

# Singapore Company Update

## Far East Hospitality Trust

Bloomberg: FEHT SP | Reuters: FAEH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Mar 2022

### BUY

Last Traded Price (7 Mar 2022): S\$0.580 (STI : 3,187.82)  
Price Target 12-mth: S\$0.78 (34% upside)

#### Analyst

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#### What's New

- Divestment of Central Square expected to lift NAV towards multi-year high of c. S\$0.90/share
- Lowest geared hospitality REIT at c.33% with ability to surprise on acquisitions.
- Higher RevPAR has shown a strong correlation to higher P/NAV multiples, with upside to come from revaluations at end-FY22.
- Maintain BUY, TP unchanged at S\$0.78

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Gross Revenue	83.3	83.2	88.0	100
Net Property Inc	72.2	75.2	77.8	89.2
Total Return	(93.4)	131	48.9	62.6
Distribution Inc	47.9	54.0	58.1	72.3
EPU (S cts)	1.41	2.66	2.45	3.12
EPU Gth (%)	(47)	89	(8)	27
DPU (S cts)	2.41	2.63	2.93	3.62
DPU Gth (%)	(37)	9	11	24
NAV per shr (S cts)	78.8	82.9	82.3	81.8
PE (X)	41.1	21.8	23.7	18.6
Distribution Yield (%)	4.2	4.5	5.0	6.2
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	40.6	37.8	33.0	33.0
ROAE (%)	1.7	3.3	3.0	3.8

Distn. Inc Chng (%): (14) (10)  
Consensus DPU (S cts): 2.80 3.3  
Other Broker Recs: B: 5 S: 0 H: 2

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

### Early bird catches the worm

#### Investment Thesis

**Compelling reasons to enter early.** We see compelling reasons to be an “early bird” with imminent catalysts driving to narrow P/NAV gap in the coming years. FEHT currently trades at an attractive valuation, offering investors a FY22-23F CAGR of 15% in DPUs and a pure-play proxy to Singapore's border re-opening and recovery towards living in an endemic COVID-19 world.

**Critical factor 1: NAV to jump c.5%-6% by end 2022, strong correlation with RevPAR recovery.** We believe that markets have not priced in the NAV uplift from the completion of Central Square divestment at a c.58% premium to NAV. This will drive NAV higher and coupled with revaluation gains as RevPAR recovers, we see NAV hitting a multi-year high of S\$0.91, bringing its P/NAV down to 0.65x, below historical average, which is close to levels where industry is seeing operational headwinds. Gearing will also drop towards c.33%, which will make FEHT one of the least geared REIT, providing headroom for future acquisitions.

**Critical factor 2: DPU recovery as variable rents kicks in.** With borders re-opening, hoteliers may be able to raise rates and we project RevPAR to double in FY21 and improve a further 40% in FY23, and drive a DPU CAGR of 15% to near pre-COVID levels. As such, we see stock trading closer towards P/NAV of 0.8x-0.85x level, similar to pre-COVID levels, which offers upside of >20%.

#### Valuation:

We reduce our RevPAR recovery trajectory to c.70% of pre-COVID levels for FY22, while pricing in the repayment of debt in mid-22. Target price unchanged at S\$0.78.

#### Where we differ:

Asia border reopening and return of MICE events in 1H22 ahead of expectations to propel sector recovery.

#### Key Risks to Our View:

A slower recovery in FY22 (if the COVID-19 pandemic drags on) could pose a major risk.

#### At A Glance

Issued Capital (m shrs)	1,978
Mkt. Cap (S\$m/US\$m)	1,147 / 843
Major Shareholders (%)	
Golden Development Pte Ltd	22.6
Golden Landmark Pte Ltd	10.4
Far East Organization Centre Pte Ltd	10.0
Free Float (%)	51.3
3m Avg. Daily Val (US\$m)	0.58
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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ed: JS/ sa: PY, CS



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**Critical factor : RevPAR rebound should drive a multi-year compression in P/NAV gap**

**Return of international demand.** Singapore announced the return of Vaccinated Travel Lanes (VTL) starting 25<sup>th</sup> February, with VTL daily cap returning to 15k per day. International demand has shown up to a five-fold increase when VTL lanes first opened last year. With other international demand streams more visible as we go into 2Q22, hoteliers are likely to see a pick-up in occupancy and room rates ahead of market expectations which was previously in 2H22.

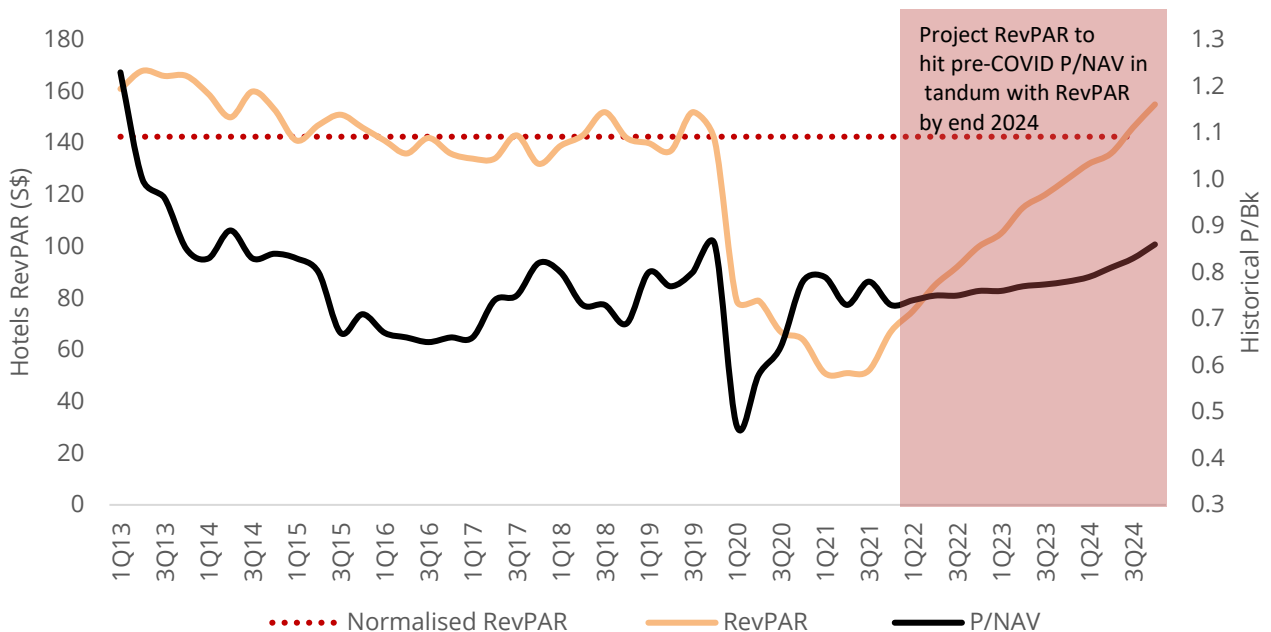
**Asia border reopening to propel recovery as the largest revenue market for Singapore.** Surge of inbound travelers from key Asia markets (including Singapore) is set to benefit hotel S-REITs as this is source market has c.42% to 100% of revenue exposure. We look forward to reopening of other key markets such as Japan and China. The return of MICE events, almost nil in 2021, will also propel the return of corporate demand which should help uplift sector room demand and RevPAR. Given FEHT's 100% exposure to the Singapore market, we believe that the above developments can drive a re-rating in share price and valuations over time.

**Critical Factor: FEHT trades at an average P/NAV of 0.9x when hotel RevPAR is at S\$150.**

**Hotel RevPAR to recover 40% y-o-y, acquisitions the cherry on the cake.** We anticipate sector RevPAR to recover to c.70% of pre-COVID levels in 2022 with a further c.30% growth in 2023. This will translate to a RevPAR of c.S\$100 (FY22) and S\$142 in 2023 for FEHT. While our RevPAR estimate for FY22 are largely supported by fixed rental income, we see variable rents kicking in from FY23 onwards as travel recovery takes hold. This is expected to drive DPUs to 3.62 Scts and 4.15 Scts in FY23 and FY24, which implies a CAGR of 12%.

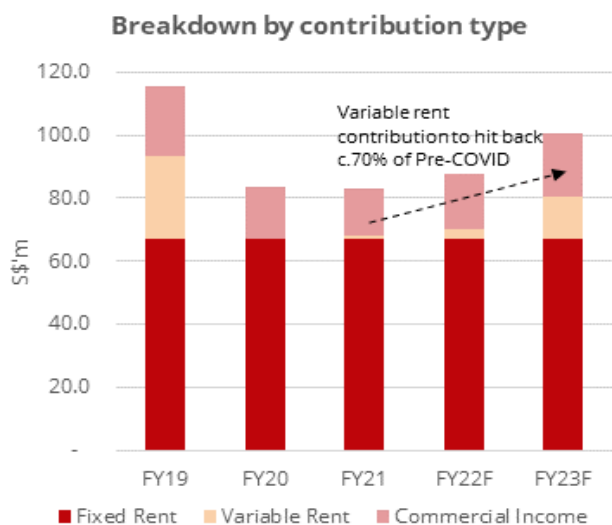
We see FEHT as a key proxy for the recovery of Singapore hospitality and tourism as 100% of its revenue is from the Singapore market. Based on historical correlation, share price should rebound in tandem to a recovery in RevPAR, which has bottomed out in 1H21. An acquisition will be the cherry on the cake to sustain growth momentum.

**FEHT P/NAV vs Hotel RevPAR**

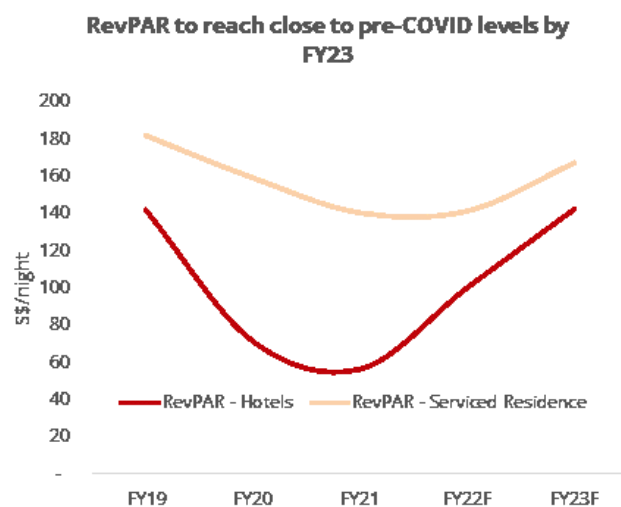


Source: Company, DBS Bank

**Revenues will rise towards pre-COVID levels as RevPAR rises**



Source: Company, DBS Bank



Source: Company, DBS Bank

**Hotel revenue exposure by market and potential reopening**

	Geographical exposure				NPI exposure				Potential month of border reopening
	ART	CDLHT	FEHT	FHT	ART	CDLHT	FEHT	FHT	
Singapore	7%	43%	100%	19%	11%	45%	100%	21%	Feb'22
Asia (ex-SG)	35%	15%		14%	38%	10%		15%	Jan'22 - Cambodia, Thailand Feb'22 - Indo (selective), Philippines Mar'22 - Japan, Malaysia, Vietnam 2H22 - China
Australia / NZ	24%	19%		46%	13%	27%		43%	Feb'22
Europe (ex-UK)	13%	6%		7%	24%	8%		4%	Reopened to selective regions
UK	6%	16%		13%	7%	9%		17%	Feb'22
US	14%	0%		0%	7%	0%		0%	Nov'21

Source: DBS Group Research

Far East Hospitality Trust

**Time to splash the cash post Central Square deal**

**Crystallising NAV with the sale of Village Residence Clarke Quay.** Far East Hospitality's divestment of Village Residence Clarke Quay (or Central Square) is on track for completion by end-1Q22, which will empower the REIT with significant headroom for acquisitions, in our view. The asset will be redeveloped under the Strategic Development Incentive Scheme into a new mixed-use development. The deal will unlock c.S\$313.2m in divestment proceeds for FEHT or a 57.9% premium above the asset's book value upon deal completion. An additional incentive fee of S\$18m is on the cards pursuant to a provisional permission of a higher mix of residential use under the redevelopment scheme, which will offer potential upside to FEHT once the sale is completed.

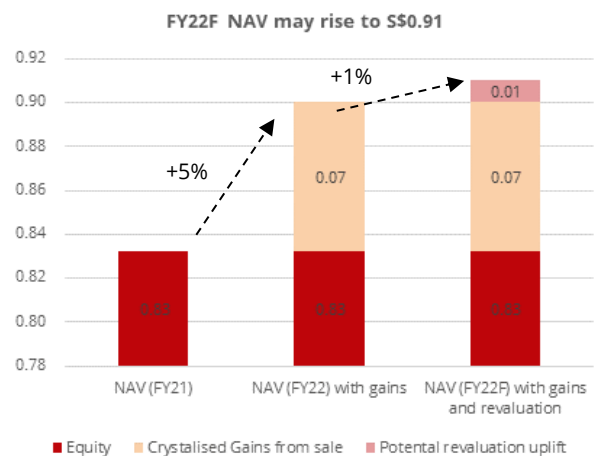
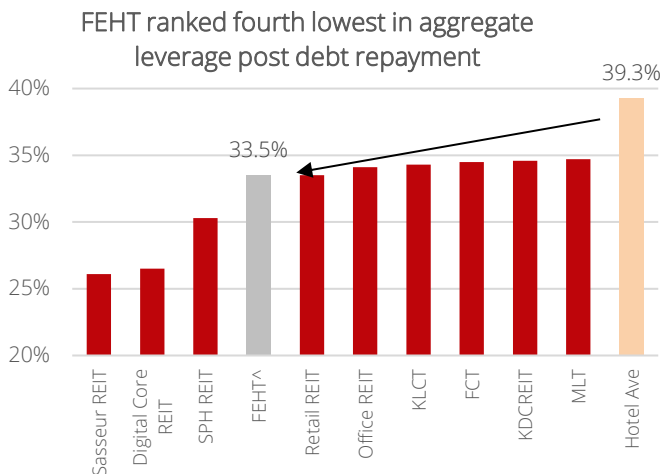
**Accretion from paring down of debt.** Post deal, we estimate that FEHT will pare down debt with the cash unlocked from the divestment. The reduction of debt on the balance sheet would help neutralize the loss of income from the divestment of Central Square. FEHT's current running cost of debt at 1.9% is marginally higher than Central Square's exit net yield at c.1.8%. The net savings in interest expense, which we estimate to be c.S\$5.5m, would sufficiently offset the loss of income contribution from Central Square.

**FEHT's leverage to fall to the fourth lowest within the sector post debt repayment.** FEHT's gearing level at 38.3% (as of 31<sup>st</sup> December 2022) is in line with hotel sector average at 39.3%. We estimate that gearing could substantially improve to c.33.5% should a portion of the divestment proceeds (c.S\$220m) be used to reduce debt, ranking FEHT as one of the lowest within the S-REITs space in terms of gearing.

**Critical factor: NAV may jump 5% to 6% by end of 2022.** Central Square has long been sitting on FEHT's portfolio as one of the smaller non-core assets. The divestment above book value will unlock c.S\$112m in net gains for the REIT, which we believe the market has not priced in. While one-off, the gains will boost NAV by close to c.7% when compared against FY20's NAV of S\$0.83. Along with potential write-back of COVID-19 related write-offs (the manager has written back S\$78m out of S\$121m valuation write off), we estimate that NAV may rise to c. S\$0.91 by end of FY22, which is at one of the highest level since 2015.

With potential enhancement of FEHT's NAV to S\$0.91, P/NAV will drop to c.0.65x, placing it at the lower end of its historical trading range. With a close correlation between higher RevPAR growth and P/NAV, we see target P/NAV to be close to 0.8x – 0.85x, implying a share price of close to S\$0.72 – S\$0.78/share.

**FEHT's balance sheet metrics will likely improve significantly**



Source: Company, DBS Bank

### Potential acquisitions to drive upside to DPUs (Critical Factor)

**Variable hotel rents to start kicking in from FY23.** FEHT's master lease structure has proven to be an anchor during the pandemic. The hotel segment, which is operating at 42% of normalized RevPAR levels in 2H21 (based on FY19 average), continues to be sheltered under master lease fixed rents. We note that hotel RevPAU at S\$60 in 2H21 remains below the threshold where variable rents kick in at S\$110. Variable hotel rents will likely materialize in FY23-FY24 in our view, as we expect sector RevPAR to return to 70% and 90% of pre-COVID levels respectively. In the meantime, inorganic growth through acquisitions is likely to be the way to go given the high possibility of a fully debt-funded acquisition.

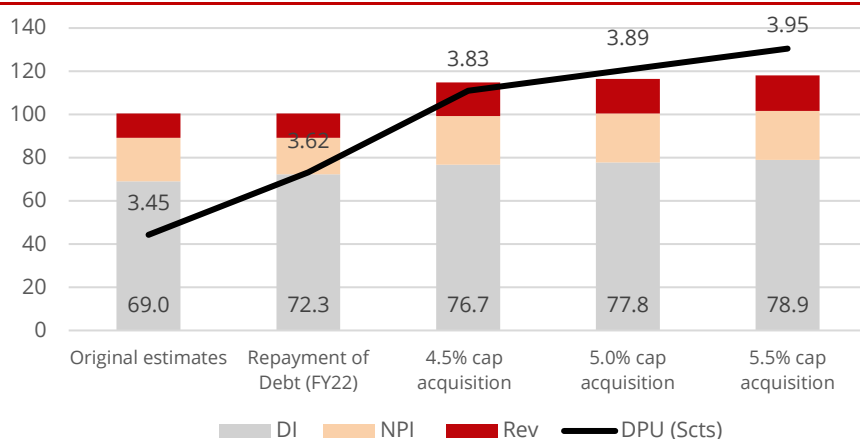
**Debt funded acquisition will be accretive to DPUs.** Like its peers, we think FEHT may start to look overseas for higher yielding hospitality assets. While FEHT still owns ROFR access to the remaining c.70% stake in sponsor's Sentosa hotels, the injection of additional stakes is dependent on the stabilization of the three Sentosa hotels, which will likely materialize post pandemic recovery.

**Chasing yields abroad?** Hospitality peers have generally been able to acquire lodging assets abroad in the range of a 4.0% to 5.0% cap rate. Based on 1.9% cost of debt, acquisitions will be accretive assuming a 100% debt-funded acquisition.

Our scenario analysis on FY23 pro-forma numbers show that a S\$225m acquisition will be accretive to DPUs in the range of 11% to 14% on a 4.5% - 5.5% acquisition cap rate respectively. This translates well against the option to reduce debt, which we expect to yield 5% DPU accretion.

**Strong correlation between P/NAV and DPUs.** There is potential uplift in NAV from booking gains from the sale of Central Square, and a further write up of revaluations. We see higher DPUs ahead from organic growth in RevPAR, driving DPUs by 15% CAGR over FY22-23F. Accordingly, P/NAV for FEHT should head higher towards its mean of c. 0.8x.

#### Scenario analysis on FY23 pro-forma income statement



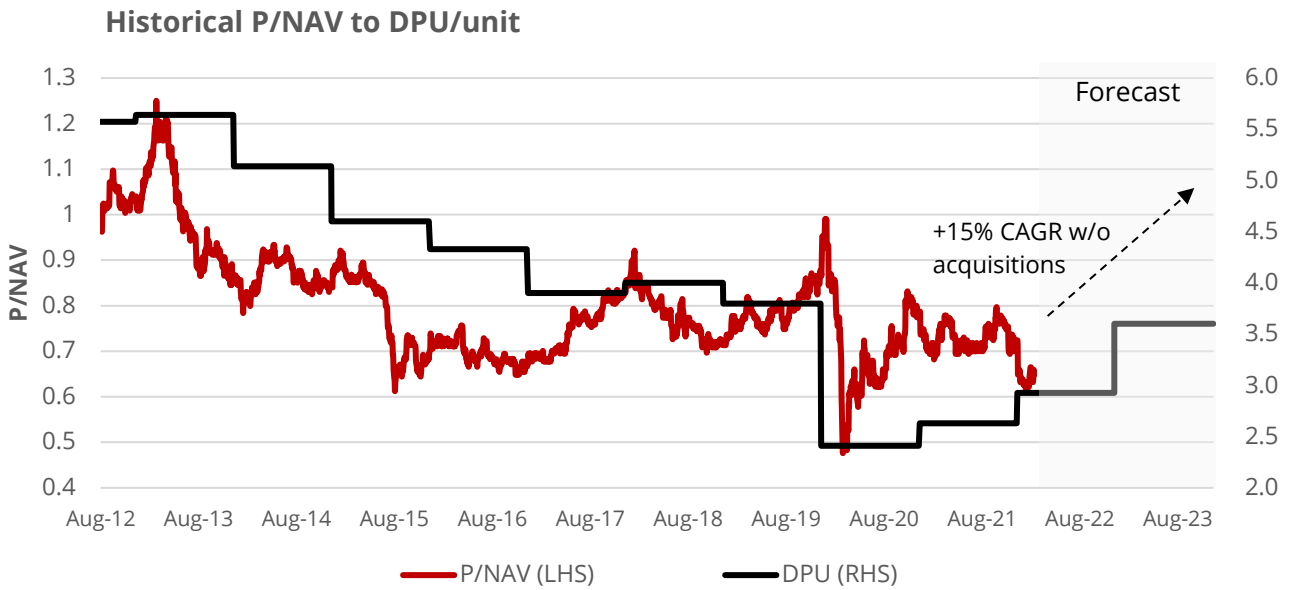
#### Remarks

1. Base case scenario - repayment of debt will support a 5% accretion in FY23 DPU.
2. Inorganic growth through acquisitions (S\$225m deal size) that is fully debt-funded, which will be accretive based on the current running level of debt.
3. We estimate 11% - 14% accretion to our FY23 DPU on an acquisition cap rate of 4.5% to 5.5%

FY23 pro-forma (S\$m)	Original Estimates	Debt Repayment	4.5% cap acquisition	5.0% cap acquisition	5.5% cap acquisition
Rev	100.4	100.4	114.9	116.5	118.1
NPI	89.2	89.2	99.3	100.5	101.6
DI	69.0	72.3	76.7	77.8	78.9
DPU (Scts)	3.45	3.62	3.83	3.89	3.95
Accretion		5%	11%	13%	14%

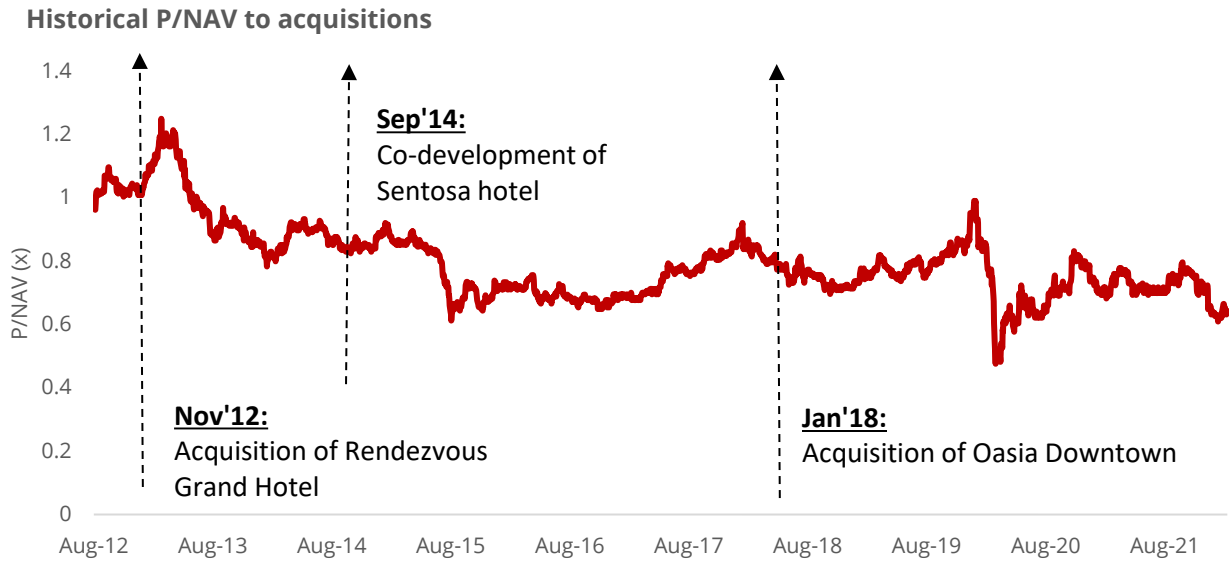
Source: Singapore Tourism Board, DBS Bank

**FEHT shows strong correlation between DPU and higher P/NAV**



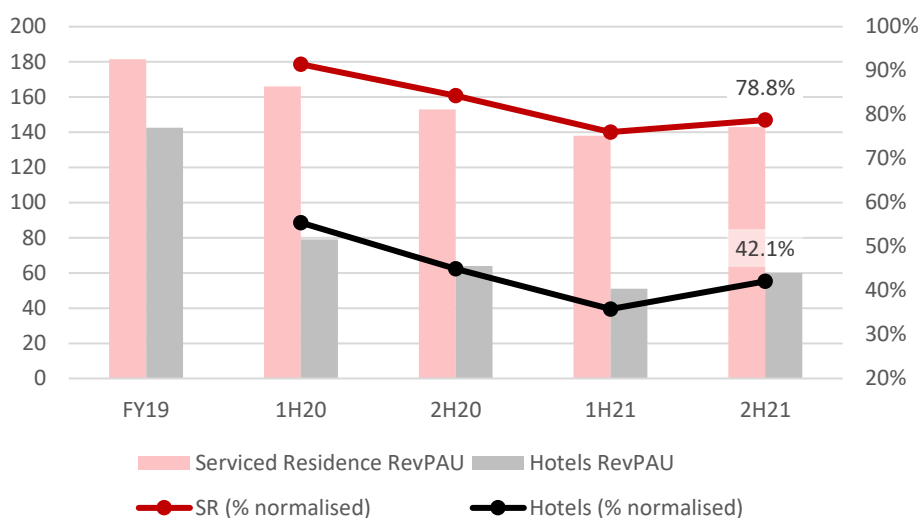
Source: Bloomberg Finance L.P., DBS Bank

**FEHT past acquisitions have resulted in positive share price reactions**



Source: Bloomberg Finance L.P., DBS Bank

**FEHT RevPAR trend vs pre-COVID levels**



**Remarks**

1. RevPAU for both FEHT's serviced residences and hotels segment bottomed out in 1H21
2. Hotel RevPAU was S\$60 as at 2H21, below the variable rent threshold at S\$110
3. Serviced Residences RevPAU was S\$143 in 2H21, above variable rent threshold at c.S\$125

Source: Singapore Tourism Board, DBS Bank

**Lodging assets that hospitality peers have been acquiring**

Lodging asset class	REIT	Acquisition Date	Property	Geographical Mkt	Deal size	Acquisition cap rate
Student Accommodation	Ascott REIT	Feb'22	Latitude at Kent	US - Ohio		
		Dec'21	Uncommon Wilmington	US - North Carolina	US\$213m	4.90%
		Dec'21	Latitude at Hillsborough	US - North Carolina		
		Dec'21	The Link University City	US - Pennsylvania		
		Nov'21	Seven07	US - Illinois	US\$83m	4.50%
		Sep'21	Wildwood Lubbock	US - Texas	US\$70m	5.10%
Hotel	CDLHT	Jun'21	Standard at Columbia (development project)	US - South Carolina	US\$110m	6.20%
		Feb'21	Paloma West Midtown	US - Georgia	US\$95m	5%
Rental Housing	CDLHT	Feb'22	Hotel Brooklyn	UK - Manchester City	S\$42m	7.40%
		Sep'21	The Castings (development project)	UK - Manchester City	S\$136m	5.00%
	Ascott REIT	Jun'21	Alpha Square Kita 15 Jo Big Palace Minami 5 Jo City Court Kita 1 Jo	JP - Sapporo	JPY 6.78b	4%

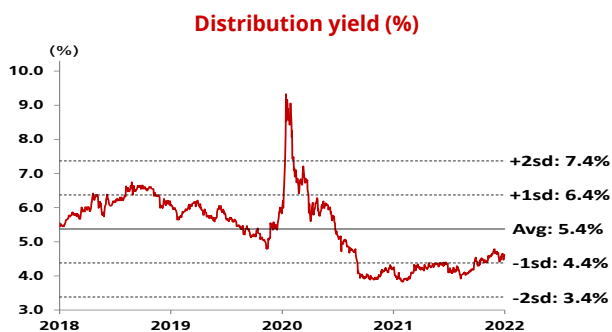
Source: DBS Bank

## Far East Hospitality Trust

### Company Background

Far East Hospitality Trust (FEHT) is a hospitality stapled group comprising Far East H-REIT and Far East H-Business Trust. Far East H-REIT is a Singapore-based real estate investment trust (REIT) which invests in hospitality assets. It owns nine hotels and four serviced residences.

### Historical Dividend yield and PB band



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



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



**Income Statement (\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	116	83.3	83.2	88.0	100
Property expenses	(11.2)	(11.1)	(8.1)	(10.1)	(11.2)
<b>Net Property Income</b>	<b>104</b>	<b>72.2</b>	<b>75.2</b>	<b>77.8</b>	<b>89.2</b>
Other Operating expenses	(14.0)	(10.5)	(10.5)	(10.4)	(10.9)
Other Non Opg (Exp)/Inc	(3.3)	(6.2)	0.0	0.0	0.0
Associates & JV Inc	(6.3)	(4.0)	(4.1)	0.01	2.12
Net Interest (Exp)/Inc	(28.9)	(23.6)	(19.4)	(18.5)	(17.8)
Exceptional Gain/(Loss)	0.0	0.0	11.6	0.0	0.0
<b>Net Income</b>	<b>51.7</b>	<b>27.9</b>	<b>52.8</b>	<b>48.9</b>	<b>62.6</b>
Tax	(0.1)	(0.1)	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>51.6</b>	<b>27.8</b>	<b>52.8</b>	<b>48.9</b>	<b>62.6</b>
Total Return	60.4	(93.4)	131	48.9	62.6
Non-tax deductible Items	13.5	141	(81.1)	9.19	9.71
Net Inc available for Dist.	73.9	47.9	54.0	58.1	72.3
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	1.6	(27.9)	0.0	5.7	14.1
N Property Inc Gth (%)	1.5	(30.8)	4.1	3.5	14.6
Net Inc Gth (%)	(14.6)	(46.1)	90.0	(7.4)	27.9
Dist. Payout Ratio (%)	100.0	99.0	96.2	100.0	100.0
Net Prop Inc Margins (%)	90.3	86.7	90.3	88.5	88.9
Net Income Margins (%)	44.6	33.4	63.5	55.6	62.4
Dist to revenue (%)	64.0	57.5	64.9	66.1	72.0
Managers & Trustee's fees	12.2	12.6	12.6	11.8	10.9
ROAE (%)	3.1	1.7	3.3	3.0	3.8
ROA (%)	1.9	1.1	2.0	1.9	2.6
ROCE (%)	3.4	2.4	2.5	2.7	3.3
Int. Cover (x)	3.1	2.6	3.3	3.6	4.4

Source: Company, DBS Bank

## Far East Hospitality Trust

**Interim Income Statement (\$m)**

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Gross revenue	55.7	59.8	44.3	39.0	41.6
Property expenses	(5.5)	(5.7)	(5.7)	(5.4)	(5.4)
Net Property Income	50.2	54.1	38.6	33.6	36.2
Other Operating	(6.9)	(7.2)	(5.3)	(5.2)	(5.0)
Other Non Opg (Exp)/Inc	(1.7)	(1.6)	(9.4)	3.14	0.0
Associates & JV Inc	(2.2)	(2.2)	(2.5)	(1.4)	(2.5)
Net Interest (Exp)/Inc	(14.9)	(14.3)	(12.5)	(11.1)	(10.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>24.5</b>	<b>28.8</b>	<b>8.93</b>	<b>19.0</b>	<b>18.2</b>
Tax	0.0	(0.1)	(0.1)	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>24.5</b>	<b>12.8</b>	<b>8.88</b>	<b>18.9</b>	<b>18.2</b>
Total Return	24.5	37.5	8.88	(102)	26.8
Non-tax deductible Items	10.5	1.63	16.8	130	(1.5)
Net Inc available for Dist.	35.0	39.2	25.7	27.5	25.3
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	N/A	7	(26)	(12)	7
N Property Inc Gth (%)	nm	8	(29)	(13)	8
Net Inc Gth (%)	nm	17	(69)	113	(4)
Net Prop Inc Margin (%)	90.1	90.5	87.2	86.1	87.1
Dist. Payout Ratio (%)	200.0	200.0	78.5	100.0	85.7

**Balance Sheet (\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	2,646	2,529	2,337	2,339	2,342
Other LT Assets	8.03	4.06	2.45	2.45	2.66
Cash & ST Invt	5.84	10.9	11.7	26.9	24.2
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	40.0	37.7	42.7	27.0	30.0
Other Current Assets	0.01	0.01	271	0.0	0.0
<b>Total Assets</b>	<b>2,700</b>	<b>2,581</b>	<b>2,665</b>	<b>2,396</b>	<b>2,399</b>
ST Debt	16.5	238	181	181	181
Creditor	3.67	7.86	53.1	3.07	3.50
Other Current Liab	11.1	11.5	8.01	7.94	7.94
LT Debt	976	751	766	548	551
Other LT Liabilities	11.3	15.1	7.68	7.68	7.68
Unit holders' funds	1,681	1,558	1,648	1,648	1,648
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>2,700</b>	<b>2,581</b>	<b>2,665</b>	<b>2,396</b>	<b>2,399</b>
Non-Cash Wkg. Capital	25.2	18.3	253	16.0	18.5
Net Cash/(Debt)	(986)	(978)	(936)	(702)	(708)
<b>Ratio</b>					
Current Ratio (x)	1.5	0.2	1.3	0.3	0.3
Quick Ratio (x)	1.5	0.2	1.3	0.3	0.3
Aggregate Leverage (%)	39.0	40.6	37.8	33.0	33.0
Z-Score (X)	0.8	0.8	0.8	0.8	0.8

Source: Company, DBS Bank

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	60.5	(93.3)	131	48.9	62.6
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	(0.1)	(0.1)	(0.1)	0.0
Associates & JV Inc/(Loss)	6.33	3.97	4.06	0.0	(2.1)
Chg in Wkg.Cap.	(0.8)	5.22	(3.8)	(34.4)	(2.5)
Other Operating CF	35.2	161	(61.9)	28.6	28.5
<b>Net Operating CF</b>	<b>101</b>	<b>76.4</b>	<b>69.3</b>	<b>43.0</b>	<b>86.5</b>
Net Invnt in Properties	(2.8)	(4.5)	(0.9)	(2.6)	(3.0)
Other Invnts (net)	0.0	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	0.01	1.91
Other Investing CF	(1.2)	0.0	43.9	271	0.0
<b>Net Investing CF</b>	<b>(4.0)</b>	<b>(4.5)</b>	<b>43.0</b>	<b>269</b>	<b>(1.1)</b>
Distribution Paid	(37.7)	(38.7)	(48.8)	(58.1)	(72.3)
Chg in Gross Debt	(66.5)	(3.6)	(62.7)	(219)	3.01
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(24.1)	0.0	(19.4)	(18.8)
<b>Net Financing CF</b>	<b>(104)</b>	<b>(66.4)</b>	<b>(111)</b>	<b>(296)</b>	<b>(88.1)</b>
Currency Adjustments	0.0	(0.4)	0.0	(0.4)	0.0
Chg in Cash	(7.0)	5.12	0.77	15.2	(2.7)
Operating CFPS (S cts)	5.21	3.61	3.69	3.88	4.43
Free CFPS (S cts)	5.03	3.65	3.44	2.02	4.16

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Mar 21	0.63	0.70	BUY
2:	03 Dec 21	0.59	0.78	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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

Completed Date: 8 Mar 2022 06:38:49 (SGT)

Dissemination Date: 8 Mar 2022 07:01:42 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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