

Langham Hospitality Investments

Bloomberg: 1270 HK Equity | Reuters: 1270.HK

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DBS Group Research . Equity

15 Aug 2022

BUY (Upgrade from HOLD)

Last Traded Price (12 Aug 2022): HK\$0.94 (HSI : 20,176)
Price Target 12-mth: HK\$1.28 (36% upside) (Prev HK\$0.93)

Analyst

Jeff Yau, CFA +852 36684180 jeff_yau@dbs.com

What's New

- 1H22 distributable income more than tripled to HK\$125m, ahead of our expectations
- Hotel RevPAR more than quadrupled following changes to operating model
- F&B business, however, remained under pressure
- Upgrade to BUY with DDM-based TP raised to HK\$1.28

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Gross Revenue	208	224	383	493
Net Property Inc	180	204	362	471
Net Profit	(2,833)	(347)	221	264
Distribution Inc	0	89	221	271
DPU (HK\$)	0.00	0.03	0.07	0.08
DPU Gth (%)	(100)	N/A	150	21
Div Yield (%)	0.0	2.9	7.2	8.7
Gross Gearing (%)	42	43	42	41
Book Value (HK\$)	2.52	2.41	2.48	2.52
P/Book Value (x)	0.4	0.4	0.4	0.4
DPU Rev (%):			148	57
Consensus DPU (HK\$):			0.04	0.04
Other Broker Recs:		B:0	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Out of the woods.

Investment Thesis

Upgrade to BUY with HK\$1.28 TP. Langham Hospitality Investments (LHI) offers distribution yields of 7.2% for FY22. The government has been easing the quarantine requirement for international travelers and returning residents, which should pave way for hotel sector recovery. Upgrade to BUY.

Change in operating model to boost room revenue.

Langham and Cordis participated in Community Isolation Facility scheme during March and May and then operated as designated quarantine hotels till end-October. Eaton provided accommodation to Hospital Authority's staff between March and June, and now targets the domestic staycation and local long-stay market. The change in operating model resulted in significant improvement in hotel RevPAR and room revenue.

Mitigating the interest rate risk with the aid of interest rate swaps. In Jun-22, interest costs for 42.7% of total loans have been fixed at a weighted swap rate of 1.08% p.a.. This should help mitigate the increase in finance costs led by interest rate hikes.

Valuation:

Our target price of LHI is based on Dividend Discount Model using discount rate of 8.8%.

Where we differ:

We believe that the gradual relaxation of quarantine requirement for international travelers and returning residents should pave way for hotel room demand recovery.

Key Risks to Our View:

A prolonged pandemic-led restrictions could delay the recovery of inbound tourism and the hotel industry.

At A Glance

Issued Capital (m shrs)	3,241
Mkt Cap (HKm/US\$m)	3,047 / 389
Major Shareholders (%)	
Great Eagle Holdings Ltd	69.5
Free Float (%)	30.5
3m Avg. Daily Val. (US\$m)	0.03
GICS Industry: Real Estate / Equity Real Estate Investment	



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Langham Hospitality Investments

WHAT'S NEW

Change in operating models to boost room revenue

Despite the fifth wave of the pandemic, Langham Hospitality Investment's 1H22 distributable income more than tripled to HK\$125m, above our expectations, because of stronger-than-expected rental growth. Yet, as in 1H21, no interim distribution was declared.

Langham, Cordis, and Eaton changed their operating mode amid the COVID resurgence. Langham and Cordis participated in the government's Community Isolation Facility Hotel Scheme from mid-March to provide accommodation to COVID-19 patients with mild symptoms, and operate as designated quarantine hotels to serve those overseas travelers and returning residents from May till end-Oct. Eaton provided accommodation for Hospital Authority's staff between mid-March and mid-June before resuming normal operations to focus on domestic staycation and long-stay markets.

This resulted in sharp improvement in occupancies and room rates. Occupancies at Langham, Cordis and Eaton rose 50ppts, 44.9ppts and 40.4ppts to 70.6%, 71.1% and 76.3% in 1H22 respectively. Langham and Cordis saw respective room rates climb by 44.6% and 48.9%. Eaton fared even better with room rate more than doubling. Therefore, revenue per available room (RevPAR) and room revenue of Langham, Cordis and Eaton more than quadrupled in 1H22.

But the COVID resurgence delivered a severe blow to its F&B business. With temporary closure of various F&B outlets at different times, F&B income plunged 48% to HK\$104m in 1H22, partially offsetting the growth in room revenue.

With total hotel revenue rising 50%, these hotels returned to profitability in 1H22 with adjusted operating profit of HK\$130m (1H21: loss of HK\$18m). Hence, LHI earned variable rental income of HK\$91m in 1H22. (1H21: nil)

As of Jun-22, total debt remained at HK\$6.32bn. With higher hotel valuation, gearing Improved slightly to 41.7% from Dec-21's 43.2%. Following the expiry of a HK\$500m interest rate swap in Jun-22, interest cost for HK\$2.7bn bank loan (or 42.7% of total) remained hedged at a weighted average swap rate of 1.08% p.a. This should help mitigate the interest rate risk.

We have raised our distributable income forecast for FY22 by 148% to reflect better-than-expected interim results.

Langham Hospitality Investments offers distribution yield of 7.2% for FY22 and 8.7% for FY23. The government has been relaxing the quarantine requirement for incoming international travelers and returning residents gradually, which is crucial to the recovery of inbound tourism as well as hotel sector. Upgrade to BUY with DDM-based TP of HK\$1.28. A full-fledged recovery, however, would hinge on the re-opening of the border with Mainland China.

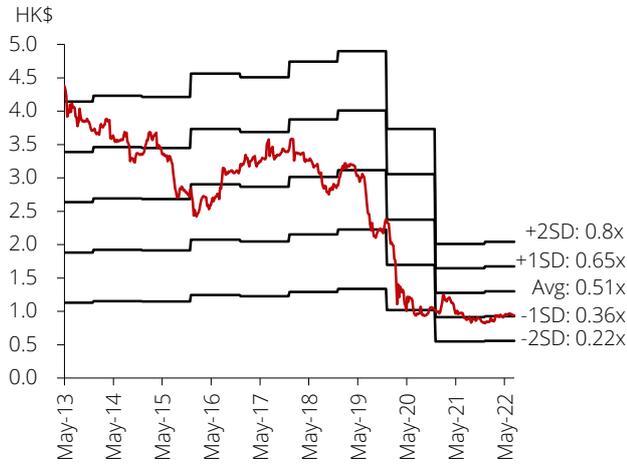
Company Background

Listed in May 2013, Langham Hospitality Investments (LHI) is HK's first fixed single investment trust focused on the hospitality sector. It has a portfolio comprising of three hotels on the Kowloon Peninsula - The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong, with a total of 1,631 guest rooms.

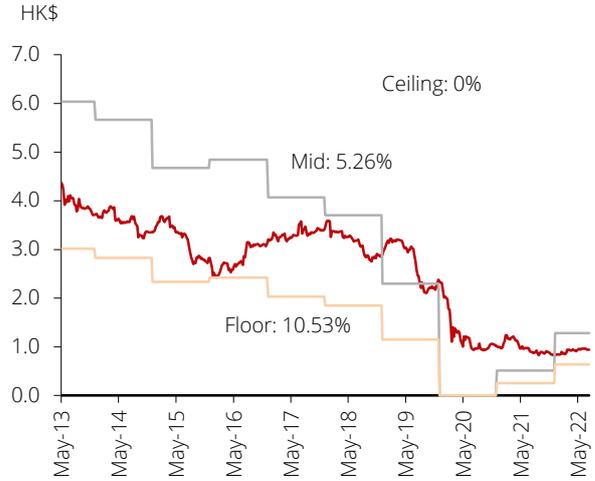
Langham Hospitality Investments

Price to book NAV band and historical yield band

Price to book NAV band



Historical yield band



Source: Bloomberg Finance L.P. DBS HK

Langham Hospitality Investments

Result Summary

FY Dec (HK\$m)	1H21	1H22	% Chg	Comments
Fixed rental income	111.6	111.6	0.0	
Variable rental income	0.0	90.9	<i>n.a.</i>	1H22: hotels recorded aggregate operating profit of HK\$129.9m
Service fees expenses	(8.9)	(22.5)	154.0	1H22: due to improvement in performance of the hotel portfolio
Rental income from retail shops	1.0	1.1	13.8	
Total rental income	103.7	181.1	74.7	
Hotel properties related expenses	(11.2)	(9.1)	(18.3)	1H22: Primarily led by lower government rates
Net property income	92.5	171.9	85.9	
Other income	0.9	0.6	(32.7)	
Change in fair value of investment properties	(553.7)	444.0	<i>n.a.</i>	
Change in fair value of derivative financial instruments	24.3	78.6	223.3	
Finance cost	(60.0)	(57.4)	(4.3)	
Trust and other expense	(7.0)	(6.6)	(5.6)	
Profit before tax	(503.0)	631.1	<i>n.a.</i>	
Tax	(6.5)	(20.8)	221.0	
Net profit	(509.5)	610.4	<i>n.a.</i>	
Distribution income	36.0	124.6	246.1	

Source: Langham Hospitality

Langham Hospitality Investments

Key Assumptions (%)

	2022F	2023F
RevPAR	30	10

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Base rent	225	225	225	225	225
Variable rent	325	0	22	206	335
Rental income from retail	2	2	2	2	2
Netting of Service Fees	(68)	(19)	(24)	(50)	(69)
Total	484	208	224	383	493

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	484	208	224	383	493
Property expenses	(36)	(28)	(21)	(21)	(21)
Net Property Income	448	180	204	362	471
Other expenses	(11)	(19)	(12)	(12)	(13)
Interest (Exp)/Inc	(220)	(175)	(116)	(122)	(181)
Exceptionals	(2,803)	(2,813)	(413)	0	0
Pre-Tax Profit	(2,586)	(2,827)	(337)	228	278
Tax	(48)	(6)	(9)	(7)	(14)
Net Profit	(2,635)	(2,833)	(347)	221	264
Distribution income	259	0	89	221	271
Revenue Gth (%)	(21)	(57)	8	71	29
NPI Gth (%)	(24)	(60)	13	78	30
Dist. Inc Growth (%)	(37)	(100)	N/A	149	22
DPU Growth (%)	(38)	(100)	N/A	150	21

Source: Company, DBS HK

Langham Hospitality Investments

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	17,500	14,802	14,407	14,551	14,842
Long-term Investments	0	0	0	0	0
Other LT Assets	6	3	7	7	7
Bank Balance/Cash & Liquid	76	259	179	350	312
Debtors	22	15	20	20	20
Other Non Cash Current	8	0	0	0	0
Total Assets	17,612	15,080	14,613	14,927	15,181
ST Debt	352	427	327	6,295	327
Creditors	57	36	39	39	39
Other Current Liab	55	48	52	52	52
LT Debt	6,756	5,957	5,968	0	5,968
Deferred Tax Liabilities	392	398	408	408	408
Other LT Liabilities	10	84	20	20	20
Unitholders' funds	9,990	8,130	7,800	8,115	8,368
Total Capital	17,612	15,080	14,613	14,927	15,181
Share Capital (m)	2,136	3,225	3,241	3,276	3,324
Gross Debt	(7,108)	(6,384)	(6,295)	(6,295)	(6,295)
Working Capital	(358)	(237)	(218)	(6,016)	(86)
Book NAV (HK\$)	4.68	2.52	2.41	2.48	2.52
Gross Gearing (%)	40	42	43	42	41

Source: DBS HK

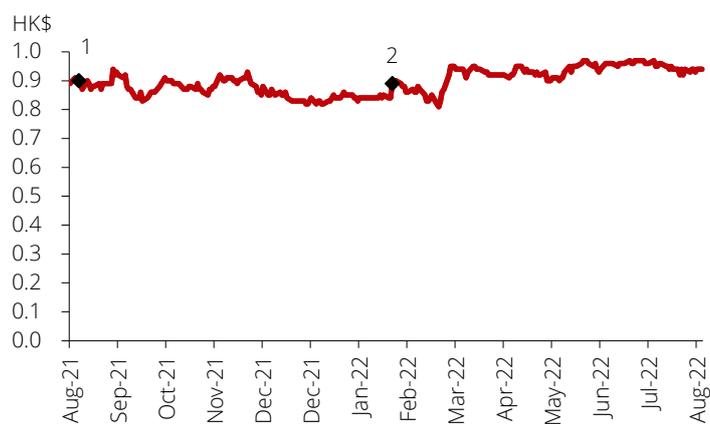
Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	(2,586)	(2,827)	(337)	228	278
Tax Paid	0	(13)	3	(7)	(14)
Depr/Amort	26	13	13	0	0
Chg in Wkg.Cap.	54	15	(20)	0	0
Other Non-Cash	2,864	2,824	431	35	53
Operational CF	357	12	90	256	317
Net Capex	(102)	(39)	(68)	0	0
Other Investment CF	0	(41)	42	2	2
Investment CF	(102)	(80)	(26)	2	2
Net Chg in Debt	142	(735)	(100)	0	0
New issues/Unit Buyback	0	1,019	0	0	0
Distribution Paid	(409)	(73)	0	(88)	(356)
Other Financing CF	0	(2)	(2)	0	0
Financing CF	(267)	209	(102)	(88)	(356)
Chg in Cash	(11)	142	(38)	171	(38)

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Aug-21	HK\$0.90	HK\$1.01	Hold
2:	16-Feb-22	HK\$0.84	HK\$0.93	Hold

Source: DBS HK

Analyst: Jeff Yau

Langham Hospitality Investments

DBS HK 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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13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Langham Hospitality Investments

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand