



ARA US HOSPITALITY TRUST

(ARAUS SP/ARAU.SI)

What doesn't kill you makes you stronger

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- **Maintain OUTPERFORM with revised 12M TP of US\$0.67.** While 1Q20 numbers have remained largely intact, we expect 2Q20 to bear the brunt of 'peak shutdown', and 2H20 to present a stunted recovery. However, we remain optimistic on ARA's portfolio's ability to keep afloat.
- **Cost flexibility associated with the select-service and extended-stay sector to keep margins buoyant.** With 85% - 90% of variable costs, management has been diligent and proactive in implementing cost saving initiatives, saving up to US\$143k per month as demand declines.
- **Despite loan covenant waivers, property values may not recover in time.** While demand may improve over the next year, we remain cautious as it may not be sufficient to support a RevPAR growth recovery – especially amid a recession, ongoing trade tensions, and a pending year-end election.

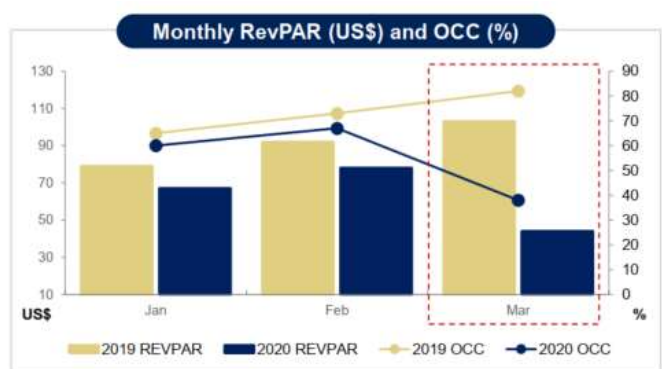
1Q20 review. January and February saw initial signs of growth, before the Covid-19 pandemic hit. Both Occupancy and RevPAR were on uptrends, from 60% to 67% and US\$67 to US\$78 respectively. However, in line with the overall US hotel industry trend and as a result of the Covid-19 pandemic, March figures declined steeply. On the brighter side of things, ARA's portfolio managed to maintain still, though marginally, a higher RevPAR index – pointing to a slight outperformance of its peers.

Figure 1: Portfolio performance by month, Jan 2020 – Mar 2020

Hotel Brand	Jan 2020			Feb 2020			Mar 2020		
	Occ	RevPAR	RPI*	Occ	RevPAR	RPI*	Occ	RevPAR	RPI*
Hwyatt Portfolio	59%	US\$65	101%	65%	US\$74	101%	37%	US\$42	88%
Marriott Portfolio	72%	US\$108	142%	81%	US\$121	135%	44%	US\$64	117%
Total Portfolio	60%	US\$67	108%	67%	US\$78	105%	38%	US\$44	101%

Source: Company, KGI Research

Figure 1: Portfolio performance by month, Jan 2020 – Mar 2020



Source: Company, KGI Research

Management has also been actively pursuing new sales opportunities with the National Guard as well as airline, construction and air cargo crews. A total of 30 hotels were initially closed by mid-April, but management have been

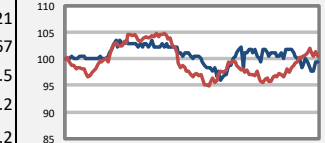
Outperform (Maintain)

Price as of 13 May 20 (USD)	0.39	Performance (Absolute)	
12M TP (USD)	0.67	1 Month (%)	4.0
Previous TP (USD)	0.95	3 Month (%)	-52.0
Upside, incl div (%)	76.7	12 Month (%)	-52.8

Trading data

Mkt Cap (USD mn)	221
Issued Shares (mn)	567
Vol - 3M Daily avg (mn)	0.5
Val - 3M Daily avg (USD mn)	0.2
Free Float (%)	43.2

Perf. vs STI Index (Red)



Major Shareholders

ARA Asset Mgt	9.5%
Yu Duan	8.5%
Yang Shi Ying	8.0%

Previous Recommendations

20-Feb-20	0.95
7-Nov-19	0.99
2-Oct-19	0.96

Financials & Key Operating Statistics

YE Dec USD mn	2018A	2019A	2020F	2021F	2022F
Gross revenue*	-	115.0	98.4	166.4	189.8
Net property income*	-	32.6	30.5	51.6	58.9
Distributable income*	-	23.9	12.1	31.0	37.8
DPU* (US cents)	-	4.3	2.1	5.4	6.4
DPU growth (%)	-	-	-	154.9	19.6
Div Yield (%)	-	11.0	5.4	13.8	16.5
NAV (US cents)	-	0.9	0.8	0.8	0.8
Price / Book (x)	-	0.5	0.5	0.5	0.5
NPI Margin* (%)	-	28.4	31.0	31.0	31.0
Net Margin* (%)	-	9.3	(10.9)	2.9	6.2
Gearing (%)	-	32.1	41.0	40.9	40.7
ROE* (%)	-	2.2	(2.3)	1.0	2.5

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

Source: Company, KGI Research

cautiously re-opening hotels recently as certain states re-emerge from lockdowns. As of the end of April, 12 of 30 hotels have been reopened.

Property prices under pressure. ARA has successfully obtained a 12-month loan covenants waiver from its Singapore banks, including its security margin ratio, aggregate leverage ratio (both not more than 45%), and interest coverage ratio (threshold set at 1.5x and 2x). However, commercial property prices have already slipped an average of 10% as of May 2020, according to the Green Street Commercial Property Price Index (refer to our US Hospitality Sector Update dated 13 May 2020). While this may not be as significant in light of the loan covenants waiver, we may just be beginning to descend, and the million dollar question remains – will the trough be in a year's time, just as the waiver expires and in time for its next valuation?

Valuation & Action: Maintain OUTPERFORM based on fair value of US\$0.67. We have factored in an impact, gradually improving, lasting 2 years, before normalizing in 2H 2022. At current levels, our TP represents a 77% upside, with highly attractive dividend yields for FY21 and FY22 should investors look beyond 2020.

Risks: US commercial property prices falling beyond expectations triggering a rights issue, a second wave of Covid-19 outbreak as the US opens up, foreign exchange risk as earnings and dividends are in USD.

Valuations

Figure 4: DDM valuation

USD cents, YE 31 December	FY18	FY19	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
DPU	-	4.2	2.1	5.4	6.4	7.8	7.9	8.0	8.1
Terminal Growth Rate (%)									1.5%
Terminal value per unit								84.6	
Cost of Equity	11.1%								
Target Price (US\$)	0.67								
Capital Appreciation	71.2%								
Forward Dividend	5.4%								
Upside/(Downside)	76.7%								

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	FY19A	FY20F	Current	FY19F	FY20F			
ARAUS SP	ARA US HOSPITALITY TRUST	USD 0.39	221	-	11.0	5.4	-	0.5	0.5	588	-55.2	-54.9
	SINGAPORE LISTED HOSPITALITY REITS (Average)		3,913	5.7	6.3	6.3	0.6	0.6	0.6	4,554.8	(37.7)	(33.1)
ART SP	ASCOTT RESIDENCE TRUST	SGD 0.85	1,853	5.7	5.9	5.9	0.8	0.7	0.7	9,633	-36.1	-28.6
CDREIT SP	CDL HOSPITALITY TRUSTS	SGD 0.92	785	5.6	6.3	6.3	0.6	0.6	0.6	6,095	-43.5	-42.1
FHT SP	FRASERS HOSPITALITY TRUST	SGD 0.47	627	6.2	6.7	6.7	-	0.6	-	734	-34.5	-34.0
FEHT SP	FAR EAST HOSPITALITY TRUST	SGD 0.47	648	5.1	6.2	6.2	0.5	0.5	0.5	1,758	-36.5	-27.7
EAGLEHT SP	EAGLE HOSPITALITY TRUST											
ASCHT SP	ASCENDAS HOSPITALITY TRUST											
	Merged with ART SP											
	SINGAPORE LISTED US REITS (Average)		2,434	7.1	9.5	9.4	0.8	0.8	0.8	7,328.9	(25.8)	(17.8)
MUST SP	MANULIFE US REAL ESTATE INV	USD 0.72	1,124	6.0	8.5	8.5	0.9	0.9	0.9	5,715	-28.5	-15.1
KORE SP	KEPPEL PACIFIC OAK US REIT	USD 0.60	563	7.7	10.3	10.3	0.8	0.8	0.8	1,614	-23.1	-18.9
PRIME SP	PRIME US REIT	USD 0.71	747	7.7	9.7	-	-	-	-	-	-	-19.3
EAGLEHT SP	EAGLE HOSPITALITY TRUST											
	Suspended											
	US LISTED SELECT-SERVICE HOSPITALITY REITS		4,752	7.4	8.1	8.1	0.6	4.8	4.8	91,498.1	(62.5)	(63.7)
SVC US	SERVICE PROPERTIES TRUST	USD 5.27	867	8.8	23.5	23.5	0.4	-	-	22,020	-78.3	-79.7
APLE US	APPLE HOSPITALITY REIT INC	USD 7.88	1,760	7.4	5.7	5.7	0.5	-	-	30,995	-51.5	-52.3
RLJ US	RLJ LODGING TRUST	USD 7.98	1,318	7.4	2.7	2.7	0.5	9.1	9.1	25,201	-55.0	-56.7
INN US	SUMMIT HOTEL PROPERTIES INC	USD 5.20	549	5.8	4.6	4.6	1.1	0.5	0.5	9,080	-57.9	-57.6
CLDT US	CHATHAM LODGING TRUST	USD 5.50	258	7.7	4.0	4.0	0.4	-	-	4,202	-70.0	-72.3
	US LISTED FULL-SERVICE HOSPITALITY REITS		22,619	6.4	11.5	11.5	0.8	1.1	1.1	426,201.6	(62.8)	(65.4)
HST US	HOST HOTELS & RESORTS INC	USD 9.83	6,930	4.6	5.4	5.4	1.0	1.1	1.1	147,304	-47.0	-48.2
MGP US	MGM GROWTH PROPERTIES LLC-A	USD 23.01	7,514	6.0	8.3	8.3	1.1	1.3	1.3	56,602	-25.7	-26.8
PK US	PARK HOTELS & RESORTS INC	USD 7.29	1,717	7.3	10.5	10.5	0.3	0.3	0.3	66,928	-71.8	-76.0
RHP US	RYMAN HOSPITALITY PROPERTIES	USD 26.76	1,471	4.2	3.6	3.6	2.6	4.0	4.0	33,618	-69.1	-68.5
PEB US	PEBBLEBROOK HOTEL TRUST	USD 9.93	1,298	5.7	5.1	5.1	0.4	-	-	37,963	-63.0	-68.2
SHO US	SUNSTONE HOTEL INVESTORS INC	USD 7.40	1,596	5.3	4.2	4.2	0.8	0.7	0.7	36,330	-46.8	-48.3
XHR US	XENIA HOTELS & RESORTS INC	USD 7.27	825	5.1	3.8	3.8	0.5	0.5	0.5	11,999	-66.4	-67.5
DRH US	DIAMONDROCK HOSPITALITY CO	USD 4.50	897	4.5	5.0	5.0	0.5	0.5	0.5	25,468	-59.4	-58.3
HT US	HERSHA HOSPITALITY TRUST	USD 4.19	162	7.7	12.4	12.4	0.4	0.2	0.2	6,273	-71.2	-77.4
AHT US	ASHFORD HOSPITALITY TRUST	USD 0.64	66	10.8	51.8	51.8	-	-	-	1,222	-77.2	-87.8
BHR US	BRAEMAR HOTELS & RESORTS INC	USD 2.41	80	7.2	16.6	16.6	0.2	-	-	1,731	-73.0	-80.9
CDOR US	CONDOR HOSPITALITY TRUST INC	USD 3.15	38	7.1	-	-	0.4	-	-	416	-71.5	-67.3
SOHO US	SOTHERLY HOTELS INC	USD 1.73	26	7.7	-	-	1.1	-	-	348	-74.5	-75.7

Source: KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (USD mn)	2018A	2019A*	2020F	2021F	2022F
Gross revenue	-	115.0	98.4	166.4	189.8
Property expenses	-	(82.4)	(67.9)	(114.8)	(131.0)
Net property income	-	32.6	30.5	51.6	58.9
REIT Manager's & Trustee-Manager's	-	(2.5)	(1.6)	(8.4)	(7.8)
Management fees	-	(2.5)	(1.6)	(8.4)	(7.8)
REIT & Trustee-Manager's Trustee's fees	-	(0.1)	(0.2)	(0.2)	(0.2)
Net interest expense	-	(6.0)	(10.1)	(10.1)	(10.1)
Other expenses	-	(1.3)	(2.5)	(2.5)	(2.5)
Net profit/(loss)	-	8.9	(9.0)	5.3	13.1
Change in fair value - investment ppty	-	0.0	0.0	0.0	1.0
Total return before tax	-	8.9	(9.0)	5.3	13.1
Income tax	-	1.8	(1.7)	(0.5)	(1.3)
Total return after tax	-	10.7	(10.8)	4.7	11.8
Distributable income	-	23.9	12.1	31.0	37.8
BALANCE SHEET (USD mn)	2018A	2019A*	2020F	2021F	2022F
Cash and cash equivalents	-	45.2	15.6	19.0	22.0
Trade and other receivables	-	6.5	5.9	4.6	5.2
Other current assets	-	0.4	0.3	0.3	0.3
Total current assets	-	52.1	21.9	23.9	27.6
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	823.2	825.2	828.8
Trade and other payables	-	11.6	5.7	9.6	10.9
Other current liabilities	-	0.1	0.0	0.0	0.0
Total current liabilities	-	11.7	5.7	9.6	10.9
LT Borrowings	-	243.7	337.2	337.2	337.2
Other non-current liabilities	-	10.0	10.0	10.0	10.0
Total liabilities	-	265.4	352.8	356.8	358.1
Unitholders' funds and reserves	-	493.2	470.3	468.5	470.7
Total liabilities and equity	-	758.6	823.2	825.2	828.8
CASH FLOW STATEMENT (USD mn)	2018A	2019A*	2020F	2021F	2022F
Total return before tax	-	8.9	(9.0)	5.3	13.1
Depreciation & Amortisation	-	13.7	25.1	25.1	25.1
Management fees paid/payable in	-	1.3	0.8	4.2	3.9
Stapled Securities	-	1.3	0.8	4.2	3.9
Changes in working capital	-	(4.6)	(6.5)	2.4	2.0
Taxes paid	-	0.0	(1.7)	(0.5)	(1.3)
Cash flows from operations	-	25.6	18.7	46.6	52.9
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)	(12.1)	(31.0)	(37.8)
Other financing cashflow	-	(7.0)	(10.1)	(10.1)	(10.1)
Cash flows from financing	-	4.4	52.8	(41.1)	(47.9)
FX Effects, Others	-	0.0	0.0	0.0	1.0
Net increase in cash	-	23.2	(29.6)	3.4	3.0
Beginning Cash	-	22.1	45.2	15.6	19.0
Ending cash	-	45.2	15.6	19.0	22.0
KEY RATIOS	2018A	2019A*	2020F	2021F	2022F
DPU (USD cents)	-	4.3	2.1	5.4	6.4
Dividend yield (%)	-	11.0	5.4	13.8	16.5
NAV per stapled security (USD cents)	-	0.9	0.8	0.8	0.8
Price/NAV (x)	-	0.5	0.5	0.5	0.5
Profitability (%)					
NPI Margin	-	28.4	31.0	31.0	31.0
Net Margin	-	9.3	(10.9)	2.9	6.2
ROE	-	2.2	(2.3)	1.0	2.5
ROA	-	1.4	(1.3)	0.6	1.4
Financial Structure					
Interest Coverage (x)	-	4.8	2.3	4.3	5.1
Gearing (%)	-	32.1	41.0	40.9	40.7

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

Source: Company, KGI Research

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	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.
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