

COMPANY RESULTS

Ascott Residence Trust (ART SP)

1H22: Raising Room Rates With Sustained Pent-up Demand

ART's portfolio RevPAU increased 91% yoy and 85% qoq to S\$124 in 2Q22. ADR rebounded 40% qoq. Portfolio occupancy improved from 50% in 1Q22 to 70% in 2Q22. Australia, Singapore, the UK and the US registered strong growths. ART plans to raise the asset allocation target in longer-stay assets by 10ppt to 25-30% of portfolio value in the medium term. Distribution yield is expected to improve to 5.5% for 2023. Maintain BUY. Target price: S\$1.35.

RESULTS

- Ascott Residence Trust (ART SP) reported 1H22 DPU of 2.33 S cents, up 14% yoy, slightly above our expectations. Adjusting for one-off items, such as the distribution of divestment gains of S\$20m, termination fees of S\$9.8m from the aborted divestment of two properties in China and realised forex gain in 1H21, DPU would have grown 120% yoy to 1.78 S cents.
- Organic growth augmented by positive contributions from acquisitions.** Revenue and gross profit grew 45% yoy and 44% yoy respectively due to growth from its existing portfolio, acquisitions of longer-stay assets and newly opened lyf one-north in Singapore. On a same-store basis, revenue and gross profit grew 32% yoy and 28% yoy respectively.
- Strong sequential rebound.** Portfolio RevPAU increased 91% yoy and 85% qoq to S\$124 in 2Q22, representing 82% of pre-pandemic levels. Average daily rates (ADR) have rebounded 40% qoq. Portfolio occupancy improved from 50% in 1Q22 to 70% in 2Q22. Australia, Singapore, the UK and the US registered strong growth.
- Australia: Recovery propelled by leisure demand.** RevPAR for properties under management contracts recovered 58% yoy and 76% qoq to A\$125, which is 96% of pre-pandemic levels. The recovery was driven by leisure travel and supported by sports events, such as the Australian Open in January and F1 Australian Grand Prix in April. Revenue and gross profit from master leases grew 35% yoy and 38% yoy respectively. International travel is allowed regardless of vaccination status and without testing starting Jul 22.
- Singapore: Growth from international demand.** Citadines Mount Sophia exited its government contract in April. Its RevPAR grew 139% yoy to S\$139, which is 97% of pre-pandemic levels. Revenue and gross profit for Ascott Orchard increased 41% yoy and 57% yoy respectively due to strong corporate and relocation demand. lyf one-north achieved high occupancy of 90% in 2Q22 with long-stay bookings from companies and educational institutions, especially those located nearby.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	557	636	663
EBITDA	128	146	237	309	321
Operating profit	94	114	203	275	287
Net profit (rep./act.)	(238)	296	89	151	160
Net profit (adj.)	67	(1)	95	151	160
EPU (S\$ cent)	2.2	(0.0)	2.9	4.6	4.8
DPU (S\$ cent)	3.0	4.3	5.5	6.4	6.7
PE (x)	54.0	n.m.	40.6	25.6	24.4
P/B (x)	1.0	1.0	1.0	1.1	1.1
DPU Yld (%)	2.6	3.7	4.7	5.5	5.7
Net margin (%)	(64.4)	75.0	16.1	23.8	24.1
Net debt/(cash) to equity (%)	49.8	55.6	58.9	61.5	64.1
Interest cover (x)	2.2	2.8	3.8	4.8	4.8
ROE (%)	n.a.	7.2	2.1	3.7	3.9
Consensus DPU (S\$ cent)	n.a.	n.a.	5.2	6.2	7.0
UOBKH/Consensus (x)	-	-	1.06	1.04	0.95

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.17
Target Price	S\$1.35
Upside	+15.4%
(Previous TP)	S\$1.31

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):	3,845.6
Market cap (US\$m):	2,787.3
3-mth avg daily t'over (US\$m):	5.3

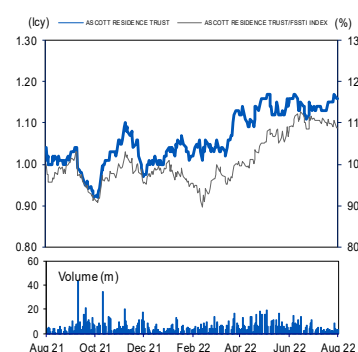
Price Performance (%)

Stock Performance (%)				
52-week high/low		S\$1.17/S\$0.92		
1mth	3mth	6mth	1yr	YTD
2.6	0.9	15.8	13.6	13.6

Major Shareholders

	%
Temasek Hldgs	39.6
FY22 NAV/Share (S\$)	1.14
FY22 Net Debt/Share (S\$)	0.74

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- UK: Further pick-up during summer holidays.** RevPAU increased 106% qoq to £144 in 2Q22, in line with pre-pandemic levels. Its properties were able to command higher rates due to recovery for business travel and corporate groups. The Queen's Platinum Jubilee Weekend in June provided boost from leisure travel. Domestic and international demand is recovering. Corporate long stay provides a stable base while leisure demand will strengthen during summer holidays in 3Q22.
- US: Recovery from hotels and stability from student accommodation.** RevPAU for its three hotels recovered 172% qoq to US\$207 in 2Q22, which is 86% of pre-pandemic levels. Occupancy was above 80% and ADR was close to pre-pandemic levels in 2Q22. The rebound was driven by domestic leisure demand and increase in bookings by business travellers and corporate groups. ART benefitted from six-month contributions from five student accommodation properties acquired in 2H21.
- Resilient balance sheet.** Aggregate leverage was stable at 37.5% as of Jun 22. Cost of debt edged up slightly by 0.1ppt qoq to 1.7%, which remains low. 79% of its borrowings are on fixed rates. It has issued an S\$200m five-year sustainability-linked bond at fixed coupon rate of 3.63% in Apr 22.

STOCK IMPACT

- Raising room rates with support from sustained pent-up demand.** Forward bookings indicate sustained pent-up demand with more corporate and international travel in 2H22. Management has visibility of forward bookings for the next 3-6 months. ART is able to generate profitable growth by raising room rates to cover rising utility and labour costs. It will also benefit from full-year contributions from the acquisition of student accommodation undertaken last year.
- Japan: Bright prospects for stronger recovery in 2H22.** RevPAU recovered 70% qoq to ¥4,308 in 2Q22, which is only 32% of pre-pandemic levels. There was an uptick in domestic leisure demand since quasi-emergency curbs were lifted in Mar 22. Japan has reopened for business travellers, organised tour groups and foreign students in Mar 22. Currently, there is a limit on daily arrivals. Recovery would be strengthened if Japan reopens for leisure travellers. Japan accounted for 17.8% of its AUM.
- 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.
- Pivot towards longer-stay properties.** Occupancy for its student accommodation properties in the US and rental housing properties in Japan were above 95% in 1H22. Longer-stay assets, such as student accommodation and rental housing, accounted for 20% of gross profit and 17% of AUM in 1H22. Pre-leasing for the next academic year for its student accommodation properties in the US has reached 95% with rent growth at 8% yoy. Three student accommodation properties are already fully leased.

EARNINGS REVISION/RISK

- We raised our 2022 DPU forecast by 3.8% due to the rapid recovery in RevPAU and higher room rates. We factored in capital distribution from past divestment gains at S\$20m in 2H22, S\$10m in 2H23 and S\$10m in 2H24.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.35 is based on DDM (cost of equity: 7.25%, terminal growth: 2.6%).

SHARE PRICE CATALYST

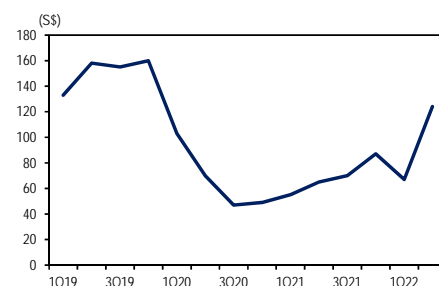
- Yield-accretive acquisitions for student accommodation and rental housing.
- Full-year contributions from the maiden development project lyf one-north in 2022.
- Recovery of the hospitality industry in Europe, Americas, Japan and Singapore, followed by other countries in the Asia Pacific region.

KEY OPERATING METRICS – ART

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	2.045	n.a.	2.270	n.a.	2.332	14.0%	2.7%
Aggregate Leverage	36.1%	35.9%	35.3%	37.1%	37.8%	37.5%	1.6ppt	0.4ppt
Weighted All-in-Financing Cost	1.7%	1.6%	1.6%	1.6%	1.60%	1.70%	0.1ppt	0.1ppt
% Borrowings in Fixed Rate	78%	80%	79%	74%	70.0%	79.0%	-1ppt	5ppt
Weighted Debt Maturity (years)	3.0	3.2	2.9	2.7	2.6	3.1	-0.1yrs	0.4yrs

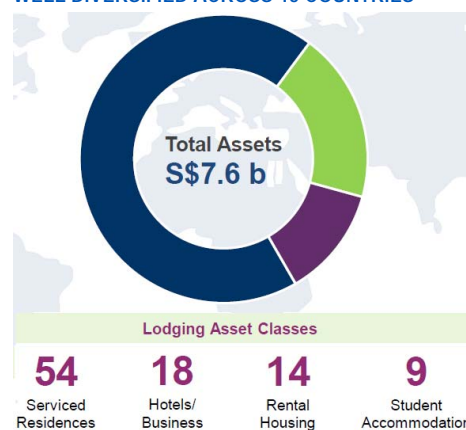
Source: ART, UOB Kay Hian * hoh % chg for DPU

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	556.8	635.7	662.7
EBITDA	146.3	237.5	308.9	321.1
Deprec. & amort.	32.6	34.2	34.0	34.0
EBIT	113.7	203.2	274.9	287.1
Total other non-operating income	17.3	0.9	0.4	0.4
Associate contributions	(0.2)	(0.7)	0.0	0.0
Net interest income/(expense)	(52.9)	(62.2)	(64.9)	(66.3)
Pre-tax profit	374.9	135.9	210.4	221.3
Tax	(64.5)	(29.3)	(42.1)	(44.3)
Minorities	(1.1)	(3.7)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.4)	(13.5)	(13.5)
Net profit	295.8	89.4	151.2	159.9
Net profit (adj.)	(1.3)	94.7	151.2	159.9

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,094.2	7,110.7	7,110.7
Other LT assets	44.3	94.5	94.5	94.5
Cash/ST investment	346.3	329.9	327.0	321.1
Other current assets	117.1	184.2	200.5	205.2
Total assets	7,733.2	7,702.8	7,732.6	7,731.5
ST debt	764.2	625.8	625.8	625.8
Other current liabilities	207.7	264.4	291.5	299.4
LT debt	1,964.7	2,150.0	2,220.0	2,280.0
Other LT liabilities	428.9	423.6	414.4	403.9
Shareholders' equity	4,287.2	4,155.8	4,094.1	4,031.9
Minority interest	80.6	83.3	86.9	90.5
Total liabilities & equity	7,733.2	7,702.8	7,732.6	7,731.5

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	145.6	240.3	248.6	249.8
Pre-tax profit	374.9	135.9	210.4	221.3
Tax	(4.4)	(27.0)	(42.1)	(44.3)
Deprec. & amort.	32.6	34.2	34.0	34.0
Associates	0.2	0.7	0.0	0.0
Working capital changes	(45.6)	40.8	12.6	3.7
Non-cash items	(283.5)	22.3	24.1	24.5
Other operating cashflows	71.3	33.5	9.5	10.5
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	(203.7)	(215.1)	(235.6)
Distribution to unitholders	(142.5)	(180.9)	(212.9)	(222.1)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	46.8	70.0	60.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(69.6)	(72.2)	(73.6)
Net cash inflow (outflow)	(134.3)	(16.4)	(3.0)	(5.8)
Beginning cash & cash equivalent	486.7	346.3	329.9	327.0
Changes due to forex impact	(6.1)	0.0	0.0	0.0
Ending cash & cash equivalent	346.3	329.9	327.0	321.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	37.1	42.7	48.6	48.5
Pre-tax margin	95.1	24.4	33.1	33.4
Net margin	75.0	16.1	23.8	24.1
ROA	4.0	1.2	2.0	2.1
ROE	7.2	2.1	3.7	3.9
Growth				
Turnover	6.6	41.2	14.2	4.3
EBITDA	13.9	62.3	30.1	4.0
Pre-tax profit	n.a.	(63.8)	54.9	5.2
Net profit	n.a.	(69.8)	69.2	5.7
Net profit (adj.)	(102.0)	n.a.	59.6	5.7
EPU	(102.0)	n.a.	58.5	5.0
Leverage				
Debt to total capital	38.5	39.6	40.5	41.3
Debt to equity	63.7	66.8	69.5	72.1
Net debt/(cash) to equity	55.6	58.9	61.5	64.1
Interest cover (x)	2.8	3.8	4.8	4.8

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