

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

1H24: Growth From Catch-up In Occupancy

RevPAR for hotels grew 6.0% yoy to S\$139 in 2Q24 driven by an improvement in occupancy of 5.6ppt yoy to 80.4%. Revenue from commercial premises increased 7.3% yoy. FEHT's low aggregate leverage of 30.8% provides ample debt headroom for acquisitions locally and gateway cities overseas. It provides 2024 distribution yield of 6.4%. Its low P/NAV of 0.68x is unwarranted given good corporate governance and a strong sponsor. Maintain BUY. Target price: S\$0.73.

1H24 RESULTS

Year to 31 Dec (S\$m)	1H24	yoy % chg	Remarks
Gross Revenue	53.8	+3.4	
Hotels	39.7	+2.8	Hotels RevPAR: +6.0% yoy to S\$139 in 2Q24.
Serviced Residence	5.5	+2.1	Serviced residences: RevPAR: +3.5% yoy to S\$231 in 2Q24.
Commercial Premises	8.6	+7.3	Benefitting from higher rents and higher occupancies.
Net Property Income (NPI)	49.5	+1.0	
Distributable Income	39.5	+2.7	Included S\$4.0m from divestment gain and S\$2.2m from incentive fee.
DPU (S cents)	1.96	+2.1	

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported DPU of 1.96 S cents for 1H24 (+2.1% yoy), in line with our expectation. The results included distribution of S\$4.0m from the divestment gain of Central Square and S\$2.2m to cushion the impact of higher interest rates.
- Hotels: Occupancy caught up with recovery in visitor arrivals.** Occupancy improved 5.6ppt yoy to 80.4% as hotels that exited government contracts in 2023 continued to ramp-up. Oasia Hotel Novena and Village Hotel Albert Court exited government contracts in Oct 23 and Dec 23 respectively. Average daily rate (ADR) has normalised to S\$172, which is similar to last year. RevPAR for hotels grew 6.0% yoy to S\$139 in 2Q24.
- SRs: Occupancy and ADR improved with shift to short stay.** RevPAU for serviced residences (SR) increased 3.5% yoy to S\$231 in 2Q24. FEHT was able to secure a greater mix of higher paying short-stay guests to replace unexpected group departures that occurred in 1Q24. Thus, average occupancy improved 3.5ppt qoq to 86.8% in 2Q24, while ADR grew 6.8% yoy to S\$266. Demand was predominantly derived from the services, banking & finance, electronics & manufacturing and oil & gas industries.
- Increased contributions from commercial premises.** Gross revenue from commercial premises expanded 7.3% yoy to S\$8.6m in 1H24. Rendezvous Hotel Singapore and Village Hotel Changi have secured new F&B operators for the retail space within the hotels since exiting from government contracts.
- Completed early refinancing.** Aggregate leverage improved 0.7ppt qoq to 30.8% as of Jun 24, one of the lowest among S-REITs, after pre-paying term loan of S\$23.6m. Interest coverage ratio is healthy at 3.2x. FEHT has completed the 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.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	107	111	116	116
EBITDA	67	87	90	95	95
Operating profit	67	87	90	95	95
Net profit (rep./act.)	204	130	63	66	66
Net profit (adj.)	50	84	60	66	66
EPU (S\$ cent)	2.5	4.2	3.0	3.3	3.2
DPU (S\$ cent)	3.3	4.1	4.0	3.9	3.6
PE (x)	25.1	14.9	21.2	19.2	19.4
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	5.2	6.5	6.4	6.2	5.7
Net margin (%)	243.8	122.0	56.4	57.2	56.8
Net debt/(cash) to equity (%)	38.2	36.1	37.4	38.2	38.9
Interest cover (x)	4.0	4.1	3.1	3.1	3.0
ROE (%)	11.8	7.1	3.4	3.6	3.6
Consensus DPU (S\$ cent)	n.a.	n.a.	4.1	4.1	4.1
UOBKH/Consensus (x)	-	-	0.99	0.95	0.88

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

BUY

(Maintained)

Share Price	S\$0.63
Target Price	S\$0.73
Upside	+15.9%
(Previous TP)	S\$0.77

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 (S\$m):	1,267.1
Market cap (US\$m):	951.5
3-mth avg daily t'over (US\$m):	0.6

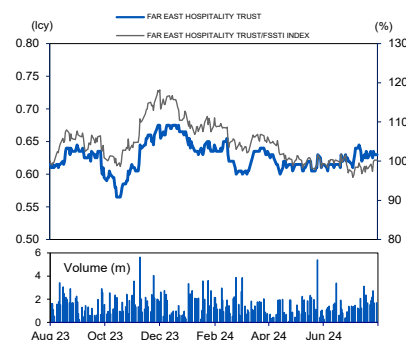
Price Performance (%)

52-week high/low	S\$0.675/S\$0.565			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.6	2.4	(0.8)	(2.3)	(5.3)

Major Shareholders

Golden Development	22.4
Far East Organization	16.7
Golden Landmark	10.3
FY24 NAV/Share (S\$)	0.93
FY24 Net Debt/Share (S\$)	0.35

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Anticipate stable cost of debt in 2H24.** The average cost of debt increased 40bp qoq to 4.1% as expiring swaps are replaced at higher interest rates. The proportion of total debt hedged to fixed interest rates was lowered from 42.6% to 35.9% in view of a growing likelihood of rate cuts. Management expects cost of debt to remain stable at around 4.1% in 2H24.

- **Paying portion of management fees in cash.** Management has reduced the proportion of management fees paid in units from 90% in 1H23 to 60% in 1H24.

### STOCK IMPACT

- **Recovery supported by MICE events and increased flight connectivity.** Management expects the 30-day visa exemption arrangement to have a positive impact on visitor arrivals from China. Major events lined up for 2H24 include World Aquatics Swimming World Cup and World Chess Championship. Many global companies have set up their regional headquarters and Asian hubs in Singapore, which will lead to more corporate travellers staying at hotels in Singapore.

- **On track to meet STB's targets.** Singapore Tourism Board (STB) expects international visitor arrivals to reach 15m-16m in 2024 (2023: 13.6m), bringing in tourism receipts of S\$26.0b-27.5b (2023: S\$27.2b). Visitor arrivals to Singapore increased 15.4% yoy to 3.9m in 2Q24, accounting for 84% of pre-pandemic levels. Visitor arrivals are likely to remain below pre-pandemic levels of 19.1m in 2019 but the average length of stay has increased to 3.8 days, compared with 3.4 days in 2019. Tourism receipt could hit the pre-pandemic high of S\$27.7b in 2019.

- **Potential divestment of Orchard Rendezvous Hotel.** Sponsor Far East Organisation (FEO) is reviewing the feasibility of redeveloping Orchard Rendezvous Hotel. It is uncertain whether the uplift in plot ratio to be awarded by the authorities and the quantum of land betterment charges could justify the redevelopment. In the event that FEO decides to proceed, FEHT is likely to divest Orchard Rendezvous Hotel with an option to buy back the redeveloped hotel.

- **Sentosa hotels are potential candidates for acquisitions.** Operations at the three hotels in Sentosa, namely Village Hotel, Outpost Hotel and Barracks Hotel, were not affected by the recent oil spill in June. Sentosa's Siloso Beach was reopened in early-August, one and a half month after the oil spill and Village Hotel is performing well. The positioning of Outpost Hotel was tweaked to appeal to a wider audience. Barrack Hotel has received good reviews. Management could acquire the balance 70% stake in the three Sentosa hotels in 2026 when interest rates would have receded.

- **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.

### EARNINGS REVISION/RISK

- We raised our 2025 DPU forecast by 2% due to the continued disbursement of incentive fee from Central Square to mitigate the negative impact of higher interest rates. We lowered our 2026 DPU forecast by 5% due to the policy to reduce the proportion of management fees paid in units from 90% to 60%.

### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.73 is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

### SHARE PRICE CATALYST

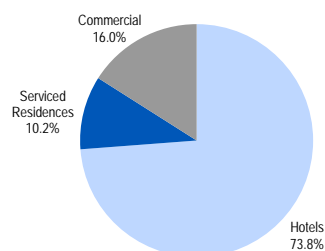
- Recovery in occupancy, ADR and RevPAR in 2024 and 2025.
- Pursuing acquisitions in overseas markets. Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.

### KEY OPERATING METRICS

	2023	3Q23	4Q23	1Q24	2Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	1.92	n.a.	2.17	n.a.	1.96	2.1%	-9.7%
Aggregate Leverage	32.0%	32.2%	31.3%	31.5%	30.8%	-1.2ppt	-0.7ppt
Average Cost of Debt	3.2%	3.2%	3.3%	3.7%	4.1%	0.9ppt	0.4ppt
Weighted Debt Maturity (years)	3.5	3.2	3.8	3.5	3.3	-0.2yrs	-0.2yrs
% Borrowings in Fixed Rate	47.2%	40.6%	42.6%	42.6%	35.9%	-11.3ppt	-6.7ppt

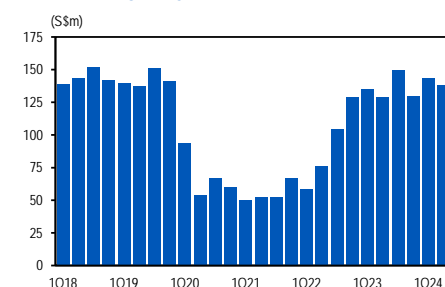
Source: FEHT, UOB Kay Hian \* hoh % chg for DPU

### BREAKDOWN OF GROSS REVENUE (1H24)



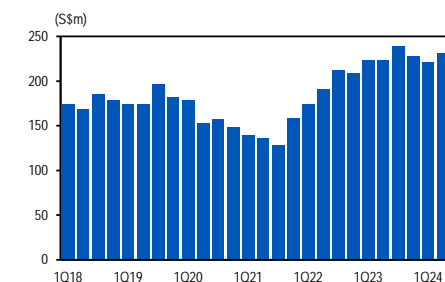
Source: FEHT

### REVPAR - HOTELS



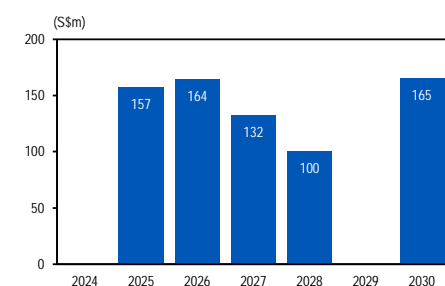
Source: FEHT

### 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	111.2	115.7	115.7
EBITDA	87.0	90.4	94.6	94.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	87.0	90.4	94.6	94.6
Associate contributions	0.0	0.8	2.4	2.4
Net interest income/(expense)	(21.3)	(28.7)	(30.9)	(31.3)
Pre-tax profit	130.6	62.9	66.1	65.7
Tax	(0.3)	(0.1)	0.0	0.0
Net profit	130.3	62.7	66.1	65.7
Net profit (adj.)	84.1	59.7	66.1	65.7

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,509.6	2,512.8	2,516.8	2,520.8
Other LT assets	1.0	0.4	1.2	1.2
Cash/ST investment	63.1	55.8	53.8	53.1
Other current assets	48.9	54.7	56.4	56.4
<b>Total assets</b>	<b>2,622.5</b>	<b>2,623.7</b>	<b>2,628.2</b>	<b>2,631.5</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	9.4	11.6	11.8	11.8
LT debt	736.8	750.0	760.0	770.0
Other LT liabilities	9.6	8.3	8.6	8.6
Shareholders' equity	1,866.7	1,853.8	1,847.9	1,841.1
<b>Total liabilities &amp; equity</b>	<b>2,622.5</b>	<b>2,623.7</b>	<b>2,628.2</b>	<b>2,631.5</b>

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>97.3</b>	<b>82.9</b>	<b>95.8</b>	<b>97.8</b>
Pre-tax profit	130.6	62.9	66.1	65.7
Associates	0.0	(0.8)	(2.4)	(2.4)
Working capital changes	0.9	7.6	2.1	0.8
Non-cash items	(36.8)	3.1	6.1	6.1
Other operating cashflows	2.5	10.1	24.0	27.7
<b>Investing</b>	<b>15.6</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>
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
<b>Financing</b>	<b>(99.5)</b>	<b>(86.2)</b>	<b>(93.8)</b>	<b>(94.6)</b>
Distribution to unitholders	(72.8)	(68.5)	(72.1)	(72.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	225.0	13.2	10.0	10.0
Loan repayment	(225.0)	0.0	0.0	0.0
Others/interest paid	(26.7)	(30.9)	(31.7)	(32.1)
<b>Net cash inflow (outflow)</b>	<b>13.3</b>	<b>(7.3)</b>	<b>(2.0)</b>	<b>(0.8)</b>
Beginning cash & cash equivalent	49.8	63.1	55.8	53.8
Ending cash & cash equivalent	63.1	55.8	53.8	53.1

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	81.4	81.3	81.8	81.8
Pre-tax margin	122.3	56.5	57.2	56.8
Net margin	122.0	56.4	57.2	56.8
ROA	5.0	2.4	2.5	2.5
ROE	7.1	3.4	3.6	3.6
<b>Growth</b>				
Turnover	27.8	4.1	4.0	0.0
EBITDA	30.7	3.9	4.7	(0.0)
Pre-tax profit	(36.0)	(51.9)	5.2	(0.7)
Net profit	(36.0)	(51.9)	5.4	(0.7)
Net profit (adj.)	69.5	(29.0)	10.8	(0.7)
EPU	68.2	(29.5)	10.3	(1.1)
<b>Leverage</b>				
Debt to total capital	28.3	28.8	29.1	29.5
Debt to equity	39.5	40.5	41.1	41.8
Net debt/(cash) to equity	36.1	37.4	38.2	38.9
Interest cover (x)	4.1	3.1	3.1	3.0

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