

Singapore Company Update

ARA US Hospitality Trust

Bloomberg: ARAUS SP | Reuters: ARAU.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Jun 2022

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BUY

Last Traded Price (13 Jun 2022): US\$0.485 (STI : 3,139.35)
Price Target 12-mth: US\$0.70 (44% upside)

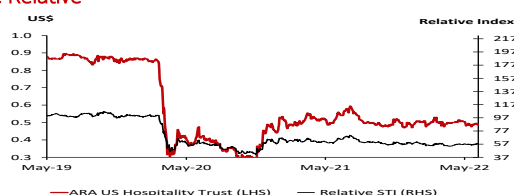
Analyst

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What's New

- Summer travel season brings much promise
- ARAHT well exposed in highly vaccinated states, with a 42% exposure to leisure and airport regions expected to capture pent up demand
- Expecting profitability in the upcoming quarters; mid-year revaluation may quell woes on gearing
- Maintain BUY with TP of US\$0.70

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Gross Revenue	78.2	131	154	186
Net Property Inc	(5.1)	24.9	47.5	58.2
Total Return	(94.5)	(13.8)	4.06	13.0
Distribution Inc	0.0	2.02	26.7	35.0
EPU (US cts.)	(16.2)	(2.4)	0.70	2.23
EPU Gth (%)	nm	85	nm	220
DPU (US cts.)	0.0	0.36	4.68	6.09
DPU Gth (%)	(100)	nm	1,216	30
NAV per shr (US cts.)	60.0	68.7	68.7	68.7
PE (X)	nm	nm	69.5	21.7
Distribution Yield (%)	0.0	0.7	9.7	12.6
P/NAV (x)	0.8	0.7	0.7	0.7
Aggregate Leverage (%)	48.2	44.3	45.1	45.3
ROAE (%)	(22.4)	(3.7)	1.0	3.3

Distn. Inc Chng (%): 0 0

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

Summer holiday magic

Investment Thesis

Maintain BUY with TP of US\$0.70. Recent sector-wide data shows a front-ended loaded recovery unfolding as summer break works its magic this holiday season. ARAHT's US hotel portfolio is best poised amongst the S-REITs to ride on this uptrend, with a turnaround in profits likely to be unveiled in the upcoming quarters. This is on the back of an uplift in RevPAR which we think will drive a share price re-rating.

ARAHT's set to ride on the summer optimism alongside sector-wide operational breakeven. STR's weekly US hotel tracker shows occupancy at a pandemic-level high of 70%, with daily rates back to normalised levels. With pricing power now back in the hands of hoteliers, c.95% of hotels are at least at breakeven, with three-quarters turning in profits. ARAHT's portfolio of select-service hotels is well situated in well-vaccinated states and poised to capture the reopening on all fronts – leisure demand (22% exposure), airport demand (20%), and corporate demand (36%).

Lean select service model should ensue profitability. Select service hotels have proven to be more efficient and profitable (GOP of 51.6% as compared to 39.3% for full-service branded hotels). ARAHT's select service offering has proven to be more financially lean, and a potential revenue upside this summer break will likely flow through to net income.

Valuation:

Our TP remains at US\$0.70 as we roll forward valuations into FY23, and we recalibrate the risk-free rate for ARAHT to 3.0%, in line with the S-REIT industry re-rating. WACC of 7.62% and terminal growth rate of 2.25% remain unchanged.

Where we differ:

We are more optimistic on ARAHT's recovery trajectory, and project a multi-year RevPAR growth trend to drive DPU and a four-year normalisation period.

Key Risks to Our View:

Lower than expected surge in travel demand this summer.

At A Glance

Issued Capital (m shrs)	568
Mkt. Cap (US\$m/US\$m)	276 / 276
Major Shareholders (%)	
Fairshore Asset Mgmt Co	9.5
Yu Duan	8.5
Yang Shi Ying	8.0
Free Float (%)	59.9
3m Avg. Daily Val (US\$m)	0.08
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

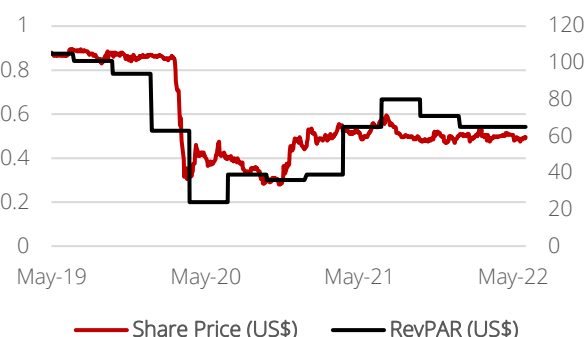
US travel and tourism data points towards spring break optimism

Gearing up for a busy holiday season ahead. In 1Q22 results, management shared that forward bookings for 2Q22 were coming in stronger than pre-COVID levels. Further, using Hyatt Hotels as a proxy, April 2022 RevPAR for the Americas region exceeded pre-COVID levels by 3%. In comparison, system-wide RevPAR in May 2022 at c.US\$127 was the highest since November 2019. Looking ahead, the rebound in travel demand might be faster than we initially anticipated.

'Bleisure' trend likely contributed to summer travel boom. Bleisure travel – which is a combination of business and leisure travel – is on the rise. With travel plans delayed or cancelled due to the pandemic, many are now taking the opportunity to extend a work trip for leisure, especially in an era of hybrid working. In this context, we believe that this travel demand could have been spurred by bleisure demand in addition to just pure leisure demand.

More room for rate hikes; good inflation hedge. With travel demand ahead looking more optimistic than expected, we see potential for ARAHT to increase room rates. Given that the select-service room offering is generally more affordable than full-service hotels, the crunch in room rates could see a similar hike in room rates for the middle to upper-middle accommodation offering in tandem to luxury-tier full-service hotels. We also like the fact that room rate repricing is dynamic, acting as a good hedge in an inflationary environment.

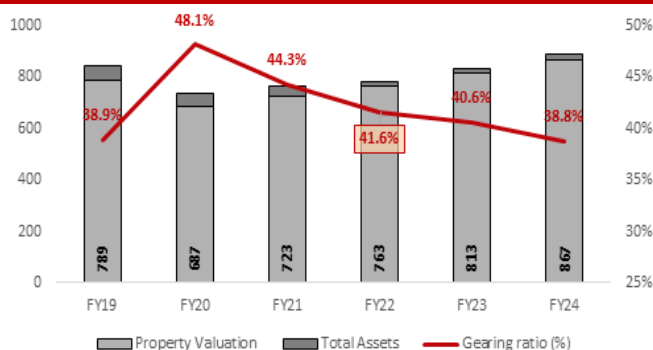
ARAHT RevPAR (US\$) vs Share Price (US\$)



Source: Company, DBS Bank

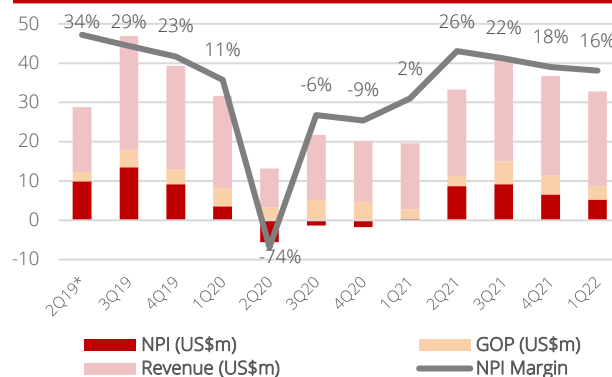
Recovery in RevPAR to drive share-price re-rating. We believe that ARAHT will likely see an uplift in RevPAR ahead as i) we turn more positive on travel demand and ii) on the back of inflationary pressures as well as higher willingness to spend. According to a study by Skyscanner, travellers are spending more on accommodation even amid a higher cost of living. We think there could be two reasons for this: 1) High level of savings from not travelling in the past two years and 2) immense pent-up demand. Hence, we look forward to higher RevPAR figures for 2Q22 and 3Q22, which we think has not priced in yet.

ARAHT gearing sensitivity with divestment proceeds used to reduce debt (US\$m)



Source: Company, DBS Bank

ARAHT's historical Revenue, GOP, NPI (US\$m) and NPI margins (%)



Source: Company, DBS Bank

* 2Q19 represents listing date (9th May 2019) to 30th June 2019

ARA US Hospitality Trust

Paring down of debt likely the immediate priority.

ARAHT's portfolio valuations rose 5.2% y-o-y to US\$722.6m at end-FY21 but remained below FY19 levels on a same-store basis. While pricing in a full recovery in portfolio valuations by FY24, which now looks to be conservative, we estimate ARAHT's FY22F gearing to decline from 42.2% to 41.6% should the full quantum of divestment proceeds be used to pay off debt. This alleviates one of the key market concerns for ARAHT in the current hawkish interest rate environment, and an improvement from their 44.3% leverage ratio as at end FY21.

Bullish on both top line and bottom line, Reiterate BUY with TP US\$0.70. We reiterate our BUY call on ARAHT based on conservative recovery estimates projecting a full RevPAR recovery only in 2024. With travel and hotel sector data pointing upwards in unison, we think 2Q22 will register ARAHT's strongest quarterly performance since the pandemic month, with higher highs y-o-y this year. ARAHT's select service operating format will also help alleviate cost

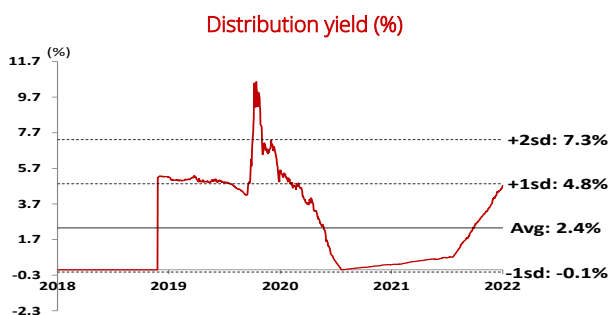
pressures from heightened labour costs and utilities, while riding on RevPAR momentum pegged to higher end hotel offering.

We recalibrate the risk-free rate for ARAHT to 3.0%, in line with the S-REIT industry re-rating. FY22/23 DPU is forecast at US 4.7/6.1scts, respectively, implying forward yields of 9.6% and 12.4%, respectively, on last close price. Our TP remains unchanged at US\$0.70 as we roll forward valuations into FY23.

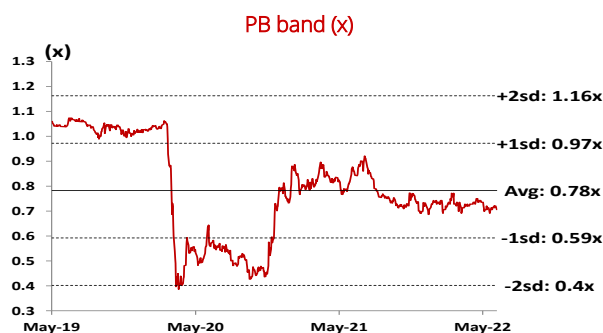
Company Background

ARA US Hospitality Trust (AUHT) is a Singapore-listed stapled security which comprises ARA US Hospitality Property Trust (ARA H-REIT) and ARA US Hospitality Management Trust (ARA H-BT). The Trust is the first pure-play US upscale select-service hospitality trust to be listed in Singapore and Asia.

Historical Dividend yield and PB band



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



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

ARA US Hospitality Trust

Income Statement (US\$m)

FY Dec	2020A	2021A	2022F	2023F
Gross revenue	78.2	131	154	186
Property expenses	(83.2)	(106)	(106)	(127)
Net Property Income	(5.1)	24.9	47.5	58.2
Other Operating expenses	(19.6)	(25.1)	(31.1)	(31.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(11.7)	(12.2)	(12.1)	(13.1)
Exceptional Gain/(Loss)	(67.0)	(5.7)	0.0	0.0
Net Income	(103)	(18.2)	4.34	13.9
Tax	8.83	4.34	(0.3)	(0.9)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	(94.5)	(13.8)	4.06	13.0
Total Return	(94.5)	(13.8)	4.06	13.0
Non-tax deductible Items	94.5	15.8	22.7	22.0
Net Inc available for Dist.	0.0	2.02	26.7	35.0
Growth & Ratio				
Revenue Gth (%)	(32.0)	67.2	17.6	20.7
N Property Inc Gth (%)	nm	nm	90.9	22.5
Net Inc Gth (%)	nm	85.4	nm	220.0
Dist. Payout Ratio (%)	0.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	(6.5)	19.0	30.9	31.4
Net Income Margins (%)	(120.9)	(10.6)	2.6	7.0
Dist to revenue (%)	0.0	1.5	17.4	18.9
Managers & Trustee's fees	25.1	19.2	20.2	16.8
ROAE (%)	(22.4)	(3.7)	1.0	3.3
ROA (%)	(12.6)	(1.8)	0.5	1.7
ROCE (%)	(3.6)	0.0	2.1	3.5
Int. Cover (x)	(2.1)	0.0	1.4	2.1

Source: Company, DBS Bank

Balance Sheet (US\$m)

FY Dec	2020A	2021A	2022F	2023F
Investment Properties	0.0	0.0	0.0	0.0
Other LT Assets	707	739	744	750
Cash & ST Invts	26.8	19.2	12.8	14.8
Inventory	0.33	0.41	0.41	0.41
Debtors	2.75	4.75	3.02	3.02
Other Current Assets	0.0	0.41	0.41	0.41
Total Assets	736	764	761	768
ST Debt	0.30	10.3	10.3	10.3
Creditor	16.0	17.7	9.60	11.6
Other Current Liab	0.09	0.17	0.17	0.17
LT Debt	354	328	332	338
Other LT Liabilities	16.4	8.36	8.36	8.36
Unit holders' funds	349	400	400	400
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	736	764	761	768
Non-Cash Wkg. Capital	(13.0)	(12.3)	(5.9)	(7.9)
Net Cash/(Debt)	(328)	(319)	(330)	(334)
Ratio				
Current Ratio (x)	1.8	0.9	0.8	0.8
Quick Ratio (x)	1.8	0.9	0.8	0.8
Aggregate Leverage (%)	48.2	44.3	45.1	45.3

Source: Company, DBS Bank

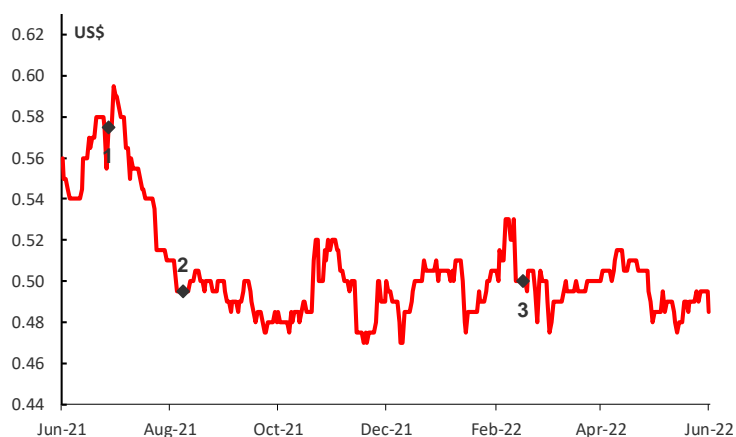
ARA US Hospitality Trust

Cash Flow Statement (US\$m)

FY Dec	2020A	2021A	2022F	2023F
Pre-Tax Income	(103)	(18.2)	4.34	13.9
Dep. & Amort.	25.6	24.1	24.1	24.1
Tax Paid	0.0	0.80	(0.3)	(0.9)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	8.55	(1.3)	(6.3)	1.99
Other Operating CF	67.2	6.22	(1.5)	(2.1)
Net Operating CF	(2.0)	11.7	20.4	37.0
Net Invnt in Properties	(85.3)	0.0	(4.6)	(5.6)
Other Invts (net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	(9.1)	(9.3)	0.0	0.0
Net Investing CF	(94.4)	(9.3)	(4.6)	(5.6)
Distribution Paid	(23.9)	0.0	(26.7)	(35.0)
Chg in Gross Debt	103	(10.0)	4.61	5.57
New units issued	0.0	0.0	0.0	0.0
Other Financing CF	(12.2)	(12.2)	(12.1)	(13.1)
Net Financing CF	66.8	(22.2)	(34.2)	(42.5)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	(29.6)	(19.8)	(18.4)	(11.1)
Operating CFPS (US cts.)	(1.8)	2.23	4.59	6.02
Free CFPS (US cts.)	(15.0)	2.01	2.71	5.40

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:	09 Jul 21	0.58	0.79	BUY
2:	20 Aug 21	0.50	0.75	BUY
3:	28 Feb 22	0.50	0.70	BUY

Source: DBS Bank

Analyst: Geraldine WONG

Tabitha FOO

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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

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