

Rating Action: Moody's affirms Frasers Hospitality Trust's Baa2 rating; changes outlook to negative

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Singapore, November 25, 2019 -- Moody's Investors Service has affirmed Frasers Hospitality Trust's (FHT) Baa2 issuer ratings.

Moody's has also affirmed the provisional (P)Baa2 backed senior unsecured rating on the SGD1.0 billion multicurrency medium-term securities program issued by FH-REIT Treasury Pte. Ltd. — a wholly owned subsidiary of FHT — and the Baa2 ratings on the backed senior unsecured notes issued under the program.

At the same time, the outlook on all the ratings has been changed to negative from stable.

RATINGS RATIONALE

"The change in outlook to negative reflects FHT's weakened operating performance and Moody's expectation that FHT's credit metrics will remain weak relative to its Baa2 rating, at least over the next 12-18 months," says Sweta Patodia, a Moody's Analyst.

Moody's expects FHT's net debt/EBITDA to remain around 8.4x over the next 12-18 months, which is right at the downgrade trigger of net debt/EBITDA exceeding 8.0x-8.5x.

Moody's expects the operating environment in Australia, which contributed to 43% and 36% of FHT's FY2019 (fiscal year ended 30 September 2019) gross revenue and net property income respectively, to remain weak over the next 12-18 months, with occupancy and room rates in Australia likely to remain subdued. This in turn will continue to impact the operating performance of FHT's Australia properties.

This is only partially mitigated by the management changes that FHT has implemented at some of its Australia properties and that should help support the performance of these assets.

As a result, while FHT's net debt/EBITDA will recover from current levels, Moody's expects the improvement to be only marginal. This implies that FHT's credit metrics will remain under pressure and have limited financial flexibility for any further increases in borrowings or deterioration in operating performance from current levels.

The affirmation of FHT's Baa2 issuer rating reflects the strong quality of its portfolio assets, which are well diversified across geographies and hospitality asset classes. The rating also considers FHT's strong liquidity, with no debt maturities until 2022.

However, the rating remains constrained by FHT's small asset size and significant tenant concentration risk.

In terms of environmental, social and governance (ESG) risks, FHT's rating also considers the significant related-party transactions between the trust and its sponsor, Frasers Property Limited. However, this risk is mitigated by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through the board consisting of majority independent directors.

Given the negative outlook, a ratings upgrade is unlikely. The outlook could be revised to stable if the operating performance of the Australia assets improves, such that net debt/EBITDA falls below 8.0x.

FHT's rating could be downgraded if (1) the operating environment fails to improve from current levels such that FHT's credit metrics do not recover to a level more appropriate for its ratings; or (2) FHT engages in any debt-funded acquisitions that weaken its credit metrics from current levels. Specific credit metrics that Moody's would consider for a downgrade include (1) adjusted net debt/EBITDA remaining above 8.0x-8.5x; (2) EBITDA/interest remaining below 3.0x; and (3) adjusted debt/deposited assets exceeding 40%.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Frasers Hospitality Trust is a stapled investment trust consisting of Frasers Hospitality Real Estate Investment Trust (FH-REIT) and Frasers Hospitality Business Trust (FH-BT). FHT was listed on Singapore Exchange Limited in July 2014. As of 30 September 2019, FHT had a property portfolio of 15 properties, mostly located across key gateway cities in Asia, Europe and Australia, with a total value of around SGD2.3 billion.

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