

COMPANY RESULTS

Ascott Residence Trust (ART SP)

1Q22: Reopening Resumes And Business Travellers Return In March

Portfolio RevPAU increased 22% yoy to S\$67 in 1Q22. ART benefitted from a strong pick-up in Mar 22 in countries with large domestic markets, such as the US, the UK, Japan and Australia, due to pent-up demand. ART plans to raise the asset allocation target in longer-stay assets, such as student accommodation and rental housing, by 10ppt to 25-30% of portfolio value in the medium term. Distribution yield is expected to improve from 4.4% for 2022 to 5.4% for 2023. Maintain BUY. Target price: S\$1.32.

RESULTS

- Ascott Residence Trust (ART SP) provided a business update for 1Q22.
- Recovery and reopening resumed in March as new cases of Omicron variant eased.** Portfolio RevPAU increased 22% yoy to S\$67 in 1Q22, powered by higher occupancy and recovery in average daily rate. Jan-Feb 22 was affected by restrictions imposed to control the spread of the Omicron variant. ART benefitted from strong pick-up in Mar 22 in countries with large domestic markets, such as the US, the UK, Japan and Australia, due to pent-up demand. International corporate and leisure bookings are recovering as more countries reopen their borders to vaccinated travellers.
- US: Benefitting from increase in international bookings.** RevPAU recovered 31% yoy to US\$76 in 1Q22. Performance of Element New York Times Square West and voco Times Square South improved yoy. Sheraton Tribeca New York, which was previously block booked for healthcare workers, saw softer performance. Recovery started in Feb 22 and is expected to be sustained into 2Q22 due to an increase in international booking. voco Times Square South, which is within walking distance from Jacob K Javits Convention Center, benefits from convention-related demand.
- UK: Bright prospects for sustained recovery.** RevPAU increased 400% yoy to £70 in 1Q22 (lockdown in 1Q21). The UK no longer requires COVID-19 tests and quarantine for vaccinated and unvaccinated travellers since Feb 22. Long stays and student groups provide a strong base. The uptick in demand from business travel and corporate groups since Feb 22 led to higher rates. Bookings from international travellers have grown to 40% of its business in 1Q22. The recovery extends into 2Q22 due to pick-up in domestic travel and the slew of public holidays (Easter, Bank Holiday and Jubilee weekend).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	486	615	659
EBITDA	128	146	222	297	315
Operating profit	94	114	188	263	281
Net profit (rep./act.)	(238)	296	83	139	152
Net profit (adj.)	67	(1)	83	139	152
EPU (S\$ cent)	2.2	(0.0)	2.5	4.2	4.6
DPU (S\$ cent)	3.0	4.3	5.1	6.2	6.1
PE (x)	53.5	n.m.	46.1	27.7	25.5
P/B (x)	1.0	1.0	1.0	1.0	1.1
DPU Yld (%)	2.6	3.7	4.4	5.4	5.3
Net margin (%)	(64.4)	75.0	17.0	22.5	23.1
Net debt/(cash) to equity (%)	49.8	55.6	65.8	68.6	70.8
Interest cover (x)	2.2	2.8	3.5	4.3	4.5
ROE (%)	n.a.	7.2	2.0	3.3	3.7
Consensus DPU (S\$ cent)	n.a.	n.a.	5.2	6.1	6.8
UOBKH/Consensus (x)	-	-	0.98	1.02	0.90

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.16
Target Price	S\$1.32
Upside	+13.8%
(Previous TP)	S\$1.29

COMPANY DESCRIPTION

ART invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ART SP
Shares issued (m):	3,283.5
Market cap (S\$m):	3,808.9
Market cap (US\$m):	2,760.5
3-mth avg daily t'over (US\$m):	5.3

Price Performance (%)

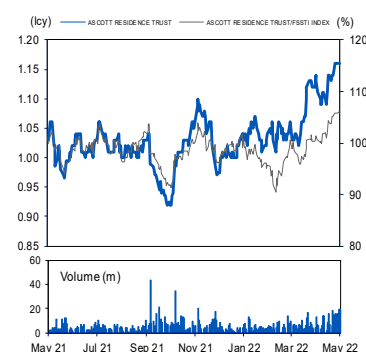
52-week high/low S\$1.16/S\$0.92

1mth	3mth	6mth	1yr	YTD
2.7	14.9	12.6	8.4	12.6

Major Shareholders

	%
Temasek Hlds	39.6
FY22 NAV/Share (S\$)	1.15
FY22 Net Debt/Share (S\$)	0.84

PRICE CHART



Source: Bloomberg

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- Australia: Companies restarted business travel.** RevPAU increased 6% yoy to A\$71 in 1Q22. Revenue was affected as some hotels transitioned from block bookings to serving public guests. Pent-up demand led to a surge in bookings in Mar-Apr 22. Demand from the corporate segment spiked in Mar 22 as companies restarted business travel. Travel confidence has improved and events, such as F1 Grand Prix, are expected to provide further uplift in 2Q22.
- Japan: Cautious and gradual reopening in progress.** RevPAU increased 37% yoy to ¥2,699 in 1Q22. There was an uptick in leisure demand since quasi-emergency curbs were lifted in Mar 22. Japan also reopened for business travellers and foreign students in Mar 22. The Go To domestic travel campaign is expected to be reintroduced in coming months, further boosting domestic tourism.
- Pivot towards longer-stay properties.** Occupancy for its student accommodation properties was close to 100%. Occupancy for rental housing properties was above 95%. Longer-stay properties, such as student accommodation & rental housing, accounted for 28% of gross profit in 1Q22 and 17% of AUM as of Mar 22.
- Contributions from development projects.** ART's maiden development project, the 324-unit coliving property lyf one-north, soft opened in Nov 21 and has achieved occupancy above 85%. It is in close proximity to one-north MRT station. Bookings were mainly from companies and educational institutions located in the vicinity.
- Financial capacity to support future acquisitions.** Aggregate leverage is healthy at 37.8% as of Mar 22 (bank loans: 73% and medium-term notes 27%), which provides debt headroom of S\$1.8b. Its cost of debt is low at 1.6%. 70% of its total borrowings are on fixed interest rates. The proportion is expected to increase to 78% after the refinancing of short-term floating rate loan taken to finance the recent acquisition of student accommodation properties.

STOCK IMPACT

- 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.
- 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 17% of AUM.

EARNINGS REVISION/RISK

- We trim our 2022 DPU forecasts by 6% due to weakness in Jan-Feb 22. We raised our 2023 DPU forecasts by 2% due to rapid recovery and reopening since Mar 22.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.32 is based on DDM (cost of equity: 6.25% (previous 6.5%), terminal growth: 1.8%).

SHARE PRICE CATALYST

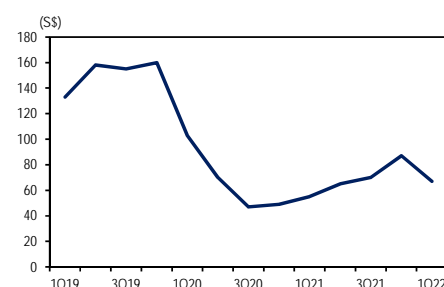
- Yield-accretive acquisitions for student accommodation and rental housing.
- Maiden development project lyf one-north, which soft opened in Nov 21.
- Recovery of the hospitality industry in Europe, Americas, Japan and Singapore, followed by other countries in the Asia Pacific region.

KEY OPERATING METRICS – ART

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.045	n.a.	2.270	n.a.	n.a.	n.a.
Aggregate Leverage	36.1%	35.9%	35.3%	37.1%	37.8%	1.7ppt	2.5ppt
Weighted All-in-Financing Cost	1.7%	1.6%	1.6%	1.6%	1.60%	-0.1ppt	0ppt
% Borrowings in Fixed Rate	78%	80%	79%	74%	70.0%	-8ppt	-9ppt
Weighted Debt Maturity (years)	3.0	3.2	2.9	2.7	2.6	-0.4yrs	-0.3yrs

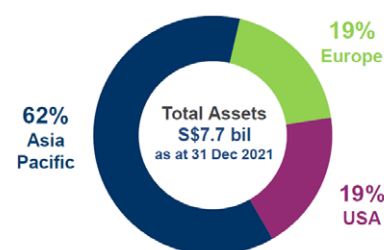
Source: ART, UOB Kay Hian

PORTFOLIO REVPAU



Source: ART

WELL-DIVERSIFIED ACROSS 15 COUNTRIES



Property Type	Count
Serviced Residences	54
Hotels/ Business Hotels	18
Rental Housing	14
Student Accommodation	9

Source: ART

TARGET GEOGRAPHICAL ALLOCATION



Source: ART

60% Asia Pacific
40% Europe / USA

- Largest hospitality trust in Asia Pacific
- Diversified across 15 countries, Asia Pacific remains core
- Presence in large domestic markets and key gateway cities

TARGET ASSET ALLOCATION

Stable Income Base from Longer-stay Lodging	25-30% in longer-stay accommodation Resilient and counter-cyclical assets
Capturing Growth as Travel Restarts	70-75% in serviced residences and hotels Beneficiaries of travel recovery

Source: ART

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	394.4	485.7	614.8	658.8
EBITDA	146.3	222.0	297.0	314.7
Deprec. & amort.	32.6	34.0	34.0	34.0
EBIT	113.7	188.0	263.0	280.7
Total other non-operating income	17.3	0.4	0.4	0.4
Associate contributions	(0.2)	0.0	0.0	0.0
Net interest income/(expense)	(52.9)	(63.5)	(68.7)	(69.9)
Pre-tax profit	374.9	124.8	194.6	211.2
Tax	(64.5)	(25.0)	(38.9)	(42.2)
Minorities	(1.1)	(3.6)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.5)	(13.5)	(13.5)
Net profit	295.8	82.8	138.6	151.9
Net profit (adj.)	(1.3)	82.8	138.6	151.9

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,549.7	7,566.2	7,566.2
Other LT assets	44.3	44.3	44.3	44.3
Cash/ST investment	346.3	347.2	327.5	351.9
Other current assets	117.1	142.6	170.1	176.1
Total assets	7,733.2	8,083.8	8,108.1	8,138.5
ST debt	764.2	764.2	764.2	764.2
Other current liabilities	207.7	260.0	305.8	315.7
LT debt	1,964.7	2,350.0	2,400.0	2,480.0
Other LT liabilities	428.9	422.8	414.9	404.6
Shareholders' equity	4,287.2	4,202.6	4,135.5	4,082.7
Minority interest	80.6	84.2	87.8	91.4
Total liabilities & equity	7,733.2	8,083.8	8,108.1	8,138.5

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	145.6	(93.3)	248.6	246.3
Pre-tax profit	374.9	124.8	194.6	211.2
Tax	(4.4)	(25.0)	(38.9)	(42.2)
Deprec. & amort.	32.6	34.0	34.0	34.0
Associates	0.2	0.0	0.0	0.0
Working capital changes	(45.6)	30.4	21.4	4.6
Non-cash items	(283.5)	21.9	24.6	25.2
Other operating cashflows	71.3	(279.4)	13.0	13.5
Investing	(538.6)	(53.0)	(36.5)	(20.0)
Capex (growth)	(733.1)	(33.0)	(16.5)	0.0
Capex (maintenance)	(37.7)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	253.4	0.0	0.0	0.0
Others	(21.1)	0.0	0.0	0.0
Financing	258.6	147.1	(231.8)	(201.8)
Distribution to unitholders	(142.5)	(167.3)	(205.8)	(204.7)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	385.3	50.0	80.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(70.8)	(76.0)	(77.2)
Net cash inflow (outflow)	(134.3)	0.8	(19.7)	24.4
Beginning cash & cash equivalent	486.7	346.3	347.2	327.5
Changes due to forex impact	(6.1)	0.0	0.0	0.0
Ending cash & cash equivalent	346.3	347.2	327.5	351.9

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	37.1	45.7	48.3	47.8
Pre-tax margin	95.1	25.7	31.7	32.1
Net margin	75.0	17.0	22.5	23.1
ROA	4.0	1.0	1.7	1.9
ROE	7.2	2.0	3.3	3.7
Growth				
Turnover	6.6	23.2	26.6	7.2
EBITDA	13.9	51.7	33.8	6.0
Pre-tax profit	n.a.	(66.7)	55.9	8.5
Net profit	n.a.	(72.0)	67.5	9.6
Net profit (adj.)	(102.0)	n.a.	67.5	9.6
EPU	(102.0)	n.a.	66.3	8.7
Leverage				
Debt to total capital	38.5	42.1	42.8	43.7
Debt to equity	63.7	74.1	76.5	79.5
Net debt/(cash) to equity	55.6	65.8	68.6	70.8
Interest cover (x)	2.8	3.5	4.3	4.5

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