

9 March 2010

Hospitality REITS

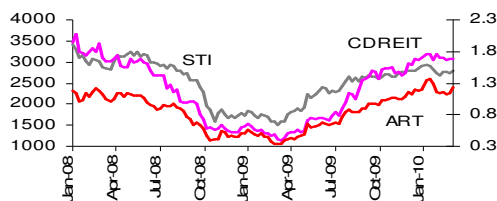
Riding on earnings recovery

Growth projected for tourist arrivals. The Singapore Tourism Board (STB) is projecting 11.5m to 12.5m visitor arrivals to Singapore in 2010, up 18.6% to 28.9% from the 9.7m visitors in 2009. It also projects S\$17.5b to S\$18.5b in tourism receipts this year - up a whopping 40% to 49% from S\$12.4b in receipts last year. Catalysts include the opening of the two Integrated Resorts (IRs), the 2010 Youth Olympic Games, and the recovery in the global economy. The STB has a 2015 target of 17m visitor arrivals and S\$30b in tourism receipts.

Riding on earnings recovery. The estimates bolster the earnings recovery theme for hospitality REITs CDL-Hospitality Trusts [CDREIT, NOT RATED] and Ascott Residence Trust (ART). The two REITs saw RevPAR¹ declines of roughly 28% and 14.5% respectively in FY09 on subdued individual and corporate travel expenditure. We expect hospitality players to enjoy revenue growth this year on the back of improving occupancy and a stabilization (and potential recovery) in room rates. CDREIT is a more direct beneficiary of the new developments on the local scene due to its shorter stay profile and its larger exposure to Singapore vis-à-vis ART. Both REITs should benefit, in our opinion, from the increased MICE space and the potential draw of the IRs (Las Vegas rents more convention space than any other US city²).

Earnings growth from acquisitions. CDREIT took advantage of its low leverage (19.1% as of 31 Dec 2009) and the availability of distressed opportunities to enter the Australian market through the acquisition of five hotels. The properties were acquired at a discount of up to 66% discounts to their current replacement value (including land costs). We see limited debt headroom for ART at its current leverage level (41.2% as of 31 Dec) but believe it may still be able to make accretive acquisitions through a combination of debt and equity. Its manager is also focusing on asset enhancements.

Valuations still compelling. CDREIT and ART are up 302% and 251% from their 2009 lows. Nevertheless, we believe ART's valuations remain attractive at 0.92x book. Depending on the trajectory of the hospitality recovery, there could be room for further upwards earnings revisions (we are currently below consensus). CDREIT and ART are trading at 6% and 6.4% FY10F yields respectively (based on consensus for CDREIT). We do not have a rating on CDREIT. Maintain **BUY** with S\$1.38 fair value for ART, one of our top picks for the S-REIT sector.



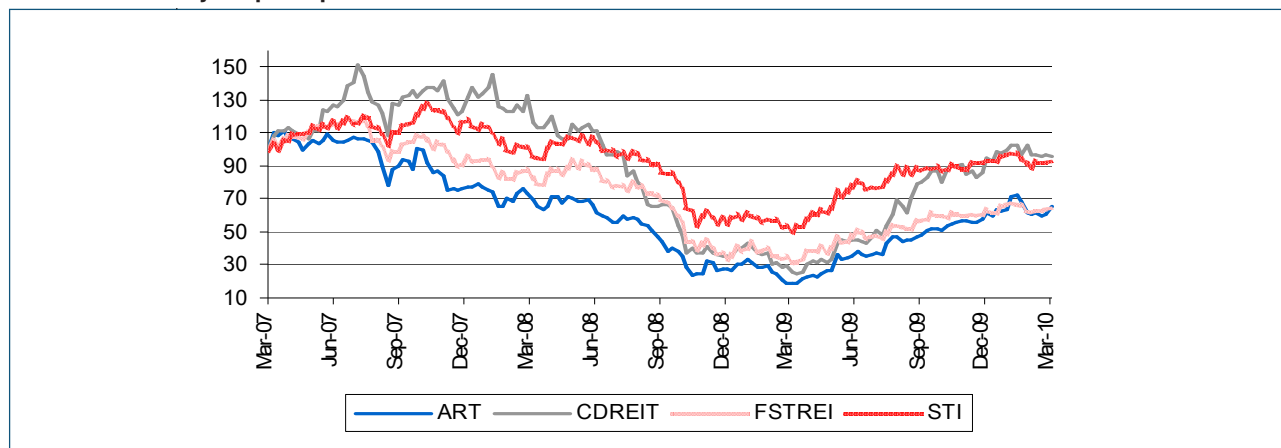
S-REIT	Current Px (S\$)	Rating	Fair Value (S\$)	Total return (%)
Ascott Residence Trusts	1.230	BUY	1.38	18.6%
CDL-Hospitality Trusts	1.710	NOT RATED		

Meenal Kumar
 (65) 6531 9112
 e-mail: Meenalk@ocbc-research.com

¹ RevPAR, or Revenue per available room/unit.

² 2008, Las Vegas Convention and Visitor's Authority.

Exhibit 1: Three-year price performance



Source: Bloomberg

Exhibit 2: Asset overview - CDREIT

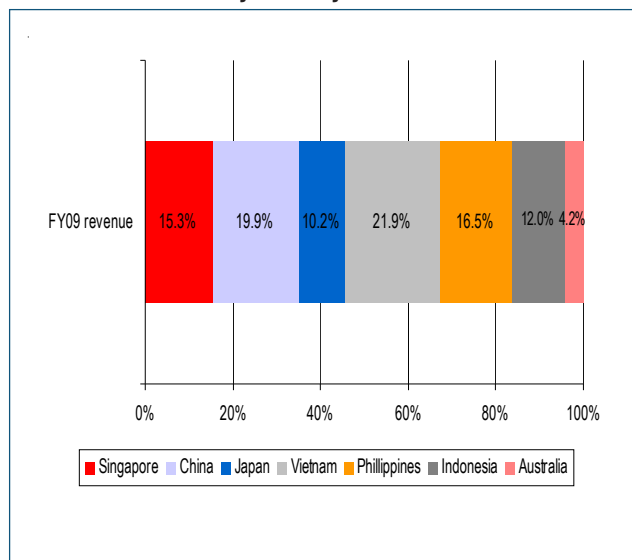
Asset	Total # of rooms	Date acquired ('000 000)	Valuation	Type	Lease structure
Singapore					
Orchard Hotel	653	Jul-06	SGD 413.0	4.0 star	Fixed rent floor
Grand Copthorne Waterfront Hotel	574	Jul-06	SGD 315.0	5.0 star	Fixed rent floor
M Hotel	413	Jul-06	SGD 225.0	4.0 star	Fixed rent floor
Copthorne King's Hotel	310	Jul-06	SGD 118.0	4.0 star	Fixed rent floor
Novotel Clark Quay	401	Jun-07	SGD 267.0	4.0 star	Lease structure with reserve
Orchard Hotel Shopping Arcade	n/a	Jul-06	SGD 54.0	n/a	Directly from tenants
New Zealand					
Rendezvous Hotel Auckland	452	Dec-06	SGD 109.6	4.5 star	Base rent + variable rent
Australia					
Novotel Brisbane	296	Feb-10	Total acq cost of A\$187.2	4.5 star	Base rent + variable rent
Mercure Brisbane	194	Feb-10		4.0 star	Base rent + variable rent
Ibis Brisbane	218	Feb-10		3.5 star	Base rent + variable rent
Mercure Perth	239	Feb-10		4.0 star	Base rent + variable rent
Ibis Perth	192	Feb-10		3.5 star	Base rent + variable rent
Total	3,942		SGD 1,737.9		

Source: CDREIT, OIR

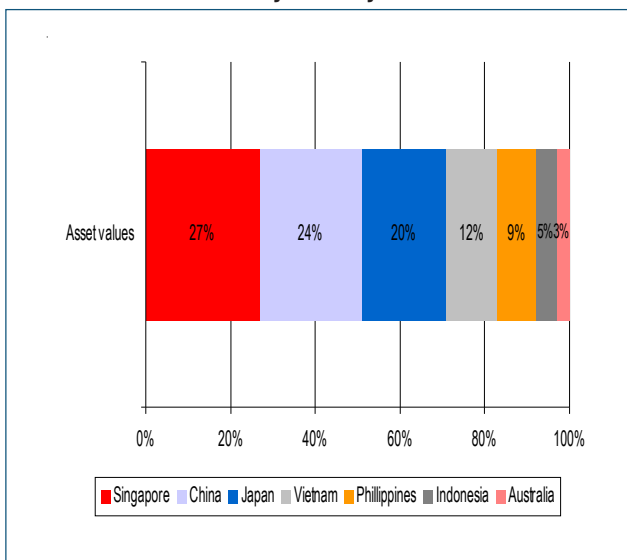
Exhibit 3: Asset overview - ART

Property	Stake (%)	Total # of rooms	NLA (sqm)	Type	Date acquired	Appraised Value 31-Dec-09 ('000 000)
Singapore						
Somerset Grand Cairnhill	100%	146	20,048	Somerset	Mar-2006	SGD 217.9
Somerset Liang Court	100%	197	17,070	Somerset	Mar-2006	SGD 182.4
Australia						
Somerset Gordon Heights, Melbourne	100%	43	2,137	Somerset	May-2007	SGD 13.2
Somerset St George Terrace, Perth	100%	84	4,000	Somerset	Jun-2008	SGD 34.6
China						
Ascott Beijing	100%	310	59,422	Ascott	Mar-2006	SGD 179.8
Somerset Grand Fortune Garden, BJ	81 units	221	15,899	Somerset	Mar-2006	SGD 46.3
Somerset Xu Hui, Shanghai	100%	167	17,805	Somerset	Mar-2006	SGD 52.8
Somerset Olympic Tower, Tianjin	100%	185	25,043	Somerset	Oct-2006	SGD 78.2
Indonesia						
Ascott Jakarta	100%	198	21,371	Ascott	Mar-2006	SGD 35.0
Somerset Grand Citra, Jakarta	57.4%	203	29,666	Somerset	Mar-2006	SGD 39.7
Country Woods, Jakarta	100%	251	48,490	Corporate Leasing	Mar-2006	SGD 19.0
Japan						
Somerset Azabu East, Tokyo	100%	79	4,019	Somerset	Apr-2007	SGD 68.8
Somerset Roppongi, Tokyo	100%	64	3,542	Somerset	Apr-2007	SGD 51.3
18 rental housing properties, Tokyo	100%	509	13,318	Corporate Leasing	Dec-2007	SGD 174.1
Philippines						
Ascott Makati	100%	306	34,282	Ascott	Mar-2007	SGD 95.9
Somerset Millenium, Makati	100%	138	4,448	Somerset	Mar-2006	SGD 13.3
Somerset Salcedo, Makati	71 units	150	5,901	Somerset	Mar-2006	SGD 11.8
Vietnam						
Somerset Grand Hanoi	76%	185	28,328	Somerset	Mar-2006	SGD 95.7
Somerset West Lake, Hanoi	70%	90	5,349	Somerset	Apr-2009	SGD 29.8
Somerset Chancellor Court, HCMC	67.0%	172	19,026	Somerset	Mar-2007	SGD 62.4
Somerset HCMC	69%	165	19,154	Somerset	Mar-2006	SGD 54.1
Total		3,863				SGD 1,556.1

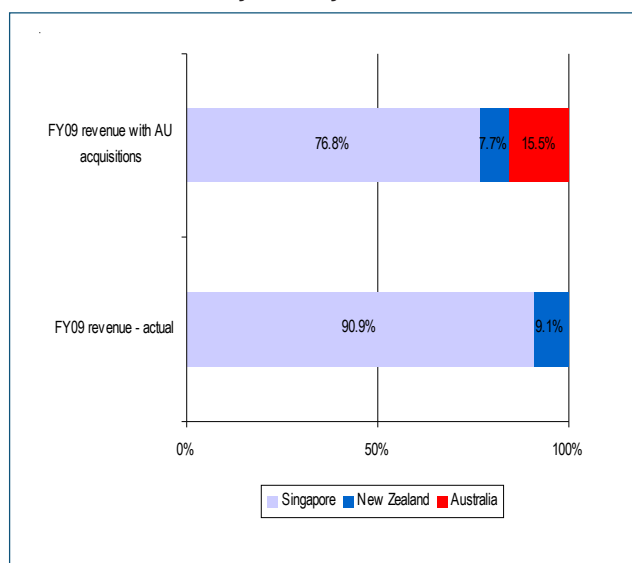
Source: ART, OIR

Exhibit 4: Revenue by country - ART

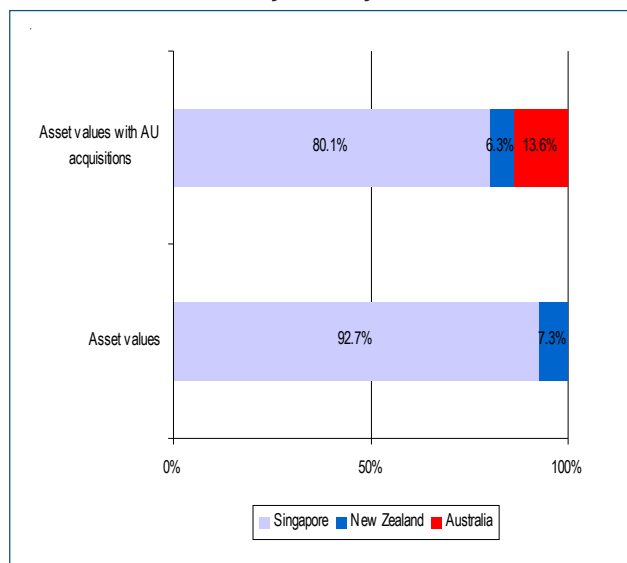
Source: ART

Exhibit 5: Asset value by country - ART

Source: ART

Exhibit 6: Revenue by country - CDREIT

Source: CDREIT

Exhibit 7: Asset value by country - CDREIT

Source: CDREIT

Exhibit 8: Valuation comparison

(\$)	2007 peak	2009 low	Peak to trough	Last price	Recovery from trough	Leverage (%)	BVPU 31-Dec	Price to book (x)	FY10F DPU	YoY %	FY11F DPU	YoY %	FY10F yield	FY11F yield
Ascott Residence Trust	2.14	0.35	-83.6%	1.23	251.4%	41.2%	1.34	0.92	0.079	8.2%	0.082	3.3%	6.4%	6.7%
CDL-Hospitality Trusts	2.66	0.425	-84.0%	1.71	302.4%	~30% after acquisitions	1.43	1.20	0.103	20.2%	0.112	8.7%	6.0%	6.5%
Average			-83.8%		276.9%	35.6%		1.06		14.2%		6.0%	6.2%	6.6%

Note 1: At 31 Dec, CDREIT's leverage and book value per unit were 19.1% and S\$1.43 respectively. This does not reflect the AU purchases.

Note 2: We use consensus estimates for CDREIT and OIR estimates for ART

Source: Bloomberg, consensus & OIR estimates

SHAREHOLDING DECLARATION:

Meenal Kumar's immediate family owns units 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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Carmen Lee
Head of Research

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