

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

1Q24: Growth From Strong Room Rates And Optimising Occupancy

FEHT will benefit from the recovery of MICE events and strong room rates in Singapore due to its focus on the domestic market. The incentive fee of S\$18m from divestment of Central Square could be utilised to cushion the negative impact of higher interest rates. FEHT provides a 2024 distribution yield of 6.7%. Its low P/NAV of 0.67x is unwarranted given its good corporate governance, strong sponsor and low aggregate leverage of 31.5%. Maintain BUY. Target price: S\$0.82.

1Q24 RESULTS

Year to 31 Dec (\$m)	1Q24	yoy % chg	Remarks
Gross Revenue	27.1	+7.5	
Hotels	20.0	+8.4	Hotels RevPAR: +6.7% yoy to S\$144 in 1Q24.
Serviced Residence	2.7	-2.0	Serviced residences: RevPAR: -1.5% yoy to S\$221 in 1Q24.
Commercial Premises	4.4	+10.0	Benefitting from higher rents and higher occupancies.
Net Property Income (NPI)	25.1	+6.0	

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported growth in gross revenue and NPI of 7.5% and 6.0% yoy respectively for 1Q24, which is in line with our expectation.
- Hotels: Benefitting from higher holiday traffic.** Average daily rate (ADR) increased 8.8% yoy to S\$179 in 1Q24, boosted by MICE events and concerts. Management estimated that RevPAR was 40% higher during the Taylor Swift's The Eras Tour in March. Occupancy eased 1.5ppt yoy to 80.4% as Oasia Hotel Novena and Village Hotel Albert Court were still ramping up after exiting government contracts in Oct 23 and Dec 23 respectively. Overall, RevPAR for hotels jumped 6.7% yoy to S\$144 in 1Q24 and recovered to 5% above pre-pandemic levels.
- Serviced residences: Steady contributor.** Occupancy declined 3.7ppt yoy to 83.3% in 1Q24 due to expiration of a few long-stay contracts. FEHT has since secured new contracts and occupancy has recovered to previous levels. Demand was predominantly derived from the services, banking & finance, electronics & manufacturing and oil & gas sectors. ADR was resilient and grew 2.9% yoy. Overall, RevPAR for serviced residences eased 1.5% yoy to S\$221 in 1Q24 but was still 27% above pre-pandemic levels.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	107	112	115	115
EBITDA	67	87	90	92	92
Operating profit	67	87	90	92	92
Net profit (rep./act.)	204	130	63	66	65
Net profit (adj.)	50	84	63	66	65
EPU (\$ cent)	2.5	4.2	3.1	3.2	3.2
DPU (\$ cent)	3.3	4.1	4.1	3.9	3.8
PE (x)	24.5	14.6	19.6	19.0	19.3
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	5.3	6.7	6.7	6.3	6.2
Net margin (%)	243.8	122.0	56.1	56.9	56.4
Net debt/(cash) to equity (%)	38.2	36.1	37.1	38.1	39.1
Interest cover (x)	4.0	4.1	3.2	3.2	3.1
ROE (%)	11.8	7.1	3.4	3.5	3.5
Consensus DPU (\$ cent)	n.a.	n.a.	4.1	4.1	4.1
UOBKH/Consensus (x)	-	-	1.00	0.95	0.93

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

BUY

(Maintained)

Share Price	S\$0.615
Target Price	S\$0.82
Upside	+33.3%

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):	2,011.2
Market cap (\$m):	1,236.9
Market cap (US\$m):	910.0
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low S\$0.675/S\$0.565

1mth	3mth	6mth	1yr	YTD
(3.1)	(3.1)	1.7	(0.8)	(7.5)

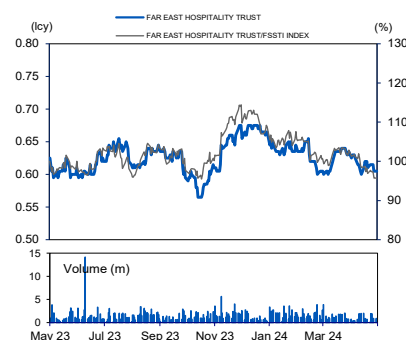
Major Shareholders

	%
Golden Development	22.4
Far East Organization	16.7
Golden Landmark	10.3

FY24 NAV/Share (\$\$) 0.93

FY24 Net Debt/Share (\$\$) 0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ

+65 6590 6620

jonathankoh@uobkayhian.com

- **Increased contributions from commercial premises.** Revenue from commercial premises at its hotels and serviced residences increased 10.0% yoy in 1Q24 due to higher occupancies and rental rates for its office and retail space. FEHT secured new food & beverage operators for Rendezvous Hotel Singapore and Village Hotel Changi after the two hotels exited government contracts.
- **Completed early refinancing.** Aggregate leverage was 31.5% as of Mar 24, one of the lowest among S-REITs. FEHT has completed refinancing for term loans of S\$225m with sustainability-linked loans ahead of maturity in Mar 24. There are no term loans due for refinancing in 2024. Average debt maturity was 3.5 years.
- **Anticipate higher cost of debt in 2024.** Average cost of debt increased 0.5ppt qoq to 3.7% in 1Q24. About 42.6% of its borrowings are hedged to fixed interest rates. Management expects average cost of debt to hit 4% in 2024 as expiring interest rate swaps are replaced at higher interest rate.

STOCK IMPACT

- **Continued recovery for the hospitality sector in Singapore.** The outlook is positive due to an active event calendar with FHA-Food & Beverage, Asia Tech x, Rotary International Convention, World Congress of Anaesthesiologists and Women's World Golf Championship in 2Q24. Management expects the 30-day visa exemption arrangement to have a positive impact on visitor arrivals from China. Management sees Singapore Airlines' (SIA) passenger capacity as the leading indicator for recovery of cross-border travel. SIA has restored passenger to 97% of pre-pandemic levels in 1Q24. SIA expects full recovery by early-25.
- **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 33% discount against NAV.** FEHT trades at a P/B of 0.67x, one of 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 31.5% as of Mar 24.

EARNINGS REVISION/RISK

- We maintained our existing DPU forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.82 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- Recovery in occupancy, ADR and RevPAR in 2024 and 2025.
- Pursuing acquisitions in overseas markets. Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.
- Downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.

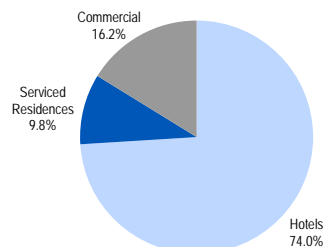
KEY OPERATING METRICS

	1Q23	2Q23	3Q23	4Q23	1Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	1.92	n.a.	2.17	n.a.	n.a.	n.a.
Aggregate Leverage	32.0%	32.0%	32.2%	31.3%	31.5%	-0.5ppt	0.2ppt
Average Cost of Debt	3.2%	3.2%	3.2%	3.3%	3.7%	0.5ppt	0.4ppt
Weighted Debt Maturity (years)	3.7	3.5	3.2	3.8	3.5	-0.2yrs	-0.3yrs
% Borrowings in Fixed Rate	47.3%	47.2%	40.6%	42.6%	42.6%	-4.7ppt	0ppt

* hoh % chg for DPU

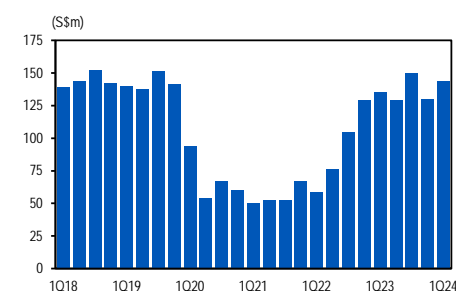
Source: FEHT, UOB Kay Hian

BREAKDOWN OF GROSS REVENUE (1Q24)



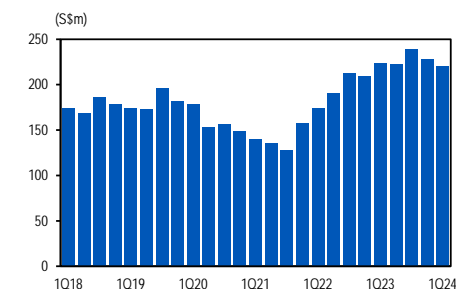
Source: FEHT

REVPAR – HOTELS



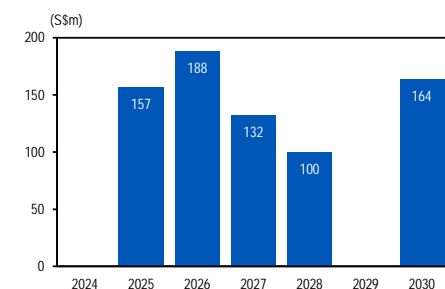
Source: FEHT

REVPAR – SERVICED RESIDENCES



Source: FEHT

DEBT MATURITY PROFILE



Source: FEHT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	106.8	112.3	115.2	115.2
EBITDA	87.0	89.7	92.5	92.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	87.0	89.7	92.5	92.5
Associate contributions	0.0	1.3	2.4	2.4
Net interest income/(expense)	(21.3)	(28.1)	(29.3)	(29.9)
Pre-tax profit	130.6	62.9	65.6	65.0
Tax	(0.3)	0.0	0.0	0.0
Net profit	130.3	62.9	65.6	65.0
Net profit (adj.)	84.1	62.9	65.6	65.0

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,509.6	2,513.6	2,517.6	2,521.6
Other LT assets	1.0	1.7	2.5	3.3
Cash/ST investment	63.1	55.0	55.1	56.3
Other current assets	48.9	55.1	56.6	56.6
Total assets	2,622.5	2,625.3	2,631.7	2,637.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	9.4	12.0	12.2	12.2
LT debt	736.8	745.0	760.0	775.0
Other LT liabilities	9.6	10.6	10.8	10.8
Shareholders' equity	1,866.7	1,857.6	1,848.7	1,839.7
Total liabilities & equity	2,622.5	2,625.3	2,631.7	2,637.7

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	97.3	88.5	93.9	94.9
Pre-tax profit	130.6	62.9	65.6	65.0
Associates	0.0	(1.3)	(2.4)	(2.4)
Working capital changes	0.9	8.5	(0.1)	(1.2)
Non-cash items	(36.8)	9.1	9.1	9.1
Other operating cashflows	2.5	9.3	21.7	24.4
Investing	15.6	(4.0)	(4.0)	(4.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(4.4)	(4.0)	(4.0)	(4.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	17.9	0.0	0.0	0.0
Others	2.1	0.0	0.0	0.0
Financing	(99.5)	(92.7)	(89.7)	(89.7)
Distribution to unitholders	(72.8)	(72.0)	(74.6)	(74.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	225.0	8.2	15.0	15.0
Loan repayment	(225.0)	0.0	0.0	0.0
Others/interest paid	(26.7)	(28.9)	(30.1)	(30.7)
Net cash inflow (outflow)	13.3	(8.1)	0.2	1.2
Beginning cash & cash equivalent	49.8	63.1	55.0	55.1
Ending cash & cash equivalent	63.1	55.0	55.1	56.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	81.4	79.9	80.3	80.2
Pre-tax margin	122.3	56.1	56.9	56.4
Net margin	122.0	56.1	56.9	56.4
ROA	5.0	2.4	2.5	2.5
ROE	7.1	3.4	3.5	3.5
Growth				
Turnover	27.8	5.1	2.7	0.0
EBITDA	30.7	3.2	3.1	(0.0)
Pre-tax profit	(36.0)	(51.8)	4.2	(0.9)
Net profit	(36.0)	(51.7)	4.2	(0.9)
Net profit (adj.)	69.5	(25.1)	4.2	(0.9)
EPU	68.2	(25.7)	3.4	(1.7)
Leverage				
Debt to total capital	28.3	28.6	29.1	29.6
Debt to equity	39.5	40.1	41.1	42.1
Net debt/(cash) to equity	36.1	37.1	38.1	39.1
Interest cover (x)	4.1	3.2	3.2	3.1

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