

COMPANY UPDATE

Ascott Residence Trust (ART SP)

Room Rates Heading Higher Due To Rapid Recovery In The US and Europe

ART's properties in the US, the UK and continental Europe have experienced a rapid recovery since May 22 with RevPAU near pre-pandemic levels in 2Q22 and poised to scale greater heights in 3Q22, boosted by the summer holidays. ART has raised the asset allocation target in longer-stay assets, such as student accommodation and rental housing, by 10ppt to 25-30% of portfolio value. Distribution yield is expected to improve from 4.8% in 2022 to 5.8% in 2023. Maintain BUY. Target price: S\$1.33.

WHAT'S NEW

- Ascott Residence Trust (ART) benefits from strong pick-up in demand in countries with large domestic markets, such as the US, the UK, Japan and Australia due to pent-up demand since Mar 22. International leisure and corporate bookings are rapidly recovering as many countries have reopened their borders to vaccinated travellers. Business executives have also started to travel to reconnect with customers, link up with colleagues, and network at conferences.
- **Braving inconveniences to travel.** The sudden surge in air travel has caught airlines and airports off guard. Travellers have experienced long waits to get through security checks at London Heathrow Airport, Manchester Ringway Airport and Sydney Kingsford Smith Airport. Travellers' willingness to contend with rising air ticket prices and COVID-19 related logistics issues, including the risk of delays and flight cancellations, demonstrates the resiliency and strength of the pent-up demand.
- **US: Benefitting from surge in domestic leisure demand.** Recovery for ART's three hotels in New York started in Feb 22, driven by domestic leisure travel, which is already near pre-pandemic levels. Demand from domestic business travel has started to normalise. Although business travellers are making fewer trips, they are staying longer at each destination. Industry peers, Hilton and Marriott, have attested to the trend of rising room rates. Their RevPAR was 25% above pre-pandemic levels during the Memorial Day weekend in late-May. International bookings have picked up in 2Q22 and the recovery is expected to further accelerate in 3Q22 due to lifting of COVID-19 testing requirements for inbound air travellers since mid-June.
- **UK: Firing on all cylinders.** Demand from business travel and corporate groups has picked up since Feb 22, which has led to higher room rates. Bookings from international travellers have already grown to account for 40% of its business in 1Q22. The recovery is further strengthened by the pick-up in domestic travel and the slew of public holidays (Easter, Bank Holiday and Platinum Jubilee weekend) in 2Q22. Many Britons are travelling domestically for their summer holidays (staycation) in 3Q22 to avoid chaos and congestions at the airports. According to tour operator Tui, bookings for summer holidays in the UK are about 20% higher than pre-pandemic levels.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	513	638	668
EBITDA	128	146	233	308	321
Operating profit	94	114	199	274	287
Net profit (rep./act.)	(238)	296	92	147	157
Net profit (adj.)	67	(1)	92	147	157
EPU (S\$ cent)	2.2	(0.0)	2.8	4.5	4.7
DPU (S\$ cent)	3.0	4.3	5.4	6.5	6.5
PE (x)	53.0	n.m.	41.3	25.8	24.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	2.6	3.8	4.7	5.6	5.7
Net margin (%)	(64.4)	75.0	17.9	23.1	23.5
Net debt/(cash) to equity (%)	49.8	55.6	65.6	68.6	71.2
Interest cover (x)	2.2	2.8	3.7	4.5	4.6
ROE (%)	n.a.	7.2	2.2	3.5	3.8
Consensus DPU (S\$ cent)	n.a.	n.a.	5.5	6.5	7.3
UOBKH/Consensus (x)	-	-	0.98	1.00	0.89

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.15
Target Price	S\$1.33
Upside	+15.7%
(Previous TP)	S\$1.25

COMPANY DESCRIPTION

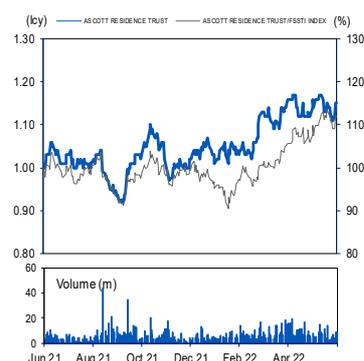
ART invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ART SP
Shares issued (m):	3,286.9
Market cap (S\$m):	3,779.9
Market cap (US\$m):	2,729.2
3-mth avg daily t'over (US\$m):	6.3
Price Performance (%)	
52-week high/low	S\$1.17/S\$0.92

1mth	3mth	6mth	1yr	YTD	
5.0	26.1	40.7	31.6	36.5	
Major Shareholders					%
Temasek Hldgs					39.6
-					-
-					-
FY22 NAV/Share (S\$)					1.15
FY22 Net Debt/Share (S\$)					0.84

PRICE CHART



Source: Bloomberg

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• **Europe: Western Europe benefits from diversion of traffic.** ART's 23 properties in Belgium, France, Germany and Spain benefit from recovery in short-haul intra-regional travel. Nine of its 15 serviced residences in France are in Paris, which is one of the world's most popular tourist destinations. American tourists are back to taking their long-delayed overseas vacations in Europe. There is also diversion of traffic from Eastern European countries, such as Czech Republic, Hungary and Poland, due to the Russia-Ukraine war. Bookings are already above pre-pandemic levels for budget carriers EasyJet and Ryanair in May and June. We expect RevPAR to be near pre-pandemic levels in 2Q22 and surpass pre-pandemic levels in 3Q22, driven by peak seasonal demand for summer holidays.

• **Australia: Benefitting from domestic interstate travel.** Some of ART's hotels have transitioned from block bookings to serving public guests in 1Q22. Pent-up demand and improved travel confidence have led to a surge in bookings since Mar-Apr 22, especially for its properties in Sydney and Perth. Demand from the corporate segment spiked in Mar 22 as companies restarted business travel. Citadines Connect Sydney Airport benefits from the surge in air passenger traffic in 2Q22. Pullman and Mercure Melbourne Albert Park benefitted from F1 Grand Prix in Apr 22, which was held nearby at Albert Park Circuit.

STOCK IMPACT

• **Setting sights on a higher goal.** Management plans to raise the asset allocation target in longer-stay assets by 10ppt from 15-20% to 25-30% in the medium term.

• **Pivoting towards longer-stay properties.** Occupancy for its student accommodation properties in the US was close to 100% in 1Q22. Pre-leasing momentum has improved and management plans to increase room rates for student accommodation properties by 5% for academic year 2022/23. Occupancy for rental housing properties in Japan was above 95%. Longer-stay properties, such as student accommodation & rental housing, accounted for 28% of gross profit in 1Q22 and 17% of AUM as of Mar 22.

• **Value creation through asset recycling.** ART divested six properties at an average exit yield of 2% and total proceeds of S\$580m. It unlocked divestment gains of about S\$225m. The capital freed up was reinvested in 11 yield accretive rental housing and student accommodation properties for total consideration of S\$780m and an average EBITDA yield of 5%. ART's longer-stay assets currently account for 17% of AUM.

EARNINGS REVISION/RISK

• **We raise our DPU forecasts for 2022 and 2023 by 5.7% and 4.5% respectively due to a rapid recovery in the US, the UK and continental Europe.** Our upward revision is tempered by the depreciation of British pound by 6.8% (7% of total assets), euro by 4.3% (12% of total assets) and Japanese yen by 12.8% (19% of total assets) against the strong Singapore dollar.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$1.33 is based on DDM (cost of equity: 7.25%, terminal growth: 2.6%).

SHARE PRICE CATALYST

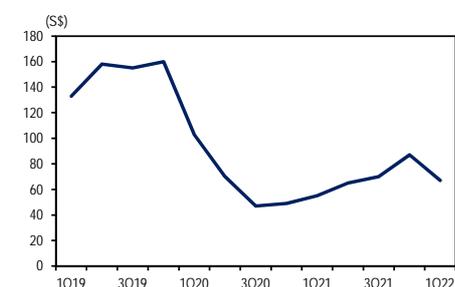
- Yield-accretive acquisitions for student accommodation and rental housing.
- Maiden development project lyf one-north, which had its soft opening in Nov 21.
- Recovery of the hospitality industry in Europe, Americas, Japan and Singapore, followed by other countries in the Asia Pacific region.

KEY OPERATING METRICS – ART

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.045	n.a.	2.270	n.a.	n.a.	n.a.
Aggregate Leverage	36.1%	35.9%	35.3%	37.1%	37.8%	1.7ppt	2.5ppt
Weighted All-in-Financing Cost	1.7%	1.6%	1.6%	1.6%	1.60%	-0.1ppt	0ppt
% Borrowings in Fixed Rate	78%	80%	79%	74%	70.0%	-8ppt	-9ppt
Weighted Debt Maturity (years)	3.0	3.2	2.9	2.7	2.6	-0.4yrs	-0.3yrs

Source: ART, UOB Kay Hian

PORTFOLIO REVPAU



Source: ART

WELL DIVERSIFIED ACROSS 15 COUNTRIES



Source: ART

TARGET GEOGRAPHICAL ALLOCATION



Source: ART

TARGET ASSET ALLOCATION



Source: ART

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	394.4	513.0	637.7	668.3
EBITDA	146.3	233.1	308.0	321.4
Deprec. & amort.	32.6	34.0	34.0	34.0
EBIT	113.7	199.1	274.0	287.4
Total other non-operating income	17.3	0.4	0.4	0.4
Associate contributions	(0.2)	0.0	0.0	0.0
Net interest income/(expense)	(52.9)	(63.5)	(68.7)	(69.9)
Pre-tax profit	374.9	135.9	205.7	217.9
Tax	(64.5)	(27.2)	(41.1)	(43.6)
Minorities	(1.1)	(3.6)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.5)	(13.5)	(13.5)
Net profit	295.8	91.7	147.4	157.2
Net profit (adj.)	(1.3)	91.7	147.4	157.2

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,549.7	7,566.2	7,566.2
Other LT assets	44.3	44.3	44.3	44.3
Cash/ST investment	346.3	357.5	329.2	345.2
Other current assets	117.1	156.3	173.3	178.4
Total assets	7,733.2	8,107.8	8,113.0	8,134.1
ST debt	764.2	764.2	764.2	764.2
Other current liabilities	207.7	282.8	311.1	319.6
LT debt	1,964.7	2,350.0	2,400.0	2,480.0
Other LT liabilities	428.9	424.4	415.2	404.8
Shareholders' equity	4,287.2	4,202.2	4,134.7	4,074.2
Minority interest	80.6	84.2	87.8	91.4
Total liabilities & equity	7,733.2	8,107.8	8,113.0	8,134.1

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	145.6	(73.7)	249.3	251.0
Pre-tax profit	374.9	135.9	205.7	217.9
Tax	(4.4)	(27.2)	(41.1)	(43.6)
Deprec. & amort.	32.6	34.0	34.0	34.0
Associates	0.2	0.0	0.0	0.0
Working capital changes	(45.6)	41.0	13.2	4.0
Non-cash items	(283.5)	22.3	25.0	25.4
Other operating cashflows	71.3	(279.8)	12.6	13.3
Investing	(538.6)	(53.0)	(36.5)	(20.0)
Capex (growth)	(733.1)	(33.0)	(16.5)	0.0
Capex (maintenance)	(37.7)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	253.4	0.0	0.0	0.0
Others	(21.1)	0.0	0.0	0.0
Financing	258.6	137.9	(241.0)	(214.9)
Distribution to unitholders	(142.5)	(176.6)	(215.0)	(217.7)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	385.3	50.0	80.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(70.8)	(76.0)	(77.2)
Net cash inflow (outflow)	(134.3)	11.1	(28.3)	16.0
Beginning cash & cash equivalent	486.7	346.3	357.5	329.2
Changes due to forex impact	(6.1)	0.0	0.0	0.0
Ending cash & cash equivalent	346.3	357.5	329.2	345.2

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	37.1	45.4	48.3	48.1
Pre-tax margin	95.1	26.5	32.3	32.6
Net margin	75.0	17.9	23.1	23.5
ROA	4.0	1.2	1.8	1.9
ROE	7.2	2.2	3.5	3.8
Growth				
Turnover	6.6	30.1	24.3	4.8
EBITDA	13.9	59.3	32.1	4.3
Pre-tax profit	n.a.	(63.7)	51.3	5.9
Net profit	n.a.	(69.0)	60.9	6.6
Net profit (adj.)	(102.0)	n.a.	60.9	6.6
EPU	(102.0)	n.a.	59.7	5.8
Leverage				
Debt to total capital	38.5	42.1	42.8	43.8
Debt to equity	63.7	74.1	76.5	79.6
Net debt/(cash) to equity	55.6	65.6	68.6	71.2
Interest cover (x)	2.8	3.7	4.5	4.6

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