

Ascott Residence Trust

Strong recovery in RevPAU



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SINGAPORE | REAL ESTATE (HOSPITALITY) | UPDATE

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- Recovery is underway as reflected in the 2Q22 results. Portfolio RevPAU of S\$124 is c.82% of pre-Covid levels, up 91% YoY on the back of higher average daily rate and occupancy.
- Extended stay segment has been resilient with 95% occupancy and 8% expected rental growth for US student accommodations.
- Private placement to raise S\$170million at S\$1.120 to partially fund a proposed acquisition of serviced residence properties in France, Vietnam and Australia, rental housing properties in Japan and a student accommodation property in South Carolina, US for an aggregate purchase consideration of c.S\$215.2million. Transaction is expected to be DPU accretive by 2.8%.
- Maintain ACCUMULATE, DDM-TP maintained at S\$1.24. No change in our FY22e forecast. Catalysts include reopening of China and Japan to leisure travel, opportunistic investments, and acquisitions of extended stay assets to raise the proportion of stable income sources to cushion the impact from recessionary concerns, rising inflation and macroeconomic uncertainties.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.150
FORECAST DIV	SGD 0.052
TARGET PRICE	SGD 1.240
TOTAL RETURN	12.4%

COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN):	3,290
MARKET CAP (USD mn / SGD mn):	2738 / 3784
52 - WK HI/LO (SGD):	1.18 / 0.92
3M Average Daily T/O (mn):	5.89

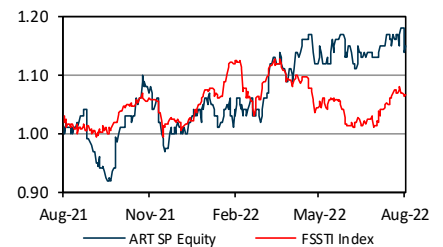
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.7	15.6	14.5
STI RETURN	(0.8)	4.4	8.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (S\$m)	370	394	527	624
Gross Profit (S\$m)	150	173	238	296
Dist. Inc. (S\$m)	110	151	187	215
P/NAV (x)	1.00	0.97	0.99	1.00
DPU (cents)	3.03	4.32	5.23	6.06
Distribution Yield	2.6%	3.8%	4.6%	5.3%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 8.14%; Terminal g: 1.75%)

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Investment thesis

- Strong recovery in portfolio RevPAU.** YoY improvement driven by both higher average daily rates (ADRs), which is up 50% YoY in 2Q22, and higher occupancy of c.70% in 2Q22 (2Q21: 55%). Portfolio RevPAU is currently at 82% of pre-pandemic levels and is expected to recover even further, with US, UK, Singapore and Australia leading the charge. In 2Q22, RevPAU for these countries came in at 86%, 100%, 97%, 96% of 2Q19 respectively, and are expected to maintain or even surpass pre-pandemic levels before the end of the year.
- Extended stay segment remains resilient,** comprising c.20% of 1H22 gross profit. ART's seven operating student accommodation properties in the USA and three rental housing properties in Japan acquired over the past year have strong average occupancy rate of over 95%. Pre-leasing at the US student accommodations for the next academic year is c.95% on average, with rental growth expected to come in at 8% YoY.

The proposed acquisition of 9 properties in France, Japan, Vietnam, US and Australia will increase the proportion of longer-stay asset allocation from 17% to 19%, keeping ART on track to achieve its medium-term asset allocation target of 25-30%. Longer-stay accommodation offers income stability as the hospitality properties capture growth from recovering markets.

- High proportion of debts at fixed rate, c.79%,** locked in for a weighted average of c.3 years. Of the 21% debt that is on floating rates, c.50% is denominated in USD, which is expected to be counter-balanced by c.20% of the debt which is denominated in JPY. ART has a low effective borrowing cost of 1.7%. An additional 25bp change in interest rates would have a c.1% impact on DPU.

Outlook

Worldwide international tourist arrivals in 3Q22 are expected to pick up to 65% of pre-pandemic levels, indicative of a faster recovery compared with 1H22, which stood at 46%. The Americas and Europe are leading the recovery in long-haul travel, and the share of travel between the two regions has increased.

Forward bookings indicate sustained pent-up demand, with more corporate and international travel returning, enabling ART’s properties to raise room rates and abate rising utility and labour costs. Electricity cost accounts for c.6% of OPEX. Most of ART’s electricity requirements have been hedged through fixed rate contracts. Electricity charges are passed through to tenants in US student accommodation and Japan rental housing properties, while utility usage above a certain threshold will be passed through to guests in long-staying SRs. Every 5% increase in utility cost is expected to impact FY22e DPU by c. 0.25%.

In terms of capital management, ART’s gearing of 37.5% means a debt headroom of c.S\$1.8bn, leaving room for it to reach its medium term asset allocation of 25-30% for longer-stay accommodation.

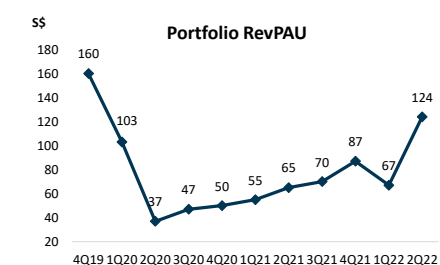
Maintain ACCUMULATE, DDM-based TP maintained at S\$1.24

No change in our FY22e forecast. The potential reopening of China and Japan to leisure travel are bright sparks. ART remains our top pick in this sector with its geographically diversified portfolio, range of lodging asset classes, stable income base and a strong sponsor.

Figure 1: RevPAU performance for ART’s portfolio and seven key markets

RevPAU change YoY on a same store basis			
2Q22 Portfolio RevPAU		91%	
Australia	58%	Singapore	132%
China	-20%	UK	227%
Vietnam	35%	US	257%
Japan	70%		

Source: ART, PSR



Source: ART, PSR

Figure 2: Portfolio RevPAU recovery

	S\$	QoQ	YoY	Portfolio Occupancy
1Q20	103	-36%	-23%	Above breakeven
2Q20	37	-64%	n.a.	c.30%
3Q20	47	27%	-70%	c.40%
4Q20	50	6%	-69%	c.45%
1Q21	55	10%	-47%	c.50%
2Q21	65	18%	76%	c.55%
3Q21	70	8%	49%	c.55%
4Q21	87	24%	74%	c.60%
1Q22	67	-23%	22%	c.50%
2Q22	124	85%	91%	c.70%

Source: ART, PSR

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	515	370	394	527	624
Direct expenses	(262)	(220)	(221)	(289)	(328)
Gross Profit	253	150	173	238	296
Net finance (expense)/inc.	(50)	(58)	(53)	(51)	(55)
Manager's fees	(23)	(25)	(25)	(29)	(32)
Others	(6)	11	(19)	(16)	(18)
Net income	175	59	74	124	174
FV changes	249	(406)	147	-	-
Others	(6)	11	(19)	(16)	(18)
Total return before tax	261	(268)	375	124	174
Taxation	(45)	43	(65)	(21)	(30)
Total return after tax	216	(225)	310	103	145
Distribution adjustments	(31)	332	(158)	87	74
Distributable income	185	110	151	187	215

Per share data (cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV	1.25	1.15	1.19	1.17	1.15
DPU	7.61	3.03	4.32	5.23	6.06

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net income	261	(268)	375	124	174
Adjustments	(163)	417	(179)	108	113
WC changes	(6)	(51)	(46)	69	24
Cash generated from ops	92	97	150	301	312
Others	(23)	(22)	(4)	(4)	(7)
Cashflow from operations	69	75	145	297	305
CFI					
CAPEX, net	(22)	(20)	(101)	(57)	(57)
Net Investments in SR & PPE	280	198	(621)	(58)	(77)
Others	0	118	184	4	5
Cashflow from investments	259	296	(539)	(112)	(130)
CFF					
Share issuance, net	-	-	150	-	-
Loans, net of repayments	(198)	52	332	50	120
Dividends	(183)	(156)	(157)	(189)	(218)
Others	(59)	(62)	(67)	(55)	(59)
Cashflow from financing	(440)	(166)	259	(194)	(157)
Net increase (decrease) in CCE	48	204	(134)	(31)	6
Ending cash	270	484	344	313	319
Restricted cash deposits	5	3	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

*NPI and and gross profit are used interchangeably

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
SR properties and PPE	6,800	6,527	7,225	7,311	7,416
Others	28	15	44	66	77
Total non-current assets	6,828	6,542	7,270	7,377	7,494
Trade Receivables	62	103	104	79	94
Cash	276	487	346	316	322
Others	28	15	44	66	77
Total current assets	595	622	463	406	426
Total Assets	7,423	7,164	7,733	7,783	7,920
LIABILITIES					
LT Borrowings	2,012	2,129	1,965	2,238	2,448
Others	503	455	429	438	454
Total non-current liabilities	2,515	2,584	2,394	2,676	2,901
Trade Payables	173	185	167	211	249
ST Borrowings	337	333	764	541	451
Others	503	455	429	438	454
Total non-current liabilities	2,515	2,584	2,394	2,676	2,901
Total Liabilities	3,080	3,122	3,366	3,469	3,643
Net assets	4,342	4,042	4,368	4,314	4,277

Represented by:

Unitholders' funds	3,861	3,567	3,892	3,838	3,800
Perpetual securities hold	396	396	396	396	396
Non-controlling interests	85	79	79	80	80

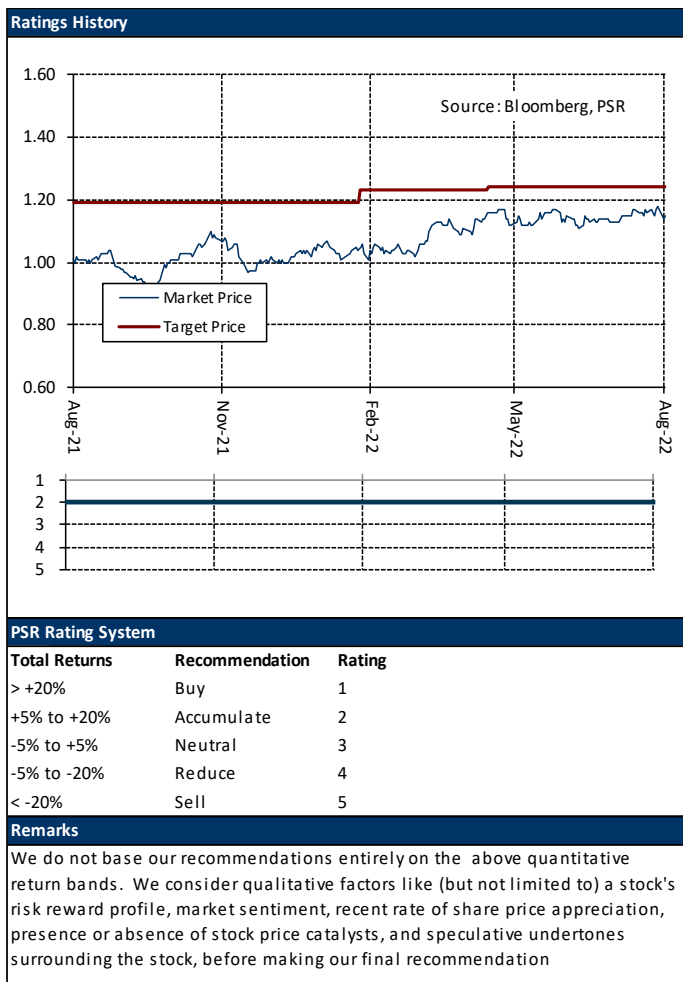
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.92	1.00	0.97	0.99	1.00
Distribution Yield (%)	6.6%	2.6%	3.8%	4.6%	5.3%
NPI** yield (%)	3.8%	2.4%	2.5%	3.4%	4.2%

Growth & Margins (%)

Growth					
Revenue	0.1%	-28.2%	6.6%	33.6%	18.4%
Gross profit	5.5%	-40.8%	15.8%	37.2%	24.3%
Net income	11.1%	-66.3%	26.7%	66.6%	40.7%
DPU	6.3%	-60.2%	42.6%	21.1%	15.7%
Margins					
Gross profit	49.1%	40.4%	43.9%	45.1%	47.4%
NPAT	42.0%	-60.9%	78.7%	19.5%	23.2%
Key Ratios					
Gearing	34.5%	37.7%	37.8%	38.0%	39.1%
ROA	3.4%	-3.1%	4.2%	1.3%	1.8%
ROE	6.6%	-6.0%	8.3%	2.6%	3.7%



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