Far East Hospitality Trust (FEHT SP)

Transient Support

Master lease cushion, undemanding valuations

FEHT's Singapore-focused operations in 3Q20 continued to be bolstered by transient demand originating from travel and border restrictions, with occupancies for its hotels and serviced residences (SRs) high at 87-97%. RevPARs/ RevPAUs were weak but declined less than its peers, with 9M20 distributable income down 31.9% YoY to 72% of our full-year estimates. The high proportion of minimum fixed rent from its master lease offers downside support amid a slow recovery in 2021. We have maintained forecasts and DDM-based SGD0.60 TP (COE: 7.8%, LTG: 2.0%). Valuation is undemanding at 0.6x FY20E P/B. Maintain BUY.

Hotels supported by fixed rent, recovery slow

Its hotel revenue, cushioned by fixed rent from its master lease rental, fell 33.8% YoY and 0.1% QoQ and contributed 69.1% of gross revenue in 3Q20 and 65.9% for 9M20. Occupancy improved YoY to 97.3% (from 92.3%), supported by contracts from government agencies as dedicated facilities for isolation purposes, as well as accommodation for Malaysian workers affected by border closures. Despite a pick-up in occupancy from 77.6% in 1H20 to 84.2% in 9M20, RevPAR fell 55.8% YoY to SGD67 in 3Q20 on the back of a 58.1% YoY decline in ADR. Staycation demand at the Barracks (40 rooms) and Oasia Downtown (314) could gain traction from 4Q20.

SRs backed by long-stays, set to ease off

Its SR revenue fell 22.7% YoY but rose 3.1% QoQ and performed above its fixed rent, supported by long-stay corporate demand. Occupancy dipped YoY to 87.1% (from 88.2%), but was stable at 84.2% for 9M20. RevPAU declined 20.1% YoY to SGD157 in 3Q20 and 10.3% YoY for 9M20 as ADR fell 19.0% and 11.1%, with a cut-back in shorter-term stay bookings. We expect a weaker 2H, as gains from the earlier growth at higher rates that contributed 18.6% of its SR demand, will continue to ease off.

AEI brought forward

Its various AEIs should help reposition its assets towards Singapore's longer-term tourism initiatives and its CBD rejuvenation plans. They include a repainting of the Rendezvous Hotel by end-2020, an upgrading of the Orchard Rendezvous outdoor refreshment area, and the renovation of the Elizabeth Hotel together with its sponsor.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	114	116	88	99	114
Net property income	103	104	79	90	103
Core net profit	61	62	50	62	76
Core EPU (cts)	3.3	3.3	2.5	3.1	3.7
Core EPU growth (%)	(17.5)	0.3	(22.6)	23.2	19.9
DPU (cts)	4.0	3.9	2.3	3.1	3.7
DPU growth (%)	2.5	(4.1)	(41.4)	36.9	19.9
P/NTA (x)	0.7	0.9	0.6	0.6	0.6
DPU yield (%)	6.7	5.2	4.1	5.6	6.7
ROAA (%)	2.4	2.3	1.8	2.3	2.7
Debt/Assets (x)	0.38	0.37	0.36	0.36	0.35
Consensus DPU	-	-	2.3	3.1	3.4
MKE vs. Consensus (%)	-	-	(1.2)	0.3	9.6

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BUY

Share Price	SGD 0.56
12m Price Target	SGD 0.60 (+12%)
Previous Price Target	SGD 0.60

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)	0.78/0.38
3m avg turnover (USDm)	0.5
Free float (%)	39.7
Issued shares (m)	1,869
Market capitalisation	SGD1.0B
	USD767M
Major shareholders:	
Golden Development Pte Ltd.	31.0%
F.E. Holdings Pte Ltd.	14.7%
Estate of Ng Teng Fong	9.9%

Price Performance



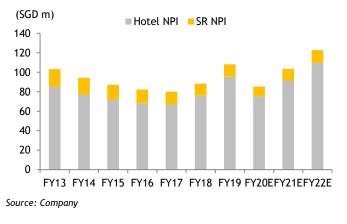
	-1M	-3M	-12M
Absolute (%)	2	14	(21)
Relative to index (%)	4	19	4
Source: FactSet			



Value Proposition

- Singapore-focused portfolio of SGD2.6b as of end-Dec 2019, comprising 13 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.
- Visible sponsor pipeline of 1,767 rooms for potential acquisitions.

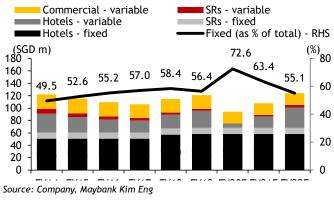
NPI breakdown (FY13-FY22E)



Financial Metrics

- Hotel occupancies to decline 30% YoY in FY20 and rise by 10-15% YoY in FY21-22E on the back of a sector recovery, and we pencil in a 5% improvement in ADR.
- Master lease minimum rents to cushion DPUs in FY20, with variable rent contribution to rise from FY21.
- DPUs are more responsive to Singapore's RevPAR recovery, and a 1% increase in RevPAR from our base case could result in a 1.2% rise in FY21E DPU.

Revenue profile



Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

- 1. Oct-15: Commenced refurbishment of Orchard Parade Hotel.
- Jan-18: Announced acquisition of Oasia Hotel Downtown from sponsor for SGD210m or SGD669k / key. Funded by SGD195.8m debt and SGD22.7m DRP proceeds.
- 3. Sep-18: Rebranded the Orchard Parade Hotel to Rendezvous Orchard Hotel following its refurbishment.
- 4. Apr-19: Opens two hotels in Sentosa the 606-room midtier Village hotel and 193-room upscale Outpost hotel.
- 5. Jul-20: RevPARs/RevPAUs declined less than peers in 2Q20 due to demand gov't agencies as isolation facilities and to house workers affected by border closures.

Swing Factors

Upside

- Earlier-than-expected pick-up in corporate demand.
- Better-than-anticipated RevPAR.
- 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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Business Model & Industry Issues

- FEHT draws on its available pool of funds to invest in hospitality and hospitality-related real estate, undertake AEIs, and redevelop properties to optimise value for its unitholders. 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.
- Improved 29 places in FY19 to rank 6th out of 46 companies in the Singapore Governance and Transparency Index and rose 23 places in the Governance Index for Trusts.
- We believe there is room to expand its reporting scope to disclose metrics at the asset-level and also to introduce targets to reduce energy, water and carbon emission intensities.

Material E issues

- Reported a 6% YoY reduction in energy consumption per occupied hotel/ serviced residence unit in FY19 with the implementation of asset-level energy efficiency measures.
- Has maintained a target to reduce energy consumption by 2% pa in FY20 and to ensure that all new FEHT buildings in Singapore, in particular its new Sentosa hotels (Village, The Outpost, and The Barracks), are designed to at the minimal qualify for the BCA Green Mark Gold certification.
- Three of its nine hotels have achieved the BCA Green Mark certification - Oasia Hotel Downtown, Rendezvous Hotel (Gold) and Village Hotel Albert Court (Platinum).

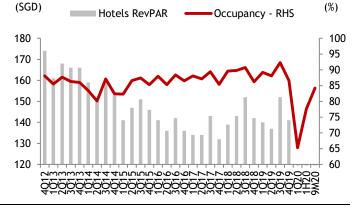
Material S issues

- Gender diversity is high, with females representing seven of its nine permanent employees (in 2019), 60% at the management level, and a-third of the board's members.
- Achieved a 100% participation rate in FY19 for the annual Colleague Engagement Survey (above the average for APAC real estate management and development companies), 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.

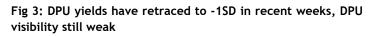
Key G metrics and issues

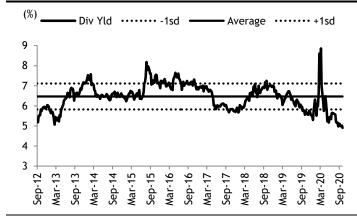
- Stapled group managed externally by wholly-owned subsidiaries of its sponsor Far East Orchard, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high it does not comprise any members with executive functions, and 5 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'.
- 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 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 72% of its rental revenue in FY19, which provides downside support to DPUs.

Fig 1: Hotel RevPAR and occupancy improved in 3Q20 due to demand from government agencies, foreign worker housing



Source: Company data





Source: Company data, Bloomberg, Maybank Kim Eng

Fig 2: Serviced residences' RevPAU fell 10.3% YoY in 9M20, cushioned by corporate contracts, demand for shorter stays

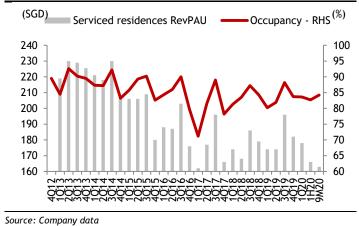
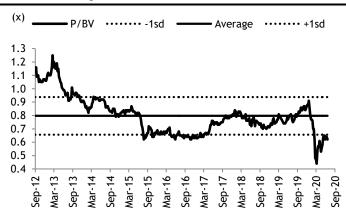


Fig 4: P/BV has also pulled back to below its 6-year average and undemanding at 0.6x P/B



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: S-REITs valuation comparison

Company	Ratin g	Price	TP	Upside	Yield	Total return	MC	ADTV	Free Float	BVPS	P/BV	D	ividenc	l yield	(%)	Gearing (D/A)
	5	(SGD)	(SGD)	(%)	(%)	(%)		(SGD m)	(%)	(SGD)	(x)	18	19	20E	21E	(b/A) (%)
Retail							17.7	41.8			0.78	7.1	6.4	6.7	7.3	36
Capita Mall Trust (CMT)	Buy	1.73	2.35	35.8	5.2	41.0	11.2	28.3	64	2.00	0.86	6.6	6.7	5.2	6.9	34
Frasers Ctr Trust (FCT)	Buy	2.11	2.80	32.7	4.5	37.2	3.6	11.0	75	2.21	0.95	5.6	5.7	4.5	5.5	35
Starhill Global (SGREIT)	Hold	0.42	0.45	8.4	9.5	18.0	0.9	1.0	62	0.81	0.51	11.0	10.8	9.5	10.6	40
SPH REIT	Hold	0.75	0.80	7.4	7.0	14.4	2.1	1.5	28	1.12	0.67	7.5	3.7	7.0	7.1	31
Retail & Office							10.2	31.7			0.81	6.4	6.2	6.9	7.1	37
Suntec REIT (SUN)	NR	1.34					3.8	16.4	50	2.09	0.64	7.5	7.5	7.5	6.9	42
Mapletree Comm. (MCT)	Buy	1.72	2.15	25.0	4.7	29.7	5.7	15.2	67	1.75	0.98	5.3	4.6	4.7	5.5	34
Lendlease REIT (LREIT)	NR	0.61					0.7		75	n.a.	n.a.	n.a.	6.4	8.7	8.9	35
Office							11.5	22.8			0.73	7.3	7.0	7.4	7.4	37
Capita Comm. (CCT)	NR	1.65					6.4	15.2	100	1.78	0.93	5.4	5.5	5.5	5.6	37
Keppel REIT (KREIT)	NR	1.00					3.4	7.1	55	1.34	0.74	6.1	6.0	6.3	6.0	35
OUE Comm. (OUECT)	NR	0.33					1.8	0.5	27	0.61	0.53	10.5	9.6	10.4	10.7	40
Industrial							33.9	106.3		-	1.27	7.3	7.1	7.0	7.2	37
Ascendas REIT (AREIT)	Buy	2.88	4.00	38.9	6.1	45.0	10.4	37.9	80	2.20	1.31	5.6	5.7	6.1	6.3	35
Mapletree Ind. (MINT)	Buy	3.04	3.40	11.8	4.0	15.8	7.1	22.8	72	1.69	1.79	4.0	4.1	4.0	4.2	38
Mapletree Log. (MLT)	Buy	1.95	2.40	23.1	4.3	27.4	7.9	23.1	71	1.20	1.62	4.1	4.3	4.3	4.4	40
ARA Logos Trust (ALLT)	Buy	0.60	0.80	34.5	8.4	42.8	0.6	1.5	88	0.58	1.02	9.9	9.7	8.4	8.8	41
AIMS APAC (AAREIT)	Buy	1.18	1.50	27.1	7.5	34.7	0.8	1.1	62	1.35	0.87	8.7	8.9	7.5	8.1	34
Keppel DC REIT (KDCREIT)	NR	2.90				0.117	4.7	16.8	58	1.17	2.48	2.5	2.7	3.1	3.2	35
ESR REIT	NR	0.35					1.2	1.7	68	0.41	0.85	11.2	11.3	11.3	11.4	42
Soilbuild BS REIT (SBREIT)	NR	0.45					0.6	1.1	69	0.59	0.76	12.4	9.4	9.9	10.0	37
Sabana SC REIT (SSREIT)	NR	0.35					0.4	0.2	63	0.51	0.68	n.a.	7.6	8.3	8.5	34
Hospitality							5.7	6.4			0.67	9.4	9.1	4.0	6.1	37
Ascott Res. Trust (ART)	Buy	0.83	1.05	26.5	3.7	30.2	2.6	3.8	59	1.05	0.79	8.6	8.5	3.7	5.6	35
CDL HT (CDLHT)	Hold	0.99	0.95	(4.0)	3.1	(0.9)	1.2	1.7	62	1.52	0.65	9.4	9.8	3.1	6.0	36
Far East HT (FEHT)	Buy	0.56	0.60	7.1	4.1	11.2	1.1	0.7	39	0.86	0.65	7.6	6.9	4.1	5.6	40
Frasers HT (FHT)	Buy	0.40	0.45	12.5	5.0	17.5	0.8	0.2	37	0.71	0.57	12.0	11.1	5.0	7.1	38
Offshore REITs	,						17.0	34.4			0.76	8.3	8.3	8.4	8.6	36
Sasseur REIT (SASSR)	Buy	0.75	0.95	26.7	8.0	34.7	0.9	0.6	40	0.90	0.83	8.0	8.7	8.0	8.3	28
Dasin Retail Trust (DASIN)	NR	0.80	0.75	20.7	0.0	5 1.7	0.6	0.5	36	1.37	0.58	9.1	n.a.	n.a.	n.a.	38
Mapletree N. Asia (MAGIC)	NR	0.87					2.8	5.5	59	1.41	0.62	8.9	9.0	8.8	8.9	40
Capita Retail China (CRCT)	NR	1.17					1.4	5.8	57	1.63	0.72	8.7	8.7	8.9	9.4	34
Lippo Malls Ind. RT (LMIRT)	NR	0.09					0.3	0.4	63	0.28	0.32	n.a.	n.a.	n.a.	n.a.	36
Manulife US REIT (MUST)	Buy	0.72	1.15	60.8	8.4	69.2	1.5	1.9	91	0.83	0.86	8.5	8.4	8.4	8.6	39
Prime US REIT (PRIME)	Buy	0.74	1.10	48.6	8.8	57.4	1.1	1.2	52	0.86	0.86	n.a.	8.5	8.8	9.5	33
Keppel P.O. US REIT (KORE)	NR	0.70	1.10	10.0	0.0	57.1	0.9	0.9	80	0.89	0.79	8.7	8.6	9.0	9.1	37
IREIT Global (IREIT)	NR	0.59					0.6	0.5	63	0.86	0.69	n.a.	n.a.	n.a.	n.a.	39
BHG Retail REIT (BHGREIT)	NR	0.53					0.3	0.2	24	0.83	0.64	n.a.	n.a.	n.a.	n.a.	35
Frasers Log. & Ind. (FLT)	NR	1.23					4.2	14.4	70	0.91	1.35	5.7	5.5	5.6	5.7	37
EC World REIT (ECWREIT)	NR	0.70					0.6	1.1	53	0.87	0.81	8.8	8.7	9.3	9.2	39
Cromwell REIT (CEREIT)	NR	0.46					1.9	1.1	51	0.53	0.86	8.6	9.0	8.8	8.8	39
Healthcare		0.10					2.8	5.3	51	0.55	1.25	12.3	12.4	12.5	12.4	36
Parkway Life REIT (PREIT)	NR	4.05					2.5	4.5	64	1.94	2.09	3.2	3.2	3.3	3.3	38
First REIT	NR	4.05					0.3	4.5	64 64	0.97	0.41	3.Z 21.5	21.5	21.8	21.5	35
	INK	0.40					99	249	04	0.97	0.41	8.2	7.8		7.8	35 37
Total REITs							77	249			0.90	0.2	7.0	7.3	7.0	37
S-REIT yield spread														3.4		
FSTREI Index														4.2 0.8		
SGS 10Y bond yield														0.0		

Prices as of 30 Oct 2020. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	15.0	19.1	24.7	18.0	15.0
P/BV (x)	0.7	0.9	0.6	0.6	0.6
P/NTA (x)	0.7	0.9	0.6	0.6	0.6
DPU yield (%)	6.7	5.2	4.1	5.6	6.7
FCF yield (%)	8.9	6.5	6.8	7.7	8.7
INCOME STATEMENT (SGD m)					
Revenue	113.7	115.5	87.8	99.1	113.6
Net property income	102.8	104.3	78.9	89.7	103.5
Management and trustee fees	(12.3)	(12.6)	(11.6)	(12.1)	(12.9)
Net financing costs	(26.8)	(29.9)	(27.3)	(27.3)	(28.6
Associates & JV	(2.1)	1.9	1.8	3.5	4.9
Exceptionals	30.2	8.8	39.2	(5.6)	34.7
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	90.9	71.1	79.4	46.7	100.1
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	90.8	71.0	79.4	46.7	100.1
Core net profit	60.6	62.2	49.6	62.1	75.8
Distributable inc to unitholders	75.4	73.9	44.6	62.1	75.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	12.8	5.8	14.7	22.1	32.3
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
Inverstment properties	2,633.5	2,645.7	2,644.6	2,644.1	2,683.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	14.4	8.0	53.3	53.3	53.3
Other assets	39.0	40.0	40.0	40.0	40.0
Total assets	2,699.7	2,699.5	2,752.6	2,759.4	2,809.3
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	3.7	3.7	3.7	3.7	3.7
LT interest bearing debt	1,027.9	992.2	992.2	992.2	992.2
Other liabilities	20.6	22.4	22.4	22.4	22.4
Total Liabilities	1,052.1	1,018.3	1,018.3	1,018.3	1,018.3
Shareholders Equity	1,647.6	1,681.3	1,734.3	1,741.1	1,791.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,647.6	1,681.3	1,734.3	1,741.1	1,791.0
Total liabilities and equity	2,699.7	2,699.5	2,752.6	2,759.4	2,809.3
CASH FLOW (SGD m)	400.0	04.2	75 4	0E 0	<u></u>
Cash flow from operations Capex	100.8	91.2 0.0	75.1 0.0	85.9 0.0	99. 5 0.0
	0.0				
Acquisitions	(221.6) 0.0	(2.8) 0.0	(5.0) 0.0	(5.0) 0.0	(5.0 0.0
Dividend income from associates			1.8	3.5	
Other investing cash flow	(1.2) 0.0	(1.2) 0.0	0.0	3.5 0.0	4.9
•					
CF from investing activities	(222.8)	(4.0) (37.7)	(3.2)	(1.5)	(0.1
Dividends paid	(74.1)	(37.7)	(35.7)	(49.7)	(60.6
Interest expense	(26.4)	(30.3)	(27.3)	(27.3)	(28.6
Change in debt	231.4	(36.2)	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 Effect of exchange rate changes	130.9	(104.2)	(63.0)	(77.0)	(89.2
Effect of exchange rate changes Net cash flow	0.0 8.9	0.0 (17.0)	0.0 8.9	0.0 7.4	0.0 10.2

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	9.5	1.6	(24.0)	12.9	14.6
Net property income growth	10.3	1.5	(24.4)	13.7	15.4
Core net profit growth	(15.8)	2.6	(20.3)	25.1	22.1
Distributable income growth	4.7	(1.9)	(39.6)	39.1	22.1
Profitability ratios (%)					
Net property income margin	90.4	90.3	89.8	90.5	91.1
Core net profit margin	53.3	53.9	56.5	62.6	66.7
Payout ratio	124.3	118.8	90.0	100.0	100.0
DuPont analysis					
Total return margin (%)	79.9	61.5	90.5	47.1	88.1
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	na	na	na	na	na
ROAA (%)	2.4	2.3	1.8	2.3	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.7	2.7	2.8
Net gearing (%) (excl. perps)	61.6	58.7	56.4	55.7	53.6
Net interest cover (x)	3.3	3.0	2.4	2.8	3.1
Debt/EBITDA (x)	11.5	11.0	15.1	13.0	11.1
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,015.0	986.4	977.5	970.1	959.9
Debt/Assets (x)	0.38	0.37	0.36	0.36	0.35

Source: Company; Maybank

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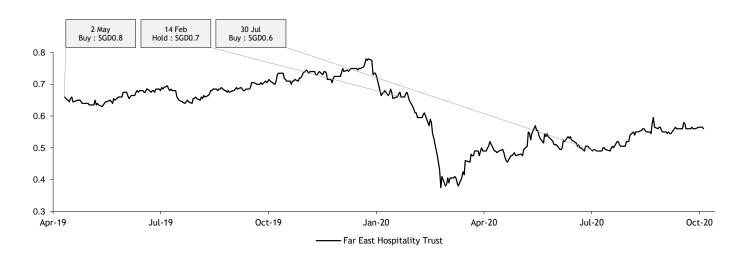
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