

MITA No. 010/06/2008

23 April 2009

Hotel Grand Central

Maintain

HOLD

Previous Rating: HOLD

\$S0.54

Fair Value: \$S0.48

Stock Code:

Reuters: HGCS.SI

ISIN Code: H18

Bloomberg: GRAN SP

Event:

Update

General Data

Issued Capital (m)	466
Mkt Cap (\$m/US\$m)	252 / 167
Major Shareholder	Tan family (51.5%)
Free Float (%)	43
NAV per share (\$)	1.09
Daily Vol 3-mth ('000)	70
52Wk High (\$)	1.030
52Wk Low (\$)	0.440

Market conditions remain challenging

Weak tourism numbers. We met with management recently for an update. It came as no surprise that the business outlook has deteriorated over the last 12 months. This meant that both room and occupancy rates have weakened in recent months. In terms of room rates for its Singapore hotel, the decline is by as much as 30%, while occupancy rates have eased by about 10-15 ppt to around 70%. This is in line with the recent weak tourism numbers released by the Singapore Tourism Board (STB). Visitor arrivals to Singapore fell 15.2% YoY to 689,000 in Feb 2009. Average Room Rate (ARR) fell 20.6% to \$S205, and Average Occupancy Rate (AOR) dipped 3.3 ppt to 76% in Feb. Revenue per available room also declined 24% to \$S156.

Delay of Little India project. In Singapore, the development of its second hotel is on-going, but the opening is now pushed back from the original 4Q2009 to 1Q2010. When completed, this \$S120m project will add 328 rooms and is also aiming at the more budget-conscious travellers. With the present weak occupancy and room rates, the postponement is a right decision. Meanwhile, its 65%-owned 216-room hotel at SiHui in China is on track for opening in Jun 2009.

Weakness in other markets. Both its New Zealand and Australian operations are similarly hit by weaker tourism numbers in these counties. In addition, this means that sales of assets (which featured prominently in past financial years) are unlikely to happen this year. Room rates have further weakened in 1Q09 by between 4-5% YoY in New Zealand and Australia. In Malaysia, the market conditions are even more challenging and prospects do not look good for its hotel operations there. Fortunately, contribution from Malaysia has always been small, at 3% of revenue in 2008.

Lack of positive factors. In view of the global economic recession and the direct impact on tourism, the operating environment is challenging and likely to remain so for the rest of the year. Some positive factors included the recent strengthening of the AUD and NZD from March which could translate into some forex gains. Assuming same dividend payout of 3.5 cents, yield is fairly decent at 6.5% based on current price. We are maintaining our FY09 earnings estimates for now and our **HOLD** rating with fair value estimate of \$S0.48 based on 0.4x book.

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Year to 31 Dec	Turnover (\$m)	EBIT (\$m)	Net Profit (\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)	DPS (cents)
FY 07*	160.4	64.3	60.7	13.5	-8.6	4.0	13.1	7.1
FY 08	126.3	31.2	15.6	3.4	-75.2	16.1	6.5	3.5
FY 09F	106.4	23.7	15.5	3.3	-0.8	16.2	6.5	3.5
FY 10F	108.9	25.9	16.4	3.5	5.7	15.3	6.5	3.5

* Includes gains from sales of 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)
Revenues	59.6	29.1	-51.3%	-4.4%
- Hotel operations and management	36.5	28.1	-23.2%	-6.0%
- Rental income	1.1	1.1	2.5%	123.4%
- Other revenue	22.0	-0.1	-100.6%	-576.9%
Costs and expenses	-21.5	-25.5	18.2%	12.4%
Gross profits/loss	38.1	3.6	-90.6%	-53.7%
Cost & expenses breakdown	-27.2	-23.3	-14.2%	2.8%
- Staff costs	-11.3	-8.8	-22.2%	-2.7%
- Depreciation & amortisation	-3.9	-4.1	4.8%	21.7%
- Stock consumables	-2.3	-1.5	-33.9%	-36.5%
- Other operating expenses	-9.7	-8.9	-7.8%	13.1%
Profits from operation	38.1	3.6	-90.6%	-53.7%
Pre-tax profit	17.6	-2.1	-111.7%	-157.5%
Net profit	12.4	-2.4	-119.1%	-377.2%
Gross margin (%)	63.9%	12.4%		
Operating margin (%)	63.9%	12.4%		
PBT margin (%)	29.5%	-7.1%		
PAT margin (%)	20.9%	-8.2%		

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	0.0
Translation reserve	16.6	-67.1	-27.5	0.0
Accumulated profits	166.5	168.1	167.3	313.0
Minority interests	0.0	5.9	0.0	5.6
Shareholders' Funds	591.2	515.2	548.7	566.5
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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