

Ascott Residence Trust

Stability through asset recycling and redevelopments



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SINGAPORE | REAL ESTATE (HOSPITALITY) | RESULTS

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- 4Q19/FY19 NPI and DPU in line with forecast.
- Diversified portfolio proving resilient, active portfolio reconstitution unlocked c.S\$200mn of net gains.
- The longer average length of stays typical for serviced residence, driven by corporate clientele makes ART less affected by Coronavirus impact compared to leisure-driven hospitality REITs.
- Upgrade to BUY with a higher TP of \$1.53 due to higher earnings/DPU forecast and factoring in recent divestments and the redevelopment of Somerset Liang Court.

Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross revenue	134.1	136.5	-1.8%	515.0	514.3	0.1%	4Q19 revenue was lower due to the loss of income on divestment of Ascott RP (May 19) and Somerset West Lake Hanoi (Oct 19). FY 19 revenue was flat despite divestments due to contributions from newly acquired Citadines Connect Sydney Airport (May 19) and better performance in Philippines, Belgium and Singapore
Gross Profit	65.3	63.4	3.0%	252.6	239.4	5.5%	Higher due to adoption of IFRS 116 Leases, excluding which, 4Q19/FY19 gross profit fell by 5.2%/3.1% YoY.
Distributable income	49.3	46.5	6.2%	165.6	154.8	7.0%	4Q19/4Q18 DI included one-off partial divestment gains of \$13.5mn/\$6.5mn to replace loss of income from divestments
DPS (cents)	2.27	2.15	5.6%	7.61	7.16	6.3%	Excluding divestment-related distributions of \$23.2mn/\$8.1mn, 4Q DPU would be 6.3% lower YoY and FY19 DPU growth would have been flat

Source: Company, PSR

The Positives

- Revenue and gross profit stable, minor fluctuations due to asset recycling deemed normal.** ART's diversified portfolio kept earnings stable, with better performance in certain counties, (Philippines, Belgium, Singapore, Vietnam) offsetting softer markets (Australia, China, Japan) which experienced strong competition. Highly accretive asset recycling caused a minor dip in earnings but overall beneficial to unitholders and normal in the course of business. Figure 1 summarises the notable events in FY19.
- Active portfolio reconstitution unlocked S\$200mn in net gains which were reinvested into higher-yielding assets.** In 2019 ART divested Ascott Raffles Place, Somerset West Lake Hanoi, partial sale of Somerset Liang Court, Citadines Xinghai Shuzhou and Citadines Zhuakou Wuhan. Ascott RP was divested at an exit yield of 2%, 64.3% above book value, with net gains of c.S\$135mn which were partially reinvested into Citadines Connect Sydney Airport (CCSA) (EBITDA yield of c.6%). The sales of the two Citadines assets in China at an exit cap rate of c.3.7%, >30% above book value, will reap net gains of c.S\$21.2mn and is expected to be completed in 1H20. The partial sale of the Somerset Liang Court asset and at 4% above book value would yield S\$84.3mn revaluation gains, S\$49.8mn of which will be realised upon completion of the sale in April 2020, while the remaining S\$42.8mn would be tied to the retained land which will be redeveloped as part of the proposed integrated development at Liang Court (stabilised yield of c.4%).
- Cost of borrowing was fell 10bps to 2% p.a.** ART refinanced S\$150mn 5% of perps with S\$150mn 3.88% perps in September 2019, capturing c.S\$1.7mn in savings. A second tranche of S\$250mn 3.86% perps are callable in June 2020 and we believe ART will once again capitalise on the opportunity to refinance their perps at a lower coupon.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 1.230
FORECAST DIV	SGD 0.076
TARGET PRICE	SGD 1.530
TOTAL RETURN	30.6%

COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN):	3,083
MARKET CAP (USD mn / SGD mn):	2766 / 3792
52 - WK HI/LO (SGD):	1.42 / 1.12
3M Average Daily T/O (mn):	5.87

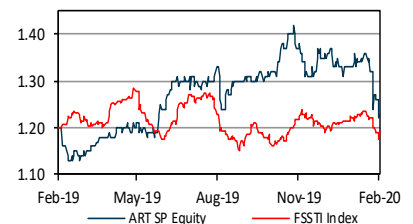
MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	40.11
VANGUARD GROUP INC	1.28
BLACKROCK INC	0.71

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(8.3)	(8.2)	11.4
STI RETURN	(3.7)	(2.9)	1.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Gross Rev. (S\$m)	514	515	654	670
Gross Profit (S\$m)	239	253	331	342
Dist. Inc. (S\$m)	155	185	268	280
P/NAV (x)	1.02	0.98	0.94	0.97
DPU (cents)	7.16	7.61	8.15	8.52
Distribution Yield	5.8%	6.2%	6.6%	6.9%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.23%; Terminal g: 1.75%)

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The Negatives

- **4Q19 revenue fell 1.8% YoY due to divestments, but gross profit grew 3%.** Divestment of Ascott RP and Somerset Hanoi resulted in lower 4Q19 revenue, partially offset by contribution from CCSA. Though the divestment and acquisition of Ascott RP and CCSA were both timed to occur in May 2019, CCSA's contribution would only partially offset the loss of income from Ascott RP given that it is a smaller asset. Higher 4Q19 gross profit was supported by better performance in the Philippines (+42%), Belgium (+38%), Singapore (+20%) and Vietnam (+7%).

Figure 1: Notable events in FY19

Date	Notable corporate actions	
Sep 18	Greenfield Site - Co-living development	Acquisition
May 19	Ascott Raffles Place	Divestment
May 19	Citadines Connect Sydney Airport	Acquisition
Sep 19	Replaced S\$150mn 5.0% perps with 3.88% perps	Refinancing
Oct 19	ART-AHT Merger approved	Merger
Oct 19	Somerset West Lake Hanoi (Vietnam)	Divestment
Nov 19	Somerset Liang Court (SG)	Redevelopment
Dec 19	Citadines Xinghai Suzhou (China)*	Divestment
Dec 19	Citadines Zhuankou Wuhan (China)*	Divestment

Source: Company, PSR

*TBC 1H20

Outlook

The merger with Ascendas Hospitality Trust was completed 31 December and will contribute to ART's portfolio from 1 January 2020. Figure 2 and 3 show the breakdown of ART's gross revenue by geography and lease type with the contribution from AHT's master leases assets in Japan (5), Korea (2) and Singapore (1) and management contract assets in Australia (6).

Inclusion into the FTSE Nareit Developed Index is likely given that ART has met the criteria for inclusion.

Impact of the Novel Coronavirus

The management expects that travel volumes will be impacted in the short-term, as well as some cancellation of bookings. However, given ART has more long-term stays than short-term stays which are driven by corporate clients on project groups or secondment and less leisure-tourism dependent, we expect to be more protected than other hospitality REITs. Figure 4 shows the average length of stay at their accommodations by country, which ranges 1 to 7 months.

Upgrade to BUY with a higher target price of \$1.53 (prev. \$1.36).

Our forecast includes the contributions from the AHT portfolio as well the announced divestments of Somerset Hanoi, partial divestment and redevelopment of Somerset Liang Court and the divestment of the 2 Citadines assets in China. The recent collapse in the share price due to the uncertainty caused by the Novel Coronavirus presents a good entry price, in our opinion. We upgrade our recommendation to BUY from ACCUMULATE. ART is trading at an attractive yield of 6.6% and P/NAV of 0.94.

Figure 4: Average length of stay by country

Country	Average length of stay	Lease type	% contribution to gross profit
UK	< 1 mth	MCMGI	10%
Belgium	< 1 mth	MCMGI	2%
Spain	< 1 mth	MCMGI	2%
US	< 1 mth	MC	11%
Japan	> 1 mth	MC	9%
Vietnam	c. 6 mths	MC	9%
China	c. 7 mths	MC	9%
Australia	< 1 mth	MC	5%
Singapore	c. 3 mths	MC	4%
Philippines	nm	MC	2%
Indonesia	c. 6 mths	MC	1%
Malaysia	c. 3 mths	MC	3%
MC Average	3 mths		
Rental housing average	> 1 yr		5%

Source: PSR

*13% total contribution for Japan is broken up into 4.5% rental housing and 8.5% SR contribution. Differences are due to rounding errors.

Figure 2: Gross profit breakdown by geography

Gross Profit	FY18	FY19	FY20e	FY21e
Singapore	12.1%	10.8%	9.5%	10.7%
Australia	7.9%	7.0%	18.6%	18.1%
Belgium	1.8%	2.2%	1.7%	1.7%
China	8.7%	8.1%	3.7%	3.7%
France	13.8%	12.0%	9.3%	9.3%
Germany	6.0%	5.6%	4.4%	4.4%
Indonesia	2.4%	2.2%	1.7%	1.7%
Japan	12.8%	11.8%	18.1%	17.3%
Korea	0.0%	0.0%	2.1%	2.0%
Malaysia	0.6%	0.4%	0.3%	0.3%
Philippines	2.6%	3.5%	2.8%	2.8%
Spain	1.7%	1.7%	1.3%	1.3%
UK	9.6%	9.5%	7.7%	7.7%
US	10.9%	16.2%	12.4%	12.3%
Vietnam	9.0%	8.9%	6.5%	6.6%
Total	100.0%	100.0%	100.0%	100.0%

Source: PSR

Figure 3: Gross profit by lease type

Gross profit	FY18	FY19	FY20e	FY21e
Master Lease				
Australia	3.0%	2.7%	2.0%	2.0%
France	13.8%	12.0%	9.3%	9.3%
Germany	6.0%	5.6%	4.4%	4.4%
Japan	-	-	8.9%	8.6%
Korea	-	-	2.1%	2.0%
Singapore	7.8%	6.3%	7.6%	7.4%
	30.6%	26.6%	34.2%	33.8%
MCMGI				
Belgium	1.8%	2.2%	1.7%	1.7%
Spain	1.7%	1.7%	1.3%	1.3%
United Kingdom	9.6%	9.5%	7.7%	7.7%
	13.2%	13.4%	10.7%	10.7%
Management Contract				
Australia	4.9%	4.4%	16.6%	16.1%
China	8.7%	8.1%	3.7%	3.7%
Indonesia	2.4%	2.2%	1.7%	1.7%
Japan	12.8%	11.8%	9.3%	8.8%
Malaysia	0.6%	0.4%	0.3%	0.3%
Philippines	2.6%	3.5%	2.8%	2.8%
Singapore	4.3%	4.6%	1.9%	3.3%
United States	10.9%	16.2%	12.4%	12.3%
Vietnam	9.0%	8.9%	6.5%	6.6%
	56.2%	60.0%	55.1%	55.5%

Source: PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	496	514	515	654	670
Direct expenses	(269)	(275)	(262)	(323)	(328)
Gross Profit	227	239	253	331	342
Net finance (expense)/inc.	(45)	(46)	(50)	(49)	(49)
Manager's fees	(22)	(24)	(23)	(32)	(32)
Others	8	(13)	(6)	(22)	(22)
Net income	167	157	175	230	240
FV changes	87	35	249	-	-
Others	8	(13)	(6)	(22)	(22)
Total return before tax	274	195	261	230	240
Taxation	(52)	(44)	(45)	(39)	(41)
Total return after tax	148	148	216	191	199
Distribution adjustments	(43)	26	(31)	83	84
Distributable income	152	155	185	268	280
DPU (cents)	7.09	7.16	7.61	8.12	8.49

Per share data (cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV	1.22	1.22	1.25	1.33	1.21
DPU	7.09	7.16	7.61	8.12	8.49

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Net income	274	195	261	230	240
Adjustments	(31)	128	(163)	114	114
WC changes	(42)	923	(6)	(15)	(3)
Cash generated from ops	202	1,246	92	329	351
Others	(20)	(20)	(23)	(22)	(22)
Cashflow from operations	181	1,226	69	307	328
CFI					
CAPEX, net	(13)	(13)	(14)	(53)	(54)
Net Investments in SR & PP	(379)	11	272	315	(10)
Others	2	1	0	4	4
Cashflow from investments	(390)	(1)	259	265	(60)
CFF					
Share issuance, net	443	-	-	-	-
Loans, net of repayments	108	(35)	(198)	-	-
Dividends	(197)	(172)	(183)	(272)	(282)
Others	(55)	(47)	(59)	(53)	(53)
Cashflow from financing	300	(254)	(440)	(325)	(335)
Net increase (decrease) in CCI	119	(28)	48	129	(67)
Ending cash	255	226	270	387	309
Restricted cash deposits	2	2	5	5	5

Source: Company, Phillip Securities Research (Singapore) Estimates

*NPI and gross profit are used interchangeably

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
SR properties and PPE	4,958	4,728	6,800	7,111	6,903
Others	16	81	28	53	28
Total non-current assets	4,974	4,809	6,828	7,164	6,931
Trade Receivables	67	57	62	83	85
Cash	257	228	276	393	314
Others	16	81	28	53	28
Total current assets	519	500	595	480	403
Total Assets	5,493	5,309	7,423	7,644	7,334
LIABILITIES					
LT Borrowings	1,681	1,835	2,012	1,795	1,813
Others	135	125	503	498	516
Total non-current liabilities	1,816	1,960	2,515	2,293	2,329
Trade Payables	237	141	175	211	216
ST Borrowings	264	70	337	501	483
Others	135	125	503	498	516
Total non-current liabilities	1,816	1,960	2,515	2,293	2,329
Total Liabilities	2,321	2,178	3,080	3,044	3,068
Net assets	3,172	3,131	4,342	4,600	4,266

Represented by:

Unitholders' funds	2,685	2,644	3,861	4,117	3,783
Perpetual securities hold	397	397	396	396	396
Non-controlling interests	89	90	85	87	87

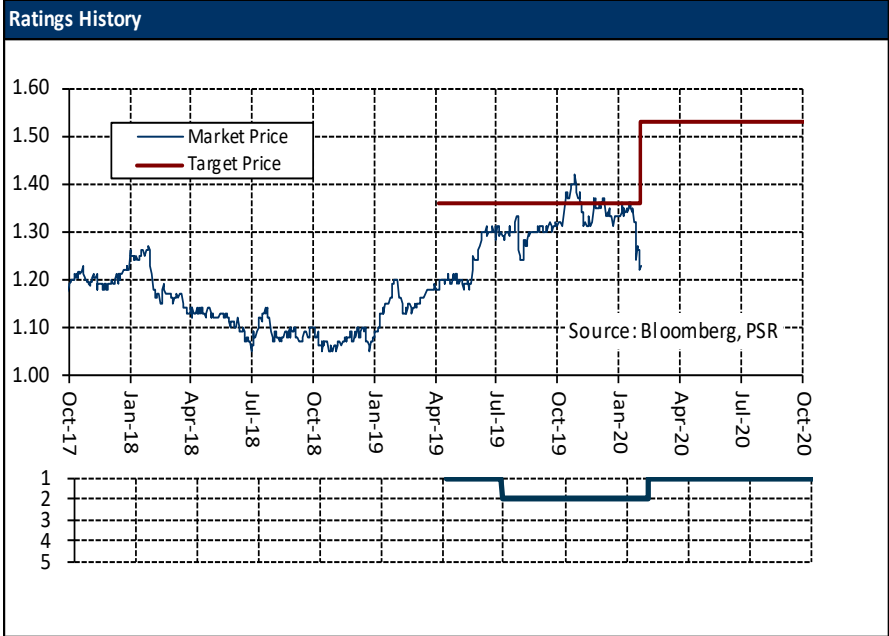
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.01	1.02	0.98	0.93	1.01
Distribution Yield (%)	5.8%	5.8%	6.2%	6.6%	6.9%
NPI** yield (%)	4.6%	5.1%	3.8%	4.8%	5.1%

Growth & Margins (%)

Growth					
Revenue	4.4%	3.6%	0.1%	26.9%	2.5%
Gross profit	2.1%	5.5%	5.5%	31.0%	3.3%
Net income	11.8%	-6.2%	11.1%	31.6%	4.4%
DPU	-14.3%	1.0%	6.3%	6.7%	4.6%
Margins					
Gross profit	45.7%	46.5%	49.1%	50.6%	51.0%
NPAT	44.8%	29.5%	42.0%	29.2%	29.7%
Key Ratios					
Gearing	36.4%	36.7%	31.6%	30.0%	31.3%
ROA	2.9%	2.7%	3.4%	2.5%	2.6%
ROE	6.0%	5.5%	6.6%	4.6%	5.0%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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