F•P•A FINANCIAL
Investment Perspectives
27 October 2022

**REAL ESTATE EQUITY RESEARCH**

# Frasers Hospitality Trust

**SGX: ACV**
**Bloomberg: FHT:SP**
**ISIN code: SG1AA5000001**
**Country: Singapore**
**Industry: Real Estate, Specialized REIT**

**27 October 2022**
## RECOMMENDATION: BUY

**Current price: S$0.435**
**Target price: S$0.489**
**Issued units: 1,926.07 million (31 March 2022)**
**Market capitalisation: S$837.84 million**

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

**PRICE PERFORMANCE**


**COMPANY DESCRIPTION**

Frasers 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 29 April 2022, FHT's portfolio includes 14 properties: eight hotels and six serviced residences.

**SUMMARY**

For the half year ended 31 March 2022 (1H2022), FHT recorded revenue of S$44.1 million, representing a 10.4% yoy increase from S$39.9 million over the same period a year ago. Property operating expense declined by 5.7% yoy to S$12.4 million in 1H2022 from S$13.2 million in 1H2022. Consequently, net property income (NPI) increased by 18.4% yoy to S$13.7 million in 1H2022. During the period, total return attributable to Stapled Securityholders amounted to S$9.4 million, translating to an earnings per Stapled Security of 0.48 cents. With higher NPI, income available for distribution (DI) increased by 75.0% yoy to S$15.1 million. Given continued uncertainties arising from the ongoing COVID-19 pandemic and political instability due to the recent Ukraine crisis, S$1.5 million or approximately 10% of DI has been retained for working capital purposes. This led to a DPS of 0.7039 cents for 1H2022. On 29 April 2022, FHT completed the divestment of Sofitel Sydney Wentworth for S$309.1million. The net proceeds and net gain from the divestment were S$277.2 million and S$23.7 million respectively. In September 2022, Frasers Property Limited and its related parties' attempt to privatise FHT at S$0.700 had fallen through due to the failure to get enough shareholder votes in favour of the deal.

**RECOMMENDATION**

Based on the adjusted NAV of S$0.67, FHT currently has a P/B multiple of 0.65x and is trading at a discount of approximately 35% to NAV. Our peer comparison results show that FHT could be undervalued, given a lower P/B of 0.65x compared to its peer average P/B of 0.73x. Adopting a relative valuation approach, we estimate a target price of S$0.489 if FHT's P/B were to adjust to the peer average P/B of 0.73x. This target price represents a 12.41% upside from the current share price of S$0.435. 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. Further, the divestment of Sofitel Sydney Wentworth also increases FHT's financial flexibility to fund future acquisition or would allow FHT to enhance the returns for its Stapled Securityholders or to pay down its debts. In an unlikely event of another privatisation, we estimate a privatisation offer of S$0.614 per share, representing a price premium of 41.2%, which is the average price premium of 8 privatisation offers. Given the above, we will maintain our buy recommendation on FHT.

**KEY FINANCIALS**

| Year ended Sep 30 | Revenue (S$ million) | Profit [1] (S$ million) | EPS (cents) | P/E (x) | DPS (cents) | Distribution yield (%) | NAV per Stapled Securityholder (S$) | P/B (x) |
|---|---|---|---|---|---|---|---|---|
| 2020 actual | 88.6 | (117.9) | (6.14) | NM | 1.40 | 3.2% | 0.65 | 0.67 |
| 2021 actual | 85.5 | 13.6 | 0.70 | 62.14 | 0.98 | 2.3% | 0.65 | 0.67 |
| **2022 forecast [2]** | 85.7 | 44.1 | 2.28 | 19.07 | 1.33 | 3.1% | 0.67 | 0.65 |
| **2023 forecast** | 92.0 | 27.2 | 1.41 | 30.77 | 1.50 | 3.5% | - | - |

*NM: not meaningful*

*Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.435*

*(1) Profit attributable to Stapled Securityholders*

*(2) Adjusted NAV as at 29 April 2022, after the divestment of asset*

*Source: FHT, FPA Financial*

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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 31 March 2022 (1H2022) FHT's revenue increased by 10.4% year-on-year (yoy) to S$44.1 million from S$39.9 million the same period a year ago, with improved performance in the first quarter of FY2022 with relaxed travel restrictions and higher vaccination rates, partially offset by the adverse impact from the surge of the Omicron variant across FHT's key market in the second quarter of FY2022. The summary of FHT's revenue for 1H2022 is shown in **Exhibit 1**.

**Exhibit 1: FHT's Revenue for 1H2022 and 1H2021**

| S$'000 | 1H2022 | 1H2021 | y-o-y change |
|---|---|---|---|
| Master lease rental | 35,700 | 31,085 | 14.8% |
| Room revenue | 2,248 | 1,615 | 39.2% |
| Food & beverage revenue | 974 | 1,236 | -21.2% |
| Other income | 5,181 | 5,995 | -13.6% |
| **Revenue** | **44,103** | **39,931** | 10.4% |

*Source: FHT*

We conducted a further review of FHT's revenue based on its geographical segments and noted that Australia remained the top revenue contributor, contributing 42.7% of FHT's total revenue, followed by Singapore at 20.5%, UK at 16.4%, Japan at 8.0%, Germany at 6.9% and Malaysia at 5.4%. Between 1H2022 and 1H2021, we also noted that UK recorded the highest yoy gain of 33.0%, followed by Australia of 12.7% and Singapore of 8.7%. On the other hand, Japan, Germany and Malaysia recorded yoy loss of 7.7%, 4.7% and 1.4% respectively as shown in **Exhibit 2**.

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

| S$'000 | 1H2022 | Contribution (%) | 1H2021 | Contribution (%) | Yoy Change (%) |
|---|---|---|---|---|---|
| Australia | 18,844 | 42.7% | 16,723 | 41.9% | 12.7% |
| Singapore | 9,057 | 20.5% | 8,329 | 20.9% | 8.7% |
| UK | 7,247 | 16.4% | 5,447 | 13.6% | 33.0% |
| Japan | 3,509 | 8.0% | 3,801 | 9.5% | -7.7% |
| Germany | 3,057 | 6.9% | 3,209 | 8.0% | -4.7% |
| Malaysia | 2,389 | 5.4% | 2,422 | 6.1% | -1.4% |
| **Total** | **44,103** | **100.0%** | **39,931** | **100.0%** | **10.4%** |

*Source: FHT*

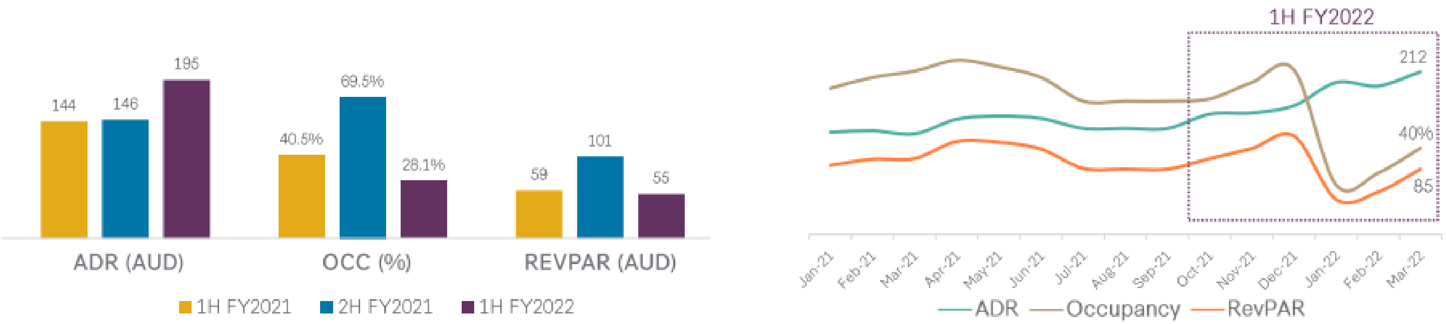
Portfolio Performance

(a) Australia

Australia's portfolio comprises of Novotel Melbourne on Collins (NMOC), Novotel Sydney Darling Square (NSDS), Sofitel Sydney Wentworth (SSW) and Frasers Suites Sydney (FSS).

In 1H2022, FHT's Australia portfolio's occupancy declined by 12.4 percentage points (ppts) yoy to 28.1%. Despite a yoy increase in average daily rate (ADR), the portfolio's revenue per available room (RevPAR) decreased by 6.5% yoy. The decline in occupancy was mainly due to the emergence of the Omicron variant towards the end of December 2021 and the end of government quarantine business. The portfolio resumed its recovery trajectory following the re-opening of international borders in Sydney and Melbourne since February 2022 to vaccinated travellers without quarantine as shown in **Exhibit 3**.

**Exhibit 3: Australia Portfolio Performance**



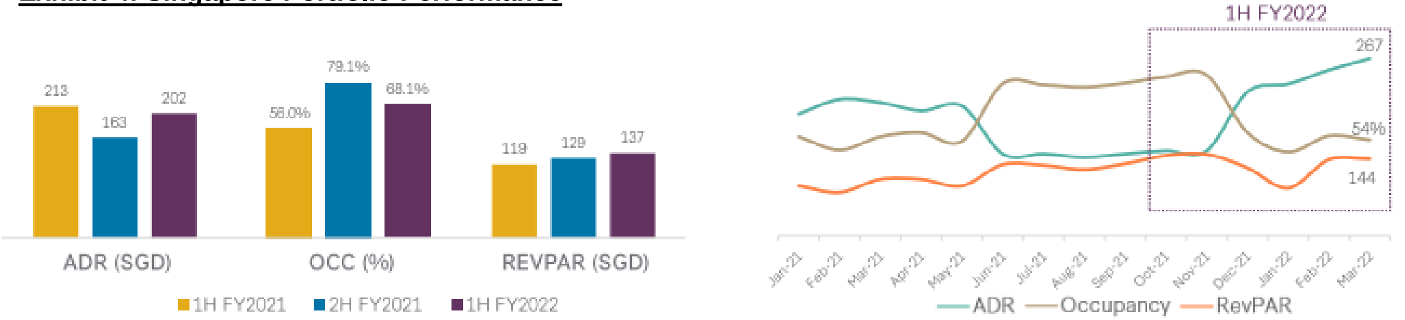

*Source: FHT*

(b) Singapore

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

The Singapore portfolio recorded slightly lower ADR and higher occupancy rate yoy, which in turn lifted RevPAR by 15.3% yoy in 1H2022 as shown in **Exhibit 4**. This was mainly supported by InterContinental Singapore's government quarantine business from October to December 2021 which was then reopened to public following a short transition period of deep-cleaning. Meanwhile, Fraser Suites performance's remained stable due to long-stay business. Singapore launched the Vaccinated Travel Framework to replace existing VTL and re-opened its borders to all vaccinated travellers from 1 April 2022. Airlines such as Singapore Airline (SIA) and Scoot have expanded their network to increase its flight schedules to all eligible customers from 1 April 2022.

**Exhibit 4: Singapore Portfolio Performance**



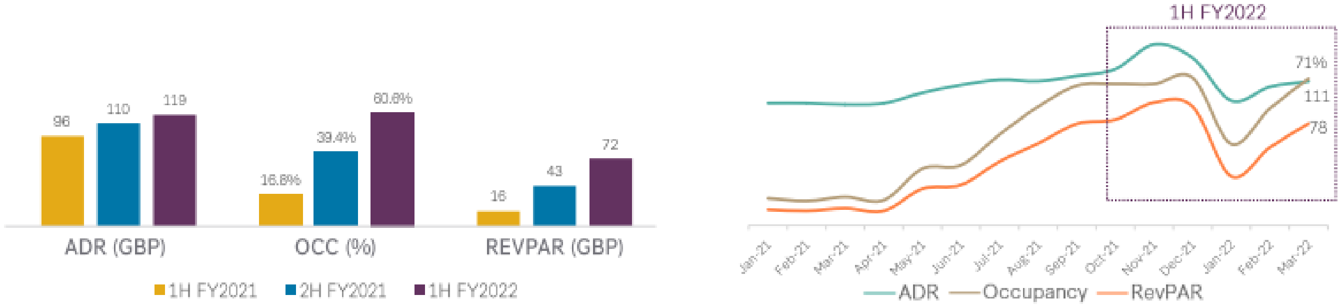

*Source: FHT*

(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.

The UK has fully lifted its COVID-19 pandemic restrictions since February 2022 and the remaining international travel restrictions in March 2022 as part of the government's "Living with COVID" plan following its retreat from the Omicron peak. Consequently, FHT's UK portfolio's occupancy rose by 43.8 ppts yoy to 60.6% in 1H2022 from 16.8% in 1H2021, ADR increased by 24.0% to £119 in 1H2022 from £96 in 1H2021 and RevPAR more than tripled yoy to £72 in 1H2022 from £16 in 1H2021 as shown in **Exhibit 5**.

**Exhibit 5: United Kingdom Portfolio Performance**



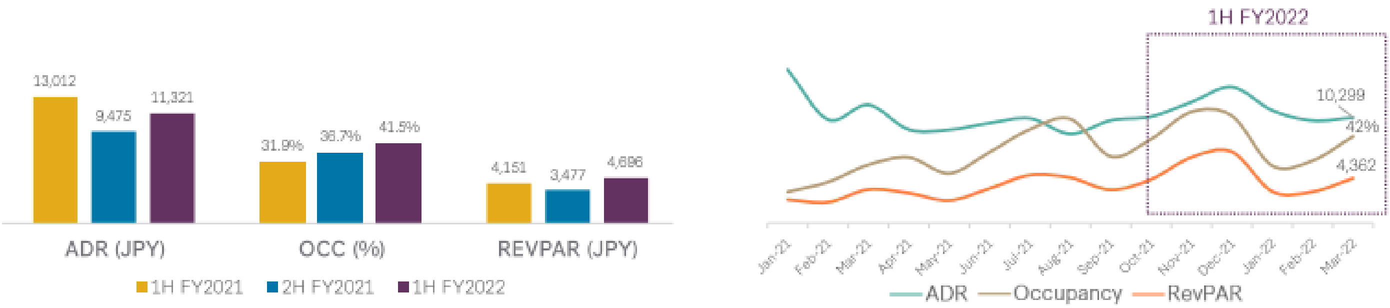

*Source: FHT*

(d) Japan

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

Following the exit from its fourth state of emergency in Japan in September 2021, a quasi state of emergency was subsequently introduced in the first three months of 2022 with the emergence of the Omicron variant. However, the Japanese government was still committed to lift Covid restrictions and resumed the "Go To Travel" campaign to promote domestic travel demand. In 1H2022, CPK's ADR decreased by 13.0% yoy to ¥11,321 from ¥13,012 while occupancy rate increased by 9.6ppts to 41.5% from 31.9. Consequently, CPK's RevPAR increased by 13.1% to ¥4,696 from ¥4,151 in 1H2021 as shown in **Exhibit 6**.

**Exhibit 6: Japan Portfolio Performance**



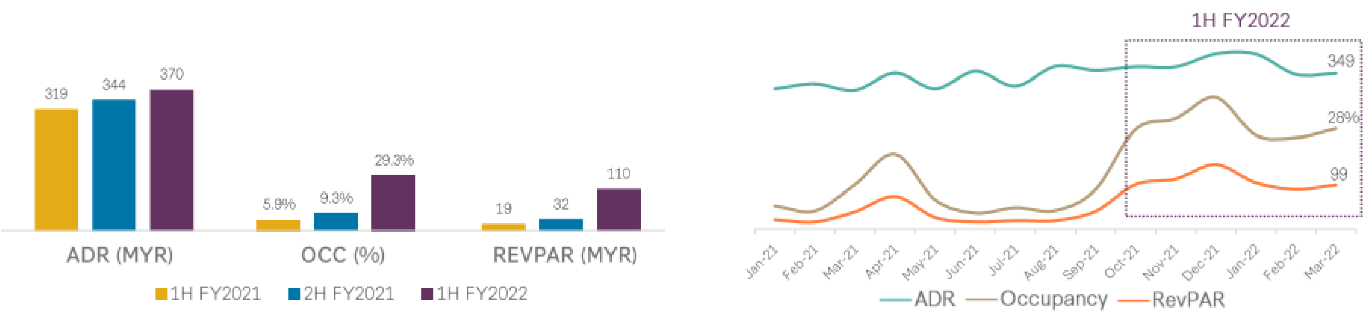

*Source: FHT*

(e) Malaysia

Malaysia's portfolio comprises of The Westin Kuala Lumpur.

Domestic and international travel restrictions in Malaysia were lifted since mid-October 2021 and it led to improved performance for The Westin Kuala Lumpur. The hotel's ADR increased by 16% yoy to RM370 in 1H2022 from RM319 in 1H2021 and occupancy rate increased by 23.4ppts to 29.3% in 1H2022. Consequently, the hotel recorded RevPAR yoy increase of over five times to RM110 in 1H2022 as shown in **Exhibit 7**.

**<u>Exhibit 7: Malaysia Portfolio Performance</u>**




*Source: FHT*

(f) Germany

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

MHD showed initial signs of recovery in its performance, but the pace of recovery remains very gradual in the absence of conference and international business. The emergence of the Omicron variant since November 2021 has also impeded the hotel's recovery pace. Germany has eased travel restrictions to allow entry of fully-vaccinated travellers without quarantine and ended major protective measures from early April 2022.

<u>Expenses</u>

Property operating expense declined by 5.7% yoy from S$13.2 million in 1H2021 to S$12.4 million in 1H2022 mainly due to lower property tax and impairment loss on trade receivables which partially offset the increase in staff cost. Property tax expense in 1H2021 includes grant income arising from the property tax rebates given by the Singapore government as part of the Resilience Budget announced, and grant expense arising from passing on of the property tax rebates to the master lessees. The decrease in property tax expense in 1H 2022 is due to revision of property tax properties in Singapore which had their annual value revised downwards owing to the divestment of Sofitel Sydney Wentworth. Lower impairment loss on trade receivables was due to higher rental collection in 1H2022 compared to 1H2021. However, staff cost increased from S$1.2 million in 1H2021 to S$2.0 million in 1H2022 due to the absence of wage credit given by the Australia government under the JobKeeper scheme which has ended in March 2021. Consequently, net property income (NPI) increased by 18.4% yoy to S$31.7 million in 1H2022 from S$26.7 million in 1H2021

FHT reported higher REIT Manager's management fees as performance fees of S$0.3 million were paid to the REIT manager in 1H2022 compared to no performance fees paid in 1H2021. Other trust expenses declined by 30.5% mainly due to lower non-audit fees, valuation fees and "other expenses". Net change in fair value of derivative financial instruments increased from S$63,000 in 1H2021 to S$3.0 million in 1H2022 due to the revaluation of foreign currency forward contracts.

As a result. FHT reported a total return before tax of S$10.8 million in 1H2022 compared to S$9.8 million in 1H2021, representing 9.5% yoy increase. For the period, income tax expense of S$1.4 million was recorded as compared to S$1.3 million a year ago. After adjusting for income tax expense of S$1.4 million, total return after tax of S$9.4 million was recorded in 1H2022, which is fully attributable to the stapled securityholders. Accordingly, FHT reported an earnings per stapled security of 0.48 cents for 1H2022.

FHT's 1H2022 financial results are summarized in **Exhibit 8**.

**Exhibit 8: FHT's 1H2022 Financial Results**

| S$'000 | 1H2022 | 1H2021 | y-o-y change |
|---|---|---|---|
| Master lease rental | 35,700 | 31,085 | 14.8% |
| Room revenue | 2,248 | 1,615 | 39.2% |
| Food & beverage revenue | 974 | 1,236 | -21.2% |
| Other income | 5,181 | 5,995 | -13.6% |
| **Revenue** | **44,103** | **39,931** | **10.4%** |
| Property tax | (3,177) | (4,113) | -22.8% |
| Property insurance | (804) | (904) | -11.1% |
| Property management fees | (1,733) | (991) | 74.9% |
| Other property expenses | (1,159) | (1,320) | -12.2% |
| Impairment loss on trade recievables | (1,071) | (2,486) | -56.9% |
| Operations and maintenance expenses | (1,482) | (1,317) | 12.5% |
| Energy and utilities expenses | (261) | (261) | 0.0% |
| Hotel management fee | (249) | (316) | -21.2% |
| Staff costs | (2,022) | (1,244) | 62.5% |
| Marketing expenses | (297) | (91) | 226.4% |
| Administrative expenses | (186) | (156) | 19.2% |
| **Property operating expenses** | **(12,441)** | **(13,199)** | **-5.7%** |
| **Net property income** | **31,662** | **26,732** | **18.4%** |
| Depreciation | (2,137) | (1,966) | 8.7% |
| REIT Manager's management fees | (2,466) | (2,275) | 8.4% |
| Trustee-Manager's management fees | (30) | (35) | -14.3% |
| Other management fees | (1,834) | (1,724) | 6.4% |
| Trustees' fees | (244) | (247) | -1.2% |
| Other trust expense | (1,017) | (1,463) | -30.5% |
| Finance income | 43 | 173 | -75.1% |
| Amortisation of debt upfront costs | (545) | (442) | 23.3% |
| Finance costs | (10,000) | (9,384) | 6.6% |
| **Total return before foreign exchange differences, fair value changes and tax** | **13,432** | **9,369** | **43.4%** |
| Foreign exchange (loss)/ gain, net | 347 | 544 | -36.2% |
| Net change in fair value of derivative financial instruments | (3,012) | (63) | NM |
| Realised (loss)/gain on derivative financial instruments, net | 3 | (10) | NM |
| **Total return/ (loss) for the year before tax** | **10,770** | **9,840** | **9.5%** |
| Taxation | (1,390) | (1,290) | 7.8% |
| **Total return/ (loss) for the year after tax** | **9,380** | **8,550** | **9.7%** |
| Attributable to: | | | |
| Stapled Securityholders | 9,380 | 6,331 | 48.2% |
| Perpetual Securities holders | - | 2,219 | NM |
| Weighted average number of Stapled Securities ('000) | 1,926,074 | 1,926,074 | 0.0% |
| **Earnings per Stapled Security (cents)** | **0.48** | **0.32** | **50.0%** |

*Figures may not add up due to rounding*

*NM: not meaningful*

*Source: FHT, FPA Financial*

Meanwhile, considering the total return of S$9.4 million and the net effect of non-tax deductible/ (non-taxable) items & other adjustments of S$5.7 million, income available for distribution attributable to stapled securityholders amounted to S$15.1 million for 1H2022. For 1H2021, income available for distribution to stapled securityholders amounted to S$8.6 million.

Given the uncertainties arising from the ongoing COVID-19 pandemic, 10% of distributable income had been retained to conserve cash for working capital purposes. Hence, the distributions to Stapled Securityholders in 1H2022 are based on 90% payout of the income available for distribution. For 1H2021, FHT retained approximately S$5.2 million or 60% of the income available for distribution to conserve cash in light of uncertainties

Accordingly, distribution to stapled securityholders amounted to S$13.6 million and S$3.4 million in 1H2022 and 1H2021 respectively and distribution per stapled security increased to 0.7039 cents in 1H2022 from 0.1790 cents in 1H2021 as shown in **Exhibit 9**.

**Exhibit 9: FHT's 1H2022 Statement of Distribution**

| S$'000 | 1H2022 | 1H2021 | y-o-y change |
|---|---|---|---|
| **Total return/ (loss) for the year after tax** | **9,380** | **8,550** | **9.7%** |
| | | | |
| Non-tax deductible/ (non-taxable) items and other adjustments: | | | |
| Amortisation of debt upfront cost | 545 | 442 | 23.3% |
| Amortisation of other assets | - | 4 | NM |
| Depreciation | 2,137 | 1,966 | 8.7% |
| Foreign exchange loss, net | (347) | (549) | -36.8% |
| Net change in fair value of derivative financial instruments | 3,012 | 63 | NM |
| Trustee's fee in relation to FH-REIT | 142 | 143 | -0.7% |
| Interest expense on lease liabilities | 63 | 61 | 3.3% |
| Other adjustments | 132 | 146 | -9.6% |
| **Net effect of non-tax deductible/ (non-taxable) items and other adjustments** | **5,684** | **2,276** | **149.7%** |
| | | | |
| **Income available for distribution attributable to:** | | | |
| Stapled Securityholders | 15,064 | 8,607 | 75.0% |
| Perpetual Securities holders | - | 2,219 | NM |
| **Total** | **15,064** | **10,826** | **39.1%** |
| Amount retained for working capital purposes | (1,506) | (5,158) | -70.8% |
| **Distribution to Stapled Securityholders** | **13,558** | **3,449** | **293.1%** |
| No. of Stapled Securities issued ('000) | 1,926,074 | 1,926,074 | 0.0% |
| **Distribution per Stapled Security (cents)** | **0.7039** | **0.1790** | **293.2%** |

*Figures may not add up due to rounding*

*NM: not meaningful*

*Source: FHT, FPA Financial*

### (II) Capital Management

FHT reported total assets of S$2,352.4 million as at 31 March 2022 compared to S$2,349.2 million as at 30 September 2021. The increase in total assets was largely due to the increase in fair value of its derivative financial instruments such as cross currency swaps and interest rate swaps. This was partly offset by the decrease in trade and other receivables. At the same time, total liabilities decreased to S$1,093.8 million as at 31 March 2022 from S$1,100.7 million as at 30 September 2021 mainly due to lower derivative financial instruments.

Consequently, FHT recorded total equity or net assets of S$1,258.6 million as at 31 March 2022 compared to S$1,248.5 million as at 30 September 2021. Given the S$1,258.6 million in Stapled Securityholders' fund, FHT's net asset value (NAV) per Stapled Security stood at 65.34 cents, based on 1,926.1 million issued Stapled Securities. FHT's balance sheet data are summarized in **Exhibit 10**.

**Exhibit 10: Summary of FHT's Balance Sheet**

| [S$'000] | 31-Mar-22 | 30-Sep-21 |
|---|---|---|
| Total assets | 2,352,357 | 2,349,183 |
| Total liabilities | 1,093,787 | 1,100,689 |
| Total equity / net assets | 1,258,570 | 1,248,494 |
| Stapled Securityholders' funds | 1,258,570 | 1,248,949 |
| No. of issued Stapled Securities | 1,926,074 | 1,926,074 |
| Net asset per Stapled Security(cents) | 65.34 | 64.84 |

*Source: FHT*

As at the end of 1H2022, FHT's total borrowings were S$991.1 million compared to S$988.5 million as at FY2021. This comprised of current borrowings of S$280.9 million and non-current borrowings of S$710.2 million. Thus, FHT's gearing ratio as computed by total borrowings divided by total assets, stood at approximately 42.3% as at the end of 1H2022 compared to 42.1 % as at the end of FY2021. A breakdown of FHT's total borrowings and gearing ratio is shown in **Exhibit 11**.

**Exhibit 11: Breakdown of FHT's Total Borrowing and Gearing Ratio**

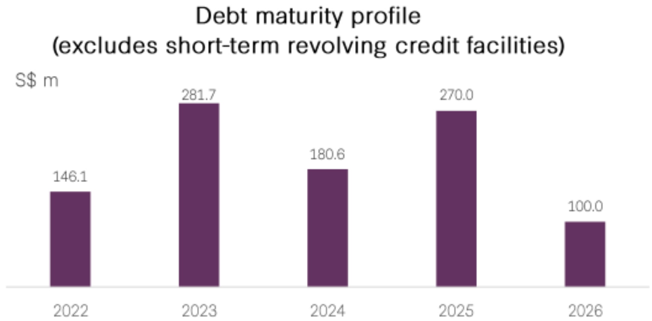
| [S$'000] | 31-Mar-22 | 30-Sep-21 |
|---|---|---|
| **Current** | | |
| Fixed rate notes (unsecured) | 120,000 | 120,000 |
| Bonds (unsecured) | 26,139 | 28,734 |
| Bank loans (unsecured) | 135,000 | 54,000 |
| Less: unamortised debt upfront costs | (236) | (227) |
| **Total current borrowings** | **280,903** | **202,507** |
| **Non-current** | | |
| Medium term notes (secured) | 30,609 | 30,676 |
| Fixed rate notes (unsecured) | 120,000 | 120,000 |
| Bank loans (unsecured) | 561,632 | 637,768 |
| Less: unamortised debt upfront costs | (1,999) | (2,444) |
| **Total non-current borrowings** | **710,242** | **786,000** |
| **Total borrowings** | **991,145** | **988,507** |
| Total assets | 2,352,357 | 2,349,183 |
| **Gearing (1)** | **42.3%** | **42.1%** |

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

*Source: FHT, FPA Financial*

We also note that FHT's debt maturity (excluding short-term revolving credit facilities) is spread out between 2022 and 2026, with most of its debt, S$281.7 million, due to mature in 2023. Given the above, the weighted average debt to maturity as at 1H2022 would be 2.03 years. The summary of FHT's debt maturity profile is shown in **Exhibit 12**.

**Exhibit 12: FHT's Debt Maturity Profile as at 31 March 2022**




*Source: FHT*

We also note that of the total borrowings of S$991.1 million, 77.1% are on fixed rates and the effective cost of borrowing is approximately 2.20% as shown in **Exhibit 13**.

**Exhibit 13: FHT's Capital Management Details as at 31 March 2022**

| As at 31 Mar 2022 | |
|---|---|
| Investment properties | S$1,740.6m |
| Investment property held for divestment | S$284.4m |
| Property, plant and equipment | S$232.0m |
| Total assets | S$2,352.4m |
| Total borrowings | S$991.1m |
| Gearing[1,2] | 42.3% |
| Net asset value per stapled security | S$0.65 |
| Weighted average debt to maturity | 2.03 years |
| Unsecured debt | 96.9% |
| Effective cost of borrowing[2] | 2.2% |
| Borrowings on fixed rates | 77.1% |
| Interest coverage ratio[3,4] | 2.4 times |
| Adjusted interest coverage ratio[1,3,4] | 2.3 times |

*Source: FHT*

## OPERATIONAL UPDATES

Since our initiation report on 10 December 2021, there have been new developments announced by FHT. We will now provide an operational update on these developments.

### (I) Completion of Divestment

As mentioned in our initiation report on 10 December 2021, FHT announced on 29 October 2021 that it had entered into a sale and purchase agreement to divest Sofitel Sydney Wentworth on a freehold basis for A$315.0 million (S$309.1 million) (Sale price) to an unrelated third-party acquirer.

The Sale Price represents a 34.3% premium over FHT's total combined purchase price of A$234.55 million (S$230.2 million), comprising the purchase consideration of A$224.0 million for the acquisition of the 75-year leasehold interest in the Property (Existing Leasehold Interest) and of A$10.55 million for the acquisition of the freehold reversionary interest from the sponsor of FHT. The estimated net gain would be A$24.1 million (approximately S$23.7 million).

The Sale Price is also 12.1% above the independent valuation of A$281.0 million (S$275.8 million) as at 30 September 2021 on a freehold basis. The net proceeds from the divestment are estimated at A$282.5 million (S$277.2 million) after taking into account the estimated total acquisition cost of the reversionary interest acquisition of approximately A$11.2 million and estimated total cost of the divestment of approximately A$21.3 million, as shown in **Exhibit 14**.

**Exhibit 14: Breakdown of Net Proceeds for the Divestment**

| Divestment of SSW | A$ million | S$ million (1) |
|---|---|---|
| **Sale price (a)** | **315.0** | **309.1** |
| Acquisition cost of the reversionary interest acquisition: | | |
| Purchase consideration | (10.6) | (10.4) |
| Estimated stamp duties and other fees & expenses | (0.6) | (0.6) |
| **Subtotal (b)** | **(11.2)** | **(11.0)** |
| Cost of divestment: | | |
| Divestment fee payable to REIT Manager | (1.6) | (1.6) |
| Estimated capital gains tax to be incurred | (15.0) | (14.7) |
| Estimated professional and other fees & expenses incurred or to be incurred | (4.7) | (4.6) |
| **Subtotal (c)** | **(21.3)** | **(20.9)** |
| **Net proceeds (a)+(b)+(c)** | **282.5** | **277.2** |

*(1) Based on the exchange rate of SGDAUD 1.0190 as at 30.09.21 when FHT declared the divestment*

*Source: Frasers Hospitality Trust*

On 29 April 2022, FHT announced that it had completed the sale of Sofitel Sydney Wentworth. FHT mentioned that the net proceeds may be used to repay debt, for distribution to Stapled Securityholders and/or to finance general corporate and working capital requirements. In our projections, we would assume for FHT to utilize the full net proceeds of S$277.2 million to repay its bank loans (unsecured).

Given the above, we will estimate the adjusted gearing ratio and net asset value (NAV) per Stapled Security of FHT.

Adjusted Gearing Ratio

Based on our assumption, if FHT were to repay its debts using the net proceeds of S$277.2 million, the total borrowings after divestment would decrease from S$991.1 million to S$713.9 million. Owing to the divestment of Sofitel Sydney Wentworth, FHT's total asset would also decrease by the carrying amount of S$284.4 as at 31 March 2022. Hence, FHT's total assets after the divestment would amount to S$2,068.0 million. Accordingly, FHT's projected gearing ratio as computed by using total borrowings divided by total assets would amount to 34.5% as shown in **Exhibit 15**.

**Exhibit 15: FHT's Adjusted Gearing Ratio**

| [S$'000] | As at 29 Apr 2022 |
|---|---|
| Total borrowings before divestment | 991,145 |
| Less: Net proceeds from divestment | (277,200) |
| **Total borrowings after divestment** | **713,945** |
| Total assets before divestment | 2,352,357 |
| Less: Divestment of SSW | (284,365) |
| **Total assets after divestment** | **2,067,992** |
| **Gearing** | **34.52%** |

*Source: FHT, FPA Financial*

Adjusted Net Asset Value (NAV) per Stapled Security

As noted on the previous page, the reported net gain from the divestment was S$23.7million. Therefore, after adjusting for the impact of the divestment, the estimated net assets after the transaction amounted to S$1,282.3 million. Accordingly, FHT's adjusted net asset value (NAV) per Stapled Security would be 66.57 cents, based on 1,926.1 million issued Stapled Securities, as shown in **Exhibit 16**. The adjusted NAV of 66.57 cents is slightly higher than the reported NAV of 65.34 cents as at 31 March 2022 as noted on page 9.

**Exhibit 16: FHT's Adjusted Net Asset Value (NAV) per Stapled Security**

| | [S$'000] |
|---|---|
| Net assets before transaction | 1,258,570 |
| Estimated net gain from divestment | 23,700 |
| **Net assets after transaction** | **1,282,270** |
| | |
| No. of issued Stapled Securities | 1,926,074 |
| Net asset per Stapled Security(cents) | 66.57 |

*Source: FHT, FPA Financial*

### (II) Proposed Privatisation of FHT

Details of the Proposed Privatisation

On 8 April 2022, FHT announced that it is conducting a strategic review regarding FHT's existing business strategies. The directors of the FHT Managers who are considered independent for the purposes of the Scheme, explored various possible strategic options to enhance and unlock value for its Stapled Securityholders and sought to deliver a proposal which could optimise value and certainty to Stapled Securityholders. The strategic options considered included the continued pursuit of FHT's existing strategy, expansion of the existing FHT platform via acquisitions or mergers, strategic sale of all or select assets, and the sale of the FHT platform to a third-party or the sponsor, Frasers Property Limited (FPL).

Following the announcement on 8 April 2022, the FHT Independent Directors initiated concurrent discussions with all parties (including FPL) on the various strategic options available to FHT. During these discussions, FPL had indicated to the FHT Independent Directors that hospitality remains as one of its core businesses and that FPL was prepared to discuss a privatisation of FHT with the FHT Independent Directors

Having considered FPL's intentions, the FHT Independent Directors commenced extensive negotiations with FPL with the view of providing Stapled Securityholders with a proposal that would optimise certainty and value. At the conclusion of the negotiation process, the FHT Independent Directors concluded that the Scheme represents the best option for Stapled Securityholders for the following reasons:

I. the Scheme represents a credible offer from a financial perspective;
II. the Scheme offers strong deal certainty for Stapled Securityholders in terms of timing and execution; and
III. the Scheme allows Stapled Securityholders to realise their investment at an attractive valuation immediately at a premium to NAV and have the option to reinvest their proceeds.

The Scheme Consideration was agreed upon following extensive negotiations between the Offeror and the FHT Managers conducted on an arm's length basis, after taking into account multiple factors, including inter alia: (i) latest available independent valuations of FHT's investment properties and property, plant and equipment (collectively, the FHT Properties) which incorporate the likely trajectory of a recovery post-COVID-19 based on certain assumptions; and (ii) the pre-COVID-19 valuations of the FHT Properties adjusted for foreign exchange (FX) movements.

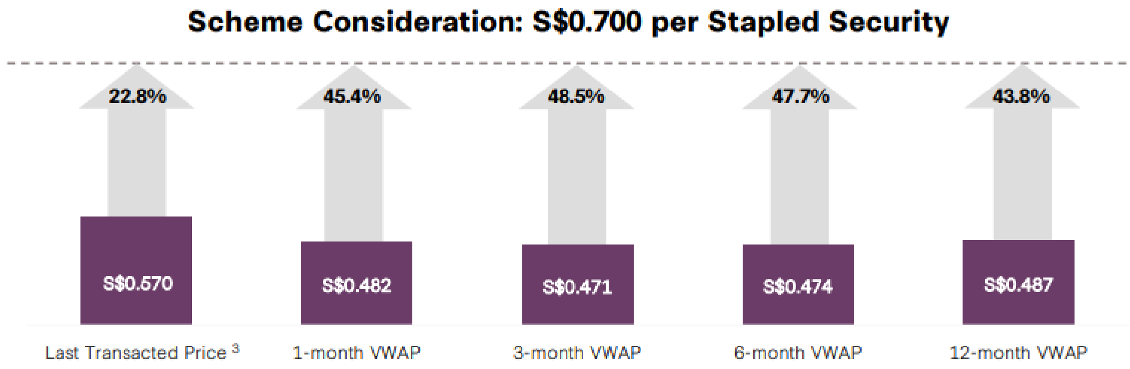
On 13 June 2022, FHT announced the proposed privatisation of FHT through acquisition by Frasers Property Hospitality Trust Holdings Pte Ltd (Offeror), a wholly-owned subsidiary of its sponsor, FPL

Scheme Consideration

Under the Scheme, the Offeror proposes to acquire Stapled Securities held by Scheme Stapled Securityholders (Scheme Stapled Securities) at S$0.700 in cash per Scheme Stapled Security (Scheme Consideration).

The Scheme Consideration represents a premia of 45.4%, 48.5%, 47.7%, and 43.8% over the volume-weighted average prices (VWAP) of S$0.482, S$0.471, S$0.474 and S$0.487 per Stapled Security respectively to the 1- month, 3-month, 6-month and 12-month period up to and including 7 April 2022, 3 being the last full trading as shown in **Exhibit 17** on the next page.

**Exhibit 17: Scheme Consideration Premia Over The Volume-Weighted Average Prices (VWAP) (1) (2)**




*(1) The VWAPs of Stapled Securities are rounded to the nearest three (3) decimal places and computed on data compiled from Bloomberg L.P. up to and including 7 April 2022. The respective premia are rounded to the nearest one (1) decimal place and subject to rounding differences*
*(2) Referenced against the last undisturbed trading date of 7 April 2022.*
*(3) Refers to the closing price of FHT as of 7 April 2022 of S$0.570.*

*Source: FHT*

Transaction Rationale

The FHT Managers have remained committed to the growth and optimisation of the FHT Properties to maximise value for Stapled Securityholders since IPO. Despite these efforts, FHT continues to face long-term challenges. They include:

I. Obstacles in growing distribution per stapled security (DPS) and NAV: Significant efforts have been made by the FHT Managers to grow and optimise its portfolio through strategic acquisitions and refurbishments and asset enhancement initiatives. Whilst FHT's portfolio valuation grew by 35% since IPO, it has not managed to translate such growth into DPS and NAV growth due to the muted growth within the hospitality sector in the markets FHT operates in and strengthening of the S$ against FHT's operational currencies;

II. Uncertainty in recovery, gradual move to endemic phase and looming recessionary pressures: The endemic nature of COVID-19 presents significant risks to the hospitality sector while it recovers gradually. Geopolitical tensions and looming recessionary pressures add further uncertainty to the recovery outlook. The further strengthening of the S$ could potentially limit any revaluation gains and DPS growth amidst the recovery; and

III. FHT's small size has limited its ability to reap the benefits of a continued listing: FHT is small in scale as compared to its S-REIT peers in a market where scale and size are essential to liquidity and growth. Without sufficient scale, FHT has not been included in major stock market indices and has been limited in its flexibility in undertaking asset acquisitions for growth.

In addition, Eu Chin Fen, Chief Executive Officer of the FHT Managers said: "The FHT Board and Managers have remained committed in delivering sustainable, long-term value to the Stapled Securityholders. Following our proactive strategic review to unlock value for our Stapled Securityholders and having considered the long-term challenges facing FHT, we believe that the proposed Trust Scheme is the best option and represents a credible opportunity for our Stapled Securityholders to realise their investments at an attractive valuation."

Result Of The Proposed Privatisation Of FHT

On 12 September 2022, FHT announced that 70.91% of stapled securityholders representing 74.88% of units voted in favour of the proposed scheme. Of the 227.6 million stapled securities represented by votes, 170.4 million voted to approve the scheme while the remaining 57.2 million voted against as shown in **Exhibit 18**. As the Scheme Resolution was not approved by a majority in number of the Stapled Securityholders representing at least three-fourths (75.0%) in value of the Stapled Securities held by Stapled Securityholders present and voting either in person or by proxy at the Scheme Meeting, the Scheme Resolution was not passed at the Scheme Meeting.

**Exhibit 18: Breakdown Of All Valid Votes Cast At The Scheme Meeting**

| Resolution | | For | | Against | | Total |
|---|---|---|---|---|---|---|
| | | Number | Percentage (%) [1] | Number | Percentage (%) [1] | Number |
| To approve the Scheme | **Stapled Securities represented by votes (either in person or by proxy)** | 170,392,070 | 74.88 | 57,175,616 | 25.12 | 227,567,686 |
| | **Stapled Securityholders present and voting (either in person or by proxy)** | 429 | 70.91 | 176 | 29.09 | 605 |

*Source: FHT*

Upon the announcement that the privatisation of FHT has lapsed, Ms. Eu Chin Fen, Chief Executive Officer of the FHT Managers said, "We would like to thank our Stapled Securityholders who have voted, and we respect their decision and the outcome of the meetings. While we believe that the privatisation has its merits, Stapled Securityholders have expressed their preference for FHT to remain listed and we are heartened by their support and confidence for FHT. We shall remain focused to ride on the gradual recovery trajectory and navigate through the challenges and opportunities ahead of us. We continue to stay committed to create and deliver long-term value to our Stapled Securityholders."

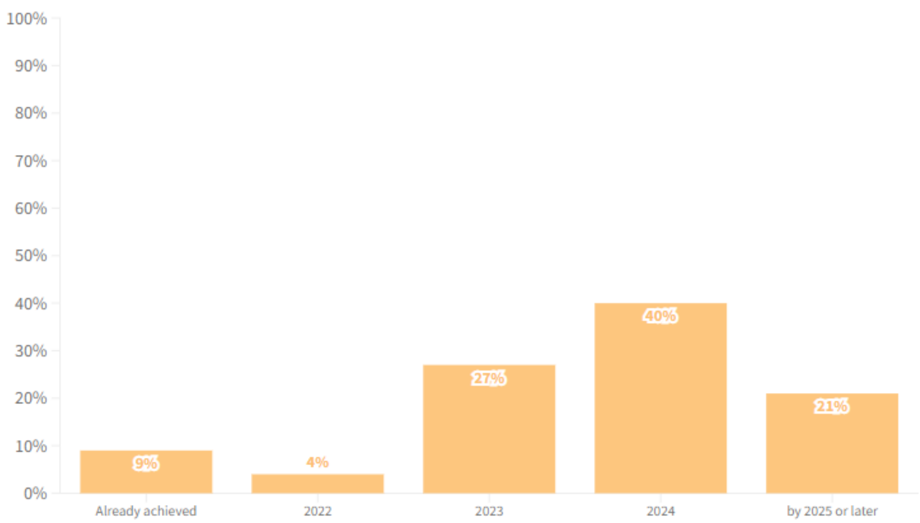
## GEOGRAPHICAL SEGMENT OUTLOOK

### (I) Global Outlook for Hospitality Industry

According to a report by World Tourism Organization (UNWTO) on 26 September 2022, international tourism continued to show strong signs of recovery, with arrivals reaching 57% of pre-pandemic levels in the first seven months of 2022. According to the latest UNWTO World Tourism Barometer, international tourist arrivals almost tripled from January to July 2022 (+172%) compared to the same period in 2021. This means the sector recovered nearly 60% of pre-pandemic levels. The steady recovery reflects strong pent-up demand for international travel and the easing or lifting of travel restrictions to date (86 countries had no COVID-19-related restrictions as of 19 September 2022).

According to UNWTO Panel of Tourism Experts, 27% of experts see a potential return of international arrivals to 2019 levels in and 61% of the experts see it happening in 2024 or later as shown in **Exhibit 19**.

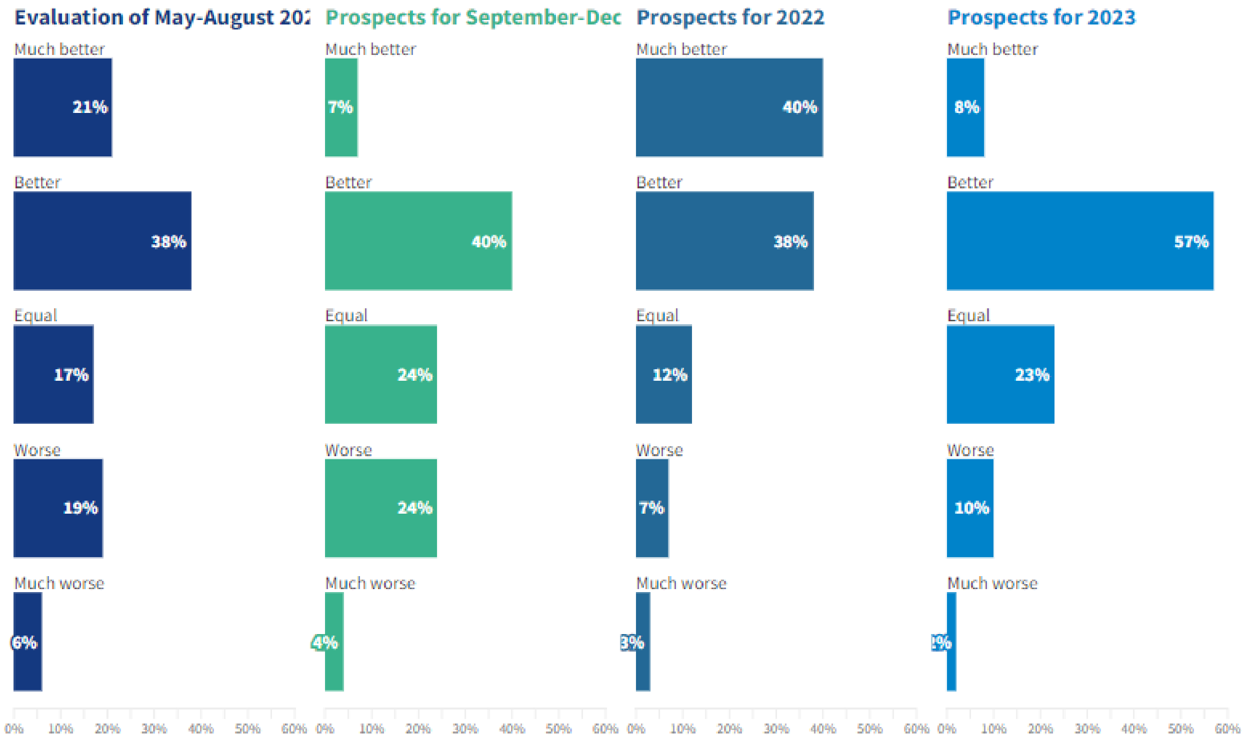
**Exhibit 19: UNWTO Panel of Tourism Experts Survey**




*Source: UNWTO*

Prospects for the remainder of the year are cautiously optimistic. Almost half of experts (47%) see positive prospects for the period September-December 2022, while 24% expect no particular change and 28% consider it could be worse. Experts also seem confident about 2023, as 65% see better tourism performance than in 2022 as shown in **Exhibit 20** on the next page. However, according to experts, the economic environment continues to be the main factor weighing the recovery of international tourism. Rising inflation and the spike in oil prices result in higher transport and accommodation costs while putting consumer purchasing power and savings under pressure.

**Exhibit 20: UNWTO's Expected Time Of Recovery**




*Source: UNWTO*

With all the uncertainty that these turbulent times and transformational developments bring in their wake, International Air Transport Association (IATA) still expects global passenger travel to return to the 2019 level of activity in 2024 and to expand substantially over the next two decades. Between 2019 and 2040 IATA forecasts that air passenger numbers will increase at an average annual rate of 3.3%, rising to 7.8 billion passenger journeys per year at the end of our forecast horizon. Notwithstanding the relatively slow pace of recovery to date, IATA anticipate Asia/Pacific will be the fastest growing region over the next two decades. Buoyed by favorable income growth and demographic factors, Asia/Pacific is expected to add around 2.5 billion additional passenger journeys per year by 2040, at an average annual rate of 4.5%.

CBRE also believes that markets were quick in loosening restrictions for vaccinated tourist upon entry (such as Australia, Singapore, India and Thailand) are seeing a much more pronounced return of tourists than those that continue to employ more stringent entry or testing policies or are still requiring mandated quarantine periods upon entry.

While the pace of recovery remains varied and uneven across regions, borders have re-opened in most of FHT's key markets. Singapore, Australia, UK, Japan, Malaysia and Germany have all re-opened its international borders to vaccinated travellers as shown in **Exhibit 21** on the next page. Hence, we believe that FHT's presence in large domestic markets, such as Australia, Japan and the UK, will enable these assets to capture strong local demand as international travel gradually returns in other markets with further border re-opening.

**Exhibit 21: Summary of FHT's Key Markets As At 29 April 2022**

| | |
|---|---|
| Singapore | Singapore has launched the Vaccinated Travel Framework to replace the existing Vaccinated Travel Lane (VTL) and re-opened its borders to all vaccinated travellers from 1 Apr 2022 |
| Australia | Australia's international borders have fully re-opened to vaccinated travellers since the end of Feb 2022 |
| UK | UK has dropped all COVID-related travel restrictions since mid Mar 2022 for all travellers as part of the government's "Living with Covid" plan |
| Japan | Japan lifted nationwide *quasi* state of emergency curbs towards the end of Mar 2022 but the entry of foreigners remains suspended to curb the spread of Omicron variant of COVID-19 |
| Malaysia | Malaysia has fully re-opened international borders from 1 Apr 2022 as part of its transition to endemic phase |
| Germany | Germany re-opened borders to vaccinated travellers since Jul 2021 and ended major protective measures from early Apr 2022 |

*Source: FHT*

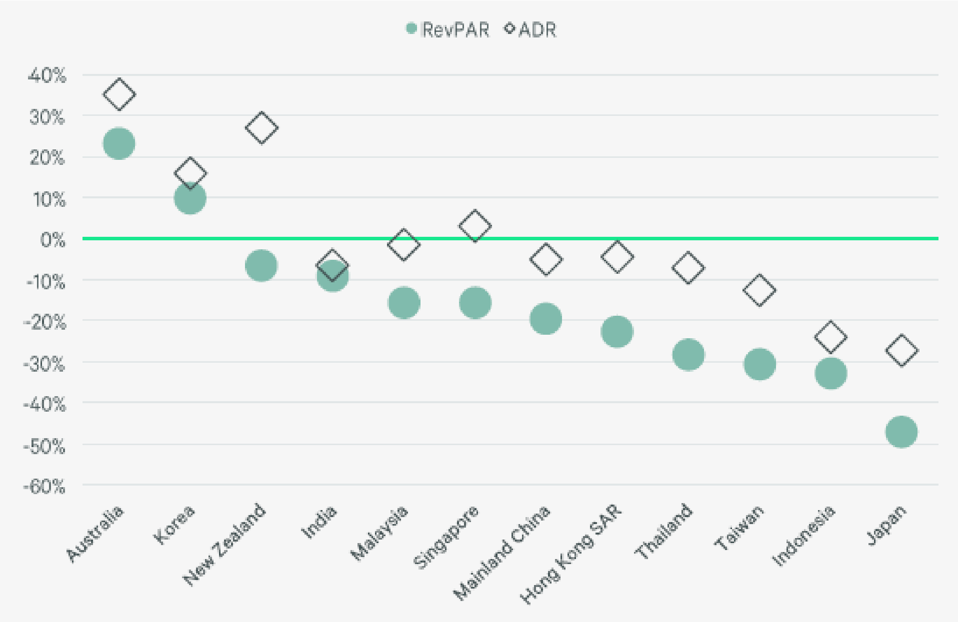
### (II) Australia

Jones Lang LaSalle (JLL) noted that Australia is firmly established as a top global destination and a mature hotel market in Asia Pacific. Despite the challenging environment and ongoing headwinds derived from the COVID-19 pandemic, the country is well positioned in its recovery. Over the first half of 2022, Australia has seen a strong level of domestic leisure demand as well as a positive rebound in the corporate and MICE segments. The ongoing recovery will be further driven by the emerging return of international visitation, which is expected to support the growth of Australia's diverse city and regional hotel markets. Australia reopened its international borders on 21 February 2022 to appropriately vaccinated visa holders and has since seen a steady recovery in international arrivals, with confidence returning to cross-border travel. This growing demand for outbound international travel has resulted in a number of airlines increasing capacity and flight routes. Accordingly, Australia's two busiest airports, Sydney and Melbourne, have seen a recovery in total passenger traffic of 69% and 73%, respectively of pre-COVID levels. This has been a similar trend across the country, with most airports forecasting a peak in passenger traffic numbers over the July school holidays.

In addition, JLL also noted that the Average Daily Rate (ADR) recovery has been very strong, with all major city markets ADR's currently sitting above pre-COVID levels. There are two factors contributing to it: the enhanced overall product offering as a result of the new supply wave, as well as hotels' ability to rebalance their business mix and/or rate structure. As a result, RevPAR is showing strong signs of recovery across the board, currently led by markets benefitting most from leisure demand. However, RevPAR in Australia's two largest markets by room count, Sydney and Melbourne, are expected to take longer to recover, given the strong reliance on corporate/MICE and international demand, which is likely to take longer to normalise. Additionally, these two markets have also seen increased levels of new supply, which is anticipated to place downward pressure on occupancy rates and moderate trading performance. Despite ongoing headwinds such as increasing fuel and travel prices, geopolitical threats, and ongoing impacts of COVID-19, JLL anticipates a strong recovery in visitation over the short-to-medium term. This is in part due to current pent-up demand to travel domestically and also internationally. Despite current headwinds (e.g. labour shortages, inflationary pressures, etc.), JLL expects most markets to see the recovery in RevPAR to be led by an increase in ADR's, with occupancy growth being slower.

CBRE noted that most markets, including Australia, registered a strong rebound in hotel performance due to the relaxation of pandemic-related restrictions and border re-openings combined with extensive government support for the tourism sector. Pent-up demand and increased operational confidence have helped drive up hotel room rates, which are stimulating growth as operators look to counter lower than average occupancy caused by low international arrivals. Expectations are that ADRs and RevPARs should continue to rise alongside demand for normalised travel post-pandemic, particularly in markets with less restrictions and larger domestic markets, such as Australia. In addition, CBRE also noted that Australia's ADR and RevPAR rose the most among Asia Pacific markets as shown in **Exhibit 22**.

**Exhibit 22: Rise in ADR and RevPAR in Asia Pacific Markets**




*Source: CBRE*

Savills reported that according to STR Global, in June 2022 average RevPAR in Australia increased from $93.42 in June 2021 to $146.33 reflecting an increase of 56.6%. Savills noted that RevPAR has been improving across the country and the trend that is set to continue for the rest of 2022 depending upon the disruptions COVID-19 outbreaks brings. Savills also believe destinations, like Australia, with a high vaccination rollout, relatively relaxed entry regulations, and a diverse feeder base will likely see a speedier recovery in the short term and see a stronger rebound in 2022. The summary of Australia's hotel performance indicator and change from Q1 and Q2 is shown in **Exhibit 23** on the next page.

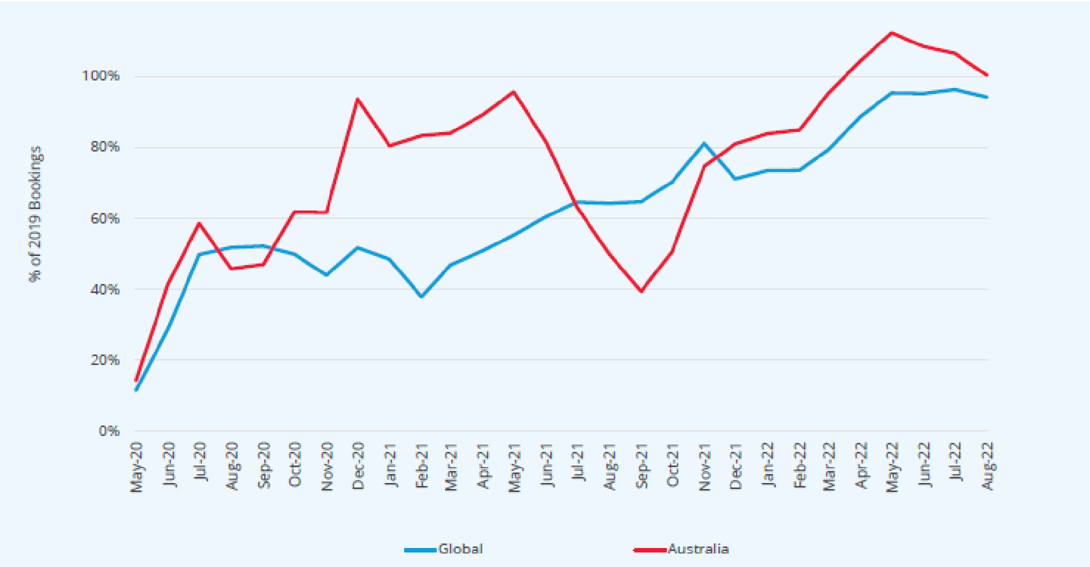
**Exhibit 23: Australia's Hotel Key Performance Indicator as at 2Q2022**

| City | Occupancy | ADR | RevPAR | RevPAR Change |
|---|---|---|---|---|
| Australia | 61.1% | $216.05 | $131.98 | 33.5% |
| Adelaide | 68.6% | $184.02 | $126.25 | 24.8% |
| Brisbane | 63.5% | $196.59 | $124.82 | 46.2% |
| Cairns | 59.7% | $192.50 | $114.94 | 36.4% |
| Canberra & ACT | 66.2% | $195.65 | $129.61 | 23.0% |
| Melbourne | 54.1% | $206.07 | $111.47 | 71.4% |
| Perth | 60.3% | $188.97 | $113.89 | 17.8% |
| Sydney | 56.7% | $230.80 | $130.88 | 50.4% |
| Gold Coast | 66.7% | $257.86 | $171.87 | 35.8% |
| Darwin | 59.4% | $199.35 | $118.50 | 24.1% |
| Hobart Area | 80.2% | $209.13 | $167.70 | 29.6% |

*Source: Savills*

Colliers reported that according to SiteMinder's World Hotel Index the volume of hotel bookings in Australia built significantly from November 2021 and through the summer months at a level well above the global average as Australia's tourism industry benefitted from the reopening of state borders once more and the relaxation of restrictions which coincided with the peak summer holiday period. This buoyant period has extended well into the start of 2022. At the start of August 2022, hotel bookings in Australia were at 100.4 per cent of the level recorded in 2019. This compares to 94.3 per cent globally during the peak summer season as shown in **Exhibit 24**.

**Exhibit 24: Australia v Global Hotel Bookings (2022 Bookings As A Proportion Of 2019 Bookings)**

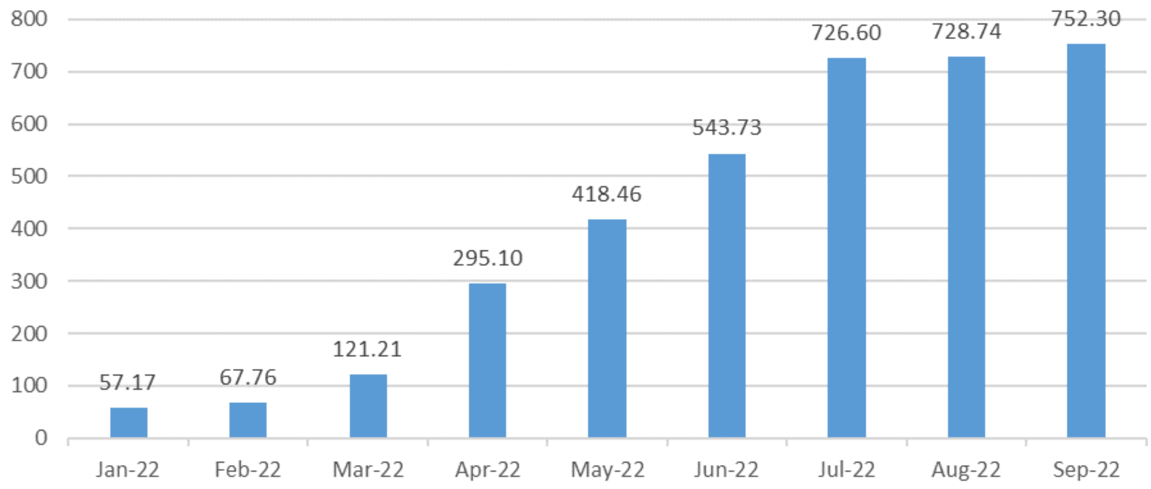



*Source: Colliers*

**(III) Singapore**

Singapore's international visitor arrivals extended growth for the eighth consecutive month in September to set another post-Covid-19 monthly record, according to latest figures from the Singapore Tourism Board (STB) as shown in **Exhibit 25**. There were 752,305 arrivals in September, up from the 728,744 visitors recorded in August, though the new figure remains far below the 1.5 million registered in September 2019 before the pandemic. For the sixth consecutive month, Indonesia was the top source of arrivals, sending 115,433 visitors, up from 108,252 visitors in the previous month.

**<u>Exhibit 25: Singapore's Monthly International Visitor Arrivals ('000)</u>**




*Source: STB*

In the year to date, Singapore has reported about 3.7 million international visitor arrivals, against STB's expectation of four to six million international visitors for the year announced in July. About 2.2 million of these tourists arrived in the third quarter of the year, compared to about 1.3 million in the second quarter and 246,145 in the first quarter, before border restrictions eased in April.

STB also announced in October that it has signed three Memoranda of Understanding (MoUs) with key Meetings, Incentive, Conferences and Exhibitions (MICE) players to grow the industry here, reinforce Singapore as a Global-Asia Node for business events and to boost tourism in Singapore. The three MoUs are with key players to drive sustainable tradeshows, as well as Italian Exhibition Group (IEG) and Comexposium to broaden their footprint in Singapore.

I. Global MICE Sustainability Alliance

This seven-party MoU aims to meet the growing demand for sustainable business travel by reducing waste and the carbon footprint of exhibitions. To achieve this, key players in the tradeshow space have come together: STB, the world's largest tradeshow organiser Informa Markets, Constellar Venues, PICO World (Singapore), Cityneon Holdings, Kingsmen Exhibits and the Singapore Association of Convention & Exhibition Organisers & Suppliers (SACEOS).

II. Italian Exhibition Group (IEG) X STB MoU

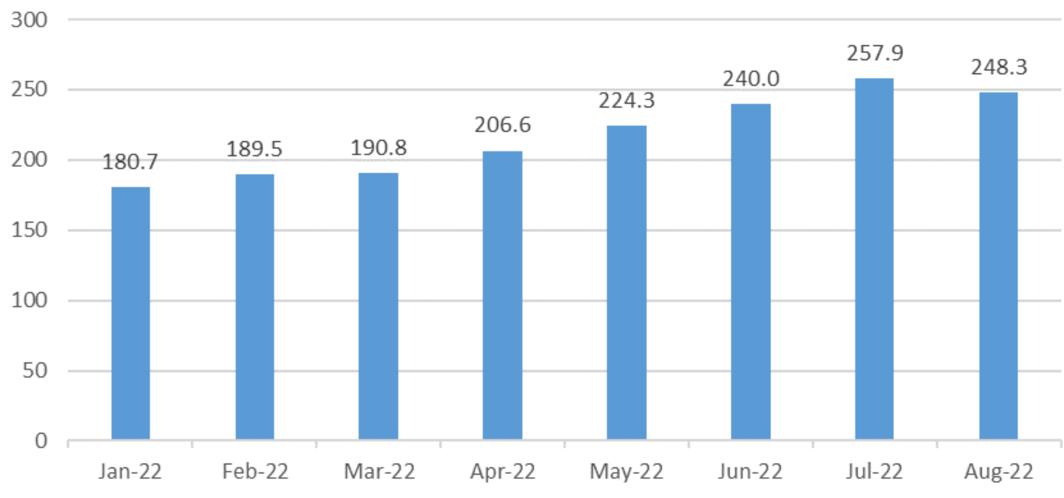
IEG, one of the world's leading exhibition organisers, and STB have signed a three-year MoU to expand the Italy-based company's business in Southeast Asia. This includes establishing IEG's Southeast Asia regional headquarters in Singapore by the end of 2023. The new headquarters will be IEG's first in Asia, leveraging on Singapore's position as a Global-Asia Node to strengthen their presence in the region. Under the partnership, IEG and STB will also explore ways to develop and anchor events in Singapore. As a start, IEG is acquiring two trade shows in the jewellery and food & beverage sectors from Conference & Exhibition Management Services (CEMS) – The Singapore International Jewelry Expo (SIJE); and Café Asia, Sweets & Bakes Asia and Restaurant Asia. The aim is to expand IEG and the trade shows' presence in Singapore and Southeast Asia.

III. Comexposium X STB MoU

Under this three-year MoU, leading global event organiser Comexposium will invest in Singapore by growing existing shows such as Milipol Asia-Pacific, Asia-Pacific's largest homeland security event, and launching two anchor events – SILMO Singapore, a leading eyewear and lifestyle tradeshow held from 12 – 14 April 2023; and Vinexpo Asia, a major wine and spirits exhibition held from 23 to 25 May 2023. Both events are linked to established brands in Paris.

Meanwhile, according to hotel statistics by the STB, Singapore hotels' average room rate (ARR) dipped in August from July's near-decade high to come in at S$248.34, though it was still significantly higher than year-ago levels. The month's figure broke the ARR's 6-month growth streak, which peaked at a revised S$257.94 in July as shown in **Exhibit 26**. On the month, the rate fell by 3.7%. On the year, however, it rose by 62.7%.

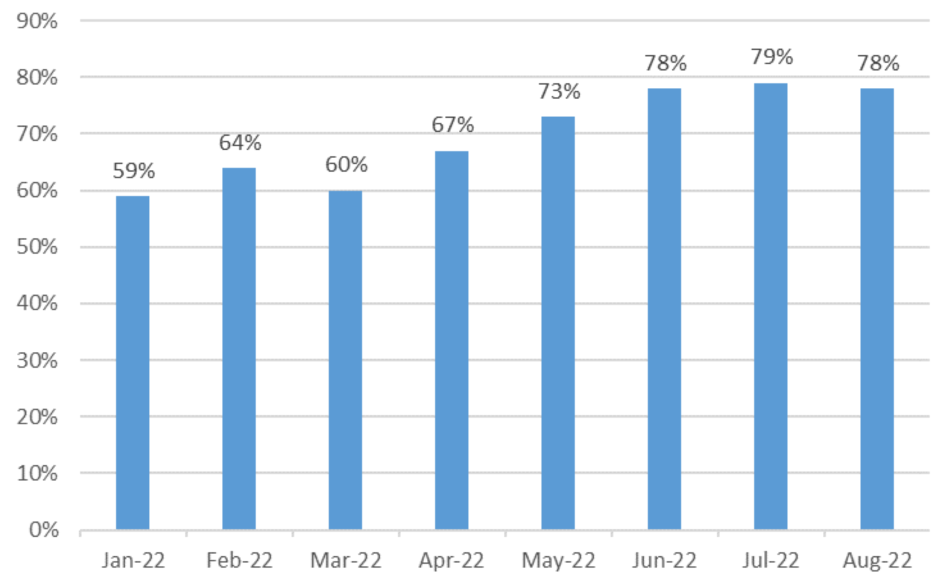
**Exhibit 26: Singapore's Monthly Average Room Rate (S$)**




*Source: STB*

At 78%, August's average occupancy rates were also marginally lower than July's multi-year high of 79% as shown in **Exhibit 27** on the next page. The latest reading was about 5 percentage points shy of the pre-pandemic rate of the approximate 83% clocked in December 2019 and January 2020.

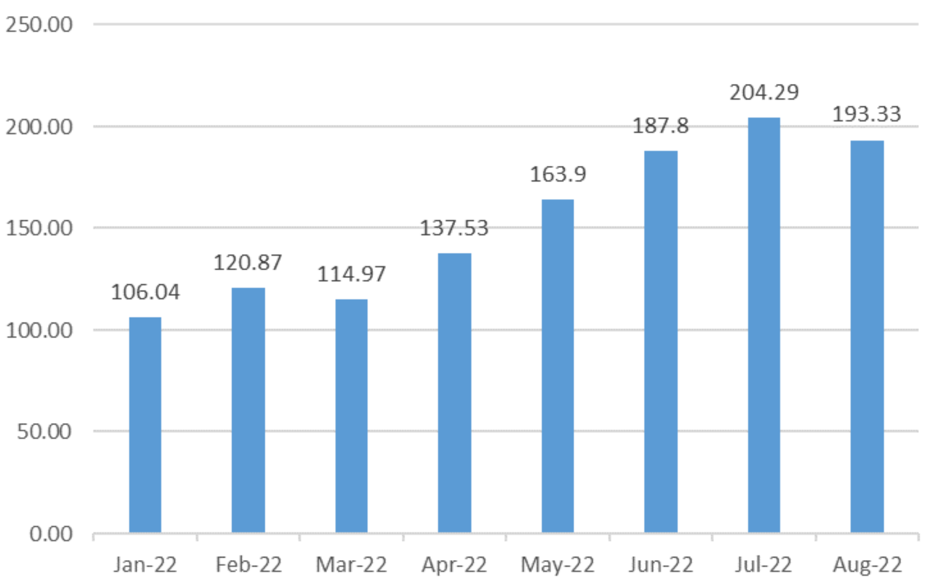
**Exhibit 27: Singapore's Monthly Average Occupancy Rate (%)**




*Source: STB*

Consequently, revenue per available room (RevPAR) also slipped 5.4% from July's post-Covid high to hit S$193.33 in August but was still up 127.3% from the year-ago period. The data for monthly RevPAR are summarised in **Exhibit 28**.

**Exhibit 28: Singapore's Monthly Revenue per Available Room (S$)**




*Source: STB*

Colliers highlighted that Singapore is reaping the benefits of being perceived as a safe destination with tourist arrivals up 500% in the first half of 2022. Not surprisingly, the early impact of the removal of all travel restrictions from late-April 2022 has witnessed strong visitations from its neighbours with Indonesia and Malaysia accounting for a significant market share, along with India single-handedly recording 14.6% of all arrivals in 2022 to date. Despite some doubt over the return of the long-haul journey market in the early phase of any air-travel recovery, visitations from the likes of the UK and the US markets have held at approximate pre-Covid shares of the market, likely on the basis of pent-up demand from these markets for those visiting family or for employment or corporate relocations. Of significance is the absence of the Mainland China outbound travel market, which represents just 5.0% of all visitations in 2022, relegating the former highest-ranked source market to 11th place in the year-to-date data. Given the reluctance of the Chinese outbound market to re-enter the fray, coupled with an unclear view of the global economic outlook for the remainder of the year, it may be reasonable to foresee that the recovery for the hotel and travel industry will remain progressive – albeit uneven – with health concerns being replaced by fiscal pressures, staff shortages and inflationary conditions in dampening the rate of recovery. According to forecasts from Oxford Economics and IATA, international arrivals to Singapore is expected to return to pre-COVID levels by the beginning of Q1 2024, tempered only by near term challenges in staffing and airlift capacity.

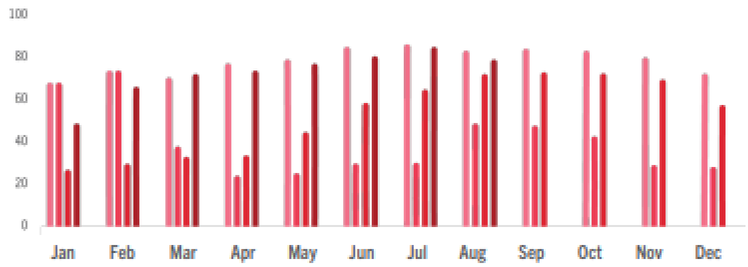
JLL noted that most luxury hotels in Singapore have exited the government quarantine programme in first half of 2022. The return of international travellers, particularly corporate travellers, has led the growth in ADR. At the same time, labour shortage constraints are driving hotels to set occupancy caps and push for ADR growth. In terms of outlook, JLL believes that with relaxed Covid-19 measures and border restrictions, the number of tourists vising Singapore is expected to grow. A relatively balanced geographical and market segmentation mix have established a strong foundation for the industry to rebound. Although the industry is facing broader economic challenges such as a labour crunch and inflation-driven supply issues, the Singapore hotel market has adapted quickly and shown resilience, putting in place measures such as adjusting cleaning frequencies. Despite challenges, the strong tourism outlook and limited supply growth should continue to drive the recovery of the Singapore hotel market. Given the above, JLL believes a full recovery is anticipated to take another two to three years.

According to a recent Business Times (BT) report, Cushman and Wakefield remains sanguine on the Singapore's hotel industry outlook, as tourist arrivals continue to recover to pre-pandemic levels, "albeit at a steady pace, given the travel restrictions in China, and uncertain economic climate". However, Colliers believes that these factors, along with geopolitical events and the reopening of more Asian destinations, present downside risks which could ease tourism arrival growth. The outlook heading into 2023 "remains highly uncertain". BT reported that Colliers highlighted that should economic uncertainty prevail well into 2023 and China remain closed, any recovery beyond pre-Covid levels might well be pushed to 2025. Meanwhile, in the same report, CBRE noted that Singapore's ARR and RevPAR levels are still above pre-Covid levels, one of the few markets in Asia-Pacific apart from Australia and Korea to reach that mark as of year to date, August 2022. CBRE expects that the Asia-Pacific region will remain on its recovery trajectory for 2024, with Singapore being one of the first markets to experience a full recovery.

### (IV) United Kingdom

Colliers expects most markets in the UK to reach their pre-Covid levels by the end of 2022, or possibly into early 2023 for some. Colliers believes that households have accumulated excess levels of savings over the last two years, and whilst some of this may be absorbed by rising costs of living, there is expected to be a desire to spend these savings on travel and tourism this year. Whilst RevPAR performance is predicted to bounce back strongly throughout 2022, increasing operational costs remain a concern for the industry going forwards, particularly as hoteliers experience their first recovery after the pandemic without the support of government incentives such as the furlough scheme. The hotel performance recovery can be supported by data from UK's tourism agency, VisitBritain, showing that England's hotel occupancy rate has improved from 47% in January to 78% in August. We also note that while 2022's occupancy rate is showing signs of a recovery and is higher than the rate in 2020 and 2021, it is still lower than the pre-pandemic rates in 2019, as shown in **Exhibit 29**.

**Exhibit 29: England's Monthly Occupancy Rate (%) (2019-2022)**




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 65% | 73% | 75% | 76% | 78% | 83% | 85% | 82% | 83% | 82% | 79% | 71% |
| 2020 | 65% | 73% | 37% | 22% | 23% | 24% | 29% | 47% | 46% | 41% | 28% | 27% |
| 2021 | 24% | 29% | 33% | 34% | 42% | 56% | 65% | 71% | 72% | 71% | 68% | 56% |
| 2022 | 47% | 65% | 71% | 73% | 76% | 80% | 83% | 78% | | | | |

*Source: VisitBritian*

According to a report published by Office for National Statistics (ONS) in September, The UK received 2.7 million visits in May 2022, more than double the visits in February 2022. Visits have continued to increase month-on-month as traveller confidence  built up again. For the first 5 months of the year, visits totalled 8.6 million. In terms of spending, inbound visitors spent £2.1bn in May 2022. Following the same pattern as visits, spending has continued to grow month-on-month with total inbound spending reaching £6.4bn for the first 5 months of 2022.

According to VisitBritain, for the full calendar year 2022, inbound visits are forecasted to increase to 26.7 million and spending to £21.6 billion. These are 65% and 76% respectively of the visits and spendings levels seen in 2019. This is an upgrade on its previous forecast, made in February, due to a stronger than expected start to the year. The previous forecast was 21.1 million visits, and spending of £16.9 billion. However, recent data on flight bookings shows that bookings have fallen significantly from their April/May high point, when they were running at more than three quarters of 2019 levels, to less than two-thirds of 2019 levels. Disruption to ports and flight cancellations, as well as growing cost of living pressures, have dampened short term prospects. Recent data as at September 2022 suggests that the bookings picture has stabilised. The forecast assumes that the bookings picture will improve a little from its current level although will not return to its high point in April/May for the rest of this year. VisitBritian expects spendings per visit to remain higher than the pre-pandemic norm, due to longer average length of stay as well as inflation.

## SHARE PRICE DEVELOPMENT REVIEW

Since our initiation report issued on 10 December 2021, when FHT's share price closed at S$0.475, we note that the share price has risen. From then till present, the share price is down by about 8.42% to the current price of S$0.435 as shown in **Exhibit 30**.

**Exhibit 30: FHT's Share Price**


*Source: Yahoo Finance, FPA Financial*

The 52-week low of S$0.420 was reached on 8 March 2022 and the 52-week high of S$0.710 was reached on 2 August 2022.

On 27 January 2022, FHT announced its business updates for the first quarter ended 31 December 2021 and reported that its Singapore hotels' performance remained steady, supported by business generated from the government quarantine business. Its Australia's hotels have rebounded sharply, lifted by strong pent-up demand following its exit from lockdown. FHT's share price rose by 1.14% from S$0.440 to S$0.445 after the announcement.

On 8 April 2022, FHT announced that its managers are reviewing and exploring strategic options to enhance and unlock value for Stapled Securityholders of FHT. The managers added that they will make appropriate announcements on the Singapore Exchange if there is any material development which they are obliged to disclose. FHT's share price rose by 5.26% from S$0.570 to S$0.600 after the announcement.

On 29 April 2022, FHT posted a 10.4% yoy increase in gross revenue, 18.4% yoy increase in net property income and 75.0% yoy increase in income available for distribution for 1H2022. Distribution per stapled security (DPS) also rose to 0.7039 Singapore cent from 0.179 cent the year before for 1H2022. As the same time, FHT also announced the completion of the sale of Sofitel Sydney Wentworth. Accordingly, over the week, FHT's share price rose by 2.33% from S$0.645 to S$0.660.

On 9 June 2022, FHT requested for a trading halt and on 13 June 2022 at the share price of S$0.660. on 13 June 2022, FHT announced a proposed privatisation offer from its sponsor, Frasers Property Limited (FPL). FHT requested for lifting of trading halt and its share price rose by 4.55% from S$0.660 to end the day at S$0.690.

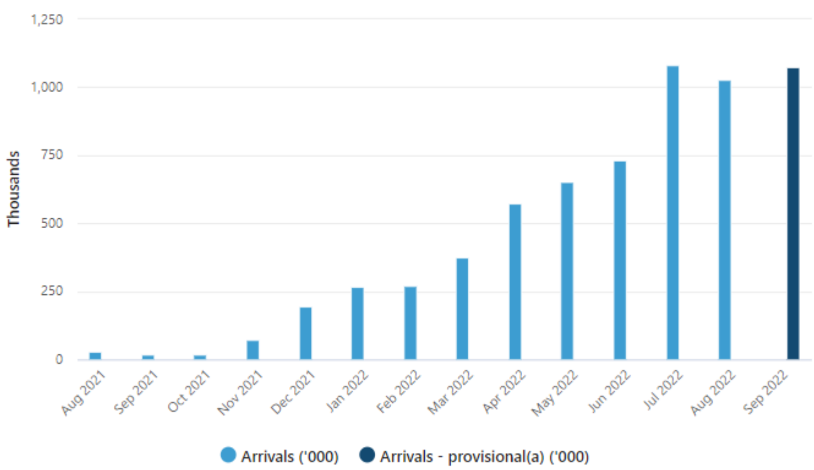
On 12 September 2022, FHT announced that the resolution of Stapled Securityholders to approve the privatisation of FHT by way of the Scheme was not passed at the Scheme Meeting. As the privatisation of FHT is conditional upon, amongst other things, the approval of the Scheme by the Stapled Securityholders, the Implementation Agreement between Perpetual (Asia) Limited, the FHT Managers and the Offeror has therefore (with the consent of the Securities Industry Council) been terminated, and the privatisation of FHT has lapsed. As a result. FHT's share price fell by 21.99% from S$0.705 to S$0.550 after the announcement.

## POTENTIAL CATALYSTS

### (I) Rebound of Tourism in Australia and Singapore

Australia removed its COVID-19-related border controls on 6 July 2022 and will no longer request visitors to declare or provide proof of their vaccination status. Since then, according to the Australian Bureau of Statistics, total visitor arrivals in July, August and September have increased to 1.08 million, 1.03 million and 1.07 million visitors respectively, compared to 730,400 visitors in June as shown in **Exhibit 31**. Thus, a significant improvement to the visitor arrivals could help improve FHT's hotel revenue and underpin its financial performance

**Exhibit 31: Australia's Monthly Visitor Arrivals**




*Source: Australian Bureau of Statistics*

As shown on **Exhibit 21**, Singapore opened its borders to international visitors under the Vaccinated Travel Framework, which allows for free movement for vaccinated travellers. As a result, Singapore received 3.7 million visitor arrivals year-to-date till September, well on track to reach STB's expectations of 4 to 6 million international visitor arrivals in 2022, signalling a growing momentum in tourism recovery. If the trend were to continue and international travel normalises, FHT could see a more meaningful recovery in revenue from its Singapore's hotels. Thus, a significant increase in visitor arrivals could help underpin FHT's recovery from the pandemic

### (II) Strong Pipeline Of Events

STB remains cautiously optimistic and anticipate a strong performance from key source markets this year. As mentioned on page 21, STB has been actively seeking for partnership to boost Singapore tourism and reach its target of 4 to 6 million international visitor arrivals in 2022. These initiatives have helped support the recovery of Singapore's tourism sector. For example, the Formula 1 Singapore Airlines Singapore Grand Prix 2022 has set a new record in attendance with 302,000 fans attending the three-day event, with foreign visitors accounting for approximately 49% of the fans. In addition, the Singapore Hotel Association (SHA) said that hotels here saw a near-90% occupancy rate during the F1 weekend, based on insights from data company STR. Singapore's Transport Minister S. Iswaran added that the average room rates, according to STR data, exceeded the historical high of $440 per night for previous F1 periods. Given the pipeline of events and the influx of tourists, the hospitality sector would be able to benefit from this tailwind.

## FINANCIAL PROJECTION

In this section, we will be providing our projections for FHT's revenue, earnings and distribution in FY2022 and FY2023.

### (I) Revenue projection

We note that FHT has master lease agreements for all of its properties and the weighted average lease expiry (WALE) was 12.8 years as at 30 September 2021. We also note that its master lease agreements have remained unchanged over the period from FY2018 to FY2021. As at 30 September 2021, none of the master leases would be due for renewal till 2024.

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 32**.

**Exhibit 32: 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. Toranomon 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 0.89529, GBPSGD of 1.60331, JPYSGD of 0.00952 and MYRSGD of 0.30168 as at 20 October 2022, the total fixed rent contribution from FHT's portfolio amounted to S$52.1 million as shown in **Exhibit 33**.

**Exhibit 33: 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$5.3 |
| | Novotel Sydney Darling Square | A$2.5 | S$2.2 |
| | Sofitel Sydney Wentworth (1) | A$6.0 | S$5.4 |
| | Fraser Suites Sydney | A$4.2 | S$3.8 |
| **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$0.6 |
| | Fraser Suites Queens Gate | £1.8 | S$2.9 |
| | Fraser Place Canary Wharf | £1.4 | S$2.2 |
| **Japan** | ANA Crowne Plaza Kobe | ¥600.0 | S$5.7 |
| **Malaysia** | The Westin Kuala Lumpur | RM14.8 | S$4.5 |
| **Germany** | Maritim Hotel Dresden | NA (2) | NA (2) |
| **Total** | | | **S$52.1** |

*(1) Sold as at 29 April 2022*

*(2) 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), Sofitel Sydney Wentworth (SSW) and Frasers Suites Sydney (FSS).

On the outlook of Australia hotel market, we believe that the demand for tourism is likely to recover due to their relaxation of pandemic-related restrictions and border re-openings combined with extensive government support for the tourism sector. In first half of 2022, Australia has seen strong levels of domestic leisure demand as well as a positive rebound in the corporate and MICE segments. Australia's two busiest airports, Sydney and Melbourne, have also seen a recovery in total passenger traffic of 69% and 73%, respectively of pre-COVID levels. CBRE also noted that Australia's ADR and RevPAR have also risen the most amount Asia Pacific markets.

Given the above, we would expect to see a strong rebound in hotel revenue performance for FHT's hotels in FY2022. However, as FHT divested SSW in April 2022 as mentioned on page 11, we would take into consideration that SSW would only contribute 1 month of fixed revenue for 2H2022. With the current pent-up demand to travel domestically and internationally, we believe the revenue contribution from the other 3 hotels would have improved in 2H2022.

For our revenue projections, we would be projecting the fixed and variable revenue for 2H2022 and FY2023

We noted that the annual fixed rent contribution from FHT's Australia properties amounted to S$16.6 million. Based on our calculations, SSW's one-month fixed rent contribution would amount to S$0.5 million = [1/12 x S$5.37 million (annual fixed rent for SSW)].

Accordingly, the fixed rent for 2H2022 and FY2023 would amount to S$6.1 million and S$11.3 million respectively as follows:

- Fixed rent for Australia properties for 2H2022 = S$2.6 million (half year rent from NMOC) +S$1.1 million (half year rent from NSDS) + S$0.5 million (one-month rent from SSW) + S$1.9 million (half year rent from FSS) = S$6.1 million

- Fixed rent for Australia properties for FY2023 = S$5.3 million (full year rent from NMOC) +S$2.24 million (full year rent from NSDS) + S$3.8 million (full year rent from FSS) = S$11.3 million

The summary of fixed rent contribution for FHT's Australia hotels is shown in **Exhibit 34**.

**Exhibit 34: FHT's Australia Hotel Fixed Rent Contribution**

| Fixed rent per annum (S$ million) | Actual | | Forecast | |
|---|---|---|---|---|
| | Local currency | (S$) | 2H2022 | FY2023 |
| Novotel Melbourne on Collins | A$5.88 | S$5.26 | S$2.63 | S$5.26 |
| Novotel Sydney Darling Square | A$2.5 | S$2.24 | S$1.12 | S$2.24 |
| Sofitel Sydney Wentworth [(1)] | A$6.0 | S$5.37 | S$0.49 | - |
| Fraser Suites Sydney | A$4.2 | S$3.76 | S$1.88 | S$3.76 |
| **Total** | **A$18.58** | **S$16.63** | **S$6.12** | **S$11.26** |

*Exchange rate of AUDSGD 0.89529*

*(1) Sold as at 29 April 2022*

*Source: FHT, FPA Financial*

Next, we also note that the percentage of variable revenue from FY2019 to 1H2022 was between 56.67% and 73.91% with an average of 61.02% = [(73.91% (FY2019) + 56.67% (FY2020) + 57.65% (FY2021) + 55.86% (1H2022) / 4].

Given the positive outlook in Australia's hospitality industry, we would assume the percentage of variable revenue contribution to return to the average of 61.02% in 2H2022. Accordingly, after rebasing it to 100%, the projected total revenue for Australia's hotels in 2H2022 would be S$15.7 million, which comprises of S$6.1 million in fixed revenue and S$9.6 million in variable revenue.

2H2022

- Variable revenue = 61.02% x (S$6.1 million / (100.00% - 61.02% ) (rebasing to 100%)) = S$9.6 million

- Total revenue = S$6.1 million (projected fixed revenue) + S$9.6 million (projected variable revenue) = S$15.7 million

FY2022

- Fixed revenue = S$8.3 million (1H2022 fixed revenue) + S$6.1 million (2H2022 fixed revenue) = S$14.4 million

- Variable revenue = S$10.5 million (1H2022 variable revenue) + S$9.6 million (2H2022 variable revenue) = S$20.1 million

- Total revenue = S$14.4 million (projected fixed revenue) + S$20.1 million (projected variable revenue) = S$34.6 million

In 2023, as countries globally achieve higher vaccination rates and international travel recovers, a stronger hotel market recovery could be possible. This would allow for more flexibility in reopening of borders, allowing for a more significant increase in visitor arrivals. Furthermore, a gradual return of business travel as well as MICE tourism (meetings, incentives, conferencing, and exhibitions) could support an increase in demand for luxury hotels. Domestically, the possibility of a successful transition to an endemic Covid-19 environment could support a rebound in domestic tourism and, as a result, hotel demand. We believe that with a high vaccination rollout, relatively relaxed entry regulations and a diverse feeder base, Australia will likely see a speedier recovery and see a strong rebound in FY2023.

On the back of a more positive outlook for international travel in 2023, we would assume 10% increase in variable revenue contribution from 58.21% for FY2022 to 68.21% for FY2023 =[58.21% (projected FY2022) + 10% (projected increase in contribution)]. Accordingly, after rebasing it to 100%, the projected total revenue for Australia's portfolio in FY2023 would be S$35.4 million as follows:

- Variable revenue for FY2023 = 68.21% x (S$11.3 million / (100.00% - 68.21% ) (rebasing to 100%)) = S$24.2 million

- Total revenue for FY2023 = S$11.3 million (projected fixed revenue for FY2023 as shown in **Exhibit 34**) + S$24.2 million (projected variable revenue for FY2023) = S$35.4 million

Our projected revenue for the Australia segment are summarized in **Exhibit 35**.

**Exhibit 35: Projected Revenue for Australia Segment for FY2022 and FY2023**

| Australia | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| [S$'000] | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 (1) | FY2022 | FY2023 |
| Fixed revenue | 16,634 | 16,634 | 16,634 | 8,317 | 6,122 | 14,439 | 11,263 |
| Variable revenue | 47,130 | 21,756 | 22,641 | 10,527 | 9,585 | 20,112 | 24,164 |
| Variable % of total revenue | 73.91% | 56.67% | 57.65% | 55.86% | 61.02% | 58.21% | 68.21% |
| **Total revenue** | **63,764** | **38,390** | **39,275** | **18,844** | **15,707** | **34,551** | **35,427** |

*(1) Assume 1 month contribution from SSW*

*Source: FHT, FPA Financial*

Singapore

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

As noted on page 21, according to STB, Singapore's international visitor arrivals extended growth for the eighth consecutive month in September to set another post-Covid-19 monthly record. The early impact of the removal of all travel restrictions from late-April 2022 had witnessed a strong influx of visitors arrival. As a result, year to date, Singapore has reported about 3.7 million international visitor arrivals, against STB's expectation of four to six million international visitors for the year announced in July. CBRE noted that Singapore's ARR and RevPAR levels are still above pre-Covid levels. In addition. various commercial real estate services companies believe that the strong tourism outlook and limited supply growth should continue to drive the recovery of Singapore hotel market. We believe that the outlook for tourism-led demand would improve as other neighbouring countries gradually reopen its borders. Hence, a higher inflow of visitors would also help to uplift performance of the hospitality industry.

Similarly, for our revenue projections, we would be projecting the fixed and variable revenue for 2H2022 and FY2023. For the annual fixed revenue for the Singapore segment, we note that it amounted to S$15.7 million as shown in **Exhibit 36**.

**Exhibit 36: 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** |

*Source: FHT, FPA Financial*

Next, we also note that the percentage of variable revenue from FY2019 to 1H2022 was between 3.85% and 51.23% with an average of 21.99% =[(51.23% (FY2019) + 19.53% (FY2020) + 3.85% (FY2021) + 13.33% (1H2022)) / 4].

Given the positive outlook in Singapore's hospitality industry, we would assume the percentage contribution from its variable revenue to return to its 4-year average of 21.99% in 2H2022. Accordingly, after rebasing it to 100%, the projected total revenue for the Singapore segment in 2H2022 would be S$10.1 million, which comprises of S$7.9 million in fixed revenue and S$2.2 million in variable revenue.

<u>2H2022</u>

- Variable revenue = 21.99% x (S$7.9 million / (100.00% - 21.99% ) (rebasing to 100%)) = S$2.2 million

- Total revenue = S$7.9 million (projected fixed revenue) + S$2.2 million (projected variable revenue) = S$10.1 million

<u>FY2022</u>

- Fixed revenue = S$7.9 million (1H2022 fixed revenue) + S$7.9 million (2H2022 fixed revenue) = S$15.7 million

- Variable revenue = S$1.2 million (1H2022 variable revenue) + S$2.2 million (2H2022 variable revenue) = S$3.4 million

- Total revenue = S$15.7 million (projected fixed revenue) + S$3.4 million (projected variable revenue) = S$19.1 million

For FY2023, in anticipation of a possible global Covid-19 situation stabilization, improved international travel and more MICE events, we would assume a 10% increase in variable revenue contribution from 17.88% in FY2022 to 27.88% for FY2023=[17.88% (projected FY2022) + 10% (projected increase in contribution)]. We believe the revenue recovery in the Singapore would be similar to Australia due to the expected recovery in Singapore from the inbound Chinese visitors. Accordingly, after rebasing it to 100%, the projected total revenue for the Singapore segment in FY2023 would be S$21.8 million as follows:

- Variable revenue for FY2023 = 27.88% x (S$15.7 million / (100.00% - 27.88% ) (rebasing to 100%)) = S$6.1 million

- Total revenue for FY2023 = S$15.7 million (projected fixed revenue for FY2023) + S$6.1 million (projected variable revenue for FY2023) = S$21.8 million

Our projected revenue for the Singapore segment is summarized in **Exhibit 37**.

**Exhibit 37: Projected Revenue for Singapore Segment for FY2022 and FY2023**

| Singapore | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| [S$'000] | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Fixed revenue | 15,700 | 15,700 | 15,700 | 7,850 | 7,850 | 15,700 | 15,700 |
| Variable revenue | 16,495 | 3,810 | 629 | 1,207 | 2,212 | 3,419 | 6,070 |
| Variable % of total revenue | 51.23% | 19.53% | 3.85% | 13.33% | 21.99% | 17.88% | 27.88% |
| **Total revenue** | **32,195** | **19,510** | **16,329** | **9,057** | **10,062** | **19,119** | **21,770** |

*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.

As noted on page 25, London's monthly occupancy rate has been increasing month on month since the start of the year. Colliers also expects most markets in the UK to reach their pre-Covid levels by the end of 2022, or possibly into early 2023 for some. Further, UK has also dropped all Covid-related travel restrictions since mid-March 2022 for all travellers as part of the government's "Living with Covid" plan. UK's tourism agency also forecast inbound visits and spendings to improve. With relaxed border restrictions, we believe it could be a catalyst for further improvement in FHT's UK hotel performance.

Similar to the Australia and Singapore segments, we would be projecting the fixed and variable revenue for 2H2022 and FY2023 for the UK segment. Assuming the exchange rate of GBPSGD of 1.60331 as at 20 October 2022, the total annual fixed rent contribution from the UK portfolio amounted to S$10.62 million as shown in **Exhibit 38**.

**Exhibit 38: 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$0.96 |
| Park International London | £1.3 | S$2.08 |
| Fraser Suites Edinburgh | £0.5 | S$0.80 |
| Fraser Suites Glasgow | £0.4 | S$0.64 |
| Fraser Suites Queens Gate | £1.8 | S$2.89 |
| Fraser Place Canary Wharf | £1.4 | S$2.24 |
| **Total** | **£6.00** | **S$9.62** |

*Exchange rate of GBPSGD 1.60331*
*Source: FHT, FPA Financial*

Next, we also note that the percentage of variable revenue from FY2019 to 1H2022 was between 14.09% and 59.76% with an average of 30.45% =[(59.76% (FY2019) + 14.32% (FY2020) + 14.09% (FY2021) + 33.63% (1H2022)) / 4].

Given the positive outlook in UK's hospitality industry, we would assume the percentage contribution from its variable revenue to return to the average of 30.45% in 2H2022. Accordingly, after rebasing it to 100%, the projected total revenue for the UK segment in FY2022 would be S$14.2 million, which comprises of S$9.6 million in fixed revenue and S$4.5 million in variable revenue.

2H2022

- Variable revenue = 30.45% x (S$4.8 million / (100.00% - 30.45% ) (rebasing to 100%)) = S$2.1 million
- Total revenue = S$4.8 million (projected fixed revenue) + S$2.1 million (projected variable revenue) = S$6.9 million

FY2022

- Fixed revenue = S$4.8 million (1H2022 fixed revenue) + S$4.8 million (2H2022 fixed revenue) = S$9.6 million
- Variable revenue = S$2.4 million (1H2022 variable revenue) + S$2.1 million (2H2022 variable revenue) = S$4.5 million
- Total revenue = S$9.6 million (projected fixed revenue) + S$4.5 million (projected variable revenue) = S$14.2 million

For FY2023, we would assume a 10% increase in variable revenue contribution from 32.08% in FY2022 to 42.0% =[32.08% (projected FY2022) + 10% (projected increase in contribution)]. We expect the revenue recovery in the UK, Australia and Singapore to be similar, largely in view of the easing of its international borders and the improved outlook for inbound visitors & spending. Accordingly, after rebasing it to 100%, the projected total revenue from the UK segment for FY2023 would be S$16.6 million as follows:

- Variable revenue for FY2023 = 42.08% x (S$9.6 million / (100.00% - 42.08% ) (rebasing to 100%)) = S$7.0 million
- Total revenue for FY2023 = S$9.6 million (projected fixed revenue for FY2023) + S$7.0 million (projected variable revenue for FY2023) = S$16.6 million

Our projected revenue for the UK segment is summarized in **Exhibit 39**.

**Exhibit 39: Projected Revenue for UK Segment for FY2022 and FY2023**

| United Kingdom | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| [S$'000] | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Fixed revenue | 9,620 | 9,620 | 9,620 | 4,810 | 4,810 | 9,620 | 9,620 |
| Variable revenue | 14,287 | 1,608 | 1,578 | 2,437 | 2,106 | 4,543 | 6,988 |
| Variable % of total revenue | 59.76% | 14.32% | 14.09% | 33.63% | 30.45% | 32.08% | 42.08% |
| **Total revenue** | **23,907** | **11,228** | **11,198** | **7,247** | **6,916** | **14,163** | **16,608** |

*Source: FHT, FPA Financial*

Total Revenue

We note that Japan, Germany and Malaysia contributed S$3.5 million, S$3.1 million and S$2.4 million respectively in 1H2022, representing 8.0%, 6.9% and 5.4% respectively as shown in **Exhibit 40**. For 2H2022, we would assume the same revenue contribution of $3.5 million, S$3.1 million and S$2.4 million for Japan, Germany and Malaysia respectively.

For FY2023, we would adopt International Monetary Fund's (IMF) GDP forecast for each of the countries as a proxy. According to IMF's latest World Economic Outlook report in October, the economies of Japan, Germany and Malaysia are expected to grow by 1.6%, -0.3% and 4.4% respectively. However, we note that while IMF's GDP growth projections for Germany was -0.3%, given that Germany re-opened borders since July 2021 and ended its major protective measures from April 2022, we would be neutral on its hospitality industry. Barring the resurgence of Covid-19, we would assume Germany's revenue to maintain at S$6.1 million. Accordingly, the projected revenue contribution from Japan and Malaysia would amount to S$7.1 million and S$5.0 million respectively as follows:

- Projected FY2023 Japan's revenue = S$7.02 million (projected FY2022) x 101.6% (expected growth) = S$7.13 million
- Projected FY2023 Malaysia's revenue = S$4.78 million (projected FY2022) x 104.4% (expected growth) = S$4.99 million

Consequently, our projected total revenue for FY2022 and FY2023 amounted to S$92.0 million as shown in **Exhibit 40**.

**Exhibit 40: Projected Total Revenue for FY2022 and FY2023**

| S$'000 | Actual | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1H2022 | Contribution (%) | 2H2022 | Contribution (%) | FY2022 | Contribution (%) | FY2023 | Contribution (%) |
| Australia | 18,844 | 42.7% | 15,707 | 37.7% | 34,551 | 40.3% | 35,427 | 38.5% |
| Singapore | 9,057 | 20.5% | 10,062 | 24.2% | 19,119 | 22.3% | 21,770 | 23.7% |
| UK | 7,247 | 16.4% | 6,916 | 16.6% | 14,163 | 16.5% | 16,608 | 18.0% |
| Japan | 3,509 | 8.0% | 3,509 | 8.4% | 7,018 | 8.2% | 7,130 | 7.7% |
| Germany | 3,057 | 6.9% | 3,057 | 7.3% | 6,114 | 7.1% | 6,114 | 6.6% |
| Malaysia | 2,389 | 5.4% | 2,389 | 5.7% | 4,778 | 5.6% | 4,988 | 5.4% |
| **Total revenue** | **44,103** | **100.0%** | **41,640** | **100.0%** | **85,743** | **100.0%** | **92,038** | **100.0%** |

*Source: FHT, FPA Financial*

## (II) Earnings Projection

Given our projected revenue figures for FY2022 and FY2023, 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 slightly in 1H2022 to 71.79%. Considering that FHT is recovering from the impact of the Covid-19 pandemic, we would assume the average NPI margin of 70.31% =[(74.54% (FY2019 + 67.55% (FY2020) + 67.37% (FY2021) + 71.79% (1H2022)) / 4] for both 2H2022 and FY2023. Accordingly, the projected NPI for FY2022 and FY2023 would be S$60.9 million and S$64.7 million respectively as shown in **Exhibit 41**.

**Exhibit 41: Projected Net Property Income for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Revenue | 149,805 | 88,573 | 85,532 | 44,103 | 41,640 | 85,743 | 92,038 |
| Property operating expense | (38,139) | (28,742) | (27,906) | (12,441) | (12,361) | (24,802) | (27,322) |
| **Net property income (NPI)** | **111,666** | **59,831** | **57,626** | **31,662** | **29,279** | **60,941** | **64,715** |
| NPI margin | 74.54% | 67.55% | 67.37% | 71.79% | 70.31% | 71.07% | 70.31% |

*Source: FHT, FPA Financial*

Depreciation

From FY2019 to FY2021, depreciation expense remained relatively stable between S$3.8 million and S$3.9 million. Depreciation expense for 1H2022 was S$2.1 million. However, due to the divestment of Sofitel Sydney Wentworth, we would expect the depreciation expense to be lower in 2H2022 and FY2023. While we do not have the breakdown of the depreciation expense for FHT, we would assume the percentage of the valuation of FHT's valuation after the divestment over the reported portfolio valuation as at 31 March 2022 as a proxy for its depreciation expense.

Accordingly, the projected depreciation expense for 2H2022 would be S$1.8 million = [S$1.7 billion (portfolio valuation after divestment) / S$2.0 billion (portfolio valuation as at 31 March 2022) x S$2.1 million (depreciation expense in 1H2022)]. We would assume the depreciation expense for FY2023 to be S$3.7 million =[S$1.8 million (projected 2H2022 depreciation) x 2] as shown in **Exhibit 42**.

**Exhibit 42: Projected Depreciation Expense for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Depreciation | (3,815) | (3,921) | (3,929) | (2,137) | (1,837) | (3,974) | (3,674) |

*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 1H2022, 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 2H2022 and FY2023.

Based on our calculations, the average REIT-Manager’s management fee is 5.49% =[(4.92% (FY2019 + 6.17% (FY2020) + 5.29% (FY2021) + 5.59% (1H2022)) / 4] while the average Trustee-Manager’s management fee is 0.06% =[(0.03% (FY2019 + 0.06% (FY2020) + 0.09% (FY2021) + 0.07% (1H2022)) / 4]. Accordingly, our projected REIT-Manager’s management fee amounted to S$4.8 million and S$5.1 million for FY2022 and FY2023 respectively while our projected Trustee-Manager’s management fee amounted to S$57,000 and S$59,000 for FY2022 and FY2023 respectively as follows:

REIT-Manager's management fees

- 2H2022 REIT-Manager's management fees = 5.49% (average % of revenue) x S$41.6 million (2H2022 projected revenue) = S$2.3 million

- FY2022 REIT-Manager's management fees = S$2.5 million (1H2022) + S$2.3 million (2H2022) = S$4.8 million

- FY2023 REIT-Manager's management fees = 5.49% (average % of revenue) x S$92.0 million (FY2023 projected revenue) = S$5.1 million

Trustee-Manager's management fees

- 2H2022 Trustee-Manager's management fees = 0.06% (average % of revenue) x S$41.6 million (2H2022 projected revenue) = S$27,000

- FY2022 Trustee-Manager's management fees = S$30,000 (1H2022) + S$27,000 (2H2022) = S$57,000

- FY2023 Trustee-Manager's management fees = 0.06% (average % of revenue) x S$92.0 million (FY2023 projected revenue) = S$59,000

The summary for the projected REIT Manager’s and Trustee-Manager’s Management Fee for FY2022 and FY2023 is shown in **Exhibit 43** on the next page.

**Exhibit 43: Projected REIT Manager's and Trustee-Manager's Management Fee for FY2022 and FY2023**

| [S$'000] | Actual | | | | | Forecast | | |
|---|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | Average | 2H2022 | FY2022 | FY2023 |
| Revenue | 149,805 | 88,573 | 85,532 | 44,103 | | 41,640 | 85,743 | 92,038 |
| REIT-Manager's management f | 7,369 | 5,466 | 4,521 | 2,466 | 5.49% | 2,287 | 4,753 | 5,055 |
| % of revenue | 4.92% | 6.17% | 5.29% | 5.59% | | 5.49% | 5.54% | 5.49% |
| Trustee-Manager's manageme | 48 | 54 | 80 | 30 | 0.06% | 27 | 57 | 59 |
| % of revenue | 0.03% | 0.06% | 0.09% | 0.07% | | 0.06% | 0.07% | 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 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, for FY2020 and FY2021, other management fees remained relatively stable and increased by S$0.1 million from S$3.6 million in FY2020 to S$3.7 million in FY2021. Hence, in our projections, we would assume the same other management fees of S$1.8 million in 1H2022 for 2H2022. For FY2023, we would assume the same half year contribution of S$1.8 million. Consequently, the projected other management fees for FY2023 would amount to S$3.7 million =[S$1.8 million (projected 2H2022) x 2].

We note that the Trustees' fees also remained relatively stable from FY2019 to FY2021. Hence, we would assume the same Trustees' fees of S$244,000 recorded in 1H2022 for 2H2022. Similarly, for FY2023, we would assume the same half year contribution of S$244,000. Consequently, the projected Trustee's' fees for FY2023 would amount to S$488,000 =[S$244,000 (projected 2H2022) x 2] as shown in **Exhibit 44**.

**Exhibit 44: Projected Other Management and Trustees' Fees for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Other management fees | (4,603) | (3,569) | (3,668) | (1,834) | (1,834) | (3,668) | (3,668) |
| Trustees' fees | (496) | (495) | (493) | (244) | (244) | (488) | (488) |

*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". Other trust expenses declined by 14.4% yoy 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 2H2022, we would assume the same other trust expense of S$1.0 million recorded in 1H2022. For FY2023, we would assume the same half year contribution of S$1.0 million. Consequently, the projected other trust expense for FY2023 would amount to S$2.0 million =[S$1.0 million (projected 2H2022) x 2] as shown in **Exhibit 45**.

**Exhibit 45: Projected Other Trust Expense for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Other trust expense | (3,246) | (3,268) | (2,799) | (1,017) | (1,017) | (2,034) | (2,034) |

*Source: FHT, FPA Financial*

Finance Cost and Finance Income

As noted on **Exhibit 13**, according to FHT, its total borrowings were S$991.1 million and its effective cost of borrowings were 2.20%. In addition, we note that 77.1% of its total borrowings is on a fixed rate basis. Further, as we are assuming that FHT repay its debt using the net proceeds of S$277.2 million from the divestment of Sofitel Sydney Wentworth, we project FHT's borrowing to decrease from S$991.1 million S$713.9 million =[S$991.1 million – S$277.2 million].

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for 1H2022 was 1.87% while the average 10-year bond yield for 2H2022 was 2.89%. The average Singapore's SGS 10- year bond yield for 2H2022 increased by 102 basis points (bps) versus the average yield for 1H2022 as shown in **Exhibit 46**.

**Exhibit 46: Singapore SGS 10-Year Bond Yield**

| 1H2022 | 10-year bond yield (%) | 2H2022 | 10-year bond yield (%) |
|---|---|---|---|
| Oct-21 | 1.84% | Apr-22 | 2.53% |
| Nov-21 | 1.70% | May-22 | 2.71% |
| Dec-21 | 1.67% | Jun-22 | 2.98% |
| Jan-22 | 1.77% | Jul-22 | 2.66% |
| Feb-22 | 1.90% | Aug-22 | 2.98% |
| Mar-22 | 2.34% | Sep-22 | 3.48% |
| **Average** | **1.87%** | **Average** | **2.89%** |
| **Change** | | | **1.02%** |

*Source: MAS, FPA Financial*

Considering that the SGS 10-year bond yield increased by 102bps in 2H2022 from 1H2022, we would assume the increase in SGS 10-year bond yield as a proxy for the increase in effective interest rate for the floating rate borrowings for 2H2022. Accordingly, the effective interest rate for 2H2022 would be 3.22% =[2.20% (1H2022) +1.02%]. For FY2023, with reference to **Exhibit 46**, the 10-year bond yield for September 2022 was 3.48%. In addition, we also note that as at 26 October 2022, the 10-year bond yield was also at 3.48%. Hence, we would assume the effective interest rate for the floating rate to increase to 3.48% in FY2023.

Accordingly, the projected finance for 2H2022 and FY2023 would be S$9.2 million and S$17.8 million respectively as follow:

2H2022

- Projected 2H2022 finance cost before divestment = (S$764.2 million (fixed rate debt) x 2.20% (fixed cost of debt) x 1/12) + (S$227.0 million (floating rate debt) x 3.22% (variable cost of debt) x 1/12) = S$2.0 million

- Projected 2H2022 finance cost after divestment = (S$550.5 million (fixed rate debt) x 2.20% (fixed cost of debt) x 5/12) + (S$163.5 million (floating rate debt) x 3.22% (variable cost of debt) x 5/12) = S$7.2 million

- Projected 2H2022 finance cost = S$2.0 million (projected 2H2022 finance cost before divestment) + S$7.2 million (projected 2H2022 finance cost after divestment) = S$9.2 million

FY2023

- Projected FY2023 finance cost = S$550.5 million (fixed rate debt) x 2.20% (fixed cost of debt) x 12/12) + (S$163.5 million (floating rate debt) x 3.48% (variable cost of debt) x 12/12) = S$17.8 million

The summary of the projected finance cost for 2H2022 and FY2023 is shown in **Exhibit 47**.

**Exhibit 47: Projected Finance Cost for 2H2022 and FY2023**

| S$'000 | Total debt | Fixed rate debt (77.1%) | Float rate debt (22.9%) | Fixed cost of debt (%) | Variable cost of debt (%) | Period (months) | Finance cost | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Fixed | Variable | Total |
| 2H2022 (before divestment) | 991,145 | 764,173 | 226,972 | 2.20% | 3.22% | 1 | 1,401 | 609 | 2,010 |
| 2H2022 (after divestment) | 713,945 | 550,452 | 163,493 | 2.20% | 3.22% | 5 | 5,046 | 2,194 | 7,239 |
| FY2023 | 713,945 | 550,452 | 163,493 | 2.20% | 3.48% | 12 | 12,110 | 5,690 | 17,800 |

*Source: FHT, FPA Financial*

Meanwhile, for our finance income and amortisation of debt upfront cost projections, we would assume the average full year finance income and amortisation of debt upfront cost recorded between FY2019 and FY2021 as our proxy. Accordingly, the projected finance income for FY2022 and FY2023 would amount to S$291,000 =[(S$332,000 (FY2019) + S$329,000 (FY2020) + S$210,000 (FY2021)) / 3]. At the same time, the amortisation of debt upfront cost for FY2022 and FY2023 would amount to S$961,000 =[(S$1.1 million (FY2019) + S$824,000 (FY2020) + S$952,000 (FY2021)) / 3].

The summary of our projected finance income and finance cost is shown in **Exhibit 48**.

**Exhibit 48: Projected Finance Income and Finance Cost for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Finance income | 332 | 329 | 210 | 43 | 247 | 290 | 290 |
| Amortisation of debt upfront costs | (1,107) | (824) | (952) | (545) | (416) | (961) | (961) |
| Finance costs | (20,503) | (19,750) | (20,415) | (10,000) | (9,249) | (19,249) | (17,800) |

*Source: FHT, FPA Financial*

Adjustments To Foreign Exchange Differences And Fair Value Changes

We note that in 1H2022, FHT recorded foreign exchange gain, net loss in fair value of derivative financial instruments and realized loss on derivative financial instruments. For both 2H2022 and FY2023 we would assume neither gains nor losses as shown in **Exhibit 49**.

**Exhibit 49: Projected Adjustment to Foreign Exchange Differences And Fair Value Changes for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Foreign exchange (loss)/ gain, net | (265) | (165) | (26) | 347 | - | 347 | - |
| Net change in fair value of investment properties | (15,574) | (136,777) | (4,574) | - | - | - | - |
| Revaluation of property plant and equipment | - | (9,208) | 8,444 | - | - | - | - |
| Net change in fair value of derivative financial instruments | (114) | (328) | (77) | (3,012) | - | (3,012) | - |
| Realised (loss)/gain on derivative financial instruments, net | 842 | 256 | (16) | 3 | - | 3 | - |

*Source: FHT, FPA Financial*

Total Return before Tax

Given the above projections, we would estimate a total return before tax of S$23.4 million in FY2022 and S$31.3 million in FY2023 as shown in **Exhibit 50**.

**Exhibit 50: Projected Total Return Before Tax for FY2022 and FY2023**

| S$'000 | Actual | Forecast | | |
|---|---|---|---|---|
| | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Revenue | 44,103 | 41,640 | 85,743 | 92,038 |
| Property operating expenses | (12,441) | (12,361) | (24,802) | (27,322) |
| **Net property income** | **31,662** | **29,279** | **60,941** | **64,715** |
| Depreciation | (2,137) | (1,837) | (3,974) | (3,674) |
| REIT Manager's management fees | (2,466) | (2,287) | (4,753) | (5,055) |
| Trustee-Manager's management fees | (30) | (27) | (57) | (59) |
| Other management fees | (1,834) | (1,834) | (3,668) | (3,668) |
| Trustees' fees | (244) | (244) | (488) | (488) |
| Other trust expense | (1,017) | (1,017) | (2,034) | (2,034) |
| Finance income | 43 | 247 | 290 | 290 |
| Amortisation of debt upfront costs | (545) | (416) | (961) | (961) |
| Finance costs | (10,000) | (9,249) | (19,249) | (17,800) |
| **Total return before foreign exchange differences, fair value changes and tax** | **13,432** | **12,616** | **26,048** | **31,268** |
| Foreign exchange (loss)/ gain, net | 347 | - | 347 | - |
| Net change in fair value of derivative financial instruments | (3,012) | - | (3,012) | - |
| Realised (loss)/gain on derivative financial instruments, net | 3 | - | 3 | - |
| **Total return/ (loss) for the year before tax** | **10,770** | **12,616** | **23,386** | **31,268** |

*Source: FHT, FPA Financial*

Taxation

We note that historically, the estimated effective tax rate varies between 7.10% and 34.06% between FY2019 and 1H2022 as shown in **Exhibit 51**. 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 12.91% recorded in 1H2022 as a proxy for our taxation for 2H2022 and FY2023. Consequently, the projected taxation for FY2022 and FY2023 would be S$3.0 million and S$4.0 million respectively, as follows:

- Projected taxation for 2H2022 = S$12.6 million (projected 2H2022 total return for the year before tax) x 12.91% (estimated effective tax rate) = S$1.6 million
- Projected Taxation for FY2022 = S$1.4 million (actual 1H2022) + S$1.6 million (projected 2H2022) = S$3.0 million
- Projected taxation for FY2023 = S$31.3 million (projected FY2023 total return for the year before tax) x 12.91% (estimated effective tax rate) = S$4.0 million

The summary of the projected taxation for FY2022 and FY2023 is shown in **Exhibit 51**.

**Exhibit 51: Projected Taxation for FY2022 and FY2023**

| S$'000 | Actual | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Total return/ (loss) for the year before tax | 55,711 | (123,409) | 24,730 | 10,770 | 12,616 | 23,386 | 31,268 |
| Taxation | (3,954) | 9,981 | (8,422) | (1,390) | (1,628) | (3,018) | (4,036) |
| Estimated effective tax rate | 7.10% | NM | 34.06% | 12.91% | 12.91% | 12.91% | 12.91% |

*Source: FHT, FPA Financial*

Total Return after Tax

As noted on page 12, the net proceeds from the divestment of Sofitel Sydney Wentworth was A$282.5 million (S$277.2 million) and the net gain was A$24.1 million (approximately S$23.7 million). As per the Double Taxation Agreement (DTA) between Australia and Singapore, profits of an enterprise are taxed only in the state (state A) where the business operations are carried out unless the other state (state B) has a permanent establishment of the business. If the state B has a permanent establishment of the business, the profits generated from that permanent establishment will be taxable in state B and only in state B. Hence, as the net gain from the divestment of Sofitel Sydney Wentworth has already taken the capital gain tax to be incurred into consideration and the tax is expected to be paid in Australia, we would assume no taxation on the net gain from the divestment of Sofitel Sydney Wentworth in Singapore. Accordingly, we would be recording a one-time gain of S$23.7 million adjustment to our projected total return after tax for 2H2022.

Adjusting for income tax expense, the projected total return after tax for FY2022 and FY2023 would be S$44.1 million and S$27.2 million respectively as shown in **Exhibit 52**.

Accordingly, assuming the same weighted average number of Stapled Security holders in 1H2022 for 2H2022, FY2022 and FY2023, the projected earnings per Stapled Security would be 1.80 cents, 2.28 cents and 1.41 cents respectively as shown in **Exhibit 52**.

**Exhibit 52: Projected Total Return After Tax for FY2022 and FY2023**

| S$'000 | Actual | Forecast | | |
|---|---|---|---|---|
| | 1H2022 | 2H2022 | FY2022 | FY2023 |
| Revenue | 44,103 | 41,640 | 85,743 | 92,038 |
| Property operating expenses | (12,441) | (12,361) | (24,802) | (27,322) |
| **Net property income** | **31,662** | **29,279** | **60,941** | **64,715** |
| Depreciation | (2,137) | (1,837) | (3,974) | (3,674) |
| REIT Manager's management fees | (2,466) | (2,287) | (4,753) | (5,055) |
| Trustee-Manager's management fees | (30) | (27) | (57) | (59) |
| Other management fees | (1,834) | (1,834) | (3,668) | (3,668) |
| Trustees' fees | (244) | (244) | (488) | (488) |
| Other trust expense | (1,017) | (1,017) | (2,034) | (2,034) |
| Finance income | 43 | 247 | 290 | 290 |
| Amortisation of debt upfront costs | (545) | (416) | (961) | (961) |
| Finance costs | (10,000) | (9,249) | (19,249) | (17,800) |
| **Total return before foreign exchange differences, fair value changes and tax** | **13,432** | **12,616** | **26,048** | **31,268** |
| Foreign exchange (loss)/ gain, net | 347 | - | 347 | - |
| Net change in fair value of derivative financial instruments | (3,012) | - | (3,012) | - |
| Realised (loss)/gain on derivative financial instruments, net | 3 | - | 3 | - |
| **Total return/ (loss) for the year before tax** | **10,770** | **12,616** | **23,386** | **31,268** |
| Taxation | (1,390) | (1,628) | (3,018) | (4,036) |
| Gain from divestment of assets | - | 23,700 | 23,700 | - |
| **Total return/ (loss) for the year after tax** | **9,380** | **34,687** | **44,067** | **27,232** |
| | | | | |
| **Attributable to:** | | | | |
| Stapled Securityholders | 9,380 | 34,687 | 44,067 | 27,232 |
| | | | | |
| Weighted average number of Stapled Securities ('000) | 1,926,074 | 1,926,074 | 1,926,074 | 1,926,074 |
| **Earnings per Stapled Security (cents)** | **0.48** | **1.80** | **2.28** | **1.41** |

*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 53**, the projected income available for distribution would be S$28.4 million and S$32.1 million for FY2022 and FY2023.

We note that FHT's distributions to Stapled Securityholders is based on 90% payout of the income available for distribution. For FY2022 and FY2023, we would also assume to pay 90% of the income available as distribution. Accordingly, income attributable for distribution to Stapled Securityholders amounted to S$25.6 million and S$28.9 million in FY2022 and FY2023 respectively, and the distribution per Stapled Security would be 1.33 cents and 1.50 cents respectively, as shown in **Exhibit 53**.

**Exhibit 53: Projected Distribution for FY2022 and FY2023**

| S$'000 | Actual | Forecast | | |
|---|---|---|---|---|
| | 1H2022 | 2H2022 | FY2022 | FY2023 |
| **Total return for the year after tax** | **9,380** | **34,687** | **44,067** | **27,232** |
| | | | | |
| **Non-tax deductible/ (non-taxable) items and other adjustments:** | | | | |
| Amortisation of debt upfront cost | 545 | 416 | 961 | 961 |
| Depreciation | 2,137 | 1,837 | 3,974 | 3,674 |
| Foreign exchange loss, net | (347) | - | (347) | - |
| Net change in fair value of derivative financial instruments | 3,012 | - | 3,012 | - |
| Gain from divestment of assets | - | (23,700) | (23,700) | - |
| Trustee's fee in relation to FH-REIT | 142 | - | 142 | - |
| Interest expense on lease liabilities | 63 | - | 63 | - |
| Other adjustments | 132 | 132 | 264 | 264 |
| **Net effect of non-tax deductible/ (non-taxable) items and other adjustments** | **5,684** | **(21,315)** | **(15,631)** | **4,899** |
| **Income available for distribution** | **15,064** | **13,372** | **28,436** | **32,132** |
| | | | | |
| **Income available for distribution attributable to:** | | | | |
| Stapled Securityholders | 13,560 | 12,035 | 25,595 | 28,918 |
| | | | | |
| **Distribution to Stapled Securityholders** | | | | |
| No. of Stapled Securities issued ('000) | 1,926,074 | 1,926,074 | 1,926,074 | 1,926,074 |
| **Distribution per Stapled Security (cents)** | **0.7039** | **0.6249** | **1.3288** | **1.5014** |

*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 54**.

**Exhibit 54: Peer Comparison**

| Company | Stock code | Price ($) as at initiation report (1) | Price ($) as at 27 Oct 2022 | Market cap (S$ million) | EPS (2) (cents) | P/E (x) | DPU (2) (cents) | Dividend yield (%) | NAV per share (S$) | P/B (x) |
|---|---|---|---|---|---|---|---|---|---|---|
| Frasers Hospitality Trust (3) (4) | ACV | 0.475 | 0.435 | 837.84 | 0.85 | 51.18 | 1.51 | 3.47 | 0.67 | 0.65 |
| Peer companies: | | | | | | | | | | |
| CapitaLand Ascott Trust (5) | HMN | 1.000 | 0.925 | 3,040.34 | 5.26 | 17.59 | 3.76 | 4.06 | 1.00 | 0.93 |
| Far East Hospitality Trust (5) | Q5T | 0.610 | 0.580 | 1,151.76 | 9.02 | 6.43 | 3.07 | 5.29 | 0.85 | 0.68 |
| CDL Hospitality Trusts (5) | J85 | 1.170 | 1.080 | 1,336.16 | 7.50 | 14.40 | 5.10 | 4.72 | 1.31 | 0.82 |
| ARA US Hospitality Trust (5) (6) | XZL | 0.490 | 0.365 | 207.76 | (1.09) | NM | 1.78 | 4.88 | 0.72 | 0.51 |
| **Peer average** | - | | - | - | - | **12.81** | - | **4.74** | - | **0.73** |

*Figures have been rounded. NM: not meaningful*
*(1) As at 10 December 2022*
*(2) Trailing 12-month data*
*(3) Adjusted NAV as at 29 Apr 22, after the divestment of SSW*
*(4) NAV as at 31 Mar 22*
*(5) NAV as at 30 Jun 22*
*(6) Currency in US$*
*Source: Respective company data, FPA Financial*

Based on the results in **Exhibit 54** above, we note that FHT is currently trading at a P/B multiple of 0.65x, which is lower than the peer average P/B of 0.73x, which may suggest that it is undervalued at the current share price of S$0.435. Adopting a relative valuation approach, we estimate a target price of S$0.489 if FHT were to trade at the peer average P/B multiple of 0.73x as follows:

- Estimated target price = [peer average P/B] x [FHT's NAV per share] = 0.73 x S$0.67 = S$0.489

The estimated target price of S$0.489 would imply a upside potential of 12.41% from the current price of S$0.435.

### (II) Potential FHT Privatisation

We noted that Frasers Property Limited, the sponsor of FHT, is deemed to hold 25.83% stake in FHT, comprising of deemed interest of 497,553,070 units. In addition, TCC Group, FHT's strategic partner, is deemed to hold 36.72% stake in FHT, comprising of deemed interest of 707,310,200 units. Together, Frasers Property Limited and its related parties holds 62.55% stake in FHT =[25.83% (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 S$0.435 as at 27 October 2022, which represents a 35% discount to the adjusted NAV per share of S$0.67 as at 29 April 2022. While we note that FHT failed its privatisation attempt as mentioned on page 15, given the increasing trend of privatisation offers for SGX-listed companies within the past year and that FHT is trading at approximately, 35% discount to NAV, we believe 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 in 2021 and 2022. After reviewing 18 privatisation offers, we shortlisted 8 privatisation offers which we deemed to be similar to FHT. The average price premium of the 8 privatisation offers was 41.2% as shown in **Exhibit 55**.

**Exhibit 55: 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% |
| **Average** | | | | | | **41.2%** |

*(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 62.55% stake in FHT, which means that it would need to acquire the remaining 37.45% to privatise the company. This equates to S$313.77 million in market capitalisation at the current price of S$0.435 =[37.45% x current market capitalisation of S$837.84 million].

While we note that Frasers Property Limited and its related parties' proposal to take FHT private failed recently, as mentioned on page 15, we believe 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%, 41.2% and 57.3% for scenario 1, 2 and 3 respectively. The estimated acquisition cost for scenario 1, 2 and 3 would be S$339.9 million, S$443.0 million and S$493.7 million respectively as shown in **Exhibit 56**.

Our base scenario would be scenario 2. With a 41.2% average privatisation price premium, the estimated acquisition cost to privatise FHT would be approximately S$0.614 per share which would be equivalent to a total cost of S$443.0 million =[141.2% x 313.77 million] as shown in **Exhibit 56**.

**Exhibit 56: 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 | 0.435 | 8.33% | 0.471 | 339.9 |
| 2 | 0.435 | 41.2% | 0.614 | 443.0 |
| 3 | 0.435 | 57.3% | 0.684 | 493.7 |

*Source: FPA Financial*

**INVESTMENT RECOMMENDATION**

Factoring in the impact of the divestment of Sofitel Sydney Wentworth, we derived an adjusted NAV of S$0.67, which is slightly higher than the reported NAV of S$0.65 as at 31 March 2022.

Based on the adjusted NAV of S$0.67, FHT currently has a P/B multiple of 0.65x and is trading at a discount of approximately 35% to NAV.

Meanwhile, our peer comparison analysis results show that FHT's P/B of 0.65x is lower than the peer average P/B of 0.73x, which suggests that it could be undervalued. However, we note that FHT may not be as attractive as its peers as its dividend yield of 3.47% is lower than the peer average dividend yield of 4.74%. We adopted a relative valuation approach and derive an estimated target price of S$0.489 if FHT were to trade at its peer average P/B of 0.73x.

In terms of financials, we note that FHT's 1H2022 performance has improved following the relaxation of travel restrictions and widespread vaccinations. As a result, FHT recorded a 75% yoy increase in income available for distribution. This led to a DPS of 0.7039 cents for 1H2022, an increase of over 100% yoy. Looking ahead, as international borders continue to open and travel resumes, tourism should continue to recover at a strong pace as restrictions ease and confidence returns. 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. Further, the divestment of Sofitel Sydney Wentworth brought in net proceeds of S$277.2 million and net gains of S$23.7 million which would also increase FHT's financial flexibility to fund future acquisitions or would allow FHT to enhance the returns for its Stapled Securityholders or to pay down its debts. In 2023, we expect international travel to recover and FHT's revenue to improve.

In addition, while we believe that it is currently unlikely for another privatisation of FHT to happen, our base scenario estimates a privatisation offer of S$0.614 per share, representing a price premium of 41.2%, which is the average price premium of 8 privatisation offers.

Considering the above, we will maintain our buy recommendation on FHT. Our target price of S$0.489 implies a potential upside of 12.41% from the current share price of S$0.435 However, there are still risks to our target price which we will highlight in the next section.

**RISKS TO THE TARGET PRICE**

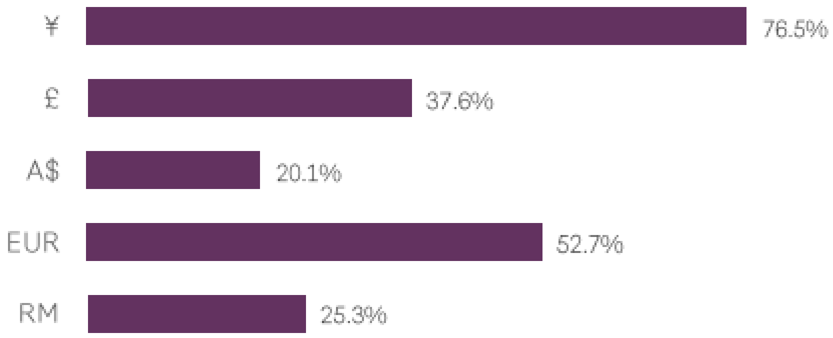
In this section, we highlight below risk factors that may limit the potential upside in FHT's target price.

**(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 30 June 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 57**.

<u>**Exhibit 57: FHT's Balance Sheet Hedging (as at 30 June 2022)**</u>




*Source: FHT*

**(II) Weak Global Economic Recovery In 2023**

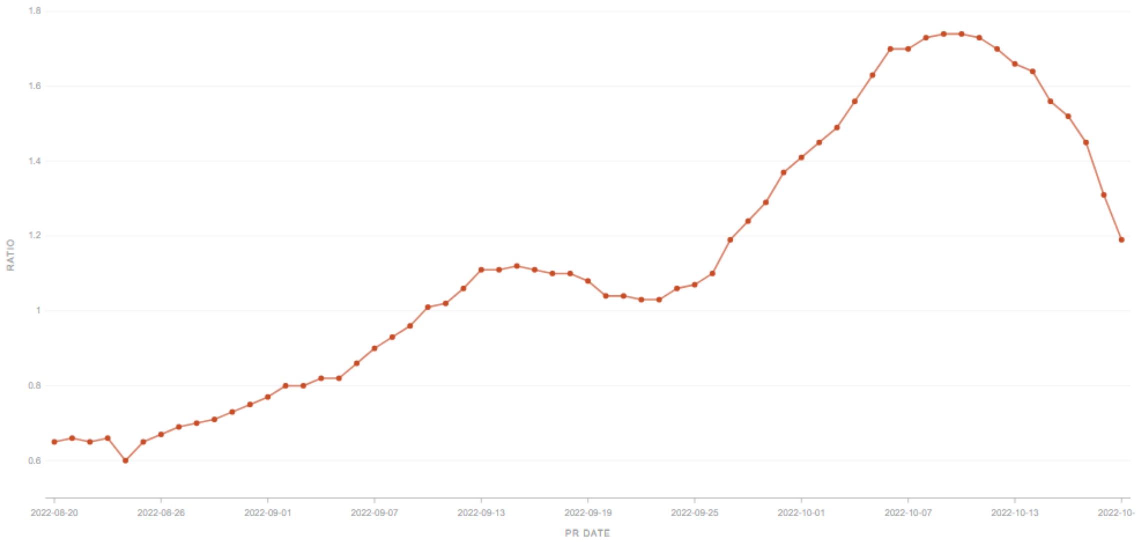
After a tentative recovery in 2021, increasingly gloomy developments in 2022 began to materialise. Global output fell in the second quarter of this year as a result of declines in China and Russia. A number of upsets have hit an already fragile global economy, including higher-than-anticipated global inflation, especially in the US and major European economies, tighter financial conditions, a worse-than-anticipated slowdown in China due to COVID-19 outbreaks and lockdowns, and more negative effects from the conflict in Ukraine. In its latest World Economic Outlook, the International Monetary Fund (IMF) projects the global economy to grow by 3.2% in 2022, slower than the 6.0% in 2021 and 0.4 percentage points lower than its April's forecast. For 2023, IMF projects global economy to grow by 2.7%, slower than the 3.2% projected in 2022 and 0.9 percentage points lower than its April forecast.

Further, high uncertainties also surround this outlook as risks are heavily skewed to the downside. If labor markets are tighter than expected or inflation expectations unanchor, inflation may be harder to control than expected. Debt distress in developing and emerging market economies may result from tighter international financial conditions. A worsening of the property sector crisis and recurrent COVID-19 outbreaks and lockdowns could further stifle Chinese growth. In addition, geopolitical fragmentation could also prevent international cooperation and trade from progressing. 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 the performance of FHT's earnings performance going forward.

**(III) Weak Economic Recovery in Singapore**

High vaccination rates, the loosening of safe management measures (SMM) and the gradual reopening of international borders have largely contributed to a gradual recovery in Singapore's economy. However, the rapid spread of the XBB omicron variant have increased the uncertainty about how the pandemic can be overcome. According to the Ministry of Health (MOH), the weekly growth rate of Covid-19 infections in Singapore was 1.19 as at 19 October 2022 as shown in **Exhibit 58**. The rate refers to the ratio of community cases for the past week over those of the week before. A rate of above 1 shows that the number of new weekly Covid-19 cases is increasing. We note that while the growth rate was higher than 1.00, it has started to turn down, which means the number of cases are not accelerating.

**Exhibit 58: Singapore's Covid-19 Weekly Infection Growth Rate**




*Source: Data.gov.sg*

However, Health Minister Ong Ye Kung recently mentioned that the current wave of COVID-19 cases, driven by the XBB strain, is likely to be a short and sharp wave and will likely peak by around mid-November. The proportion of cases with the XBB strain, an Omicron subvariant, has been on the rise in Singapore over the past month. While highly transmissible, it has not caused more severe disease than previous variants thus far. Minister Ong also added that the Ministry of Health (MOH) is closely monitoring the situation. It does not rule out reimposing safe management measures such as mask-wearing but will try its "very best" not to disrupt normal lives. Hence, if the Singapore government were to tighten its SMM and restrict international travel to cope with the spread of the Covid19, this could derail Singapore's economic recovery and negatively impact FHT's financial performance.

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