



Far East Hospitality Trust

Growth is moderating

Singapore | REIT | 3Q24 UPDATE

- Gross revenue 3Q24 is in line with expectations, sliding by 4.8%YoY to S\$28.8mn in the absence of government hotel contracts, in which hotel revenue declined by 8.2%YoY to S\$21.4mn. 9M24 revenue forms 72% of our FY24e estimates. Revenue from the hotel segment declined 8.2% YoY due to a one-off revenue boost in 3Q23; excluding this, the hotel segment would have shown positive growth, supported by a 2.8% YoY increase in RevPAR in 3Q24.
- NPI fell 6.8% YoY to S\$26.2mn due to higher property tax, with 9M24 accounting for 72% of our FY24e estimates, aligning with expectations. DPU was not disclosed.
- We reduce our FY24e revenue and NPI forecasts by 1% due to softening ADR and higher property tax. We maintain our BUY rating with an unchanged DDM-based target price of S\$0.75. FY24e/25e DPU estimates has been lowered by 3%/4% to 4.09/4.13 cents, impacted by the increase in management fees paid in cash (40% in cash vs. 10% last year), a weaker event calendar in 2025 (absence of mega concert), and the diminishing tailwinds from tourism recovery. We expect the DPU to be at least comparable to the 2023 level, supported by capital top-up from the divestment of Central Square, which has left S\$5.8mn available for distribution over the next two quarters.

Result at a glance

(\$ Mn)	3Q24	3Q23	(%)	Comments
Gross Revenue	28.7	30.2	-4.8%	Absence of one-off revenue received by the hotels contracted
Net Property Income	26.2	28.1	-6.8%	Lower revenue and higher property taxes
RevPAR	154.0	150.0	2.7%	Higher ADR for hotels out of contracts
ADR	180.0	173.0	4.0%	
Occupancy rate	85.5%	86.7%	(1.2ppt)	
Average cost of debt	4.10%	3.20%	0.9ppt	
Leverage Ratio	30.8%	32.2%	(1.4ppt)	
ICR	2.9x	3.7x	-21.6%	

Source: Company, PSR

The Positives

+ Healthy hotel ADR growth. ADR has been insulated from the downward industry trend thanks to a lower base in FY23 when several hotels operated under government contracts at below-market ADR. With all hotels now off government contracts, ADR rose by 4.2% YoY to S\$180 in 3Q24, while occupancy dipped slightly by 1.2ppt to 85.5%. RevPAR increased by 2.8%YoY in 3Q24 to S\$154. Forward bookings for 4Q24 appear healthy as Christmas and New Year's bookings are coming in, and we expect hotel revenue to return to growth, given the absence of one-off income in 4Q23 and positive ADR growth trend. FEHT is actively working to ramp up hotel occupancy, with Village Hotel Changi being the only property yet to return to its standard occupancy rates. We anticipate occupancy will continue to improve with the effort of attracting more Free Independent Traveler (FIT) and tour groups.

+ Resilient performance from Services Residence and Commercial segment. RevPAU for 3Q24 increased by 2.5% YoY to S\$245 as ADR rose by 3.3% to S\$278, driven by a higher proportion of short-stay guests in serviced residences. FEHT is negotiating more corporate contracts, with no signs of rate declines. Occupancy rose by 4.7 ppt from 83.3% in 1Q24 to 88.0% in 3Q24. However, average occupancy dipped by 2.3ppt for 9M24 to 86.1%, partly impacted by group departures earlier in the year. We expect steady improvements in occupancy as corporate confidence may resume following further Fed rate cuts, improved macroeconomy and stabilized geopolitical tension in 2025. Revenue from commercial premises increased by 8.1% YoY to S\$13.0 mn in 9M24, driven by new F&B concepts that boosted both occupancy and rental rates. We anticipate rental reversion to remain in the mid-single digits in 2025, supported by the stable customer base offered to operators.

29 October 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.62
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 0.75
TOTAL RETURN	32.2%

COMPANY DATA

BLOOMBERG CODE:	FEHT SP Equity
O/S SHARES (MN) :	2,011
MARKET CAP (USD mn / SGD mn) :	936 / 1257
52 - WK HI/LO (SGD) :	0.68 / 0.56
3M Average Daily T/O (mn) :	1.24

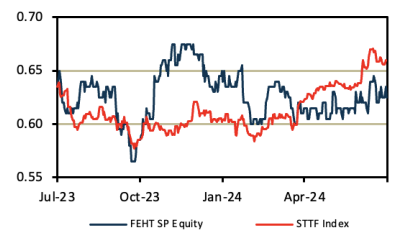
MAJOR SHAREHOLDERS

Golden Development Ptd Ltd	22.5%
Far East Organization Centre Ptd Ltd	9.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.4	3.3	(1.2)
STTF RETURN	3.3	6.1	8.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	83.6	106.8	110.3	115.1
Dist. Inc. (\$mn)	65.0	81.9	82.8	84.5
P/NAV (x)	0.69	0.67	0.68	0.68
DPU (cents)	3.27	4.09	4.09	4.13
Dist. Yield (%)	5.27	6.60	6.59	6.65

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.2%; Terminal g: 1.5%)

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Outlook

FEHT reported doubling contributions from Chinese customers compared to pre-COVID levels, while contributions from Indonesian, Japanese, and Indian customers remain 28%, 27%, and 17% below pre-pandemic figures, respectively. We expect ADR to trend downward in 2025 as the SGD remains strong against neighboring currencies. With its balanced mid-to-upper scale hotel offerings, FEHT aims to attract more budget-conscious Chinese travelers who previously stayed in luxury hotels. Due to the hotel's vintage, it offers more spacious accommodations compared to newer hotels in a similar price range, which is highly favored by Chinese guests. Meanwhile, corporate demand remains cautious, with softer booking activity than last year. Although 2025 appears less eventful than 2024, several major attractions, such as Minion Land and Super Nintendo World at Universal Studios Singapore and an expanded S.E.A. Aquarium, are anticipated to draw family groups. We expect positive RevPAR growth to extend into 4Q24, with potential softening in 2025 due to the targeted customer base in the middle-income tier, which tends to be more price-sensitive compared to those in the luxury segment. FEHT expects year-end valuations should remain stable, with the potential for upward revaluation due to operational excellence.

Maintain BUY with an unchanged TP of S\$0.75

FEHT is currently trading at an FY24e dividend yield of 6.5%, with an attractive valuation of 0.7x P/NAV. We believe the DPU will be at least on par with the 2023 level, bolstered by the strong ADR and this capital top-up from the divestment of Central Square, which left S\$5.8mn to be distributed for the next two quarters. We uphold our BUY rating and maintain our DDM-based target price of S\$0.75. Additionally, we have revised our FY24e/25e DPU estimates downward by 3% and 4%, respectively, to 4.09 and 4.13 cents.

Financials

Income Statement

Y/E Dec, (S\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	83.25	83.58	106.81	110.27	115.14
Master Lease Rental	68.17	68.78	90.65	92.33	97.68
Retail & Office Revenue	15.08	14.80	16.16	17.94	17.46
Property Expense	-8.08	-6.25	-8.06	-9.10	-9.25
Net Property Income	75.17	77.33	98.74	101.17	105.89
Net financing cost	-19.37	-16.79	-21.28	-24.37	-21.62
Total return before tax	131.08	203.90	130.59	59.61	67.13
Tax Expense	-0.07	-0.15	-0.28	-0.04	-0.05
Net income after Tax	131.01	203.76	130.31	59.57	67.08
Taxable distributable income	54.85	58.99	75.05	74.22	81.69
Distribution to unitholders	51.95	65.02	81.91	82.82	84.52

Per unit data

Y/E Dec, (S\$)	FY21	FY22	FY23	FY24e	FY25e
NAV (S\$)	0.83	0.90	0.93	0.92	0.91
DPU (S cents)	2.63	3.27	4.09	4.09	4.13

Cash Flow

Y/E Dec, (S\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total return before tax	131.08	203.90	130.59	59.61	67.13
Adjustments	-57.86	-128.89	-34.11	38.70	35.92
WC changes	-3.85	-3.07	0.78	5.70	-3.00
Tax paid and interest received	-0.09	-0.07	0.00	-0.04	-0.05
Cash generated from ops	69.28	71.87	97.26	103.98	99.99
CFI					
CAPEX	-0.47	-3.62	0.00	-1.00	-1.00
Cashflow from investments	42.98	261.54	15.58	-4.76	-4.76
CFF					
Proceeds from borrowing	280.76	149.97	225.00	0.00	0.00
Repayments of bank loans	-322.26	-359.97	-225.00	0.00	0.00
Interest Paid	-21.18	-18.46	-26.68	-25.61	-22.87
Cashflow from financing	-111.48	-289.30	-99.52	-108.43	-107.38
Net change in cash	0.77	44.12	13.32	-9.21	-12.15
Cash at the start of the period	10.92	11.69	49.77	63.09	53.88
Ending cash	11.69	55.81	63.09	53.88	41.74

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Cash and short term deposit	11.69	49.77	63.09	53.88	41.74
Prepayments, deposits etc	42.68	45.49	47.50	42.72	46.06
Total current assets	45.82	48.60	54.46	99.36	111.95
Investment properties	2607.90	2446.75	2509.55	2514.55	2519.55
Total non-current assets	2610.35	2455.73	2510.50	2516.50	2522.50
Total Assets	2664.81	2555.09	2622.46	2614.47	2611.65
LIABILITIES					
Other payables and accruals	53.09	2.70	3.35	4.27	4.61
Loans and borrowings	181.30	0.00	0.00	0.00	0.00
Others	4.41	5.98	4.10	4.10	4.10
Total current liabilities	242.40	10.61	9.35	10.28	10.61
Loans and borrowings	766.34	737.82	736.75	736.75	736.75
Non-Current Security Depo	5.66	6.09	0.00	0.00	0.00
Total non-current liabilities	774.02	744.69	746.39	746.39	746.39
Total Liabilities	1016.42	755.30	755.75	756.67	757.00
Net assets	1647.57	1681.25	1557.68	1648.39	1799.80

Valuation Ratios

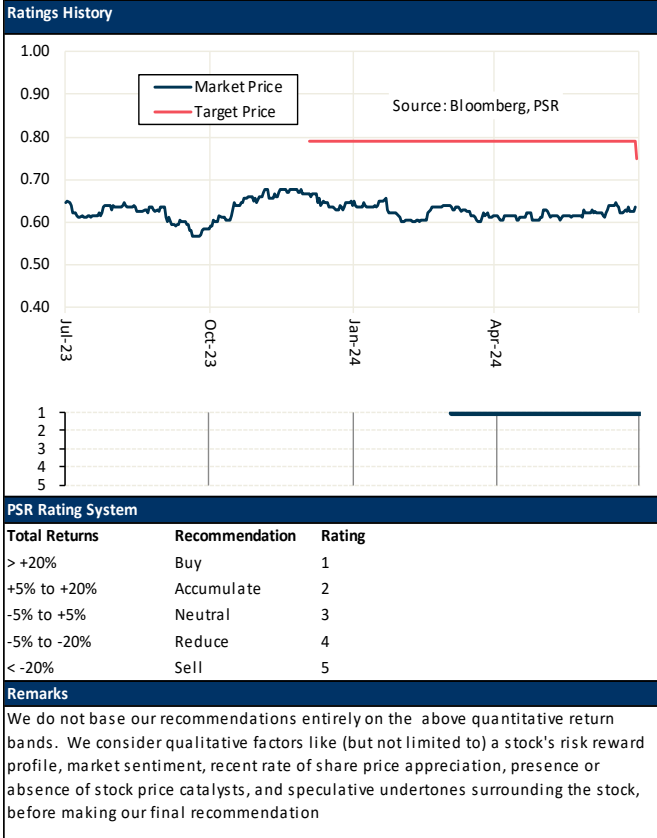
Y/E Dec, (S\$)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.75	0.69	0.67	0.68	0.68
Distribution Yield (%)	4.24	5.27	6.60	6.59	6.65

Growth & Margins (%)

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue		0.4%	27.8%	3.2%	4.4%
Distributable income		7.5%	27.2%	-1.1%	10.1%
DPU		24.3%	25.1%	0.0%	0.9%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	7.9%	12.6%	8.1%	3.5%	3.7%
Gearing	36.3%	30.2%	31.3%	31.3%	31.3%



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