

Ascott Residence Trust

Pick-up in demand upon relaxation



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SINGAPORE | REAL ESTATE (HOSPITALITY) | 1Q22 UPDATE

4 May 2022

- No financials provided in this business update. 1Q22 RevPAU grew 22% YoY, currently at 65% of pre-pandemic levels, on the back of higher ADRs and occupancy.
- RevPAU declined 23% QoQ due to tightening of restrictions in Jan-Feb22 in several of ART's key markets due to resurgence of Omicron cases, seasonal lull, as well as three properties transitioning out of government block bookings.
- Maintain ACCUMULATE, DDM-TP raised from S\$1.23 to S\$1.24. FY22e-26e DPUs raised by 0.3-0.9% as we pencil in acquisition of Japan portfolio of rental housing and student accommodation assets, resulting in a slight increase in our DDM-TP. Catalysts include faster than anticipated recovery, opportunistic divestments and acquisitions of extended stay assets.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.160
FORECAST DIV	SGD 0.043
TARGET PRICE	SGD 1.240
TOTAL RETURN	10.6%

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
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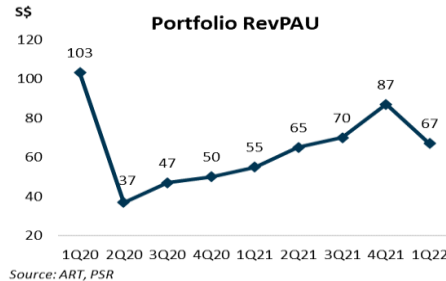
PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.7	15.6	14.5
STI RETURN	(0.8)	4.4	8.7

RevPAU performance for ART's portfolio and eight key markets

RevPAU change YoY on a same store basis			
1Q22 Portfolio RevPAU		22%	
Australia	6%	Singapore	7%
China	-4%	UK	400%
France	8%	US	31%
Japan	37%	Vietnam	-5%

Source: ART, PSR



Source: ART, PSR

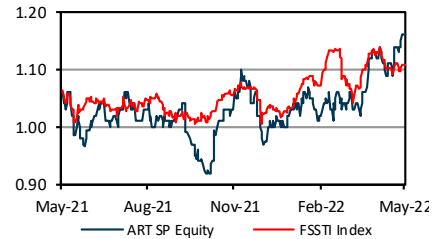
The Positives

- 1Q22 RevPAU grew 22%/-23% YoY/QoQ**, currently at 65% of pre-pandemic levels. YoY improvement largely driven by higher average daily rates (ADRs) while portfolio 1Q22 occupancy came in at c.50%, comparable with 1Q21 levels, as several properties exiting government contracts obscured occupancy improvements. All key markets except Singapore were affected by tightening of restrictions in Jan-Feb22 due to the elevated Omicron cases. RevPAU declined 23% QoQ due to tightening of restrictions in Jan-Feb22, the seasonal lull in the first quarter, as well as three properties transitioning out of government block bookings. Demand picked up post-easing of measures. ART noted increasing demand from international travellers in France, UK and US, with international travellers accounting for 40% of business at UK properties in 1Q22. Corporate demand is also returning for Australia, France and Singapore.
- Extended stay segment accelerating earnings recovery**, contributing c.28% of 1Q22 gross profit, up from c.12% in 1Q21. After including the Mar22 acquisition announcement of four rental housing and one student accommodation asset in Japan for S\$125m, investments in this segment totalled S\$905mn since 2021. Occupancy at Japan rental housing assets and the student accommodation assets were above 95% and 100% respectively in 1Q21. Pre-leasing at the US student accommodations for the next academic year exceeded last year's pre-leasing, with rental growth expected to come in at 5% YoY.

The Negative

- Properties transitioning out of block booking will require some time for operations to pick up.** As COVID caseloads stabilise and countries reopen international borders, respective governments have reduced their inventory of hotels held for isolation purposes. Three properties - two in Singapore and one in Australia - transitioned from block bookings to welcoming public guests. Up to one month of down time is expected as the

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (S\$m)	370	394	527	624
Gross Profit (S\$m)	150	173	238	296
Dist. Inc. (S\$m)	110	151	187	215
P/NAV (x)	1.01	0.97	1.00	1.01
DPU (cents)	3.03	4.32	5.23	6.06
Distribution Yield	2.6%	3.7%	4.5%	5.2%

Source: Bloomberg, PSR

VALUATION METHOD

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

properties undergo deep cleaning. Occupancy is expected to gradually improve as ART restarts marketing initiatives for these properties.

Outlook

Cap rates have compressed for extended stay assets. We understand that cap rates for US student accommodation assets range between 4.5-5% and have compressed 50-100bps since a year ago. This is more pronounced compared with the 20-30bps cap rate compressions for Japan rental housing, which are trading at c.4% yields. Tightest rates were observed for US multifamily assets, which have been transacting at cap rates of 3-4%. Despite having local team to source for deals, the heightened competition for extended stay assets amid higher interest rates may make it more challenging for ART to make acquisitions in this space.

Electricity cost accounts for 5% of OPEX. Most of ART's electricity requirements have been hedged through fixed rate contracts, with all assets in Belgium and UK powered by renewable energy, which has lower price volatility compared to brown energy. Electricity charges are passed through to tenants in US student accommodation and Japan rental housing properties, while utility usage above a certain threshold will be passed through to guest in long-staying guests in SRs. ART is also exploring ways to reduce electricity usage such as installing occupancy detection sensors in rooms that will cut electricity when guest leave the room. It may also consider raising ADRs if necessary.

Maintain ACCUMULATE, DDM-based TP raised from S\$1.23 to S\$1.24

FY22e-26e DPUs raised by 0.3-0.9% as we pencil in acquisition of the Japan portfolio of rental housing and student accommodation assets, resulting in a slight increase in our DDM-TP. Catalysts include faster than anticipated recovery, opportunistic divestments and acquisitions of extended stay assets.

Figure 1: Portfolio RevPAU recovery

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%
1Q22	67	-23%	22%	c.50%

Source: Company, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	515	370	394	527	624
Direct expenses	(262)	(220)	(221)	(289)	(328)
Gross Profit	253	150	173	238	296
Net finance (expense)/inc.	(50)	(58)	(53)	(51)	(55)
Manager's fees	(23)	(25)	(25)	(29)	(32)
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)	87	74
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	5.23	6.06

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net income	261	(268)	375	124	174
Adjustments	(163)	417	(179)	108	113
WC changes	(6)	(51)	(46)	69	24
Cash generated from ops	92	97	150	301	312
Others	(23)	(22)	(4)	(4)	(7)
Cashflow from operations	69	75	145	297	305
CFI					
CAPEX, net	(22)	(20)	(101)	(57)	(57)
Net Investments in SR & PPE	280	198	(621)	(58)	(77)
Others	0	118	184	4	5
Cashflow from investments	259	296	(539)	(112)	(130)
CFF					
Share issuance, net	-	-	150	-	-
Loans, net of repayments	(198)	52	332	50	120
Dividends	(183)	(156)	(157)	(189)	(218)
Others	(59)	(62)	(67)	(55)	(59)
Cashflow from financing	(440)	(166)	259	(194)	(157)
Net increase (decrease) in CCE	48	204	(134)	(31)	6
Ending cash	270	484	344	313	319
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	7,311	7,416
Others	28	15	44	66	77
Total non-current assets	6,828	6,542	7,270	7,377	7,494
Trade Receivables	62	103	104	79	94
Cash	276	487	346	316	322
Others	28	15	44	66	77
Total current assets	595	622	463	406	426
Total Assets	7,423	7,164	7,733	7,783	7,920
LIABILITIES					
LT Borrowings	2,012	2,129	1,965	2,238	2,448
Others	503	455	429	438	454
Total non-current liabilities	2,515	2,584	2,394	2,676	2,901
Trade Payables	173	185	167	211	249
ST Borrowings	337	333	764	541	451
Others	503	455	429	438	454
Total non-current liabilities	2,515	2,584	2,394	2,676	2,901
Total Liabilities	3,080	3,122	3,366	3,469	3,643
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 hold	396	396	396	396	396
Non-controlling interests	85	79	79	80	80

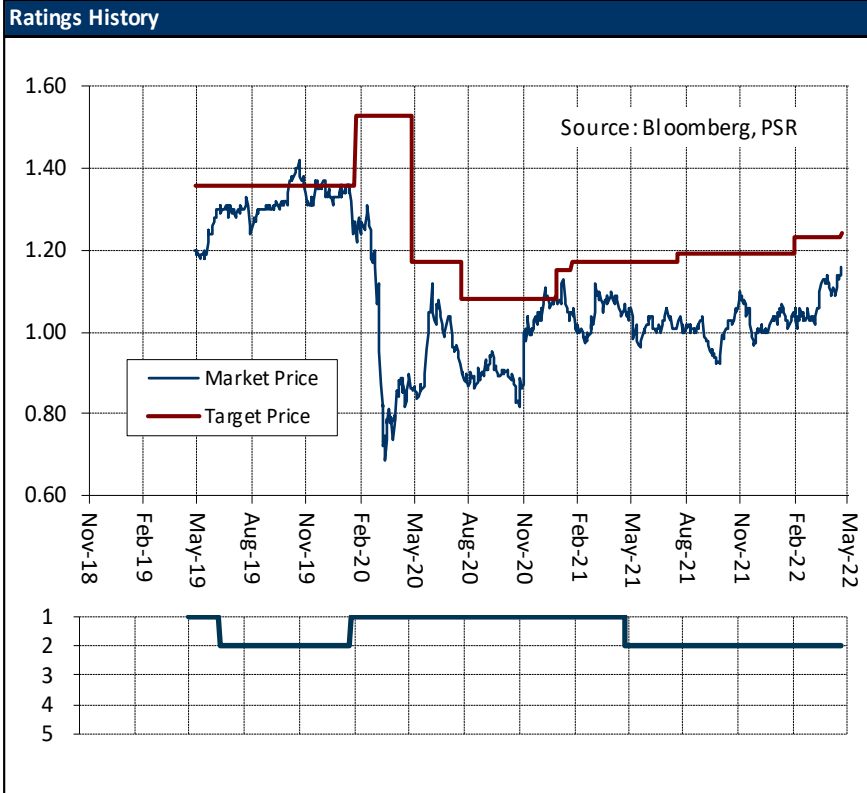
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.93	1.01	0.97	1.00	1.01
Distribution Yield (%)	6.6%	2.6%	3.7%	4.5%	5.2%
NPI** yield (%)	3.8%	2.4%	2.5%	3.4%	4.2%

Growth & Margins (%)

Growth					
Revenue	0.1%	-28.2%	6.6%	33.6%	18.4%
Gross profit	5.5%	-40.8%	15.8%	37.2%	24.3%
Net income	11.1%	-66.3%	26.7%	66.6%	40.7%
DPU	6.3%	-60.2%	42.6%	21.1%	15.7%
Margins					
Gross profit	49.1%	40.4%	43.9%	45.1%	47.4%
NPAT	42.0%	-60.9%	78.7%	19.5%	23.2%
Key Ratios					
Gearing	34.5%	37.7%	37.8%	38.0%	39.1%
ROA	3.4%	-3.1%	4.2%	1.3%	1.8%
ROE	6.6%	-6.0%	8.3%	2.6%	3.7%



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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