

Langham Hospitality Investments

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DBS Group Research . Equity

20 Feb 2024

HOLD (Downgrade from Buy)

Last Traded Price (19 Feb 2024): HK\$0.700 (HSI : 16,156)
Price Target 12-mth: HK\$0.76 (9% upside) (Prev HK\$1.21)

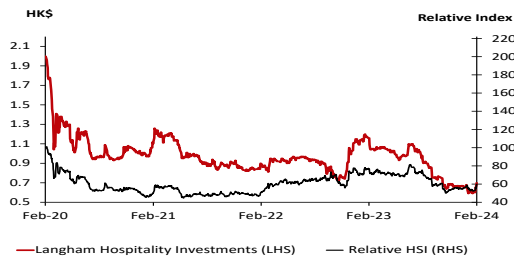
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What's New

- FY23 distributable income grew 56% to HK\$298m, broadly in line with our estimate
- Despite improving profitability, final distribution, however, was withheld to preserve cash
- Interest hedging ratio fell to 25% following the expiry of interest rate swaps
- Downgrade to HOLD with lower TP of HK\$0.76

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023A	2024F	2025F
Gross Revenue	332	514	448	473
Net Property Inc	314	495	427	451
Net Profit	420	1,080	50	137
Distribution Inc	95	0	50	100
DPU (HK\$)	0.03	0.00	0.01	0.03
DPU Gth (%)	8	(100)	N/A	92
Div Yield (%)	4.2	0.0	2.1	4.0
Gross Gearing (%)	42	38	37	36
Book Value (HK\$)	2.49	2.77	2.82	2.87
P/Book Value (x)	0.3	0.3	0.2	0.2

DPU Rev (%): (82) New

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

Final dividend withheld to preserve cash

Investment Thesis

Owns three quality hotels in Kowloon Peninsula. With a portfolio of three strategically located quality hotels on Kowloon Peninsula, Langham Hospitality Investments (LHI) is staging the post-pandemic business recovery, led by the return of Mainland China and overseas visitors.

Rising cost pressure eroding hotels' operating profit growth. Thanks to improved occupancy and room rates led by inbound tourism recovery, LHI posted 61.7% growth in RevPAR in 2023 which should remain on an upward trajectory in 2024. However, rising cost pressures should erode the operating profit growth. Moreover, LHI's share of adjusted gross operating profit in form of variable rents will be lowered to 50% from 70% starting from FY24.

Dividend omission to drag price performance. Dividend omission could possibly dampen the near-term sentiment towards the counter.

Downgrade to HOLD with lower TP of HK\$0.76. Langham Hospitality Investments is trading at distribution yields of 2.1% for FY23 and 4% for FY24 based on a 50% distribution payout ratio. Current valuation is not appealing. Downgrade the stock to HOLD from BUY with lower TP of HK\$0.76, based on the Dividend Discount Model using a discount rate of 8.8%

Key Risks to Our View:

Any stronger-than-expected inbound tourism recovery would boost the demand for hotel accommodation and LHI's unit price performance.

At A Glance

Issued Capital (m shrs)	3,319
Mkt Cap (HKm/US\$m)	2,323 / 297
Major Shareholders (%)	
Great Eagle Holdings Ltd	70.2
Free Float (%)	29.8
3m Avg. Daily Val. (US\$m)	0.0
GICS Industry: Real Estate / Real Estate Management & Development	

Langham Hospitality Investments

WHAT'S NEW

Rising cost pressures

Riding on post-pandemic hotel sector recovery, Langham Hospitality Investments (LHI) posted a 56% growth in distributable income to HK\$298m, broadly in line with our forecast. However, to preserve cash, LHI declared no final distribution in FY23, which came as a negative surprise,

Following the border reopening with Mainland China and lifting of social distancing measures, overall RevPAR posted 61.7% growth in FY23 on higher occupancies and room rates.

Langham showed robust RevPAR growth of 80.1% while RevPAR of Cordis and Eaton also rebounded 55.2% and 44.4% respectively. In 2023, occupancy rates of Langham, Cordis and Eaton were up 27.1 ppts, 23.4 ppts and 13.6 ppts to 86.9%, 89.8% and 87% respectively, with average room rates surging by 24%, 14.7% and 21.8% respectively.

F&B business was a bright spot. Following the removal of all social distancing policies in early 2023 with no temporary outlet closures, F&B revenue climbed 86% to 715m.

With total hotel revenue surging 67%, aggregate adjusted gross operating profit more than doubled to HK\$526m from FY22's HK\$213m. Were it not for rising cost pressure, the growth in gross operating profit would have been stronger. Overall, LHI earned variable rents of HK\$368m (FY22: HK\$149m).

Cash finance cost rose 76% to HK\$236m due to higher average HIBOR. In 2H23, LHI repaid a portion of bank loans to reduce debt. As of Dec-23, total borrowings stood at HK\$6.06bn, down

4% from Jun-23's HK\$6.32bn. Coupled with a higher hotel valuation, gearing improved slightly to 38.3% from Jun-23's 40.5%. Following the expiry of interest rate swap contracts that totaled HK\$3.2bn, interest costs for 24.8% of total loans were fixed at an average swap rate of 3.99% p.a. as of Dec-23. The company has secured a twelve-month extension of its bank loan until Dec-24, however, it is exposed to refinancing risk amid this prolonged interest rate upcycle.

To reflect increased cost pressure, higher cash financing costs, and lower expected payout ratio of 50% (previously 90%), we trimmed our distribution income forecasts for FY24F.

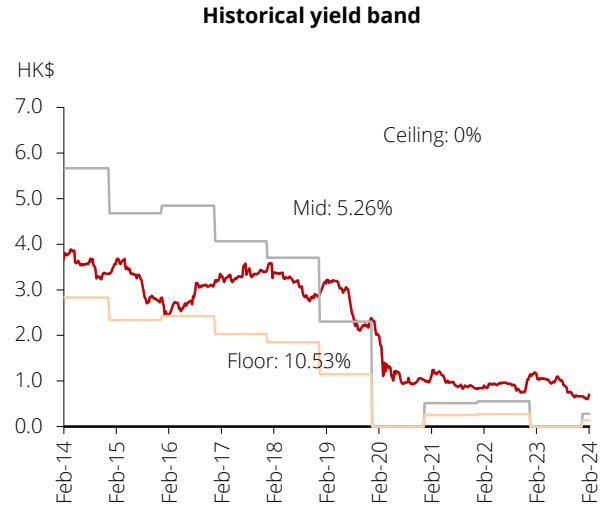
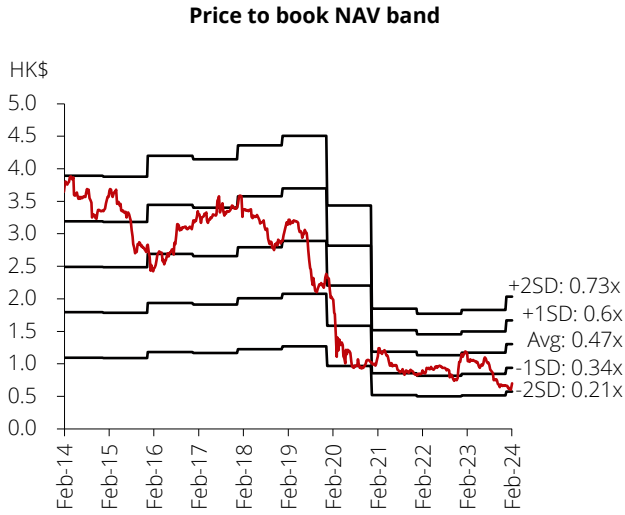
In the past six months, Langham Hospitality Investments' share price tumbled 29%, underperforming the broad market by 19ppts. Meanwhile, Langham Hospitality Investments is trading at a distribution yield of 2.1% for FY24 and 4% for FY25. Despite continued inbound tourism recovery, the current valuation is not appealing. Moreover, dividend omission could possibly dampen near-term sentiment. Downgrade the stock to HOLD from BUY with DDM-based TP lowered to HK\$0.76.

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



Source: Bloomberg Finance L.P. DBS HK

Langham Hospitality Investments

Result Summary

FY Dec (HK\$m)	FY22	FY23	% Chg	Comments
Variable rental income	148.9	368.5	147.5	FY23: The hotel portfolio recorded HK\$526.4m gross operating profit thanks to rebounding RevPAR (FY22: HK\$212.7m)
Fixed rental income	225.0	225.0	0.0	
Rental income from retail	2.1	1.7	(19.2)	
Total rental income	376.0	595.2	58.3	
Property related expenses	(18.4)	(19.3)	5.1	FY23: due to an increase in property management services fee and higher rateable value of the hotel properties given higher government rates
Service fees	(43.9)	(81.2)	85.2	FY23: Reflected the improvement in hotel's operating performance
Net property income	313.8	494.7	57.7	
Interest income	2.9	9.1	215.3	
Other income	0.7	0.9	27.6	
Change in fair value of investment properties	218.4	926.3	324.1	
Change in fair value of derivative financial instruments	83.1	(70.1)	<i>n.a.</i>	
Finance cost	(145.1)	(247.1)	70.3	FY23: Cash finance costs rose 76% to HK\$236m due to higher HIBOR
Trust and other expense	(12.6)	(13.9)	10.6	
Profit before tax	461.1	1,099.8	138.5	
Tax	(41.6)	(19.5)	(53.0)	
Net profit	419.6	1,080.3	157.5	
Distributable income	190.5	297.6	93.4	
DPU (HK\$)	0.029	0.000	7.4	

Source: Langham Hospitality

Langham Hospitality Investments

Key Assumptions (%)

	2024F	2025F
RevPAR	13	5

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (HK\$ m)					
Base rent	225	225	225	225	225
Variable rent	22	149	368	314	345
Rental income from retail	2	2	2	2	2
Netting of Service Fees	(24)	(44)	(81)	(92)	(99)
Total	224	332	514	448	473

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	224	332	514	448	473
Property expenses	(21)	(18)	(19)	(21)	(22)
Net Property Income	204	314	495	427	451
Other expenses	(12)	(9)	(4)	(4)	(5)
Interest (Exp)/Inc	(116)	(145)	(247)	(370)	(298)
Exceptionals	(413)	302	856	0	0
Pre-Tax Profit	(337)	461	1,100	53	148
Tax	(9)	(42)	(20)	(3)	(10)
Net Profit	(347)	420	1,080	50	137
Distribution income	89	95	0	50	100
Revenue Gth (%)	8	48	55	(13)	5
NPI Gth (%)	13	54	58	(14)	6
Dist. Inc Growth (%)	N/A	7	(100)	N/A	98
DPU Growth (%)	N/A	8	(100)	N/A	92

Source: Company, DBS HK

Langham Hospitality Investments

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Fixed Assets	14,407	14,685	15,662	15,975	16,295
Long-term Investments	0	0	0	0	0
Other LT Assets	7	7	7	7	7
Bank Balance/Cash & Liquid	179	245	123	246	412
Debtors	20	13	44	44	44
Other Non Cash Current	0	72	0	0	0
Total Assets	14,613	15,023	15,835	16,272	16,757
ST Debt	327	6,306	6,050	0	0
Creditors	39	46	68	68	68
Other Current Liab	52	45	43	43	43
LT Debt	5,968	0	0	6,050	6,050
Deferred Tax Liabilities	408	449	471	471	471
Other LT Liabilities	20	15	12	12	12
Unitholders' funds	7,800	8,161	9,191	9,628	10,113
Total Capital	14,613	15,023	15,835	16,272	16,757
Share Capital (m)	3,241	3,273	3,319	3,417	3,525
Gross Debt	(6,295)	(6,306)	(6,050)	(6,050)	(6,050)
Working Capital	(218)	(6,067)	(5,995)	179	345
Book NAV (HK\$)	2.41	2.49	2.77	2.82	2.87
Gross Gearing (%)	43	42	38	37	36

Source: DBS HK

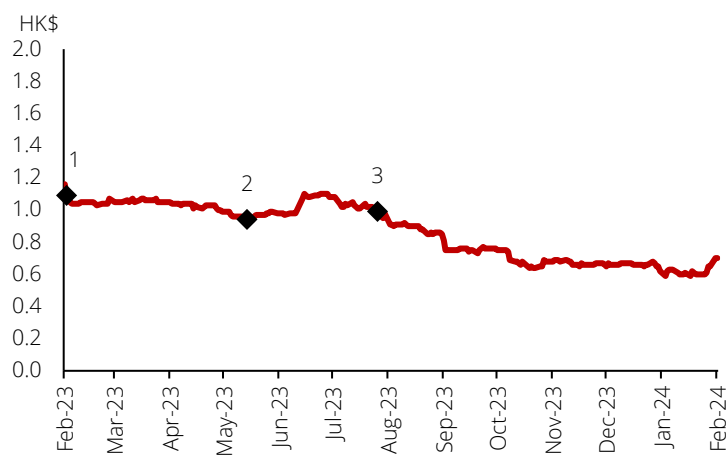
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	(337)	461	1,100	53	148
Tax Paid	3	0	(20)	(3)	(10)
Depr/Amort	13	12	12	0	0
Chg in Wkg.Cap.	(20)	8	(8)	0	0
Other Non-Cash	431	(265)	(802)	63	69
Operational CF	90	217	282	114	206
Net Capex	(68)	(63)	(62)	0	0
Other Investment CF	42	2	10	10	10
Investment CF	(26)	(61)	(52)	10	10
Net Chg in Debt	(100)	0	(256)	0	0
New issues/Unit Buyback	0	0	0	0	0
Distribution Paid	0	(88)	(95)	0	(50)
Other Financing CF	(2)	(1)	(1)	0	0
Financing CF	(102)	(89)	(352)	0	(50)
Chg in Cash	(38)	66	(123)	124	166

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Feb-23	HK\$1.16	HK\$1.31	HOLD
2	2-Jun-23	HK\$0.93	HK\$1.24	BUY
3	14-Aug-23	HK\$1.02	HK\$1.27	BUY

Source: DBS HK

Analyst: Jeff Yau

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DBS Group Research 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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