rents formed about 81% of 1H21's gross revenue. These 20-year master leases run till 2032.
- Maintain BUY.** We cut our 2022 DPU forecast by 29% due to weakness caused by the Omicron variant in 1H22. We trimmed our 2023 DPU forecast by 2.5% due to divestment of Central Square, offset by lower interest expense. We roll forward our valuation to 2022. We raised our target price from S\$0.71 to S\$0.74 based on DDM (cost of equity: 6.75% (previous: 7.0%), terminal growth: 1.8%).

SECTOR CATALYSTS

- Reopening of borders in Singapore through the expansion of capacity for existing VTLs and introduction of new VTLs in 2H22 after the country weathers the Omicron variant wave.**
- Current share prices for hospitality REITs represent an average discount of 17% to NAV.** The correction has brought P/NAV to 0.89x for ART and 0.76x for FEHT.

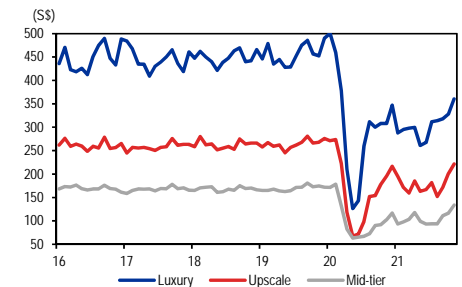
ASSUMPTION CHANGES

- As mentioned above.

RISKS

- A broader second wave of COVID-19 infections which results in many countries tightening safe distancing measures and even imposing lockdowns.**

HOTEL AVERAGE ROOM RATE – SINGAPORE



Source: URA

P/NAV – ART



Source: UOB Kay Hian

P/NAV – CDREIT



Source: UOB Kay Hian

P/NAV – FEHT



Source: UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

| | |
|-----------------------------------|---|
| General | This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation. |
| Hong Kong | This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law. |
| Indonesia | This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report. |
| Malaysia | Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia. |
| Singapore | This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law. |
| Thailand | This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand. |
| United Kingdom | This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients. |
| United States of America ('U.S.') | This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly. |

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W