

# China / Hong Kong Company Update

## Regal REIT

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DBS Group Research . Equity

12 Jan 2024

**BUY** (Upgrade from HOLD)

Last Traded Price (11 Jan 2024): HK\$0.600 (HSI : 16,302)

Price Target 12-mth: HK\$0.82 (36% upside) (Prev HK\$0.90)

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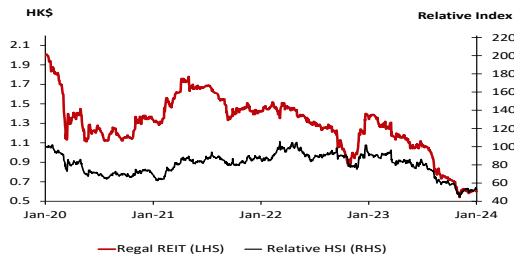
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### What's New

- Base rents for the five initial hotels will rise 13.3% in FY24
- iclub branded hotels see stronger growth in base/fixed rents
- High cash financing costs to weigh on near-term earnings
- Long-term investment value re-emerged following the heavy sell-off. Upgraded to BUY with HK\$0.82 TP

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023F	2024F	2025F
Gross Revenue	616	615	798	932
Net Property Inc	601	595	777	910
Net Profit	930	(93)	(5)	224
Distribution Inc	199	0	0	183
DPU (HK\$)	0.06	0.00	0.00	0.06
DPU Gth (%)	(29)	(100)	N/A	N/A
Div Yield (%)	10.2	0.0	0.0	9.4
Gross Gearing (%)	43	43	42	42
Book Value (HK\$)	3.93	3.97	4.05	4.12
P/Book Value (x)	0.2	0.2	0.1	0.1

DPU Rev (%): Nil (100) New

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

## Long-term value is surfacing.

### Investment Thesis

A balanced portfolio of nine strategically located hotels under differentiated brands catering to a wide array of travellers.

Regal REIT owns nine hotels with >4,900 guest rooms across Hong Kong Island, Kowloon, New Territories, and Lantau Island, comprising five full-service Regal branded hotels and four select-service iclub branded hotels. This enables Regal to cater to the various needs of a wide range of business and leisure travellers.

**High cash financing costs to weigh on earnings.** While the US Fed has paused interest rate hikes, the HIBOR should remain relatively high in the near term. As all Regal REIT's borrowings are on floating interest rates, increased cash finance costs should continue to weigh on its near-term earnings.

**Interest rate outlook to dictate the unit price performance.** Interest rate movements would be the key determinant of Regal REIT's unit price performance.

**Upgraded to BUY with HK\$0.82 TP.** Following the heavy sell-off, Regal REIT is trading at a distribution yield of 9.4% for FY25. Long-term investment value is surfacing despite challenging near-term earnings outlook. Our target price for Regal REIT is based on the Dividend Discount Model using an 8.1% discount rate and terminal growth rate of 1%.

### Key Risks to Our View:

Any prolonged interest rate hikes could dampen sentiment towards Regal REIT, as the REIT is a bond-like investment instrument and all its debt is on a floating rate basis.

### At A Glance

Issued Capital (m shrs)	3,257
Mkt Cap (HKm/US\$m)	1,954 / 250
Major Shareholders (%)	
Regal Hotels Int'l Holdings Ltd	74.6
Free Float (%)	25.4
3m Avg. Daily Val. (US\$m)	0.0
GICS Industry: Real Estate / Equity Real Estate Investment	

**Regal REIT****WHAT'S NEW****High cash finance costs to weigh on near-term earnings**

Following the removal of travel restrictions in early 2023, the business operations of "Regal" and "iclub" branded hotels have generally been picking up with the momentum improving since the summer vacation. Nonetheless, Regal Airport Hotel, the REIT's largest hotel, lagged, with occupancy at c.50%. This was mainly due to the slow recovery in demand from air crew, which used to make up >40% of hotel guests, led by the constraints in flight capacity. Overall, short-haul markets such as South East Asia staged a better recovery, while long-haul markets have yet to recover. Elsewhere, F&B revenue should also recover to c.80% of pre-COVID levels.

For FY24, the base rents for the five "initial hotels", including Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, and Regal Riverside Hotel, have been set at HK\$544m in aggregate, representing an increase of 13.3% y-o-y. While the base rents of Regal Hong Kong Hotel, Regal Kowloon Hotel, and Regal Riverside Hotel will surge 36.4%, 17.2%, and 22.3% to HK\$90m, HK\$116m, and HK\$126m, respectively, that of Regal Airport Hotel and Regal Oriental Hotel will remain unchanged at HK\$175m and HK\$37m, respectively. Base rents for iclub Sheung Wan Hotel and iclub Fortress Hill Hotel will rise 31.3% and 33.3% to HK\$42m and HK\$40m, respectively, in FY24. The base rent for iclub To Kwa Wan Hotel is fixed at HK\$36m, up 20%. In addition, Regal REIT will take 50% of the excess of the NPI over base rents as variable rents.

Regal REIT has completed refinancing the loans for iclub Sheung Wan, iclub Fortress Hill, and iclub To Kwa Wan in 2H23 with credit margins slightly higher than previously.

While the US Fed has paused rate hikes, the HIBOR should remain relatively high in the near term. As all the REIT's borrowings are on floating interest rates, increased cash finance costs should offset the growth in net rental and hotel income, thus weighing on its near-term earnings.

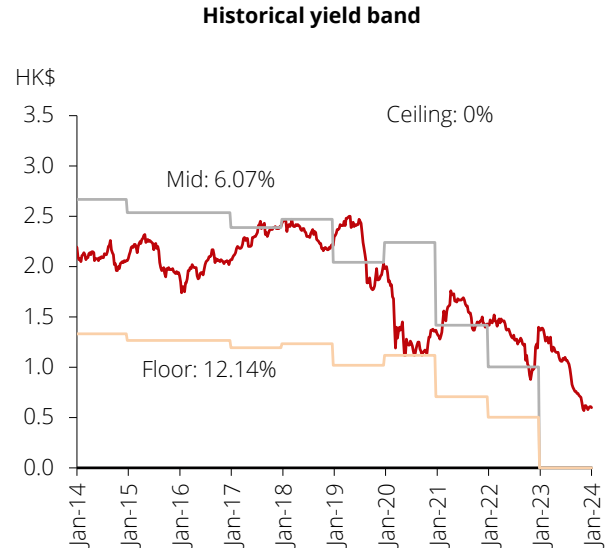
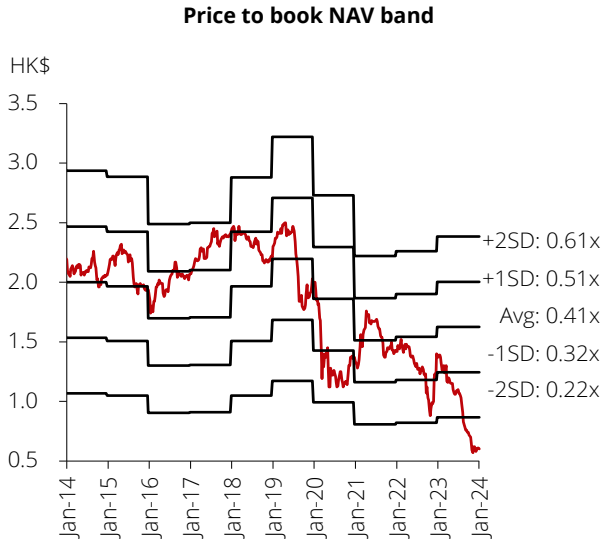
In the past six months, the unit price of Regal REIT fell 44% amid interest rate hikes. The stock is now trading at a 9.4% distribution yield for FY25. While Regal REIT's near-term earnings outlook remains challenging, long-term investment value is surfacing following the heavy sell off. Upgrade to BUY with DDM-based TP of HK\$0.82.

**Company Background**

Listed in Mar 2007, Regal REIT is the first hotel REIT in Hong Kong with an initial portfolio of five "Regal" branded hotels. Following the acquisition of four "iclub" branded hotels from its sponsor, Regal REIT currently owns a portfolio of nine hotels across Hong Kong Island, Kowloon Peninsula, New Territories, and Lantau Island with a total of 4,909 guest rooms. Regal Hotels International Holdings Ltd. (78.HK) holds c.75% of outstanding issued units in Regal REIT.

Regal REIT

Price to book NAV band and historical yield band



Source: Bloomberg Finance L.P. DBS HK

## Regal REIT

### Key Assumptions (%)

	2024F	2025F
Hotel RevPAR	13	5

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (HK\$ m)</b>					
Rental Revenue	581	598	584	761	893
Hotel Revenue	13	19	31	37	39
<b>Total</b>	<b>594</b>	<b>616</b>	<b>615</b>	<b>798</b>	<b>932</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross revenue	594	616	615	798	932
Property expenses	(15)	(16)	(20)	(21)	(22)
<b>Net Property Income</b>	<b>579</b>	<b>601</b>	<b>595</b>	<b>777</b>	<b>910</b>
Other expenses	(105)	(108)	(107)	(113)	(119)
Interest (Exp)/Inc	(151)	(281)	(582)	(654)	(508)
Exceptionals	309	755	0	0	0
<b>Pre-Tax Profit</b>	<b>632</b>	<b>966</b>	<b>(94)</b>	<b>10</b>	<b>283</b>
Tax	(55)	(36)	1	(14)	(59)
<b>Net Profit</b>	<b>577</b>	<b>930</b>	<b>(93)</b>	<b>(5)</b>	<b>224</b>
<b>Distribution income</b>	<b>280</b>	<b>199</b>	<b>0</b>	<b>0</b>	<b>183</b>
Revenue Gth (%)	(32)	4	0	30	17
NPI Gth (%)	(33)	4	(1)	30	17
Dist. Inc Growth (%)	(37)	(29)	(100)	N/A	N/A
DPU Growth (%)	(37)	(29)	(100)	N/A	N/A

Source: Company, DBS HK

## Regal REIT

**Balance Sheet (HK\$ m)**

<b>FY Dec</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Fixed Assets	22,149	22,949	23,210	23,532	23,567
Other LT Assets	589	611	613	615	616
Bank Balance/Cash & Liquid	153	266	261	225	426
Debtors	12	7	10	12	13
Other Non Cash Current	9	15	15	15	15
<b>Total Assets</b>	<b>22,912</b>	<b>23,849</b>	<b>24,110</b>	<b>24,400</b>	<b>24,638</b>
ST Debt	248	5,727	405	0	4,883
Creditors	57	131	131	131	131
Other Current Liab	26	25	25	25	25
LT Debt	9,744	4,454	9,926	10,331	5,449
Deferred Tax Liabilities	674	696	696	701	716
Other LT Liabilities	16	7	7	7	7
Unitholders' funds	12,147	12,808	12,919	13,204	13,428
<b>Total Capital</b>	<b>22,912</b>	<b>23,849</b>	<b>24,110</b>	<b>24,400</b>	<b>24,638</b>
Share Capital (m)	3,257	3,257	3,257	3,257	3,257
Gross Debt	(9,992)	(10,181)	(10,331)	(10,331)	(10,331)
Working Capital	(156)	(5,595)	(275)	97	(4,584)
Book NAV (HK\$)	3.73	3.93	3.97	4.05	4.12
Gross Gearing (%)	44	43	43	42	42

Source: DBS HK

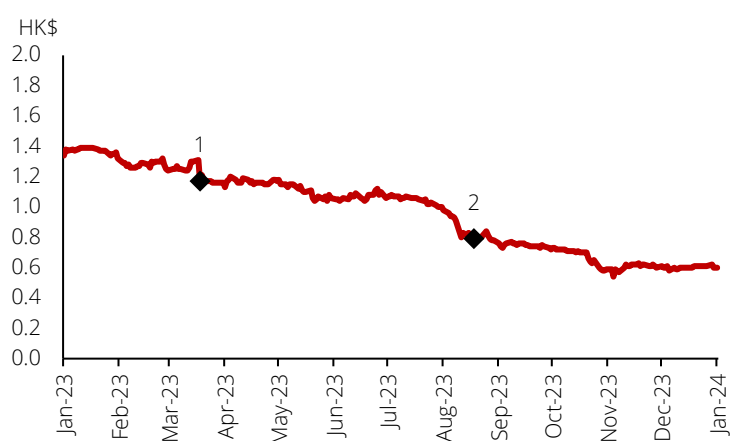
**Cash Flow Statement (HK\$ m)**

<b>FY Dec</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Pre-Tax Income	632	966	(94)	10	283
Tax Paid	(24)	(36)	1	(9)	(44)
Depr/Amort	8	8	8	8	8
Chg in Wkg.Cap.	(32)	71	(3)	(2)	(1)
Other Non-Cash	(279)	(713)	0	0	0
<b>Operational CF</b>	<b>304</b>	<b>297</b>	<b>(88)</b>	<b>6</b>	<b>246</b>
Net Capex	(11)	(45)	(34)	(42)	(44)
Assoc, MI, Invsmt	8	9	0	0	0
<b>Investment CF</b>	<b>(3)</b>	<b>(36)</b>	<b>(34)</b>	<b>(42)</b>	<b>(44)</b>
Net Chg in Debt	(79)	161	150	0	0
Distribution Paid	(394)	(300)	(33)	0	0
Other Financing CF	(17)	(24)	0	0	0
<b>Financing CF</b>	<b>(490)</b>	<b>(163)</b>	<b>117</b>	<b>0</b>	<b>0</b>
Chg in Cash	(189)	97	(5)	(36)	201

Source: Company, DBS HK

**Regal REIT**

**Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	28-Mar-23	HK\$1.31	HK\$1.45	HOLD
2	28-Aug-23	HK\$0.830	HK\$0.90	HOLD

Source: DBS HK

Analyst: Jeff Yau, CFA,  
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 Cherie Wong

## Regal REIT

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)

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\*Share price appreciation + dividends

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