

25.8%

0.7%

Frasers Hospitality Trust (FHT SP)

A generally upbeat 2H23

FY23 DPU in line; maintain BUY

FHT posted 2HFY23 revenue of SGD61.0m (c.-2%HoH/+18%YoY). FY23 DPU of SGD2.4426cts forms 101% of our FY23 forecast. FY23 revenue/NPI rose by c.44%/50% on a same-store basis, excluding Sofitel Sydney Wentworth that was divested in Apr'22. Travel demand proved robust in 2H23, shown by continued RevPAR growth in most markets. Looking ahead, while a strong event pipeline and recovery tailwinds are likely to support RevPAR, we expect growth from room rates and occupancy to gradually normalize.

RevPAR continues to grow in 2H23

Japan and UK assets showed the strongest RevPAR growth in 2H23 due to higher occupancy (+15ppt HoH), and ADR (+20% HoH), respectively. Singapore and Malaysia assets both saw ADR growth (7%/6% HoH), accompanied by robust occupancy (+2/3ppt). There was a softer performance (-12% in ADR) in Australian assets, partially offset by largely resilient occupancy (+2ppt). This was led by tepid corporate and group demand in Melbourne, on top of new hotel openings of over 4,000 keys in the past 24 months. While FHT's occupancy in 2H23 rose 3-27ppt YoY across its portfolio, occupancy is still shy of pre-pandemic levels by 2-15ppt. Overall, RevPAR in all markets is 2-12% ahead of 4Q19 levels.

Upcoming debt refinancing

Gearing is at 34% as of Sep'23, with 75.5% borrowing hedged to a fixed rate. COD inched up by 10bps to 3.1% in 4QFY23. The upcoming refinancing of SGD149.3m consists of 67%/13%/20% SGD/MYR/JPYdenominated loans/bonds. As the refinancing exercise is in Jul'24, we don't expect the full impact from higher COD until FY25E. A relatively stable JPY base rate could also cushion the increase from SGD/MYRdenominated loans, part of which carry fixed interest rates of 3.08%/4.85% currently. In the medium term, management is comfortable to bring gearing up to 40%, by deploying the SGD420m debt headroom (assuming 45% threshold). FHT hedges the fixed portion of its room revenue in foreign currency, which management estimates to be SGD30m.

Trimming TP, maintain BUY

We lower our FY24-25E revenue estimates by c.6-8% and rolled forward our valuation base to FY26E. In view of upcoming additional supply in FHT's key markets (Edinburgh, Kuala Lumpur and Dresden), we see FHT entering a more competitive environment in FY24, against the backdrop of normalizing RevPAR growth. Nonetheless, strong event pipeline and recovery tailwinds should underpin growth. We lower our DPU by c.3-6% for FY24E-25E and trim TP to SGD0.53 from SGD0.54. Maintain BUY.

FYE Sep (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	96	123	127	131	133
Net property income	70	91	94	96	98
Core net profit	26	52	9	9	12
Core EPU (cts)	1.3	2.7	0.5	0.5	0.6
Core EPU growth (%)	31.1	104.1	(83.1)	7.4	30.4
DPU (cts)	1.6	2.4	2.5	2.5	2.6
DPU growth (%)	66.4	49.1	1.6	1.2	5.3
P/NTA (x)	0.7	0.8	0.8	0.8	0.8
DPU yield (%)	3.4	4.8	4.8	4.8	5.1
ROAE (%)	3.7	7.3	3.8	3.9	4.1
ROAA (%)	1.2	2.5	0.4	0.5	0.6
Debt/Assets (x)	0.36	0.34	0.34	0.34	0.34
Consensus DPU	-	-	2.6	2.7	na
MIBG vs. Consensus (%)	-	-	(2.9)	(7.1)	na

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BUY

Share Price SGD 0.52 SGD 0.53 (+8%) 12m Price Target **Previous Price Target** SGD 0.54

Company Description

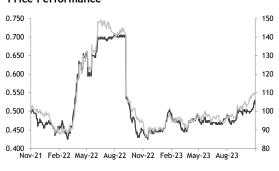
Frasers Hospitality invests in income-producing hospitality real estate and related assets.

Statistics

52w high/low (SGD)	0.53/0.43
3m avg turnover (USDm)	0.6
Free float (%)	36.5
Issued shares (m)	1,926
Market capitalisation	SGD1.0B
	USD739M
Major shareholders:	
Tcc Group Investments Ltd.	36.7%

Metro Holdings Ltd. **Price Performance**

Frasers Property Ltd.



Frasers Hosp. T - (LHS, SGD) ——Frasers Hosp. T / Straits Times Index - (RHS, %)

-1M	-3M	-12M
4	6	16
4	10	14
	-1M 4 4	4 6

Source: FactSet

Terms defined

ADR: Average daily rate

MICE: Meetings, Incentives, Conferences & Exhibitions

RevPAR: Revenue per available room

COD: Cost of debt NPI: Net property income GOR: Gross operating revenue GOP: Gross operating profit



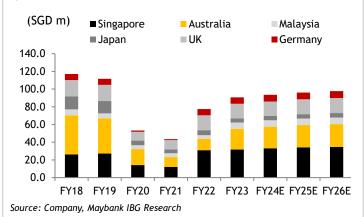
Frasers Hospitality Trust

Maybank

Value Proposition

- 14 assets valued at SGD1.9b in prime locations in gateway cities in Asia, Australia and Europe. Comprised of eight hotels and six serviced residences with a total of 3,477 keys.
- Defensive portfolio: FHT records a fair value gain of SGD50m in FY23.
- Sponsor Frasers Property is a diversified real-estate player with SGD47.3b AUM as of May-23. Owns & operates more than 17,000 serviced apartments / hotel rooms.
- Strategic partner TCC Group is among Southeast Asia's largest conglomerates.
- In the medium term, management is comfortable to bring gearing up to 40%, by deploying the SGD420m debt headroom (assuming 45% threshold).

NPI breakdown



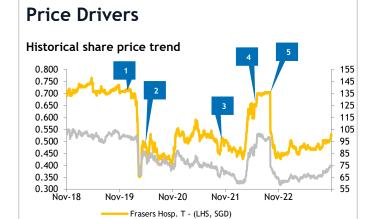
Financial Metrics

- DPUs continued to recover in FY23E, underpinned by robust travel demand.
- We expect occupancies across its hotel portfolio to continue to recover, nearing pre-pandemic levels due to strong leisure demand.
- We forecast stable RevPARs across its key markets.
- Acquisition growth prospects uncertain amid high interest costs environment. Potential opportunities likely to come from Japan.

NPI and DPU growth



Source: Maybank IBG Research



Source: FactSet

- 1. Feb-20: Outbreak of Covid-19 pandemic.
- 2. May-20: Gradual easing of restrictions in Sydney.
- 3. Oct-21: Announces divestment of Sofitel Sydney Wentworth for AUD305.0m (SGD309.1m) at 4.1%/3.3% FY19/FY21 NPI yield.

Frasers Hosp. T / Straits Times Index - (RHS, %)

- Jun-22: Announces the proposed privatisation of FHT by way of a trust scheme of arrangement with a scheme consideration of SGD0.700 in cash per scheme stapled security.
- Sep-22: FHT held EGM to seek approval from shareholders for the proposed privatisation, which was not passed at the meeting. FHT remains listed on SGX-ST.

Swing Factors

Upside

- Better-than-anticipated RevPAR across markets.
- Stronger pickup in MICE demand in Japan.
- 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 residence room supply without corresponding growth in demand.
- Deterioration in global economy, resulting in decline in RevPARs.
- Significant volatility in FX rates could impede hedging efforts and affect DPU.
- Sharper-than-expected rise in interest rates could increase cost of debt and hit earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score ¹	12.8 (Low)
Score Momentum ²	-1.4
Last Updated	22 Nov 2022
Controversy Score ³	1
(Updated: 22 Nov 2022)	

Business Model & Industry Issues

- FHT draws on its available pool of funds to invest in hospitality real estate, undertake asset enhancements, 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 closely 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 strong representation by members with international experience, essential in our view, as its overseas portfolio is a sizeable growth platform.
- Introduced near to long-term sustainability targets in 2020 to align with its sponsor, including achieving BCA Green Mark (Gold) certification for 80% and to green finance the majority of its assets by 2024, as well as to be net zero carbon by 2050.
- It had expanded reporting to cover 14 properties since FY18, excluding Maritim Hotel Dresden (given master lease limitations) and participated for a 2nd time in the Global Real Estate Sustainability Benchmark Assessment 2020 to maintain a score of 60 and 2-star rating. At the asset level, five UK properties are enrolled in the globally recognised Green Tourism programme.

Material E issues

- Its InterContinental Singapore was certified BCA Green Mark GoldPLUS (in FY18), while three UK serviced residences and the Park International London were awarded Bronze and Frasers Edinburgh Silver by the Green Tourism programme.
- While carbon emissions and energy and water consumption fell 25.0% YoY, 21.7% YoY and 23.8% YoY in FY20 due to significantly lower occupancies, their intensities rose 19.1% YoY, 24.4% YoY and 20.4% YoY, as utilities were essential to maintain key amenities across its properties.
- Reiterated its targets to achieve energy and water intensity cuts of 3.0% and 1.5% pa. for the portfolio from 2018-24. Expanded waste reporting in FY20 to 10 (from 8 in FY19) of its sponsored-managed properties, and to raise this to 14 assets by end 2021, while establishing a recycling target.

Material S issues

- Front-office excellence training, and epitome training and grooming conducted for all staff at FHT-managed properties, while new, existing staff at InterContinental Singapore trained on chain's approach to hospitality, and new hires and Novotel Melbourne undergo Peopleology service training prior to employment.
- Guests' feedback is collated from in-room, post-stay surveys and travel service platforms to monitor service satisfaction, while independent mystery shopper audits are deployed by external parties to assess service quality.
- Recorded an average of 49 training hours per employee in FY20, above the 40-hour group-level target.
- Gender diversity is high, with female representation at 75% amongst all employees (in FY20), and two-thirds at the management level.

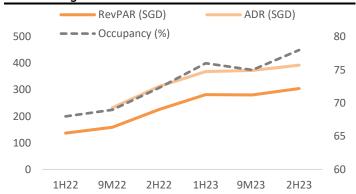
Key G metrics and issues

- Its six Frasers-branded serviced residences and two London hotels, the Park Western Cromwell and Park International, are managed by its sponsor, 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, including the Chairman are independent.
- Management fee structure, with base fee at 0.3% of its deposited property, performance fee at 5.5% pa of distributable income, and acquisition and disposal fee at 1.0% and 0.5% deal value, is comparable to peers.
- The cumulative remuneration of its key management team, including the CEO, has represented

<u>Raisk Rating & Score</u> - 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. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - 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).

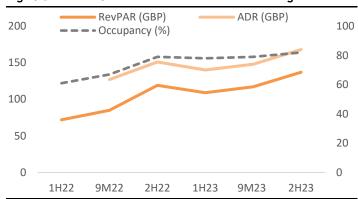
1. Focus charts

Fig 1: Singapore market: higher occupancy underpins RevPAR amid slowing ADR



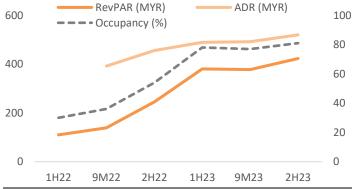
Source: Company, Maybank IBG Research

Fig 3: UK market: ADR continues to drive RevPAR growth



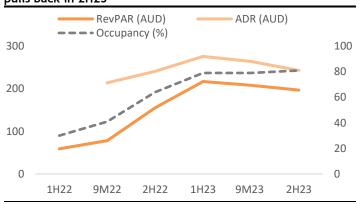
Source: Company, Maybank IBG Research

Fig 5: Malaysia market: stronger recovery in FY22



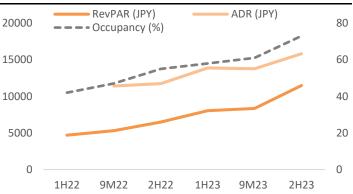
Source: Company, Maybank IBG Research

Fig 2: Australia market: occupancy remains resilient as ADR pulls back in 2H23



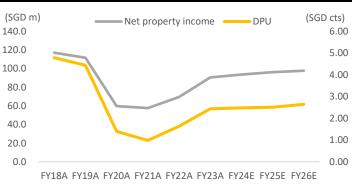
Source: Company, Maybank IBG Research

Fig 4: Japan market showed stronger recovery in FY23



Source: Company, Maybank IBG Research

Fig 6: NPI and DPU forecasts



Source: Maybank IBG Research

2. Financial highlights

Fig 7: 2H23 DPU is c.-7% HoH due to lower revenue and higher borrowing costs

(SGD m)	2H23	1H23	2H22	% YoY	% НоН
Gross revenue	61	62.2	51.8	17.9%	(2.0%)
Property expenses	(15.7)	(17.0)	(13.8)	13.5%	(7.5%)
Net property income	45.3	45.2	37.9	19.5%	0.1%
Borrowing costs	(11.8)	(9.0)	(11.6)	1.8%	30.4%
Total distributable income	25.2	27.1	19.9	26.5%	(6.9%)
Distribution to equity holders	22.7	24.4	17.9	26.4%	(6.9%)
DPU (Scts)	1.1777	1.3	0.9	26.4%	(6.9%)
NAV per unit (SGD)	0.6638	0.64	0.65	2.6%	3.4%
Aggregate leverage (%)	34	35.0	36.4		
All-in financing cost (%)	3.1	2.9	2.3		
NPI margin (%)	74.3	72.7	73.3		

Source: Company, Maybank IBG Research

Fig 8: Continued growth in GOR from most markets, except for Australia. HoH, GOP pulls back in both Singapore and Australia.

			GOR					GOP				٨	Aargin (%))	
(LC m)	2H23	1H23	2H22	НоН	YoY	2H23	1H23	2H22	HoH	YoY	2H23	1H23	2H22	НоН	YoY
Singapore	54.8	50.6	40.7	8%	35%	20.1	21.8	16.5	(8%)	21.8%	36.7	43.1	40.5	(6)	(4)
Australia	36.6	39.3	32.7	(7%)	12%	15.5	19.4	13.9	(20%)	11.5%	42.3	49.4	42.5	(7)	(0)
UK	16.7	13.2	14.4	27%	16%	6.8	5.5	7.2	24%	-5.6%	40.7	41.7	50.0	(1)	(9)
Japan	2223. 5	1823. 8	1532. 7	22%	45%	512.1	438.5	339.8	17%	50.7%	23.0	24.0	22.2	(1)	1
Malaysia	48.7	44.8	29.7	9 %	64%	16.9	14.6	6.3	16%	168.3%	34.7	32.6	21.2	2	13
Germany	7.7	5.7	6.4	35%	20%	3.2	2	2.7	60%	18.5%	41.6	35.1	42.2	6	(1)

Source: Company, Maybank IBG Research

3. Operational highlights

Fig 9: RevPAR growth moderates in 2H23

	2H23	2H22	4Q19	% YoY	% Pre Covid
RevPAR (LC)					
Singapore	305	226	273	35.0%	112
Australia	197	155	191	27.1%	103
UK	137	119	128	15.1%	107
Japan	11477	6494	11209	76.7%	102
Malaysia	423	245	409	72.7%	103
Occupancy (%)					
Singapore	78	72.3	92.5	5.7	-15
Australia	81	64	86.2	17.0	-5
UK	82	79	93.3	3.0	-11
Japan	73	55	75.1	18.0	-2
Malaysia	81	54	89.9	27.0	-9
ADR (LC)					
Singapore	393	313	286	25.6%	137
Australia	243	241	222	0.8%	109
UK	168	151	137	11.3%	123
Japan	15818	11738	14918	34.8%	106
Malaysia	520	456	455	14.0%	114

Source: Maybank IBG Research

^{*4}Q19 data represents pre-pandemic RevPAR performances



4. Forecast changes

Fig 10: Forecast revisions

	FY24E (old)	FY25E (old)	FY24E (New)	FY25E (New)	FY24E (% change)	FY25E (% change)
Revenue (SGDm)	136.0	142.1	127.4	131.0	(6.3)	(7.8)
NPI (SGDm)	101.1	104.5	93.6	96.1	(7.4)	(8.0)
Distribution to unitholders (SGDm)	49.4	52.2	47.7	48.3	(3.5)	(7.4)
DPU (SG cts)	2.54	2.67	2.48	2.51	(2.6)	(6.0)

Source: Maybank IBG Research

We lower our FY24-25 revenue forecasts by c.6-8% as we expect growth to moderate and a more competitive operating environment entering into FY24.

We lower our FY24-25 DPU forecasts by c.3-6%, after adjusting our interest expense estimates. We adjusted our borrowing cost estimates as the refinancing takes place in Jul'24 (3 months before Sep year-end) and the JPY base rate could lend some stability to the overall cost of debts.

We roll forward our valuation base to FY26E.

5. Valuation

We value FHT using a 3-stage dividend discount model. We factor in a higher risk free rate (3.3%) while applied beta of 0.67 based on 52-weeks adjusted data.

We lower our FY23/24E DPU forecasts by c.3-6%.

Lower top-line estimates (c.6.3%/7.8% for FY24/25E) are partially cushioned by adjusted interest expense.

These factors result in a slightly lower TP of SGD0.53.

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	29.3	20.7	21.0	20.7	19.7
P/BV (x)	0.7	0.8	0.8	0.8	0.8
P/NTA (x)	0.7	0.8	0.8	0.8	0.8
DPU yield (%)	3.4	4.8	4.8	4.8	5.1
FCF yield (%)	3.0	7.7	8.3	7.5	7.8
INCOME STATEMENT (SGD m)					
Revenue	95.9	123.2	127.4	131.0	133.3
Net property income	69.6	90.5	93.6	96.1	97.8
Management and trustee fees	(9.2)	(9.6)	(9.4)	(9.5)	(6.3)
Net financing costs	(21.6)	(20.9)	(21.4)	(19.6)	(19.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	24.2	0.1	0.0	0.0	0.0
Other pretax income/expenses	0.5	1.6	1.6	1.6	1.6
Pretax profit	57.0	53.2	55.8	60.1	64.9
Income tax	(10.5)	(10.7)	(11.2)	(12.1)	(13.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	2.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	46.6	91.6	48.3	49.0	51.8
Core net profit	25.5	52.1	8.8	9.4	12.3
Distributable inc to unitholders	31.5	47.0	47.7	48.3	50.9
BALANCE SHEET (SGD m)	422.0	00.4	00.0	405.4	440.0
Cash & Short Term Investments	123.9	88.1	99.8	105.1	110.8
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	215.9	210.0	210.0	210.0	210.0
Inversiment properties	1,683.2	1,720.7	1,686.5	1,686.5	1,686.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs Other assets	0.0 62.6	0.0 54.2	0.0 54.2	0.0 54.2	0.0 54.2
Total assets	2,085.6	2,073.0	2,050.4	2,055.8	2,061.5
ST interest bearing debt	0.0	0.0	0.0	0.0	2,061.5
Accounts payable	19.3	20.3	20.3	20.3	20.3
LT interest bearing debt	756.7	701.5	701.5	701.5	701.5
Other liabilities	63.6	72.7	701.3	72.7	701.3
Total Liabilities	839.7	794.6	794.6	794.6	794.6
Shareholders Equity	1,245.9	1,278.5	1,255.9	1,261.2	1,266.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,245.9	1,278.5	1,255.9	1,261.2	1,266.9
Total liabilities and equity	2,085.6	2,073.0	2,050.4	2,055.8	2,061.5
CASH FLOW (SGD m)	20.2	75.0	22.2	75 5	70 1
Cash flow from operations	28.3	75.2	83.0	75.5	78.4
Capex	(0.3)	(0.4)	0.0	0.0	0.0
Acquisitions & investments	298.5	(3.9)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	3.2	13.9	1.6	1.6	1.6
CF from investing activities	301.5	9.6	1.6	1.6	1.6
Dividends paid	(29.0)	(42.3)	(47.7)	(48.3)	(50.9)
Interest expense	(20.4)	(19.4)	(21.4)	(19.6)	(19.6)
Change in debt	(226.8)	(51.4)	0.0	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	(276.2)	(113.1)	(69.2)	(68.0)	(70.5)
Effect of exchange rate changes	(7.8)	(3.6)	0.0	0.0	0.0
Net cash flow	45.7	(31.9)	15.5	9.2	9.5

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.1	28.5	3.4	2.8	1.7
Net property income growth	20.7	30.1	3.3	2.7	1.7
Core net profit growth	31.3	104.1	(83.1)	7.4	30.4
Distributable income growth	66.7	49.1	1.6	1.2	5.3
Profitability ratios (%)					
Net property income margin	72.6	73.5	73.4	73.4	73.3
Core net profit margin	26.6	42.3	6.9	7.2	9.2
Payout ratio	123.4	90.2	nm	nm	nm
DuPont analysis					
Total return margin (%)	48.6	74.4	37.9	37.4	38.9
Gross revenue/Assets (x)	0.0	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.6
ROAE (%)	3.7	7.3	3.8	3.9	4.1
ROAA (%)	1.2	2.5	0.4	0.5	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.6	2.6	2.6	2.6
Net gearing (%) (excl. perps)	50.8	48.0	47.9	47.3	46.6
Net interest cover (x)	2.5	3.5	3.6	4.0	4.3
Debt/EBITDA (x)	14.0	9.1	8.7	8.5	8.0
Capex/revenue (%)	0.3	0.4	0.0	0.0	0.0
Net debt/ (net cash)	632.8	613.4	601.7	596.4	590.7
Debt/Assets (x)	0.36	0.34	0.34	0.34	0.34

Source: Company; Maybank IBG Research



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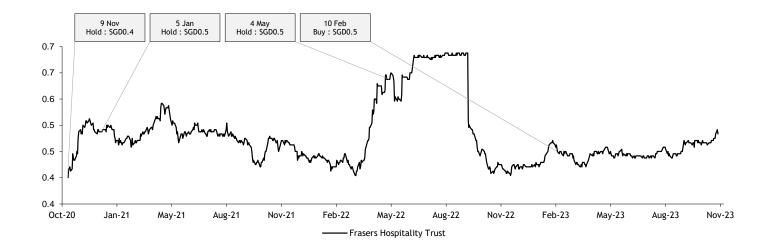
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