25 September 2020

REAL ESTATE EQUITY RESEARCH

Far East Orchard Limited

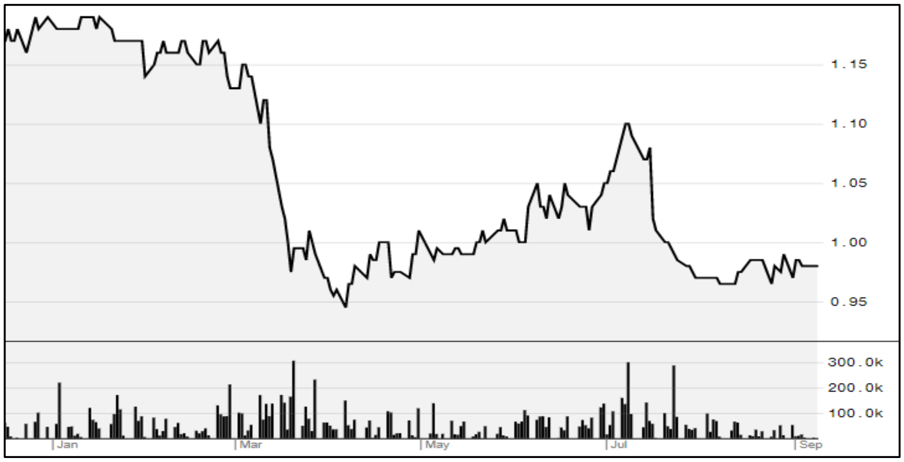
SGX: O10
Bloomberg: FEOR:SP
ISIN Code: SG2P56002559

RECOMMENDATION:

Current Share Price (as of 25 Sep 20): S$0.980
Current Target Price: S$1.485

Market Capitalisation: S$466.37 million
Issued Shares: 455.48 million (as of 4 Sep 20)
52 Week Range: S$0.900 - S$1.200

PRICE PERFORMANCE



Source: Bloomberg

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 and medical suites.

SUMMARY

Owing to the impact of COVID-19, the Group (comprising FEO and its subsidiaries) reported lower revenue of S$64.9 million in 1H2020, compared with S$75.3 million in 1H2019. This was largely due to weaker performance by the Group's hospitality business, which had been adversely impacted by the COVID-19 pandemic. Gross profit decreased by 19.0% year-on-year (y-o-y) to S$26.2 million, mainly due to lower contribution by the Group's hospitality business. At the same time, lower total expenses of S$27.5 million were reported for 1H2020 compared to S$29.0 million a year ago, primarily due to lower distribution & marketing expenses. After accounting for S$27.5 million in total expenses, along with S$5.6 million in other income, other losses of S$3.2 million, S$7.0 million in losses from joint ventures, S$1.0 million in share of profit from associated companies, and S$1.1 million in income tax expense, the Group reported an after-tax loss of S$6.0 million for 1H2020. This comprised a S$0.9 million loss attributable to equity holders and a S$5.1 million loss in relation to non-controlling interest. Given a S$0.9 million loss attributable to equity holders, the Group reported a loss per share of 0.19 cents. While no half-yearly dividends were reported, a final dividend of 6.0 cents per share in respect to financial year 2019 was recently paid on 4 September 2020.

RECOMMENDATION

Since our initiation report issued on 4 March 2020, FEO's share price has declined sharply and reached a low closing price of S$0.945 on 6 April 2020, reflecting concerns over the impact of COVID-19. Nonetheless, we recently note that the share price has recovered to a range of S$0.980 to S$0.985. Meanwhile, in terms of valuation, we adopt a relative valuation approach to estimate a target price of S$1.485 if FEO's P/B were to adjust to the peer average of 0.54x. Our current target price of S$1.485 implies a 51.5% upside to the current share price of S$0.980. While zero dividends is expected for 2020, we anticipate dividends of 3.0 cents per share to be issued for 2021. Meanwhile, we note that the hospitality sectors in Singapore and Australia are gradually recovering and we are positive on the outlook for these markets. Further, resilient demand for higher education in the UK is expected to support the demand in the PBSA market as the COVID-19 health concerns gradually subside. We are of the view that these developments would help to underpin the Group's financial performance going forward. Given the above consideration, we have upgraded our recommendation from "neutral" to "buy". Our current recommendation reflects our view on the potential upside for FEO's share price in the medium term.

KEY FINANCIALS

Full year, ended Dec 31	Revenue (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/B (x)
2018 actual	150.9	7.64	12.8	6.0	6.1%	2.89	0.34
2019 actual	156.1	5.95	16.5	6.0	6.1%	2.85	0.34
2020 forecast*	118.9	(0.68)	n/m	-	-	2.75	0.36
2021 forecast	159.5	2.63	37.3	3.0	3.1%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.980
n/m: not meaningful
**NAV per share as at 30 June 2020*
Source: FEO, FPA Financial

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FINANCIAL REVIEW FOR 1H2020

Financial performance

Owing to the impact of COVID-19, the Group (comprising FEO and its subsidiaries) reported lower revenue of S$64.9 million in 1H2020, compared with S$75.3 million in 1H2019. This was largely due to a decrease in hotel occupancy, which had been adversely impacted by the COVID-19 pandemic. However, the decline in occupancy was partially offset by demand for isolation accommodation facilities in Singapore and Australia, and demand from companies for accommodation for their foreign workers in Singapore. In addition, higher revenue from the Group's student accommodation properties in the United Kingdom (UK) had helped to offset the decrease in revenue. Meanwhile, gross profit decreased by 19.0% year-on-year (y-o-y) to S$26.2 million, mainly due to lower contribution by the Group's hospitality business. This was partially offset by higher contribution from the Group's student accommodation business in the UK. Other income increased to S$5.6 million from S$2.4 million a year ago, mainly due to various COVID-19 related subsidies received, including property tax rebates and rental relief from landlords, and wage subsidies from the governments in Singapore and Australia.

During the period, higher other losses of S$3.2 million were reported due to revaluation losses of S$2.7 million on property, plant and equipment in Australia and Malaysia, and S$4.0 million in impairment on goodwill arising from the Group's hospitality property ownership business in Australia. These were partially offset by currency translation gains of $3.5 million due to the strengthening of the AUD against SGD. Further, lower total expenses of S$27.5 million were reported for 1H2020 compared to S$29.0 million a year ago. This was primarily due to lower distribution & marketing expenses, which had been partially offset by higher operating expenses with the addition of five purpose-built student accommodation (PBSA) assets acquired in 2019 and higher finance expenses in relation to the higher borrowings that were drawn down to finance the acquisition.

Meanwhile, the Group recorded a share of loss of joint ventures S$7.0 million in 1H2020, mainly due to share of losses from the hospitality joint ventures in Australia and Europe. At the same time, the Group recognized losses from its joint venture in Japan due to pre-opening expenses incurred for hotel development (this is further discussed on page 9). These were partially offset by share of profit from the sale of commercial units at Woods Square. Lower share of profit of associated companies of $1.0 million were recognized due to lower management fees chargeable to Far East Hospitality Real Estate Investment Trust.

Consequently, the Group reported an after-tax loss of S$6.0 million for 1H2020, comprising a S$0.9 million loss attributable to equity holders and a S$5.1 million loss in relation to non-controlling interest. Given the S$0.9 million loss attributable to equity holders, the Group reported a loss per share of 0.19 cents, based on a weighted average number of issued ordinary shares of 438.36 million. While no half-yearly dividends were reported, a final dividend of 6.0 cents per share in respect to financial year 2019 was recently paid on 4 September 2020. The Group's financial results for 1H2020 are summarised in **Exhibit 1**.

Exhibit 1: Financial results for 1H2020

Financial indicator	1H2020 S$ million	1H2019 S$ million	y-o-y change
Revenue	64.9	75.3	(13.7%)
Gross profit	26.2	32.4	(19.0%)
Total (loss)/profit after tax	(6.0)	5.3	n/m
Total (loss)/profit after tax attributable to equity holders	(0.9)	5.8	n/m
EPS (cents)	(0.19)	1.33	n/m
DPS (cents)	-	-	-

Figures have been rounded
n/m: not meaningful
Source: FEO, FPA Financial

Capital management

As at 30 June 2020, the Group reported total assets of S$2,481.6 million, a decrease of S$49.3 million from S$2,530.8 million as at the end of 2019. This was largely contributed by a S$14.3 million decrease in the value of investment properties due to the weakening of the British Pound against SGD, a S$15.8 million decrease in property, plant & equipment mainly from revaluation losses, and a S$20.6 million decrease in other non-current assets due to repayment of non-current advances from a joint venture. These declines were partially offset by an increase in investments in joint ventures to S$451.1 million, mainly from a S$23.4 million investment amount upon completion of the Japan hotel development in Tokyo.

At the same time, total liabilities amounted to S$1,262.2 million as at 30 June 2020, compared with S$1,259.5 million as at the end of 2019. The increase was mainly due to the recognition of S$26.3 million in dividend payables relating to 2019, which were partially offset by payments of operating expenses and lease liabilities.

Thus, a resulting net asset value of S$1,219.4 million was reported. This comprised S$1,205.4 million in net assets attributable to equity holders and S$14.0 million in net assets attributable to non-controlling interest. Given S$1,205.4 million in net assets attributable to equity holders, the net asset value (NAV) per share was S$2.75, based on 438.36 million issued shares. The balance sheet data are as summarized in **Exhibit 2**.

Exhibit 2: Group's balance sheet

	As at 30 Jun 2020	As at 31 Dec 2019
	S$ million	S$ million
Total assets	2,481.6	2,530.8
Total liabilities	1,262.2	1,259.5
Net assets	1,219.4	1,271.3
Net assets attributable to equity holders	1,205.4	1,249.1
No. of issued shares	438.36	438.36
NAV per share (S$)	2.75	2.85
Total debt	563.1	561.6
Gearing ratio*	0.46	0.44

Figures have been rounded

**Refers to total debt over total equity*

Source: FEO, FPA Financial

We note that the Group's total debt has increased by S$1.5 million to S$563.1 million from S$561.6 million over the half-year period. As a result, the Group's gearing stood at 0.46 time, higher compared to 0.44 time as at the end of 2019.

BUSINESS PERFORMANCE

The global tourism & travel industry has been one of the hardest hit sectors due to the impact of the COVID-19 pandemic. The resulting negative implications on demand for accommodation in the hospitality industry has severely impacted the Group's business performance - particularly the performance of its hospitality business. We note that the Group's hospitality business in its major revenue-generating markets of Singapore and Australia experienced double-digit y-o-y declines in revenue per available room (RevPAR) in the first quarter of 2020, as shown in **Exhibit 3**.

Exhibit 3: RevPAR performance for the Group's hospitality business

RevPAR	Q1 FY20	Q1 FY19	% Change
Singapore	S$88.30	S$133.20	-33.7
Australia	A$110.30	A$136.10	-19.0

Source: FEO

Based on the data above, RevPAR for both geographical segments had dropped sharply in Q1 2020. The RevPAR decline was more severe for Singapore, while Australia experienced a relatively smaller decrease. We note from FEO that the smaller extent of RevPAR decline in Australia was due to occupancy decreasing only from March onwards. We also note that demand from local companies for accommodation for their Malaysian workers due to the Malaysia's movement control order, and demand from returning Singaporeans from overseas who served their Stay-Home Notices in hotels, had helped to partially offset the decline in occupancy. However, an overall decrease in demand had lowered occupancy and room rates, which in turn resulted in a decline in RevPAR.

Meanwhile, we also note from FEO in its Q1 performance update on 8 May 2020 that the Group's PBSA business in the UK had been impacted as residents at the Group's PBSA properties were allowed early cancellation of their tenancies for the last semester of the Academic Year 19/20. FEO announced then that the early cancellations would impact the Group's revenue by £3 million. However, the Group's PBSA properties continued to receive bookings for the Academic Year 20/21.

We further note from FEO that Group's medical and office tenant at its commercial properties in Singapore were impacted as well. The Group has committed to pass down the full property tax rebate to all tenants at its commercial properties in Singapore.

INDUSTRY OUTLOOK

The Group's hospitality business is the main source of revenue generation, historically making up 80% to 90% of the Group's revenue. Given this significance, we now discuss the hotel industry outlook for Singapore and Australia, the two major markets of the Group's hospitality business. We would also discuss the outlook for the Group's PBSA business in the UK.

Australia hotel industry outlook

For Australia's hotel industry, we review the performance and outlook of the hotel markets in the cities where FEO owns properties. These cities include Adelaide, Brisbane, Darwin, Melbourne, Perth and Sydney.

According to the latest report by CBRE Research on Australia hotels, the Australian hotel market experienced an annual RevPAR decline of 20.7% in June 2020, contributed by a 18.5% decline in occupancy and 2.7% decline in average daily rate (ADR), as shown in **Exhibit 4**.

Exhibit 4: Australia's hotel industry performance for the year ending June 2020

	Occupancy		ADR		RevPAR	
City	%	y-o-y change	$	y-o-y change	$	y-o-y change
Adelaide	66.8	-15.2%	154	0.0%	103	-15.1%
Brisbane	59.2	-16.1%	153	-1.8%	91	-17.6%
Darwin	44.9	-23.4%	139	-6.2%	63	-28.2%
Melbourne	65.7	-18.9%	180	-3.3%	118	-21.5%
Perth	61.7	-14.3%	161	-2.4%	99	-16.3%
Sydney	65.4	-21.7%	212	-4.8%	139	-25.4%
National	60.2	-18.5%	181	-2.7%	109	-20.7%

Source: CBRE Research

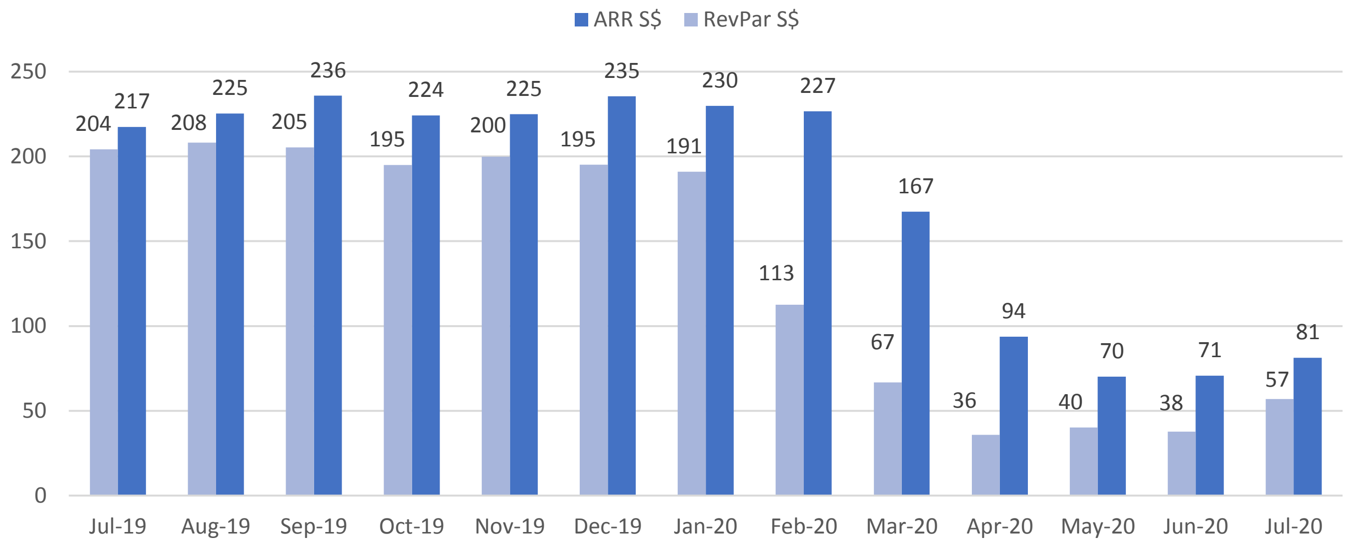
Based on the above data, we note that all the cities in focus experienced double-digit annual RevPAR declines for the year ending June 2020, largely contributed by a drop in occupancy level. In particular, more severe RevPAR declines were experienced in Darwin (-28.2%) and Sydney (-25.4%), which were steeper than the national RevPAR decline of 20.7%. Adelaide, as well as Brisbane and Perth where FEO has greater presence, experienced milder RevPAR declines.

On the outlook, we note from CBRE Research that there is existing pent-up demand for travel in Australia, given increasing travel mobility and an uptick in interest for hotel bookings after the easing of initial restrictions. CBRE Research expects confidence in travel to return gradually over the medium term as domestic conditions start to improve across the country.

Singapore hotel industry outlook

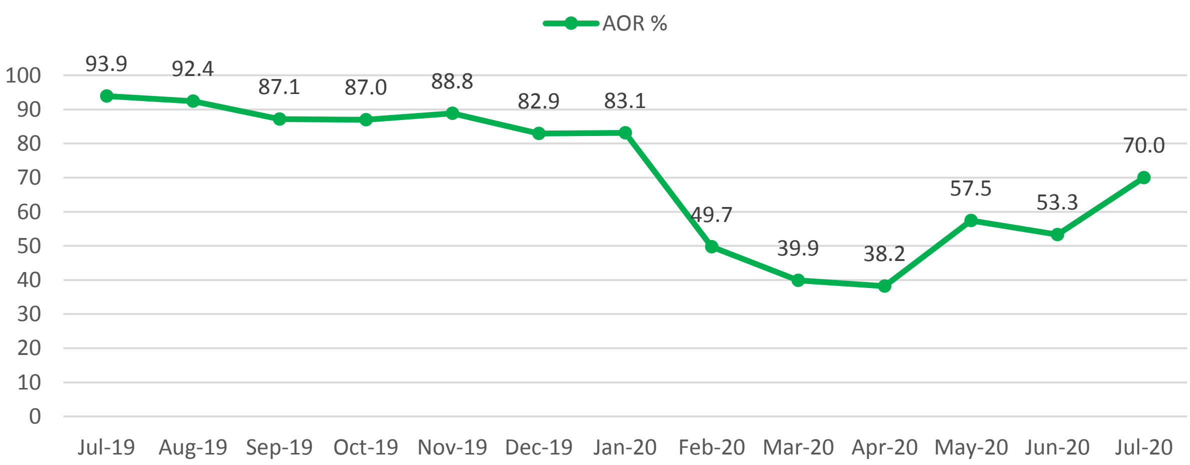
According to latest gazette hotel statistics by the Singapore Tourism Board (STB), RevPAR for Singapore's hotel market fell by 72.1% y-o-y in July 2020 to S$57, contributed by a 62.6% y-o-y decrease in average room rate (ARR) to S$81 and 23.9 percentage point decrease in average occupancy rate (AOR) to 70.0% from 93.9%, as shown in **Exhibit 5** and **Exhibit 6**.

Exhibit 5: Monthly trend of ARR and RevPAR



Source: STB

Exhibit 6: Monthly trend of AOR



Source: STB

Based on the data above, we note that the AOR, ARR and RevPAR have broadly showed signs of improvement since April when the Circuit Breaker measures were first implemented. With the easing of the Circuit Breaker measures from early June, hotels have gradually reopened and we note from the Straits Times that there has been a staycation boom in Singapore which has supported demand for hotel accommodation. Further, with the Singapore government's effort to revive the tourism sector through the launch of the SingapoRediscovers initiative and issuance of S$320 million in tourism vouchers, we envisage stronger domestic demand for hotel stays going forward. The main concern, however, will be that international demand is likely to remain stifled, given that travel restrictions are expected to remain for the rest of 2020. According to latest STB data, Singapore's international visitor arrivals (IVA) rose in July 2020 to 6,842 from 2,171 in June 2020. Still, arrivals in July 2020 were down by 99.6% from 1.8 million a year ago. While the launch of Reciprocal Green Lanes (RGL) would facilitate for some essential business and official travel, leisure travel is unlikely to recover for some time until a successful COVID-19 vaccine is developed.

UK PBSA market outlook

We note from CBRE that demand for the PBSA in the UK remains resilient as applicant data by the Universities and Colleges Admissions Service (UCAS) in the UK showed that total applicants have risen by 2% y-o-y in June 2020. Demand from international students remained strong as applications rose by 10% y-o-y in 2020, with applications from China, India and Hong Kong up 24%, 23% and 14% respectively. At the same time, we note from CBRE that headline rents at the portfolio level have reportedly increased by 3% y-o-y in August 2020. Overall, CBRE noted that the PBSA sector has demonstrated its resilience throughout the current period of uncertainty and will continue to be supported by strong underlying fundamentals.

PROPERTY DEVELOPMENT & JOINT VENTURE UPDATE

In our initiation report issued on 4 March 2020, we discussed FEO's joint venture in Japan, the construction of The Clan Hotel, and the Group's property development projects such as Woods Square and Westminster Fire Station. We provide an update of their developments as below

Update on the Japan joint venture

We previously noted that FEO announced on 28 May 2019 that Far East Hospitality Holdings Pte Ltd (Far East Hospitality), its 70% owned hospitality arm, entered into a joint venture with Boo Han Holdings Pte Ltd (a member of Far East Organisation), involving a conditional purchase and sale agreement with Shimizu Corporation for the joint purchase of a plot of land and hotel to be constructed thereon in Japan. The 306-room hotel, named Far East Village Hotel Ariake, is located in Ariake, Tokyo, and was initially scheduled for completion in the second quarter of 2020, ahead of the 2020 Tokyo Olympics.

On 28 April 2020, FEO announced that the conditional purchase & sale agreement was completed on the same day and that the hotel would be expected for completion in July 2020. We note that the hotel officially opened for business on 1 July 2020.

Update on The Clan Hotel

We previously noted that The Clan Hotel, the latest brand to be added to Far East Hospitality's portfolio, would be scheduled for opening in the second quarter of 2020. The 324-room hotel, located at Cross Street in the Telok Ayer neighbourhood, would be managed by Far East Hospitality's wholly-owned subsidiary, Far East Hospitality Management (S) Pte Ltd. However, we recently note from Far East Hospitality's official website that the hotel will be available for booking from 1 May 2021.

Update on the Woods Square development

We previously noted that FEO partnered with Far East Organisation and Sekisui House to jointly develop Woods Square, a 99-year leasehold integrated office development project situated at Woodlands Regional Centre. Tower 1 of the development offers office units for sale, while office units at Tower 2 and retail units are available for leasing. The project achieved its Temporary Occupation Permit (TOP) on 5 February 2020. At the same time, we also noted that 57% of the 208 units launched for sale were sold as of 30 June 2019. We further noted that Far East Management (Private) Limited, a member of Far East Organization, had on 23 August 2019 purchased 3 property units located at Tower 2 of the development.

On 26 June 2020, FEO announced that 62% of the 208 units launched for sale at Woods Square were sold and S$4.3 million in share of profit from the development project has been recognised as at 31 March 2020.

Update on the Westminster Fire Station development

We previously noted that FEO had in 2016 expanded its property development portfolio into the UK, working with London-based Alchemi Group to redevelop the former Westminster Fire Station, located at 4 Greycoat Place in London, into a mixed-use development comprising 17 residential apartments and a restaurant.

On 26 June 2020, FEO announced that the development of Westminster Fire Station is ongoing and expected for completion in 2021. We note that FEO would be closely monitoring the pandemic and political situation before considering a sale launch. The company said it would consider delaying the launch of Westminster Fire Station until confidence in the market returns.

SHARE PRICE PERFORMANCE REVIEW

Since our initiation report issued on 4 March 2020, FEO's share price has dropped sharply due to concerns over the impact of COVID-19 on the Group's financial performance. Owing to the COVID-19 pandemic, hotel markets in Australia and Singapore were severely impacted, which have heightened concerns over the performance of the Group's hospitality business. This is especially so given that the Group's hospitality business is the main source of revenue generation, historically making up about 80% to 90% of total revenue (2018: 88.7%; 2019: 81.7%), as shown in **Exhibit 7** below.

Exhibit 7: Revenue breakdown in terms of business segment

	Revenue			
	2019		2018	
Business segment	S$' 000	% of revenue	S$' 000	% of revenue
Hospitality	127,515	81.7%	133,910	88.7%
Property development	-	-	241	0.2%
Property investment	28,548	18.3%	16,760	11.1%
	156,063	100.0%	150,911	100.0%

Source: FEO, FPA Financial

We note that the share price reached a low closing price of S$0.945 on 6 April 2020 but began to recover and reached a high of S$1.100 on 7 July 2020. In mid-July, however, the share price went back into a decline in part due to a resurgence of COVID-19 cases in Australia, as well as uncertainty over the recovery trajectory of the hospitality and tourism sectors in the Group's geographical markets. Recently, we note that the share price has rebounded to a range of S$0.980 to S$0.985.

FINANCIAL PROJECTION REVISION

In this section, we provide updated financial projections for the Group's revenue, earnings and dividends.

Revenue projection for 2020 and 2021

The Group's business can be categorized into the geographical segments of Australia, Singapore, UK, New Zealand and other countries (Denmark, Malaysia and Germany). We note that Australia, Singapore and the UK segments are the main source of revenue generation for the Group's business, as shown in the revenue breakdown for 2018 and 2019 in **Exhibit 8**.

Exhibit 8: Revenue breakdown in terms of geographical segment

	Revenue			
	2019		2018	
Geographical segment	S$ million	% of total	S$ million	% of total
Singapore	72.4	46.4%	70.8	46.9%
Australia	51.8	33.2%	58.2	38.6%
New Zealand	8.2	5.3%	8.8	5.8%
United Kingdom	19.1	12.2%	7.4	4.9%
Other countries	4.6	2.9%	5.7	3.8%
Total	156.1	100.0%	150.9	100.0%

Source: FEO, FPA Financial

Revenue projection for the Group's hospitality business in Australia

In our projection of total revenue generated by the Group's hospitality business in Australia, we would adopt an estimated change in total portfolio RevPAR for the Group's owned hospitality properties in Australia in 2020 and 2021 as a proxy for the change in the revenue generated by the hospitality business in Australia for the respective periods. While we do note that the Group owns and manages hospitality properties in Australia, we would focus on the Group's owned hospitality properties, given that these properties generate the bulk of revenue for the business. The portfolio RevPAR change for the Group's owned hospitality properties will be estimated based on the expected RevPAR change in the individual Australian cities and the room weightings for each city.

As noted on page 5, RevPAR for the Australia segment fell by 19% y-o-y in Q1 2020. While we do not have the actual performance for Q2 2020, the RevPAR decline will be more severe as the full impact of the COVID-19 pandemic was felt in the period. Nonetheless, overall hotel performance in 2H2020 is likely to improve, given that the virus situation has broadly stabilised in the country. In addition, we note from CBRE that there is a growing popularity in city getaways in Australia which has resulted in weekend spikes in hotel demand. According to CBRE, Brisbane and Perth have emerged as better performers, while room demand for Melbourne has been impacted due to the reintroduction of lockdown restrictions. The recovery in 2H2020 is likely to partially offset the severe impact on RevPAR in 1H2020. Against this backdrop, we would expect RevPAR across the individual cities to decline generally by 20% y-o-y in 2020. For Melbourne, however, we would expect a larger y-o-y decline of 25% to account for the impact of the resurgence of virus cases. At the same time, we would assume a 15% y-o-y decline for Brisbane and Perth in view of a relatively stronger recovery in 2H2020 compared to other cities. For 2021, are hopeful that a potential vaccine could come in 2H2021, which would facilitate for broad-based resumption of international travel, especially for leisure purposes. Hotel performance is thus likely to pick up as hotel occupancy levels recover. Overall, we are inclined to be positive on the outlook for Australia's hotel market. Thus, we would assume a 15% growth in RevPAR across all the cities in 2021.

Based on the above estimated change in RevPAR and the individual room weighting for the individual Australian cities, we then project a weighted portfolio RevPAR change of -19% and 15% for the Group's owned hospitality properties in 2020 and 2021 respectively, as shown in **Exhibit 9**.

Exhibit 9: Weighted portfolio RevPAR change for the Group's owned hospitality properties in Australia

City	No. of rooms	% of total	City weighting	Forecasted RevPAR change		Weighted RevPAR change	
				2020	2021	2020	2021
Adelaide	79	5.5%	5.5%	-20.0%	15.0%	-19%	15%
Brisbane	221	15.5%	15.5%	-15.0%	15.0%		
Darwin	224	15.7%	15.7%	-20.0%	15.0%		
Melbourne	340	23.8%	23.8%	-25.0%	15.0%		
Perth	452	31.6%	31.6%	-15.0%	15.0%		
Sydney	114	8.0%	8.0%	-20.0%	15.0%		
Total	1,430	100.0%					

Source: FEO, FPA Financial

Given the above, we then adopt the weighted RevPAR change in 2020 and 2021 as a proxy for the change in revenue generated for each period. Based on this approach, the projected revenue generated for the Group's hospitality business in Australia would be S$42.0 and S$48.3 million for 2020 and 2021 respectively, as shown in **Exhibit 10**.

Exhibit 10: Projected revenue for the Group's hospitality business Australia

Period	Revenue	
	S$ million	y-o-y change
2019 actual	51.8	-11.0%
2020 forecast	42.0	-19.0%
2021 forecast	48.3	15.0%

Source: FEO, FPA Financial

As noted on page 11, revenue generated by the Group's hospitality business in Australia made up about 33.2% of total revenue in 2019. Assuming this proportion for 1H2020, we would then derive revenue S$21.5 million = [33.2% x actual total revenue of S$64.9 million for 1H2020 as noted on page 3] that would have been generated for Australia in the period. Consequently, the estimated revenue generated for Australia in 2H2020 would then be S$20.5 million = [S$42.0 million projected revenue for 2020 – S$21.5 million revenue in 1H2020]. The revenue breakdown for the Group's hospitality business in Australia for 2020 is summarized in **Exhibit 11**.

Exhibit 11: Revenue breakdown for the Group's hospitality business in Australia for 2020

Period	Projected total revenue
	2020
1H*	21.5
2H forecast	20.5
Full year forecast	42.0

**Estimated based on actual Group total revenue for 1H2020*

Source: FPA Financial

Revenue projection for the Group's hospitality business in Singapore

The Group's hospitality business in Singapore involves the operation and management of hotels and serviced residences through its hospitality arm, Far East Hospitality. Revenue derived from the management of the hospitality properties would be based on the collection of hospitality management fees that includes 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 projection, we would assume that a base fee component is charged. We note from Jones Lang LaSalle (JLL) that base fees for the South East Asia region were typically charged in a range of 2% to 2.9% in 2018. In our projection, we would assume, as a proxy, the mid-point of the range at about 2.5%.

Given the above, we now estimate the revenue generated by the Group's managed hospitality properties in Singapore. To do so, we would estimate room rate and occupancy to derive a projected RevPAR for the individual hospitality properties. At the same time, we note that the Group also leases and manages 3 properties - *Orchard Rendezvous Hotel*, *Village Hotel Albert Court* and *Village Residence Clarke Quay*. The estimated room rates (as represented by the average figures) for the Group's managed hospitality properties (including the 3 leased properties) in Singapore in respect to 2H2020 and 2021 are summarized in **Exhibit 12 and 13** respectively.

Exhibit 12: Room rates for the Group's managed hospitality properties in Singapore – 2H2020

Name of property	Room rate (S$)			
	30 Oct 20 - 31 Oct 20	29 Nov 20 - 30 Nov 20	23 Dec 20 - 24 Dec 20	Average
Managed:				
Village Hotel Changi	n/a	n/a	n/a	n/a
Village Hotel Bugis	204	185	150	180
Oasia Hotel Novena	n/a	n/a	n/a	n/a
The Quincy Hotel	n/a	n/a	n/a	n/a
Rendezvous Hotel Singapore	n/a	n/a	n/a	n/a
Oasia Hotel Downtown	221	230	230	227
Village Hotel Sentosa	n/a	n/a	n/a	n/a
Village Hotel Katong	n/a	n/a	n/a	n/a
AMOY	196	196	196	196
The Barracks Hotel Sentosa	n/a	740	870	805
The Clan Hotel	n/a	n/a	n/a	n/a
The Outpost Hotel Sentosa	n/a	n/a	n/a	n/a
The Elizabeth Hotel	n/a	n/a	n/a	n/a
Oasia Residence Singapore (1)	272	255	258	262
Orchard Scotts Residences (1)	328	293	341	321
Orchard Parksuites (1)	312	270	325	302
Regency House (1)	304	263	318	295
Village Residence Hougang (1)	304	285	285	291
Village Residence Robertson Quay (1)	296	255	310	287
Village Residence West Coast	n/a	n/a	n/a	n/a
Far East Plaza Residences (2)	n/a	n/a	n/a	262
Leased & managed:				
Orchard Rendezvous Hotel	191	196	260	216
Village Hotel Albert Court	n/a	n/a	n/a	n/a
Village Residence Clarke Quay (1)	280	244	294	273

Lowest priced non-member room rates for a 1-night stay for 1 adult. Excluding taxes and fees. Data extracted on 25 Sep 20.

(1) Per night room rates for a minimum 6-night stay for 1 adult. For instance, period for month of Oct 20 would consider 25 Oct to 31 Oct

(2) Average rate represents per night room rate for 1 adult in the period from 30 Oct 20 to 30 Jan 21. This property requires a minimum 3-month stay.

Source: Far East Hospitality website

Exhibit 13: Room rates for the Group's managed hospitality properties in Singapore – 2021

Name of property	Room rate (S$) For month ended Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Average
Managed:									
Village Hotel Changi	131	131	144	144	131	144	144	156	141
Village Hotel Bugis	150	150	162	162	150	162	162	162	158
Oasia Hotel Novena	180	180	200	200	188	200	200	200	194
The Quincy Hotel	224	224	248	248	224	248	n/a	n/a	236
Rendezvous Hotel Singapore	176	176	192	192	176	192	220	240	196
Oasia Hotel Downtown	204	221	255	230	204	251	221	221	226
Village Hotel Sentosa	289	289	238	238	404	404	323	289	309
Village Hotel Katong	160	160	172	172	160	172	172	185	169
AMOY	196	196	214	214	196	214	196	214	205
The Barracks Hotel Sentosa	570	570	519	519	553	519	553	570	547
The Clan Hotel	n/a	n/a	n/a	n/a	281	332	281	306	300
The Outpost Hotel Sentosa	315	315	281	281	n/a	n/a	349	315	309
The Elizabeth Hotel	147	161	161	161	161	161	180	180	164
Oasia Residence Singapore (1)	278	278	278	n/a	n/a	n/a	n/a	n/a	278
Orchard Scotts Residences (1)	308	308	308	n/a	n/a	n/a	n/a	n/a	308
Orchard Parksuites (1)	293	293	293	n/a	n/a	n/a	n/a	n/a	293
Regency House (1)	285	285	285	n/a	n/a	n/a	n/a	n/a	285
Village Residence Hougang (1)	285	285	285	n/a	n/a	n/a	n/a	n/a	285
Village Residence Robertson Quay (1)	278	278	278	n/a	n/a	n/a	n/a	n/a	278
Village Residence West Coast	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Far East Plaza Residences	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Leased & managed:									
Orchard Rendezvous Hotel	196	196	212	212	196	212	245	265	217
Village Hotel Albert Court	150	150	162	162	150	162	162	150	156
Village Residence Clarke Quay (1)	263	263	263	n/a	n/a	n/a	n/a	n/a	263

Lowest priced non-member room rates for a 1-night stay for 1 adult. Excluding taxes and fees. Data extracted on 25 Sep 20.

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

Source: Far East Hospitality website

We now consider the estimated occupancy level of the above managed hospitality properties. We first note from latest STB data, as shown in **Exhibit 14**, that occupancy levels across all hotel categories in Singapore have generally improved compared to March and April figures.

Exhibit 14: Monthly trend of AOR based on hotel category

Month	Standard Average Occupancy Rate Luxury %	Upscale %	Mid-Tier %	Economy %
Jul-20	48.4	42.7	94.6	69.5
Jun-20	31.9	55.0	54.6	60.4
May-20	27.6	60.6	66.7	60.1
Apr-20	15.8	27.6	48.8	44.6
Mar-20	39.0	25.8	42.5	48.0
Feb-20	53.5	43.4	51.4	50.3
Jan-20	84.5	83.3	84.2	80.8

Source: STB

For mid-tier and upscale categories which the Group's managed hospitality properties are in, we note that the average occupancy over 1H2020 was about 58% and 49% respectively. For 2H2020, we envisage an improvement in hotel performance in Singapore on the back of stronger domestic demand for hotel accommodation, which will be supported by the Singapore government's SingapoRediscovers initiative. Given the expected recovery for the Singapore hotel market, we would therefore assume that occupancy for the Group's managed hospitality properties in the mid-tier category to increase to 63% in 2H2020 and that for those in the upscale category to increase to 54% (we would assume hotel occupancy as a proxy for serviced residences). We would also expect a further improvement in hotel performance in 2021 due to the resumption in international travel once a successful vaccine is available. Currently, we note that Singapore Airlines has increased the frequency of selected services in their passenger network in September, October and November 2020, and has reinstated flights to Johannesburg, Phnom Penh, Surabaya and Taipei. While there are still restrictions on inbound arrivals into Singapore currently, our overall view is that the COVID-19 situation should stabilize in 2H2021. Given these consideration, we would assume occupancy for the Group's managed hospitality properties in the mid-tier and upscale segment to further increase to 70% and 60% respectively in 2021.

Given the above estimated room rates and occupancy for the managed hospitality properties for 2H2020 and 2021, we then estimate a RevPAR for the individual hospitality properties in 2H2020 and 2021, as shown in **Exhibit 15.**

Exhibit 15: Projected RevPAR for the Group's managed hospitality properties in Singapore

Name of property	Segment	Room rate (S$)		Occupancy (%)		RevPAR (S$)	
		2H2020	2021	2H2020	2021	2H2020	2021
Managed							
Village Hotel Changi	Mid-tier	n/a	141	63%	70%	n/a	98
Village Hotel Bugis	Mid-tier	180	158	63%	70%	113	110
Oasia Hotel Novena	Mid-tier/Upscale*	n/a	194	59%	65%	n/a	126
The Quincy Hotel	Upscale	n/a	236	54%	60%	n/a	142
Rendezvous Hotel Singapore	Upscale	n/a	196	54%	60%	n/a	117
Oasia Hotel Downtown	Upscale	227	226	54%	60%	123	136
Village Hotel Sentosa	Mid-tier	n/a	309	63%	70%	n/a	216
Village Hotel Katong	Mid-tier	n/a	169	63%	70%	n/a	118
AMOY	Mid-tier	196	205	63%	70%	123	144
The Barracks Hotel Sentosa	Mid-tier	805	547	63%	70%	507	383
The Clan Hotel	Mid-tier	n/a	300	63%	70%	n/a	210
The Outpost Hotel Sentosa	Mid-tier	n/a	309	63%	70%	n/a	217
The Elizabeth Hotel	Mid-tier	n/a	164	63%	70%	n/a	115
Oasia Residence Singapore	Upscale	262	278	54%	60%	141	167
Orchard Scotts Residences	Upscale	321	308	54%	60%	173	185
Orchard Parksuites	Upscale	302	293	54%	60%	163	176
Regency House	Upscale	295	285	54%	60%	159	171
Village Residence Hougang	Mid-tier	291	285	63%	70%	184	200
Village Residence Robertson Quay	Mid-tier	287	278	63%	70%	181	195
Village Residence West Coast	Mid-tier	n/a	n/a	63%	70%	n/a	n/a
Far East Plaza Residences	Upscale	262	n/a	54%	60%	141	n/a
Leased & managed							
Orchard Rendezvous Hotel	Mid-tier/Upscale*	216	217	59%	65%	127	141
Village Hotel Albert Court	Mid-tier	n/a	156	63%	70%	n/a	109
Village Residence Clarke Quay	Mid-tier	273	263	63%	70%	172	184

**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 each property for 2H2020 and 2021. The operational duration for the hospitality properties would be determined by the availability of room rates, and in turn RevPAR. Properties with available RevPAR for 2H2020 are assumed to be operational for the whole of 2H2020, which would amount to 184 days (unless otherwise specified). In contrast, we would assume no operations for properties with unavailable RevPAR in 2H2020, and thus no room revenue would be generated. For 2021, we would assume all properties with available RevPAR to be fully operational for the whole year, even if room rates were not specified in **Exhibit 13** on page 14. The projected room revenue for the individual hospitality properties for 2H2020 and 2021 are summarized in **Exhibit 16**.

Exhibit 16: Projected room revenue for the Group's managed hospitality properties in Singapore

Name of property	No. of rooms	RevPAR (S$)		No. of days		Room revenue (S$ million)	
		2H2020	2021	2H2020 (1)	2021 (2)	2H2020	2021
Managed							
Village Hotel Changi	380	n/a	98	-	365	-	13.7
Village Hotel Bugis	393	113	110	184	365	8.2	15.8
Oasia Hotel Novena	428	n/a	126	-	365	-	19.6
The Quincy Hotel	108	n/a	142	-	365	-	5.6
Rendezvous Hotel Singapore	298	n/a	117	-	365	-	12.8
Oasia Hotel Downtown	314	123	136	184	365	7.1	15.5
Village Hotel Sentosa	606	n/a	216	-	365	-	47.9
Village Hotel Katong	229	n/a	118	-	365	-	9.9
AMOY	37	123	144	184	365	0.8	1.9
The Barracks Hotel Sentosa	40	507	383	184	365	3.7	5.6
The Clan Hotel (3)	324	n/a	210	-	245	-	16.7
The Outpost Hotel Sentosa	193	n/a	217	-	365	-	15.3
The Elizabeth Hotel	256	n/a	115	-	365	-	10.7
Oasia Residence Singapore	140	141	167	184	365	3.6	8.5
Orchard Scotts Residences	204	173	185	184	365	6.5	13.8
Orchard Parksuites	223	163	176	184	365	6.7	14.3
Regency House	90	159	171	184	365	2.6	5.6
Village Residence Hougang	78	184	200	184	365	2.6	5.7
Village Residence Robertson Quay	72	181	195	184	365	2.4	5.1
Village Residence West Coast	51	n/a	n/a	-	-	-	-
Far East Plaza Residences (4)	139	141	n/a	90	n/a	1.8	-
Leased & managed							
Orchard Rendezvous Hotel	388	127	141	184	365	9.1	20.0
Village Hotel Albert Court	210	n/a	109	-	365	-	8.4
Village Residence Clarke Quay	128	172	184	184	365	4.0	8.6

(1) Properties are assumed to be operational for whole of 2H2020 if room rates are available
(2) Properties are assumed to be operational for the whole of 2021 if room rates are available
(3) Hotel only available for booking starting in May 21
(4) Refers to 3-month period from 30 Oct 20 to 30 Jan 21
Source: FPA Financial

Based on the above results, we would 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. For 2H2020, we anticipate minimal revenue contribution from food & beverage (F&B) services and other hotel services amid the current COVID-19 environment. Thus, we would assume the estimated room revenue for the individual hospitality properties as the total revenue generated. For 2021, however, we expect that a further easing of social distancing measures to allow for dining in large groups would result in a gradual increase in customer traffic to hotel restaurants. We note from the jointly published Singapore Hotel Industry Survey 2019 by Horwath HTL and the Singapore Hotel Association that room revenue for Singapore hotels comprised 63% of total hotel revenue in 2018. ,We would assume a 70% proportioning in our projection to estimate total revenue generated by the hospitality properties in 2021, given that we do not expect revenue from F&B services to revert to pre-COVID levels. **Exhibit 17** below summarises the projected total revenue figures for 2H2020 and 2021.

Exhibit 17: Projected total revenue the Group's managed hospitality properties in Singapore

	Room revenue (S$ million)		Total revenue (S$ million)	
Name of property	**2H2020**	**2021**	**2H2020**	**2021**
Managed				
Village Hotel Changi	-	13.7	-	19.5
Village Hotel Bugis	8.2	15.8	8.2	22.6
Oasia Hotel Novena	-	19.6	-	28.1
The Quincy Hotel	-	5.6	-	8.0
Rendezvous Hotel Singapore	-	12.8	-	18.2
Oasia Hotel Downtown	7.1	15.5	7.1	22.2
Village Hotel Sentosa	-	47.9	-	68.4
Village Hotel Katong	-	9.9	-	14.1
AMOY	0.8	1.9	0.8	2.8
The Barracks Hotel Sentosa	3.7	5.6	3.7	8.0
The Clan Hotel	-	16.7	-	23.8
The Outpost Hotel Sentosa	-	15.3	-	21.8
The Elizabeth Hotel	-	10.7	-	15.3
Oasia Residence Singapore	3.6	8.5	3.6	12.2
Orchard Scotts Residences	6.5	13.8	6.5	19.7
Orchard Parksuites	6.7	14.3	6.7	20.4
Regency House	2.6	5.6	2.6	8.0
Village Residence Hougang	2.6	5.7	2.6	8.1
Village Residence Robertson Quay	2.4	5.1	2.4	7.3
Village Residence West Coast	-	-	-	-
Far East Plaza Residences	1.8	-	1.8	-
Leased & managed				
Orchard Rendezvous Hotel	9.1	20.0	9.1	28.5
Village Hotel Albert Court	-	8.4	-	12.0
Village Residence Clarke Quay	4.0	8.6	4.0	12.3

Source: FPA Financial

Given the above, we note that projected total revenue generated by the 3 leased & managed hotels in 2H2020 and 2021 would be S$13.1 million = [S$9.1 million + S$4.0 million] and S$52.8 million = [S$28.5 million + S$12.0 million +S$12.3 million] respectively.

Meanwhile, we now derive the management fee revenue derived from the Group's managed hospitality properties. As noted on page 13, we will adopt a base fee of 2.5% (out of total revenue) as the management fee to be charged for the Group's management of the hospitality properties in Singapore. **Exhibit 18** below summarises the projected management fee revenue generated for 2H2020 and 2021.

Exhibit 18: Projected management fee revenue for 2H2020 and 2021 - Singapore

Name of property	Management fee (S$'000)	
	2H2020	2021
Managed		
Village Hotel Changi	-	488
Village Hotel Bugis	205	565
Oasia Hotel Novena	-	702
The Quincy Hotel	-	199
Rendezvous Hotel Singapore	-	456
Oasia Hotel Downtown	177	555
Village Hotel Sentosa	-	1,710
Village Hotel Katong	-	353
AMOY	21	69
The Barracks Hotel Sentosa	93	200
The Clan Hotel	-	595
The Outpost Hotel Sentosa	-	545
The Elizabeth Hotel	-	383
Oasia Residence Singapore	91	304
Orchard Scotts Residences	162	491
Orchard Parksuites	167	511
Regency House	66	201
Village Residence Hougang	66	203
Village Residence Robertson Quay	60	183
Village Residence West Coast	-	-
Far East Plaza Residences	44	-
Total	**1,153**	**8,712**

Source: FPA Financial

Based on the above results, we project a total management fee revenue of S$1.2 million for 2H2020 and S$8.7 million for 2021. Taking the sum of the management fee revenue and total revenue generated by the 3 leased & managed properties in the respective periods, the projected total revenue for the Group's hospitality business in Singapore would be S$14.3 million and S$61.5 million for 2H2020 and 2021, as shown in **Exhibit 19**.

Exhibit 19: Projected total revenue for the Group's hospitality business in Singapore

	Projected revenue (S$ million)	
	2H2020	2021
Hotel revenue from leased & managed properties	13.1	52.8
Management fee revenue	1.2	8.7
Total	14.3	61.5

Source: FPA Financial

Revenue projection for the Group's property investment business in Singapore

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, and 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, SBF Center and Tanglin Shopping Centre are fully leased at the moment. Meanwhile, we also note that the medical suites at Novena Medical Center, with unit sizes starting from 1,442 square feet (sf), are asking rentals from S$10.00 per sf.

As noted on page 5, the Group's commercial properties in Singapore have been impacted by the COVID-19 pandemic. To support its medical and office tenants, the Group committed to pass down in full the property tax rebate to all of its tenants. In 2018 and 2019, the Group's property investment business in Singapore generated stable revenue of approximately S$9.4 million. Due to the challenging COVID-19 environment, we would expect some rental correction at the Group's commercial properties as landlords face pressure to retain and attract tenants. To account for this, we would assume a roughly 10% decline in rental revenue generated by the Group's commercial properties in Singapore for 2H2020. This would imply an estimated revenue of S$4.2 million = [0.9 x S$4.7 million for half year period] for 2H2020. For full-year 2021, we would assume rental revenue to revert back to 2018/2019 figures of about S$9.4 million.

Given the above projected figures for the Group's hospitality and property investment business in Singapore for 2H2020 and 2021, the overall revenue generated by the Singapore segment would be S$18.5 million in 2H2020 and S$70.9 million in 2021, as shown in **Exhibit 20**.

Exhibit 20: Projected total revenue for the Group's Singapore segment in 2H2020 and 2021

	Projected revenue (S$ million)	
Business segment	**2H2020**	**2021**
Hospitality	14.3	61.5
Property investment	4.2	9.4
Total	18.5	70.9

Source: FPA Financial

Revenue projection for the Group's PBSA business in UK

In our initiation report, we noted that FEO carried out 2 separate acquisitions in 2019 to expand its PBSA portfolio in the UK. The completion of the first acquisition on 15 March 2019 resulted in the addition of 622 beds across 3 freehold student accommodation properties - *Harbour Court*, *The Glassworks* and *St Lawrence House* - to the Group's PBSA portfolio. The second acquisition, which was completed on 8 November 2019, saw the addition of 974 beds across 2 freehold student accommodation properties - *The Foundry* and *The Elements*. Thus, a total of 1,569 beds were added to the Group's PBSA portfolio from the two acquisitions. Separately, the Group also added 195 beds to its portfolio after the completion of *Hollingbury House* in September 2019. As a whole, a total of 1,791 beds were added over the course of 2019, bringing the total bed count for the Group's PBSA portfolio to 3,260 from 1,469 as at the end of 2018.

Given the above, we now estimate the total rental revenue generated by the Group's PBSA business in the UK for 2H2020 and 2021. To do so, we will be making use of the weekly rent (based on the lowest priced room) for the individual PBSA properties and assuming that weekly rent is charged per bed (as accounted for by each student per bed). For 2H2020, we would account for approximately 14 weeks of rent, given that the Academic Year (AY) 2020/2021 for UK universities is expected to start in late September 2020. For 2021, we would account for approximately 38 weeks of rent, given that AY 2020/2021 would end in mid June 2021, while AY 2021/2022 would be starting in late September 2021. In our projection, we assume 100% occupancy across the Group's PBSA properties in 2H2020 and 2021 respectively. We would also assume that the rooms will continue to be rented during the term holidays (except for the gap period from the end of AY 2020/2021 to start of AY 2021/2022). As an illustration, the estimated rental income for *Hollingbury House* is computed as follows:

- Estimated rental income for 2H2020 = 195 beds x £221 in rent x 14 weeks = £0.6 million
- Estimated rental income for 2021 = 195 beds x £221 in rent x 38 weeks = £1.6 million

Based on our projection, the estimated revenue generated by the Group's PBSA business in 2H2020 and 2021 would be £6.5 million and £17.8 million respectively, as shown in **Exhibit 21**. This would translate to S$11.4 million and S$31.1 million for 2H2020 and 2021 respectively, based on the currency exchange rate of £1.00 = SGD1.75.

Exhibit 21: Projected revenue generated by the Group's PBSA business in 2H2020 and 2021

			Estimated rental income (£ million)	
Name of PBSA	No. of beds	Weekly rent (£) (1)	2H2020 (2)	2021 (3)
Hollingbury House	195	221	0.6	1.6
Harbour Court	133	172	0.3	0.9
St Lawrence House	166	255	0.6	1.6
The Elements	735	127	1.3	3.5
The Foundry	239	154	0.5	1.4
The Glassworks	323	132	0.6	1.6
Portland Green Student Village – Bryson Court	366	125	0.6	1.7
Portland Green Student Village – Marshall Court	196	115	0.3	0.9
Portland Green Student Village – Newton Court	295	125	0.5	1.4
Portland Green Student Village – Rosedale Court	338	128	0.6	1.6
Portland Green Student Village – Turner Court	274	139	0.5	1.5
Total	3,260	-	6.5	17.8

(1) Based on lowest priced room

(2) Based on 14 weeks to account for start of AY 2020/2021 starting in late September

(3) Based on 38 weeks to account for start of AY 2020/2021 ending in mid June and AY 2021/2022 starting in late September

Source: abodusstudents.com, university accommodation websites

Given the above, we performed a further analysis to verify our revenue estimation for the Group's PBSA business. To do so, we first derive a total weighted number of beds for 2019, based on the duration weightings for the individual segmented periods, as shown in **Exhibit 22**. Based on this approach, we estimate a weighted figure of 2,160 beds for 2019.

Exhibit 22: Weighted number of beds for 2019

	Duration		Total bed count		
Period	No. days	Weighting	No. of beds	Reason	Weighted no. of beds
1 Jan 19 to 14 Mar 19	73	20%	1,469	As at end of 2018	294
15 Mar 19 to 29 Sep 19	199	55%	2,091	First acquisition: 622 beds added on 15 Mar 19	1,140
30 Sep 19 to 8 Nov 19*	39	11%	2,286	Completion of Hollingbury House: 195 beds added on 30 Sep 19	244
8 Nov 19 to 31 Dec 19	54	15%	3,260	Second acquisition: 974 beds added on 8 Nov 19	482
Total	365	100%	-	-	2,160

**Assuming completion of Hollingbury House on 30 Sep 19*

Source: FEO, FPA Financial

Based on the above, we then estimate a potential revenue for 2H2020 and 2021 based on 2019, given that 3,260 beds are available. Given that S$19.1 million revenue had been generated by the Group's PBSA business in the UK in 2019, projected revenue for 2H2020 and 2021 are as follows:

- Projected revenue for 2H2020 = [(3,260/2,160) x S$19.1 million]/2 = S$14.4 million
- Projected revenue for 2021 = [3,260/2,160] x S$19.1 million = S$28.8 million

Based on the above, we first note that the projected revenue for 2H2020 of S$14.4 million would be unlikely, given that the rental rates for the PBSA properties are likely to be lower for 2H2020 compared to 2019. We would thus assume revenue generated for 2H2020 to be S$11.4 million as earlier estimated. For 2021, we note that the earlier projection of S$31.1 million for 2021 could be overly optimistic. With 2019 performance being unaffected by the COVID-19 pandemic, we would not expect revenue generation in 2021 to exceed that in 2019. Thus, we would assume revenue generated by the Group's PBSA business for 2H2020 and 2021 to be S$11.4 million and S$28.8 million respectively.

Revenue projection for the Group's hospitality business in New Zealand

The Group's hospitality business in New Zealand generated a total of S$8.2 million in revenue for 2019. To project revenue for this segment, we would adopt an estimated RevPAR change as a proxy for the change in the revenue generated. According to Colliers International (Colliers), RevPAR for key regions in New Zealand's hotel market would be expected to decline by 30% to 60% in 2020 due to the impact of border closures and lockdown. In our projection, we would assume a 30% decline in RevPAR, given that Colliers has noted that New Zealand's hotel market is expected to recover due to an increase in domestic demand. Further, we also note that New Zealand has been relatively successful at controlling the virus situation. From 2021, Colliers expects a notable improvement in occupancy and room rates as inbound demand returns. We would adopt an approximately 40% increase in RevPAR for 2021, based on forecast data by Colliers.

Given the above, the projected revenue generated by the Group's hospitality business in New Zealand would be S$5.7 million = [70% x S$8.2 million in revenue generated in 2019] and S$8.0 million = [140% x S$5.7 million projected revenue for 2020] in 2020 and 2021 respectively, as shown in **Exhibit 23**.

Exhibit 23: Projected revenue for the Group's hospitality business in New Zealand

	Revenue	
Period	S$ million	y-o-y change
2019 actual	8.2	-6.9%
2020 forecast	5.7	-30.0%
2021 forecast	8.0	40.0%

Source: FEO, FPA Financial

As noted on page 11, the revenue generated by the Group's hospitality business in New Zealand made up about 5.3% of total revenue in 2019. Assuming the same proportion for 1H2020, we would then derive revenue of S$3.4 million = [5.3% x actual total revenue of S$64.9 million for 1H2020 as noted on page 3] for the period. Consequently, the estimated revenue generated for New Zealand in 2H2020 would then be S$2.3 million = [S$5.7 million projected revenue in 2020 – S$3.4 million revenue in 1H2020]. The revenue breakdown for the Group's hospitality business in New Zealand for 2020 is summarized in **Exhibit 24.**

Exhibit 24: Revenue breakdown for the Group's hospitality business in New Zealand for 2020

	Projected total revenue
Period	2020
1H*	3.4
2H forecast	2.3
Full year forecast	5.7

**Estimated based on actual Group total revenue for 1H2020*
Source: FPA Financial

Revenue projection for the Group's hospitality business in other countries

Taking into account the trend in hotel market performance in the other countries segment, we would assume a y-o-y RevPAR decline of 30% for the Group's hospitality business in the other countries segment for 2020. We further assume the RevPAR decline as a proxy for the decline in revenue generated by the segment. For 2021, we expect a moderate recovery of about 10% y-o-y RevPAR growth on hopes for a recovery in international travel as the COVID-19 health concerns subside.

Given the above, the projected revenue generated by the Group's business for the other countries segment would be S$3.2 million = [70% x S$4.6 million revenue generated in 2019] and S$3.5 million = [110% x S$3.2 million projected revenue for 2020] in 2020 and 2021 respectively, as shown in **Exhibit 25**.

Exhibit 25: Projected revenue for the Group's hospitality business in other countries

	Revenue	
Period	S$ million	y-o-y change
2019 actual	4.6	-19.0%
2020 forecast	3.2	-30.0%
2021 forecast	3.5	10.0%

Source: FEO, FPA Financial

As noted on page 11, revenue generated by the Group's hospitality business in other countries made up about 2.9% of total revenue in 2019. Assuming the same proportion for 1H2020, we would then derive revenue of S$1.9 million = [2.9% x actual total revenue of S$64.9 million for 1H2020 as noted on page 3] for the period. Consequently, the estimated revenue generated for the other countries segment in 2H2020 would then be S$1.3 million = [S$3.2 million projected revenue in 2020 – S$1.9 million revenue in 1H2020]. The revenue breakdown for the Group's hospitality business in the other countries segment for 2020 is summarized in **Exhibit 26**.

Exhibit 26: Revenue breakdown for the Group's hospitality business in other countries for 2020

	Projected total revenue
Period	2020
1H*	1.9
2H forecast	1.3
Full year forecast	3.2

**Estimated based on actual Group total revenue for 1H2020*

Source: FPA Financial

Total revenue projection for the Group's entire business

Based on the projected revenue for the individual geographical segments, the estimated total revenue generated by the Group's entire business would be S$54.0 million and S$159.5 million for 2H2020 and 2021 respectively, as shown in **Exhibit 27**.

Exhibit 27: Projected total revenue for 2H2020 and 2021

Geographical segment	Revenue projection	
	2H2020	2021
	S$ million	S$ million
Singapore	18.5	70.9
Australia	20.5	48.3
UK	11.4	28.8
New Zealand	2.3	8.0
Other countries	1.3	3.5
Total	54.0	159.5

Source: FPA Financial

Given the above results for 2H2020, the projected total revenue for 2020 would then be S$118.9 million = [actual total Group revenue of S$64.9 million in 1H2020 + projected revenue of S$54.0 million for 2H2020]. **Exhibit 28** below summarises the projection for total revenue in 2020 and 2021.

Exhibit 28: Projected total revenue for 2020 and 2021

Period	Projected total revenue	
	2020	2021
1H	64.9	-
2H forecast	54.0	-
Full year forecast	118.9	159.5

Source: FPA Financial

Earnings projection for 2020 and 2021

Given our projected revenue figures for 2020 and 2021, we now estimate the Group's after-tax profit to derive projected EPS figures for the respective years. To do so, we will have to estimate the Group's cost of sales, expenses, share of profit and other adjustments such as other income or losses.

Cost of sales

Cost of sales is a variable component that would scale according to the Group's revenue. We note that the percentage of cost of sales out of revenue (hereon referred to as the proportion) was around 57.0% in 1H2019 and 56.2% in 2H2019, as shown in **Exhibit 29**.

Exhibit 29: Proportion of cost of sales

	1H2019	2H2019
	S$ million	S$ million
Revenue	75.3	80.8
Cost of sales	42.9	45.4
Proportion	57.0%	56.2%

Source: FEO, FPA Financial

Given the above, we would assume the cost of sales proportion be the average of the 2 half-year periods in 2019 at about 57.6% for 2020 and 2021. Thus, projected cost of sales for 2020 and 2021 would be S$68.5 million = [0.576 x S$118.9 million in projected revenue for 2020] and S$91.9 million = [0.576 x S$159.5 million in projected revenue for 2021] respectively.

Other income

We note that the Group reported S$5.6 million in other income for 1H2020. This was mainly due to the various COVID-19 related subsidies received, including property tax rebates and rental relief from landlords, and wage subsidies from the governments in Singapore and Australia. Net of grant expenses, grant income of S$3.9 million was recorded for 1H2020. For 2H2020 and 2021, we would not account for such grant income as such COVID-19 aid measures are only expected to last for a short period of time. For 2H2020, we would only account for the interest income from bank deposits, which we would assume to be the same as 1H2020, bringing the total amount for other income to S$3.3 million. We would also assume this figure for 2021.

Other losses – net

This component comprises items such as impairment of goodwill, revaluation losses on property, plant & equipment, gain/(loss) on disposal of property, plant & equipment, and currency exchange gains/(losses). We note that the Group incurred S$4.0 million in impairment on goodwill arising from its hospitality property ownership business in Australia and S$2.7 million in revaluation losses on property, plant & equipment in 1H2020, which were not incurred for 1H2019. We would thus assume that there would be no adjustments for these items for 2H2020. As for the other items, we would assume the figures for 2H2020 to be the same as 1H2020. This would imply other gains of S$0.3 million for 2020. We would adopt this figure for 2021, assuming no other major adjustments for items such as fair value gains or losses on investment properties.

Expenses

This component includes items such as distribution & marketing expenses, administrative expenses and finance expenses. In 1H2020, lower total expenses of S$27.5 million were reported, primarily due to lower distribution & marketing expenses of S$3.5 million compared to S$5.3 million in 1H2019. Given the ongoing COVID-19 situation, we would expect fewer marketing and promotional efforts, and would thus assume distribution & marketing expenses to remain the same for 2H2020. This would imply total distribution & marketing expenses of S$7.0 million for 2020. For 2021, we would assume distribution & marketing expenses to adjust to a historical annual amount of about S$11 million. Meanwhile, S$15.1 million in administrative expenses and S$8.9 million in finance expenses were incurred in 1H2020, relatively similar to 1H2019 figures of S$15.2 million and S$8.5 million respectively. We would thus assume 2H2020 figures to be the same as 1H2019, bringing total administrative expenses and finance expenses to S$30.2 million and S$17.8 million respectively.

Share of (loss)/profit – Joint ventures

We note that the Group reported S$7.0 million in share of loss of joint ventures in 1H2020, mainly due to share of losses from the hospitality joint ventures in Australia and Europe owing to the adverse impact from the COVID-19 pandemic This included revaluation losses on certain hotel properties and impairment charges on management rights. In addition, the Group also recognised a share of loss from the Japan joint venture, mainly due to pre-opening expenses incurred for the Japan hotel. These share of loss of joint ventures were partially offset by the share of profit from the sale of commercial units at Woods Square.

For 2H2020 and 2021, the Group is expected to recognise share of profits from the Japan joint venture given the opening of hotel on 1 July 2020. Based on the joint venture agreement, the Group is expected to enjoy 50% of the profits generated from the joint venture. We now provide a revenue projection for the Japan hotel given that it had opened on 1 July 2020. Similar to the approach adopted for Singapore earlier, we derive an estimated room rate (as represented by the average) for 2H2020 and 2021, as shown in **Exhibit 30 and 31** respectively.

Exhibit 30: Room rates for the Japan hotel – 2H2020

	Room rate (¥)				
Hotel name	29 Sep 20 - 30 Sep 20	30 Oct 20 - 31 Oct 20	29 Nov 20 - 30 Nov 20	28 Dec 20 - 29 Dec 20	Average
Far East Village Hotel Ariake, Tokyo	5,850	5,850	5,850	5,850	5,850

Room rates are for a 1-night stay for 1 adult. Data extracted on 19 Sep 20.

Source: Booking.com

Exhibit 31: Room rates for the Japan hotel – 2021

	Room rate (¥)			
	For month ended			
Hotel name	Jan 21	Feb 21	Mar 21	Average
Far East Village Hotel Ariake, Tokyo	5,950	5,950	5,525	5,808

Room rates are for a 1-night stay for 1 adult. Data extracted on 19 Sep 20.

Source: Booking.com

Similar to what we have done for Singapore, we derive an estimated RevPAR for the Japan hotel in 2H2020 and 2021 by adopting the above room rates for the respective periods. On hotel occupancy, we note from STR that hotel occupancy for Japan hotel market had declined to 30.5% in March due to the impact of COVID-19. We further note from Japanese hotel companies that hotel occupancy levels had dipped to about 20% during April and May, but have since recovered since June. As a reference, hotel occupancy across Daiwa House Group's 59 city hotels rebounded to 40.3% in June 2020 from 20.9% in May 2020, while occupancy for Japan Hotel REIT's portfolio recovered to about 30% in July and is projected to increase to an average of close to 40% for most of 2H2020.

Meanwhile, with the Japanese government's efforts to revive the domestic travel industry, through the launch of the 'Go To Travel" travel subsidy campaign in July 2020, we would expect an increase in domestic demand for hotel accommodation. Further, the Tokyo Olympics is expected to take place in July 2021 after being delayed due to the COVID-19 pandemic. As we noted in our initiation report, FEO's Japan hotel is strategically located in close proximity to the Ariake Arena, one of the venues hosting the Toyko Olympics. According to revised forecasts by STR, RevPAR for Tokyo hotels are expected to experience growth of 22.1% and 27.2% in July 2021 and August 2021 respectively. Overall, we note that hotel performance for the Japan market is expected to recover in 2H2020 and further improve in 2021. We would thus assume hotel occupancy for the Japan hotel at 40% for 2H2020 and 50% in 2021. Given the estimated portfolio occupancy for the respective periods, the projected RevPAR for the Japan hotel in 2H2020 and 2021 would be ¥2,340 = [40% x ¥5,850] and ¥2,904 = [50% x ¥5,808] respectively, as shown in **Exhibit 32**.

Exhibit 32: Projected RevPAR – Japan hotel

Period	Forecast		
	Occupancy	Room rate (¥)	RevPAR (¥)
2H2020	40%	5,850	2,340
2021	50%	5,808	2,904

Source: FPA Financial

Based on the above projected portfolio RevPAR, we then estimate room revenue for 2H2020 and 2021 to be ¥131.8 million and ¥324.3 million respectively, as shown in **Exhibit 33**.

Exhibit 33: Projected room revenue for the Japan hotel

Period	Total rooms	Portfolio RevPAR (¥)	No. of days	Room revenue (¥ million)
2H2020	306	2,340	184	131.8
2021	306	2,904	365	324.3

Source: FPA Financial

The above result provides a rough estimate of the expected revenue generation by the Japan hotel. We would however assume zero share of profits from the Japan joint venture in 2H2020 and 2021 given the uncertainty over the profitability of the Japan hotel amid the challenging COVID-19 environment.

On the Woods Square joint venture, we noted earlier that the Group had as at 31 March 2020 recognized S$4.3 million in share of profit for the sale of development units at Woods Square. We would assume zero share of profits pertaining to Woods Square for 2H2020 and 2021. Lastly, we would also assume zero share of profits from the Toga joint venture.

Share of (loss)/profit – Associated companies

Meanwhile, the Group reported S$1.0 million in share of profit from associated companies in 1H2020, compared to S$1.7 million in 1H2019. This was due to lower management fees chargeable to Far East Hospitality Real Estate Investment Trust. Given the current COVID-19 climate, we would assume the same share of profit of S$1.0 million as in 1H2020. This would imply S$2.0 million in share of profit for 2020. We further assume this figure for 2021.

Based on the above projections for the Group, we derive an after-tax loss attributable to equity holders of S$3.1 million in 2020 and an after-tax profit attributable to equity holders of S$12.0 million in 2021. Based on a weighted average number of issued units of 455.48 million, which we would assume to remain unchanged in 2020 and 2021, we project a loss per share of 0.68 cents and EPS of 2.63 cents for 2020 and 2021 respectively. We have summarised our earnings projection in **Exhibit 34** below.

Exhibit 34: Earnings projection for 2020 and 2021

	Full-year 2020 forecast	Full-year 2021 forecast
	S$ million	S$ million
Revenue	118.9	159.5
Cost of sales	(68.5)	(91.9)
Gross profit	50.4	67.6
Other income	3.3	3.3
Other (losses)/gains - net	0.3	0.3
Expenses:		
-Distribution and marketing	(7.0)	(11.0)
-Administrative	(30.2)	(30.2)
-Finance	(17.8)	(17.8)
Share of (loss)/profit		
-Joint ventures	(7.0)	-
-Associated companies	2.0	2.0
(Loss)/profit before income tax	(6.0)	14.2
Income tax expense*	(2.2)	(2.2)
Total (loss)/profit after tax	(8.2)	12.0
Total (loss)/profit after tax attributable to:		
Equity holders of the company	(3.1)	12.0
Non-controlling interest	(5.1)	-
	(8.2)	12.0
Weighted average no. of units in issue (million)	455.48	455.48
EPS (cents)	(0.68)	2.63

Figures have been rounded

**2H2020 figure assumed to be unchanged from 1H2020 figure of S$1.1 million. Figure for 2020 and 2021 are assumed to be the same.*

Source: FPA Financial

Dividends projection for 2020 and 2021

We note that FEO has paid out consistent final dividends of 6.0 cents per share for the past 5 financial years. For 2019, total dividends of S$26.3 million, translating to a DPS of 6.0 cents per share, were recently paid on 4 September 2020. However, owing to the impact of COVID-19, we would expect no dividends to be issued for 2020. For 2021, we anticipate that dividends of 3.0 cents per share could be paid out.

VALUATION

In this section, 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. **Exhibit 35** below summarises the data for the updated peer comparison analysis.

Exhibit 35: Updated peer comparison

Company	SGX code	Current price (S$) as at 25 Sep 20	Market capitalisation (S$ million)	EPS [(1)] (cents)	P/E (x)	NAV per share [(2)] (S$)	P/B (x)	DPS [(3)] (cents)	Dividend yield (%)
Far East Orchard Limited	O10	0.980	446.37	4.43	22.12	2.75	0.36	6.00	6.12
Peer companies:									
City Developments Limited	C09	7.760	7,037.54	20.90	37.13	11.66	0.67	20.00	2.58
UOL Group Limited	U14	6.640	5,601.37	15.27	43.48	11.34	0.59	17.50	2.64
GuocoLand Limited [(4)]	F17	1.470	1,631.36	8.57	17.15	3.47	0.42	6.00	4.08
Frasers Property Limited [(5)]	TQ5	1.180	3,452.33	14.63	8.07	2.46	0.48	3.60	3.05
Peer average	-	-	-	-	26.46	-	0.54	-	3.09

Figures have been rounded

n/m: not meaningful

(1) Based on trailing diluted EPS over the last 4 quarters of released results

(2) As at 30 Jun 20, unless otherwise specified

(3) Based on trailing dividends over the last 12 months

(4) Dividends of 6 cents expected to be paid on 19 Nov 2020

(5) NAV per share as at 31 Mar 2020

Source: Respective company data, FPA Financial

Based on the above results, we note that FEO's P/B of 0.36x is lower than the peer average P/B of 0.54x. Adopting a relative valuation approach, we would estimate a target price of S$1.485 if FEO's P/B were to adjust to the peer average of 0.54x. This is estimated as follows: Estimated target price = [peer average P/B] x [NAV per share as at 30 June 2020] = 0.54 x S$2.75 = S$1.485

Our estimated target price of S$1.485 implies a 51.5% upside to the current share price of S$0.980. This estimated target price reflects our view on the potential upside for FEO's share price in the medium term.

INVESTMENT RECOMMENDATION

Since our initiation report issued on 4 March 2020, FEO's share price declined sharply and reached a low closing price of S$0.945 on 6 April 2020, reflecting concerns over the impact of COVID-19 on the Group's financial performance. The share price then began to recover and we note that it reached a high of S$1.100 on 7 July. In mid-July, however, the share price went back into a decline in part due to a resurgence of COVID-19 cases in Australia, as well as uncertainty over the recovery trajectory of the hospitality and tourism sectors in the Group's geographical markets. Recently, we note that the share price has recovered slightly to a range of S$0.980 to S$0.985.

In terms of valuation, we note from our peer comparison analysis that FEO's P/B of 0.36x is lower than the peer average P/B of 0.54x. Adopting a relative valuation approach, we estimate a target price of S$1.485 if FEO's P/B were to adjust to the peer average of 0.54x. Our current target price of S$1.485 implies a 51.5% upside to the current share price of S$0.980. While zero dividends is expected for 2020, we anticipate that dividends of 3.0 cents per share could be issued for 2021. Meanwhile, we also note that the hospitality sectors in Singapore and Australia are gradually recovering, and we are positive on the outlook of these markets. Further, resilient demand for higher education in the UK is expected to support the demand in the PBSA market as the COVID-19 health concerns gradually subside. We are of the view that these developments would help to underpin the Group's financial performance going forward.

Given the above consideration, we have upgraded our recommendation from "neutral" to "buy". Our current recommendation reflects our view on the potential upside for FEO's share price in the medium term. However, there are risks to our current target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

As we earlier noted on page 29, our current target price of S$1.485 implies a 51.5% upside to the current share price of S$0.980. However, there are risk factors that could limit the upside in our target price which we will highlight below.

Risk of currency fluctuations

We note that the Group reported currency exchange gains of S$3.5 million in 1H2020, compared to S$1.8 million in currency exchange losses in 1H2019, mainly due to a strengthening of the AUD against SGD. While we note an upward trend in the AUD/SGD currency exchange pair since March 2020, there are still risks involved due to volatility in the currency markets. A strengthening SGD compared to AUD or UK pounds could have a negative impact on FEO's earnings.

Prolonged travel restrictions due to COVID-19

As highlighted on page 8, subdued international travel, in particular leisure travel, would be the main factor that is limiting a recovery in FEO's hospitality business. While we note that national efforts could help to support the tourism and hospitality sectors through boosting domestic demand, there would likely be overall weaker business performance until a resumption of international travel. As of now, it is still unclear when a successful vaccine would be developed, and until then, it is unlikely for international travel to resume as travel restrictions remain in place.

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