Singapore Company Update

Frasers Hospitality Trust

Bloomberg: FHT SP | Reuters: FRHO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Nov 2022

BUY

Last Traded Price (4 Nov 2022): S$0.450 (STI : 3,130.11)
Price Target 12-mth: S$0.58 (28% upside) (Prev S$0.65)

Analysts
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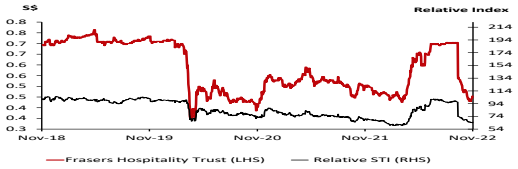
What's New

- FY22 gross revenue rose 12% to S$95.9m while NPI was up 21% y-o-y to S$69.6m; full-year DPU at 1.6355 Scts (on a 90% pay-out ratio) trials behind our estimates
- Key positives: (i) Singapore hotels delivered strong outperformance in 2H22 with an 88% h-o-h increase in GOP; (ii) strengthened balance sheet with debt repayment post Sydney Sofitel Wentworth (SSW) divestment, and c.90% of debt hedged on fixed rates
- Datapoints to watch: (i) Turnaround in low-hanging markets such as Japan and Germany, (ii) strategic news on potential asset brand repositioning as hotel contracts to expirie in the coming years
- Maintain BUY, lower TP of S$0.58; FHT trades below book at 0.7x P/NAV

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2021A	2022A	2023F	2024F
Gross Revenue	85.5	95.9	117	128
Net Property Inc	57.6	69.6	86.0	95.1
Total Return	16.3	58.3	32.6	39.7
Distribution Inc	21.0	35.0	48.2	55.8
EPU (S cts)	0.65	0.86	1.69	2.06
EPU Gth (%)	(62)	32	97	22
DPU (S cts)	0.98	1.64	2.25	2.61
DPU Gth (%)	(30)	66	38	16
NAV per shr (S cts)	64.8	64.7	64.9	65.2
PE (X)	69.0	52.4	26.6	21.9
Distribution Yield (%)	2.2	3.6	5.0	5.8
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	42.1	36.3	33.8	33.7
ROAE (%)	1.0	1.3	2.6	3.2
Distn. Inc Chng (%):			(29)	(29)
Consensus DPU (S cts):			2.00	3.30
Other Broker Recs:		B: 0	S: 0	H: 0

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

Strengthened balance sheet post SSW divestment.

Investment Thesis

Attractive entry price. Frasers Hospitality Trust (FHT) currently trades below book at a 0.7x P/NAV, below the -1 standard deviation (SD) trading range and on 5.0% forward FY23 yields. Any further RevPAR recovery upside will drive a 17% CAGR in DPUs between FY22-FY24.

Strengthened balance sheet post SSW divestment. Proceeds from the recent divestment of Sofitel Sydney Wentworth (SSW) on a 12% premium to asset valuation have gone towards debt repayment (c.S$300m), bringing gearing down to 36.4% as at 30 Sep 22 (from 42.2% in end-FY21). This, alongside one of the highest fixed debt hedge ratios in the sector, will see FHT on strong footing going into the upcoming financial year. We believe that FHT will have ample firepower to consider its portfolio rejuvenation plans, which we believe will come in the form of the rebranding of selective portfolio assets, as hotel contracts expire in the coming years.

RevPAR recovery to serve as further upside in FY23. FHT's geographical markets continue to see strong h-o-h recovery, led by Singapore and UK in 2H22, which has helped narrow the RevPAR gap in comparison to pre-COVID levels. A further upside will ensue from low-hanging markets such as Japan and Germany in the coming year, which are key drivers of our strong DPU growth forecasts.

Valuation:

Our DCF-based TP is cut to S$0.58on a higher risk-free rate of 3.5%, lower NPI margin assumptions, and higher interest rate assumptions.

Where we differ:

No assumption of near-term acquisitions post Sofitel Wentworth divestment.

Key Risks to Our View:

Slower-than-anticipated recovery within low-hanging markets.

At A Glance

Issued Capital (m shrs)	1,926
Mkt. Cap (Sm/USm)	867 / 610
Major Shareholders (%)	
TCC HOSPITALITY LIMI	36.7
TCC Assets Ltd	25.8
Free Float (%)	37.5
3m Avg. Daily Val (US$m)	1.6

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

DBS Insights Direct

Watchlist the stock on Insights Direct to receive prompt updates

ed: BM/ sa: AS, PY, CS

WHAT'S NEW

FY22 Results

FY22 DPU of 1.6355 Scts (on a 90% pay-out ratio) was behind our estimates

- FHT reported 2H22 gross revenue and NPI of S$51.8 (+17% h-o-h) and S$37.9m (+20% h-o-h), respectively.
- Distributable income for 2H22 rose 32% h-o-h to S$19.9m.
- Correspondingly, on a full-year basis, gross revenue was up 12.1% to S$95.9m while NPI was up 20.7% y-o-y to S$69.6m, making up 97%/95% of our full-year estimates.
- Income available for distribution rose 66.3% to S$35m.
- The stronger full-year NPI and DI performance was due to lower property tax expenses post valuation and recovery of receivables that were previously impaired, partly neutralised by the divestment of Sydney Sofitel Wentworth, which was completed in Apr 22.
- DPS for 2H22 at 0.9316 Scts rose 32% h-o-h while full-year DPU at 1.6355 Scts was behind our estimates on a 90% payout ratio (vs. 100% in our estimates) and higher-than-expected operating expenses.

Singapore and UK-led recovery in 2H22

- Singapore-led recovery in 2H22 with gross operating revenue (GOR) up 76% h-o-h and gross operating profit (GOP) up 88% h-o-h.
- Australia saw lower gross operating profit this half due to the divestment of Sydney Sofitel Wentworth, which was completed in Apr 22, with GOP declining 5.6% h-o-h.
- Japan's GOR rose by 14% h-o-h on international border relaxation, but GOP reduced h-o-h due to higher operating expenses with the roll-off in government wage subsidies going into 2H22.
- Germany and UK recovered from a low base, seeing more than double GOR h-o-h.
- RevPAR continues to be below pre-pandemic levels across all markets, with Japan a low-hanging market.

Operational performance by key markets

Key Market	Exposure (FY2022 NPI)	2H22 RevPAR trend	Comments & Outlook
Australia	31%	A$155 (+54% y-o-y / +>100% h-o-h)	• Gradual resumption of cultural and sporting events in Sydney and Melbourne • Sydney Wentworth saw an exit in portfolio contribution following its divestment in Apr 22 • Recovery is more gradual this period due to low travel seasonality across the winter months for Australia
Singapore	27%	S$226 (+76% y-o-y / +65% h-o-h)	• Strong demand following resumption of events such as F1 in end-Sep 22, where ADR increased 92% y-o-y and 55.1% h-o-h • Intercontinental exited government business in Dec 21 and has since attained high occupancies in FY22 • RevPAR remains below pre-COVID levels at c.80% on a full-year basis
United Kingdom	20%	GBP119 (+>100% y-o-y / +65% h-o-h)	• ADR and occupancy improved during the peak summer season in 2H22, when ADR increased 37% y-o-y and occupancy improved 39ppt y-o-y • Recovery pace impeded by rising utility expenses, manpower shortage, and heightened inflation

Germany	10%	n.a.	• Recovery continues to be very gradual in the absence of MICE events and international arrivals • The country lifted international travel restrictions in early Jun 22
Malaysia	6%	RM245 (+>100% y-o-y / +>100% h-o-h)	• Malaysia has fully reopened international borders from early Apr 22
Japan	6%	JPY6,494 (+87% y-o-y / +38% h-o-h)	• Domestic travel and conferences remain slow to resume despite the state of emergency being lifted

Source: Company, DBS Bank

Capital management stable post SSW divestment and debt repayment

- Approximately S$300m from the proceeds from the SSW divestment has partially gone towards debt repayment post divestment in Apr 22.
- As such, gearing ended the year at 36.4% (from 42.2% in end-FY21) with a weighted debt maturity of 2.0 years.
- Average cost of debt stood at 2.3% with 82% of borrowings hedged on fixed rates.
- FHT plans to increase the current fixed hedge ratio towards 90% in the coming round of debt renewals.
- Approximately 21% and 28% of total borrowings will be up for renewal in FY23 and FY24.
- NAV/share ended the financial year at S$0.65, implying a P/NAV of c.0.69x currently (current share price of S$0.445) and trades below the sector average at c.0.8x P/NAV.

Valuation up in local currency (LCL) terms across most markets; potential asset rebranding as hotel management contracts expire

- In LCL terms, FHT's portfolio assets saw a y-o-y uplift across all major markets with the exception of Japan (flat y-o-y) and Germany (-0.5% y-o-y).
- UK and Malaysia saw the sharpest gain in valuation, up 5.4% y-o-y and 3.3% y-o-y (LCL terms).
- Singapore and Australia saw more muted gains in valuations, up 0.6% y-o-y and 2.0% y-o-y, respectively, (LCL terms).
- Factoring in exchange rate movements, FHT's portfolio saw a 4.4% y-o-y decline in SGD terms due to currency weakness of the JPY and euro.
- Portfolio rejuvenation continues to be a priority for FHT, which we think will come in the form of asset rebranding and repositioning of portfolio assets as hotel management contracts come due in the coming few years.
- Third-party acquisitions continue to be looked upon keenly with the intention of more diversification across geographical markets and into long-stay lodging products.

Maintain BUY with lower TP of S$0.58. We roll forward valuations into FY23, while pricing in softer estimates on higher interest rate assumptions, NPI margins, and an adjusted risk-free rate of 3.5%. The interest rate is assumed to increase another +50bps/+70bps in FY23/FY24 from the current cost of debt. NPI margins have been reduced by 2ppt to reflect higher operating cost. No acquisitions have been assumed in our forward assumptions.

FY23/FY24 DPU estimates revised to 2.25 Scts/2.61 Scts (on adjusted 90% pay-out ratio), translating to a forward yield of 5.0%/5.8% on the last share price of S$0.45.

Company Background

Frasers Hospitality Trust (FHT) provides investors exposure to one of the largest international hospitality portfolios by number of keys. Its geographically diversified portfolio of 15 quality assets spans prime locations across nine key cities in Asia, Australia, and Europe.

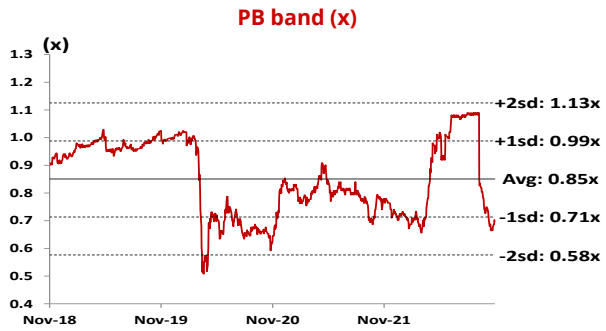
Interim Income Statement (S$m)

FY Sep	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Gross revenue	45.6	44.1	51.8	13.5	17.3
Property expenses	(14.7)	(12.4)	(13.8)	(5.9)	11.2
Net Property Income	30.9	31.7	37.9	22.7	19.8
Other Operating expenses	(8.3)	(7.7)	(11.6)	39.5	49.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(11.0)	(10.5)	(11.2)	(1.8)	(6.6)
Exceptional Gain/(Loss)	3.28	(2.7)	1.06	nm	nm
Net Income	**14.9**	**10.8**	**16.2**	**9.0**	**50.7**
Tax	(7.1)	(1.4)	(9.1)	27.2	552.8
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**7.76**	**9.38**	**7.15**	**(7.8)**	**(23.7)**
Ratio (%)					
Net Prop Inc Margin	67.7	71.8	73.3		
Dist. Payout Ratio	90.0	90.0	90.0		

Source of all data: Company, DBS Bank

Historical PE and PB band

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



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

Income Statement (S$m)

FY Sep	2020A	2021A	2022A	2023F	2024F
Gross revenue	88.6	85.5	95.9	117	128
Property expenses	(28.7)	(27.9)	(26.3)	(31.2)	(33.4)
Net Property Income	**59.8**	**57.6**	**69.6**	**86.0**	**95.1**
Other Operating expenses	(16.8)	(16.4)	(18.7)	(21.5)	(22.1)
Other Non Opg (Exp)/Inc	(1.1)	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(19.4)	(20.2)	(22.3)	(24.8)	(25.4)
Exceptional Gain/(Loss)	0.0	0.0	(1.6)	0.0	0.0
Net Income	**22.6**	**21.0**	**27.0**	**39.7**	**47.6**
Tax	9.98	(8.4)	(10.5)	(7.1)	(7.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**32.6**	**12.6**	**16.5**	**32.6**	**39.7**
Total Return	(113)	16.3	58.3	32.6	39.7
Non-tax deductible Items	148	7.45	(23.3)	15.5	16.1
Net Inc available for Dist.	29.9	21.0	35.0	48.2	55.8
Growth & Ratio					
Revenue Gth (%)	(40.9)	(3.4)	12.1	22.3	9.6
N Property Inc Gth (%)	(46.4)	(3.7)	20.7	23.6	10.5
Net Inc Gth (%)	(51.3)	(61.4)	31.7	97.3	21.6
Dist. Payout Ratio (%)	90.0	114.3	90.1	90.0	90.0
Net Prop Inc Margins (%)	67.5	67.4	72.6	73.4	74.0
Net Income Margins (%)	36.8	14.7	17.2	27.8	30.9
Dist to revenue (%)	33.8	24.6	36.5	41.1	43.4
Managers & Trustee's fees	18.9	19.2	19.5	18.3	17.2
ROAE (%)	2.5	1.0	1.3	2.6	3.2
ROA (%)	1.4	0.5	0.7	1.6	1.9
ROCE (%)	2.0	1.1	1.5	2.9	3.3
Int. Cover (x)	2.2	2.0	2.3	2.6	2.9

Source: Company, DBS Bank

Balance Sheet (S$m)

FY Sep	2020A	2021A	2022A	2023F	2024F
Investment Properties	2,030	2,025	1,683	1,687	1,691
Other LT Assets	234	232	249	249	249
Cash & ST Invts	92.5	78.2	124	141	151
Inventory	0.03	0.0	0.0	0.0	0.0
Debtors	3.14	14.3	9.28	7.45	8.16
Other Current Assets	2.51	0.01	20.3	20.3	20.3
Total Assets	2,361	2,349	2,086	2,104	2,119
ST Debt	50.0	203	174	174	174
Creditor	18.9	18.4	19.3	79.4	85.0
Other Current Liab	1.74	3.72	0.98	0.98	0.98
LT Debt	836	786	583	536	540
Other LT Liabilities	101	90.1	62.7	62.7	62.7
Unit holders' funds	1,353	1,248	1,246	1,251	1,256
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,361	2,349	2,086	2,104	2,119
Non-Cash Wkg. Capital	(15.0)	(7.8)	9.31	(52.6)	(57.5)
Net Cash/(Debt)	(794)	(910)	(633)	(570)	(563)
Ratio					
Current Ratio (x)	1.4	0.4	0.8	0.7	0.7
Quick Ratio (x)	1.4	0.4	0.8	0.7	0.7
Aggregate Leverage (%)	75.1	42.1	36.3	33.8	33.7
Z-Score (X)	1.2	1.3	1.3	1.3	1.3

Source: Company, DBS Bank

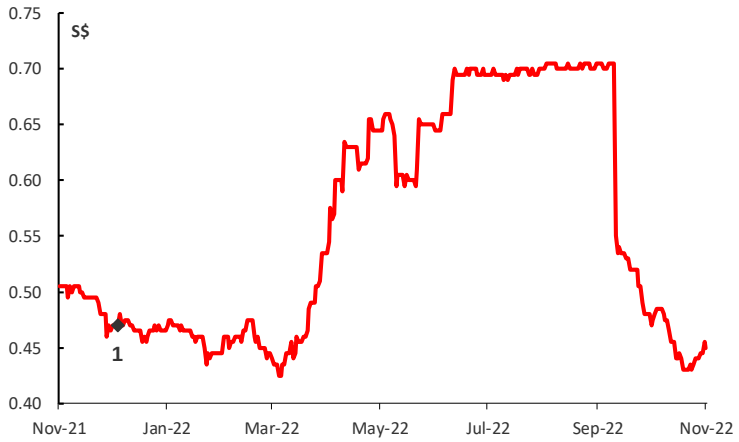
Divestment of Sofitel Sydney Wentworth, completed in Apr 22

Cash Flow Statement (S$m)

FY Sep	2020A	2021A	2022A	2023F	2024F
Pre-Tax Income	22.6	24.7	68.8	39.7	47.6
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	9.98	(1.4)	(17.4)	(7.1)	(7.9)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.69	(9.5)	45.2	61.9	4.88
Other Operating CF	21.1	25.3	(68.3)	15.5	16.1
Net Operating CF	60.3	39.2	28.3	110	60.7
Net Invt in Properties	(9.6)	(4.4)	305	(3.5)	(3.9)
Other Invts (net)	0.0	(0.5)	(6.1)	0.0	0.0
Invts 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	0.0	(3.9)	2.92	0.0	0.0
Net Investing CF	(9.6)	(8.9)	301	(3.5)	(3.9)
Distribution Paid	(52.3)	(24.0)	(29.0)	(43.3)	(50.2)
Chg in Gross Debt	25.0	84.9	(227)	(46.5)	3.85
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(18.3)	(104)	(20.4)	0.0	0.0
Net Financing CF	(45.6)	(43.6)	(276)	(89.8)	(46.4)
Currency Adjustments	2.39	(1.1)	(7.8)	0.0	0.0
Chg in Cash	7.48	(14.3)	45.7	16.7	10.5
Operating CFPS (S cts)	2.80	2.53	(0.9)	2.50	2.90
Free CFPS (S cts)	2.65	1.81	17.3	5.53	2.95

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Dec 21	0.47	0.65	BUY

Note *: Share price and Target price are adjusted for corporate actions.*

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*

Completed Date: 4 Nov 2022 19:25:03 (SGT)
Dissemination Date: 4 Nov 2022 19:34:21 (SGT)

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

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2. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Frasers Hospitality Trust recommended in this report as of 30 Sep 2022.
3. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA or their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of Frasers Hospitality Trust as of 30 Sep 2022.

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4. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Frasers Hospitality Trust as of 30 Sep 2022.
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