

Singapore Company Update

Far East Hospitality Trust

Bloomberg: FEHT SP | Reuters: FAEH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Feb 2024

BUY

Last Traded Price (14 Feb 2024): S\$0.635 (STI : 3,139.07)

Price Target 12-mth: S\$0.80 (25% upside) (Prev S\$0.75)

Analysts

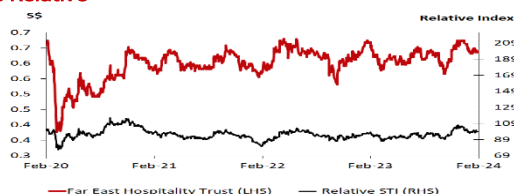
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What's New

- Gross revenue rose 28% y-o-y to S\$106.8m; FY23 DPS of 4.06 Scts (+25% y-o-y) ahead of our estimates
- Full-year variable income saw a six-fold increase y-o-y to exceed pre-COVID levels, on a 36% y-o-y increase in hotel revenue; more upside from AEI and rebranding
- Portfolio valuation up 2.6% y-o-y, mirroring peers' performance within the SG market; capital management stable with interest rate hedge low at 42.6%
- Maintain BUY with higher TP of S\$0.80

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Gross Revenue	83.6	107	116	125
Net Property Inc	77.3	98.7	105	113
Total Return	202	130	65.6	74.0
Distribution Inc	59.0	81.9	84.2	86.4
EPU (S cts)	5.02	2.64	3.24	3.63
EPU Gth (%)	88	(47)	23	12
DPU (S cts)	3.27	4.09	4.18	4.26
DPU Gth (%)	24	25	2	2
NAV per shr (S cts)	89.8	92.5	91.5	90.8
PE (X)	12.6	24.0	19.6	17.5
Distribution Yield (%)	5.1	6.4	6.6	6.7
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	31.3	30.4	30.7	30.8
ROAE (%)	5.8	2.9	3.5	4.0

Distn. Inc Chng (%): 4 -
 Consensus DPU (S cts): 4.30 4.30
 Other Broker Recs: B: 7 S: 0 H: 1

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

Going from strength to strength

Investment Thesis:

Key proxy to Singapore's tourism recovery. FEHT, which owns the only pure-play Singapore hospitality portfolio within the S-REIT sector, is to see a golden year ahead with Singapore maintaining record-high RevPARs since mid-2022. FY23 DPU exceeded pre-pandemic levels for the first time, with a further upside to ensue primarily from FEHT's hotel segment.

Variable rent to surpass 2019 levels in 2024. FEHT will be a key beneficiary of the uplift in visitor arrivals expected in 2024. The Singapore Tourism Board is expecting a 14% y-o-y recovery in tourist arrivals to c.15-16m visitors this year. We see FEHT as a prime beneficiary, with rooms attractively priced at around S\$200 per night – the sweet spot for budget-conscious and corporate travellers – to capture mass market travellers as flight capacity moderates further in the year. The timely completion of AEIs and rebranding of older assets in past years, including the rebranded Vibe Hotel Orchard that commands a 64% higher RevPAR, will put FEHT in a better position to capture market share in Orchard.

Acquisitions to be naturally accretive and a share price driver. The recycling of divestment proceeds will be naturally accretive to FEHT as divestment proceeds from Central Square – at an exit yield of c.1.8% – get recycled, potentially overseas. FEHT has committed to share capital gains of S\$24m from the divestment over a period of three years (or c.0.4 Scts in share capital gains/year), to partially shelter against rising interest rates. Above and beyond this, there is an additional incentive fee of S\$18m that is unlocked from the Central Square redevelopment, that we feel could be channeled into future acquisitions, including upping FEHT's existing JV stakes within the trio Sentosa hotels or its first overseas acquisition.

Maintain BUY with higher TP of S\$0.80. Higher occupancy anticipated for the hotel segment going into FY24 as Singapore Tourism Board forecasts a 14% y-o-y increase in visitor arrivals this year.

Key Risks

While not priced into our estimates, acquisitions post divestment of Central Square might be anticipated by the markets.

At A Glance

Issued Capital (m shrs)	1,991
Mkt. Cap (S\$m/US\$m)	1,264 / 938
Major Shareholders (%)	
Golden Development Pte Ltd	22.4
Far East Organization Centre Pte Ltd	9.8
Golden Landmark Pte Ltd	9.6
Free Float (%)	51.3
3m Avg. Daily Val (US\$m)	0.74
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

FY23 Results – DPU surpasses pre-pandemic

FY23 Results

- Gross revenue in 2H23 rose 28.6% y-o-y to S\$54.8m
- Full-year gross revenue and NPI rose 27.8% y-o-y to S\$106.8m and 27.7% y-o-y to S\$98.7m, respectively
- A strong rebound was seen in revenue of the hotel segment, which rose 36% y-o-y, and, to a smaller extent, the serviced residences (SR, 7.9% y-o-y) and commercial segments (9.2% y-o-y)
- Variable income from both the hotel and SR segments rose c.6x y-o-y to S\$17.1m and were above FY19 levels
- As such, full-year DPS rose 25.1% y-o-y to 4.09 Scts, including S\$8.2m in divestment gain proceeds from Central Square
- Hotel segment saw a recovery in both corporate and leisure bookings; RevPAR rose 48% y-o-y to S\$136
- Hotel segment occupancy rose 6.3ppt y-o-y to 80.1%, while ADR rose 36.1% y-o-y to S\$170
- SR segment RevPAR rose 14.7% y-o-y to S\$229 (same-store basis excluding Central Square divestment), a new high since the IPO
- SR occupancy was flat at 88%, with most of the upside from higher room rate pricing, which rose 15.3% y-o-y to S\$260
- **Capital management:** Aggregate leverage remains healthy at 31.3%, with average cost of debt of 3.3%; interest coverage ratio was 3.5x
- Proportion of fixed IR hedge has reduced to 42.6% as at 31 Dec 2023 (from 54% as at 4Q22) and stands as one of the lowest within the sector

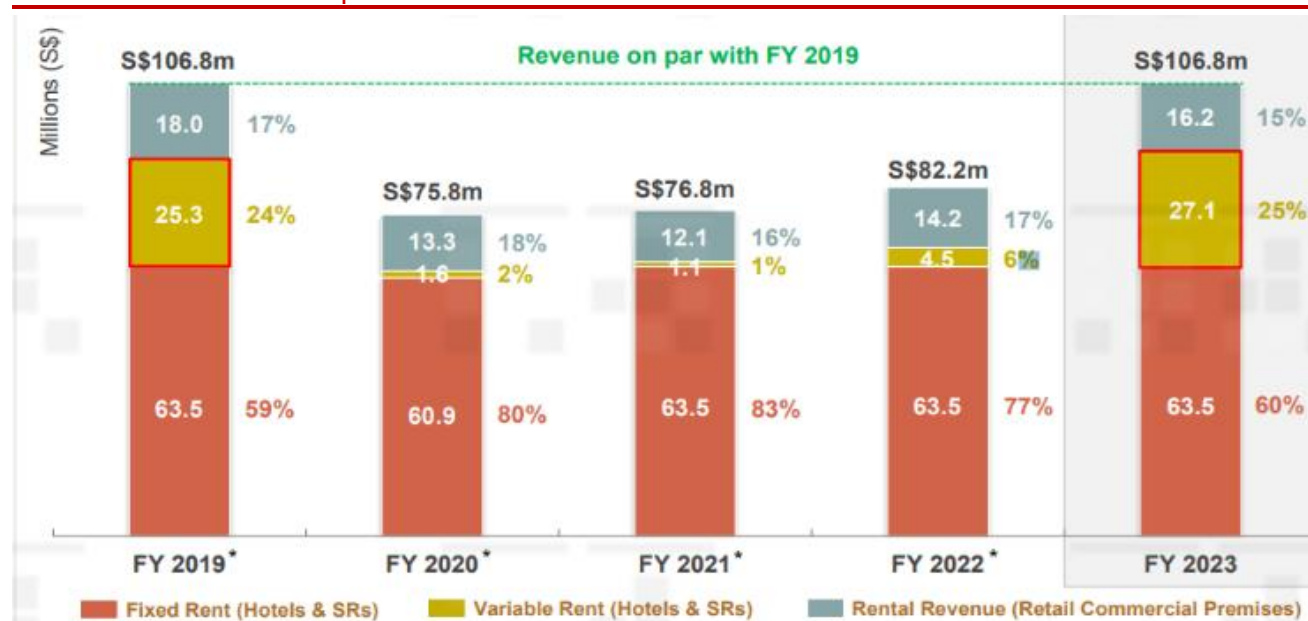
Our thoughts

Asset valuation mirrors that of peers with a 2.6% y-o-y gain. FEHT reported a valuation gain on investment properties of c.S\$59.2m for the year, supported by a 2.7% y-o-y increase in hotel valuations and 1.7% y-o-y increase in SR valuations. Valuation gains are well supported by underlying cash flow, with a further upside concentrated within the hotel segment, in our view. FEHT's hotels that are positioned within the upscale segment saw an operational ceiling last year, affected by both government quarantine contracts in the early part of last year and AEI or rebranding within the portfolio, where hotel room inventory was shelved, for instance, with Vibe Hotel's rebranding in late 2022 and soft refurbishment work at Oasia Downtown hotel. Going into 2024, we estimate that all room inventory should be released into the market, potentially commanding higher rates on AEI completions.

Hotels' RevPAR of S\$136 continues to buoy upside potential. FEHT first saw RevPAR exceed 2019 levels in 3Q23, a recovery that was slower than that of its peers that are positioned in the luxury end of the segment. We see FEHT's offerings within the upscale hotel tier falling into the sweet spot for budget-conscious and corporate travellers, who will be catalysed by flight recovery and the moderation in ticket prices. Hotels within the upscale and mid-tier segments have generally lagged in terms of recovery, coming in at c.117% above pre-COVID base rates (3Q23 figures), compared to luxury and economically positioned hotels. In our view, the sweet spot of daily rates falls within the pocket-friendly range of S\$200-300+ per night, which will continue to appeal to mass market travellers, where FEHT has the largest exposure.

Maintain BUY with higher TP of S\$0.80. We roll forward our estimates into FY24. We are maintaining our interest cost of 3.75% for the full year of 2024 and pricing in stronger occupancy estimates of 84% for FEHT's hotel segment in FY24 (pre-COVID occupancy at c.88%). Management shared that the additional incentive fee of c.S\$18m from the Central Square divestment could be used to shield from higher interest cost in the coming years as a result of capital top-ups, which we have not factored into our estimates. This would be in addition to the guided three-year divestment gain top-up of S\$24m over three years, which we have priced in.

FY23 Revenue breakdown in comparison to FY19



Source: Company, DBS Bank Ltd

Company Background

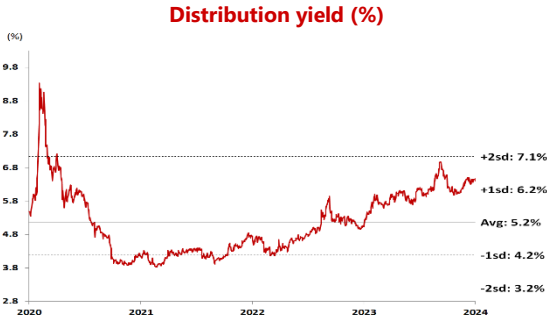
Far East Hospitality Trust (FEHT) is a hospitality stapled group comprising Far East H-REIT and Far East H-Business Trust. Far East H-REIT is a Singapore-based real estate investment trust (REIT) which invests in hospitality assets. It owns nine hotels and four serviced residences.

Interim Income Statement (S\$m)

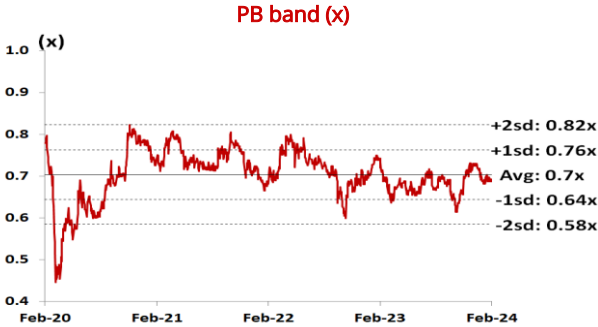
FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	42.6	52.0	54.8	28.6	5.2
Property expenses	(2.7)	(3.1)	(5.0)	84.6	62.8
Net Property Income	39.9	49.0	49.8	24.8	1.6
Other Operating expenses	(5.6)	(5.7)	(6.0)	8.2	4.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(9.0)	(10.2)	(11.1)	(22.5)	(8.5)
Exceptional Gain/(Loss)	1.97	(7.1)	(5.2)	nm	26.7
Net Income	27.2	25.9	27.5	0.9	6.0
Tax	(0.1)	(0.1)	(0.1)	32.7	4.4
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	27.1	25.8	27.3	0.8	6.0
Total Return	129	43.7	86.6	(33.0)	98.1
Non-tax deductible Items	(99.2)	(6.4)	(46.7)	(52.9)	625.4
Net Inc available for Dist.	30.2	37.4	39.9	32.0	6.5
Ratio (%)					
Net Prop Inc Margin	93.6	94.1	90.9		
Dist. Payout Ratio	114.0	102.6	100.4		

Source of all data: Company, DBS Bank Ltd

Historical Distribution Yield and PB band



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



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

Far East Hospitality Trust

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	83.2	83.6	107	116	125
Property expenses	(8.1)	(6.3)	(8.1)	(11.7)	(12.0)
Net Property Income	75.2	77.3	98.7	105	113
Other Operating expenses	(10.5)	(10.8)	(11.8)	(12.2)	(12.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(4.1)	0.0	0.0	0.02	0.62
Net Interest (Exp)/Inc	(19.4)	(16.8)	(21.3)	(26.8)	(27.2)
Exceptional Gain/(Loss)	11.6	52.0	(12.3)	0.0	0.0
Net Income	52.8	102	53.4	65.6	74.0
Tax	0.0	(1.5)	(0.3)	0.0	0.0
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	52.8	100	53.2	65.6	74.0
Total Return	131	202	130	65.6	74.0
Non-tax deductible Items	(81.1)	(145)	(56.9)	10.6	10.7
Net Inc available for Dist.	54.0	59.0	81.9	84.2	86.4
Growth & Ratio					
Revenue Gth (%)	0.0	0.4	27.8	8.8	7.5
N Property Inc Gth (%)	4.1	2.9	27.7	5.9	7.9
Net Inc Gth (%)	90.0	89.7	(47.0)	23.5	12.7
Dist. Payout Ratio (%)	96.2	110.2	100.0	100.0	100.0
Net Prop Inc Margins (%)	90.3	92.5	92.4	90.0	90.4
Net Income Margins (%)	63.5	120.0	49.8	56.5	59.2
Dist to revenue (%)	64.9	70.6	76.7	72.5	69.2
Managers & Trustee's fees	12.6	12.9	11.0	10.5	9.8
ROAE (%)	3.3	5.8	2.9	3.5	4.0
ROA (%)	2.0	3.8	2.1	2.5	2.8
ROCE (%)	2.5	2.6	3.4	3.6	4.0
Int. Cover (x)	3.3	4.0	4.1	3.5	3.7

Includes S\$8m capital gains top-up from Central Square divestment

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	2,337	2,447	2,510	2,513	2,517
Other LT Assets	2.45	8.98	0.95	0.95	1.01
Cash	11.7	49.8	63.1	63.6	60.6
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	42.7	45.5	47.5	33.7	35.2
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	271	4.10	1.36	1.36	1.36
Total Assets	2,665	2,555	2,622	2,613	2,615
ST Debt	181	0.0	0.0	0.0	0.0
Creditor	53.1	10.6	9.07	4.05	4.36
Other Current Liab	8.01	0.0	0.28	0.0	0.0
LT Debt	766	738	737	740	744
Other LT Liabilities	7.68	6.88	9.64	9.64	9.64
Unit holders' funds	1,648	1,800	1,867	1,859	1,857
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,665	2,555	2,622	2,613	2,615
Non-Cash Wkg. Capital	253	39.0	39.5	31.0	32.2
Net Cash/(Debt)	(936)	(688)	(674)	(677)	(683)
Ratio					
Current Ratio (x)	1.3	9.4	12.0	24.3	22.3
Quick Ratio (x)	1.3	9.4	12.0	24.3	22.3
Aggregate Leverage (%)	37.8	31.3	30.4	30.7	30.8

Source: Company, DBS Bank Ltd

Far East Hospitality Trust

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	131	204	131	65.6	74.0
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.1)	(0.1)	(0.1)	(0.3)	0.0
Associates & JV Inc/(Loss)	4.06	0.0	0.0	0.0	(0.6)
Chg in Wkg.Cap.	(3.8)	(3.1)	0.93	8.81	(1.2)
Other Operating CF	(61.9)	(129)	(34.1)	38.8	39.0
Net Operating CF	69.3	71.9	97.3	113	111
Net Invnt in Properties	(0.9)	264	13.5	(3.5)	(3.7)
Other Invnts (net)	0.0	(7.2)	0.0	0.0	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	0.02	0.56
Other Investing CF	43.9	(1.0)	2.05	0.0	0.0
Net Investing CF	43.0	256	15.6	(3.5)	(3.2)
Distribution Paid	(48.8)	(60.8)	(72.8)	(84.2)	(86.4)
Chg in Gross Debt	(62.7)	(228)	0.0	3.49	3.75
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	(26.7)	(28.2)	(28.3)
Net Financing CF	(111)	(289)	(99.5)	(109)	(111)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	0.77	38.1	13.3	0.53	(3.1)
Operating CFPS (S cts)	3.69	3.76	4.79	5.14	5.51
Free CFPS (S cts)	3.44	16.8	5.51	5.40	5.27

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Feb 23	0.65	0.75	BUY

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

Source: DBS Bank Ltd

Analysts: Geraldine WONG

Derek TAN

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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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