OCBC Investment Research

MITA No. 010/06/2008

23 April 2009

Ascott Residence Trust

Maintain

BUY

Previous Rating: BUY

S$0.465

Fair Value: S$0.57

Stock Code:	
Reuters:	ASRT.SI
ISIN Code	A68U
Bloomberg:	ART SP
Event:	Results

General Data

Issued Capital (m)	614
Mkt Cap (Sm/USm)	285 / 189
Major Shareholder	CapitaLand (47.23%)
Free Float (%)	52.8%
NAV per share (S$)	1.51
Daily Vol 3-mth ('000)	1,505
52Wk High (S$)	1.360
52Wk Low (S$)	0.350

1Q falls, but within expectations

Revenue falls 11.7% QoQ. Ascott Residence Trust (ART) posted S$42.1m in 1Q revenue, down 8% YoY and 11.7% QoQ. Gross profit fell 16% YoY and 5.1% QoQ to S$19.9m. Gross margin stood at 47.2%, lower than the 51.4% recorded a year ago but an improvement over the preceding quarter's 43.9%. 1Q09 DPU came in at 1.77 S cents (down 24% YoY), or an annualized yield of 15%. Distributions are paid semi-annually. Overall RevPAU for the quarter was S$120 per day, a 15% decline versus 1Q08 and a 9.8% decline versus 4Q08. We note that contributions from the Somerset West Lake acquisition, completed on April 1st, will only start to flow through in 2Q09. The results bore the full brunt of the global economic crisis and were in line with our expectations.

Singapore and China worst performers. As expected, Singapore and China were the worst performers in ART's portfolio. In Singapore, RevPAU fell 32.7%YoY and 26.5% QoQ to S$169/day. The manager attributed the decline to lower occupancy due to weaker demand from business travelers. China, meanwhile, recorded a 18.7% YoY and 11% QoQ decline in RevPAU to S$113/day. The manager attributed the fall to lower business traveler traffic coupled with over-supply in the Beijing and Shanghai markets. The manager said that while demand for serviced residences was "significantly weaker" in these two markets, the performance of Indonesia, Vietnam and the rental housing business in Japan "continues to be relatively stable". As we noted in our re-initiation report last week, ART's diversified portfolio is a key strength as different markets are feeling the impact of the global crisis to differing degrees.

For investors taking the long view. While the 1Q decline was within our expectations, significant uncertainty remains. We expect RevPAU to remain volatile (and on a downtrend) as corporate demand for travel and extended-stay accommodation is "rationalized" in line with the current macroeconomic turmoil. Visibility is low and ART's quarter-to-quarter performance may vary considerably. Nevertheless, we continue to believe ART is a compelling valuation play for investors who can withstand the near-term yield volatility. ART has minimal refinancing needs, with S$96m in loans maturing in 2009. Our valuation incorporates our assumption of a S$160m equity issue at the S$0.45 price level. Maintain **BUY** with S$0.57 fair value. Key risks to our estimates include a worse-than-expected deterioration in the economic outlook for ART's operating markets.

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Year to 31 Dec	Revenue (S$m)	PATMI (S$m)	Distr Income (S$m)	DPU (cents)	DPU Growth (%)	DPU Yield (%)	P/NAV (x)
FY 07	154.8	160.5	45.1	7.7	33.1	16.6	0.3
FY 08	192.4	-42.2	53.7	8.8	14.0	18.9	0.3
FY 09F	164.9	-42.5	41.0	6.6	-24.4	14.3	0.3
FY 10F	157.9	-44.8	38.4	6.2	-7.3	13.2	0.4

Exhibit 1: Recent RevPAU performance by country

REVPAU by country Year end 31 Dec (S$/day)	1Q08	2Q08	3Q08	4Q08	1Q09	Comments
Singapore	251.0	252.0	262.0	230.0	169.0	
%Chg (QoQ)	17%	0%	4%	-12%	-27%	
Australia	164.0	144.0	152.0	172.0	126.0	- Up 1.6% YoY in AUD
%Chg (QoQ)	12%	-12%	6%	13%	-27%	terms
China	139.0	144.0	223.0	127.0	113.0	
%Chg (QoQ)	-7%	4%	55%	-43%	-11%	
Indonesia	74.0	74.0	73.0	72.0	74.0	
%Chg (QoQ)	1%	0%	-1%	-1%	3%	
Japan - serviced resi	135.0	150.0	148.0	155.0	143.0	- Down 14% YoY in
%Chg (QoQ)	-8%	11%	-1%	5%	-8%	JPY terms
Philippines	147.0	140.0	132.0	136.0	138.0	- Up 3.5% YoY in
%Chg (QoQ)	4%	-5%	-6%	3%	1%	Peso terms
Vietnam	144.0	146.0	140.0	143.0	137.0	
%Chg (QoQ)	3%	1%	-4%	2%	-4%	
Overall RevPAU	**141.0**	**143.0**	**163.0**	**133.0**	**120.0**	
%Chg (QoQ)	**2%**	**1%**	**14%**	**-18%**	**-10%**	

Source: Company

Exhibit 2: OIR's RevPAU forecasts by country

YoY %Chg in RevPAU	FY09F	FY10F	FY11F	FY12F
Singapore	-35%	-5%	8%	8%
Australia	-15%	-5%	4%	4%
China	-35%	-5%	8%	8%
Indonesia	-13%	-5%	4%	4%
Japan	-15%	-5%	4%	4%
Philippines	-13%	-5%	4%	4%
Vietnam	-13%	-5%	4%	4%

Source: OIR estimates

ART's Key Financial Data

ART Results Year Ended 31 Dec (S$ m)	1Q09 (S$m)	1Q08 (S$m)	% Chg (YoY)	4Q08 (S$m)	% Chg (QoQ)
Revenue	42.1	45.8	-8.1%	47.7	-11.7%
Direct expenses	-22.3	-22.2	0.4%	-26.8	-16.9%
Gross profit	19.9	23.6	-16.0%	20.9	-5.1%
Finance income	0.2	0.2	-15.0%	0.3	-43.9%
Finance costs	-5.8	-4.7	24.5%	-5.8	0.4%
Other operating income	0.1	0.0	n.m.	-0.5	n.m.
Manager's management fees	-1.7	-1.9	-8.3%	-2.1	-17.5%
Other fees	-0.4	-0.6	-21.8%	-0.4	18.6%
Forex gain - realised	-0.2	0.0	n.m.	0.1	n.m.
Others	-0.2	-0.2	4.7%	-0.1	227.8%
Net profit before unrealized gains	11.8	16.6	-28.8%	12.5	-5.8%
Other charges	14.2	-2.5	n.m.	-2.9	n.m.
Change in property values	0.0	0.0	n.m.	-94.0	n.m.
Tax	-1.8	-2.7	-32.4%	7.7	n.m.
Minority interests	-1.5	-1.5	0.3%	0.1	n.m.
PATMI	22.7	9.9	128.9%	-76.5	n.m.
Net effect of non-tax items/ other adj	-11.8	4.3	n.m.	86.8	n.m.
Total distributable amount	10.8	14.2	-23.4%	10.3	5.2%

EARNINGS FORECAST Year Ended 31 Dec (S$ m)	FY07	FY08	FY09F	FY10F
Revenue	154.8	192.4	164.9	157.9
Direct expenses	-85.1	-96.9	-87.9	-84.2
Gross profit	69.7	95.5	77.0	73.7
Finance income	0.8	1.1	1.6	1.6
Finance costs	-15.3	-20.8	-23.1	-23.3
Other operating income	0.9	0.1	0.1	0.1
Manager's management fees	-5.9	-8.1	-7.2	-6.6
Other fees	-1.7	-2.2	-1.7	-1.6
Forex gain - realised	0.3	-0.4	0.0	0.0
Others	-0.1	-0.8	-0.7	-0.6
Net profit before unrealized gains	48.7	64.3	46.1	43.2
Other charges	-7.4	-5.8	0.0	0.0
Change in property values	147.4	-94.0	-80.0	-80.0
Tax	-22.0	-2.5	-4.5	-4.1
Minority interests	-6.1	-4.3	-4.1	-3.9
PATMI	160.5	-42.2	-42.5	-44.8
Net effect of non-tax items/ other adj	-115.5	95.8	83.5	83.2
Total distributable amount	45.1	53.7	41.0	38.4

BALANCE SHEET **As at 31 Dec (S$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
Investment properties	1559.2	1565.3	1516.2	1434.5
Cash	64.5	56.1	64.3	71.6
Other current assets	38.1	32.1	34.7	34.3
Total assets	1689.1	1687.6	1649.2	1574.5
Current liabilities ex debt	80.9	79.0	79.6	79.4
Debt	541.7	624.4	647.3	647.3
Total liabilities	650.5	722.6	746.1	745.9
Minority interests	65.7	65.9	77.8	79.7
Unitholders' funds	972.9	899.0	825.3	748.8
Total equity and liabilities	1689.1	1687.6	1649.2	1574.5

CASH FLOW **Year Ended 31 Dec (S$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
PBT	188.6	-35.5	-33.9	-36.8
Adjustments for:				
Borrowing costs	14.5	19.8	21.5	21.7
Manager's mngt fees paid in units	0.0	4.1	3.5	3.3
Change in value of properties	-147.4	94.0	80.0	80.0
Other adjustments	13.6	-11.9	1.2	0.8
Cash flow from operating activities	69.4	70.4	72.3	69.0
Acquisition of properties & subsidiaries	-380.8	-30.7	-22.9	0.0
Others	-19.9	-11.9	-1.4	-1.4
Cash flow from investing activities	-400.7	-42.5	-24.3	-1.4
Distributions to unitholders	-35.1	-52.4	-41.0	-38.4
Dividends to minority shareholders	-3.2	-3.6	-2.1	-1.9
Interest paid	-14.5	-19.6	-23.1	-23.3
Proceeds from bank borrowings	222.7	329.7	22.9	0.0
Proceeds from issue of new units	202.8	3.8	3.5	3.3
Repayment of bank borrowings	-8.3	-297.6	0.0	0.0
Other costs	-4.2	0.0	0.0	0.0
Cash flow from financing activities	360.2	-39.6	-39.8	-60.4
Net change in cash	28.9	-11.7	8.2	7.3
Cash at beg of period	36.3	64.5	56.1	64.3
Translation effects	-0.7	3.3	0.0	0.0
Cash at end of period	64.5	56.1	64.3	71.6

Per share data Year ended 31 Dec	FY07	FY08	FY09F	FY10F
Units outstanding, period end	606.2	610.8	617.7	624.4
EPU (S cents)	26.5	-6.9	-6.9	-7.2
DPU (S cents)	7.7	8.8	6.6	6.2
CFPS (S cents)	11.4	11.5	11.7	11.1
NAV (S$)	1.6	1.5	1.3	1.2

Key rates & ratios Year ended 31 Dec	FY07	FY08	FY09F	FY10F
PER (x)	1.8	-	-	-
DPU yield (%)	16.6	18.9	14.3	13.2
P/CF (x)	4.1	4.0	4.0	4.2
P/NAV (x)	0.3	0.3	0.3	0.4
Gross profit margin (%)	45.0	49.6	46.7	46.7
Distr to revenue (%)	29.1	27.9	24.8	24.3
Total debt/Total assets (x)	0.3	0.4	0.4	0.4
Total debt/Total equity (x)	0.5	0.6	0.7	0.8

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst's immediate family owns 419,000 shares in Ascott Residence Trust.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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