FPA FINANCIAL
Investment Perspectives
18 October 2021

HOTEL RESEARCH

Mandarin Oriental Intl Ltd

SGX: M04
Bloomberg: MAND:SP
ISIN Code: BMG578481068

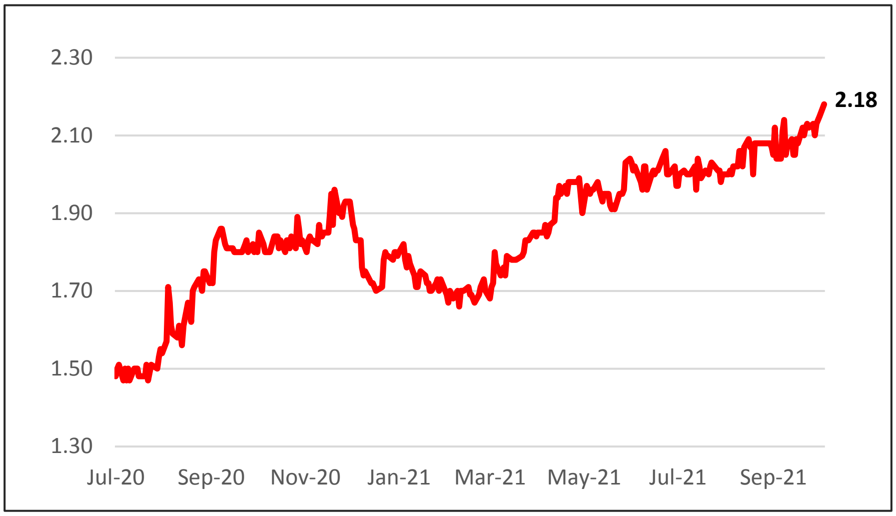
RECOMMENDATION: BUY

Current Price: US$2.18
Current Target Price: US$3.09

Issued shares: 1,263.2 million
Market capitalisation: US$2,753.8 million

52-week range: US$1.65 - US$2.18

Price Performance



Company description

Mandarin Oriental International Limited is the publicly-listed parent company of Mandarin Oriental Hotel Group (MOHG), an international hotel investment and management group with Asian roots. MOHG currently operates 34 hotels and 7 residences in 24 countries and territories.

Summary

For the year ended 30 June 2021 (1H2021), MOHG recorded a 6.6% year-on-year (y-o-y) increase in revenue to US$101.8 million. This was mainly due to higher contribution from the Asia segment. Despite lower cost of sales, a gross loss of US$12.9 million was recorded for the period. Amid cost containment measures, selling & distribution costs and administrative expenses were reduced. Other operating income rose on higher government grants and rent concessions. During the period, MOHG recorded a fair value loss on investment property under development of US$89.1 million, in respect of a decrease in the valuation of the Causeway Bay site in Hong Kong. Net financing charges fell by 7.2% y-o-y to US$6.4 million. Meanwhile, loss from associates & joint ventures increased by 11.1% y-o-y to US$15.0 million, amid higher net losses from hotel-owning associates & joint ventures. Consequently, shareholders' loss was US155.9 million, which translated to a loss per share of 12.34 cents. Excluding the impact of non-trading items, the Group's underlying business performance was still negatively impacted. Underlying loss to shareholders was US$66.8 million, translating to an underlying loss per share of 5.29 cents. No dividends were declared in respect of the period.

Recommendation

Since our initiation report issued on 24 June 2021, when MOHG's share price closed at US$2.02, the share price has increased by about 8% to the current share price of US$2.18. On valuation terms, the results of our peer comparison analysis suggest that MOHG is currently trading at a P/NAV of 0.55x, which is lower than the peers' average of 0.78x. We estimate a target price of US$3.09 if MOHG were to trade at the peers' average P/NAV. This estimated target price represents an upside of 41.7% from the current share price. Currently, we identify 3 potential catalysts supporting further upside in the share price. The main catalyst would be an accelerated pace of global border re-openings. This could support a sooner-than-expected recovery in hotel markets to pre-Covid levels, and in turn support a strong rebound in MOHG's earnings. Further, potential share buybacks by MOHG and the possibility of a MOHG takeover offer also provide additional support for share price upside. All things considered, we will maintain a buy recommendation on MOHG. Our current target price is US$3.09 which we believe could potentially be reached in the long term.

Key Financials

Full year, ended Dec 31	Revenue (US$ million)	Shareholders' profit (US$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share* (US$)	P/NAV (x)
2019 actual	566.5	(55.5)	(4.39)	NM	-	NM	4.70	0.46
2020 actual	183.7	(680.1)	(53.84)	NM	-	NM	4.09	0.53
2021 forecast**	257.0	(217.9)	(17.25)	NM	-	NM	3.95	0.55
2022 forecast	293.5	(108.0)	(8.55)	NM	-	NM	-	-

NM: not meaningful. P/E, P/NAV and dividend yield figures are based on current price of US$2.18
**Based on adusted shareholders' funds which accounts for revaluation of MOHG's freehold & leasehold land and buildings*
***Adjusted NAV per share as at 30 June 2021*
Source: MOHG, FPA Financial

Contributor: Glendon Hoon
(+65 6323 1788)

CONTENTS

FINANCIAL REVIEW FOR 1H2021 3-7

OPERATIONAL UPDATES 8

INDUSTRY OVERVIEW 9-10

(I) ASIA PACIFIC HOTEL MARKET REVIEW
(II) EMEA HOTEL MARKET REVIEW
(III) US HOTEL MARKET REVIEW

SHARE PRICE PERFORMANCE REVIEW 11

POTENTIAL CATALYSTS 12

(I) ACCELERATED PACE OF GLOBAL BORDER RE-OPENINGS
(II) POTENTIAL SHARE BUYBACKS
(III) POTENTIAL MOHG TAKEOVER OFFER

FINANCIAL PROJECTION 13-19

(I) REVENUE PROJECTION
(II) EARNINGS PROJECTION
(III) DIVIDENDS PROJECTION

VALUATION ANALYSIS 20

INVESTMENT RECOMMENDATION 21

RISKS TO THE UPSIDE IN TARGET PRICE 22

(I) RISK OF A GLOBAL ECONOMIC SLOWDOWN
(II) SUBDUED INTERNATIONAL TRAVEL DUE TO VIRUS UNCERTANTY
(III) RISK OF CURRENCY FLUCTUATIONS

DISCLOSURES/DISCLAIMERS 23

FINANCIAL REVIEW FOR 1H2021

(I) Financial performance

For the period ended 30 June 2021 (1H2021), MOHG's recorded a 6.6% year-on-year (y-o-y) increase in revenue to US$101.8 million. The improvement was mainly due to higher contribution of S$54.1 million from the Asia segment. However, revenue from Europe, Middle East & Africa (EMEA) and America declined to US$33.9 million and US$13.8 million respectively. The breakdown of MOHG's revenue by geographical segment for 1H2021 and 1H2020 are shown in **Exhibit 1**.

Exhibit 1: Breakdown of MOHG's revenue by geographical segment

Geographical segment	1H2021 US$ million	1H2020 US$ million	Change (%)
Asia	54.1	43.7	23.8%
EMEA	33.9	37.2	-8.9%
America	13.8	14.6	-5.5%
Total	**101.8**	**95.5**	**6.6%**

Source: MOHG

Cost of sales declined by 6.1% y-o-y to US$114.7 million, and the resulting gross loss of US$12.9 million was a 51.5% decrease from US$26.6 million a year ago.

Given ongoing cost containment measures, selling & distribution costs fell by 39.5% y-o-y to US$9.8 million and administrative expenses declined by 15.0% y-o-y to US$44.8 million. Meanwhile, other operating income rose by 53.5% y-o-y to US$22.1 million, as higher government grants and rent concessions in relation to the Covid-19 pandemic were received during the period.

During the period, MOHG recorded a revaluation loss on investment property under development of US$89.1 million. This was in respect of a decrease in the valuation of the Causeway Bay site in Hong Kong as a result of market reductions in property values. During 1H2020, the fair value loss recorded was US$333.9 million.

Consequently, the operating loss amounted to US$134.5 million, a decline of 67.6% from a loss of US$414.8 million a year ago. For the period, net financing charges fell by 7.2% y-o-y to US$6.4 million, as the decrease in financing charges more than offset a drop in interest income. Meanwhile, loss from associates & joint ventures increased by 11.1% y-o-y to US$15.0 million, as hotel-owning associates & joint ventures reported higher net losses amid the challenging operating environment.

As a result, MOHG recorded a loss before tax of US$155.9 million for the period compared to the pre-tax loss of US$435.5 million a year ago. No tax was incurred during the period. Given the absence of non-controlling interests, the loss attributable to shareholders was US$155.9 million. This translates to a loss per share of 12.34 cents for the period compared to 34.48 cents a year ago. Meanwhile, no interim dividend will be paid in respect of 1H2021.

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

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

[US$ million]	1H2021	1H2020	Change (%)
Revenue	101.8	95.5	6.6%
Cost of sales	(114.7)	(122.1)	-6.1%
Gross (loss)/profit	**(12.9)**	**(26.6)**	-51.5%
Selling & distribution costs	(9.8)	(16.2)	-39.5%
Administration expenses	(44.8)	(52.7)	-15.0%
Other operating (expense)/income	22.1	14.4	53.5%
Change in fair value of investment property under development	(89.1)	(333.7)	-73.3%
Operating (loss)/profit	(134.5)	(414.8)	-67.6%
Net financing charges	(6.4)	(6.9)	-7.2%
Share of results of associates & joint ventures	(15.0)	(13.5)	11.1%
(Loss)/profit before tax	(155.9)	(435.2)	-64.2%
Tax	-	(0.3)	NM
(Loss)/profit after tax	**(155.9)**	**(435.5)**	**-64.2%**
(Loss)/Profit attributable to:			
Shareholders	**(155.9)**	**(435.5)**	**-64.2%**
Non-controlling interests	-	-	-
	(155.9)	(435.5)	-64.2%
(Loss)/Profit attributable to equity holders	(155.9)	(435.5)	-64.2%
Weighted average no. of shares in issue (million)	1,263.2	1,263.2	-
EPS (cents)	**(12.34)**	**(34.48)**	**-64.2%**

Source: MOHG

As MOHG uses underlying performance to distinguish between ongoing business performance and non-trading items, we would also provide a review of how its underlying business has performed. For this, we will consider non-trading items, which are separately identified to provide greater understanding of the MOHG's underlying business performance.

Items classified as non-trading items include fair value gains/losses on revaluation of investment property under development and investments as well as gains & losses arising from the sale of businesses, investments and properties, among others. As discussed earlier, MOHG recorded a fair value loss on investment property under development of US$89.1 million during 1H2021, in respect of a decrease in the valuation of the Causeway Bay site. Accounting for this, net non-trading losses amounted to US$89.1 million for the period compared to US$333.7 million a year ago.

Excluding the impact of non-trading items, which amounted to a net loss of US$89.1 million, MOHG's after-tax loss for the period would be US$66.8 million. Loss attributable to shareholders was also US$66.8 million given no non-controlling interests. Accordingly, the underlying loss per share for the period would be 5.29 cents compared to 8.06 cents a year ago. **Exhibit 3** on the next page summarises MOHG's financial results based on its underlying business, non-trading items and total business.

Exhibit 3: MOHG's financial results for underlying business, non-trading items and total business

	1H2021			1H2020		
[US$ million]	Underlying performance	Non-trading items	Total	Underlying performance	Non-trading items	Total
Revenue	101.8	-	101.8	95.5	-	95.5
Cost of sales	(114.7)	-	(114.7)	(122.1)	-	(122.1)
Gross (loss)/profit	**(12.9)**	**-**	**(12.9)**	**(26.6)**	**-**	**(26.6)**
Selling & distribution costs	(9.8)	-	(9.8)	(16.2)	-	(16.2)
Administration expenses	(44.8)	-	(44.8)	(52.7)	-	(52.7)
Other operating income/(expense)	22.1	-	22.1	14.4	-	14.4
Change in fair value of investment property under development	-	(89.1)	(89.1)	-	(333.7)	(333.7)
Operating (loss)/profit	(45.4)	(89.1)	(134.5)	(81.1)	(333.7)	(414.8)
Net financing charges	(6.4)	-	(6.4)	(6.9)	-	(6.9)
Share of results of associates & joint ventures	(15.0)	-	(15.0)	(13.5)	-	(13.5)
(Loss)/profit before tax	(66.8)	(89.1)	(155.9)	(101.5)	(333.7)	(435.2)
Tax	-	-	-	(0.3)	-	(0.3)
(Loss)/profit after tax	**(66.8)**	**(89.1)**	**(155.9)**	**(101.8)**	**(333.7)**	**(435.5)**
(Loss)/Profit attributable to:						
Shareholders	**(66.8)**	**(89.1)**	**(155.9)**	**(101.8)**	**(333.7)**	**(435.5)**
Non-controlling interests	-	-	-	-	-	-
	(66.8)	(89.1)	(155.9)	(101.8)	(333.7)	(435.5)
(Loss)/Profit attributable to equity holders	(66.8)	-	(155.9)	(101.8)	-	(435.5)
Weighted average number of shares in issue (million)	1,263.2	-	1,263.2	1,263.2	-	1,263.2
EPS (cents)	**(5.29)**	**-**	**(12.34)**	**(8.06)**	**-**	**(34.48)**

Source: MOHG

(II) Capital management

MOHG reported total assets of US$4,426.6 million as at 30 June 2021 compared to US$4,574.1 million as at 31 December 2020, as shown in **Exhibit 4** on the next page. The decrease was largely due to a decline in investment property under development, mainly as a result of a US$89.1 million drop in fair value of the Causeway Bay site. In addition, a US$26.9 million decrease in bank & cash balances also contributed to the drop in total assets. These were partially offset by higher receivables as current debtors increased by US$27.5 million.

Total liabilities stood at US$1,094.7 million as at 30 June 2021 compared to US$1,060.9 million as at 31 December 2020, as shown in **Exhibit 4** on the next page. This was mainly due to an increase in long-term borrowings by US$118.5 million to US$725.1 million. Meanwhile, current borrowings decreased by US$61.6 million to US$2.6 million. Accordingly, the total debt was US$727.7 million as at 30 June 2021.

Given the above, MOHG reported net assets of US$3,331.9 million as at 30 June 2021 compared to US$3.513.2 million as at 31 December 2020. Excluding non-controlling interests, shareholders' funds was US$3,328.4 million which translates to a net asset value (NAV) per share of US$2.63 as at 30 June 2021, as shown in **Exhibit 4** on the next page. This compares with US$2.78 as at 31 December 2020.

Exhibit 4: Summary of MOHG's balance sheet

[US$ million]	30-Jun-21	31-Dec-20	30-Jun-20
Total assets	4,426.6	4,574.1	4,651.4
Less: total liabilities	(1,094.7)	(1,060.9)	(981.4)
Net assets	3,331.9	3,513.2	3,670.0
Shareholders' funds	**3,328.4**	**3,509.5**	**3,666.8**
Non-controlling interests	3.5	3.7	3.2
	3,331.9	3,513.2	3,670.0
Shareholders' funds	3,328.4	3,509.5	3,666.8
No. of issued shares	1,263.2	1,263.2	1,263.2
NAV per share (S$)	**2.63**	**2.78**	**2.91**

Source: MOHG

As earlier noted, MOHG's total debt was US$727.7 million as at 30 June 2021. Net of bank & cash balances of US$137.7 million, net debt stood at US$590.0 million compared to US$506.2 million as at 31 December 2020. The increase was primarily due to investments made to develop the Causeway Bay site and increase the size of the Munich hotel. Thus, the net gearing ratio, as measured by net debt over shareholders' funds, stood at 18% as at 30 June 2021 compared to 14% as at 31 December 2020, as shown in **Exhibit 5**.

Exhibit 5: Total debt, net debt and net gearing

[US$ million]	30-Jun-21	31-Dec-20	30-Jun-20
Current borrowings	2.6	64.2	41.9
Long-term borrowings	725.1	606.6	557.2
Total debt	727.7	670.8	599.1
Less: bank & cash balances	(137.7)	(164.6)	(187.1)
Net debt	590.0	506.2	412.0
Net gearing (1)	**18%**	**14%**	**11%**

(1) Based on net debt over shareholders' funds

Source: MOHG

We note that the NAV per share of US$2.63 as reflected in **Exhibit 4** above does not take into account any appreciation in the value of MOHG's owned hotel properties, given the adoption of the historical cost convention. However, MOHG also conducts a review of the fair market value of both its freehold & leasehold land and buildings in conjunction with independent appraisers on an annual basis. This would include MOHG's hotel properties held through its subsidiaries, which are classified under tangible assets and right-of-use assets.

Including a US$1,661 million surplus in relation to the fair market value of freehold & leasehold land and buildings (as determined by appraisals as at 31st December 2020), MOHG reported an adjusted shareholders' funds of US$4,989.4 million as at 30 June 2021. This translates to an adjusted NAV per share of US$3.95, as shown in **Exhibit 6** on the next page. This adjusted NAV per share would be a better indicator of the current value of MOHG's net assets, which would otherwise be understated as any potential appreciation of its hotel properties would not have been accounted for.

Exhibit 6: Adjusted NAV per share as at 30 June 2021 and 31 December 2020

	30-Jun-21		31-Dec-20	
	US$ million	Per share (US$)	US$ million	Per share (US$)
Shareholders' funds	3,328.4	2.63	3,509.5	2.78
Add: surplus for fair market value of freehold & leasehold land and buildings (1)	1661.0	1.32	1661.0	1.31
Adjusted shareholders' funds	**4,989.4**	**3.95**	**5,170.5**	**4.09**

(1) Based on appraisals from independent appraisers as at 31 December 2020

Source: MOHG

Based on adjusted shareholders' funds of US$4,989.4 million, the net gearing would be 12% as at 30 June 2021 compared to 10% as at 31 December 2020, as shown in **Exhibit 7**.

Exhibit 7: Adjusted net gearing as at 30 June 2021 and 31 December 2020

[US$ million]	30-Jun-21	31-Dec-20
Adjusted shareholders' funds	4,989.4	5,170.5
Net debt	590.0	506.2
Adjusted net gearing (1)	**12%**	**10%**

(1) Based on net debt over adjusted shareholders' funds

Source: MOHG

OPERATIONAL UPDATES

Since our last company update on 24 June 2021, there have been new developments announced by MOHG. We will now provide an operational update on these developments.

In April, Mandarin Oriental Ritz, Madrid opened after an extensive restoration and MOHG expects the hotel to become a flagship property for the brand. MOHG also assumed management of the Al Faisaliah hotel in Riyadh with effect from March 2021 and this property will be rebranded as Mandarin Oriental Al Faisaliah, Riyadh in 2022 following its renovation.

In addition, two new management contracts were announced in the first half of the year: a resort on the beach in Da Nang, Vietnam and a city property in Hangzhou, China. Upcoming new hotel openings in 2021 include Mandarin Oriental Bosphorus, Istanbul which will open in August 2021 and Mandarin Oriental, Shenzhen which is slated to open at the end of the year.

INDUSTRY OVERVIEW

In this section, we will provide a review of the hotel markets for Asia Pacific, EMEA and the US.

(I) Asia Pacific hotel market review

We note from CBRE's Asia Pacific hotel report issued in October 2021 that Asia Pacific hotel occupancy stood at 49.5% for the 12 months ending July 2021. Regional average daily rate (ADR) fell by 22.2% y-o-y to US$77.78 on a 12-month rolling basis for the year ending July 2021. Thus, Asia Pacific RevPAR stood at US$38.50 for the 12 months ending July 2021, representing a decline of 16.9% y-o-y.

While emphasising the severe drop in tourist arrivals of 82% y-o-y for Asia Pacific during the first 5 months of 2021, CBRE also highlighted that many countries have already commenced staged re-openings to tourists. Examples include the Maldives which opened its international borders on 15 July 2020 and Thailand which launched the Phuket Sandbox initiative in July 2021 to enable fully vaccinated tourists to visit Phuket.

Looking ahead, CBRE expects the regional tourism market to experience a staged recovery. Domestic demand is forecasted to drive the recovery. For countries with a large pool of domestic travellers, such as Australia, New Zealand, China and Japan, local leisure travel will be the first segment to recover, supported by subsidies and policies to stimulate domestic tourism. CBRE believes the corporate travel will be the next segment to recover, while the meetings, incentives, conferences & exhibitions (MICE) segment is unlikely to experience a recovery in the short-term, due to corporate budget constraints and peoples' reluctance to participate in large-scale in-person events. CBRE also highlighted that while international tourism is expected to restart in 2021, a full recovery will not occur in 2024.

(II) EMEA hotel market review

According to a recent September 2021 article by Fitch Ratings, European lodging is among the sectors most affected by pandemic measures, with RevPAR dropping by 80% in year-to-date June 2021 compared to pre-crisis levels.

However, leisure demand is driving the nascent recovery that started during the summer season, with travellers often opting for trips to the countryside and secondary cities and less inclined to stay in large urban destinations, according to Fitch Ratings. The popularity of "staycations" has been benefiting larger operators with strong domestic brand recognition and local footprints. In contrast, business demand remains low, with virtual meetings and corporate cost-cutting programs exacerbating the impact of pandemic restrictions on business-focused hotel operators, especially in the upscale segment.

Fitch Ratings believes that although travel restrictions, particularly on domestic travel, have been gradually lifted, aided by successful vaccination rollouts in Europe and some other regions, there are risks that restrictive measures could return due to more infectious Covid-19 variants. Furthermore, some restrictions remain on international travel in various countries, while travel policy changes are sudden and mostly uncoordinated.

Fitch-rated hotels are forecasted to remain loss-making in 2021, despite unprecedented cost cuts. The firm expects a gradual recovery in RevPAR from 2022, although it is unlikely to reach pre-pandemic levels before 2025 as Europe's demand recovery lags that of other regions.

(III) US hotel market review

In August 2021, STR & Tourism Economics (TE) upgraded the US hotel forecast for 2021 and lowered that for 2022. Rather than improved expectations for the coming months, STR highlighted that the upward revision for 2021 more reflects the surge in demand that has already occurred as well as room rates hitting an all-time high on a nominal basis. It is expected that as public health conditions stabilize, the recovery in leisure travel demand will remain intact and the corporate travel recovery will resume its climb later in 2021.

The latest forecast data showed y-o-y RevPAR growth of 47.3% to US$63.16 in 2021, compared to a 50.1% decline in 2020, as shown in **Exhibit 8**. A continued recovery is expected in 2022, though at a moderated pace, with RevPAR forecasted to rise by 19.7% to US$75.60, as shown in **Exhibit 8**. However, full recovery of demand is expected in 2023, while RevPAR is projected to surpass 2019 levels in 2024.

Exhibit 8: Key performance indicators for the US hotel market

	2021 forecast		2022 forecast	
Metric	US$	y-o-y change	US$	y-o-y change
Occupancy (%)*	54.7%	31.5%	61.8%	13.0%
ADR	115.50	12.0%	122.43	6.0%
RevPAR*	63.16	47.3%	75.60	19.7%

**Reflects Total-Room-Inventory (TRI) methodology, which assumes no temporary hotel closures*

Source: STR, Tourism Economics

Meanwhile, we also note that Fitch Ratings recently raised its expectation for 2021 RevPAR to 68% of the 2019 pre-pandemic level, due to strong summer leisure travel in the US. Previously, the forecast was 62%.

However, STR highlighted that there is concern once the summer officially wraps up and the industry loses what has been its primary demand source. Given concerns over the Delta variant as well as delays in companies returning their employees to offices, STR believes it is possible that businesses may wait until early 2022 to put their people back on the road. The recovery is meanwhile uneven with some leisure-driven markets ahead of where they were pre-pandemic and most of the major markets still well off the pace.

SHARE PRICE PERFORMANCE REVIEW

Since our last company update report issued on 24 June 2021, when MOHG's share price closed at US$2.02, the share price has increased moderately. From then till present, the share price is up by about 8%. During this period, the highest closing price reached was US$2.18 as at time of writing. Recently, the share price has traded between US$2.08 to US$2.18.

For the most part, we believe the upward trend in the share price has likely been due to investors' optimism on a recovery in hotel markets due to increased travel, which could in turn boost MOHG's earnings. Recently, the global international travel outlook has improved as the spread of the Delta variant comes under better control. The virus situation in the US and Europe have broadly stabilized and that for Asia is also improving. Countries globally are taking further steps to reopen their borders and airlines are also increasing flight capacities in anticipation of a strong return of demand. Barring another severe global virus resurgence, there could be further normalization of international travel going forward, and this could kickstart a stronger rebound in global hotel markets.

Meanwhile, as highlighted previously, MOHG's share price rallied following the announcement of a takeover of Jardine Strategic Holdings by Jardine Matheson Holdings (JMS) in March 2021. The strong market reaction likely reflected expectations for MOHG to be taken private as well. Amid the rising trend of privatization offers for SGX-listed companies, there may be expectations that a MOHG takeover offer could still be possible, thus supporting share price upside.

POTENTIAL CATALYSTS

Currently, we identify the following 3 potential catalysts which could support further upside in MOHG's share price.

(I) Accelerated pace of global border re-openings

As highlighted on page 11, the improved outlook for international travel suggest that global hotel markets could be set for a strong recovery going forward. Overall, the performance outlook of MOHG's hotels in Asia, EMEA and the America segments has improved (we will discuss this in further detail in the 'Financial Projection' section). We believe this should provide greater confidence on a recovery in MOHG's financial performance going forward. Barring another severe global virus resurgence, the pace of border re-openings by countries globally could potentially accelerate. In turn, this could shorten the timeline for a normalisation of international travel and thus a full recovery in hotel markets may be achieved sooner than expected. If so, the strong anticipated rebound in MOHG's earnings could provide further impetus to the share price.

(II) Potential share buybacks

Recently, we note that companies related to MOHG have experienced a boost in share price following the announcement of share buybacks. In early trading on 30 September 2021, Jardine Matheson Holdings (JMH), the major controlling shareholder of MOHG, announced a proposed US$250 million share buyback plan to reduce capital. Since the announcement, JMH's share price is up by about 10%. Earlier on 7 September, Hongkong Land, a member of the Jardine Matheson Group with MOHG, announced a proposed US$500 million share buyback program extending till 31 December 2022. The company has also since experienced a 19% increase in its share price, notwithstanding sharp fluctuations over the period. Overall, this trend may suggest a possibility for share buybacks by MOHG going forward.

(III) Potential MOHG takeover offer

While a takeover offer for MOHG has yet to be announced, we still foresee a possibility that it could take place, given the rising trend of privatization offers for SGX-listed companies. This should provide additional support to upside in the share price.

FINANCIAL PROJECTION

In this section, we will provide our projection for MOHG's revenue, earnings and dividends in 2021 and 2022.

(I) Revenue projection

As was done in our last company update report, we will derive projected revenue for MOHG's individual geographical segments of Asia, EMEA and America. For this, we would assume the expected growth in revenue per available room (RevPAR) for the hotel markets in these segments as a proxy for revenue growth.

Recently, the global Covid-19 situation has seemingly improved, as countries globally ride through the virus resurgence owing to the spread of the Delta variant. In its latest weekly assessment, the World Health Organisation (WHO) reported that the number of global coronavirus cases fell, continuing a downward trend that began in late August 2021. Recent data from Johns Hopkins University also suggest that global deaths from Covid-19 have also been trending downwards since late August 2021.

In the US, daily infection cases have been on the decline and the health situation has improved. In a recent update on 13 October 2021, the US Centers for Disease Control & Prevention (CDC) said it expects COVID-19 deaths will likely decrease over the next 4 weeks. The latest forecast predicts 740,000 to 762,000 reported deaths by November 6. The latest CDC forecast also predicts a decline in hospitalization rates, with 500 to 10,100 new confirmed Covid-19 hospitalizations likely to be reported by November 5. According to STR & TE, it is expected that as public health conditions stabilize, the recovery in leisure travel demand will remain intact and the corporate travel recovery will resume its climb later in 2021. Recent border reopening measures also reflect the improved outlook, as the US recently announced plans to lift travel bans on vaccinated travellers from the European Union (EU) and United Kingdom (UK) from November 2021. As highlighted on page 10, latest forecasts by STR and TE suggest strong annual RevPAR growth of 43.7% in 2021, followed by a 19.7% y-o-y growth in 2022.

In Europe, leisure travel demand is also the main factor driving a post-lockdown lodging demand recovery. In contrast, business demand remains low, with virtual meetings and corporate cost-cutting programs exacerbating the impact of pandemic restrictions on business-focused hotel operators, according to Fitch Ratings. Nevertheless, successful vaccination rollouts in Europe have facilitated a lifting of travel restrictions, particularly on domestic travel. Further, as highlighted above, the US announced plans to lift travel bans on vaccinated travellers from EU and UK from November 2021. More recently, Singapore also expanded Vaccinated Travel Lane (VTL) scheme to cover European countries like Denmark, France, Italy, Netherlands, Spain and the UK. However, the concern is that parts of Europe like Ireland and Russia. According to the WHO's latest weekly assessment, Europe is the only region to report a rise in cases, while all other world regions reported a decrease. In addition, the rise in deaths was also the largest in Europe. Overall, the travel outlook in Europe has broadly improve. Hotel markets in Europe should benefit more from border re-openings and further improvement in international travel, given the region's greater reliance on tourism.

In Asia, the hotel outlook has also improved after the region was most negatively impacted by the spread of the Delta variant in Q3 2021. Domestic demand is forecasted to drive the recovery to the benefit of countries with a large pool of domestic travellers like Australia, New Zealand, China and Japan. The outlook for international demand is also brighter, with greater border re-opening initiatives in the region. For instance, Singapore recently expanded the scope of its VTL scheme to cover 11 countries from 2 previously. Indonesia is gearing to reopen Bali and the Riau Islands to foreign visitors, but only to selected list of 19 countries. Visitors from Australia and Singapore are not included in the list. As reported by the Straits Times, strict quarantine rules and cumbersome visa requirements, including finding a guarantor, threaten to keep visitors away at least for now, according to Indonesian officials. Further, there have been no international flights scheduled to arrive at Ngurah Rai international airport, according to airport officials. Further, countries like China and Hong Kong have yet to meaningfully reopen their borders.

Overall, we note that the global travel outlook has broadly improved and countries in different regions are increasingly taking steps to reopen their borders. As a result, we are inclined to believe that hotel markets are set for a strong rebound moving in to 2022, barring another severe virus resurgence globally. However, it is likely that the pace of recovery in travel could vary across different regions. As it stands, the virus situation in the US appears relatively stable, with hospitalization and death rates projected to decline in the coming weeks. Given that the US hotel market is largely driven by domestic demand, the strong return of domestic leisure demand has and should continue to support a robust hotel recovery. Meanwhile, the improved outlook of international travel, as reflected by increased border reopenings globally should be to the benefit of European hotel markets, which tend to rely more heavily on tourism. Looking at Asia, the outlook has improved compared to during Q3 2021, though it could take some time for the region's recovery to catch-up with the pace of the US and Europe.

Considering the above, we would assume y-o-y revenue growth of 37%, 42% and 47% (as proxied by 2021 US hotel market forecasts from STR and TE) for the Asia, EMEA and America segments respectively in 2021.

Maintaining a similar outlook in terms of the pace of recovery for the 3 segments in 2022, the projected y-o-y revenue growth would be 10%, 15% and 20% (as proxied by 2022 US hotel market forecasts from STR and TE) for the Asia, EMEA and America segments during the period. However, given our bullish outlook on the US and given that the MOHG's US hotels are situated in key cities like Boston and New York, we would assume a stronger recovery of 30% y-o-y growth in revenue for the America segment in 2022. The projected growth for Asia and EMEA would remain as 10% and 15% respectively.

Given the above, the projected revenue for the Asia, EMEA and America segments for 2021 would be US$132.8 million, US$93.9 million and US$30.4 million respectively, as shown in **Exhibit 9**. Accordingly, projected total revenue for the period would be US$257.0 million. For 2022, the respective projected figures would be US$146.0 million, US$107.9 million and US$39.6 million respectively, as shown in **Exhibit 9**. Thus, projected total revenue for the period would be US$293.5 million.

Exhibit 9: Projected revenue for 2021 and 2022

	Actual		Forecast					
	1H2021		2H2021		2021		2022	
Geographical segment	US$ million	y-o-y change	US$ million	y-o-y change	US$ million	y-o-y change	US$ million	y-o-y change
Asia	54.1	23.8%	78.7	47.8%	132.8	37.0%	146.0	10.0%
EMEA	33.9	-8.9%	60.0	107.5%	93.9	42.0%	107.9	15.0%
America	13.8	-5.5%	16.6	172.6%	30.4	47.0%	39.6	30.0%
Total	**101.8**	**6.6%**	**155.2**	**76.0%**	**257.0**	**39.9%**	**293.5**	**14.2%**

Source: MOHG, FPA Financial

(II) Earnings projection

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

Gross profit

To estimate gross profit, we would consider the MOHG's gross margin. With reference to **Exhibit 10**, we note that gross margin was between 35% and 37% from 2017 to 2019. Owing to the severe impact of the COVID-19 pandemic, gross margin was negative in 2020. In 1H2021, the gross margin was still negative.

Exhibit 10: Projected gross margin for 2021 and 2022

	Actual						Forecast		
[US$ million]	2017	2018	2019	2020	1H2020	1H2021	2H2021	2021	2022
Revenue	610.8	613.7	566.5	183.7	95.5	101.8	155.2	257.0	293.5
Gross profit	221.1	225.5	201.8	(49.3)	(26.6)	(12.9)	-	(12.9)	29.4
Gross margin (%)	**36.2%**	**36.7%**	**35.6%**	**NM**	**NM**	**NM**	**-**	**NM**	**10.0%**

Source: MOHG, FPA Financial

For 2H2021, we could expect some improvement in profitability amid the improving hotel outlook across Asia Pacific, EMEA and the US. As a conservative approach, we would assume a gross margin of zero for the period. Looking further ahead in 2022, we anticipate MOHG to turn profitable given the potential for greater normalization of international travel, and in turn a stronger recovery in hotel demand. We would thus assume a gross margin of 10% for 2022. Accordingly, we would derive a projected gross loss of S$12.9 million for 2021 and a projected gross profit of S$29.4 million for 2022, as shown in **Exhibit 10** above.

Selling & distribution costs

As noted on page 3, selling & distribution costs fell by 39.5% y-o-y to US$9.8 million in 1H2021, amid cost containment measures. For 2H2021, we could expect selling & distribution costs to increase with greater resumption of sales and marketing activities. Thus, we would assume a 10% increase in selling & distribution costs from 1H2021 to US$10.8 million. Accordingly, projected selling & distribution costs for full-year 2021 would be S$20.6 million, as shown in **Exhibit 11**. We would further assume a 20% y-o-y increase in 2022 to US$24.7 million, given the expectation that business activity will pick up further.

Exhibit 11: Projected selling & distribution costs for 2021 and 2022

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Selling & distribution costs	16.2	9.8	10.8	20.6	24.7

Source: MOHG, FPA Financial

Administration expenses

As noted on page 3, administrative expenses declined by 15.0% y-o-y to US$44.8 million in 1H2021. For 2H2021, we would assume the same amount of administrative expenses in 1H2021. Accordingly, the projected amount for full-year 2021 would be US$89.6 million, as shown in **Exhibit 12**. For 2022, we would assume a 10% y-o-y increase to US$98.6 million, as component items like travel and consultancy fees could rise with increased business activity.

Exhibit 12: Projected administrative expenses for 2021 and 2022

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Administrative expenses	52.7	44.8	44.8	89.6	98.6

Source: MOHG, FPA Financial

Other operating (expenses)/income

As noted on page 3, other operating income rose by 53.5% y-o-y to US$22.1 million in 1H2021. This was in part contributed by higher government grants of US$18.1 million (1H2020: US$10.1 million) and rent concessions of US$2.1 million (1H2020: 0.8 million) in relation to the Covid-19 pandemic. For 2H2021 and 2022, we would assume the absence of such subsidies. Overall, we would assume neither expenses nor income for these periods. Accordingly, the projected amount for 2021 and 2022 would be S$22.1 million and zero respectively, as shown in **Exhibit 13**.

Exhibit 13: Projected other operating (expenses)/income

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Other operating (expenses)/income	14.4	22.1	-	22.1	-

Source: MOHG, FPA Financial

Change in fair value of investment property under development

As discussed on page 3, MOHG recorded a fair value loss on investment property under development of US$89.1 million during 1H2021, in respect of a decrease in the valuation of the Causeway Bay site in Hong Kong as a result of market reductions in property values. For 2H2021 and 2022, we would assume neither gains nor losses. Accordingly, the projected fair value change on investment property under development for 2021 would be a loss of S$89.1 million, as shown in **Exhibit 14**.

Exhibit 14: Projected change in fair value change of investment property under development

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Fair value gain/(loss) on investment property under development	(333.7)	(89.1)	-	(89.1)	-

Source: MOHG, FPA Financial

Net financing charges

As noted on page 3, net financing charges fell by 7.2% y-o-y to US$6.4 million in 1H2021, as the decrease in financing charges more than offset a drop in interest income. This could be in part due to the impact of low interest rates amid easy monetary policies.

However, interest rates have moved up recently amid rising inflation concerns. The possibility of sooner-than-expected withdrawal of monetary stimulus has increased, as central banks move to rein in rising prices. This may lead to higher interest expenses incurred on MOHG's floating rate borrowings, thereby pushing up financing charges. At the same time, higher interest rates may also increase interest income. However, in anticipation that cash reserves may be used to support working capital amid the challenging operating environment, interest income may not rise if bank deposits are reduced. Furthermore, there is also a possibility, more likely than not, that MOHG may take on additional debt.

Overall, we would assume same amount of net financing charges of US$6.4 million in 1H2021 for 2H2021, given that interest rates may not rise substantially for the time being. Accordingly, the projected net financing charges for full-year 2021 would be S$12.8 million, as shown in **Exhibit 15**. For 2022, we would assume a 10% y-o-y increase in net financing charges to S$14.1 million = [110% x S$12.8 million projected net finance charges for 2021], in anticipation of stronger upward pressure on interest rates.

Exhibit 15: Projected net financing charges for 2021 and 2022

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Net financing charges	6.9	6.4	6.4	12.8	14.1

Source: MOHG, FPA Financial

Share of results from associates and joint ventures

MOHG's associates & joint ventures are involved in the ownership of hotels. Thus, share of results from associates & joint ventures will be closely tied to the outlook and performance of various hotel markets. As noted on page 3, higher share of loss from associates & joint ventures were recorded in 1H2021, given higher net losses incurred. Amid the improving hotel outlook globally, there is a possibility for share of profits to be achieved. However, given the risks associated with virus uncertainty, we would adopt a conservative approach to assume zero share of results from associates & joint ventures for 2H2021 and 2022. Accordingly, the share of loss for full-year 2021 would be US$15.0 million, as shown in **Exhibit 16**.

Exhibit 16: Projected share of results from associates & joint ventures for 2021 and 2022

	Actual		Forecast		
[US$ million]	1H2020	1H2021	2H2021	2021	2022
Share of results from associates & joint ventures	(13.5)	(15.0)	-	(15.0)	-

Source: MOHG, FPA Financial

(Loss)/profit before tax

Given the earnings projection so far, we would derive a loss before income tax of S$217.9 million and S$108.0 million for 2021 and 2022 respectively, as shown in **Exhibit 17**.

Exhibit 17: Projected loss before tax for 2021 and 2022

[US$ million]	2021 forecast	2022 forecast
Revenue	257.0	293.5
Cost of sales	269.9	264.2
Gross (loss)/profit	**(12.9)**	**29.4**
Selling & distribution costs	(20.6)	(24.7)
Administration expenses	(89.6)	(98.6)
Other operating (expense)/income	22.1	-
Change in fair value of investment property under development	(89.1)	-
Operating (loss)/profit	(190.1)	(93.9)
Net financing charges	(12.8)	(14.1)
Share of results of associates & joint ventures	(15.0)	-
(Loss)/profit before tax	**(217.9)**	**(108.0)**

Source: FPA Financial

Tax

Given that pre-tax losses are expected in 2021 and 2022, we would assume no income tax to be paid for these periods.

(Loss)/profit after tax

Consequently, the projected after-tax loss for 2021 and 2022 would be US$217.9 million and US$108.0 million respectively. Adjusting for non-controlling interests (assumed to be zero for both periods), the respective projected loss attributable to shareholders would also be US$217.9 million and US$108.0 million for 2021 and 2022 respectively. This will respectively translate to a loss per share of 17.25 cents and 8.55 cents for these periods. We have summarized our earnings projection in **Exhibit 18** on the next page.

Exhibit 18: Earnings projection for 2021 and 2022

[US$ million]	2021 forecast	2022 forecast
Revenue	257.0	293.5
Cost of sales	269.9	264.2
Gross (loss)/profit	**(12.9)**	**29.4**
Selling & distribution costs	(20.6)	(24.7)
Administration expenses	(89.6)	(98.6)
Other operating (expense)/income	22.1	-
Change in fair value of investment property under development	(89.1)	-
Operating (loss)/profit	(190.1)	(93.9)
Net financing charges	(12.8)	(14.1)
Share of results of associates & joint ventures	(15.0)	-
(Loss)/profit before tax	(217.9)	(108.0)
Tax	-	-
(Loss)/profit after tax	**(217.9)**	**(108.0)**
(Loss)/Profit attributable to:		
Shareholders	**(217.9)**	**(108.0)**
Non-controlling interests	-	-
	(217.9)	(108.0)
(Loss)/Profit attributable to equity holders	(217.9)	(108.0)
Weighted average no. of shares in issue (million)	1,263.2	1,263.2
EPS (cents)	**(17.25)**	**(8.55)**

Source: FPA Financial

(III) Dividends projection

In April 2020, MOHG had withdrawn its recommendation of a final dividend of 1.50 cents in respect of 2019 and declared no dividends in respect of 2020. This reflects the severe impact of the Covid-19 pandemic on the overall financial performance. As losses are projected to also be incurred for 2021 and 2022, we would assume no dividends to be declared for both periods.

VALUATION ANALYSIS

We will perform an updated peer comparison analysis to account for the changes in the financial position of MOHG and its selected peer companies.

The results of our updated peer comparison analysis are summarized in **Exhibit 19.**

Exhibit 19: Updated peer comparison

Company	SGX code	Currency	Current price ($) as at 18 Oct 21	Market cap ($ million)	EPS (1) (cents)	P/E (x)	DPS (2) (cents)	Dividend yield (%)	NAV per share (3) ($)	P/NAV (x)
Mandarin Oriental Intl Ltd (4)	M04	USD	2.180	2,753.78	(31.70)	NM	-	-	3.95	0.55
Peers:										
CDL Hospitality Trust	J85	SGD	1.190	1,462.75	(14.41)	NM	4.66	3.92%	1.29	0.92
Far East Hospitality Trust	Q5T	SGD	0.640	1,258.81	(3.86)	NM	2.48	3.88%	0.79	0.81
Frasers Hospitality Trust (5)	ACV	SGD	0.510	982.30	(6.87)	NM	1.25	2.45%	0.66	0.77
Hotel Properties Limited (6)	H15	SGD	3.390	1,766.12	(27.26)	NM	4.00	1.18%	5.48	0.62
Peers' average	-		-	-	-	-	-	**2.85%**	-	**0.78**

n/m: not meaningful

(1) Based on 12-month trailing diluted EPS

(2) Based on 12-month trailing dividends

(3) As at 30 June 2021, unless stated otherwise

(4) Adjusted NAV per share of US$3.95 which accounts for revaluation of MOHG's freehold & leasehold land and buildings

(5) NAV per share as at 31 Mar 2021

(6) FPA's estimated revalued NAV per share of S$5.48

Source: respective company data, FPA Financial

Based on the above results in **Exhibit 19**, we note that MOHG is currently trading at a P/NAV of 0.55x based on its adjusted NAV per share of US$3.95. This is lower compared to the peers' average of 0.78x, which may suggest that MOHG is undervalued at the current share price of US$2.18. We estimate a target price of US$3.09 if MOHG were to trade at the peers' average P/NAV of 0.78x as follows:

- Estimated target price = [peers' average P/NAV] x [adjusted NAV per share] = 0.78 x US$3.95 = US$3.09

The above estimated target price of US$3.09 represents an upside of 41.7% from the current share price of US$2.18. As highlighted on page 12, we believe that this upside may be supported by accelerated pace of global border re-openings, potential share buybacks and a potential MOHG takeover offer. Overall, we believe that there are good prospects for the share price to reach US$3.09 in the long term.

INVESTMENT RECOMMENDATION

Since our initiation report issued on 24 June 2021, when MOHG's share price closed at US$2.02, the share price has increased by about 8% to the current share price of US$2.18.

On valuation terms, the results of our peer comparison analysis suggest that MOHG is currently trading at a P/NAV of 0.55x, which is lower than the peers' average of 0.78x. We estimate a target price of US$3.09 if MOHG were to trade at the peers' average P/NAV. This estimated target price represents an upside of 41.7% from the current share price.

Currently, we identify 3 potential catalysts supporting further upside in the share price, including an accelerated pace of global border re-openings, potential share buybacks and a potential MOHG takeover offer. In our view, the main catalyst would be an accelerated pace of global border re-openings. As it stands, the outlook for international travel has improved significantly with a stabilization of Covid-19 situation. Many parts of the world like US and Europe have managed to gain better control of the Delta variant, and the situation in Asia is also improving. Barring another severe global virus resurgence, the pace of border re-openings by countries globally could potentially accelerate. This could support a sooner-than-expected recovery in hotel markets to pre-Covid levels, and in turn support a strong rebound in MOHG's earnings. Further, potential share buybacks by MOHG and the possibility of a MOHG takeover offer also provide additional support for share price upside.

Considering the above, we will maintain a buy recommendation on MOHG. We believe that there are good prospects for the share price to reach our current target price of US$3.09 in the long term. However, there are still risks to our target price which we will highlight in the Risk section.

RISKS TO THE UPSIDE IN TARGET PRICE

(I) Risk of a global economic slowdown

For the most part, global vaccination progress as well as strong fiscal and monetary stimulus have helped to support a strong global economic recovery in 2021 thus far However, recent economic indicators suggest that the pace of recovery in major economies like the US and China has slowed. In its recently published World Economic Outlook report, the International Monetary Fund downgraded its global growth forecast to 5.9% from 6.0%. Evidently, virus resurgence has been a major cause of the slowing global growth, as the spread of the Delta variant has resulted in a slowdown in consumption and disrupted global supply chains. Meanwhile, rising inflation, in part due to supply bottlenecks and upward pressure on wages, has also been a major concern. This could result in sooner than expected withdrawal of central bank stimulus in economies like the US, which could then reduce growth. Overall, a global economic slowdown could negatively impact MOHG's financials given the correlation between hotel demand and economic growth.

(II) Subdued international travel due to virus uncertainty

As discussed on page 14, the global travel outlook has broadly improved and countries in different regions are increasingly taking steps to reopen their borders. We are thus inclined to believe that hotel markets are set for rebound moving in to 2022, though the pace of recovery is likely to vary across different regions. However, virus uncertainty remains, and the potential spread of new virus strains poses pose as a risk to border reopenings and the recovery in international travel. Hotel markets which are more dependent on tourism demand, such as those in Europe, may likely be more negatively impacted by a virus resurgence.

So far, hotel demand has largely been supported by a rebound in the leisure travel segment, while the recovery in business and group travel has lagged. Work from home dynamics may also have a long-lasting impact on business travel. Being in the luxury hotel segment, which caters to affluent and business travelers, MOHG's business is more susceptible to weak global economy and subdued business travel.

(III) Risk of currency fluctuations

MOHG's earnings are susceptible to foreign exchange risk given that transactions and investments may not be denominated in the functional currency. Recently, rising bond yields have supported a strengthening of the US dollar (USD). The current strong inflation environment could continue to support USD appreciation. If the USD were to strengthen significantly, it could have a negative impact on the MOHG's earnings.

DISCLOSURES/DISCLAIMERS

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of FPA Financial Corporation Pte Ltd ("FPA"). This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as FPA may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject FPA and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by FPA to be reliable. However, FPA makes no representation as to the accuracy or completeness of such sources or the Information and FPA accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. FPA and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of FPA and its connected persons are subject to change without notice. FPA reserves the right to act upon or use the Information at any time, including before its publication herein.