China / Hong Kong Company Update

Langham Hospitality Investments

Bloomberg: 1270 HK Equity | Reuters: 1270.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Feb 2022

HOLD

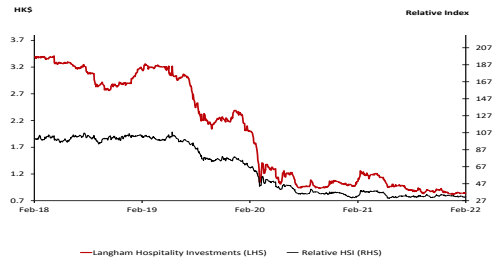
Last Traded Price (15 Feb 2022): HK$0.84 (**HSI :** 24,356)
Price Target 12-mth: HK$0.93 (10% upside) (Prev HK$1.01)

Analyst
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What's New

- FY21 distributable income amounted to HK$99m, 9% higher than our forecast due to lower-than-expected cash finance costs
- Hotel RevPAR rebounded by 39% in FY21 from a low base
- Recent COVID resurgence has delayed earnings recovery
- HOLD with HK$0.93 TP

Price Relative



Forecasts and Valuation

FY Dec (HK$ m)	2020A	2021A	2022F	2023F
Gross Revenue	208	224	241	342
Net Property Inc	180	204	220	320
Net Profit	(2,833)	(347)	87	168
Distribution Inc	0	89	89	171
DPU (HK$)	0.00	0.03	0.03	0.05
DPU Gth (%)	(100)	N/A	1	91
Div Yield (%)	0.0	3.2	3.2	6.2
Gross Gearing (%)	42	43	43	42
Book Value (HK$)	2.52	2.41	2.43	2.51
P/Book Value (x)	0.3	0.3	0.3	0.3
DPU Rev (%):			(51)	New

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Delayed recovery

Investment Thesis

HOLD with HK$0.93 TP. Langham Hospitality Investments (LHI) offers distribution yields of 3.2% for FY22. The recent spread of the Omicron cases has delayed the recovery in the hotel sector. Thus, we keep our HOLD call at this stage.

Recovering from a very low base... In 2021, the RevPAR of three hotels surged 39% as hotel occupancy increased from a very low base. Food and Beverage operations showed remarkable income recovery in 2H21 thanks to easing of social distancing measures. As such, its hotel portfolio swung into the black and LHI received variable rents.

... but COVID resurgence has delayed the hotel sector recovery. The recent spread of the Omicron variants has delayed the border re-opening, and in turn the hotel industry recovery. Strict social distancing regulations including dinner ban and extended quarantine requirement should hit hotel division's income.

Valuation:

Our target price of LHI is based on Dividend Discount Model using discount rate of 7.9%.

Where we differ:

We are more cautious on the long-term prospects of the hotel industry given expectations of reduced business travel in a post COVID world.

Key Risks to Our View:

A faster than expected recovery of inbound tourism and the hotel industry should give a boost to LHI's distribution income and unit price performance.

Any Renminbi (Rmb) appreciation may help improve the purchasing power of mainland guests and increase demand for hotels.

At A Glance

Issued Capital (m shrs)	3,241
Mkt Cap (HK$m/US$m)	2,722 / 349
Major Shareholders (%)	
Great Eagle Holdings Ltd	69.4
Free Float (%)	30.6
3m Avg. Daily Val. (US$m)	0.05
GICS Industry: Real Estate / Equity Real Estate Investment	

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WHAT'S NEW

Hotel RevPAR recovered from a low base

Despite the prolonged COVID outbreak, Langham Hospitality Investments' (LHI) distributable income improved significantly to HK$99m from FY20's HK$6m, mainly led by lower cash finance costs. Based on distribution payout ratio of 90%, distribution income amounted to HK$89m. Final DPU of HK$0.027 was declared.

With pandemic-led border closure, inbound tourism remained in the doldrums in 2021. Yet, revenue per available room (RevPAR) for The Langham, Cordis and Eaton rebounded 51.6%, 36.6% and 28.6% respectively in 2021. The sharp improvement was primarily driven by occupancy recovery, given the low base in 2020 and as hotels targeted the domestic staycation market and local long-stay business. Occupancies at Langham, Cordis and Eaton improved 13.8ppts, 13.5ppts and 11.4ppts to 30.1%, 36% and 48.8% in 2021 respectively. But the overall average room rate dropped 8.7% during the period. Overall, these three hotels continued to underperform their respective peers in terms of RevPAR growth as some quarantined hotels recorded artificially inflated RevPARs. Overall, total room revenue was 39% higher at HK$192m.

Food and beverage revenue rebounded strongly in 2H21, mainly due to the partial relaxation of social distancing measures after the fourth wave of the COVID-19 outbreak subsided. For the full year of FY21, F&B recorded 51.4% jump in revenue to HK$523m. (1H21: +20.9%)

With total hotel revenue increasing 28.1%, the hotel portfolio returned to profitability with aggregate adjusted gross operating profit of HK$31m in FY21 (FY20: loss of HK$13m). Therefore, variable rental income of HK$22m was earned in FY21. Including fixed rental income of HK$225m and HK$2m from leasing retail shops at Eaton, total rental income grew 9.6% to HK$249m or 7.7% to HK$224m adjusting for services fee expense.

Cash finance costs fell 36% to HK$104m mainly due to significantly lower HIBOR and a drop in borrowings following the partial prepayment in late 2020. In Oct-20, LHI raised HK$1.02bn from a 1-for-2 rights issue. Of which, HK$810m was applied to prepay part of its outstanding term loans .

In Dec-21, LHI repaid revolving loans of HK$100m. Total debt was reduced to HK$6.32bn in Dec-21 from Jun-21's HK$6.42bn. This translated into a gearing of 43.2% in Dec-21 from Jun-21's 44.1%. Interest cost for bank loans of HK$3.2bn (50.7% of total) was hedged at a weighted swap rate of 1.31% in Dec-21.

Langham Hospitality Investments offers distribution yields of 3.2% for FY22. The recent spread of the Omicron variant has inevitability delayed the re-opening of the border with Mainland China which plays a crucial role in driving a full-fledged post-pandemic recovery of the hotel industry. The tightened social distancing regulations and mandatory quarantine requirement since early Jan 2022 is weighing heavily on RevPAR and F&B. Thus, we keep our HOLD rating on Langham Hospitality Investments at this stage with DDM-based TP lowered to HK$0.93.

Company Background

Listed in May 2013, Langham Hospitality Investments (LHI) is HK's first fixed single investment trust focused on the hospitality sector. It has a portfolio comprising of three hotels on the Kowloon Peninsula - The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong, with a total of 1,631 guest rooms.

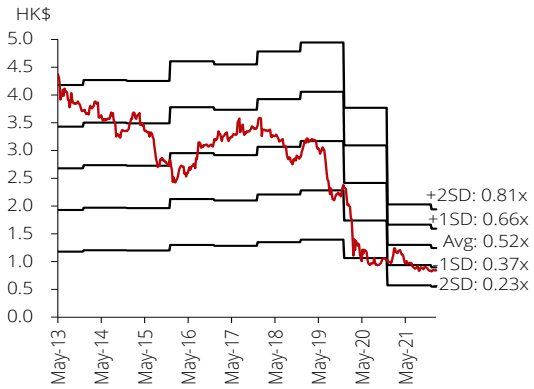
Results summary

FY Dec (HK$m)	FY20	FY21	% Chg	Comments
Variable rental income	0.0	21.8	*n.a.*	FY21: The hotel portfolio recorded HK$31.1m gross operating profit thanks to rebounding RevPAR (FY20: gross operating loss of HK$13.2m)
Fixed rental income	225.0	225.0	*0.0*	
Rental income from retail	1.9	2.0	*3.5*	
Total rental income	226.9	248.7	*9.6*	
Property related expenses	(28.4)	(20.7)	*(26.9)*	FY21: Driven mainly by lower government rates as a result of lower rateable value of the Hotels.
Service fees	(18.7)	(24.4)	*30.7*	FY21: Reflected the improvement in hotel's operating performance
Net property income	**179.9**	**203.6**	*13.2*	
Interest income	0.5	0.6	*15.2*	
Other income	1.4	1.2	*(14.4)*	
Change in fair value of investment properties	(2722.3)	(475.4)	*(82.5)*	
Change in fair value of derivative financial instruments	(90.4)	62.0	*n.a.*	FY21: Reflected an increase in the market value of interest rate swap contracts.
Finance cost	(174.6)	(115.5)	*(33.8)*	FY21: Cash finance costs fell 36% to HK$104m due to lower HIBOR
Trust and other expense	(21.3)	(13.8)	*(35.2)*	
Profit before tax	**(2,826.7)**	**(337.2)**	*(88.1)*	
Tax	(6.1)	(9.3)	*52.5*	
Net profit	**(2,832.8)**	**(346.6)**	*(87.8)*	
Distributable income	**6.0**	**98.5**	*1551.1*	
DPU (HK$)	**0.0**	**0.027**	*n.a.*	

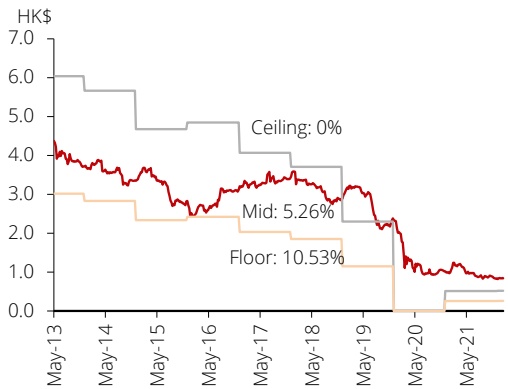
Source: Langham Hospitality

Price to book NAV band and historical yield band

Price to book NAV band



Historical yield band



Source: Bloomberg Finance L.P. DBS HK

Key Assumptions (%)

	2022F	2023F
RevPAR	5	100

Source: Company, DBS HK

Segmental Breakdown (HK$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK$ m)					
Base rent	225	225	225	225	225
Variable rent	325	0	22	40	161
Rental income from retail	2	2	2	2	2
Netting of Service Fees	(68)	(19)	(24)	(26)	(47)
Total	484	208	224	241	342

Source: Company, DBS HK

Income Statement (HK$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	484	208	224	241	342
Property expenses	(36)	(28)	(21)	(21)	(21)
Net Property Income	448	180	204	220	320
Other expenses	(11)	(19)	(12)	(12)	(13)
Interest (Exp)/Inc	(220)	(175)	(116)	(118)	(131)
Exceptionals	(2,803)	(2,813)	(413)	0	0
Pre-Tax Profit	(2,586)	(2,827)	(337)	90	176
Tax	(48)	(6)	(9)	(3)	(9)
Net Profit	(2,635)	(2,833)	(347)	87	168
Distribution income	259	0	89	89	171
Revenue Gth (%)	(21)	(57)	8	7	42
NPI Gth (%)	(24)	(60)	13	8	46
Dist. Inc Growth (%)	(37)	(100)	N/A	0	93
DPU Growth (%)	(38)	(100)	N/A	1	91

Source: Company, DBS HK

Balance Sheet (HK$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	17,500	14,802	14,407	14,551	14,842
Long-term Investments	0	0	0	0	0
Other LT Assets	6	3	7	7	7
Bank Balance/Cash & Liquid	76	259	179	156	232
Debtors	22	15	20	20	20
Other Non Cash Current	8	0	0	0	0
Total Assets	**17,612**	**15,080**	**14,613**	**14,734**	**15,100**
ST Debt	352	427	327	6,295	327
Creditors	57	36	39	39	39
Other Current Liab	55	48	52	52	52
LT Debt	6,756	5,957	5,968	0	5,968
Deferred Tax Liabilities	392	398	408	408	408
Other LT Liabilities	10	84	20	20	20
Unitholders' funds	9,990	8,130	7,800	7,921	8,288
Total Capital	**17,612**	**15,080**	**14,613**	**14,734**	**15,100**
Share Capital (m)	2,136	3,225	3,241	3,266	3,302
Gross Debt	(7,108)	(6,384)	(6,295)	(6,295)	(6,295)
Working Capital	(358)	(237)	(218)	(6,209)	(166)
Book NAV (HK$)	4.68	2.52	2.41	2.43	2.51
Gross Gearing (%)	40	42	43	43	42

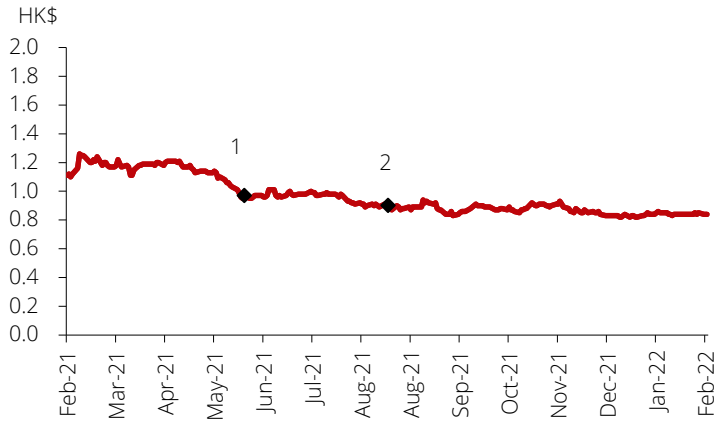
Source: DBS HK

Cash Flow Statement (HK$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	(2,586)	(2,827)	(337)	90	176
Tax Paid	0	(13)	0	(3)	(9)
Depr/Amort	26	13	11	0	0
Chg in Wkg.Cap.	54	15	(1)	0	0
Other Non-Cash	2,864	2,824	432	20	36
Operational CF	**357**	**12**	**105**	**107**	**204**
Net Capex	(102)	(39)	0	0	0
Other Investment CF	0	(41)	43	2	2
Investment CF	**(102)**	**(80)**	**43**	**2**	**2**
Net Chg in Debt	142	(735)	(188)	0	0
New issues/Unit Buyback	0	1,019	0	0	0
Distribution Paid	(409)	(73)	0	(132)	(130)
Other Financing CF	0	(2)	2	0	0
Financing CF	**(267)**	**209**	**(186)**	**(132)**	**(130)**
Chg in Cash	(11)	142	(38)	(23)	75

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-May-21	HK$0.96	HK$1.09	Hold
2:	18-Aug-21	HK$0.90	HK$1.01	Hold

Source: DBS HK

Analyst: Jeff YAU

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 16 Feb 2022 18:35:36 (HKT)
Dissemination Date: 16 Feb 2022 18:54:14 (HKT)

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