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**Basic Information (as of 31 October 2020)**

Last Closed Price	S\$0.40
12M Target Price	S\$0.63
+/- Potential	+57.2%
Ticker	SGX: ACV
GICS Sector	Real Estate
GICS Sub-Industry	Real Estate (Hospitality)

**1Y Price v Relative Index**

**Company Description**

Fraser's Hospitality Trust ("FHT") is the first global hotel and serviced residence trust to be listed on the Singapore Exchange, comprising Fraser's Hospitality Real Estate Investment Trust and Fraser's Hospitality Business Trust. It owns 15 properties in 9 key cities, such as Sydney, London and Singapore.

**Key Financials**

Market Cap	S\$763.9m
Basic Shares O/S	S\$1.89b
Free Float	38.0%
52-Wk High-Low	S\$0.32 - S\$0.74
Fiscal Year End	30-Sept-2020

(S\$m)	FY18A	FY19A	FY20E	FY21E
Revenue	155.9	149.8	44.9	122.9
Gr Rate (%)	(1.8)	(3.9)	(70.0)	173.5
NPI	117.0	111.7	28.9	79.1
Margin (%)	75.1	74.5	64.4	64.4
ROE	4.2	3.3	0.5	3.1
ROA	2.7	2.1	0.3	2.0
ROIC	3.7	3.7	0.9	2.7
Gearing	33.6	35.1	35.8	35.1

**Key Executives**

Colin Low	Chief Executive Officer
Eric Gan	Chief Financial Officer

We are initiating coverage of **Fraser's Hospitality Trust, ("FHT" or the "Company")** with a BUY rating and a **S\$0.63** 12M price target.

**FY20 Earnings Highlights**

- Good 1Q FY20 performance cushioned the impact of COVID-19 in 2Q FY20.
- FHT's Gross Revenue (GR) and Net Property Income (NPI) have declined year-on-year (YoY) by 41.5% and 52.0% respectively.
- COVID-19 leading to steep occupancy rate declines and cancellations of events across FHT's portfolio
- Lower NPI has resulted in income available for distribution (DI) to drop by 67.2% YoY to S\$6.1m from S\$18.7m.
- Distribution per stapled security (DPS) dropped by 68.1% YoY to S\$0.31 cents from S\$0.98 cents.

**Investment Thesis**

- **Strong liquidity position** places FHT in a superior financial position compared to its peers, allowing it to lead the industry recovery post-COVID
- **Recovery of major FHT revenue sectors** in Australia, Singapore and Japan due to their strategic placement will aid revenue increase in near-term outlook
- **Pipeline of Asset Enhancement Initiatives** to boost future earnings going forward

**Catalysts**

- Successful containment of Covid-19 in Singapore and Australia to allow rollout of bilateral air travel bubble, providing a much-needed boost to the hospitality industry.
- Successful implementation of policies by the Government of Australia aimed at boosting domestic tourism.
- Effective implementation of cost-containment measures by management.

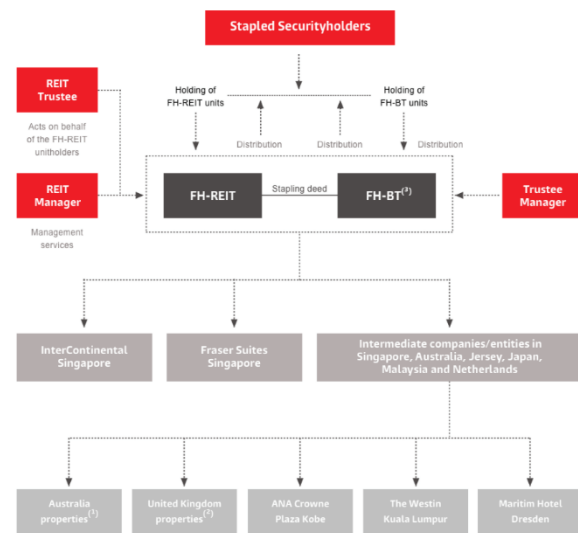
**Valuations**

Our 12M price target at the date of coverage is **S\$0.63**. Using an assumed dividend pay-out ratio of 90%, a Dividend Discount Model was used to derive the valuation. Our target price falls within the relative valuations of FHT's competitors, using the relative valuation model. The 1Y historical yield spread between FHT and 10 years Singapore Government Securities of 6.47% is lower than the current yield spread of 8.74% and presents an attractive risk reward profile.

**Investment Risks**

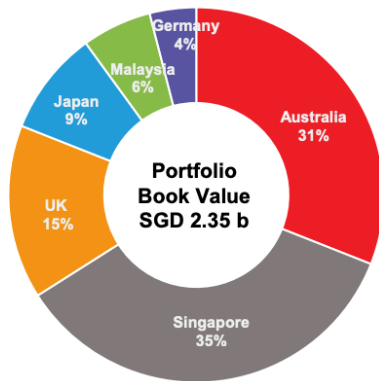
- **Prolonged negative impacts of COVID-19:** Risk partly mitigated as large portion of its property portfolio consists of Singapore and Australia. Both of which are recovering well from the pandemic.
- **Liquidity risk:** Weighted average debt maturity is 4.63 years with prudent capital management that ensured maturities of borrowings are spread out.
- **Foreign exchange risk:** High FX Exposure to 6 different countries which may impact earnings. FX risks are hedged through the use of forward contracts.
- **Increasing supply of hotels within main markets:** Increased competition may reduce FHT's attractiveness in Australia. Due to the pandemic and Australia's reliance on international supply of materials, many projects of competitors have been delayed due to social distancing measures.

**Figure 1: Trust Structure**



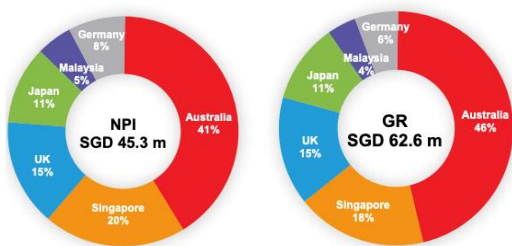
Source: Frasers Hospitality Trust Company Filings

**Figure 2: Book Value of Portfolio as of 31 Dec 2019**



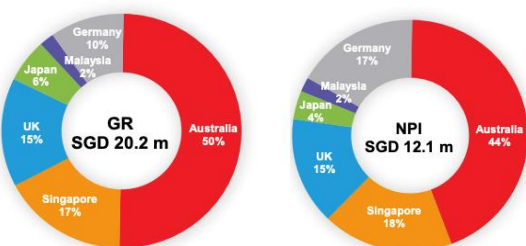
Source: Frasers Hospitality Trust 1Q20 Presentation

**Figure 3: Portfolio contribution by country 1H FY20**



Source: Frasers Hospitality Trust 2Q20 Presentation

**Figure 4: Portfolio contribution by country 2Q FY20**



Source: Frasers Hospitality Trust 2Q20 Presentation

## Company Overview

Frasers Hospitality Trust is the first global hotel and serviced residence trust to be listed on Singapore Exchange. The listed real estate investment trust (REIT) encompasses both Frasers Hospitality Real Estate Investment Trust and Frasers Hospitality Business Trust. The sponsor of FHT is Frasers Property Limited ("FPL") which is one of the largest Singapore's property developer and investor. As at 31 December 2019, FPL has assets amounting to S\$38.8b. FPL has a well-diversified portfolio of businesses, hospitality businesses and serviced apartments and hotels in more than 70 cities across Asia, Australia, Europe, the Middle East and Africa.

As of 31 Dec 2019, FHT has a combined portfolio value of S\$2.35b. It is a pure-play hotels and serviced residences real estate investment trust that operates globally. The well-diversified portfolio comprises 15 properties (3913 rooms) that operate in 9 key cities in Asia, Europe and Australia, namely Melbourne, Sydney, Singapore, London, Edinburgh, Glasgow, Dresden, Kobe and Kuala Lumpur. Currently, 5 of the 15 properties namely Novotel Melbourne on Collins, Novotel Sydney Darling Square, Sofitel Sydney Wentworth, InterContinental Singapore and ibis Styles London Gloucester Road are solely managed by third party operators. Hotels managed by both Frasers Hospitality and third-party operators are Park International London, ANA Crowne Plaza Kobe, The Westin Kuala Lumpur and Maritim Hotel Dresden. The remaining properties are Fraser Suites Sydney, Fraser Suites Edinburgh, Fraser Suites Queen Gate and Fraser Place Canary Wharf which are solely managed by Frasers Hospitality. Majority of the returns are driven by properties in Australia (41%), Singapore (20%) and the United Kingdom (15%) in terms of portfolio contribution.

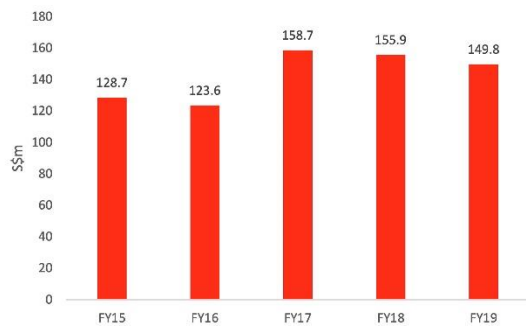
The majority of FHT's portfolio lies within the Upper Upscale hotel segment of the hospitality industry, with 1,878 rooms in this particular segment. Outside of the Upper Upscale segment, FHT owns Park International London (Mid-scale), and the Maritim Hotel Dresden (Upscale).

Due to COVID-19, the hospitality industry has been adversely impacted as countries imposed travel restrictions and social distancing measures. FHT's good performance in 1Q FY20 helped to reduce the impact of COVID-19 in 2Q2020. To cope with the uncertainty of COVID-19, FHT has been conserving cash. In 2Q2020 and in expectation of a weak performance in the coming quarter, FHT retained S\$25.3m (80% of income available for distribution). This is done so in order to commit to mandatory capital commitments, regulatory compliance and to support Novotel Melbourne on Collins which has no third-party master lease protection. The master lease protection allows the owner of the asset to be protected against rental market hazards such as vacancies and lease expirations.

## FY20 Earnings Review

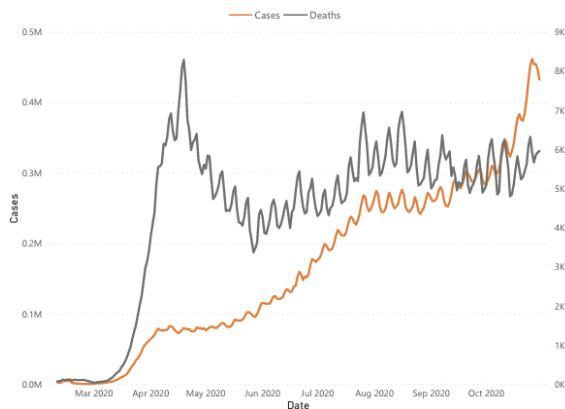
- Gross Revenue (GR) fell from S\$75.2m to S\$62.6m. In 2Q FY20, GR is S\$20.2m (33% of 1H FY20).
- Net Property Income (NPI) fell by 19.6% YoY to S\$45.3m. In 2Q FY20, NPI is S\$12.1m (27% of 1H FY20 NPI).
- Prior to COVID-19, FHT's Gross Operating Profits (GOP) rose across the 6 countries.
- Despite weaker trading environment weighing on the average daily rate (ADR) in Australia, occupancy rate (OCC) increased YoY from 88.7% to 90.3% with a decrease in RevPAR of 3.4%.
- Singapore's OCC rose YoY from 82.0% to 86.7% and RevPAR increased YoY by 7.2%.
- In the UK, OCC rose YoY from 88.4% to 88.9% and its RevPAR increased YoY by 5.7%.
- For Japan, OCC decreased YoY from 81.2% to 77.9% with a decrease YoY of 2.4% in RevPAR.

**Figure 5: Historical Gross Revenue**



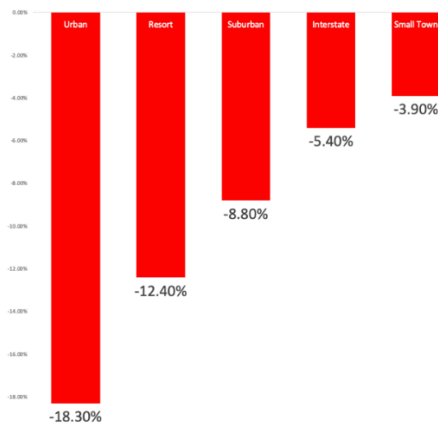
Source: Frasers Hospitality Trust 2019 Annual Report

**Figure 6: Daily Reported Cases and Deaths due to COVID-19 globally**



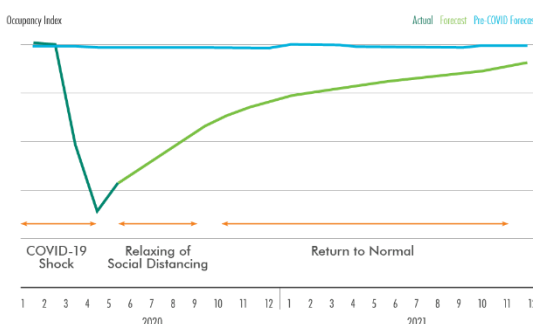
Source: International SOS

**Figure 7: RevPAR Changes For Different Locations**



Source: National Geographic

**Figure 8: Recovery period of Luxury hotels' RevPAR**



Source: McKinsey & Company

- Malaysia OCC rose YoY from 74.0% to 83.7% with 11.4% increase YoY in RevPAR.
- Strong balance sheet maintained, with gearing ratio of 36% which is well below the self-imposed limit of 50%. This leaves a significant regulatory debt headroom of S\$337.9m.

## Industry Outlook

Prior to the outbreak of COVID-19, the hospitality industry had seen relatively muted growth, with RevPAR growth decelerating, increasing just 0.7% in Q4 2019 and 0.9% for the year overall. As COVID-19 began to impact market performance in the second half of January, the hospitality industry will be expecting significant decline in 2020, but a speedy recovery once the pandemic settles. Unfortunately, this pandemic will determine the overall recovery of the economy and hence, the industry. The length and severity of this pandemic remains uncertain.

### COVID-19 Commentary

The unprecedented COVID-19 pandemic has disrupted many industries, but it has hit the tourism, travel and hospitality industries particularly hard. Due to the worldwide lockdown measures, international travel dropped to almost zero. As a result, the hospitality industry, and FHT in particular, which depends heavily on international travellers, have suffered tremendously in the past couple of months.

Furthermore, due to the increased reliance and trust on online communication tools, many business travellers have been able to work from home, and hence the demand for hotel rooms have decreased.

### Government's handling of COVID-19 to be key in industry's recovery

The macroeconomic climate and guests' sense of security are important in determining the speed of recovery in the hospitality industry. However, much of these depends heavily on the respective governments' policies and handling of the pandemic.

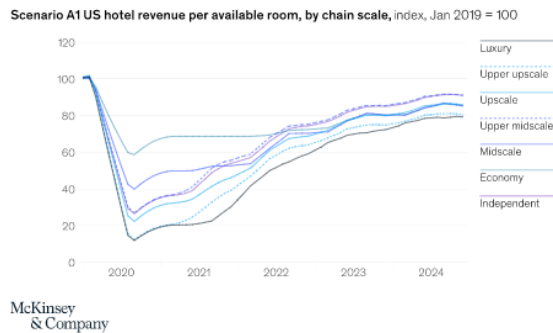
#### Singapore and Australia

At the initial stage of the global spread of COVID-19, Singapore and Australia suffered a high number of new confirmed cases daily. However, since their peak back in April 2020 and July 2020 respectively, these two countries seem to have the pandemic under control, with an average of less than 30 new confirmed cases a day since September 2020. To take advantage of the relatively contained situation, the two countries plan to establish "travel bubbles", or quarantine-free travel corridors, which allows travellers from certain countries to enter their country without having to undergo hotel quarantine of 14 days. This is a huge aid for the hospitality industry in the two countries.

#### Malaysia, Japan, U.K. and Germany

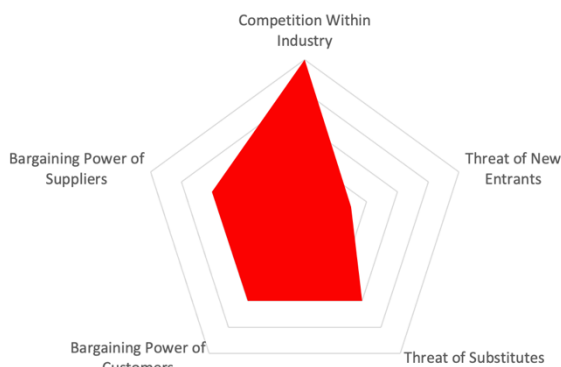
These four countries are experiencing the ostensible second wave of new COVID-19 cases. With that, these countries might tighten their social-distancing policing and shut down even more businesses in the various sectors. As such, it might be observed that the hospitality industry in these geographical regions might have to experience a prolonged and delayed recovery. FHT's properties in these four countries account for roughly 35% of their total portfolio value. In summary, the industry's recovery is heavily reliant on how well the local government is handling the pandemic. In other words, the better the pandemic situation is being handled, the faster the expected economic recovery.

**Figure 9: Forecasted Recovery for Hotel, by Chain Scale**



Source: McKinsey & Company

**Figure 10: Porter's Five Forces Analysis**



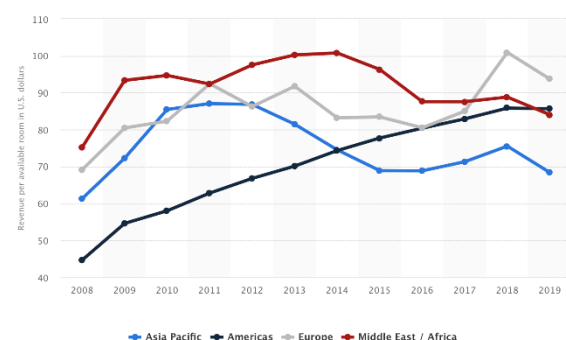
Source: NUS Investment Society Estimates

**Figure 11: Market Size of the Global Hotel Industry**



Source: Statista; Travel, Tourism and Hospitality

**Figure 12: RevPAR for Global Hotel Industry**



Source: Statista; Travel, Tourism and Hospitality

## Strong pent-up demand in travel and hotel stays, especially in urban areas

Both leisure and business travels are seeing pent-up demand eclipsing COVID-19 case counts. Oliver Wyman, a consulting firm, surveyed nearly 4600 people, and more than half of the surveyors are willing to travel once the travel restrictions are lifted by their respective governments. This should be encouraging for the travel and hospitality industry, to see strong signs of recovery.

According to those surveyed, 37% wish to travel to urban areas within their home countries, alongside 34% who wish to travel outside of their home countries. This is a positive sign for companies which operate mid-scale to up-scale hotels in large key metropolitan cities. Based on CBRE's forecast, the pace of declining occupancy, ADR, RevPAR and demand is expected to weaken during the third quarter of 2020. Year-over-year growth in each measure is anticipated by the second quarter of 2021.

The above point shows that the constraints of the hospitality industry seem to be largely mandated by policymakers. Once the restriction is lifted, the pent-up demand will allow speedy recovery.

## Supply of hotels will be significantly reduced, post-pandemic

Many operators and owners in the hotel and hospitality industry, especially the smaller players, operate on extremely tight margins. A pandemic like COVID-19 which caused significant global lockdowns and travel restrictions will likely cause their operating cash flows to suffer.

A lack of available working capital likely will be most acute among the non-diversified and/or smaller owners and operators, with low cash reserves and/or limited access to credit lines. The cost of reopening, including new measures to ensure the safety of staff and guests, will cause some owners to consider repurposing their assets and some amount of secondary hotel assets to remain permanently closed. As such, the number of hotels operating post-pandemic will be reduced. This benefits the larger, more cash-rich players, which will likely survive the pandemic.

## Future growth of the hospitality industry remains strong

The future of the industry remains bright. This can be attributed by the pressure from novel online hospitality service providers like Airbnb pushing hoteliers to improve their online presence. As the novel competition continues to expand and compete for a larger portion of the market share of hotel chains, the hotels which want to sustain their market share will be expected to enhance their quality of service. Better quality of service and guest experience is to be expected from every player in the industry in the future.

## Porter's Five Forces

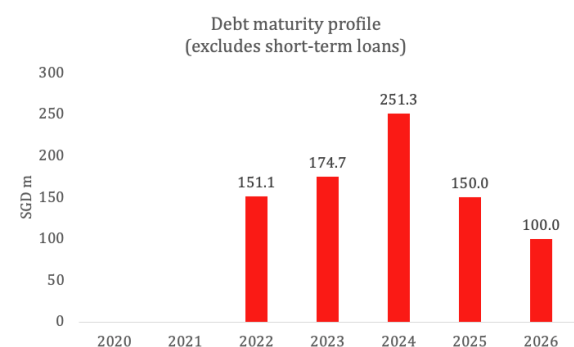
Illustrating the points below using the Porter's Five Forces diagram, we observe that the competition in the industry will remain high. As such, we do not expect many new entrants into the markets that FHT is operating in. While new substitutes like the novel companies might experience strong growth at the start, we expect traditional players like FHT to catch up soon. Diversity in guests' mix results in moderate bargaining power of customers, while the diversity of suppliers needed for FHT results in modest bargaining powers from both sides.

## Competition within industry - High

There is strong competition both from the hotel industry, and the serviced residences industry. They have to also compete for guests with large companies that have strong brands and guest appeal, including Hilton, Intercontinental Hotels Group, Hyatt, Wyndham, Accor, Choice, Radisson, Best Western, and others. Further, the

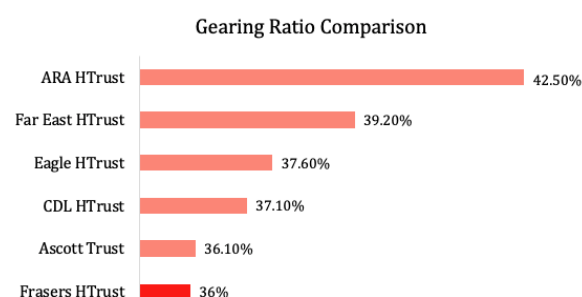


**Figure 13: Debt Maturity Profile**



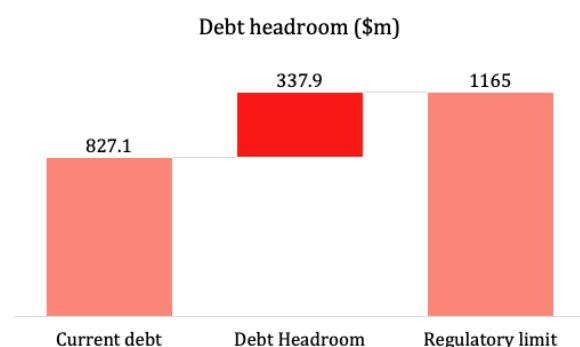
Source: Frasers Hospitality Trust 2Q20 Presentation

**Figure 14: Lowest Gearing Ratio Among Peers**



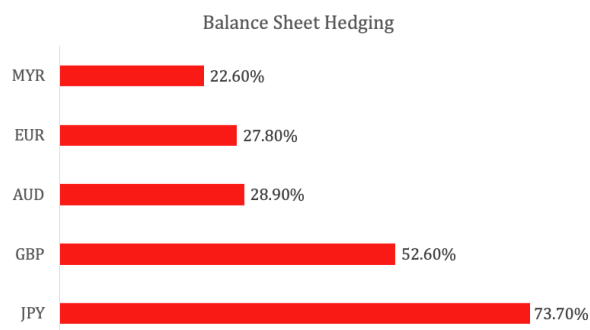
Source: Frasers Hospitality Trust 2Q20 Presentation

**Figure 15: Ample Debt Headroom**



Source: Frasers Hospitality Trust 2Q20 Presentation

**Figure 16: Foreign Currency Hedging**



Source: Frasers Hospitality Trust 2Q20 Presentation

emergence of novel online lodging services such as Airbnb and Homeaway pose a significant threat to FHT's revenue sources.

#### Threat of new entrants - Low

Barriers to entry for premium lodging companies are high. This is largely due to the high amount of initial capital investments required to erect new lodging infrastructures. Further, the goodwill and brand reputation that the brands under FHT, such as Novotel, Sofitel and Fraser Suites, have built over the years is not easily replicable. Moreover, the macroeconomic climate outlook is dull, and with the industry being relatively saturated, it is unlikely for a new entrant to be willing to spend hundreds of millions to compete in the market.

#### Threat of substitutes - Moderate

FHT has the risk of being substituted by both traditional and novel competitors – for traditional competitors, they include companies like Hilton Hotels (NYSE: HLT); for novel competitors, they include unlisted companies like Airbnb. However, FHT has loyalty-based programmes like credit card promotions, as well as affiliations with different organisations that makes guests favour FHT's properties and services.

#### Bargaining power of customers - Moderate

There is a well-balanced mixture of guests that occupies FHT properties. For leisure tourists, they are more price sensitive, and hence more bargaining power. This can be attributed to the fact that they have no strong loyalty to a particular luxury hotel chain and will likely choose the one that is less expensive. For business travellers, they are less price sensitive, and their criteria for choice will largely be location and reputation of the hotels.

#### Bargaining power of suppliers - Moderate

Hospitality industry requires a steady supply from mainly two aspects – human resources and raw materials. For human resources, they rely on a number of suppliers ranging from employee trainers, management and training associations. For raw materials such as the food services that the hotel provides, and the amenities supplies such as toiletries, FHT requires a supplier to provide fairly standardised products. This helps FHT as FHT will not have much particular preference between suppliers aside from price, and with a wide availability of suppliers within the construction industry, FHT can compare and benchmark supplier quotations to generate cost savings.

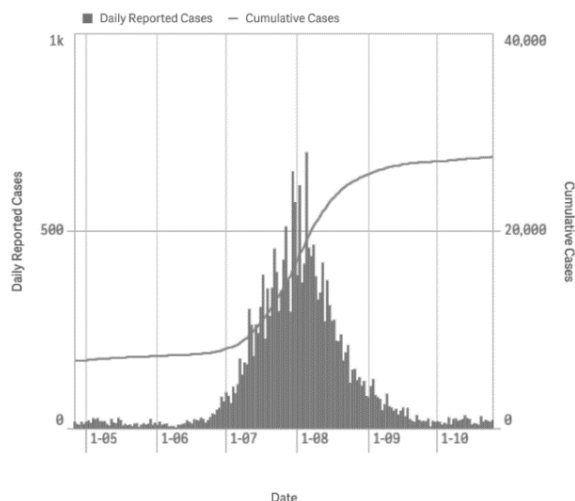
### Investment Thesis

#### 1. Strong liquidity position places FHT in a superior financial position compared to its peers, allowing it to lead the industry recovery post-COVID

FHT is extremely well positioned to weather out COVID-19 and is poised to be one of the main hospitality REITs to lead the recovery once the economy recovers from the impact of the pandemic. This is due to their resilient capital structure in comparison to other hospitality REITs, providing them with the financial flexibility of further building on their development pipeline or on value-accretive asset enhancement initiatives.

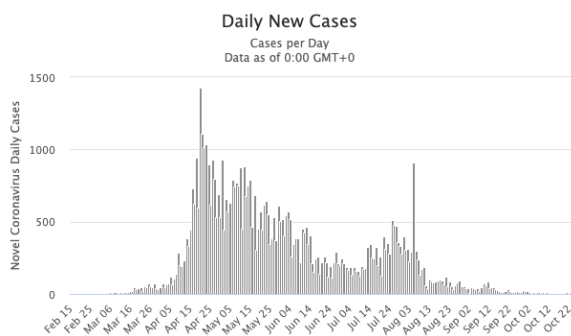
FHT has a comfortable gearing ratio of 35.9%, which is the lowest when compared against all other Singapore Hospitality REITs, including CDL Hospitality Trust, Ascott Trust, Far East Hospitality Trust and ARA Hospitality Trust. With the increased leverage limit for S-REITs from 45% to 50% as of 16 April 2020, FHT's gearing ratio of 36% gives FHT ample debt headroom of \$337.9m. This means that compared to its peers, FHT have the bandwidth to engage in any debt financing for any urgent needs or for further expansion, and the additional financial flexibility can allow it to boost the attractiveness

**Figure 17: Australia's Decreasing Covid Numbers**



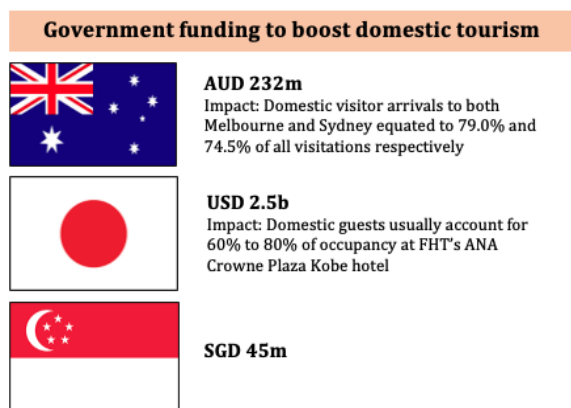
Source: Australian Government Department Of Health

**Figure 18: Singapore's Decreasing COVID-19 Numbers**



Source: Worldometer

**Figure 19: Breakdown of Government Funding to boost domestic tourism**



Source: Australia, Japan and Singapore government websites, Frasers Hospitality Trust 2019 Annual Report

of its hotels as compared to other REITs, and capture greater market share when the economy recovers.

FHT also has a weighted average debt maturity of 3.88 years and no debt maturing in FY20 and FY21 (excluding current liabilities), with no more than 30% of loans due in any particular year. This huge spread of its loans indicates that FHT does not have to worry about refinancing or meeting its debt obligations in the near future. With an interest coverage ratio of 3.2x, FHT is in a much better position than its peers in weathering out COVID-19, and have the means to maintain its operations effectively such that it is the first to benefit from capital rotation back into the hospitality REITs sector.

To further boost liquidity, FHT has also retained 80% of its distributable income for the first half of the fiscal year 2020 and augmented their liquidity position with a pre-emptive drawdown of a S\$30.0m on their revolving credit facility (RCF).

The strong capital management of FHT compared to its peers is a good indicator of its resiliency in the COVID-19 situation. With the ample liquidity at its disposal, FHT will be able to further engage in value-accretive developments to attract investors.

## 2. Recovery of major FHT revenue sectors in Australia, Singapore and Japan due to their strategic placement will aid revenue increase in near-term outlook

The market sentiments might have overplayed the severity of COVID-19's impact on FHT's hospitality portfolio. FHT's major revenue sectors are placed in regions that have controlled the pandemic outbreak reasonably well. Moreover, while the general hospitality industry has suffered due to halts in international travel, governments across the globe are more accepting of domestic travel as compared to cross-border tourism. FHT's hospitality portfolio is strategically placed in market regions that stand to gain from these boosts in domestic tourism, which will offset the decrease in revenue from international tourism. We believe that the near-term increase in domestic tourism will help to bridge revenue recovery and provide top line revenue resilience until overseas travel resumes.

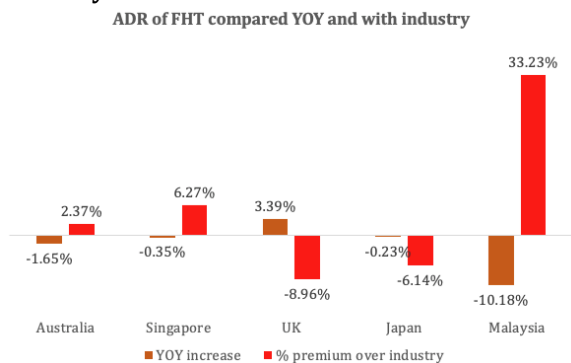
### Australia (41% of FHT's NPI):

Domestic visitors make up most of the visitations in both Melbourne and Sydney. In 2019, international visitor arrivals to Melbourne and Sydney equated to 21.0% and 25.5% of all visitation in each region respectively, while domestic visitor arrivals to Melbourne and Sydney equated to 79.0% and 74.5% of all visitations to each region. AU\$232m is being provided to Tourism Australia to increase domestic travel as well. This shows the prevalence of domestic tourism in boosting the occupancy of FHT's properties within the region. Moreover, Australia has met relative success in containing Covid, and are reopening its borders with New Zealand as of 16 October 2020, and is looking to reopen borders with Singapore, South Korea and Japan. Due to their prime locations, Novotel Melbourne on Collins, Fraser Suites Sydney, and Sofitel Sydney Wentworth have been used by the government to host returning residents under quarantine, supporting the occupancy rates of these properties in the near-term as they host these quarantines. This will provide near term revenue resilience, while domestic tourism and the gradual reopening of Australia will increase the RevPAR of FHT's properties within Melbourne and Sydney in the near future.

### Singapore (20% of FHT's NPI):

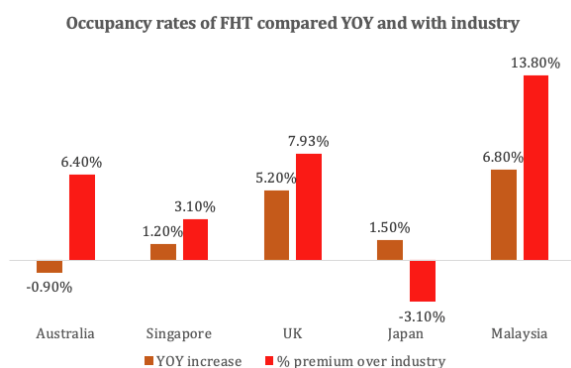
Apart from the migrant worker dormitories, Singapore has been successful in containing Covid-19, and is currently opening its borders with more countries to boost international travel. InterContinental Singapore has been used by the Singapore government to host

**Figure 20: ADR of FHT Compared YoY and to Industry**



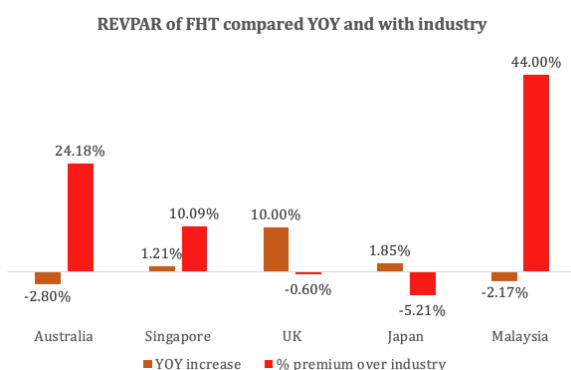
Source: Frasers Hospitality Trust 2019 Annual Report

**Figure 21: Occupancy Rate of FHT Compared YoY and to Industry**



Source: Frasers Hospitality Trust 2019 Annual Report

**Figure 22: RevPAR YoY of FHT vs Industry**



Source: Frasers Hospitality Trust 2019 Annual Report

returning residents serving quarantine orders, providing an alternate stream of revenue in the short-term. Moreover, the Singapore government has dedicated S\$45m in a campaign to boost domestic tourism, with Intercontinental Singapore constructing a 12-hour domestic vacation package to leverage on this campaign. This will drive increased occupancy rates in the near-term for FHT due to domestic tourism. Intercontinental Singapore also has a great international brand name and is a popular choice for business travellers. With 8 different countries having green lanes with Singapore currently, and with the Singapore government actively setting up more green lanes, this allows for the passage of business travellers into Singapore, further increasing occupancy rates for Intercontinental Singapore.

#### Japan (14% of FHT's NPI):

Japanese government established a US\$12.5b programme on July 22 to promote domestic tourism within the country, with 50% subsidies for domestic travel and overnight stay expenses. This has garnered 2 million users in the first month. As domestic guests usually account for 60% to 80% of occupancy at FHT's ANA Crowne Plaza Kobe hotel, the domestic tourism support will definitely improve occupancy rates and boost net property income in the near future. Another prospect that can potentially increase occupancy within the ANA Crowne Plaza Kobe hotel is the Tokyo 2021 Olympics, which will definitely draw crowds from both domestic and foreign travellers.

### **3. Pipeline of Asset Enhancement Initiatives to boost future earnings going forward**

FHT are planning potential Asset Enhancement Initiatives beyond Covid, for ANA Crowne Plaza Kobe, Park International London and Novotel Melbourne on Collins. These Asset Enhancement Initiatives are strategically located, yield accretive and will increase the appeal of FHT's properties to its customers.

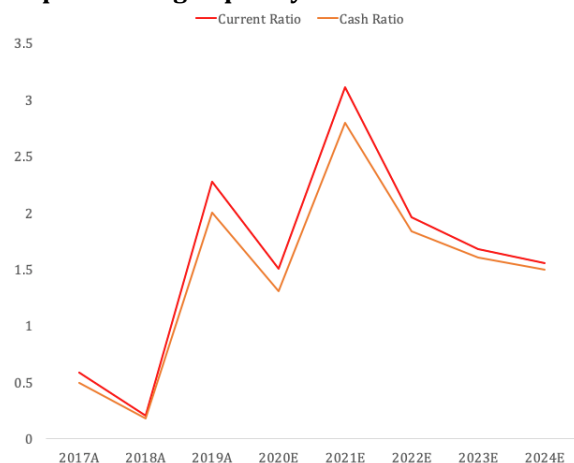
This will be on the back of the most recent full refurbishment of ibis Styles London Gloucester Road that was completed in 2019, which provided a huge increase in the RevPAR of FHT's UK properties, and was value accretive with total cost of renovation at GBP 2.2m. Although the refurbishment provided some disruption to the business and operating of ibis Styles, the hotel achieved a strong RevPAR growth of 14%, on the back of higher ADR and occupancy. This refurbishment, on top of other positive contributions, was reflected in the overall increase in RevPAR of the UK portfolio by 10%, the occupancy rate by 5.2%, and Average Daily Rate by 3.4%.

FHT has also historically enjoyed increasing Average Daily Rates, occupancy rates and RevPAR across most of its regions, and hold a premium to the industry in majority of the regions that they operate in. In particular, in the two regions (Australia and Singapore) that contributes the most to FHT's net property income, the occupancy rates of FHT's properties are 6.4% and 3.1% above the industry in Australia and Singapore respectively, and the RevPAR of FHT's properties are at a 24.1% and 18.1% premium to the industry in Australia and Singapore respectively.

#### **Catalysts**

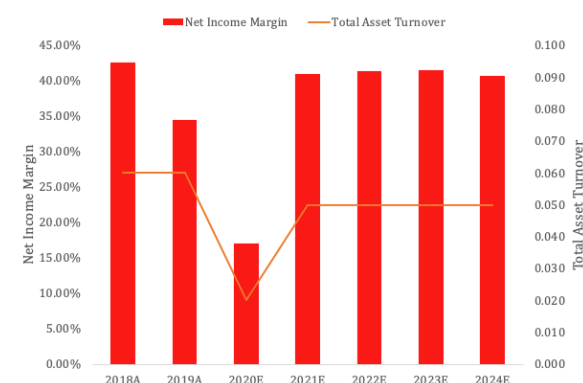
- Australia and Singapore's COVID-19 Recovery:** The main revenue drivers of FHT's property portfolio are located in Australia and Singapore. Australia and Singapore's fast recovery from the pandemic are illustrated in the flattened COVID-19 curve. This will likely mean that both countries will allow reopening of travel borders in the near future and thus, this can be sanguine to the hospitality industry.

**Figure 23: Current Ratio and Cash Ratio Depicts Strong Liquidity Position**



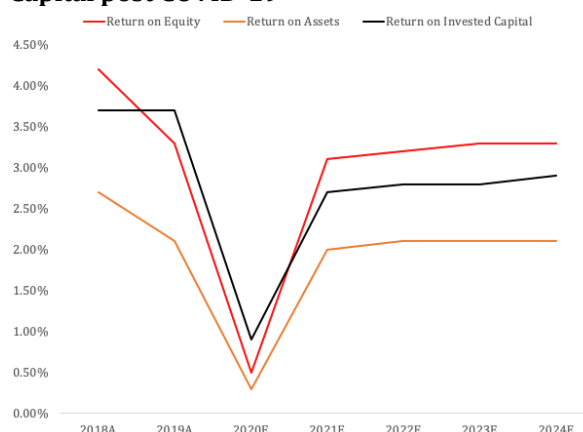
Source: NUS Investment Society Estimates

**Figure 24: Recovery of Net Income Margin and Total Asset Turnover post COVID-19**



Source: NUS Investment Society Estimates

**Figure 25: Recovery of Return on Equity, Return On Assets and Return On Invested Capital post COVID-19**



Source: NUS Investment Society Estimates

**Figure 26: Growth rate of GDP**

Countries	Weight	GDP Growth
Australia	41%	1.90%
Singapore	20%	0.73%
Malaysia	5%	4.33%
Japan	11%	0.65%
United Kingdom	15%	1.40%
Germany	8%	0.60%
Weighted Average GDP Growth Rate		1.47%

Source: World Bank

- **Negotiations for Air Travel Bubbles:** Improved screening process for air travellers with the use of testing technology spearheaded by Changi Airport Group, Singapore. Driven by the increased testing capacity, it is targeted to be able to conduct more than 40,000 tests a day by November. The improved testing capacities allows the Government of Singapore to negotiate air travel bubbles with safe countries and is a major factor in the resumption of air travel across the globe. This will benefit the hospitality industry as its demand is largely driven by tourism. Therefore, this will boost demand for FHT.
- **Boost in Domestic Travel:** Lower airfares for domestic flights within Australia. For example, the flight cost from Sydney-Melbourne offered by Jetstar is only AU\$19. To combat lower revenues from foreign tourists, the Government of Australia will also be coming up with policies to encourage domestic travel. Australia is an important component of FHT as they comprise the majority of FHT's property portfolio.
- **Successful Proactive Cost Containment Measures:** FHT's successful proactive cost containment measures to combat COVID-19 have been effective in reducing operational costs, which increases income.
- **Potential of COVID-19 Vaccine:** With multiple MNCs within the healthcare industry within their Phase 3 clinical trials for their COVID-19 vaccines, the prospect of a workable vaccine being released in the near future is very promising. The release and distribution of a vaccine will allow resumption of air travel, boosting occupancy for FHT.

## Financial Analysis

Financial Ratios	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Profitability</b>								
EBITDA Margin	64.3%	64.7%	64.0%	64.4%	64.4%	64.4%	64.4%	64.4%
EBIT Margin	60.7%	62.0%	61.5%	55.8%	61.1%	61.0%	61.0%	61.0%
Net Income Margin	98.7%	42.6%	34.5%	17.0%	40.9%	41.3%	41.5%	40.7%
Return on Equity	9.7%	4.2%	3.3%	0.5%	3.1%	3.2%	3.3%	3.3%
Return on Assets	6.2%	2.7%	2.1%	0.3%	2.0%	2.1%	2.1%	2.1%
Return on Invested Capital	2.6%	3.7%	3.7%	0.9%	2.7%	2.8%	2.8%	2.9%
<b>Liquidity</b>								
Current Ratio	0.59	0.21	2.28	1.51	3.11	1.96	1.68	1.56
Quick Ratio	0.59	0.21	2.28	1.51	3.11	1.96	1.68	1.56
Cash Ratio	0.50	0.18	2.00	1.31	2.80	1.84	1.61	1.50
<b>Activity</b>								
Total Asset Turnover	0.06	0.06	0.06	0.02	0.05	0.05	0.05	0.05
Receivables Turnover	13.67	14.74	15.73	7.21	22.21	15.42	15.42	15.42
Payables Period	121.87	121.10	115.92	249.67	79.95	115.12	115.12	115.12
<b>Financial Leverage</b>								
LT Debt to Assets	26.7%	17.1%	34.0%	35.0%	33.9%	32.8%	31.8%	30.8%
LT Debt to Equity	42.1%	27.5%	56.1%	55.5%	54.7%	53.8%	53.0%	52.2%
Debt to Assets	32.9%	34.2%	35.7%	35.8%	35.1%	36.1%	37.1%	38.0%
Debt to Equity	57.8%	60.7%	64.9%	58.5%	61.4%	64.0%	66.7%	69.4%
Interest Coverage	4.77	4.39	4.37	1.54	4.69	4.80	4.79	4.39
<b>Shareholder Returns</b>								
Earnings per Share (cents)	0.083	0.035	0.027	0.004	0.027	0.028	0.029	0.029
Dividend per Share (cents)	5.05	4.76	4.41	0.36	2.39	2.50	2.59	2.63
Dividend Payout Ratio	60.1%	145.2%	175.8%	90.0%	90.0%	90.0%	90.0%	90.0%

## Overview

The chart above reveals Frasers Hospitality Trust financial condition prospects for the next five years, highlighting our assumptions. Most indicators yield positive and favourable trends that are supportive of the overall **BUY** recommendation.

## Headroom for Gearing, For Potential Acquisitions in the Future

FHT's relatively low gearing ratio of 36% allows it to utilize the leverage potential, ahead of the new gearing limit of 50%, as the government relaxed its gearing limit for REITs to have greater financial flexibility during COVID-19. FHT might use the headroom to make acquisitions on the relatively beaten down valuations on rival properties.



**Figure 27: Cost of Equity**

Required Rate of Return, CAPM	
Annual Risk-free Rate	0.90%
Beta	1.05
Market Premium	6.30%
Adjusted risk	0.70%
Cost of Equity	8.22%

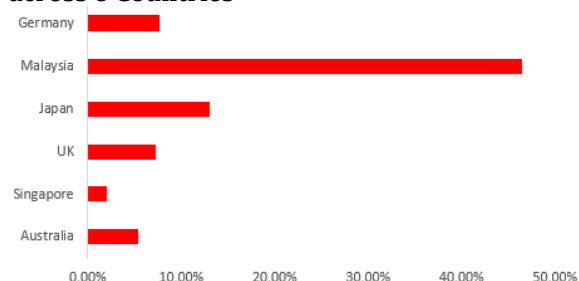
Source: Monetary Authority of Singapore, Yahoo Finance, Trading Economics, Business Times, World Bank

**Figure 28: Domestic and International Visitors Weighted Growth Rate for Revenue Projections**

Year	Weights	2018A	2019A	2019 Growth	Average Growth
Countries					
Visitors in each country per year, segmented into Domestic and International visitors					
Australia	41%				6.93%
Domestic		109,400,000	117,400,000	7.31%	
International		9,200,000	9,400,000	2.17%	
Malaysia	5%				1.05%
International		25,830,000	26,100,000	1.05%	
Singapore	20%				3.24%
International		18,510,000	19,110,000	3.24%	
Japan	11%				4.39%
Domestic		561,780,000	587,100,000	4.51%	
International		31,190,000	31,880,000	2.21%	
United Kingdom	15%				2.64%
Domestic		118,600,000	122,200,000	3.04%	
International		40,280,000	40,860,000	1.44%	
Germany	8%				-11.78%
Domestic		477,000,000	405,700,000	-14.95%	
International		87,700,000	89,900,000	2.51%	
WGR					3.48%

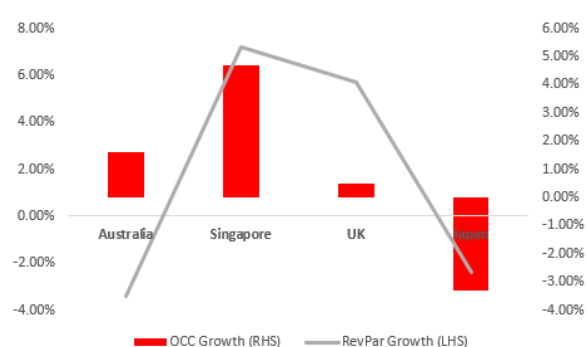
Source: Statista

**Figure 29: Gross Operating Profit Growth across 6 Countries**



Source: Frasers Hospitality Trust Q2 FY20 Investor Presentation

**Figure 30: OCC and RevPAR Growth across 5 Main Regions**



Source: Frasers Hospitality Trust Q2 FY20 Investor Presentation

## Lower net margins in 2020E due to COVID-19 and asset turnover ratio are set to recover by 2021E

Factoring in the ongoing COVID-19 impact on the hospitality industry, we expect lower net margins due to fall in revenue caused by lower RevPAR. There will also be a lower asset turnover ratio. However, we forecast that the company's RevPAR will recover, leading to better revenues beyond 2021E. Thus, both net margins and asset turnover ratio will increase.

## Strong short-term liquidity which will provide great flexibility in the midst of the current COVID-19 crisis

FHT carries a strong current ratio and cash ratio, with both ratios exceeding 1 by a comfortable margin even during the Covid-19 downturn. Their interest coverage is also above 4, indicating ample coverage of their interest expense in the near future. This shows that FHT has a great short-term liquidity in the midst of the pandemic and can comfortably deploy funds for any prevention or containment measures if the situation worsens, cushioning the impact on them.

## Valuation

Valuation Price Target: **S\$0.63**

### DDM model

The Gordon Growth Model, also known as Dividend Discount Model, was used to estimate the intrinsic value of FHT's share price. The model's time horizon is over a period of 5 years. We assumed that no new acquisitions and divestments for the period forecasted. In order to calculate the PV of future dividend payments, we took reference to the blended GDP growth rate which is weighted by their revenue contribution across the 6 countries, 1.47% for the initial dividend growth rate for the first 3 years. A terminal growth rate of 1.8% was used for the terminal growth rate to calculate PV of the terminal value.

### Revenue projections

The projected revenue was derived by modelling the weighted importance of the countries that FHT operates in, based on the number of visitors they receive. The numbers are further weighted based on the percentage of domestic and international visitors. The number of visitors that each country receives, from 2018 and 2019 respectively, are used to calculate the weighted growth rate of the visitors that these countries receive. As such, it is observed that Australia hosts the most significant proportion of visitors, at 41%, while the country that holds the least significant proportion of visitors is Malaysia, at 5%. The compounded annual growth rate (CAGR) of the number of visitors received that is eventually calculated is 3.5%.

The DDM is most sensitive to the following factors, derivation of which are explained below.

### Revenue growth

The pandemic has caused a huge negative demand shock to the hospitality industry, we projected FY20 revenue to fall by 70% and with the presence of the catalysts mentioned above, we believe that FY21 revenue will recover and increase by 175% YoY. Beyond FY21, we will project our revenue growth based on the pre-COVID-19 growth rate of the number of visitors (domestic and foreign) across the 6 countries from 2018 to 2019. Taking into account the 6 countries' weights based on their respective revenue contribution, we achieve a growth rate of 3.5%. Thus, the revenue growth rate beyond FY21 will be 3.5%.

### Cost of equity

CAPM was used to estimate Cost of Equity. Risk free rate of 0.90% was used and is in line with the current yields on 10-year Singapore government bonds. Beta was taken from Yahoo Finance which stands

**Figure 31: Football Analysis**



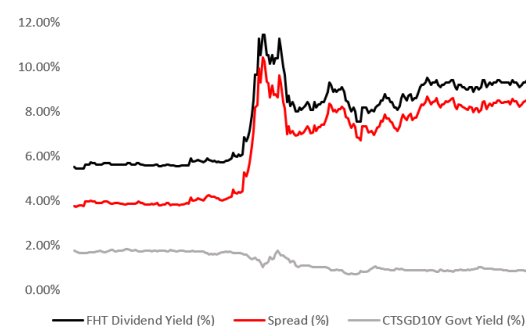
Source: NUS Investment Society Estimates, CAPIQ

**Figure 32: Comparable Company Analysis**

Fraser's Hospitality Trust Relative Valuation (Comparable Company Analysis)		
Company Name	MC S\$m	+1FY P/E
Fraser's Hospitality Trust	763.86	30.74x
CDL Hospitality Trusts (SGX:J85)		38.74x
Fraser's Centrepoint Trust (SGX:J69U)		18.04x
Far East Hospitality Trust (SGX:Q5T)		25.12x
Ascott Residence Trust (SGX:HMN)		40.24x
Screening Criteria: Hospitality REITs		
		+1FY P/E
25th Percentile		25.12x
Median		31.93x
75th Percentile		38.74x
90th Percentile		39.64x
Max		40.24x
Min		18.04x

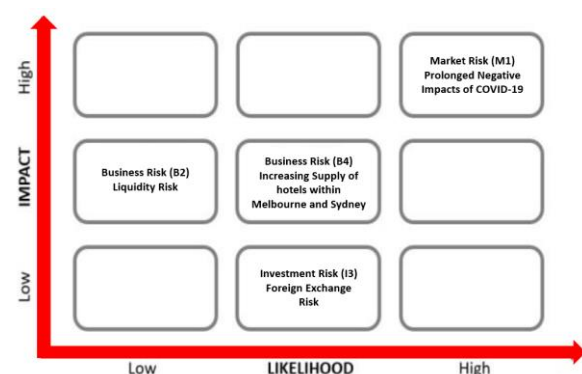
Source: NUS Investment Society Estimates

**Figure 33: Yield Spread of FHT vs 1-year SGS**



Source: Monetary Authority of Singapore, Morningstar

**Figure 34: Investment Risk Matrix**



Source: NUS Investment Society Estimates

at 1.05. Equity market risk premium of 6.3% was used. After adjusting for additional risk of 0.70%. Cost of equity was calculated to be 8.22%.

### Terminal growth

In our DDM, we took a discount on the backdrop of COVID-19 impacts going forward which brings us to a terminal growth rate of 1.8%. This will be used in the calculation of our terminal value.

Further, we understand that the upside might seem overstated, but we believe that due to the ongoing pandemic, the EBITDA and revenue seems to be extremely and irrationally low. As such, we used the exit multiple value at the 90<sup>th</sup> Percentile, to account for the unprecedented fall in EBITDA and revenue faced by FHT, as we believe a higher exit multiple might reflect the intrinsic value of FHT better.

### Yield spread analysis

FHT's current dividend yield is 9.64% versus a current SGS yield of 0.90%. This implies a current yield spread of 8.74% which is higher than the average historical yield spread of 6.47%. The spread expansion further exemplifies FHT's attractive risk reward profile at its current price.

### Relative valuation

We performed a RV to provide a sanity check on our primary valuation method, DDM, by using a football field. We benchmarked FHT against industry peers with similar size, revenue mix and geographic exposure. This includes CDL Hospitality Trust (SGX:J85), Fraser's Centrepoint Trust (SGX:J69U), Far East Hospitality Trust (SGX:Q5T) and Ascott Residence Trust (SGX:HMN). Our primary comparable metrics included +1FY P/E and P/B along with DCF (perpetual growth method & exit multiple method), and street estimates from various reputable sources. We remain confident that this valuation reaffirms our **BUY** recommendation.

## Investment Risks

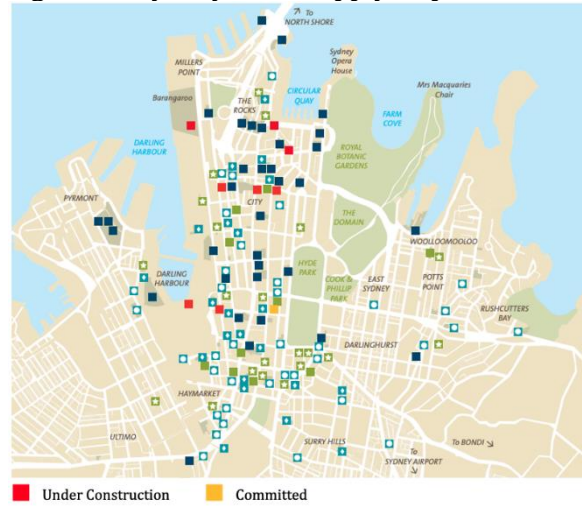
### Market Risk 1 (M1)

**Prolonged Negative Impacts of COVID-19:** The hospitality industry's recovery is very contingent on the decrease in COVID-19 cases, the discovery of a vaccine, effective preventive measures implemented by various governments and screening measures. While a vaccine is predicted to be certified late 2020 or early 2021, the resumption of leisure and business travel is still dependent on the willingness of various governments in opening up their borders. Some governments are also less effective in containing the spread of COVID-19, in particular within the Europe region, and these governments will be unwilling to release containment measures. This is partly mitigated by the fact that 61% of FHT's NPI is derived from Singapore and Australia, who are facing relative success in containing COVID-19, as mentioned previously. Singapore is also actively looking for opportunities to open up her borders for travel, cushioning the impact on FHT.

### Business Risk 2 (B2)

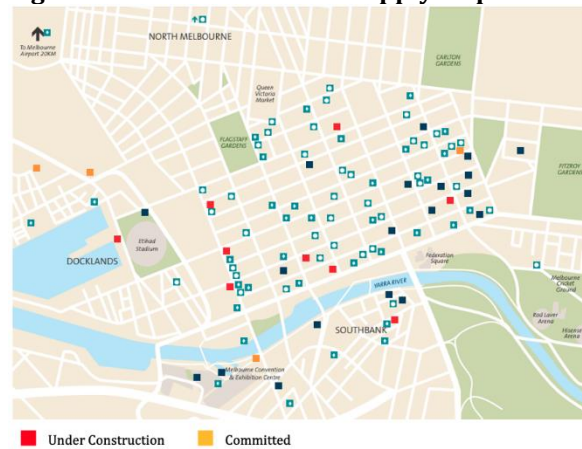
**Liquidity Risk:** Liquidity risk is the ability of FHT's ability to meet its short-term obligations. In FHT, this risk is being mitigated by the managers, through maintaining an appropriate cash and cash equivalents level to finance its operations. Additionally, FHT has access to revolving credit lines from financial institutions to fund its working capital needs and CAPEX requirements in the short to medium term. As at 31 September 2019, FHT has undrawn revolving credit facilities of S\$110m and S\$660m of untapped facility under its S\$1b Multicurrency Debt Issuance Programme. In order to mitigate financing risk, the manager has also ensured that maturities of borrowings are spread out. FHT's weighted average debt maturity is 4.63 years. There are no debts with maturities due until 2022 and borrowings are even widely spread across 2022 to 2026.

**Figure 35: Sydney Hotel Supply Map**



Source: Tourism Australia

**Figure 36: Melbourne Hotel Supply Map**



Source: Tourism Australia

### Investment Risk 3 (I3)

**Foreign Exchange Risk:** As FHT operates in six countries, using six different currencies, they are exposed to foreign exchange risks. Any appreciation or depreciation of the six currencies will affect the cash flows from transactions, when converted back to Singapore Dollars. While FHT's base currency, Singapore Dollars, is relatively stable, their denominated currencies in the country they operate in might not be. The political turmoil in the U.K., for instance, might affect the strength of British Pound. To mitigate this risk, FHT have been using derivative financial instruments, such as foreign exchange forward contracts to hedge against risks associated with fluctuating foreign currency.

### Business Risk 4 (B4)

**Increasing Supply of Hotels Within Melbourne and Sydney:** Melbourne and Sydney, the two markets that make up the Australia segment of FHT's portfolio, are expecting new supply within the hospitality industry. Melbourne's total supply was expected to increase by 19.8%, while Sydney's total supply was expected to increase by 20.2% according to pre-COVID planned projects. The increase in supply within the Australia market can potentially result in a decrease in occupancy rates and REVPAR for FHT's portfolio. However, given the social distancing requirements, labour efficiency of the construction projects is expected to take a hit. As Australia's construction industry is majorly reliant on international supply of materials, major disruptions to supply chain were experienced which further delayed these projects. Thus, in the near term, these risks might be alleviated.

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## Appendix

### Pro Forma Financial Statements

Fraser's Hospitality Trust Financial Statements								
	Historical			Forecasted				
Figures in '000,000 SGD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Income Statement								
Revenues	158.7	155.9	149.8	45	123	127	132	136
COGS (Property Exp and Other Operating)	(49.8)	(47.8)	(46.8)	(14)	(38)	(40)	(41)	(42)
Less: Depreciation & Amortization	(5.8)	(4.3)	(3.8)	(4)	(4)	(4)	(4)	(5)
Gross Profit	103.1	103.8	99.2	27	81	83	86	89
SG&A	(6.8)	(7.2)	(7.1)	(2)	(6)	(6)	(6)	(6)
Operating Income	96.3	96.6	92.1	25	75	78	80	83
Interest Expense	(20.2)	(22.0)	(21.1)	(16)	(16)	(16)	(17)	(19)
Interest Income	0.4	0.5	0.3	0	0	1	1	1
Net Interest	(19.8)	(21.5)	(20.8)	(16)	(16)	(16)	(16)	(18)
Currency Exchange Gains (Loss) and Oth	12.3	(1.3)	(0.1)					
Total Non-Operating Income (Loss)	(7.5)	(22.8)	(20.8)	(16)	(16)	(16)	(16)	(18)
Pretax Income (Loss)	88.8	73.8	71.3	9	59	62	64	65
Abnormal Losses (Gains)	96.8	(1.4)	(15.6)					
Pretax Income, GAAP	185.6	72.4	55.7	9	59	62	64	65
Income Tax Expense (Benefit)	(29.0)	(5.9)	(4.0)	(1)	(9)	(10)	(10)	(10)
Net Income Inc. Preferred Dividends	156.6	66.5	51.7	8	50	53	55	55
Minority Interest / Preferred Dividends	-	-	-					
Net Income	156.63	66.48	51.72	8	50	53	55	55

Fraser's Hospitality Trust Financial Statements									
	Historical			Forecasted					
Figures in '000,000 SGD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	
Balance Sheet									
Assets									
Cash, Cash Equivalents & STI	79.8	77.1	85.0	23	88	154	222	293	
Cash & Cash Equivalents	79.8	77.1	85.0						
ST Investments	-	-	-						
Accounts Receivable	11.6	9.5	9.5	3	8	8	9	9	
Inventory	-	-	-	0	0	0	0	0	
Other ST Assets	2.0	2.3	2.3	1	2	2	2	2	
Total Current Assets	93.4	88.9	96.8	27	97	164	233	304	
Net PPE	2,439.4	2,400.3	2,330.3	2,328	2,340	2,352	2,364	2,377	
PPE	2,442.1	2,403.8	2,334.3	2,336	2,352	2,368	2,385	2,402	
Accumulated Depreciation	(2.7)	(3.5)	(4.0)	(8)	(12)	(16)	(21)	(25)	
LT Investments	-	-	-	-	-	-	-	-	
Other LT Assets	1.1	5.5	19.3	19	19	19	19	19	
Total Intangible Assets	0.5	0.6	0.7	1	1	1	1	1	
Misc LT Assets	0.6	4.9	18.6	19	19	19	19	19	
Total Non-Current Assets	2,440.5	2,405.8	2,349.6	2,347	2,359	2,371	2,383	2,396	
TOTAL ASSETS	2,533.9	2,494.7	2,446.5	2,375	2,456	2,535	2,616	2,700	
Liabilities									
Revolver Facility/ST Debt	134.8	408.1	25.0	12	19	67	121	178	
Account Payables & Accruals	16.6	15.1	14.6	4	12	13	13	14	
Other ST Liabilities	7.0	3.5	2.8	1	0	4	4	4	
Total Current Liabilities	158.3	426.8	42.5	18	31	84	138	195	
LT Debt	676.2	426.9	832.1	832	832	832	832	832	
Other LT Liabilities	93.2	88.5	88.2	26	71	74	76	79	
Total Non-Current Liabilities	769.4	515.4	920.3	858	904	906	909	911	
Total Liabilities	927.7	942.2	962.7	876	935	990	1,047	1,107	

Fraser's Hospitality Trust Financial Statements								
	Historical			Forecasted				
Figures in '000,000 SGD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Shareholder's Equity								
Share Capital	1,486	1,503	1,521	1,539	1,557	1,575	1,594	1,613
Treasury Stock	-	-	-	-	-	-	-	-
Retained Earnings	123	93	53	54	59	64	70	75
Other Equity	(2)	(43)	(91)	(94)	(94)	(94)	(94)	(94)
Minority Interest	-	-	-	-	-	-	-	-
Total Equity	1,606	1,553	1,484	1,498	1,522	1,545	1,569	1,594
TOTAL LIABILITIES AND EQUITY								
	2,534	2,495	2,446	2,375	2,456	2,535	2,616	2,700

Fraser Hospitality Trust Financial Statements								
	Historical			Forecasted				
Figures in '000,000 SGD	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Statement of Cashflows</b>								
<b>Operating Activities</b>								
Net Income	156.6	66.5	51.7	8	50	53	55	55
Add: Changes in Working Capital	(2.3)	1.3	(0.6)	(3)	1	3	0	0
Changes in Inventory								
Changes in other ST Assets								
Changes in Accounts Payable								
Changes in other ST Liabilities								
Changes in ST Investments								
Add: Depreciation & Amortization	5.8	4.3	3.8	4	4	4	4	5
Add: Other Amortization, Total Asset Writed	(46.8)	40.6	53.1					
<b>Cash from Operating Activities</b>	<b>113.3</b>	<b>112.7</b>	<b>108.0</b>	<b>8</b>	<b>55</b>	<b>60</b>	<b>59</b>	<b>60</b>
<b>Investing Activities</b>								
Change in LT Investments	-	-	-	-	-	-	-	-
CAPEX	(247.3)	(26.9)	(12.2)	(6)	(16)	(16)	(17)	(17)
Net Cash from Acq & Div	-	-	-	-	-	-	-	-
<b>Cash from Investing Activities</b>	<b>(247.3)</b>	<b>(26.9)</b>	<b>(12.2)</b>	<b>(6)</b>	<b>(16)</b>	<b>(16)</b>	<b>(17)</b>	<b>(17)</b>
<b>Financing Activities</b>								
Dividends Paid	(94.1)	(96.5)	(90.9)	(7)	(45)	(47)	(49)	(50)
LT Debt Additions (Repayment)	134.8	364.2	473.5	-	-	-	-	-
Increase (Repayment) of LT Liabilities	(134.2)	(334.1)	(450.1)	(62)	45	2	3	3
Proceeds from Issuance of Common Stock	263.2	-	-	18	18	18	19	19
Repurchase of Equity	-	-	-	-	-	-	-	-
Revolver Payments	-	-	-	(25)	(12)	(19)	(67)	(121)
Revolver Proceeds	-	-	-	12	19	67	121	178
Other Charges	(17.8)	(20.7)	(20.0)	-	-	-	-	-
<b>Cash from Financing Activities</b>	<b>151.9</b>	<b>(87.0)</b>	<b>(87.5)</b>	<b>(64)</b>	<b>25</b>	<b>22</b>	<b>26</b>	<b>28</b>
Foreign Exchange Rate Adj.	(2.8)	(1.5)	(0.4)					
<b>Net Change in Cash</b>	<b>15.2</b>	<b>(2.7)</b>	<b>7.9</b>	<b>(62)</b>	<b>64</b>	<b>66</b>	<b>69</b>	<b>71</b>

## Financial Statement Drivers

Fraser's Hospitality Trust Financial Projections								
Figures in '000,000 S\$	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue	159	156	150	45	123	127	132	136
Revenue Growth								
Gross Profit	103	104	99	31	85	88	91	94
Operating Income	96	97	92	29	79	82	85	88
Pretax Income	89	74	71	9	59	62	64	65
Net Income	157	66	52	8	50	53	55	55
<b>Cost Build</b>								
COGS	(50)	(48)	(47)	(14)	(38)	(40)	(41)	(42)
COGS as % of Revenue	31.4%	30.7%	31.3%	31.1%	31.1%	31.1%	31.1%	31.1%
SG&A	(7)	(7)	(7)	(2)	(6)	(6)	(6)	(6)
SG&A as % of Revenue	4.3%	4.6%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%
Dividend Payout	(94)	(97)	(91)	(6.86)	(45)	(47)	(49)	(50)
As % of Net Income	60.1%	145.2%	175.8%	90.0%	90.0%	90.0%	90.0%	90.0%
Income Tax Expense	(29)	(6)	(4)	(1)	(9)	(10)	(10)	(10)
Effective Tax Rate	32.6%	8.0%	5.5%	15.4%	15.4%	15.4%	15.4%	15.4%
LT Investments								
As % of Net Income								
<b>Net Working Capital</b>								
Account Receivable	12	10	10	3	8	8	9	9
Accounts Receivable as % of Revenue	7.3%	6.1%	6.3%	6.6%	6.6%	6.6%	6.6%	6.6%
Inventory	-	-	-	-	-	-	-	-
Inventory as % of COGS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other ST Assets	2	2	2	0.65	1.77	1.83	1.89	1.96
ST Assets as % of Revenue	1.3%	1.5%	1.6%	1.4%	1.4%	1.4%	1.4%	1.4%
Accounts Payable	17	15	15	4	12	13	13	14
Accounts Payable as % of COGS	33.4%	31.6%	31.3%	32.1%	32.1%	32.1%	32.1%	32.1%
Other ST Liabilities	7	4	3	1.28	0.26	3.61	3.74	3.87
As % of Revenue	4.4%	2.3%	1.9%	2.8%	2.8%	2.8%	2.8%	2.8%
Net Working Capital			(6)	(2)	(3)	(6)	(6)	(7)
Increase in NWC				3	(1)	(3)	(0)	(0)
<b>Fraser's Hospitality Trust Financial Projections</b>								
Figures in '000,000 S\$	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Non-Current Accounts</b>								
Other LT Liabilities	93	89	88	26	71	74	76	79
As % of Revenue	58.7%	56.8%	58.9%	58.1%	58.1%	58.1%	58.1%	58.1%
Repurchase of Equity	#VALUE!	#VALUE!	#VALUE!	-	-	-	-	-
As % of Net Income	#VALUE!	#VALUE!	#VALUE!	0.0%				
Treasury Stock	-	-	-	-	-	-	-	-
Share Count			1,088	1,088	1,088	1,088	1,088	1,088
Proceeds from Share Issuance				18	18	18	19	19
Share Capital	1,486	1,503	1,521	1,539	1,557	1,575	1,594	1,613
Increase of Share Capital			1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Share Count								
<b>PPE Build</b>								
<b>Depreciation Schedule</b>								
CAPEX	247	27	12	6	16	16	17	17
CAPEX as % of Revenue	155.8%	17.3%	8.1%	12.7%	12.7%	12.7%	12.7%	12.7%
Accumulated Depreciation	(3)	(4)	(4)	(8)	(12)	(16)	(21)	(25)
<b>PPE</b>								
Freehold land and building	263	245	220	223	231	239	247	256
Equipment, Furniture & Fittings	4	4	4	4	4	4	4	4
Investment Properties	2,172	2,152	2,107	2,110	2,117	2,125	2,133	2,142
Leasehold NA	-	-	-	-	-	-	-	-
Construct NA	-	-	-	-	-	-	-	-
Capital Le NA	-	-	-	-	-	-	-	-
Total PPE	2,439	2,400	2,330	2,336	2,352	2,368	2,385	2,402

Fraser's Hospitality Trust Financial Projections								
				Historical				
				Forecasted				
Figures in '000,000 S\$	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Acquisition</b>								
Freehold land and building	263	(18)	(25)	3	8	8	8	9
Equipment, Furniture & Fittings	4	(1)	(0)	0	0	0	0	0
Investment Properties	114	(20)	(45)	3	8	8	8	8
Leasehold Improvements	-	-	-	0	0	0	0	0
Construction in Progress	-	-	-	0	0	0	0	0
Capital Leases	-	-	-	0	0	0	0	0
<b>Total CAPEX</b>	<b>381</b>	<b>(39)</b>	<b>(70)</b>	<b>6</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>17</b>
<b>Acquisitions as % of CAPEX</b>				<b>Average CAPEX into PPE</b>				
Freehold land and building	69.0%	46.6%	35.7%	50.4%				
Equipment, Furniture & Fittings	1.1%	1.6%	0.1%	1.0%				
Investment Properties	29.8%	51.8%	64.2%	48.6%				
Leasehold Improvements	0.0%	0.0%	0.0%	0.0%				
Construction in Progress	0.0%	0.0%	0.0%	0.0%				
Capital Leases	0.0%	0.0%	0.0%	0.0%				
<b>Depreciation Expense</b>								
Freehold land and building				0.06	0.16	0.16	0.17	0.17
Equipment, Furniture & Fittings				0.01	0.02	0.02	0.02	0.02
Investment Properties				0.00	0.00	0.00	0.00	0.00
Sum				0.07	0.18	0.18	0.19	0.20
<b>Total Depreciation Expense</b>	<b>(6)</b>	<b>(4)</b>	<b>(4)</b>	<b>-3.865</b>	<b>-4.044</b>	<b>-4.229</b>	<b>-4.420</b>	<b>-4.618</b>
<b>Useful Lives (Years)</b>								
Freehold land and building	50							
Equipment, Furniture & Fittings	7	3-10 years						
Investment Properties	99999	NA						
<b>Total Intangible Assets</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Annual Amortization Expense</b>				<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Depreciation and Amortization Expense</b>				<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(5)</b>



Fraser's Hospitality Trust Financial Projections								
Figures in '000,000 S\$	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Cash Holdings								
Cash at Year End	80	77	85	23	88	154	222	293
Mean Cash Balance		78	81	54	55	121	188	258
Interest Income	0	0	0	0	0	1	1	1
% Interest on Cash Holdings		0.6%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Debt Schedule								
Long Term Debt	Year	Principal	Interest	Weighted Average Interest Rate				
Medium term notes (secured)	2024	31	4.85%	0.18%				
2.63% Senior Notes	2022	120	2.63%	0.38%				
3.08% Senior Notes	2024	120	3.08%	0.44%				
JPY TIBOR + 0.95% Bonds (unsecured)	2022	30	1.00%	0.04%				
AUD Bank Loan (unsecured)	2023	112	1.61%	0.22% <a href="https://www.yieldreport.com.au/category/bank-billswaps/weekly-bank-billsw">https://www.yieldreport.com.au/category/bank-billswaps/weekly-bank-billsw</a>				
SGD Bank Loan (unsecured)	2023	70	1.20%	0.10%				
SGD Bank Loan (unsecured)	2026	350	1.25%	0.53%				
Total Long Term Debt		833						
Weighted Cost of Debt		1.88%						
Fraser's Hospitality Trust Financial Projections								
Figures in '000,000 S\$	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Interest Repayment Schedule								
Interest Paid				(16)	(16)	(16)	(12)	(10)
Principal Repayment				-	-	-	(150)	(182)
ST & LT Debt								
Short Term Debt								
Beginning Balance		135	408	25	12	19	67	121
Additions				12	19	67	121	178
Repayment		135	408	(25)	(12)	(19)	(67)	(121)
Ending Balance	135	408	25	12	19	67	121	178
Interest Rate on ST Debt				2.5%	2.5%	2.5%	2.5%	2.5%
Interest Paid				(1)	(0)	(0)	(2)	(3)
Long Term Debt								
Beginning Balance		676	427	832	832	832	832	832
Additions				-	-	-	150	182
Repayments			-	-	-	-	(150)	(182)
Ending Balance	676	427	832	832	832	832	832	832
New LT Debt Additions								
Balance			-	-	-	-	150	332
Interest Expense on New Debt			-	-	-	-	(3)	(6)
Total Interest Expense				(16)	(16)	(16)	(17)	(19)
Cash & Cash Equivalents	80	77	85					
Cash as % of Revenue	50.3%	49.4%	56.7%					
Minimum Target Cash Balance				23	64	66	69	71
Minimum Target Cash Balance as % of Revenue				52.1%	52.1%	52.1%	52.1%	52.1%
Revolver								
Cash available at beginning of period				85	-	-	-	-
Cash generated during current year				(49)	57	18	15	15
Minimum cash desired				23	64	66	69	71
Cash Surplus (Deficit)				13	(7)	(49)	(54)	(56)

## Revenue Model

### Frasers Hospitality Trust Revenue Model

#### Top-Down Approach

Figures in '000,000 SGD	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
FHT Revenue	159	156	150	45	123	127	132	136
FHT Growth rate				-70.0%	173.5%	3.5%	3.5%	3.5%
Weighted Growth Rate of number of tourists (By CAGR)			3.5%					
Year	Weights	2018A	2019A	2019 Growth	Average Growth			
Countries								
Visitors in each country per year, segmented into Domestic and International visitors								
Australia	41%				6.93%			
Domestic		109,400,000	117,400,000	7.31%				
International		9,200,000	9,400,000	2.17%				
Malaysia	5%				1.05%			
International		25,830,000	26,100,000	1.05%				
Singapore	20%				3.24%			
International		18,510,000	19,110,000	3.24%				
Japan	11%				4.39%			
Domestic		561,780,000	587,100,000	4.51%				
International		31,190,000	31,880,000	2.21%				
United Kingdom	15%				2.64%			
Domestic		118,600,000	122,200,000	3.04%				
International		40,280,000	40,860,000	1.44%				
Germany	8%				-11.78%			
Domestic		477,000,000	405,700,000	-14.95%				
International		87,700,000	89,900,000	2.51%				
			WGR	3.48%				

## Discounted Cash Flow Model

### Fraser's Hospitality Trust DCF

#### Model Assumptions

Terminal Growth Rate	1.8%
Effective Tax Rate	15%
Discount Rate	4.76%
Valuation date	10/31/2020
Current Share Price	0.40
Basic Shares Outstanding ('000,000)	1,894

#### Model Output

	Exit Multiple	Gordon Growth
Present Value of Cumulative FCFF	212	212
Present Value of Terminal Value	3,055	1,562.12
Implied Enterprise Value	3,267	1,774
Terminal Value as % of Implied Enterprise Value	94%	88%
Less: Debt	(832)	(832)
Plus: Cash	85	85
Less: Minority Interest	-	-
Less: Preferred Shares	-	-
<b>Implied Equity Value</b>	<b>2,520</b>	<b>1,027</b>
<b>Implied Share Price</b>	<b>1.33</b>	<b>0.54</b>
% Upside/Downside	232.7%	35.6%
<b>Blended Upside/Downside</b>	<b>134.1%</b>	

## Free Cash Flow Calculation

Figures in '000,000 USD	Historical			Forecasted				
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue	159	156	150	45	123	127	132	136
% Growth		-1.8%	-3.9%	-70.0%	173.5%	3.5%	3.5%	3.5%
EBIT	96	97	92	25	75	78	80	83
% Growth		0.3%	-4.6%	-72.8%	199.5%	3.4%	3.4%	3.4%
Margin %	60.7%	62.0%	61.5%	55.8%	61.1%	61.0%	61.0%	61.0%
Tax	(29)	(6)	(4)	(1)	(9)	(10)	(10)	(10)
Tax Rate %	32.6%	8.0%	5.5%	15.4%	15.4%	15.4%	15.4%	15.4%
Tax Shield on Net Interest	(6)	(2)	(1)	(2)	(2)	(2)	(2)	(3)
Tax-Adjusted EBIT	61	89	87	21	64	66	68	70
Add: Depreciation and Amortisation	6	4	4	4	4	4	4	5
% of Revenue	3.7%	2.8%	2.5%	8.6%	3.3%	3.3%	3.4%	3.4%
EBITDA	102	101	96	29	79	82	85	88
Less: CAPEX	(247)	(27)	(12)	(6)	(16)	(16)	(17)	(17)
% of Revenue	155.8%	17.3%	8.1%	12.7%	12.7%	12.7%	12.7%	12.7%
Less: Change in Net Working Capital	2	(1)	1	3	(1)	(3)	(0)	(0)
% of Revenue	1.4%	-0.8%	0.4%	7.7%	-0.4%	-2.7%	-0.2%	-0.2%
Unlevered FCFF	-178	65	79	23	51	50	55	57
% Growth		-136.5%	21.7%	-71.2%	125.3%	-2.2%	10.1%	3.5%
Period				2020	2021	2022	2023	2024
Year Frac				0.17	1.17	2.17	3.17	4.17
Discount Factor				0.99	0.95	0.90	0.86	0.82
Present Value of Unlevered FCFF				23	49	45	48	47

## Terminal Value Calculation

### Exit Multiple

Exit EV/EBITDA Multiple	36.23x
Implied Perpetual Growth Rate	2.90%
Terminal Year EBITDA	87.64
Terminal Value (EV)	3,174.71
Present Value of Terminal Value	3,055.32

### Gordon Growth Method

Perpetual Growth Rate	1.8%	SG Investors IO
Country GDP Growth Rate Estimate	1.5%	
Terminal Year FCFF	47.25	
Terminal Value	1,623.17	
Present Value of Terminal Value	1,562.12	

## Sensitivity Analysis

Implied Share Price							
WACC	Exit EV/EBITDA Multiple						
	11.50x	12.00x	12.50x	13.00x	13.50x	14.00x	
	4.5%	0.23	0.25	0.28	0.30	0.32	0.34
	5.0%	0.23	0.25	0.27	0.29	0.32	0.34
	5.5%	0.23	0.25	0.27	0.29	0.31	0.34
	6.0%	0.22	0.24	0.27	0.29	0.31	0.33
	6.5%	0.22	0.24	0.26	0.29	0.31	0.33
	7.0%	0.22	0.24	0.26	0.28	0.31	0.33
Implied Share Price							
WACC	Perpetual Growth Rate						
	0%	0.5%	1.0%	1.5%	2.0%	2.5%	
	4.5%	0.26	0.33	0.42	0.54	0.71	0.96
	5.0%	0.19	0.25	0.32	0.41	0.52	0.69
	5.5%	0.14	0.18	0.24	0.30	0.39	0.51
	6.0%	0.09	0.13	0.17	0.23	0.29	0.38
	6.5%	0.05	0.08	0.12	0.16	0.22	0.28
	7.0%	0.02	0.05	0.08	0.11	0.15	0.21

Note: The computed % Upside under the Exit Multiple Method might be overstated due to an irrational low EBITDA due to COVID-19.



## Dividend Discount Model

### Frasers Hospitality Trust

#### Dividend Discount Model

Valuation Date:	
Last FY End	30-Sep-19
Days per Year	365
Next FY Start	1-Oct-19

#### Cost of Equity

Risk Free Rate	0.90%
Equity Risk Premium	6.30%
Beta	1.05
Adjusted Risk	0.70%
Cost of Equity	8.22%

DDM Calculations		Historical		Forecasted Period				
		2018A	2019A	2020E	2021E	2022E	2023E	2024E
Dividend per share	S\$	0.05	\$0.05	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Discount period				1.00	2.00	3.00	4.00	5.00
Discount factor				1.08	1.17	1.27	1.37	1.48
Present Value		-		\$0.04	\$0.04	\$0.03	\$0.03	\$0.49

#### Gordon Growth Model

Total PV of projected dividends	\$0.14
Long-term growth rate	1.80%
Final Year Dividend	\$0.03
Terminal Value	\$0.41
PV of Terminal Value	\$0.49
Implied Stock Price	<u>\$0.63</u>

## Relative Valuation

### Fraser's Hospitality Trust Relative Valuation (Comparable Company Analysis)

Company Name	MC S\$m	+1FY		
		P/E	EV/EBITDA	EV/EBIT
Fraser's Hospitality Trust	763.86	30.74x	18.40x	19.30x
CDL Hospitality Trusts (SGX:J85)		38.74x	38.85x	33.30x
Fraser's Centrepont Trust (SGX:J69U)		18.04x	23.44x	32.00x
Far East Hospitality Trust (SGX:Q5T)		25.12x	32.29x	27.90x
Ascott Residence Trust (SGX:HMN)		40.24x	31.31x	30.90x

Screening Criteria: Hospitality REITs

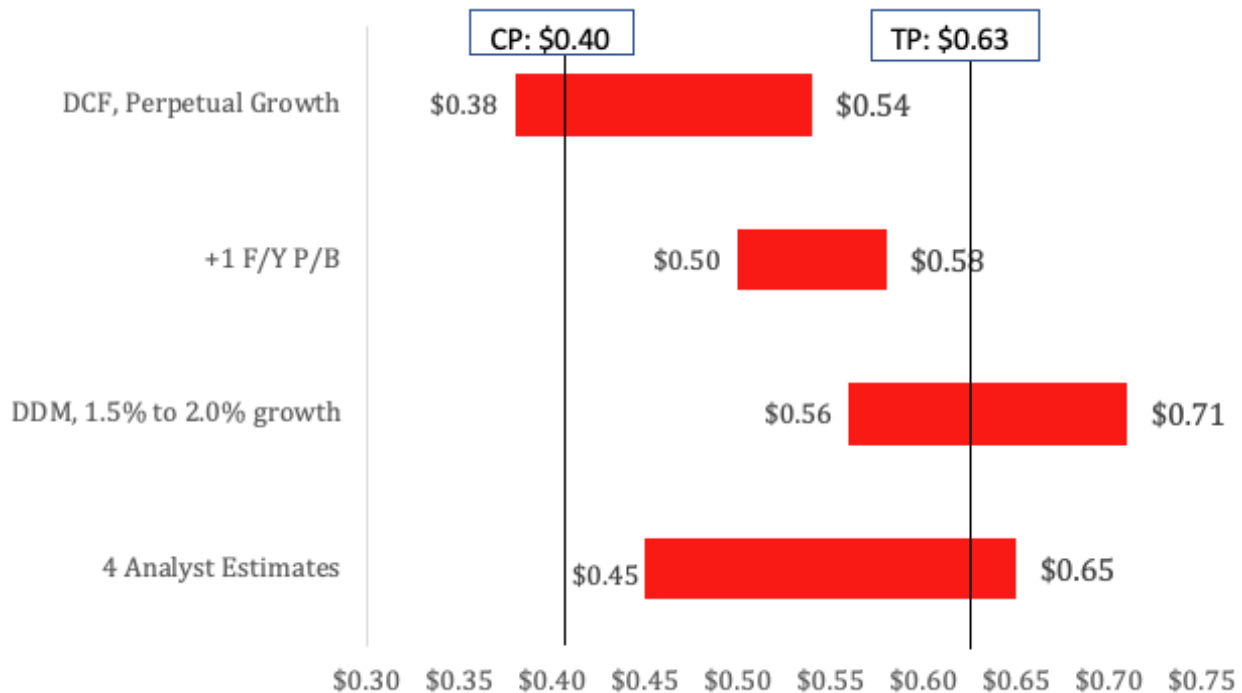
	+1FY P/E	+1FY EV/EBITDA	+1FY EV/EBIT
25th Percentile	25.12x	23.44x	27.90x
Median	31.93x	31.80x	31.50x
75th Percentile	38.74x	32.29x	32.00x
90th Percentile	39.64x	36.23x	32.78x
Max	40.24x	38.85x	33.30x
Min	18.04x	18.40x	19.30x

Relative Valuation (P/E)			
2020 P/E	31.93	40.24	18.04
2020 EPS	0.00402	0.00402	0.00402
Implied Share Value	\$0.13	\$0.16	\$0.07

Relative Valuation (EV/EBITDA)			
2020 EV / EBITDA	31.93	40.24	18.04
2019 EBITDA	95.91	95.91	95.91
Implied Enterprise Value	3,062.41	3,859.42	1,730.22
Less: Debt	(832.07)	(832.07)	(832.07)
Add: Cash	85.00	85.00	85.00
Implied Equity Value	2,315.34	3,112.35	983.15
Share Outstanding	1,894.00	1,894.00	1,894.00
Implied Share Value	\$1.22	\$1.64	\$0.52

	Median	High	Low
EV/EBITDA	\$1.22	\$1.64	\$0.52
P/E	\$0.13	\$0.16	\$0.07

## Football Field Analysis



## Financial Ratios

Financial Ratios	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Profitability</b>								
EBITDA Margin	64.3%	64.7%	64.0%	64.4%	64.4%	64.4%	64.4%	64.4%
EBIT Margin	60.7%	62.0%	61.5%	55.8%	61.1%	61.0%	61.0%	61.0%
Net Income Margin	98.7%	42.6%	34.5%	17.0%	40.9%	41.3%	41.5%	40.7%
Return on Equity	9.7%	4.2%	3.3%	0.5%	3.1%	3.2%	3.3%	3.3%
Return on Assets	6.2%	2.7%	2.1%	0.3%	2.0%	2.1%	2.1%	2.1%
Return on Invested Capital	2.6%	3.7%	3.7%	0.9%	2.7%	2.8%	2.8%	2.9%
<b>Liquidity</b>								
Current Ratio	0.59	0.21	2.28	1.51	3.11	1.96	1.68	1.56
Quick Ratio	0.59	0.21	2.28	1.51	3.11	1.96	1.68	1.56
Cash Ratio	0.50	0.18	2.00	1.31	2.80	1.84	1.61	1.50
<b>Activity</b>								
Total Asset Turnover	0.06	0.06	0.06	0.02	0.05	0.05	0.05	0.05
Receivables Turnover	13.67	14.74	15.73	7.21	22.21	15.42	15.42	15.42
Payables Period	121.87	121.10	115.92	249.67	79.95	115.12	115.12	115.12
<b>Financial Leverage</b>								
LT Debt to Assets	26.7%	17.1%	34.0%	35.0%	33.9%	32.8%	31.8%	30.8%
LT Debt to Equity	42.1%	27.5%	56.1%	55.5%	54.7%	53.8%	53.0%	52.2%
Debt to Assets	32.9%	34.2%	35.7%	35.8%	35.1%	36.1%	37.1%	38.0%
Debt to Equity	57.8%	60.7%	64.9%	58.5%	61.4%	64.0%	66.7%	69.4%
Interest Coverage	4.77	4.39	4.37	1.54	4.69	4.80	4.79	4.39
<b>Shareholder Returns</b>								
Earnings per Share (cents)	0.083	0.035	0.027	0.004	0.027	0.028	0.029	0.029
Dividend per Share (cents)	5.05	4.76	4.41	0.36	2.39	2.50	2.59	2.63
Dividend Payout Ratio	60.1%	145.2%	175.8%	90.0%	90.0%	90.0%	90.0%	90.0%