

Singapore Company Update

Ascott Residence Trust

Bloomberg: ART SP | Reuters: ASCO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 May 2022

BUY

Last Traded Price (4 May 2022): S\$1.16 (STI : 3,349.27)
Price Target 12-mth: S\$1.40 (21% upside) (Prev S\$1.30)

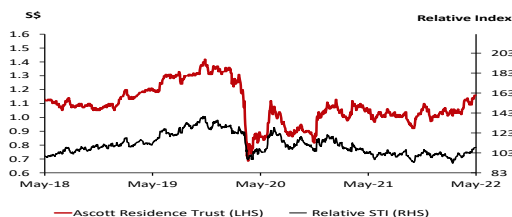
Analyst

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What's New

- Portfolio RevPAR in 1Q22 rose 22% y-o-y to S\$67 with pent-up demand reflecting more strongly in Mar 22
- Early entry move into longer-stay lodging assets paying off as they pull off more than their weight (28% gross profit contribution on 17% AUM exposure) with resilient occupancies of above 95%
- 12% CAGR in DPUs between FY22-24; Further asset recycling with substantial debt headroom of S\$1.8b to drive higher accretion through acquisitions
- Maintain BUY, higher TP of S\$1.40, with target 1.18x P/NAV

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Gross Revenue	394	595	710	771
Net Property Inc	173	317	372	399
Total Return	296	143	180	200
Distribution Inc	137	183	211	231
EPU (S cts)	(0.1)	4.43	5.51	6.09
EPU Gth (%)	nm	nm	24	10
DPU (S cts)	4.32	5.67	6.47	7.06
DPU Gth (%)	43	31	14	9
NAV per shr (S cts)	121	119	118	117
PE (X)	nm	26.2	21.0	19.0
Distribution Yield (%)	3.7	4.9	5.6	6.1
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage	33.4	34.7	35.4	35.7
ROAE (%)	(0.1)	3.7	4.7	5.2

Distn. Inc Chng (%): 2 (4)
Consensus DPU (S): 5.20 6.20 6.90
Other Broker Recs: B: 7 S: 1 H: 1

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

Longer-stay lodging segment holding more than its weight

Investment Thesis

On the cusp of a multi-year recovery trajectory. ART currently trades at book at 1.0x P/NAV and on attractive 4.9% forward FY22 yields. Compelling growth in DPU supported by more resilient income from longer-stay lodging assets; we estimate a 12% CAGR in DPU between FY22-24.

Right time and right place with early move in longer-stay asset class paying off. ART's first-mover advantage in the longer-stay lodging has been paying off, with cap rates compressing 50-100bps in the asset classes over the past year. The longer-stay asset class is holding more than its weight with a c.28% gross profit contribution on a c.17% AUM exposure. ART is to increase its exposure to this asset class to 25%-30%, while targeting to increase its stable rent income stream. Robust DPU growth trajectory to be led by ART's c.70%-75% exposure in the hotels and serviced residences asset classes, which are on the cusp of RevPAR recovery as most major markets reopen borders internationally in end-1Q22.

More asset recycling and inorganic growth potential not priced in. We believe ART will continue with its current strategy in asset recycling to drive earnings and an NAV upside. A healthy gearing level of 38% and S\$1.8bn debt headroom could mean that the long-awaited acquisition of the sponsor's S\$1.0bn US multi-family portfolio may be considered in 2022.

Valuation:

Our DCF-backed target price is raised to S\$1.40 as we roll forward to FY23F earnings, and c.S\$850m of acquisitions in the past year in the longer-stay lodging asset class has been fully priced into estimates. Future acquisitions to pose an upside to the TP and are not incorporated into the current estimates.

Where we differ:

We believe large domestic travel markets continue to be well sheltered from the faltering developments in border reopening.

Key Risks to Our View:

Omicron development to cause a longer-than-expected delay to global border reopening.

At A Glance

Issued Capital (m shrs)	3,284
Mkt. Cap (S\$m/US\$m)	3,809 / 2,751
Major Shareholders (%)	
The Ascott Limited	14.5
Free Float (%)	85.5
3m Avg. Daily Val (US\$m)	6.0
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Watchlist the stock on Insights Direct to receive prompt updates

WHAT'S NEW

1Q22 Operational Update

Longer-stay asset segment continues to hold more than its weight, strategic focus on expanding this lodging segment on track with target exposure increased to 25%-30%, green shoots for hotel and serviced residences assets to stem from the US, Japan, and UK, in our view.

- Portfolio RevPAR rose 22% y-o-y to S\$67 even with the Omicron impact felt towards the earlier part of the quarter.
- Pent-up demand was strong in March 2022, particularly in the UK, US, Japan, and Australia.
- Green shoots we see for ART's portfolio in the coming quarters will include:
 - o US in the coming months of spring break
 - o Japan, as leisure demand returns with "Go To Travel" reintroduced and potential international border reopening, and
 - o UK, which is showing sustained demand for business and corporate bookings
- Several master leases will be due for renewal this year, with Citadines Les Halles renewed ahead of expiry on fixed rents on par with pre-COVID terms. Ascott Orchard's master lease is currently also underway.
- Three properties came off government contracts in the quarter – two in Singapore and one in Australia.
- Lyf one-north saw a quick ramp up in occupancies to 85% in the months post its soft opening in Nov 21, in line with a tightening market for serviced residence asset offerings in Singapore that we have been seeing.
- Longer-stay segment contributed c.28% of gross profit for the quarter on a current c.17% AUM exposure to the segment.
- Segment occupancy remains resilient with high average occupancy of above 95% and rental growth of c.5%.
- ART will be increasing its target exposure in the long-stay segment from 15-20% to 25-30%.
- Institutional interest in the longer-stay lodging segment saw the further compression of cap rates for purpose-built student accommodation and multi-family assets in the US by 50-100bps since their initial acquisition cap at c.5% last year.
- Recent news of Blackstone's privatisation of American Campus Communities (largest student accommodation REIT in the US) at an exit cap of about low 4%.
- Development rooms in the pipeline include PBSA in South Carolina (678 freehold rooms) and Somerset Liang Court (192 units), to come onstream in 2Q23 and 2H25, respectively.
- Gearing remains healthy at 37.8%, and cost of debt was low at 1.6%. Average cost of debt will potentially see a 10-15bps increase in the upcoming refinancing exercise. An approximate 10bps increase in interest rates will reflect as a 0.5% decline in DPUs.
- Approximately 48% of assets in foreign currency are hedged and 70% of debt is in fixed rates.
- Similar to the last two years, management will also look to partially share capital proceeds with shareholders this financial year.

Maintain BUY with higher TP of S\$1.40. Acquisitions worth approximately S\$850m in the longer-stay lodging asset class has been fully priced into our estimates. Risk-free rate increased from 2.5% to 3.0%, as we roll forward valuations into FY23. No future acquisitions are priced in the current estimates, which will pose as an upside to the TP, with c.S\$10m in a capital gains top-up assumed for this financial year.

Operational Update

Key Financial Metrics	1Q22	2H21	% q-o-q	1Q21	% y-o-y
Gearing	37.8%	37.1%	0.7 ppt	36.1%	1.7 ppt
Average cost of debt	1.6%	1.6%	0 ppt	1.70%	-0.1 ppt
ICR	3.5	3.7	(0.2)	2.1	1.4
Debt hedging rate	70%	74%	-5%	78%	-10%
RevPAR	1Q22	2H21	% q-o-q	1Q21	% y-o-y
Portfolio RevPAR (\$)	67	79	-15%	55	22%
Australia RevPAR (AUD)	71	64	11%	67	6%
China (RMB)	221	265	-17%	280	-21%
Japan (JPY)	2699	4117	-34%	1976	37%
Singapore (\$)	65*	65	flat	61	7%
United Kingdom (GBP)	70	76	-8%	14	400%
United States (USD)	76	117	-35%	47	62%
Vietnam (VND)	712	640	11%	752	-5%

Company Background

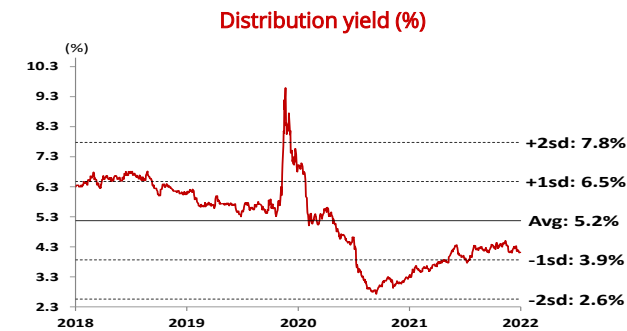
Ascott Residence Trust's (ART) investment portfolio primarily comprises real estate used mainly for hospitality purposes or rental housing (including investments in real estate-related assets and/or other related value-enhancing assets or instruments).

Interim Income Statement (\$m)

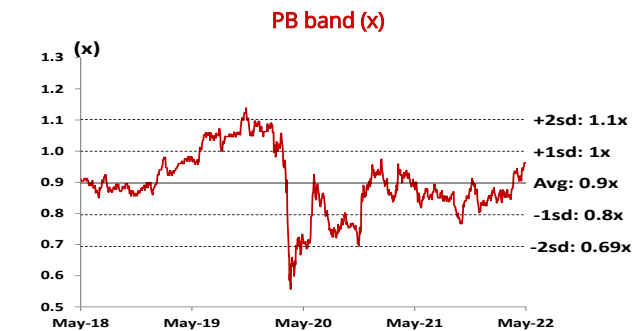
FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	208	161	185	209
Property expenses	(120)	(100)	(103)	(118)
Net Property Income	88.5	61.0	82.1	91.2
Other Operating expenses	(10.7)	(12.3)	2.83	(3.0)
Other Non Opg (Exp)/Inc	0.34	0.0	0.0	0.0
Associates & JV Inc	0.07	0.0	0.0	(28.3)
Net Interest (Exp)/Inc	(30.4)	(27.7)	(25.0)	0.16
Exceptional Gain/(Loss)	11.1	11.3	156	132
Net Income	41.7	17.5	200	175
Tax	(12.2)	54.8	(35.1)	(29.4)
Minority Interest	(1.9)	4.67	(1.7)	(0.6)
Net Income after Tax	28.9	77.0	163	145
Total Return	27.6	(250)	163	145
Non-tax deductible Items	13.7	274	(113)	(103)
Net Inc available for Dist.	32.6	61.7	63.8	73.5
Growth & Ratio				
Revenue Gth (%)	N/A	(23)	15	13
N Property Inc Gth (%)	nm	(31)	34	11
Net Inc Gth (%)	nm	179	112	(11)
Net Prop Inc Margin (%)	42.5	37.8	44.4	43.6
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Source: DBS Bank, Company

Historical Dividend yield and PB band



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



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

Ascott Residence Trust

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	370	394	595	710	771
Property expenses	(220)	(221)	(277)	(338)	(372)
Net Property Income	150	173	317	372	399
Other Operating expenses	(55.3)	(59.1)	(63.9)	(66.4)	(67.7)
Other Non Opg (Exp)/Inc	0.56	16.7	0.0	0.0	0.0
Associates & JV Inc	0.06	(0.2)	0.20	0.20	0.20
Net Interest (Exp)/Inc	(58.1)	(52.9)	(57.9)	(63.9)	(65.6)
Exceptional Gain/(Loss)	21.9	(3.3)	0.0	0.0	0.0
Net Income	58.7	74.5	196	242	266
Tax	42.7	(64.5)	(34.2)	(42.3)	(46.6)
Minority Interest	2.75	(1.1)	(4.8)	(6.0)	(6.6)
Preference Dividend	(15.5)	(13.5)	(13.3)	(13.3)	(13.3)
Net Income After Tax	88.6	(4.7)	143	180	200
Total Return	(238)	296	143	180	200
Non-tax deductible Items	332	(203)	30.0	31.2	31.7
Net Inc available for Dist.	94.2	137	183	211	231
Growth & Ratio					
Revenue Gth (%)	(28.2)	6.6	50.8	19.4	8.7
N Property Inc Gth (%)	(40.8)	15.8	83.0	17.2	7.4
Net Inc Gth (%)	nm	nm	nm	25.8	10.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	40.4	43.9	53.3	52.4	51.8
Net Income Margins (%)	24.0	(1.2)	24.1	25.4	25.9
Dist to revenue (%)	25.5	34.8	30.8	29.8	30.0
Managers & Trustee's fees	15.0	15.0	10.8	9.4	8.8
ROAE (%)	2.4	(0.1)	3.7	4.7	5.2
ROA (%)	1.2	(0.1)	1.8	2.3	2.5
ROCE (%)	1.3	0.2	2.8	3.3	3.5
Int. Cover (x)	1.6	2.2	4.4	4.8	5.1

Acquisitions worth c.S\$850m within the longer-stay lodging segment priced in to contribute in FY22

Capital top-ups of S\$10m assumed for FY22

Source: Company, DBS Bank

Ascott Residence Trust

Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	208	161	185	209
Property expenses	(120)	(100)	(103)	(118)
Net Property Income	88.5	61.0	82.1	91.2
Other Operating	(10.7)	(12.3)	2.83	(3.0)
Other Non Opg (Exp)/Inc	0.34	0.0	0.0	0.0
Associates & JV Inc	0.07	0.0	0.0	(28.3)
Net Interest (Exp)/Inc	(30.4)	(27.7)	(25.0)	0.16
Exceptional Gain/(Loss)	11.1	11.3	156	132
Net Income	41.7	17.5	200	175
Tax	(12.2)	54.8	(35.1)	(29.4)
Minority Interest	(1.9)	4.67	(1.7)	(0.6)
Net Income after Tax	28.9	77.0	163	145
Total Return	27.6	(250)	163	145
Non-tax deductible Items	13.7	274	(113)	(103)
Net Inc available for Dist.	32.6	61.7	63.8	73.5
Growth & Ratio				
Revenue Gth (%)	N/A	(23)	15	13
N Property Inc Gth (%)	nm	(31)	34	11
Net Inc Gth (%)	nm	179	112	(11)
Net Prop Inc Margin (%)	42.5	37.8	44.4	43.6
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Investment Properties	5,918	6,601	6,724	6,774	6,774
Other LT Assets	624	669	674	682	692
Cash & ST Invt	487	346	373	397	413
Inventory	0.34	0.33	0.33	0.33	0.33
Debtors	103	104	64.6	77.1	83.8
Other Current Assets	31.9	12.4	12.4	12.4	12.4
Total Assets	7,164	7,733	7,848	7,943	7,976
ST Debt	333	764	764	764	764
Creditor	185	167	159	190	206
Other Current Liab	19.0	41.2	41.2	41.2	41.2
LT Debt	2,129	1,965	2,106	2,177	2,200
Other LT Liabilities	455	429	429	429	429
Unit holders' funds	3,964	4,287	4,264	4,251	4,237
Minority Interests	78.5	80.6	85.4	91.4	98.0
Total Funds & Liabilities	7,164	7,733	7,848	7,943	7,976
Non-Cash Wkg. Capital	(69.0)	(90.6)	(123)	(141)	(151)
Net Cash/(Debt)	(1,976)	(2,383)	(2,497)	(2,544)	(2,551)
Ratio					
Current Ratio (x)	1.2	0.5	0.5	0.5	0.5
Quick Ratio (x)	1.1	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	33.1	33.4	34.7	35.4	35.7
Z-Score (X)	0.6	0.7	0.7	0.7	0.7

Source: Company, DBS Bank

Ascott Residence Trust

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	(268)	375	196	242	266
Dep. & Amort.	34.2	31.0	13.3	13.3	13.3
Tax Paid	(22.2)	(4.4)	(34.2)	(42.3)	(46.6)
Associates & JV Inc/(Loss)	0.0	0.24	(0.2)	(0.2)	(0.2)
Chg in Wkg. Cap.	(51.2)	(45.6)	32.2	18.3	9.76
Other Operating CF	381	(210)	16.7	17.9	18.5
Net Operating CF	74.1	146	223	249	261
Net Invnt in Properties	(20.3)	(32.1)	(17.8)	(21.3)	(23.1)
Other Invnts (net)	97.5	(733)	(123)	(50.0)	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	0.0	0.0
Other Investing CF	219	227	0.0	0.0	0.0
Net Investing CF	296	(539)	(141)	(71.3)	(23.1)
Distribution Paid	(137)	(156)	(183)	(211)	(231)
Chg in Gross Debt	51.6	332	141	71.3	23.1
New units issued	0.0	150	0.0	0.0	0.0
Other Financing CF	(80.9)	(67.7)	(13.3)	(13.3)	(13.3)
Net Financing CF	(166)	259	(55.3)	(153)	(222)
Currency Adjustments	7.51	(6.0)	0.0	0.0	0.0
Chg in Cash	211	(140)	26.8	24.0	16.1
Operating CFPS (S cts)	4.06	6.08	5.91	7.05	7.66
Free CFPS (S cts)	1.74	3.61	6.36	6.96	7.25

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Dec 21	0.98	1.30	BUY

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

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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: 5 May 2022 06:12:52 (SGT)

Dissemination Date: 5 May 2022 11:37:55 (SGT)

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