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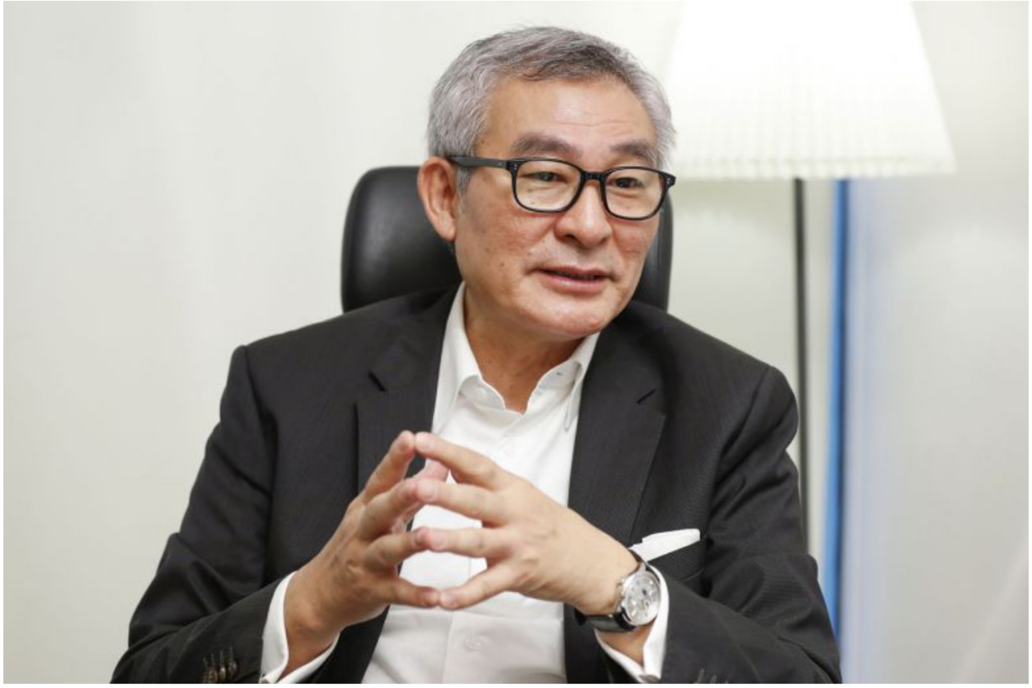
Taking Stock Of Stocks

Finding value across entire hotel spectrum

The Sunday Times and the Singapore Exchange's research team interview company bosses to help investors get a view of a firm's operations and strategic direction - aspects that go beyond the financials. We speak to Heeton Holdings executive director and chief executive Eric Teng to get his insights on the firm.



Heeton Holdings executive director and chief executive Eric Teng says the Brexit uncertainties have created opportunities too, with the hospitality sector in London still poised to grow in the near term, albeit at a more moderate pace as compared with last year, primarily driven by strong tourist arrivals and continued weakness in the pound. ST FILE PHOTO

Lorna Tan

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Real estate group Heeton Holdings was set up in 1976 and listed on the mainboard of the Singapore Exchange in September 2003.

It has since extended its business to Thailand, Australia, Japan, Malaysia, Vietnam and the United Kingdom.

Over the years, Heeton has evolved from a pure-residential play into an entity with a footprint across the residential, commercial and hospitality segments.

It entered property development in 1968 when founder and non-executive chairman Toh Khai Cheng developed the inaugural Mandai Gardens under affiliated company Hong Heng.

Since then, the group has expanded from residential into commercial developments and large-scale mixed-used projects.

In 2011, it entered the hospitality sector with its maiden acquisition - the Mercure Hotel Pattaya in Thailand. This was in line with its diversification strategy and desire to develop a recurring income stream.

Heeton has also formed strong partnerships with other established real estate groups to develop properties locally and internationally. Its portfolio of properties now includes apartments, condominium buildings, landed properties and hotels here and abroad.

Q *The company's hospitality portfolio comprises 12 properties, eight of which are in the UK. This includes the recently acquired Crowne Plaza London Kensington. What is the reason for focusing on the UK, and are you not worried about the market, given the ongoing uncertainty surrounding Brexit?*

A We are not placing a particular focus on the UK. Rather, the market is one that we are familiar with. Prior to entering the UK hospitality sector, we had two residential development properties in London. The experience and network of business contacts we formed have stood us in good stead in our expansion into the UK hospitality segment.

Our hotel investment strategy is to focus on finding value across the entire hotel spectrum. Each country, state and city presents unique characteristics and opportunities. We assess every acquisition and investment opportunity based on its own merits.

The Brexit uncertainties have created opportunities too. The hospitality sector in London is still poised to grow in the near term, albeit at a more moderate pace as compared with last year, primarily driven by strong tourist arrivals and continued weakness in the pound.

According to a report by global consultancy firm PwC, hotels in London are expected to maintain high occupancy levels for 2019-2020. The average daily rate is expected to grow 1.4 per cent in London for 2019-2020, while revenue per available room (RevPAR) is expected to grow 1.7 per cent this year and 1.4 per cent next year.

As a long-term and committed investor in the UK, we are confident of navigating any short-term challenges that may arise.

Q *In April, Heeton acquired the Crowne Plaza London Kensington - your largest acquisition. What is the attraction of this property and is there now an appetite for larger acquisitions?*

A Housed behind a historic Georgian facade, the Crowne Plaza London Kensington is located in the Royal Borough of Kensington and Chelsea, a prime location in the heart of London that is within walking distance of many top tourist attractions, historical landmarks and luxury shopping districts, while offering excellent connectivity to central London and Heathrow Airport. Refurbished in 2015, the hotel offers enhancement potential to create value and generate revenue growth.

This acquisition reaffirms Heeton's intention to be a strategic player in the international hospitality sector. Given the enterprise value associated with the transaction, as well as the growth potential of the UK hospitality market, we believe this acquisition will add value to our current portfolio.

Deal size is just one of many factors used when evaluating a potential acquisition. We have to consider other factors as well, such as whether the acquisition is in line with our overall strategy and if it adds value to our existing portfolio. Only when all factors have been considered will we proceed either alone or as part of a consortium.

Q *There's an absence of Singapore hotels in your hospitality portfolio. What are the reasons* *for this, and will you consider a Singapore footprint in this segment?*

A We are not ruling out Singapore hotels in our hospitality portfolio. There have been some signs of recovery in the past few years. According to the Singapore Tourism Board, Singapore posted record highs for international visitor arrivals last year.

The local hotel market attracted 6 per cent more tourists last year, driving positive RevPAR increases across all chain scales. The sector is also projected to further pick up this year, driven by high-profile world events and ongoing efforts by the Singapore Government to ensure it remains an attractive tourist destination. The market sentiment is encouraging. We would consider should a suitable opportunity arise.

Q *Why are you expanding into Bhutan?*

A As a strategic player on the international hospitality stage, we are constantly exploring new markets to expand our footprint.

In December last year, we marked our first foray into the Bhutan market with the acquisition of a three-acre (1.2ha) hilltop site that offers commanding panoramic views of the countryside. A luxury hotel resort complex is currently under construction, and is scheduled to be completed by next year.

We see Bhutan as an outlier with unique appeal for travellers and the scenic Himalayan views and serenity rarely found at other locations. It is a popular experiential destination.

In addition, the tourism sector in Bhutan is promising. There were 274,097 visitors to Bhutan last year, an increase of 7.61 per cent from 2017. Tourist arrivals are also targeted to grow to 466,900 in 2023 under the government's 12th Five Year Plan. Correspondingly, tourism-related receipts are also expected to increase from 1.57 billion Nu to 5.48 billion Nu (S$30.8 million to S$107.5 million) by 2023.

Moreover, with a mandatory daily minimum spending, the kingdom offers promising tourism prospects for which the group is well positioned to leverage.

Q *How have the cooling measures impacted your residential property development business?*

A Such measures are not new to Singapore's property market. Historically, we've seen the market stabilise after such cooling measures were put in place. The market has stayed largely resilient as seen in the increase in home sales in the first quarter of this year.

PROMISING MARKET

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HEETON HOLDINGS EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE ERIC TENG, on adding Singapore hotels to Heeton's hospitality portfolio.

The market is seeing some respite from the cooling measures introduced in July last year. Last month, the Government announced a reduction in the supply of private residential units for the second half of this year on continued falling demand and concerns over a substantial supply of unsold units in the pipeline.

That said, with the cooling measures still in place and a slow domestic economy, we will be cautious and selective in acquiring land bank, while focusing on developments that are high quality, distinctive and strategically located.

Q *What can we expect from Heeton?*

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A Building recurring income is one of the group's strategies. We will continue to focus on growing our hospitality portfolio by acquiring quality assets to ensure a diversified property portfolio.

We are one of the few property firms with a full subsidiary in the UK to oversee the management of the hotels. We are also focusing on developing the capacity and capabilities of our hotel management team headed by Mr Edwin Liu, managing director of UK and Europe.

We will continue to work strategically with our existing group of reputable joint venture partners as well as new partners. Despite the geopolitical uncertainties and challenges in the property market, there will be new opportunities to source and acquire strategic assets, which we will do so in a cautious and prudent manner.

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