

# Far East Hospitality Trust (FEHT SP)

## Impacted by one-offs

### Capitalizing on visitor arrivals, BUY

FEHT's 3Q24 NPI of SGD26.2m fell 6.8% YoY. Adjusted for one-offs of last year, NPI rose by an estimated 2.4% YoY. Hotel and service residence (SR) stats saw steady progress through the year, led by room rates. Financing metrics were stable, with gearing and debt cost unchanged. While FEHT is focusing on making acquisitions, it may also divest non-core assets. With a stable distribution profile, low gearing and benefits from potential interest rate cuts, we maintain BUY with unchanged forecasts and TP.

### Steady improvement of operating data

3Q24 revenue and NPI was SGD28.7m and SGD26.2m, -4.8% and -6.8% YoY respectively. The decline was led by hotels, which saw gross revenue fall 8.3% YoY due to one-off income received last year. SRs and commercial premises saw 3% and 9.9% revenue growth YoY. Excluding the one-off income, 3Q24 revenue was +3.9% YoY and NPI grew an estimated 2.4%. 9M24 gross revenue was +0.4% YoY and +6.7% YoY, excluding the one-off income. We estimate SGD2.5m of one-off income for 3Q23 and SGD4.8m for 9M23 (4.4% of FY23 revenue). Hotel RevPAR for 3Q24 was +2.7% YoY, driven by +4% room rate and 1.2%pt lower occupancy. SR RevPAR for 3Q24 was +2.5% YoY, driven by +3.3% room rate and 0.7%pt lower occupancy.

### Poised to benefit from lower interest rates

Its balance sheet remains lowly geared with stable leverage of 30.8%. Cost of debt was unchanged at 4.1%. With a low hedge ratio of 40.1%, FEHT will benefit from projected rate cuts. While it remains focused on acquisitions in Singapore, Japan and the UK, management also intends to divest non-core assets and stabilize the operating performance of assets.

### Maintain BUY

Our forecasts, TP and rating are unchanged. While the business update had few moving parts because of one-off income, we expect top-ups and projected rate cuts to keep the distribution profile relatively unchanged. Valuation is attractive as well, with 6.4% FY25E yield and 0.6x PB.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	84	107	105	110	115
Net property income	77	99	97	102	107
Core net profit	50	65	65	73	79
Core EPU (cts)	2.5	3.3	3.2	3.6	3.8
Core EPU growth (%)	19.5	31.0	(1.1)	11.1	6.9
DPU (cts)	3.3	4.1	4.0	4.0	4.0
DPU growth (%)	24.3	24.7	(2.6)	0.2	0.0
P/NTA (x)	0.7	0.7	0.6	0.6	0.6
DPU yield (%)	5.3	6.2	6.4	6.4	6.4
ROAA (%)	1.9	2.5	2.5	2.7	2.9
Debt/Assets (x)	0.29	0.28	0.27	0.27	0.27
Consensus DPU	-	-	4.1	4.1	4.1
MIBG vs. Consensus (%)	-	-	(3.7)	(3.1)	(2.6)

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# BUY

Share Price	SGD 0.62
12m Price Target	SGD 0.80 (+32%)
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 12 properties).

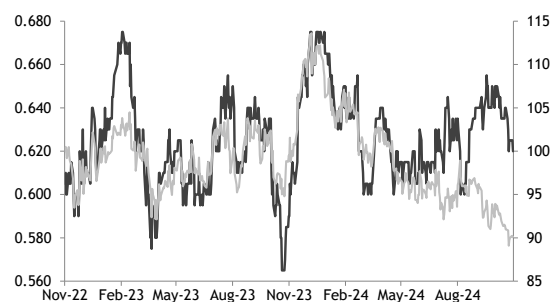
### Statistics

52w high/low (SGD)	0.68/0.59
3m avg turnover (USDm)	0.5
Free float (%)	49.0
Issued shares (m)	2,000
Market capitalisation	SGD1.2B USD937M

### Major shareholders:

Golden Development Pte Ltd.	22.5%
F.E. Holdings Pte Ltd.	14.7%
Estate of Ng Teng Fong	6.7%

### Price Performance



— Far East Hosp. - (LHS, SGD) — Far East Hosp. / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(3)	(1)	5
Relative to index (%)	(2)	(4)	(9)

Source: FactSet

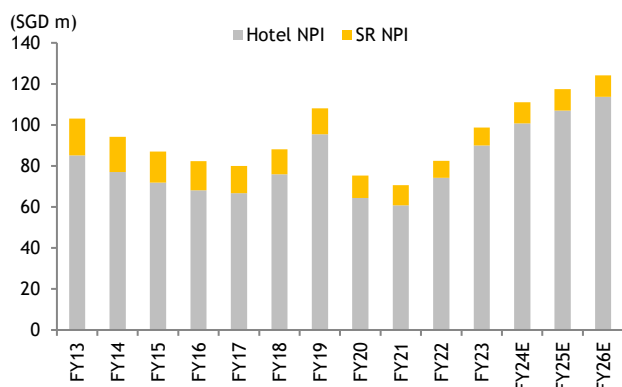
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## Value Proposition

- Singapore-focused portfolio of SGD2.5b as of Dec 2023, comprising 12 properties with 2,775 hotel rooms and 240 serviced apartments.
- Backed by sponsor the Far East Organisation Pte Ltd group, Singapore's largest private property developer. Further entrenchment after its Oasia Hotel Downtown acquisition in 1Q18 and completion of Sentosa JV hotels from 4Q18.
- Sponsor has a pipeline of 1,823 rooms for acquisition potentially.

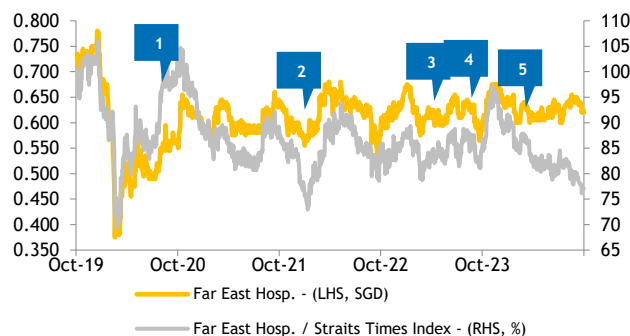
### NPI breakdown (FY13-FY26E)



Source: Company

## Price Drivers

### Historical share price trend



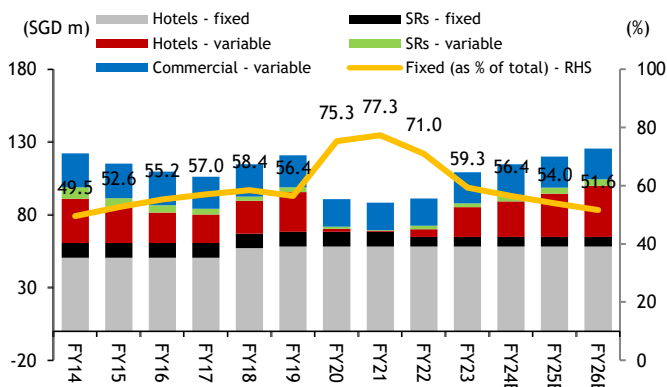
Source: Company, Maybank IBG Research

1. Jul-20: RevPARs/RevPAUs fell less than peers in 2Q20 due to demand from government agencies for isolation facilities and to workers affected by border closures.
2. Dec-21: Announced divestment of Central Square for c.SGD313m (c. 58% above book and c. 71% premium to purchase price) to deliver SGD112m in net gains.
3. Mar-23: Announced receipt of additional payment of SGD18m related to the divestment of Central Square.
4. Sep-23: Article in The Business Times stating FEHT eyeing maiden overseas acquisition and grow REIT market cap from SGD1.3b to SGD2.5b.
5. Feb-24: Announcement of FY23 results, DPU +27.3%

## Financial Metrics

- DPU growth of -2% forecast for FY23-26E.
- We forecast hotel RevPAR of SGD147 for FY2024 and SGD150 for FY2025. SR RevPAU is expected to be SGD235 for FY24 and SGD220 for FY25.
- We expect all-in debt cost to rise to 4.1% for FY24 and 3.9% for FY25.

### 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 <sup>1</sup>	12.3(low)
Score Momentum <sup>2</sup>	+2.6
Last Updated	22 Nov 2022
Controversy Score <sup>3</sup> (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 focusses 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 gov 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 emissions.

### 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 DPU.
- 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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 highlights

Fig 1: 3Q and 9M24 results highlights

SGDm	3Q23	2Q24	3Q24	% QoQ	% YoY	9M23	9M24	%YoY
Hotels	23.3	19.6	21.4	8.9	-8.3	61.9	61.1	-1.4
Serviced Residences	2.9	2.8	3.0	6.3	3.0	8.3	8.5	2.4
Commercial premises	3.9	4.2	4.3	2.2	9.9	12.0	13.0	8.1
Gross revenue	30.2	26.7	28.7	7.6	-4.8	82.2	82.6	0.4
Net property income	28.1	24.4	26.2	7.6	-6.8	77.1	75.7	-1.8

Source: Maybank IBG Research

Fig 2: Key operating statistics

Hotels	3Q23	2Q24	3Q24	QoQ	YoY	9MFY23	9MFY24	%YoY
Occupancy	86.7%	80.4%	85.5%	5.1%	-1.2%	81.2%	82.1%	0.9%
ADR, SGD	173	172	180	4.7	4.0	171.0	177.0	3.5
Hotels - RevPAR, SGD	150	139	154	10.8	2.7	139.0	146.0	5.0
Serviced Residences (SRs)	3Q23	2Q24	3Q24	QoQ	YoY	9MFY23	9MFY24	%YoY
Occupancy	88.7%	86.8%	88.0%	1.2%	-0.7%	88.4%	86.1%	-2.3%
ADR, SGD	269	266	278	4.5	3.3	259.0	270.0	4.2
SR - RevPAR, SGD	239	231	245	6.1	2.5	229.0	232.0	1.3
Gearing, %	32.2	30.8	30.8					
Cost of debt, %	3.2	4.1	4.1					
Fixed rate hedge, %	40.6	35.9	40.1					
ICR, x	3.6	3.1	2.9					

Source: Maybank IBG Research, Company Data

## 2. Valuation

We value FEHT using a 3-stage dividend discount model with COE of 6.7% versus prior input of 6.9%. As 9M24 revenue and NPI is tracking at 78.4% and 77.7% of our full-year forecasts, we leave our forecasts unchanged as 3Q has been historically the best quarter and further, no disclosures have been provided for the borrowing expenses. We estimate about SGD2.5m and SGD4.8m of one-off income recognized in 3Q23 and 9M23. This one-off income would have also flowed through to the distribution and will negatively impact comparison of distribution from operating income. However, top-ups of SGD18m should keep the overall distribution profile stable. The QoQ RevPAR for hotels is trending below the 19.9% growth seen for system-wide mid-tier hotels and 18.4% growth seen for all hotels. We expect the portfolio to catch up with asset enhancements and ramp up in performance of assets out of government contracts. We maintain estimates, BUY rating and TP of SGD0.80.

## 3. Risks

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

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Price/DPU(x)	18.9	16.3	15.6	15.5	15.5
P/BV (x)	0.7	0.7	0.6	0.6	0.6
P/NTA (x)	0.7	0.7	0.6	0.6	0.6
DPU yield (%)	5.3	6.2	6.4	6.4	6.4
FCF yield (%)	5.3	7.3	7.0	7.3	7.6
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	83.6	106.8	105.3	110.0	115.0
<b>Net property income</b>	<b>77.3</b>	<b>98.7</b>	<b>97.4</b>	<b>101.9</b>	<b>106.7</b>
Management and trustee fees	(9.7)	(10.8)	(10.8)	(10.5)	(10.7)
Net financing costs	(18.4)	(25.2)	(30.9)	(27.8)	(26.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	102.2	59.2	78.4	25.3	25.6
Other pretax income/expenses	1.6	3.9	3.9	3.9	3.9
<b>Pretax profit</b>	<b>151.9</b>	<b>125.0</b>	<b>137.0</b>	<b>91.9</b>	<b>97.7</b>
Income tax	(0.1)	(0.3)	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
<b>Total return avail to unitholders</b>	<b>151.8</b>	<b>124.7</b>	<b>137.0</b>	<b>91.9</b>	<b>97.7</b>
Core net profit	49.6	65.4	65.2	73.0	78.7
Distributable inc to unitholders	65.0	81.9	80.2	81.0	81.7
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	49.8	63.1	64.1	72.3	85.7
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	2,446.8	2,509.6	2,534.6	2,560.0	2,585.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	53.3	53.3	53.3
Other assets	58.6	49.8	49.8	49.8	49.8
<b>Total assets</b>	<b>2,555.1</b>	<b>2,622.5</b>	<b>2,701.8</b>	<b>2,735.4</b>	<b>2,774.3</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	2.7	3.3	3.3	3.3	3.3
LT interest bearing debt	737.8	736.8	741.8	746.8	751.8
Other liabilities	14.8	15.6	15.6	15.6	15.6
<b>Total Liabilities</b>	<b>755.3</b>	<b>755.7</b>	<b>760.7</b>	<b>765.7</b>	<b>770.7</b>
Shareholders Equity	1,799.8	1,866.7	1,941.1	1,969.7	2,003.6
Minority Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Total shareholder equity</b>	<b>1,799.8</b>	<b>1,866.7</b>	<b>1,941.1</b>	<b>1,969.7</b>	<b>2,003.6</b>
<b>Total liabilities and equity</b>	<b>2,555.1</b>	<b>2,622.5</b>	<b>2,701.8</b>	<b>2,735.4</b>	<b>2,774.3</b>
<b>CASH FLOW (SGD m)</b>					
<b>Cash flow from operations</b>	<b>71.9</b>	<b>97.3</b>	<b>92.3</b>	<b>96.9</b>	<b>101.6</b>
Capex	(7.2)	0.0	(5.0)	(5.0)	(5.0)
Acquisitions & investments	262.2	13.5	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	0.5	2.1	3.9	3.9	3.9
<b>CF from investing activities</b>	<b>255.5</b>	<b>15.6</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>
Dividends paid	(60.8)	(72.8)	(64.2)	(64.8)	(65.3)
Interest expense	(18.5)	(26.7)	(30.9)	(27.8)	(26.9)
Change in debt	(210.0)	0.0	5.0	5.0	5.0
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
<b>CF from financing activities</b>	<b>(289.3)</b>	<b>(99.5)</b>	<b>(90.1)</b>	<b>(87.6)</b>	<b>(87.2)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>38.1</b>	<b>13.3</b>	<b>1.0</b>	<b>8.2</b>	<b>13.3</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	0.4	27.8	(1.4)	4.4	4.5
Net property income growth	2.9	27.7	(1.3)	4.7	4.7
Core net profit growth	20.4	31.9	(0.3)	11.9	7.7
Distributable income growth	25.2	26.0	(2.1)	1.0	0.8
<b>Profitability ratios (%)</b>					
Net property income margin	92.5	92.4	92.5	92.7	92.9
Core net profit margin	59.4	61.3	61.9	66.4	68.4
Payout ratio	131.1	124.8	123.0	111.0	103.8
<b>DuPont analysis</b>					
Total return margin (%)	181.6	116.7	130.0	83.6	85.0
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	na	na	na	na	na
ROAA (%)	1.9	2.5	2.5	2.7	2.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.4	3.5	3.6	3.6	3.6
Net gearing (%) (excl. perps)	38.2	36.1	34.9	34.2	33.2
Net interest cover (x)	3.6	3.5	2.8	3.3	3.5
Debt/EBITDA (x)	11.1	8.5	8.7	8.3	7.9
Capex/revenue (%)	8.7	0.0	4.7	4.5	4.3
Net debt/ (net cash)	688.0	673.7	677.6	674.4	666.1
Debt/Assets (x)	0.29	0.28	0.27	0.27	0.27

Source: Company; Maybank IBG Research

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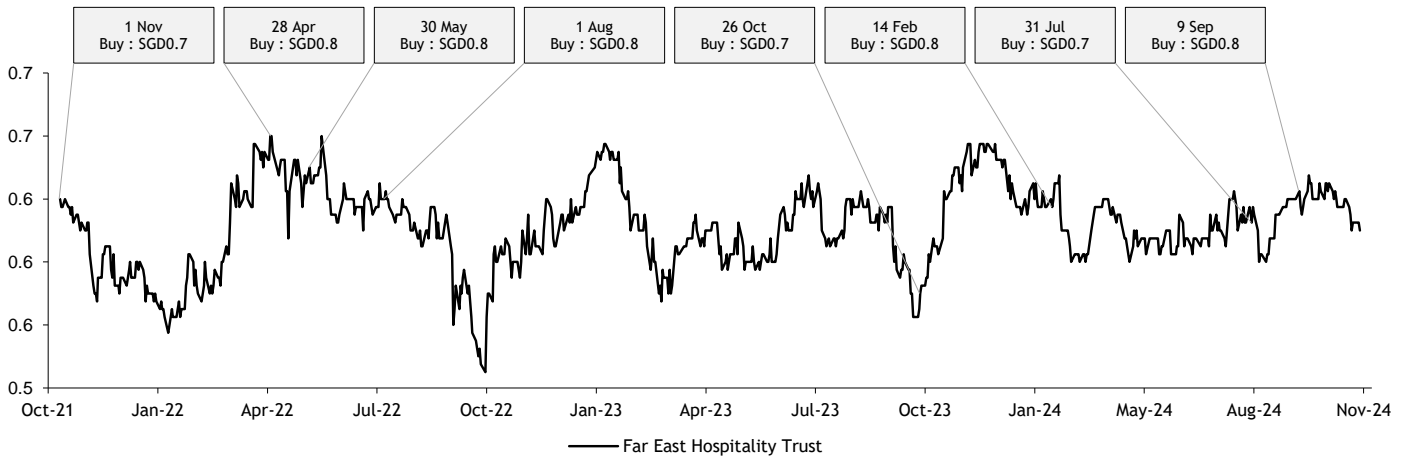
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