

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

3Q23: Rising RevPAR And Profitability Driven By Surge In Visitor Arrivals

RevPAR increased 44% yoy and 14% qoq to S\$131 for its nine hotels. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. The incentive fee of S\$18m will be utilised to cushion the negative impact of higher interest rates. FEHT provides a 2024 distribution yield of 7.6%. Its P/NAV of 0.63x is unwarranted given its good corporate governance, strong sponsor and low aggregate leverage of 32.2%. Maintain BUY. Target price: S\$0.76.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	yoy % chg	Remarks
Gross Revenue	30.2	+42.5	Hotels RevPAR: +44% yoy to S\$150 in 3Q23.
- Hotels	23.3	+56.3	Serviced Residences: RevPAR: +12% yoy to S\$239 in 3Q23.
- Serviced Residence	2.9	+14.4	On a same-store-basis, Serviced Residence and Commercial
- Commercial Premises	3.9	+6.5	Premises have grown 18.9% and 15.5% yoy respectively.
Net Property Income (NPI)	28.1	+42.4	
Distributable Income	22.9	+51.0	Indicative 3Q23 DPU is 1.12 S cents.

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported 3Q23 distributable income of S\$22.9m (+51% yoy), which is above our expectations due to higher RevPAR for both hotels and serviced residences.
- Hotels: Steep sequential recovery.** RevPAR for hotels increased 43.6% yoy to S\$150 in 3Q23, returning to pre-pandemic levels. Occupancy improved 10.6ppt yoy to 86.7% while average daily rate (ADR) increased 26.0% yoy to S\$173 driven by a recovery in visitor arrivals. Rendezvous Hotel Singapore and Village Hotel Albert Court, which were released from government contracts in mid-March, ramped up rapidly. One hotel remains under government contract. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. Revenue for hotels increased 56.3% yoy (Elizabeth Hotel was undergoing renovation in 3Q22).
- Serviced residences: Steady and consistent contributor.** RevPAR for serviced residences increased 12.2% yoy to S\$239 in 3Q23, which is 31% above pre-pandemic levels. The resilient performance was driven by a 14.4% yoy growth in ADR. FEHT continues to benefit from new bookings secured at higher rates. On a same-store basis, revenue for serviced residences increased 18.9% yoy if we exclude contributions from Village Residence Clark Quay (divestment completed on 24 Mar 22).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	83	84	109	115	115
EBITDA	65	67	87	92	92
Operating profit	65	67	87	92	92
Net profit (rep./act.)	131	204	83	67	65
Net profit (adj.)	41	50	83	67	65
EPU (S\$ cent)	2.1	2.5	4.2	3.3	3.2
DPU (S\$ cent)	2.6	3.3	4.1	4.3	3.9
PE (x)	27.1	22.7	13.7	17.1	17.6
P/B (x)	0.7	0.6	0.6	0.6	0.6
DPU Yld (%)	4.6	5.7	7.2	7.6	6.9
Net margin (%)	157.4	243.8	76.1	58.1	56.9
Net debt/(cash) to equity (%)	56.8	38.2	38.0	38.7	39.5
Interest cover (x)	3.3	4.0	3.6	3.3	3.1
ROE (%)	8.2	11.8	4.6	3.7	3.6
Consensus DPU (S\$ cent)	n.a.	n.a.	3.8	4.2	4.3
UOBKH/Consensus (x)	-	-	1.08	1.03	0.92

Source: Far East Hospitality Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.57
Target Price	S\$0.76
Upside	+33.3%
(Previous TP)	S\$0.710

COMPANY DESCRIPTION

FEHT is a Singapore-focused hotel and serviced residences hospitality trust. It has a portfolio of 12 hospitality properties, comprising nine hotels and three serviced residences with 3,015 rooms.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FEHT SP
Shares issued (m):	2,000.0
Market cap (S\$m):	1,130.0
Market cap (US\$m):	827.1
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

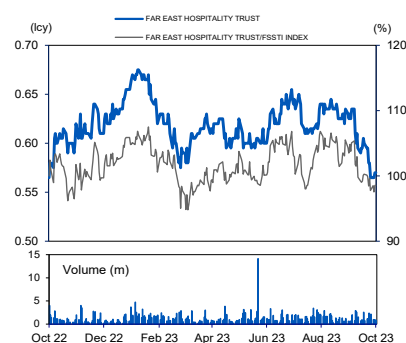
52-week high/low	S\$0.675/S\$0.53			
1mth	3mth	6mth	1yr	YTD
(11.0)	(13.7)	(7.4)	5.6	(8.9)

Major Shareholders

Golden Development	22.5
Far East Organization	16.0
Golden Landmark	9.6

FY23 NAV/Share (S\$)	0.91
FY23 Net Debt/Share (S\$)	0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Collected additional incentive fee of S\$18m.** FEHT has received additional payment of S\$18m from the divestment of Central Square in 2Q23 after the buyer obtained provisional permission for redevelopment from the Urban Redevelopment Authority. Management intends to utilise the incentive fee of S\$18m received in Mar 23 to cushion the negative impact from higher interest rates.

- **Working on early refinancing.** Aggregate leverage remained low at 32.2% as of Sep 23. Average cost of debt was unchanged at 3.2%. Interest coverage ratio is healthy at 3.7x. FEHT is in the advanced stage of negotiation to refinance borrowings of S\$125m that mature in 2024 (17% of total borrowings). Management expects average cost of debt to hit 3.5% by end-23.

STOCK IMPACT

- **Benefitting from rising visitor arrivals.** Visitor arrivals increased 44.6% yoy to 1.1m in Sep 23, representing 77% of pre-pandemic levels. Chinese tourists grew 9x yoy to 135,677 in Sep 23, reaching 55% of pre-pandemic levels. China has regained its stature as the largest source market for Singapore in 3Q23. There is room for further recovery as Chinese tourists accounted for a smaller 9.9% of total visitor arrivals during 9M23 compared with 19.0% in 2019. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the Mid-Autumn Festival.

- **Exploring expansion overseas.** FEHT intends to diversify into gateway cities in developed markets. It is scouting for opportunities to invest in limited-service, midscale and upscale hotels, where yields are higher. Potential acquisitions are likely to be fully debt funded. Management aims for a balanced mix of 80:20 between properties in Singapore and overseas over the longer term.

- **Trading at steep 37% discount against NAV.** FEHT trades at a P/B of 0.63x, the lowest in our universe of hospitality REITs. The discount is unwarranted given FEHT's good corporate governance, a strong sponsor in Far East Organization (FEO), and low aggregate leverage of 32.2% as of Sep 23.

EARNINGS REVISION/RISK

- We raise our DPU forecasts by 9% 2023 and by 8% for 2024 after factoring in the strong 3Q23 results and additional capital distribution of S\$0.5m in 2H23 and S\$3.0m in 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.76 is based on DDM (cost of equity: 7.75%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- Downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.
- Recovery in occupancy, ADR and RevPAR in 2023 and 2024.
- Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.

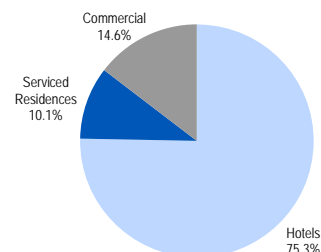
KEY OPERATING METRICS – FEHT

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	1.73	n.a.	1.92	n.a.	n.a.	n.a.
Aggregate Leverage	33.5%	32.0%	32.0%	32.0%	32.2%	-1.3ppt	0.2ppt
Average Cost of Debt	2.0%	2.1%	3.2%	3.2%	3.2%	1.2ppt	0ppt
Weighted Debt Maturity (years)	2.6	3.1	3.7	3.5	3.2	0.6yrs	-0.3yrs
% Borrowings in Fixed Rate	60.9%	54.1%	47.3%	47.2%	40.6%	-20.3ppt	-6.6ppt

* hoh % chg for DPU

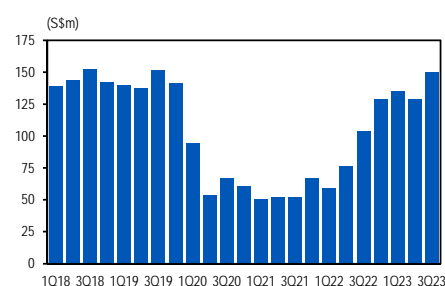
Source: FEHT, UOB Kay Hian

BREAKDOWN OF GROSS REVENUE (9M23)



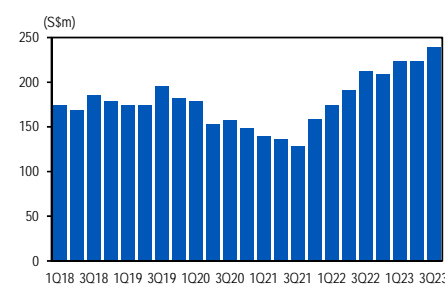
Source: FEHT

REVPAR – HOTELS



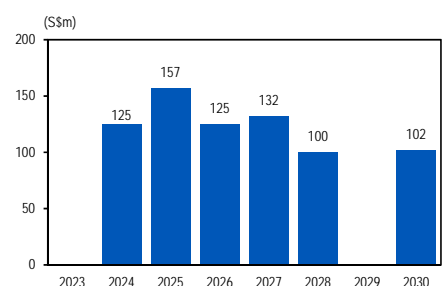
Source: FEHT

REVPAR – SERVICED RESIDENCES



Source: FEHT

DEBT MATURITY PROFILE



Source: FEHT

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	83.6	109.1	115.0	115.0
EBITDA	66.5	87.0	92.5	92.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	66.5	87.0	92.5	92.5
Associate contributions	0.0	2.0	2.4	2.4
Net interest income/(expense)	(16.8)	(24.0)	(28.1)	(29.4)
Pre-tax profit	203.9	83.0	66.8	65.5
Tax	(0.1)	0.0	0.0	0.0
Net profit	203.8	83.0	66.8	65.5
Net profit (adj.)	49.6	83.0	66.8	65.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	71.9	103.5	98.3	97.3
Pre-tax profit	203.8	83.0	66.8	65.5
Associates	0.0	(2.0)	(2.4)	(2.4)
Working capital changes	(3.1)	(2.4)	0.4	(0.4)
Non-cash items	(145.7)	8.9	8.9	8.9
Other operating cashflows	16.9	15.9	24.6	25.7
Investing	255.5	(4.0)	(4.0)	(4.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(7.2)	(4.0)	(4.0)	(4.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	263.7	0.0	0.0	0.0
Others	(1.0)	0.0	0.0	0.0
Financing	(289.3)	(96.0)	(94.6)	(92.8)
Distribution to unitholders	(60.8)	(73.4)	(75.8)	(74.6)
Issue of shares	0.0	0.0	0.0	1.0
Proceeds from borrowings	150.0	2.2	10.0	10.0
Loan repayment	(360.0)	0.0	0.0	0.0
Others/interest paid	(18.5)	(24.8)	(28.9)	(29.2)
Net cash inflow (outflow)	38.1	3.5	(0.3)	0.4
Beginning cash & cash equivalent	11.7	49.8	53.3	52.9
Ending cash & cash equivalent	49.8	53.3	52.9	53.3

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,446.8	2,446.8	2,446.8	2,446.8
Other LT assets	9.0	10.2	10.8	11.2
Cash/ST investment	49.8	53.3	52.9	53.3
Other current assets	49.6	61.5	62.5	62.5
Total assets	2,555.1	2,571.7	2,572.9	2,573.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	10.6	13.8	13.9	13.9
LT debt	737.8	740.0	750.0	760.0
Other LT liabilities	6.9	8.5	8.6	8.6
Shareholders' equity	1,799.8	1,809.4	1,800.4	1,791.2
Total liabilities & equity	2,555.1	2,571.7	2,572.9	2,573.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	79.6	79.8	80.4	80.4
Pre-tax margin	244.0	76.1	58.1	56.9
Net margin	243.8	76.1	58.1	56.9
ROA	7.8	3.2	2.6	2.5
ROE	11.8	4.6	3.7	3.6
Growth				
Turnover	0.4	30.5	5.4	0.0
EBITDA	2.8	30.7	6.3	0.0
Pre-tax profit	55.6	(59.3)	(19.6)	(2.0)
Net profit	55.5	(59.3)	(19.6)	(2.0)
Net profit (adj.)	20.4	67.4	(19.6)	(2.0)
EPU	19.5	66.1	(20.2)	(2.7)
Leverage				
Debt to total capital	29.1	29.0	29.4	29.8
Debt to equity	41.0	40.9	41.7	42.4
Net debt/(cash) to equity	38.2	38.0	38.7	39.5
Interest cover (x)	4.0	3.6	3.3	3.1

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