

Far East Orchard Limited

Date: 19 July 2024

Non-Rated

BBG	FEOR SP
Market Cap (\$\$m)	487.8
Price (\$\$)	1.00
52-week range (\$\$)	0.985 - 1.06
Shares Outstanding (m)	481
Free Float	36.0%
Major Shareholder	Far East Organization 64.0%
	Pte. Ltd.

Source: Company data, Bloomberg, SAC Capital

5-Year Share Price



Source: Bloomberg

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Strategic Partnerships, Asset-light Expansion

Far East Orchard Limited is a diversified real estate company established in 1967, listed on the Singapore Exchange and part of Far East Organization, Singapore's leading private real estate developer. The company focuses on sustainable and recurring income through a balanced portfolio across residential, commercial, hospitality, and Purpose-Built Student Accommodation (PBSA) properties across Australia, Austria, Denmark, Germany, Hungary, Japan, Malaysia, New Zealand, Singapore, Switzerland and the UK. Celebrating a decade-long partnership in 2023 with The Straits Trading Company and Toga Group, Far East Orchard's hospitality arm manages nearly 100 properties with over 16,600 rooms globally. The PBSA portfolio includes around 3,700 beds, with recent developments in Bristol and Glasgow expected to increase this to approximately 4,700 beds. The Group also leases and sells purpose-built medical suites in Singapore's Novena medical hub.

In 1Q24, the Group reported revenue and net profit of S\$50.9m (+10.4%, y/y) and S\$6.5m (+54.8%, y/y). For FY23, the Group saw revenue and net profit improve to S\$183.6m (+30.3%, y/y) and S\$66.1m (+207.4%, y/y). The substantial rise in net profit was primarily due to fair value gains from PBSA investment properties and underlying income growth.

In April 2024, Far East Orchard acquired a 49% stake in Homes For Students Limited, the UK's largest independent PBSA operator, enhancing its recurring income stream and fortifying its market position. Additionally, the Group's PBSA portfolio continues to experience strong demand, with near-full occupancy and ongoing development projects, such as a new PBSA site in Glasgow. The growth of the UK sector has been driven by favorable demand-supply dynamics, supported by strong domestic and international student demand.

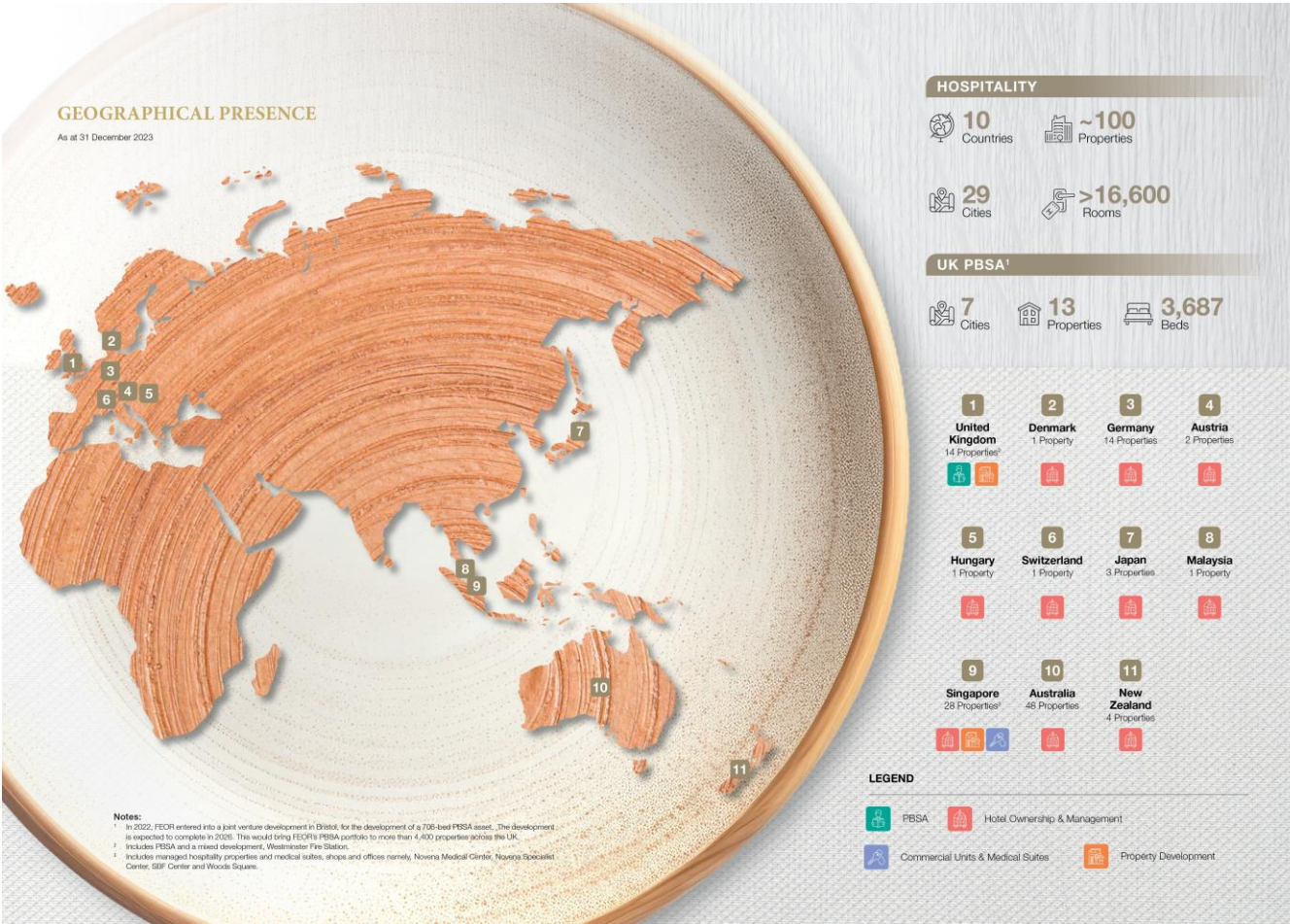
In FY23, the hospitality business reported a 40.5% increase in revenue to S\$126.9m, driven by higher occupancies and average daily rates as international travel rebounds. The company expanded its footprint by opening six new hotels, totaling over 750 rooms, across Australia, Japan, Malaysia, and Switzerland. In 2024, the Group is on track to open approximately 600 rooms across the Asia-Pacific and Europe, bringing their room count to over 17,000.

The Group's current price-to-book is at 0.4x which trades favourably compared to its peers closer to 0.6x and Mainboard's current price-to-book of 1.2x.

Potential risks include i) persistent inflation and high-interest rates increasing transport and accommodation costs, ii) volatile oil prices and trade disruptions affecting overall travel expenses, iii) weak consumer sentiment due to high costs impacting travel behavior and iv) geopolitical risks challenging the Group's positive medium-term outlook.

YE Dec (\$\$'m)	FY21	FY22	FY23
Revenue	106.8	141.0	183.6
% Growth	(4.8%)	32.0%	30.3%
Gross profit	46.6	73.1	91.1
Gross profit margin (%)	43.7%	51.9%	49.6%
Net profit	16.8	21.5	66.1
Net profit margin (%)	15.7%	15.2%	36.0%
EPS (\$\$ cents)	6.1	4.7	13.7
Dividend per share (\$\$ cents)	3.0	4.0	4.0
Dividend payout ratio (%)	48.3%	85.7%	29.2%
Debt-to-equity	0.5	0.5	0.4

Geographical Presence



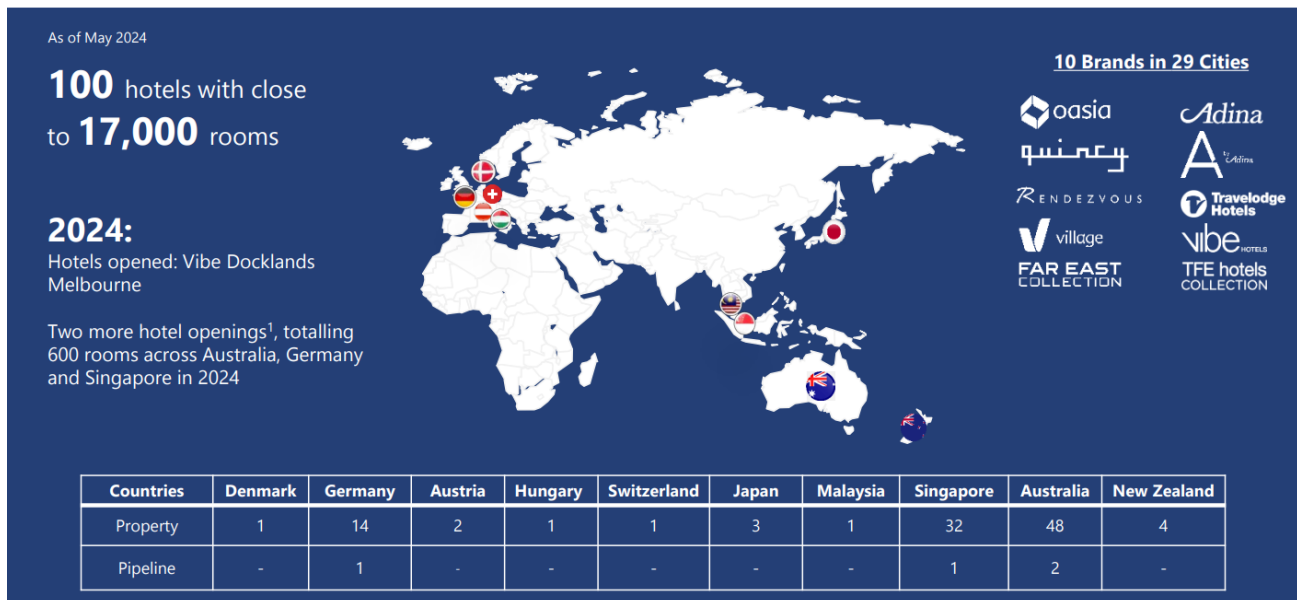
Source: Company data

Growth of PBSA Portfolio



Source: Company data

Hospitality Global Presence



¹, The Eve Hotel, Sydney, and Quincy House, Singapore

Source: Company data

Recent Projects

PBSA

Acquisition of 49% stake in UK's Homes For Students



Places the Group in a prominent position as the largest independent PBSA provider in the UK.

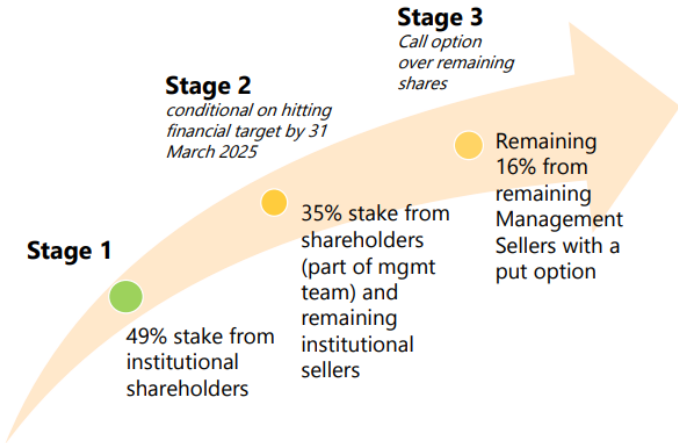
Three-Stage Acquisition

- Homes For Students (HFS) is UK's largest independent PBSA operator.



- Strategic acquisition will help exceed the FEOR 25 strategy's target of 5,000 beds by 2025.
- Acquisition of HFS will boost the Group's recurring income stream and strengthen its operating management capabilities in the UK.
- The key management team has indicated that they will continue to remain in the business throughout the entire duration.

Source: Company data



Source: Company data

Recent Projects

Hospitality



Far East Village Tokyo, Asakusa, Japan
134 Rooms, Opened in Apr 2023

Source: Company data



Vibe Hotel Melbourne Docklands
273 Rooms, Opened in Apr 2024

Source: Company data

FEOR's Commitment to Service Excellence and Quality

The Group prioritizes delivering high-quality service to uphold its business reputation and maintain long-term value. Accountability and service standards are crucial, directly impacting reputation and business performance. An independent partner annually assesses hotel service quality by benchmarking against global peers through the CEI36. In 2023, the Group achieved a CEI score of 88.89, surpassing the target of 83.29, and aims for 87.40 in 2024. This goal will be reached by fostering a culture of service excellence, including performing acts of grace beyond expectations, maintaining high hygiene and safety standards, and delivering customized guest experiences. The Group's commitment to service quality is evidenced by awards and recognition received in 2023.

Name of awards organiser	Award category	Property/Award Recipient
Booking.com - 11 th Annual Booking.com Traveller Review Awards 2023	Traveller Review Award 2023 – Score Ranking 9.3 (Ranked #3)	The Barracks Hotel Sentosa
11 th Annual Booking.com Traveller Review Awards 2023	Traveller Review Award 2023 – Score Ranking 9	The Clan Hotel Singapore
Her World Spa Awards 2023	Most Pampering Spa-cation: Oasia Signature Retreat	Oasia Spa
Singapore Women's Weekly Spa Awards 2023	Best Massage For A City Escape: Oasia Signature Massage	Oasia Spa
Expat Living Reader's Choice Awards 2023	Best Serviced Apartments – Finalist	Adina Serviced Apartments Singapore Orchard

Name of awards organiser	Award category	Property/Award Recipient
TripAdvisor	TripAdvisor Travellers' Choice Awards 2023 Best of the Best Hotels (Singapore)	The Barracks Hotel Sentosa – Ranked #1
		Oasia Hotel Novena, Singapore – Ranked #7
		The Clan Hotel Singapore – Ranked #8
		Quincy Hotel Singapore – Ranked #15
TripAdvisor	TripAdvisor Travellers' Choice Awards 2023 Best of the Best (Luxury)	AMOY Hotel – Ranked #25
		The Clan Hotel Singapore – Ranked #5
		Oasia Resort Sentosa – Ranked #25
TripAdvisor	TripAdvisor Travellers' Choice Awards 2023 Family-Friendly Hotels in Asia	Village Hotel Sentosa
TripAdvisor	TripAdvisor Travellers' Choice Awards 2023 (Top 10% Listings on TripAdvisor)	The Outpost Hotel Sentosa
		Oasia Hotel Downtown
		Village Residence Robertson Quay
		Adina Serviced Apartment Singapore Orchard
HoneyCombers Sustainability Awards 2023	Best Hotel for Eco-luxe Accommodation	Village Residence Hougang
		Oasia Residence Singapore
		Orchard Parksuites
		Oasia Suites Kuala Lumpur
HoneyCombers Love Local Awards 2023	Best Spa in Singapore	Orchard Rendezvous
HoneyCombers Sustainability Awards 2023	Best Hotel for Eco-luxe Accommodation	Oasia Hotel Downtown Silver winner
HoneyCombers Love Local Awards 2023	Best Spa in Singapore	Oasia Spa Gold winner

Source: Company data

FEOR's Commitment to Service Excellence and Quality

Name of awards organiser	Award category	Property/Award Recipient
Travel + Leisure; T + L Luxury Awards Asia Pacific 2023	Hotel Spas in Singapore	Oasia Spa, Oasia Resort Sentosa –#1
	Hotel Pools in Singapore	The Clan Hotel Singapore –#5
	Hotels in Singapore	The Barracks Hotel Sentosa –#7
FIABCI (Fédération Internationale des Administrateurs de Bien-Consells Immobiliers)	Hotel category for offering bespoke experiential guest experiences	Sentosa Cluster of Hotels: The Barracks Hotel Sentosa The Outpost Hotel Sentosa Village Hotel Sentosa Oasia Resort Sentosa
Singapore Hotel Sustainability Award	Recognition of hotel's best practices in sustainability	Sentosa Cluster of Hotels: The Barracks Hotel Sentosa The Outpost Hotel Sentosa Village Hotel Sentosa Oasia Resort Sentosa
Employee Experience Awards 2023 Singapore	Best Post-Pandemic Recovery Strategy - Silver	Far East Hospitality
	Best Soft Skills Training Programme Silver	
HRM Asia Readers' Choice Award 2023	Best Serviced Apartment – Silver Award	Oasia Residence, Singapore
	Best Serviced Apartment – Bronze Award	Adina Serviced Apartments Singapore Orchard

Name of awards organiser	Award category	Property/Award Recipient
Luxury Lifestyle Awards 2023	Best Luxury City Serviced Apartments, Singapore	Adina Serviced Apartments Singapore Orchard
Synergy Global Partner Awards 2023	The Remarkable Award Supplier of the Year	Orchard Parksuites
Booking.com Traveller Review Award 2023	Booking.com Traveller Review Award 2023	Adina Serviced Apartments Singapore Orchard
		Oasia Residence, Singapore
		Village Residence Hougang
		Village Residence Robertson Quay
World Travel Awards 2023	Singapore's Leading Lifestyle Hotel	The Outpost Hotel Sentosa
EdgeProp Excellence Awards 2023	Best Rated Hotel Development, Hotels Category	The Barracks Hotel Sentosa
Travel Weekly Magellan Awards 2023	Hospitality – Upscale Hotel/Resort - Silver award	The Outpost Hotel Sentosa
Harper's Bazaar Spa Awards 2023	Ultimate Weekend Recharge Experience: Oasia Signature Retreat	Oasia Spa
	Best Relaxing Top-To-Toe Experience – Editor's Pick: Elixir Journey	
Travel + Leisure India's Best Awards 2023	Best Leisure Hotel (International)	Village Hotel Sentosa
Singapore Hotel Association (SHA)	Employee of the year Awards 2023 (FDAWU/NTUC/SHA)	15 individual recipients
	Excellent Service Awards (EXSA) 2023	17 Outstanding Stars 79 Stars 51 Gold medals 64 Silver medals
	National Kindness Award	14 Gold 9 Managerial
ARDE Best Receptionist 2023	Winner	The Clan Hotel Nur Hylma

Source: Company data

FEOR's Sustainability Progress

The Group's sustainability strategy, focus areas, material topics, and performance are aligned with the UN SDGs. The figure below provides an update on the Group's progress across various sustainability pillars in 2023.

We are committed to...	by...	contributing to the UN SDGs
Minimising environmental and climate-related impact <ul style="list-style-type: none"> Climate resilience Emissions Water management Waste management Responsible Procurement 	<ul style="list-style-type: none"> re-baselining our Scope 1 and 2 GHG emission reduction target of 42% for owned properties by 2030 to include our owned hotels in Australia; achieving a 5% reduction in our Scope 1 and 2 GHG emissions for our owned properties based on the above rebased targets; strengthening Board and Management oversight and responsibilities in response to climate risks and opportunities (as recommended by TCFD); initiating a climate scenario analysis of our portfolio focused on understanding and assessing both impact and mitigations of climate-related risks and opportunities to our businesses; identifying, measuring, and disclosing Scope 3 emissions for Category 3: Fuel-Related and Energy-Related activities and Category 6: Business Travel', and planning to expand our scope 3 inventory to include waste reporting in our FY2024 report; and developing a supplier due diligence framework that includes ESG considerations. 	  
Supporting people <ul style="list-style-type: none"> Customer Health and Safety Occupational Health and Safety Training and Education Diversity and Equal Opportunity Local Community 	<ul style="list-style-type: none"> upholding high standards of operations for customer experience and achieving our target of no significant cases of health and safety incidents resulting in fatalities at our properties. reducing workplace reported injury significantly by 14% in 2023 compared to 2022; and 26% compared to 2021; achieving our target of 80 average hours of training per team member; maintaining a balanced gender diversity of 44:56 male-to-female ratio in 2023; initiating a community outreach programme to engage and support the environment and marginalised elderly and youths in our local community, and contributing 319.5 volunteer hours from team members towards local community engagement in 2023. 	  
Upholding integrity <ul style="list-style-type: none"> Transparent and Ethical Business Data Security and Privacy 	<ul style="list-style-type: none"> monitoring, reviewing, and encouraging ethical business practices across our value chain; and maintaining zero regulatory, data and legal breaches 	
Building a resilient business <ul style="list-style-type: none"> Economic Performance Quality Service 	<ul style="list-style-type: none"> recording a profit after tax of \$66.1 million and proposing a first and final dividend of 4 cents per share for FY2023; and strengthening our brand reputation through our outstanding service quality, thereby driving a sustainable business 	

Source: Company data

FY2023 Sustainability Highlights



Source: Company data

Committing to Sustainability Efforts



SUSTAINABILITY VISION

We strive to create sustained economic value for our stakeholders and contribute responsibly to the environment and society, while upholding a high standard of corporate governance.

Together, we work towards creating a sustainable future through our real estate and lodging platform.



Minimise Environment Impacts

Reducing our environmental footprint and preserving environmental resources across our platforms

Supporting Our People

People-first business

Strive to provide safe and conducive environment; empower staff to take charge of their own success.

Maintain the highest safety and health standards to ensure customers have the best experience.

Building a Resilient Business

Accountable to all stakeholders to ensure the long-term success of our business.

This is done through a diversified and balanced portfolio in the geographies we operate.

Upholding Integrity

We believe in ethical and transparent business practices across our value chain will go a long way in maintaining business continuity and our market reputation.

Source: Company data

Income Statement

YE Dec (\$'m)	FY21	FY22	FY23
Revenue	106.8	141.0	183.6
Cost of sales	(60.2)	(67.9)	(92.5)
Gross profit	46.6	73.1	91.1
Other income			
– Interest income	1.0	2.6	6.8
– Others	9.0	0.6	1.2
Other (losses)/gains and impairment losses			
– net	44.8	(7.8)	54.8
Expenses			
– Distribution and marketing	(8.1)	(11.7)	(10.5)
– Administrative	(34.4)	(36.7)	(40.3)
– Finance	(17.1)	(20.9)	(33.9)
Share of profit/(loss) of:			
– Associated companies	2.5	3.1	2.9
– Joint ventures	(15.2)	20.6	8.3
Profit before income tax	29.1	22.9	80.4
Income tax credit/(expense)	(12.3)	(1.4)	(14.3)
Profit after income tax	16.8	21.5	66.1

Balance Sheet

YE Dec (\$'m)	FY21	FY22	FY23
ASSETS			
<u>Current assets</u>			
Cash and bank balances	255.2	233.2	225.6
Trade and other receivables	23.8	45.0	45.7
Inventories	0.2	0.4	0.4
Development properties	-	-	170.7
Properties held for sale	186.9	176.2	-
Non-current asset classified as held-for-sale	-	0.4	10.6
Total current assets	466.1	455.2	453.0
<u>Non-current assets</u>			
Derivative financial instruments	4.6	12.7	7.5
Financial asset, at FVOCI	-	1.1	2.1
Other non-current assets	6.4	5.6	5.4
Investments in associated companies	23.2	27.2	31.9
Investments in joint ventures	470.2	480.5	472.7
Investments in subsidiaries	-	-	-
Investment properties	929.6	853.2	967.8
Property, plant and equipment	610.2	592.7	569.2
Intangible assets	111.4	103.3	101.1
Deferred income tax assets	3.7	3.7	4.6
Total non-current assets	2,159.2	2,080.1	2,162.2
Total assets	2,625.4	2,535.2	2,615.1
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Trade and other payables	97.4	99.4	102.2
Current income tax liabilities	2.6	1.5	5.6
Lease liabilities	9.3	8.4	9.0
Borrowings	389.8	220.9	245.1
Deferred income	13.1	15.0	18.4
Total current liabilities	512.2	345.2	380.3
<u>Non-current liabilities</u>			
Other payables	101.2	101.0	102.9
Derivative financial instruments	-	-	4.2
Lease liabilities	100.2	91.3	87.5
Borrowings	302.3	381.3	357.3
Deferred income	269.5	262.7	255.9
Deferred income tax liabilities	48.3	50.3	61.2
Total non-current liabilities	821.5	886.6	868.9
Total liabilities	1,333.7	1,231.8	1,249.3
NET ASSETS	1,291.7	1,303.4	1,365.9
<u>EQUITY</u>			
Capital and reserves attributable equity holders of the C	-	-	-
Share capital	525.1	536.0	549.4
Revaluation and other reserves	355.6	351.1	351.5
Retained profits	399.5	407.5	454.7
	1,280.1	1,294.5	1,355.6
Non-controlling interest	11.6	8.9	10.3
Total equity	1,291.7	1,303.4	1,365.9

Cash Flow Statement

YE Dec (\$'m)	FY21	FY22	FY23
Cash flows from operating activities			
Profit after income tax	16.8	21.5	66.1
Adjustments for:			
Income tax expense	12.3	1.4	14.3
Depreciation of property, plant and equipment	20.1	17.6	17.1
Amortisation of intangible assets	2.7	2.6	2.3
Impairment of properties held for sale - net	0.1	3.2	7.6
(Reversal of impairment)/Impairment of advances to a joint venture	-	0.1	-
Impairment of property, plant and equipment	0.2	-	0.1
Impairment of goodwill	-	5.1	-
Fair value gains on investment properties – net	(43.9)	(2.6)	(58.3)
Revaluation gains on property, plant and equipment	0.1	(2.3)	(0.5)
Gain on re-measurement of lease liability	(5.1)	-	-
Gain on sale of reversionary interest in a property	-	(1.8)	-
Gain on disposal of investment properties	-	(5.6)	-
Reclassification of exchange differences from currency translation reserve	(1.4)	(1.6)	(4.9)
Interest income	(1.0)	(2.6)	(6.8)
Finance expenses	17.1	20.9	33.9
Share of profit of associated companies	(2.5)	(3.1)	(2.9)
Share of profit of joint ventures	15.2	(20.6)	(8.3)
Unrealised currency translation losses	5.3	13.4	1.0
	35.9	45.5	60.8
Change in working capital:			
Trade and other receivables	(1.4)	(5.3)	1.5
Inventories	-	(0.2)	-
Properties held for sale	(8.0)	-	-
Trade and other payables	(7.7)	(0.5)	(0.7)
Cash generated from operations	18.8	39.5	61.5
Interest paid	(0.1)	(0.1)	(0.1)
Income tax paid – net	(2.1)	(2.1)	(1.0)
Net cash provided by operating activities	16.6	37.3	60.4
Cash flows from investing activities			
Additions to property, plant and equipment	(10.0)	(1.1)	(4.2)
Additions to investment properties	(2.8)	(4.7)	(22.2)
Cost adjustment to an investment property	0.7	-	-
Proceeds from disposal of investment properties	-	18.7	-
Proceeds from disposal of non-current asset classified as held-for-sale	-	-	0.4
Investment in a financial asset, at FVOCI	-	(1.4)	(0.8)
Proceeds from disposal of reversionary interest in a property	1.0	1.8	-
Advanced payment	-	(1.1)	-
Investment in joint ventures	-	(3.0)	-
Advances to joint ventures	(0.9)	(16.3)	(3.2)
Advances/Repayment of advances from joint ventures	-	0.8	2.0
Dividends received from joint ventures	-	5.6	16.1
Interest received	-	1.3	7.0
Net cash (used in)/provided by investing activities	(12.0)	0.6	(4.9)
Cash flows from financing activities			
Decrease in bank deposits pledged	-	3.2	2.2
Proceeds from borrowings	137.8	196.4	108.8
Repayment of borrowings	(129.6)	(214.3)	(124.2)
Principal payment of lease liabilities	(12.2)	(9.1)	(8.6)
Interest paid on lease liabilities	(8.4)	(6.2)	(5.9)
Interest paid on borrowings	(8.7)	(14.4)	(27.4)
Dividends paid to equity holders of the Company	(3.8)	(3.0)	(5.6)
Net cash used in financing activities	(24.9)	(47.5)	(60.7)
Net decrease in cash and cash equivalents	(20.4)	(9.6)	(5.3)
Cash and cash equivalents			
Beginning of financial year	278.4	226.5	207.7
Less: Bank deposits pledged	(28.7)	-	-
Effects of currency translation on cash and cash equivalents	(2.8)	(9.3)	(0.1)
End of financial year	226.5	207.7	202.3

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