

OUE Hospitality Trust (OUEHT SP)

Sell (Maintained)

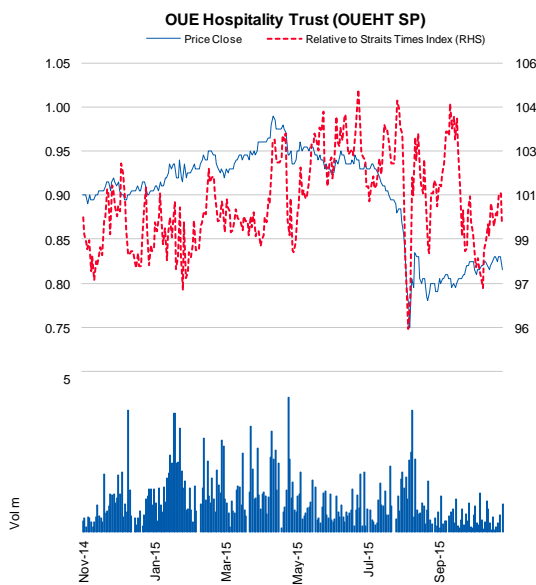
Property - REITS

 Target Price: **SGD0.73**

Market Cap: USD763m

 Price: **SGD0.82**

Is The Strong RevPAR Sustainable?

 Macro ◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.58m/0.41m				
Cons. Upside (%)	14.6				
Upside (%)	-10.9				
52-wk Price low/high (SGD)	0.75 - 0.99				
Free float (%)	57				
Share outstanding (m)	1,332				
Shareholders (%)					
OUE Realty Pte Ltd	40.5				
Golden Concord Asia	1.5				
Hennessy Holdings	1.3				
Share Performance (%)					
	YTD	1m	3m	6m	12m
Absolute	(10.0)	0.6	(8.4)	(13.8)	(9.5)
Relative	1.4	1.2	(3.0)	0.3	(0.1)

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Despite a stronger RevPAR (+1.7% YoY) in 3Q15, we think that the growth is unlikely to be prolonged given the weakness in both the Indonesian arrivals and upscale hotels. Maintain SELL with an unchanged DDM-derived SGD0.73 TP (11% downside). We continue to see weakness within the overall hospitality sector. 3Q/9M15 results were within our expectations as it met c.76% of our forecast.

- ◆ **3Q/9M15 results were within our expectations.** OUE Hospitality Trust (OUEHT) posted a 4.9%/-2.2% YoY decline in 3Q/9M15 distribution per unit (DPU) to SGD1.72/SGD1.64, accounting for c.76% of our full year estimates. This was underpinned by a 5.8/-1.3% YoY growth in its 3Q/9M15 distributable income mainly due to an additional contribution from Crowne Plaza Changi Airport while its gearing ratio remained high at 42.1%.
- ◆ **Why we remain cautious despite positive growth in RevPAR?** Despite the weakness in tourist arrivals number, 3Q15 RevPAR for OUEHT was up 1.7% YoY to SGD245 from SGD241. The higher RevPAR was mainly due to a higher occupancy driven by leisure and group businesses in the quarter. Despite the positive growth in its RevPAR, we are cautious over its sustainability as its portfolio is heavily exposed to Indonesia arrivals. As at 3Q/9M15, Indonesia arrivals declined 5.3/11.0% YoY. In addition, the average RevPAR for Singapore's upscale hotels in 3Q/9M15 has fallen 0.6/2.5% YoY. Given the weakness in Indonesian arrivals, it is more likely that the growth is unsustainable, in our view.
- ◆ **Mandarin Gallery remains healthy as it registers positive rental reversion.** Occupancy levels in Mandarin Gallery (MG) remains high, inching up slightly to c.98%, with an effective rental psf/month (mth) of SGD25.00psf/mth (3Q14: SGD23.90 psf/mth). In addition, the upscale shopping mall has managed to ink c.22% of its net lettable area (NLA), with an average rental reversion of c.6%.
- ◆ **Maintain SELL with a SGD0.73 TP.** In view of a supply glut within the hospitality industry and weakness in Indonesian arrivals, we continue to expect OUEHT to face headwinds. Maintain SELL with a unchanged DDM-derived SGD0.73 TP.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	51	116	118	136	139
Net property income (SGDm)	45	103	104	121	124
Reported net profit (SGDm)	76.1	68.7	78.6	82.6	88.5
Total distributable income (SGDm)	38.2	90.1	80.7	91.4	87.9
DPS (SGD)	0.03	0.07	0.06	0.07	0.06
DPS growth (%)	0.0	132.4	(10.4)	12.1	(4.7)
Recurring P/E (x)	14.0	15.7	13.8	13.2	12.5
P/B (x)	0.88	0.90	0.87	0.87	0.86
Dividend Yield (%)	3.6	8.3	7.4	8.3	7.9
Return on average equity (%)	0.0	5.7	6.4	6.6	6.9
Return on average assets (%)	0.0	3.8	4.0	3.6	3.7
Interest coverage ratio (x)	4.01	6.34	4.42	3.17	3.34

Figure 1: OUEHT's 3Q15 results summary

(SGDm)	3Q14	2Q15	3Q15	%QoQ	%YoY	Comment
Gross revenue	28.5	29.6	32.7	10.4	14.6	Hospitality segment posted higher revenue while retail segment remained largely the same.
Operating expenses	(3.2)	(3.8)	(3.9)	1.2	(1.1)	This was mainly due to the newly acquired CPCA, including the rent payable to Changi Airport Group.
NPI	25.4	25.8	28.8	11.6	13.5	The increase was mainly due to master lease income from CPCA.
REIT mgr's base mgmt fees	(1.4)	(1.6)	(1.6)	1.1	16.6	
REIT mgr's performance fees	(1.0)	(1.0)	(1.2)	11.6	13.5	
REIT trustee's fees	(0.1)	(0.1)	(0.1)	1.0	20.7	
Other trust expenses	(0.4)	(0.3)	(0.3)	(0.7)	(19.2)	
Net income before financing cost & tax	22.5	22.8	25.6	12.5	13.8	
Interest income	0.3	0.3	0.4	8.3	24.8	
Borrowing costs	(3.7)	(6.0)	(6.1)	0.6	64.1	Mainly due to the interest expense on the borrowings drawn down to fund the acquisition of CPCA and increase in interest rate on fixing to fixed rate loan
EBT	19.1	17.1	19.9	16.7	4.2	
Gains from property divestments	0.0	0.0	0.0	nm	nm	
Gains from revaluation	0.0	0.0	0.0	nm	nm	
Gains from derivatives	0.0	0.0	0.0	nm	nm	
Total return before tax	19.1	17.1	19.9	16.7	4.2	
Tax	0.0	0.0	0.0	nm	nm	
Total return - reported	19.1	17.1	19.9	16.7	4.2	
Total return (ex exceptionals)	19.1	17.1	19.9	16.7	4.2	
Add-back: Non tax deductibles	2.6	3.1	3.1	(1.0)	17.6	
Income available for unitholders	21.7	20.2	23.0	13.9	5.8	
Distributable income - unitholders	21.7	20.2	23.0	13.9	5.8	
Number of units (end of period) ('m)	1,321	1,332	1,335	0.3	1.1	
DPU (SGD-cts)	1.64	1.52	1.72	0.1	4.9	
DPU (SGD-cts) (excl. inc. retained)	1.64	1.52	1.72	13.2	4.9	
Unitholders funds per share (SGD)	0.90	0.90	0.90	0.0	0.0	

Source: RHB, Company

Figure 2: OUEHT's 9M15 result summary

(SGDm)	9M14	9M15	%Change	RHB FY15F	% of Y15F	Comment
Gross revenue	85.5	91.6	7.1	118.1	77.5	Hospitality posted higher revenue while retail segment recorded marginal decline in revenue.
Operating expenses	(9.3)	(11.3)	21.7	(13.9)	81.5	This was mainly due to the newly acquired CPCA, including the rent payable to Changi Airport Group
NPI	76.2	80.3	5.3	104.2	77.0	The increase was mainly due to master lease income from CPCA
REIT mgr's base mgmt fees	(4.1)	(4.7)	16.1	(6.5)	72.5	
REIT mgr's performance fees	(3.0)	(3.2)	5.3	(4.2)	77.0	
REIT trustee's fees	(0.2)	(0.3)	34.4	(0.4)	67.8	
Other trust expenses	(1.1)	(0.9)	(13.0)	0.0	nm	
Net income before financing cost & tax	67.8	71.1	4.9	93.2	76.4	
Interest income	1.1	1.1	4.8	0.1	nm	
Borrowing costs	(11.0)	(16.8)	52.3	(21.1)	79.6	Mainly due to the interest expense on the borrowings drawn down to fund the acquisition of CPCA and increase in interest rate on fixing to fixed rate loan
EBT	57.9	55.5	(4.1)	72.1	76.9	
Gains from property divestments	0.0	0.0	nm	0.0	nm	
Gains from revaluation	0.0	0.0	nm	17.6	nm	
Gains from derivatives	0.0	0.0	nm	0.0	nm	
Total return before tax	57.9	55.5	(4.1)	89.7	61.9	
Tax	0.0	0.0	nm	0.0	nm	
Total return - reported	57.9	55.5	(4.1)	89.7	61.9	
Total return (ex exceptionals)	57.9	55.5	(4.1)	72.1	76.9	
Add-back: Non tax deductibles	7.5	9.1	20.4	(4.8)	nm	
Income available for unitholders	65.4	64.6	(1.3)	84.9	76.1	
Distributable income - unitholders	65.4	64.6	(1.3)	84.9	76.1	
Number of units (end of period) ('m)	1,321	1,335	1.1	1,335	100.0	
DPU (SGD-cts)	4.96	4.85	(0.0)	6.36	76.3	
DPU (SGD-cts) (excl. inc. retained)	4.96	4.85	(0.0)	6.36	76.3	
Unitholders funds per share (SGD)	0.90	0.90	0.0	0.93	96.8	

Source: RHB, Company

Figure 3: Key metrics performance

<u>Operating Performance:</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>	<u>3Q15</u>
MOS RevPar: (SGD)	252.0	255.0	223.0	218.0	243.0
CPCA RevPar: (SGD)	0.0	0.0	246.0	231.0	250.0
Retail Effective Rent: (SGD psf/mth)	23.7	23.6	24.6	23.7	25.0
Retail Occupancy: (%)	99.7	98.2	96.0	97.0	98.0
Retail Rental Reversion: (%)	4.7	16.9	25.0	10.0	6.0
DPU (SGD cents)	1.64	1.78	1.61	1.52	1.72
	<u>FY-1</u>	<u>FY-2</u>	<u>FY-3</u>	<u>FY-4</u>	<u>FY-5</u>
Lease Expiry Profile: (Gross Rent %)	21.0	12.0	11.0	17.0	2.0
<u>Capital Management:</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>	<u>3Q15</u>
All-in cost of borrowing: (%)	2.20	2.00	2.50	2.50	2.50
Aggregate Leverage: (%)	32.7	32.7	42.1	42.1	42.1
Term of Debt: (yrs)	1.8	1.5	3.3	2.9	2.7

Source: Company

Figure 4: OUEHT's TP based on dividend discount model

	<u>FY15F</u>	<u>FY16F</u>	<u>FY17F</u>	<u>FY18F</u>	<u>FY19F</u>	<u>FY20F</u>	<u>Terminal value</u>
DPU (SGD cts)	6.36	7.12	6.78	6.96	7.13	7.27	69.07
Fair value (SGD)	0.73						
Current price (SGD)	0.82						
Price upside (%)	(11.0)						
Distribution yield (%)	7.8						
Assumptions							
Risk-free rate (%)	3.0						
Beta	1.1						
Cost of equity (%)	8.8						

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	51	116	118	136	139
Property operating expenses	(6)	(13)	(14)	(15)	(15)
Net property income	45	103	104	121	124
Management fees	(4)	(10)	(11)	(12)	(12)
Trust expenses	(0)	(0)	(0)	(0)	(0)
Operating EBIT	41	93	93	109	112
Operating EBITDA	41	93	93	109	112
Net income from investments	51	(0)	18	21	23
Other recurring income	(5)	(11)	(11)	(13)	(13)
Interest income	0	1	0	0	0
Interest expense	(10)	(15)	(21)	(34)	(33)
Pre-tax profit	76	69	79	83	89
Profit after tax & minorities	76	69	79	83	89
Reported net profit	76	69	79	83	89
Adjustment for distributable income	(38)	21	2	9	(1)
Total distributable income	38	90	81	91	88

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	41	93	93	109	112
Change in working capital	9	(14)	0	(1)	(0)
Other operating cash flow	(7)	(5)	(10)	(15)	(21)
Operating cash flow	43	74	83	93	90
Interest received	(0)	(1)	(0)	(0)	(0)
Interest paid	10	15	21	34	33
Cash flow from operations	53	88	104	128	124
Capex	-	(0)	-	-	-
Other new investments	(1,149)	-	(290)	(205)	-
Other investing cash flow	0	0	0	0	0
Cash flow from investing activities	(1,149)	(0)	(290)	(205)	0
Dividends paid	-	(104)	(81)	(91)	(88)
Proceeds from issue of shares	600	-	-	-	-
Increase in debt	587	-	294	207	(30)
Other financing cash flow	(31)	(14)	(2)	(33)	(32)
Cash flow from financing activities	1,156	(117)	212	83	(150)
Cash at beginning of period	-	61	31	91	97
Total cash generated	61	(30)	25	6	(26)
Implied cash at end of period	61	31	57	97	71

Source: Company data, RHB

Financial Exhibits

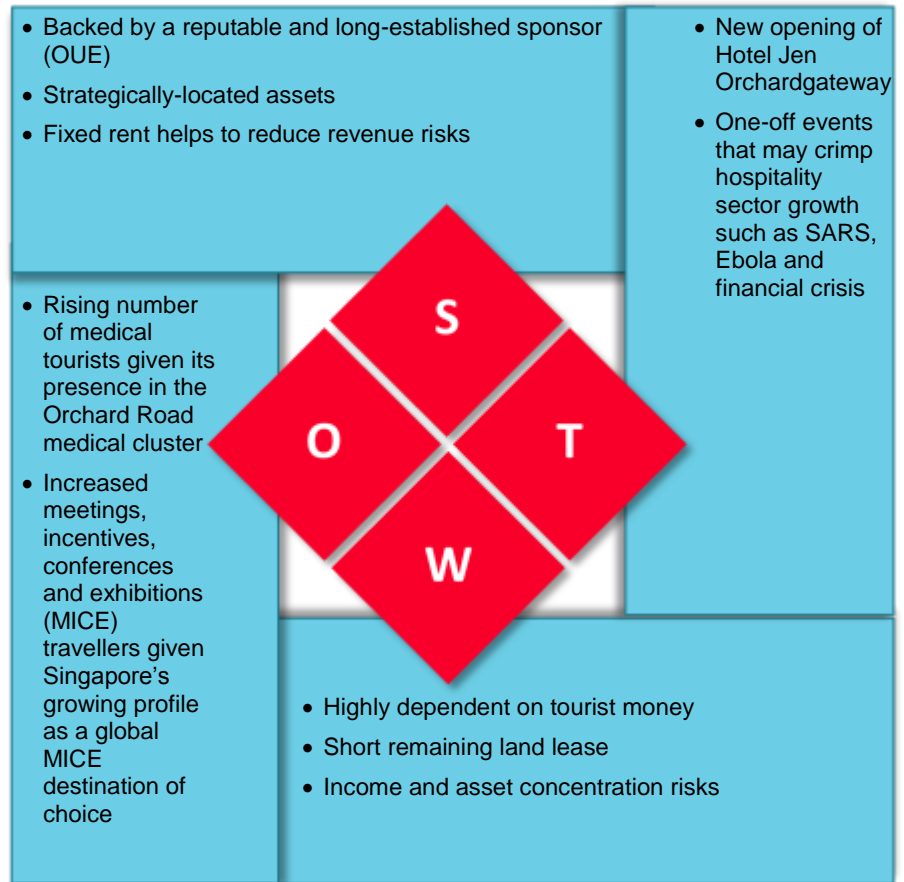
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	61	31	91	97	71
Accounts receivable	17	9	10	11	11
Other current assets	-	-	1	1	1
Total current assets	78	41	101	108	83
Total investments	1,756	1,756	2,064	2,289	2,312
Total non-current assets	1,756	1,756	2,064	2,289	2,312
Total assets	1,834	1,797	2,164	2,398	2,395
Accounts payable	8	7	11	12	12
Other current liabilities	1	2	1	1	1
Total current liabilities	9	10	12	13	13
Total long-term debt	581	583	879	1,088	1,059
Other liabilities	32	5	26	26	26
Total non-current liabilities	613	588	905	1,114	1,086
Total liabilities	623	598	918	1,127	1,099
Share capital	1,212	1,199	1,247	1,270	1,296
Shareholders' equity	1,212	1,199	1,247	1,270	1,296
Total equity	1,212	1,199	1,247	1,270	1,296
Total liabilities & equity	1,834	1,797	2,164	2,398	2,395

Source: Company data, RHB

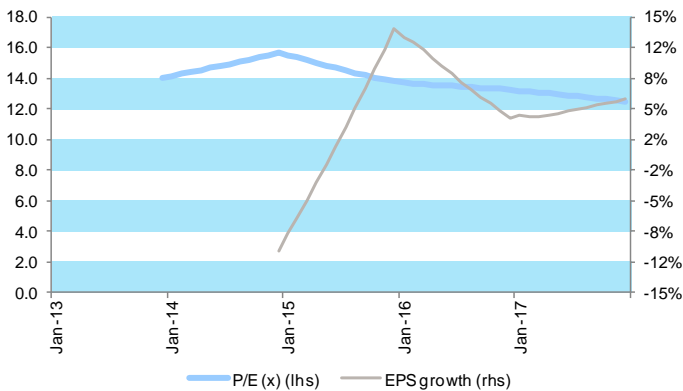
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	0.0	129.0	1.9	15.3	2.4
Net profit growth (%)	0.0	(9.7)	14.4	5.1	7.2
EPS growth (%)	0.0	(10.5)	13.8	4.0	6.0
BVPS growth (%)	0.0	(1.9)	3.0	0.8	0.9
Net profit margin (%)	150.4	59.3	66.5	60.6	63.5
Return on average assets (%)	0.0	3.8	4.0	3.6	3.7
Return on average equity (%)	0.0	5.7	6.4	6.6	6.9
Net debt to equity (%)	43.0	46.0	63.2	78.0	76.3
DPS	0.03	0.07	0.06	0.07	0.06
Recurrent cash flow per share	0.04	0.07	0.08	0.10	0.09

Source: Company data, RHB

SWOT Analysis

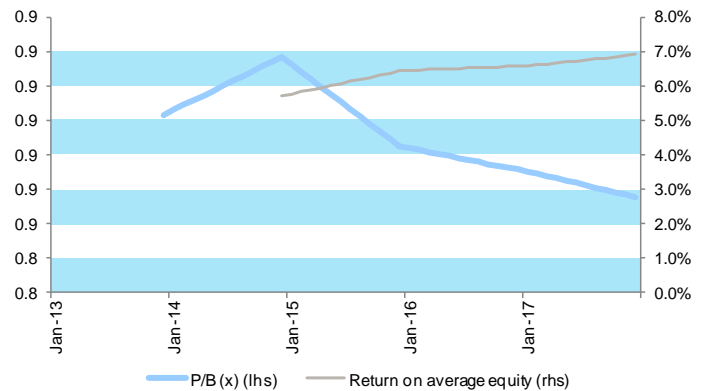


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

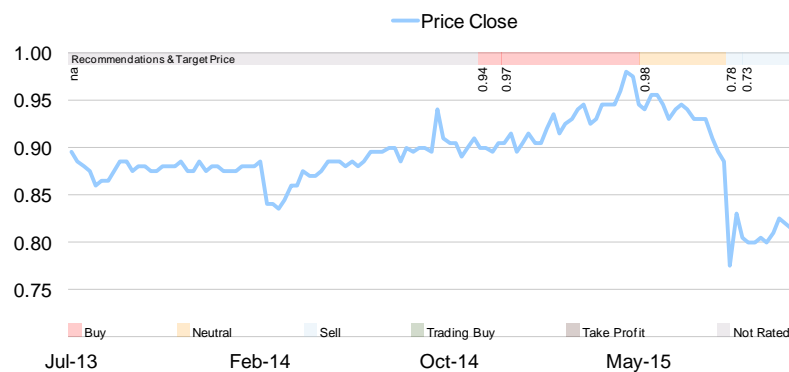


Source: Company data, RHB

Company Profile

OUE Hospitality Trust (OUEHT) is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that directly or indirectly invests in a portfolio of income producing real estate which is used primarily for hospitality and/or hospitality-related purposes while HBT is a business trust.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Sell	0.73	0.81
2015-08-14	Sell	0.78	0.89
2015-05-08	Neutral	0.98	0.95
2015-01-28	Buy	0.97	0.93
2014-12-01	Buy	0.97	0.91
2014-11-04	Buy	0.94	0.92

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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