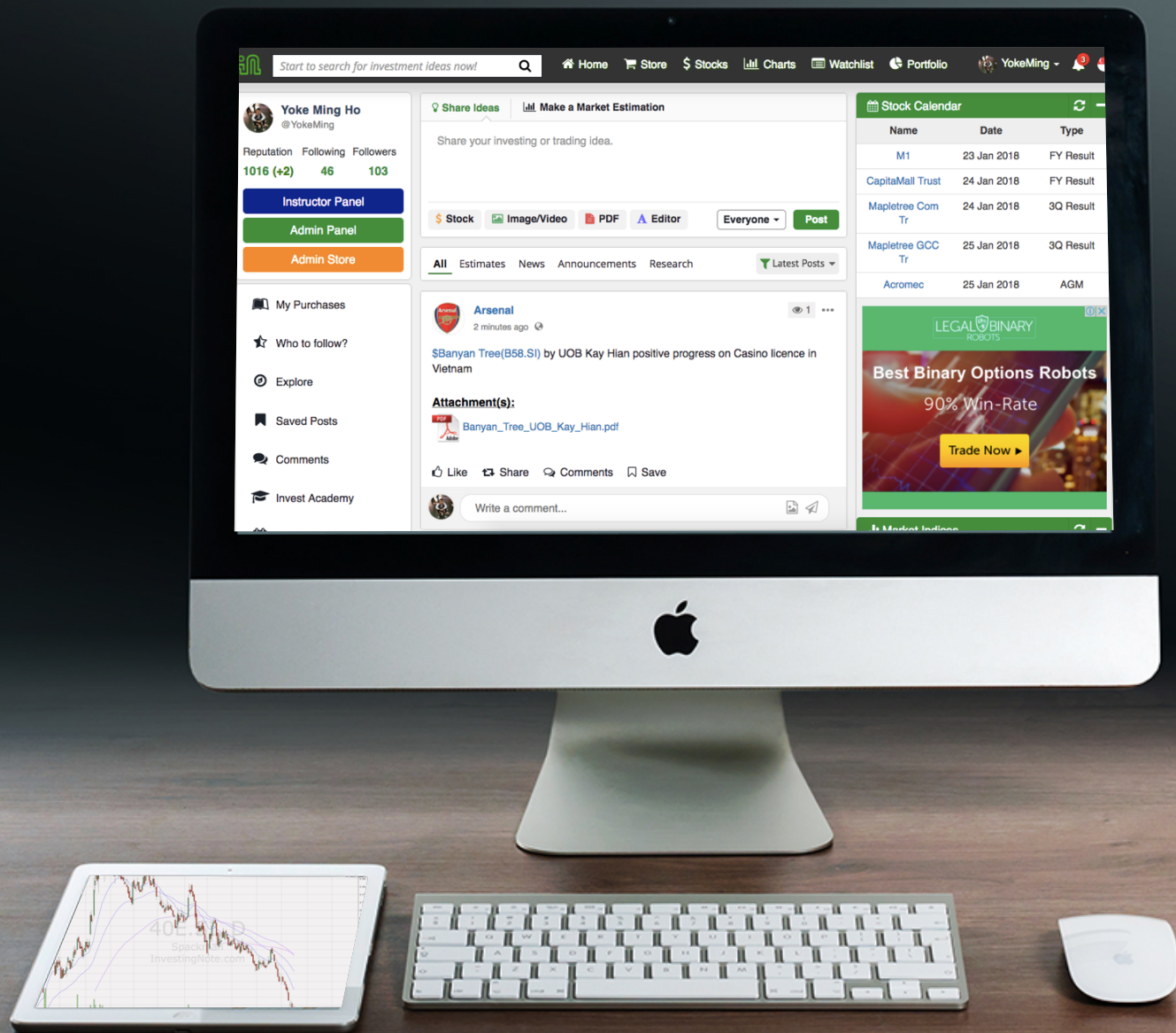




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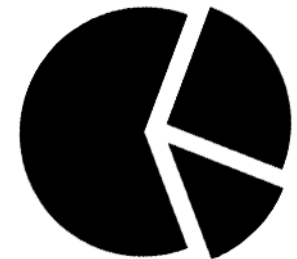
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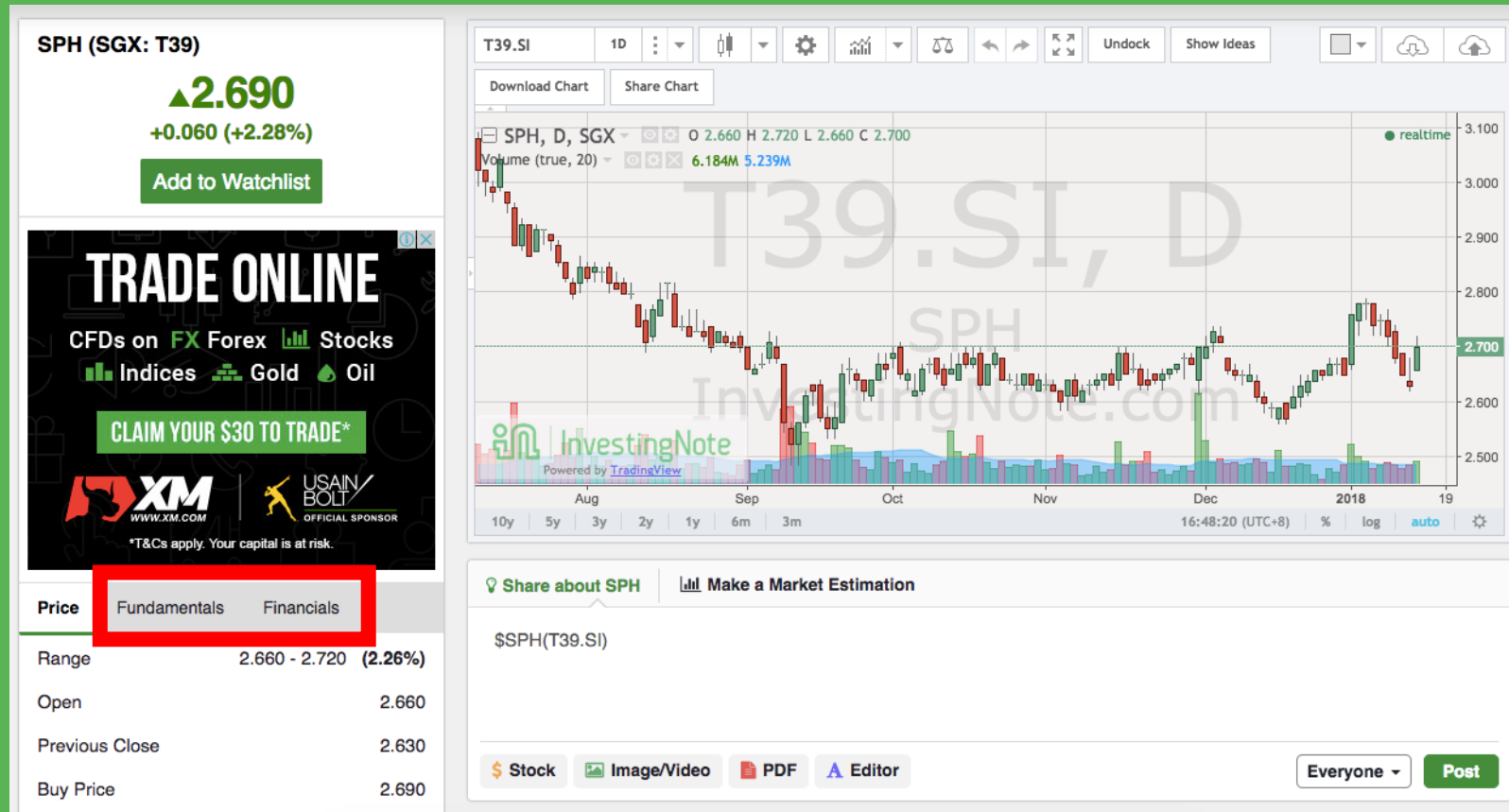
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\$Far East HTrust(Q5T.SI) by CIMB - Oasia Hotel

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Company Note

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 3 Sell 1

Current price: S\$0.72
Target price: S\$0.82
Previous target: S\$0.84
Up/downside: 13.4%
CIMB / Consensus: 9.8%

Reuters: FAEH.SI
Bloomberg: FEHT SP
Market cap: US\$1,002m
US\$1,335m
US\$0.68m
US\$0.92m

Average daily turnover: 1,793m
Current shares o/s: 44.6%

Free float: 44.6%

*Source: Bloomberg

Key changes in this note

■ FY18-19F DPU decreased by 2.5-2.6%.

Far East Hospitality Trust

Oasia Hotel Downtown has crystallised

■ FEHT has proposed the acquisition of sponsor's Oasia Hotel Downtown for S\$210m (3.7% disc. to avg. independent valuation) which translates to attractive c.S\$669k/key. Funded by c.90% debt at 2.5% interest cost, the manager expects a 4% DPU accretion. The entry NPI yield for the property is 4.6%.

■ We see significant growth potential for Oasia Hotel Downtown, which is yielding S\$170 RevPAR currently.

■ At S\$210 RevPAR, which is what the industry average is generating, we forecast a c.5% yield on cost for what a more matured Oasia Downtown could achieve.

■ Reiterate Add with lower TP of S\$0.82. We project c.19% total returns for 2018F.

Proposed acquisition of Oasia Hotel Downtown

As anticipated, FEHT has proposed the acquisition of sponsor's Oasia Hotel Downtown. The purchase consideration of the hotel is S\$210m or a 3.7% discount to average independent valuation. At annualised 9M17 NPI (S\$9.6m), entry NPI yield for the property is 4.6%. Inputting 2.5% interest cost (c.90% of total acquisition cost will be funded by debt; c.10% from proceeds of the distribution reinvestment plan), the manager expects a 4% DPU accretion from the acquisition.

Attractive valuation from a per key perspective

The property is an upscale 314-room hotel located in Tanjong Pagar, a key business district. We note that FEHT's leasehold interests in the property is 65 years (underlying land lease is c.93 years). Nonetheless, the S\$210m price tag translates to c.S\$669k/key, which is attractive compared against past transactions and current asking prices. We expect the acquisition to be completed in Apr 2018. Post-completion, the manager expects gearing to increase to c.37.5% (9M17: 32.1%).

Earn-out agreement – we believe the S\$9.9m NPI condition would be easily met

As part of the acquisition, an additional S\$15m worth of units will be issued to the vendor if the NPI of the property is at least S\$9.9m for two consecutive fiscal years. For 9M17, the hotel was generating S\$170 RevPAR (est. S\$205 ARR and 82% average occupancy) which roughly translates to S\$9.6m annualised NPI. We calculate that RevPAR would need to increase to S\$177 to meet the S\$9.9m NPI condition. Meanwhile, the Singapore hotel industry is generating an average S\$201 RevPAR, upscale hotels generate S\$226.

How we see earnings trajectory for Oasia Hotel Downtown

Accordingly, given the RevPAR growth potential, we believe the S\$9.9m NPI condition would be easily met, and we factor in S\$15m new units issuance in FY20F. We assume S\$170 RevPAR for FY18F, and expect RevPAR to grow 8% yoy in FY19F and another 10% in FY20F to S\$201. This translates to c.S\$11.3m NPI (or c.5% yield on cost) which we believe what a matured Oasia Downtown could achieve. The hotel is relatively new and opened in Apr 16. Further upside could come from tight supply in FY20F.

Price performance

	1M	3M	12M
Absolute (%)	2.1	2.1	20
Relative (%)	0.6	-5	2.9

Source: Bloomberg

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