TOPLINE

Heeton plans to balance cost cuts with discount purchases

COO also suggests student accommodation and logistics as some segments for 'stable income'.

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Ivan Hoh says the ideal revenue split for the group may be three-fifths from hotels and the rest from development. PHOTO: HEETON HOLDINGS

Singapore

WHILE Heeton Holdings' overseas hospitality business has taken a big hit from the Covid-19 pandemic, the mainboard-listed property group is not shying away from potential acquisitions, chief operating officer Ivan Hoh told The Business Times.

As the pandemic puts discounts on the real-estate market, he floated possible fresh buys in the hotel line.

Meanwhile, Heeton is tweaking its investment strategies and diversifying its portfolio - with the potential to venture into new property segments.

Mr Hoh pointed to Heeton's majority stake in the joint-venture purchase of a 2.45-acre mixed-use site in Leeds in 2015. While the first phase of the project was anchored by the Hampton by Hilton Leeds City Centre hotel, other options for the plot include an office tower or apartments.

Another possibility Mr Hoh brought up: purpose-built student accommodation (PBSA), a market that Singapore-listed real estate players such as Centurion Corp and Wee Hur Holdings have already ventured into.

"It's not top on our priority list to look into it, but I'm not ruling that out as well," he told BT, naming PBSA and logistics as some business segments that could entail "a bit more stable income and probably also less management" on a day-to-day basis.

That's even as he warned, when asked about revenue mix: "Although we will still continue to look at acquiring hotels, because it does provide us with pretty good topline revenue, we also don't want to put all our eggs into one segment of the basket."

Heeton has 14 managed, franchised and own-brand hotels - 10 in Britain, and the rest in Japan and Thailand. The group lately posted S$12.7 million in revenue for the first half to June 30, with almost two-thirds of its top line in the hospitality segment.

Hotels had overtaken development as a bigger contributor in 2019, when hospitality turnover rose to S$40 million, from S$17 million the year prior.

The property development business shrank to S$11.1 million, from S$24.2 million, in the same period.

Still, Heeton is also throwing its weight behind shoring up core businesses, especially with hospitality battered by the Covid-19 outbreak.

The occupancy of the British hotel portfolio now averages 30 per cent to 40 per cent, Mr Hoh told BT, although he dubbed the timeline for pre-Covid recovery "anybody's guess" for now.

Instead, the group is focussed on its operating costs and its "main strategy is to try to break even", he said.

The same rule applies to potential acquisitions. "We will not rush in just because there is a good price dangling there", Mr Hoh stressed. "Can it at least break even right now? Then we will take a longer-term view."

Yet he also teased that Heeton is eyeing British hoteliers that might offload multiple properties at one go, as "they are looking at a big cut on their prices with the current situation".

For Japan, where Mr Hoh touted an industry over-build ahead of the delayed Tokyo Olympics, he said: "Some of these hotels, before Covid, were trading at more than 4 per cent yield; but now they have to take a cut to sell, so the cut can go up to 5 per cent to 6 per cent. It presents pretty good opportunities for us as well."

Eventually, the ideal revenue split for the group may be three-fifths from hotels and the rest from development, he said: "For the next one to two years it may be slightly more on hospitality, but we're just trying to balance the portfolio."

As for property development, Heeton remains open to rebuilding its land bank - despite a lack of success in government land sales this year.

The group is "closely monitoring" the availability of mass-market sites that could, when developed, fetch from S$1,300 to S$1,800 per square foot (psf) for a residential project.

Otherwise, Mr Hoh said there is still potential in the high-end Core Central Region (CCR), "because I think the CCR has not yet reached its peak... so we are still observing as well".

Separately, ownership stakes in two suburban commercial properties make up a smaller slice of the Heeton portfolio: Sun Plaza and Tampines Mart brought in about S$20.5 million in income in 2019, relatively stable compared with S$20.7 million in 2018, although Sun Plaza results are booked under contributions from joint-venture investments. (*amendment note*)

Despite the cash flow hit from a two-month rental waiver to tenants, Mr Hoh said Heeton is content with the status quo and does not plan to either grow or divest its Singapore retail assets at this point in time.

"The contribution may be small but... it provides a very stable income for our business," he said.

Instead, Heeton has turned to cost control measures to ride out the Covid-19 storm - such as renegotiating supplier contracts, freezing capex and rationalising manpower, particularly at the overseas hotels.

With S$75 million in 6.1 per cent bonds fully redeemed in May, Mr Hoh said Heeton may look at more loans and fundraising exercises.

"We have been presented with quite attractive deals recently," he noted, even while "there's this mismatch in cash flow" from issues such as delayed project completions.

"Cash flow management is of the utmost importance in our group right now... Whatever fundraising we are doing, we are committed to redeem it, that's for sure. And of course we still hold assets; some of the assets are still free from encumbrance, so if we really need to, there's always this possibility of gearing up as well."

Separately, Heeton trimmed its final dividend to 0.3 Singapore cent a share, from the 0.45 Singapore cent originally proposed. The eventual payout was half the previous year's.

Asked if shareholders should expect further cuts, or even a suspension of dividends, Mr Hoh told BT in a follow-up e-mail that "we cannot rule out anything at this point in time".

"The company is committed to meeting all its financial and contractual obligations and it would be the responsible thing to make this our priority," he added. "How circumstances improve within the relevant timeframe will determine the amount of excess profits available for distribution."

Amendment note: *An earlier version of this story incorrectly under-stated the annual revenue for Sun Plaza and Tampines Mart. Heeton has also clarified that not all the income from the two properties is captured as group revenue, as Sun Plaza results fall under joint-venture investments.*

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