

## Fraser's Hospitality Trust: Credit Update

Friday, 11 November 2016

### Steady as she goes

- Operating results in FY2016 steady:** For the full year, gross revenue was up 17.1% to SGD123.6mn (annualized FY2015: SGD105.6mn) while net property income ("NPI") was up 20.6% to SGD104.2mn (annualized FY2015: SGD86.4mn). This was driven by the full year contribution from the acquisition of Sofitel Sydney Wentworth (acquired in July 2015), Maritim Hotel Dresden in Germany (acquired in June 2016) and better performance at the ANA Crowne Plaza in Kobe as well as at the other two Sydney properties. Gross revenue for 4Q2016 increased by 8.6% y/y to SGD33.5mn while NPI increased y/y by 11.5% to SGD28.6mn, in part driven by the addition of Maritim Hotel Dresden and the return of full capacity of InterContinental Singapore (post renovation) which more than offset weaknesses at the UK and Japanese portfolio. Taking out the effect of Maritim Hotel Dresden, we estimate that gross revenue and NPI increased by 3.3% and 5.7% respectively. For FY2016, EBITDA/Gross interest was healthy at 4.4x. Adjusting 50% of perpetual distribution to the coverage ratio, we find EBITDA/(Gross interest plus perpetual distribution) to be 4.1x. Fixed rent which represents 45% of gross revenue was SGD55.6mn and provided 2.5x coverage on FHT's gross interest and distribution on perpetual securities in FY2016.
- Balance sheet to improve:** As at 30 September 2016, FHT's aggregate leverage as measured by Gross Debt-to-Total Asset was 37.5% (31 December 2015: 38.6%). Adjusting gross debt upwards for 50% of its perpetual securities, we find adjusted gross debt-to-total asset to be 39.8%. This was better than our initial expectation post-Brexit as property valuation gains from the Australian properties was sufficient to offset the negative impact on UK properties. Earlier, we expected Gross Debt-to-Total Asset to extend beyond 40% as a result of the depreciation of the GBP against the SGD. While Brexit continues to be an overhang to the UK business, FHT's next annual asset valuation exercise will only be announced in October 2017 (to be adopted for FYE September 2017 financials). On 20 October 2016, FHT completed the fully equity-funded acquisition of Novotel on Collins in Melbourne. We expect total asset base to increase by ~SGD243mn and improving aggregate leverage to 34% (adjusted aggregate leverage to improve to 36%).
- Increasing diversification of asset base:** Since its IPO in July 2014, FHT has bought 3 more properties and we estimate its' investment property value to be around SGD2.3bn, rising from SGD1.7bn at time of IPO. While Singapore is still a big part of the portfolio (~37% of investment property value), FHT has continued to diversify beyond this market. At time of IPO, Singapore made up half of FHT's portfolio value. We see this diversification as a positive development as we expect the oversupply in Singapore hotel rooms to persist. In 1H2016, overall revenue per available room ("RevPar") for Singapore has fallen 2.4% y/y to SGD197/per night on the back of lower average room rates. Our colleagues at OCBC Investment Research had highlighted that hotel room stock increased 6.5% in 2015 and room stock is expected to increase further by 4.7% y/y to 63,800 by year end. Downward pressures on RevPAR are expected to persist.
- Recommendation:** While FHT's credit rating is unlikely to be upgraded in the next 6 months (re-affirmed at Baa2/Stable by Moody's in September 2016), we are of the view that FHT's credit profile is improving and expect the valuation gap of FHT to narrow against its closest peer Ascott Residence Trust ("ART"). We think FHREIT 4.45 '49c21 (trading at a YTW of ~412 bps) more than compensates for its one year longer call date and smaller asset base versus the ARTSP 4.68 '49c20. The ARTSP 5.00 '29c19s look fair on an I-spread basis. We are lifting FHT's issuer profile to **Positive** from Neutral and putting the perpetuals on **Overweight**.

#### Treasury Advisory

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Tel: 6349-1899

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Tel: 6349-1886

#### GT Institutional Sales

Tel: 6349-1810

#### OCBC Credit Research

##### Ezien Hoo, CFA

+65 6722 2215

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

Issuer	Issue	Maturity/Call	Outstanding Amount (SGDm)	Ask Price	Ask YTW	I-Spread	Rating
FHT	FHREIT 4.45 '49c21	12-May-2021	100.00	101.35	4.12	224	NR/Baa2/NR
ART	ARTSP 5.00 '49c19	27-Oct-2019	150.00	103.65	3.68	205	NR/Baa3/NR
ART	ARTSP 4.68 '49c20	30-June-2020	250.00	103.00	3.78	203	NR/Baa3/NR

Note: (1) Indicative prices as at 11 November 2016

(2) FHT's rating refers to the stapled group rating. The perpetual is issued by Perpetual (Asia) Limited (in its capacity as trustee of Frasers Hospitality REIT).

(3) ART's rating refers to the issuer rating

# Frasers Hospitality Trust

**Table 1: Summary Financials**

Year Ended 30th Sep	^FY2014	^^FY2015	FY2016
<b>Income Statement (SGD'mn)</b>			
Revenue	50.2	78.6	123.6
EBITDA	37.5	54.0	90.2
EBIT	37.5	54.0	90.2
Gross interest expense	6.2	13.4	20.8
Profit Before Tax	50.5	102.9	78.7
Net profit	48.1	87.3	62.1
<b>Balance Sheet (SGD'mn)</b>			
Cash and bank deposits	76.1	52.3	64.4
Total assets	1,804.8	2,031.7	2,161.0
Gross debt	714.9	785.0	810.0
Net debt	638.8	732.7	745.6
Shareholders' equity	1,032.9	1,172.3	1,244.2
Total capitalization	1,747.8	1,957.3	2,054.2
Net capitalization	1,671.7	1,905.0	1,989.8
<b>Cash Flow (SGD'mn)</b>			
Funds from operations (FFO)	48.1	87.3	62.1
* CFO	-14.1	125.4	107.8
Capex	25.3	13.1	0.0
Acquisitions	1,635.5	243.6	102.3
Disposals	0.0	0.0	0.0
Dividends	0.0	71.0	63.6
Free Cash Flow (FCF)	-39.4	112.3	107.8
* FCF Adjusted	1,660.8	327.7	165.9
<b>Key Ratios</b>			
EBITDA margin (%)	74.7	68.7	73.0
Net margin (%)	95.9	111.2	50.2
Gross debt to EBITDA (x)	9.5	10.9	9.0
Net debt to EBITDA (x)	8.5	10.2	8.3
Gross Debt to Equity (x)	0.69	0.67	0.65
Net Debt to Equity (x)	0.62	0.63	0.60
Gross debt/total capitalisation (%)	40.9	40.1	39.4
Net debt/net capitalisation (%)	38.2	38.5	37.5
Cash/current borrowings (x)	1.7	NM	0.5
EBITDA/Total Interest (x)	6.0	4.0	4.3

Source: Company, OCBC estimate | ^FY2014: July - Dec 2014 | ^^FY2015: Jan - Sep 2015

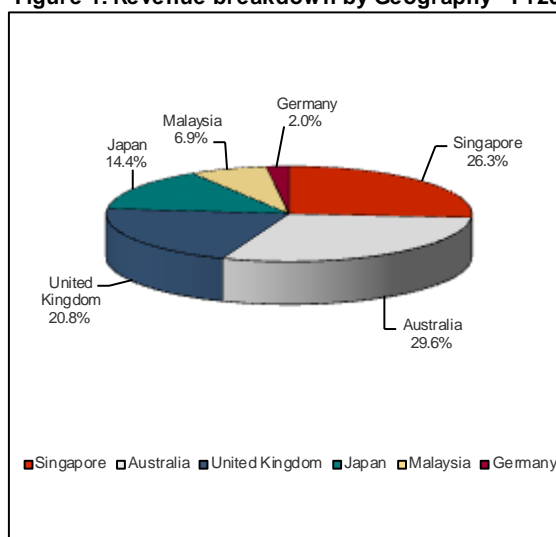
\*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | \*CFO before deducting interest expense

**Figure 3: Debt Maturity Profile**

Amounts in (SGD'mn)	As at 30/9/2016	% of debt
<b>Amount repayable in one year or less, or on demand</b>		
Secured	0.0	0.0%
Unsecured	128.9	15.9%
	<b>128.9</b>	<b>15.9%</b>
<b>Amount repayable after a year</b>		
Secured	31.3	3.9%
Unsecured	649.8	80.2%
	<b>681.1</b>	<b>84.1%</b>
<b>Total</b>	<b>810.0</b>	<b>100.0%</b>

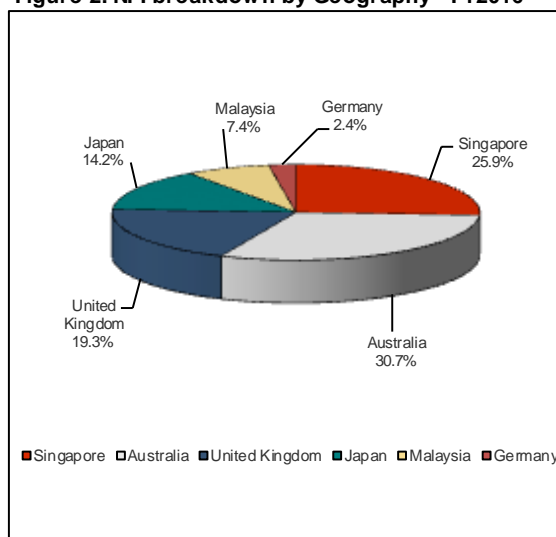
Source: Company

**Figure 1: Revenue breakdown by Geography - FY2016**



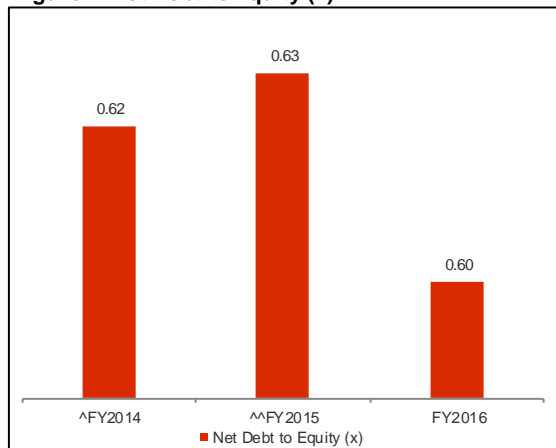
Source: Company

**Figure 2: NPI breakdown by Geography - FY2016**



Source: Company

**Figure 4: Net Debt to Equity (x)**



Source: Company, OCBC estimates

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