

Singapore Industry Focus

Singapore Hospitality

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2015

Prospects of rebound dimming

- Expected drop in Indonesia arrivals in 1H15 is significant and not to be ignored
- 2015 industry RevPAR to fall 5% on weaker than expected arrivals and 6% jump in hotel supply
- Downgrade CDREIT to HOLD - Focus on geographically diversified REITs such as ART

Expected softness in Indonesian arrivals in 1H15 not to be ignored. Indonesian tourists, Singapore's largest source market (c.20% share) fell 7% y-o-y in 2H14 and we expect further weakness in 1H15. We believe this will taper expected rebound in visitor arrivals to Singapore. In our view, a key reason for this weakness is the 25% y-o-y cut in 1H 15 seat capacities by LCCs flying from Indonesia to Singapore. This is based on our analysis of LLC seat capacity over the last three years which shows growth in Indonesian arrivals when LCCs increase capacity and conversely declines when capacity is cut. However, contrary to expectations there is limited correlation between changes in SGD-IDR exchange rate and Indonesian arrivals.

New hotel supply to pressurise hotel performance; we estimate a 5% drop in 2015 RevPAR. To account for lower LLC seat capacity, we now expect a 2% y-o-y decline in Indonesian arrivals in 2015 versus 5% growth previously. This is partially offset by an expected recovery in Chinese visitors (+12.5%) which should translate to 3% growth in overall visitors to 15.5m, in line with the top end of the Singapore government's recent 15.1m-15.5m target. Given lower projected arrivals, our earlier hope of recovery in the hospitality market is fading. With new hotel supply (+6% y-o-y), our revised industry RevPAR is expected to fall 5% y-o-y to S\$209, compared to our earlier projection of a 3% improvement.

Focus on geographically diversified REITs. With a weaker than expected outlook and after incorporating our latest FX forecasts, we have reduced our FY15-17F DPU estimates for the hospitality S-REITs under our coverage by 2-8%. Likewise, this has led us to trim respective TP's by 1-5% and downgrade our BUY recommendation for CDREIT to HOLD. Given our cautious stance on the Singapore hospitality market, we advocate investors focus on geographical diversified REITs, with ART (BUY, TP S\$1.34) as our top sector pick. We also like ART for its decent growth outlook which is underpinned by its recent AEI and acquisitions.

STI : 3,419.02

Analyst

Mervin SONG CFA +65 6682 3715
mervinsong@db.com

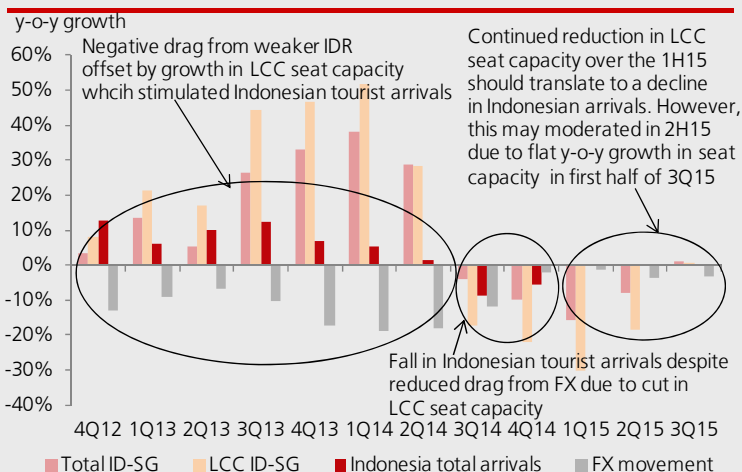
Derek TAN +65 6682 3716
derek.tan@db.com

STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		Rating
	S\$	US\$m	S\$	3 mth	12 mth	
Ascendas Hospitality Trust	0.69	562	0.68	2.2	(4.2)	HOLD
Ascott Residence Trust	1.25	1,401	1.34	(1.2)	5.5	BUY
CDL Hospitality Trusts	1.76	1,262	1.77	0.3	9.0	HOLD
Far East Hospitality Trust	0.81	1,054	0.76	(1.2)	(1.8)	HOLD
Fraser Hospitality Trust	0.90	781	0.93	1.1	N.A	BUY
OUE Hospitality Trust	0.94	911	0.98	3.9	11.9	BUY

Source: Bloomberg Finance L.P., DBS Bank

Further cuts low cost carriers' seat capacity points to further falls in Indonesian tourist arrivals



Source: CAPA, OAG, STB, DBS Bank

Analysts

Mervin SONG CFA +65 6682 3715
mervinsong@dbs.com

Derek TAN +65 6682 3716
derekstan@dbs.com

Table of Contents

Weakness in Indonesian visitors not to be ignored	3
Seat capacity by low cost airlines stronger predictor of arrivals	4
Base case - Expect 3% increase in 2015 tourist arrivals to 15.5m	5
DPU reversions on weaker industry outlook and FX rates	6
REIT Peer Comp	7
Stock Profiles	8
Ascott Residence Trust	9
CDL Hospitality Trusts	12

Weakness in Indonesian visitors not to be ignored

Overall tourist arrivals into Singapore fell 3.1% to 15.1m in 2014, largely on the back of a 24% decline in Chinese tourist arrivals. This was attributed to the widely discussed impact of tour groups avoiding South East Asia due to the political situation in Thailand and MH370 incident as well as restrictions on low cost "shopping" tours.

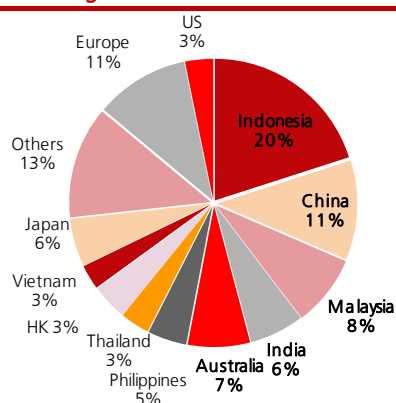
However, we note that the fall in visitors to Singapore was also caused by a 2% decline in Indonesian visitors, which is the largest visitor source market for Singapore (estimated at c.20% of total visitor arrivals to Singapore). Looking ahead, we expect to see further weakness in arrivals from Indonesia mainly due to capacity cuts from the Low Cost Carriers ("LCCs") which is made worse by weak IDR:SGD exchange rate.

FX provides weak explanation for decline in Indonesian arrivals

The reason for the fall in Indonesian arrivals in 2H14 has largely been cited as being caused by a weakening of the IDR versus SGD. However, based on historical correlations (since 1999) of -0.28 and R squared of 0.08, while there is some relationship between currency movements and tourist arrivals, the predictive power is not strong.

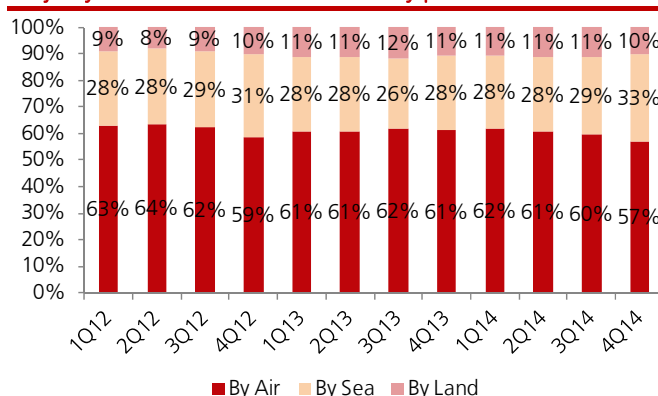
Based on our analysis, FX movements do have a short term impact on arrivals only if there is more than 10% change in SGD/IDR rate and in selective cases. We saw a decline in Indonesian arrivals in 3Q14 which corresponded to significant weakening of the IDR. Nevertheless, from 3Q13-2Q14 while the IDR did weaken y-o-y, visitor arrivals from Indonesia actually increased.

Indonesia the largest market for tourists into Singapore in 2014



Source: STB, DBS Bank

Majority of Indonesian tourists arrive by plane



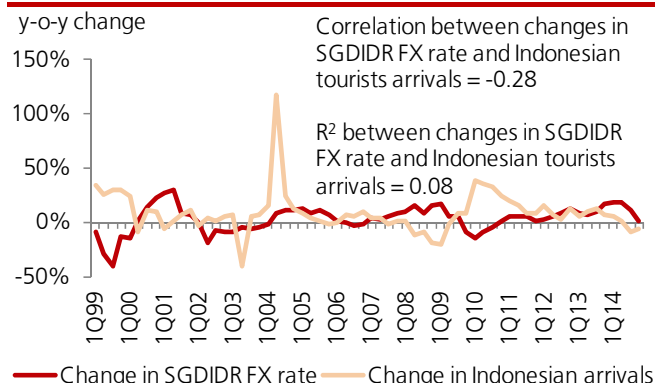
Source: STB, DBS Bank

Decline in Indonesian arrivals primarily via air in 2H14



Source: STB, DBS Bank

Weak correlation between SGDIDR and Indonesian arrivals

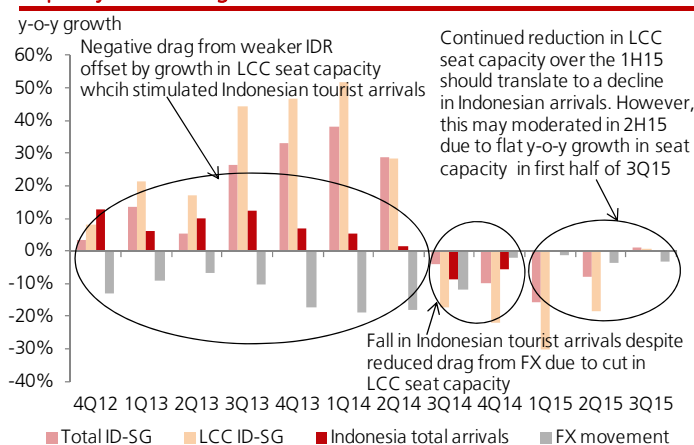


Source: Bloomberg Finance L.P., STB, DBS Bank

Seat capacity by low cost airlines stronger predictor of arrivals

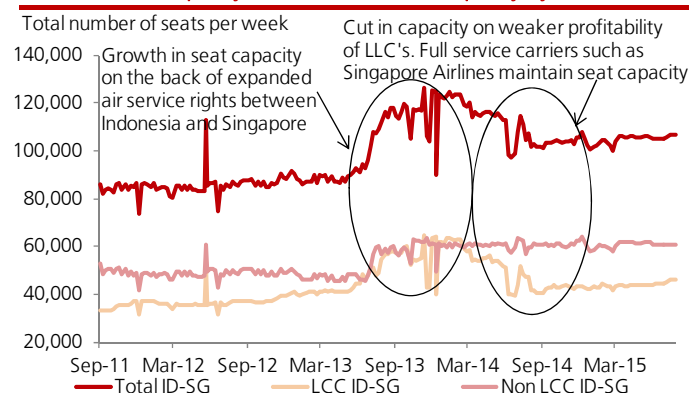
A stronger predictor of Indonesian arrivals we believe is the growth in seat capacity by LCCs into Singapore, rather than FX movements. As seen in the table below, we have had a negative drag from FX for the last few years but tourist arrivals from Indonesia displayed robust y-o-y growth. This correlates with significant growth in seat capacity from Indonesia to Singapore, largely from low cost carriers such as Air Asia and Tiger Airways according to data from the Centre for Aviation (CAPA). We believe "cheaper" seats available have stimulated the market, encouraging Indonesians to visit Singapore. From 4Q12-2Q14, Indonesian arrivals grew 1-13% y-o-y on the back of 8-47% increase in seat capacity by LCCs. Conversely, when seat capacity was reduced by 17-22% y-o-y in 3Q-4Q14, Indonesian visitors fell 6-9%.

Growth in Indonesian arrivals correlates more with LCCs' seat capacity than changes in SGD/IDR FX rate



Source: Bloomberg Finance L.P., CAPA, OAG, STB, DBS Bank

LCCs' had cut capacity in 2014 with stable capacity by non LCCs



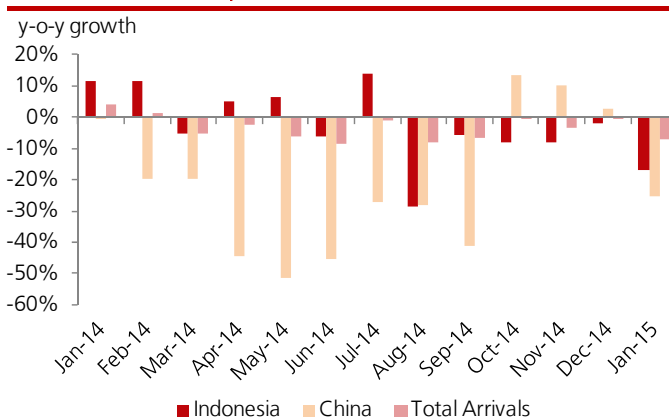
Source: Bloomberg Finance L.P., CAPA, OAG, STB, DBS Bank

Cut in seat capacity in 1H15 not a positive sign

Going forward, based on CAPA data, seat capacity in 1Q15 and 2Q15 from Indonesia to Singapore is projected to decline 16% and 8% y-o-y, respectively. More importantly, LCCs' seat capacity is expected to suffer cuts of 30% and 18% over the respective quarters. We believe this would translate to decline in Indonesian and overall tourist arrivals at least in the 1H15.

This weak trend can be seen in the latest January 2015 STB statistics, where Indonesian arrivals fell 17% y-o-y on the back of a 24% decline in Indonesian arrivals by air. This in combination with the still weak Chinese visitors (-25% y-o-y), saw overall number of tourists drop 7% y-o-y.

Decline in Indonesian, Chinese and overall tourists in Jan'15



Source: STB, DBS Bank

AirAsia Indonesia focused on growth in 2013 but was increasingly focused on profitability from 1Q14 onwards, which led to higher average airfares

Quarter	Average Fare (IDR)	y-o-y growth	Operating profit (IDR bn)
1Q13	564,725	-1.3%	(42.0)
2Q13	576,507	3.1%	(87.7)
3Q13	647,649	-2.5%	113.6
4Q13	572,613	-11.1%	(369.1)
1Q14	522,326	-7.5%	(390.4)
2Q14	611,446	6.1%	(271.8)
3Q14	765,005	18.1%	76.1
4Q14	723,499	26.4%	24.0

Source: AirAsia, DBS Bank

Singapore government revises 2015 visitor outlook

Second Trade Minister S. Iswaran in his recent parliamentary address revised the outlook for tourist arrivals in 2015. Compared to STB's previous target of 17m visitors, the Singapore government now expects between 15.1-15.5m visitors, a 0-3% change from 15.1m visitors last year. The key reasons for the change in forecast are weaker than expected performance in 2014 (-3.1% y-o-y) and a more challenging environment given heightened competition from other tourism markets.

Base case - Expect 3% increase in 2015 tourist arrivals to 15.5m

In light of our analysis of the key driver of Indonesian tourist arrivals and 12% decline in seat capacity into Singapore from Indonesia (based on CAPA data) in 1H15, we have cut our tourist arrival estimates from Indonesia from 5% growth to 2% y-o-y decline. However, we have maintained our 12.5% y-o-y increase from China tourists, as we project a recovery albeit off a low base. This bounce is half that of previous recoveries, as we expect increased competition from other markets such as Japan which benefits from a weaker JPY.

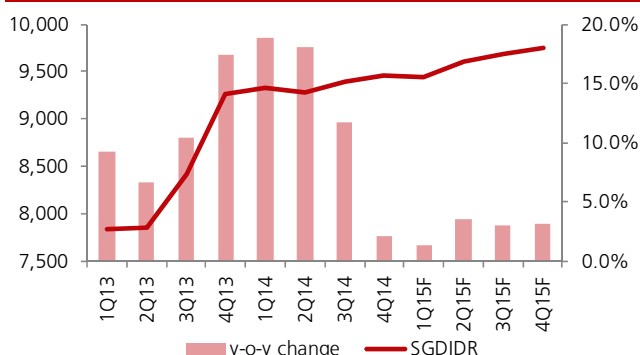
Furthermore, we expect average length of stay to remain stable at 3.7 days in 2015 based on our bottom up estimates of the top ten source markets. All in, we expect a 3% y-o-y increase in visitor arrivals and visitor days to 15.5m and 57.5m in 2015 respectively. This compares to our previous estimate of 16m visitors (+4.6% y-o-y) and 59m visitor days (+4.9% y-o-y).

Cutting our RevPAR estimates on higher room supply

Combined with 5.7% increase in hotel rooms, which is weighted towards 1H15, we estimate a 5% decline in RevPAR to S\$208. This is driven by a 200bps decline in occupancy to 83.4% and a 3% drop in ADR to S\$250.

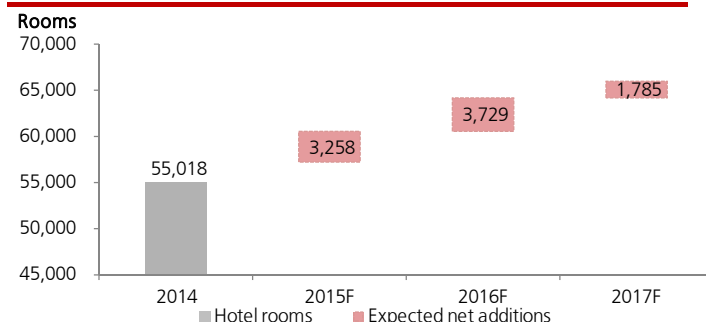
In January 2015, overall industry RevPAR was up 1.4% y-o-y to S\$207. This was driven by higher occupancies (+190bps y-o-y) as it appears hotels primarily in the mid-tier and economy categories have been lowering average room rates (-1% y-o-y to S\$250) to stimulate demand.

Minimal drag from strengthening SGD versus IDR over 2015



Source: STB, DBS Bank

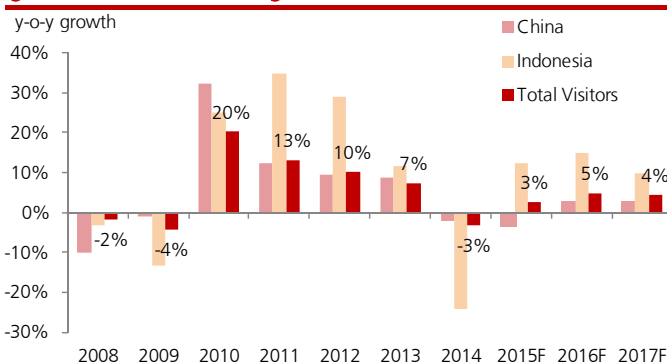
5.7% uplift in net hotel rooms in 2015



* Net rooms: 1Q15 - 711, 2Q15 - 1,803, 3Q15 - 30, 4Q15 - 714

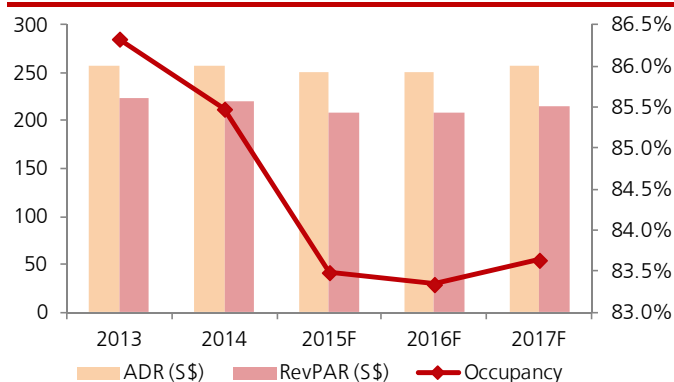
Source: CDREIT, STB, DBS Bank

Projecting 3% y-o-y growth in tourist arrivals in 2015: 12.5% growth in China offsetting 2% decline from Indonesia



Source: STB, DBS Bank

Expect 5% dip in RevPAR to S\$208 based on our DBS estimates



Source: STB, DBS Bank

Further declines in RevPAR if visitor arrivals do not come through as expected Based on a stable average length of stay of 3.7 days and 3,258 net rooms to be added in 2015 (5.7% y-o-y growth), we project 12% y-o-y decline in RevPAR to S\$194 if there is no recovery and Singapore registers 15.1m visitors in 2015, the bottom end of the government's target.

DPU reversions on weaker industry outlook and FX rates

On the back of a weaker hospitality outlook for Singapore this year and incorporating our new FX forecasts, we have reduced our DPU estimates for the hospitality REITs by 2-8%. The changes are detailed in the table below.

Downgrade CDREIT to HOLD

On the back of lower projected earnings, we have likewise trimmed our TP's by 1-5%. We have also downgraded CDREIT to HOLD (from Buy) on valuation grounds and their exposure to the Singapore market.

Focus on geographically diversified REITs – Top pick ART

Given the more challenging conditions in Singapore, we recommend investors focus on hospitality REITs with geographically diversified portfolios, with ART (BUY, TP S\$1.34) as our top pick. We also like ART for its decent growth outlook which is underpinned by AEI and acquisitions made over the last 12 months.

We also remain positive on OUEHT (BUY, TP S\$0.97) on the back of an attractive 7.3% yield. In addition, while we acknowledge OUEHT's hotels may be impacted by a weaker operating environment, it is partially insulated given Mandarin Orchard's prime position and more up market Indonesian clientele. Moreover, OUEHT should benefit from the recent Crown Plaza Changi acquisition.

DBS FX forecasts

Avg - Yr end Dec	2015F	2016F	2017F
USDSGD	1.39	1.42	1.43
SGDJPY	87.74	87.69	87.69
SGDCNY	4.54	4.52	4.52
SGDHKD	5.59	5.48	5.48
SGDMYR	2.66	2.64	2.64
AUDSGD	1.02	0.99	1.00
EURSGD	1.47	1.43	1.43

Source: DBS Bank

Revised TP/Recommendations

	Recommendation		Target Price	
	New	Previous	New	Previous
ASCHT	0.68	0.70	Hold	Hold
ART	1.34	1.37	Buy	Buy
CDREIT	1.77	1.86	Hold	Buy
FEHT	0.76	0.80	Hold	Hold
FHT	0.93	0.94	Buy	Buy
OUEHT	0.98	1.02	Buy	Buy

Source: DBS Bank

Changes in DPU estimates

	Previous DPU		New DPU		Change	
	FY15 /16F	FY16 /17F	FY15 /16F	FY16 /17F	FY15 /16F	FY16 /17F
ASCHT	6.0	6.0	5.9	5.8	-2%	-2%
ART	8.8	8.9	8.6	8.8	-2%	-2%
CDREIT	11.7	12.0	11.2	11.3	-5%	-6%
FEHT	5.3	5.3	5.0	4.9	-6%	-8%
FHT	6.2	6.2	6.1	6.1	-2%	-3%
OUEHT	7.1	7.3	6.8	6.9	-4%	-5%

Source: DBS Bank

REIT peer comp

REIT	Price (S\$)	Rec	Target Price (S\$)	Total Return (%)	Mkt Cap S\$m	Yield			DPU CAGR FY14- 16	P/Bk (x) FY14/15F	P/Bk (x) FY15/16F	P/Bk (x) FY16/17F
						FY14/15F	FY15/16F	FY16/17F				
Office												
CCT	1.75	Hold	1.81	9%	5,157	4.8%	5.2%	5.8%	9.5%	1.00	1.00	1.01
FCOT	1.45	Buy	1.53	13%	987	5.8%	7.0%	7.1%	10.1%	0.90	0.91	0.92
KREIT	1.19	Hold	1.29	14%	3,781	6.1%	5.6%	5.7%	-2.9%	0.76	0.84	0.85
OUECT	0.80	NR	0.85	13%	698	6.8%	6.8%	7.0%	0.5%	0.81	0.83	0.85
						5.5%	5.6%	6.0%	4.6%			
Retail												
CRCT	1.61	Hold	1.64	9%	1,333	6.1%	6.8%	7.4%	9.8%	0.99	1.01	1.04
CMT	2.17	Hold	2.19	6%	7,515	5.0%	5.2%	5.4%	3.8%	1.20	1.19	1.19
CRT	0.94	Buy	1.00	15%	483	8.8%	8.5%	8.3%	-2.4%	1.10	1.16	1.18
FCT	2.02	Buy	2.05	7%	1,851	5.5%	5.7%	5.8%	2.3%	1.02	1.09	1.09
SPH REIT	1.04	Hold	1.03	4%	2,623	5.7%	5.2%	5.3%	-4.0%	1.11	1.12	1.13
						5.4%	5.6%	5.7%	2.5%			
Commercial												
MCT	1.60	Buy	1.63	7%	3,379	5.0%	5.3%	5.6%	5.8%	1.38	1.38	1.39
MAGIC	1.05	Buy	1.12	14%	2,843	6.2%	6.7%	6.8%	4.2%	0.94	0.95	0.96
SGREIT	0.83	Buy	0.88	13%	1,776	6.1%	6.2%	6.6%	3.8%	0.87	0.87	0.87
Suntec	1.88	Hold	1.84	3%	4,712	5.0%	5.3%	5.7%	6.9%	0.87	0.91	0.93
						5.4%	5.7%	6.0%	5.6%			
Industrial												
a-trust	0.92	Buy	0.96	11%	843	5.2%	6.0%	6.1%	7.9%	1.49	1.50	1.50
A-REIT	2.54	Buy	2.62	9%	6,110	5.8%	5.9%	6.0%	1.8%	1.26	1.27	1.27
Cache	1.16	Buy	1.29	19%	907	7.4%	7.4%	7.6%	1.6%	1.18	1.20	1.21
CREIT	0.71	Hold	0.73	11%	901	7.1%	7.1%	7.2%	0.5%	1.03	1.04	1.04
MINT	1.56	Buy	1.66	14%	2,717	6.6%	6.8%	6.8%	1.9%	1.30	1.30	1.31
MLT	1.23	Hold	1.27	10%	3,043	6.1%	6.2%	6.4%	2.3%	1.27	1.27	1.27
SBREIT	0.81	Buy	0.92	21%	661	7.6%	7.9%	8.1%	3.1%	1.01	1.01	1.01
						6.2%	6.4%	6.5%	2.2%			
Hospitality												
ASCHT	0.69	Hold	0.68	7%	768	7.8%	8.5%	8.5%	4.5%	0.99	0.99	0.99
ART	1.25	Buy	1.34	15%	1,914	6.6%	6.9%	7.0%	3.4%	0.91	0.92	0.93
CDREIT	1.76	Hold	1.77	7%	1,724	6.3%	6.4%	6.4%	1.3%	1.07	1.07	1.08
FEHT	0.81	Hold	0.76	0%	1,440	6.3%	6.1%	6.1%	-2.1%	0.84	0.84	0.84
FHT	0.90	Buy	0.93	10%	1,067	6.6%	6.8%	6.8%	1.4%	1.09	1.10	1.11
OUEHT	0.94	Buy	0.98	11%	1,245	7.2%	7.3%	7.4%	1.5%	1.04	1.05	1.06
						6.7%	6.9%	6.9%	1.5%			
Healthcare												
P-Life	2.40	Buy	2.66	16%	1,452	4.8%	5.0%	5.1%	2.9%	1.40	1.40	1.40
RHT	1.09	Hold	1.06	5%	862	7.5%	7.0%	7.9%	2.0%	1.24	1.27	1.31
						5.8%	5.8%	6.1%	2.6%			
Others												
IREIT	0.78	Buy	0.90	23%	328	8.6%	8.1%	7.8%	-5.0%	1.09	1.10	1.11
KDCREIT	1.00	Buy	1.05	11%	883	5.4%	6.4%	6.7%	11.3%	1.12	1.12	1.12
Sector Average					64,004	6.1%	6.3%	6.5%	3.2%	1.11	1.11	1.12

Source: Bloomberg Finance L.P., DBS Bank

STOCK PROFILES

Ascott Residence Trust

Bloomberg: ART SP | Reuters: ASRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2015

BUY S\$1.25 STI : 3,419.02

Price Target : 12-Month S\$ 1.34 (Prev S\$ 1.37)

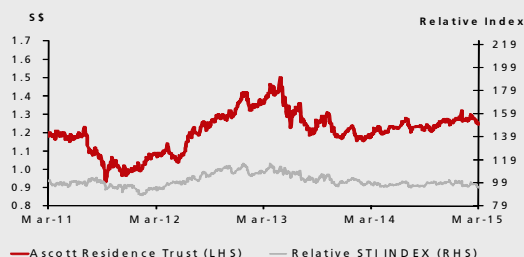
Potential Catalyst: Acquisitions

DBSV vs Consensus: In line

Analyst

 Mervin SONG CFA +65 6682 3715
 mervinsong@dbi.com

 Derek TAN +65 6682 3716
 derektan@dbi.com

Price Relative

Forecasts and Valuation

FY Dec (\$m)	2013A	2014A	2015F	2016F
Gross Revenue	317	357	397	402
Net Property Inc	161	180	210	213
Total Return	209	121	105	107
Distribution Inc	115	126	132	135
EPU (\$ cts)	5.1	4.8	6.8	7.0
EPU Gth (%)	(8)	(5)	41	2
DPU (\$ cts)	8.4	8.2	8.6	8.8
DPU Gth (%)	(4)	(2)	5	2
NAV per shr (\$ cts)	137.5	137.2	135.5	133.4
PE (X)	24.5	25.8	18.3	17.9
Distribution Yield (%)	6.7	6.6	6.9	7.0
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	37.7	41.6	41.9	42.1
ROAE (%)	3.8	3.5	5.0	5.2

Distn. Inc Chng (%):	(1.7)	(2.0)
Consensus DPU (\$ cts):	8.7	8.8
Other Broker Recs:	B: 7	S: 1
		H: 4

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trust

Principal Business: Pan-Asian service residence real estate investment trust

Source of all data: Company, DBS Bank, Bloomberg Finance L.P.

Upside from acquisitions

- **2015 a year of gestation with selective growth opportunities from the sponsor**
- **Income volatility limited as overseas income (EUR/JPY/GBP) are substantially hedged**
- **Maintain BUY with TP of S\$1.34**

Acquisition-driven growth. After an active year in 2014, acquiring nine properties with an aggregate property value of S\$559.1m, we see 2015 as a year of gestation and growth as the REIT continues to churn stable returns from an expanded portfolio. We forecast a 3.4% CAGR growth in DPU over FY15-16.

Upside from acquisitions not factored in yet. Sponsor the Ascott Group is one of the largest operators and owners of serviced residence globally. Backed by a global operational footprint, this enables the REIT to tap on its operational expertise and wide clientele reach. In addition, the Sponsor offers a visible pipeline of properties that Ascott REIT could acquire opportunistically in the medium term.

Hedging foreign income; potential refinancing savings. The manager has proactively taken income hedges for its exposures in EUR, GBP and JPY, which collectively contribute to c.50% of its revenues, limiting near-term impact from currency volatility. With only a S\$150m loan due to expire in 2015, Ascott REIT remains in a strong financial position. In addition, as the manager intends to take on more foreign currency loans as natural hedges against its overseas exposures (mainly in EUR/JPY), the manager expects to see savings during refinancing, given declining rates there.

Maintain BUY, TP of S\$1.34. Our TP and earnings are tweaked slightly to account for revised RevPAR estimates. We continue to like Ascott REIT's diversity and potential for earnings surprise through acquisitions. Stock remains attractive at 0.9x P/Bk with a yield of c. 6.9-7.0%.

At A Glance

Issued Capital (m shrs)	1,538
Mkt. Cap (\$m/US\$m)	1,914 / 1,401
Major Shareholders	
Capitaland (%)	45.9
Free Float (%)	54.1
Avg. Daily Vol.('000)	1,224

INVESTMENT THESIS

Profile	Rationale
Ascott REIT's Investment portfolio primarily comprises real estate used mainly as serviced residences or rental housing properties (including investments in real estate-related assets and/or other related value-enhancing assets or instruments).	<p>Diversified assets across Asia Pacific and Europe</p> <ul style="list-style-type: none"> Portfolio of serviced residences and rental housing located across 25 cities in 12 countries in the Asia Pacific and Europe. The diversity enables ART to see minimal impact from differences in seasonality in travel periods. <p>Asset enhancements to drive earnings growth</p> <ul style="list-style-type: none"> Completions of the refurbishments and asset enhancement initiatives at various properties in Jakarta, Philippines and Europe would result in higher room rates, a key earnings growth driver. <p>Strong sponsor support</p> <ul style="list-style-type: none"> Sponsor is Ascott Group, one of the largest operators and owners of serviced residences globally, which enables the REIT to tap on its expertise in operations and industry best practices. Sponsor is currently operating and constructing a number of serviced residences globally, which offers ART a visible acquisition pipeline in the medium term.
Valuation	Risks
Owing to a slight reduction in our earnings forecasts, we have lowered our DCF-based TP to S\$1.34 from S\$1.37. Maintain BUY, given its attractive yield of c.7.0%.	<p>Interest rate risks</p> <ul style="list-style-type: none"> Any increase in interest rates will result in higher interest payments and reduce the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders. <p>Currency risk</p> <ul style="list-style-type: none"> As ART earns rental income in various currencies, a depreciation of any foreign currency against the SGD could negatively impact DPU. <p>Earnings risk</p> <ul style="list-style-type: none"> We have assumed S\$350m worth of acquisitions @ 6.0% yield in 2014. Any delay or the failure by the company to achieve this forecast will likely cause downside to potential earnings.

Source: DBS Bank

Ascott Residence Trust

Statement of Total Return (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Gross revenue	317	357	397	402
Property expenses	(155)	(177)	(187)	(189)
Net Property Income	161	180	210	213
Other Operating expenses	(13)	(20)	(22)	(22)
Other Non Opg (Exp)/Inc	0	0	0	0
Net Interest (Exp)/Inc	(43)	(41)	(45)	(45)
Exceptional Gain/(Loss)	7	1	0	0
Net Income	112	120	144	147
Tax	(36)	(37)	(24)	(24)
Minority Interest	(7)	(8)	(8)	(8)
Preference Dividend	0	(1)	(8)	(8)
Net Income After Tax	69	74	105	107
Total Return	209	121	105	107
Non-tax deductible Items	(94)	5	28	28
Net Inc available for Dist.	115	126	132	135
Revenue Gth (%)	4.2	12.8	11.1	1.4
N Property Inc Gth (%)	1.3	11.8	16.7	1.5
Net Inc Gth (%)	11.2	6.9	41.3	2.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Balance Sheet (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Investment Properties	3,177	3,724	3,704	3,684
Other LT Assets	81	81	103	126
Cash & ST Invt	205	193	186	169
Inventory	0	0	0	0
Debtors	12	13	15	15
Other Current Assets	107	111	111	111
Total Assets	3,582	4,122	4,120	4,104
ST Debt	50	249	249	249
Creditor	4	8	5	6
Other Current Liabilities	114	118	134	135
LT Debt	1,147	1,302	1,302	1,302
Other LT Liabilities	79	91	91	91
Unit holders' funds	2,093	2,255	2,232	2,208
Minority Interests	94	98	106	114
Total Funds & Liabilities	3,582	4,122	4,120	4,104
Non-Cash Wkg. Capital	1	(2)	(14)	(14)
Net Cash/(Debt)	(993)	(1,358)	(1,365)	(1,382)

Cash Flow Statement (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Income	112	120	144	147
Dep. & Amort.	14	16	20	20
Tax Paid	(13)	(5)	(8)	(24)
Associates & JV Inc/(Loss)	0	0	0	0
Chq in Wkg.Cap.	2	(26)	(4)	0
Other Operating CF	37	47	4	4
Net Operating CF	152	153	156	147
Net Invt in Properties	(42)	(40)	(22)	(22)
Other Invt (net)	(180)	(428)	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc. & JVs	0	0	0	0
Other Investing CF	2	8	0	0
Net Investing CF	(220)	(461)	(22)	(22)
Distribution Paid	(107)	(116)	(132)	(135)
Chq in Gross Debt	(90)	315	0	0
New units issued	398	0	0	0
Other Financing CF	(52)	149	(8)	(8)
Net Financing CF	149	347	(140)	(143)
Currency Adjustments	(1)	(2)	0	0
Chq in Cash	79	37	(6)	(17)

Rates & Ratio

FY Dec	2013A	2014A	2015F	2016F
Net Prop Inc Margins (%)	50.9	50.4	53.0	53.0
Net Income Margins (%)	21.9	20.7	26.4	26.6
Dist to revenue (%)	36.3	35.2	33.3	33.6
Managers & Trustee's fees to sales (%)	4.1	5.6	5.5	5.4
ROAE (%)	3.8	3.5	5.0	5.2
ROA (%)	2.1	1.9	2.5	2.6
ROCE (%)	3.2	3.0	3.9	4.0
Int. Cover (x)	3.5	3.9	4.2	4.3
Current Ratio (x)	1.9	0.8	0.8	0.8
Quick ratio (x)	1.3	0.5	0.5	0.5
Aggregate Leverage (%)	37.7	41.6	41.9	42.1
Z-Score (X)	1.1	0.9	1.0	0.9
Operating CFPS (\$ cts)	10.9	11.6	10.4	9.6
Free CFPS (\$ cts)	8.0	7.3	8.7	8.1

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014
Gross revenue	80	88	94	95
Property expenses	(41)	(42)	(45)	(49)
Net Property Income	39	47	49	46
Other Operating expenses	(1)	36	(11)	1
Other Non Opg (Exp)/Inc	0	(1)	1	0
Net Interest (Exp)/Inc	(8)	(11)	(11)	(11)
Exceptional Gain/(Loss)	0	(4)	0	0
Net Income	29	68	28	35
Tax	(5)	(13)	(6)	(12)
Minority Interest	(2)	(2)	(2)	(2)
Net Income after Tax	22	52	20	21
Total Return	22	94	15	33
Non-tax deductible Items	4	(60)	18	1
Net Inc available for Dist.	27	34	32	33
Revenue Gth (%)	(4)	10	6	1
N Property Inc Gth (%)	(6)	19	5	(6)
Net Inc Gth (%)	66	134	(61)	2
Net Prop Inc Margin (%)	48.7	52.8	52.0	48.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

P/Book Value (x)



Source: Company, DBS Bank

CDL Hospitality Trusts

Bloomberg: CDREIT SP | Reuters: CDLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2015

HOLD S\$1.76 STI : 3,419.02

(Downgrade from BUY)

Price Target : 12-Month S\$ 1.77 (Prev S\$ 1.86)

Potential Catalyst: Acquisitions

DBSV vs Consensus: Below on lower sales

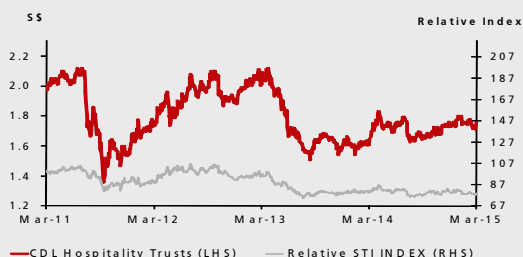
Analyst

Mervin SONG CFA +65 6682 3715

mervinsong@db.com

Derek TAN +65 6682 3716

derekstan@db.com

Price Relative

Forecasts and Valuation

FY Dec (\$m)	2013A	2014A	2015F	2016F
Gross Revenue	149	167	176	181
Net Property Inc	137	141	145	149
Total Return	140	122	110	112
Distribution Inc	119	120	122	124
EPU (S cts)	10.7	10.7	11.2	11.3
EPU Gth (%)	(4)	0	4	1
DPU (S cts)	11.0	11.0	11.2	11.3
DPU Gth (%)	(3)	0	2	1
NAV per shr (S cts)	163.5	164.5	163.6	162.6
PE (X)	16.4	16.4	15.7	15.6
Distribution Yield (%)	6.3	6.3	6.4	6.4
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	29.6	31.6	31.6	31.5
ROAE (%)	6.6	6.5	6.8	6.9

Distn. Inc Chng (%):	(4.8)	(6.4)	
Consensus DPU (S cts):	11.4	11.7	
Other Broker Recs:	B: 7	S: 2	H: 8

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trust

Principal Business: CDL REIT is a stapled security consisting of hospitality trust with portfolio of hotel assets in Singapore and a business trust

Source of all data: Company, DBS Bank, Bloomberg Finance L.P.

Pricing in the weaker outlook

- Expected decline in Indonesian visitors and 6% increase in hotel supply to pressurise RevPAR
- Drag from Singapore partially mitigated by recent Japanese acquisition
- Trim FY15-16F DPU by 5-6%
- Downgrade to HOLD, TP lowered to S\$1.77

Competitive pressures in Singapore. Based on our revised industry estimates, we expect a 2% y-o-y fall in Indonesian tourist arrivals, on the back of 25% y-o-y cut in 1H15 seat capacity by low cost carriers flying from Indonesia to Singapore. The drag from Singapore's largest source market for tourists will likely result in total arrivals only registering a 3% y-o-y increase, which we believe will be insufficient to offset the estimated 6% jump in new hotel rooms. Thus, we project CDREIT's Singapore hotels to record a 4% y-o-y dip in RevPAR in 2015.

Offset by recent Japanese acquisition and reopening of Claymore Link.

Although we are cautious on CDREIT's Singapore hotel exposure (c.70% of FY14 NPI), CDREIT should still benefit from its recent Japanese acquisition which is leveraged on the growing number of tourists visiting Japan (+29% in 2014). In addition, the trust will gain from the reopening of Claymore Link Mall in 2Q15. Nevertheless, after incorporating our latest FX estimates and accounting for the weaker Singapore hotel outlook, we have reduced our FY15-16F DPU by 5-6%. We have also lowered our DDM-based TP from S\$1.77 from S\$1.86.

Downgrade to HOLD. Given limited upside to our revised TP of S\$1.77, we downgrade CDREIT from BUY to HOLD. Upside risk to our numbers would come from the deployment of CDREIT's strong balance sheet.

At A Glance

Issued Capital (m shrs)	982
Mkt. Cap (\$m/US\$m)	1,724 / 1,262
Major Shareholders	
Hospitality Holdings Pte Ltd (%)	32.0
Aberdeen Asset Management	5.0
Free Float (%)	63.0
Avg. Daily Vol.('000)	1,346

INVESTMENT THESIS

Profile	Rationale
<p>CDL Hospitality Trusts is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that invests in a portfolio of income-producing hospitality related properties and HBT is a business trust.</p>	<p>One of the leading hotel owners in Singapore</p> <ul style="list-style-type: none"> CDREIT is one of the largest hotel owners in Singapore with a market share of 6%, catering to a diverse group of corporate and leisure travellers. Its hotel portfolio is mainly in the mid-tier and upscale segments, largely located near the Central Business District and Orchard Road areas. <p>Headwinds from expected decline in Indonesian tourist arrivals and 6% in new hotel room supply</p> <ul style="list-style-type: none"> We expect CDREIT's core Singapore properties (c.70% of FY14 NPI) to face headwinds from a more competitive market this year. We believe a projected 3% increase in tourist arrivals this year (which could have been higher if not for a 2% decline Indonesian arrivals) will be insufficient to offset the 6% increase in new hotel rooms. <p>Strong sponsor support</p> <ul style="list-style-type: none"> CDREIT's sponsor is London-listed Millennium & Copthorne PLC (M&C), which enables CDREIT to tap on its business and supplier networks to generate operational efficiencies.
Valuation	Risks
<p>Our target price of S\$1.77 is based on the dividend discount model. With limited upside to our revised TP, we downgrade CDREIT from BUY to HOLD.</p>	<p>Interest rate risk</p> <ul style="list-style-type: none"> Any increase in interest rates will result in higher interest payments, which could result in lower distribution per unit (DPU) for unitholders. <p>Currency risk</p> <ul style="list-style-type: none"> As CDREIT earns rental income from various currencies, a depreciation of any foreign currency against the SGD could negatively impact distribution income, which is distributed in SGD.

Source: DBS Bank

CDL Hospitality Trusts

Statement of Total Return (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Gross revenue	149	167	176	181
Property expenses	(11)	(26)	(31)	(32)
Net Property Income	137	141	145	149
Other Operating expenses	(14)	(18)	(15)	(15)
Other Non Opq (Exp)/Inc	0	0	0	0
Net Interest (Exp)/Inc	(17)	(16)	(17)	(19)
Exceptional Gain/(Loss)	0	0	0	0
Net Income	106	106	113	115
Tax	(3)	(1)	(3)	(3)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Income after Tax	104	105	110	112
Total Return	140	122	110	112
Non-tax deductible Items	(1)	11	12	12
Net Inc available for Dist.	119	120	122	124
Revenue Gth (%)	(0.5)	12.1	5.3	3.1
N Property Inc Gth (%)	(1.4)	2.3	3.2	2.5
Net Inc Gth (%)	(3.2)	1.0	5.1	1.4
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0

Cash Flow Statement (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Pre-Tax Income	106	106	113	115
Dep. & Amort.	0	0	0	0
Tax Paid	0	0	0	0
Associates & JV Inc/(Loss)	0	0	0	0
Chg in Wkg. Cap.	(2)	4	1	1
Other Operating CF	27	30	0	0
Net Operating CF	131	139	114	115
Net Invnt in Properties	(181)	(93)	(3)	(3)
Other Invts (net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc. & JVs	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(181)	(93)	(3)	(3)
Distribution Paid	(107)	(106)	(110)	(112)
Chg in Gross Debt	167	83	0	0
New units issued	0	0	0	0
Other Financing CF	(16)	(17)	0	0
Net Financing CF	43	(39)	(110)	(112)
Currency Adjustments	0	0	0	0
Chg in Cash	(7)	8	1	0

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014
Gross revenue	44	38	37	45
Property expenses	(7)	(7)	(3)	(6)
Net Property Income	37	31	34	39
Other Operating expenses	(4)	(4)	(4)	(5)
Other Non Opq (Exp)/Inc	0	0	0	0
Net Interest (Exp)/Inc	(4)	(4)	(5)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Net Income	29	23	25	31
Tax	0	(1)	0	0
Minority Interest	0	0	0	0
Net Income after Tax	28	22	25	30
Total Return	0	0	0	0
Non-tax deductible Items	2	5	4	(17)
Net Inc available for Dist.	30	27	28	31
Revenue Gth (%)	11	(13)	(3)	23
N Property Inc Gth (%)	1	(15)	8	14
Net Inc Gth (%)	7	(22)	12	23
Net Prop Inc Margin (%)	83.9	82.8	92.2	85.7
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0

Balance Sheet (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F
Investment Properties	2,162	2,206	2,209	2,212
Other LT Assets	77	146	146	146
Cash & ST Invts	69	76	77	78
Inventory	0	0	0	0
Debtors	15	20	21	22
Other Current Assets	0	1	1	1
Total Assets	2,323	2,450	2,455	2,459
ST Debt	146	317	317	317
Creditor	22	40	42	43
Other Current Liabilities	0	1	4	7
LT Debt	542	458	458	458
Other LT Liabilities	17	19	19	19
Unit holders' funds	1,595	1,616	1,616	1,616
Minority Interests	0	0	0	0
Total Funds & Liabilities	2,323	2,450	2,455	2,459
Non-Cash Wkg. Capital	(7)	(19)	(23)	(26)
Net Cash/(Debt)	(620)	(698)	(698)	(697)

Rates & Ratio

FY Dec	2013A	2014A	2015F	2016F
Net Prop Inc Margins (%)	92.3	84.2	82.5	82.1
Net Income Margins (%)	69.7	62.8	62.7	61.7
Dist to revenue (%)	79.7	71.6	69.7	68.5
Managers & Trustee's fees to sales (%)	9.6	10.7	8.5	8.4
ROAE (%)	6.6	6.5	6.8	6.9
ROA (%)	4.7	4.4	4.5	4.5
ROCE (%)	5.4	5.1	5.3	5.4
Int. Cover (x)	7.4	7.5	7.6	7.1
Current Ratio (x)	0.5	0.3	0.3	0.3
Quick ratio (x)	0.5	0.3	0.3	0.3
Aggregate Leverage (%)	29.6	31.6	31.6	31.5
Z-Score (X)	1.9	1.6	1.6	1.6
Operating CFPS (\$ cts)	13.7	13.9	11.5	11.6
Free CFPS (\$ cts)	(5.2)	4.7	11.3	11.3

P/Book Value (x)



Source: Company, DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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12 Marina Boulevard, Marina Bay Financial Centre Tower 3
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