

REAL ESTATE EQUITY RESEARCH

Fraser's Hospitality Trust

SGX: ACV

Bloomberg: FHT:SP

ISIN code: SG1AA5000001

Country: Singapore

Industry: Real Estate, Specialized REIT

2 April 2023

RECOMMENDATION: BUY

Current price: S\$0.450

Target price: S\$0.494

Issued units: 1,926.07 million (31 Dec 2022)

Market capitalisation: S\$866.73 million

52-week range: S\$0.420 - S\$0.710

PRICE PERFORMANCE



COMPANY DESCRIPTION

Fraser's Hospitality Trust and its subsidiaries (collectively defined herein as FHT) is a hotel and serviced residence trust. FHT focuses on investing globally on a long-term basis, directly or indirectly, in a diversified portfolio of income-producing real estate and real estate-related assets used primarily for hospitality purposes. Its segments include Singapore, Australia, Malaysia, Japan, UK and Germany. As at 31 December 2022, FHT's portfolio includes 14 properties: eight hotels and six serviced residences.

SUMMARY

For the year ended 30 September 2022 (FY2022), FHT recorded revenue of S\$95.9 million, representing a 12.1% yoy increase from S\$85.5 million over the same period a year ago. Property operating income increased by 20.7% yoy to S\$69.6 million in FY2022 from S\$57.6 million in FY2021. This was due to the moderate improvement in the operating environment across FHT's key markets with the lifting of travel restrictions and re-opening of borders, partially offset by the resurgence in COVID-19 cases with the Omicron variant. Consequently, income available for distribution attributable to Stapled Securityholders (DI) for FY2022 increased by 66.3% yoy to S\$35.0 million from S\$21.0 million in FY2021. In line with FH-REIT's policy of paying at least 90% of its DI as distribution, FHT recorded a distribution per Stapled Security (DPS) of 1.6355 Singapore cents for FY2022, up by 66.4% yoy. The final DPS of 0.9316 Singapore cents has been paid on 29 December 2022.

RECOMMENDATION

Based on FHT's reported NAV per share of S\$0.65 FHT currently has a P/B multiple of 0.70x and is trading at a discount of approximately 30% to NAV. Our peer comparison results show that FHT could be undervalued, given a lower P/B of 0.70x compared to its peer average P/B of 0.76x. Adopting a relative valuation approach, we estimate a target price of S\$0.494 if FHT's P/B were to adjust to the peer average P/B of 0.76x. This target price represents a 9.78% upside from the current share price of S\$0.450. We believe this upside could be justified by the recovery in FHT's earnings as FHT is well positioned to benefit from the recovery in the hospitality industry and we anticipate portfolio performance to improve going forward. While FHT had a failed privatisation attempt recently, there could be a possibility of another attempt at privatisation in the next 3 years. In that event, we estimate a privatisation offer of S\$0.618 per share, representing a price premium of 37.4%, which is the average price premium of 9 recent privatisation offers. Given the above, we will maintain our buy recommendation on FHT.

KEY FINANCIALS	Revenue (S\$ million)	Return ⁽¹⁾ (S\$ million)	EPS (cents)	P/E (x)	DPS (cents)	Distribution yield (%)	NAV per Stapled	
							Securityholder (S\$)	P/B (x)
Year ended Sep 30								
2021 actual	85.5	13.6	0.70	64.70	0.98	2.2%	0.65	0.69
2022 actual	95.9	58.3	3.03	14.86	1.64	3.6%	0.65	0.70
2023 forecast	96.6	26.3	1.37	32.94	1.64	3.6%	-	-
2024 forecast	112.7	37.3	1.93	23.27	2.15	4.8%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S\$0.450

(1) Profit attributable to Stapled Securityholders

Source: FHT, FPA Financial

Contributor: Tan Jiong Wen
(+65 6323 1788)

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FINANCIAL REVIEW FOR 1H2022

In this section, we will provide a review of FHT's financial performance and capital management.

(I) Financial performance

For the financial year under review from 1 October 2021 to 30 September 2022 (FY2022) FHT's revenue increased by 12.1% year-on-year (yoy) to S\$95.9 million from S\$85.5 million the same period a year ago as shown in **Exhibit 1**. Although the COVID-19 pandemic continued further into FY2022 with new variants of the coronavirus emerging across the world, the combination of intensive vaccination programmes, further relaxation of social and travel restrictions has enabled FHT's key markets to transit into an endemic phase. The increase in revenue for FY2022 is due to an improved operating environment with lifted travel restrictions and border controls. In addition to the master lease variable rental income, FHT continued to receive the contractual minimum master lease fixed rental income that provided downside protection regardless of the underlying performance of the properties amidst the COVID-19 pandemic.

Exhibit 1: FHT's Revenue for FY2022 and FY2021

S\$'000	FY2022	FY2021	y-o-y change
Master lease rental	75,319	64,648	16.5%
Room revenue	12,293	5,166	138.0%
Food & beverage revenue	2,765	3,556	-22.2%
Other income	5,479	12,162	-54.9%
Revenue	95,856	85,532	12.1%

Source: FHT, FPA Financial

We conducted a further review of FHT's revenue based on its geographical segments and noted that Australia remained the top revenue contributor, contributing 40.6% of FHT's total revenue, followed by Singapore at 22.3%, UK at 19.1%, Japan at 6.9%, Germany at 6.2% and Malaysia at 4.9%. Between 1H2022 and 1H2021, we also noted that UK recorded the highest yoy gain of 63.7%, followed by Singapore of 30.9%. On the other hand, Australia, Japan, Germany and Malaysia recorded yoy drop of 1.0%, 11.6%, 7.4% and 2.2% respectively as shown in **Exhibit 2**.

Exhibit 2: Breakdown of FHT's Revenue by Geographical Segments

S\$'000	FY2022	Contribution (%)	FY2021	Contribution (%)	Yoy Change (%)
Australia	38,876	40.6%	39,275	45.9%	-1.0%
Singapore	21,375	22.3%	16,329	19.1%	30.9%
UK	18,330	19.1%	11,198	13.1%	63.7%
Japan	6,647	6.9%	7,522	8.8%	-11.6%
Germany	5,926	6.2%	6,402	7.5%	-7.4%
Malaysia	4,702	4.9%	4,806	5.6%	-2.2%
Total	95,856	100.0%	85,532	100.0%	12.1%

Source: FHT, FPA Financial

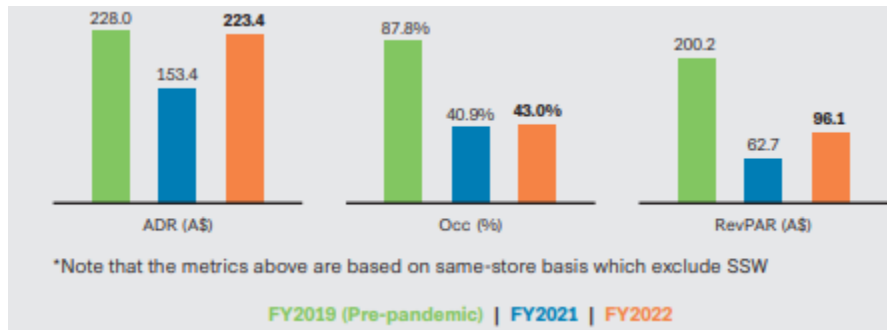
Portfolio Performance

(a) Australia

Australia’s portfolio comprises of Novotel Melbourne on Collins (NMOC), Novotel Sydney Darling Square (NSDS) and Frasers Suites Sydney (FSS). Sofitel Sydney Wentworth (SSW) was divested in April 2022.

In FY2022, FHT Australia portfolio’s occupancy increased by 2.1 percentage points (ppts) yoy to 43.0% while the average daily rate (ADR) increased by 45.63% yoy. The existing three properties in Australia performed in line with the market in FY2022, with a portfolio yoy increase in RevPAR by 53.3% to A\$96.1. The portfolio resumed its recovery trajectory following the retreat from the Omicron surge since February 2022 and was further supported by the gradual resumption of cultural and sporting events in Sydney and Melbourne. However, the RevPAR recorded in FY2022 remained over 50% lower than FY2019 pre-pandemic levels as shown in **Exhibit 3**.

Exhibit 3: Australia Portfolio Performance



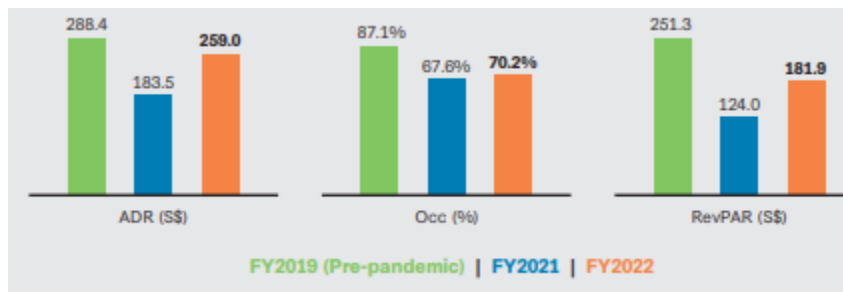
Source: FHT

(b) Singapore

Singapore’s portfolio comprises of InterContinental Singapore (ICSG) and Fraser Suites Singapore (FSSG).

FHT’s Singapore portfolio recorded a yoy improvement in RevPAR of 46.7% in FY2022 to S\$181.9, with ADR and occupancy up by 41.2% and 3.9ppts respectively against the preceding period. Compared to the pre-pandemic period, the portfolio’s RevPAR remained at 72.3% of FY2019 levels as shown in **Exhibit 4**. InterContinental Singapore’s RevPAR improved 55.0% YoY to S\$154.2 which was in line with the market. Despite the property’s improved performance against FY2021, it is 40.0% lower than the pre-pandemic RevPAR in FY2019. Fraser Suites Singapore also reported a RevPAR increase of 38.9% YoY to S\$225.8.

Exhibit 4: Singapore Portfolio Performance



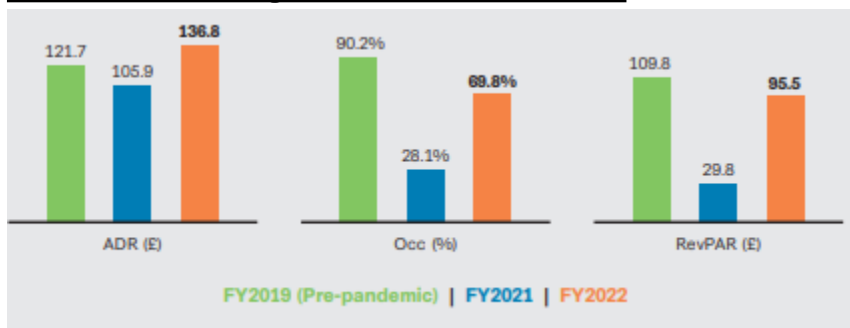
Source: FHT

(c) United Kingdom

The United Kingdom portfolio comprises of ibis Styles London Gloucester Road, Park International London, Fraser Suites Edinburgh, Fraser Suites Glasgow, Fraser Suites Queens Gate and Fraser Place Canary Wharf.

Following the lifted restrictions from 17 May 2021, all properties showed significant improvements in operating performance. In addition, UK led Europe into the endemic phase as all Covid-related travel restrictions were lifted since March 2022 for all travellers as part of the government’s “Living with Covid” plan. In FY2022, FHT UK portfolio’s occupancy rose by 41.7 pts yoy to 69.8% in FY2022 from 28.1% in FY2021. ADR increased by 29.2% to £136.8 in FY2022 from £105.9 in FY2021. Consequently, the portfolio registered a RevPAR of £95.5, which had more than doubled yoy. In comparison to the performance in FY2019, the portfolio’s RevPAR is still 13.0% lower as shown in **Exhibit 5**.

Exhibit 5: United Kingdom Portfolio Performance



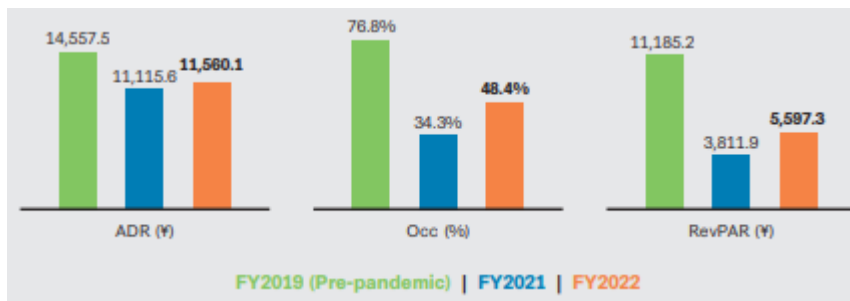
Source: FHT

(d) Japan

Japan’s portfolio comprises of ANA Crowne Plaza Kobe (CPK).

Following the exit from its quasi-state of emergency in March 2022, Japan has been cautiously easing its tight controls on its borders through a gradual rise in the daily arrivals allowed. The performance of ANA Crowne Plaza Kobe was severely impacted by the COVID-19 pandemic. In FY2022, CPK’s ADR increased by 4.0% yoy to ¥11,560.1 from ¥11,115.6 while occupancy rate increased by 14.1pts to 48.4% from 34.3%. Consequently, CPK’s RevPAR increased by 46.8% yoy to ¥5,597.3 from ¥3,811.9 in FY2021. However, the FY2022 RevPAR remained at 50.0% of prepandemic FY2019 levels, indicating a gradual recovery pace as shown in **Exhibit 6**.

Exhibit 6: Japan Portfolio Performance

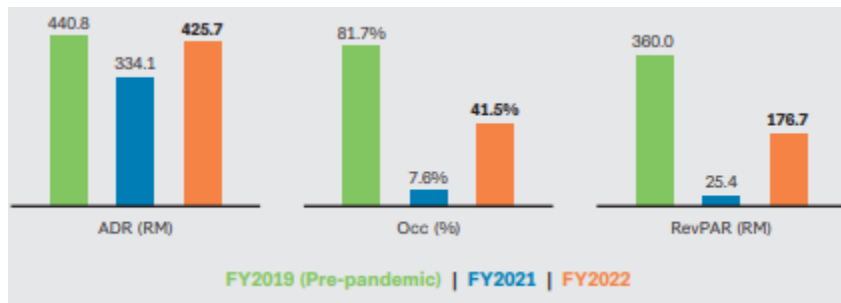


Source: FHT

(e) Malaysia

Malaysia's portfolio comprises of The Westin Kuala Lumpur.

The Westin Kuala Lumpur's operations had improved as compared to FY2021 following the lifting of restrictions in the city since April 2022. Amidst the challenging operating environment, the hotel's ADR increased by 27.4% yoy to RM425.7 in FY2022 from RM334.1 in FY2021 and occupancy rate increased by 33.9ppts to 41.5% in FY2022. Consequently, the property reported a RevPAR improvement of over 100.0% YoY to RM176.7. However, RevPAR in FY2022 remained 51.0% lower than pre-pandemic levels as shown in **Exhibit 7**.

Exhibit 7: Malaysia Portfolio Performance

Source: FHT

(f) Germany

Germany's portfolio comprises of Maritim Hotel Dresden (MHD).

MHD showed continued signs of recovery in its performance supported by a recovery in domestic demand. However, the pace of recovery remained gradual in the absence of events. In addition, since early June 2022, Germany has lifted travel restrictions to allow entry of travellers (except China) into the country with no Covid restrictions and travellers no longer required to show Covid-19 Vaccination certification. Despite the slower pace of recovery, the hotel reported a yoy increase in revenue of 63.7% to S\$18.3 million in FY2022. We note that MHD's performance in terms of its ADR, occupancy and RevPAR have been excluded due to limitations imposed by master lease agreement.

Total Return For The Year After Tax

In FY2022, we note that FHT's asset management team worked closely with the hotel and serviced residence operators to optimise operating performance through proactive revenue management initiatives and secured revenue streams from both transient and corporate businesses as travel demand recovers. As a result, FHT's NPI recorded an increase of S\$12.0 million (20.7% yoy) to S\$95.9 million in FY2022 from S\$85.5 million in FY2021 primarily attributable to a higher revenue of S\$95.9 million, with lower property tax expenses arising from Singapore and UK properties and recovery of rental receivables that were previously impaired. The reversal of impairment loss on trade receivables of S\$1.3 million in FY2022 compared to the impairment loss on trade receivables of S\$4.1 million in FY2021 relates mainly to the net write back of rental receivables previously impaired in prior periods and for FY2021, it relates to impairment loss on the rental receivables for FY2021. Staff cost increased from S\$3.5 million in FY2021 to S\$4.6 million in FY2022 due to the absence of wage credit given by the Australia government under the JobKeeper scheme which has ended in March 2021.

FHT reported higher REIT Manager's management fees as performance fees of S\$0.9 million were paid to the REIT manager in FY2022 compared to no performance fees paid in FY2021. Other trust expenses relate mainly to professional fees, audit fees, tax fees and administrative expenses. The higher trust expense in FY2022 over FY2021 was due to the Proposed Privatisation in April 2022 and are non-tax deductible.

The net foreign exchange loss of S\$4.0 million in FY2022 compared to the loss of S\$26,000 in FY2021 was mainly due to unrealised foreign exchange loss on AUD, GBP and EUR cash balances as at 30 September 2022 owing to the strengthening of SGD. The net change in fair value of investment properties relates to the net fair value gain/(loss) arising from the measurement of the investment properties at fair value based on valuations performed by independent valuers as at 30 September 2022 and 30 September 2021. The net fair value gains on investment properties in FY2022 of S\$24.2 million was largely attributable to the Singapore, Australia, UK and Malaysia properties. The asset valuation of its hotels as at 30 September 2022 is shown in **Exhibit 8**.

Exhibit 8: Valuation Of FHT's Real Assets (as at 30 September 2022)

Property	Valuer	Valuation as at 30 September 2022	
		Local currency (million)	(S\$ million) ⁽¹⁾⁽²⁾
InterContinental Singapore	Savills Valuation and Professional Services (S) Pte Ltd	SGD509.0	509.0
Fraser Suites Singapore	Savills Valuation and Professional Services (S) Pte Ltd	SGD294.0	294.0
The Westin Kuala Lumpur	Savills (Malaysia) Sdn Bhd	MYR380.0	117.7
ANA Crowne Plaza Kobe	Savills Japan Co., Ltd.	JPY16,200.0	161.6
Novotel Sydney Darling Square	Savills Valuations Pty Ltd	AUD109.0	100.1
Fraser Suites Sydney	Savills Valuations Pty Ltd	AUD133.0	122.2
Novotel Melbourne on Collins	Savills Valuations Pty Ltd	AUD235.0	215.9
Park International London	Savills (UK) Limited	GBP41.1	65.9
ibis Styles London Gloucester Road, London	Savills (UK) Limited	GBP19.8	31.8
Fraser Place Canary Wharf, London	Savills (UK) Limited	GBP37.8	60.6
Fraser Suites Queens Gate, London	Savills (UK) Limited	GBP57.8	92.7
Fraser Suites Glasgow	Savills (UK) Limited	GBP9.6	15.4
Fraser Suites Edinburgh	Savills (UK) Limited	GBP16.3	26.1
Maritim Dresden Hotel	Savills (UK) Limited	EUR59.0	83.0

Notes:

(1) Translated at exchange rates as at 30 September 2022; MYR1.00 = SGD0.3097; JPY1.00 = SGD0.009977; AUD1.00 = SGD0.9188; GBP1.00 = SGD1.6037; EUR1.00 = SGD1.4074.

(2) Rounding differences noted

Source: FHT

The gain on divestment of investment property and deemed disposal of business of foreign operations of S\$17.6 million relates to the gain on the divestment of Sofitel Sydney Wentworth in April 2022 and the related realised foreign exchange translation differences.

As a result, FHT reported a total return before tax of S\$68.8 million in FY2022 compared to S\$24.7 million in FY2021, representing 178.1% yoy increase. For the period, income tax expense of S\$10.4 million was recorded as compared to S\$8.4 million a year ago. After adjusting for income tax expense, total return after tax of S\$58.3 million was recorded in FY2022, which is fully attributable to the stapled securityholders. Accordingly, FHT reported an earnings per stapled security of 3.03 cents for FY2022 as shown in **Exhibit 9**.

Exhibit 9: FHT's FY2022 and FY2021 Financial Results

S\$'000	FY2022	FY2021	y-o-y change
Master lease rental	75,319	64,648	16.5%
Room revenue	12,293	5,166	138.0%
Food & beverage revenue	2,765	3,556	-22.2%
Other income	5,479	12,162	-54.9%
Revenue	95,856	85,532	12.1%
Property tax	(7,384)	(8,421)	-12.3%
Property insurance	(1,431)	(1,730)	-17.3%
Property management fees	(4,448)	(2,208)	101.4%
Other property expenses	(2,118)	(2,391)	-11.4%
Impairment loss on trade receivables	1,297	(4,137)	-131.4%
Operations and maintenance expenses	(4,406)	(3,623)	21.6%
Energy and utilities expenses	(633)	(541)	17.0%
Hotel management fee	(531)	(722)	-26.5%
Staff costs	(4,584)	(3,532)	29.8%
Marketing expenses	(1,516)	(289)	424.6%
Administrative expenses	(519)	(312)	66.3%
Property operating expenses	(26,273)	(27,906)	-5.9%
Net property income	69,583	57,626	20.7%
Depreciation	(4,224)	(3,929)	7.5%
REIT Manager's management fees	(5,340)	(4,521)	18.1%
Trustee-Manager's management fees	(46)	(80)	-42.5%
Other management fees	(3,295)	(3,668)	-10.2%
Trustees' fees	(474)	(493)	-3.9%
Other trust expense	(5,299)	(2,799)	89.3%
Finance income	450	210	114.3%
Amortisation of debt upfront costs	(1,156)	(952)	21.4%
Finance costs	(21,597)	(20,415)	5.8%
Total return before foreign exchange differences, fair value changes and tax	28,602	20,979	36.3%
Foreign exchange (loss)/ gain, net	(4,042)	(26)	NM
Net change in fair value of investment properties	24,199	(4,574)	NM
Revaluation of property, plant and equipment	1,347	8,444	-84.0%
Gain on divestment of investment property and deemed disposal of business of foreign operations	17,585	-	NM
Net change in fair value of derivative financial instruments	-	(77)	NM
Realised (loss)/gain on derivative financial instruments, net	1,090	(16)	NM
Total return/ (loss) for the year before tax	68,781	24,730	178.1%
Taxation	(10,464)	(8,422)	24.2%
Total return/ (loss) for the year after tax	58,317	16,308	257.6%
Attributable to:			
Stapled Securityholders	58,317	13,589	329.1%
Perpetual Securities holders	-	2,719	NM
Weighted average number of Stapled Securities ('000)	1,926,074	1,926,074	0.0%
Earnings per Stapled Security (cents)	3.03	0.70	335.3%

Figures may not add up due to rounding

NM: not meaningful

Source: FHT, FPA Financial

Meanwhile, considering the total return of S\$58.3 million and the net effect of non-tax deductible/ (non-taxable) items & other adjustments of -S\$23.3 million, income available for distribution attributable to stapled securityholders amounted to S\$35.0 million for FY2022. For FY2021, income available for distribution to stapled securityholders amounted to S\$21.0 million.

Given the uncertainties arising from the ongoing COVID-19 pandemic, approximately 10% of distributable income had been retained to conserve cash for working capital purposes. Hence, the distributions to Stapled Securityholders in FY2022 are based on approximately 90% payout of the income available for distribution.

Accordingly, distribution to stapled securityholders amounted to S\$31.5 million and S\$18.9 million in FY2022 and FY2021 respectively and distribution per stapled security increased to 1.6355 cents in FY2022 from 0.9831 cents in FY2021 as shown in **Exhibit 10**.

Exhibit 10: FHT's FY2022 Statement of Distribution

S\$'000	FY2022	FY2021	y-o-y change
Total return/ (loss) for the year after tax	58,317	16,308	257.6%
Non-tax deductible/ (non-taxable) items and other adjustments:			
Amortisation of debt upfront cost	1,156	952	21.4%
Amortisation of other assets	-	4	NM
Depreciation	4,224	3,929	7.5%
Foreign exchange loss, net	4,042	26	NM
Net change in fair value of derivative financial instruments	(24,199)	4,574	NM
Revaluation of property, plant and equipment	(1,347)	(8,444)	-84.0%
Net change in fair value of derivative financial instruments		77	NM
Realised gain on derivative financial instruments	(1,086)	-	NM
Trustee's fee in relation to FH-REIT	274	285	-3.9%
Interest expense on lease liabilities	125	124	0.8%
Deferred tax	(6,988)	5,683	NM
Gain on divestment of investment property and deemed disposal of business of foreign operations	(17,585)	-	NM
Withholding tax on capital gain on divestment of investment property	15,011	-	NM
Other adjustments	3,035	240	NM
Net effect of non-tax deductible/ (non-taxable) items and other adjustments	(23,338)	7,450	NM
Income available for distribution attributable to:			
Stapled Securityholders	34,979	21,039	66.3%
Perpetual Securities holders	-	2,719	NM
Total	34,979	23,758	47.2%
Amount retained for working capital purposes	(3,475)	(2,104)	65.2%
Distribution to Stapled Securityholders	31,504	18,935	66.4%
No. of Stapled Securities issued ('000)	1,926,074	1,926,074	0.0%
Distribution per Stapled Security (cents)	1.6355	0.9831	66.4%

Figures may not add up due to rounding

NM: not meaningful

Source: FHT, FPA Financial

(II) Capital Management

FHT reported total assets of S\$2,085.6 million as at 30 September 2022 compared to S\$2,349.2 million as at 30 September 2021. The decrease in total assets was largely due to the decrease in investment properties. On 29 April 2022, FHT completed the divestment of the amalgamated freehold interest of Sofitel Sydney Wentworth. The disposal of investment property resulted in a decrease of S\$276.4 million in investment properties. This was partly offset by the increase in derivative financial instruments and cash & cash equivalents. At the same time, total liabilities decreased to S\$839.7 million as at 30 September 2022 from S\$1,100.7 million as at 30 September 2021 mainly due to lower derivative financial instruments and borrowings.

Consequently, FHT recorded total equity or net assets of S\$1,245.9 million as at 30 September 2022 compared to S\$1,248.5 million as at 30 September 2021. Given the S\$1,245.9 million in Stapled Securityholders' fund, FHT's net asset value (NAV) per Stapled Security stood at 64.69 cents, based on 1,926.1 million issued Stapled Securities. FHT's balance sheet data are summarized in **Exhibit 11**.

Exhibit 11: Summary of FHT's Balance Sheet

[S\$'000]	30-Sep-22	30-Sep-21
Total assets	2,085,645	2,349,183
Total liabilities	839,711	1,100,689
Total equity / net assets	1,245,934	1,248,494
No. of issued Stapled Securities	1,926,074	1,926,074
Net asset per Stapled Security(cents)	64.69	64.82

Source: FHT, FPA Financial

As at the end of FY2022, FHT's total borrowings were S\$756.7 million compared to S\$988.5 million as at FY2021. This comprised of current borrowings of S\$173.8 million and non-current borrowings of S\$582.9 million. Thus, FHT's gearing ratio as computed by total borrowings divided by total assets, stood at approximately 36.4% as at the end of FY2022 compared to 42.2% as at the end of FY2021. A breakdown of FHT's total borrowings and gearing ratio is shown in **Exhibit 12**.

Exhibit 12: Breakdown of FHT's Total Borrowing and Gearing Ratio

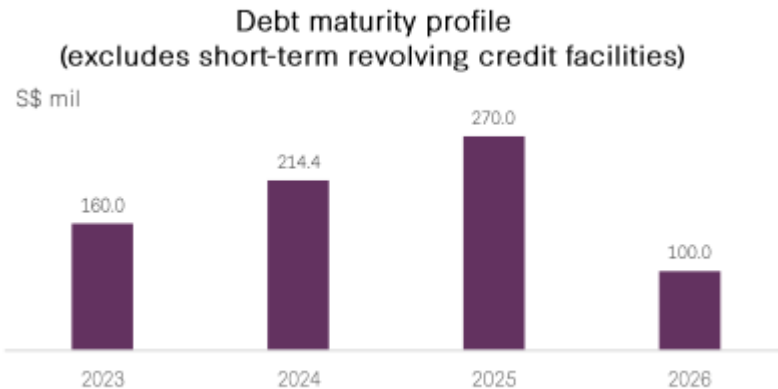
[S\$'000]	30-Sep-22	30-Sep-21
Current		
Fixed rate notes (unsecured)	-	120,000
Bonds (unsecured)	-	28,734
Bank loans (unsecured)	174,000	54,000
Less: unamortised debt upfront costs	(168)	(227)
Total current borrowings	173,832	202,507
Non-current		
Medium term notes (secured)	29,422	30,676
Fixed rate notes (unsecured)	120,000	120,000
Bonds (unsecured)	23,445	-
Bank loans (unsecured)	411,500	637,768
Less: unamortised debt upfront costs	(1,467)	(2,444)
Total non-current borrowings	582,900	786,000
Total borrowings	756,732	988,507
Total assets	2,085,645	2,349,183
Gearing ⁽¹⁾	36.4%	42.2%

(1) The impact of FRS 116 Leases has been excluded for the purpose of computing gearing ratio

Source: FHT, FPA Financial

As at 30 September 2022, FHT's weighted average debt maturity was 2.00 years (30 September 2021: 2.56 years). The loan maturities are widely spread out across FY2023 to FY2026, which mitigates concentration risk in re-financing arising from changing market conditions. The summary of FHT's debt maturity profile is shown in **Exhibit 13**.

Exhibit 13: FHT's Debt Maturity Profile as at 30 September 2022



Source: FHT

We note that 93.8% (30 September 2021: 94.7%) of FHT's assets were unencumbered, thus providing operational and financial flexibility. FHT achieved interest coverage ratio and unadjusted interest coverage ratio of 2.6 times each (FY2021: 2.2 times and 1.9 times respectively), amidst the challenging operating environment.

As at 30 September 2022, FHT's average effective cost of borrowing was 2.3% per annum for FY2022 (FY2021: 2.0% per annum). FHT has approximately 81.7% (30 September 2021: 77.2%) of total borrowings on fixed interest rates, which acted as a safeguard against rising interest rates and provided certainty of interest expenses as shown in **Exhibit 14**.

Exhibit 14: FHT's Capital Management Details as at 30 September 2022

Investment properties	S\$1,683.2 mil
Property, plant and equipment	S\$215.9 mil
Total assets	S\$2,085.6 mil
Total borrowings	S\$756.7 mil
Gearing ^{1,2}	36.4%
Net asset value per stapled security	S\$0.65
Weighted average debt to maturity	2.00 years
Unsecured debt	96.0%
Effective cost of borrowing ²	2.3%
Borrowings on fixed rates	81.7%
Interest coverage ratio ^{3,4}	2.6 times
Adjusted interest coverage ratio ^{1,3,4}	2.6 times

Source: FHT

OPERATIONAL UPDATES

Since our update report on 27 October 2022, there has been a development announced by FHT. We will now provide an operational update on this development.

(I) Changes to Key Management of the Company

On 13 January 2023, FHT announced the executive leadership changes that will be effective 1 February 2023.

(a) Ms Eu Chin Fen

Ms Eu Chin Fen, currently CEO of the Managers, has been appointed as CEO of Frasers Hospitality, a strategic business unit of Frasers Property. In such capacity, she will report directly to the Group Chief Executive Officer of Frasers Property and will join the Frasers Property Group Executive Leadership Team. In her new appointment, Ms Eu will be responsible for the Group's hospitality business unit. She will oversee the Group's hospitality business from investment and business development to global expansion of its chain of serviced residences and hotels worldwide.

About Ms Eu Chin Fen

Prior to her current appointment, Ms Eu was Chief Investment Officer of Frasers Hospitality International Pte. Ltd. from July 2019 to April 2021. In this role, she assisted the CEO of the hospitality strategic business unit of the Group in developing and implementing the business and investment strategies of the hospitality business, in line with the broad directions of the Frasers Property Group. Ms Eu joined the Frasers Property Group in 2011. She was previously CEO of the Managers when FHT was listed in July 2014 and relinquished this role in June 2019.

Before joining the Frasers Property Group, Ms Eu was Senior Vice President of the Asset-Backed Securitisation team at DBS Bank Ltd., responsible for the origination and listings of real estate investment trusts and business trusts in Singapore.

(b) Mr Eric Gan

Mr Eric Gan, currently CFO of the Managers, will succeed Ms Eu as CEO of the Managers. He will be responsible for the overall business, investment and operational strategies of FHT. He will be working closely with the Board of each of the Managers.

About Mr Eric Gan

Mr Gan is currently responsible for the financial and capital management of FHT. He has over 20 years of experience in financial reporting, corporate finance, treasury management, audit, taxation and company secretarial matters. Prior to joining the Managers, Mr Gan was the Chief Financial Officer of OUE Hospitality REIT Management Pte. Ltd., the REIT Manager of OUE Hospitality Real Estate Investment Trust (OUEHT) from August 2014 to September 2018. Before OUEHT, he was the Chief Financial Officer of Meritus Hotels & Resorts (Hospitality Division) of OUE Limited.

Mr Gan has extensive experience in the field of financial management. He started his professional career with international accounting firms and later moved on to public listed companies in real estate, manufacturing and food businesses, where he held key positions such as Senior Vice President, Company Secretary and Chief Financial Officer. Mr Gan is a Fellow of The Association of Chartered Certified Accountants (UK) and a member of the Institute of Singapore Chartered Accountants.

(c) Mr Liu Qingbin

Mr Liu Qingbin has been appointed as the Head of Finance for the Managers. He will be responsible for the financial and capital management of FHT.

About Mr Liu Qingbin

Mr Liu has over 15 years of experience in audit, accounting, corporate finance, tax, treasury and capital management. Prior to his appointment as Head of Finance, he was Vice President, Finance where he assisted the Chief Financial Officer of the Managers on financial reporting, taxation and other finance related matters of FHT, FH-REIT and FH-BT. Prior to joining the Managers, he was Senior Vice-President of Sabana Real Estate Investment Management Pte. Ltd., the REIT Manager of Sabana Shari'ah Compliant Industrial REIT where he was responsible for the financial reporting, taxation, management reporting, treasury and capital management of the REIT. He was previously an audit manager at PricewaterhouseCoopers LLP.

Mr Liu holds a Bachelor of Accountancy (First Class Honours) from the Nanyang Technological University and is a Chartered Accountant and a member of the Institute of Chartered Accountants of Singapore

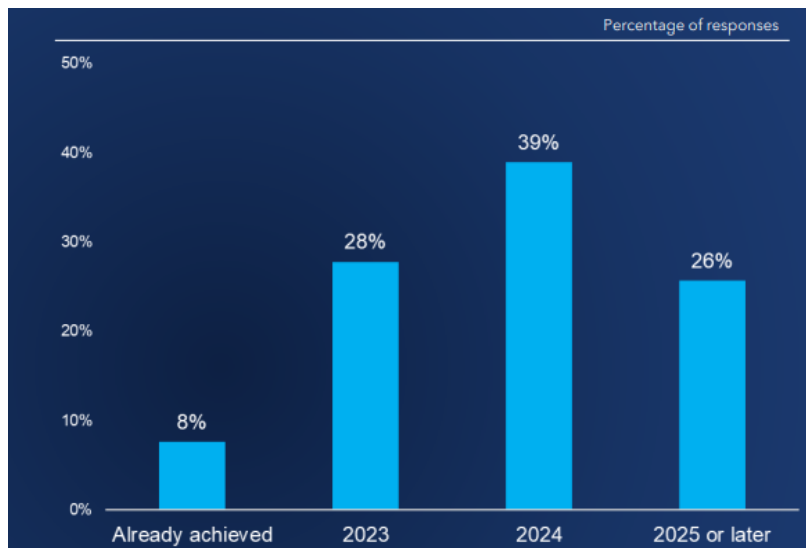
GEOGRAPHICAL SEGMENT OUTLOOK

(I) Global Outlook for Hospitality Industry

The World Tourism Organization's (UNWTO) latest Panel of Experts survey reported that the majority of tourism professionals remained cautiously optimistic in view of ongoing downside risks from the geopolitical tensions from the Russia-Ukraine conflict and the current uncertain state of the economic environment. UNWTO stated that the combination of increasing interest rates in all major economies, rising energy and food prices and the growing prospects of a global recession as indicated by the World Bank, are major threats to the recovery of international tourism through 2023. Most tourism professionals expect international tourism to return to pre-pandemic levels in 2024 or later, with the uncertain economic environment being the major factor weighing on the recovery of international tourism.

According to UNWTO Panel of Tourism Experts, 28% of experts see a potential return of international arrivals to 2019 levels in 2023 and 65% of the experts see it happening in 2024 or later as shown in **Exhibit 15**.

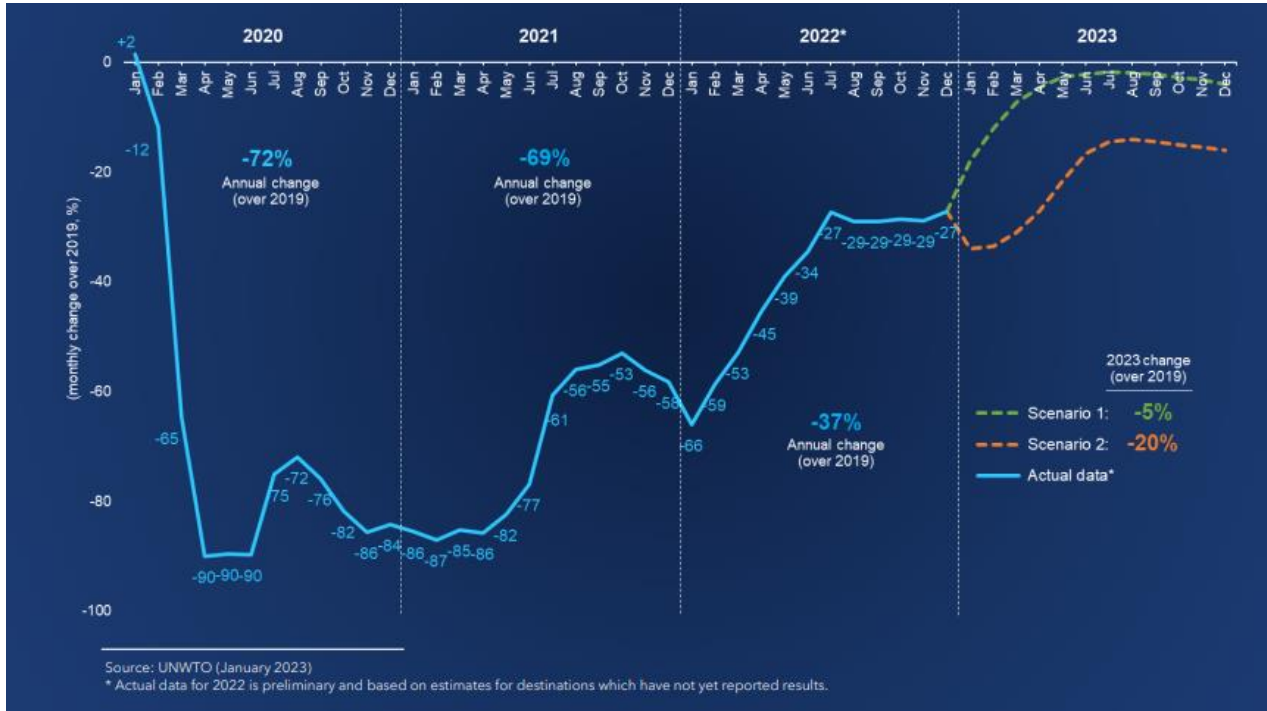
Exhibit 15: UNWTO Panel of Tourism Experts Survey



Source: UNWTO

According to new data UNWTO, more than 900 million tourists travelled internationally in 2022 – double the number recorded in 2021 though still 63% of pre-pandemic levels. Every global region recorded notable increases in international tourist numbers. According to UNWTO, 2023 brings more reason for optimism for global tourism. UNWTO anticipates a strong year for the sector even in the face of diverse challenges including the economic situation and continued geopolitical uncertainty. Economic factors may influence how people travel in 2023 and UNWTO expects demand for domestic and regional travel to remain strong and help drive the sector's wider recovery. Based on UNWTO's forward-looking scenarios for 2023, international tourist arrivals could reach 80% to 95% of pre-pandemic levels this year as shown in **Exhibit 16** on the next page.

Exhibit 16: International tourist arrivals, 2020-2022 and Scenarios for 2023 (UNWTO)



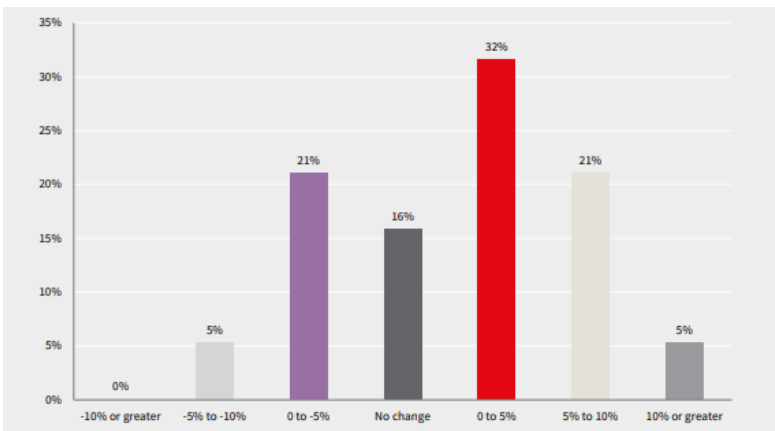
Source: UNWTO

(II) Australia

JLL's Views

Jones Lang LaSalle (JLL) noted that despite increased air travel facilitating the return of overseas holiday making, together with some concerns over consumer confidence levels, JLL reported that this will not negatively impact regional markets over 2023. According to its survey, 74% of respondents are expecting RevPAR to remain the same or continue to increase in regional markets over the coming year as shown in **Exhibit 17**.

Exhibit 17: Results of JLL Survey For The Expectation Of Regional Market RevPAR Performance In 2023



Source: JLL

CBRE's Views

CBRE anticipates continued strength in the domestic tourism market throughout 2023 as a volatile AUD, record high flight prices and geo-political tensions encourage many Australians to holiday at home. However, increasing pressure on household budgets via rising interest rates and cost of living may dampen the recovery rate. Local intrastate travel and budget friendly operators may benefit as Australian families tighten their belts in 2023 and look to more cost-effective holiday options such as the "Great Aussie road trip". However, strong appetite for luxury accommodation is also expected to endure from less price conscious market segments.

A continued recovery of international arrivals is expected throughout 2023, with core drivers such as the competitive AUD and "safe"/bucket list location status of Australia. The 40,000 person lift in the Australian migration cap will deliver a more diverse Australia, further fuelling associated friends and relative demand. Emerging source markets will be a factor of international visitation in 2023. Slowing economies in two of its largest source markets (United Kingdom and United States), however, may dampen the potential recovery rate.

CBRE anticipate ADR growth to moderate over 2023, although most city markets are still expected to post gains as operators maintain strong rate policies in favour of returning to pre-pandemic occupancy levels. Occupancy levels in domestic demand dominated cities such as Brisbane, Perth and Adelaide are expected to edge upwards from already strong levels, while major international gateway markets of Sydney and Melbourne should continue to see occupancy gains as inbound demand recovers. Labour and utility operating expenses have increased significantly and are placing downward pressure on revenue streams. Despite this, all markets are expected to outperform pre-pandemic performance indicators by mid-2023.

Savills' Views

Savills reported that according to STR Global, in 2022, average RevPAR in Australia increased by 70.4% yoy to \$149.79. Savills noted that there have been some significant positive changes of hotel trading levels over the last 12 months with Melbourne and Sydney recording the strongest growth, albeit coming from a low base. Melbourne's and Sydney's RevPAR increased by 128.0% and 120.7% yoy respectively as shown in **Exhibit 18**.

Exhibit 18: Australia's Hotel Key Performance Indicator

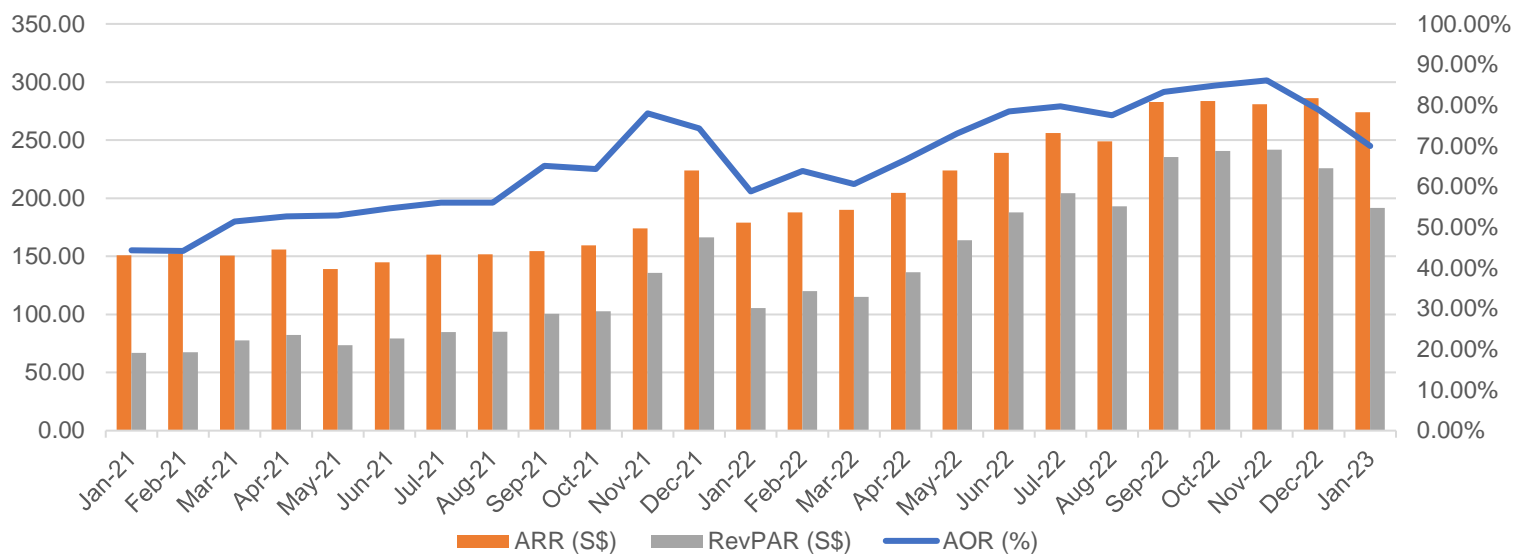
City	Occupancy	ADR	RevPAR	RevPAR Change
Australia	65.5%	\$228.48	\$149.79	70.4%
Adelaide	71.0%	\$195.44	\$138.74	55.1%
Brisbane	68.8%	\$214.53	\$147.70	78.5%
Cairns	63.7%	\$214.59	\$136.65	69.9%
Canberra & ACT	70.3%	\$205.44	\$144.34	95.6%
Melbourne	60.2%	\$215.82	\$129.86	128.0%
Perth	67.7%	\$202.56	\$137.16	37.2%
Sydney	64.3%	\$249.52	\$160.38	120.7%
Gold Coast	70.2%	\$270.27	\$189.86	69.9%
Darwin	62.7%	\$217.36	\$136.38	41.6%
Hobart Area	77.2%	\$216.09	\$166.73	49.0%

Source: CBRE

(III) Singapore

In recent months, a moderate improvement in key hotel indicators like average occupancy rate (AOR), average room rate (ARR) and revenue per available room (RevPAR) as reflected in **Exhibit 19**, suggest that Singapore’s hotel industry experienced an encouraging year due to stronger demand for leisure and business travel. We believe that the drop in AOR in December 2022 could be reflective of seasonal trends, where figures peak in event-packed September and October before normalising in December and January.

Exhibit 19: Trend in Performance of Key Hotel Indicators in Singapore



Source: STB, FPA Financial

In 2022, the overall hotel performance showed signs of improvement, as reflected by latest data from the Singapore Tourism Board (STB). During the period, Singapore’s hotel industry registered an AOR of 75.8%. This is an increase of 18.9 percentage point compared to the previous year. ARR increased by 55.16% year-on-year (yoy) to \$248.97 in 2022 from \$160.46 in 2021, while RevPAR increased by 106.73% yoy to \$188.64 in 2022 from \$91.25 in 2021. As at January 2023, Singapore’s hotel industry recorded AOR, ARR and RevPAR of 70.0%, S\$273.94 and S\$191.78 respectively as shown in **Exhibit 20**.

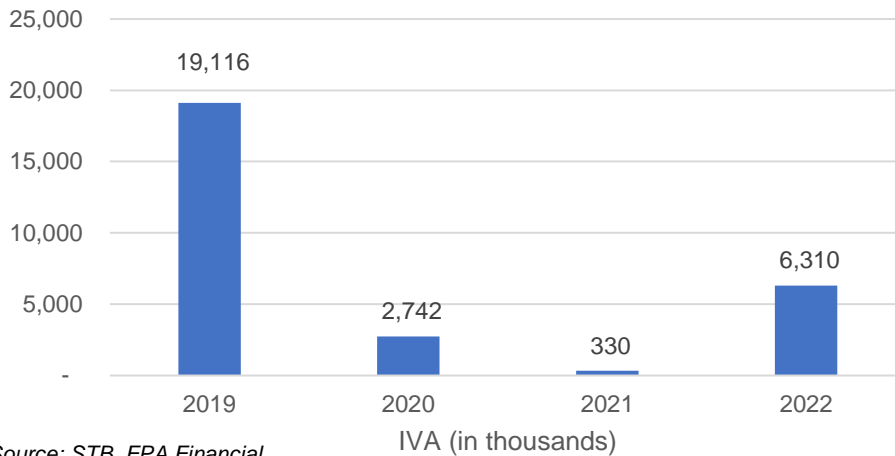
Exhibit 20: AOR, ARR and RevPAR Comparison for FY2021, FY2022 and 2023 (Jan)

Performance indicator	FY2021	FY2022	Jan-23
AOR (%)	56.9%	75.8%	70.0%
ARR (S\$)	160.46	248.97	273.94
RevPAR (S\$)	91.25	188.64	191.78

Source: STB

Further, in 2022, international visitor arrivals (IVA) totalled 6.3 million, reaching approximately 33% of the pre-pandemic of 19.1 million in 2019, but exceeded STB's forecast of between 4 million and 6 million visitors. The IVA recorded in 2022 also far exceeded the numbers recorded in 2020 and 2021 as shown in **Exhibit 21**.

Exhibit 21: International Visitor Arrivals in 2019-2022 (in thousands)



Source: STB, FPA Financial

Outlook

In terms of outlook, STB expects the tourism sector to continue its growth momentum in 2023, on the back of increasing flight connectivity and capacity, and China's gradual reopening. International visitor arrivals are expected to reach around 12 to 14 million visitors, bringing in approximately \$18 to 21 billion in tourism receipts – around two-thirds to three-quarters of the levels in 2019. In the meantime, STB will continue efforts to increase Singapore's destination attractiveness. To support tourism recovery, STB will front load \$110 million of the \$500 million set aside for Singapore's tourism recovery to ramp up business and leisure events over these two years. Barring unexpected circumstances, tourism activity is now expected to recover to pre-pandemic levels by 2024.

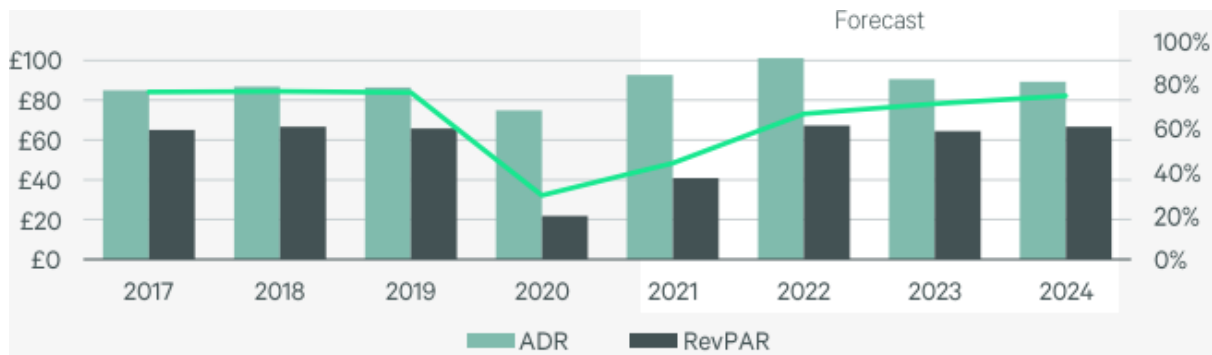
To support the pace of recovery, STB will continue to help the tourism sector ramp up hiring. As of September 2022, the total tourism workforce is around 65,000 – about 78 per cent of 2019 levels. STB will continue to support manpower needs through the Tourism Careers Hub, which has placed more than 500 workers in the tourism sector since its launch in 2022 by providing career coaching, skills upgrading and job matching. STB will also continue to support digital transformation for the industry through Tcube, which has already helped more than 1,000 local tourism companies through its various programmes.

(IV) United Kingdom

CBRE noted that coming off the back of the worst industry crisis in history caused by the pandemic, the UK hotel sector staged a remarkable recovery during 2022. The sector, has historically, been affected by slowdowns in GDP growth. CBRE expects that the slowdown's impact will be felt differently across different segments. Previously, people have tended not to stop travelling entirely, though they may travel more selectively.

Two groups that CBRE expects to do better are the luxury/ leisure segment, poised to continue to do well as its demographic will be less vulnerable to the issues flowing from any recession. Alongside the economy/ budget segment, which was the first segment to capture rebounding demand when travellers ventured out tentatively post-COVID – CBRE sees this segment as well placed to keep holding that demand. These segments also benefit from either an ability to reprice strongly to offset inflationary costs or minimise the effect of cost inflation due to lower nominal levels of inputs.

CBRE's forecast for hotel performance for UK is shown in **Exhibit 22**.

Exhibit 22: UK's Hotel Performance (CBRE)

Source: CBRE

According to a report published by Office for National Statistics (ONS) in March 2023, visits to the UK stayed at a consistent level between September 2022 and November 2022. There were 3.0 million visits in September, 3.2 million in October and 3.2 million in November as shown in **Exhibit 23** on the next page. For the first time since the beginning of the coronavirus (COVID-19) pandemic, visits to the UK in November 2022 were higher than that of the last comparable month before the pandemic began. Visits to the UK in November 2022 (3.2 million) were 2% higher than in November 2019 (3.1 million). Holidays have been the main reason overseas residents visited the UK since April 2022. That trend continued throughout October 2022 and November 2022, with 1.3 million visits in October (39% of the total) and 1.2 million visits in November (38% of the total).

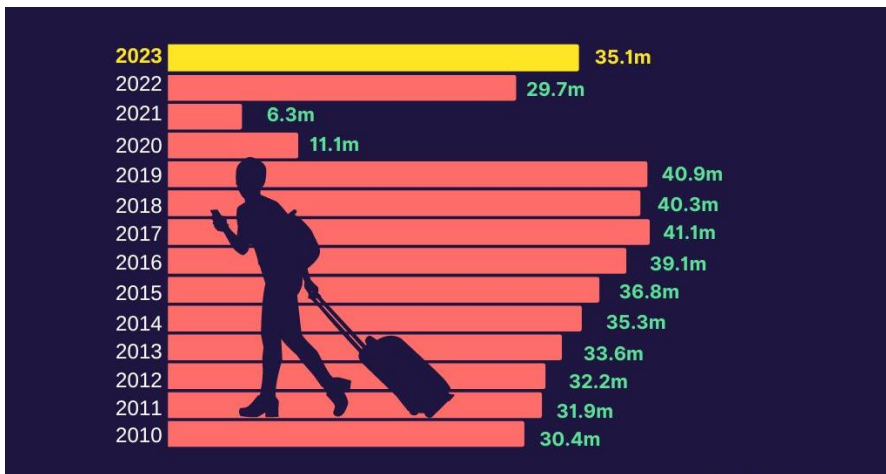
Exhibit 23: Visits to the UK (ONS)



Source: ONS

VisitBritain is forecasting 35.1 million visits in 2023 (86% of the 2019 level and 18% higher than in 2022) and £29.5 billion spend (104% of the 2019 level and 14% higher than in 2022) as shown in **Exhibit 24**. If the latter figure is achieved it would be a record for the value of inbound spend in the UK in nominal terms, although adjusting for inflation it would be 87% of the 2019 level in real terms, in line with the trend in visitor volumes.

Exhibit 24: 2023 Inbound Tourism Forecast For UK



Source: VisitBritain

VisitBritain noted that flight bookings are currently a little weaker for those arriving in January than in late 2022 but very strong for March/April (above 2019 so far) although the rate of bookings made suggests that this elevated pace could ease downwards. The forecast therefore assumes in the short term that the pace of flight bookings will remain approximately around its current rate, and then pick up gradually consistent with a return to 2019 volume levels by around mid-2025. Although visit levels are forecast to be below 2019 levels in the aggregate when looking at the year overall, VisitBritain believes that it is likely to see some months and markets where numbers do surpass 2019 levels.

SHARE PRICE DEVELOPMENT REVIEW

Since our update report issued on 27 October 2022, when FHT's share price closed at S\$0.435, we note that the share price has risen. From then till present, the share price is up by about 3.45% to the current price of S\$0.450 as shown in **Exhibit 25**.

Exhibit 25: FHT's Share Price



Source: Yahoo Finance, FPA Financial

The 52-week low of S\$0.420 was reached on 24 November 2022 and the 52-week high of S\$0.710 was reached on 2 August 2022. We note that the 52-week high of S\$0.710 was reached during the period of the proposed privatisation of FHT. It was announced on 12 September 2022 that the proposed privatisation was not passed.

On 30 September 2022, FHT announced the financial results the financial year ending 30 September 2022 (FY2022) on 4 November 2022. FHT announced a 12.1% yoy increase in revenue and 20.7% yoy increase in net property income. In addition, distribution to Stapled Securityholders for FY2022 increased by 66.4% due to better gross revenue and net property income (NPI) amid the continued, gradual recovery in the hospitality industry as FHT's portfolio saw improved performance across all regions. We note that FHT's share remained unchanged at S\$0.450 after the announcement.

As noted on page 11 and page 12, FHT appointed new chief executives for business unit Frasers Hospitality, and the managers of its real estate investment trust (Reit). Eu Chin Fen, the chief executive of the managers of Frasers Hospitality Trust has been appointed as chief executive of Frasers Hospitality. Eric Gan, current chief financial officer (CFO) of FH-BT and FH-Reit, will succeed Eu as the chief executive of the managers. Liu Qingbin has also been appointed as head of finance of the managers and will report to Gan. He will be responsible for the financial and capital management of the Reit. FHT's share price rose by 1.11% to S\$0.455 after the announcement.

POTENTIAL CATALYSTS

(I) Strong Pipeline Of Events

STB expects the tourism sector to continue its growth momentum in 2023. As mentioned on page 17, STB has been actively seeking for partnership to boost Singapore tourism and reach its target of 12 to 14 million international visitor arrivals in 2023. STB will continue to attract more high-quality MICE events, such as the Herbalife APAC Extravaganza 2023 and the 25th World Congress of Dermatology 2023. On the leisure events front, 2023 has already kicked off strongly with Art SG, Southeast Asia's largest ever art fair as part of the Singapore Art Week, and Sail GP, which made its Asian debut last week. New events like the Olympic Esports Week and Professional Triathletes Organisation Asian Open will also take place in Singapore for the first time as shown in **Exhibit 26**.

Exhibit 26: Singapore's Pipeline Events and Experiences For FY2023



Source: STB

SingapoRewards

On 7 March 2023, The Singapore Tourism Board has launched SingapoRewards, a new programme that offers complimentary experiences in Singapore for international visitors. This programme will run through 2023, and will provide visitors with an opportunity to try one of nearly 40 new or “off-the-beaten-path” experiences in Singapore for free.

From 7 March 2023, eligible short-term visitors to Singapore can redeem a free experience from a specially selected list of SingapoRewards activities. Many of these experiences will showcase less-well-known places of interest or provide access to unique, exclusive experiences. Collectively, these experiences will offer new perspectives of Singapore – even to returning visitors.

SingapoRewards was successfully piloted from Oct 2022 to March 2023 in Australia, India and Indonesia. With the full global launch, visitors can look forward to different activities to suit their interests and itineraries. These are curated across various precincts and categories:

- Novelty and excitement: Explore picturesque precincts through unique tours such as Historical Singapore Bike Tours and Bugis, Waterloo and Kampong Gelam Instagram Walking Tour.
- Food and dining: Savour local culinary delights on board the Singapore River Dining Cruise as you explore the island-city's history, or discover the origins of Singapore Dry Gin at the Brass Lion Distillery Tour.
- Sustainability: Enjoy eco-friendly activities such as the Pleated Bag Making Workshop, learn about aquatic husbandry and conservation at S.E.A. Aquarium + Behind The Panel Guided Tour, or take an inside look at one of the world's best airports through the Jewel Connection: Changi Airport & Jewel Changi Walking Tour.
- Wellness: Find an oasis of calm at the Singapore Flora Heritage Room Diffuser Workshop or get a refreshing workout at the Aqua Spinning Workout Class.

FINANCIAL PROJECTION

In this section, we will be providing our projections for FHT's revenue, earnings and distribution in FY2023 and FY2024.

(I) Revenue projection

We note that FHT has master lease agreements for all of its properties and the weighted average lease expiry (WALE) was 10.3 years as at 30 September 2022. We also note that its master lease agreements have remained unchanged over the period from FY2018 to FY2022.

The WALE is computed based on the gross annual revenue from each of the investment properties. It does not assume the renewal of the master leases after the initial lease term, although some of the master lease agreements are renewable at the option of the master lessee on the same terms and conditions for an additional lease term.

We have summarized the master lessee and the lease structure in **Exhibit 27**.

Exhibit 27: FHT's Master Lessee

Property	Master lessee	Fixed rent per annum (million)	Variable rent per annum ^{(1) (2)}
Novotel Melbourne on Collins	FH-BT NMCS Operations Pty Ltd	A\$5.88	86.0% GOP less Fixed Rent plus FF&E reserve
Novotel Sydney Darling Square	Frasers Sydney ML Hotel Pty Ltd	A\$2.5	84.0% GOP less Fixed Rent plus FF&E reserve
Sofitel Sydney Wentworth ⁽³⁾	Ananke Holdings Pty Ltd	A\$6.0	83.0% GOP less Fixed Rent plus FF&E reserve
Fraser Suites Sydney	Frasers Townhall Residences Operations Pty Ltd	A\$4.2	20.0% GOR + 54.5% GOP less Fixed Rent plus FF&E reserve
InterContinental Singapore	BCH Hotel investment Pte Ltd	S\$8.0	76.0% GOP less Fixed Rent plus FF&E reserve
Fraser Suites Singapore	River Valley Apartments Pte Ltd	S\$7.7	20.0% GOR + 59.0% GOP less Fixed Rent plus FF&E reserve
ibis Styles London Gloucester Road	P I Hotel Management Limited	£0.6	91.5% GOP less Fixed Rent plus FF&E reserve
Park International London	P I Hotel Management Limited	£1.3	91.5% GOP less Fixed Rent plus FF&E reserve
Fraser Suites Edinburgh	Frasers (St Giles Street) Management Limited	£0.5	20.0% GOR + 45.0% GOP less Fixed Rent plus FF&E reserve
Fraser Suites Glasgow	Fairdace Limited	£0.4	20.0% GOR + 50.0% GOP less Fixed Rent plus FF&E reserve
Fraser Suites Queens Gate	39QGG Management Limited	£1.8	20.0% GOR + 67.0% GOP less Fixed Rent plus FF&E reserve
Fraser Place Canary Wharf	Fairdace Limited	£1.4	20.0% GOR + 65.0% GOP less Fixed Rent plus FF&E reserve
ANA Crowne Plaza Kobe	Hotel: K.K. Shinkobe Holding Retail: Y.K. Toranomom Properties	¥600.0	77.8% GOP less Fixed Rent plus FF&E reserve
The Westin Kuala Lumpur	JBB Hotels Sdn Bhd	RM14.8	78.5% GOP less Fixed Rent plus FF&E reserve
Maritim Hotel Dresden	Maritim Hotelgesellschaft mbH	NA ⁽⁴⁾	NA ⁽⁴⁾

(1) GOP = Gross operating profit

(2) Furniture, fixtures and equipment (FF&E) reserve not utilised and carried forward to the following year, if any

(3) Sold as at 29 April 2022

(4) Maritim Hotel Dresden's occupancy and fixed rent have been excluded due to limitations imposed by master lease agreement

Source: FHT, FPA Financial

Assuming the exchange rate of AUDSGD of 0.88593, GBPSGD of 1.63408, JPYSGD of 0.01015 and MYRSGD of 0.30129 as at 28 March 2023, the total fixed rent contribution from FHT's portfolio amounted to S\$47.2 million as shown in **Exhibit 28**.

Exhibit 28: Total Fixed Rent Contribution from FHT's Portfolio

Country	Property Name	Local currency (million)	S\$ million
Australia	Novotel Melbourne on Collins	A\$5.88	S\$5.2
	Novotel Sydney Darling Square	A\$2.5	S\$2.2
	Fraser Suites Sydney	A\$4.2	S\$3.7
Singapore	InterContinental Singapore	S\$8.0	S\$8.0
	Fraser Suites Singapore	S\$7.7	S\$7.7
United Kingdom	ibis Styles London Gloucester Road	£0.6	S\$1.0
	Park International London	£1.3	S\$2.1
	Fraser Suites Edinburgh	£0.5	S\$0.8
	Fraser Suites Glasgow	£0.4	S\$0.7
	Fraser Suites Queens Gate	£1.8	S\$2.9
	Fraser Place Canary Wharf	£1.4	S\$2.3
Japan	ANA Crowne Plaza Kobe	¥600.0	S\$6.1
Malaysia	The Westin Kuala Lumpur	RM14.8	S\$4.5
Germany	Maritim Hotel Dresden	NA ⁽¹⁾	NA ⁽¹⁾
Total			S\$47.2

(1) Maritim Hotel Dresden's occupancy and fixed rent have been excluded due to limitations imposed by master lease agreement

Source: FHT, FPA Financial

Australia

Revenue for the Australia segment comprises of Novotel Melbourne on Collins (NMOC), Novotel Sydney Darling Square (NSDS) and Frasers Suites Sydney (FSS).

On the outlook of the Australia hotel market, we believe that there would be a continued strength in the domestic tourism market throughout 2023. The recovery of international arrivals is expected throughout 2023, with core drivers such as the competitive AUD and "safe"/bucket list location status of Australia. Savills also noted that there have been some significant positive changes of hotel trading levels over the last 12 months with Melbourne and Sydney recording the strongest growth

Given the above, we would expect to see a rebound in hotel revenue performance for FHT's Australia hotels in FY2023. With the continued strength in the domestic tourism and the recovery in international arrivals, we believe the revenue contribution would improve in FY2023 and FY2024.

For our revenue projections, we would be projecting the fixed and variable revenue for FY2023 and FY2024. We noted that the annual fixed rent contribution from FHT's three Australia properties amounted to S\$11.1 million.

The summary of fixed rent contribution for FHT's Australia hotels is shown in **Exhibit 29**.

Exhibit 29: FHT's Australia Hotel Fixed Rent Contribution

Fixed rent per annum (S\$ million)	Actual		Forecast	
	Local	(S\$)	FY2023	FY2024
Novotel Melbourne on Collins	A\$5.88	S\$5.21	S\$5.21	S\$5.21
Novotel Sydney Darling Square	A\$2.5	S\$2.21	S\$2.21	S\$2.21
Fraser Suites Sydney	A\$4.2	S\$3.72	S\$3.72	S\$3.72
Total	A\$12.58	S\$11.14	S\$11.14	S\$11.14

Exchange rate of AUDSGD 0.88593

(1) Sold as at 29 April 2022

Source: FHT, FPA Financial

Next, we note that the percentage of variable revenue from FY2019 to FY2022 was between 56.67% and 73.91%. We also noted that since FY2020 when the percentage of variable revenue was 56.67%, the percentage of variable revenue has been increasing yoy to 62.86% in FY2022.

Given the positive outlook in Australia's hospitality industry, we would assume the percentage of variable revenue contribution to return to the levels recorded in FY2019 of 73.91% by FY2024. We would assume the recovery in the percentage of variable revenue to spread out equally in FY2023 and FY2024, from FY2022. Therefore, the projected increase in percentage of variable revenue would amount to 5.53% as follows:

- Projected percentage of variable revenue increase per year = $[73.91\% - 62.86\%] / 2$ (increase over two years) = 5.53%

Hence, our projected percentage of variable revenue for FY2023 would be 68.39% = $[62.86\% \text{ (FY2022)} + 5.53\% \text{ (projected increase)}]$ and for FY2024 would be 73.91% = $[68.38\% \text{ (FY2023)} + 5.53\% \text{ (projected increase)}]$.

Accordingly, after rebasing the fixed revenue of S\$11.1 million to 100%, the projected total revenue for Australia's hotels in FY2023 would be S\$35.3 million, which comprises of S\$11.1 million in fixed revenue and S\$24.1 million in variable revenue. For FY2024, after rebasing the fixed revenue of S\$11.1 million to 100% the projected total revenue would be S\$42.7 million, which comprises of S\$11.1 million in fixed revenue and S\$31.6 million in variable revenue as follows:

FY2023

- Variable revenue for FY2023 = $68.39\% \times (\text{S\$}11.1 \text{ million} / (100.00\% - 68.39\%))$ (rebasng to 100%) = S\$24.1 million
- Total revenue for FY2023 = S\$11.1 million (projected fixed revenue for FY2023) + S\$24.1 million (projected variable revenue for FY2023) = S\$35.3 million

FY2024

- Variable revenue for FY2024 = $73.91\% \times (\text{S\$}11.1 \text{ million} / (100.00\% - 73.91\%))$ (rebasng to 100%) = S\$31.6 million
- Total revenue for FY2024 = S\$11.1 million (projected fixed revenue for FY2024) + S\$31.6 million (projected variable revenue for FY2024) = S\$42.7 million

Our projected revenue for the Australia segment are summarized in **Exhibit 30**.

Exhibit 30: Projected Revenue for Australia Segment for FY2023 and FY2024

Australia [S\$'000]	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Fixed revenue ⁽¹⁾	16,634	16,634	16,634	14,439	11,145	11,145
Variable revenue	47,130	21,756	22,641	24,437	24,108	31,576
Variable % of total revenue	73.91%	56.67%	57.65%	62.86%	68.39%	73.91%
Total revenue	63,764	38,390	39,275	38,876	35,253	42,721

(1) Assume 7 month contribution from SSW for FY2022

Source: FHT, FPA Financial

Singapore

Revenue for the Singapore segment comprises of InterContinental Singapore (ICSG) and Fraser Suites Singapore (FSSG).

As noted on page 16, the overall hotel performance showed signs of improvement in 2022 with the AOR, ARR and RevPAR increasing 75.8%, 248.97% and 188.64% yoy respectively. Further, in 2022, international visitor arrivals (IVA) totalled 6.3 million, reaching approximately 33% of the pre-pandemic of 19.1 million in 2019, but exceeded STB's forecast of between 4 million and 6 million visitors.

With the positive outlook in the growth momentum for the tourism sector from STB and the reopening in China's borders, we believe it could help uplift the overall performance of the hotel industry.

Similarly, for our revenue projections, we would be projecting the fixed and variable revenue for FY2023 and FY2024. For the annual fixed revenue for the Singapore segment, we note that it amounted to S\$15.7 million as shown in **Exhibit 31**.

Exhibit 31: FHT's Singapore Portfolio Fixed Rent Contribution

Property	Fixed rent per annum (S\$ million)
InterContinental Singapore	S\$8.0
Fraser Suites Singapore	S\$7.7
Total	S\$15.7

Next, we also note that the percentage of variable revenue from FY2019 to FY2022 was between 3.85% and 51.23%. Given the positive outlook in Singapore's hospitality industry, we would assume the percentage contribution from its variable revenue to improve in FY2023 and FY2024. We note that STB projects international visitor arrivals in 2023 to reach approximately two-thirds of the levels recorded in 2019. Considering the above, we would assume the percentage of variable revenue for FHT Singapore's hotels to recover to two-thirds of the level recorded in FY2019.

Therefore, the projected percentage of variable revenue for FY2023 would be 34.16% as follows:

- Projected percentage of variable revenue for FY2023 = [51.23% (FY2019) x 66.67% (projected level of recovery in variable revenue)] = 34.16%

As noted on page 17, barring unexpected circumstances, STB expects tourism activity expected to recover to pre-pandemic levels by 2024. While we note that the percentage of variable revenue was 51.23% in FY2019, we would be conservative in our projections and project a 10% yoy increase in percentage of variable revenue in FY2024 from FY2023. Hence, the projected percentage of variable revenue would be 44.16% =[34.16% (projected FY2023) + 10.0%]

Accordingly, after rebasing the fixed revenue of S\$15.7 million to 100%, the projected total revenue for Singapore's hotels in FY2023 would be S\$23.8 million, which comprises of S\$15.7 million in fixed revenue and S\$8.1 million in variable revenue. For FY2024, after rebasing the fixed revenue of S\$15.7 million to 100%, the projected total revenue would be S\$28.1 million, which comprises of S\$15.7 million in fixed revenue and S\$12.4 million in variable revenue as follows:

FY2023

- Variable revenue for FY2023 = 34.16% x (S\$15.7 million / (100.00% - 34.16%) (rebasng to 100%)) = S\$8.1 million
- Total revenue for FY2023 = S\$15.7 million (projected fixed revenue for FY2023) + S\$8.1 million (projected variable revenue for FY2023) = S\$23.8 million

FY2024

- Variable revenue for FY2024 = 44.16% x (S\$15.7 million / (100.00% - 44.16%) (rebasng to 100%)) = S\$12.4 million
- Total revenue for FY2024 = S\$15.7 million (projected fixed revenue for FY2024) + S\$12.4 million (projected variable revenue for FY2024) = S\$28.1 million

Our projected revenue for the Singapore segment is summarized in **Exhibit 32**.

Exhibit 32: Projected Revenue for Singapore Segment for FY2023 and FY2024

Singapore [S\$'000]	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Fixed revenue	15,700	15,700	15,700	15,700	15,700	15,700
Variable revenue	16,495	3,810	629	5,675	8,144	12,414
Variable % of total revenue	51.23%	19.53%	3.85%	26.55%	34.16%	44.16%
Total revenue	32,195	19,510	16,329	21,375	23,844	28,114

Source: FHT, FPA Financial

United Kingdom

The United Kingdom (UK) portfolio comprises of ibis Styles London Gloucester Road, Park International London, Fraser Suites Edinburgh, Fraser Suites Glasgow, Fraser Suites Queens Gate and Fraser Place Canary Wharf.

On the outlook for the UK hotel market, as noted from CBRE, the sector staged a remarkable recovery during 2022. In addition, for the first time since the beginning of the Covid-19 pandemic, visits to the UK in November 2022 were higher than that of the last comparable month before the pandemic began. Visits to the UK in November 2022 (3.2 million) were 2% higher than in November 2019 (3.1 million).

With the improvement to the trend of the number of visits to the UK, we believe UK's hotel market would be able to continue its recovery. Therefore, we expect the revenue contribution for FY2023 and FY2024 to improve.

Similar to the Australia and Singapore segments, we would be projecting the fixed and variable revenue for FY2023 and FY2024 for the UK segment. Assuming the exchange rate of GBPSGD of 1.63408 as at 28 March 2023, the total annual fixed rent contribution from the UK portfolio amounted to S\$9.80 million as shown in **Exhibit 33**.

Exhibit 33: FHT's UK Portfolio Fixed Rent Contribution

Property	Fixed rent per annum (million)	Fixed rent per annum (S\$ million)
ibis Styles London Gloucester Road	£0.6	S\$0.98
Park International London	£1.3	S\$2.12
Fraser Suites Edinburgh	£0.5	S\$0.82
Fraser Suites Glasgow	£0.4	S\$0.65
Fraser Suites Queens Gate	£1.8	S\$2.94
Fraser Place Canary Wharf	£1.4	S\$2.29
Total	£6.00	S\$9.80

Exchange rate of GBPSGD 1.63408

Source: FHT, FPA Financial

Next, we note that the percentage of variable revenue from FY2019 to FY2022 was between 12.44% and 58.99%. We also noted that since in FY2022, the variable revenue has increased significantly from 12.44% in FY2021 to 46.51% in FY2022.

As noted on page 19, VisitBritain is forecasting the number of visits in 2023 to recover to 86% of the 2019 level. Given the above, we would assume the percentage of variable revenue for FHT UK's hotels to recover to 86% of the level recorded in FY2019.

Therefore, the projected increase in percentage of variable revenue for FY2023 would be 50.73% as follows:

- Projected percentage of variable revenue increase for FY2023 = [58.99% (FY2019) x 86% projected level of recovery in variable revenue] = 50.73%

For FY2024, we would assume the percentage of variable revenue to recover to FY2019 levels of 58.99%. Accordingly, after rebasing after rebasing the fixed revenue of S\$9.8 million to 100%, the projected total revenue for UK's hotels in FY2023 would be S\$19.9 million, which comprises of S\$9.8 million in fixed revenue and S\$10.1 million in variable revenue. For FY2024, rebasing the fixed revenue of S\$9.8 million to 100%, the projected total revenue would be S\$23.9 million, which comprises of S\$9.8 million in fixed revenue and S\$14.1 million in variable revenue as follows:

FY2023

- Variable revenue for FY2023 = $50.73\% \times (\text{S\$}9.8 \text{ million} / (100.00\% - 50.79\%))$ (rebasings to 100%) = S\$10.1 million
- Total revenue for FY2023 = S\$9.8 million (projected fixed revenue for FY2023) + S\$10.1 million (projected variable revenue for FY2023) = S\$19.9 million

FY2024

- Variable revenue for FY2024 = $58.99\% \times (\text{S\$}9.8 \text{ million} / (100.00\% - 58.99\%))$ (rebasings to 100%) = S\$14.1 million
- Total revenue for FY2024 = S\$9.8 million (projected fixed revenue for FY2024) + S\$14.1 million (projected variable revenue for FY2024) = S\$23.9 million

Our projected revenue for the UK segment is summarized in **Exhibit 34**.

Exhibit 34: Projected Revenue for UK Segment for FY2023 and FY2024

United Kingdom [S\$'000]	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Fixed revenue	9,804	9,804	9,804	9,804	9,804	9,804
Variable revenue	14,103	1,424	1,394	8,526	10,095	14,103
Variable % of total revenue	58.99%	12.68%	12.44%	46.51%	50.73%	58.99%
Total revenue	23,907	11,228	11,198	18,330	19,900	23,907

Source: FHT, FPA Financial

Total Revenue

We note that in FY2022, the revenue contribution from Japan, Germany and Malaysia fell by 11.6%, 7.4% and 2.2% yoy respectively as shown in **Exhibit 35**.

Exhibit 35: Total Revenue For FY2021 and FY2022

S\$'000	Actual		
	FY2021	FY2022	Yoy Change
Australia	39,275	38,876	-1.0%
Singapore	16,329	21,375	30.9%
UK	11,198	18,330	63.7%
Japan	7,522	6,647	-11.6%
Germany	6,402	5,926	-7.4%
Malaysia	4,806	4,702	-2.2%
Total revenue	85,532	95,856	12.1%

Source: FHT, FPA Financial

For FY2023 and FY2024, we would expect a stronger revenue performance amid the end to China's Covid-Zero policy and the reopening of its borders. The continuing increase in visitor arrivals and resumption of business events could help to improve FHT's revenue.

Considering the above, for Japan, Germany and Malaysia, we would assume International Monetary Fund's (IMF) GDP growth outlook for 2023 and 2024 for each of the respectively geographical location as a proxy for its revenue growth. For Malaysia, we would be using IMF's ASEAN forecast as a proxy as shown in **Exhibit 36**.

Exhibit 36: IMF's GDP Projections

IMF Projections	2023F	2024F
Japan	1.80%	0.90%
Germany	0.10%	1.40%
Malaysia (ASEAN)	4.30%	4.70%

Source: IMF

Accordingly, for FY2023, the projected revenue from Japan, Germany and Malaysia would amount to S\$6.8 million, S\$5.9 million and S\$4.9 million respectively. For FY2024, the projected revenue from Japan, Germany and Malaysia would amount to S\$6.8 million, S\$6.0 million and S\$5.1 million as follows:

FY2023

- Projected FY2023 Japan's revenue = S\$6.6 million (FY2022) x 101.8% (expected growth) = S\$6.8 million
- Projected FY2023 Germany's revenue = S\$5.9 million (FY2022) x 100.1% (expected growth) = S\$5.9 million
- Projected FY2023 Malaysia's revenue = S\$4.7 million (FY2022) x 104.3% (expected growth) = S\$4.9 million

FY2024

- Projected FY2024 Japan's revenue = S\$6.8 million (projected FY2023) x 100.9% (expected growth) = S\$6.8 million
- Projected FY2024 Germany's revenue = S\$5.9 million (projected FY2023) x 101.4% (expected growth) = S\$6.0 million
- Projected FY2024 Malaysia's revenue = S\$4.9 million (projected FY2023) x 104.7% (expected growth) = S\$5.1 million

Consequently, our projected total revenue for FY2023 and FY2024 amounted to S\$96.6 million and S\$112.7 million respectively as shown in **Exhibit 37**.

Exhibit 37: Projected Total Revenue for FY2023 and FY2024

S\$'000	Actual			Forecast			
	FY2021	FY2022	Yoy Change	FY2023	Yoy change	FY2024	Yoy change
Australia	39,275	38,876	-1.0%	35,253	-9.3%	42,721	21.2%
Singapore	16,329	21,375	30.9%	23,844	11.6%	28,114	17.9%
UK	11,198	18,330	63.7%	19,900	8.6%	23,907	20.1%
Japan	7,522	6,647	-11.6%	6,767	1.8%	6,828	0.9%
Germany	6,402	5,926	-7.4%	5,932	0.1%	6,015	1.4%
Malaysia	4,806	4,702	-2.2%	4,904	4.3%	5,135	4.7%
Total revenue	85,532	95,856	12.1%	96,600	0.8%	112,720	16.7%

Source: FHT, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2023 and FY2024, we now estimate FHT's earnings for these periods.

Net Property Income

For our net property income (NPI) projections, we will consider FHT's historical NPI margins. Owing to the adverse impact of Covid-19, FHT's NPI margins decreased to 67.37% and 67.55% in FY2021 and FY2020 respectively but recovered in FY2022 to 72.59%. Considering that FHT is recovering from the impact of the Covid-19 pandemic, we would assume that the NPI margin remains at 72.59% for FY2023 as recorded in FY2022. For FY2024, we would assume that the NPI margin return to its pre-pandemic level recorded in FY2019 at 74.54%. Accordingly, the projected NPI for FY2023 and FY2024 would be S\$70.1 million and S\$84.0 million respectively as shown in **Exhibit 38**.

Exhibit 38: Projected Net Property Income for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	149,805	88,573	85,532	95,856	96,600	112,720
Property operating expense	(38,139)	(28,742)	(27,906)	(26,273)	(26,477)	(28,697)
Net property income (NPI)	111,666	59,831	57,626	69,583	70,123	84,022
NPI margin	74.54%	67.55%	67.37%	72.59%	72.59%	74.54%

Source: FHT, FPA Financial

Depreciation

From FY2019 to FY2022, depreciation expense remained relatively stable between S\$3.8 million and S\$4.2 million. As FHT did not announce any potential divestment, we would believe the depreciation expense would remain stable from the S\$4.2 million recorded in FY2022. Hence, we would assume the depreciation expense for FY2023 and FY2024 to be S\$4.2 million as shown in **Exhibit 39**.

Exhibit 39: Projected Depreciation Expense for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Depreciation	(3,815)	(3,921)	(3,929)	(4,224)	(4,224)	(4,224)

Source: FHT, FPA Financial

REIT Manager's and Trustee-Manager's Management Fees

The REIT Manager is entitled to management fees comprising a Base Fee of 0.3% per annum of the value of the FHREIT's Deposited Property and Performance Fee of 5.5% per annum of the Distributable Income of FHT in the relevant financial year (calculated before accounting for the FH-REIT Performance Fee and the FH-BT Performance Fee but after accounting for the FH-REIT Base Fee and the FH-BT Base Fee). However, a lower percentage of the base and performance fee may be determined by the REIT Manager in its absolute discretion.

Meanwhile, the Trustee-Manager is entitled to management fees comprising a Base Fee of 0.3% per annum of the value of the FH-BT Trust Property and a Performance Fee of 5.5% of the aggregate Distributable Income of FHT in the relevant financial year (calculated before accounting for the REIT Performance Fee and the BT Performance Fee).

However, we note that both the REIT Manager and the Trustee-Manager may not receive the full base and performance fees, in our projections, we would proxy the management fees to the revenue for each respective year.

We note that from FY2019 to FY2022, the REIT-Manager's management fees vary between 4.92% and 6.17% while the Trustee Manager's fees vary between 0.03% and 0.09%. In our projections we would assume the average percentage of management fees over the projected revenue to derive our REIT-Manager's and Trustee-Manager's management fees for FY2023 and FY2024.

Based on our calculations, the average REIT-Manager's management fee is 5.49% $= [(4.92\% \text{ (FY2019)} + 6.17\% \text{ (FY2020)} + 5.29\% \text{ (FY2021)} + 5.57\% \text{ (FY2022)}) / 4]$ while the average Trustee-Manager's management fee is 0.06% $= [(0.03\% \text{ (FY2019)} + 0.06\% \text{ (FY2020)} + 0.09\% \text{ (FY2021)} + 0.05\% \text{ (FY2022)}) / 4]$. Accordingly, our projected REIT-Manager's management fee amounted to S\$5.3 million and S\$6.2 million for FY2023 and FY2024 respectively while our projected Trustee-Manager's management fee amounted to S\$57,000 and S\$66,000 for FY2023 and FY2024 respectively as follows:

REIT-Manager's management fees

- FY2023 REIT-Manager's management fees = 5.49% (average % of revenue) x S\$96.6 million (FY2023 projected revenue) = S\$5.3 million
- FY2024 REIT-Manager's management fees = 5.49% (average % of revenue) x S\$112.7 million (FY2024 projected revenue) = S\$6.2 million

Trustee-Manager's management fees

- FY2023 Trustee-Manager's management fees = 0.06% (average % of revenue) x S\$96.6 million (FY2023 projected revenue) = S\$57,000
- FY2024 Trustee-Manager's management fees = 0.06% (average % of revenue) x S\$112.7 million (FY2024 projected revenue) = S\$66,000

The summary for the projected REIT Manager's and Trustee-Manager's Management Fee for FY2023 and FY2024 is shown in **Exhibit 40**.

Exhibit 40: Projected REIT Manager's and Trustee-Manager's Management Fee for FY2023 and FY2024

S\$'000	Actual					Forecast	
	FY2019	FY2020	FY2021	FY2022	Average	FY2023	FY2024
Revenue	149,805	88,573	85,532	95,856		96,600	112,720
REIT-Manager's management fees	7,369	5,466	4,521	5,340	5.49%	5,300	6,185
% of revenue	4.92%	6.17%	5.29%	5.57%		5.49%	5.49%
Trustee-Manager's management fee:	48	54	80	46	0.06%	57	66
% of revenue	0.03%	0.06%	0.09%	0.05%		0.06%	0.06%

Source: FHT, FPA Financial

Other Management and Trustees' Fee

Other management fees comprise of Managed Investment Trust (MIT) Manager's fees, Kobe Asset Manager's management fees and Asset-Based Securities Servicer (ABS) fees.

Pursuant to the Investment Management Agreements for MIT Australia and each underlying MIT Sub-Trust, the MIT Manager is entitled to a management fee comprising a Base Fee of 0.3% per annum of the total value of MIT Australia's trust property and a Performance Fee of 5.5% of MIT Australia's aggregate earnings before interest, taxes, depreciation and amortisation in the relevant financial year.

Pursuant to the Asset Management Agreements for Kobe Excellence TMK and Excellence Prosperity (Japan) K.K., the Kobe Asset Manager is entitled to an annual management fee of Japanese Yen ("JPY") 12.0 million and JPY 3.0 million respectively (exclusive of consumption tax), payable quarterly in arrears.

Pursuant to the ABS Servicing Agreement for Notable Vision Sdn. Bhd., a Servicer Fee (exclusive of applicable Sales and Service Tax), of Malaysian Ringgit ("MYR") 360,000 per annum, is payable in arrears on a semi-annual basis to the REIT Manager for the provision of its services as Servicer.

Considering the above, we note that other management fees amounted to S\$4.6 million in FY2019 due to higher performance fees. However, between FY2020 and FY2022, other management fees remained relatively stable between S\$3.3 million and S\$3.6 million.

Hence, in our projections, we would assume the average other management fees between FY2020 and FY2022 of S\$3.5 million $= [(\text{S\$3.6 million (FY2020)} + \text{S\$3.7 million (FY2021)} + \text{S\$3.3 million (FY2022)}) / 3]$. Consequently, the projected other management fees for FY2023 and FY2024 would amount to S\$3.5 million as shown in **Exhibit 41**.

We note that the Trustees' fees also remained relatively stable from FY2019 to FY2022. Hence, we would assume the average Trustees' fees of S\$490,000 $= [(\text{S\$496,000 (FY2019)} + \text{S\$495,000 (FY2020)} + \text{S\$493,000 (FY2021)} + \text{S\$474,000 (FY2022)}) / 4]$ recorded between FY2019 and FY2022 for our projections in FY2023 and FY2024. Consequently, the projected Trustees' fees for FY2023 and FY2024 would amount to S\$490,000 as shown in **Exhibit 41**.

Exhibit 41: Projected Other Management and Trustees' Fees for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Other management fees	(4,603)	(3,569)	(3,668)	(3,295)	(3,511)	(3,511)
Trustees' fees	(496)	(495)	(493)	(474)	(490)	(490)

Source: FHT, FPA Financial

Other Trust Expenses

Other trust expenses comprise of audit and non-audit fees paid and payable to auditor of the Trusts, valuation fees and "other expenses". As noted on page 6, other trust expense increased significantly due to the professional fees incurred for the proposed privatisation exercise of FHT in April 2022. Other trust expenses declined from S\$3.3 million in FY2020 to S\$2.8 million in FY2021 mainly due to lower non-audit fees, valuation fees and "other expenses". For FY2023 and FY2024, we would assume the average other trust expense between FY2019 and FY2021 of S\$3.1 million $= [(\text{S\$3.2 million (FY2019)} + \text{S\$3.3 million (FY2020)} + \text{S\$2.8 million (FY2021)}) / 3]$ as shown in **Exhibit 42** on the next page.

Exhibit 42: Projected Other Trust Expense for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Other trust expense	(3,246)	(3,268)	(2,799)	(5,299)	(3,104)	(3,104)

Source: FHT, FPA Financial

Finance Cost and Finance Income

As shown in **Exhibit 14** on page 11, FHT's total borrowings were S\$756.7 million. We noted that the finance cost for FY2022 amounted to S\$21.6 million. Considering the above, the effective interest rate on its borrowings was 2.85%=[(S\$21.6 million (finance cost in FY2022) / S\$756.7 million (total bank borrowings in FY2022)]. In addition, we also note that approximately 81.7% of its total debt is on a fixed rate basis. Further, as shown in **Exhibit 14** on page 11, S\$374.4 million of the total debt is set to mature in the next two years. However, we note that as at FY2022, FHT's cash and cash equivalents amounted to S\$123.9 million. Hence, we believe that FHT is likely to refinance their borrowings of S\$374.4 million when it matures in FY2023 and FY2024. Considering the above, the estimated total borrowings for FY2023 and FY2024 would remain at S\$756.7 million.

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2022 was 2.75% while the average 10-year bond yield for the first 6 months of 2023 was 3.10%. The average Singapore's SGS 10-year bond yield for the first 6 months of FY2023 increased by 0.72 percentage points (ppts) = [3.10% (FY2023) – 2.38% (FY2022)] versus the average yield for 2022 as shown in **Exhibit 43**.

Exhibit 43: Singapore SGS 10-Year Bond Yield

FY2022	10-year bond yield (%)	FY2023	10-year bond yield (%)
Oct-21	1.84%	Oct-22	3.43%
Nov-21	1.70%	Nov-22	3.07%
Dec-21	1.67%	Dec-22	3.09%
Jan-22	1.77%	Jan-23	2.97%
Feb-22	1.90%	Feb-23	3.34%
Mar-22	2.34%	Mar-23 ⁽¹⁾	2.98%
Apr-22	2.53%		
May-22	2.71%		
Jun-22	2.98%		
Jul-22	2.66%		
Aug-22	2.98%		
Sep-22	3.48%		
Average	2.38%	Average	3.10%

(1) As at 30 March 2023

Source: MAS, FPA Financial

Considering that the SGS 10-year bond yield increased by 0.72ppts in the first 6 months of FY2023 from FY2022, we would assume the increase in SGS 10-year bond yield as a proxy for the increase in effective interest rate for FY2023 (variable rate debt). Accordingly, the effective interest rate (variable rate) for FY2023 would be 3.57% =[2.85% (FY2022) +0.72ppts]. For FY2024, while there is a possibility of a potential slowdown in both economic growth and the rate of increase of interest rate, we would be conservative and assume the effective interest rate to increase by another 0.72 ppts in FY2024. Accordingly, the effective interest rate for FY2023 would be 4.29% =[3.57% (projected FY2023) +0.72ppts].

Accordingly, the projected finance cost for FY2023 and FY2024 would be S\$22.6 million and S\$23.6 million respectively as shown in **Exhibit 44**.

Exhibit 44: Projected Finance Cost for FY2023 and FY2024

S\$'000	Total debt	Fixed rate debt (81.7%)	Float rate debt (18.3%)	Fixed cost of debt (%)	Variable cost of debt (%)	Period (months)	Finance cost		
							Fixed	Variable	Total
FY2023	756,732	618,250	138,482	2.85%	3.57%	12	17,645	4,945	22,589
FY2024	756,732	618,250	138,482	2.85%	4.29%	12	17,645	5,937	23,582

Source: FHT, FPA Financial

For finance income, we note that FHT recorded finance income of S\$450,000 and cash and cash equivalents of S\$123.9 million. Considering the above, the effective finance income interest rate would be 0.36% $= [S\$450,000 \text{ (finance income FY2022)} / S\$123.9 \text{ million (cash and cash equivalents)}]$.

Given that we assumed the variable cost of debt to increase by 0.72 ppts in FY2023 and FY2024, we would assume the effective finance income interest rate to increase by 0.72 ppts in both FY2023 and FY2024. Accordingly, the effective finance income interest rate for FY2023 would be 1.08% $= [0.36\% \text{ (FY2022)} + 0.72\%]$ and for FY2024 would be 1.80% $= [1.08\% \text{ (FY2023)} + 0.72\%]$.

As a result, assuming the cash and cash equivalents remain unchanged at S\$123.9 million the projected interest income for FY2023 and FY2024 would be S\$1.3 million and S\$2.2 million respectively as follows:

- Finance income for FY2023 = 1.08% (projected finance income interest rate for FY2023) x S\$123.9 million (cash and cash equivalents) = S\$1.3 million
- Finance income for FY2024 = 1.80% (projected finance income interest rate for FY2024) x S\$123.9 million (cash and cash equivalents) = S\$2.2 million

Meanwhile, for our amortisation of debt upfront cost projections, we would assume the amount recorded in FY2022 as our proxy. Accordingly, the amortization of debt upfront cost for FY2023 and FY2024 would amount to S\$1.2 million.

The summary of our projected finance income and finance cost is shown in **Exhibit 45**.

Exhibit 45: Projected Finance Income and Finance Cost for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Finance income	332	329	210	450	1,338	2,230
Amortisation of debt upfront costs	(1,107)	(824)	(952)	(1,156)	(1,156)	(1,156)
Finance costs	(20,503)	(19,750)	(20,415)	(21,597)	(22,589)	(23,582)

Source: FHT, FPA Financial

Adjustments To Foreign Exchange Differences And Fair Value Changes

We note that in FY2022, FHT recorded foreign exchange gain, net gain in fair value of investment properties, revaluation of property, plant & equipment, gain on divestment of investment property & related deemed disposal of foreign operations and realised gain on derivative financial instruments. For both FY2023 and FY2024 we would assume neither gains nor losses as shown in **Exhibit 46**.

Exhibit 46: Projected Adjustment to Foreign Exchange Differences And Fair Value Changes for FY2023 and FY2024

S\$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Foreign exchange (loss)/ gain, net	(26)	(4,042)	-	-
Net change in fair value of investment properties	(4,574)	24,199	-	-
Revaluation of property plant and equipment	8,444	1,347	-	-
Gain on divestment of investment property and related deemed disposal of foreign operations	-	17,585	-	-
Net change in fair value of derivative financial instruments	(77)	-	-	-
Realised (loss)/gain on derivative financial instruments, net	(16)	1,090	-	-

Source: FHT, FPA Financial

Total Return before Tax

Given the above projections, we would estimate a total return before tax of S\$31.0 million in FY2023 and S\$43.9 million in FY2024 as shown in **Exhibit 47**.

Exhibit 47: Projected Total Return Before Tax for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	95,856	96,600	112,720
Property operating expenses	(26,273)	(26,477)	(28,697)
Net property income	69,583	70,123	84,022
Depreciation	(4,224)	(4,224)	(4,224)
REIT Manager's management fees	(5,340)	(5,300)	(6,185)
Trustee-Manager's management fees	(46)	(57)	(66)
Other management fees	(3,295)	(3,511)	(3,511)
Trustees' fees	(474)	(490)	(490)
Other trust expense	(5,299)	(3,104)	(3,104)
Finance income	450	1,338	2,230
Amortisation of debt upfront costs	(1,156)	(1,156)	(1,156)
Finance costs	(21,597)	(22,589)	(23,582)
Total return before foreign exchange differences, fair value changes and tax	28,602	31,030	43,935
Foreign exchange (loss)/ gain, net	(4,042)	-	-
Net change in fair value of investment properties	24,199	-	-
Revaluation of property plant and equipment	1,347	-	-
Gain on divestment of investment property and related deemed disposal of foreign operations	17,585	-	-
Net change in fair value of derivative financial instruments	-	-	-
Realised (loss)/gain on derivative financial instruments, net	1,090	-	-
Total return/ (loss) for the year before tax	68,781	31,030	43,935

Source: FHT, FPA Financial

Taxation

We note that historically, the estimated effective tax rate varies between 7.10% and 34.06% between FY2019 and FY2022 as shown in **Exhibit 48**. We note that the large variation could be attributed to the variability of “Origination and reversal of taxable temporary differences” in each accounting period.

According to FHT, for Singapore income tax purposes, FHT, which is a stapled group consisting of Frasers Hospitality Real Estate Investment Trust (FH-REIT) and Frasers Hospitality Business Trust (FH-BT), is not a taxable entity. Instead, FH-REIT and FH-BT are subject to tax separately based on their own characteristics as a real estate investment trust and a registered business trust respectively.

FH-REIT has been granted tax transparency treatment in respect of certain income derived from the Singapore properties, as well as tax exemption under Section 13(12) of the Singapore Income Tax Act in respect of certain foreign-sourced income derived from their respective overseas subsidiaries, subject to meeting certain conditions.

FH-BT which is registered as a business trust in Singapore under the Business Trust Act will be treated like a company under the one-tier corporate tax system for Singapore income tax purposes. Consequently, FH-BT will be assessed to Singapore income tax on its taxable income, if any, at the prevailing corporate tax rate in accordance with the Singapore Income Tax Act.

Considering the above, we would assume the estimated effective tax rate of 15.21% recorded in FY2022 as a proxy for our taxation for FY2023 and FY2024. Consequently, the projected taxation for FY2022 and FY2023 would be S\$4.7 million and S\$6.7 million respectively, as follows:

- Projected taxation for FY2023 = S\$31.0 million (projected FY2023 total return for the year before tax) x 15.21% (estimated effective tax rate) = S\$4.7 million
- Projected taxation for FY2024 = S\$43.9 million (projected FY2024 total return for the year before tax) x 15.21% (estimated effective tax rate) = S\$6.7 million

The summary of the projected taxation for FY2023 and FY2024 is shown in **Exhibit 48**.

Exhibit 48: Projected Taxation for FY2023 and FY2024

S\$'000	Actual				Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Total return/ (loss) for the year before tax	55,711	(123,409)	24,730	68,781	31,030	43,935
Taxation	(3,954)	9,981	(8,422)	(10,464)	(4,721)	(6,684)
Estimated effective tax rate	7.10%	NM	34.06%	15.21%	15.21%	15.21%

Source: FHT, FPA Financial

Total Return after Tax

Adjusting for income tax expense, the projected total return after tax for FY2023 and FY2024 would be S\$26.3 million and S\$37.3 million respectively as shown in **Exhibit 49**.

Accordingly, assuming the number of issued Stapled Securities in FY2022 for FY2023 and FY2024, the projected earnings per Stapled Security would be 1.37 cents and 1.93 cents respectively as shown in **Exhibit 49**.

Exhibit 49: Projected Total Return After Tax for FY2023 and FY2024

S\$'000	Actual	Forecast	
	FY2022	FY2023	FY2024
Revenue	95,856	96,600	112,720
Property operating expenses	(26,273)	(26,477)	(28,697)
Net property income	69,583	70,123	84,022
Depreciation	(4,224)	(4,224)	(4,224)
REIT Manager's management fees	(5,340)	(5,300)	(6,185)
Trustee-Manager's management fees	(46)	(57)	(66)
Other management fees	(3,295)	(3,511)	(3,511)
Trustees' fees	(474)	(490)	(490)
Other trust expense	(5,299)	(3,104)	(3,104)
Finance income	450	1,338	2,230
Amortisation of debt upfront costs	(1,156)	(1,156)	(1,156)
Finance costs	(21,597)	(22,589)	(23,582)
Total return before foreign exchange differences, fair value changes and tax	28,602	31,030	43,935
Foreign exchange (loss)/ gain, net	(4,042)	-	-
Net change in fair value of investment properties	24,199	-	-
Revaluation of property plant and equipment	1,347	-	-
Gain on divestment of investment property and related deemed disposal of foreign operations	17,585	-	-
Net change in fair value of derivative financial instruments	-	-	-
Realised (loss)/gain on derivative financial instruments, net	1,090	-	-
Total return/ (loss) for the year before tax	68,781	31,030	43,935
Taxation	(10,464)	(4,721)	(6,684)
Total return/ (loss) for the year after tax	58,317	26,309	37,251
Attributable to:			
Stapled Securityholders	58,317	26,309	37,251
Weighted average number of Stapled Securities ('000)	1,926,074	1,926,074	1,926,074
Earnings per Stapled Security (cents)	3.03	1.37	1.93

Source: FHT, FPA Financial

(III) Distributions Projection

With our projected total return for the year after tax, we would now estimate FHT's income available for distribution to Stapled Securityholders. Following the distribution adjustment as shown in **Exhibit 50**, the projected income available for distribution to stapled securityholders would be S\$35.1 million and S\$46.1 million for FY2023 and FY2024 respectively.

We note that FHT's distributions to Stapled Securityholders is based on 90% payout of the income available for distribution. For FY2023 and FY2024, we would also assume to pay 90% of the income available as distribution. Accordingly, income attributable for distribution to Stapled Securityholders amounted to S\$31.6 million and S\$41.5 million in FY2023 and FY2024 respectively, and the distribution per Stapled Security would be 1.64 cents and 2.15 cents respectively, as shown in **Exhibit 50**.

Exhibit 50: Projected Distribution for FY2023 and FY2024

S\$'000	Actual		Forecast	
	FY2021	FY2022	FY2023	FY2024
Total return for the year after tax	16,308	58,317	26,309	37,251
Non-tax deductible/ (non-taxable) items and other adjustments:				
Amortisation of debt upfront cost	952	1,156	1,156	1,156
Amortisation of other assets	4	-	-	-
Depreciation	3,929	4,224	4,224	4,224
Foreign exchange loss, net	26	4,042	-	-
Net change in fair value of derivative financial instruments	4,574	(24,199)	-	-
Revaluation of property, plant and equipment	(8,444)	(1,347)	-	-
Net change in fair value of derivative financial instruments	77	-	-	-
Realised gain on derivative financial instruments	-	(1,086)	-	-
Trustee's fee in relation to FH-REIT	285	274	274	274
Interest expense on lease liabilities	124	125	125	125
Deferred tax	5,683	(6,988)	-	-
Gain on divestment of investment property and deemed disposal of business of foreign operations	-	(17,585)	-	-
Withholding tax on capital gain on divestment of investment property	-	15,011	-	-
Other adjustments	240	3,035	3,035	3,035
Net effect of non-tax deductible/ (non-taxable) items and other adjustments	7,450	(23,338)	8,814	8,814
Income available for distribution attributable to:				
Stapled Securityholders	21,039	34,979	35,123	46,065
Perpetual Securities holders	2,719	-	-	-
Total	23,758	34,979	35,123	46,065
Amount retained for working capital purposes	(2,104)	(3,475)	(3,512)	(4,607)
Distribution to Stapled Securityholders	18,935	31,504	31,611	41,459
No. of Stapled Securities issued ('000)	1,926,074	1,926,074	1,926,074	1,926,074
Distribution per Stapled Security (cents)	0.9831	1.6357	1.6412	2.1525

Source: FHT, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We will perform an updated peer comparison analysis to account for the changes in the financial position of FHT and its selected peer companies. The results of our updated peer comparison analysis are summarized in **Exhibit 51**.

Exhibit 51: Peer Comparison

Company	Stock code	Price (\$) as at 2 April 2023	Market cap (\$ million)	EPS ⁽¹⁾ (cents)	P/E (x)	DPU ⁽¹⁾ (cents)	Distribution yield (%)	NAV per share (\$)	P/B (x)
Frasers Hospitality Trust ⁽²⁾	ACV	0.450	866.73	3.03	14.85	1.64	3.64	0.65	0.70
Peer companies:									
CapitaLand Ascott Trust ⁽³⁾	HMN	0.990	3,411.17	6.28	15.76	5.67	5.73	1.15	0.86
Far East Hospitality Trust ⁽³⁾	Q5T	0.595	1,186.80	10.24	5.81	3.27	5.50	0.90	0.66
CDL Hospitality Trusts ⁽³⁾	J85	1.080	1,341.15	17.43	6.20	5.63	5.21	1.44	0.75
Peer average	-	-	-	-	9.26	-	5.48	-	0.76

(1) Trailing 12-month data

(2) NAV as at 30 Sep 22

(3) NAV as at 31 Dec 22

Source: Respective company data, FPA Financial

(a) P/E Multiple

Based on the above result in **Exhibit 51**, we note that FHT's P/E multiple of 14.85x is higher than the peer average P/E multiple of 9.26x. However, we note that FHT peers' earnings have been greatly impacted by the net gain in fair value of investment properties. We note that FHT's net gain in fair value of investment properties was S\$24.2 million in FY2022, CapitaLand Ascott Trust (CAL), Far East Hospitality Trust (FEHT) and CDL Hospitality Trust (CDL) net gain in fair value of investment properties amounted to S\$122.4 million, S\$102.2 million and S\$130.3 million respectively. These fair value gain could lower the P/E multiple of the companies.

(b) Dividend Yield

Based on the above result in **Exhibit 51**, we note that FHT has a dividend yield of 3.64% which is lower compared to the peer average yield of 5.48%. However, we note that the three peer companies' distribution payout were 100% of its distributable income. However, FHT only paid 90% of its distributable income.

Considering the above, we would focus our peer comparison on FHT's P/B multiple

(c) P/B Multiple

Based on the results in **Exhibit 51** on the previous page, we note that FHT is currently trading at a P/B multiple of 0.70x, which is lower than the peer average P/B of 0.76x, which may suggest that it is undervalued at the current share price of S\$0.450. Adopting a relative valuation approach, we estimate a target price of S\$0.494 if FHT were to trade at the peer average P/B multiple of 0.76x as follows:

➤ Estimated target price = [peer average P/B] x [FHT's NAV per share] = 0.76 x S\$0.65 = S\$0.494

The estimated target price of S\$0.494 would imply a upside potential of 9.78% from the current price of S\$0.450.

(II) Potential FHT Privatisation

We noted that Frasers Property Limited, the sponsor of FHT, is deemed to hold 25.80% stake in FHT, comprising of deemed interest of 496,964,399 units. In addition, TCC Group, FHT's strategic partner, is deemed to hold 36.72% stake in FHT, comprising of direct interest of 707,310,200 units. Together, Frasers Property Limited and its related parties holds 62.52% stake in FHT =[25.80% (Frasers Property Limited's stake) + 36.72% (TCC Group's stake)].

We also noted that the Singapore Exchange (SGX) had seen an increasing trend of privatisation offer during the past 2 years. In addition, FHT is currently trading at a 30% discount to the NAV. While we note that FHT failed its privatisation attempt in September 2022, given the increasing trend of privatisation offers for SGX-listed companies within the past year and that FHT is trading at 30% discount to NAV, it is possible that there could be another attempt at privatisation by the sponsors.

To estimate the potential takeover cost for FHT, we will review privatisation offers for SGX-listed companies. After reviewing 22 privatisation offers, we shortlisted 9 privatisation offers which we deemed to be similar to FHT. The average price premium of the 9 privatisation offers was 37.4% as shown in **Exhibit 52**.

Exhibit 52: Privatization offers for SGX-listed Companies

Target	Acquirer	Currency	Last transaction ⁽¹⁾		Offer price per share	Price premium ⁽²⁾
			Date	Price		
GL Limited	Guoco Group Limited	SGD	14-Jan-21	0.560	0.800	42.9%
World Class Global Limited	Aspial Corporation Limited	SGD	11-Mar-21	0.099	0.210	112.1%
Fragrance Group Limited	JK Global Treasures Pte Ltd	SGD	8-Jul-21	0.118	0.138	16.9%
SPH	Cuscaden Peak Pte Ltd	SGD	2-Aug-21	1.500	2.360	57.3%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
SingHaiyi Group	Haiyi Treasure Pte. Ltd	SGD	8-Nov-21	0.108	0.117	8.3%
Hwa Hong Corporation Limited	Sanjuro United Pte. Ltd.	SGD	17-May-22	0.290	0.400	37.9%
GYP Properties Limited	Rumah & Co. Pte. Ltd.	SGD	8-Jul-22	0.149	0.200	34.2%
Boustead Projects	Boustead Singapore	SGD	6-Feb-23	0.840	0.900	7.1%
Average						37.4%

⁽¹⁾ Refers to last transaction prior to takeover announcement

⁽²⁾ Refers to premium of offer price over last traded share price prior to takeover announcement

Source: Respective companies' announcements

In the case of FHT, as mentioned earlier, the sponsor and TCC Group hold approximately 62.52% stake in FHT, which means that it would need to acquire the remaining 37.48% to privatise the company. This equates to S\$324.85 million in market capitalisation at the current price of S\$0.450 =[37.48% x current market capitalisation of S\$866.73 million].

While we note that Frasers Property Limited and its related parties' proposal to take FHT private failed recently, as highlighted in our previous update report, there could be a possibility of another attempt at privatisation. In the event that it occurs, we projected 3 scenarios for the estimated acquisition cost with a price premium of 8.3%, 37.4% and 57.3% for scenario 1, 2 and 3 respectively. Scenario 1 represents the 12th percentile, scenario 2 represents the average and scenario 3 represents the 78th percentile of the 9 privatization offers. The estimated acquisition cost for scenario 1, 2 and 3 would be S\$351.9 million, S\$446.4 million and S\$511.1 million respectively as shown in **Exhibit 53**.

Our base scenario would be scenario 2. With a 37.4% average privatisation price premium, the estimated acquisition cost to privatise FHT would be approximately S\$0.618 per share which would be equivalent to a total cost of S\$446.4 million = [137.4% x 324.85 million] as shown in **Exhibit 53**.

Exhibit 53: Estimated Total Cost for the Potential FHT Privatisation

Scenario	Current share price (S\$)	Price premium	Estimated offer price per share (S\$)	Estimated total cost (S\$ million)
1	0.450	8.3%	0.488	351.9
2	0.450	37.4%	0.618	446.4
3	0.450	57.3%	0.708	511.1

Source: FPA Financial

INVESTMENT RECOMMENDATION

According to our peer comparable analysis, we note that the relatively higher fair value gain of FHT's peer companies could lower its respective P/E multiples. In addition, as FHT only paid 90% of its distributable income compared to its peer distributing 100% of its distributable income, we would focus our peer comparison on FHT's P/B multiple.

Our peer comparable analysis shows that FHT's P/B of 0.70x is lower than the peer average P/B of 0.76x, which may suggest that it is undervalued. Adopting a relative valuation approach, we estimate a target price of S\$0.494 if FHT were to trade at the peer average P/B multiple of 0.76x.

In addition, while we note that Frasers Property Limited and its related parties' proposal to take FHT private failed recently, there could be a possibility of another attempt at privatisation in the next 3 years. In the event that it occurs, a privatisation offer of S\$0.618 per share is possible. This represents a price premium of 37.4%, which is the average price premium of 9 privatisation offers.

In terms of financials, we note that FHT's FY2022 performance improved relaxation of travel restrictions and widespread vaccinations. As a result, FHT recorded a 12.1% yoy increase in revenue and led to a distribution per stapled securityholder of 1.6355 cents for FY2022, an increase of 66.4% yoy. Tourism should continue to recover at a strong pace as restrictions ease and confidence returns. Looking ahead, we believe FHT is well positioned to benefit from the recovery in the hospitality industry and we anticipate portfolio performance to improve going forward, which will provide tailwind for FHT's financial performance.

Considering the above, we will maintain our buy recommendation on FHT. Our target price of S\$0.494 implies a potential upside of 9.78% from the current share price of S\$0.450. However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

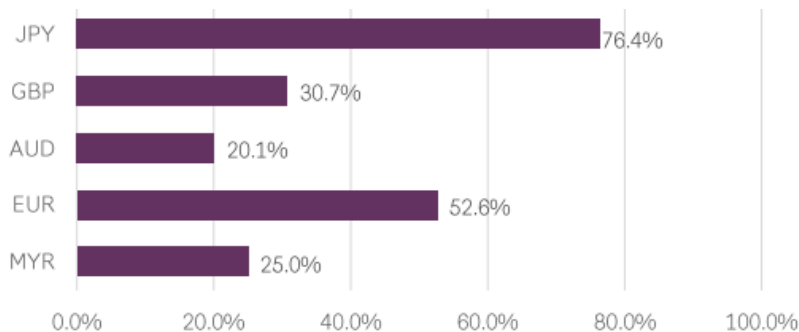
In this section, we highlight below risk factors that may limit the potential upside in FHT's target price.

(I) Currency Risk

We note that FHT has exposure to foreign exchange risk with respect to its Australian Dollars (AUD), Sterling Pound (GBP), Malaysia Ringgit (MYR), Japanese Yen (JPY) and Euro (EUR) denominated investments, distribution income and interest income from its foreign subsidiaries. There is a possibility that Singapore Dollar (SGD) could strengthen further. This would imply a reduction in revenue when foreign currency earnings in AUD, GBP, MYR, JPY and EUR are translated to SGD. Hence, a stronger SGD could have a negative impact on FHT's earnings due to currency exchange losses.

However, we note that to manage its foreign currency risks associated with the capital values of its overseas assets, FHT has created a natural hedge by borrowing in the same currency as the underlying asset. This has been achieved either through direct borrowing in the foreign currency, or via cross currency swap which is at a lower cost of funding. It is the Managers' policy to hedge at least 20% of its investments denominated in foreign currencies, either through borrowings in the same foreign currencies or using cross currency swap contracts. As at 31 December 2022, FHT achieved between 20% and 77% natural hedging for its portfolio of assets denominated in foreign currencies. The breakdown of FHT's balance sheet hedging for the different currencies is shown in **Exhibit 54**.

Exhibit 54: FHT's Balance Sheet Hedging (as at 31 December 2022)



Source: FHT

(II) Weak Global Economic Recovery

Global growth is slowing sharply in the face of elevated inflation, higher interest rates, bank stresses, concerns over earnings and geopolitical risks. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. In its latest World Economic Outlook, the International Monetary Fund (IMF) projects the global economy to grow by 2.7% in 2023. For 2024, IMF projects the global economy to grow by 3.2%.

Given fragile economic conditions, any new adverse development—such as higher-than-expected inflation, abrupt rises in interest rates to contain it, a resurgence of the COVID-19 pandemic, or escalating geopolitical tensions—could push the global economy into recession. Given this, it is possible that inflation will rise even more, global growth will continue to slow down, and this will hinder the recovery of the world economy. This could weigh on consumer, business & tourist spending which will negatively affect the performance of FHT's earnings going forward.

(III) Weak Economic Recovery in Singapore

The Ministry of Trade and Industry (MTI) has stated that the aviation and tourism sectors in Singapore's economy are expected to experience improved growth in 2023 due to the anticipated acceleration in international air travel and inbound tourism, following China's faster-than-expected relaxation of border restrictions. These sectors comprise air transport, accommodation, and arts, entertainment & recreation, including the aerospace segment within the transport engineering cluster.

However, outward-oriented sectors are projected to experience weak growth due to the global economic slowdown. For example, the electronics cluster's semiconductors segment is expected to be negatively affected by weaker global semiconductor demand, while the precision engineering cluster may be impacted by a reduction in capital spending by semiconductor manufacturers. Furthermore, the slowdown in major external economies will also dampen growth in the wholesale trade, water transport, and finance & insurance sectors. This could derail Singapore's economic recovery and negatively impact FHT's financial performance.

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