

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

2H23: Fastest Growth With Lowest Risk

FEHT will benefit from the recovery of MICE events and strong line-up of concerts at the National Stadium due to its single-minded focus on Singapore. The incentive fee of S\$18m from the divestment of Central Square could be utilised to cushion the negative impact of higher interest rates. FEHT provides 2024 distribution yield of 6.4%. Its low P/NAV of 0.71x is unwarranted given good corporate governance, strong sponsor and low aggregate leverage of 31.3%. Maintain BUY. Target price: S\$0.82.

2H23 RESULTS

Year to 31 Dec (S\$m)	2H23	yoy % chg	Remarks
Gross Revenue	54.8	+28.6	
- Hotels	41.0	+36.5	Hotels RevPAR: +0.6% yoy to S\$130 in 4Q23.
- Serviced Residence	5.7	+13.3	Serviced Residences: RevPAR: +9.2% yoy to S\$228 in 4Q23.
- Commercial Premises	8.1	+7.5	Commercial Premises grown 13.7% yoy on same-store basis.
Net Property Income (NPI)	49.8	+24.8	
Distributable Income	40.0	+32.4	Boosted by divestment gains and release of income retained in 1H23.
DPU (S cents)	2.17	+25.4	

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported DPU of 2.17 S cents for 2H23 (+25.4% yoy), which is in line with our expectations. The distribution for 2H23 included: a) capital distribution of divestment gains from Central Square of S\$4m, and b) the release of taxable income retained in 1H23 of S\$2.3m. Distributable income for 2023 has already exceeded pre-pandemic levels (2019).
- Hotels: Stellar growth despite year-end weakness.** RevPAR for hotels increased marginally by 0.6% yoy to S\$130 in 4Q23. Average daily rate (ADR) increased 7.6% yoy to S\$169 but occupancy deteriorated 6.6ppt yoy to 76.7%. Leisure demand could have been affected by a resurgence of COVID-19 cases during November and December. Oasia Hotel Novena and Village Hotel Albert Court were released from government contracts in 2H23 and were still in gestation. Hotel RevPAR has recovered to 95% of pre-pandemic levels, while revenue from its hotels increased 36.5% yoy in 2H23.
- Serviced residences: RevPAR reaches highest since IPO.** RevPAR for serviced residences increased 9.2% yoy to S\$228 in 4Q23 and was 24% above pre-pandemic levels in 2H23. The resilient performance was driven by a 4.7% yoy growth in ADR, supported by the rebranded Adina Serviced Apartments Orchard. Occupancy improved 4.2ppt yoy to 86.1% due to the continued inflow of professionals and project groups.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	84	107	112	115	115
EBITDA	67	87	90	92	92
Operating profit	67	87	90	92	92
Net profit (rep./act.)	204	130	63	66	65
Net profit (adj.)	50	84	63	66	65
EPU (S\$ cent)	2.5	4.2	3.1	3.2	3.2
DPU (S\$ cent)	3.3	4.1	4.1	3.9	3.8
PE (x)	25.3	15.1	20.3	19.6	19.9
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	5.1	6.4	6.4	6.1	6.0
Net margin (%)	243.8	122.0	56.1	56.9	56.4
Net debt/(cash) to equity (%)	38.2	36.1	37.1	38.1	39.1
Interest cover (x)	4.0	4.1	3.2	3.2	3.1
ROE (%)	11.8	7.1	3.4	3.5	3.5
Consensus DPU (S\$ cent)	n.a.	n.a.	4.3	4.3	n.a.
UOBKH/Consensus (x)	-	-	0.95	0.90	-

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

BUY

(Maintained)

Share Price	S\$0.635
Target Price	S\$0.82
Upside	+29.1%
(Previous TP)	S\$0.85

COMPANY DESCRIPTION

FEHT is a Singapore-focused hotel and serviced residences hospitality trust. It has a portfolio of 12 hospitality properties, comprising nine hotels and three serviced residences with 3,015 rooms.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FEHT SP
Shares issued (m):	2,005.1
Market cap (S\$m):	1,283.2
Market cap (US\$m):	953.9
3-mth avg daily t'over (US\$m):	0.8

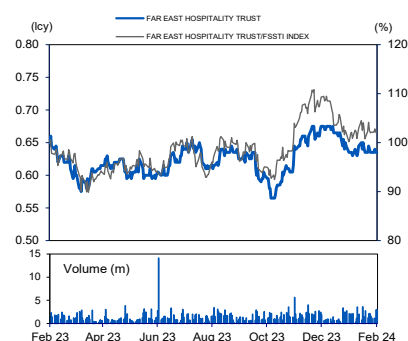
Price Performance (%)

52-week high/low	S\$0.675/S\$0.565			
1mth	3mth	6mth	1yr	YTD
(0.8)	5.8	4.9	(3.8)	(3.8)

Major Shareholders

Golden Development	22.5
Far East Organization	16.0
Golden Landmark	9.6
FY24 NAV/Share (S\$)	0.93
FY24 Net Debt/Share (S\$)	0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Increased contributions from commercial premises.** Revenue from commercial premises at its hotels and serviced residences increased 7.5% yoy in 2H23 due to higher occupancies and rental rates for its office and retail space. FEHT secured new food & beverage operators for Rendezvous Hotel Singapore and Village Hotel Changi after the two hotels exited government contracts.
- FEHT recognised fair value gains of S\$59.2m** for its investment properties. NAV per unit increased 0.4% to 90.6 S cents.
- Completed early refinancing.** Aggregate leverage was 31.3% as of Dec 23, one of the lowest among S-REITs. FEHT has completed refinancing for term loans of S\$225m with sustainability-linked loans ahead of maturity in Mar 24. There are no term loans due for refinancing in 2024. Average debt maturity has increased by 0.7 years to 3.8 years.
- Anticipate higher cost of debt in 2024.** Average cost of debt was relatively unchanged at 3.3% in 4Q23. Management expects average cost of debt to hit 4% in 2024 as expiring interest rate swaps are replaced at higher interest rate.

STOCK IMPACT

- Continued recovery for Singapore's hospitality sector.** The outlook is positive due to an active event calendar with Singapore Airshow in February, followed by FHA-Food & Beverage, Asia Tech x, Rotary International Convention, World Congress of Anaesthesiologists and Women's World Golf Championship in 2Q24. Management expects the 30-day visa exemption arrangement to have a positive impact on visitor arrivals from China starting Apr 24. Tourists will also be attracted by a strong line-up of concerts at the National Stadium, like Coldplay in January, Taylor Swift in March and Bruno Mars in April.
- Exploring overseas expansion.** FEHT intends to diversify into gateway cities in developed markets. It is scouting for opportunities to invest in limited-service, midscale and upscale hotels, where yields are higher. Potential acquisitions are likely to be fully debt funded. Management aims for a balanced mix of 80:20 between properties in Singapore and overseas over the longer term.
- Trading at steep 29% discount against NAV.** FEHT trades at a P/B of 0.71x, the lowest in our universe of hospitality REITs. The discount is unwarranted given FEHT's good corporate governance, a strong sponsor in Far East Organization (FEO), and low aggregate leverage of 31.3% as of Dec 23.

EARNINGS REVISION/RISK

- We trim our 2024 DPU forecast by 1% as we tone down our expectations for capital distribution of incentive fee, which is meant to partially offset increases in interest expense.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$0.82 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

SHARE PRICE CATALYST

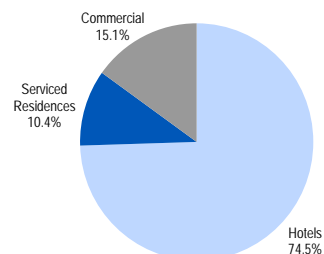
- Recovery in occupancy, ADR and RevPAR in 2024 and 2025.
- Pursuing acquisitions in overseas markets.
- Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.
- Downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.

KEY OPERATING METRICS – FEHT

	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	1.73	n.a.	1.92	n.a.	2.17	25.4%	13.0%
Aggregate Leverage	32.0%	32.0%	32.0%	32.2%	31.3%	-0.7ppt	-0.9ppt
Average Cost of Debt	2.1%	3.2%	3.2%	3.2%	3.3%	1.2ppt	0.1ppt
Weighted Debt Maturity (years)	3.1	3.7	3.5	3.2	3.8	0.7yrs	0.6yrs
% Borrowings in Fixed Rate	54.1%	47.3%	47.2%	40.6%	42.6%	-11.5ppt	2ppt

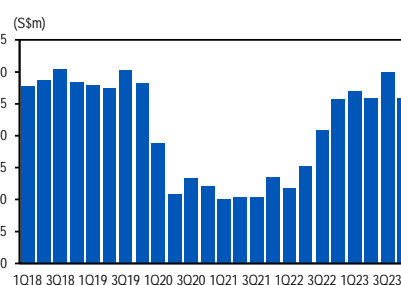
Source: FEHT, UOB Kay Hian * hoh % chg for DPU

BREAKDOWN OF GROSS REVENUE (2023)



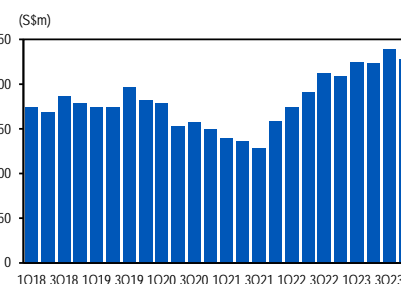
Source: FEHT

REVPAR – HOTELS



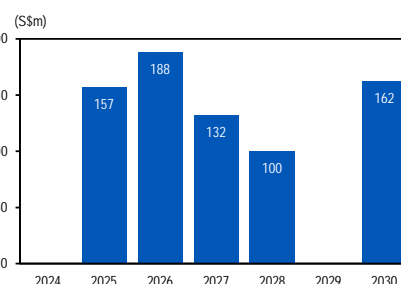
Source: FEHT

REVPAR – SERVICED RESIDENCES



Source: FEHT

DEBT MATURITY PROFILE



Source: FEHT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	106.8	112.3	115.2	115.2
EBITDA	87.0	89.7	92.5	92.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	87.0	89.7	92.5	92.5
Associate contributions	0.0	1.3	2.4	2.4
Net interest income/(expense)	(21.3)	(28.1)	(29.3)	(29.9)
Pre-tax profit	130.6	62.9	65.6	65.0
Tax	(0.3)	0.0	0.0	0.0
Net profit	130.3	62.9	65.6	65.0
Net profit (adj.)	84.1	62.9	65.6	65.0

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,509.6	2,513.6	2,517.6	2,521.6
Other LT assets	1.0	1.7	2.5	3.3
Cash/ST investment	63.1	55.0	55.1	56.3
Other current assets	48.9	55.1	56.6	56.6
Total assets	2,622.5	2,625.3	2,631.7	2,637.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	9.4	12.0	12.2	12.2
LT debt	736.8	745.0	760.0	775.0
Other LT liabilities	9.6	10.6	10.8	10.8
Shareholders' equity	1,866.7	1,857.6	1,848.7	1,839.7
Total liabilities & equity	2,622.5	2,625.3	2,631.7	2,637.7

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	97.3	88.5	93.9	94.9
Pre-tax profit	130.6	62.9	65.6	65.0
Associates	0.0	(1.3)	(2.4)	(2.4)
Working capital changes	0.9	8.5	(0.1)	(1.2)
Non-cash items	(36.8)	9.1	9.1	9.1
Other operating cashflows	2.5	9.3	21.7	24.4
Investing	15.6	(4.0)	(4.0)	(4.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(4.4)	(4.0)	(4.0)	(4.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	17.9	0.0	0.0	0.0
Others	2.1	0.0	0.0	0.0
Financing	(99.5)	(92.7)	(89.7)	(89.7)
Distribution to unitholders	(72.8)	(72.0)	(74.6)	(74.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	225.0	8.2	15.0	15.0
Loan repayment	(225.0)	0.0	0.0	0.0
Others/interest paid	(26.7)	(28.9)	(30.1)	(30.7)
Net cash inflow (outflow)	13.3	(8.1)	0.2	1.2
Beginning cash & cash equivalent	49.8	63.1	55.0	55.1
Ending cash & cash equivalent	63.1	55.0	55.1	56.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	81.4	79.9	80.3	80.2
Pre-tax margin	122.3	56.1	56.9	56.4
Net margin	122.0	56.1	56.9	56.4
ROA	5.0	2.4	2.5	2.5
ROE	7.1	3.4	3.5	3.5
Growth				
Turnover	27.8	5.1	2.7	0.0
EBITDA	30.7	3.2	3.1	(0.0)
Pre-tax profit	(36.0)	(51.8)	4.2	(0.9)
Net profit	(36.0)	(51.7)	4.2	(0.9)
Net profit (adj.)	69.5	(25.1)	4.2	(0.9)
EPU	68.2	(25.7)	3.4	(1.7)
Leverage				
Debt to total capital	28.3	28.6	29.1	29.6
Debt to equity	39.5	40.1	41.1	42.1
Net debt/(cash) to equity	36.1	37.1	38.1	39.1
Interest cover (x)	4.1	3.2	3.2	3.1

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