

### COMPANY UPDATE

## Ascott Residence Trust (ART SP)

Room Rates Heading Higher Due To Rapid Recovery In The US and Europe

**ART's properties in the US, the UK and continental Europe have experienced a rapid recovery since May 22 with RevPAU near pre-pandemic levels in 2Q22 and poised to scale greater heights in 3Q22, boosted by the summer holidays. ART has raised the asset allocation target in longer-stay assets, such as student accommodation and rental housing, by 10ppt to 25-30% of portfolio value. Distribution yield is expected to improve from 4.8% in 2022 to 5.8% in 2023. Maintain BUY. Target price: S\$1.33.**

#### WHAT'S NEW

- Ascott Residence Trust (ART) benefits from strong pick-up in demand in countries with large domestic markets, such as the US, the UK, Japan and Australia due to pent-up demand since Mar 22. International leisure and corporate bookings are rapidly recovering as many countries have reopened their borders to vaccinated travellers. Business executives have also started to travel to reconnect with customers, link up with colleagues, and network at conferences.
- **Braving inconveniences to travel.** The sudden surge in air travel has caught airlines and airports off guard. Travellers have experienced long waits to get through security checks at London Heathrow Airport, Manchester Ringway Airport and Sydney Kingsford Smith Airport. Travellers' willingness to contend with rising air ticket prices and COVID-19 related logistics issues, including the risk of delays and flight cancellations, demonstrates the resiliency and strength of the pent-up demand.
- **US: Benefitting from surge in domestic leisure demand.** Recovery for ART's three hotels in New York started in Feb 22, driven by domestic leisure travel, which is already near pre-pandemic levels. Demand from domestic business travel has started to normalise. Although business travellers are making fewer trips, they are staying longer at each destination. Industry peers, Hilton and Marriott, have attested to the trend of rising room rates. Their RevPAR was 25% above pre-pandemic levels during the Memorial Day weekend in late-May. International bookings have picked up in 2Q22 and the recovery is expected to further accelerate in 3Q22 due to lifting of COVID-19 testing requirements for inbound air travellers since mid-June.
- **UK: Firing on all cylinders.** Demand from business travel and corporate groups has picked up since Feb 22, which has led to higher room rates. Bookings from international travellers have already grown to account for 40% of its business in 1Q22. The recovery is further strengthened by the pick-up in domestic travel and the slew of public holidays (Easter, Bank Holiday and Platinum Jubilee weekend) in 2Q22. Many Britons are travelling domestically for their summer holidays (staycation) in 3Q22 to avoid chaos and congestions at the airports. According to tour operator Tui, bookings for summer holidays in the UK are about 20% higher than pre-pandemic levels.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	394	513	638	668
EBITDA	128	146	233	308	321
Operating profit	94	114	199	274	287
Net profit (rep./act.)	(238)	296	92	147	157
Net profit (adj.)	67	(1)	92	147	157
EPU (S\$ cent)	2.2	(0.0)	2.8	4.5	4.7
DPU (S\$ cent)	3.0	4.3	5.4	6.5	6.5
PE (x)	53.0	n.m.	41.3	25.8	24.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	2.6	3.8	4.7	5.6	5.7
Net margin (%)	(64.4)	75.0	17.9	23.1	23.5
Net debt/(cash) to equity (%)	49.8	55.6	65.6	68.6	71.2
Interest cover (x)	2.2	2.8	3.7	4.5	4.6
ROE (%)	n.a.	7.2	2.2	3.5	3.8
Consensus DPU (S\$ cent)	n.a.	n.a.	5.5	6.5	7.3
UOBKH/Consensus (x)	-	-	0.98	1.00	0.89

Source: Ascott Residence Trust, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.15
Target Price	S\$1.33
Upside	+15.7%
(Previous TP)	S\$1.25

#### COMPANY DESCRIPTION

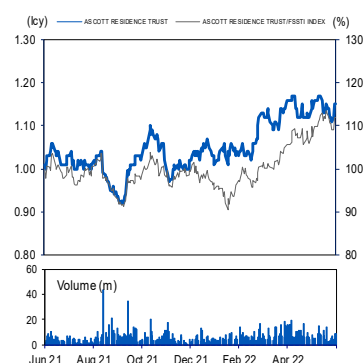
ART invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ART SP
Shares issued (m):	3,286.9
Market cap (S\$m):	3,779.9
Market cap (US\$m):	2,729.2
3-mth avg daily t'over (US\$m):	6.3
<b>Price Performance (%)</b>	
52-week high/low	S\$1.17/S\$0.92

1mth	3mth	6mth	1yr	YTD	
5.0	26.1	40.7	31.6	36.5	
<b>Major Shareholders</b>					<b>%</b>
Temasek Hldgs					39.6
-					-
-					-
FY22 NAV/Share (S\$)					1.15
FY22 Net Debt/Share (S\$)					0.84

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Jonathan Koh**  
+65 6590 6620  
jonathankoh@uobkayhian.com

• **Europe: Western Europe benefits from diversion of traffic.** ART's 23 properties in Belgium, France, Germany and Spain benefit from recovery in short-haul intra-regional travel. Nine of its 15 serviced residences in France are in Paris, which is one of the world's most popular tourist destinations. American tourists are back to taking their long-delayed overseas vacations in Europe. There is also diversion of traffic from Eastern European countries, such as Czech Republic, Hungary and Poland, due to the Russia-Ukraine war. Bookings are already above pre-pandemic levels for budget carriers EasyJet and Ryanair in May and June. We expect RevPAR to be near pre-pandemic levels in 2Q22 and surpass pre-pandemic levels in 3Q22, driven by peak seasonal demand for summer holidays.

• **Australia: Benefitting from domestic interstate travel.** Some of ART's hotels have transitioned from block bookings to serving public guests in 1Q22. Pent-up demand and improved travel confidence have led to a surge in bookings since Mar-Apr 22, especially for its properties in Sydney and Perth. Demand from the corporate segment spiked in Mar 22 as companies restarted business travel. Citadines Connect Sydney Airport benefits from the surge in air passenger traffic in 2Q22. Pullman and Mercure Melbourne Albert Park benefitted from F1 Grand Prix in Apr 22, which was held nearby at Albert Park Circuit.

### STOCK IMPACT

• **Setting sights on a higher goal.** Management plans to raise the asset allocation target in longer-stay assets by 10ppt from 15-20% to 25-30% in the medium term.

• **Pivoting towards longer-stay properties.** Occupancy for its student accommodation properties in the US was close to 100% in 1Q22. Pre-leasing momentum has improved and management plans to increase room rates for student accommodation properties by 5% for academic year 2022/23. Occupancy for rental housing properties in Japan was above 95%. Longer-stay properties, such as student accommodation & rental housing, accounted for 28% of gross profit in 1Q22 and 17% of AUM as of Mar 22.

• **Value creation through asset recycling.** ART divested six properties at an average exit yield of 2% and total proceeds of S\$580m. It unlocked divestment gains of about S\$225m. The capital freed up was reinvested in 11 yield accretive rental housing and student accommodation properties for total consideration of S\$780m and an average EBITDA yield of 5%. ART's longer-stay assets currently account for 17% of AUM.

### EARNINGS REVISION/RISK

• **We raise our DPU forecasts for 2022 and 2023 by 5.7% and 4.5% respectively due to a rapid recovery in the US, the UK and continental Europe.** Our upward revision is tempered by the depreciation of British pound by 6.8% (7% of total assets), euro by 4.3% (12% of total assets) and Japanese yen by 12.8% (19% of total assets) against the strong Singapore dollar.

### VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$1.33 is based on DDM (cost of equity: 7.25%, terminal growth: 2.6%).

### SHARE PRICE CATALYST

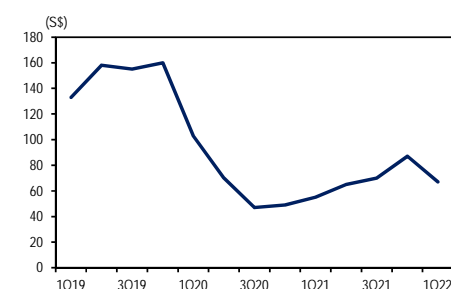
- Yield-accretive acquisitions for student accommodation and rental housing.
- Maiden development project Iyf one-north, which had its soft opening in Nov 21.
- Recovery of the hospitality industry in Europe, Americas, Japan and Singapore, followed by other countries in the Asia Pacific region.

### KEY OPERATING METRICS – ART

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.045	n.a.	2.270	n.a.	n.a.	n.a.
Aggregate Leverage	36.1%	35.9%	35.3%	37.1%	37.8%	1.7ppt	2.5ppt
Weighted All-in-Financing Cost	1.7%	1.6%	1.6%	1.6%	1.60%	-0.1ppt	0ppt
% Borrowings in Fixed Rate	78%	80%	79%	74%	70.0%	-8ppt	-9ppt
Weighted Debt Maturity (years)	3.0	3.2	2.9	2.7	2.6	-0.4yrs	-0.3yrs

Source: ART, UOB Kay Hian

### PORTFOLIO REVPAU



Source: ART

### WELL DIVERSIFIED ACROSS 15 COUNTRIES



Source: ART

### TARGET GEOGRAPHICAL ALLOCATION



Source: ART

### TARGET ASSET ALLOCATION



Source: ART

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	394.4	513.0	637.7	668.3
EBITDA	146.3	233.1	308.0	321.4
Deprec. & amort.	32.6	34.0	34.0	34.0
EBIT	113.7	199.1	274.0	287.4
Total other non-operating income	17.3	0.4	0.4	0.4
Associate contributions	(0.2)	0.0	0.0	0.0
Net interest income/(expense)	(52.9)	(63.5)	(68.7)	(69.9)
<b>Pre-tax profit</b>	<b>374.9</b>	<b>135.9</b>	<b>205.7</b>	<b>217.9</b>
Tax	(64.5)	(27.2)	(41.1)	(43.6)
Minorities	(1.1)	(3.6)	(3.6)	(3.6)
Preferred dividends	(13.5)	(13.5)	(13.5)	(13.5)
<b>Net profit</b>	<b>295.8</b>	<b>91.7</b>	<b>147.4</b>	<b>157.2</b>
Net profit (adj.)	(1.3)	91.7	147.4	157.2

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,225.5	7,549.7	7,566.2	7,566.2
Other LT assets	44.3	44.3	44.3	44.3
Cash/ST investment	346.3	357.5	329.2	345.2
Other current assets	117.1	156.3	173.3	178.4
<b>Total assets</b>	<b>7,733.2</b>	<b>8,107.8</b>	<b>8,113.0</b>	<b>8,134.1</b>
ST debt	764.2	764.2	764.2	764.2
Other current liabilities	207.7	282.8	311.1	319.6
LT debt	1,964.7	2,350.0	2,400.0	2,480.0
Other LT liabilities	428.9	424.4	415.2	404.8
Shareholders' equity	4,287.2	4,202.2	4,134.7	4,074.2
Minority interest	80.6	84.2	87.8	91.4
<b>Total liabilities &amp; equity</b>	<b>7,733.2</b>	<b>8,107.8</b>	<b>8,113.0</b>	<b>8,134.1</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>145.6</b>	<b>(73.7)</b>	<b>249.3</b>	<b>251.0</b>
Pre-tax profit	374.9	135.9	205.7	217.9
Tax	(4.4)	(27.2)	(41.1)	(43.6)
Deprec. & amort.	32.6	34.0	34.0	34.0
Associates	0.2	0.0	0.0	0.0
Working capital changes	(45.6)	41.0	13.2	4.0
Non-cash items	(283.5)	22.3	25.0	25.4
Other operating cashflows	71.3	(279.8)	12.6	13.3
<b>Investing</b>	<b>(538.6)</b>	<b>(53.0)</b>	<b>(36.5)</b>	<b>(20.0)</b>
Capex (growth)	(733.1)	(33.0)	(16.5)	0.0
Capex (maintenance)	(37.7)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	253.4	0.0	0.0	0.0
Others	(21.1)	0.0	0.0	0.0
<b>Financing</b>	<b>258.6</b>	<b>137.9</b>	<b>(241.0)</b>	<b>(214.9)</b>
Distribution to unitholders	(142.5)	(176.6)	(215.0)	(217.7)
Issue of shares	150.0	0.0	0.0	0.0
Proceeds from borrowings	755.0	385.3	50.0	80.0
Loan repayment	(448.2)	0.0	0.0	0.0
Others/interest paid	(55.6)	(70.8)	(76.0)	(77.2)
<b>Net cash inflow (outflow)</b>	<b>(134.3)</b>	<b>11.1</b>	<b>(28.3)</b>	<b>16.0</b>
Beginning cash & cash equivalent	486.7	346.3	357.5	329.2
Changes due to forex impact	(6.1)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>346.3</b>	<b>357.5</b>	<b>329.2</b>	<b>345.2</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	37.1	45.4	48.3	48.1
Pre-tax margin	95.1	26.5	32.3	32.6
Net margin	75.0	17.9	23.1	23.5
ROA	4.0	1.2	1.8	1.9
ROE	7.2	2.2	3.5	3.8
<b>Growth</b>				
Turnover	6.6	30.1	24.3	4.8
EBITDA	13.9	59.3	32.1	4.3
Pre-tax profit	n.a.	(63.7)	51.3	5.9
Net profit	n.a.	(69.0)	60.9	6.6
Net profit (adj.)	(102.0)	n.a.	60.9	6.6
EPU	(102.0)	n.a.	59.7	5.8
<b>Leverage</b>				
Debt to total capital	38.5	42.1	42.8	43.8
Debt to equity	63.7	74.1	76.5	79.6
Net debt/(cash) to equity	55.6	65.6	68.6	71.2
Interest cover (x)	2.8	3.7	4.5	4.6

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W