

Far East Hospitality Trust (FEHT SP)

Sustained recovery

Organic growth underpins growth in distribution

FEHT reported 1H DPU of SGD1.92c, +11% HoH and +24.7% YoY. Growth was led by recovery of RevPAR for hotels and service residences (SRs), and distribution of gains from prior divestments, partially offset by higher borrowing costs. While further restoration of flight capacities and recovery of visitor arrivals in Singapore provide the growth potential, the existing master lease structure and top-ups provide distribution stability. Our forecasts and TP are unchanged. Maintain BUY.

Strong performance across all segments

1H23 gross revenue and NPI rose 26.9% and 30.7% YoY. Among the operating segments, hotels were the bright spot. Revenue for hotels grew 35%, SRs 3% and commercial premises 11%. This was led by higher RevPAR for hotels and SRs, and higher occupancies and rents for commercial premises. Borrowing cost rose 100bps HoH from 2.2% to 3.2%. Gearing at 32% makes FEHT one of the lowest geared SREITs. FEHT continues to scout for overseas opportunities with a healthy spread to funding cost.

Operating metrics benefit from travel tailwind

1H Hotel RevPAR grew 71.4% YoY to SGD133, led by 10% jump in occupancy and 71% growth in room rates. Demand was mainly from corporate group bookings and further recovery in leisure. 1H RevPAU for SRs grew 22.8% YoY, led by 23% growth in room rates to SGD224, close to the all-time high of SGD230. On a QoQ basis, 2Q RevPAR for hotels was down 1.5% while RevPAU for SRs was flat. This may be due to seasonality but needs to be monitored in the light of slower-than-expected return of Chinese travellers, supply pipeline and plateauing of residential rents in Singapore.

Maintain BUY

Our forecasts, target price and BUY rating are unchanged. Rebound of the local hospitality sector is likely to be sustained by the healthy pipeline of events and activities. Further, master lease structure and top-ups from divestment gains from Central Square will stabilize distribution in case of any speed bumps on the road to recovery.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	83	84	100	108	111
Net property income	75	77	92	99	102
Core net profit	41	50	67	72	75
Core EPU (cts)	2.1	2.5	3.3	3.6	3.7
Core EPU growth (%)	20.1	19.5	33.6	7.4	2.8
DPU (cts)	2.6	2.8	3.7	4.0	4.1
DPU growth (%)	9.0	7.8	31.6	6.5	3.7
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
DPU yield (%)	4.5	4.6	5.8	6.2	6.4
ROAA (%)	1.6	1.9	2.6	2.7	2.8
Debt/Assets (x)	0.36	0.29	0.28	0.28	0.27
Consensus DPU	-	-	3.8	4.3	4.4
MIBG vs. Consensus (%)	-	-	(1.5)	(6.8)	(6.1)

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BUY

Share Price	SGD 0.65
12m Price Target	SGD 0.80 (+27%)
Previous Price Target	SGD 0.80

Company Description

FEHT is the first and only Singapore-focused hotel and serviced residence hospitality trust listed on the SGX (portfolio 13 properties).

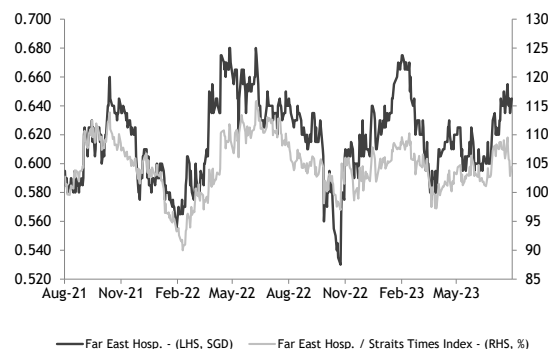
Statistics

52w high/low (SGD)	0.68/0.53
3m avg turnover (USDm)	0.7
Free float (%)	49.2
Issued shares (m)	1,988
Market capitalisation	SGD1.3B USD963M

Major shareholders:

Golden Development Pte Ltd.	22.6%
F.E. Holdings Pte Ltd.	14.7%
Estate of Ng Teng Fong	6.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	4	1
Relative to index (%)	(3)	1	(4)

Source: FactSet

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Value Proposition

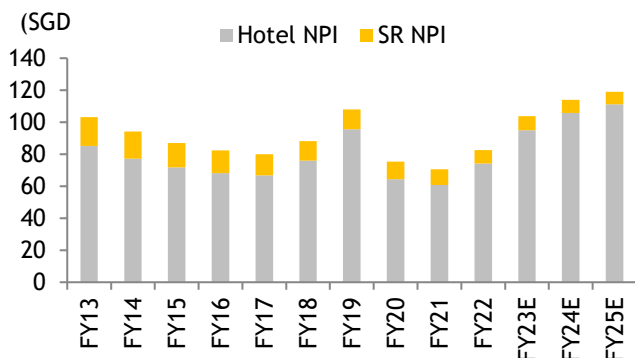
- Singapore-focused portfolio of SGD2.3b as of Dec 2021, comprising 12 properties with 2,775 hotel rooms and 368 serviced apartments.

Backed by sponsor the Far East Organisation Pte Ltd group, Singapore's largest private property developer.

Further entrenchment in Singapore after its Oasia Hotel Downtown acquisition in 1Q18 and completion of Sentosa JV hotels from 4Q18.

Sponsor has a pipeline of 1,767 rooms for acquisition potentially.

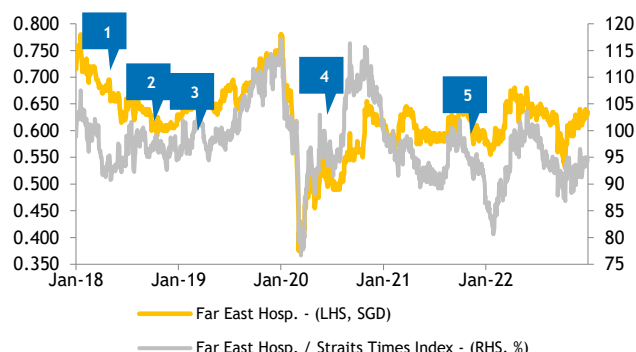
NPI breakdown (FY13-FY25E)



Source: Company

Price Drivers

Historical share price trend



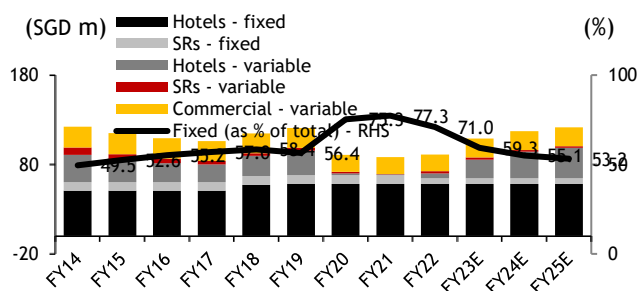
Source: Company, Maybank IBG Research

1. Jan-18: Announced acquisition of Oasia Hotel Downtown from sponsor for SGD210m, or SGD669k/key. Funded by SGD195.8m debt and SGD22.7m distribution reinvestment proceeds.
2. Sep-18: Rebranded the Orchard Parade Hotel to Rendezvous Orchard Hotel following its refurbishment.
3. Apr-19: Opens two hotels in Sentosa - the 606-room mid-tier Village hotel and 193-room upscale Outpost hotel.
4. Jul-20: RevPARs/RevPAUs fell less than peers in 2Q20 due to demand from gov't agencies for isolation facilities and to house workers affected by border closures.
5. Dec-21: Announced divestment of Central Square for c.SGD313m (c.58% above book and c.71% premium to Aug 2012 purchase price) to deliver SGD112m in net gains.

Financial Metrics

- DPU growth of 31.6%, 6.5% and 3.7% forecasted for FY23-25E.
- DPU growth driven by increase in RevPAR, which results in variable rents kicking in for hotels in FY23 and FY24. FY23 growth is also supported by SGD8m distribution of divestment gain from Central Square disposal. We forecast hotel RevPAR of SGD137 for 2023 and SGD153 by 2024. SR RevPAU is expected to stabilize at SGD200 in 2023 before falling to SGD180 for 2024.
- We expect all-in debt cost to rise from 2% to 3.4% by 2024.

Revenue profile



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in corporate demand.
- Better-than-anticipated RevPAR and variable rents
- Accretive acquisitions where cap rates exceed cost of funds, or divestments at low cap rates, which unlock asset values.

Downside

- Sizeable increases in hotel and serviced apartment room supply without corresponding growth in demand.
- Deterioration in global economy, resulting in decline in RevPARs.
- Sharper-than-expected rise in interest rates could increase cost of debt and affect earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score ¹	12.3(low)
Score Momentum ²	+2.6
Last Updated	22 Nov 2022
Controversy Score ³ (Updated: 22 Nov 2022)	

Business Model & Industry Issues

- FEHT draws on its available pool of funds to invest in hospitality and hospitality-related real estate, undertake AEs, and redevelop properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are regulated by the MAS under Singapore's code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with representation by members with international experience, even as it remains focused in Singapore.
- Improved 2 places in 2021 to rank 2nd out of 43 companies in the Singapore Governance and Transparency Index (from 4th of 45 in 2020, 6th of 46 in 2019); ranked 9th of 45 in the Governance Index for Trusts, also receiving 5th highest governance score.
- Introduced environmental action targets in 2020, to reduce energy consumption by 2% pa, and to ensure all new developments are designed to minimally qualify for the BCA Green Mark Gold status. We see room for an expansion of its reporting scope to disclose metrics at the asset-level and also to add targets to reduce water and carbon emission intensities.

Material E issues

- Four of its nine hotels achieved the BCA Green Mark certification in 2020 - Oasia Hotel Downtown, Village Hotel Changi, Rendezvous Hotel (Gold) and Village Hotel Albert Court (Platinum), while Village Hotel Bugis was certified as Gold-Plus from Nov 2021.
- Refinanced a SGD125m term loan in Mar 2021 with a first (5-year) sustainability-linked facility.
- Engaged KPMG as external consultant in FY21 to develop a GHG carbon inventory template for monitoring emissions, while adding disclosure of Scope 1 and 2 GHG.
- On track for the BCA certification of its new buildings in Singapore, in particular the Sentosa hotels (Village, The Outpost, and The Barracks), that are designed to minimally qualify for the BCA Green Mark Gold certification.

Material S issues

- Gender diversity is high, with females representing five of its eight permanent employees in FY21 (from 6 of 9 in FY20), 20% at the management level (similar to FY20), and half of the board's members.
- Achieved a 100% participation rate for the annual Colleague Engagement Survey in FY21 (from 88% in FY20), which seeks to assess its employees' level of engagement and to identify their strengths and areas for improvement.
- Have supported charities and not-for-profit organisations for various causes, and also participated in some of its sponsor's community activities; has committed an annual budget from FY21 to supplement efforts.
- Stepped up tenant engagement and assistance to pandemic-affected businesses with temporary revision of rental structure or rental rebates.

Key G metrics and issues

- Stapled group managed externally by wholly-owned subsidiaries of its sponsor Far East Orchard, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high - it does not comprise any members with executive functions, and 4 of its 6 members are independent.
- Revised down base fee from 0.3% to 0.28% pa of deposited property, and performance fee to the lower of 4.0% of NPI or 4.0% of distributable income (after base fee, trust expenses and finance costs) in FY20 to better align its management fees to peers. As such, REIT management fees were lower by 12.3% YoY in FY21.
- Its CEO's salary is disclosed separately, while the cumulative remuneration of its key management team including the CEO, represented <3.5% of distributable income since this was first reported in FY15.
- Payout ratio for taxable income has been consistently maintained at above the minimum 90% threshold for tax transparency.
- Its 30% interest in a JV with its sponsor, an 839-room hotel development in Sentosa was at an estimated investment cost of SGD522k per key in Sep 2014, versus comparable market transactions of SGD1-1.3m per key when the property opened in 2019.
- Receives minimum gross revenue that is supported by the fixed rent component of the master leases, which is highest amongst its peers at an estimated 77% of its rental revenue in FY20, which provides downside support to DPUs.
- Divested Central Square for a SGD112m gain, with the sales proceeds reducing borrowings, after securing an outline planning permission from the URA for a 78% increase in maximum GFA and evaluating options for the asset.
- Was added as a constituent of the FTSE EPRA Nareit Global Real Estate Index Series since Sep 2021.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Results Summary

Fig 1: 1H23 results highlights

(SGM m)			Change		
	1H22	2H22	1H23	(% YoY)	(% HoH)
Gross revenue	41.0	42.6	52.0	26.9	22.2
Property expenses	(3.5)	(2.7)	(3.1)	(13.4)	13.3
Net property income	37.5	39.9	49.0	30.7	22.8
Borrowing costs	(8.1)	(10.3)	(12.1)	48.6	17.2
Distributable income to unitholders	29.0	30.2	37.4	29.2	23.9
Distribution per unit (SGD cts)	1.54	1.73	1.92	24.7	11.0
Aggregate leverage (%)	33.3	32.0	32.0	(130)	0
All-in financing cost (%)	1.8	2.2	3.2	140	100
Hotel occupancy (%)	68.2	79.1	78.3	1010	(80)
RevPAR, SGD	67.0	116.0	133.0	98.5	14.7
SR occupancy (%)	88.5	88.3	88.3	(20)	0
RevPAU, SGD	182.0	199.0	224.0	23.1	12.6
NPI margin (%)	91.4	93.6	94.1	275	46

Source: Company, Maybank IBG Research

Fig 2: 2Q23 trends

SGDm	2Q22	1Q23	2Q23	%QoQ	%YoY
Hotels	14.3	18.5	20.1	8.9	41.2
Serviced Residences	2.3	2.7	2.7	-1.9	16.3
Commercial premises	3.5	4.0	4.1	1.5	16.4
Gross revenue	20.0	25.2	26.9	6.6	34.1
Property expenses	-1.6	-1.5	-1.5		
Net property income	18.4	23.7	25.3	6.9	37.2
Borrowing costs	-3.9	-6.1	-6.0	-1.9	55.1
REIT Manager fees	-2.3	-2.6	-3.1		
Income available for distribution	14.3	18.2	19.2	5.1	34.4
Hotels	1H22	1Q23	1H23	%QoQ	%YoY
Occupancy	68.2%	81.9%	78.3%	-3.6%	10.1%
ADR, SGD	99	165	169	2.4	70.7
Hotels - RevPAR, SGD	67	135	133	-1.5	98.5
Serviced residences (SRs)	1H22	1Q23	1H23	%QoQ	%YoY
Occupancy	88.5%	87.1%	88.3%	1.2%	-0.2%
ADR, SGD	206	257	253	-1.6	22.8
SRs - RevPAR, SGD	182	224	224	0.0	23.1

Source: Company, Maybank IBG Research

2. Valuation

We value FEHT using a 3-stage dividend discount model with a risk-free rate of 2.8% and COE of 6.6%. Our DPU forecasts and CoE assumptions are unchanged. Therefore, maintain BUY and SGD0.80 target price.

3. Risks

Risks include: 1) Chinese demand is slower than expected; 2) decline in residential rents spills over to serviced residences; 3) higher-than-expected interest rates; 4) new supply from rivals; and 5) dilutive transactions.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Price/DPU(x)	22.4	21.8	17.2	16.2	15.6
P/BV (x)	0.7	0.7	0.7	0.7	0.7
P/NTA (x)	0.7	0.7	0.7	0.7	0.7
DPU yield (%)	4.5	4.6	5.8	6.2	6.4
FCF yield (%)	6.0	5.3	6.6	7.0	7.2

INCOME STATEMENT (SGD m)

Revenue	83.2	83.6	100.3	107.5	111.2
Net property income	75.2	77.3	91.6	98.6	102.1
Management and trustee fees	(9.8)	(9.7)	(10.0)	(10.3)	(10.5)
Net financing costs	(19.9)	(18.4)	(24.3)	(25.9)	(25.9)
Associates & JV	(4.1)	0.0	0.0	0.0	0.0
Exceptionals	78.2	102.2	102.2	25.0	25.2
Other pretax income/expenses	0.5	1.6	1.6	1.6	1.6
Pretax profit	119.5	151.9	160.0	88.0	91.6
Income tax	(0.1)	(0.1)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	119.5	151.8	160.0	88.0	91.6
Core net profit	41.2	49.6	66.9	72.3	74.8
Distributable inc to unitholders	52.0	56.4	74.9	80.3	83.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	11.7	49.8	53.7	56.8	61.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	2,336.5	2,446.8	2,495.7	2,520.6	2,545.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2.5	0.0	53.3	53.3	53.3
Other assets	314.2	58.6	58.6	58.6	58.6
Total assets	2,664.8	2,555.1	2,661.3	2,689.3	2,719.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	53.1	2.7	2.7	2.7	2.7
LT interest bearing debt	947.6	737.8	739.8	739.8	739.8
Other liabilities	15.7	14.8	14.8	14.8	14.8
Total Liabilities	1,016.4	755.3	757.3	757.3	757.3
Shareholders Equity	1,648.4	1,799.8	1,904.0	1,932.0	1,962.0
Minority Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total shareholder equity	1,648.4	1,799.8	1,904.0	1,932.0	1,961.9
Total liabilities and equity	2,664.8	2,555.1	2,661.3	2,689.3	2,719.2

CASH FLOW (SGD m)

Cash flow from operations	69.3	71.9	89.6	96.5	99.1
Capex	0.0	(7.2)	(5.0)	(5.0)	(5.0)
Acquisitions & investments	46.0	262.2	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	(3.1)	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.5	1.6	1.6	1.6
CF from investing activities	43.0	255.5	(3.4)	(3.4)	(3.4)
Dividends paid	(48.8)	(60.8)	(59.9)	(64.2)	(67.1)
Interest expense	(21.2)	(18.5)	(24.3)	(25.9)	(25.9)
Change in debt	(41.5)	(210.0)	2.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	0.0	(0.0)	0.0	0.0	0.0
CF from financing activities	(111.5)	(289.3)	(82.3)	(90.1)	(93.0)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	1.0
Net cash flow	0.8	38.1	4.0	3.1	3.8

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(0.0)	0.4	20.0	7.3	3.4
Net property income growth	4.1	2.9	18.4	7.6	3.6
Core net profit growth	21.0	20.4	34.8	8.1	3.5
Distributable income growth	9.9	8.5	32.8	7.2	4.4
Profitability ratios (%)					
Net property income margin	90.3	92.5	91.4	91.7	91.8
Core net profit margin	49.5	59.4	66.7	67.2	67.3
Payout ratio	126.0	113.6	112.0	111.1	112.0
DuPont analysis					
Total return margin (%)	143.5	181.6	159.6	81.8	82.3
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.6	1.4	1.4	1.4	1.4
ROAE (%)	na	na	na	na	na
ROAA (%)	1.6	1.9	2.6	2.7	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	3.4	3.5	3.6	3.6
Net gearing (%) (excl. perps)	56.8	38.2	36.0	35.4	34.6
Net interest cover (x)	3.3	3.6	3.3	3.4	3.5
Debt/EBITDA (x)	14.6	11.1	9.2	8.5	8.3
Capex/revenue (%)	0.0	8.7	5.0	4.6	4.5
Net debt/ (net cash)	935.9	688.0	686.1	683.0	678.2
Debt/Assets (x)	0.36	0.29	0.28	0.28	0.27

Source: Company; Maybank IBG Research

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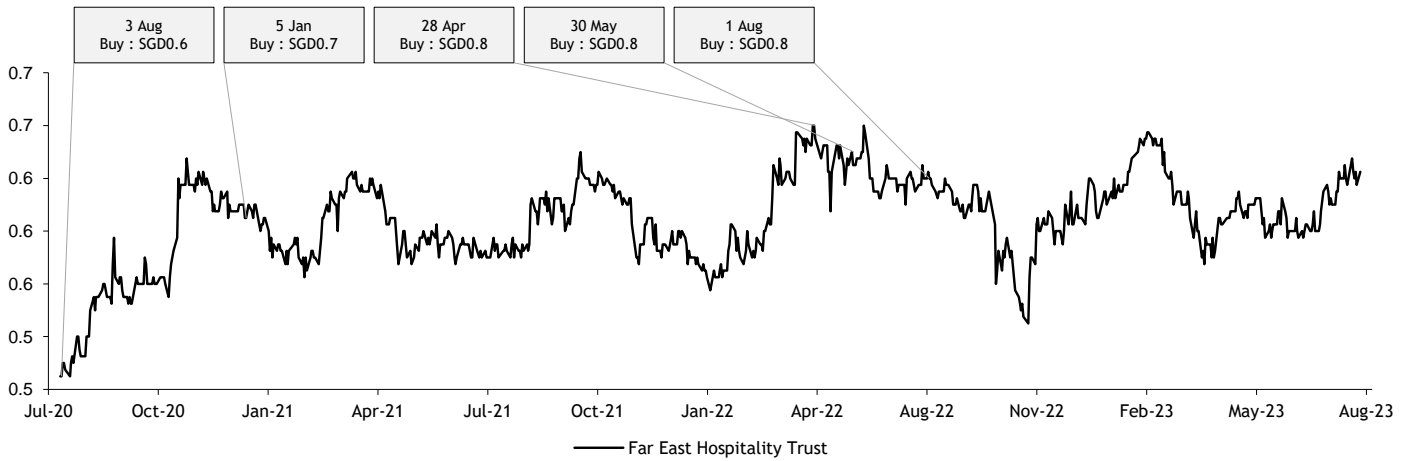
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