

SECTOR UPDATE

Hospitality REITs – Singapore

Greater Influx Of Chinese Tourists, Lower Supply Of Hotel Rooms

Visitor arrivals recovered 13% yoy in July and 17% yoy in August, boosted by the pick-up in volume of Chinese tourists. Growth is supported by large-scale MICE events, new tourism attractions and muted supply of hotel rooms. The sector trades at an attractive 2025 distribution yield of 6.1% and low P/NAV of 0.74x. Maintain OVERWEIGHT. BUY CLAS (Target: S\$1.38) for expansion in longer-stay properties. BUY CDREIT (Target: S\$1.50) as it benefits the most from lower interest rates.

WHAT'S NEW

- Pick-up in arrivals driven by Chinese tourists.** Visitor arrivals picked up and expanded 17% yoy to 1.5m in Aug 24, accounting for 89% of pre-pandemic levels. Visitors from China doubled yoy to 403,000 in Aug 24, accounting for 102% of pre-pandemic levels and regaining the crown as the top source market (above pre-pandemic levels for two consecutive months). Visitors from Europe, Japan and India increased 18%, 20% and 10% yoy respectively. On a ytd basis, visitor arrivals to Singapore increased 26% yoy to 11.3m in 8M24, accounting for 88% of pre-pandemic levels.
- Singapore is the top destination for Chinese tourists.** Chinese tourists like Singapore for its cleanliness, greenery and cultural affinity to Mandarin-speaking Singaporeans. Safety is a key consideration as some neighbouring countries were affected by incidents involving kidnapping of Chinese tourists. Popular attractions include Chinatown, Gardens By The Bay, Orchard Road, Singapore Zoo and Universal Studio Singapore. Some Chinese tourists visit National University of Singapore and Nanyang Technological University to showcase campus life in Singapore and inspire their children to work hard for admission to top universities. Singapore is well connected to China with weekly flights restored to pre-pandemic levels since Jan 24. The mutual 30-day visa exemption arrangement, which commenced in Feb 24, also makes travelling to Singapore more convenient.
- Muted new supply during 2024-26.** The hospitality industry absorbed new supply of 3,145 hotel rooms in 2023, representing a sizeable expansion of 4.6%. New supply is expected to moderate to just 984 hotel rooms in 2024, a more muted expansion of 1.4%. According to Horwath HTL, supply growth is estimated at a CAGR of 1.6% from Jul 24 to Dec 26. A significant portion of new supply came from hotels which completed renovations and came back on stream, including Mandarin Oriental (527 rooms in Sep 23), Conrad Orchard (440 room in Jan 24) and Grand Hyatt Singapore (292 room in 3Q24 and 407 rooms in 2025).
- Mpx is less disruptive than COVID-19.** According to Health Minister Ong Ye Kung, mpx is “a troublesome virus which we can manage, without major disruptions to our daily lives”. The disease is spread mainly through close physical contact, such as skin to skin, mouth to skin, or mouth to mouth. Thus, it is less transmissible than respiratory viruses, such as influenza and COVID-19, which are airborne. Contact tracing will be carried out for close contacts of confirmed clade I cases. Close contacts would be quarantined for 21 days. Singapore has had 15 mpx cases of the milder clade II variant to date in 2024.

ACTION

- 2H24 is seasonally stronger.** Travel pattern was temporarily disrupted during the COVID-19 pandemic but has since normalised back to the usual seasonal pattern. Thus, we expect a seasonally stronger 2H24 driven by the influx of Chinese tourists, string of concerts and pick-up in MICE events. The 15th Singapore Grand Prix attracted 269,072 fans over the three-day race weekend on 20-22 Sep 24, an increase of 2% compared with 2023. Taiwanese superstar Jay Chou will be performing his *Carnival World Tour* for three nights at the National Stadium on 11-13 Oct 24. Hong Kong singer-actor Andy Lau will be performing *Today... Is The Day Tour* for four nights at the Indoor Stadium on 10-13 Oct 24.

PEER COMPARISON – HOSPITALITY REITS

Company	Ticker	Rec	Price		Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
			3 Oct 23 (S\$)	Target Price (S\$)		2023	2024F	2025F	2026F			
CapLand Ascott	CLAS SP	BUY	0.975	1.38	2,846	6.7	5.6	6.0	6.3	68.1	37.2	0.85
CDL HTrust	CDREIT SP	BUY	1.02	1.50	985	5.6	5.6	6.4	6.5	64.6	37.7	0.69
Far East HTrust	FEHT SP	BUY	0.645	0.80	1,000	6.3	6.2	6.2	5.8	38.7	30.8	0.70
Frasers HTrust	FHT SP	NR	0.46	n.a.	683	5.3	5.4	5.7	6.1	59.0	35.3	0.70

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

TOP BUYS

Company	Ticker	Rec	Share Price (S\$)	Target Price (S\$)
CLAS	CLAS SP	BUY	0.975	1.38
CDREIT	CDREIT SP	BUY	1.02	1.50
FEHT	FEHT SP	BUY	0.645	0.80

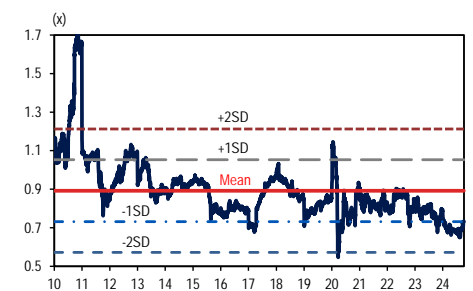
Source: UOB Kay Hian

YIELD SPREAD FOR HOSPITALITY REITS



Source: UOB Kay Hian

P/NAV FOR HOSPITALITY REITS



Source: UOB Kay Hian

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• **Investing in tourism infrastructure for the long haul.** Hospitality REITs benefit from a series of government initiatives to develop new tourism attractions, including expansion at Marina Bay Sands and Resorts World Sentosa, Mandai Nature Precinct and the Sentosa-Brani Master Plan. At Resorts World Sentosa, Minion Land and Singapore Oceanarium are scheduled to open in 2025. Sentosa Island and Pulau Brani will be redeveloped into five distinct zones under the Sentosa-Brani Master Plan in phases over the next 2-3 decades. For nature lovers, the 15ha Bird Paradise with eight walk-through aviaries opened on 8 May 23. Mandai Rainforest Resort with 24 elevated seed pod-shaped treehouses and 338 rooms is scheduled to open in 1H25. Rainforest Wild modelled after the forests in Southeast Asia and Africa remains under construction.

• **Headwinds from the strong SGD have abated.** MYR, IDR and JPY depreciated 11.3%, 9.4% and 20.1% respectively against the SGD cumulatively in 2022 and 2023. The strong SGD made Singapore more expensive relative to alternative destinations, deterring travellers in regional countries from visiting Singapore. The recent weakening of the SGD against regional currencies in 3Q24, such as MYR (-8.2%), IDR (-3.3%), and JPY (-6.1%), triggered by lower US interest rates is a welcomed relief. Depreciation of the SGD could continue with more upcoming rate cuts.

• **Laggards with attractive valuations.** Hospitality REITs provide an attractive 2025 distribution yield of 6.1% and yield spread of 3.4% for 2024. They trade at a P/NAV of 0.74x (26% discount to NAV). The underperformance of hospitality REITs is unjustified given the continued recovery in visitor arrivals and ongoing investments to build tourism infrastructure for the long haul.

**CAPITALAND ASCOTT TRUST (CLAS SP/BUY/TARGET: S\$1.38)**

• CLAS' RevPAU grew 4% yoy and 15% qoq to S\$155 in 2Q24 (exceeding pre-pandemic levels by 2%), driven by higher room rates in Japan and the US. Portfolio occupancy improved 4ppt qoq to 77%. CLAS benefits from the catch-up in recovery in the Asia Pacific region, which accounted for 54% of its total assets.

• CLAS is acquiring the 329-room lyf Funan for S\$263m or S\$827,999,000 per key. The property provides EBITDA yield of 4.7%. The purchase is partially funded by proceeds from the divestment of 154-room Citadines Mount Sophia, which was sold at S\$148m or S\$961,000 per key and exit EBITDA yield of 3.2%. lyf Funan is tailored for next-generation travellers and social living. It is located close to several attractions and landmarks and is linked to City Hall MRT Station via an underpass. lyf Funan's occupancy was more than 80% in 1H24. The proposed acquisition is DPU accretive at 1.5% on a pro forma basis for 2023.

• Longer-stay accommodation accounted for 17% of its portfolio valuation (student accommodation: 11%, rental housing: 6%). Gross profit for its eight student accommodation properties in the US grew 22% yoy in 1H24. The properties registered rental growth of 5.5% yoy, while average occupancy was healthy at 93% for academic year 2023-24. Its newly-completed 678-bed Standard at Columbia in South Carolina received its first batch of students in Aug 23 and is fully leased.

• CLAS has a resilient balance sheet with aggregate leverage at 38.6% as of Jun 23. Adjusted interest coverage ratio was healthy at 4.3x. It redeemed 3.88% S\$150m Fixed Rate Perpetual Securities on 4 Sep 24.

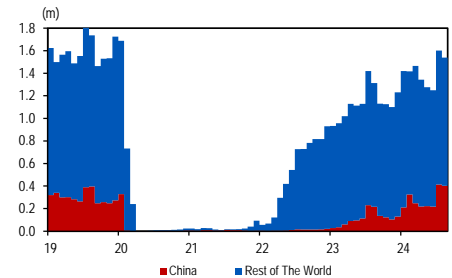
• **Maintain BUY.** Our target price of S\$1.38 is based on DDM (cost of equity: 7.0%, terminal growth: 2.8%).

**CDL HOSPITALITY TRUSTS (CDREIT SP/BUY/TARGET: S\$1.50)**

• CDREIT reported RevPAR growth of 7.7% yoy for Singapore, 13.9% yoy for Australia, 25.4% yoy for Japan and 9.0% yoy for Germany in 1H24. NPI grew 5.9% yoy. Finance costs increased by 4.6% yoy. 1H24 DPU was flat yoy at 2.51 S cents.

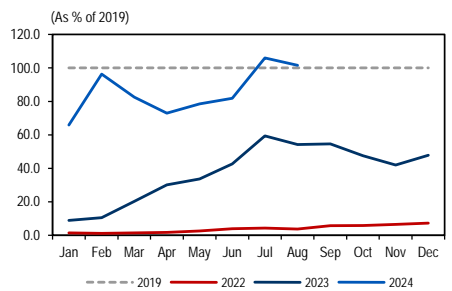
• The Castings, CDREIT's 352-unit residential build-to-rent project in the UK, achieved practical completion on 6 Jun 24. Three showflat apartments were opened in March to facilitate viewing and pre-leasing activities. Rents have grown at a CAGR of 11.2% over the past three years. It takes about 12 months for occupancy to stabilise. The NPI yield of The

**VISITOR ARRIVALS TO SINGAPORE**



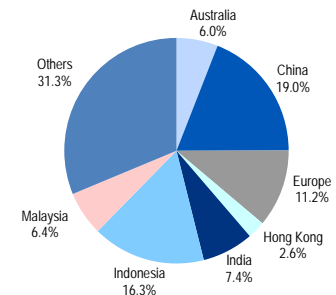
Source: STB

**CHINESE TOURISTS – AS % OF 2019**



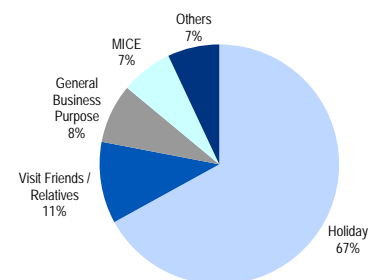
Source: STB

**VISITOR ARRIVALS BY COUNTRY (2019)**



Source: STB

**PURPOSE OF VISIT**



Source: STB

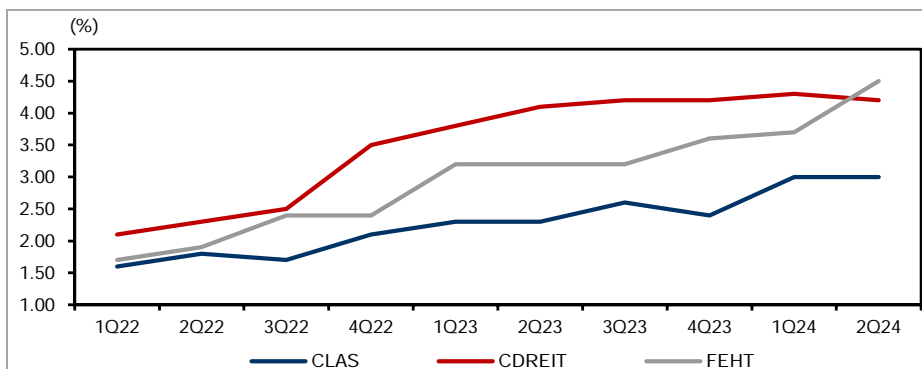
Castings could be higher than 6% due to a higher stabilised rental rate. The Castings in the UK will start contributing in 2H24.

- About 48% of CDREIT's borrowings are on floating interest rates, which would benefit from upcoming rate cuts. We expect cost of debt to ease from the current 4.2% in 2Q24 to 3.7% in 2H25. Thus, we raised our 2025 DPU forecast by 2%.
- Our target price of S\$1.50 is based on DDM (cost of equity: 7.0%, terminal growth: 2.8%).

### FAR EAST HOSPITALITY TRUST (FEHT SP/BUY/TARGET: S\$0.80)

- FEHT is a pure play on the hospitality sector with nine hotels and three serviced residences in Singapore. Five hotels, namely Vibe Hotel Orchard, The Quincy Hotel, Village Hotel Bugis, Oasia Hotel Novena and Orchard Rendevous Hotel (51% of portfolio valuation), are located near major hospitals popular among medical tourists.
- Occupancy improved 5.6ppt yoy to 80.4% in 2Q24 as hotels that exited government contracts in 2023 continued to ramp up. Oasia Hotel Novena and Village Hotel Albert Court exited government contracts in Oct 23 and Dec 23 respectively. Average daily rate (ADR) has normalised to S\$172, which is similar to last year. RevPAR for hotels grew 6.0% yoy to S\$139 in 2Q24. 1H24 DPU increased 2.1% yoy to 1.96 S cents.
- FEHT had a low aggregate leverage of 30.8% as of Jun 24. It has debt headroom of S\$415m based on aggregate leverage of 40% for acquisitions locally and overseas. It is scouting for opportunities to invest in limited-service, midscale and upscale hotels at gateway cities in developed markets. It could also consider acquiring the balance 70% stake in Village Hotel, Outpost Hotel and The Barracks on Sentosa and The Clan Hotel located downtown from sponsor Far East Organisation.
- About 64% of FEHT's borrowings are on floating interest rates, which would benefit from upcoming rate cuts. Thus, we raised our 2026 DPU forecast by 2%.
- Our target price of S\$0.80 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

### COST OF DEBT



Source: Respective S-REITs

### CAPITAL MANAGEMENT

	Aggregate Leverage (%)	Cost of Debt (%)	Fixed Rate Debt As % Total Debt (%)	Average Debt Maturity (years)
CLAS	37.2	3.0	82	3.6
CDREIT	37.7	4.2	52	1.8
FEHT	30.8	4.1	36	3.3

Source: Respective S-REITs

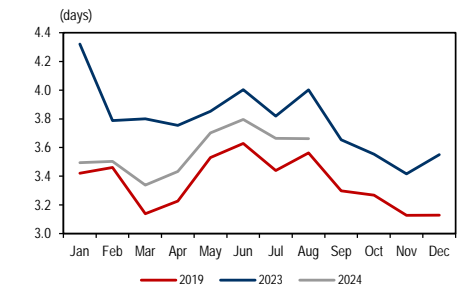
### SECTOR CATALYSTS

- Continued recovery of visitor arrivals in 2H24 and 2025.
- Limited growth in supply of hotels and serviced residences at a CAGR of 1.6%.

### RISKS

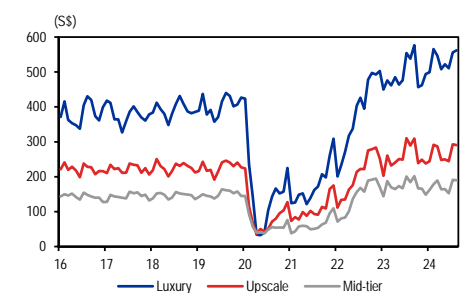
- Escalation of the Russia-Ukraine war and Israel-Hamas war.

### AVERAGE LENGTH OF STAY



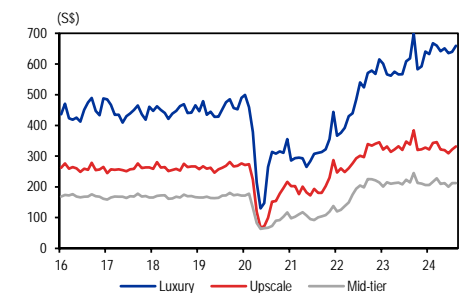
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### HOTEL REVPAR - SINGAPORE



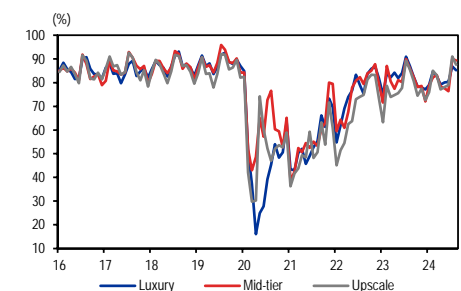
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### HOTEL ROOM RATES - SINGAPORE



Source: STB

### HOTEL OCCUPANCY - SINGAPORE



Source: STB

PEER COMPARISON

Name	Ticker	Rec	Curr	Price	Target	Mkt Cap	Yield (%)			Debt to	Debt to	P/NAV	
				3 Oct 24	Price	(US\$m)	Hist	Curr	Fwd 1Y	Fwd 2Y	Equity (%)	Assets (%)	(x)
<b>HEALTHCARE</b>													
First REIT	FIRT SP	NR	S\$	0.275	n.a.	442	9.0	8.7	9.1	9.5	76.5	39.5	0.97
PLife REIT	PREIT SP	BUY	S\$	4.12	5.07	1,921	3.6	3.5	3.6	4.3	57.4	35.3	1.75
<b>HOSPITALITY</b>													
CapLand Ascott	CLAS SP	BUY	S\$	0.975	1.38	2,846	6.7	5.6	6.0	6.3	68.1	37.2	0.85
CDL HTrust	CDREIT SP	BUY	S\$	1.02	1.50	985	5.6	5.6	6.4	6.5	64.6	37.7	0.69
Far East HTrust	FEHT SP	BUY	S\$	0.645	0.80	1,000	6.3	6.2	6.2	5.8	38.7	30.8	0.70
Frasers HTrust	FHT SP	NR	S\$	0.46	n.a.	683	5.3	5.4	5.7	6.1	59.0	35.3	0.70
<b>INDUSTRIAL</b>													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.32	n.a.	825	7.1	7.0	7.3	7.3	66.3	33.1	1.01
CapLand Ascendas	CLAR SP	BUY	S\$	2.90	3.74	9,829	5.2	5.3	5.6	5.8	67.5	37.8	1.28
Daiwa Hse Log Trust	DHLT SP	NR	S\$	0.625	n.a.	336	8.4	8.0	8.0	8.0	66.6	36.8	0.94
Digi Core REIT USD	DCREIT SP	BUY	US\$	0.615	0.88	797	6.0	5.8	5.9	6.0	52.6	34.4	0.91
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.29	n.a.	1,718	8.8	7.6	7.2	7.2	66.2	36.5	0.95
Keppel DC REIT	KDCREIT SP	BUY	S\$	2.17	2.28	2,882	4.3	4.4	4.5	5.0	59.4	35.8	1.58
Mapletree Ind Trust	MINT SP	BUY	S\$	2.53	3.05	5,529	5.3	5.4	5.6	5.7	61.5	39.1	1.44
Mapletree Log Trust	MLT SP	HOLD	S\$	1.48	1.44	5,722	6.1	5.6	5.6	5.6	79.6	39.6	1.08
<b>OFFICE</b>													
Keppel REIT	KREIT SP	BUY	S\$	0.96	1.20	2,825	6.0	6.3	6.2	6.1	81.1	41.3	0.74
<b>RETAIL</b>													
Frasers Centrepoint	FCT SP	BUY	S\$	2.31	2.71	3,223	5.3	5.1	5.2	5.2	50.8	39.1	1.02
Lendlease REIT	LREIT SP	BUY	S\$	0.62	0.77	1,091	6.2	6.3	6.3	6.2	86.4	40.9	0.81
Sasseur REIT	SASSR SP	BUY	S\$	0.725	0.98	696	8.6	8.3	9.0	9.4	41.8	25.3	0.85
PARAGON REIT	PGNREIT SP	NR	S\$	0.93	n.a.	2,037	5.4	4.9	4.7	4.8	47.5	29.0	0.99
Starhill Global	SGREIT SP	NR	S\$	0.55	n.a.	960	6.6	6.9	7.1	6.9	64.5	36.8	0.77
<b>DIVERSIFIED</b>													
CapLand China Trust	CLCT SP	NR	S\$	0.885	n.a.	1,163	7.6	6.9	7.0	7.2	90.9	40.8	0.74
CapLand Int Comm Trust	CICT SP	BUY	S\$	2.13	2.59	11,344	5.0	4.8	5.0	5.1	66.2	39.8	1.00
Frasers L&C Trust	FLT SP	BUY	S\$	1.17	1.48	3,389	6.0	5.9	5.9	6.0	55.3	33.2	1.01
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.53	1.76	6,200	5.8	5.5	5.6	5.7	73.9	40.5	0.87
OUE Comm REIT	OUECT SP	NR	S\$	0.32	n.a.	1,355	6.5	6.3	6.9	6.6	71.3	38.7	0.53
Suntec REIT	SUN SP	HOLD	S\$	1.34	1.18	3,009	5.3	4.6	4.7	4.8	69.5	42.3	0.64
<b>INTERNATIONAL (US/EUROPE)</b>													
Cromwell REIT EUR	CERT SP	NR	€	1.58	n.a.	980	9.9	9.0	8.9	8.4	81.0	40.5	0.75
Elite UK REIT GBP	ELITE SP	NR	£	0.31	n.a.	239	11.0	9.4	11.3	9.7	81.3	41.4	0.77
IREIT Global	IREIT SP	NR	S\$	0.31	n.a.	321	8.6	n.a.	n.a.	n.a.	67.4	36.9	0.55
Keppel REIT USD	KORE SP	BUY	US\$	0.255	0.35	266	9.8	0.0	0.0	16.8	81.7	42.7	0.36
Manulife REIT USD	MUST SP	BUY	US\$	0.111	0.168	197	0.0	0.0	0.0	25.1	139.8	56.3	0.33
Prime US REIT USD	PRIME SP	BUY	US\$	0.173	0.32	226	15.7	2.2	2.5	25.9	100.0	48.9	0.31
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.475	0.64	277	10.1	8.7	9.3	9.8	76.6	41.9	0.65

Source: Bloomberg, UOB Kay Hian

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