



# Far East Hospitality Trust

## Mega events to drive RevPAR recovery

### Singapore | REIT | FY23 RESULTS

15 February 2024

- Gross revenue for FY23 rose by 27.8% YoY to S\$106.8mn on the back of a rebound of hotel revenue of 36%. It was within our expectations. ADR increased by 36.1% YoY to S\$170 thanks to rising international visitor arrivals to 71% of pre-COVID level. Occupancy grew 6.3 pp YoY to 80.1%, leading to a 47.8% rise in RevPAR to S\$136.
- DPU exceeded our expectation by 7%, surging to 4.09 cents (+25.1% YoY), supported by a higher NPI (+27.7% YoY) and S\$8mn distribution of divestment gain of Central Square.
- We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.79 and FY24e-25e DPU forecasts of S\$4.35 to S\$4.45 cents. As Chinese travelers return supported by 30-day visa-free policy, we expect revenue to rise, backed by the improving occupancy rate. ADR is expected to be maintained due to the line-up of MICE and mega concerts in FY24. FEHT is currently trading at FY24e dividend yields of 6.8% and 0.7x P/NAV.

### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.65
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 0.79
TOTAL RETURN	32.0%

#### COMPANY DATA

BLOOMBERG CODE:	FEHT SP Equity
O/S SHARES (MN):	2,005
MARKET CAP (USD mn / SGD mn):	959 / 1293
52 - WK HI/LO (SGD):	0.68 / 0.56
3M Average Daily T/O (mn):	1.60

#### MAJOR SHAREHOLDERS

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.8)	5.8	(3.8)
STTF RETURN	(1.2)	1.5	(2.8)

### Result at a glance

(\$ Mln)	FY23	FY22	YoY (%)	Comments
Gross Revenue	106.8	83.6	27.8%	On par with FY19 level ( same store basis)
Net Property	98.7	77.3	27.7%	
DPU (cents)	4.1	3.3	25.1%	S\$0.4cents divestment gain
Leverage Ratio	31.3%	32%	(0.7ppt)	
Adjusted ICR	3.5x	3.8x	-7.90%	
Cost of debt	3.30%	2.20%	1.1ppt	
Interest expense	25.10	18.40	36.4%	
NAV (cents)	92.9	90.23	3.0%	Portfolio valuation increase by 2.6%
RevPAR	136	92	48%	
ADR	170	125	36%	
Occupancy rate	80.1%	73.7%	6.4ppt	

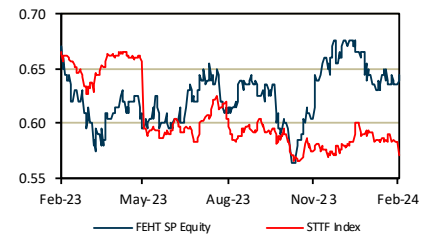
Source: Company, PSR

### The Positives

**+ Recovery on track.** ADR exceeded pre-COVID levels, reaching S\$170 for FY23, propelled by the recovery in flight capacity. However, RevPAR lags behind, standing at 95% of pre-COVID levels owing to a 9% gap in occupancy rates (FY19: 89.1% vs. FY23: 80.1%). We expect RevPAR to continue trending upward in FY24, with more support from Q2 onwards due to seasonality. Income from variable rental surged by more than six times, surpassing pre-COVID levels by 1% and contributing to 25% of gross revenue amidst the leisure recovery. We expect a decline in contributions from corporate travelers, potentially driving ADR higher in the absence of corporate discounts. Occupancy is forecast to ramp-up in FY24e, thanks to major events such as the Taylor Swift Eras Tour and Singapore Airshow in 2024; current forward bookings appear promising.

**+ Potential inorganic growth.** FEHT is one of the least geared SREITs with a leverage ratio of 31.3% and debt headroom of c.S\$900mn (Gearing at 50%). However, they identify limited growth potential in Singapore due to the tight spread between funding cost and asset yield. There are no near-term plans for acquiring more stake in Sentosa since the ticket size is large and EFR is off the table. The focus remains on low-interest-rate countries such as Japan, with the possibility of acquiring sponsor's assets in Tokyo and a positive carry of c.2.5%.

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	83.6	106.8	117.5	126.1
Dist. Inc. (\$mn)	65.0	81.9	87.8	90.5
P/NAV (x)	0.69	0.69	0.69	0.70
DPU (cents)	3.27	4.09	4.35	4.45
Dist. Yield (%)	5.27	6.39	6.80	6.96

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity:7.8%; Terminal g: 1.5%)

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### The Negative

- **Interest rate creeping up.** The cost of debt for FY23 was 3.3%, and FEHT expects the rate to increase to c.4% in FY24 when hedges drop off, as only 42.6% of the debt is hedged at a fixed rate.

### Other Highlights

- FEHT doesn't expect the increasing supply to add pressure on RevPAR as the supply comes mainly from higher-end hotels and FEHT caters more to middle-tier corporate and leisure travellers.
- Despite good operational performance, the portfolio valuation uptick of 2.6% in FY23 was purely due to a change in valuer as a compulsory measure.
- Buyers of recent transactions in Singapore were more focused on the expansion strategy of hotel operators with reasonable premium, thus valuation would continue to hold up well.
- During the Coldplay concert period, occupancy improved by c.10% on average, and RevPAR showed a c.15% uplift.
- The remaining S\$16mn gain from divestment of Central Square is set to buffer against macroeconomic uncertainties, thus will be used to top up DPU when necessary.

### 2H23 Results

(S\$ Mn)	2H23	1H23	(%)	2H22	YoY (%)
Gross Revenue	54.8	52.0	5.2%	42.6	28.6%
Net Property Income	49.8	49.0	1.6%	39.9	24.8%
DPU (cents)	2.2	1.9	13.0%	1.7	25.4%
RevPAR	140	133	5.3%	116	20.7%
ADR	171	169	1.2%	147	16.3%
Occupancy rate	81.7%	78.3%	3.4ppt	79.1%	2.6 ppt

Source: Company, PSR

### Outlook

All hotels have concluded their government contracts and are prepared to make full contributions in FY24e. With the upcoming mega events, the occupancy rate is expected to remain resilient, as indicated by a surge in forward bookings. Coupled with the return of Chinese travelers due to the 30-day visa-free policy, there is anticipation for RevPAR to rebound to pre-pandemic levels. Chinese travelers and Japanese travelers stand at 40% and 50% of pre-COVID levels, respectively. However, with the expected recovery of flight capacity, we anticipate positive growth from these demographics. Moreover, NPI is projected to remain stable, capitalizing on the decrease in electricity costs, which are forecasted to decrease by up to 40% in FY24e.

### Maintain BUY with an unchanged TP of S\$0.79

FEHT is currently trading at FY24e dividend yields of 6.8% and 0.7x P/NAV. We expect revenue to be supported by RevPAR recovery and potential inorganic growth. Our DDM-TP remains unchanged at S\$0.79, with projected FY24-25e DPUs of 4.35 to 4.45 cents.

## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Revenue</b>	<b>83.25</b>	<b>83.58</b>	<b>106.81</b>	<b>117.52</b>	<b>126.08</b>
Master Lease Rental	68.17	68.78	90.65	99.58	108.62
Retail & Office Revenue	15.08	14.80	16.16	17.94	17.46
<b>Property Expense</b>	<b>-8.08</b>	<b>-6.25</b>	<b>-8.06</b>	<b>-9.46</b>	<b>-9.80</b>
<b>Net Property Income</b>	<b>75.17</b>	<b>77.33</b>	<b>98.74</b>	<b>108.05</b>	<b>116.28</b>
Net financing cost	-19.37	-16.79	-21.28	-27.06	-27.06
<b>Total return before tax</b>	<b>131.08</b>	<b>203.90</b>	<b>130.59</b>	<b>69.75</b>	<b>78.18</b>
Tax Expense	-0.07	-0.15	-0.28	-0.05	-0.06
<b>Net income after Tax</b>	<b>131.01</b>	<b>203.76</b>	<b>130.31</b>	<b>69.70</b>	<b>78.12</b>
Taxable distributable income	54.85	58.99	75.05	78.96	87.15
<b>Distribution to unitholders</b>	<b>51.95</b>	<b>65.02</b>	<b>81.91</b>	<b>87.80</b>	<b>90.50</b>

### Per unit data

Y/E Dec, (\$)	FY21	FY22	FY23	FY24e	FY25e
NAV (\$)	0.83	0.90	0.93	0.93	0.92
DPU (S cents)	2.63	3.27	4.09	4.35	4.45

### Cash Flow

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>CFO</b>					
<b>Total return before tax</b>	<b>131.08</b>	<b>203.90</b>	<b>130.59</b>	<b>69.75</b>	<b>78.18</b>
Adjustments	-57.86	-128.89	-34.11	36.01	35.77
WC changes	-3.85	-3.07	0.78	17.45	-4.82
Tax paid and interest received	-0.09	-0.07	0.00	-0.05	-0.06
<b>Cash generated from ops</b>	<b>69.28</b>	<b>71.87</b>	<b>97.26</b>	<b>123.16</b>	<b>109.08</b>
<b>CFI</b>					
CAPEX	-0.47	-3.62	0.00	-1.00	-1.00
<b>Cashflow from investments</b>	<b>42.98</b>	<b>261.54</b>	<b>15.58</b>	<b>4.09</b>	<b>-1.40</b>
<b>CFF</b>					
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	-28.31	-28.31
<b>Cashflow from financing</b>	<b>-111.48</b>	<b>-289.30</b>	<b>-99.52</b>	<b>-116.11</b>	<b>-118.81</b>
<b>Net change in cash</b>	<b>0.77</b>	<b>44.12</b>	<b>13.32</b>	<b>11.14</b>	<b>-11.13</b>
Cash at the start of the period	10.92	11.69	49.77	63.09	74.23
<b>Ending cash</b>	<b>11.69</b>	<b>55.81</b>	<b>63.09</b>	<b>74.23</b>	<b>63.10</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Cash and short term deposit	11.69	55.81	63.09	74.23	63.10
Prepayments, deposits etc	42.68	45.49	47.50	42.72	50.43
<b>Total current assets</b>	<b>45.82</b>	<b>48.60</b>	<b>54.46</b>	<b>105.40</b>	<b>111.95</b>
Investment properties	2607.90	2446.75	2509.55	2514.55	2519.55
<b>Total non-current assets</b>	<b>2610.35</b>	<b>2455.73</b>	<b>2510.50</b>	<b>2501.98</b>	<b>2505.54</b>
<b>Total Assets</b>	<b>2664.81</b>	<b>2561.13</b>	<b>2622.46</b>	<b>2620.30</b>	<b>2620.43</b>
<b>LIABILITIES</b>					
Other payables and accruals	53.09	2.70	3.35	16.02	18.91
Loans and borrowings	181.30	0.00	0.00	0.00	0.00
Others	4.41	5.98	4.10	4.10	4.10
<b>Total current liabilities</b>	<b>242.40</b>	<b>10.61</b>	<b>9.35</b>	<b>22.02</b>	<b>24.91</b>
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
<b>Total non-current liabilities</b>	<b>774.02</b>	<b>744.69</b>	<b>746.39</b>	<b>746.39</b>	<b>746.39</b>
<b>Total Liabilities</b>	<b>1016.42</b>	<b>755.30</b>	<b>755.75</b>	<b>768.42</b>	<b>771.31</b>
<b>Net assets</b>	<b>1647.57</b>	<b>1681.25</b>	<b>1557.68</b>	<b>1648.39</b>	<b>1805.83</b>

### Valuation Ratios

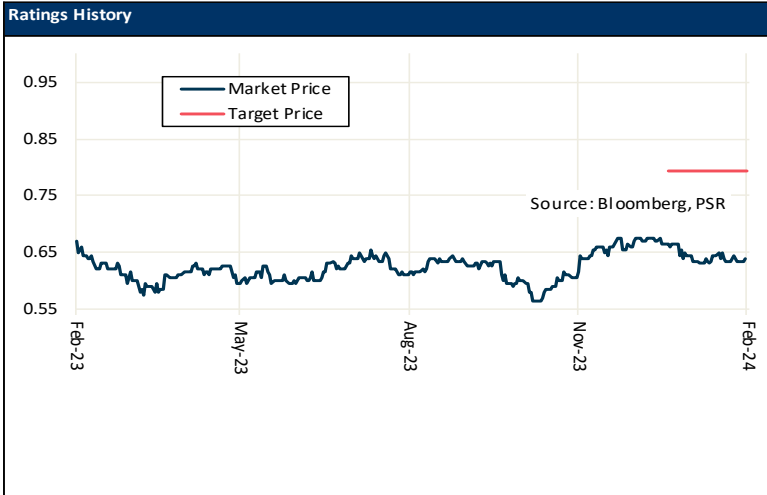
Y/E Dec, (\$)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.71	0.69	0.69	0.69	0.70
Distribution Yield (%)	4.46	5.27	6.39	6.80	6.96

### Growth & Margins (%)

Growth					
Revenue		0.4%	27.8%	10.0%	7.3%
Distributable income		7.5%	27.2%	5.2%	10.4%
DPU		24.3%	25.1%	6.4%	2.3%

### Key Ratios

ROE	7.9%	12.6%	8.1%	4.0%	4.3%
Gearing	36.3%	30.2%	31.3%	31.3%	31.3%



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**  
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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