

## UBS Investment Research

# Singapore Tourism

### No stopping the momentum

#### ■ Raising 2012 tourist arrivals and RevPAR assumptions

On stronger tourist arrival numbers year to date and diminished recessionary concerns, we raise our 2012 tourist arrivals forecasts by 6.8% to 14.1m (+7.4% YoY growth, from flat YoY growth previously). Consequently, we also raise our 2012 RevPAR assumption by 22.5% to S\$234, implying 10% YoY growth (from 10% YoY decline previously). Our visitor arrivals forecast is in line with the Singapore Tourism Board's target of 13.5-14.5m arrivals for 2012.

#### ■ Hoteliers remain positive—investing for growth and competing for sites

Our checks with hoteliers indicate that forward bookings remain encouraging. This is borne out by strong Q1 numbers reported by CDL Hospitality Trusts (CDL HT). We also note that an increasing number of hoteliers are executing refurbishment, suggesting that they are investing for growth and positioning themselves to push rates upwards. In addition, greenfield sites remain highly sought after in government land sales, with all recent tenders attracting at least half a dozen bids.

#### ■ Growth drivers: China outbound tourism, new attractions

In 2011, China outbound tourists grew 22% YoY to 70m, part of a 19% CAGR over a 10-year period. We believe Singapore is in a good position to capture this growing segment, with Chinese tourist arrivals in Singapore recording a CAGR of 12%. New attractions in 2012 such as Gardens by the Bay and River Safari should also help, in our view.

#### ■ Preferred picks: CDL HT, UOL for hotels; SGREIT, FCT, CMT for retail

We like hoteliers and retailers as beneficiaries of a robust Singapore tourism cycle. Our picks are CDL HT and UOL for hotels, and SGREIT, FCT and CMT for retail.

30 April 2012

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## Stock picks

On our revised forecast, we expect tourist arrivals in 2012 to increase 7.4% YoY to 14.1m. Key beneficiaries of a robust Singapore tourism cycle are hoteliers and retailers, in our view, as accommodation (19%), shopping (20%), and food & beverage (10%) account for a substantial portion of tourist spending.

- **Hospitality.** We like CDL Hospitality as it is the most liquid proxy to Singapore hospitality with over 80% of gross revenue generated from domestic hotels. We also think UOL is a key beneficiary with c.15% of its RNAV derived from five domestic hotels.
- **Retail.** Starhill Global REIT through its two landmark Orchard Road malls is most leveraged to tourism spending, in our view. We also like CapitaMalls Trust.

There is a positive read-through to Fraser Centrepoint Trust's tenant mix as well, despite its suburban mall portfolio not being a direct beneficiary of tourist dollars. We think the evolution of Singapore as a global city and tourist destination has led international retailers to view this market as a potential gateway to Asia and one of the top 10 destinations to establish a presence. New-to-market brands typically open their first stores in Orchard Road before branching out but suburban malls can also be used as the initial test-bed. The upshot is deeper brand penetration in suburban malls and a potential uplift in sales. Japanese Fashion retailer Uniqlo, which opened its first mall in Tampines mall, is a case in point.

Table 1: Valuation screen

Company	Rating	Market Cap (\$m)	Share price (\$)	Price target (\$)	Upside	12 dvd yield (%)	13 dvd yield (%)
<b>Hospitality</b>							
CDL Hospitality	Buy	1,796.5	1.87	2.20	18.0%	6.5	6.4
UOL	Buy	3,441.5	4.54	5.31	17.0%	2.2	2.2
OUE	Neutral	2,206.8	2.34	2.57	9.8%	3.0	3.4
<b>Retail</b>							
FCT	Buy	1,294.7	1.58	1.71	8.6%	6.3	6.5
Starhill Global REIT	Buy	1,272.7	0.66	0.72	9.9%	6.6	6.9
CMT	Buy	6,057.7	1.82	1.88	3.3%	5.5	5.8
Suntec	Neutral	2,945.5	1.32	1.30	-1.5%	7.2	6.4

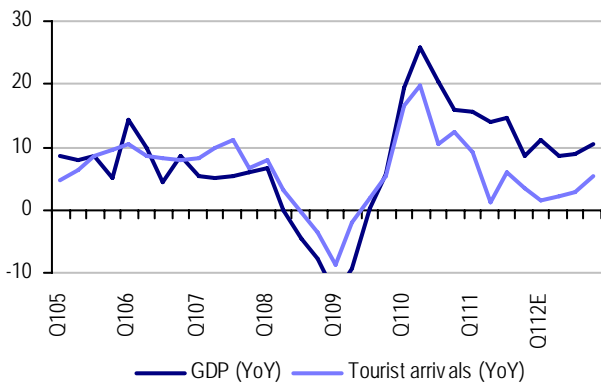
Note: Price as of 29 April 2012. Source: UBS estimates

## What has changed since Q411?

- **Macro.** Our global strategist believes recessionary concerns have diminished following a steady stretch of broad-based positive surprises to economic growth forecasts since Q411. While economic uncertainty in Europe persists, the event risk of a financial dislocation has widely dissipated. As the macro outlook improves, we believe sectors leveraged to growth, such as hospitality, can continue to outperform.
- **Singapore.** UBS economist Edward Teather believes Q112 economic growth at +1.6% YoY marks the trough and the pace of growth should ratchet up

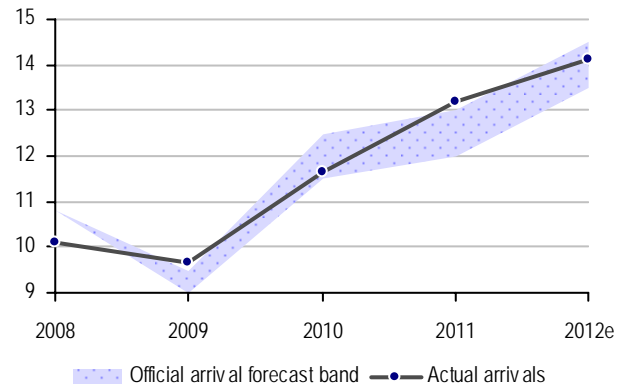
thereafter. For 2012, Edward projects 3% real GDP growth. We believe this bodes well for the tourism sector as our analysis show a positive correlation between GDP growth and visitor arrivals. (Chart 1)

Chart 1: GDP and tourist arrival growth



Source: CEIC, UBS estimates

Chart 2: STB forecast versus actual arrivals



Source: Singapore Tourism Board, UBS estimates

■ **Tourism Board.** Optimism in the outlook also extends to the hospitality sector where the Singapore Tourism Board (STB) is projecting 13.5m to 14.5m visitor arrivals for 2012 and S\$23bn to S\$24bn in tourism receipts. The mid-points represent a 6.3% and 5.8% YoY growth in arrivals and receipts respectively. As illustrated in Chart 2, tourist arrivals in recent years have met or exceeded STB’s target range and this give us the confidence there will be no let-up in the government marketing efforts to achieve these targets.

■ **Hoteliers.** Checks with hoteliers show forward bookings remain encouraging with most confident on the hospitality outlook. This is also borne out by strong Q1 results reported by CDL Hospitality which exceed both UBS and consensus expectations. Excluding Easter, April numbers look strong. An increasing number of hoteliers are also executing refurbishments. We believe this signals hoteliers are positive on the outlook and are willing to invest for growth and the ability to capture a bigger share of the tourism pie.

Table 2: Recent hotels refurbishments

Hotel	Owner	Capex (S\$m)	Status	Details
Orchard Hotel	CDL Hospitality Trusts	10	Completed	Refurbishment of 331 guest rooms out of a total of 656 guest rooms
Rendezvous Grand Hotel	Rendezvous Hospitality Group	25	Completed	Upgrade rooms, lobby, conference rooms and retail precinct
The Elizabeth Hotel	Far East Hospitality	3.5	Completed	Makeover for its 104 executive rooms (out of a total of 256 rooms)
Marriott Hotel	Tangs Holdings	32	Completed	Upgrade of lobby, cafes, and all guestrooms
Pan Pacific	Pan Pacific Hotels & Resorts	80	Ongoing	Upgrade guest rooms, restaurants, and the lobby. The renovation works are expected to be completed by September 2012
Sheraton Towers	Sheraton Hotels & Resorts	20	Ongoing	Facelift of hotel’s facade and redesigning of its 412 guest rooms

Source: UBS, Business Times

■ **Hotel tenders.** Greenfield hotel sites remain highly sought after as evident from a recent tender for a plot in Little India. The tender drew 10 bids with

most major hoteliers participating. The record top bid of S\$1,079psfppr was made by RB Capital group and was nearly 2.7x the reserve price.

**Table 3: Recent bids for hotel tenders**

Site	Successful bidder	Number of bidders	Winning bid (S\$m)	Price psm GFA (S\$)
Rangoon Road / Farrer Park Station Road	RB Capital Group	10	151.0	1,079.2
Jalan Bukit Merah / Alexandra Road	Chip Eng Seng Corporation	6	189.0	789.4
Robertson Quay	City Developments	9	127.8	938.5
Gopeng Street / Peck Seah Street	Far East Organization	7	194.8	932.3
Robinson Road / Boon Tat Street	Royal Group Holdings	8	86.0	1,072.8
Clemenceau Avenue / Havelock Road	RB Capital Hotels	13	101.1	813.3

Source: Business Times, URA

## Raising 2012 tourist arrivals by 6.8% to 14.1m

Year-to-February, tourist arrivals to Singapore total 2.3m and track 13.9m on an annualised basis. Following this stronger data, we raise our 2012/2013 tourist arrivals by 6.8% and 8.6% to 14.1m (13.2m previously) and 15m (13.8m previously), and expect tourist receipts to reach S\$23.9bn and S\$25.5bn in 2012 and 2013, respectively. Despite the upgrade, our estimates still look conservative relative to the top end of STB's 14.5m projection for 2012 tourist arrivals.

Post 2012, tourist arrivals would have to achieve a CAGR of 6.3% to meet the STB's target of 17m tourist arrivals by 2015. We note this is above the historic 10-year CAGR of 5.5% for arrivals which we believe could have led the government to inject another S\$905m over the next five years to drive the next stage of tourism growth which includes developing the MICE sector, creating new tourism products, and rejuvenating existing ones.

**Table 4: Visitor arrivals and hotel operational data—values and forecasts**

Year	Visitor arrivals	% change	Hotel rooms	% increase	RevPAR S\$	% change	Avg occupancy rate (%)	Avg room rate (S\$)	% change
2005	8,943,041	7.4%	30,294	0%	115	17.2%	83.8	136.8	12.8%
2006	9,751,141	9.0%	30,476	1%	140	22.1%	85.2	164.4	20.2%
2007	10,284,545	5.5%	30,789	1%	175	25.2%	86.9	201.7	22.7%
2008	10,115,638	-1.6%	31,364	2%	200	14.0%	81.2	246.4	22.2%
2009	9,677,921	-4.3%	33,137	6%	143	-28.2%	75.8	190.6	-22.6%
2010	11,635,020	20.2%	37,866	14%	182	26.6%	85.6	212.2	11.3%
2011	13,169,046	13.2%	39,887	5%	212	16.8%	86.5	245.1	15.5%
2012E	14,143,555	7.4%	41,939	5%	234	10.2%	88.0	265.8	8.4%
2013E	15,062,887	6.5%	44,850	7%	242	3.5%	88.0	275.0	3.5%

Source: Singapore Tourism Board, CBRE, UBS estimates

## Raise 2012 RevPAR estimate by 22.5% to S\$234

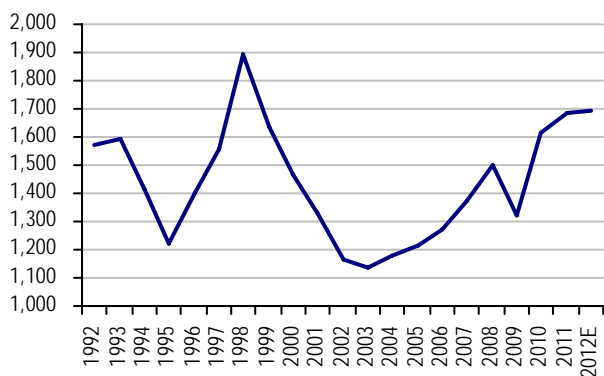
We were surprised by the resilience of the tourism industry and the ability of hoteliers to push through higher priced rooms despite the macro uncertainty in

2011. Our projections now look conservative and thus we raise our average room rate (ARR) forecast to S\$266 (S\$236 previously) for 2012 and S\$275 (S\$237 previously) for 2013. This implies 8.4% and 3.5% YoY growth for 2012 and 2013, respectively. We think our estimates are achievable as ARR in February 2012 has already reached a record high of S\$273 with occupancy at 89%. Further, we believe average occupancy rate (AOR) can be sustained at 88% (81% previously) underpinned by a slew of attractions slated to open in 2012. Based on our ARR and AOR assumptions, the implied 2012 and 2013 RevPAR is S\$234 and S\$242.

We assume an average spend per tourist of S\$1,690 with approximately 15% spent on accommodation. This is above the five-year average of 13.6% only because the room rates particularly at the higher end of the segment have risen significantly thereby lifting the overall average. Marina Bay Sands for instance has 6% market share of hotel rooms in Singapore and charges daily room rates in excess of S\$500-600 per night.

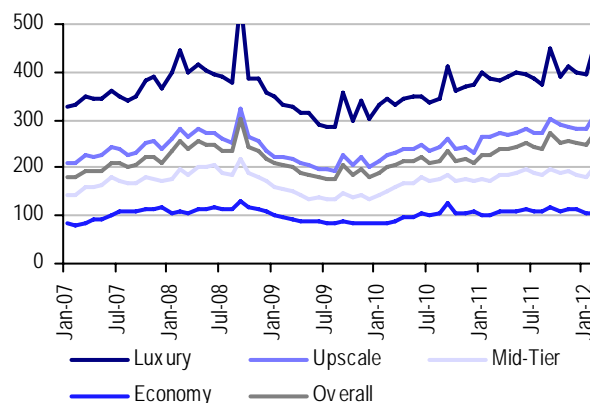
Although hotel room supply is slated to grow at 5.1% CAGR over the next four years, we believe it is well supported by CAGR of 6.6% for visitor arrivals.

Chart 3: Average spend per tourist (S\$)



Source: UBS estimates

Chart 4: Segmental room rates (S\$)



Source: CEIC

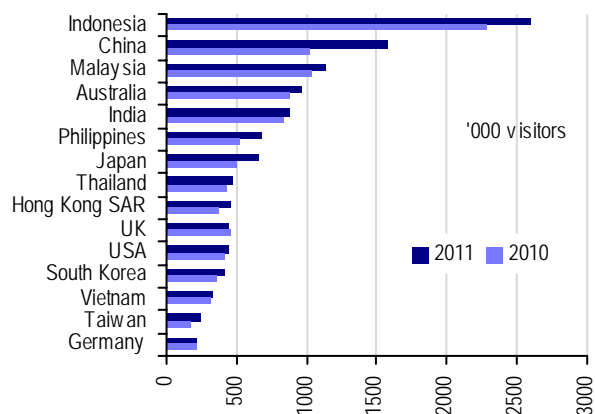
## China is the key growth market to watch

In 2011, China outbound tourists reached 70m (up 22% YoY) posting an impressive 19% CAGR over a 10-year period. Due to its favourable policies and geographical proximity, Hong Kong captured 40% of this outbound traffic, more than the rest of Asia combined. The impact on Hong Kong's economy is increasingly palpable, particularly in the retail sector where around half of the sales are attributable to tourists.

Singapore also benefited from this increase in China outbound tourists as is evident from the 35% growth in China tourists to Singapore. The Chinese tourist dollar is not new to Singapore and currently ranks as the second most important tourist market after Indonesia. We think this strong growth momentum can continue.

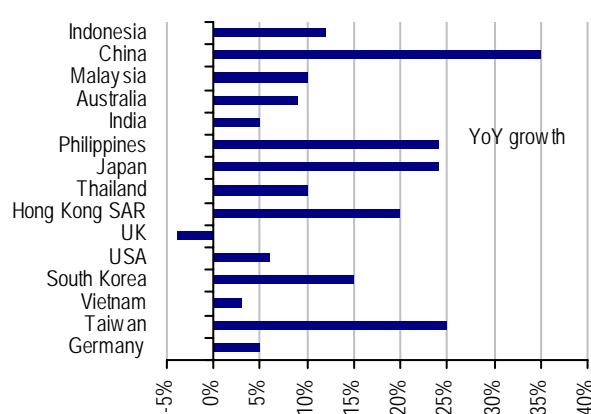
Based on the latest available data, about 45% (versus an average of 30% for other countries) of Chinese tourists are first-time visitors to Singapore and stayed for an average of 3.3 days (versus the regional average of 3.9 days) in Singapore. With more upcoming attractions, we think there is a high probability of repeat visitors and potentially longer visitor days. We believe this will be positive for hotel occupancy and retailers. The typical Chinese tourist spends S\$1,124 per capita, significantly ahead of the overall average of S\$951 per capita, and shopping accounts for a major proportion of this. (Chart 7)

Chart 5: Visitor arrivals—top 15 markets in 2011



Source: Singapore Tourism Board

Chart 6: Top 15 markets—2011 YoY growth



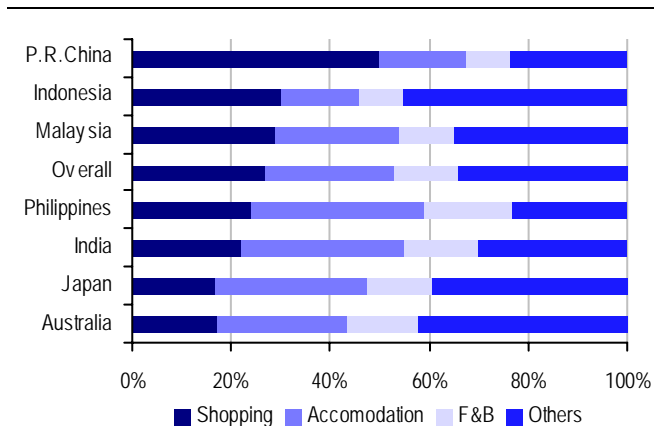
Source: Singapore Tourism Board

Table 5: Top 10 tourist markets 2005-2011

Rank	2005	2006	2007	2008	2009	2010	2011
1	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia
2	P R China	P R China	P R China	P R China	P R China	P R China	PR China
3	Australia	Australia	Australia	Australia	Australia	Malaysia	Malaysia
4	Japan	India	India	India	Malaysia	Australia	Australia
5	India	Malaysia	Malaysia	Malaysia	India	India	India
6	Malaysia	Japan	Japan	Japan	Japan	Philippines	Philippines
7	UK	UK	UK	UK	UK	Japan	Japan
8	Thailand	South Korea	South Korea	South Korea	Philippines	UK	Thailand
9	USA	USA	Philippines	Philippines	USA	Thailand	Hong Kong
10	South Korea	Philippines	USA	USA	Thailand	USA	UK

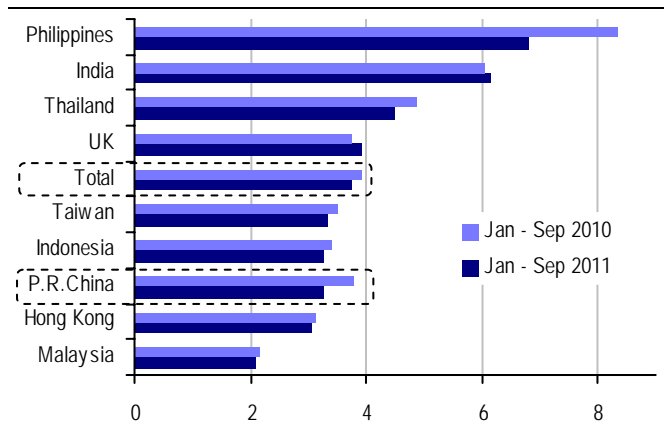
Source: Singapore Tourism Board

Chart 7: % spent on shopping



Source: Singapore Tourism Board

Chart 8: Average length of stay (days)



Source: Singapore Tourism Board

## Attractions slated for completion in 2012

- Gardens by the Bay—June 2012.** Gardens by the Bay is the largest garden landscaping project in Singapore, and will be open by the end of June. Sited next to the Marina Reservoir and spanning 101 hectares, the park will feature vertical gardens ranging from 25m to 50m in height, and showcase diverse plant species from around the world. When officially open on 28 June, we expect Gardens by the Bay to boost the vibrancy of the cityscape, while enhancing Singapore's image as an attractive Garden City.
- International Cruise Terminal (ICT) —mid 2012.** The S\$500m ICT is scheduled to open mid-2012 and will be operated by SATS-Creuers. It will offer the first seamless sea-to-air baggage transfer service and is capable of providing a 30-minute passenger turnaround. Several of the world's leading cruise companies such as Star Cruises, Royal Caribbean International, P&O, to name but a few, have made Singapore a home port for their Asian operations. We believe the ICT will draw a new pool of tourist to Singapore. According to a survey by UK-based Passenger Shipping Association (PSA), British cruise-takers named Singapore as their third favoured destination and it was the only Asian cruise port among the top five.
- River Safari—Q312.** The Singapore River Safari, touted as the world's first and only river-themed park, is located next to the Singapore Zoo and Night Safari. Slated for opening in Q312, and built at a cost of S\$180m, the attraction is projected to draw 820,000 visitors yearly, offering them the opportunity to get close-up views of freshwater habitats and animals.
- Marine Life Park—2012.** The Marine Life Park at Resorts World Sentosa will be the world's largest oceanarium when it opens later this year, home to over 100,000 marine animals, including sharks, jellyfish, and eels. The park also allows visitors to interact up close with dolphins, snorkel among fishes, and learn about marine conservation.

## Upcoming Meetings, Incentives, Conferencing, Exhibitions (MICE)

Table 6: List of new MICE events in Singapore

No	Event	Date	Venue	Participants
1	iProperty.com EXPO - International Property Expo	20 - 22 April 2012	Marina Bay Sands	50,000
2	9th Asia Pacific Travel Health Conference	2 - 5 May 2012	Grand Copthorne Waterfront Hotel	800
3	31st World Nut & Dried Fruit Congress	18 - 20 May 2012	Marina Bay Sands	1,000
4	World Rubber Summit 2012	21 - 25 May 2012	Raffles City Convention Centre	500
5	15th Asia Research Symposium In Rhinology	24 - 26 May 2012	Orchard Hotel Singapore	500
6	ICCA (International Council for Commercial Arbitration) Singapore 2012	10 - 13 June 2012	Marina Bay Sands	1,200
7	19th Biennial Meeting of the International Neuro-Ophthalmology Society	15 - 18 June 2012	Grand Copthorne Waterfront Hotel	410
8	Clean Enviro Summit Singapore (Inaugural)	1 - 4 July 2012	Marina Bay Sands	-
9	15th International Conference on Information Fusion	09 - 12 July 2012	Raffles City Convention Centre	-
10	ASEAN Federation of Cardiology Congress 2012	13 - 15 July 2012	Raffles City Convention Centre	-
11	16th World Congress on COGI	19 - 22 July 2012	Swissotel The Stamford, Fairmont Hotel	-
12	Inaugural Houses of Worship Technologies Asia 2012	17 - 19 August 2012	Marina Bay Sands	-
13	APSOPRS Oculoplastic Congress 2012	24 - 25 August 2012	Singapore Expo	500
14	7th CAD/CAM & Computerised Dentistry Conference	6 - 7 October 2012	Marina Bay Sands	-
15	1st Singapore Pathology Conference 2012	19 - 20 October 2012	Grand Copthorne Waterfront Hotel	
16	8th International Conference on Intelligent Unmanned Systems	22 - 24 October 2012	Singapore Institute of Management	200
17	Delicioso Spain 2012 (Inaugural)	1 - 3 November 2012	Suntec Singapore	4,200
18	7th World Fujian Convention	22 - 25 November 2012	Marina Bay Sands	10,000

Source: Singapore Tourism Board, respective event websites, UBS

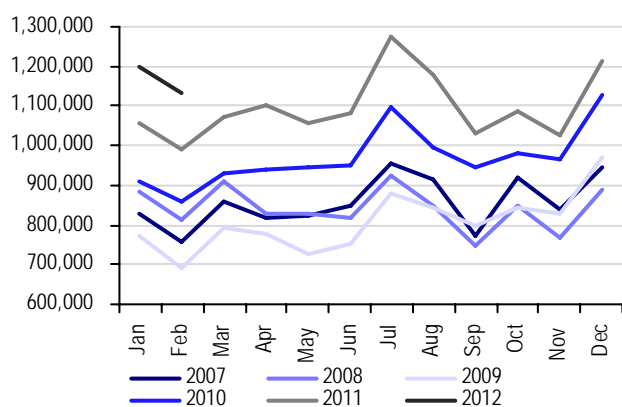


**Table 7: Singapore hotel supply pipeline**

Completion	Project Name	Street Name	Developer	Hotel rooms	Location-based type
2012	The W Hotel	The Quayside Isle	City Developments Ltd	240	Leisure
2012	Park Avenue Changi City	Changi Buisness Park	Ascendas Frasers	313	Mixed
2012	ParkRoyal @ CBD	Upper Pickering Street	UOL	363	Leisure
2012	Hotel (to be named)	Fairy Hill Point	HG Properties Pte Ltd	188	Leisure
2012	The Bay Hotel	Telok Blangah	Bay Hotels and Resorts	333	Mixed
2012	Days Inn	Balestier Road	HH Properties	405	Mixed
2012	Resorts World Sentosa	Sentosa IR	Genting	210	Leisure
				<b>2012</b>	<b>2,052</b>
2013	Connexion	Race Course Road	Singapore HealthPartners Pte Ltd	230	Leisure
2013	Dorsett Regency	New Bridge Road	Tang Hotel Investments	282	Mixed
2013	Holiday Inn Express	Clemenceau Avenue	Royal Group	460	Mixed
2013	Holiday Inn Express	Bideford Road	InterContinental Hotel Group	221	Leisure
2013	Sofitel So Singapore	Robinson Road	Royal Group	134	Business
2013	Ramada Singapore	Balestier Road	HH Properties	391	Mixed
2013	Traders' brand hotel	Phoenix Site	OCBC and Great Eastern	525	Leisure
2013	The Westin	Marina View B	MGPA	280	Business
2013	Hotel (to be named)	Tanjong Pagar/Gopeng Street	Carlton Properties Pte. Ltd.	388	Business
				<b>2013</b>	<b>2,911</b>
2014	Capitol	Stamford Road	Capitol Retail Mgt	182	Mixed
2014	Laguna Hotel	Laguna National Golf & Country Club	Laguna National Golf & Country Club	191	Leisure
2014	Hotel	Peak Seah Street	Far East	340	Business
				<b>2014</b>	<b>713</b>
2015	Hotel	Robertson Quay	City Developments	310	Business
2015	South Beach	Beach Road	City Developments	705	Business
				<b>2015</b>	<b>1,015</b>

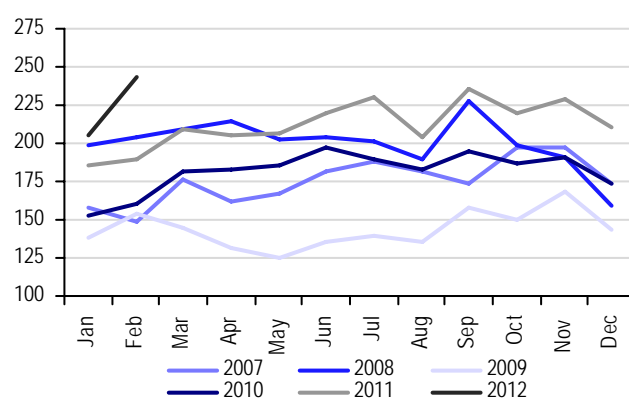
Source: UBS estimates, CBRE

**Chart 9: Singapore visitor arrivals**



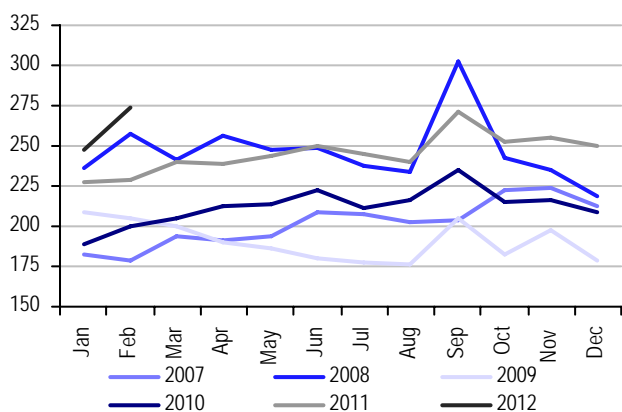
Source: Singapore Tourism Board

**Chart 10: Singapore hotel RevPAR (\$)**



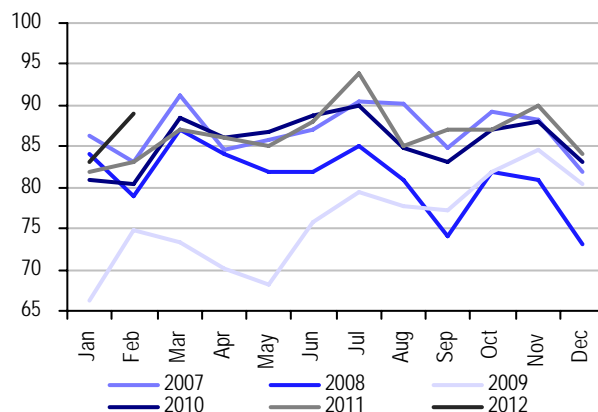
Source: Singapore Tourism Board

Chart 11: Singapore average room rate (S\$)



Source: Singapore Tourism Board

Chart 12: Singapore average occupancy rate (%)



Source: Singapore Tourism Board

■ **Statement of Risk**

We believe risks include those associated with operating in the real estate investment/management environment, and risks associated with the regulatory, planning and capital raising environment. Valuation Risks include the changing Rf rate under CAPM analysis.

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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**UBS Securities Pte. Ltd.:** Michael Lim; Adrian Chua, CFA.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
CapitaMall Trust <sup>5</sup>	CMLT.SI	Buy	N/A	S\$1.82	27 Apr 2012
CDL Hospitality Trusts	CDLT.SI	Buy	N/A	S\$1.87	27 Apr 2012
Frasers Centrepoint Trust	FCRT.SI	Buy	N/A	S\$1.58	27 Apr 2012
Overseas Union Enterprise <sup>5, 13</sup>	OVES.SI	Neutral	N/A	S\$2.34	27 Apr 2012
Starhill Global REIT	STHL.SI	Buy	N/A	S\$0.66	27 Apr 2012
Suntec REIT	SUNT.SI	Neutral	N/A	S\$1.32	27 Apr 2012
UOL Group <sup>16</sup>	UTOS.SI	Buy	N/A	S\$4.54	27 Apr 2012

Source: UBS. All prices as of local market close.

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