

COMPANY UPDATE

Ascott Residence Trust (ART SP)

Increasing Resiliency Through Pivot To Longer-stay Accommodation

ART is acquiring three serviced residences in Australia, France and Vietnam, five rental housing properties in Japan and an additional 45% stake in student accommodation The Standard at Columbia in the US for S\$318.3m. The acquisitions expand ART's exposure to longer-stay accommodation from 17% to 19% of portfolio valuation and are accretive to 2021 DPU by 2.8%. Distribution yield is expected to improve from 4.9% for 2022 to 5.8% for 2023. Maintain BUY. Target price: S\$1.36.

WHAT'S NEW

- **Strengthening presence in key markets.** Ascott Residence Trust (ART SP) has announced the acquisition of the following nine properties from its sponsor The Ascott Limited at a total capitalised cost of S\$318.3m.
 - Three serviced residences – Quest Cannon Hill in Brisbane, Australia, Le Clef Tour Eiffel Paris in France, and Somerset Central TD Hai Phong in Hai Phong, Vietnam.
 - Five rental housing properties in Kyoto, Osaka, Hyogo and Nagoya in Japan.
 - An additional 45% stake in The Standard at Columbia near University of South Carolina, which is currently under development and slated for completion in 2Q23, brings its interest in the student accommodation property to 90%.
- **Pivot to longer-stay properties in Japan and the US.** The acquisitions deepen ART's presence in its key markets of Australia, France, Japan, the US and Vietnam. The nine properties have 1,018 units and expand ART's total assets by 7.8% to S\$8.3b. Longer-stay accommodation will expand from 17% to 19% of portfolio valuation, bringing ART closer to its target of 25-30%. Like most student accommodation properties, The Standard at Columbia has an average length of stay of one year. The five rental housing properties in Japan have typical lease tenure of two years.
- **Serviced residences have healthy occupancies.** The luxurious Le Clef Tour Eiffel Paris has healthy occupancy of 80% and its average daily rate (ADR) was already 30% above pre-pandemic levels as of Jul 22. It is located near many tourist attractions, such as the Eiffel Tower, Arc de Triomphe and Avenue Champs-Elysees. The property will remain operational during refurbishment, which is targeted for completion by end-24. Paris will be hosting the Summer Olympics in 2024. Quest Cannon Hill's occupancy is healthy at 95%. Somerset Central TD Hai Phong's occupancy is over 90%. The property caters mainly to corporate guests and has an average length of stay of 11 months. Hai Phong is the top destination for foreign direct investments in Vietnam.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	561	656	693
EBITDA	128	146	240	323	342
Operating profit	94	114	206	289	308
Net profit (rep./act.)	(238)	296	89	156	170
Net profit (adj.)	67	(1)	95	156	170
EPU (\$ cent)	2.2	(0.0)	2.8	4.5	4.9
DPU (\$ cent)	3.0	4.3	5.4	6.3	6.7
PE (x)	50.3	n.m.	38.4	24.2	22.4
P/B (x)	0.9	0.9	1.0	1.0	1.0
DPU Yld (%)	2.8	4.0	4.9	5.8	6.1
Net margin (%)	(64.4)	75.0	15.9	23.8	24.5
Net debt/(cash) to equity (%)	49.8	55.6	63.2	66.2	68.8
Interest cover (x)	2.2	2.8	3.7	4.4	4.6
ROE (%)	n.a.	7.2	2.1	3.6	4.0
Consensus DPU (\$ cent)	n.a.	n.a.	5.6	6.6	7.2
UOBKH/Consensus (x)	-	-	0.96	0.96	0.93

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

(Maintained)

Share Price	S\$1.09
Target Price	S\$1.36
Upside	+24.8%
(Previous TP)	S\$1.35)

COMPANY DESCRIPTION

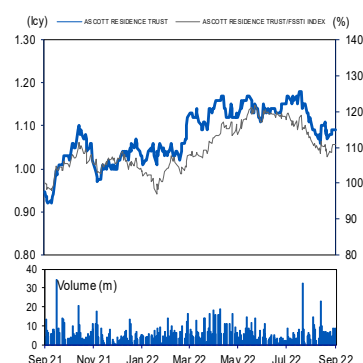
ART invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ART SP
Shares issued (m):	3,442.0
Market cap (\$m):	3,751.8
Market cap (US\$m):	2,633.2
3-mth avg daily t'over (US\$m):	4.5
Price Performance (%)	
52-week high/low	S\$1.18/S\$0.92

1mth	3mth	6mth	1yr	YTD
(3.5)	(2.7)	1.9	13.5	5.8
Major Shareholders				
				%
Temasek Hldgs				39.6
-				-
-				-
FY22 NAV/Share (\$)				1.14
FY22 Net Debt/Share (\$)				0.79

PRICE CHART



Source: Bloomberg

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OVERVIEW OF ACQUISITION PROPERTIES

Location	Paris, France	Brisbane, Australia	Hai Phong, Vietnam	Osaka, Nagoya, Hyogo and Kyoto	South Carolina, US
No. of Units	112	100	132	427	247 (679 beds)
Lodging Type	Serviced Residence	Serviced Residence	Serviced Residence	Rental Housing	Student Accommodation (Under Development)
Contract Type	Master Lease	Master Lease	Management Contract	Management Contract	Management Contract
EBITDA Yield	3.7%	6.5%	3.2% / 9.7%	4.1% - 5.0%	5.0%
Appraised Valuation	€103.7m (\$150.4m)	A\$29.7m (\$28.7m)	₫401.5m (\$24.1m)	¥7.496b (\$80.7m)	US\$29.7m (\$41.4m)
% of Portfolio Asset Value	43%	8%	7%	22%	20%

Source: ART

STOCK IMPACT

- **Strengthening resiliency through pivot to longer-stay accommodation.** The acquisitions strengthen ART's position as the largest hospitality REIT in the Asia Pacific region. Resiliency is enhanced with expansion in longer-stay properties, such as student accommodation and rental housing.
- **Expansion of EBITDA yield.** The weighted average EBITDA yield for the acquired properties was 4.5% in 2021 (without contribution from The Standard at Columbia). EBITDA yield would improve to 5.0% on a stabilised basis when The Standard at Columbia is completed and starts contributing.
- **Acquisition is DPU accretive.** The acquisition is accretive to 2021 DPU by 2.8% assuming:
 - a) There is no contribution from The Standard at Columbia, which is currently under development.
 - b) Funding mix between equity and debt at 46:54. ART's aggregate leverage is expected to edge slightly higher to 38.5%.
 - c) Management expects cost of additional borrowings at below 1.7%.
 - d) The issue price of new units for private placement is assumed at S\$1.064.
- The acquisition was approved by unitholders during an EGM held on 9 Sep 22. It is expected to be completed by Nov 22.

EARNINGS REVISION/RISK

- We trimmed our 2023 DPU forecast by 1.6% after factoring in: a) acquisitions of four rental housing and one student accommodation properties in Japan for S\$125m announced in Mar 22, and b) acquisitions of nine properties in Australia, France, Japan (five rental housing properties), the US and Vietnam for S\$318m.
- ART has hedged 79% of its borrowings to fixed interest rate. Unfortunately, the Fed had just hiked the Fed Funds Rate by 75bp to 3.00% on 21 Sep 22. We expect the Fed Funds Rate to hit 4.25% by end-22. ART's cost of debt is expected to increase from 1.7% in 2Q22 to 2.15% in 2023.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.36 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 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.

LE CLEF TOUR EIFFEL PARIS



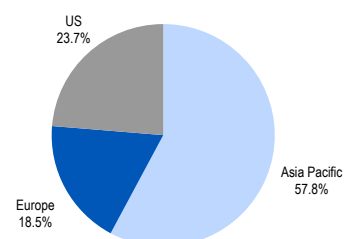
Source: ART

THE STANDARD AT COLUMBIA



Source: ART

REVENUE BY GEOGRAPHICAL REGION



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	561.1	656.3	693.4
EBITDA	146.3	239.8	323.2	342.2
Deprec. & amort.	32.6	34.2	34.0	34.0
EBIT	113.7	205.6	289.2	308.2
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)	(64.6)	(73.4)	(74.7)
Pre-tax profit	374.9	135.8	216.2	233.8
Tax	(64.5)	(29.3)	(43.2)	(46.8)
Minorities	(1.1)	(3.7)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.4)	(13.5)	(13.5)
Net profit	295.8	89.3	155.9	170.0
Net profit (adj.)	(1.3)	94.7	155.9	170.0

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,554.0	7,587.0	7,587.0
Other LT assets	44.3	94.5	94.5	94.5
Cash/ST investment	346.3	371.3	353.7	337.5
Other current assets	117.1	186.4	206.9	213.4
Total assets	7,733.2	8,206.1	8,242.1	8,232.4
ST debt	764.2	625.8	625.8	625.8
Other current liabilities	207.7	268.0	302.3	313.1
LT debt	1,964.7	2,480.0	2,550.0	2,600.0
Other LT liabilities	428.9	423.8	415.1	404.8
Shareholders' equity	4,287.2	4,325.2	4,262.1	4,198.2
Minority interest	80.6	83.3	86.9	90.5
Total liabilities & equity	7,733.2	8,206.1	8,242.1	8,232.4

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	145.6	438.1	265.1	269.6
Pre-tax profit	374.9	135.8	216.2	233.8
Tax	(4.4)	(27.0)	(43.2)	(46.8)
Deprec. & amort.	32.6	34.2	34.0	34.0
Associates	0.2	0.7	0.0	0.0
Working capital changes	(45.6)	42.5	16.0	5.0
Non-cash items	(283.5)	22.8	25.6	26.2
Other operating cashflows	71.3	229.1	16.6	17.3
Investing	(538.6)	(536.6)	(53.0)	(20.0)
Capex (growth)	(733.1)	(516.6)	(33.0)	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	123.4	(229.7)	(265.8)
Distribution to unitholders	(142.5)	(181.4)	(219.1)	(233.8)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	376.8	70.0	50.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(72.0)	(80.6)	(82.0)
Net cash inflow (outflow)	(134.3)	24.9	(17.6)	(16.2)
Beginning cash & cash equivalent	486.7	346.3	371.3	353.7
Changes due to forex impact	(6.1)	0.0	0.0	0.0
Ending cash & cash equivalent	346.3	371.3	353.7	337.5

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	37.1	42.7	49.2	49.3
Pre-tax margin	95.1	24.2	32.9	33.7
Net margin	75.0	15.9	23.8	24.5
ROA	4.0	1.1	1.9	2.1
ROE	7.2	2.1	3.6	4.0
Growth				
Turnover	6.6	42.3	17.0	5.7
EBITDA	13.9	63.9	34.8	5.9
Pre-tax profit	n.a.	(63.8)	59.2	8.1
Net profit	n.a.	(69.8)	74.5	9.0
Net profit (adj.)	(102.0)	n.a.	64.6	9.0
EPU	(102.0)	n.a.	58.7	8.2
Leverage				
Debt to total capital	38.5	41.3	42.2	42.9
Debt to equity	63.7	71.8	74.5	76.8
Net debt/(cash) to equity	55.6	63.2	66.2	68.8
Interest cover (x)	2.8	3.7	4.4	4.6

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