

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

1Q22: Preparing To Welcome The Return Of Business And Leisure Travellers

Outlook has improved with the rapid reopening of international borders in Apr 22. Three hotels under government contracts were redeployed to serve business and leisure travellers in 1Q22 while serviced residences benefitted from the sustained increase in long-stay corporate and project groups. We forecast that FEHT's distribution yield will improve to 5.7% in 2023. FEHT trades at P/NAV of 0.80x. Maintain BUY. Target price: S\$0.82.

1Q22 RESULTS

Year to 31 Dec (\$m)	1Q22	yoy % chg	Remarks
Gross Revenue	21.0	-1.6	
- Hotels	14.3	0.0	Hotels RevPAR: +15.7% yoy.
- Serviced Residence	3.0	+2.4	Serviced Residences RevPAR: +24.3% yoy. Divestment of Central
- Commercial Premises	3.8	-9.6	Square caused early termination and non-renewal of leases.
Net Property Income	19.0	+4.5	Lower property tax.
Distributable Income	14.7	+17.2	

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported distributable income of S\$14.7m for 1Q22 (up 17.2% yoy), which was in line with our expectations.
- Hotels: Stability from fixed rents.** Revenue from hotels was unchanged at S\$14.3m with downside protection from its fixed rents. Occupancy for hotels dropped 8.4ppt yoy to 67.7% in 1Q22 (74% if we exclude Elizabeth Hotel) due to the cessation of government contracts for isolation purposes for three hotels (Village Hotel Albert Court, Quincy Hotel and Elizabeth Hotel). Rooms from these three hotels were put back to the market in Dec 21. Currently, FEHT has only three out of its nine hotels on government contracts. The remaining three government contracts were extended by 2-3 months till mid-22. Average daily rate (ADR) increased 31.8% yoy to S\$87 due to the switch towards business and leisure travellers. RevPAR for the hotels increased 15.7% yoy to S\$59.
- Serviced residences: Resiliency from long-stay contracts.** Serviced residences contributed both fixed rents and variable rents. Occupancy improved 11.9ppt yoy to 86.6% and ADR increased 7.5% yoy to S\$201 in 1Q22 due to an increase in long-stay corporate and project groups. RevPAR expanded 24.3% yoy to S\$174.
- Steep fall in interest expenses.** Interest expenses declined 23% yoy in 1Q22. The average cost of debts improved by 0.2ppt qoq to 1.7%. Management estimated that every 25bp increase in interest rates reduces FEHT's DPU by 1%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	83	83	81	101	106
EBITDA	62	65	58	78	80
Operating profit	62	65	58	78	80
Net profit (rep./act.)	(93)	131	159	68	70
Net profit (adj.)	34	41	159	68	70
EPU (\$ cent)	1.8	2.1	8.1	3.4	3.5
DPU (\$ cent)	2.4	2.6	2.9	3.9	4.1
PE (x)	38.8	32.4	8.4	20.1	19.4
P/B (x)	0.9	0.8	0.8	0.8	0.8
DPU Yld (%)	3.5	3.9	4.3	5.7	6.0
Net margin (%)	(112.1)	157.4	201.9	67.2	68.2
Net debt/(cash) to equity (%)	62.8	56.8	34.2	35.2	36.0
Interest cover (x)	2.6	3.3	4.9	6.1	6.1
ROE (%)	n.a.	8.2	9.4	3.9	4.0
Consensus DPU (\$ cent)	n.a.	n.a.	2.8	3.3	4.0
UOBKH/Consensus (x)	-	-	1.05	1.17	1.02

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

BUY

(Maintained)

Share Price	S\$0.68
Target Price	S\$0.82
Upside	+20.6%
(Previous TP)	S\$0.76

COMPANY DESCRIPTION

FEHT is a Singapore-focused hotel and serviced residences hospitality trust. It has a portfolio of 13 hospitality properties, comprising nine hotels and four serviced residences.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FEHT SP
Shares issued (m):	1,977.7
Market cap (\$m):	1,344.8
Market cap (US\$m):	970.4
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

52-week high/low S\$0.68/S\$0.555

1mth	3mth	6mth	1yr	YTD
6.3	20.4	7.1	8.8	15.3

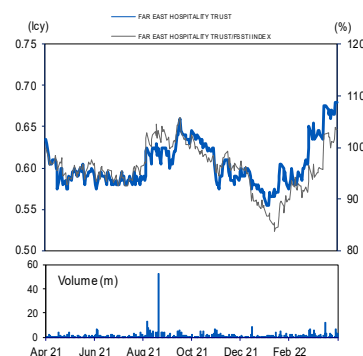
Major Shareholders

	%
Golden Development	22.6
Far East Organization	14.9
Golden Landmark	9.7

FY22 NAV/Share (\$\$) 0.89

FY22 Net Debt/Share (\$\$) 0.30

PRICE CHART



Source: Bloomberg

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- The proportion of borrowings hedged to fixed interest rates have expanded from 53% to 68% after repaying a term loan of S\$238.6m using proceeds from the divestment of Central Square in Mar 22. Aggregate leverage has dropped 4.9ppt qoq to 33.4%.

STOCK IMPACT

- Air travel getting back to normal again.** Vaccinated Travel Framework has replaced the existing Vaccinated Travel Lane scheme since 1 Apr 22. Fully-vaccinated travellers and children aged 12 and below who have taken the COVID-19 test two days before departure were allowed to enter Singapore. They no longer have to take an antigen rapid test (ART) within 24 hours of arrival. Travellers are no longer restricted to take only designated flights to enter Singapore quarantine-free. The quota on the number of daily arrivals was abolished. Subsequently, the requirement for pre-departure COVID-19 tests was also abolished starting 26 Apr 22.
- Benefitting from pent-up demand to travel.** Singapore's border has fully reopened to vaccinated travellers with the rapid easing of travel restrictions in Apr 22. Business travellers are returning in droves, followed by leisure travel by individuals and tour groups. 2Q22 is a transition quarter as an increase in business and leisure travellers offset the drop off in corporate contracts for accommodation of foreign workers. The recovery is expected to be more pronounced in 2H22. International Air Transport Association (IATA) expects air passenger traffic in the Asia Pacific region to reach 68% of pre-pandemic levels in 2022, 84% in 2023 and 97% in 2024.
- Preparing to welcome travellers with new brands and new services.** The Elizabeth Hotel is undergoing upgrading of reception, common areas and guestrooms and will reopen in phases in 3Q22. FEHT will be launching a new brand with a new approach in service offering. Regency House is undergoing refurbishment of the lobby and reception areas with expected completion in 3Q22.
- Deleveraged and well positioned for future expansion.** FEHT has entered into a put-and-call option agreement and has completed the divestment of Central Square for S\$313.2m on 24 Mar 22. Exit yield is attractive at 1.8%. The estimated divestment gain is S\$112.4m-130.4m. There is an additional incentive fee of S\$18m if certain conditions are fulfilled by Dec 23. Assuming 84% of the divestment proceeds is utilised to repay outstanding borrowings, aggregate leverage is expected fall from 41.3 to 33.4%. Debt headroom increased to S\$539.9m based on aggregate leverage limit of 45%. FEHT will consider distributing a portion of the divestment proceeds of S\$50.4m (2.6 S cents per unit) to unitholders.
- Downside protection from high fixed rent component.** FEHT is the most defensive hospitality REIT. All FEHT hotels and serviced residences are under master lease agreements with subsidiaries within sponsor Far East Organisation (FEO). The fixed rent component from its master leases totalled S\$67m per year, which is equivalent to 72% of total gross revenue from its hotels and serviced residences in 2019 (pre-COVID-19). These fixed rents formed 98% of total gross revenue in 2021. These 20-year master leases run till 2032.

EARNINGS REVISION/RISK

- We raised our 2022 DPU forecast by 4% due to the rapid reopening of borders in Apr 22 and an earlier-than-anticipated recovery in 2H22.

VALUATION/RECOMMENDATION

- Maintain BUY.** We raised our target price to S\$0.82 based on DDM (cost of equity: 6.5% (previous: 6.75%), terminal growth: 1.8%).

SHARE PRICE CATALYST

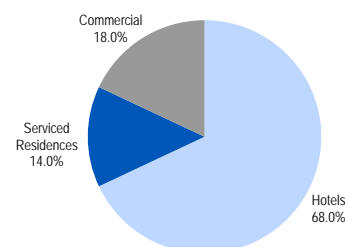
- Downside protection from fixed rents embedded in master leases with sponsor FEO, which owns 61% of FEHT.
- Recovery in occupancy, ADR and RevPAR in 2H22 and 2023.
- Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.

KEY OPERATING METRICS – FEHT

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	qoq % Chg
DPU (S cents)	n.a.	1.1	n.a.	1.53	n.a.	n.a.	n.a.
Aggregate Leverage	41.6%	41.3%	41.6%	38.3%	33.4%	-8.2%	-4.9%
Average Cost of Debt	2.2%	2.1%	2.0%	1.9%	1.7%	-0.5%	-0.2%
Weighted Debt Maturity (years)	2.6	2.4	2.2	2.7	3.1	0.5	0.4
% Borrowings in Fixed Rate	54.3%	68.2%	54.6%	52.7%	67.6%	13.3%	14.9%

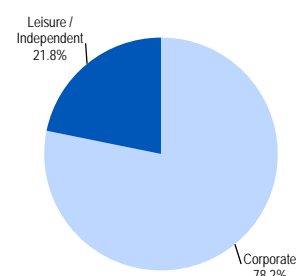
Source: FEHT, UOB Kay Hian

BREAKDOWN OF GROSS REVENUE (1Q22)



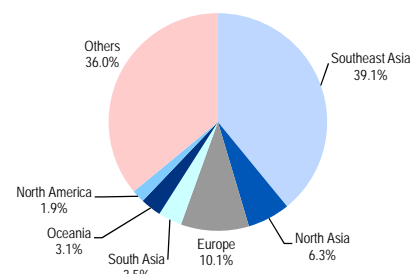
Source: FEHT

REVENUE BY SEGMENT – HOTELS (1Q22)



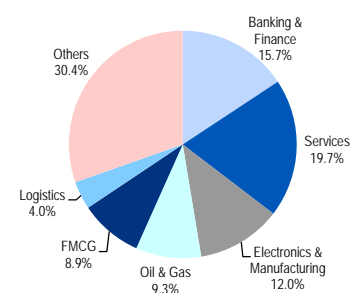
Source: FEHT

REVENUE BY REGION – HOTELS (1Q22)



Source: FEHT

REVENUE BY INDUSTRY – SERVICED RESIDENCES (1Q22)



Source: FEHT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	83.2	81.1	101.0	106.2
EBITDA	64.7	58.1	77.9	80.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	64.7	58.1	77.9	80.4
Associate contributions	(4.1)	1.0	2.4	3.0
Net interest income/(expense)	(19.4)	(11.7)	(12.8)	(13.1)
Pre-tax profit	131.1	159.3	67.5	70.4
Tax	(0.1)	0.0	0.0	0.0
Net profit	131.0	159.3	67.5	70.4
Net profit (adj.)	41.2	159.3	67.5	70.4

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,336.5	2,336.5	2,336.5	2,336.5
Other LT assets	2.5	3.0	3.4	4.0
Cash/ST investment	11.7	12.8	13.4	12.7
Other current assets	314.2	28.3	35.1	36.9
Total assets	2,664.8	2,379.5	2,388.1	2,389.7
ST debt	181.3	181.3	181.3	181.3
Other current liabilities	60.1	9.4	10.6	10.9
LT debt	766.3	430.0	445.0	455.0
Other LT liabilities	8.7	7.4	8.5	8.8
Shareholders' equity	1,648.4	1,751.6	1,742.7	1,734.0
Total liabilities & equity	2,664.8	2,379.5	2,388.1	2,389.7

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	69.3	146.4	79.8	87.0
Pre-tax profit	131.0	159.3	67.5	70.4
Associates	4.1	(1.0)	(2.4)	(3.0)
Working capital changes	(3.9)	(4.4)	0.0	0.8
Non-cash items	(81.3)	8.6	8.6	8.6
Other operating cashflows	19.4	(14.0)	6.5	12.4
Investing	43.0	259.3	(4.0)	(4.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(0.9)	(4.0)	(4.0)	(4.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	47.0	263.3	0.0	0.0
Others	(3.1)	0.0	0.0	0.0
Financing	(111.5)	(404.9)	(75.0)	(82.9)
Distribution to unitholders	(48.8)	(58.1)	(76.9)	(81.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	280.8	(336.3)	15.0	10.0
Loan repayment	(322.3)	0.0	0.0	0.0
Others/interest paid	(21.2)	(12.5)	(13.6)	(13.9)
Net cash inflow (outflow)	0.8	0.8	0.8	0.1
Beginning cash & cash equivalent	10.9	11.7	12.5	13.3
Ending cash & cash equivalent	11.7	12.5	13.3	13.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	77.7	73.6	77.6	78.0
Pre-tax margin	157.5	201.9	67.2	68.2
Net margin	157.4	201.9	67.2	68.2
ROA	5.0	6.3	2.8	2.9
ROE	8.2	9.4	3.9	4.0
Growth				
Turnover	(0.0)	(2.6)	24.5	5.2
EBITDA	4.8	(10.3)	34.3	3.2
Pre-tax profit	n.a.	21.5	(57.6)	4.2
Net profit	n.a.	21.6	(57.6)	4.2
Net profit (adj.)	20.8	286.6	(57.6)	4.2
EPU	19.9	283.7	(57.9)	3.4
Leverage				
Debt to total capital	36.5	25.9	26.4	26.8
Debt to equity	57.5	34.9	35.9	36.7
Net debt/(cash) to equity	56.8	34.2	35.2	36.0
Interest cover (x)	3.3	4.9	6.1	6.1

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