

MITA No. 010/06/2008

2 March 2009

Hotel Grand Central

Maintain

HOLD

Previous Rating: HOLD

\$S\$0.50

Fair Value: \$S\$0.48

Stock Code:

Reuters: HGCS.SI

ISIN Code: H18

Bloomberg: GRAN SP

Event:

Results

General Data

Issued Capital (m)	466
Mkt Cap (\$m/US\$m)	233 / 151
Major Shareholder	Tan family (51.5%)
Free Float (%)	43
NAV per share (\$)	1.09
Daily Vol 3-mth ('000)	54
52Wk High (\$)	1.030
52Wk Low (\$)	0.440

Forex hit bottomline

Forex ate into bottomline. Hotel Grand Central (GRAN) posted a 74% decline in FY08 earnings to S\$14.6m. This was mainly due to losses in 4Q08 of S\$2.4m (versus a profit of S\$12.4m in 4Q07). The culprit was the ballooning in foreign exchange losses which swelled to S\$16.9m in FY08 (or S\$8.2m in 4Q08). We were earlier going for total foreign exchange losses of S\$11.1m and the difference of S\$5.8m was mainly the reason behind the differential between our forecast and the actual profits. The unrealised foreign exchange loss was mainly due to the translation of fixed deposits denominated in AUD, NZD and MYR versus the SGD.

On the operational side, the decline in revenue, down 21% YoY to S\$126m in FY08, was due to lower sales, fewer hotels in 2008 and the weakening of the NZD (down an average of 11%) and the AUD (down an average of 5%) versus the SGD. Last year's revenue included a gain on the sale of a hotel in Perth for S\$21.9m. Fortunately, its overall results was partially mitigated by better performance from its flagship Singapore hotel, which enjoyed higher room rates in 1H2008.

Hurt by economic slowdown. With the deteriorating economic outlook, and with the Singapore economy slipping into recession this year, its Singapore operations will offer no comfort to support the already weaker operations in Australia, New Zealand and Malaysia. Most hotels are seeing sharply lower occupancy and room rates and GRAN is no exception. Already, the latest numbers from the Singapore Tourism Board (STB) are bleak and showed a 12.9% YoY decline in visitor arrivals in Jan 2009. In addition, the average room rate (ARR) fell 11.7% YoY to S\$209, while average occupancy rate (AOR) reached only 67% in Jan 2009, a decline of 17.7 ppt from Jan 2008. Revenue per available room (Revpar) plunged 30.2% to \$140 in Jan 2009.

Maintain HOLD, but no price drivers. The outlook is not pleasant, and the tourism dependent industry is equally vulnerable. We expect the outlook for the rest of the year to remain difficult. We are retaining our **HOLD** rating and fair value estimate of S\$0.48 based on 0.4x book. We see no major price drivers for the near future, but a good dividend yield of 7% (at current price) should provide some share price support.

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Year to 31 Dec	Turnover (S\$m)	EBIT (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)	DPS (cents)
FY 07*	160.4	64.3	60.7	13.5	-8.6	3.7	14.2	7.1
FY 08	126.3	31.2	15.6	3.4	-75.2	14.9	7.0	3.5
FY 09F	106.4	23.7	15.5	3.3	-0.8	15.0	7.0	3.5
FY 10F	108.9	25.9	16.4	3.5	5.7	14.2	7.0	3.5

* Includes gains from sales of Grand Plimmer Tower in FY06 and Perth hotel in FY07. DPS for FY07 incl special of 5 cts.

Please refer to the important disclosures at the back of this document.

Hotel Grand's Key Financial Data

Hotel Grand Results Year Ended 31 Dec (S\$ m)	4Q07 (S\$m)	4Q08 (S\$m)	% Chg (YoY)	% Chg (QoQ)	FY07 (S\$m)	FY08 (S\$m)	% Chg (YoY)
Revenues	59.6	29.1	-51%	-4%	160.3	126.1	-21%
- Hotel operations and management	36.5	28.1	-23%	-6%	135.4	123.4	-9%
- Rental income	1.1	1.1	2%	123%	2.9	2.7	-6%
- Other revenue	22.0	-0.1	-101%	-577%	22.1	0.1	-100%
Costs and expenses	-21.5	-25.5	18%	12%	-96.1	-95.0	-1%
Gross profits/loss	38.1	3.6	-91%	-54%	64.2	31.1	-52%
Cost & expenses breakdown	-27.2	-23.3	-14%	3%	-101.8	-92.9	-9%
- Staff costs	-11.3	-8.8	-22%	-3%	-40.9	-37.2	-9%
- Depreciation & amortisation	-3.9	-4.1	5%	22%	-15.0	-14.2	-5%
- Stock consumables	-2.3	-1.5	-34%	-36%	-10.4	-9.0	-13%
- Other operating expenses	-9.7	-8.9	-8%	13%	-35.5	-32.5	-8%
Profits from operation	38.1	3.6	-91%	-54%	64.2	31.1	-52%
Pre-tax profit	17.6	-2.1	-112%	-157%	74.7	24.5	-67%
Net profit	12.4	-2.4	-119%	-377%	60.7	15.6	-74%
Gross margin (%)	63.9%	12.4%			40.0%	24.6%	
Operating margin (%)	63.9%	12.4%			40.0%	24.6%	
PBT margin (%)	29.5%	-7.1%			46.6%	19.4%	
PAT margin (%)	20.9%	-8.2%			37.9%	12.4%	

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Hotel operations	135.4	123.4	104.0	106.2
Rental income	2.9	2.7	2.2	2.5
Other revenue	22.1	0.2	0.2	0.2
Revenue	160.4	126.3	106.4	108.9
- Staff costs	-40.9	-37.2	-34.1	-32.3
- Depreciation & amortisation	-15.0	-14.2	-14.5	-15.0
- Stock consumables	-10.4	-9.0	-8.3	-9.3
- Other operating expenses	-35.5	-32.5	-25.8	-26.4
Total expenses	-101.8	-92.9	-82.7	-83.0
Operating profits	58.6	33.4	23.7	25.9
Pre-tax profits	74.7	24.5	23.0	24.6
Net profits	60.7	15.6	15.5	16.4
EPS (cents)	13.5	3.4	3.3	3.5
DPS (cents)	8.0	3.5	3.5	3.5
Key Ratios				
Revenue growth (%)	16.7%	-21.3%	-15.8%	2.4%
Pre-tax growth (%)	-2.5%	-67.2%	-6.2%	6.8%
Net profit growth (%)	-4.0%	-74.2%	-0.8%	5.7%
Pre-tax profit margin (%)	46.6%	19.4%	21.6%	22.6%
Net profit margin (%)	37.8%	12.4%	14.6%	15.1%

BALANCE SHEET

As at 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Share capital	247.9	247.9	247.9	247.9
Fair value reserve	0.4	-0.6	0.0	0.0
Asset revaluation reserve	159.8	160.9	160.9	160.9
Translation reserve	16.6	-67.1	-27.5	-21.4
Accumulated profits	167.0	168.7	167.9	168.0
Minority interests	0.0	5.9	0.0	5.6
Shareholders' Funds	591.8	515.8	549.2	561.0
Fixed assets	651.8	589.3	602.7	614.7
Current assets	114.7	96.7	99.5	91.7
Current liabilities	23.1	33.0	34.9	23.7
Long-term liabilities	151.5	137.1	118.1	121.7
Assets less Liabilities	591.8	515.8	549.2	561.0

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Pretax profits	74.7	24.5	23.0	24.6
Non-cash items	-20.5	6.4	9.3	12.5
Changes in working capital	-2.2	2.8	8.3	-5.6
Operating cash flow	52.1	33.7	40.6	31.5
Net cash from operating activities	40.1	33.6	33.8	22.5
Net cash used in investing activities	8.4	-34.2	-20.0	-20.0
Cash flow from financing activities	-24.7	3.5	-16.3	-16.3
Change in cash/(debt)	23.8	2.9	-2.5	-13.8
End cash/(debt)	99.4	87.9	79.5	61.8

Source: Company data, OIR estimates

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