



ARA US HOSPITALITY TRUST

(ARAUS SP)

Largely in line with forecasts, keep an eye peeled

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- **Maintain OUTPERFORM with revised 12M TP of US\$0.95.**

DPU is largely in line with our forecasts, despite missing ARA's own forecasts by 12.9%. We have revised 2020F estimates to account for a more conservative environment in light of year-end US elections, in addition to a slower recovery amid supply headwinds.

- **Despite fresh set of senior hotel management staff in transition, RevPAR Index of portfolio remains robust.**

With portfolio RevPAR Index of 106.3% and higher-than-average occupancy rates (ARA 4Q19: 77%; 4Q upscale select-service: 68.5%), despite supply outpacing demand and the inherent seasonality in 4Q, we see potential for the renewed c.45% of management to further boost RevPAR and accordingly, DPU for unitholders.

- **Expect future acquisitions to boost DPU further.**

In addition to establishing an SGD800mn multicurrency stapled debt programme in January 2020, management has undoubtedly expressed intention to continue actively pursuing DPU-accretive acquisitions in the coming year(s).

Figure 1: 2019 Actual Earnings vs KGI Forecasts

YE Dec USD mn	2019A	KGI 2019F	Variance
Gross revenue	115.0	121.1	-5.1%
Net property income	32.6	37.6	-13.3%
Distributable income	23.9	24.2	-1.4%
DPU (US cents)	4.2	4.3	-2.1%

Source: Company, KGI Research

4Q/FY19 review. Stronger-than-expected supply headwinds, particularly in the teeming upscale select-service segment, have impacted RevPAR growth in 4Q19, and is expected to spill-over into 2020 as new hotels continue to offer introductory rates. YoY supply growth is also still expected to outpace demand growth in 2020 and 2021, holding down our estimates for the next two years.

Consequently, in line with a dimmer macro outlook, we also see a downward revaluation of ARA's properties of about 2.1%, especially for hotels in the West/Midwest. However, we expect the impact of headwinds to taper off towards 2H20/2021. Hotels in cities such as Philadelphia and Tampa have already seen improvement in RevPAR performance as new supply absorbs. This is largely in line with Hyatt House Philadelphia's valuation that has increased by c.10%.

Saving grace. We believe that the contributions from its three new Marriott acquisitions will help soften the impact of supply headwinds, the transitional period for ARA hotels' new management, as well as any subdued demand due to the year-end elections. We are already seeing some improved results - after a period of transition, Hyatt Place Sacramento's new General Manager and Director of Sales have together already pushed its RevPAR Index up to c.140% in January 2020 from 105% in November 2019. Thus, we are

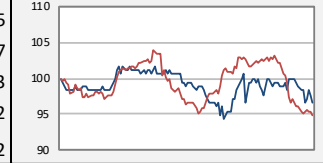
Outperform (Maintain)

Price as of 7 Nov 19 (USD)	0.86	Performance (Absolute)	
12M TP (USD)	0.95	1 Month (%)	-2.3
Previous TP (USD)	0.99	3 Month (%)	-1.7
Upside, incl div (%)	19.2%	12 Month (%)	-

Trading data

Mkt Cap (USD mn)	485
Issued Shares (mn)	567
Vol - 3M Daily avg (mn)	0.3
Val - 3M Daily avg (USD mn)	0.2
Free Float (%)	43.2

Perf. vs STI Index (Red)



Major Shareholders

ARA Asset Mgt	9.5%	7-Nov-19	OP US\$0.99
Yu Duan	8.5%	2-Oct-19	OP US\$0.96
Yang Shi Ying	8.0%		

Financials & Key Operating Statistics

YE Dec USD mn	2018A	2019A	2020F	2021F	2022F
Gross revenue*	-	115.0	200.5	214.0	223.8
Net property income*	-	32.6	62.2	66.4	69.4
Distributable income*	-	23.9	39.9	42.0	44.1
DPU* (US cents)	-	4.3	7.0	7.4	7.7
DPU growth (%)	-	-	-	5.1	4.0
Div Yield (%)	-	5.0	8.1	8.6	8.9
NAV (US cents)	-	0.9	0.8	0.8	0.8
Price / Book (x)	-	1.0	1.0	1.0	1.0
NPI Margin* (%)	-	28.4	31.0	31.0	31.0
Net Margin* (%)	-	9.3	7.7	8.1	8.7
Gearing (%)	-	32.1	38.4	38.4	38.3
ROE* (%)	-	2.2	3.2	3.6	4.0

* 2019F figures are for a period of 8 months, 1 May to 31 December 2019;

Source: Company, KGI Research

optimistic about a new, more capable and qualified set of hotel management staff in 2020. We also note that the current Covid-19 situation has not impacted ARA's hotels, given that they are predominantly domestic customer oriented and not located in gateway cities.

Management has also expressly made known their intentions for more Marriott or Hilton-branded acquisitions, especially those with a higher RevPAR index and higher GOP margins, with a focus on extended stay hotels as these tend to fulfil the higher GOP margins requirement. Management has also highlighted focusing on economically favourable states, mostly in the Southern regions where economic growth rates are expected to surpass that of the nations', namely in Texas, Florida and North Carolina among others. We do note though that while Texas is attractive to businesses due to the lack of state income taxes, a potential decrease oil production in the near future could affect the state's growth.

Valuation & Action: Maintain OUTPERFORM based on fair value of US\$0.95. We remain optimistic but conservative, due to the less than optimal macro outlook. DPU has dipped slightly to 7.0 US cents (prev: 7.7) for our FY20F forecasts, representing a total return of 19.2% (incl. div).

Risks: US tax changes, FX risk as earnings and dividends are in USD.

Figure 2: US Hotel Performance/Forecast %Δ, YoY; US Supply/Demand %Δ, 4Q19



Source: Company, KGI Research

Figure 3: Portfolio Valuations for the year ending 31 Dec 2019

	Valuation (US\$ mn)	Adopted valuation at listing	Valuation as at 31 Dec 2019	Variance
Northeast	Hyatt House Boston Burlington	37.8	36.0	-4.8%
	Hyatt House Morristown	36.0	35.1	-2.5%
	Hyatt House Branchburg	26.1	24.7	-5.4%
	Hyatt House Parsippany Whippany	26.0	29.0	11.5%
	Hyatt House Parsippany	25.1	23.9	-4.8%
	Hyatt House Fishkill	17.9	20.2	12.8%
	Hyatt House Shelton	15.8	17.8	12.7%
	Hyatt House Philadelphia Plymouth Meeting	13.3	14.7	10.5%
	Hyatt Place Secaucus Meadowlands	24.1	24.2	0.4%
	Hyatt Place Pittsburgh Cranberry	12.4	8.8	-29.0%
	Hyatt Place Mystic	11.8	11.0	-6.8%
Hyatt Place Pittsburgh Airport	8.5	8.5	0.0%	
South	Hyatt House Richmond West	30.1	34.1	13.3%
	Hyatt House Sterling Dulles Airport North	17.9	22.0	22.9%
	Hyatt House Raleigh Durham Airport	21.3	22.2	4.2%
	Hyatt Place Nashville Opryland	26.0	23.4	-10.0%
	Hyatt Place Atlanta Alpharetta Windward Parkway	22.9	21.9	-4.4%
	Hyatt Place Cincinnati Airport Florence	20.8	22.1	6.3%
	Hyatt Place Nashville Brentwood	20.4	17.0	-16.7%
	Hyatt Place Charlotte Airport Tyvola Road	20.3	19.2	-5.4%
	Hyatt Place Lakeland Center	16.7	15.3	-8.4%
	Hyatt Place Tampa Busch Garden	16.3	16.6	1.8%
	Hyatt Place Richmond Arboretum	14.7	15.0	2.0%
	Hyatt Place Louisville East	14.3	16.1	12.6%
	Hyatt Place Memphis Primacy Parkway	14.3	13.0	-9.1%
	Hyatt Place Atlanta Norcross Peachtree	13.4	12.9	-3.7%
Hyatt Place Oklahoma City Airport	12.7	11.5	-9.4%	
Hyatt Place Birmingham Inverness	10.1	9.6	-5.0%	
Midwest	Hyatt Place Omaha Downtown Old Market	29.6	28.9	-2.4%
	Hyatt Place Detroit Livonia	18.1	15.2	-16.0%
	Hyatt Place Detroit Auburn Hills	15.4	12.3	-20.1%
	Hyatt Place Cleveland Independence	11.8	10.1	-14.4%
	Hyatt Place Chicago Itasca	11.4	9.8	-14.0%
	Hyatt Place Cincinnati Northeast	10.8	10.1	-6.5%
West	Hyatt Place Sacramento Rancho Cordova	24.0	23.8	-0.8%
	Hyatt Place Denver Airport	19.7	17.3	-12.2%
	Hyatt Place Boise Towne Square	18.2	16.9	-7.1%
	Hyatt Place Albuquerque Airport	13.5	14.5	7.4%
		719.5	704.7	-2.1%

Source: Company, KGI Research

Valuations

Figure 4: DDM valuation

USD cents, YE 31 December	FY18	FY19	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
DPU	-	4.2	7.0	7.4	7.7	7.9	8.1	8.3	8.5
YoY (%)				5.1%	4.0%	3.7%	2.0%	1.8%	3.0%
Terminal Growth Rate (%)									1.5%
Terminal value per unit								112.2	
Cost of Equity	9.1%								
Target Price (US\$)	0.95								
Capital Appreciation	10.4%								
Forward Dividend	8.1%								
Upside/(Downside)	18.5%								

Source: KGI Research

Figure 5: Peer comparison

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)			P/B (x)			6M Average daily trading volume (S\$ '000)	YTD Price Performance (%)	1YR Price Performance (%)
				Current	FY19F	FY20F	Current	FY19F	FY20F			
ARAUS SP	ARA US HOSPITALITY TRUST	USD 0.86	485	-	5.0	8.1	-	1.0	1.0	588	-1.7	-2.4
SINGAPORE LISTED HOSPITALITY REITS (Average)			6,533	6.1	7.7	7.0	0.8	0.9	0.8	3,564.3	(4.7)	(4.8)
ART SP	ASCOTT RESIDENCE TRUST	SGD 1.30	2,863	5.7	-	5.9	0.9	1.0	1.0	7,498	-2.3	14.0
CDREIT SP	CDL HOSPITALITY TRUSTS	SGD 1.53	1,326	5.6	-	5.9	1.0	1.0	1.0	4,648	-5.6	-4.4
FHT SP	FRASERS HOSPITALITY TRUST	SGD 0.70	955	6.2	6.4	6.4	1.0	1.0	-	618	-1.4	-4.4
FEHT SP	FAR EAST HOSPITALITY TRUST	SGD 0.67	931	5.1	5.2	5.2	0.8	0.8	0.8	1,493	-9.3	3.9
EAGLEHT SP	EAGLE HOSPITALITY TRUST	USD 0.53	457	7.7	11.4	11.4	0.6	0.6	0.6	-	-	-32.7
SINGAPORE LISTED US REITS (Average)			3,790	198.0	7.9	8.4	0.9	1.0	1.0	10,578.3	2.6	7.1
MUST SP	MANULIFE US REAL ESTATE INV	USD 1.04	1,631	6.0	6.0	6.0	1.3	1.3	1.3	4,321	4.0	24.3
KORE SP	KEPPEL PACIFIC OAK US REIT	USD 0.79	739	770.5	7.8	7.8	0.9	1.0	1.0	1,230	1.3	18.8
PRIME SP	PRIME US REIT	USD 1.04	962	7.7	6.3	-	-	-	-	-	-	18.2
EAGLEHT SP	EAGLE HOSPITALITY TRUST	USD 0.53	457	7.7	11.4	11.4	0.6	0.6	0.6	5,027	-	-32.7
US LISTED SELECT-SERVICE HOSPITALITY REITS			11,754	8.1	7.6	8.1	1.1	4.4	4.4	76,927.4	(8.4)	(14.0)
SVC US	SERVICE PROPERTIES TRUST	USD 22.41	3,687	8.8	9.8	9.9	1.4	-	-	21,148	-7.2	-12.2
APLE US	APPLE HOSPITALITY REIT INC	USD 15.02	3,362	8.4	5.5	8.0	1.0	-	-	22,250	-7.6	-10.2
RLJ US	RLJ LODGING TRUST	USD 16.00	2,728	8.0	8.3	8.3	1.0	7.9	7.7	20,032	-9.7	-17.2
INN US	SUMMIT HOTEL PROPERTIES INC	USD 11.31	1,189	7.4	6.4	6.4	1.1	1.0	1.1	9,573	-8.3	-2.7
CLDT US	CHATHAM LODGING TRUST	USD 16.78	787	7.7	7.9	7.9	1.0	-	-	3,924	-8.3	-21.1
US LISTED FULL-SERVICE HOSPITALITY REITS			44,291	7.1	6.4	6.4	2.4	2.8	2.9	353,533.4	(5.6)	(13.2)
HST US	HOST HOTELS & RESORTS INC	USD 16.71	11,984	4.6	5.1	5.1	1.6	1.7	1.7	122,848	-9.9	-13.1
MGP US	MGM GROWTH PROPERTIES LLC-A	USD 33.73	10,421	6.0	5.7	5.7	1.5	2.2	2.2	38,545	8.9	8.3
PK US	PARK HOTELS & RESORTS INC	USD 22.93	5,489	10.5	8.2	8.1	0.8	0.8	0.9	66,635	-11.4	-25.7
RHP US	RYMAN HOSPITALITY PROPERTIES	USD 89.54	4,915	5.1	4.3	4.2	14.8	13.5	14.3	22,667	3.3	3.9
PEB US	PEBBLEBROOK HOTEL TRUST	USD 24.19	3,160	5.4	6.2	6.2	1.0	-	-	30,230	-9.3	-27.8
SHO US	SUNSTONE HOTEL INVESTORS INC	USD 12.97	2,920	5.3	4.4	4.9	1.2	1.2	1.2	27,677	-6.3	-10.3
XHR US	XENIA HOTELS & RESORTS INC	USD 19.02	2,142	6.4	6.2	6.2	1.2	1.2	1.3	10,913	-12.0	-1.4
DRH US	DIAMONDROCK HOSPITALITY CO	USD 10.28	2,058	5.5	5.1	4.9	1.1	1.2	1.1	24,214	-7.2	-5.5
HT US	HERSHA HOSPITALITY TRUST	USD 14.11	545	6.4	7.9	7.9	1.2	0.5	0.5	5,930	-3.0	-25.2
AHT US	ASHFORD HOSPITALITY TRUST	USD 2.56	261	12.0	9.5	9.4	-	-	-	1,897	-8.2	-52.7
BHR US	BRAEMAR HOTELS & RESORTS INC	USD 8.09	266	7.2	7.9	7.9	0.6	-	-	1,512	-9.2	-32.2
CONDOR US	CONDOR HOSPITALITY TRUST INC	USD 10.85	129	11.3	-	-	1.4	-	-	465	-1.7	29.5

Source: Bloomberg, KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (USD mn)	2018A	2019A	2020F	2021F	2022F
Gross revenue	-	115.0	200.5	214.0	223.8
Property expenses	-	(82.4)	(138.4)	(147.7)	(154.4)
Net property income	-	32.6	62.2	66.4	69.4
REIT Manager's & Trustee-Manager's	-	(2.5)	(4.8)	(4.9)	(4.9)
Management fees	-	(2.5)	(4.8)	(4.9)	(4.9)
REIT & Trustee-Manager's Trustee's fees	-	(0.1)	(0.2)	(0.2)	(0.2)
Net interest expense	-	(6.0)	(12.7)	(12.7)	(12.7)
Other expenses	-	(1.3)	(2.5)	(2.5)	(2.5)
Net profit/(loss)	-	8.9	17.1	19.3	21.7
Change in fair value - investment ppty	-	0.0	4.0	0.0	1.0
Total return before tax	-	8.9	17.1	19.3	21.7
Income tax	-	1.8	(1.7)	(1.9)	(2.2)
Total return after tax	-	10.7	15.4	17.4	19.5
Distributable income	-	23.9	39.9	42.0	44.1
BALANCE SHEET (USD mn)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	-	45.2	21.5	23.1	24.9
Trade and other receivables	-	6.5	5.9	5.9	6.1
Other current assets	-	0.4	0.3	0.3	0.3
Total current assets	-	52.1	27.8	29.3	31.4
Property, plant and equipment	-	704.8	801.3	801.3	801.3
Intangibles, others	-	1.7	0.0	0.0	0.0
Total assets	-	758.6	829.0	830.6	832.7
Trade and other payables	-	11.6	11.6	12.3	12.9
Other current liabilities	-	0.1	0.0	0.0	0.0
Total current liabilities	-	11.7	11.6	12.3	12.9
LT Borrowings	-	243.7	318.7	318.7	318.7
Other non-current liabilities	-	10.0	10.0	10.0	10.0
Total liabilities	-	265.4	340.2	341.0	341.6
Unitholders' funds and reserves	-	493.2	488.8	489.6	491.1
Total liabilities and equity	-	758.6	829.0	830.6	832.7
CASH FLOW STATEMENT (USD mn)	2018A	2019A	2020F	2021F	2022F
Total return before tax	-	8.9	17.1	19.3	21.7
Depreciation & Amortisation	-	13.7	25.1	25.1	25.1
Management fees paid/payable in	-	1.3	2.4	2.4	2.4
Stapled Securities	-	1.3	2.4	2.4	2.4
Changes in working capital	-	(4.6)	(0.7)	0.6	0.8
Taxes paid	-	0.0	(1.7)	(1.9)	(2.2)
Cash flows from operations	-	25.6	55.0	58.3	60.7
Capital expenditure	-	(7.1)	(8.0)	(2.0)	(2.0)
Acquisition of investment properties	-	0.0	(88.8)	0.0	0.0
Other investing cashflow	-	0.0	(4.3)	0.0	0.0
Cash flows from investing	-	(6.7)	(101.1)	(2.0)	(2.0)
Borrowings raised / (repaid)	-	(295.7)	75.0	0.0	0.0
Equity raised / (bought back)	-	323.4	0.0	0.0	0.0
Dividends paid	-	(0.0)	(39.9)	(42.0)	(44.1)
Other financing cashflow	-	(7.0)	(12.7)	(12.7)	(12.7)
Cash flows from financing	-	4.4	22.3	(54.7)	(56.8)
FX Effects, Others	-	0.0	0.0	0.0	1.0
Net increase in cash	-	23.2	(23.8)	1.6	1.8
Beginning Cash	-	22.1	45.2	21.5	23.1
Ending cash	-	45.2	21.5	23.1	24.9
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
DPU* (USD cents)	-	4.3	7.0	7.4	7.7
Dividend yield* (%)	-	5.0	8.1	8.6	8.9
NAV per stapled security (USD cents)	-	0.9	0.8	0.8	0.8
Price/NAV (x)	-	1.0	1.0	1.0	1.0
Profitability* (%)	-	-	-	-	-
NPI Margin	-	28.4	31.0	31.0	31.0
Net Margin	-	9.3	7.7	8.1	8.7
ROE	-	2.2	3.2	3.6	4.0
ROA	-	1.4	1.9	2.1	2.3
Financial Structure	-	-	-	-	-
Interest Coverage* (x)	-	4.8	4.3	4.6	4.8
Gearing (%)	-	32.1	38.4	38.4	38.3

* 2019F figures are for the period of 8 months, from 1 May 2019 to 31 December 2019

Source: Company, KGI Research

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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