

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 Aug 2022

BUY

Last Traded Price (4 Aug 2022): S\$1.17 (STI : 3,269.86)

Price Target 12-mth: S\$1.40 (20% upside)

Analyst

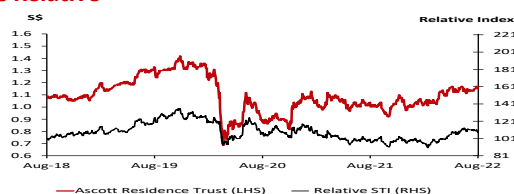
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What's New

- 1H22 revenue grew 45% y-o-y; 1H22 DPU of 2.33 Scts 41% of full year DPU forecast
- Key positives: (i) Strongest recovery yet recorded in 2Q22, (ii) Portfolio RevPAU ahead of estimates (iii) Expect RevPAU momentum to continue across all markets
- Datapoints to watch: (i) More acquisitions within the longer-stay segment, (ii) Capital distributions for full year, which we have priced in
- Maintain BUY with unchanged TP of S\$1.40

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	26.4	21.2	19.2
Distribution Yield (%)	3.7	4.8	5.5	6.0
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 (%):	0	0	0
Consensus DPU (S cts):	5.3	6.3	7.1
Other Broker Recs:	B: 6	S: 1	H: 3

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

Strongest recovery quarter since the pandemic

Investment Thesis

On the cusp of a multi-year recovery trajectory. ART currently trades at book – at a 1.0x P/NAV and attractive 4.9% /5.7% forward FY22 / FY23 yields. The compelling growth in DPU is supported by more resilient income from longer-stay lodging assets; we estimate a 12% CAGR in DPU between FY22-24.

Strongest quarterly recovery since the pandemic. ART's portfolio re-rated sharply in 2Q22, where portfolio RevPAU for the quarter nearly doubled y-o-y. With pent up leisure demand coinciding with peak summer travel season, markets such as the UK and the US are seeing a sharp re-rating of RevPAR, almost back to pre-pandemic levels. With ART's portfolio RevPAU now at c.82% of pre-pandemic levels in 2Q22, we believe that there is further room to narrow the gap and anticipate growth to stem from (i) higher room pricing or average daily room rates coupled with longer length of stay, (ii) strong corporate demand globally with a the return of MICE evens in 2H22, and (iii) green shoots from Japan's border relaxation and China's return of domestic travel as lockdowns ease.

More asset recycling and inorganic growth potential not priced in. We believe ART will continue 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 supports ART's growth appetite. We believe we will see further acquisitions in 2H22 to bring further accretion to numbers and bring ART a step nearer to its target exposure within the longer-stay segment at 25%-30%.

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 longer-stay lodging asset class in the past year has been fully priced into estimates. Future acquisitions are likely 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:

Green shoot markets Japan and China to continue to react to border reopening news, which can be timing-speculative.

At A Glance

Issued Capital (m shrs)	3,287
Mkt. Cap (S\$m/US\$m)	3,846 / 2,794
Major Shareholders (%)	
Temask Holdings Pte Ltd	31.8
Free Float (%)	68.2
3m Avg. Daily Val (US\$m)	4.8
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW**1H22 Results Summary****ART's strongest recovery since pandemic; RevPAU almost doubled y-o-y in 2Q22**

- ART reported a 1H22 revenue of S\$267.4m (+45% y-o-y). Higher revenue was due to acquisition contributions primarily within the longer-stay lodging segment, as well as the Lyf One-North which launched in Jan'22.
- Apart from inorganic growth, RevPAU rose 60% y-o-y in 1H22 to S\$96.
- The recovery is tilted towards 2Q22, where RevPAU almost doubled y-o-y (+91% y-o-y) to S\$120 and was ART's strongest recovery quarter since the pandemic.
- Gross profit (GP) rose 44% y-o-y to S\$118.2 for the half year.
- 1H22 DPU rose 14% y-o-y to 2.33 Scts, or 120% y-o-y to 1.78 Scts, excluding one-off items such as distribution top up (amounting to S\$20m in 1H21).
- Income sources continued to be well-diversified, with stable income sources – comprised of master lease and management contract with a min. guaranteed income (MCMGI) and longer-stay assets – contributed to 68% of 1H22 gross profits.
- Utilities hike temporarily hedged on fixed rates in three markets, while utility expenses are passed on to tenants in long stay lodging assets. Staff costs higher at c.10% above 2019 levels.

Robust financial metrics.

- ART remains well-equipped on the capital management front with stable gearing of 37.5%, a debt headroom of S\$1.8bn (to target gearing of 50%).
- Average cost of debt stood at 1.7% with a weighted average debt expiry of 3.1 years (WADE of 4.6 years for floating loans) and c.80% of debt on fixed rates.

RevPAR recovery led by all global markets except Japan and China

- Income from master leases (37% of GP) declined 8% y-o-y (or +7% y-o-y on a same store basis) due to reclassification of Park Hotel Clarke Quay.
- MCMGI (10% of GP) rose 172% y-o-y alongside RevPAR recovery, while management contracts (53% of GP, including classification of long-stay segment) rose 57% y-o-y with higher gross profits across all countries except China.
- RevPAR to continue to sustain recovery to close the gap against pre-COVID, portfolio RevPAU stands at c.82% of normalised levels in 2Q22, or c.84% for the month of June.

- China and Japan: Markets to lead recovery with further relaxation potential will be China and Japan. Japan's hotel RevPAU is still at c.32% of normalised basis with a long headroom to run.
- Markets that have done well to see RevPAU matching pre-COVID levels include France and the UK. The US is also seeing a sharp increase in occupancies back to 80% levels for their New York hotels from strong corporate demand.

Acquisition appetite remains strong for longer-stay lodging assets with continued interest in US PBSAs.

- Interest for acquisitions continues to be in longer-stay asset class, current exposure at 17% with medium term target exposure of 25-30%. US PBSAs continue to rank high on ART's acquisition radar with relatively attractive yield spread and stable operating metrics.
- Longer-stay segment continue to deliver both stability and rental growth. Occupancy for ART's longer-stay assets has been maintained at above 95%, with PBSA (purpose-built student accommodation) segment expected to deliver 8% y-o-y rental growth in the coming academic year.

Maintain BUY with unchanged TP of S\$1.40; upside from capital distributions and accretive acquisitions

- We have assumed some form of capital distributions for full year at S\$10m. ART distributed S\$45m in capital top-ups in the last financial year and still has c.S\$300m in capital gain reserves from their divestments since 2018.
- Quantum of capital distributions at year end will likely account for both acquisition funding needs and full year portfolio and DPU performance.
- Accretive acquisitions will come as further upside to our full year FY22 estimates, which we have not modelled into forecast numbers. ART executed on c.S\$850m in acquisitions within the longer-stay lodging asset class in 2021. We continue to expect delivery of acquisitions within this space in 2H22, which will serve as upside to our numbers.
- ART is currently trading at a FY22F / FY23F forward yield of 4.9% / 5.7%, we estimate a 12% CAGR in DPU between FY22-24.

Summary performance by key markets:

Market	2Q21 RevPAU / 2Q22 RevPAU (local curr), % growth	Asset Exposure	Key Observation / Outlook
Australia	79 / 125 (+58% y-o-y)	13%	<ul style="list-style-type: none"> For 1H 2022, revenue was 30% higher y-o-y on recovery demand while gross profit was 16% higher y-o-y to partially offset higher staff cost. 2Q22 RevPAU approximately at 96% of pre-COVID levels. Rebound in demand driven by leisure segment and from events such as the Australian Open in Jan and F1 Grand Prix in April.
China	273 / 218 (-20% y-o-y)	4%	<ul style="list-style-type: none"> On a same-store basis, 1H 2022 revenue and gross profit were 14% and 64% lower y-o-y, respectively, due to Omicron outbreaks, higher staff costs, and property tax expense. RevPAU was stable q-o-q while occupancy still registered at above 50% in 2Q22 supported by corporate long-stays (of c.8 months). Transient domestic travel picked up gradually towards end 2Q22 alongside easing lockdowns in Shanghai and Beijing. Peak summer holiday and Golden Week to give a travel boost in 3Q22.
Japan	2,538 / 4,308 (+70% y-o-y)	18%	<ul style="list-style-type: none"> Green shoots from the market as Japan lags the other markets in the border relaxation curve. No quasi-emergency restrictions or lockdowns since late Mar'22. On a same-store basis, 1H 2022 revenue was up 12% y-o-y while GP was higher by 14% y-o-y. SR and hotels' RevPAU in 2Q22 continue to be relatively depressed at 32% of pre-COVID levels. Forward booking reflects increased long-stay demand from international visitors in 3Q22. Two of ART's WBF branded hotels remains closed.
Singapore	60 / 139 (+132% y-o-y)	17%	<ul style="list-style-type: none"> Borders reopened to all fully vaccinated travellers since April'22. Citadines Mount Sophia saw strong international corporate demand transiting out of government contract in April 2022, with RevPAU at c.97% of pre-COVID levels. Since the asset's launch in Jan'22, Lyf One North registered a strong occupancy of 90% in 2Q22, made up primarily of long-stay bookings.
The UK	44 / 144 (+227% y-o-y)	7%	<ul style="list-style-type: none"> No COVID-19 measures within the country since Feb'22. 1H 2022 revenue and gross profit increased by 180% and 167% y-o-y respectively, on the back of stronger domestic and international demand following reopening borders. Strong pent-up leisure demand supported by a return of events such as the Queen's Platinum Jubilee Central Weekend. Expect RevPAU recovery traction to continue to surge beyond pre-COVID levels.
The US	58 / 142 (+257% y-o-y)	21%	<ul style="list-style-type: none"> 1H 2022 revenue and gross profit rose 141% and 457% y-o-y respectively due to the hotels' robust performance. Performance was driven primarily by domestic leisure demand and increased booking from corporate travellers. ART's three New York hotels saw occupancies surge to 80% on strong corporate demand, while achieving pre-pandemic ADR.

Source: Company, DBS Bank

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).

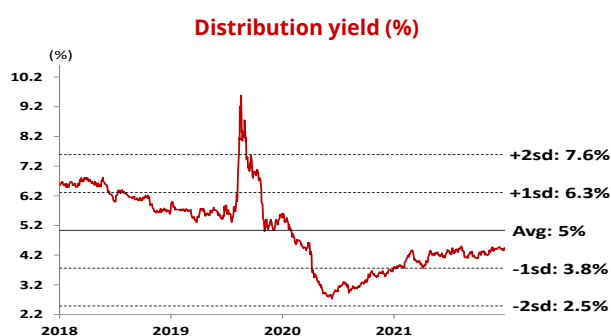
Ascott Residence Trust

Interim Income Statement (S\$m)

FY Dec	1H2021	2H2021	1H2022	% chg y-o-y	% chg h-o-h
Gross revenue	185	209	267	44.5	27.7
Property expenses	(103)	(118)	(149)	44.9	26.3
Net Property Income	82.1	91.2	118	44.0	29.6
Other Operating expenses	2.83	(3.0)	(11.0)	nm	273.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	(28.3)	(0.7)	nm	(97.6)
Net Interest (Exp)/Inc	(25.0)	0.16	(30.9)	(23.5)	nm
Exceptional Gain/(Loss)	156	132	(5.4)	nm	nm
Net Income	200	175	51.2	(74.4)	(70.7)
Tax	(35.1)	(29.4)	(12.4)	(64.8)	(58.0)
Minority Interest	(1.7)	(0.6)	(1.9)	(15.2)	231.8
Net Income after Tax	163	145	36.9	(77.4)	(74.5)
Total Return	163	145	36.9	(77.4)	(74.5)
Non-tax deductible Items	(113)	(103)	46.4	nm	nm
Net Inc available for Dist.	63.8	73.5	76.6	20.2	4.3
Ratio (%)					
Net Prop Inc Margin	44.4	43.6	44.2		
Dist. Payout Ratio	100.0	100.0	99.9		

Source of all data: Company, DBS Bank

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

Quarterly Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	137	116	132	132	134
Property expenses	(73.1)	(61.3)	(64.8)	(67.4)	(68.8)
Net Property Income	63.4	54.6	67.7	65.0	65.3
Other Operating	(7.5)	(7.0)	(7.7)	(7.5)	(7.9)
Other Non Opg (Exp)/Inc	(4.0)	0.20	3.75	(0.5)	(1.5)
Associates & JV Inc	0.02	0.0	0.0	0.01	0.01
Net Interest (Exp)/Inc	(11.5)	(13.0)	(12.6)	(12.3)	(11.8)
Exceptional Gain/(Loss)	3.70	0.0	0.0	0.0	(160)
Net Income	44.1	34.8	51.0	44.7	(116)
Tax	(19.0)	(4.3)	(12.7)	(6.2)	(21.5)
Minority Interest	2.71	(1.6)	1.20	(1.7)	1.99
Net Income after Tax	27.9	28.9	39.6	36.8	(135)
Total Return	36.4	164	48.6	36.8	(33.1)
Non-tax deductible Items	14.9	(128)	(0.6)	6.03	87.4
Net Inc available for Dist.	46.5	31.5	43.1	41.6	49.3
Growth & Ratio					
Revenue Gth (%)	2	(15)	14	0	1
N Property Inc Gth (%)	(1)	(14)	24	(4)	0
Net Inc Gth (%)	(36)	4	37	(7)	(467)
Net Prop Inc Margin (%)	46.4	47.1	51.1	49.1	48.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Source: Company, DBS Bank

Ascott Residence Trust

Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Gross revenue	208	161	185	209	267
Property expenses	(120)	(100)	(103)	(118)	(149)
Net Property Income	88.5	61.0	82.1	91.2	118
Other Operating	(10.7)	(12.3)	2.83	(3.0)	(11.0)
Other Non Opg (Exp)/Inc	0.34	0.0	0.0	0.0	0.0
Associates & JV Inc	0.07	0.0	0.0	(28.3)	(0.7)
Net Interest (Exp)/Inc	(30.4)	(27.7)	(25.0)	0.16	(30.9)
Exceptional Gain/(Loss)	11.1	11.3	156	132	(5.4)
Net Income	41.7	17.5	200	175	51.2
Tax	(12.2)	54.8	(35.1)	(29.4)	(12.4)
Minority Interest	(1.9)	4.67	(1.7)	(0.6)	(1.9)
Net Income after Tax	27.6	28.9	163	145	36.9
Total Return	27.6	(250)	163	145	36.9
Non-tax deductible Items	13.7	274	(113)	(103)	46.4
Net Inc available for Dist.	32.6	61.7	63.8	73.5	76.6
Growth & Ratio					
Revenue Gth (%)	N/A	(23)	15	13	28
N Property Inc Gth (%)	nm	(31)	34	11	30
Net Inc Gth (%)	nm	179	112	(11)	(75)
Net Prop Inc Margin (%)	42.5	37.8	44.4	43.6	44.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	99.9

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
2:	05 May 22	1.16	1.40	BUY

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

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

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