RAM
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Media Release

RAM Ratings assigns preliminary ratings to Frasers Hospitality Trust-sponsored Notes Series 2019-A

RAM Ratings has assigned preliminary ratings, as listed below, to Notable Vision Sdn Bhd's (NVSB or the Issuer) proposed Notes Series 2019-A, to be issued under its existing RM750 mil MTN Programme (2014/2034) (the Programme). Concurrent with the listing of Frasers Hospitality Trust (FHT) on the Main Board of the Singapore Exchange Securities Trading Limited in July 2014, NVSB was incorporated as a special-purpose funding vehicle to facilitate FHT's acquisition of The Westin Kuala Lumpur (The Westin KL or the Property). FHT is a stapled group comprising Frasers Hospitality Real Estate Investment Trust (FH-REIT) and Frasers Hospitality Business Trust. The acquisition of the Property had been made by way of the RM456.5 mil First MTNs issued under the Programme. The main objective of the proposed Notes Series 2019-A – the second issuance under the Programme – is to refinance the First MTNs on their expected maturity date of 12 July 2019. The Class B and Class C Junior MTNs will continue to be subscribed by FHT Malaysia Pte Ltd (FHT Malaysia) – a wholly-owned subsidiary of FH-REIT, to mirror its ownership of The Westin KL.

Notes Series 2019-A	**Preliminary Ratings/Outlook**	**Issue Amount (RM million)**	**Expected Maturity***	**Legal Maturity***
Class A Senior MTNs	AAA/Stable	95.00	5 years	6.5 years
Class B Junior MTNs	B_2/Stable	95.00	5 years	6.5 years
Class C Junior MTNs	C_3/Stable	287.48	5 years	6.5 years
Total		477.48		

** From date of issuance*

The key terms of the proposed Notes Series 2019-A remain the same as that of the First MTNs, except that the coupon liquidity support will be funded in the form of a cash reserve, instead of a liquidity facility. Coupon payments on the MTNs will continue to stem from lease obligations, guaranteed by Frasers Property Limited (FPL) – sponsor of FHT, under a 20-year lease agreement expiring in May 2026. The bullet principal redemption is envisaged to be funded either via a refinancing exercise by subsequent issuance of MTNs under the MTN Programme, or through the exercise of the Property Call Option granted to FHT, or if this fails, by disposing of the Property upon the occurrence of a trigger event.

The preliminary ratings assigned reflect the loan-to-value (LTV) ratios and stressed debt service coverage ratios (DSCRs) that are commensurate with each rating category, supported by RAM's long-term sustainable valuation of The Westin KL. The available cumulative LTV ratios of 34.97%, 69.94% and 175.77% and DSCRs of 3.36 times, 1.68 times, and 0.67 times correspond with the respective ratings of the Class A Senior MTNs, Class B and Class C Junior MTNs. Our assessed valuation of the Property of RM271.7 mil (or a 35.3% discount to the market value of RM948,081 per room) is deemed reasonable. This is supported by RAM's view of its asset quality and the observed transacted prices of hotels with similar asset quality and locations that have been remained quite resilient at around RM850,000 to RM1 mil per room despite the weaker hospitality industry performance overall.

Managed by Marriott International Group (Marriott), The Westin KL is located strategically along Jalan Bukit Bintang, one of the busiest shopping and entertainment enclaves in Kuala Lumpur. This is deemed relevant to The Westin KL's market position vis-à-vis its targeted demographic and guest profiles. In line with the industry performance, The Westin KL's average room and occupancy rates have been volatile the last few years, due to various one-off external events and more conservative spending amid the economic slowdown, apart from intensified competition. In fiscal 2018, The Westin KL's revenue per available room (RevPAR) declined 11.5% y-o-y whereas NPI margin narrowed to 24.5% (2017: 29.3%) following the cancellation of some government-linked companies and corporate events after the 14th General Election, as well as a change in the way it charged service fees. Its average RevPAR has been more resilient and was 10.4% higher in the last five years than that of the previous observed period (2009-2013) during RAM's initial assessment of the Property pursuant to the ratings of First MTNs. We also note that its NPI margin has been kept broadly the same at 27.2% on average despite the pressure on hotel revenues as a result of the management's various cost containment measures. We also observed that some of its immediate competitors began to show some indication of repricing their room rates after refurbishment, which could help in alleviating some pricing pressure for The Westin KL.

Altogether, RAM views that the demand and liquidity for The Westin KL remains intact, in spite of the inherent cyclicality of the hospitality sector, which also underpins the stable rating outlook. While near-term NPI to likely stay pressured by competition and lack of market catalysts, we believe that the Property's underlying cash flow in a sustainable market environment will remain supportive of RAM's assessed valuation.

The previous hotel management agreement between JBB Hotels and Starwood Asia Pacific Hotels and Resorts Pte Ltd, which expires in December 2023, remains unchanged post-acquisition by Marriott. Although the expiry comes earlier than the

Notes Series 2019-A's expected maturity date – one of the key factors driving the underlying asset's valuation - renewal risk is moderated by the fact that Westin had flagged the hotel since it began operations in September 2003. Furthermore, the difficulty in securing a reputable hotel operator should be minimal given its asset quality and prime location. RAM will continue to monitor closely any development in negotiations on the renewal of the agreement.

RAM also took into account the single-asset concentration risk to which the transaction is exposed. NVSB will have to rely solely on lease payments from the Property to meet its payment obligations. However, the guarantee from FPL on the lease obligations provide additional comfort to the continued performance of the underlying lease obligations. Although we have not given any weight to the guarantee now, The Westin KL will likely remain an important asset to FHT's portfolio, and that FHT will, therefore, ensure continuous performance of the lease agreements.

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