

Singapore Equity Explorer

Global Premium Hotel

Bloomberg: GPLH SP | Reuters: GPLH.SI

DBS Group Research . Equity

14 Sep 2012

NOT RATED S\$0.25 STI : 3,030.14

Return *: 1

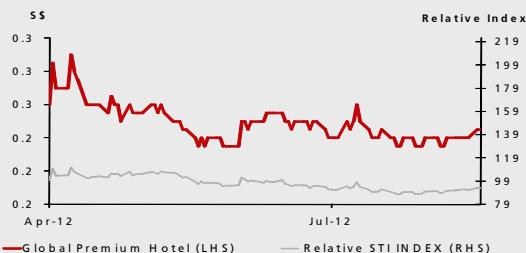
Risk: Moderate

Potential Target * : 12-Month S\$ 0.29 (20% upside)

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2011A	2012F	2013F	2014F
Turnover	53	62	66	73
EBITDA	34	37	41	45
Pre-tax Profit	28	26	27	31
Net Profit	23	21	22	25
Net Pft (Pre Ex.)	23	21	22	25
EPS (S cts)	2.2	2.0	2.1	2.4
EPS Pre Ex. (S cts)	2.2	2.0	2.1	2.4
EPS Gth (%)	14	(5)	4	15
EPS Gth Pre Ex (%)	14	(5)	4	15
Diluted EPS (S cts)	2.2	2.0	2.1	2.4
Net DPS (S cts)	3.7	0.5	0.5	0.6
BV Per Share (S cts)	110.0	30.2	31.8	33.6
PE (X)	11.4	12.0	11.6	10.1
PE Pre Ex. (X)	11.4	12.0	11.6	10.1
P/Cash Flow (X)	9.9	7.3	9.8	8.5
EV/EBITDA (X)	11.2	19.2	18.7	16.3
Net Div Yield (%)	15.1	2.1	2.2	2.5
P/Book Value (X)	0.2	0.8	0.8	0.7
Net Debt/Equity (X)	0.2	1.4	1.5	1.4
ROAE (%)	4.1	4.6	6.8	7.4

Consensus EPS (S cts): -

Other Broker Recs: B: 0 S: 0 H: 0

ICB Industry : Consumer Services

ICB Sector: Travel & Leisure

Principal Business: Hotel and property owner .

Source of all data: Company, DBS Vickers, Bloomberg

Best in its class

- Household name in the Economy hotel space
- Resilient operating model with portfolio expansion from the development of a new 265-room hotel
- Fair value of S\$0.29 based on 20% discount to RNAV

The Business

Household name in the Economy hotel space. Global Premium Hotels (GPLH) operates one of Singapore's largest economy /mid-tier hotel chains under the "Fragrance" brand and one hotel under the "Parc Sovereign" brand with a total room count of 1,738 as at 20th Jun'12

Resilient operating model; portfolio to expand by c12% through development of Tyrwhitt Road site. GPLH's exposure in the economy segment in Singapore hospitality sector has proven itself to be resilient even in recessionary times. Going forward, apart from optimizing the group's portfolio operational performance, GPLH continues on an expansion track through the development of a new 265-room hotel at Tyrwhitt Road, which was recently acquired from sponsor, Fragrance Group. Upon completion in FY14, we estimate contribution from this new hotel to grow earnings by c15%.

The Stock

Fair value of S\$0.29. Given GPLH's leading position in the economy tier segment of the Singapore hotel sector, we derive a fair value of S\$0.29, based on a 20% discount to its RNAV of S\$0.36. This implies FY14F EV/EBITDA of 17x, in line with hospitality peers.

Earnings upgrade will be a price catalyst. Better than expected performance from its hotel segment in the coming quarters or acquisitions not factored in our forecasts are likely to drive profitability and stock price.

Balance sheet is relatively highly geared. GPLH's net debt to equity ratio is relatively high at 1.4x, due to acquisition of its initial portfolio upon listing. We noted that other metrics, such as interest cover, is comfortable at c.4-5x.

At A Glance

Issued Capital (m shrs)	1,052
Mkt. Cap (S\$m/US\$m)	258 / 210
Major Shareholders	
Fragrance Group Limited (%)	52.3
Free Float (%)	47.7
Avg. Daily Vol. ('000)	2,548

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

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Refer to important disclosures at the end of this report

ed: JS/ JW / sa: JC

Global Premium Hotel

REVENUE DRIVERS

Household name in the Hospitality Sector. Global Premium Hotels (GPHL) develops and operates economy-tier to mid-tier class hotels. The group operates one of Singapore’s largest economy /mid-tier hotel chains under the “Fragrance” brand and one hotel under the “Parc Sovereign” brand with a total room count of 1,738 as at 30th June 2012. Most of the Group’s hotels are located in the city or city-fringe areas, catering to a diverse group of clientele ranging from leisure to corporate guests.

One of the leading owners in the Economy hotel space. In terms of market share within the Economy Tier hotel segment, two major groups dominate the sector, with close to 40% of the market. The leader is unlisted group, Hotel 81 Management Pte Ltd with close to 29.2% of market share (by retail value of accommodation in 2010) through the “Hotel 81” brand and “Value Hotel” brands, followed by GHPL’s “Fragrance” branded hotel chain at 12.2% of market share .

Earnings growth coming from portfolio expansion. The group has added 3 hotels (302 rooms, 17% of portfolio room inventory) - Fragrance Hotel Elegance and Riverside Hotels and 170-room Parc Sovereign Hotel in the past 13 months which have been contributing meaningfully from FY12. Since opening, the new hotels have achieved high occupancies of 89-98%, with RevPAR ranging S\$81.40-S\$126.48/night, which is in line with its existing hotels. We believe this to be a remarkable performance given such a short operating history, attributable to the current tight hotel supply in Singapore. The group continues to look for further expansion options and have proposed development of a new 265 room hotel at the latest acquired freehold site in Tyrwhitt Road from sponsor, Fragrance Group, for a total net consideration of S\$25.1m (aggregate valuation S\$78m net of loans). Construction cost is estimated to be S\$30m .

COST STRUCTURE

High margin business, but operating leverage relatively high at 70%. Gross profit and operating margins are reasonably high at 88% and 58%, owing to its focus in the economy segment which offer limited ancillary services other than accommodation. Thus it is less labour intensive compared to other full-serviced hotels. We estimate GPHL’s operating leverage to be close to 70%, with major fixed costs items being overheads (salaries, property taxes and depreciation). Variable costs include items like utilities, laundry and cable, incidental to room usage.

KEY OPERATING ASSETS

23 hotels in Singapore, 1,738 rooms and growing. 22 out of 23 hotels are operated under the “Fragrance” brand and one hotel under the “Parc Sovereign” brand with a total room count of 1,738 worth a total S\$736.7m as at 30th Jun’12. 19 hotels out of the 23 hotels are sited on freehold land title.

Table 1 : Revenue Breakdown

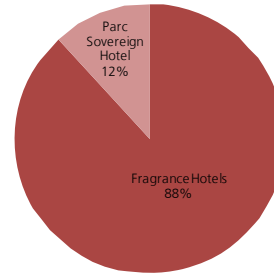


Table 2: Topline and gross margin growth (FY08-11A)

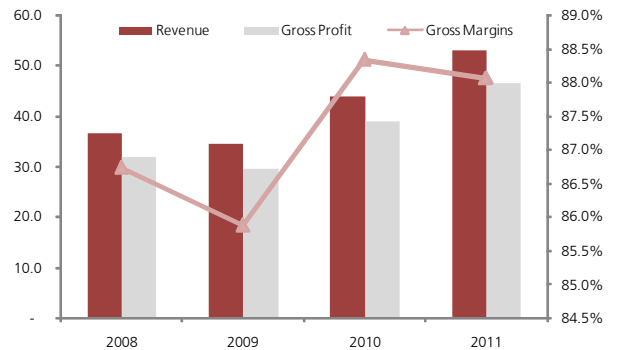


Table 3: Room inventory growth over past 13 months

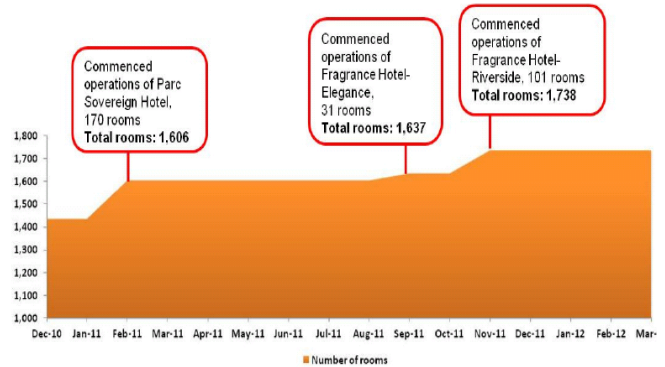
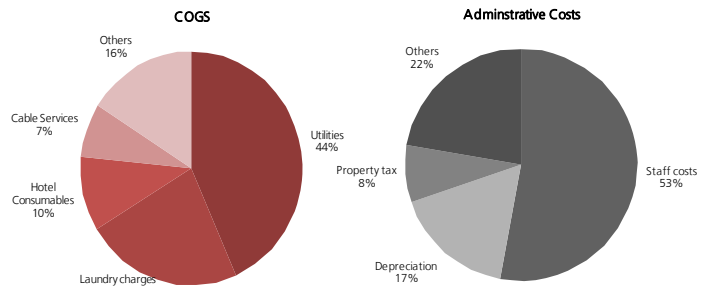


Table 4: Breakdown of major cost items



Source: Company, DBS Vickers

GROWTH PROSPECTS

2015 goal of 17m visitors, S\$30bn in tourist receipts not a long shot. At the beginning of the year, STB was expecting Singapore to attract between 13.5m-14.5m visitors in 2012, representing a 2.5% to 9.8% y-o-y increase compared to 2011. In conjunction with higher arrivals, Singapore is projected to achieve tourism receipts of between S\$23b-S\$24b (3.6%-8.1% y-o-y increase). Looking at the YTD performance till May'12, Singapore welcomed close 6m visitors, and thus we believe that STB's target set in the beginning of the year can be met. Visitor arrivals should continue to remain strong in the coming months from the robust pipeline of meetings, incentives, conventions and exhibitions (MICE) events coupled with the seasonally peak tourist quarters of 3Q coinciding with the annual Formula 1 race in Sept.

Industry seen strong demand in recent years ; forward supply outlook to be met with incremental demand. Historical statistics from STB have shown that accommodation demand for rooms have been relatively resilient, with the hospitality industry seeing demand drop off only back in 1998 (in conjunction with the Asian Financial Crisis), 2003 (due to SARs) and in 2009 (Global Financial Crisis), where average occupancies dropped to below the 75% level. Since the opening of the 2 integrated resorts in 2010, the industry has seen demand for accommodation increase in conjunction with the increase in visitor arrivals compounded by the lengthening average length of stay. Average occupancies for the industry is expected to remain relatively resilient at c85% over the coming years

MANAGEMENT & STRATEGY

Experienced management team in place. GPH leadership team comprises founding directors – Mr Koh Wee Meng, Mr Lim Chee Chong and recently appointed Mr Periakaruppan Aravindan (replacing the Mr Sim Mong Yeow who recently resigned) with many years of experience in hotel operations between them. The management team are hands-on, have in-depth knowledge of hotel operations and development of hotel sites.

Inorganic expansion on track; growing through dual branded strategy of "Fragrance" and "Parc Sovereign". Management intends to leverage on their household "Fragrance" and "Parc Sovereign" brands to expand the number of hotels in operation by c200-300rooms within 1 or 2 years of listing, which they have achieved in the proposed development of Tyrwhitt land site into a 265-room hotel. The group continues to look for portfolio expansion in Singapore by new acquiring new land sites and could potentially look to expand into the Asia-Pacific region (Malaysia, Indonesia and Philippines) when the opportunity arises.

In the meantime, the group continues to improve operational efficiencies by establishing in-house capabilities such as laundry and to educate their staff on energy conservation.

Table 5: Key Competitors

Rank	Company	Hotel Brand	Market Share
1	Hotel 81 Mgmt Pte Ltd	Hotel 81	21.6%
2	Global Premium Hotels Ltd	Fragrance	12.2%
3	Hotel 81 Mgmt Pte Ltd	Value Hotels	7.6%
4	Santa United Int'l Holdings	Santa Grand Hotels	3.6%
5	Aqueen Hotels Pte Ltd	Aqueen Hotels	2.2%
		Others	52.8%

Table 6: 2015 target of 17m visitors assumes a 7.9% CAGR

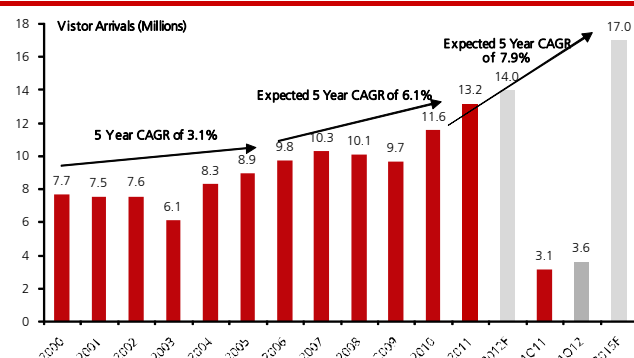


Table 6: Room night sold / Available room nights

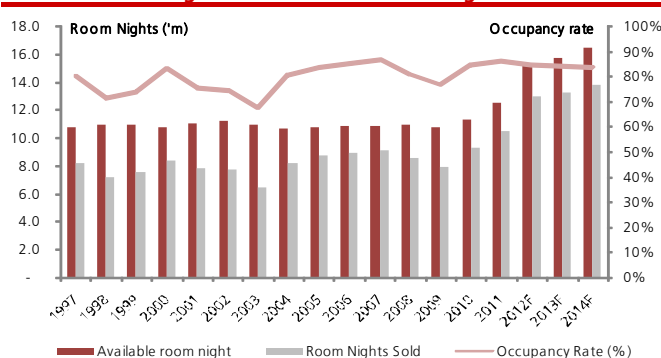
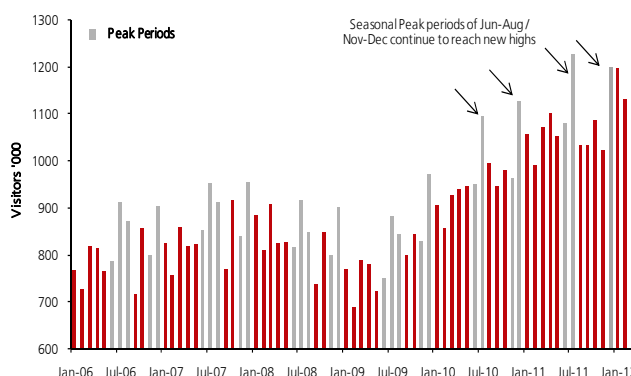


Table 7: Historical Peak Seasons



Source: STB, Company, DBS Vickers

Global Premium Hotel

Key Assumptions

FY Dec	2009A	2010A	2011A	2012F	2013F	2014F
Rooms			1,436	1,738	1,738	1,988
RevPAR (Fragrance)				105	115	120
S\$/night						
RevPAR (Parc Sovereign)				120	130	135
S\$/night						

Segmental Breakdown

FY Dec	2009A	2010A	2011A	2012F	2013F	2014F
Revenues (\$\$ m)						
Fragrance Hotel Chain	35	44	47	55	58	65
Parc Sovereign	0	0	6	7	8	8
Total	35	44	53	62	66	73
Margins (%)						
Fragrance Hotel Chain	85.9	88.3	88.2	88.0	88.0	88.0
Parc Sovereign	-	-	-	86.0	86.0	86.0
Total	85.9	88.3	88.1	87.8	87.8	87.8

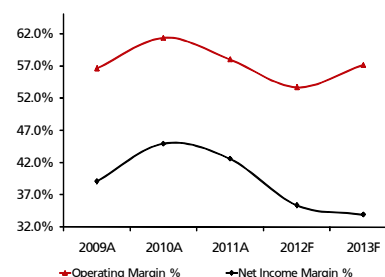
5% RevPAR growth p.a., contribution from new hotels Fragrance Elegance and Riverside. FY14F to see contribution from new hotel at Tyrwhitt Road upon TOP.

Contribution from Parc Sovereign Hotel to ramp up, RevPAR forecast to increase 5% p.a.

Income Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F	2014F
Revenue	35	44	53	62	66	73
Cost of Goods Sold	(5)	(5)	(6)	(8)	(8)	(9)
Gross Profit	30	39	47	55	58	64
Other Opng (Exp)/Inc	(10)	(12)	(16)	(22)	(21)	(23)
Operating Profit	20	27	31	33	37	41
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	(3)	(3)	(3)	(7)	(10)	(11)
Exceptional Gain/(Loss)	0	0	0	0	0	0
Pre-tax Profit	16	24	28	26	27	31
Tax	(3)	(4)	(5)	(4)	(5)	(5)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
Net Profit	14	20	23	21	22	25
Net Profit before Except.	14	20	23	21	22	25
EBITDA	21	29	34	37	41	45
Growth						
Revenue Gth (%)	(6.3)	27.9	20.2	17.3	5.3	11.8
EBITDA Gth (%)	(12.8)	37.3	16.8	7.8	11.0	11.4
Opg Profit Gth (%)	(14.5)	38.6	13.6	6.1	12.3	12.6
Net Profit Gth (%)	(16.2)	47.0	13.9	(5.3)	3.8	14.5
Margins & Ratio						
Gross Margins (%)	85.9	88.3	88.1	87.8	87.8	87.8
Opg Profit Margin (%)	56.6	61.3	58.0	52.5	56.0	56.4
Net Profit Margin (%)	39.1	44.9	42.6	34.4	33.9	34.7
ROAE (%)	5.8	5.2	4.1	4.6	6.8	7.4
ROA (%)	3.4	3.3	2.9	2.6	2.6	2.7
ROCE (%)	4.5	4.1	3.4	3.4	3.6	3.8
Div Payout Ratio (%)	0.0	0.0	90.0	25.0	25.0	25.0
Net Interest Cover (x)	6.1	9.0	10.7	4.7	3.7	3.9

Margins Trend



Topline growth coming from organic RevPAR growth of 5%, contributions from new hotels - Fragrance Hotel Riverside and Elegance, Parc Sovereign Hotel.

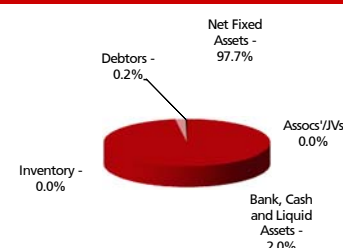
12% y-o-y growth in FY14F to come mainly from the new 265-room hotel at its recently acquired Tyrwhitt site (assumed to complete in middle of FY14)

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F	2014F
Net Fixed Assets	425	702	750	797	868	867
Invt in Associates & JVs	0	0	0	0	0	0
Other LT Assets	0	0	0	0	0	0
Cash & ST Invt	2	3	16	11	32	54
Inventory	0	0	0	0	0	0
Debtors	1	1	2	2	2	2
Other Current Assets	35	33	31	13	13	13
Total Assets	464	739	798	824	916	936
ST Debt	12	8	130	18	93	93
Other Current Liab	50	56	28	20	21	22
LT Debt	135	150	9	441	441	441
Other LT Liabilities	5	24	26	26	26	26
Shareholder's Equity	262	501	605	318	334	353
Minority Interests	0	0	0	0	0	0
Total Cap. & Liab.	464	739	798	824	916	936
Non-Cash Wkg. Capital	(14)	(22)	5	(5)	(5)	(6)
Net Cash/(Debt)	(145)	(156)	(123)	(448)	(502)	(481)
Debtors Turn (avg days)	11.6	9.3	10.4	11.1	11.7	11.4
Creditors Turn (avg days)	140.3	142.8	269.7	231.1	115.5	110.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.6	0.6	0.3	0.7	0.4	0.6
Quick Ratio (x)	0.1	0.1	0.1	0.3	0.3	0.5
Net Debt/Equity (X)	0.6	0.3	0.2	1.4	1.5	1.4
Net Debt/Equity ex MI (X)	0.6	0.3	0.2	0.1	1.5	1.4
Capex to Debt (%)	31.7	13.2	(41.8)	11.3	14.0	0.4
Z-Score (X)	NA	NA	NA	NA	NA	NA

Asset Breakdown (2012)

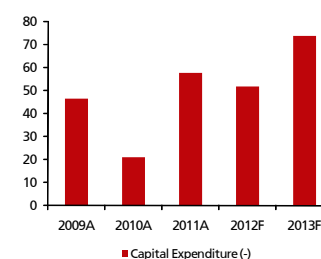


Net Debt/Equity increased due to the capital structuring (from the listing).

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F	2014F
Pre-Tax Profit	16	24	28	26	27	31
Dep. & Amort.	2	2	3	4	4	4
Tax Paid	0	0	(4)	(9)	(4)	(5)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
Chg in Wkg.Cap.	0	6	0	15	0	0
Other Operating CF	(26)	(13)	(1)	0	0	0
Net Operating CF	(8)	20	26	35	26	30
Capital Exp.(net)	(47)	(21)	58	(52)	(75)	(2)
Other Invt.(net)	0	0	0	(431)	0	0
Invt in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	0	0	0	0	0
Net Investing CF	(47)	(21)	58	(482)	(75)	(2)
Div Paid	0	0	(10)	(5)	(6)	(6)
Chg in Gross Debt	55	1	(61)	321	75	0
Capital Issues	0	0	0	127	0	0
Other Financing CF	0	0	0	0	0	0
Net Financing CF	55	1	(71)	443	69	(6)
Currency Adjustments	0	0	0	0	0	0
Chg in Cash	1	0	13	(4)	21	22
Opg CFPS (\$ cts)	(0.8)	1.3	2.5	1.9	2.5	2.9
Free CFPS (\$ cts)	(5.2)	(0.1)	8.0	(1.6)	(4.6)	2.7

Capital Expenditure



Capex from the purchase of new site at Thyritt road, AEI at Fragrance Hotel-Ruby

Source: Company, DBS Vickers

Global Premium Hotel

Quarterly / Interim Income Statement (S\$ m)

FY Dec	1Q2012	2Q2012
Revenue	15	15
Cost of Goods Sold	(2)	(2)
Gross Profit	13	13
Other Oper. (Exp)/Inc	(5)	(7)
Operating Profit	8	6
Other Non Opg (Exp)/Inc	0	0
Associates & JV Inc	0	0
Net Interest (Exp)/Inc	(1)	(1)
Exceptional Gain/(Loss)	0	0
Pre-tax Profit	8	5
Tax	(1)	(1)
Minority Interest	0	0
Net Profit	6	4
Net profit bef Except.	6	4
EBITDA	9	6
Growth		
Revenue Gth (%)	N/A	2.4
EBITDA Gth (%)	N/A	(30.1)
Opg Profit Gth (%)	N/A	(26.7)
Net Profit Gth (%)	N/A	(44.2)
Margins		
Gross Margins (%)	87.4	86.9
Opg Profit Margins (%)	54.8	39.2
Net Profit Margins (%)	43.4	23.6

Stable operational performance from its hotels, as occupancy remained high at c88-90%

Source: Company, DBS Vickers

VALUATIONS

Trading at a 30% discount to RNAV. Hotel stocks in Singapore are generally not well covered due to their trading illiquidity. Based on EV/EBITDA multiples, a common metric for valuation of hotel companies, GPLH is trading on FY12F-14F EV/EBITDA multiples of close to 18.6x-19.2x. This is at a slight premium to hospitality peers, but is expected to decrease to 16.6x PE on FY14F earnings upon completion of the Tyrwhitt Road development. Given GPLH's unique position with a leading exposure in the economy tier segment of the Singapore hotel sector, we derive a fair value of S\$0.29 based on a 20% discount to its RNAV of S\$0.36. This implies 17x EV/EBITDA FY14F, in line with peers.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	1	40%	0.4
Financials	2	20%	0.4
Shareholdings	1	40%	0.4
Overall			1.2

Expect steady earnings growth. Topline should remain relatively stable in the coming 2 financial years, backed by a portfolio of economy branded hotels, which has shown to be resilient even in times of economic uncertainty. The group offers strong growth prospects in FY14F to come from the expected completion of its Tyrwhitt Road hotel site, which should boost total rooms by c15%.

Table 6: RNAV valuation for GPLH

	S\$m
RNAV for hotels	908
Book Value of hotels (including capex for Tyrwhitt site)	856
Surplus	53
NAV as of 30th Jun'12	323
RNAV	376
RNAV per share	0.36
Discount	20%
Fair value	0.29

Table 7: Peers' Comparisons

	Price S\$	Mkt Cap S\$m	EV/EBITDA FY10A	EV/EBITDA FY11A	EV/EBITDA FY12F
Amara Holdings	0.38	216.4	18.0	15.0	15.0
Banyan Tree Holdings	0.58	437.8	nm	20.5	17.5
Pan Pacific Hotels Group Ltd	2.10	1,260.0	21.7	16.5	18.0
Roxy Pacific Holdings Ltd	0.48	458.3	17.5	20.4	17.5
Average Hotels			19.1	18.1	17.0
Hospitality REITs					
CDL Hospitality Trusts	1.98	1,910.9	21.5	19.8	18.0
Ascott Residence Trusts	1.21	1,375.8	18.0	17.5	16.0
Ascendas Hospitality Trusts	0.92	734.7	nm	nm	16.1
Average Hospitality REITs			19.8	18.7	16.7

Source: DBS Vickers, Bloomberg

DBSV Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

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