FPA FINANCIAL
Investment Perspectives

20 September 2021

REAL ESTATE EQUITY RESEARCH

Hotel Properties Limited

SGX: H15
Bloomberg: HPL:SP
ISIN Code: SG2P14002527

RECOMMENDATION: BUY

Current Price: S$3.330
Current Target Price: S$3.672

Issued Shares: 520.97 million
Market Capitalisation: S$1,734.83 million

52 Week Range: S$2.700 - S$3.500

PRICE PERFORMANCE

COMPANY DESCRIPTION

Hotel Properties Limited and its subsidiaries (collectively defined herein as HPL) have principal business activities relating to hotel ownership, management & operation, property development and investment holding.

SUMMARY

For the half-year ended 30 June 2021 (1H2021), HPL reported a 17.2% year-on-year (y-o-y) increase in revenue to S$169.6 million from S$144.8 million, largely due to improved hotel revenue and rental income. Cost of sales increased by 1.6% y-o-y to S$150.8 million as revenue rose. As a result, gross profit amounted to S$18.8 million for the period compared to a loss of S$3.7 million in 1H2020. During the period, administrative expenses fell by 16.0% y-o-y to S$22.9 million while finance costs increased by 1.8% y-o-y to S$16.8 million. Other operating expenses dropped by 90.7% y-o-y to S$3.4 million, mainly due to the absence of S$33.8 million in net fair value losses in investments which were recorded in 1H2020. Meanwhile, a loss of S$18.7 million from share of results of associates & jointly controlled entities was recorded for the period, compared to a profit of S$4.2 million in 1H2020. This was mainly attributable to losses incurred by hotel owning associates & jointly controlled entities due to the impact of Covid-19 and given that residential apartments from Holland Park Villas and Burlington Gate in London were fully sold in 2020. Consequently, HPL reported a net loss attributable to ordinary shareholders of S$29.3 million after adjusting for non-controlling interests and distribution to perpetual capital securities. Accordingly, loss per share amounted to 5.62 cents. No dividend was declared for the period as in 1H2020.

RECOMMENDATION

Based on its reported net asset value (NAV) per share of S$3.26 as at 30 June 2021, HPL is currently trading at P/NAV of 1.02x. We note that HPL's hotels (excluding those held by associates & jointly controlled entities) are classified under Property, Plant & Equipment (PPE) on its balance sheet and recorded at historical cost without revaluation. To adjust the hotels' valuation to reflect current market conditions, we performed a revaluation of several of HPL's hotels classified as PPE. Based on our revaluation, we derived a revalued NAV (RNAV) per share of S$5.48, which would imply a P/NAV of 0.61x at the current share price of S$3.330. This is lower than the P/NAV of 1.02x based on the reported NAV per share of S$3.26. We believe this may suggest that HPL could be undervalued at the current share price. Meanwhile, our peer comparison results show that HPL's P/NAV of 0.61x, based on the RNAV per share of S$5.48, is lower than the peers' average P/NAV of 0.67x. Based on a relative valuation approach, we estimate a target price of S$3.672 if HPL were to trade at the peers' average P/NAV of 0.67x. This estimated target price represents a 10.3% upside from the current share price of S$3.330. We believe that further upside potential is supported by the possibility of a takeover offer for HPL. Given the above, we will maintain a buy recommendation on HPL.

KEY FINANCIALS

Full year ended Dec 31	Revenue (S$ million)	Shareholders' profit (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/NAV (x)
2019 actual	556.4	57.1	9.37	35.54	8.0	2.40	3.82	0.87
2020 actual	258.8	(177.5)	(36.76)	NM	4.0	1.20	3.36	0.99
2021 forecast*	336.3	(35.9)	(8.22)	NM	4.0	1.20	Reported: 3.26 RNAV: 5.48	1.02 0.61
2022 forecast	391.3	12.9	1.14	292.11	8.0	2.40	-	-

P/E, P/NAV and dividend yield figures are computed based on current price of S$3.330. NM: not meaningful
**Reported NAV as at 30 Jun 2021*
Source: HPL, FPA Financial

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FINANCIAL REVIEW FOR 1H2021

(I) Financial performance

For half year ended 30 June 2021 (1H2021), HPL recorded a 17.2% year-on-year (y-o-y) increase in revenue to S$169.6 million from S$144.8 million, largely due to improved hotel revenue and rental income. During the period, hotel revenue rose by 18.6% y-o-y to S$157.4 million, mainly attributable to better performance by HPL's resorts in Maldives. Rental income rose by 14.0% y-o-y to S$11.3 million. Meanwhile, management fee declined by 4.1% y-o-y to S$0.9 million and there were no sale of condominium units at HPL's completed property held for sale in Bangkok, Thailand. The breakdown of HPL's revenue in 1H2020 and 1H2021 are summarised in **Exhibit 1**.

Exhibit 1: Breakdown of HPL's revenue in 1H2020 and 1H2021

	1H2020		1H2021		
Revenue breakdown	**S$'000**	**% of total**	**S$'000**	**% of total**	**y-o-y change**
Hotel revenue	132,722	91.7%	157,438	92.8%	18.6%
Rental income	9,887	6.8%	11,271	6.6%	14.0%
Management fee	966	0.7%	926	0.5%	-4.1%
Sale of completed properties held for sale	1,188	0.8%	-	-	NM
Total	**144,763**	**100.0%**	**169,635**	**100.0%**	**17.2%**

NM: not meaningful

Source: HPL, FPA Financial

In line with higher revenue, cost of sales increased by 1.6% y-o-y to S$150.8 million. Thus, HPL recorded a gross profit of S$18.8 million compared to a loss of S$3.7 million in 1H2020. Other operating income increased to S$25.7 million from S$1.6 million in 1H2020. The increase was mainly due to a net fair gain in investments of S$21.9 million compared to a loss of S$33.8 million a year ago.

During the period, administrative expenses fell by 16.0% y-o-y to S$22.9 million while finance costs increased by 1.8% y-o-y to S$16.8 million. Other operating expenses dropped by 90.7% y-o-y to S$3.4 million, mainly due to the absence of S$33.8 million in net fair value losses in investments which were recorded in 1H2020.

Meanwhile, a loss of S$18.7 million from share of results of associates & jointly controlled entities was recorded for the period, compared to a profit of S$4.2 million in 1H2020. This was mainly attributable to losses incurred by hotel owning associates & jointly controlled entities due to the impact of Covid-19 and given that residential apartments from HPL's Holland Park Villas and Burlington Gate developments in London were fully sold in 2020.

As a result, HPL recorded a loss before income tax of S$17.2 million for the period, compared to a loss of S$77.8 million in 1H2020. After accounting for income tax expense of S$1.8 million, the after-tax loss amounted to S$19.1 million. This comprised a net loss of S$22.3 million attributable to shareholders and profit of S$3.2 million attributable to non-controlling interest.

During the period, a provision of S$7.0 million was made for distribution to perpetual capital securities holders. Deducting this amount from net loss attributable to shareholders of S$22.3 million yielded a net loss attributable to ordinary shareholders of S$29.3 million. Accordingly, a loss per share of 5.62 cents was recorded for the period. No dividend was declared for the period as in 1H2020.

HPL's financial results for 1H2020 and 1H2021 are summarised in **Exhibit 2** on the next page.

Exhibit 2: HPL's financial results for 1H2020 and 1H2021

[S$'000]	1H2020	1H2021	Change (%)
Revenue	144,763	169,635	17.2%
Cost of sales	(148,436)	(150,834)	1.6%
Gross profit/(loss)	(3,673)	18,801	NM
Other operating income	1,588	25,711	>100%
Administrative expenses	(27,275)	(22,902)	-16.0%
Other operating expenses	(36,193)	(3,363)	-90.7%
Finance costs	(16,480)	(16,776)	1.8%
Share of results of associates and jointly controlled entities	4,229	(18,696)	NM
Loss before income tax	(77,804)	(17,225)	-77.9%
Income tax expense	(1,178)	(1,838)	56.0%
Loss after income tax	**(78,982)**	**(19,063)**	**-75.9%**
Attributable to:			
Shareholders of the Company	**(71,773)**	**(22,305)**	**-68.9%**
Non-controlling interests	(7,209)	3,242	NM
	(78,982)	(19,063)	-75.9%
Net loss attributable to shareholders	(71,773)	(22,305)	-68.9%
Distribution to perpetual capital securities holders	(6,987)	(6,969)	-0.3%
Net loss attributable to ordinary shareholders	(78,760)	(29,274)	-62.8%
Weighted average no. of ordinary shares in issue ('000)	521,010	521,010	NM
EPS (cents)	**(15.12)**	**(5.62)**	**-62.8%**

NM: not meaningful

Source: HPL, FPA Financial

(II) Capital management

HPL reported total assets of S$3,492.6 million as at 30 June 2021 as compared to S$3,388.2 million as at 31 December 2020. The increase in total assets was mainly due to an increase in associates & jointly controlled entities, investments relating to financial assets and property, plant & equipment (PPE).

Associates & jointly controlled entities increased by S$75.0 million to S$671.1 million, mainly due to additional investments. Meanwhile, investments relating to financial assets increased by S$42.5 million to S$254.3 million, mainly due to net fair value gain and acquisition. PPE increased by S$30.7 million to S$1,595.7 million, mainly given that HPL had in 1H2021 acquired assets amounting to approximately S$64.1 million and disposed of assets with net book value amounting to approximately S$0.3 million. As at June 30, 2021, commitments for purchase of PPE contracted but not provided for amounted to approximately S$22.3 million.

Meanwhile, total liabilities amounted to S$1,395.1 million as at 30 June 2021 as compared to S$1,240.4 million as at 31 December 2020. This was mainly due to a S$258.9 million increase in long-term borrowings to S$1,122.5 million. In particular, we note that HPL had in May 2021 issued S$125,000,000 in aggregate principal amount of 3.75% notes which will be due in 2028.

As a result, HPL reported total equity of S$2,097.4 million as at 30 June 2021 compared with S$2,147.8 million as at 31 December 2020. This comprised S$2,005.2 million in equity attributable to shareholders and S$92.2 million in non-controlling interests.

As at 30 June 2021, the balance amount of perpetual capital securities on HPL's balance sheet was S$308.0 million. Excluding these perpetual capital securities, net assets attributable to ordinary equity holders was S$1,697.2 million as at 30 June 2021. This translates to a net asset value (NAV) per share of S$3.26, based on 520.97 million issued shares (excluding treasury shares). A summary of HPL's balance sheet as at 31 December 2020 and 30 June 20201 is shown in **Exhibit 3**.

Exhibit 3: Summary of HPL's balance sheet as at 31 Dec 2020 and 30 Jun 2021

[S$'000]	As at 31-Dec-20	As at 30-Jun-21
Total assets	3,388,229	3,492,560
Less: total liabilities	(1,240,419)	(1,395,146)
Total equity	2,147,810	2,097,414
Equity attributable to shareholders	2,060,149	2,005,166
Non-controlling interests	87,661	92,248
	2,147,810	2,097,414
Equity attributable to shareholders	2,060,149	2,005,166
Less: perpetual capital securities	(307,966)	(307,966)
Equity attributable to ordinary shareholders	1,752,183	1,697,200
No. of issued ordinary shares ('000)	520,975	520,975
NAV per share (S$)	3.36	3.26

Source: HPL, FPA Financial

As at 30 June 2021, HPL's total debt of S$1,183.4 million comprised of short-term and long-term borrowings of S$60.9 million and S$1,122.5 million respectively. Accordingly, the debt-to-equity ratio stood at approximately 0.56 time as at 30 June 2021, as shown in **Exhibit 4**.

Exhibit 4: Total borrowings and debt-to-equity ratio as at 31 Dec 2020 and 30 Jun 2021

[S$'000]	As at 31-Dec-20	As at 30-Jun-21
Short-term borrowings	150,348	60,911
Long-term borrowings	863,569	1,122,459
Total borrowings	1,013,917	1,183,370
Debt-to-equity ratio (x) (1)	0.47	0.56

(1) As measured by total borrowings over total equity

Source: HPL, FPA Financial

Based on the results in **Exhibit 4** above, we note that the HPL's leverage has increased as suggested by a higher debt-to-equity ratio as at 30 June 2021. Nonetheless, we note that HPL has been expanding its hotel division through new acquisitions, with the most recent being the acquisition of a new hotel in Croatia in August 2021. Looking beyond the impact of Covid-19, this could confer future benefits in the form of potential earnings growth and strengthen HPL's financial position.

OPERATIONAL UPDATE

Since our initiation report on 22 December 2020, there have been some updated developments within HPL's Hotel Division and Property Division. We will now provide an operational update on these developments.

(I) Hotel Division

As of 31 December 2020, the portfolio of HPL's Hotel Division comprised 38 hotels and resorts which span over 15 countries. HPL's hotels are operated under renowned hospitality brands such as COMO Hotels & Resorts, Four Seasons Hotels & Resorts, Hard Rock Hotels, Hilton International, InterContinental Hotels Group, Marriott International, Six Senses Hotels & Resorts and Concorde Hotels.

<u>New hotel acquisitions in year-to-date 2021</u>

In May 2021, HPL expanded its exposure in the Maldives through the acquisition of a 5-star resort, Kanuhura Maldives, located in the northeastern portion of the Lhaviyani Atoll. Through its 70%-owned subsidiary, Leisure Oceans Private Limited, HPL acquired the 80-villa resort from Mauritius-based hotel company Sun Limited for US$41.5 million, equivalent to US$518,750 per key.

More recently, in August 2021, HPL announced its investment in a joint venture which would expand its hotel portfolio into Croatia. Through its wholly-owned subsidiary HPL (Croatia) Limited, HPL had acquired a 50% stake in Croatian-incorporated company Avenue Ulaganja for approximately S$5.6 million.

As disclosed in HPL's announcement, Avenue Ulaganja has entered into a project agreement with the Republic of Croatia to develop a site for provision of tourist services in newly constructed facilities. The site is located in Kupari, just south of Dubrovnik, Croatia, and consists of about 13.12 hectares of land and 8.6 hectares of maritime domain. The site has a leasehold tenure of 99 years which is expected to commence from 2022, subject to fulfilment of certain conditions. Work is in progress for the design/approval and subsequent development of a 150-key hotel, spa facilities, plus apartments and villas on a beach front location. Avenue Ulaganja has also entered into both hotel management and residence agreements with Four Seasons Hotels & Resorts.

<u>Rebranding of hotels</u>

Hilton Singapore, HPL's landmark hotel in the Orchard Road area, will be rebranded as a voco hotel under the premium brand, voco, by IHG Hotels & Resorts (IHG). The 423-room voco Orchard Singapore is expected to commence operations in January 2022 and will be the first voco hotel to open in South-East Asia. We note from the Business Times that Hilton's management contract with HPL for the Hilton Singapore will end in December 2021.

The voco Orchard Singapore will be the 5th property in HPL's hotel portfolio managed under IHG. Currently, HPL's hotels managed under IHG brands include Holiday Inn Resort Kadooma Maldives, InterContinental Maldives Maamunagau Resort and Six Senses Laamu in the Maldives as well as Holiday Inn Resort Vanuatu in Vanuatu.

The details of the hotels in HPL's Hotel Division portfolio are summarised in **Exhibit 5** on the next page.

Exhibit 5: Portfolio of HPL's Hotel Division

Country	Name of hotel/resort	No. of rooms/villas	Effective interest	Tenure (4)
Bhutan	UMA by COMO, Paro	29	-	-
	UMA by COMO, Punakha	11	-	-
Indonesia	Four Seasons Private Estates at Jimbaran Bay (1) (2)	9	100%	Leasehold
	Four Seasons Resort Bali at Jimbaran Bay (1) (2)	147	93.3%	Leasehold
	Four Seasons Resort Bali at Sayan (1) (2)	60	100%	Leasehold
	Hard Rock Hotel Bali (1) (2)	418	100%	Leasehold
Italy	Alpina Dolomites (3)	56	72%	-
	COMO Castello Del Nero (3)	50	50%	-
Malaysia	Casa del Mar Langkawi	34	-	-
	Concorde Hotel Kuala Lumpur	581	-	-
	Concorde Hotel Shah Alam	381	-	-
	Four Seasons Resort Langkawi (3)	91	50%	-
	Hard Rock Hotel Penang (1) (3)	250	100%	Freehold
	The Lakehouse Cameron Highlands (1) (2)	19	100%	Leasehold
Maldives	Four Seasons Maldives Private Island at Voavah (1)	7	-	Leasehold
	Four Seasons Resort Maldives at Kuda Huraa (1) (2)	96	70%	Leasehold
	Four Seasons Resort Maldives at Landaa Giraavaru (1) (2)	103	70%	Leasehold
	Gili Lankanfushi	45	-	-
	Holiday Inn Resort Kadooma Maldives (1) (2)	160	70%	Leasehold
	InterContinental Maldives Maamunagau Resort (3)	81	70%	-
	Kanuhura Maldives (3)	80	70%	Leasehold
	Six Senses Laamu (1) (2)	97	70%	Leasehold
Seychelles	Four Seasons Resort Seychelles	67	-	-
	Four Seasons Seychelles at Desroches Island	71	-	-
Singapore	Concorde Hotel Singapore (1) (2)	407	100%	Leasehold
	Four Seasons Hotel Singapore (1) (2)	255	100%	Freehold
	Hilton Hotel Singapore (1) (2)	421	100%	Freehold
South Africa	Four Seasons Hotel The Westcliff, Johannesburg	117	-	-
Sri Lanka	Weligama Bay Marriot Resort & Spa (3)	198	100%	-
Tanzania	Four Seasons Safari Lodge Serengeti (3)	77	70%	-
Thailand	Hard Rock Hotel Pattaya (1) (2)	323	100%	Freehold
	Metropolitan by COMO, Bangkok (1) (2)	169	100%	Freehold
	Point Yamu by COMO, Phuket	106	-	-
	The Boathouse, Phuket (1) (3)	39	74%	Freehold
United Kingdom	DoubleTree by Hilton Hotel London - Ealing (3)	189	70%	-
	Hilton London Olympia (3)	405	80%	-
United States	Concorde Hotel New York (1) (2)	123	100%	Freehold
Vanuatu	Holiday Inn Resort Vanuatu (1) (3)	148	100%	Leasehold
Vietnam	Four Seasons Resort The Nam Hai, Hoi An (3)	100	50%	-

Information for sections annotated with a dash are undisclosed and could not be appropriately estimated

(1) Assets classified under PPE on the Group's balance sheet as last disclosed in HPL's 2017 annual report

(2) Effective interest as disclosed in HPL's takeover circular in 2014

(3) Effective interest as estimated by FPA

(4) Details of tenure as last disclosed in HPL's 2017 annual report

Source: HPL, respective hotel websites, FPA Financial

(II) Property Division

Under its Property Division, HPL's current business operations cover the geographical markets of Singapore, Thailand and the United Kingdom (UK).

(i) Singapore

In Singapore, units at HPL's Tomlinson heights residential development were fully sold in 2018. There are currently no completed properties held for sale in Singapore.

Meanwhile, HPL owns both office and retail units at Forum The Shopping Mall and HPL House, and retail units at Concorde Shopping Mall and Ming Arcade. The valuation of these assets, which are held under investment properties, was S$710.8 million as at 31 December 2020. The details of HPL's investment properties are summarized in **Exhibit 6**.

Exhibit 6: HPL's investment properties

Property	Tenure	Valuation (1)	Effective interest
7 shop units at 21 Cuscaden Road, Ming Arcade	Freehold	S$26.1m	100%
Office and shop units at 50 Cuscaden Road (HPL House)	Freehold	S$114.0m	100%
Office and shop units at 583 Orchard Road (Forum The Shopping Mall)	Freehold	S$410.0m	100%
64 shop units at 100 Orchard Road, Concorde Shopping Mall	99-year leasehold	S$160.7m	100%
	-	S$710.8m	-

(1) Valuation as at 31 Dec 2020

Source: HPL

(ii) Thailand

In Bangkok, there are still units offered for sale at HPL's condominium development, The Met. As of 31 December 2020, there were 9 units left unsold and held as completed properties held for sale. We note that there have been no unit sales during the first half of 2021, which leaves the remaining units unchanged as of 30 June 2021. The details of HPL's completed properties held for sale are summarised in **Exhibit 7**.

Exhibit 7: HPL's completed properties held for sale

Location	Description	Title
The Met, 125 South Sathorn Road, Bangkok, Thailand	9 condominium units with an aggregate floor area of approximately 20,969 square feet	Freehold

Source: HPL

(iii) UK

In London, the remaining units at HPL's Burlington Gate and Holland Park Villa luxury residential developments were fully sold in 2020. Meanwhile, HPL's London mixed-use projects, Bankside Yards and Paddington Square, are currently in the development stages.

Bankside Yards

Bankside Yards is a 5.5-acre riverside development on the South Bank of the Thames in Central London. The development will create a new neighbourhood for the area and reconnect the space between the Tate Modern Gallery and Blackfriars station. It will deliver high quality residential apartments, a premium commercial office building, a retail hub, a luxury hotel and 3.3 acres of new public open space around fourteen historic railway arches which will include cultural and wellbeing areas.

For Bankside Yards West, we note from HPL that the western half of the site is being progressively developed first, with all the groundworks and the southern half of the basement being completed during 2020. Construction of the premium commercial office building with the steel frame up to level 17, is on time and expected to be delivered in the second half of 2022. Design works continue to be refined for the two residential towers. Marketing and pre-leasing activities are ongoing for the office building.

For Bankside Yards East, the objective of achieving a significantly enhanced planning consent for the East side was fully realized in 2020. The site now includes consent for a luxury 5-star hotel, three residential apartment buildings and a further commercial office building. Work is ongoing to optimise designs and sign up an internationally recognised hotel operator.

Paddington Square

Paddington Square is a mixed-use development comprising commercial office, retail and leisure components. It will provide 350,000 square feet of light-filled, high tech headquartered office space with 80,000 square feet of curated leisure & retail offerings. A new public piazza will be connected to the project, and West London's highest rooftop bar and restaurant is planned with stunning views across the City skyline and Hyde Park.

We note from HPL that the groundworks and basement as well as the concrete core of the main building were completed during 2020, with the core reaching the top at level 18. During the year, the main contractor was appointed to take on the balance of the works and the steelwork had reached level 6 by year end.

To address the COVID-19 pandemic, the program was re-sequenced and mitigation measures introduced to ensure no delays in reaching practical completion during the second half of 2022.

INDUSTRY OVERVIEW

We will focus our industry review on the specific geographical segments of Singapore and Maldives which have a substantial impact on HPL's revenue. Historically, these two segments combined contribute to more than two-thirds of HPL's revenue, as shown in **Exhibit 8**. Specifically, we will provide a review of the hotel market in these two countries.

Exhibit 8: Historical revenue breakdown based on geographical segment

	2018		2019		2020	
Geographical segment	**S$'000**	**% of total**	**S$'000**	**% of total**	**S$'000**	**% of total**
Singapore	230,148	39.7%	188,310	33.8%	90,345	34.9%
The Maldives	187,173	32.3%	186,610	33.5%	111,976	43.3%
Sub-total	417,321	72.0%	374,920	67.4%	202,321	78.2%
The rest of Asia	139,399	24.1%	157,382	28.3%	47,663	18.4%
UK and Europe	603	0.1%	598	0.1%	642	0.2%
Others (1)	22,150	3.8%	23,459	4.2%	8,134	3.1%
Total	**579,473**	**100.0%**	**556,359**	**100.0%**	**258,760**	**100.0%**

(1) Others consist of mainly US, Australasia and Africa

Source: HPL, FPA Financial

Hotel market review

Singapore

Amid the challenging Covid-19 environment, overall hotel performance in Singapore remained weak in the first 7 months of 2021 (Jan-Jul 2021), as reflected by latest data from the Singapore Tourism Board (STB). During the period, the average occupancy level (AOR) across gazetted hotels stood at 47.6%, 8.0 percentage points lower than the same period a year ago. Meanwhile, the average room rate (ARR) registered S$154.46, down by 2.4% year-on-year (y-o-y). Overall, revenue per available room (RevPAR) over the 7-month period was S$73.56, a 16.4% decline from a year ago, as shown in **Exhibit 9**.

Exhibit 9: Performance comparison of key hotel indicators in Jan-Jul 2020 and Jan-Jul 2021

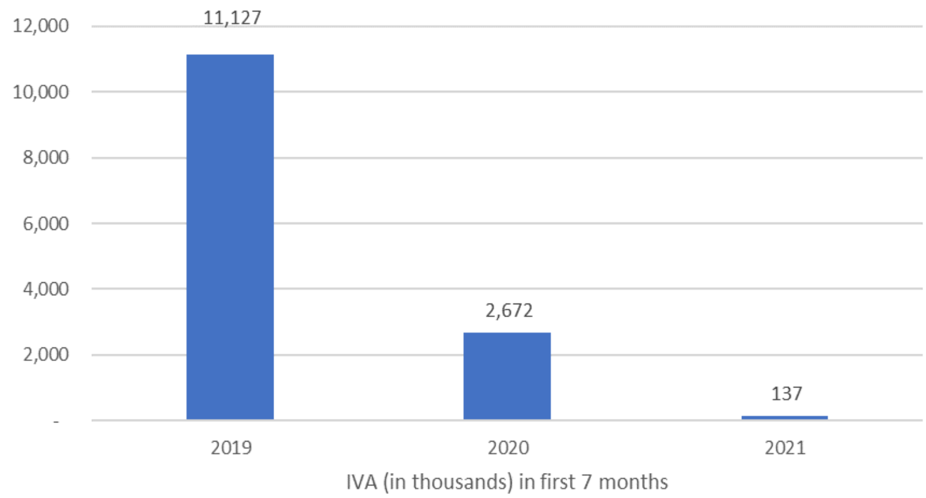
Performance indicator	Jan-Jul 2020	Jan-Jul 2021	y-o-y change
AOR (%)	55.6%	47.6%	-8.0% points
ARR (S$)	158.30	154.46	-2.4%
RevPAR (S$)	87.98	73.56	-16.4%

Source: STB

By hotel tier segment, the Luxury and Upscale segments recorded an average RevPAR growth of 1.2% y-o-y and 0.6% y-o-y respectively in Jan-Jul 2021. This could probably be due to staycations, during which people are more likely to opt to stay in higher-end hotels. In contrast, the lower tier segments continued to feel the brunt of the Covid-19 pandemic, given limited demand from budget travellers amid tight border measures. During the period, the Mid-tier and Economy segments recorded an annual average RevPAR decline of 30.5% and 39.7% respectively.

Looking at tourism statistics, Singapore continued to receive subdued number of visitor arrivals during Jan-Jul 2021 amid strict border controls. During the period, international tourist arrivals (IVA) totaled 137,181, a 94.9% drop from 2.7 million a year ago, according to STB data, as shown in **Exhibit 10**. Relative to pre-Covid times, IVA in the period was only 1.2% of the 11.1 million visitor arrivals recorded during Jan-Jul 2019.

Exhibit 10: International visitor arrivals in first 7 months (in thousands)



Source: STB, FPA Financial

Nevertheless, the national vaccination rate has steadily risen and has exceeded the 80% target as at time of writing. The Singapore government recently in August 2021 announced that border restrictions would be eased in a calibrated manner. Vaccinated Travel Lanes (VTLs) have been launched to allow vaccinated travellers from Germany and Brunei to enter Singapore. Travel restrictions have also been lifted for inbound travellers from Hong Kong and Macau, where short-term visitors from both cities will be able to enter Singapore without serving SHN, regardless of vaccination status. Against this backdrop, we could expect IVA numbers to pick up in Q4 2021 given the recent border reopening measures. This should help to support a gradual recovery in tourism-led hotel demand in Singapore.

However, the main concern would be ongoing virus uncertainty. As it stands, many parts of Asia, including Singapore's top tourism markets like China, Indonesia and India, are experiencing rising Covid-19 cases relating to the spread of the Delta variant. Similarly, other parts of the world like the United States (US) and Europe are also dealing with this virus strain. As the success of travel bubble arrangements or VTLs would be largely dependent on the external Covid-19 environment, this may limit the scope for such initiatives to be implemented. Meanwhile, the domestic situation has also deteriorated recently, given the formation of new virus clusters and surging infection cases following the easing of measures.

Considering the above, we do not expect to see a significant improvement in overall hotel performance in the next few months. Nevertheless, looking further ahead into 2022, a stronger hotel market recovery could be possible as countries globally achieve higher vaccination rates and international travel recovers. Domestically, the potential for a successful transition into an endemic Covid-19 environment could also support a recovery in domestic tourism, and in turn hotel demand.

Maldives

In its latest August 2021 hotel report on the Maldives, HVS noted that the Maldives recorded its worst performance in terms of occupancy in the last five years during 2020, as a result of travel disruptions caused by the COVID 19 pandemic. Marketwide occupancy declined by 33.7 percentage points (pps) while average room rate (ARR) increased by 44.3%. Overall, RevPAR decreased by 29.8%, the sharpest decline over the past four years.

Nevertheless, HVS highlighted that the Maldives has managed to achieve an abnormally high ARR in 2020 due to resort closures and the selling of higher room categories when travel restrictions were introduced globally. With the high ARR, the Maldives has managed to bolster its RevPAR in 2020. This may also be a result of Maldives' Ministry of Trade's (MOT) marketing effort to capitalise on the "one island one resort" concept to incentivise tourist arrivals into the nation. HVS added that the Maldives has by far imposed one of the most relaxed travel regulations for international visitors. In turn, the destination has recorded a strong increase in visitor arrivals since the reopening of its borders in mid-July 2020, albeit at a lower number than before.

On the outlook, HVS believes that with many countries still implementing travel restrictions to control the spread of the coronavirus, the demand for tourism in the Maldives is likely to remain subdued in the short term due to the lack of international visitor arrivals. Nevertheless, the Maldives government has established one of the most relaxed regulations on international visitors in 2020. Further, the MOT has also launched several marketing campaigns to emphasise the safety and unique selling points of the destination. Moving forward, HVS highlighted that the demand generation for the Maldives will be supported by the newly built airports and airport expansions. In the mid to long term, several tourism and national development plans have been put in place to ensure that the Maldives is set on the road to strong recovery when the economic situation improves.

Meanwhile, in terms of supply pipeline, HVS noted that there is an additional 20 resorts in the pipeline that will be opened by 2025. This is anticipated to add 2,763 rooms to the market. HVS believes that the hotel market in the Maldives is expected to remain competitive over the next few years as upscale and midscale properties continue to expand their footprint in the market.

SHARE PRICE PERFORMANCE REVIEW

Since our initiation report issued on 22 December 2020, when HPL's share price closed at S$3.020, we note that the share price has climbed higher and reached a closing high of S$3.500 on 9 April 2021. Year-to-date, the share price has risen by approximately 9% to the latest closing of S$3.330.

In terms of insider trades, we note that there have been no share transactions by any member of HPL's Board of Directors. As at 18 March 2021, HPL's substantial shareholder, Mr Ong Beng Seng, held a total interest of 60.51%, which comprised of a direct interest of 21.08% and a deemed interest of 39.43%.

Previously, we highlighted the potential of a new takeover offer of HPL by party acting in concert comprising of Mr. Ong and his spouse and Nassim Developments Pte Ltd which owns a 22.52% direct interest in HPL as at 18 March 2021. Then, we estimated an acquisition cost of S$3.93 per share for HPL to be taken private. We also highlighted that it could be a good opportunity for the parties acting in concert to kickstart a potential redevelopment project to form an integrated complex comprising of commercial, hotel, residential and retail elements that would incorporate latest technology to meet the requirements of tech savvy occupiers and health care requirements due to Covid-19.

While there have been no announcements regarding a privatization offer thus far, we believe that there could still be a possibility for a takeover in the future.

FINANCIAL PROJECTION

In this section, we will provide our projections for HPL's revenue, earnings and dividends.

(I) Revenue projection

To derive an overall revenue projection for 2H2021 and 2022, we will project revenue for the individual geographical segments. With reference to **Exhibit 11**, we note that the segments of Singapore, Maldives and the rest of Asia (ROA) combined contribute over 95% of HPL's revenue in the last few years.

Exhibit 11: Historical revenue breakdown based on geographical segment

	2018		2019		2020		1H2021	
Geographical segment	**S$'000**	**% of total**	**S$'000**	**% of total**	**S$'000**	**% of total**	**S$'000**	**% of total**
Singapore	230,148	39.7%	188,310	33.8%	90,345	34.9%	59,227	34.9%
The Maldives	187,173	32.3%	186,610	33.5%	111,976	43.3%	73,408	43.3%
The rest of Asia	139,399	24.1%	157,382	28.3%	47,663	18.4%	31,246	18.4%
Sub-total	556,720	96.1%	532,302	95.7%	249,984	96.6%	163,882	96.6%
UK and Europe	603	0.1%	598	0.1%	642	0.2%	421	0.2%
Others (1)	22,150	3.8%	23,459	4.2%	8,134	3.1%	5,332	3.1%
Total	**579,473**	**100.0%**	**556,359**	**100.0%**	**258,760**	**100.0%**	**169,635**	**100.0%**

(1) Others consist of mainly US, Australasia and Africa

Source: HPL, FPA Financial

Given no disclosure on the geographical revenue breakdown for 1H2021, we would assume the respective revenue proportioning for the individual segments in 2020 as a proxy to estimate the breakdown for 1H2020, 2H2020 and 1H2021, as shown in **Exhibit 12**. In our projection herein, we would be assuming these estimated revenue figures.

Exhibit 12: Geographical revenue breakdown for 1H2020, 2H2020 and 1H2021

	1H2020		2H2020		1H2021	
Geographical segment	**S$'000**	**% of total**	**S$'000**	**% of total**	**S$'000**	**% of total**
Singapore	50,543	34.9%	39,802	34.9%	90,345	34.9%
The Maldives	62,645	43.3%	49,331	43.3%	111,976	43.3%
The rest of Asia	26,665	18.4%	20,998	18.4%	47,663	18.4%
Sub-total	139,853	96.6%	110,131	96.6%	249,984	96.6%
UK and Europe	359	0.2%	283	0.2%	642	0.2%
Others (1)	4,551	3.1%	3,583	3.1%	8,134	3.1%
Total	**144,763**	**100.0%**	**113,997**	**100.0%**	**169,635**	**100.0%**

Figures are estimated based on actual revenue for the respective periods

(1) Others consist of mainly US, Australasia and Africa

Source: HPL, FPA Financial

Singapore

Revenue for the Singapore segment would be largely derived from income generated from hotel operations at HPL's 3 hotels in Singapore.

Focusing on the Singapore hotel market, the need for Government Quarantine Facilities and Stay-Home Notice (SHN) dedicated facilities should continue to support domestic hotel demand in the coming months. Another potential driver would be staycation demand given the recent easing of measures for fully vaccinated individuals. Hotels in the Luxury and Upscale segments are more well-positioned to benefit from this as people may be more inclined to select high-end options for staycations. Meanwhile, the outlook for tourism-led demand is improving as Singapore gradually reopens its borders. Economy and Mid-tier hotels should see a moderate improvement in performance as budget travellers' demand improves, given the recent border easing measures.

However, the impact of ongoing virus uncertainty leads us to believe that we are unlikely to see any significant improvement in overall hotel performance in the next few months. As countries globally continue to deal with virus resurgences due to the spread of the Delta variant, we could expect limited effectiveness of recent border easing measures like VTLs in the near term. Furthermore, the domestic situation has also deteriorated recently, given the formation of new virus clusters and surging infection cases following the easing of measures.

Nevertheless, looking further ahead into 2022, a stronger hotel market recovery could be possible as countries globally achieve higher vaccination rates and international travel recovers. This will provide greater scope for border reopening, and thereby supporting a more meaningful rebound in visitor arrivals. Consequently, a stronger inflow of budget travellers will help to uplift performance of hotels catered for affordability. In addition, a gradual return of business travel as well as meetings, incentives, conferencing, and exhibitions (MICE) tourism could support an increase in demand for luxury hotels. Domestically, the potential for a successful transition into an endemic Covid-19 environment could also support a recovery in domestic tourism, and in turn hotel demand.

Having considered the above and given the improved outlook of the Singapore hotel market for 2H2021 compared to 2H2020, we would assume a 50% y-o-y increase in Singapore segment revenue in 2H2021 to S$59.7 million = [150% x S$39.8 million]. This projected figure would be higher than S$59.2 million generated in 1H2021, which could be supported by recent border easing measures. Nonetheless, the increase is relatively marginal, and we believe this would be justified by the current weakened virus situation which could dampen the recovery in domestic tourism. Accordingly, the projected Singapore segment revenue for full-year 2021 would be S$118.9 million, as shown in **Exhibit 13**.

Largely in anticipation of a potential stabilization of the global Covid-19 situation and improved international travel, we would assume a 15% y-o-y increase in revenue for 2022 to S$136.8 million = [115% x S$118.9 million in projected revenue for 2021], as shown in **Exhibit 13**.

Exhibit 13: Projected revenue for the Singapore segment in 2021 and 2022

	Actual [1]			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Singapore segment revenue	50,543	39,802	59,227	59,702	118,930	136,769

(1) Estimated based on actual revenue for the respective periods

Source: FPA Financial

Maldives

Revenue for the Maldives segment would be largely derived from income generated from hotel operations from HPL's resorts in the Maldives. As noted on page 3, the rebound in hotel revenue performance in 1H2021 was mainly due to better performance by the Maldives resorts. Barring unforeseen circumstances, HPL expects its resorts in Maldives to continue to contribute positively to its operating cashflow in the second half of the year.

On the outlook of the Maldives hotel market, we note that demand for tourism is likely to remain subdued in the short term due to the lack of international visitor arrivals. Nevertheless, the Maldives government has by far imposed one of the most relaxed travel regulations for international visitors. In turn, the destination has recorded a strong increase in visitor arrivals since the reopening of its borders in mid-July 2020.

Moving forward, newly built airports and airport expansions would help to support demand. In the mid to long term, several tourism and national development plans have been put in place to ensure that Maldives is set on the road to strong recovery when the economic situation improves. Moreover, Maldives has a strong reputation of being a prominent beach destination in Asia Pacific, serving as an attractive destination for family vacations, honeymoons and diving activities.

Meanwhile, there is a strong pipeline of hotel rooms which is expected to add more than 2,700 rooms to the market by 2025. The hotel market in the Maldives is expected to remain competitive over the next few years as upscale and midscale properties continue to expand their footprint in the market.

Considering the above, we would expect a strong rebound in hotel revenue performance for HPL's Maldives resorts in 2H2021 compared to 2H2020. We would thus assume a 50% y-o-y increase in Maldives segment revenue for 2H2021 to S$74.0 million = [150% x S$49.3 million]. This projected figure is closely in line with the revenue generated in 1H2021. We believe this may be warranted given that hotel performance may not improve significantly as countries globally tackle the issue of the Delta variant. Accordingly, the projected Maldives segment revenue for full-year 2021 would be S$147.4 million, as shown in **Exhibit 14**.

On the back of a more positive outlook for international travel in 2022, we would assume a 20% y-o-y increase in revenue for 2022 to S$176.9 million = [120% x S$147.4 million in projected revenue for 2021], as shown in **Exhibit 14**. This accounts for a stronger recovery in the Maldives compared to Singapore, in anticipation of a quicker recovery in tourism for the Maldives.

Exhibit 14: Projected revenue for the Maldives segment in 2021 and 2022

	Actual (1)			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Maldives segment revenue	62,645	49,331	73,408	73,997	147,405	176,886

(1) Estimated based on actual revenue for the respective periods
Source: FPA Financial

Rest of Asia

Revenue for the ROA segment would be derived from income generated from hotel operations from HPL's resorts in countries like Indonesia, Malaysia, Thailand and Vietnam.

For the Bali hotel market where most of HPL's hotels are located, we note from Colliers Indonesia's July 2021 report that the lack of domestic and international tourists visiting Bali greatly affects the performance of hotels. Stay packages and discounts are still being offered by hoteliers to attract tourists. Although it is still far from the performance in 2019, the performance in 2021 has improved. However, maintaining this positive trend is particularly challenging, especially because the spread of the pandemic has not been controlled. This has become challenging with the increasing number of cases of COVID-19 in Indonesia. Meanwhile, we note that the Business Times recently cited remarks by the Chairman of HPL Hotels & Resorts, Stephen Lau, which could suggest an improved outlook for Indonesia. Mr. Lau believes that Indonesia is in a good position to benefit from a resumption in tourism travel as vaccination levels go up and as countries come up with ways to achieve a new normal. Meanwhile, in Thailand, we note that Bangkok is pressing ahead with plans to reopen to fully vaccinated international travellers on October 15. The gradual return of tourists should support a recovery in hotel demand. Further, tourism activity is also expected to rise in Phuket with the implementation of the Sandbox initiative.

Given the above, we would assume a 30% y-o-y increase in revenue for the ROA segment in 2H2021 to S$27.3 million = [130% x S$21.0 million]. We expect the revenue recovery in the ROA segment to lag the Singapore and Maldives segments, largely in view of weaker performance expected for HPL's hotels in Malaysia given the heightened Covid-19 situation. Accordingly, the projected ROA segment revenue for full-year 2021 would be S$58.5 million, as shown in **Exhibit 15**. For 2022, we would assume a 10% y-o-y increase in revenue for 2022 to S$64.4 million = [110% x S$58.5 million in projected revenue for 2021], as shown in **Exhibit 15**.

Exhibit 15: Projected revenue for the ROA segment in 2021 and 2022

	Actual (1)			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
ROA segment revenue	26,665	20,998	31,246	27,297	58,544	64,398

(1) Estimated based on actual revenue for the respective periods
Source: FPA Financial

Total revenue projection

Given the projections for the Singapore, Maldives and ROA segments, the combined projected revenue for the 3 segments in 2021 and 2022 would be S$324.9 million and S$378.1 million respectively, as shown in **Exhibit 16**. Assuming the same revenue proportioning of 96.6% for combined revenue of these segments as did for 1H2021, we would derive a projected total revenue of S$336.3 million and S$391.3 million for 2021 and 2022 respectively, after rebasing to 100%.

Exhibit 16: Projected total revenue for 2021 and 2022

	2021 forecast		2022 forecast	
Geographical segment	**S$'000**	**% of total**	**S$'000**	**% of total**
Singapore	118,930	34.9%	136,769	34.9%
The Maldives	147,405	43.3%	176,886	43.3%
The rest of Asia	58,544	18.4%	64,398	18.4%
Sub-total	324,878	96.6%	378,053	96.6%
UK and Europe	834	0.2%	971	0.2%
Others (1)	10,571	3.1%	12,301	3.1%
Total	**336,283**	**100.0%**	**391,325**	**100.0%**

(1) Others consist of mainly US, Australasia and Africa

Source: FPA Financial

(II) Earnings projection

Given our projected revenue figures for 2021 and 2022, we now estimate the HPL's earnings for these periods.

Gross profit

To estimate gross profit, we will consider HPL's historical gross margin. With reference to **Exhibit 17**, we note that gross margin has remained relatively stable over the period from 2016 to 2019. However, a negative gross margin was recorded for 2020 amid the severe impact of the Covid-19 pandemic. During 1H2021, the gross margin stood at 11.1%, reflecting the continued negative impact

Exhibit 17: Historical gross margin

[S$'000]	2016	2017	2018	2019	2020	1H2021
Revenue	577,616	659,160	579,473	556,359	258,760	169,635
Gross profit	141,481	169,560	148,804	137,714	(272,647)	18,801
Gross margin (%)	24.5%	25.7%	25.7%	24.8%	NM	11.1%

NM: not meaningful
Source: HPL, FPA Financial

In our projection, we would assume the same gross margin of 11.1% for 2H2021 as in 1H2021, given that cost-saving efforts may be offset by the continued negative impact of Covid-19 on revenue performance. Accordingly, the projected gross margin for full-year 2021 would be 11.1%, as shown in **Exhibit 18**. In anticipation of a recovery in the global Covid-19 backdrop and international travel in 2022, we would assume an improvement in gross margin to 24.8% as recorded in 2019. Thus, this would imply a projected gross profit of S$37.7 million and S$97.8 million for 2021 and 2022 respectively, as shown in **Exhibit 18**.

Exhibit 18: Projected gross margin and gross profit for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Revenue	336,283	391,325
Gross profit	37,327	97,049
Gross margin (%)	11.1%	24.8%

Source: FPA Financial

Other operating income

During 1H2021, other operating income increased to S$25.7 million from S$1.6 million in 1H2020. The increase was mainly due to a net fair gain in investments of S$21.9 million compared to a loss of S$33.8 million recorded in 1H2020 (this will be discussed in the 'other operating expenses' section on page 21).

For 2H2021, we would adopt a conservative approach to assume no fair value gain in relation to held-for-trading investments and investments. We would also assume the same amount of dividend income, interest income and others in 1H2021 for 2H2021. We would further make these assumptions for 2022.

Given the above, the projected other operating income for 2021 and 2022 would be S$28.8 million and S$6.2 million respectively, as shown in **Exhibit 19** on the next page.

Exhibit 19: Projected other operating income for 2021 and 2022

	Actual		Forecast		
Breakdown of other operating income	**1H2020**	**1H2021**	**2H2021**	**2021**	**2022**
Dividend income	453	2,439	2,439	4,878	4,878
Interest income	923	494	494	988	988
Net fair value gain in held-for-trading investments	-	641	-	641	-
Net fair value gain in investments	-	21,946	-	21,946	-
Others (1)	212	191	191	382	382
Total	**1,588**	**25,711**	**3,124**	**28,835**	**6,248**

(1) As included by FPA to account for undisclosed items which allow for reconciliation of total other operating income
Source: HPL, FPA Financial

Administrative expenses

Looking at historical data, we note that administrative expenses have generally declined over the last few years, as shown in **Exhibit 20**.

Exhibit 20: Historical administrative expenses

[S$'000]	2016	2017	2018	2019	2020
Administrative expenses	68,768	76,993	75,056	69,325	47,183

Source: HPL

As noted on page 3, administrative expenses fell by 16.0% y-o-y to S$22.9 million in 1H2021. We would assume the same amount for 2H2021. Accordingly, the projected administrative expenses for full-year 2021 would be S$45.8 million, as shown in **Exhibit 21**. For 2022, we could expect such expenses to rise in line with a pick-up in HPL's business activities as the global Covid-19 situation potentially improves. Thus, we would assume a 10% y-o-y increase in administrative expenses to S$50.4 million = [110% x S$45.8 million in projected amount for 2021] for the period, as shown in **Exhibit 21**.

Exhibit 21: Projected administrative expenses for 2021 and 2022

	Actual		Forecast		
[S$'000]	**1H2020**	**1H2021**	**2H2021**	**2021**	**2022**
Administrative expenses	27,275	22,902	22,902	45,804	50,384

Source: HPL, FPA Financial

Finance costs

Looking at historical data, we note a relatively inconsistent trend over the last few years, as shown in **Exhibit 22**.

Exhibit 22: Historical finance costs

[S$'000]	2016	2017	2018	2019	2020
Finance costs	30,317	28,665	27,479	38,456	31,712

Source: HPL

As noted on page 3, finance costs increased by 1.8% y-o-y to S$16.8 million. This could be in part contributed by higher interest expenses due to increased long-term borrowings over 1H2021, as discussed on page 4. Recently, interest rates have started to move up after remarks by the Federal Reserve (Fed) which suggest sooner-than-expected monetary policy tightening. Given that the Fed may only start tapering its asset purchases towards the end of 2021, we do not expect interest rates to rise substantially for the time being. However, moving into 2022, when the Fed could tighten policy more aggressively, we could expect increased upward pressure on interest rates.

Given the above, we would assume the same amount of finance costs of S$16.8 million in 1H2021 for 2H2021, thus implying projected finance costs of S$33.6 million for full-year 2021. as shown in **Exhibit 23**. For 2022, we would assume a 10% y-o-y increase in finance costs to S$36.9 million = [110% x S$33.6 million in projected finance costs for 2021], as shown in **Exhibit 23**.

Exhibit 23: Projected finance costs for 2021 and 2022

	Actual		Forecast		
[S$'000]	**1H2020**	**1H2021**	**2H2021**	**2021**	**2022**
Finance costs	16,480	16,776	16,776	33,552	36,907

Source: HPL, FPA Financial

Other operating expenses

During 1H2021, other operating expenses dropped by 90.7% y-o-y to S$3.4 million, as shown in **Exhibit 24**. This was mainly due to the absence of S$33.8 million in net fair value losses in investments which were recorded in 1H2020.

For 2H2021, we would adopt a conservative approach to assume no fair value losses in relation to held-for-trading investments and investments as well as no foreign exchange losses. We would also assume the same amount of net allowance for doubtful trade receivables, net loss on disposal of Plant, Property & Equipment (PPE) and others in 1H2021 for 2H2021. We would further make these assumptions for 2022.

Given the above, the projected other operating expenses for 2021 and 2022 would be S$3.6 million and S$0.4 million respectively, as shown in **Exhibit 24**.

Exhibit 24: Projected other operating expenses for 2021 and 2022

	Actual		Forecast		
Breakdown of other operating expenses	**1H2020**	**1H2021**	**2H2021**	**2021**	**2022**
Net allowance for doubtful trade receivables	110	105	105	210	210
Net fair value loss in held-for-trading investments	396	-	-	-	-
Net fair value loss in investments	33,788	-	-	-	-
Net foreign exchange loss	111	3,149	-	3,149	-
Net loss on disposal of PPE	17	16	16	32	32
Others (1)	1,771	93	93	186	186
Total	**36,193**	**3,363**	**214**	**3,577**	**428**

(1) As included by FPA to account for undisclosed items which allow for reconciliation of total other operating expenses
Source: HPL, FPA Financial

Net fair value gain/loss in investment properties

We note that HPL revalues its investment properties on a yearly basis. The net fair value adjustments for the investment properties are accounted for on the income statement at the end of the year. We note that HPL had recorded a net fair value gain in investment properties of S$3.9 million in 2019 but incurred a S$28.2 million net fair value loss during 2020 owing to the impact of COVID-19 on property valuations. While there could be potential appreciation in HPL's investment properties, we would adopt a conservative approach to assume that no net fair value gains or losses would be recorded for investment properties in 2021 and 2022.

Profit/(loss) before income tax and share of results from associates & jointly controlled entities

Given the above earnings projections, we would derive a projected loss before income tax and share of results from associates & jointly controlled entities of S$16.8 million for 2021 and a profit of S$15.6 million respectively, as shown in **Exhibit 25**.

Exhibit 25: Projected profit/(loss) before income tax and share of results from associates & jointly controlled entities for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Revenue	336,283	391,325
Cost of sales	(298,956)	(294,276)
Gross profit/(loss)	37,327	97,049
Other operating income	28,835	6,248
Administrative expenses	(45,804)	(50,384)
Other operating expenses	(3,577)	(428)
Finance costs	(33,552)	(36,907)
Net fair value gain/(loss) in investment properties	-	-
Profit/(loss) before income tax and share of results from associates & jointly controlled entities	(16,771)	15,577

Source: FPA Financial

Share of results of associates & jointly controlled entities

HPL's significant associates, as disclosed in the Annual Report 2020, comprise of Bankside Quarter (Jersey) Limited (BQJ) and Leisure Ventures Pte Ltd (Leisure Ventures). In particular, we note that BJQ is involved with the Bankside Yards development in London, which is a joint venture between HPL and 3 partners including Native Land, Amcorp Properties Berhad and Temasek.

As of 31 December 2020, HPL's effective interest in BJQ and Leisure Ventures was 30% and 50% respectively, as shown in **Exhibit 26**.

Exhibit 26: Details of HPL's significant associates

Associate	Principal activity	Country of incorporation	Effective interest 2019	Effective interest 2020
Bankside Quarter (Jersey) Limited	Investment holding	Jersey	30%	30%
Leisure Ventures Pte Ltd	Investment holding	Singapore	50%	50%

Source: HPL

Meanwhile, HPL's significant jointly controlled entities, as disclosed in HPL's Annual Report 2020, comprised of GC Campden Hill LLP, Ten Acre (Mayfair) Ltd and Great Western Enterprises Ltd (GWE). GC Campden Hill LLP and Ten Acre (Mayfair) Ltd are respectively involved with the Holland Park Villas and Burlington Gate residential developments in London. GWE is HPL's joint venture with Anchorage View Pte Ltd (AVPL) which is involved with the Paddington Square development in London. HPL's wholly-owned subsidiary, HPL (Paddington) Pte Ltd, and AVPL have a 70% and 30% ownership interest in GWE respectively. We note that the ultimate shareholders of AVPL are Mr. Ong, HPL's Managing Director and deemed controlling shareholder, and Mr. David Fu Kuo Chen, a non-Executive Director and deemed substantial shareholder of HPL.

As of 31 December 2020, HPL's effective interest in GC Campden Hill LLP, GWE and Ten Acre (Mayfair) Ltd were 50%, 70% and 65% respectively, as shown in **Exhibit 27**.

Exhibit 27: Details of HPL's significant jointly controlled entities

Jointly controlled entity	Principal activity	Country of incorporation	Effective interest 2019	Effective interest 2020
GC Campden Hill LLP	Property development	UK	50%	50%
Great Western Enterprises Ltd	Investment holding	Jersey	70%	70%
Ten Acre (Mayfair) Ltd	Investment holding	Jersey	65%	65%

Source: HPL

As noted on page 3, HPL recorded a loss of S$18.7 million from share of results of associates & jointly controlled entities during 1H2021, which compared to a profit of S$4.2 million in 1H2020. This was mainly attributable to losses incurred by hotel owning associates & jointly controlled entities due to the impact of Covid-19 and given that residential apartments from Holland Park Villas and Burlington Gate in London were fully sold in 2020.

For 2H2021, we anticipate that share of results from HPL's hotel owning associates & jointly controlled entities could remain weak given the ongoing negative impact of Covid-19. At the same time, we would expect minimal share of results from GC Campden Hill and Ten Acre (Mayfair) Ltd given that Holland Park Villas and Burlington Gate in London were fully sold in 2020. These projects were completed prior to 2020 and thus immediate revenue recognition would have taken place when the remaining units were sold during the year. Lastly, we do not expect HPL to benefit materially from BJQ and GWE during the period, given that Bankside Yards and Paddington Square would not be completed till the later part of 2022.

Against the above backdrop, we would assume no share of results from associates & jointly controlled entities in 2H2021. This would imply a share of loss of S$18.7 million for full-year 2021 as incurred during 1H2021. Adopting a conservative approach, given the absence of the impact of share of results from unit sales at the two London residential developments, we would further no share of results for 2022.

Income tax expense

During 1H2021, HPL incurred income tax expense of S$1.8 million compared with S$1.2 million a year ago, as shown in **Exhibit 28**.

Exhibit 28: Historical income tax expense/(credit)

[S$'000]	Full year ended Dec 31 2019	Full year ended Dec 31 2020	Half year ended Jun 30 2020	Half year ended Jun 30 2021
Profit/(loss) before income tax and share of results of associates & jointly controlled entities	(149,531)	55,650	(82,033)	1,471
Tax expense/(credit) at Singapore tax rate of 17%	(25,420)	9,461	(13,946)	250
Non-deductible items (net)	13,315	6,471	ND	ND
Tax exemption	(52)	(429)	ND	ND
Utilisation of unabsorbed tax losses, capital & investment allowances brought forward	(53)	(464)	ND	ND
Deferred tax asset on tax losses arising during the year not recorded	12,984	3,460	ND	ND
Deferred tax asset on capital allowances arising during the year not recorded	146	-	ND	ND
Effect of change in tax rate	(612)	-	ND	ND
Effect of different tax rate of overseas operations	(3,477)	814	ND	ND
	(3,169)	19,313	(1,315)	2,494
Under/(over) provision in prior years	(4,409)	6,769	(1,157)	(656)
Tax on share of profits from partnership classified as jointly controlled entity	4,134	3,778	3,650	-
Income tax expense/(credit)	**(3,444)**	**29,860**	**1,178**	**1,838**

ND: not disclosed

Source: HPL, FPA Financial

As we do not have sufficient information to appropriately estimate most of the adjustments as reflected in **Exhibit 28** above, we would assume the impact of a 17.0% Singapore income tax rate to be levied on HPL's profit before income tax and share of results of associates & jointly controlled entities. Accordingly, we would derive projected income tax credit of S$2.9 million for 2021 and projected income tax expense of S$2.6 million for 2022, as shown in **Exhibit 29**.

Exhibit 29: Projected income tax expense/(credit) for 2021 and 2022

[S$'000]	Full year ended Dec 31 2021 forecast	Full year ended Dec 31 2022 forecast
Profit/(loss) before income tax and share of results of associates & jointly controlled entities	(16,771)	15,577
Tax expense/(credit) at Singapore tax rate of 17%	(2,851)	2,648
Income tax expense/(credit)	**(2,851)**	**2,648**

Source: FPA Financial

Profit/(loss) after tax

Adjusting for the projected share of results from associates & jointly controlled entities and income tax expense, we would derive a projected after-tax loss of S$32.6 million for 2021 and a profit of S$12.9 million for 2022. We would assume no profit attributable to non-controlling interests during 2H2021, which would imply a projected amount of S$3.2 million for full-year 2021 as recorded in 1H2021. We would further assume no profit attributable to non-controlling interests in 2022. Consequently, the projected loss attributable to shareholders in 2021 would be S$35.9 million while a profit of S$12.9 million would be recorded for 2022.

We note that distributions relating to perpetual securities are payable semi-annually in arrear unless HPL, at its sole discretion, elects to defer any distribution in accordance with the conditions of the securities. We would assume that HPL would continue to issue distributions in 1H2022, similar to the amount of S$7.0 million which was distributed during 1H2021. Net of distributions to perpetual securities holders, the loss attributable to ordinary shareholders would be S$42.8 million for 2021, while a profit of S$6.0 million would be recorded for 2022. Accordingly, we project a loss per share of 8.22 cents for 2021 and an EPS of 1.14 cents for 2022. We have summarised our earnings projection for 2021 and 2022 in **Exhibit 30**.

Exhibit 30: Earnings projection for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Revenue	336,283	391,325
Cost of sales	(298,956)	(294,276)
Gross profit/(loss)	37,327	97,049
Other operating income	28,835	6,248
Administrative expenses	(45,804)	(50,384)
Other operating expenses	(3,577)	(428)
Finance costs	(33,552)	(36,907)
Net fair value gain/(loss) in investment properties	-	-
Profit/(loss) before income tax and share of results from associates & jointly controlled entities	(16,771)	15,577
Share of results of associates and jointly controlled entities	(18,696)	-
Income tax expense	2,851	(2,648)
Profit/(loss) after income tax	**(32,616)**	**12,929**
Attributable to:		
Shareholders of the Company	**(35,858)**	**12,929**
Non-controlling interests	3,242	-
	(32,616)	12,929
Net profit/(loss) attributable to shareholders	(35,858)	12,929
Distribution to perpetual capital securities holders	(6,987)	(6,969)
Net profit/(loss) attributable to ordinary shareholders	(42,845)	5,960
Weighted average no. of ordinary shares in issue ('000)	521,010	521,010
EPS (cents)	**(8.22)**	**1.14**

Source: FPA Financial

(III) Dividends projection

We note that HPL had distributed a first and final one-tier tax exempt cash dividend of 4 cents per ordinary share in respect to 2020, following an 8.0 cents per share distribution for 2019. As we expect HPL to continue making a loss in 2021, we would assume a dividend of 4.0 cents per share for the period. In view of improved financial performance in 2022, we anticipate dividends of 8.0 cents per share as was distributed for 2019.

VALUATION ANALYSIS

(I) Revaluation of hotels classified under PPE

In our initiation report, we identified the possibility that HPL could be undervalued based on its reported net assets. HPL's hotels (excluding those held by associates & jointly controlled entities) are classified under PPE on its balance sheet, which are stated at cost or valuation, less accumulated depreciation and impairment loss. In other words, the hotels are recorded at historical cost without revaluation, unlike for HPL's investment properties which are revalued annually and stated at fair value.

The above would suggest that the potential increase in the valuation of the hotels are not being reflected in the reported NAV per share of S$3.26 as at 30 June 2021. This may suggest that HPL is undervalued based on its reported net assets.

Similar to what we have done previously, we will perform an updated revaluation of HPL's hotels which are classified as PPE in order to derive a revalued NAV. We will provide an estimated revalued worth of the hotels by adopting a sales comparison approach. In other words, we will estimate the value of the hotels based on the valuation of comparable assets that have been recently transacted in the respective hotels' cities.

We will compare the hotels with the comparable assets based on comparison factors such as location, age of property and land tenure. Based on our evaluation, we will determine a valuation for the above listed hotels by adjusting the value of the comparable asset based on how each hotel fares against it in terms of the comparison factors.

We will focus our analysis on the assets listed in **Exhibit 31**, in consideration of the availability of information regarding HPL's hotels as well as the availability of sales activity, and in turn comparable assets.

Exhibit 31: List of hotels to be revalued

Country	Asset	No. of rooms/villas
Maldives	Four Seasons Resort Maldives at Kuda Huraa	96
	Six Senses Laamu	97
	Holiday Inn Resort Kadooma Maldives	160
Singapore	Concorde Hotel Singapore	407
	Four Seasons Hotel Singapore	255
	Hilton Hotel Singapore	421
Thailand	Metropolitan by COMO, Bangkok	169
	The Boathouse, Phuket	38
United States	Concorde Hotel New York	123

Source: HPL

Revaluation of the hotels in Singapore

To determine a valuation for HPL's Hilton and Concorde hotels in Singapore, we note the valuation of Mandarin Orchard Singapore as of end 2020 and will be using it as a comparable asset. We believe Mandarin Orchard Hotel to be an appropriate comparable asset, as all 3 hotels are situated in the Orchard Road precinct and categorised within the similar hotel tier. As disclosed in OUE Commercial REIT's recent presentation dated 29 July 2021, Mandarin Orchard Singapore was valued at S$1,157.0 million as at 31 December 2020. This would be equivalent to S$1.07 million per key, based on a total of 1,077 rooms.

Revaluation of Hilton Singapore

We now evaluate Hilton Singapore based on based on location, age and land tenure, as shown in **Exhibit 32**.

Exhibit 32: Evaluation of Hilton Singapore

Comparison factor	Mandarin Orchard Singapore	Hilton Singapore	Valuation adjustment
Location	333 Orchard Road	581 Orchard Road	-
Age	Opened in 1971	Opened in 1970	-
Land tenure	99-year leasehold (from 1 July 1957)	Freehold	15%

Source: HPL, OUE Commercial Trust, FPA Financial

In terms of location, both hotels are positioned in close proximity within the Orchard Road precinct. Thus, we would assume no valuation adjustment. We would also assume no adjustment due to age factor, given that the hotels were opened around the same period. However, we believe Hilton Singapore's freehold tenure compared to Mandarin Orchard's remaining lease of about 35 years could warrant a 15% valuation premium.

It is worth noting that these two hotels will undergo a rebranding in 2022. As discussed earlier on page 6, Hilton Singapore will be managed by IHG and rebranded as voco Orchard Singapore when it opens in January 2022. Meanwhile, OUE Commercial REIT has appointed Hilton to manage Mandarin Orchard Singapore, which will be rebranded as Hilton Singapore Orchard when its opens in early 2022.

Given the above, the overall net adjustment would be a 15% increase in valuation for Hilton Singapore. Adjusting for this, the estimated price per key for Hilton Singapore in December 2020 market conditions would be S$1.23 million = [115% x S$1.07 million]. Considering a potential increase in hotel valuations since then – given an overall improvement in the Covid-19 situation in Singapore – we would assume a 5% increase in valuation to derive a final estimated price per key of S$1.30 million = [105% x S$1.23 million]. Based on a total of 421 rooms, the estimated valuation of Hilton Singapore would be S$546.1 million, as shown in **Exhibit 33**.

Exhibit 33: Estimated valuation of Hilton Singapore

Hotel name	No. of rooms	Price per key (S$ million)	Valuation (S$ million)
Mandarin Orchard Singapore (1)	1,077	1.07	1,157.0
Hilton Singapore	421	1.30	546.1

(1) Valuation as of 31 Dec 2020

Source: OUE Commercial Trust, FPA Financial

Revaluation of Concorde Singapore

We will also compare Concorde Singapore against Mandarin Orchard Singapore in terms of location, age and land tenure, as shown in **Exhibit 34**.

Exhibit 34: Evaluation of Concorde Singapore

Comparison factor	Mandarin Orchard Singapore	Concorde Singapore	Valuation adjustment
Location	333 Orchard Road	100 Orchard Road	-10%
Age	Opened in 1971	Opened in 1984	5%
Land tenure	99-year leasehold (from 1 July 1957)	99-year leasehold (from 17 August 1979)	-

Source: HPL, OUE Commercial Trust, FPA Financial

In terms of location, we note that Concorde Singapore is positioned closer to the end of the Orchard Road belt, nearer to the Dhoby Ghaut area. In comparison, Mandarin Orchard Singapore's location is better located in the central portion of the Orchard Road belt. Thus, we would assume a 10% downward adjustment in valuation for Concorde Singapore. Considering the age factor, we note that Concorde Singapore is a newer hotel compared to Mandarin Orchard Singapore and would thus assume a 5% valuation increase. Lastly, we would assume no valuation adjustment relating to land tenure.

Given the above, the overall net adjustment would be a 5% valuation decrease for Concorde Singapore. Accordingly, the estimated price per key for Concorde Singapore in December 2020 market conditions would be S$1.02 million = [95% x S$1.07 million]. To account for an improved domestic Covid-19 backdrop, we would assume a 5% increase in current valuation to derive a final estimated price per key of S$1.07 million = [105% x S$1.02 million]. Based on a total of 407 rooms, the estimated valuation of Concorde Singapore would be S$370 million, as shown in **Exhibit 35**.

Exhibit 35: Estimated valuation of Concorde Singapore

Hotel name	No. of rooms	Price per key (S$ million)	Valuation (S$ million)
Mandarin Orchard Singapore (1)	1,077	1.07	1,157.0
Concorde Singapore	407	1.07	436.1

(1) Valuation as of 31 Dec 2020

Source: OUE Commercial Trust, FPA Financial

Revaluation of Four Seasons Singapore

Meanwhile, in determining a valuation for HPL's Four Seasons hotel in Singapore, we note the valuation of InterContinental Singapore in September 2020 and will be using it as a comparable asset. Both hotels are categorised as 5-star luxury hotels. We note from Fraser Hospitality Trust's recent presentation dated 29 July 2021 that InterContinental Singapore had a valuation of S$506.0 million as of 30 September 2020. This would be equivalent to S$1.25 million per key, based on a total of 406 rooms.

Our evaluation of Four Seasons Singapore using InterContinental Singapore as a comparable asset is shown in **Exhibit 36** on the next page.

Exhibit 36: Evaluation of Four Seasons Singapore

Comparison factor	InterContinental Singapore	Four Seasons Singapore	Valuation adjustment
Location	80 Middle Road	190 Orchard Boulevard	10%
Age	Opened in 1995; completed renovation in 2017	Opened in 1994; completed renovation in 2018	-
Room rate	S$370 per night	S$331 per night	-
Land tenure	75-year leasehold (from 14 Jul 2014)	Freehold	5%

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 1 Nov to 8 Nov 2021
Source: HPL, Frasers Hospitality Trust, booking.com, FPA Financial

In terms of location, Four Seasons Singapore is more primely positioned along the Orchard Road area compared to InterContinental Singapore which is situated closer to the Bugis area. For this, we would assume a 10% valuation increase for Four Seasons Singapore. Further, we believe Four Seasons Singapore's freehold tenure compared to InterContinental Singapore's remaining lease of about 68 years could warrant a 5% valuation premium. Meanwhile, we would assume no valuation adjustment for age factor, given that the opening dates as well as latest renovation completion for the two hotels are relatively close. We would also assume no valuation adjustment due to pricing premium in terms of brand.

Given the above, the overall net adjustment would be a 15% valuation increase for Four Seasons Singapore. Adjusting for this, the estimated price per key for Four Seasons Singapore in September 2020 market conditions would be S$1.43 million = [115% x S$1.25 million]. To account for the overall improvement in the Covid-19 situation in Singapore since then, we would assume a 5% increase in valuation to derive a final estimated price per key of S$1.50 million = [105% x S$1.43 million]. Based on a total of 255 rooms, the estimated valuation of Four Seasons Singapore would be S$383.8 million, as shown in **Exhibit 37**.

Exhibit 37: Estimated valuation of Four Seasons Singapore

Hotel name	No. of rooms	Price per key (S$ million)	Valuation (S$ million)
InterContinental Singapore (1)	406	1.25	506.0
Four Seasons Singapore	255	1.50	383.8

(1) Valuation as of 30 Sep 2020
Source: Frasers Hospitality Trust, FPA Financial

Revaluation of the hotels in Thailand

Revaluation of COMO Metropolitan hotel in Bangkok

To determine a valuation for COMO Metropolitan hotel in Bangkok, we note the sale of Four Seasons Hotel Bangkok (Four Seasons Bangkok) in Q1 2021 and will be using it as a comparable asset. We note that Padaeng Industry had acquired a 51% stake in the 299-key Four Seasons Bangkok from Landmark Holdings Company Limited, a subsidiary of Country Group Development Public Company Limited, for THB2.1 billion. This would reflect the hotel value at THB4.1 billion or THB13.6 million per key.

Our evaluation of COMO Metropolitan Bangkok using Four Seasons Bangkok as a comparable asset is shown in **Exhibit 38**.

Exhibit 38: Evaluation of COMO Metropolitan Bangkok

Comparison factor	Four Seasons Bangkok	COMO Metropolitan Bangkok	Valuation adjustment
Location	300/1 Charoen Krung Road	27 South Sathorn Road	5%
Age	Reopened in 2020	Opened in 2003	-10%
Room rate	THB 9.416 per night	THB 5,615 per night	-10%
Land tenure	-	Freehold	-

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 6 Dec to 13 Dec 2021

Source: HPL, Padaeng Industry, HVS, FPA Financial

In terms of location, we note that COMO Metropolitan Bangkok is more well-positioned in the Sathorn district within the Central Business District area. Four Seasons Bangkok is located close to the Chao Phraya River and is about a 15-minute drive away from COMO Metropolitan Bangkok. Given its better location, we would assume a 5% upward adjustment in valuation for COMO Metropolitan Bangkok. However, considering age factor, would assume a 10% decline in valuation given that Four Seasons Bangkok was recently reopened after renovations. Lastly, we note that the Four Seasons brand commands a pricing premium as reflected by the difference in room rates. We would thus assume a 10% drop in valuation for COMO Metropolitan Bangkok.

Given the above, the overall net adjustment for COMO Metropolitan Bangkok would be a 15% decrease in valuation. Adjusting for this, the estimated price per key for the hotel in February 2021 market conditions would be THB 11.6 million = [85% x THB 13.6 million]. We would assume no valuation impact from Covid-19 given the recent sale of Four Seasons Bangkok. Based on a total of 169 rooms, the estimated valuation of COMO Metropolitan Bangkok would be THB 1,954 million, as shown in **Exhibit 39**.

Exhibit 39: Estimated valuation of COMO Metropolitan Bangkok

Hotel name	No. of rooms	Price per key (THB million)	Valuation (THB million)
Four Seasons Bangkok	299	13.6	4,100
COMO Metropolitan Bangkok	169	11.6	1,954

Source: HVS, Padaeng Industry, FPA Financial

Based on a SGDTHB exchange rate of 24.7527 as of 20 September 2021, the valuation for COMO Metropolitan Bangkok would translate to approximately S$78.9 million = [THB 1,954 million / 24.7527].

Revaluation of The Boathouse in Phuket

The comparable asset which we will be using for The Boathouse, Phuket would be Noku Phuket, which is owned by Roxy-Pacific Holdings Limited (Roxy-Pacific). The 91-room resort is currently under development and scheduled to operate by 2022. As disclosed in Roxy-Pacific's recent presentation dated 5 August 2021, Noku Phuket had a valuation of S$50.6 million as at 31 December 2020. This is equivalent to a price per key of S$0.56 million, based on a total of 91 rooms.

Our evaluation of The Boathouse, Phuket, using Noku Phuket as a comparable asset is shown in **Exhibit 40**.

Exhibit 40: Evaluation of The Boathouse, Phuket

Comparison factor	Noku Phuket	The Boathouse, Phuket	Valuation adjustment
Location	48/13 Moo 6, Chaofa Road	182 Koktanode Road, Kata Beach	10%
Age	Opening in 2022	Reopened in 2017 (1)	-5%
Land tenure	Freehold	Freehold	-

**First opened in 1989; renovated and reopened in 2017*

Source: HPL, Roxy-Pacific, FPA Financial

In terms of location, The Boathouse, Phuket is positioned along the Kata Beach area, while Noku Phuket's location is about a 20-minute drive away and situated closer to Chalong Bay. Given its proximity to the Andaman Sea, we believe The Boathouse, Phuket is more well-positioned and would thus assume a 10% upward adjustment in valuation. However, given that Noku Phuket is effectively a newer hotel compared to The Boathouse, Phuket, we would assume a 5% decrease in valuation for the latter. We would assume no valuation adjustment relating to land tenure.

Given the above, the overall net adjustment would be a 5% valuation increase for The Boathouse, Phuket. Adjusting for this, the estimated price per key for the hotel in December 2020 market conditions would be S$0.58 million = [105% x S$0.56 million]. Factoring in the potential valuation impact due to the change in Covid-19 conditions, we would assume a 5% increase in valuation to derive a final estimated price per key of S$0.61 million = [1.05% x S$0.58 million]. Based on a total of 38 rooms, the estimated valuation of The Boathouse, Phuket would be S$23.3 million, as shown in **Exhibit 41**.

Exhibit 41: Estimated valuation of The Boathouse, Phuket

Hotel name	No. of rooms	Price per key (S$ million)	Valuation (S$ million)
Noku Phuket (1)	91	0.56	50.6
The Boathouse, Phuket	38	0.61	23.3

(1) Valuation as at 31 Dec 2020

Source: Roxy-Pacific, FPA Financial

Revaluation of the hotels in Maldives

To determine a valuation for Four Seasons Resort Maldives at Kuda Huraa (Kuda Huraa resort), Six Senses Laamu and Holiday Inn Kandooma, we will be using HPL's recently acquired Kanuhura Maldives in May 2021 as a comparable asset. As noted earlier on page 6, the 80-villa Kanuhura Maldives resort was acquired for US$41.5 million, equivalent to US$0.52 million per key.

Revaluation of Four Seasons Resort Maldives at Kuda Huraa (Kuda Huraa resort)

Our evaluation of the Kuda Huraa resort using Kanuhura Maldives as a comparable asset is shown in **Exhibit 42**.

Exhibit 42: Evaluation of the Kuda Huraa resort

Comparison factor	Kanuhura Maldives	Kuda Huraa resort	Valuation adjustment
Location	Lhaviyani Atoll	North Male Atoll	-
Age	Reopened in 2016	Opened in 1998; completed renovations in 2016	-
Room rate	US$775 per night	US$1,321 per night	20%
Land tenure	-	Leasehold	-

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 1 Nov to 8 Nov 2021

Source: HPL, booking.com, FPA Financial

In terms of age, we note that both resorts had reopened in 2016 after renovations and would thus assume no valuation adjustment. However, we note that the room rate of the Kuda Huraa resort is at a premium of about 70% over that of Kanuhura Maldives, which could warrant a 20% valuation premium for the Kuda Huraa resort. We would assume no valuation adjustment due to location and land tenure.

Given the above, the overall net adjustment for the Kuda Huraa hotel would be a 20% increase in valuation. Accordingly, the estimated price per key for the resort in May 2021 market conditions would be US$0.62 million = [120% x S$0.52 million]. We would assume no valuation impact from Covid-19 given the recent sale of Kanuhura Maldives. Based on a total of 96 villas, the estimated valuation of the Kuda Huraa resort would be US$59.8 million, as shown in **Exhibit 43**.

Exhibit 43: Estimated valuation of the Kuda Huraa resort

Hotel name	No. of villas	Price per key (US$ million)	Valuation (US$ million)
Kanuhura Maldives	80	0.52	41.5
Kuda Huraa resort	96	0.62	59.8

Source: Sun Limited, FPA Financial

Based on a USDSGD exchange rate of 1.34951 as of 20 September 2021, the valuation of the Kuda Huraa resort would translate to approximately S$80.6 million = [US$59.8 million x 1.34951].

Revaluation of Six Senses Laamu

Our evaluation for Six Senses Laamu is as shown in **Exhibit 44**.

Exhibit 44: Evaluation of Six Senses Laamu

Comparison factor	Kanuhura Maldives	Six Senses Laamu (1)	Valuation adjustment
Location	Lhaviyani Atoll	Laamu Atoll	-
Age	Reopened in 2016	Opened in 2011	-5%
Room rate	US$775 per night	US$1,184 per night	15%
Land tenure	-	Leasehold	-

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 1 Nov to 8 Nov 2021

Source: HPL, Booking.com, FPA Financial

In terms of age, we note that Kanuhura Maldives was reopened in 2016 after renovations compared to Six Senses Laamu which opened in 2011. For this, we would assume a 5% valuation decrease for Six Senses Laamu. However, we also note that Six Senses brand commands a pricing premium as reflected by the higher room rate for Six Senses Laamu. We believe this could warrant a 15% valuation premium. We would assume no valuation adjustment due to location and land tenure.

Given the above, the overall net adjustment for Six Senses Laamu would be a 10% increase in valuation. Thus, the estimated price per key for the hotel in May 2021 market conditions would be US$0.57 million = [110% x US$0.52 million]. We would assume no valuation impact from Covid-19 given the recent sale of Kanuhura Maldives.

Based on a total of 97 villas, the estimated valuation of Six Senses Laamu would be US$55.4 million, as shown in **Exhibit 45**.

Exhibit 45: Estimated valuation of Six Senses Laamu

Hotel name	No. of villas	Price per key (US$ million)	Valuation (US$ million)
Kanuhura Maldives	80	0.52	41.5
Six Senses Laamu	97	0.57	55.4

Source: Sun Limited, FPA Financial

Based on a USDSGD exchange rate of 1.34951 as of 20 September 2021, the valuation of Six Senses Laamu would translate to approximately S$74.8 million = [US$55.4 million x 1.34951].

Revaluation of Holiday Inn Kandooma

Our evaluation for Holiday Inn Kandooma is as shown in **Exhibit 46**.

Exhibit 46: Evaluation of Holiday Inn Kandooma

Comparison factor	Kanuhura Maldives	Holiday Inn Kandooma	Valuation adjustment
Location	Lhaviyani Atoll	South Male Atoll	-
Age	Reopened in 2016	Opened in 2009	-5%
Room rate	US$775 per night	US$314 per night	-15%
Land tenure	-	Leasehold	-

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 1 Nov to 8 Nov 2021

Source: HPL, Booking.com, FPA Financial

In terms of age, we note that Kanuhura Maldives was reopened in 2016 after renovations compared to Holiday Inn Kandooma which opened in 2009. For this, we would assume a 5% valuation decrease for Holiday Inn Kandooma. Further, we also note that the room rate of Holiday Inn Kandooma is about 60% below that of Kanuhura Maldives. We would thus assume a 15% drop in valuation for Holiday Inn Kandooma. We would assume no change in valuation due to location and land tenure.

Given the above, the overall net adjustment for Holiday Inn Kandooma would be a 20% decrease in valuation. Accordingly, the estimated price per key for the resort in May 2021 market conditions would be US$0.42 million = [80% x US$0.52 million]. We would assume no valuation impact from Covid-19 given the recent sale of Kanuhura Maldives.

Based on a total of 160 villas, the estimated valuation of Holiday Inn Kandooma would be US$66.4 million, as shown in **Exhibit 47**.

Exhibit 47: Estimated valuation of Holiday Inn Kandooma

Hotel name	No. of villas	Price per key (US$ million)	Valuation (US$ million)
Kanuhura Maldives	80	0.52	41.5
Holiday Inn Kandooma	160	0.42	66.4

Source: Sun Limited, FPA Financial

Based on a USDSGD exchange rate of 1.34951 as of 20 September 2021, the valuation of Holiday Inn Kandooma would translate to approximately S$89.6 million = [US$66.4 million x 1.34951].

Revaluation of the hotel in New York

We note that sale of Embassy Suites by Hilton New York Manhattan Times Square (Embassy Suites hotel) in Q3 2020 and will be using it as a comparable asset for HPL's Concorde Hotel New York (Concorde New York). Both hotels are rated 4-star and situated relatively close to one another in Midtown Manhatten. The 310-key Embassy Suites hotel was acquired by Magna Hospitality Group from Ashford Hospitality Trust for approximately US$115.1 million, equivalent to US$0.37 million per key.

Our evaluation of Concorde New York using the Embassy Suite hotel as a comparable asset is shown in **Exhibit 48**.

Exhibit 48: Evaluation of Concorde New York

Comparison factor	Embassy Suites hotel	Concorde New York	Valuation adjustment
Location	60 West, 37th St	127 East, 55th St	10%
Age	Opened in 2018	Opened in 1985; completed renovations in 2018	-
Room rate	US$340 per night	US$440 per night	10%
Land tenure	-	Freehold	-

Lowest priced room rates on booking.com for 1-night stay for 1 adult. Based on average rate per night for 7 nights from 1 Nov to 8 Nov 2021

Source: HPL, booking.com, FPA Financial

In terms of location, both hotels are primely situated in Midtown Manhattan, the central portion of the New York City borough of Manhattan. The hotels are less than a 10-minute drive apart from one another, though we note that Concorde New York is positioned closer to Fifth Avenue which is ranked as one of the most expensive streets in the world. Given a more prime positioning, we would assume a 10% premium in valuation for Concorde New York. Further, we note that Concorde New York commands a higher pricing premium in terms of room rate and would thus assume a 10% valuation increase. Meanwhile, we would assume no valuation adjustment relating to age factor and land tenure.

Given the above, the overall net adjustment would be a 20% increase in valuation for Concorde New York. Accordingly, the estimated price per key for the hotel in Q3 2020 market conditions would be US$0.45 million = [120% x US$0.37 million]. Factoring in the potential valuation impact due to the change in Covid-19 conditions, we would assume a 5% increase in valuation to derive a final estimated price per key of S$0.47 million = [1.05% x S$0.45 million]. Based on a total of 123 rooms, the estimated valuation of Concorde New York would be US$57.5 million, as shown in **Exhibit 49.**

Exhibit 49: Estimated valuation of Concorde New York

Hotel name	No. of rooms	Price per key (US$ million)	Total valuation (US$ million)
Embassy Suites hotel	310	0.37	115.1
Concorde Hotel New York	123	0.47	57.5

Source: Ashford Hospitality Trust, Hospitalitynet.org, FPA Financial

Based on a USDSGD exchange rate of 1.34951 as of 20 September 2021, the valuation of Concorde New York would translate to approximately S$77.6 million = [US$57.5 million x 1.34951].

Impact of the revaluations

We have summarized the historical cost of the revalued hotels and Phuket land in **Exhibit 50**. The historical cost of the assets are based on latest disclosed figures in HPL's Annual Report 2016 which are as at 31 December 2016. They include the total value of the hotel buildings and the land on which they are situated. The figures do not account for accumulated depreciation and any renovation & upgrade costs from 2017 onwards. Given the value of the assets based on historical cost, we estimate a total valuation surplus of S$1,159 million.

Exhibit 50: Historical cost and valuation surplus of the revalued hotels

			Revaluation		
	Effective interest	Total historical cost	Valuation	Adjusted for effective interest	Valuation surplus**
Hotel name	(%)	S$ million	S$ million	S$ million	S$ million
Hilton Singapore	100.0%	215	546	546	331
Concorde Hotel Singapore	100.0%	80	436	436	356
Four Seasons Hotel Singapore	100.0%	123	384	384	261
COMO Metropolitan Bangkok	100.0%	35	79	79	44
The Boathouse, Phuket	74.0%	24	23	17	-7
Phuket land*	90.0%	84	65	59	-26
Four Seasons Resort Maldives at Kuda Huraa	70.0%	43	81	56	13
Six Senses Laamu	70.0%	94	75	52	-42
Holiday Inn Kandooma	70.0%	41	90	63	22
Concorde Hotel New York	100.0%	44	78	78	34
Four Seasons Resort Bali at Jimbaran Bay**	93.3%	94	149	139	45
Four Seasons Resort at Sayan**	100.0%	20	41	41	21
Four Seasons Private Estates at Jimbaran Bay**	100.0%	4	12	12	8
Hard Rock Hotel Bali**	100.0%	38	103	103	65
Hard Rock Hotel Pattaya**	100.0%	34	67	67	33
Total		**973**	**2,228**	**2,132**	**1,159**

**Revaluation based on initiation report in December 2020*

***Revaluation is proxied by open market valuation as disclosed in HPL's takeover offer circular in 2014*

****Based on revaluation after adjustment for effective interest*

Source: HPL, FPA Financial

Balance sheet adjustments

Given the above revaluation, we will include the total valuation surplus of S$1,159.0 million to HPL's net asset value of S$2,097.4 million as at 30 June 2021 to derive a revalued NAV (RNAV) of S$3,256.4 million, as shown in **Exhibit 51**. Consequently, the RNAV attributable to ordinary shareholders would be S$2,856.2 million, after adjusting for non-controlling interests and perpetual capital securities. This would translate to a RNAV per share of S$5.48, implying a P/NAV multiple of 0.61x based on the current price of S$3.330. Therefore, if the appreciation values of the hotels are taken into account, we estimate that HPL's P/NAV will be lower than 1.02x based on the reported NAV per share of S$3.26 as at 30 June 2021.

Exhibit 51: Adjusted balance sheet

	S$ million
NAV as at 30 June 2021	2,097.4
Add: valuation surplus	1,159.0
RNAV	3,256.4
Less: non-controlling interests	(92.2)
RNAV attributable to shareholders	3,164.2
Less: perpetual capital securities	(308.0)
RNAV attributable to ordinary shareholders	2,856.2
No. of issued shares (million)	520.97
RNAV per share	5.48
P/NAV	0.61

Source: HPL, FPA Financial

Further, given that the adjustments only consider several of the HPL's hotels, it could suggest that HPL's P/NAV could be lower than 0.61x if the valuation surplus of the other hotels and land classified as PPE are considered. While we do not have sufficient information to revalue all the other hotels, we believe they could have appreciated in value as well. We are therefore inclined to believe that HPL is undervalued at its current share price.

(II) Peer comparison analysis

We also performed a peer comparison analysis to review how HPL is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to HPL in terms of industry and business operations. The peer companies as listed in **Exhibit 52** have business operations relating to hotel ownership & management.

Exhibit 52: Peer comparison

Company	SGX code	Current price (S$) as at 20 Sep 21	Market cap (S$ million)	EPS (1) (cents)	P/E (x)	DPS (2) (cents)	Dividend yield (%)	NAV per share (3) (S$)	P/B (x)
Hotel Properties Limited (4)	H15	3.330	1,734.86	(27.26)	NM	4.00	1.20%	5.48	0.61
Peer companies:									
CDL Hospitality Trusts	J85	1.050	1,290.66	(14.41)	NM	4.66	4.44%	1.29	0.81
Far East Hospitality Trust	Q5T	0.605	1,194.09	(3.86)	NM	2.48	4.10%	0.79	0.76
Frasers Hospitality Trust (5)	ACV	0.450	885.99	(6.87)	NM	1.25	2.77%	0.66	0.68
Mandarin Oriental International Limited (5)	M04	2.040	2,576.93	(31.70)	NM	-	-	3.96	0.52
Peers' average	-	-	-	-	**-**	-	**3.77%**	-	**0.67**

(1) Trailing 12-month diluted EPS
(2) Trailing 12-month or last annual DPS
(3) NAV per share as at 30 Jun 2021, unless stated otherwise
(4) Based on estimated RNAV per share of S$5.48
(5) NAV per share as at 31 Mar 2021
(6) Based on adjusted NAV per share as at 30 June 2021 which accounts for revaluation of the Group's freehold & leasehold land and buildings
Source: respective company data, SGX, FPA Financial

Based on the results in **Exhibit 52**, we note that HPL's is currently trading at a P/NAV of 0.61x based on our estimated RNAV per share of S$5.48. This is below the peers' average of 0.67x. Adopting a relative valuation approach, we would estimate a target price of S$3.672 if HPL were to trade at the peers' average P/NAV multiple of 0.67x.

- Estimated target price = [peers' average PB] x [estimated RNAV per share] = 0.67 x S$5.48 = S$3.672

The above estimated target price represents an upside of 10.3% from the current price of S$3.330.

INVESTMENT RECOMMENDATION

Based on its reported NAV per share of S$3.26 as at 30 June 2021, HPL is currently trading at P/NAV multiple of 1.02x.

We note that HPL's hotels (excluding those held by associates & jointly controlled entities) are classified under PPE on its balance sheet and recorded at historical cost without revaluation. To adjust the hotels' valuation to reflect current market conditions, we performed a revaluation of several of HPL's hotels classified as PPE. Based on our revaluation, we derived a RNAV per share of S$5.48, which would imply a P/NAV of 0.61x at the current share price of S$3.330. This is lower than the P/NAV of 1.02x based on the reported NAV per share of S$3.26. We believe this may suggest that HPL may be undervalued at the current share price.

Meanwhile, our peer comparison results show that HPL's P/NAV of 0.61x, based on the RNAV per share of S$5.48, is lower than the peers' average P/NAV of 0.67x. Based on a relative valuation approach, we estimate a target price of S$3.672 if HPL were to trade at the peers' average P/NAV of 0.67x. This estimated target price represents a 10.3% upside from the current share price of S$3.330. We believe that further upside potential is supported by the possibility of a takeover offer for HPL.

Given the above, we will maintain a buy recommendation on HPL, and our target price is S$3.672. However, there are risks to our current target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

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

(I) Weak global economic recovery due to prolonged virus uncertainty

With the acceleration of vaccination progress globally, the growth outlook for the global economy has improved as many countries gradually reopen their economies In its latest July World Economic Outlook, the International Monetary Fund (IMF) maintained its 2021 global growth projection at 6.0%.

However, virus uncertainty remains as we see that many parts of world like Asia and the United States (US) are currently affected by the spread of the Delta variant. There is a risk of a global economic slowdown if the global virus situation deteriorates. This could potentially prolong the need for travel and border restrictions and delay the recovery in international travel. In turn, there could be continued negative impact on the performance of HPL's Hotel Division, given the correlation between hotel demand and economic growth. Furthermore, there could also be ramifications for the Property Division, such as the delay in construction progress at HPL's development projects in London.

(II) Concerns over subdued business travel

The acceleration in vaccination progress globally has allowed for a gradual resumption in both domestic and international travel for countries around the world. For the most part, leisure travel demand has been the main driver supporting hotel demand, while business and corporate travel has lagged. Business travel dynamics could be permanently changed due to COVID-19. The need for business travel could be reduced as companies shift toward virtual conference meetings. This will likely have a more pronounced impact on luxury hotels.

(III) Risk of exchange rate fluctuations

We note that HPL is exposed to foreign exchange risk arising from various currency exposures such as United States dollars (USD), Sterling pounds GBP), Euro dollars (EUR) and Malaysian ringgit (MYR). A significant strengthening of these currencies against the Singapore Dollar (SGD), which is HPL's functional currency, could have a negative impact on earnings arising from currency exchange losses.

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