

Far East Hospitality Trust

Higher RevPAR by ramping up occupancy


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Singapore | REIT | UPDATE
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- Gross revenue for 1Q24 rose by 7.5% YoY to S\$27mn on the back of leisure recovery, attributed to several mega concerts in 1Q24, accounting for 23% of our FY24e estimates. NPI increased by 6% YoY to \$25mn due to stabilized electricity costs, which was within our expectations. DPU for 1Q24 was not disclosed.
- ADR increased by 8.8% YoY to S\$179 as all hotels emerged from government contracts and rising international visitor arrivals to 91% of the pre-COVID level. However, RevPar lagged behind, growing 6.7% YoY to S\$144, as the occupancy rate contracted by 1.5ppt YoY. Some hotels had just exited government contracts and are still ramping up their occupancy.
- 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. We expect RevPAR to continue inching up in the face of a stable supply of middle-tier hotels to support ADR and the return of international visitors due to lines of MICE events to boost occupancy rates. FEHT is currently trading at FY24e dividend yields of 7.1% and 0.66x P/NAV.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.62
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 0.79
TOTAL RETURN	39.3%

COMPANY DATA

BLOOMBERG CODE:	FEHT SP Equity
O/S SHARES (MN):	2,011
MARKET CAP (USD mn / SGD mn):	908 / 1237
52 - WK HI/LO (SGD):	0.68 / 0.56
3M Average Daily T/O (mn):	1.33

MAJOR SHAREHOLDERS

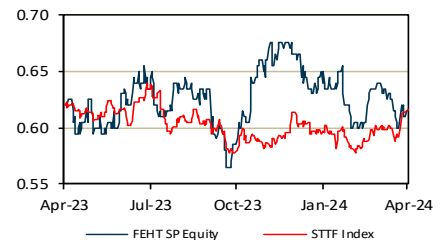
Golden Development Ptd Ltd	22.5%
Far East Organization Centre Ptd Ltd	9.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.9)	(2.1)	(4.3)
STTF RETURN	2.7	5.7	2.5

Result at a glance

(\$ Mm)	1Q24	1Q23	(%)	Comments
Gross Revenue	27.1	25.2	7.5%	Hotels and Commercial continued to grow strongly
Net Property Income	25.1	23.7	6.0%	Decreasing electricity cost
RevPAR	144.0	135.0	6.7%	
ADR	179.5	165.0	8.8%	Mega concerts drive ADR higher
Occupancy rate	80.4	81.9	(1.8ppt)	Hotels just out of government contract still ramping up
Average cost of debt	3.70%	3.20%	15.6ppt	
Leverage Ratio	31.5%	32.0%	(0.7ppt)	
Adjusted ICR	3.5x	3.6x	-2.8%	

Source: Company, PSR
PRICE VS. STTF

Source: Bloomberg, PSR
The Positives

+ Mega concert-led leisure recovery. Mega concerts drove the recovery in leisure. Supported by series of mega concerts such as Taylor Swift's Eras Tour and Coldplay in 1Q24, ADR increased by 8.8% YoY, reaching S\$179. However, the occupancy rate slid by 1.5ppt YoY as Village Hotel Albert Court and Oasia Hotel Novena exited government contracts at the end of FY23 and were re-marketing. FEHT managed to secure ADR at 40-50% higher than usual during the concert period. RevPAR for 1Q24 increased by 6.7% YoY, reaching 102.9% of the pre-COVID level. We expect RevPAR to maintain at the current level with slight improvement as ADR is expected to trend higher in the face of a stable supply of mid-tier hotels and increasing international visitors (Singapore Tourism Board's target of 15 mn -16mn for 2024). We also foresee an uplift in the occupancy rate with a target of mid-80% in FY24 (pre-COVID: high-80%).

+ Improved financial position and ready to acquire. FEHT refinanced a S\$164 mn loan with a 20-30bps lower margin. With the more hawkish BOJ, the REIT is taking time to screen for DPU accretive acquisitions. In 1Q24, the leverage ratio remained stable at 31.3%, with debt headroom of c.S\$900 mn (gearing at 50%). The cost of debt in Japan saw a slight increment of 10-20bps, leading to a slightly higher cap rate. This would compress the positive carry by c.0.5% to c.2%.

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	0.65	0.66	0.67
DPU (cents)	3.27	4.09	4.35	4.45
Dist. Yield (%)	5.27	6.71	7.13	7.30

Source: Company, PSR
VALUATION METHOD

DDM (Cost of Equity: 7.6%; Terminal g: 1.5%)

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The Negative

- **Limited upside from recovery.** We expect a fading recovery in FY24e as international visitor arrivals are already at 91% of the pre-pandemic level. Singapore Airlines Group passenger capacity has returned to c.97% of the average capacity in 2019. We remain cautious about the sustainability of the underlying earnings due to seasonality and the influx of event-driven tourism in 1Q24.

- **Service residences see a drop in RevPAR.** RevPAR decreased by 1.5% YoY in 1Q24 as some contracts were terminated earlier, leading to a slide in occupancy rate of 3.7 ppt YoY. However, new contracts were secured at rates comparable to FY23 levels. FEHT sees more demand coming from the Service and Electronics & the Manufacturing sectors.

Outlook

All hotels that exited government contracts have been ramping up well; even Village Hotel Albert Court met the forecast in Mar24. FEHT is actively marketing and directing some traffic to hotels in suburban areas during peak periods. Although hotels in Bugis and other central locations are performing well in terms of occupancy rate and ADR, we expect limited upside for ADR as FEHT caters to mid-tier travelers. RevPAR for FY24e is anticipated to recover back to pre-COVID level. Forward bookings for May are looking healthy due to a packed MICE schedule and an influx of international visitors. The gross operating margin is expected to improve further, which is underpinned by successful cost optimization.

Maintain BUY with an unchanged TP of S\$0.79

FEHT is currently trading at FY24e dividend yields of 7.1% and 0.66x P/NAV. We expect revenue to be supported by occupancy rate recovery and a stronger 2Q24 due to lines of MICE events, a 30-day visa-free policy for Chinese travellers, and recovery of flight capacity. Our DDM-TP remains unchanged at S\$0.79, with projected FY24-25e DPU's of 4.35 to 4.45 cents.

Financials

Income Statement

Y/E Dec, (S\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	83.25	83.58	106.81	117.52	126.08
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
Property Expense	-8.08	-6.25	-8.06	-9.46	-9.80
Net Property Income	75.17	77.33	98.74	108.05	116.28
Net financing cost	-19.37	-16.79	-21.28	-27.06	-27.06
Total return before tax	131.08	203.90	130.59	69.38	77.26
Tax Expense	-0.07	-0.15	-0.28	-0.05	-0.06
Net income after Tax	131.01	203.76	130.31	69.33	77.21
Taxable distributable income	54.85	58.99	75.05	78.96	87.15
Distribution to unitholders	51.95	65.02	81.91	87.81	90.50

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	4.35	4.45

Cash Flow

Y/E Dec, (S\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total return before tax	131.08	203.90	130.59	69.38	77.26
Adjustments	-57.86	-128.89	-34.11	36.38	36.69
WC changes	-3.85	-3.07	0.78	5.70	-6.94
Tax paid and interest received	-0.09	-0.07	0.00	-0.05	-0.06
Cash generated from ops	69.28	71.87	97.26	111.41	106.96
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	-28.31	-28.31
Cashflow from financing	-111.48	-289.30	-99.52	-116.11	-118.81
Net change in cash	0.77	44.12	13.32	-9.46	-16.61
Cash at the start of the period	10.92	11.69	49.77	63.09	53.64
Ending cash	11.69	55.81	63.09	53.64	37.03

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	53.64	37.03
Prepayments, deposits etc	42.68	45.49	47.50	42.72	50.43
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	2614.22	2611.32
LIABILITIES					
Other payables and accruals	53.09	2.70	3.35	4.27	5.04
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	11.05
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	757.44
Net assets	1647.57	1681.25	1557.68	1648.39	1799.80

Valuation Ratios

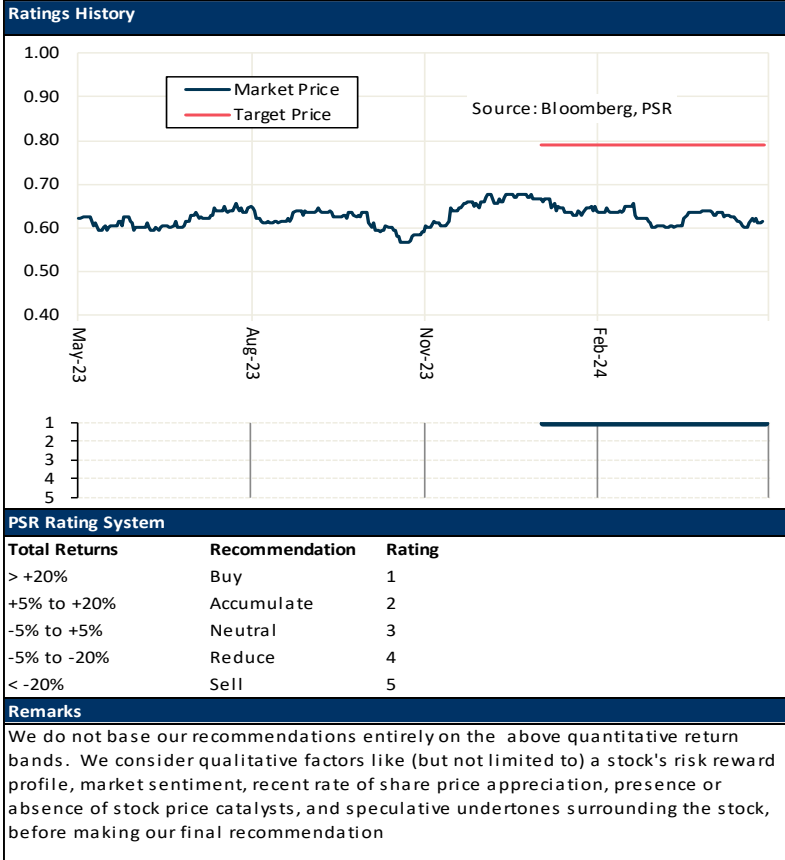
Y/E Dec, (S\$)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.71	0.69	0.65	0.66	0.67
Distribution Yield (%)	4.46	5.27	6.71	7.13	7.30

Growth & Margins (%)

	FY21	FY22	FY23	FY24e	FY25e
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

	FY21	FY22	FY23	FY24e	FY25e
ROE	7.9%	12.6%	8.1%	4.0%	4.2%
Gearing	36.3%	30.2%	31.3%	31.3%	31.3%



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