F·P·A FINANCIAL
Investment Perspectives
26 April 2021

REAL ESTATE EQUITY RESEARCH

Far East Orchard Limited

SGX: O10
Bloomberg: FEOR:SP
ISIN Code: SG2P56002559

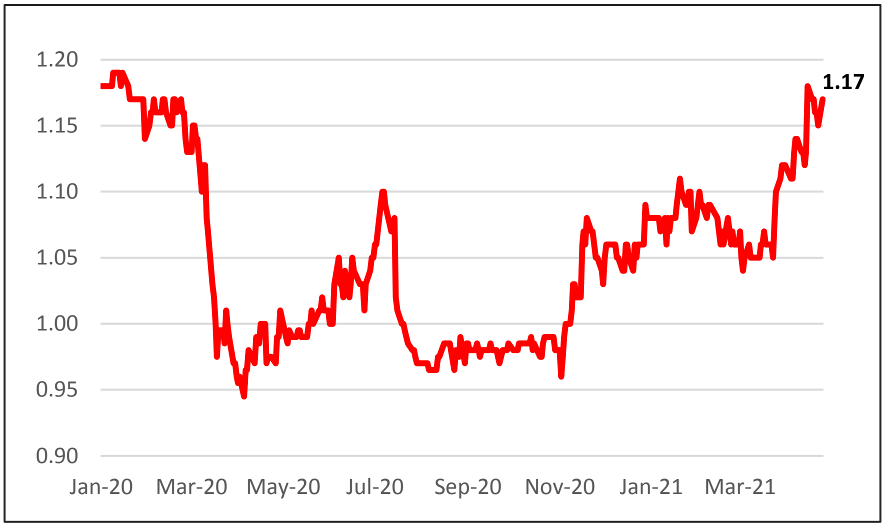
RECOMMENDATION: BUY

Current Share Price: S$1.170
Current Target Price: S$1.714

Issued Shares: 455.49 million
Market Capitalisation: S$532.92 million

52 Week Range: S$0.950 - S$1.180

PRICE PERFORMANCE



COMPANY DESCRIPTION

Far East Orchard Limited (FEO or the Company) is a property developer, hospitality owner and operator with a diversified property investment portfolio comprising purpose-built student accommodation (PBSA) and medical suites.

SUMMARY

For the financial year ended 31 December 2020 (FY2020), the Group, comprising FEO and its subsidiaries, reported a 28.1% year-on-year (y-o-y) decline in revenue to S$112.2 million, mainly due to the severe impact of the COVID-19 pandemic on its hospitality business. However, higher revenue from the Group's property business, largely owing to resilient performance by its UK PBSA business, had helped to offset the weaker hospitality business performance. During the period, the Group implemented cost containment measures which contributed to an 8.4% y-o-y decline in total expenses. Meanwhile, the Group recorded a share of loss from joint ventures of S$7.6 million on weaker performance from its hospitality joint ventures in Australia and Europe. This was partially offset by profit recognition of S$12.4 million from the Group's joint venture Woods Square project in Singapore. Consequently, profit attributable to equity holders amounted to S$1.5 million as compared to S$26.0 million a year ago. Earnings per share (EPS) amounted to 0.35 cents for the period. Meanwhile, a final dividend of 3.0 cents per share for FY2020 would be paid on or around 5 July 2021.

RECOMMENDATION

Since our last company update issued on 25 September 2020, we note that FEO's share price has fluctuated though it has broadly increased and reached S$1.180 recently. As of late, the share price has traded between S$1.110 and S$1.180. In terms of valuation, we note from our peer comparison analysis that FEO is currently trading at a P/B multiple of 0.43x, lower than the peer average P/B of 0.63x. We believe this could suggest FEO may be undervalued. Adopting a relative valuation approach, we estimate a target price of S$1.714 if FEO's P/B were to adjust to the peer average of 0.63x. This current target price implies a 46.5% upside to the current share price of S$1.170. Meanwhile, we note that the outlook for the Group's hospitality business remains challenged in the near term against a weak international travel backdrop. Nonetheless, the hospitality sectors in Singapore and Australia are gradually recovering, and we are positive on the outlook of these markets in the longer term. Further, strong demand for higher education in the UK is expected to support the PBSA market, and we believe the Group's focus on expanding its PBSA business would underpin future earnings. Given the above, we will maintain a buy recommendation on FEO.

KEY FINANCIALS

Full year, ended Dec 31	Revenue (S$ million)	Shareholders' profit (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/B (x)
2019 actual	156.1	26.0	5.95	19.66	6.00	5.13%	2.85	0.41
2020 actual	112.2	1.5	0.35	334.29	3.00	2.56%	2.72	0.43
2021 forecast	148.1	8.3	1.87	62.57	3.00	2.56%	-	-
2022 forecast	178.5	28.3	6.37	18.37	6.00	5.13%	-	-

P/E, P/B and dividend yield figures are based on current price of S$1.170
Source: Company, FPA Financial

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FINANCIAL REVIEW FOR FY2020

(I) Financial performance

For FY2020, the Group's revenue fell by 28.1% year-on-year (y-o-y) to S$112.2 million, mainly due to the severe impact of the COVID-19 pandemic on its hospitality business. During the period, hospitality business revenue decreased by US$58.4 million to S$69.1 million as occupancy for the Group's hotels plummeted. The occupancy decline was partially mitigated by demand for isolation accommodation facilities in Singapore and Australia as well as demand for foreign worker accommodation in Singapore. At the same time, higher revenue from the Group's property business had partially offset the weaker performance in the hospitality business. During the period, property business revenue increased by S$14.5 million to S$43.1 million, in part due to higher revenue from the Group's student accommodation properties in the United Kingdom (UK). As revenue decreased, cost of sales fell by 23.2% y-o-y to S$67.8 million. Consequently, the Group recorded a gross profit of S$44.5 million, which was 34.4% lower than S$67.8 million a year ago.

During the period, the Group recorded other income of S$11.6 million compared to S$4.5 million a year ago. The increase was mainly contributed by S$9.8 million in COVID-19 related grants received during the period, including wage subsidies in relation to the Jobs Support Scheme and JobKeeper Payment Scheme from the governments in Singapore and Australia respectively, as well as property tax rebates and rental relief from landlords. This was partially offset by property tax rebates transferred to tenants of the Group's commercial properties and lower interest income from lower bank deposits rates.

Other net gains decreased by 79.2% to S$2.7 million from S$13.1 million a year ago. This was largely due to lower fair value gains on investment properties of S$4.5 million compared to S$18.8 million for FY2019. The Group also recognized total impairment charges of S$11.0 million during the period, in relation to goodwill arising from the Group's hospitality property ownership business in Australia, a right-of-use asset in New Zealand and medical suites held for sale, which were absent in FY2019. Further, revaluation losses of S$2.3 million were incurred on certain hospitality assets, which are held as property, plant & equipment (PPE), in Australia and Malaysia. Conversely, currency exchange gains of S$11.6 million due to a strengthening of the AUD against SGD had partially offset the impact of lower fair value gains on investment properties and impairment charges incurred. This compared with currency exchange losses of S$1.9 million during FY2019.

Meanwhile, distribution & marketing expenses dropped by 40.6% y-o-y to S$6.9 million owing to reduction and deferment of marketing and promotional spend in view of the COVID-19 pandemic. Administrative expenses decreased by 2.3% y-o-y to S$32.7 million in part due to lower wage & salaries expenses. Conversely, finance expenses increased by 1.4% y-o-y to S$17.1 million, as the Group incurred higher borrowings to finance the Group's PBSA acquisitions.

During the period, the Group recorded a share of loss from joint ventures of S$7.6 million as compared to a share of profit of S$3.2 million during FY2019. This was in part due to operating losses incurred by the Group's hospitality joint ventures in Australia and Europe as well as revaluation losses on certain hotel properties. Nonetheless, profit recognition of S$12.4 million from the sales of commercial units at Woods Square – the Group's joint venture commercial project in Singapore which was completed in February 2020 – had partially offset the Group's share of loss. Meanwhile, the Group's share of profit from its associate, Far East Hospitality Asset Management Pte Ltd (FEOHAM), decreased by 33.3% y-o-y to S$2.1 million. This was due to lower management fees chargeable to Far East Hospitality REIT by FEOHAM as the REIT manager.

As a result, the Group recorded a loss before income tax of S$3.4 million as compared to a profit of S$29.9 million a year ago. Higher income tax expense of S$5.6 million were incurred during the period, mainly due to a reversal of overprovision on deferred taxes during FY2019.

Net of income tax expenses, an after-tax loss of S$8.9 million was recorded for FY2020 compared to a profit of S$25.8 million a year ago. This comprised S$1.5 million in profit attributable to equity holders and a S$10.4 million loss attributable to non-controlling interest. Based on profit attributable to equity holders of S$1.5 million, the Group's earnings per share (EPS) amounted to 0.35 cents for FY2020 compared to 5.95 cents during FY2019. Meanwhile, a final dividend of 3.0 cents per share in respect to FY2020 would be paid on or around 5 July 2021.

The Group's financial results for FY2019 and FY2020 are summarized in **Exhibit 1**.

Exhibit 1: Group's financial results for FY2019 and FY2020

[S$'000]	FY2020	FY2019	Change (%)
Revenue	112,215	156,063	-28.1%
Cost of sales	(67,753)	(88,249)	-23.2%
Gross profit	44,462	67,814	-34.4%
Other income	11,590	4,500	>100%
Other gains - net	2,737	13,141	-79.2%
Expenses:			
-Distribution & marketing expenses	(6,862)	(11,550)	-40.6%
-Administrative expenses	(32,709)	(33,488)	-2.3%
-Finance expenses	(17,106)	(16,865)	1.4%
Share of (loss)/profit:			
-Joint ventures	(7,613)	3,169	n/m
-Associates	2,142	3,211	-33.3%
(Loss)/Profit before income tax	(3,359)	29,932	n/m
Income tax expense	(5,550)	(4,152)	33.7%
(Loss)/Profit after income tax	(8,909)	25,780	n/m
(Loss)/Profit attributable to:			
Equity holders of the Company	1,538	26,031	-94.1%
Non-controlling interests	(10,447)	(251)	>100%
	(8,909)	25,780	n/m
(Loss)/Profit attributable to equity holders	1,538	26,031	-94.1%
Weighted average no. of shares in issue	443,928	437,780	-
EPS (cents)	0.35	5.95	-
DPS (cents)	3.00	6.00	-

n/m: not meaningful

Source: Company

(II) Capital management

As at 31 December 2020, the Group had total assets of S$2,618.6 million as compared to S$2,530.8 million a year ago. The increase was mainly due to an increase in investment properties of S$85.0 million, which was largely as a result of the Group's acquisition of Kings Square Studios – a PBSA property located in Bristol – in November 2020. In addition, investment in joint ventures increased by S$34.3 million due mainly to the completion of Far East Village Hotel Ariake, Tokyo in Japan, including the share of revaluation gain of the hotel, partially offset by share of losses and reserves from the Group's hospitality joint ventures in Australia and Europe. Cash & cash equivalents increased by S$21.0 million to S$278.4 million which also contributed to the higher total assets. Meanwhile, the increase in total assets was partially offset by a S$25.6 million decrease in PPE as the Group recognized revaluation losses on certain hospitality assets in Australia and Malaysia and an impairment charge on a right-of-use asset in New Zealand.

Total liabilities increased by S$99.6 million to S$1,359.1 million as at 31 December 2020 from S$1,259.5 million a year ago. The increase was mainly due to the additional bank borrowings to finance the acquisition of Kings Square Studios and working capital, which were partially offset by payments of operating expenses and lease liabilities. Meanwhile, the Group had S$1.8 million in derivative financial instruments as liabilities in relation to interest rate swaps entered during FY2020 to hedge interest rate risk exposure on GBP denominated borrowings.

Consequently, the Group's net asset value (NAV) stood at S$1,259.5 million as at 31 December 2020. This comprised S$1,240.9 million in net assets attributable to equity holders and S$18.6 million in non-controlling interest. Accordingly, the reported NAV per share was S$2.72 as at 31 December 2020 compared to S$2.85 a year ago. The Group's balance sheet data as at 31 December 2019 and 31 December 2020 are summarized in **Exhibit 2**.

Exhibit 2: Summary of the Group's balance sheet as at 31 Dec 2019 and 31 Dec 2020

[S$'000]	31-Dec-20	31-Dec-19
Total assets	2,618,614	2,530,831
Total liabilities	1,359,142	1,259,529
Net assets	1,259,472	1,271,302
Net assets attributable to equity holders	1,240,883	1,249,146
No. of issued shares	455,485	438,360
NAV per share (S$)	2.72	2.85
Total borrowings (1)	683,081	561,627
Effective interest rate (%)	1.03%	1.30%
Gearing ratio (x)	0.54	0.44

(1) Excluding lease liabilities

Source: Company, FPA Financial

With reference to **Exhibit 2** above, the Group's total borrowings increased by S$121.5 million to S$683.1 million as at 31 December 2020, mainly owing to additional bank borrowings to finance the acquisition of Kings Square Studios and working capital. Nonetheless, amid a drop in interest rates, interest expense on bank borrowings of S$7.1 million for FY2020 were lower compared to S$7.3 million a year ago. Accordingly, the estimated effective interest rate on the Group's total borrowings was 1.03% during the period compared to 1.30% in FY2019.

The Group's gearing ratio, measured by total borrowings over total equity, stood at 0.54 as at 31 December 2020 compared to 0.44x a year ago, as shown in **Exhibit 2** above. We note from management guidance that the current level remains within the Group's target of a debt-equity ratio below 0.60x.

OPERATIONAL UPDATES

Here, we will provide an update on the Group's hospitality and property business.

Hospitality business

Owing to the COVID-19 pandemic, the Group's hospitality business was severely impacted during FY2020. As global travel came to a standstill, accommodation demand in the hospitality sector weakened substantially which led to low occupancies and significant y-o-y decline in RevPAR across all the Group's hotels. As a result, hospitality business revenue dropped by 45.5% y-o-y to S$69.1 million. To mitigate the impact, the Group implemented cost containment measures, such as closing off common facilities and certain floors, deferring non-essential spending and staff redeployment, from the onset of the pandemic.

Despite the challenging environment, the Group had together with its joint venture partner Toga-Far East (TFE) pressed ahead with new hotel openings during FY2020. During the period, the Group expanded its hospitality business by about 1,400 beds across 8 new hotels situated in Australia, Japan and New Zealand. In particular, this included the opening of Far East Village Hotel Ariake in July 2020, the Group's first hotel in Japan. As at 31 December 2020, the Group owned more than 10 hospitality assets and managed 100 hotels with approximately 16,700 rooms in Australia, Denmark, Germany, Hungrary, Japan, Malaysia, New Zealand and Singapore.

Thus far in 2021, the Group had on 1 March 2021 welcomed the opening of the 324-room Clan Hotel in Singapore, which is situated in the Telok Ayer neighbourhood. Upcoming hotel openings in Q2 2021 include Far East Village Hotel Yokohama in Japan, Oasia Resort Sentosa in Singapore and Quincy Hotel Melbourne in Australia. Looking further ahead, the Group has a pipeline of 2,500 rooms to be added from hotel openings through 2023.

Property business

In FY2020, the Group's property business had a relatively strong performance largely due to a resilient performance in its PBSA business. During the period, property business revenue rose by 51.0% y-o-y to S$43.1 million, mainly due to higher revenue from its UK student accommodation segment given a full year contribution from the 5 PBSA properties acquired during FY2019. The Group had also sold off a unit at its Novena medical suites in Singapore. Meanwhile, the Group had also recognized its share of profits from the sales units at its joint venture Woods Square development in Singapore upon achieving Temporary Occupation Permit (TOP) in February 2020.

During the year, the Group grew its UK PBSA business with the acquisition of the 301-bed Kings Square Studio in Bristol. Following the acquisition, the Group expanded its PBSA portfolio to over 3,561 bed across 12 properties in the UK. Looking ahead, we note that the Group plans to further grow its PBSA portfolio to 5,000 beds by 2025. Meanwhile, in the UK, the Group's mixed-used project Westminster Fire Station is still currently under redevelopment and expected to be completed in 2021.

INDUSTRY REVIEW

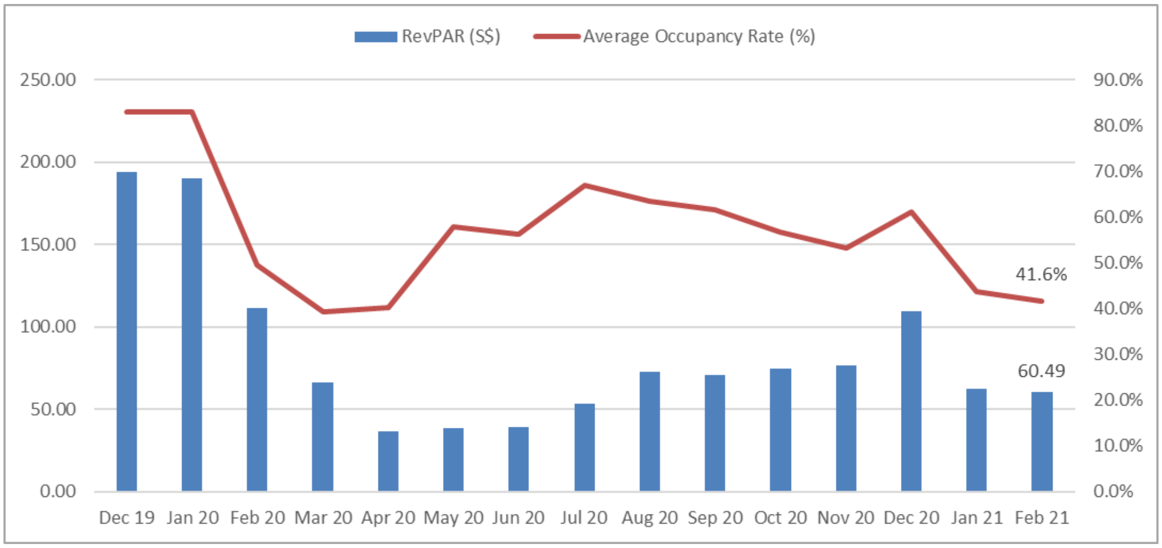
In this section, we will review hotel market in Singapore, a major market of the Group's hospitality business. Further, we will also provide a review on the UK PBSA market given the Group's increasing focus to develop its PBSA business.

(I) Singapore hotel market review

In Singapore, hotel performance has broadly improved since June 2020 as higher staycation demand and initiatives such as SingapoRediscovers and Work-from-Hotel provide a boost to domestic demand for hotel accommodations. Seasonal factors also contributed as the recovery was relatively stronger in December 2020, during the Christmas festive season and school holiday period.

However, the hotel market recovery has slowed in 2021. Latest statistics by the Singapore Tourism Board (STB) showed that average occupancy rate (AOR) and RevPAR dropped to 41.6% and S$60.49 respectively in February 2021, as shown in **Exhibit 3**. Compared to a year ago, AOR was lower by 8% points and RevPAR was down by 45.8%.

Exhibit 3: Monthly trend of AOR and RevPAR



Source: STB

Looking ahead, we note that the hotel market recovery would be mainly driven by the resumption of leisure travel. Recent global travel surveys broadly suggest that there is pent-up demand for travel despite continued virus-related concerns. As vaccine distributions become more widespread, we could expect leisure travel to pick up as countries gradually ease border controls and cooperate through travel bubbles. Alexandre de Juniac, chief of the International Air Transport Association (IATA), has highlighted that personal and leisure travel will return from the second half of 2021. Globally, airlines have recently announced plans to increase their flight capacities in view of an expected rise in leisure travel demand.

Still, we could expect the hotel market in Singapore to remain under pressure against a weak international travel backdrop. While pent-up demand and vaccine rollouts could set the stage for a strong rebound in leisure travel, business travel is expected to remain weak and could take beyond 2021 to recover. Further, risk factors such as potential virus resurgence, discovery of new COVID-19 variants and delayed vaccine distribution continue to cloud the overall outlook for travel. As it stands, parts of the world like Europe, India and Japan continue to grapple with new waves of COVID-19, forcing the need for renewed lockdowns. STB has highlighted that even with the development of vaccines, it will take time for mass leisure travel and traveller confidence to return. In turn, tourism arrivals and tourism receipts are expected to remain weak in 2021.

(II) UK PBSA market review

As noted on page 6, the Group's UK PBSA business had delivered a resilient performance during FY2020 despite the challenging COVID-19 environment. We note that this could be attributed to strong demand for higher education in the UK. Amidst the COVID-19 pandemic, acceptances to UK universities for 2020/21 through Universities and Colleges Admissions Service (UCAS) rose by 5.4%, far above the 1.5% increase recorded in 2019, according to Cushman & Wakefield (C&W). Increases were recorded across all domiciles, with non-EU acceptances growing by 16.9%. For 2021/22, the number of applicants has risen by 8.5%, far above the 1.2% increase seen in 2019. Despite continued international travel uncertainty, non-EU applications have risen by 17.1%.

According to C&W, the major theme in the UK PBSA market in recent years has been the flight to quality institutions and significant fall in recruitment at some lower ranked universities. For 2021/2022 entry, applications to high tariff providers, which refer to universities with stringent entry requirements including the Oxbridge and the Russell Group of research-intensive universities such as University College London and the University of Birmingham, was up 10.8% compared to a 9.4% increase for low tariff providers. We identify this as a potential driving factor for the Group's focus on growing its PBSA portfolio in UK cities with high tariff universities.

SHARE PRICE PERFORMANCE REVIEW

Since our last company update issued on 25 September 2020, we note that FEO's share price has fluctuated though it has broadly increased and reached S$1.180 recently. We believe the share price improvement has been in part driven by increased optimism over a potential recovery in the Group's hospitality business amid vaccine distributions. At the same time, resilient performance in the UK PBSA market provide confidence that the Group's focus on growing its PBSA business would benefit future earnings. As of late, the share price has traded between S$1.110 and S$1.180.

In terms of shareholdings, the major controlling shareholder of the Company would be the family of the late Ng Teng Fong (Ng family). As at 10 March 2021, the Ng family held a deemed interest of 62.48% in FEO through its parent company Far East Organisation Pte Ltd, in which the Ng Family also have major control. Besides receiving scrip shares in lieu of cash dividend in September 2020, we note that the Ng family has not increased its interest in the Company through share transactions on the market recently.

Lately, there appears to be an increasing trend of privatization offers issued for companies listed on the Singapore Exchange, including GL Limited and Jardine Strategic Holdings Limited (Jardine Strategic). The Business Times recently reported that there could be an increasing possibility of asset heavy groups being privatized amid low interest rates and the difficulty of finding good investment opportunities.

Given the above, we will now consider the potential for FEO to be taken private. Currently, the 37.52% stake which is uncontrolled by the Ng family would be worth approximately S$200.0 million = [37.52% x current FEO market capitalisation of S$532.92 million] at a share price of S$1.170. Assuming a privatization bid premium of about 20%, as proxied by the privatization premium for Jardine Strategic, the estimated acquisition cost to privatise FEO would be approximately S$1.404 per share, translating to a total cost of S$239.9 million = [120% x S$200.0 million].

FINANCIAL PROJECTION

In this section, we will provide our projections for Group revenue, earnings and dividends for FY2021 and FY2022.

(I) Revenue projection

The Group operates its business in five main geographical markets including Singapore, Australia, New Zealand, UK and other countries (Denmark, Germany, Japan and Malaysia). Respectively, these geographical segments comprised 47.8%, 22.3%, 3.4%, 25.3% and 1.2% of total revenue during FY2020, as shown in **Exhibit 4**.

Exhibit 4: Revenue breakdown in terms of geographical segments for FY2019 and FY2020

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	Revenue			
	FY2019		FY2020	
Geographical segment	S$'000	% of total	S$'000	% of total
Singapore	72,426	46.4%	53,601	47.8%
Australia	51,765	33.2%	25,059	22.3%
New Zealand	8,160	5.2%	3,766	3.4%
United Kingdom	19,092	12.2%	28,426	25.3%
Other countries	4,620	3.0%	1,363	1.2%
Total	156,063	100.0%	112,215	100.0%

Source: Company

To project total revenue for FY2021 and FY2022, we will estimate revenue generated by the individual geographical segments.

Revenue projection for Singapore

In Singapore, the Group's business activities involve hotel operations, property development, property investment and investment holding. We will now provide an estimation of revenue generated by these individual segments.

Hotel operations

Hotel operations involves the Group's management of hospitality properties in Singapore through its hospitality arm, Far East Hospitality Holdings Pte Ltd (Far East Hospitality). Hospitality management fees received for managing the properties would include a base fee, which is generally a percentage of the hospitality property's revenue, and/or an incentive fee, which is generally based on the hospitality property's profitability. In our projections, we would assume that only a base fee component is charged. For South East Asia, hotel base fees historically range between 2% and 2.9%. As a proxy, we would assume the mid-point of the range at 2.5% for Singapore. Meanwhile, the Group also leases and manages 3 properties – Orchard Rendezvous Hotel, Village Hotel Albert Court and Village Residence Clarke Quay.

To estimate revenue generated from this segment, we would project room rate and occupancy, and in turn RevPAR, for the individual hospitality properties managed by the Group (including the 3 leased properties). We would also consider the Group's soon-to-be opened hotel in Singapore, Oasia Resort Sentosa (as noted on page 6). The projected room rates (as represented by the average figures) for the Group's managed hospitality properties in Singapore for 2021 and 2022 are summarized in **Exhibit 5** and **Exhibit 6** respectively on the next 2 pages.

Exhibit 5: Room rates for the Group's managed hospitality properties in Singapore – 2021

Name of property	Room rate (S$)								
	For month								Average
	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	
Managed:									
Village Hotel Changi	151	151	193	179	165	165	165	165	**167**
Village Hotel Bugis	185	185	193	184	151	169	184	184	**179**
Oasia Hotel Novena	198	198	207	207	235	221	221	221	**214**
Oasia Hotel Downtown	254	233	233	240	260	260	260	260	**250**
Oasia Resort Sentosa	-	-	-	-	371	370	470	470	**420**
The Quincy Hotel	260	230	273	273	264	301	301	320	**278**
Rendezvous Hotel Singapore	191	181	219	219	238	219	238	219	**216**
Village Hotel Sentosa	-	-	-	360	280	280	380	380	**336**
Village Hotel Katong	169	169	198	184	184	169	184	184	**180**
AMOY	242	242	231	242	242	231	252	252	**242**
The Barracks Hotel Sentosa	953	953	895	742	742	812	812	836	**843**
The Clan Hotel	350	330	330	360	360	330	390	390	**355**
The Outpost Hotel Sentosa	-	-	-	390	310	370	410	410	**378**
The Elizabeth Hotel	-	-	-	-	221	221	221	221	**221**
Oasia Residence Singapore (1)	300	300	300	300	300	300	300	300	**300**
Orchard Scotts Residences (2)	-								**267**
Orchard Parksuites (1)	199	354	378	378	378	378	270	378	**339**
Regency House (1)	407	346	514	514	346	346	318	346	**392**
Village Residence Hougang (1)	-	-	346	346	346	346	346	346	**346**
Village Residence Robertson Quay (1)	255	337	503	503	337	337	255	337	**358**
Village Residence West Coast (3)	-								**-**
Far East Plaza Residences (2)	-								**191**
Leased & managed:									
Orchard Rendezvous Hotel, Singapore	153	200	207	207	225	207	225	225	**206**
Village Hotel Albert Court	146	146	184	165	165	165	165	165	**163**
Village Residence Clarke Quay (1)	209	318	482	482	318	318	244	318	**336**

Based on lowest priced room rates for a 1-night stay for 1 adult at end/close to end of each month. Data extracted on 16 Apr 21.

(1) Per night room rates for a minimum 6-night stay for 1 adult. For instance, period for month of May 21 would consider 25 May to 31 May.

(2) Average rate represents per night room rate for 1 adult. This property requires a minimum 3-month stay.

(3) While property is operational and booked for project groups, there is no availability of room rate data.

Source: Far East Hospitality for Orchard Scott Residences and Far East Plaza Residence, booking.com for all other properties

Exhibit 6: Room rates for the Group's managed hospitality properties in Singapore – 2022

Name of property	Room rate (S$)			
	For month			Average
	Jan 22	Feb 22	Mar 22	
Managed:				
Village Hotel Changi	165	165	165	**165**
Village Hotel Bugis	169	169	169	**169**
Oasia Hotel Novena	221	221	221	**221**
Oasia Hotel Downtown	260	260	260	**260**
Oasia Resort Sentosa	471	353	353	**392**
The Quincy Hotel	377	377	277	**344**
Rendezvous Hotel Singapore	302	302	324	**309**
Village Hotel Sentosa	380	280	280	**313**
Village Hotel Katong	184	184	184	**184**
AMOY	242	242	242	**242**
The Barracks Hotel Sentosa	836	789	718	**781**
The Clan Hotel	390	390	390	**390**
The Outpost Hotel Sentosa	410	310	310	**343**
The Elizabeth Hotel	294	294	318	**302**
Oasia Residence Singapore (1)	-			**300**
Orchard Scotts Residences (2)	-			**267**
Orchard Parksuites (1)	-			**339**
Regency House (1)	-			**392**
Village Residence Hougang (1)	-			**346**
Village Residence Robertson Quay (1)	337	337	337	**337**
Village Residence West Coast (2)	-			**-**
Far East Plaza Residences (2)	-			**191**
Leased & managed:				
Orchard Rendezvous Hotel, Singapore	265	265	286	**272**
Village Hotel Albert Court	165	165	165	**165**
Village Residence Clarke Quay (1)	318	318	318	**318**

Based on lowest priced room rates for a 1-night stay for 1 adult at end/close to end of each month. Data extracted on 16 Apr 21.

(1) Per night room rates for a minimum 6-night stay for 1 adult. For instance, period for month of Jan 22 would consider 25 Jan to 31 Jan.

(2) Average rate represents per night room rate for 1 adult. This property requires a minimum 3-month stay.

(3) While property is operational and booked for project groups, there is no availability of room rate data.

Source: Far East Hospitality for Orchard Scott Residences and Far East Plaza Residence, booking.com for all other properties

We will now provide a projection of occupancy level for the above managed hospitality properties. For this, we consider how occupancy levels for mid-tier and upscale hotels, the tiers in which the Group's managed hotels are categorized, in Singapore have performed in 2020, based on latest STB data as summarised in **Exhibit 7** on the next page.

Exhibit 7: Monthly trend of AOR based on hotel tier

Period	Average Occupancy Rate (%)			
	Luxury	Upscale	Mid-tier	Economy
Jan-20	84.7%	83.0%	84.3%	80.5%
Feb-20	53.7%	42.8%	51.7%	50.0%
Mar-20	39.1%	25.2%	42.9%	46.4%
Apr-20	16.4%	30.4%	48.5%	48.9%
May-20	25.3%	61.1%	65.4%	62.7%
Jun-20	24.2%	56.9%	57.2%	67.4%
Jul-20	40.3%	51.6%	72.6%	77.2%
Aug-20	42.4%	42.9%	76.6%	79.5%
Sep-20	52.0%	44.9%	60.2%	78.5%
Oct-20	47.9%	46.8%	59.5%	66.6%
Nov-20	49.5%	46.5%	52.7%	60.4%
Dec-20	66.2%	56.2%	62.0%	58.6%
Average	**45.1%**	**49.0%**	**61.1%**	**64.7%**

Source: STB

As noted in **Exhibit 7** above, the average occupancy over 2020 for mid-tier and upscale hotels was 61.1% and 49.0% respectively. For 2021, we anticipate an improvement in hotel performance as further progression in vaccine distribution facilitate a recovery in leisure travel. The recovery, however, is likely to be moderate given ongoing virus-related concerns as highlighted on page 7.

As a proxy, we would thus assume that occupancy for the Group's managed hospitality properties in the mid-tier category to increase by 7% points to 68.1% in 2021 and that for those in the upscale category to increase by 5% points to 54.0%. We have accounted for a stronger recovery for mid-tier hotels given that improved travel demand would mainly supported by the leisure segment as discussed on page 7.

Looking further ahead in 2022, we expect further improvement in the international travel backdrop as business and group travel return. In turn, hotel accommodation demand should rebound by a larger extent, and we could also see a stronger pickup in occupancy for upscale and luxury tier hotels. Thus, we would assume occupancy for both the mid-tier and upscale categories to improve to 78.1% and 64.0% respectively.

Given the above estimated room rates and occupancy for 2021 and 2022, we then estimate a RevPAR for the individual hospitality properties during these periods, as shown in **Exhibit 8** on the next page.

Exhibit 8: Projected RevPAR for the Group's managed hospitality properties in Singapore

Name of property	Hotel tier	Room rate (S$)		Occupancy (%)		RevPAR (S$)	
		2021	2022	2021	2022	2021	2022
Managed:							
Village Hotel Changi	Mid-tier	167	165	68.1%	78.1%	114	129
Village Hotel Bugis	Mid-tier	179	169	68.1%	78.1%	122	132
Oasia Hotel Novena	Mid-tier/Upscale (1)	214	221	61.1%	71.1%	130	157
Oasia Hotel Downtown	Upscale	250	260	54.0%	64.0%	135	166
Oasia Resort Sentosa	Upscale	420	392	54.0%	64.0%	227	251
The Quincy Hotel	Upscale	278	344	54.0%	64.0%	150	220
Rendezvous Hotel Singapore	Upscale	216	309	54.0%	64.0%	116	198
Village Hotel Sentosa	Mid-tier	336	313	68.1%	78.1%	229	245
Village Hotel Katong	Mid-tier	180	184	68.1%	78.1%	123	144
AMOY	Mid-tier	242	242	68.1%	78.1%	165	189
The Barracks Hotel Sentosa	Mid-tier	843	781	68.1%	78.1%	574	610
The Clan Hotel	Mid-tier	355	390	68.1%	78.1%	242	305
The Outpost Hotel Sentosa	Mid-tier	378	343	68.1%	78.1%	257	268
The Elizabeth Hotel	Mid-tier	221	302	68.1%	78.1%	151	236
Oasia Residence Singapore	Upscale	300	300	54.0%	64.0%	162	192
Orchard Scotts Residences	Upscale	267	267	54.0%	64.0%	144	171
Orchard Parksuites	Upscale	339	339	54.0%	64.0%	183	217
Regency House	Upscale	392	392	54.0%	64.0%	212	251
Village Residence Hougang	Mid-tier	346	346	68.1%	78.1%	236	270
Village Residence Robertson Quay	Mid-tier	358	337	68.1%	78.1%	244	263
Village Residence West Coast	Mid-tier	-	-	68.1%	78.1%	-	-
Far East Plaza Residences	Upscale	191	191	54.0%	64.0%	103	122
Leased & managed:							
Orchard Rendezvous Hotel, Singapore	Mid-tier/Upscale (1)	206	272	61.1%	71.1%	126	193
Village Hotel Albert Court	Mid-tier	163	165	68.1%	78.1%	111	129
Village Residence Clarke Quay	Mid-tier	336	318	68.1%	78.1%	229	248

(1) Occupancy for mid-tier/upscale is based on taking the average of the two segments for the respective periods

Source: FPA Financial

Based on the above projected RevPAR for the individual hospitality properties, we then estimate the room revenue generated by the individual properties for 2021 and 2022. For 2021, we would assume all properties to be fully operational for the whole year, except for Oasia Resort Sentosa which we would assume to be operational from September 2021 and Village Residence West Coast which we would assume no operations. For 2022, with the exception of Village Residence West Coast, we would assume all properties to be fully operational for the whole year. The projected room revenue for the individual hospitality properties for 2021 and 2022 are summarized in **Exhibit 9**.

Exhibit 9: Projected room revenue for the Group's managed hospitality properties in Singapore

Name of property	No. of rooms	RevPar (S$)		No. of days		Room Revenue (S$'000)	
		2021	2022	2021	2022	2021	2022
Managed:							
Village Hotel Changi	380	114	129	365	365	15,750	17,874
Village Hotel Bugis	393	122	132	365	365	17,522	18,933
Oasia Hotel Novena	428	130	157	365	365	20,362	24,530
Oasia Hotel Downtown	314	135	166	365	365	15,472	19,071
Oasia Resort Sentosa (1)	191	227	251	122	365	5,288	17,505
The Quincy Hotel	108	150	220	365	365	5,912	8,670
Rendezvous Hotel Singapore	298	116	198	365	365	12,658	21,534
Village Hotel Sentosa	606	229	245	365	365	50,612	54,128
Village Hotel Katong	229	123	144	365	365	10,253	12,011
AMOY	37	165	189	365	365	2,223	2,552
The Barracks Hotel Sentosa	40	574	610	365	365	8,383	8,905
The Clan Hotel	324	242	305	365	365	28,590	36,021
The Outpost Hotel Sentosa	193	257	268	365	365	18,134	18,889
The Elizabeth Hotel	256	151	236	365	365	14,063	22,039
Oasia Residence Singapore	140	162	192	365	365	8,278	9,811
Orchard Scotts Residences	204	144	171	365	365	10,736	12,724
Orchard Parksuites	223	183	217	365	365	14,906	17,659
Regency House	90	212	251	365	365	6,956	8,241
Village Residence Hougang	78	236	270	365	365	6,708	7,693
Village Residence Robertson Quay	72	244	263	365	365	6,407	6,917
Village Residence West Coast	51	-	-	-	-	-	-
Far East Plaza Residences	139	103	122	365	365	5,233	6,202
Sub-total						284,446	351,911
Leased & managed:							
Orchard Rendezvous Hotel, Singapore	388	126	193	365	365	17,821	27,369
Village Hotel Albert Court	210	111	129	365	365	8,489	9,878
Village Residence Clarke Quay	128	229	248	365	365	10,694	11,603
Sub-total						37,004	48,850

(1) Assumed to only be operational from September 2021

Source: FPA Financial

We will further consider the revenue contributions by food & beverage (F&B) services and other hotel services to derive an estimated total revenue figure for the individual hospitality properties. Historically, room revenue makes up about 60% of total hotel revenue for the Singapore hotel market. However, given the COVID-19 pandemic in 2020, most hotels have scaled back on hotel services to reduce costs. In turn, room revenue would have made up all if not much of total hotel revenue.

In 2021, with the easing of safe-distancing measures, dining in larger numbers has now been permitted and thus customer traffic to hotel restaurants would have improved compared to 2020. Nonetheless, we would assume room revenue to make up 70% of total revenue for the year, given that revenue from F&B services is unlikely to revert to pre-COVID levels. For 2022, with further progress on vaccinations, we could see stronger customer visits to hotel restaurants as COVID-19 restrictions are further eased. In addition, a rebound in international travel could also result in increased patronising of hotel F&B services by tourists. Thus, we would assume F&B revenue to make up a larger portion of total revenue of 65% in 2022. Accordingly, the projected total revenue for 2021 and 2022 will be summarized as in **Exhibit 10**.

Exhibit 10: Projected total revenue for the Group's managed hospitality properties in Singapore

Name of property	Room revenue (S$'000) 2021	Room revenue (S$'000) 2022	Total Revenue (S$'000) 2021	Total Revenue (S$'000) 2022
Managed:				
Village Hotel Changi	15,750	17,874	22,500	27,498
Village Hotel Bugis	17,522	18,933	25,032	29,128
Oasia Hotel Novena	20,362	24,530	29,089	37,738
Oasia Hotel Downtown	15,472	19,071	22,103	29,340
Oasia Resort Sentosa (1)	5,288	17,505	7,554	26,931
The Quincy Hotel	5,912	8,670	8,446	13,339
Rendezvous Hotel Singapore	12,658	21,534	18,082	33,129
Village Hotel Sentosa	50,612	54,128	72,303	83,274
Village Hotel Katong	10,253	12,011	14,647	18,479
AMOY	2,223	2,552	3,176	3,927
The Barracks Hotel Sentosa	8,383	8,905	11,976	13,701
The Clan Hotel	28,590	36,021	40,843	55,417
The Outpost Hotel Sentosa	18,134	18,889	25,905	29,061
The Elizabeth Hotel	14,063	22,039	20,090	33,906
Oasia Residence Singapore	8,278	9,811	11,826	15,094
Orchard Scotts Residences	10,736	12,724	15,337	19,575
Orchard Parksuites	14,906	17,659	21,294	27,168
Regency House	6,956	8,241	9,937	12,679
Village Residence Hougang	6,708	7,693	9,583	11,836
Village Residence Robertson Quay	6,407	6,917	9,153	10,641
Village Residence West Coast	-	-	-	-
Far East Plaza Residences	5,233	6,202	7,475	9,541
Sub-total			**406,352**	**541,401**
Leased & managed:				
Orchard Rendezvous Hotel, Singapore	17,821	27,369	25,459	42,106
Village Hotel Albert Court	8,489	9,878	12,127	15,196
Village Residence Clarke Quay	10,694	11,603	15,278	17,851
Sub-total			**52,863**	**75,153**

Source: FPA Financial

Given the above, we will now derive the management fee revenue derived from the Group's managed hospitality properties. As noted on page 10, we will assume that the Group receives a base fee of 2.5% (out of total revenue) for managing the hospitality properties. Accordingly, the projected management fee revenue generated by the individual managed hospitality properties during FY2021 and FY2022 are set out in **Exhibit 11**.

Exhibit 11: Projected management fee revenue for FY2021 and FY2022

Name of property	Management fee (S$'000)	
	2021	2022
Managed:		
Village Hotel Changi	563	687
Village Hotel Bugis	626	728
Oasia Hotel Novena	727	943
Oasia Hotel Downtown	553	734
Oasia Resort Sentosa	189	673
The Quincy Hotel	211	333
Rendezvous Hotel Singapore	452	828
Village Hotel Sentosa	1,808	2,082
Village Hotel Katong	366	462
AMOY	79	98
The Barracks Hotel Sentosa	299	343
The Clan Hotel	1,021	1,385
The Outpost Hotel Sentosa	648	727
The Elizabeth Hotel	502	848
Oasia Residence Singapore	296	377
Orchard Scotts Residences	383	489
Orchard Parksuites	532	679
Regency House	248	317
Village Residence Hougang	240	296
Village Residence Robertson Quay	229	266
Village Residence West Coast	-	-
Far East Plaza Residences	187	239
Total	**10,159**	**13,535**

Source: FPA Financial

Based on the above results, the projected total management fee revenue for FY2021 and FY2022 would be S$10.2 million and S$13.5 million respectively. Taking the sum of management fee revenue and total revenue generated by the 3 leased & managed properties in the respective periods, the projected total revenue for the hotel operations segment in Singapore would be S$63.0 million and S$88.7 million for FY2021 and FY2022, as shown in **Exhibit 12**.

Exhibit 12: Projected total revenue for the Group's hospitality business in Singapore

Source of revenue	Projected revenue (S$'000)	
	2021	2022
Leased & managed properties	52,863	75,153
Management fee revenue	10,159	13,535
Total	63,022	88,688

Source: FPA Financial

Property development

The property development segment includes all property development projects at various stages of development and unsold completed properties that are held through either joint ventures or joint operations; and medical suites that are held for sale.

During FY2020, the segment contributed S$6.6 million in revenue as the Group recorded the sale of a medical suite unit at its Novena Specialist Center in Singapore. This compared to zero revenue contribution during FY2019. Meanwhile, the Group also completed the sale of an office unit at SBF Center in January 2021, which we would consider in our revenue projection for FY2021. We note from latest data by the Urban Redevelopment Authority (URA) that the only sales transaction at SBF Center in January 2021 was for a 667 sq ft office unit. The unit was transacted at a price of S$1.93 million, or S$2,892 per sq ft.

Considering the above, we would assume that property development revenue for FY2021 would be S$1.93 million, given no further unit sales at the Group's medical suites at Novena Medical Center, Novena Specialist Center and SBF Center. For FY2022, we would assume no unit sales, and in turn zero property development revenue.

Property investment

The Group's commercially leased properties in Singapore include a total of 47 medical suites at Novena Medical Center (37 units) and Novena Specialist Center (10 units), 3 shop units at SBF Center, 4 office units at Tanglin Shopping Centre. We note from the official website of Far East Organisation, FEO's parent company, that Novena Specialist Center and SBF Center are fully leased at the moment. Meanwhile, we also note that the medical suites at Novena Medical Center, with unit sizes starting from 678 square feet (sf), are asking rentals from S$9.80 per sf.

In FY2020, the Group's commercial properties in Singapore had been negatively impacted by the COVID-19 pandemic. To support its medical and office tenants, the Group had transferred property tax rebate to all of its tenants. During the period, the property investment segment generated S$8.1 million in revenue compared to S$9.5 million a year ago. For FY2021, we believe that the continuation of work-from-home arrangements could weigh on rentals and significant upward rental reversion would be unlikely. Thus, we would assume the same revenue contribution of S$8.1 million for the property investment segment in FY2020 for FY2021. For FY2022, we would assume revenue contribution of S$9.5 million as in FY2019, given a potential recovery in rentals as leasing demand improves with more people returning to the workplace.

Total projected revenue for Singapore

Given the above projected figures for individual business segments in Singapore, the total projected revenue would be S$73.1 million and S$98.1 million for FY2021 and FY2022 respectively, as shown in **Exhibit 13**.

Exhibit 13: Projected total revenue for the Singapore segment in FY2021 and FY2022

	Projected revenue (S$'000)	
Business segment	**FY2021**	**FY2022**
Hotel operations	63,022	88,688
Property development	1,930	-
Property investment	8,124	9,456
Total	73,076	98,144

Source: FPA Financial

Revenue projection for Australia

For Australia, the Group's operations involve hotel operations and hospitality property ownership. During FY2020, revenue from the segment dropped by about 51.6% y-o-y to S$25.1 million, reflecting the severe COVID-19 impact on the hospitality sector in Australia.

Data from Colliers International (Colliers) showed that all cities experienced more than 40% y-o-y decline in RevPAR in 2020, as shown in **Exhibit 14**. In particular, the decline was more severe in cities like Hobart, Melbourne and Sydney.

Exhibit 14: Occupancy, average room rate and RevPAR for Australian cities in 2020

	2020					
	Occupancy		Average room rate		RevPAR	
Location	%	y-o-y change	$	y-o-y change	$	y-o-y change
Adelaide centre	45.7%	-43.6%	139.12	-9.9%	63.53	-49.2%
Brisbane centre	44.0%	-40.0%	142.14	-10.9%	62.52	-46.5%
Cairns area	42.3%	-45.3%	135.41	-8.5%	57.34	-49.9%
Canberra	43.7%	-42.5%	152.91	-10.1%	66.85	-48.3%
Darwin area	40.3%	-27.8%	117.56	-19.5%	47.40	-41.9%
Gold Coast	42.0%	-39.8%	193.84	-1.6%	81.42	-40.8%
Hobart area	45.9%	-44.7%	162.84	-11.5%	74.70	-51.0%
Melbourne centre	41.2%	-51.2%	163.95	-20.4%	67.59	-61.2%
Perth centre	48.3%	-36.1%	159.32	-6.5%	76.93	-40.3%
Sydney centre	43.0%	-49.5%	198.59	-21.3%	85.49	-60.3%

Source: Colliers International

On the outlook, Colliers expects revenue performance 2021 to be slightly better than it was in 2020. This is given that 2020 had three strong months of trading at the start of the year and nine poor months of trade when the border closures constrained travel. Demand is expected to improve in the latter part of 2021, assuming the vaccine rollout is well underway by that point. The leisure segment is expected to be the key driver of recovery, but with room nights sold still only a fraction of what it was in 2019. In part, this reflects the comparative lack of international demand. Meanwhile, Colliers highlighted that there is still concern about the potential dampening effect that the unwinding of government stimulus may have on consumer spending, particularly on domestic travel. Notwithstanding, domestic leisure still presents a shining light when compared to other segments. Meanwhile, we note that the New Zealand government has recently approved a travel bubble with Australia that will allow quarantine-free entry from 19 April 2021. In response, airlines from these countries have released plans to resume flights. For instance, Air New Zealand has added flights to destinations across Australia and is launching a new route between Auckland and Hobart.

Considering the above, we believe a 5% y-o-y growth in revenue is warranted on the revenue contribution by the Australia segment in FY2021. For FY2022, we would further assume a 10% y-o-y growth on the back of further resumption in travel as virus-related concerns subside with more progressive vaccinations worldwide. Accordingly, the projected revenue from the Australia segment would be S$26.3 million and S$28.9 million for FY2021 and FY2022 respectively, as shown in **Exhibit 15**.

Exhibit 15: Projected revenue for the Australia segment in FY2021 and FY2022

Period	Revenue (S$'000)	y-o-y change (%)
FY2020 actual	25,059	-52%
FY2021 forecast	26,312	5%
FY2022 forecast	28,943	10%

Source: Company, FPA Financial

Revenue projection for the UK

In the UK, the Group's business activity is principally in student accommodation. As noted on page 6, the Group grew its UK PBSA business during FY2020 with the acquisition of the 301-bed Kings Square Studio in Bristol. Currently, the Group's PBSA portfolio comprises 12 properties with a total of 3,561 beds.

To estimate the total rental revenue generated by the Group's student accommodation business, we will be making use of the weekly rent (based on the lowest priced apartment, typically a standard en suite or studio) for the individual PBSA properties, and assuming that weekly rent is charged per bed (as accounted for by each student per bed). For FY2021 and FY2022, we would account for a total of 44 weeks of rent based on rental terms for the properties (we note that apartments are usually offered on a rental period of 44 or 51 weeks). While the university school terms in the UK are not based on calendar year, we assume that all rental income would be recognized during FY2021 and FY2022. To account for potential rental growth in view of strong PBSA demand (as noted on page 8), we would assume a 5% y-o-y growth in weekly rent for FY2022. In addition, we would assume 100% occupancy across the Group's PBSA properties during both periods.

Given the above, the estimated revenue generated by the Group's student accommodation business in FY2021 and FY2022 would be £23.5 million and £24.6 million respectively, as shown in **Exhibit 16**.

Exhibit 16: Projected rental income from the Group's individual PBSA properties in FY2021 and FY2022

Name of PBSA	No. of beds	Weekly rent (£)		Estimated rental income (£, thousands)	
		2021	2022	2021	2022
Hollingbury House	195	199	209	1,707	1,793
Harbour Court	133	179	188	1,048	1,100
Kings Square Studios	301	210	221	2,781	2,920
St Lawrence House	166	250	263	1,826	1,917
The Elements	735	129	135	4,172	4,380
The Foundry	239	150	158	1,577	1,656
The Glassworks	323	140	147	1,990	2,089
Portland Green Student Village - Bryson Court	366	125	131	2,013	2,114
Portland Green Student Village - Marshall Court	196	134	141	1,156	1,213
Portland Green Student Village - Newton Court	295	125	131	1,623	1,704
Portland Green Student Village - Rosedale Court	338	128	134	1,904	1,999
Portland Green Student Village - Turner Court	274	139	146	1,676	1,760
Total	**3,561**	**-**	**-**	**23,472**	**24,645**

Rents are based on lowest priced apartment. Assumed rent period to be applied for 44 weeks.

Source: abodusstudents.com, university accommodation websites, FPA Financial

Based on the currency exchange rate of £1.00 = SGD1.85, the total revenue from the UK segment would be S$43.4 million and S$45.6 million for FY2021 and FY2022 respectively, as shown in **Exhibit 17**.

Exhibit 17: Projected revenue from the UK segment in FY2021 and FY2022

Period	Projected revenue	
	(£, thousands)	S$'000
FY2021	23,472	43,423
FY2022	24,645	45,594

Source: FPA Financial

Revenue projection for New Zealand

The Group's business operations in New Zealand are principally in hotel operations. On the outlook for the hotel market in New Zealand, a recent report by Horwath HTL highlighted that most hotels located in New Zealand's major tourism centres, which are not used by the government as a Managed Isolation or Quarantine facility (MIQ), continue to experience unsustainable revenue shortfalls since the last lock-down in August 2020, despite a domestic tourism boom and improved economic conditions. Given the New Zealand government's top priority in keeping the country safe, borders are likely to remain closed beyond Australia and the Pacific for much if not all of 2021.

Nonetheless, as noted on page 19, the New Zealand government has recently approved a travel bubble with Australia that will allow quarantine-free entry from 19 April 2021. According to the Straits Times, Australian carrier Qantas and its budget subsidiary Jetstar plan to restart flying to all pre-COVID destinations in New Zealand from 19 April 2021. The airline company would be launching two new routes linking Auckland to Cairns and the Gold Coast. In view of a moderate recovery in hotel occupancy and RevPAR in New Zealand, we would assume a 5% y-o-y growth in revenue generated by the New Zealand segment in FY2021. For FY2022, we would further assume a 10% y-o-y growth in view of loosened border control measures and improved travel as virus-related concerns further subside.

Given the above, the projected revenue generated by the New Zealand segment would be S$4.0 million = [105% x S$3.8 million in revenue generated during FY2020] and S$4.4 million = [110% x S$4.0 million projected revenue for FY2021] in FY2021 and FY2022 respectively, as shown in **Exhibit 18**.

Exhibit 18: Projected revenue for the New Zealand segment in FY2021 and FY2022

Period	Revenue (S$'000)	y-o-y change (%)
FY2020 actual	3,766	-54%
FY2021 forecast	3,954	5%
FY2022 forecast	4,350	10%

Source: Company, FPA Financial

Revenue projection for Other countries segment

The Group's business operations in the Other countries segment include hotel operations and property ownership in Malaysia and property ownership in Germany, Denmark and Japan. With the exception of Denmark, the remaining countries in the Other countries segment are currently experiencing new waves of COVID-19 infection and reimposing lockdown measures. Naturally, this could likely weigh on the hospitality sectors in these countries.

Given the above, we would assume zero revenue growth in FY2021 for the segment, followed by a moderate 10% y-o-y rebound in FY2022 to account for a hotel market recovery. Given the above, the projected segment revenue would be S$1.4 million and S$1.5 million = [110% x S$1.4 million in projected revenue for FY2021] for FY2021 and 2022 respectively, as shown in **Exhibit 19**.

Exhibit 19: Projected revenue for the Other countries segment in FY2021 and FY2022

Period	Revenue (S$'000)	y-o-y change (%)
FY2020 actual	1,363	-70%
FY2021 forecast	1,363	0%
FY2022 forecast	1,499	10%

Source: Company, FPA Financial

Projection for the Group's total revenue

Given the above projected revenue for the individual geographical segments, the estimated Group total revenue would be S$148.1 million and S$178.5 million for FY2021 and FY2022 respectively, as shown in **Exhibit 20**.

Exhibit 20: Projected total revenue for FY2021 and FY2022

	Projected revenue			
	FY2021		FY2022	
Geographical segment	S$'000	% of total	S$'000	% of total
Singapore	73,076	49.3%	98,144	55.0%
Australia	26,312	17.8%	28,943	16.2%
New Zealand	3,954	2.7%	4,350	2.4%
United Kingdom	43,423	29.3%	45,594	25.5%
Other countries	1,363	0.9%	1,499	0.8%
Total	**148,128**	100.0%	**178,530**	100.0%

Source: FPA Financial

(II) Earnings projection

Given our projected total revenue for FY2021 and FY2022, we will now estimate the Group's earnings for these periods.

Gross profit

To estimate gross profit, we would consider the Group's gross margin. With reference to **Exhibit 21**, we note that gross margin stood at 39.6% for FY2020 compared with 43.5% for FY2019, reflecting the negative impact of the COVID-19 pandemic on the Group's profitability.

Exhibit 21: Group's gross margin for FY2018 to FY2020

	Actual			Forecast	
	FY2018	FY2019	FY2020	FY2021	FY2022
	S$'000	S$'000	S$'000	S$'000	S$'000
Revenue	150,911	156,063	112,215	148,128	178,530
Gross profit	53,375	67,814	44,462	59,251	77,661
Gross margin (%)	35.4%	43.5%	39.6%	40.0%	43.5%

Source: Company, FPA Financial

In our projections, we would assume a gross margin of 40.0% in FY2021 to account for slight profitability improvement as virus-related concerns subside. For FY2022, we would assume gross margin to revert to the FY2019 level of 43.5%. Accordingly, projected gross profit would be S$59.3 million and S$77.7 million for FY2021 and FY2022 respectively, as shown in **Exhibit 21** above.

Other income

As noted on page 3, the Group recorded other income of S$11.6 million in FY2020 compared to S$4.5 million a year ago, mainly due to COVID-19 related grants received. The breakdown of the Group's other income for FY2019 and FY2020 is summarized in **Exhibit 22**.

Exhibit 22: Breakdown of Group's other income for FY2019 and FY2020

	Actual	
[S$'000]	FY2019	FY2020
Interest income from:		
-bank deposits	4,340	2,474
-advances to joint venture	-	88
Government grant income		
-wage subsidies	-	5,894
-property tax rebates and cash grant	-	3,946
Government grant expense -rent concessions	-	(1,003)
Other miscellaneous income	160	191
Total other income	4,500	11,590

Source: Company

For FY2021 and FY2022, we would assume that the grants would cease to be provided and that there would be no grant expense incurred due to transfer of property tax rebates. We would only consider the contribution from interest income from bank deposits.

Given recent rising interest rates, we could expect the Group to earn higher interest income on its bank deposits. For FY2021, we would still assume the same interest income on bank deposits of S$2.5 million as in FY2020 given that rates may not rise substantially. For FY2022, we would assume interest income on bank deposits of S$4.3 million as in FY2019 in view of higher interest rates. The projected other income figures for FY2021 and FY2022 are summarized in **Exhibit 23**.

Exhibit 23: Projected other income for FY2021 and FY2022

	Forecast	
[S$'000]	FY2021	FY2022
Interest income from:		
-bank deposits	2,474	4,340
-advances to joint venture	-	-
Government grant income		
-wage subsidies	-	-
-property tax rebates and cash grant	-	-
Government grant expense -rent concessions	-	-
Other miscellaneous income	-	-
Total other income	2,474	4,340

Source: FPA Financial

Other gains – net

As noted on page 3 the Group recorded lower other net gains of S$2.7 million largely due to lower fair value gains on investment properties of S$4.5 million and a recognition of S$11.0 million in impairment charges as well as S$2.3 million in revaluation losses on PPE. However, currency exchange gains of S$11.6 million were recorded during FY2020 due to a strengthening of the AUD against SGD, as compared to the loss a year ago.

For FY2021 and FY2022, we would assume that there would be no recognition of impairment charges. We would also assume no gains or losses on investment properties and PPE. As for currency exchange gain/loss, we note that the AUD has continued to strengthen against SGD in 2021 Still, there are foreign exchange risks, and the SGD could potentially strengthen on the back of stronger capital inflows. We would thus assume no gain or loss on currency exchange. Accordingly, projected other net gains would be zero for FY2021 and FY2022.

Expenses

This component includes items such as distribution & marketing expenses, administrative expenses and finance expenses. As noted on page 3, distribution & marketing expenses decreased to S$56.7 million owing to reduction and deferment of marketing and promotional spend in view of the COVID-19 pandemic. Administrative expenses decreased to S$32.7 million in part due to lower wage & salaries expenses.

For FY2021, we assume the same distribution & marketing expenses and administrative expenses of S$6.9 million and S$32.7 million respectively as in FY2020. Looking further ahead in FY2022, we expect these expenses to rise with higher revenue. Thus, we would assume a 10% y-o-y increase for both expense items in FY2022, which would be equivalent to S$7.5 million in distribution & marketing expenses and S$36.0 million in administrative expenses.

We also noted on page 3 that higher finance expenses of S$17.1 million were incurred partially due to higher borrowings to finance the Group's PBSA acquisitions. As noted on page 5, the estimated effective interest rate on the Group's bank borrowings was 1.03% during FY2020 compared to 1.30% in FY2019. However, given recent rising interest rates owing to higher inflation expectations, we would assume an effective interest rate of 1.10% and 1.20% for FY2021 and FY2022 respectively. Assuming the Group does not repay any debt during these periods, the projected interest expense on bank borrowings would be as follows:

- Projected interest expense for FY2021 = [1.10% x S$683.1 million in bank borrowings] = S$7.5 million
- Projected interest expense for FY2022 = [1.20% x S$683.1 million in bank borrowings] = S$8.2 million

Meanwhile, we would assume interest expenses for advances from non-controlling interests and lease liabilities to remain unchanged in FY2021 and FY2022 from FY2020. Accordingly, projected finance expenses for FY2021 and FY2022 would be S$17.8 million and S$18.5 million, as shown in **Exhibit 24**.

Exhibit 24: Projected finance expenses for FY2021 and FY2022

	Actual		Forecast	
[S$'000]	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Interest expense for:				
-bank borrowings	7,274	7,050	7,514	8,197
-advances from non-controlling interests	1,327	1,331	1,331	1,331
-lease liabilities	9,509	8,958	8,958	8,958
	18,110	17,339	17,803	18,486
Cash flow hedges, reclassified from hedging reserves	-	141	-	-
Less: borrowing costs capitalised in development properties and investment properties	(1,245)	(374)	-	-
Total finance expenses	16,865	17,106	17,803	18,486

Source: Company, FPA Financial

Share of (loss)/profit – Joint ventures

As noted on page 3, the Group recorded a share of loss from joint ventures of S$7.6 million during FY2020 in part due to operating losses incurred by the Group's hospitality joint ventures in Australia and Europe as well as revaluation losses on certain hotel properties. This was, however, partially offset by profit recognition from the sales of commercial units at Woods Square.

Hospitality joint venture

For FY2021, the Group's share of profit from its material hospitality joint venture, Toga Hotel Holdings Unit Trust (Toga Trust), could potentially improve amid some recovery in the Australian hotel market. However, as highlighted on page 8, we foresee that international travel as a whole would remain subdued in 2021 amid ongoing virus-related concerns. Against a weak travel backdrop, we do not expect significant profit recognition from Toga Trust in FY2021 and would thus assume zero profit recognition. We would further assume no share of profits for FY2022.

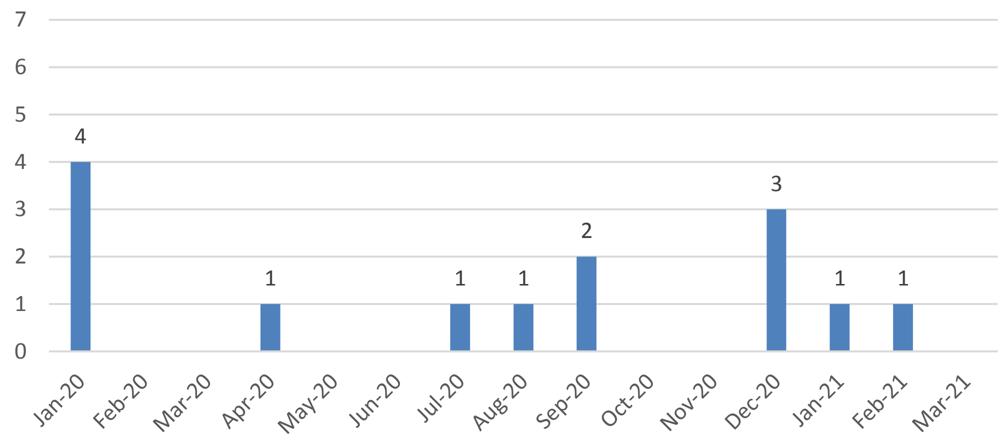
Similarly, we also foresee weak profit recognition from the Group's Japan joint venture, in relation to Far East Village Hotel Ariake which was opened in July 2020. Currently, Japan is dealing with a virus resurgence and is on the brink of declaring a state of emergency in cities like Tokyo and Osaka. This comes just 3 months before the start of the Tokyo Olympics from July to August 2021. Given the uncertainties relating to COVID-19 and travel, we would assume no share of profit or losses from the Group's Japan joint venture in FY2021 and FY2022.

<u>Woods Square joint venture</u>

During FY2020, the Group received a sizeable profit share of approximately S$12.4 million from its other material joint venture Woodlands Square Pte Ltd (WSPL), in relation to the sales of commercial units at Woods Square. In total, the Woods Square project offers 533 units which comprise 494 office units and 39 retail units. As noted from the official project development site, 365 office units in Tower 1 are for sale while office units in Tower 2 are set aside for lease. All retail units are for lease. The project had achieved its TOP in February 2020, upon which revenue and cost of sales was recognized.

In terms of sales performance, the project had achieved 61% sales completion for its 208 launched units as at the end of FY2019. In FY2020, sales progress was negatively impacted owing to the COVID-19 pandemic, with little to no sales recorded during several months, as shown in **Exhibit 25**. Accordingly, a total of 12 units were transacted during the year.

<u>Exhibit 25: Woods Square project sales performance in FY2020</u>



Source: URA

Considering the above, it appears that the Group's sizeable share of profits from WSPL during FY2020 was largely attributed to revenue recognition of units sold prior to FY2020 following the project's TOP during the year. Overall sales progress was relatively weak during FY2020 owing to the COVID-19 pandemic as discussed above.

For FY2021, we note that sales has continued to remain relatively muted, with a total of 2 units transacted during the first quarter, as shown in **Exhibit 25** above. We believe that this could partially be due to relatively weak office demand in Singapore owing to continued work-from-home (WFH) dynamics. Currently, the project is about 67% sold (about 139 units) based on launched units. For the rest of FY2021, we could expect some additional unit sales with an improvement in office demand as more people return to the workplace. We would therefore assume that the project would achieve 80% sales completion (about 166 units) for its launched units at the end of FY2021, which would imply further sales of 27 units for the remaining of FY2021. Further, we would also assume that there would be no further unit launches. Based on available URA sales data for the project from August 2016 till March 2021, the total sales across 113 units transacted would be S$141.6 million, with an average price per sq ft of S$1,859. Accordingly, the estimated sales for the 139 total units sold could be estimated to be approximately S$174.1 million = [139/113 x S$141.6 million]. As a proxy, we would adopt the historical sales price per unit for the 139 office units sold thus far to project revenue generated by the remaining 27 units expected to be sold during the rest of FY2021. The estimation is as follows:

- Projected sales revenue for 27 units sold during rest of FY2021 = [27/139 x S$174.1 million] = S$33.8 million

Taking the sum of the sales price for the 2 units sold in Q1 2021 and the 27 units expected to be sold during the rest of FY2021, the projected total revenue for Woods Square would be S$36.7 million, as shown in **Exhibit 26**. This would be a conservative estimate given that revenue from unit sales, not including rental income, has been considered.

Exhibit 26: Projected revenue for Woods Square project in FY2021

Sales revenue	S$ million
2 units sold in Q1 2021	2,868
18 remaining units to be sold	33,824
Total	36,692

Source: URA, FPA Financial

Meanwhile, for FY2022, we would assume that the project would achieve 100% sales completion for its launched units on the back of further sales progression as WFH dynamics fade along with an improved virus situation. Accordingly, the expected number of units to be sold during the period would be 42 units = [208 units – 166 units expected to be sold as at end of FY2021]. We would assume no further new launches at the project. Similar as FY2021, we would adopt the historical sales price per unit for the 139 office units sold thus far as a proxy for the units sold during FY2022. Accordingly, the projected sales revenue for FY2022 would be as follows:

- Projected sales revenue for 42 units to be sold in FY2022 = [42/139 x S$174.1 million] = S$52.6 million

Similar to FY2021, we would assume the project's sales revenue of S$52.6 million in FY2022 as its total projected revenue generated during the period.

To project the Group's share of profit from its Woods Square joint venture in FY2021 and FY2022, we would consider the net profit margin for WSPL for FY2020 when revenue for unit sales at Woods Square were recognized (WSPL generated zero revenue in FY2019). During the period, WSPL achieved a net profit margin of about 13%, as shown in **Exhibit 27**. In our projections, we would assume the same profit margin for FY2021 and FY2021 to project a profit after income tax of S$4.6 million and S$6.6 million for the respective periods, as shown in **Exhibit 27**.

Exhibit 27: Projected profit after income tax for WSPL in FY2021 and FY2022

	Actual		Forecast	
S$ million	FY2019	FY2020	FY2021	FY2022
Revenue	-	297,646	36,692	52,615
Profit after income tax	1,788	37,438	4,615	6,618
Net profit margin (%)	-	13%	13%	13%

Source: Company, FPA Financial

Given the Group's effective ownership interest of 33% for WSPL, the projected Group share of profit from WSPL would be S$ and S$ for FY2021 and FY2022 respectively, as highlighted below.

- Projected share of profit in FY2021 = 33% x projected after-tax profit of S$4.6 million in FY2021 = S$1.5 million
- Projected share of profit in FY2022 = 33% x projected after-tax profit of S$6.6 million in FY2022 = S$2.2 million

Share of (loss)/profit – associates

During FY2020, the Group's recorded lower share of profit of S$2.1 million from its associate due to lower management fees chargeable to Far East Hospitality REIT. In view of a recovery in the Singapore hotel market, management fee income received from the Group's associate could improve as Far East Hospitality REIT generates higher revenue. For FY2021, we would still assume the same share of profit of S$2.1 million as in FY2020 given weak tourism arrivals. On the back of an improved international travel backdrop for FY2022, we would assume a 15% increase in share of profit which would be equivalent to S$2.5 million = [115% x S$2.1 million].

Projected profit before share of profit from associates & joint ventures and tax

Given the projections for the income statement items from page 23 till now, the projected profit before share of profit from associates & joint ventures and tax would be S$4.4 million and S$20.0 million for FY2021 and FY2022 respectively, as shown in **Exhibit 28**.

Exhibit 28: Projected profit before share of profit from associates & joint venture and tax

[S$'000]	FY2021 forecast	FY2022 forecast
Revenue	148,128	178,530
Cost of sales	(88,877)	(100,870)
Gross profit	59,251	77,661
Other income	2,474	4,340
Other gains - net	-	-
Expenses:		
-Distribution & marketing expenses	(6,862)	(7,548)
-Administrative expenses	(32,709)	(35,980)
-Finance expenses	(17,803)	(18,486)
(Loss)/Profit before share of profit from associates & joint ventures and tax	4,351	19,987

Source: FPA Financial

Income tax expenses

As noted on page 3, the Group incurred higher income tax expense of S$5.6 million during FY2020, mainly due to a reversal of overprovision on deferred taxes during FY2019.

For FY2021 and FY2022, we would assume a tax rate of 17% to be levied on the Group's profit before share of profit from associates & joint ventures and tax for the respective periods. Accordingly, the projected income tax expenses for FY2021 and FY2022 would be S$0.7 million = [17% x S$4.4 million] and S$3.4 million = [17% x S$20.0 million] respectively.

Projected profit after tax

After adjusting for the projected share of profit from associates and joint ventures (as discussed on page 25-28) and income tax expenses, the projected after-tax profit would be S$8.3 million and S$28.3 million for FY2021 and FY2022 respectively. Assuming no impact of non-controlling interests, the after-tax profit attributable to equity holders would be S$8.3 million and S$28.3 million for FY2021 and FY2022 respectively. Based on a weighted average number of issued units of 443.93 million, which we would assume to remain unchanged in FY2021 and FY2022, the projected EPS for FY2021 and FY2022 would be 1.87 cents and 6.37 cents respectively. We have summarised our earnings projection for FY2021 and FY2022 in **Exhibit 29**.

Exhibit 29: Earnings projection for FY2021 and FY2022

[S$'000]	FY2021 forecast	FY2022 forecast
Revenue	148,128	178,530
Cost of sales	(88,877)	(100,870)
Gross profit	59,251	77,661
Other income	2,474	4,340
Other gains - net	-	-
Expenses:		
-Distribution & marketing expenses	(6,862)	(7,548)
-Administrative expenses	(32,709)	(35,980)
-Finance expenses	(18,253)	(18,253)
Share of (loss)/profit:		
-Joint ventures	1,523	2,184
-Associates	2,142	2,463
(Loss)/Profit before income tax	7,566	24,867
Income tax expense	740	3,398
(Loss)/Profit after income tax	8,306	28,265
(Loss)/Profit attributable to:		
Equity holders of the Company	8,306	28,265
Non-controlling interests	-	-
	8,306	28,265
(Loss)/Profit attributable to equity holders	8,306	28,265
Weighted average no. of shares in issue	443,928	443,928
EPS (cents)	1.87	6.37

Source: FPA Financial

(III) Dividends projection

We note that FEO has paid out consistent final dividends of 6.0 cents per share from FY2016 to FY2019. However, owing to the impact of COVID-19, a DPS of 3.0 cents has been recommended for FY2020. For FY2021, we would assume that dividends of 3.0 cents per share could be paid out. For FY2022, we would assume DPS of 6.0 cents given improved EPS.

VALUATION

Here, we perform an updated peer comparison analysis to account for the changes in the financial position of the selected peers of FEO. At the same time, we will also adopt a relative valuation based on the results of our peer comparison analysis to derive an estimated target price for FEO. Our updated peer comparison analysis is summarized in **Exhibit 30**.

Exhibit 30: Updated peer comparison

Company	SGX code	Current price (S$) as at 26 Apr 21	Market cap (S$ million)	EPS [1] (cents)	P/E (x)	NAV per share [2] (S$)	P/B (x)	DPS (cents)	Dividend yield (%)
Far East Orchard Limited [3]	O10	1.170	532.92	0.35	334.29	2.72	0.43	3.00	2.56
Peer companies:									
City Developments Limited [4]	C09	8.010	7,264.27	(218.20)	n/m	9.38	0.85	12.00	1.50
UOL Group Limited [5]	U14	7.890	6,658.29	1.56	505.77	11.60	0.68	15.00	1.90
GuocoLand Limited [6]	F17	1.660	1,842.22	3.92	42.35	3.44	0.48	6.00	3.61
Frasers Property Limited [7]	TQ5	1.250	4,777.63	3.77	33.16	2.58	0.48	1.50	1.20
Peer average	**-**	**-**	**-**	**-**	**193.76**	**-**	**0.63**	**-**	**2.05**

n/m: not meaningful

(1) 12-month trailing diluted EPS based on latest financial statements

(2) As at 31 Dec 20, unless otherwise specified

(3) DPS of 3.0 cents would be paid on or around 5 July 2021

(4) DPS of 12.0 cents would be paid on 21 May 2021

(5) DPS of 15.0 cents would be paid on 14 May 2021

(6) Annual DPS paid on 19 Nov 2020 in respect to FY2020 (1 July 2019 to 30 June 2020)

(7) Annual DPS paid on 10 Feb 2021 in respect to FY2020 (1 Oct 2019 to 30 Sep 2020). NAV per share as at 30 Sep 2020.

Source: Respective company data, FPA Financial

Based on the above results in **Exhibit 30** above, we note that FEO's is currently trading at a P/B multiple of 0.43x which is lower than the peer average P/B of 0.63x. This could suggest that the company may be undervalued at the current price of S$1.170. Adopting a relative valuation approach, we estimate a target price of S$1.714 if the Company were to trade at the peer average P/B of 0.63x.

➢ Estimated target price = [peer average P/B] x [current reported NAV per share] = 0.63 x S$2.72 = S$1.714

Our estimated target price of S$1.714 implies a 46.5% upside to the current share price of S$1.170. This estimated target price reflects our view on the potential upside for FEO's share price in the longer term.

INVESTMENT RECOMMENDATION

Since our last company update issued on 25 September 2020, we note that FEO’s share price has fluctuated though it has broadly increased and reached S$1.180 recently. We believe the share price improvement has been in part driven by increased optimism over a potential recovery in the Group’s hospitality business amid vaccine distributions. At the same time, resilient performance in the UK PBSA market provide confidence on the Group’s PBSA business. As of late, the share price has traded between S$1.110 and S$1.180.

In terms of valuation, we note from our peer comparison analysis that FEO is currently trading at a P/B multiple of 0.43x, lower than the peer average P/B of 0.63x. We believe this could suggest FEO may be undervalued. Adopting a relative valuation approach, we estimate a target price of S$1.714 if FEO’s P/B were to adjust to the peer average of 0.63x. This current target price implies a 46.5% upside to the current share price of S$1.170.

Meanwhile, we note that the outlook for the Group’s hospitality business remains challenged in the near term against a weak international travel backdrop. Nonetheless, the hospitality sectors in Singapore and Australia are gradually recovering, and we are positive on the outlook of these markets in the longer term. Further, strong demand for higher education in the UK is expected to support the PBSA market, and we believe the Group’s focus on expanding its PBSA business will benefit future earnings.

Given the above, we will maintain a buy recommendation on the Company. However, there are risks to our current target price which we will highlight in the Risk section on the next page.

RISKS TO THE UPSIDE IN TARGET PRICE

Below, we highlight the risk factors that could limit the upside in our current target price

Risk of currency fluctuations

As noted on page 3, the Group recorded currency exchange gains of S$11.6 million in FY2020 as compared to losses of S$1.9 million during FY2019. The gains mainly came from monetary assets and liabilities denominated in Australian Dollar (AUD) due to the strengthening of AUD against SGD.

Since March 2020, the AUD/SGD currency exchange pair has risen, and it exceeded 1.00 in late 2020. It has continued to increase in 2021 and is currently fluctuating between 1.02 to 1.03. Still, there are risks involved due to volatility in the currency markets. The SGD could potentially strengthen on stronger capital inflows given its status as an investment safe-haven. This could result in currency losses and have a negative impact on FEO’s earnings.

Weak international travel due to prolonged virus-related health concerns

As highlighted in our investment recommendation, we expect FEO’s hospitality business to remain challenged in the near term against a weak international travel backdrop. Risk factors such as potential virus resurgence, discovery of new COVID-19 variants and delayed vaccine distribution continue to cloud the outlook for travel. Currently, virus-related health concerns remain elevated as parts of the world like Europe, India and Japan continue to grapple with new waves of COVID-19, forcing the need for renewed lockdowns. As a result, border controls have largely remained in place and international travel confidence remains relatively weak.

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