

SECTOR UPDATE

REITs – Singapore

Benefitting From Normalisation Of Leisure And Business Travel

The recovery of the hospitality segment is driven by the normalisation of leisure and business travel and return of Chinese tourists. We see a seasonally stronger 2H23 and continued recovery in 2024. Growth is supported by large-scale MICE events and enhancements to Singapore’s tourism infrastructure. The sector provides an attractive 2024 distribution yield of 6.4% and trades at a low P/NAV of 0.77x. BUY FEHT (Target: S\$0.75) and CLAS (Target: S\$1.35), followed by CDREIT (Target: S\$1.48). Maintain OVERWEIGHT.

WHAT’S NEW

- Travel enriches our life experiences.** Consumers are shifting from material purchases (clothing, jewellery, electronic gadgets and furniture) to experiential purchases (travel, restaurant meals and sporting events) as happiness from experiences is more lasting. As such, the travel & tourism sector is expected to grow at a 10-year CAGR of 5% to US\$15.5t in 2033, reaching 11.6% of global GDP (2023: 9.2%).
- Chinese tourists making their mark.** With surging Chinese visitor arrivals, China has regained its stature as the largest source market for Singapore since Jul 23. Chinese tourist arrivals grew 14x yoy to 214,491 in Aug 23, reaching 54% of pre-pandemic levels. There is room for further recovery as Chinese tourists accounted for a smaller 9.7% of total visitor arrivals during 8M23 compared with 19.0% in 2019. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the Mid-Autumn Festival.
- Restoration of flights supports recovery of hospitality segment.** Airlines’ passenger capacity is a leading indicator of the recovery in cross-border travel. The number of flights at Changi Airport increased 41.9% yoy to 29,000 in Aug 23, reaching 89.6% of pre-pandemic levels. Airlines will be adding more flights and destinations, which will further support the recovery of visitor arrivals and the hospitality segment in 2024.
- Investing to enhance Singapore’s tourism infrastructure.** Hospitality REITs will benefit from a series of government initiatives to develop new tourism attractions, including expansion at Marina Bay Sands and Resorts World Sentosa, Mandai Nature Precinct and the Sentosa-Brani Master Plan. At Resorts World Sentosa, Minion Land and Singapore Oceanarium are scheduled to open in early-25. Sentosa Island and Pulau Brani will be rejuvenated and redeveloped into five distinct zones under the Sentosa-Brani Master Plan in phases over the next 2-3 decades.
- Singapore becoming more hospitable.** We are optimistic of the recovery of the hospitality segment in Singapore driven by the normalisation of leisure and business travel and return of Chinese tourists. Key beneficiaries are FEHT (pure play on Singapore) and CDREIT (Singapore accounted for 66.3% of portfolio valuation as of Dec 22 and 61.5% of 1H23 NPI).
- Far East Hospitality Trust (BUY/Target: S\$0.75)** is well-positioned for expansion overseas due to low aggregate leverage of 32.0% as of Jun 23. We like CapitaLand Ascott Trust (BUY/Target: S\$1.35) for its geographical diversification, expansion to longer-stay properties and resilient balance sheet. CDL Hospitality Trusts (BUY/Target: S\$1.48) will benefit from increased contributions from Grand Copthorne Waterfront Hotel during the seasonally stronger 2H23, continued recovery from Germany and Italy, and contributions from the build-to-rent project The Casting in the UK starting in 2H24.

Click [here](#) for Blue Top dated 21 Sep 23

PEER COMPARISON

Company	Ticker	Rec	Price 20 Sep 23 (S\$)	Target Price (S\$)	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
						2022	2023F	2024F	2025F			
CapLand Ascott	CLAS SP	BUY	0.99	1.35	2,715	5.8	5.7	6.3	6.4	74.5	38.6	0.86
CDL HTrust	CDREIT SP	BUY	1.06	1.48	967	5.3	5.8	6.6	6.6	64.3	37.9	0.75
Far East HTrust	FEHT SP	BUY	0.63	0.75	924	5.2	6.1	6.4	5.8	40.9	32.0	0.70
Frasers HTrust	FHT SP	NR	0.50	n.a.	706	3.3	4.6	5.2	6.2	57.2	35.3	0.78

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (S\$)	Target Price (S\$)
CLAS	CLAS SP	BUY	0.99	1.35
CDREIT	CDREIT SP	BUY	1.06	1.48
FEHT	FEHT SP	BUY	0.63	0.75

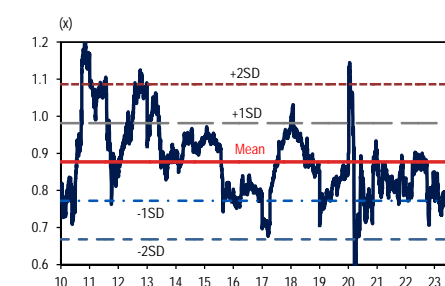
Source: UOB Kay Hian

YIELD SPREAD FOR HOSPITALITY REITs



Source: UOB Kay Hian

P/NAV FOR HOSPITALITY REITs



Source: UOB Kay Hian

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ACTION

- **Singapore becoming more hospitable.** Hospitality REITs provide an attractive distribution yield of 6.4% and yield spread of 3.1% for 2024. They trade at a P/NAV of 0.77x (23% discount to NAV). The segment will benefit from the return of Chinese tourists, a seasonally stronger 2H23 and a continued recovery in 2024.

Capitaland Ascott Trust (CLAS SP/BUY/Target: S\$1.35)

- Portfolio RevPAU grew 20% yoy to S\$149 in 2Q23 (98% of pre-pandemic levels). There is room to improve portfolio occupancy during the seasonally stronger 2H23 (1H23: 75%).
- Longer-stay properties, such as student accommodation and rental housing properties, contributed 17% of gross profit in 1H23 and accounted for 19% of portfolio valuations. The 678-bed Standard at Columbia in South Carolina has a pre-leased occupancy of 90% and has been receiving its first batch of students for 2023-24 starting Aug 23.
- CLAS has a resilient balance sheet with aggregate leverage at 38.6% as of Jun 23. Adjusted interest coverage ratio was 4.3x and its weighted average debt to maturity was 3.6 years.
- **Maintain BUY.** Our target price of S\$1.35 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

CDL Hospitality Trusts (CDREIT SP/BUY/Target: S\$1.48)

- CDREIT's six Singapore hotels will benefit from higher occupancies and increased contributions from Grand Copthorne Waterfront Hotel (GCWH) during the seasonally stronger 2H23. Visitor arrivals have picked up since July as Singapore becomes a preferred destination for well-heeled Chinese tourists.
- CDREIT will benefit from the continued recovery in Germany and Italy. Pullman Hotel Munich benefits from the pick-up in events during 2H23, including Oktoberfest and IAA Mobility in September. Hotel Cerretani Firenze benefits from the return of Asian travellers.
- Residential build-to-rent project The Casting in the UK will start contributing in 2H24. Asking rents for one-bed, two-bed and three-bed units increased 10-15% yoy in Jun 23.
- **Maintain BUY.** Our target price of S\$1.48 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

Far East Hospitality Trust (FEHT SP/BUY/Target: S\$0.75)

- FEHT is a pure play on the hospitality segment with nine hotels and three serviced residences in Singapore. Five hotels, namely Vibe Hotel Orchard, The Quincy Hotel, Village Hotel Bugis, Oasia Hotel Novena and Orchard Rendevous Hotel (51% of portfolio valuation), are located near major hospitals popular among medical tourists.
- FEHT focuses on mid-tier and upscale hotels, which are well patronised by value-conscious tourists from China, India, Indonesia and Malaysia (breakdown of hotel revenue in 1H23: North Asia 18.7%, Southeast Asia 22.2% and South Asia 8.8%).
- Aggregate leverage was low at 32.0% as of Jun 23. FEHT is scouting for opportunities to invest in limited-service, midscale and upscale hotels at gateway cities in developed markets.
- **Maintain BUY.** Our target price of S\$0.75 is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

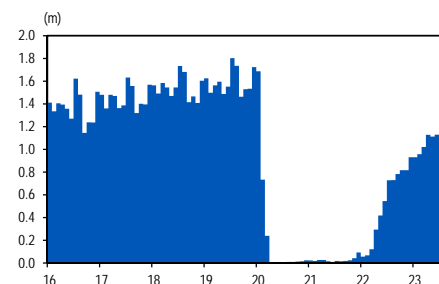
SECTOR CATALYSTS

- Continued recovery of visitor arrivals in 2H23 and 2024.
- Limited growth in supply of hotels and serviced residences at CAGR of 3.1%.

RISKS

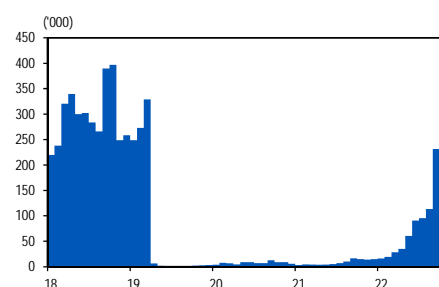
- Interest rates staying at elevated levels for a prolonged period of time.
- Escalation of geopolitical tension within the Asia pacific region.

VISITOR ARRIVALS – TOTAL



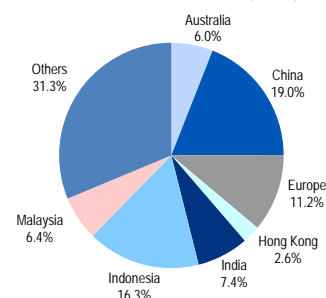
Source: STB

VISITOR ARRIVALS – MAINLAND CHINA



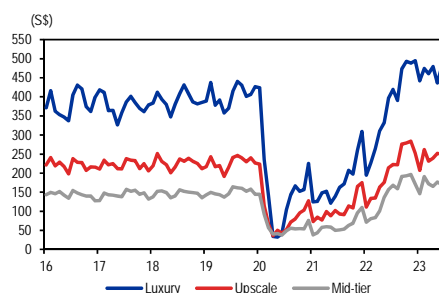
Source: STB

VISITOR ARRIVALS BY COUNTRY (2019)



Source: STB

HOTEL REVPAR – SINGAPORE



Source: STB

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