

# Ascott Residence Trust

New asset class to bolster growth



StocksBnB.com

## SINGAPORE | REAL ESTATE (HOSPITALITY) | FY20 RESULTS

2 February 2021

- FY20 DPU of 3.03 Scts (-60.2%) came in below, at 75% of our forecast. Capital distribution from divestment gains formed 47.8% of DPU (FY19: 27.6%).
- 2H/FY20 RevPAU down 69%/61% YoY. FY20 gross profit -41% YoY with master leases/MCMGI/management contracts contributing 60%/6%/34%.
- Acquisition of purpose-built student accommodation in US to shore up revenue.
- Maintain BUY, DDM-based (COE 8.5%) TP raised from S\$1.15 to S\$1.22 as we roll forward our earnings forecast. We are forecasting FY21e/22e DPU yield of 4.2%/5.5%, with a 12.5% upside to our TP.

### BUY (Maintained)

LAST CLOSE PRICE	SGD 1.040
FORECAST DIV	SGD 0.076
TARGET PRICE	SGD 1.170
TOTAL RETURN	19.8%

### COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN):	3,108
MARKET CAP (USD mn / SGD mn)	2456 / 3263
52 - WK HI/LO (SGD):	1.31 / 0.67
3M Average Daily T/O (mn):	5.53

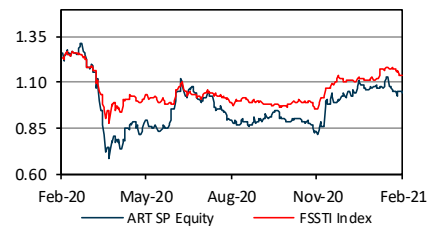
### MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	40.23
VANGUARD GROUP INC	2.07
NORGES BANK	1.29

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.8)	26.5	(2.8)
STI RETURN	2.1	20.2	2.1

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY19	FY20	FY21e	FY22e
Gross Rev. (S\$m)	515	370	501	591
Gross Profit (S\$m)	253	150	215	269
Dist. Inc. (S\$m)	185	110	155	202
P/NAV (x)	0.83	0.90	0.96	0.98
DPU (cents)	7.61	3.01	4.37	5.76
Distribution Yield	5.7%	2.9%	4.2%	5.5%

Source: Bloomberg, PSR

### VALUATION METHOD

DDM (Cost of Equity: 8.5%; Terminal g: 1.75%)

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### Results at a glance

(SGD mn)	2H20	2H19	YoY	FY20	FY19	YoY	Comments
Gross revenue	161.4	266.5	-39.5%	369.9	515.0	-28.2%	Lower revenue due to COVID-19 and leases renewed on variable terms, decreased contributions from divestment of Somerset West Lake Hanoi (Oct 19) and Somerset Liang Court (July 20), partially offset by acquisition of AHTRUST portfolio (Jan 20), Quest Macquarie Park Sydney (Feb 20) and Citadines Connect Sydney Airport (May 19).
Gross Profit	61.0	130.3	-53.2%	149.6	252.6	-40.8%	
Distributable Income	68.5	101.1	-32.3%	109.8	185.3	-40.8%	Includes S\$45mn in divestment gains (FY19: S\$17.5mn)
DPS (cents)	1.99	4.18	-52.4%	3.03	7.61	-60.2%	Distribution from divestment gains contributed 47.8% of DPU. (FY19: 27.6%)

Source: Company, PSR

### The Positives

- Divesting above book despite COVID-19.** ART executed two divestments in 4Q20. Somerset Azabu East Tokyo was divested in December 2020 for S\$76mn. The divestment was 63% above book valuation, representing a divestment yield of 2% and net gain of S\$30.6mn. Its S\$13mn divestment of Citadines City Centre Grenoble in France will be completed in 1Q21, at 35% above book, producing a net gain of S\$44k. Earlier in the year, ART divested Ascott Guangzhou and Citadines Didot Montparnasse Paris for S\$159mn and S\$36mn, 52% and 69% above book respectively. Divestments of Citadines Xinghai Suzhou and Citadines Zhuankou Wuhan were terminated as the buyer encountered cashflow difficulties. ART will retain the deposit of S\$9.5mn as termination compensation.
- Balance sheet remained robust; cost of borrowing fell from 2.3% to 1.8%.** ART had S\$487mn cash on hand (FY19: S\$276mn), which should be able to cover about three years of operations. It had an additional S\$560mn in available credit facilities and net divestment proceeds pending receipt. Gearing was 36.3%, with S\$1.9bn of headroom to reach the 50% gearing limit. In total, it has S\$200mn in divestment proceeds for deployment.

### The Negatives

- 2H/FY20 RevPAU down 69%/61% YoY.** RevPAU in seven of ART's markets was down 56-86% in 2H20. China (-27% YoY) was the lease impacted. Domestic travel returned to pre-pandemic levels in 3Q and most of 4Q. Domestic travel fizzled out in 4Q20 due to a resurgence of the COVID-19 virus in China, France, Japan, the US and Vietnam.
- Portfolio valuation fell 7% YoY,** as valuers factored in weaker performances due to COVID-19 and higher cap and discount rates. According to the United Nations World Tourism Organisation, a recovery to 2019 levels could take 2.5-4 years. This will affect cashflow estimates in valuations. Nonetheless, ART has delivered several divestments

at above book values, indicating that while the road to recovery is long, its well-located assets are still well sought-after.

- **Some S\$18mn in rental rebates were offered to tenants** in Australia and France. However, ART also benefitted from S\$17.3mn in wage subsidies from various governments in the markets in which it operates.

### What's New?

**Expansion of investment strategy and proposed acquisition of purpose-built student accommodation (PBSA).** The PBSA, Signature West Midtown, is located within a 5-10-minute walk from the Georgia Institute of Technology (Georgia Tech) in Atlanta, US. Total acquisition cost for the 183-unit/525-bed PBSA is S\$130.mn, which has an EBITDA yield of 5%. The acquisition will add 4.4% DPU on a proforma basis. Georgia Tech is ranked the 35th top university in the US and second in Georgia. Domestic students account for 95% of its [or all universities?] US student population, with 80% living in student accommodation. As such, occupancy for PBSAs in the US is around 90% throughout the year.

### What Do We Think?

**Acquisition of student accommodation to shore up revenue.** In May 2020, four French master leases were renewed on variable terms while three UK management contracts with minimum guaranteed income (MCMGI) were renewed as management contracts. An additional 15 French master leases were renegotiated as MCMGIs in December 2020, effectively lowering the amount of fixed, stable rents and introducing a variable rent component. Their high occupancy and longer average stay of about one year should help to increase income stability, especially since COVID-19 has set a new historical low for the hospitality sector. COVID-19 may result in more master leases and MCMGIs renewed at lower fixed rents or the conversion of master leases into MCMGIs.

### Outlook

Vaccine rollout and domestic tourism campaigns have provided a boost to the hospitality sector. There has been a gradual resumption of MICE and sporting events such as the Australian Open tennis competition in January and World Economic Forum to be held in Singapore in May 2021. Corporate travel has also ticked up. The tourism industry is expected to improve further, with a full recovery expected in 2023/24.

### Maintain BUY, DDM-based TP raised from S\$1.15 to S\$1.17

Our DDM-based TP was raised to S\$1.17 as we roll forward to FY21e earnings forecast. We are forecasting FY21e/22e DPU yield of 4.2%/5.5%, with an upside 1.4% upside to our TP.

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>Gross revenue</b>	<b>514</b>	<b>515</b>	<b>370</b>	<b>501</b>	<b>591</b>
Direct expenses	(275)	(262)	(220)	(285)	(322)
<b>Gross Profit</b>	<b>239</b>	<b>253</b>	<b>150</b>	<b>215</b>	<b>269</b>
Net finance (expense)/inc.	(46)	(50)	(58)	(42)	(40)
Manager's fees	(24)	(23)	(25)	(29)	(28)
Others	(13)	(6)	11	(10)	(11)
Net income	157	175	59	116	172
FV changes	35	249	(406)	-	-
Others	(13)	(6)	11	(10)	(11)
Total return before tax	195	261	(268)	116	172
Taxation	(44)	(45)	43	(20)	(29)
<b>Total return after tax</b>	<b>148</b>	<b>216</b>	<b>(225)</b>	<b>97</b>	<b>143</b>
Distribution adjustments	26	(31)	332	57	61
<b>Distributable income</b>	<b>174</b>	<b>185</b>	<b>110</b>	<b>155</b>	<b>202</b>

### Per share data (cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
NAV	1.22	1.25	1.15	1.09	1.06
DPU	7.16	7.61	3.01	4.37	5.76

### Cash Flow

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>Net income</b>	<b>195</b>	<b>261</b>	<b>(268)</b>	<b>116</b>	<b>172</b>
Adjustments	128	(163)	417	97	95
WC changes	923	(6)	(51)	(4)	(16)
Cash generated from ops	1,246	92	97	210	252
Others	(20)	(23)	(22)	(11)	(16)
<b>Cashflow from operations</b>	<b>1,226</b>	<b>69</b>	<b>75</b>	<b>199</b>	<b>235</b>
<b>CFI</b>					
CAPEX, net	(78)	(22)	(20)	(84)	(49)
Net Investments in SR & PPE	77	280	198	(92)	(11)
Others	1	0	118	3	3
<b>Cashflow from investments</b>	<b>(1)</b>	<b>259</b>	<b>296</b>	<b>(173)</b>	<b>(57)</b>
<b>CFF</b>					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(35)	(198)	52	51	-
Dividends	(172)	(183)	(156)	(154)	(204)
Others	(47)	(59)	(62)	(63)	(55)
<b>Cashflow from financing</b>	<b>(254)</b>	<b>(440)</b>	<b>(166)</b>	<b>(166)</b>	<b>(259)</b>
<b>Net increase (decrease) in CCE</b>	<b>(28)</b>	<b>48</b>	<b>204</b>	<b>(141)</b>	<b>(80)</b>
<b>Ending cash</b>	<b>226</b>	<b>270</b>	<b>484</b>	<b>343</b>	<b>263</b>
Restricted cash deposits	2	5	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

\*NPI and and gross profit are used interchangeably

### Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
SR properties and PPE	4,728	6,800	6,527	6,684	6,726
Others	81	28	15	15	15
<b>Total non-current assets</b>	<b>4,809</b>	<b>6,828</b>	<b>6,542</b>	<b>6,699</b>	<b>6,741</b>
Trade Receivables	57	62	103	75	89
Cash	228	276	487	346	266
Others	81	28	15	15	15
<b>Total current assets</b>	<b>500</b>	<b>595</b>	<b>622</b>	<b>421</b>	<b>355</b>
<b>Total Assets</b>	<b>5,309</b>	<b>7,423</b>	<b>7,164</b>	<b>7,120</b>	<b>7,096</b>
<b>LIABILITIES</b>					
LT Borrowings	1,835	2,012	2,129	1,743	1,966
Others	125	503	455	453	455
<b>Total non-current liabilities</b>	<b>1,960</b>	<b>2,515</b>	<b>2,584</b>	<b>2,196</b>	<b>2,421</b>
Trade Payables	141	173	185	161	190
ST Borrowings	70	337	333	770	547
Others	125	503	455	453	455
<b>Total non-current liabilities</b>	<b>1,960</b>	<b>2,515</b>	<b>2,584</b>	<b>2,196</b>	<b>2,421</b>
<b>Total Liabilities</b>	<b>2,178</b>	<b>3,080</b>	<b>3,122</b>	<b>3,146</b>	<b>3,178</b>
<b>Net assets</b>	<b>3,131</b>	<b>4,342</b>	<b>4,042</b>	<b>3,974</b>	<b>3,918</b>

### Represented by:

<b>Unitholders' funds</b>	<b>2,644</b>	<b>3,861</b>	<b>3,567</b>	<b>3,499</b>	<b>3,443</b>
Perpetual securities hold	397	396	396	396	396
Non-controlling interests	90	85	79	79	79

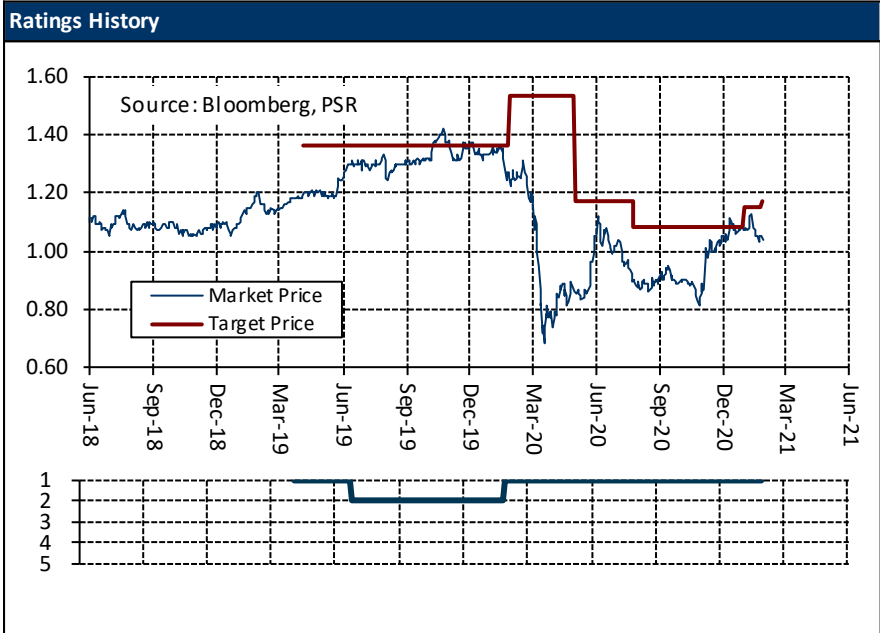
\*Some numbers may not tally due to rounding errors

### Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	0.89	0.83	0.90	0.96	0.98
Distribution Yield (%)	6.6%	5.7%	2.9%	4.2%	5.5%
NPI** yield (%)	5.1%	3.8%	2.4%	3.3%	4.1%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	3.6%	0.1%	-28.2%	35.4%	18.1%
Gross profit	5.5%	5.5%	-40.8%	43.9%	25.2%
Net income	-6.2%	11.1%	-66.3%	98.2%	47.6%
DPU	1.0%	6.3%	-60.5%	45.2%	31.9%
<b>Margins</b>					
Gross profit	46.5%	49.1%	40.4%	43.0%	45.6%
NPAT	29.5%	42.0%	-60.9%	19.3%	24.1%
<b>Key Ratios</b>					
Gearing	36.7%	36.7%	36.3%	35.3%	35.4%
ROA	2.7%	3.4%	-3.1%	1.4%	2.0%
ROE	5.5%	6.6%	-6.0%	2.8%	4.1%



**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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