

Best Rooms at the Inn

A staid Singapore market hides some fine suites

IT'S A BLUE PERIOD for Singapore hoteliers. The republic received 7.3 million visitors last year, up 2% from 1995, but that's still pretty short of the 3%-to-5% increase targeted by the Singapore Tourist Promotion Board (STPB). The big declines, says Leong Chi Meng of Vickers Ballas Investment Research, were in the two key tourism sources, Japan and Taiwan: "Many Japanese are skipping Singapore in favor of Hong Kong." STPB attributes this to the attraction of the territory's handover on July 1.

Projections aren't any better. Analysts predict only a total 3.5% increase in arrivals from 1997 to the year 2000. Coupled with falling occupancy and a strong Singapore dollar, the horizon looks gloomy for the island's maturing tourism market.

"Singapore has become less attractive as a shoppers' haven because of its strong exchange rate," says Ajith Koma Thakal of Keppel Securities, especially so to tourists from neighboring countries.

Meanwhile, 1,500 new rooms are coming on stream this year with another 2,000 expected in 1998. Says Leong: "Growth in room supply will outstrip tourist arrivals." Indeed, Thakal sees occupancy rates falling below 80%, a drop that is likely to force room rates down from the present \$103 per night. And that would eat into margins, putting pressure on hotel bottom lines.

Consequently, earnings prospects in the short-to-medium term are not great. Even so, there's profit to be had. The key, says Leong, lies in the hidden value of stocks like Overseas Union Enterprise, which owns the Mandarin Hotel on Orchard Road and has a 25% stake in the Marina Mandarin and the soon-to-open Hainan Mandarin in China. Leong estimates its revalued net asset value (RNAV) at \$1.6 billion or S\$12.60 per share.

He also likes Republic Hotel & Resorts, a leader in the three-to-four-star hotel sector. Its shares are trading at a 34% discount to an RNAV of S\$2.85 per share, and yield an attractive 4% dividend. A strong balance sheet and backing from parent company, the Hong Leong-owned City Development, are other plus factors.

At Keppel, Thakal favors Marco Polo Developments. "The weak residential property market coupled with its improving cash flow will provide opportunity for the company to replenish its landbank," he says. "But what's exciting is most of its development profits have been progressively booked."

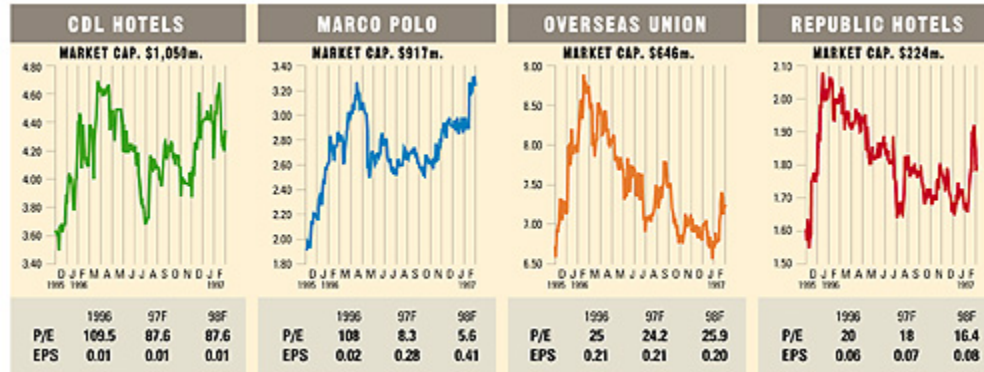
Vickers Ballas' Leong also expects Raffles Hotel, owned by a subsidiary of DBS Land, to remain profitable. The landmark hotel has been running at 70% occupancy for the past two years, and is unlikely to be affected by current conditions. "It's in a class of its own," says Leong. "The clientele is not your everyday tourist."

But Shangri-La Hotel remains on the "sell" list of many analysts. Lisa Lee of ING Barings sees the counter in slightly better terms. She recommends a "hold." Trading at 41 times 1997 earnings, Shangri-La looks expensive given a forecast of flat earnings. But, Lee notes, at S\$4.68 it is still undervalued. "It should be fairly valued at about S\$7."

One company with a globally diversified portfolio, CDL Hotels International, also finds favor with Lee: "CDL has been on an acquisition trail recently. We could see good assets injected into the company."

As for Hotel Properties (HPL), Leong is neutral. "Its hotel operations will be subdued this year and profits will come mainly from property development and investments," he says. "Its leisure business should show good earnings."

By Steven K.C. Poh Kuala Lumpur



Share prices in Singapore dollars, except CDL Hotels, which is in Hong Kong dollars. All other money values in US dollars. Sources: First Call/World Equities, Datastream