RAM
RATINGS

Media Release

RAM Ratings reaffirms ratings of all 3 classes of MTNs backed by Westin; maintains negative outlook on Class A and Class B

RAM Ratings has reaffirmed the ratings of MTNs under Notable Vision Sdn Bhd's (the Issuer) RM750 million MTN Programme (the Programme). Concurrently, we have maintained the negative outlook on the ratings of its Class A Senior MTN and Class B Junior MTN. The outlook on the Issuer's C_3-rated Class C MTN remains stable. The transaction is a property securitisation involving The Westin Kuala Lumpur (Westin KL or the Property) – a five-star hotel operated by Marriott International (Marriott) – and is part of the portfolio of Frasers Hospitality Trust (FHT), a hospitality real-estate investment trust listed in Singapore.

MTNs	Rating/Outlook	Issue Amount (RM million)	Expected Maturity	Legal Maturity
Class A Senior MTN	AAA/Negative	95.00	12 July 2019	12 January 2021
Class B Junior MTN	B_2/Negative	95.00	12 July 2019	12 January 2021
Class C Junior MTN	C_3/Stable	277.48	12 July 2019	12 January 2021

The reaffirmation of ratings is premised on our expectation that the adjusted capital value of the Property of RM271.66 million (previously: RM278.62 million) will remain supportive of loan-to-value and debt service coverage ratios that commensurate with the respective ratings of the Class A to Class C MTNs. During the review period, we adjusted the Property's capitalisation rate from 9.75% to 10.0% to reflect the different priorities of the asset owner (FHT) and asset operator (Marriott). Specifically, this refers to the increasing challenge of balancing the need to achieve minimum returns on added capital investments from the owner's perspective, and the operator's need to maintain the Property's relevance in an increasingly competitive market, which could make Westin KL less appealing than most of its immediate competitors that have recently undergone substantial refurbishment.

The negative outlook on the Class A and Class B MTN ratings reflects our concern that Westin KL's cashflow performance may remain suppressed in the near to medium term. While Westin KL's performance had recovered in 2017 – with net property income (NPI) for the first time since 2014 converging with RAM's sustainable assumption of RM27.17 million – it was partially attributable to the temporary closure of JW Marriott for refurbishment as well as tighter cost control as seen in the Property's improved NPI margin of 29% (2016: 24%). With JW Marriott now fully re-opened, and given increasing competition, Westin KL will continue to find it challenging to maintain this performance on a sustained basis.

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As a single-asset transaction, the performance of the MTNs will stay dependent on the performance of Westin KL, which is in turn sensitive to changes in the Property's business environment and the tourism industry. We remain concerned about competition from new and incoming supply (particularly hotels that have recently been refurbished) and the lack of fresh catalysts to stimulate tourism demand in KL over the medium term, to enable the Property to improve its NPI. Westin KL's NPI came in lower y-o-y in 1Q 2018. While there are some indications of competing hotels having begun to reprice rates, it is yet to be seen if this will translate into a sustainable adjustment to higher rates across the industry.

Up to 31 March 2018, JBB Hotels Sdn Bhd (the originator/tenant) had promptly paid a total of RM87.5 million in lease payments. Lease payments collected for FY September 2017 are sufficient to cover over five times the coupon payment on the Class A Senior MTN. The remainder will first be channelled to the variable coupon payment on the Class B Junior MTN (capped at 12% per annum), and then to the variable coupon payment on the Class C Junior MTN.

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