Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Trust: Frasers Hospitality Trust
(Managers: Frasers Hospitality Asset Management Pte. Ltd. &
Frasers Hospitality Trust Management Pte. Ltd.)

Stock code: ACV

Meeting details:
Date: 19 January 2022
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. In the letter to stapled securityholders, the chairman and the CEO emphasised that despite the recent signs of a nascent recovery, the recovery trajectory is still uneven as border restrictions remain in many countries. The trading environment is expected to remain challenging but markets with sizable domestic tourism, such as Australia, Japan and the UK, are expected to lead the recovery.

The group has also entered into definitive agreements to divest its Sofitel Sydney Wentworth for A$315 million (after acquiring the freehold reversionary interest of the land for an additional A$10.55 million). The proposed disposal, the first since listing, is approximately 12.1% above the independent valuation of A$281.0 million as at 30 Sep 2021 on a freehold basis.

(i) **Can the manager elaborate further on its criteria for divestment, including the factors used to determine the "optimal stage of life cycle" of an asset and the "portfolio rebalancing strategy", specifically for Sofitel Sydney Wentworth?**

(ii) **What are the other assets that have been earmarked for divestment?**

(iii) **Has the manager finetuned the group's growth strategy as a result of the pandemic? In particular:**

a. **What is the targeted geographical diversification going forward**? It is noted that Singapore and Australia account for 36% and 32% by portfolio value respectively as at 30 September 2021.

b. **Similarly, what is the targeted distribution by market position (luxury, upper upscale, upscale, mid-scale, etc) for its portfolio?**

c. **Will the stapled group continue to rely on master leases for its assets?** The master lease structure has partially mitigated the adverse impact of the pandemic. **Nevertheless, please elaborate further on the value-add by the manager in the operations of the assets with the current master lease structure.**

d. **Has FHT evaluated/is FHT evaluating acquisitions on an opportunistic basis? In view of the current leverage and the debt headroom available, what is the optimal way for FHT to fund its acquisition (if and when it happens)?**

e. **Please also demonstrate the value-add and/or the roles played by the strategic partner, the TCC Group.**

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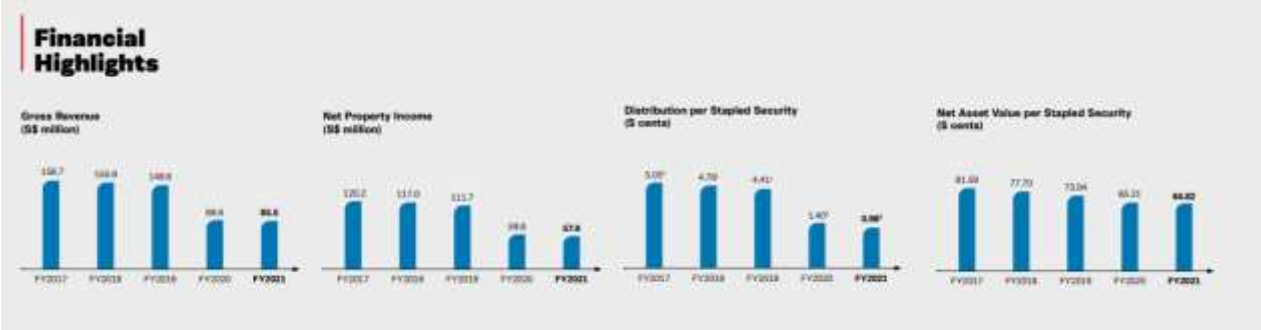
Q2. The financial highlights of the group can be found on pages 8 and 9 of the annual report. Selected items are reproduced below for reference:



(Adapted from FHT annual report 2021)

The key financial metrics have declined gradually from FY2017 to FY2019, even before the onset of the COVID-19 pandemic. As at 30 September 2021, the FH-REIT Group's aggregate leverage ratio was 42.2% (2020: 37.7%) with an interest coverage ratio of 2.3 times.

(i) **Has the board evaluated the performance of the stapled group and benchmarked it against its competitors? If so, is the board satisfied with the performance of the managers?** As noted above, there has been a gradual decline from FY2017 to FY2019 before a significant drop in the operational and financial performance of the stapled group in FY2020 and FY2021.

(ii) **Are there opportunities for active asset management and enhancement (page 3 – Our Growth Strategy)? If so, what are they?**

In 2020, MAS introduced measures to help REITs navigate the operating challenges posed by the COVID-19 pandemic. The leverage limit for REITs was increased from 45% to 50% while the implementation of a minimum interest coverage ratio (ICR) requirement of 2.5 times before a REIT is allowed to increase its leverage beyond 45% (to 50%) was deferred to 1 January 2022.

(iii) **What are the levers available to the group to improve its cash flow/ICR?** Net cash generated from operating activities decreased from $60.3 million in FY2020 to $39.2 million in FY2021 (page 179 – Statements of cash flows).

(iv) **What are the reasons for the increases in impairment loss on trade receivables (from $1.69 million in FY2020 to $4.14 million in FY2021) and the increase in trade and other receivables from third parties (page 222 – Note 12: Trade and other receivables)?**

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Q3. In May 2021, the group fully redeemed and cancelled its $100 million 4.45% perpetual securities issued under the S$1 billion Multicurrency Debt Issuance Programme. As at 30 September 2021, total borrowings increased to $991.2 million (30 September 2020: $889.4 million) while the average interest rate was lower at 2.0% per annum for FY2021 (FY2020: 2.3% per annum).

Approximately 77.2% (30 September 2020: 74.9%) of the borrowings are on fixed interest rates with a weighted average debt maturity of 2.56 years (2020: 3.62 years).

In addition, the group has natural hedging of between 23% to 77% for the assets that are denominated in foreign currencies.

Moody's had, in March 2020, downgraded FHT's ratings to Baa3 from Baa2, with a negative outlook, stating that the company was vulnerable amid the coronavirus outbreak. FHT discontinued the engagement of Moody's Investors Service for a corporate credit rating in March 2020 (page 18 – Prudent capital and risk management).

(i) **Why had the stapled group discontinued the engagement of Moody's to provide a corporate rating? How would it affect the group's ability to raise funds and to secure cheaper credit?**

(ii) **Are there plans to issue new perpetual securities?** The group has fully redeemed and cancelled its $100 million 4.45% perpetual securities.

(iii) **Can the managers elaborate further on their views on interest rates given that the group has significant exposure to different currencies? Is the current level of fixed interest rate borrowings (77.2%) optimal?**

(iv) **What determines the level of natural hedging for its foreign assets?** As disclosed on page 19, the percentage of natural hedging varies from 23% to 77%.

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time,

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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