F·P·A FINANCIAL
Investment Perspectives
4 March 2020

REAL ESTATE EQUITY RESEARCH

Far East Orchard Limited

SGX: O10 / FARE.SI
Reuters: FARE.SI
Bloomberg: FEOR:SP

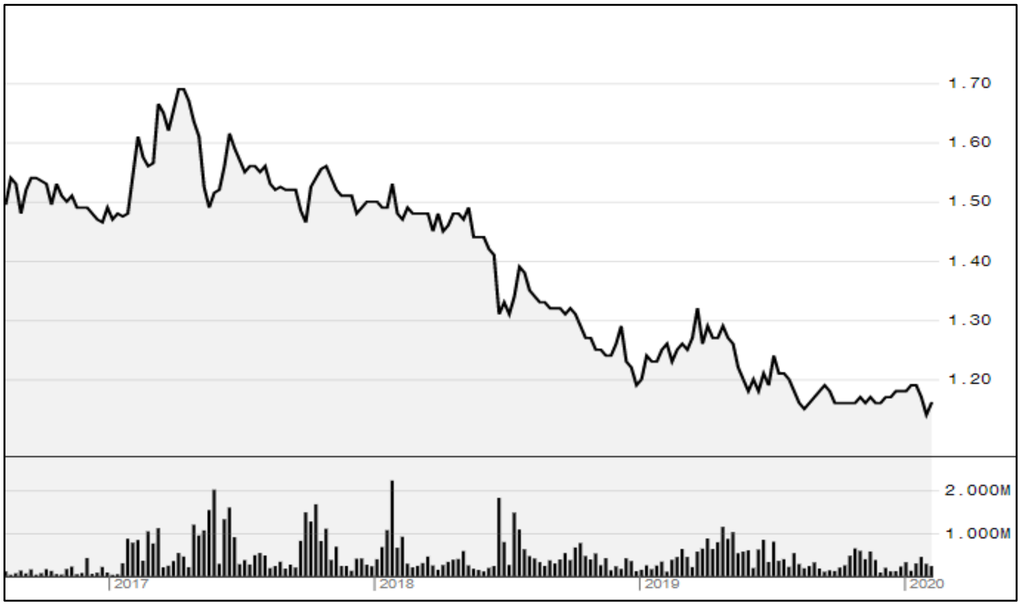
Country: Singapore
Industry: Real estate, Hospitality

4 March 2020
RECOMMENDATION: NEUTRAL

Current Share Price: S$1.14
Target Share Price: S$1.79
Issued Shares: 438.36 million
Market Capitalisation: S$499.73 million

52 Week Range: S$1.130 - S$1.340

Share Performance



Source: Bloomberg

Company description

Far East Orchard Limited (FEO) is a property developer, hospitality owner and operator with a diversified property investment portfolio comprising purpose-built student accommodation and medical suites. As of 31 December 2018, FEO's portfolio comprised hospitality properties in countries like Australia, Denmark, Germany, Malaysia and Singapore, as well as development and investment properties in the United Kingdom and Singapore.

Summary

FEO's share price has declined over the past few years amid signs of weakness in its fundamentals. Profitability has appeared to be lower and financial leveraging has increased. Nonetheless, there are growth conditions in Australia and Singapore's hospitality sectors and UK's student accommodation market, which respectively have the potential to improve FEO's hospitality and property business. Additionally, there are upcoming catalysts in the hospitality business like the expected completion of Far East Village Hotel Ariake Tokyo and the Clan Hotel in 2020. Development projects such as Woods Square in Singapore and Westminster Fire Station in the UK are potential catalysts for the property business as well. Thus looking ahead, there are growth opportunities that can spark a recovery in FEO's fundamentals. However, the recent coronavirus outbreak is likely to undermine significant improvements in the near term.

Recommendation

We adopt a conservative approach to value FEO at S$1.79 per share, representing a potential upside of 57.0% from the current share price of S$1.14. FEO's low P/B ratio indicates that the company could potentially be undervalued and we think that it has the potential to trade higher. While we have determined the adjusted book value of FEO's share to be S$2.56, we have assigned a 30% discount to arrive at our target price. This is to account for the uncertainties in realising the properties' value. Additionally, FEO has a dividend yield above the peer average which makes it relatively attractive, and we think its relatively high P/E is justified by a higher expectation on earnings. Nonetheless, given the COVID-19 situation, we believe that it would be most appropriate to adopt a conservative stance and provide a neutral recommendation on FEO at a target price of S$1.79 per share.

Key Financials

Full year, ended Dec 31	Revenue (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	Gearing ratio (x)
2017 actual[1]	151.6	5.10	22.4	6.0	5.26%	2.93	0.17
2018 actual[2]	150.9	7.64	14.9	6.0	5.26%	2.89	0.23
2019 actual[3]	156.1	5.95	19.2	6.0	5.26%	2.85	0.44
2020 forecast	152.7	5.82	19.6	6.0	5.26%	-	-

Figures have been rounded
[1,2,3] P/E and dividend yield are analyst calculations based on a share price of S$1.14 as of 4 Mar 20

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OVERVIEW OF HISTORY AND BUSINESS

Far East Orchard Limited ("FEO") is a property developer, hospitality owner and operator with a diversified property investment portfolio comprising purpose-built student accommodation ("PBSA") and medical suites. The company has been listed on the Mainboard of the Singapore Exchange since 1968, and is a member of Far East Organization, Singapore's largest private property developer.

Established since 1967, FEO has developed residential, commercial, hospitality and PBSA properties in Australia, Malaysia, Singapore and the United Kingdom (UK).

Redefining itself through a strategic transformation of the business in 2012, FEO expanded into the complementary businesses of hospitality management and healthcare real estate. In 2015, it diversified its real estate portfolio to include PBSA properties in the UK.

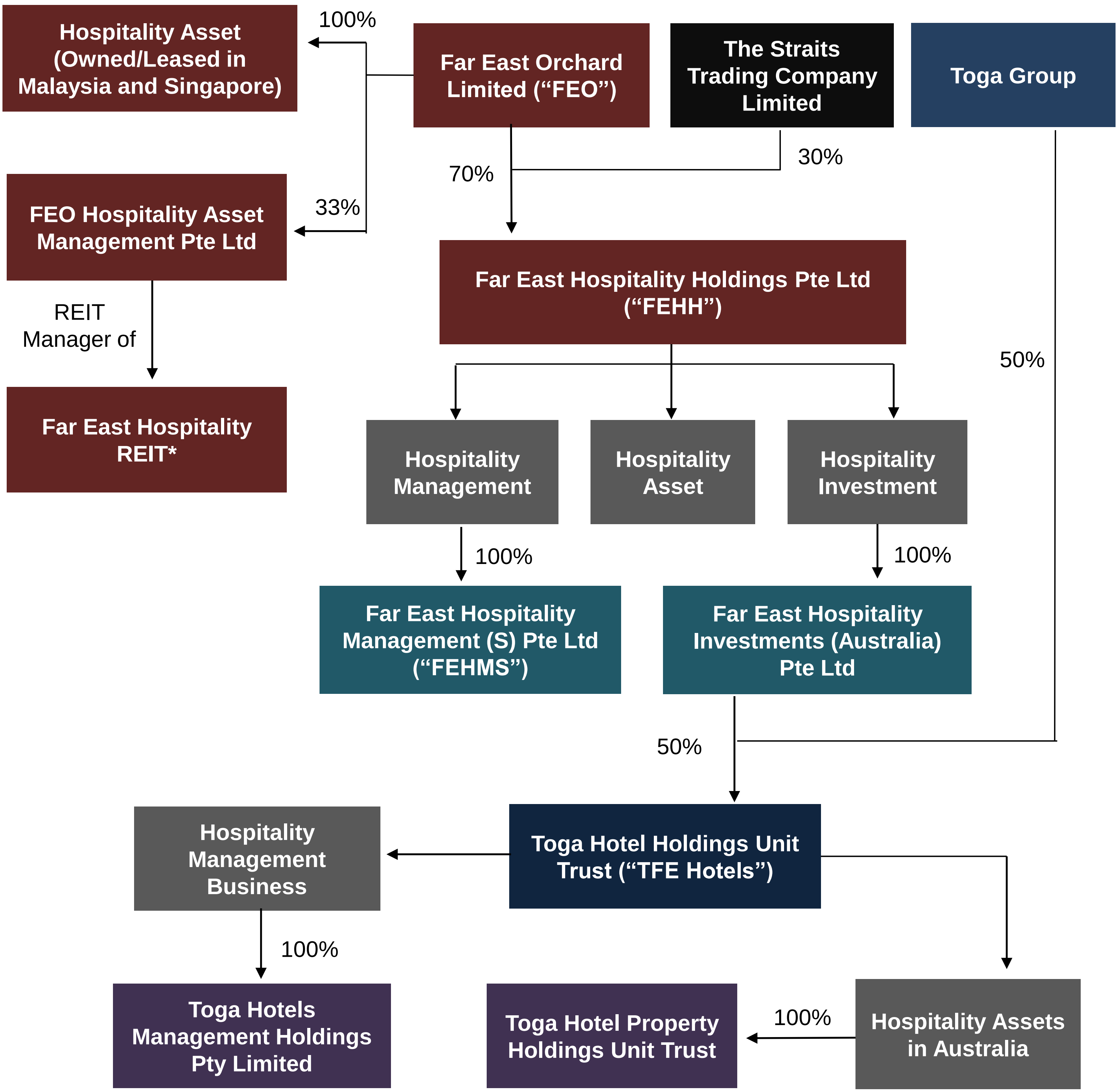
FEO's current development projects include Woods Square, an integrated office development at Woodlands Regional Centre, Singapore's Northern Gateway, developed with Far East Organization and Sekisui House, Ltd. The Woods Square project has achieved its temporary occupation permit on 5 February 2020. FEO is also redeveloping the former Westminster Fire Station located in the prime central borough of the City of Westminster, London, UK, into a mixed-use development comprising residential apartments and a restaurant. The redevelopment of Westminster Fire Station is expected to be completed beyond 2020.

Through its hospitality partnerships with The Straits Trading Company and Toga Group, FEO's hospitality arm - Far East Hospitality Holdings Pte Ltd ("FEHH") - owns more than 10 hospitality assets and manages over 95 properties with more than 15,500 rooms in Australia, Denmark, Germany, Hungary, Malaysia, New Zealand and Singapore. Its stable of nine unique and complementary hospitality brands are *Oasia, Quincy, Rendezvous, Village, Far East Collection, Adina Apartment Hotels and Adina Serviced Apartments, Vibe Hotels, Travelodge Hotels and TFE Hotels Collection*. In 2018, Far East Hospitality made its first foray into Japan via a joint acquisition of a hotel project in Ariake, Tokyo with Far East Organization.

FEO has a PBSA portfolio in the UK comprising 3,260 beds in the cities of Brighton, Bristol, Leeds, Liverpool, Newcastle upon Tyne and Sheffield. This includes the completion of the development of the 195-bed Hollingbury House in Brighton and 1,596 beds added in 2019 through the acquisition of five freehold student accommodation properties in Bristol, Leeds, Liverpool and Sheffield. The Group also holds a portfolio of purpose-built medical suites for lease and for sale in Singapore's premier medical hub in Novena.

FEO's business is made up of a hospitality and property segment. The hospitality business is operated across three segments: management services, operations (including leased properties and investments) and property ownership. The property business is segmented into a development and investment division. Details of FEO's business structure can be found in **Exhibits 1 and 2**. In addition, the details of the FEO and its significant subsidiaries, joint ventures and associated companies (collectively the "Group") can be found in **Exhibit 3**. Further, the list of properties of the Group can be found in **Appendix I to III**.

Exhibit 1: FEO Business Structure – Hospitality



**Details of the REIT’s portfolio can be found in Appendix VII*
Source: Compiled using information from FEO and FEHH

<u>Exhibit 2: FEO Business Structure - Property</u>

PROPERTY

PROPERTY INVESTMENT

Singapore

100%
- Novena Medical Center and Novena Specialist Center – Medical Suites
- Tanglin Shopping Centre – Offices

20%
- SBF Center – Shops

United Kingdom

100%
- Portland Green Student Village – Bryson Court
- Portland Green Student Village – Marshall Court
- Portland Green Student Village – Newton Court
- Portland Green Student Village – Rosedale Court
- Portland Green Student Village – Turner Court
- Land sites for student accommodation buildings
- Hollingbury House[3]

PROPERTY DEVELOPMENT

Singapore

100%
- Novena Medical Center and Novena Specialist Center – Medical Suites

33%
- Woods Square[3]

20%
- SBF Center – Medical Suite and Office

United Kingdom

98%
- Westminster Fire Station[3]

NOTES:
[1] Percentages shown here are based on the Group's effective Interest
[2] Managed by Far East Hospitality or TFE Hotels
[3] Under development

Source: FEO 2018 annual report

Exhibit 3: Listing of Significant Companies in the Group

Name of companies	Principal activities	Country of business/ incorporation	Group effective ownership interest held 31 December 2018 %	31 December 2017 %	1 January 2017 %
Significant subsidiaries					
Far East Hospitality Holdings Pte. Ltd.	Investment holding	Singapore	**70**	70	70
Jelco Properties Pte Ltd	Investment and sales of properties	Singapore	**100**	100	100
Far East Hospitality Properties (Australia) Pte. Ltd.	Ownership of hospitality properties	Singapore	**70**	70	70
Far East Hospitality Investments (Australia) Pte. Ltd.	Investment holding	Singapore	**70**	70	70
Far East Orchard Holdings (Jersey) Limited	Investment of properties through its subsidiaries	United Kingdom/ Jersey	**100**	100	100
Significant joint ventures					
Toga Hotel Holdings Unit Trust	Ownership and management of hospitality properties	Australia	**35**	32	32
Toga Developments Sydney Pty Limited	Property development	Australia	**50**	50	50
Far East Opus Pte. Ltd.	Property development	Singapore	**20**	20	20
Watervine Homes Pte. Ltd.	Property development	Singapore	**30**	30	30
Woodlands Square Pte. Ltd.	Property development	Singapore	**33**	33	33
Significant associated company					
FEO Hospitality Asset Management Pte. Ltd.	REIT Manager of Far East Hospitality Trust	Singapore	**33**	33	33

Source: FEO 2018 annual report

INDUSTRY OVERVIEW

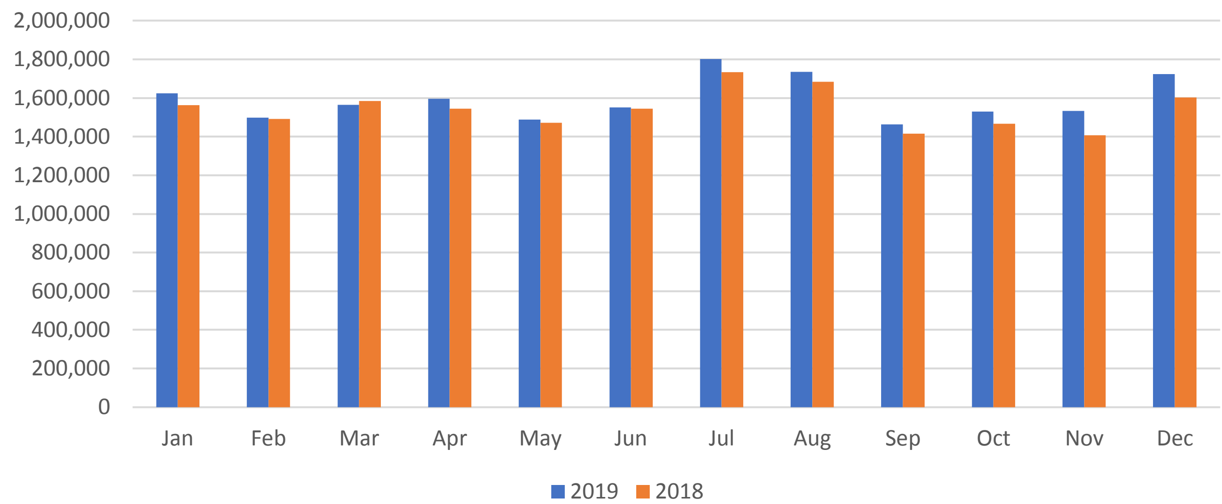
In our industry overview, we discuss factors that could potentially impact FEO's hospitality and property business segments. In particular, we analysed the tourism and hospitality sectors in Australia and Singapore, given that these two countries form the bulk of FEO's hospitality business. We will also analyse the student accommodation market in the UK as part of the company's property business.

(I) International Visitor Arrivals

Singapore

With reference to **Exhibit 4** and **Exhibit 5**, tourism statistics by the Singapore Tourism Board ("STB") showed that monthly International Visitor Arrivals ("IVA") in Singapore was effectively higher in 2019 compared to 2018. **Exhibit 4** shows that there was positive growth in IVA for all the months in 2019 compared to 2018, with the exception of a 1.2% dip in March. For the whole of 2019 (as indicated by year-to-date ("YTD") figures), IVA increased by 0.6 million, or 3.3%, to 19.1 million from 18.5 million in 2018, as shown in **Exhibit 5**. However, the recent outbreak of the Wuhan coronavirus is expected to have a negative impact on tourism due to imposed travel bans and restrictions. In response to the viral outbreak, STB is projecting a 25% to 30% drop in visitor arrivals in 2020.

Exhibit 4: Monthly Trend of International Visitor Arrivals in 2018 and 2019



Source: Compiled using data from Singapore Tourism Board

Exhibit 5: Monthly Change in International Visitor Arrivals in 2018 and 2019

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	1,624,533	1,499,047	1,564,644	1,596,631	1,487,683	1,551,536	1,802,055	1,735,759	1,463,029	1,529,748	1,532,927	1,723,751	19,111,343
2018	1,563,359	1,491,970	1,584,406	1,544,248	1,470,891	1,544,679	1,732,896	1,683,122	1,415,149	1,467,380	1,406,985	1,603,217	18,508,302
Change	61,174	7,077	-19,762	52,383	16,792	6,857	69,159	52,637	47,880	62,368	125,942	120,534	603,041
% change	3.9%	0.5%	-1.2%	3.4%	1.1%	0.4%	4.0%	3.1%	3.4%	4.3%	9.0%	7.5%	3.3%

Source: Compiled using data from Singapore Tourism Board

Australia

According to tourism forecast by Tourism Research Australia in 2019, IVA to Australia is expected to increase from 9.4 million in 2018-19 to 9.8 million in 2019-20 and 10.3 million in 2020-21, an expected 9.7% increase over the next two years.

(II) Tourism spending

Singapore

According to STB, tourism receipts, decreased by 3.0% yoy to S$13.1 billion in the first half of 2019. In the second quarter of 2019 ("Q2 2019"), tourism receipts decreased by 1.3% yoy to S$6.5 billion. Specifically, tourist receipts from accommodation decreased by 13% yoy in Q2 2019, significant compared to the yoy decline in other areas such as food & beverage (-3%) and sightseeing, entertainment and gaming (-1%). For 2019, STB forecasts tourism receipts to be in the range of S$27.3 to S$27.9 billion.

Australia

According to Tourism Research Australia, international tourism spending is expected to increase by 4.6% to $155.6 billion in 2019-20 from $148.7 billion in 2018-19. Spending is expected to increase by a further $7.5 billion to $163.1 billion in 2020-21, as shown in **Exhibit 6**.

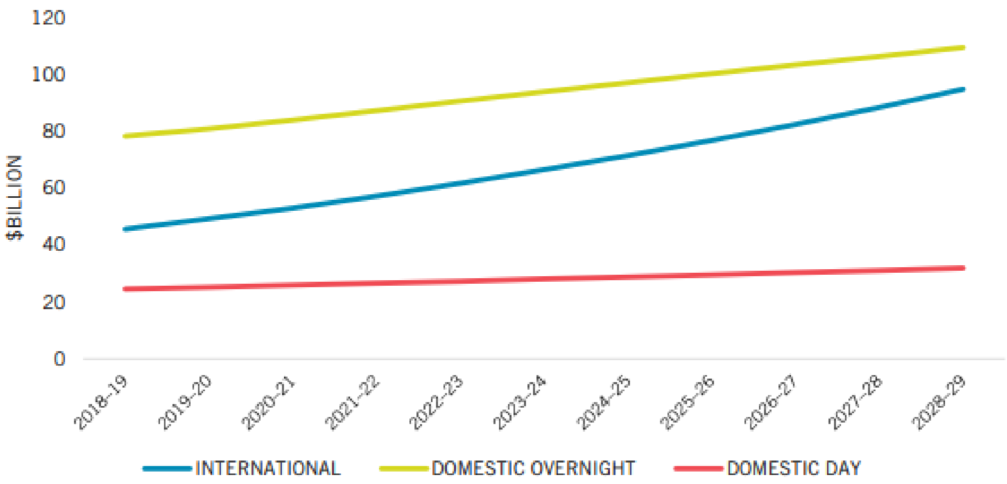
Exhibit 6: Growth in visitor spending

	2018–19	2019–20	2020–21
International	$45.7b	$49.3b ▲ 8%	$53.1b ▲ 7.5%
Domestic overnight	$78.4b	$80.9b ▲ 3.2%	$84.1b ▲ 3.9%
Domestic day	$24.6b	$25.3b ▲ 2.7%	$26b ▲ 2.7%
Total	$148.7b	$155.6b ▲ 4.6%	$163.1b ▲ 4.9%

Source: Tourism Research Australia

With reference to **Exhibit 7**, we noted from forecasts by Tourism Research Australia that international tourism spending is expected to remain on a upward trend in the future. International spending is expected to rise steadily and nearly double by 2028-2029 when compared to 2018-2019.

Exhibit 7: Growth in visitor spending, 2018-19 to 2028-29



Source: Tourism Research Australia

(III) Hotel industry performance

Singapore

According to hotel industry statistics by STB, average occupancy rate (“AOR”), average room rate (“ARR”) and revenue per available room (“RevPAR”) have increased over the last 3 years from 2017 to 2019. In 2019, AOR increased by 1.1 percentage points, ARR increased by 1.4% year-on-year (yoy) and RevPAR increased by 2.6% yoy, as shown in **Exhibit 8**.

Exhibit 8: Yearly Comparison of AOR, ARR and RevPAR

Year ended 31 Dec	Standard Average Occupancy Rate (AOR)	AOR Change	Standard Average Room Rate (ARR)	ARR Change	Revenue Per Available Room (RevPAR)	RevPAR Change
	%	% points	S$	%	S$	%
2019	87.1	1.1	221.5	1.4%	192.8	2.6%
2018	86.0	1.2	218.5	0.6%	188.0	2.1%
2017	84.8	1.7	217.1	-2.6%	184.2	-0.6%
2016	83.1	-0.8	222.9	-3.8%	185.3	-4.8%
2015	83.9	-0.3	231.8	-4.3%	194.6	-4.7%

Figures have been rounded

Source: Compiled using data from Singapore Tourism Board

Nonetheless, we noted that FEO, under its hospitality arm Far East Hospitality, operates a portfolio in the mid-tier to upscale hospitality sectors in Singapore. Additionally, FEO leases and manages mid-tier Singapore-based properties from Far East Hospitality REIT, and has a 33% interest in FEO Hospitality Asset Management Pte Ltd, the manager of the REIT.

Given the above, we further analysed ARR, AOR and RevPAR for the mid-tier segment. With reference to **Exhibit 9**, we observed that in the last 3 years, there has been an upward trend for AOR, ARR and RevPAR in the mid-tier segment. In 2019, AOR rose by 1.9 percentage points, ARR rose by 1.5% yoy and RevPAR rose by 3.8% yoy. Thus, the positive trend in the hotel performance for the mid-tier segment is broadly consistent with the overall hotel performance in Singapore.

Furthermore, Jones Lang Lasalle (“JLL”) noted in its Hotel Market Update 2019 that limited future hotel supply is expected to drive performance. According to JLL, hotel supply in the next three years is expected to remain relatively limited, growing at a compound annual growth rate (“CAGR”) of 0.7% from end-2019 to end-2022. By comparison, future supply growth is anticipated to be slower than the 4.2% CAGR registered during the three-year period from end-2015 to end-2018, emphasising the potential for further upward performance. Overall, JLL noted that the hotel outlook for Singapore remains strong and the market is expected to benefit from the robust supply and demand fundamentals in the short- to medium-term. In the longer-term, the government’s strategies and infrastructure investments will continue to support Singapore as an attractive destination for tourism, as well as investors seeking stable secure capital appreciation.

Exhibit 9: Yearly Comparison of AOR, ARR and RevPAR in specific hotel tier segments

Year ended 31 Dec	Standard Average Occupancy Rate				Standard Average Room Rate				Revenue Per Available Room			
	Luxury	Upscale	Mid-Tier	Economy	Luxury	Upscale	Mid-Tier	Economy	Luxury	Upscale	Mid-Tier	Economy
	%	%	%	%	S$	S$	S$	S$	S$	S$	S$	S$
2019	88.3	86.1	89.1	84.0	457.4	265.1	170.7	107.9	404.1	228.3	152.1	90.7
2018	87.2	85.9	87.2	83.4	449.1	263.0	168.1	104.5	391.6	226.0	146.5	87.2
2017	84.9	85.8	85.9	82.0	444.3	258.3	167.8	104.0	377.0	221.6	144.1	85.3
2016	85.2	84.7	84.5	77.4	447.8	261.6	169.6	99.7	381.7	221.5	143.2	77.2
2015	85.7	86.0	84.7	78.5	446.5	264.8	175.5	103.5	382.6	227.6	148.6	81.2

Source: Singapore Tourism Board

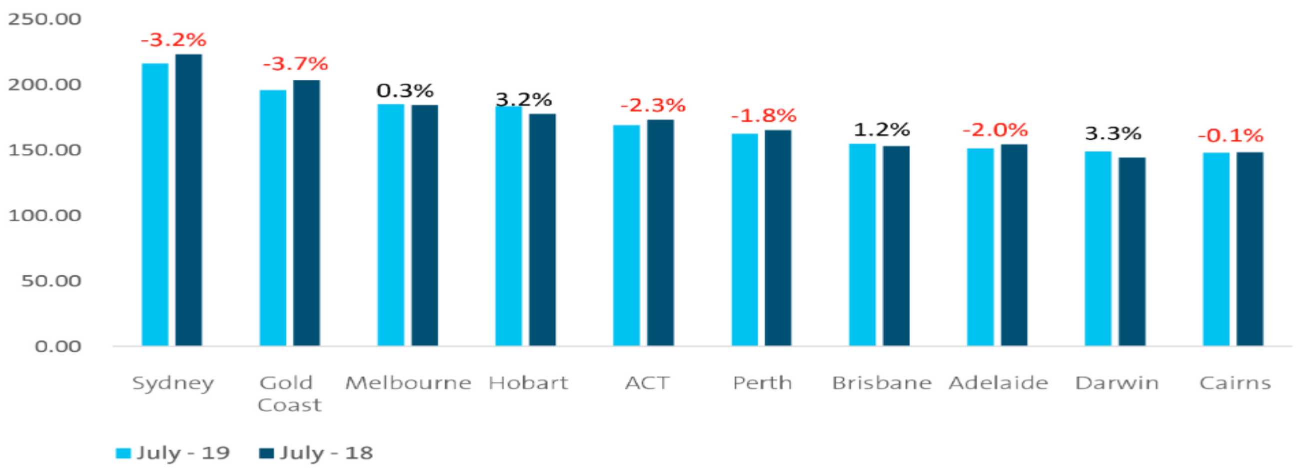
Looking into 2020, however, hotel performance is expected to be weaker than 2019 due to the Wuhan viral outbreak. As noted on page 7, STB has projected a 25% to 30% decline in visitor arrivals in 2020. We would adopt STB's IVA projections as a proxy to estimate the occupancy rate, and in turn mid-tier RevPAR growth in 2020. However, we do not expect the expected fall in visitor arrivals to affect hotel occupancy rates by the same extent, and so we would assume a 10% decline. Thus, we discounted the 2019 occupancy rate of 89.1% for mid-tier hotels by 10%, to yield an occupancy rate of 79.1% in 2020. Assuming that the average room rate remains unchanged at S$170.7, we estimate RevPAR of S$135.0 = 79.1% x S$170.7, which in turn represents a RevPAR growth of -11.2% for 2020.

Australia

We will review the overall outlook on the Australian hotel market, and also analyse the hotel market for specific cities in Australia where FEO owns properties. These cities include Adelaide, Brisbane, Darwin, Melbourne, Perth and Sydney.

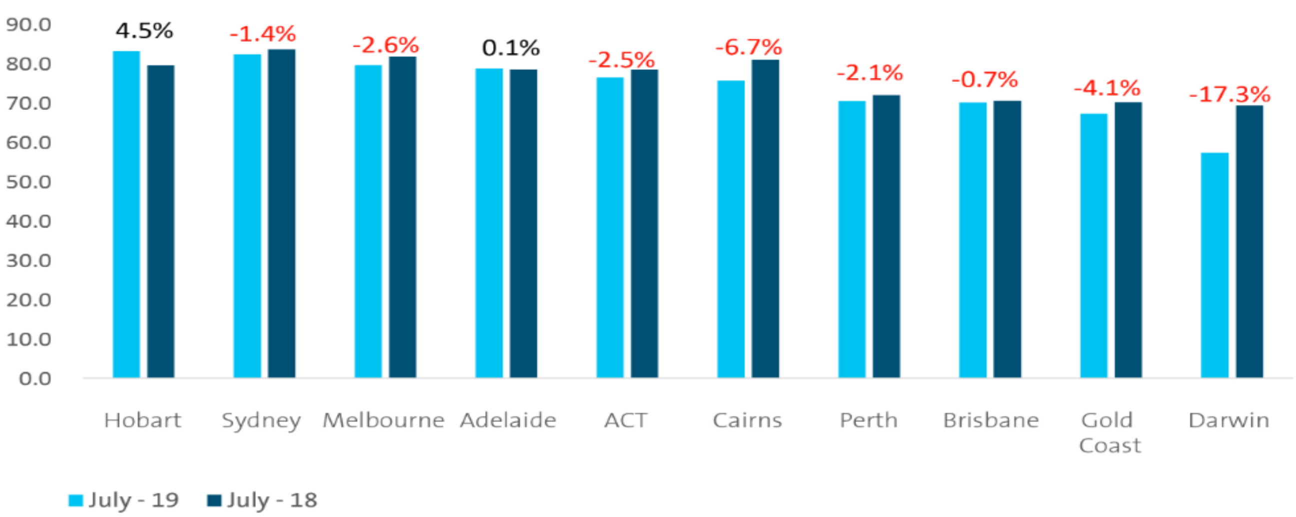
According to Tourism Australia, STR figures show that a growing supply in all major markets is having a dampening impact on occupancy and average daily rates ("ADR") as the number of new rooms added is growing faster than additional rooms sold. With reference to **Exhibit 10**, we noted that comparing between July 2019 and 2018, ADR year to date ("YTD") had decreased in Sydney, Perth and Adelaide, but increased in Melbourne, Brisbane and Darwin. However, occupancy YTD had decreased for the majority of cities in which FEO owns hospitality properties, except for Adelaide which saw an increase, as shown in **Exhibit 11**. In particular, occupancy YTD in Darwin had declined relatively significantly as compared to other cities.

Exhibit 10: ADR year to date, July 2019 vs July 2018



Source: Tourism Australia

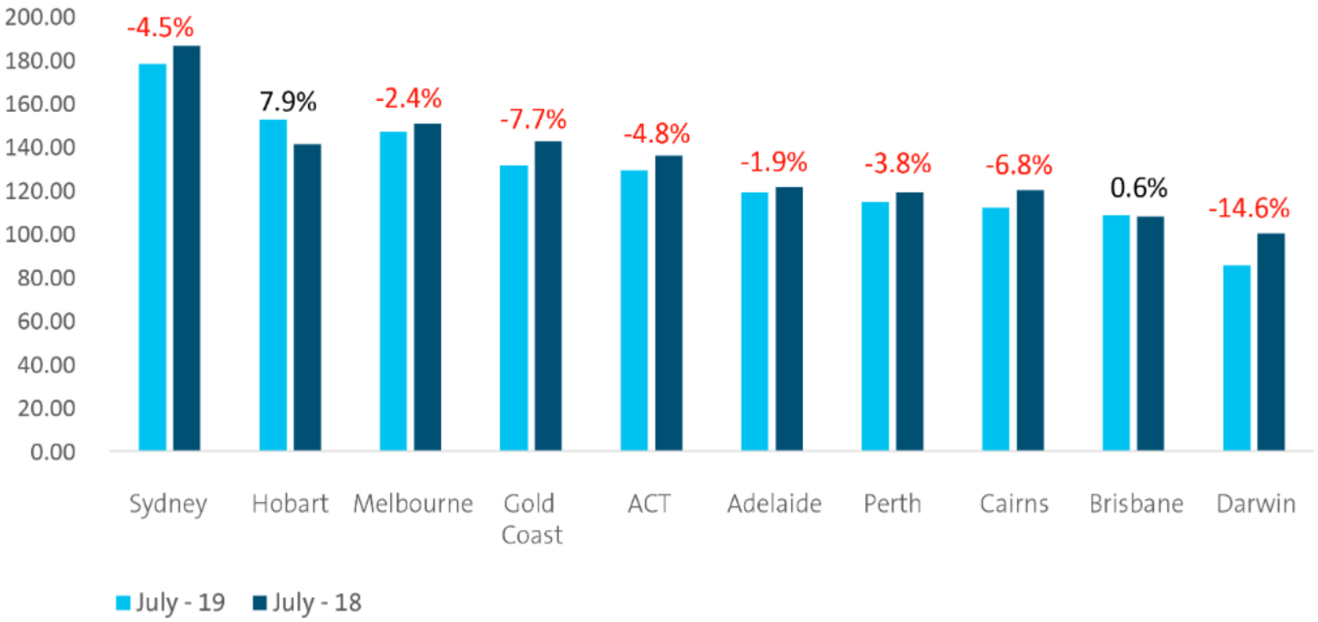
Exhibit 11: Occupancy year to date, July 2019 vs July 2018



Source: Tourism Australia

With reference to **Exhibit 12**, we observed that comparing between July 2019 and 2018, RevPAR YTD declined for the majority of cities in which FEO owns hospitality properties, except for Brisbane which saw a marginal increase. Additionally, we noted that RevPAR YTD in Darwin had fallen more significantly than other cities, likely due to the relatively steeper dip in occupancy YTD as we have noted earlier.

Exhibit 12: RevPAR year to date, July 2019 vs July 2018

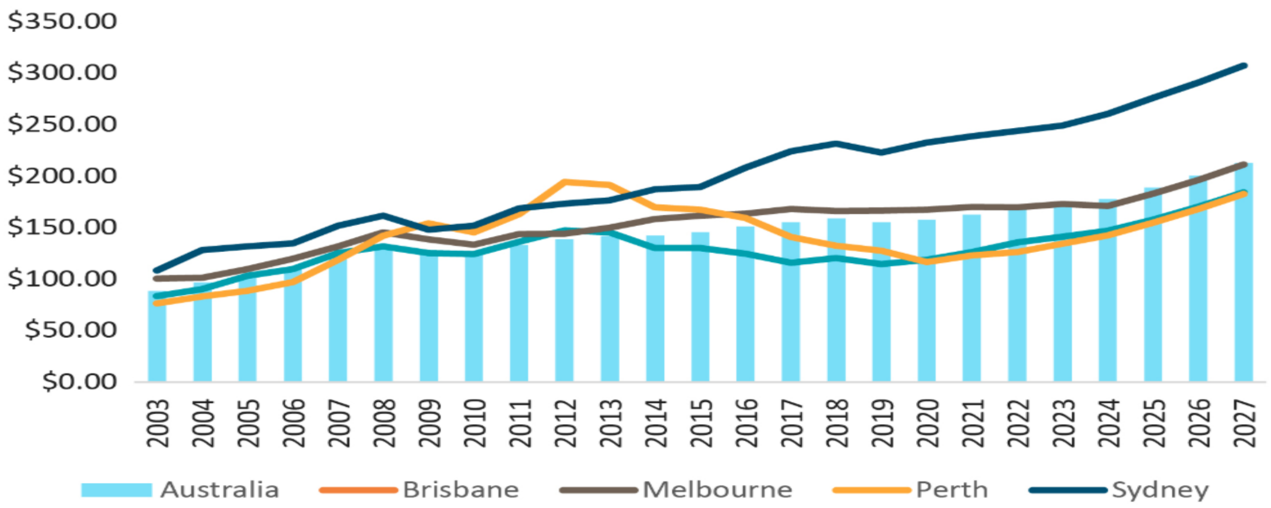


Source: Tourism Australia

Given the above, we noted that the hotel outlook in Australia thus far could potentially be less optimistic. Excess supply of hotel rooms are in part contributing to lower occupancy and room rates, thus leading to a decline in RevPAR. In general, most cities where FEO owns hospitality properties are facing lower occupancy, ADR and RevPAR. In particular, RevPAR and ADR performance in Darwin have been significantly weaker, and in Perth, where FEO owns the most number of properties, occupancy, ADR and RevPAR have all decreased. FEO reported lower sales from its Australian hospitality business for Q3 2019, citing weak market conditions in Australia. Thus, the weak hotel outlook in Australia thus far has, to some extent, negatively impacted FEO's hospitality business.

However, forecast data from Tourism Australia reflect an overall upward trend in RevPAR moving into 2020-2027, despite softening in most cities in the past few years, as shown in **Exhibit 13**. Most notably, Sydney has been the overall outperformer in terms of RevPAR, and is expected to maintain the highest RevPAR in the long term to 2027. Perth, however, has faced the steepest decline in RevPAR since 2012, but is expected to rebound in 2020 and beyond.

Exhibit 13: RevPAR comparison across major cities from 2003 to 2027



Source: Tourism Australia

According to Dransfield Hotel & Resorts ("Dransfield"), major city RevPAR for the total market in Australia is projected to grow at a healthy average of 3.3% per annum over the long term from 2019 to 2027 as shown in **Exhibit 14**. Dransfield expects that a positive supply and demand equation and sustained high occupancy levels will create rate growth opportunities, with growth expectations still well above recent history, which averaged 2.2% per annum over the last five years. With reference to **Exhibit 14**, we noted from forecasts by Dransfield that the average RevPAR growth for the total market in Australia is expected to improve in the medium term (to 2021) and long term (to 2027) from a weaker performance in the short term (2019).

Exhibit 14: Hotel market revenue forecasts for Australian major cities

Forecast Average RevPAR Growth			
Location	**Short FY2019**	**Medium FY19-21**	**Long FY19-27**
Adelaide	-2.7%	-0.1%	2.6%
Brisbane	-4.9%	1.7%	4.9%
Cairns	-2.2%	0.7%	2.6%
Canberra	2.7%	2.7%	3.2%
Darwin	-20.6%	-3.1%	2.2%
Gold Coast	-1.1%	1.0%	3.3%
Hobart	8.9%	1.3%	2.6%
Melbourne	0.3%	0.8%	2.8%
Perth	-3.8%	-2.3%	3.8%
Sydney	-3.8%	1.1%	3.2%
Total Market	-2.5%	0.7%	3.3%

Source: Dransfield Hotels & Resorts

The short term average RevPAR for Adelaide, Brisbane, Darwin, Perth and Sydney are all expected to decline and record negative growth rates, except for Melbourne which is expected to have a marginal 0.3% growth. However, RevPAR performance is forecast to improve in the medium term, and positive growth is expected in the long term for all the above-mentioned cities in which FEO owns properties, as shown in **Exhibit 14**.

Given the above, we performed further analysis to compute the expected RevPAR growth in the context that is more specific for FEO. With reference to **Exhibit 15**, we first derived the proportion of total hotel rooms owned by FEO in Australia for each specific Australian city.

Exhibit 15: Weighted expected RevPAR growth for Australia

City	No. of units/rooms/beds	% of total	City weightage	Dransfield RevPAR forecast			Weighted expected RevPAR growth		
				Short-term	Medium term	Long term	Short-term	Medium term	Long term
Perth	452	31.6%	31.6%	-3.8%	-2.3%	3.8%	-5.6%	-0.7%	3.4%
Brisbane	221	15.5%	15.5%	-4.9%	1.7%	4.9%			
Sydney	114	8.0%	8.0%	-3.8%	1.1%	3.2%			
Melbourne	340	23.8%	23.8%	0.3%	0.8%	2.8%			
Darwin	224	15.7%	15.7%	-20.6%	-3.1%	2.2%			
Adelaide	79	5.5%	5.5%	-2.7%	-0.1%	2.6%			
Total	1430	100.0%							

Figures have been rounded

Source: FPA Financial

We then used the city weightages and the RevPAR forecast by Dransfield for the respective cities to compute a weighted expected RevPAR growth for the short, medium and long term. Based on our weighted computations, the expected RevPAR growth in the short, medium and long term are -5.6%, -0.7% and 3.4% respectively. We would later use the weighted expected RevPAR growth of -0.7% (medium term) for our revenue projection.

Weighted expected RevPAR growth (medium term)

- **[-2.3%x31.6%]+[1.7%x15.5%]+[1.1%x8.0%]+[0.8%x23.8%]+[-3.1%x15.7%]+[-0.1%x5.5%] = -0.7%**

Given the above, we expect negative hotel revenue growth in the short and medium term for Australia to weigh down on FEO's hospitality revenue, and in turn total business revenue. However, we noted that expected improvements in hotel RevPAR over time can help to boost hospitality revenue for FEO, and in turn a stronger overall revenue performance in the longer term. Thus, we believe that the expected recovery of the Australian hotel market has the potential to bring FEO's revenue to positive growth territory.

(IV) Growth in demand for higher education in the UK

As at 30 September 2019, the Group (FEO and its subsidiaries) has a PBSA portfolio of 2,300 beds across nine properties in four UK cities. FEO noted in its Q3 2019 financial statements that the demand for PBSA beds is expected to remain strong, supported by continued demand for higher education in the UK. Thus, we will discuss on the outlook for education in the UK to analyse the potential impact on FEO's PBSA property segment.

According to the Higher Education Policy Institute ("HEPI") in 2018, the young population demographic in the UK is expected to increase by nearly 23% during the next decade, and by itself will trigger an increase in demand for higher education in the UK. In addition, participation rates for young people aged 20 and under, another determinant of higher demand, had grown by nearly 25% since 2006. Assuming no increase in participation rates or any other changes, HEPI expects the increase in demography alone to push up demand for 50,000 additional places by 2030. Nonetheless, considering non-static participation rates which are expected to rise, and potentially disruptive impact of Brexit, HEPI expects the most likely outcome to be an increase in demand of over 300,000 additional places by the end of the next decade.

Additionally, there are catalysts that will potentially increase the demand for higher education in the UK. According to an International Education Strategy published by the UK government in March 2019, the UK government aims to grow the total number of international students during the year to 600,000 and generate £35 billion through education exports by 2030. The UK currently hosts around 460,000 international higher education students and the education sector generates approximately £20 billion per year. Thus, the UK government's plans would potentially increase the number of international students studying in the UK by 30% and grow the income generated by education exports by 7.5% by 2030.

Given the above, the potential increase in demand for higher education has the potential to boost the demand for student accommodation in the UK. FEO has recognized the growth potential in UK's student accommodation market, and has carried out two separate acquisitions in 2019 to expand its PBSA portfolio in the UK. Thus, there are potential returns from the investments which can improve FEO's overall business performance.

FINANCIAL ANALYSIS

(I) Profitability Analysis

We first noted that in terms of income generation, FEO's business is divided into a non-recurring income and recurring income segment. The property development business is classified under the non-recurring income segment, while the hospitality and property investment businesses are classified under recurring income segment. Additionally, the irregular income stream from the property development business is a likely explanation for FEO's volatile earnings. Given this knowledge, we believe it would be more objective to assess the profitability of the recurring income segment, given that sporadic income from the non-recurring segment would potentially skew the overall business profitability in specific years.

With reference to **Exhibit 16**, we noted that FEO's hospitality business revenue has declined in the past few years. In 2019, lower revenue from the hospitality business in Australia and Malaysia due to weak market conditions had offset the increase in revenue due to increase in management fees income from hotels under management at Sentosa. Total operating profit decreased in the past few years from 2016 to 2018, but increased in 2019 compared to 2018. This was due to higher operating profit from management and operations in Singapore. Overall, the operating margin for the hospitality business decreased from 2016 to 2018, but rose in 2019 due to stronger operating profit.

For the property investment business, we noted that revenue has increased in the last few years, as seen in **Exhibit 16**. In particular, stronger revenue from the student accommodation properties in the UK had boosted total revenue for the property investment business in 2019. However, higher operating expenses following the acquisition of 5 UK student accommodation properties had contributed to proportionately lower operating profit in 2019. Overall, the operating margin for the property investment business has decreased from 2017, indicating lower profitability.

Exhibit 16: Operating Margin based on Hospitality, Property and Total Business

	Year ended 31 December							
	2019		2018		2017		2016	
	Hospitality	Property Investment	Hospitality	Property Investment	Hospitality	Property Investment	Hospitality	Property Investment
Revenue (S$'000)	127,515	28,548	133,910	16,760	136,800	14,821	169,877	15,011
Total operating profit (S$'000)	25,208	14,788	19,042	10,242	20,347	9,602	38,098	7,312
Operating margin	19.77%	51.80%	14.22%	61.11%	14.87%	64.79%	22.43%	48.71%

Source: Far East Orchard Limited, FPA Financial

As a whole, we think that our profitability analysis shows that there are signs of weakness in FEO's fundamentals. Profitability and revenue from its major hospitality business has mostly declined in the past few years, and despite some improvement in 2019, are likely to weaken in 2020 due to the coronavirus outbreak. Weaker profitability from the property investment business is also a concern as higher operating expenses offset stronger revenue performance from the UK student accommodation properties.

(II) Financial Leverage Analysis

The company's debt comprises current and non-current bank borrowings which are either unsecured or secured over bank deposits, investment properties and property, plant and equipment.

With reference to **Exhibit 17**, we observed that FEO has incurred higher debt over the years, notably in 2018 and 2019. Total debt rose by S$73.3 million to S$295.2 million in 2018, and significantly increased thereafter to S$561.6 million in 2019, close to doubling the total debt in 2018.

Exhibit 17: Total debt, gearing ratio and NAV per share

	As at 31 December				
	2019 (S$'000)	2018 (S$'000)	2017 (restated) (S$'000)	2016 (S$'000)	2015 (S$'000)
Current debt:					
Borrowings	336,208	208,225	180,145	157,008	121,809
Non-current debt:					
Borrowings	225,419	86,953	41,712	46,353	33,061
Total debt	561,627	295,178	221,857	203,361	154,870
Total equity	1,271,302	1,296,551	1,279,898	1,260,077	1,192,683
Gearing ratio*	0.44	0.23	0.17	0.16	0.13
NAV per share (S$)	2.85	2.89	2.93	2.91	2.86

**Gearing ratio = total debt/total equity. Analyst calculation for 2019*

Source: Far East Orchard Limited, FPA Financial

FEO reported in its 2018 quarterly financial statements that additional bank borrowings in 2018 were done to finance developments, the prepayment in a joint venture with Boo Han Holdings Pte Ltd on 28 May 2018 to purchase a trust beneficiary interest of a plot of land and hotel to be constructed thereon in Japan and an equity injection in Q3 2018 amounting to S$34.0 million into a hospitality joint venture, Toga Hotel Holdings Unit Trust, to increase the Group's equity interest from 45.6% to 50.0%. For 2019, FEO accounted for the increase in borrowings to the financing of its acquisition of UK student accommodation properties in March and November.

Given the rising debt, we then assessed the FEO's gearing ratio to evaluate its financial leverage. With reference to **Exhibit 17**, FEO's gearing ratio, measured by its total debt divided by total equity, has increased over the years. Gearing ratio had increased significantly to 0.44 in 2019, compared to 0.23 in 2018. This was mainly due to the large increase in the total debt. A fall in net assets/total equity, in part due to the adoption of SFRS(I) 16 as of 1 January 2019, had also contributed to the higher gearing ratio. Under the principles of SFRS(I) 16, the Group recognized its existing operating lease arrangements as right-of-use assets (recognised under "Property, plant and equipment") with corresponding lease liabilities.

Nonetheless, the substantial increase in debt has been the main reason for the rising gearing ratio and we think that FEO's increasing financial leverage may not be sustainable. The potential returns from FEO's joint venture and acquisition initiatives could be undermined by the viral outbreak and a weak global economy, which may not justify the increasing financial leverage to finance the initiatives.

(III) Toga Joint Venture Analysis

In 2013, FEO formed a 50-50 joint venture with Toga Group through Far East Hospitality Investments (Australia) Pte Ltd to establish Toga Hotel Holdings Unit Trust ("Toga Trust"). The Toga joint venture's relation to FEO's hospitality business structure is shown in **Exhibit 1** on page 4. Toga Trust's principle activities are the ownership and management of hospitality properties in Australia, and these are operated by its wholly-owned subsidiaries, Toga Hotel Property Holdings Unit Trust and Toga Hotels Management Holdings Pty Limited.

As noted from FEO's 2013 annual report, Toga Hotel Property Holdings Unit Trust owns 35% of the hospitality assets in Australia, including Adina Apartment Hotel Adelaide Treasury, Adina Apartment Hotel Brisbane, Adina Apartment Hotel Sydney, Harbourside, Travelodge Mirambeena Resort Darwin and Vibe Hotel Sydney. Toga Hotels Management Holdings Pty Limited operates 35% of the hospitality management business for countries outside Southeast Asia.

Since the formation of the joint venture in 2013, the Group has increased its equity interest in Toga Trust over the years, including an equity injection in Q3 2018 amounting to S$34.0 million to increase the Group's equity interest from 45.6% to 50.0%. Thus, we analysed Toga Trust's financial performance to check its profitability and review the joint venture investment, given the significance of Toga Trust.

With reference to **Exhibit 18**, we computed Toga Trust's net profit margin and return on equity ("ROE") for the past few years to review its profitability. We noted that revenue has increased while net profit has decreased, thus leading to lower net profit margin over the years. In addition, we noted that net assets has increased, but lower net profit and comprehensive income has led to lower ROE over the years. Thus, given the decreasing net profit margin and ROE, it appears that Toga Trust's profitability has decline over the years. This could have potentially contributed to the decreasing trend in the share of profit from FEO's joint ventures. Overall, FEO's joint venture investment in Toga Trust could potentially be generating weak returns for the company.

Exhibit 18: Profitability ratios for Toga Trust

	Year ended 31 December			
S$'000	2018	2017	2016	2015
Revenue	404,347	393,753	371,385	360,458
Net profit	4,903	8,149	40,279	17,688
Net profit margin	1.21%	2.07%	10.85%	4.91%

	Year ended 31 December			
S$'000	2018	2017	2016	2015
Net assets/Equity	433,133	425,432	406,610	395,126
Average equity	429,283	416,021	400,868	411,711
Net profit	4,903	8,149	40,279	17,688
Return on equity	1.14%	1.96%	10.05%	4.30%

	Year ended 31 December			
S$'000	2018	2017	2016	2015
Net assets/Equity	433,133	425,432	406,610	395,126
Average equity	429,283	416,021	400,868	411,711
Comprehensive income	11,724	19,797	45,835	23,869
Return on equity	2.73%	4.76%	11.43%	5.80%

Source: Far East Orchard Limited, FPA Financial

(IV) Share Price Analysis

We noted that FEO's share price has been on a downward trend from S$1.70 since 2017. Given our analysis in the earlier sections of our financial analysis, we would attribute the decrease in share price largely to a weakening of FEO's fundamentals over the past few years.

Firstly, we noted that FEO's revenue has been on the decline in the past few years. On further analysis, we noted that its major revenue-generating hospitality business, which is also the recurring income segment, has performed relatively weaker over the years. FEO's weaker hospitality business performance has been in part due to a weaker Australian hotel market in 2017 and 2018. Additionally, we have highlighted that FEO's Australian joint venture, Toga Trust, has been recording lower profitability over the years, and the share of profit that FEO receives from its joint ventures has decreased. Thus, we noted that FEO's profitability appears to have decreased over the past few years. Additionally, we also noted that financial leverage has increased over the years, as reflected by higher debt levels and rising gearing ratio.

Overall, there seems to be a weakening in FEO's business fundamentals as reflected by lower profitability and higher financial leverage. Despite stable annual dividends of 6 cents in the past few years, FEO's share price has declined, and we believe that a sign of fundamental weakness in FEO's business has been a potential driving force.

Nonetheless, as we have noted in our discussions earlier, there are good industry growth opportunities that can lead to an improvement in revenue and earnings going forward. Additionally, there are upcoming catalysts (which will be discussed further on pages 24 to 28) which will expand FEO's portfolio and open up more opportunities for growth. There are supportive conditions that can fuel favourable returns on these expansion initiatives, which in turn improve earnings and justify the increased financial leverage.

(V) Financial projections

In this section, we will present our projections for revenue and earnings per share ("EPS").

(a) Revenue projection

The methodology that we adopted in our revenue projection was to estimate FEO's overall revenue using a projected value for its hospitality and property investment revenue, based on an estimated weighted RevPAR growth for the hotel industry in Singapore and Australia ("Weighted RevPAR Growth") as a proxy for the growth of FEO's hospitality revenue.

The rationale for basing our projections on the hospitality industry was that we noted that FEO's hospitality business made up the largest proportion of revenue in 2018, and this has been consistent across the past few years, as shown in **Exhibit 19**. We noted that there has not been any revenue contribution from property development since 2016 (we would assume the 0.2% contribution in 2018 to be effectively zero). Additionally, property investment revenue was higher in 2019 due to stronger performance from FEO's student accommodation properties in the UK, which in turn resulted in a higher proportioning for the segment. Hospitality revenue, however, had decreased in 2019 due to lower revenue from weak market conditions in Australia and Malaysia.

Based on the above analysis, we expect the proportion for the hospitality business to decrease and for property investment to increase. This is because we think that the coronavirus would have a greater impact on the hospitality business than the property investment business as a whole. Given that potential gains for the sales of units the Woods Square project in 2020 would be recorded as a share of profit rather than sales revenue, we would assume zero property development revenue in 2020. Thus, we would then assume a 80% proportion for the hospitality business and the remaining 20% for the property investment business in 2020. These proportions would be used later in our revenue projection.

Further, we noted that the total number of rooms in Australia and Singapore (2,155 rooms) constitute about 75% of total rooms across the Group's hospitality properties (2,930 rooms) (More details about the Group's hospitality properties can be found in **Appendix I**). We would assume that our estimated Weighted RevPAR Growth is a relatively fair proxy for the growth of FEO's hospitality revenue, given the significant contributions by the Australia and Singapore segments.

Exhibit 19: Revenue breakdown by business segment

	Revenue									
	2019		2018		2017 (restated)		2016		2015	
Business segment	S$' 000	% of revenue	S$' 000	% of revenue	S$' 000	% of revenue	S$' 000	% of revenue	S$' 000	% of revenue
Hospitality	127,515	81.7%	133,910	88.7%	136,800	90.2%	169,877	91.9%	193,689	71.5%
Property development	-	-	241	0.2%	-	-	-	-	65,829	24.3%
Property investment	28,548	18.3%	16,760	11.1%	14,821	9.8%	15,011	8.1%	11,349	4.2%
	156,063	100.0%	150,911	100.0%	151,621	100.0%	184,888	100.0%	270,867	100.0%

Source: Far East Orchard Limited, FPA Financial

Revenue projection for 2020

We first estimated the Weighted RevPAR Growth for 2020, as shown in **Exhibit 20**. The country weightages were computed based on the proportioning of the total rooms from the Group's hospitality properties in Australia and Singapore. We forecast 2020 RevPAR growth of -11.2% for Singapore as discussed on page 11. The -0.7% RevPAR growth forecast for Australia was referenced to our weighted RevPAR computations for the Australian hotel industry as highlighted on page 15. The country weightages and RevPAR growth forecast were used to estimate a 2020 Weighted RevPAR Growth of -4.2%. The computation is as follows:

- 2020 Weighted RevPAR Growth= [(33.6% x -11.2%) + (66.4% x -0.7%)] = -4.2%

Exhibit 20: Weighted RevPAR Growth for 2020

Country	No. of rooms	Proportion of rooms	Country weightage	2020 RevPAR growth forecast	2020 Weighted RevPAR growth
Singapore	725	33.6%	33.6%	-11.2%	-4.2%
Australia	1,430	66.4%	66.4%	-0.7%	
Total	2,155	100.0%	100.0%		

Figures have been rounded

Source: FPA Financial

With reference to **Exhibit 21**, we estimated the hospitality revenue in 2020 to be S$122.2 million, using the estimated 2020 Weighted RevPAR Growth as a proxy [S$122.2 million = (1-0.042) x S$127.5 million]. We then assumed a 80.0% proportioning for the hospitality business (as discussed on page 21) to yield a total business revenue of S$152.7 million for 2020 [S$152.7 million = (100/80.0) x S$122.2 million]. This will in turn generate an estimated revenue of S$30.5 million for the property investment segment.

Exhibit 21: Revenue projection for 2020

	Revenue					
	2020F		2019		2018	
Business segment	S$' 000	% of revenue	S$' 000	% of revenue	S$' 000	% of revenue
Hospitality	122,159	80.0%	127,515	81.7%	133,910	88.7%
Property development	-	-	-	-	241	0.2%
Property investment	30,540	20.0%	28,548	18.3%	16,760	11.1%
	152,699	100.0%	156,063	100.0%	150,911	100.0%

Source: Far East Orchard Limited, FPA Financial

(b) Earnings per share projection

The methodology that we adopted in our earnings-per-share ("EPS") projection was to estimate the growth in EPS using the revenue growth as a proxy. With reference to **Exhibit 22**, the 2020 revenue growth of -2.2% was derived based on our projected revenue of S$152.7 million. We then assumed the 2020 revenue growth as a proxy for the EPS growth to estimate 2020 EPS as follows:

- **EPS 2020 = (1-0.022) x 5.95 cents = 5.82 cents**

Exhibit 22: EPS projections for 2019 and 2020

Year	Revenue (S$'000)	Revenue growth	EPS (cents)
2018	150,911	-0.5%	7.64
2019	156,063	3.4%	5.95
2020F	152,699	-2.2%	5.82

Figures have been rounded

Source: Far East Orchard Limited, FPA Financial

We recognise that the Singapore Government has responded to the coronavirus outbreak by outlining measures in its Budget 2020 to provide stability for the economy and support for sectors like hospitality and tourism which are expected to be the most affected. Apart from economy-wide measures such as a 25% corporate tax rebate, there are sector-specific measures that will provide support to the hospitality sector. For instance, hotels licensed under the Hotels Act will be granted a 30% property tax rebate for accommodation and function room components of hotel buildings. This will also be applicable for serviced apartment buildings.

However, the impact of the virus on the hotel industry in Singapore and Australia, and in turn on FEO's earnings, cannot be fully determined yet. Thus, we would assume our 2020 EPS projection of 5.82 cents to be appropriate as of now.

UPCOMING CATALYSTS

(I) Joint purchase of a hotel project in Ariake, Tokyo

On 28 May 2018, FEO, together with its subsidiaries (the "Group"), announced that Far East Hospitality Holdings Pte Ltd ("FEHH"), had entered into a joint venture with Boo Han Holdings Pte Ltd (a member of Far East Organisation) ("BHH") by executing a binding term sheet. Pursuant to the binding term sheet, FEHH and BHH will enter into a conditional purchase and sale agreement ("PSA") with Shimizu Corporation ("Seller") for the joint purchase of a plot of land and hotel to be constructed thereon in Japan ("Hotel Project").

Details of the Joint Venture

Pursuant to the Binding Term Sheet, each of FEHH and BHH have agreed to incorporate an indirectly held joint venture entity in the form of a Tokutei Mokuteki Kaisha ("TMK"), a common structure adopted for investment in real estate under Japanese law. The TMK shall be incorporated prior to the completion of the PSA, which is currently anticipated to be in the second quarter of 2020. Under the terms of the Binding Term Sheet, the contributions of FEHH and BHH to the joint venture shall be in equal proportions, and all risks and rewards of the joint venture shall be borne and enjoyed by FEHH and BHH equally.

Details of the PSA and Hotel Project

The PSA is structured as a forward purchase deal, where the Seller will construct a hotel on the land, and deliver the trust beneficiary interest ("TBI") of the land and completed hotel to the TMK on completion of the PSA, with the title to be held by a trustee for the TMK. The purchase price to be paid to the Seller for the TBI (including consumption taxes) is ¥8.198 billion (approximately S$100.5 million based on an exchange rate of S$1:¥81.54 as at 25 May 2018) which will be contributed in equal proportions by each of FEHH and BHH.

The Hotel Project is located on an approximately 2,542m^2 plot of land located in Ariake, Tokyo. The 306-room hotel, named Far East Village Hotel Ariake Tokyo, is scheduled to be completed in the second quarter of 2020, ahead of the 2020 Tokyo Olympics. It is strategically located in the Ariake District, which is close proximity to Central Tokyo, Tokyo, Disneyland Resort, Haneda Airport, Tokyo Big Sight and the Ariake Arena. Notably, the Ariake Arena, which is one of the venues hosting the Tokyo Olympics in 2020, will be built and located diagonally across the Hotel Project before the commencement of the Tokyo Olympics, and will be used to host sports events and concerts thereafter.

Rationale for and benefits of the Joint Venture and PSA

The Group expects the purchase of the Hotel Project to be a prime investment opportunity and will provide brand exposure in an attractive Japanese market, which has an economy backed by growth in in-bound tourism. In addition, the Group expects the hotel, when completed, to benefit from its close proximity to the notable places of interest as mentioned earlier.

FEO noted in the announcement that the aggregate value of the joint venture to the company amounts to approximately ¥3.3 billion, or approximately S$40.5 million (based on ban exchange rate of S$1:¥81.54 as at 25 May 2018), representing approximately 3.5% of the Group's audited net tangible assets of S$1,146,452,000 as of 31 December 2017.

In view of the completion of the Hotel Project in the second quarter of 2020, there is growth potential for FEO's hospitality business from its maiden foray into the Japanese market, given the strong tourism potential in Japan.

Acquisition of 50% shareholding in a newly-incorporated company in Japan

Following the announcement on 28 May 2018, FEO announced that FEHH had on 7 October 2019 completed the acquisition of 50% equity interest comprising one share (the “Share”) in the capital of a newly incorporated company (“Master Lessee Company”) in Japan, for a total consideration of JPY50,000, which will be funded internally and wholly satisfied in cash. The remaining 50% of the Master Lessee Company was concurrently acquired by Boo Han for JPY50,000.

Details of the Master Lessee Company are as follows:

- Name: Ariake Hospitality Kabushiki Kaisha
- Date of incorporation: 24 September 2019
- Principle activity: Hotel operation and management
- Total number of shares issued: 2
- Issued and paid-up capital share: JPY100,000

The consideration of JPY50,000 for the Share was determined based on 50% of the net tangible asset value of the Master Lessee Company (being 50% of the issued and paid-up share capital). Following the completion of the acquisition, the Master Lessee Company is now 50% held by FEHH and 50% held by Boo Han.

(II) Expected Completion of the Clan Hotel in mid-2020

On 4 July 2018, FEO announced that Far East Hospitality Management (S) Pte Ltd (“FEHMS”), a wholly-owned subsidiary of FEHH, entered into the following definitive agreements with China Classic Pte Ltd, a wholly-owned subsidiary of Victory Realty Co. Private Ltd, which is in turn a wholly-owned subsidiary of Far East Holdings Pte Ltd, for a hotel to be constructed and named “The Clan Hotel”:

(a) technical services agreement dated 19 June 2018, for the appointment of FEHMS as a consultant during the design, planning and construction stages of the hotel
(b) hotel management agreement dated 4 July 2018, for the appointment of FEHMS as the sole and exclusive operator of the Hotel

Details of the Clan Hotel

The Clan Hotel is the latest brand to be added to Far East Hospitality’s portfolio, a modern luxury hotel that anchors the group’s vision in rethinking what luxury means for a new generation of travelers. It is aimed to introduce a new perspective on luxury to meet the growing momentum of experience-driven travel.

The hotel is slated to open in the second quarter of 2020, with FEHMS being responsible for the overall management of the hotel with a total room inventory of 324 rooms. The 324-room hotel has an inventory comprising four room types: Superior Room, Deluxe Room, as well as the Premier and Grand Premier Room, which are part of the hotel's MASTER Series rooms that offer highly customised services to inspire a sense of belonging at every step of the guest's travel journey.

The hotel is sited at the crossroads of culture and commerce, and only minutes away from commercial buildings in Raffles Place, Collyer Quay and One Fullerton; heritage streets around Far East Square, Telok Ayer Street, Amoy Street, Club Street, Ann Siang Hill, Lau Pa Sat and Chinatown; as well as uniquely Singaporean sights such as the Marina Bay and Gardens by the Bay.

(III) Property Development Projects

FEO's ongoing development projects include Woods Square and Westminster Fire Station. The completion and thereafter sale of units in these projects are expected to contribute to revenue and share of profits for FEO.

(a) Woods Square

Woods Square is a 99-year leasehold integrated office development project that is jointly developed by FEO, Far East Organisation and Sekisui House Ltd. It is situated at Woodlands Regional Centre, Singapore's Northern Gateway, that connects with key locations in Singapore and Johor Bahru.

As per information from Far East Organisation's website on 4 March 2020, the Woods Square development project has a site area of 18,568.8m^2 and a total of 494 office units and 39 retail units. Woods Square offers 65 office units in Tower 1 for sale, with floor-to-floor heights of 4.2m. Tower 2 has been set aside for lease, with plans for Far East Organization to be a key tenant.

Further details about the Woods Square development project as announced by FEO are as follows:

<u>Details of the joint tender award</u>

On 17 April 2014, FEO announced that Tannery Holdings Pte Ltd ("THPL"), a wholly-owned subsidiary of FEO, Far East Civil Engineering (Pte.) Limited ("FECE"), an associate of FEO's controlling shareholder, Far East Organisation Pte Ltd, and Sekisui House Ltd ("Sekisui") have been jointly awarded a tender by the Urban Redevelopment Authority for a land parcel at Woodlands Square zoned for commercial development. The tender price for the parcel of land was announced to be S$633,999,000.

<u>Details of the joint venture</u>

Further to the announcement on 17 April 2014, FEO announced on 2 March 2015 that THPL, FECE and Sekisui had on 5 May 2014 incorporated Woodlands Square Pte Ltd ("WSPL") to own and undertake the development of the land parcel at Woodlands Square ("Joint Venture") The issued and paid-up share capital of WSPL was announced to be S$6.00 divided into 6 ordinary shares. Each of THPL, FECE and Sekisui holds one-third interest (or 2 ordinary shares) in the share capital of WSPL ("Agreed Proportion"). Given that THPL is a wholly-owned subsidiary of FEO, the latter has a 33% effective interest in WSPL (as noted on page 6).

Additionally, THPL, FECE and Sekisui entered into a joint venture agreement on 30 January 2015 for the purpose of recording and regulating the affairs of the Joint Venture and their respective rights in respect of the Joint Venture. Under the terms of the joint venture agreement, THPL's, FECE's and Sekisui's respective interests in the Joint Venture would be in the Agreed Proportion. The parties also agreed that all risks and rewards of the Joint Venture would be borne and enjoyed by the parties in the Agreed Proportion.

<u>Sale of property units at Woods Square</u>

FEO announced that WSPL had on 23 August 2019 entered into an option to purchase, a sale and purchase agreement and a side letter (collectively, the “SPA”) with Far East Management (Private) Limited (“FEM”), a member of Far East Organization, for the sale of 3 property units at Woods Square from WSPL to FEM (the “Sale”).

The aggregate consideration for the Sale was announced to be S$131,700,000 (the “Consideration”), which is approximately S$19,379.05 per m^2 (the aggregate strata area of the 3 property units is approximately 6,796m^2). It was negotiated on an arm’s length and willing buyer-willing seller basis, taking into account the transaction prices of other units at Woods Square and other market comparables. No percentage discount is given to FEM.

Pursuant to the terms of the SPA, FEM would pay to WSPL 5% of the Consideration (being S$6,585,000) upon the granting of the option to purchase, 15% of the Consideration (being S$19,755,000) upon the exercise of the option to purchase, and the balance 80% of the Consideration (being S$105,360,000) in accordance with development and completion milestones. The parties have also agreed that if the strata area of the 3 property units is varied during the development of Woods Square, then the Consideration shall be adjusted accordingly based on S$19,379.05 per m^2.

On 30 September 2019, FEO reported that 57% of the 208 units launched for sale have been sold as of 30 June 2019.

Woods Square recently achieved its temporary occupation permit on 5 February 2020, with its vacant possession date and legal completion date to be on 31 December 2021 and 31 December 2024 respectively.

(b) Westminster Fire Station

In 2016, FEO expanded its property development portfolio into the UK, working with London-based Alchemi Group to redevelop the former Westminster Fire Station into a mixed-use development comprising residential apartments and a restaurant.

Located at 4 Greycoat Place in the prime central borough of the City of Westminster in London, the redeveloped Westminster Fire Station will feature 17 residential apartment units and 1 restaurant unit. The area is well served by public transport infrastructure with the St. James’s Park Station and Victoria Station within walking distance. Completion of the development project is expected to be beyond 2020.

Further details about the Westminster Fire Station development project as announced by FEO are as follows:

<u>Incorporation of indirect wholly-owned subsidiary and entry into a sale and purchase agreement</u>

On 4 July 2016, FEO announced that the Group had on 30 June 2016 incorporated an indirect wholly-owned subsidiary, Far East Orchard Development (UK) Pte Ltd (“FEOD”). The details of FEOD are as follows:

- Name of company: Far East Orchard Development (UK) Pte Ltd
- Place of incorporation: Singapore
- Issued and paid-up share capital: S$1.00 comprising one (1) share

FEOD entered into a sale and purchase agreement (“SPA”) on 4 July 2016 under which FEOD agreed to acquire shares comprising 90% (the “Sale Shares”) of the issued share capital of WFS 1 Limited (“WFS1”) from the Sellers (the “Share Acquisition”) on the terms and conditions of the SPA. FEOD acquired the Sale Shares for the purpose of acquiring the Westminster Fire Station development project (the “Project”).

Details of the Project and WFS1

WFS1 is a private limited company that holds all the shares in Westminster Fire Station Limited ("WFSL"). Both WFS1 and WFSL are incorporated in the UK. WFSL entered into a Contract for Sale with The London Fire and Emergency Planning Authority ("Property Seller") to acquire the freehold land and the building thereon known as the Former Westminster Fire Station, located at 4 Greycoat Place, London for £9.4 million (the "Property Acquisition"). On completion of the Property Acquisition, WFSL was required to make a payment of £0.21 million to the Property Seller for the purpose of extending the original completion date from 4 March 2016 to 4 July 2016.

WFSL appointed Coveside as development manager of the Project. Coveside, trading as Alchemi Group, is a privately owned, specialist residential development company operating in the prime central London market.

Acquisition of remaining shareholding in WFS1

Further to the announcement on 4 July 2016, FEO announced on 29 November 2019 that FEOD acquired 95 shares representing the remaining 10% of the entire issued share capital of WFS1.

The acquisition was completed in two tranches. The first tranche was completed on 29 December 2017 and the second tranche was completed on 29 November 2019. Subsequent to this acquisition, WFS1 has become a wholly-owned subsidiary of FEO.

VALUATION OF SHARE

We will present our valuation analysis in two segments. We will first provide a balance sheet analysis, followed by a peer comparison analysis to compare between industry peers.

(I) Balance sheet analysis

We performed a balance sheet analysis for FEO to determine how the company is trading on the market relative to its book value. In other words, we reviewed how much of a premium or discount to book value has FEO been trading on the market. This would provide a better understanding of whether FEO's share could be potentially undervalued or overvalued.

As at 4 March 2020, FEO was trading at S$1.14 per share on the market, with a total market value of S$499.73 million, based on a total of 438.36 million issued shares as at 31 December 2019, as shown in **Exhibit 23**. Based on FEO's balance sheet as at 31 December 2019, the value of current assets and non-current assets were S$459.2 million and S$2,071.7 million respectively. We choose to be conservative and considered only the tangible asset value on FEO's balance sheet and subtracted intangible assets of S$125.4 million to yield a total tangible asset value of S$2,405.5 million. Total liabilities of S$1,259.5 million were then net from the total tangible asset value to yield a tangible book value of S$1,145.9 million. We also deducted non-controlling interest of S$22.2 million from the tangible book value of (to maintain consistency with FEO's derivation of book value) to yield an adjusted tangible book value of S$1,123.8 million.

Exhibit 23: Balance sheet analysis for book value

	S$'000
Share price (S$), as at 4 Mar 20	1.140
Number of issued shares ('000)	438,360
Market capitalisation	499,730
	31-Dec-19
Balance Sheet	
Current assets	459,181
Non-current assets	2,071,650
Less: Intangible assets	(125,368)
Total tangible assets	2,405,463
Less:	
Current liabilities	478,234
Non-current liabilities	781,295
Total liabilities	1,259,529
Tangible book value/Tangible-asset value	1,145,934
Less: Non-controlling interest	(22,156)
Adjusted tangible book value	1,123,778
Number of issued shares ('000)	438,360
Adjusted tangible book value per share (S$)	2.56
Price-to-book ratio (x)	0.44

Source: Far East Orchard Limited, FPA Financial

Given that FEO does not issue any preference shares, the adjusted book value of S$1,123.8 million represents the net tangible assets attributed to common shares. We then derived an adjusted book value per share ("BVPS") of S$2.56, based on a total of 438.36 million issued shares as at 31 December 2019. With reference to **Exhibit 23**, comparing between the current market value share price of S$1.14 and adjusted BVPS of S$2.56 indicates that FEO is trading way below the adjusted book value. Based on our adjusted BVPS, FEO's price-to-book ("P/B") ratio as at 4 March 2020 was 0.44, an indication that the company's share traded at a 56% discount to book value. Thus, we believe that FEO could potentially be undervalued.

Given the above, we propose the following two cases:

Case (1): Valuation at the adjusted BVPS

In this scenario, we would value FEO at the adjusted BVPS of S$2.56, as in **Exhibit 23**, if the company were to liquidate and sell off all its assets. This will generate a potential upside of about 124.6% from the current share price of S$1.14 as at 4 March 2020 (without adjusting for costs and taxes at disposal).

Case (2): Valuation at a 30% discount to the adjusted BVPS

In this scenario, we would be more conservative in our valuation due to the concerns over the COVID-19 situation. We have assigned a 30% discount on the adjusted BVPS to account for the uncertainties in timing in realizing the values of FEO's properties if the management wishes to dispose of some of its properties. Given a 30% discount, this will yield a value of S$1.79 per share and generate a potential upside of 57.0% from the current share price of S$1.14 as at 4 March 2020.

Given the current situation, we believe Case (2) to be the most appropriate approach to value FEO. We are of the view that industry growth conditions and upcoming catalysts have the potential to increase FEO's share price. However, the current economic climate and ongoing coronavirus outbreak could undermine any significant improvement to its fundamentals in the near term.

(II) Peer comparison analysis

We also performed a peer comparison analysis to analyse how the company is performing relative to companies that have similar business operations and are within the same industry as FEO, as shown in **Exhibit 24**.

Exhibit 24: Peer comparison

Company	Ticker	Price (S$) as at 4/3/2020	Market capitalisation (S$ million) as at 4/3/2020	P/E (x) as at 4/3/2020	Dividend yield (%) as at 4/3/2020
Far East Orchard Limited	O10 / FARE.SI	1.140	504.11	19.33	5.22
Peers:					
City Developments Limited	C09 / CTDM.SI	9.910	8,892.97	16.56	1.43
UOL Group Limited	U14 / UTOS.SI	7.400	6,233.49	12.92	2.37
GuocoLand Limited	F17 / GUOC.SI	1.730	2,035.40	6.97	4.07
Frasers Property Limited	TQ5 / FRPL.SI	1.550	4,534.77	9.79	3.87
Amara Holdings Limited	A34 / AMRA.SI	0.395	230.77	8.16	2.53
Average				**10.88**	**2.85**

Figures have been rounded

Source: Singapore Exchange Limited

With reference to **Exhibit 24**, we observed that FEO's price-to-earnings ("P/E") ratio of 19.33x is relatively high compared to the peer average of 10.88x, which could be attributed to the nature of its business. As discussed on page 17, FEO's hospitality business generates recurring income and is its main revenue-generating segment. Thus, investors are likely to place higher expectations on FEO's earnings due to the perceived stability in its earnings, compared to its peers that may be more reliant on non-recurring property development for revenue generation. Thus, we would think that FEO's high P/E does not seem surprising and is justified by how the business generates revenue. We also noted that FEO's dividend yield of 5.22% is higher than peer average of 2.85%, which makes it relatively attractive in terms of yield. This is also supported by the stable amount of dividends that FEO has issued over the past few years.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 25** to evaluate the various components of the analysis thus far.

Exhibit 25: SWOT analysis

SWOT analysis	
Strengths • Healthy gearing ratio • Strong parent ownership	Weaknesses • Negative revenue growth
Opportunities • Expansion into Japan’s hotel market • Growing demand for higher education in the UK • Recovery of Australia’s hotel market • Recovery of Singapore’s hotel market	Threats • Currency fluctuation • Weak tourism outlook • Geopolitical and trade tensions • Global outbreak of diseases

(I) Strengths

In our financial analysis, we noted that total debt has been rising, and thus gearing ratio has been rising over the years. However, we believe that FEO’s gearing ratio remains healthy and potentially less of a concern, given that the FEO has, for the most part, increased its financial leverage for the purpose of expanding its portfolio through acquiring and investing in properties. Thus, there are potential returns from FEO’s investments that could justify the rise in debt financing and higher gearing ratio.

FEO’s parent organisation, Far East Organisation, is Singapore’s largest private property developer. Under a strong parent ownership, FEO stands to benefit from the reputation and branding of Far East Organisation. In addition, FEO also benefits from potential transfer of valuable properties from its parent, which will help to expand the company’s portfolio size.

(I) Weaknesses

In our financial analysis, we identified that FEO’s revenue has decreased in the past few years, in part due to the absence of revenue generated by its property development business segment. In addition, there has been a decrease in revenue generated by the hospitality business segment over the years which has also contributed to lower overall revenue, thus resulting in negative revenue growth. However, we noted that the revenue decline has been reducing, and in turn the negative growth rate has become smaller. Nonetheless, we expect a potential worsening of growth in 2019, due to a weak Australian hotel market, and thus lower expected revenue generated by the hospitality business segment. This could potentially be reversed as the Australian hotel market is expected to recover after 2019.

(III) Opportunities

In the announcement statement of its Japan joint venture, FEO recognized Japan as an attractive market, with growth in in-bound tourism arrivals due to strong economic growth in Asia, relaxation of visa requirements and a weaker Japanese yen. FEO expects the purchase of the plot of land in Japan, and thereon construction of a hotel, to provide the Group with brand exposure in a major international gateway city. The hotel, named Village Hotel Ariake Tokyo, is expected to open in the second quarter of 2020, ahead of the 2020 Tokyo Olympics. It is strategically located in close proximity to prominent landmarks and places such as Central Tokyo, Tokyo Disneyland, Haneda Airport, Tokyo Big Sight and the Ariake Arena. In particular, the Ariake Arena is one of the venues hosting the 2020 Tokyo Olympics, thus the hotel could potentially benefit from higher demand for accommodation during the period of the event.

We noted that a potential improvement in Australia's hotel RevPAR in the medium term (to 2021) and long term (to 2027) could boost hotel revenue performance. Thus, this would benefit FEO in terms of stronger revenue generation for its hospitality business in Australia. In addition, we identified potential growth in the demand for student accommodation in the UK, in part due to plans by the UK government to increase the number of international students studying the UK. This provides a sound reasoning to the acquisition initiatives by FEO in 2019 to expand its UK student accommodation portfolio, potentially to capitalize on the growing demand for higher education in the UK.

(IV) Threats

Currency fluctuations potentially lead to foreign exchange translation losses, which have negatively impacted FEO's financial performance in Q3 2019. Geopolitical and trade tensions have evidently lead to a weaker global economy, which in turn has the potential to stifle tourism travel and expenditure. Additionally, global outbreak of diseases like the recent Wuhan coronavirus, have the potential to significantly reduce tourism flows, and thus negatively affect the tourism industry in Australia and Singapore.

These potential threats that we have identified are also recognized as some of the risks to the target price. Thus, they will be further discussed in our "Risks to the Target Price" section.

INVESTMENT RECOMMENDATION

We note that FEO has a low P/B ratio of 0.44, as derived based on the current share price of S$1.14 and our adjusted book value per share of S$2.56 (which is lower than FEO's reported book value per share of S$2.85). This implies that FEO's share is trading at a 56% discount to the adjusted book value, which we believe indicates that the company could potentially be undervalued. Nonetheless, we have assigned a 30% discount on our adjusted book value per share to arrive at our target price of S$1.79. This is to account for the uncertainties in realising the properties' value. We also noted that FEO is relatively attractive in terms of dividend yield compared to its peers, despite having a P/E ratio above the peer average that we believe is justified by the nature of revenue generation for the business.

Moving forward, there are growth opportunities that can potentially improve FEO's business fundamentals. These include good growth conditions in Australia and Singapore's hospitality sector, as well as in the UK student accommodation segment. In addition, upcoming catalysts such as the expected completion of the Japan hotel project and the Clan Hotel in 2020, as well as development projects like Woods Square and Westminster Fire Station, have the potential to boost FEO's business performance.

As a whole, we identify growth opportunities that could spark a recovery in FEO's fundamentals. Over time, it is likely that FEO's share will trade closer to its adjusted book value. Nonetheless, we recognise that the current COVID-19 situation will likely undermine any significant improvements in the near term. Thus, we reiterate our conservative approach to provide a neutral recommendation on FEO's share with a target share price of S$1.79.

However, there are risks to our valuation which we will highlight in the next section on pages 35 and 36.

RISKS TO THE TARGET PRICE

(I) Risk of currency fluctuations

The risk of exchange rate fluctuations can have negative effects on FEO's financial performance due to the need for currency conversion to Singapore dollars ("SGD"), given that FEO's hospitality and property businesses extend beyond Singapore. FEO reported in its Q4 2019 financial statements that the Group incurred currency exchange losses of S$4.0 million resulting mainly from the weakening of the Australian dollar ("AUD") against SGD. Recent developments on Brexit led to the strengthening of the British pound against SGD, boding well for FEO in terms of British pound conversion of revenue generated from its property business in the UK. Nonetheless, currency fluctuations still pose as potential risks.

(II) Risk of a weak global economy

Given the recent developments on Brexit and the US-China trade negotiations, there have been positive sentiments on a potential recovery in the global economy. However, there are still some risks. Firstly, post-Brexit challenges like the trade talks between the UK and European Union are not expected to be smooth-sailing, and potential trade friction among the major economies will have ripple effects on the global economy. Secondly, the recent COVID-19 outbreak is likely to cause a deterioration of global growth, even though its impact cannot be fully determined as of now. Concerns have surfaced over China's ability to meet the terms of the phase 1 trade deal due to the virus, and this has created uncertainty over the trade outlook for US and China. Thirdly, geopolitical tensions between US and the Middle East have faded momentarily amid the virus outbreak, but they still remain and pose as a risk to global growth. Against this backdrop, any potential economic recovery is likely to be thwarted by the virus outbreak, and a weak global economy appears to be likely. With a weak global economy, it is expected that tourism will be significantly impacted as travel will be reduced. This will lead to weaker performance for FEO's hospitality business, and thus overall earnings.

(III) Risk of potential infringement issues

On 2 August 2018, FEO released an announcement that noted the issuance of a proposed infringement decision ("PID") by the Competition and Consumer Commission of Singapore ("CCCS") against its subsidiary Far East Hospitality Management (S) Pte. Ltd., for allegedly infringing Section 34 of the Competition Act (Cap. 50B) by entering into concerted practice(s) to discuss and exchange confidential, customer-specific, commercially sensitive information in connection with the provision of hotel room accommodation in Singapore to corporate customers. The announcement stated that the Group (FEO together with its subsidiaries) had extended and would continue to extend its fullest cooperation to CCCS in the investigations. Additionally, it was stated that the Board of Directors of FEO did not expect the matter to have a material impact on the net tangible assets and earnings per share of the Group for the financial year ending 31 December 2018.

FEO provided an update on 30 January 2019, noting that the PID provisionally found that certain hotel businesses and operators in Singapore including the Company's subsidiary, Far East Hospitality Management (S) Pte. Ltd. and two hotels under its management (collectively, the "FEH Parties") had allegedly contravened Section 34 of the Competition Act (Cap. 50B) by engaging in concerted practices involving the exchange of commercially sensitive information in connection with the provision of hotel room accommodation in Singapore to corporate customers.

Following the PID, the FEH Parties had, through its lawyers, made robust submissions in response to the PID. Despite this, CCCS has, today, released its formal decision (the "Decision") and maintained the financial penalty of S$286,610 as proposed in the PID. Although disappointed with the CCCS's decision, the Group noted that it respects the position taken by CCCS. Additionally, the Board of Directors of FEO did not expect the financial penalty to have any material impact on the net tangible assets and earnings per share of the Group for the financial year ending 31 December 2019.

Nonetheless, a potential repeat of such infringement issues could negatively affect the Group's image and reputation, and thus still poses as a risk.

(IV) Risk of global disease outbreaks

Owing to the recent outbreak of the COVID-19 virus, there has been a significant negative impact on tourism due to travel bans and restrictions. In the case of Singapore, visitors who have travelled to mainland China, South Korea, Iran or northern Italy within the past 14 days will not be allowed to enter or transit through the country. With significantly lesser tourist arrivals, hotel occupancy rates are expected to take a substantial hit which will translate into weaker earnings performance for the hotel industry. Thus, this will pose as a negative risk for FEO's earnings, given the significance of the Singapore market in its hospitality business. Even as the COVID-19 situation has yet to be resolved, it is evident that the potential of global disease outbreaks in the future will have negative implications on FEO's earnings.

SUSTAINABILITY INFORMATION

A Sustainability Report (SR) is published on an annual basis to provide a holistic overview of FEO's Economic and Environmental, Social and Governance ("ESG") initiatives for sustainable and responsible business development. Through these measures, Far East Orchard aims to address how it manages key factors material to its stakeholders.

The following sustainability information have been extracted from FEO's SR 2018 and covers the Group's sustainability performance for the financial year ended 31 December 2018 ("FY2018"), unless otherwise stated.

Sustainability Vision: A trusted property and hospitality group with sustainable business practices that will benefit future generations

Sustainability Mission: Delivering long-term value by upholding a high standard of corporate governance and ethical behaviour; nurturing a culture of sustainability and adopting responsible business practices which consider environmental and social impacts

Sustainability commitment

FEO's commitment to sustainability is guided by its core values. The Group ensures that the needs and concerns of key stakeholders are considered in the development and execution of its corporate strategy. FEO has incorporated sustainability values in the formulation of its strategy and decision-making processes. The Group adopts processes that are environmentally responsible and resource-efficient in its business operations.

Sustainability in supply chain

The Group believes that sustainable supply chain management can be a strong driver of value and success for its business as much as for communities. Hence, FEO is extending its pledge to sustainable business practices across its supply chain, from subsidiaries to suppliers. FEO aims to communicate with and educate stakeholders across its supply chain about its sustainability beliefs and initiatives. This includes applying environmentally conscious construction processes in its projects and encouraging contractors to source for raw materials from sustainable sources. Appropriate and adequate risk management controls and action plans are also taken into consideration to ensure the health and safety of its stakeholders. The Group is committed towards the continuous incorporation and improvement of ESG aspects in its supply chain as its sustainability efforts progressively mature.

Sustainability governance structure

FEO has a robust sustainability governance structure to identify, drive and execute sustainability initiatives across the Group, as shown in **Appendix IV**.

The Audit Risk Committee (ARC) maintains an overview of all sustainability initiatives of the Group. The ARC is supported by the Management Risk & Sustainability Committee (MRSC), which is chaired by the Group Chief Executive Officer and Managing Director, and includes The Board of Directors ("Board") is collectively responsible for the long-term success and sustainability of the Group. The ARC assists the Board in fulfilling its responsibilities for the Group's financial and sustainability reporting, management of material financial, operational, compliance, information technology and workplace safety and health risks to safeguard stakeholders' interests and the Group's assets. The MRSC supports the ARC, ensuring effective integration of ESG initiatives into the Group's business operations and corporate objectives. It also assists in risk management and sustainability efforts. The Business Divisions implement initiatives cascaded from the MRSC, ensuring a clear and consistent approach across the Group.

Stakeholder engagement

FEO recognises the importance of meaningful two-way engagement with its stakeholders to understand their concerns and interests. Effective stakeholder engagement allows the Group to be better positioned to anticipate and react to challenges as they arise, and is part of its efforts to build a sustainable long-term business. The details of the key stakeholders that were selected due to their significant influence on and interests in the Group's business can be found in **Appendix V**.

Materiality assessment

To identify material ESG topics for FEO, the Group considered a reasonable estimation of economic, environmental, social and governance impacts, and the interests and expectations of its stakeholders It also conducted internal discussions with employees from departments that acted as proxies to the various stakeholder groups and a benchmarking exercise against its peers. These ESG topics were subsequently endorsed by FEO's management and Board.

The ESG topics illustrated in the Materiality Matrix in **Appendix VI** were re-assessed and identified to be the most material to FEO's value chain. Materiality was determined based on the ESG factors' importance to stakeholders and significance to the Group's business. Influence on stakeholders' assessments and decisions refers to the ESG factors that matter to FEO's key stakeholders, while significance of economic, environmental, social and governance impacts to the business refers to the ESG factors that may positively or negatively influence the Group's ability to execute its strategy.

APPENDIX

(I) List of hospitality properties owned by the Group

Hospitality properties	Tier	Location	Effective interest	No. of units/rooms/beds
Owned properties:				
Australia				
Adina Apartment Hotel Adelaide Treasury	-	Adelaide	35%	79
Adina Apartment Hotel Brisbane	-	Brisbane	35%	220
Adina Apartment Hotel Brisbane Anzac Square - Apartment Unit	-	Brisbane	70%	1
Adina Apartment Hotel Sydney Darling Harbour	-	Sydney	35%	114
Rendezvous Hotel Perth Central	-	Perth	70%	103
Rendezvous Hotel Perth Scarborough	-	Perth	70%	336
Rendezvous Hotel Perth Scarborough - Retail Podium	-	Perth	70%	13
Rendezvous Hotel Melbourne	-	Melbourne	70%	340
Travelodge Resort Darwin	-	Darwin	35%	224
Total	**-**	-	-	1430
Denmark				
Adina Apartment Hotel Copenhagen	-	Copenhagen	35%	128
Total	**-**	-	-	128
Germany				
Adina Apartment Hotel Berlin Checkpoint Charlie	-	Berlin	35%	127
Adina Apartment Hotel Berlin Mitte	**-**	Berlin	35%	139
Adina Apartment Hotel Frankfurt Neue Oper	-	Frankfurt	35%	134
Total		-	-	400
Malaysia				
Oasis Suites Kuala Lumpur	-	Kuala Lumpur	100%	247
Total	**-**	-	-	247
Leased and managed:				
Singapore				
Orchard Rendezvous Hotel, Singapore	Mid-tier	Singapore	100%	388
Village Hotel Albert Court	Mid-tier	Singapore	100%	210
Village Residence Clarke Quay	Mid-tier	Singapore	100%	127
Total	**-**	-	-	725
Property under development:				
Australia				
280 George Street*	-	Sydney	35%	-
Overall total	**-**	-	-	2930

**Under redevelopment from office building into apartment hotel*

Source: FEO 2018 annual report

(II) List of development properties owned by the Group

Development properties	Location	Effective interest	No. of units/rooms/beds
Residential project under development:			
United Kingdom			
Westminster Fire Station*	London	98%	18
Commercial project under development:			
Singapore			
Woods Square**	Singapore	33%	514
Completed properties:			
Singapore			
Novena Medical Center - Medical Suites	Singapore	100%	7
Novena Specialist Center - Medical Suites	Singapore	100%	30
SBF Center - Medical Suite	Singapore	20%	1
SBF Center - Office	Singapore	20%	1

**Expected completion beyond 2020*

***Temporary occupation permit obtained on 5 Feb 2020.*

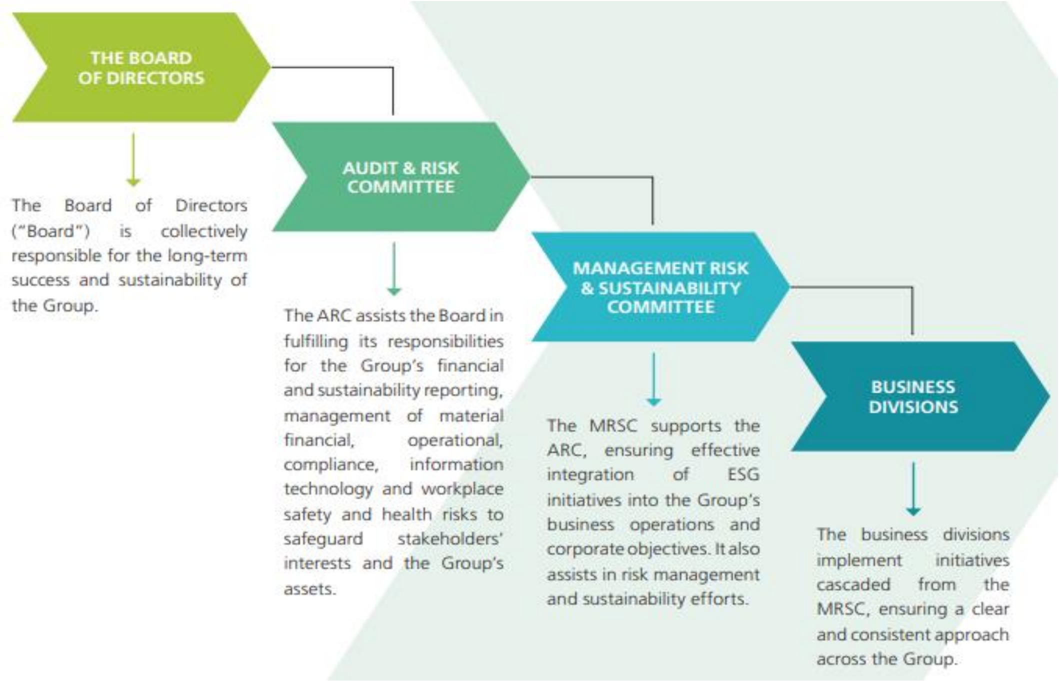
Source: FEO 2018 annual report

(III) List of investment properties owned by the Group

Investment properties	Location	Effective interest	No. of units/rooms/beds
Singapore			
Novena Medical Center - Medical Suites	Singapore	100%	37
Novena Specialist Center - Medical Suites	Singapore	100%	10
SBF Center - Shops	Singapore	20%	3
Tanglin Shopping Centre - Offices	Singapore	100%	4
United Kingdom			
Portland Green Student Village - Bryson Court	Newcastle upon Tyne	100%	366
Portland Green Student Village - Marshall Court	Newcastle upon Tyne	100%	196
Portland Green Student Village - Newton Court	Newcastle upon Tyne	100%	295
Portland Green Student Village - Rosedale Court	Newcastle upon Tyne	100%	338
Portland Green Student Village - Turner Court	Newcastle upon Tyne	100%	274
Land sites for student accommodation buildings	Newcastle upon Tyne	100%	-
Hollingbury House	Brighton	100%	193

Source: FEO 2018 annual report

(IV) Sustainability governance structure



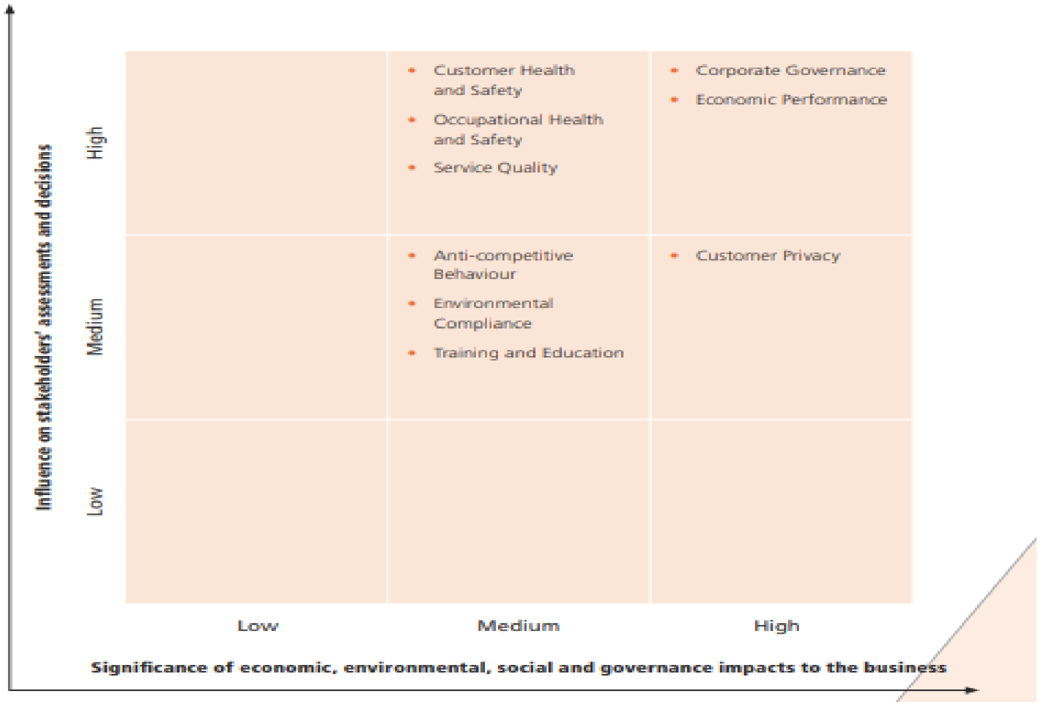
Source: Far East Orchard Limited

(V) Stakeholder engagement initiatives

KEY STAKEHOLDERS	MODES OF ENGAGEMENT
Shareholders	• Annual General Meeting • Analyst meetings • Corporate website • Roadshows • Queries to Investor Relations team
The Board	• Ongoing communication • Board meetings
Employees	• Orientation programme • Staff communication • Annual colleague engagement survey • Performance and career development reviews
Hotel Guests/Customers	• Customer satisfaction surveys • Guest comment cards • Priority guest programme
Joint Venture and Other Business Partners	• Meetings • On-site visits • Industry gatherings

Source: Far East Orchard Limited

(VI) Materiality matrix



Source: Far East Orchard Limited

(VII) Far East Hospitality REIT portfolio

Property	No. of guest rooms/units	Valuation as at 31 Dec 2018 (S$ million)
Hotels:		
Village Hotel Albert Court	210	127.2
Village Hotel Bugis	393	232.4
Village Hotel Changi	380	209.2
The Elizabeth Hotel	256	163.7
Oasis Hotel Downtown	314	236.4
Oasis Hotel Novena	428	330.0
The Quincy Hotel	108	83.3
Rendezvous Hotel Singapore	298	282.1
Orchard Rendezvous Hotel	388	431.1
Serviced Residences:		
Village Residence Clarke Quay	128	204.1
Village Residence Hougang	78	60.2
Village Residence Robertson Quay	72	105.2
Regency House	90	168.6
Total	3,143	2,633.5

Source: Far East Hospitality Trust 2018 annual report

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