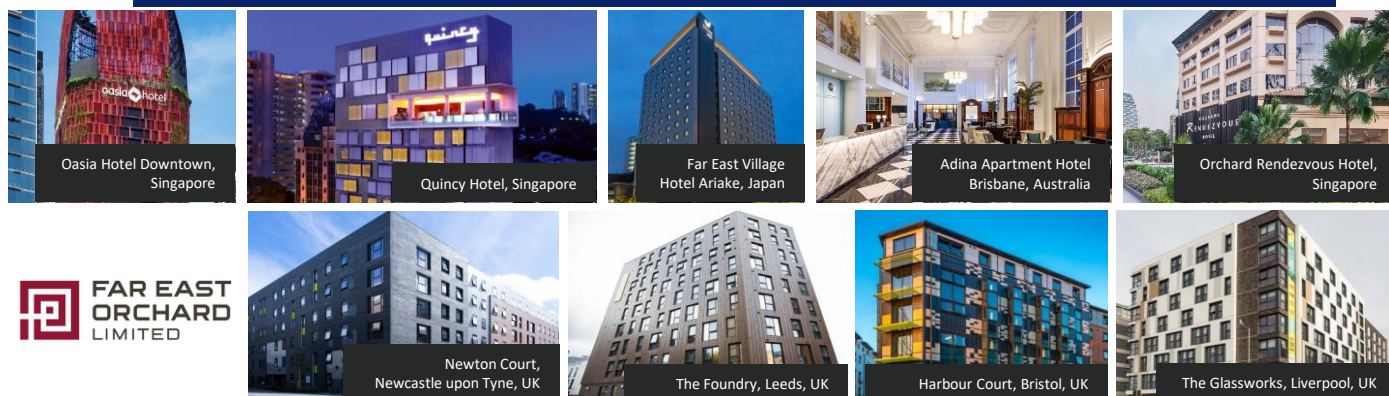


10 in 10 – Far East Orchard (SGX Code: O10)

10 Questions in 10 Minutes with SGX-listed companies



10 Questions for Far East Orchard Limited

Company Overview

Far East Orchard Limited is a property developer, hospitality assets owner and operator, with a diversified property investment portfolio comprising purpose-built student accommodation (PBSA) and medical suites. It has properties in Australia, Malaysia, Singapore and the United Kingdom. It is a member of Far East Organization, Singapore's largest private property developer.

[Link to StockFacts company page](#)

SGX Code: O10	BBG: FEOR SP	RIC: FARE.SI
Market cap on 23 Oct (S\$m)	450.9	
Price on 23 Oct (S\$)	0.99	
52 wk high/low	1.20 – 0.90	
ADTV (S\$)	63,346	
Shares Outstanding (m)	455.5	
Float	37.5%	
P/E (LTM)	22.4	
P/B (LTM)	0.4	
Dividend Yield	6.1%	

Source: Bloomberg (23 Oct 2020)

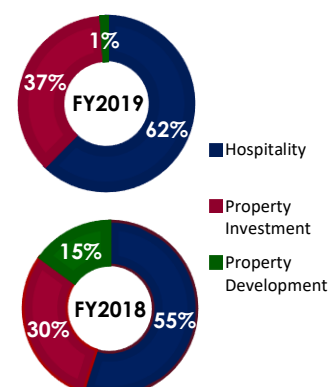
1. The Group's diversified property portfolio comprises residential, commercial, hospitality, purpose-built student accommodation (PBSA) and medical suites. What would you maintain or change?

- Our strategy for the near to mid-term is to focus on building a lodging platform on the back of our hospitality and PBSA businesses. In 2012, we embarked on a strategic transformation and expanded into hospitality management and healthcare real estate, to generate a sustainable and recurring income stream to augment our property development and investment businesses. In 2015, we further diversified into PBSA properties in the UK. These real estate lodging businesses will be our main priority in the coming years.
- Our enlarged base of recurring income from hospitality and the PBSA businesses complement the one-off earnings from property development projects to provide better stability. We aim to continue growing recurring hospitality revenue through operating contracts and strategic partnerships and continue the expansion of the PBSA portfolio through acquisitions or development.

2. Describe the Group's revenue mix and profitability over the past few years.

- We adopt a diversified strategy to provide earnings stability, and have seen an increased proportion of operating profit from our hospitality and property investment businesses, from 85% in FY2018 to almost 100% in FY2019. Our hospitality segment has been the core contributor to our recurring income base.
- Since entering the PBSA sector in 2015, our portfolio has increased by fivefold to over 3,000 beds. This has provided a healthy balance and diversification to the recurring income composition provided by the hospitality business. We see potential to continue the expansion of our PBSA portfolio given the continued growth of both domestic and international student numbers in the United Kingdom (UK), and the resilient nature of this income stream.

Total Operating Profit by Business Segment



3. What are the key focus areas for Far East Orchard to sustain growth in the medium term?

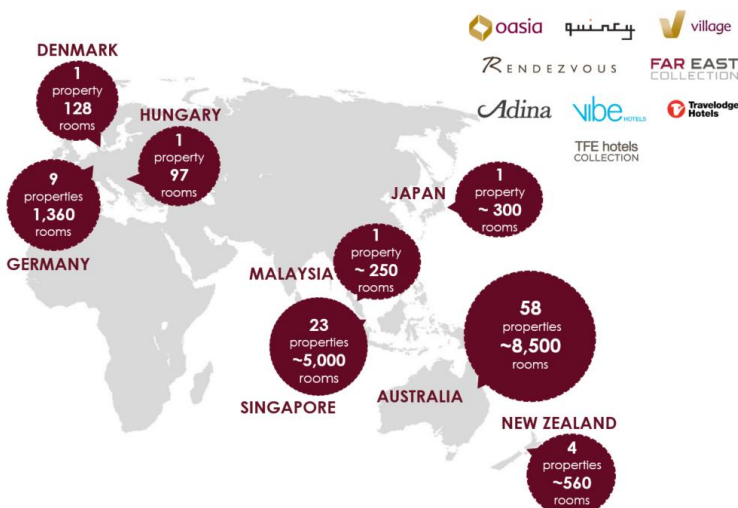
- Our focus is to establish a lodging platform that builds on recurring income streams from hospitality and PBSA.
- Despite the short term impact from COVID-19, we believe that hospitality sectors in selected markets will outperform as tourism demand recovers. Our focus will be on countries which, in our view, have strong long-term fundamentals for tourism, owing to domestic travel and other demand drivers. These countries include Australia, Japan, Vietnam, Indonesia, and Thailand.
- Another key focus area is the PBSA sector, and we will continue to build our portfolio in the UK, focusing on cities with high tariff universities with strong student growth.

4. Does Far East Orchard intend to use asset acquisitions to further expand its portfolio? What are the key criteria involved in this strategy?

- Given the challenging global economic and business environment, coupled with a likely extended period of low interest rates, we believe that our healthy balance sheet positions us to seize attractive asset acquisition opportunities which fit our strategy.
- We will adopt a disciplined approach in the evaluation of all opportunities in the hospitality and PBSA businesses. Our goal is to ensure that the yields from acquired assets meet our objectives for the building of recurring income.
- For hospitality, we will be selective within the Asia Pacific region, and will be looking at suitable opportunities to deepen our presence in the key countries as highlighted in Question 3. For PBSA, we look at strong UK regional cities with major universities and sizeable full-time student populations.

5. Your hospitality arm – Far East Hospitality – owns more than 10 hospitality assets and manages over 95 properties with more than 15,500 rooms in Australia, Denmark, Germany, Hungary, Malaysia, New Zealand and Singapore. What are your strategies to strengthen this portfolio and grow recurring income?

- We had originally planned to add c.1,500 rooms to our hospitality management portfolio this year, with openings in Australia, New Zealand, Singapore and Japan. Despite the pandemic, our hospitality business, through Far East Hospitality and TFE Hotels, is on track to open c.1,300 rooms by end 2020.
- We intend to grow this segment through an appropriate mix of management contracts and leases, along with strategic partnerships and acquisitions.



Far East Orchard's Hospitality portfolio consists of 98 properties with over 16,000 rooms (As at Oct 2020)

Far East Village Hotel Ariake, Japan – opened in July 2020, the first Village brand hotel to expand overseas

6. How has COVID-19 affected your operating conditions? What measures have you put in place to mitigate the impact?

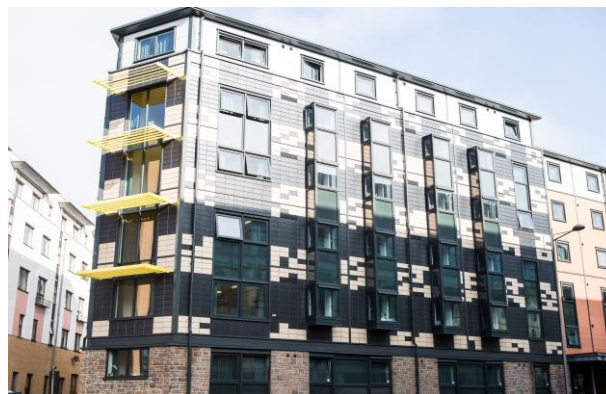
- We implemented cost control measures such as temporary closure of rooms, consolidation of services, reduction in marketing expenses and guest consumables, labour cost reductions through a hiring freeze, and redistribution of jobs among our workforce. We have also fast-tracked some works to be carried out in 2020 wherever possible, taking advantage of the low occupancies.
- In Singapore, some of our hotels were used as dedicated Stay Home Notice (SHN) facilities and by local companies as accommodation for their Malaysian workers due to the Malaysia Movement Control Order. This helped to mitigate the impact on our hotel occupancy levels.
- For our UK PBSA properties, we have allowed for early cancellation of students' tenancies for the last semester of academic year 2019/20 as a result of university closures, subject to certain conditions. These cancellations are estimated to impact our revenue by approximately £3 million. Academic year 2020/21 has commenced in September 2020, and our buildings are operational. We are closely monitoring the situation in view of the recent increase in COVID-19 cases in the UK.

7. What headwinds do you anticipate from COVID-19 and weaker global growth ahead? How will you tweak your growth strategies for your hospitality segment as a result of these challenges?

- We expect the hospitality sector to continue to operate in a difficult environment in the near-term. Recovery may be prolonged before travel and tourism return to pre-pandemic levels. However, not all markets will perform equally. Some countries (e.g. Japan and Vietnam) have been more effective in containing the spread of the virus. In these countries, domestic tourism is encouraged through various government subsidies and schemes, and bilateral agreements could permit business travel in the near-term.
- Despite the challenging environment, we will proceed with certain plans for our hospitality segment. This includes hotel openings in Australia where hotel demand is supported by domestic travel, and in Japan and Singapore. We will also step up in our efforts to grow our hospitality operating footprint in Asia Pacific through management agreements.

8. In the post-pandemic education landscape, online learning may gain traction. How do you think this will affect global demand for the PBSA sector?

- We believe that there is no substitute for the on-campus experience, and recent surveys (Source: Times Higher Education) indicate that students enrolled in UK universities are increasingly dissatisfied with online learning. UK universities are also overwhelmingly committed to providing some form of on-campus teaching in 2020, with 97% indicating that they will do so.
- Furthermore, student enrolment numbers in the UK continue to grow. For the semester which commenced in September 2020, the number of accepted applicants from the UK grew by 4% year-on-year, and by 9% among students from outside the EU (Source: UCAS).
- Most critically, we ensure that our PBSA properties are clean and safe, which is of paramount concern to both students and parents.



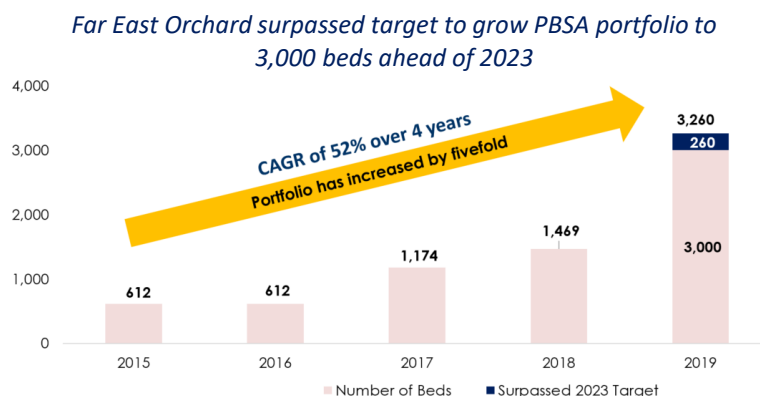
Exterior facade of PBSA Harbour Court, UK



Interior of one of the studios in Harbour Court, UK

9. You have a market presence of 3,260 beds across 11 properties in the UK PBSA segment. What role does this segment play as part of Far East Orchard’s overarching strategy? What are your plans to grow this given the economic uncertainty resulting from COVID-19 and Brexit?

- The PBSA segment is an important business segment within our strategy of building a lodging platform.
- We previously set a target to reach 3,000 PBSA beds by 2023, in line with our strategy of growing this income stream. We surpassed this target well ahead of time, following two acquisitions in 2019 which brought our bed total to 3,260.
- We remain confident of the long-term resilience in the UK PBSA sector as students’ desire for an enriching experiential learning remains strong and provides sustainable demand. Our PBSA investment has performed well with counter-cyclical fundamentals and diversifies the Group’s earnings profile, and is a resilient asset class held for recurring income.



10. What is Far East Orchard’s value proposition to its investors and what do you think investors may have overlooked about your business?

- The focus on building a lodging platform that anchors on the strength of our hospitality and PBSA businesses is a key part of our new narrative to ensure that we deliver sustainable returns over the long term.
- We have been vigilant in conserving cash flow and managing our balance sheet over the years, being disciplined in applying capital to higher yielding and resilient recurring assets.
- We maintain a healthy cash balance and continued to pay dividends of 6.0 cents to shareholders for FY2019.

Source: Company data

10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company’s management and is based on publicly announced information from the company.

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