

CHINA  
DEVELOPMENT  
FINANCIAL

# Frasers Centrepont Trust

(FCT SP/FCRT.SI)

## Defensive suburban exposure for the long haul

KGI Research / 65 6202 1194

- **Positive 3Q18 results.** Strong set of results lifted by higher contributions from three larger malls in the portfolio, on the back of higher occupancy rates – Northpoint City North Wing (NCNW), Causeway Point (CP) and Changi City Point (CCP).
- **Defensive REIT with stable DPU.** FCT's portfolio of well-located suburban retail malls and steady foreseeable rental income growth ahead remains attractive, in our view, and should provide support for steady growth in DPU, for investors seeking a defensive yield play.
- **2018/19/20F dividend yield of 5.3/5.6/5.7% (consensus).** At its current price of S\$2.28, FCT offers a decent yield and we expect DPU growth to continue to increase steadily, on the back of improving operating metrics.

### Financials & Key Operating Statistics

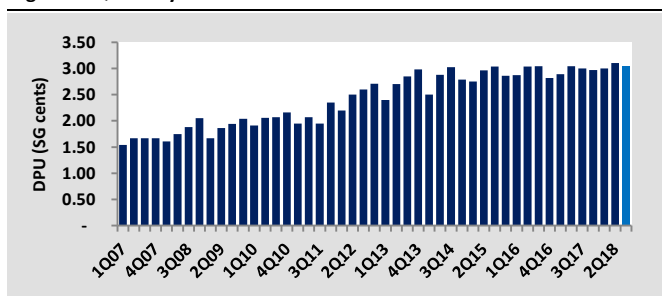
YE Dec SGD mn	2013	2014	2015	2016	2017
Gross revenue	158.0	168.8	189.2	183.8	181.6
Net property income	111.6	118.1	131.0	129.9	129.6
Distributable income	90.1	95.4	106.4	112.2	106.5
DPU (SG cents)	10.9	11.2	11.6	11.7	11.9
DPS growth (%)	-	2.4	3.7	1.3	1.0
Div Yield (%)	6.2	5.9	6.3	6.2	5.3
NAV (SGD)	1.8	1.9	1.9	1.9	2.0
Price / Book (x)	1.0	1.0	1.0	1.0	1.1
NPI Margin (%)	70.6	70.0	69.2	70.6	71.3
Net Margin (%)	51.2	50.5	50.8	52.7	52.2
Gearing (%)	27.6	29.3	28.2	28.3	29.0
ROE (%)	19.7	10.4	9.9	7.0	10.6

Source: Company Data, KGI Research

**Rental growth driven by larger malls.** 3Q18 gross revenue was up 10.9% YoY to \$48.3mn on higher contributions from NCNW, CP and CCP, which together account for ~90% of portfolio NPI. NCNW's 3Q18 revenue grew 35.9% YoY on the back of higher occupancy rates, while CP and CCP grew 3.8% and 15.8%, respectively, on the back of improving operating metrics. 3Q18 Net property income rose 13.7% YoY as revenue growth outpaced that of expenses.

**Financial position remains solid.** FCT's gearing level of 29.3% provides substantial debt head room for inorganic growth plans, and remains one of the lowest amongst its retail peers. Weighted average debt maturity stands at 2.2 years, with 63.9% of its borrowings hedged.

Figure 1: Quarterly DPU trend



Source: Company Data, KGI Research

### NOT RATED

Price as of 28 Aug 18 (SGD)	2.28	<b>Performance (Absolute)</b>
12M TP (\$)	-	1 Month (%) 2.3
Previous TP (\$)	-	3 Month (%) 6.5
Upside, incl div. (%)	-	12 Month (%) 13.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>
Mkt Cap (\$mn)	2,112	
Issued Shares (mn)	926	
Vol - 3M Daily avg (mn)	1.1	
Val - 3M Daily avg (\$mn)	2.4	
Free Float (%)	57.9%	
<b>Major Shareholders</b>		<b>Previous Recommendations</b>
Fraser's Property Ltd	41.9%	-
Schroders PLC	4.9%	-
Sumitomo Mitsui	3.4%	-

**Portfolio operating metrics still positive.** 37 leases, accounting for 4.6% of FCT's portfolio by NLA were renewed at an average rental reversion of 5.0%. All properties in FCT's portfolio registered positive rental reversions except for Anchorpoint, which saw negative reversions of 32.8% on two lease renewals accounting for 1.3% of the mall's NLA. Given that Anchorpoint only accounts for ~5% of the portfolio, this should not be a cause for concern to FCT's resilience.

**Further AEI to improve mall traffic.** FCT will be constructing an underground pedestrian link (UPL) between CP and Woods Square, which we expect should increase mall footfall upon completion. While the construction of the S\$15mn project will take place over a period of 10 months (Feb-19 – Dec-19), we expect any disruption to shopper traffic to be temporary.

**Key catalysts.** Potential asset injections into FCT's portfolio remain the key catalysts for FCT, in our view. Current ROFR pipeline includes Northpoint City South Wing and Waterway Point (33% stake owned by FCT's sponsor). With a low gearing of 29.3%, implying sizeable debt headroom of S\$500mn before reaching a gearing level of 40%, we believe this will lend support to these potential acquisitions. A potential divestment of underperforming malls such as Bedok also seems possible, in our view.

**Risks:** An extended period of anaemic economic activity could result in negative business sentiments, which could reduce demand for retail space. Termination of anchor tenant contracts. Higher than expected rise in interest rates could cause a de-rating of SREITs.

## Results update

Figure 2: Results comparison

FYE Sep (SGDmn)	3Q18	3Q17	yoy % chg	2Q18	qoq % chg	Comments
Gross revenue	48.3	43.6	10.9	48.6	(0.6)	Mainly due to post AEI recovery and improvement in revenue from NCNW
Property expenses	(13.3)	(12.8)	4.3	(13.8)	(3.6)	Mainly due to higher utilities tariff rates and Property manager's fees; partially offset by property tax refunds
<b>Net property income</b>	<b>35.0</b>	<b>30.8</b>	<b>13.7</b>	<b>34.8</b>	<b>0.6</b>	<b>Higher gross rental income</b>
Borrowing costs	(5.0)	(4.6)	9.8	(4.8)	3.9	Higher gearing
Other expenses	(4.7)	(4.3)	8.5	(4.2)	11.3	Higher trust expense
<b>Net income</b>	<b>25.3</b>	<b>21.9</b>	<b>15.6</b>	<b>25.7</b>	<b>(1.8)</b>	<b>Higher gross rental income</b>
FV gains/(losses) from derivatives	0.1	(0.1)	nm	0.1	93.1	
Share of associate/JV's profit	0.1	0.1	(6.4)	0.1	4.8	
Revaluation gain / (deficit)	0.0	0.0	nm	0.0	NM	
<b>Total return for the year</b>	<b>26.6</b>	<b>22.7</b>	<b>16.9</b>	<b>27.0</b>	<b>(1.7)</b>	<b>In line with net income</b>
Distributable income	28.3	26.4	7.2	30.3	(6.7)	
Distribution to unitholders	28.3	27.7	2.2	28.7	(1.5)	<b>Slight increase from higher NPI</b>
DPU (SG cents)	3.1	3.0	1.8	3.1	(1.5)	In line with higher NPI

Source: Company Data, KGI Research

Figure 3: Local peers

Company Name	Currency	Last Price	Currency Adj. Market Cap (\$\$ mn)	Gearing (%)	Dividend Yield (%)		P/B (x)		6M Average daily trading volume (\$\$ '000)	(YTD) Price Performance (%)	(1YR) Price Performance (%)
					FY17	FY18F	FY17	FY18F			
<b>FRASERS CENTREPOINT TRUST</b>	SGD	<b>2.28</b>	<b>2,112</b>	<b>29.9x</b>	<b>5.3%</b>	<b>5.3%</b>	<b>1.1x</b>	<b>1.1x</b>	<b>2,431</b>	<b>2%</b>	<b>4%</b>
CAPITALAND MALL TRUST	SGD	2.16	7,666	31.5x	5.1%	5.2%	1.1x	1.1x	22,993	1%	0%
MAPLETREE NORTH ASIA COMMERC	SGD	1.15	3,618	37.8x	6.7%	5.0%	0.9x	0.9x	8,031	-7%	5%
SPH REIT	SGD	1.00	2,572	25.9x	5.6%	5.5%	1.1x	1.1x	945	-5%	2%
STARHILL GLOBAL REIT	SGD	0.70	1,516	36.2x	6.9%	6.5%	0.8x	0.8x	1,686	-10%	-14%
CAPITALAND RETAIL CHINA TRUS	SGD	1.44	1,397	32.3x	7.4%	7.0%	0.8x	0.9x	1,780	-11%	-11%
LIPPO MALLS INDONESIA RETAIL	SGD	0.30	841	37.1x	8.8%	9.9%	1.0x	0.9x	1,694	-26%	-21%
<b>Average</b>				<b>33.5x</b>	<b>6.8%</b>	<b>6.5%</b>	<b>0.9x</b>	<b>0.9x</b>	<b>6,188</b>		

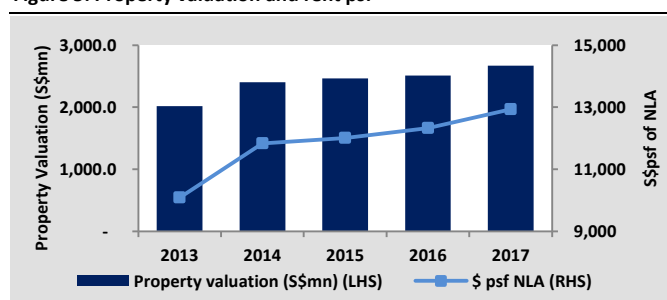
Source: Bloomberg, KGI Research

Figure 4: Local peers

	1Q17 Dec-16	2Q17 Mar-17	3Q17 Jun-17	4Q17 Sep-17	1Q18 Dec-17	2Q18 Mar-18	3Q18 Jun-18
<b>Rental reversion</b>							
Causeway Point	10.6%	6.3%	5.8%	7.6%	5.5%	18.9%	3.5%
Northpoint City North Wing (fka Northpoint)	5.5%	2.6%	3.8%	24.4%	2.3%	-6.1%	25.8%
Anchorpoint	-3.2%	5.3%	-6.1%	2.1%	2.9%	1.5%	-32.8%
YewTee Point	0.9%	2.6%	6.1%	-	-2.9%	5.7%	2.5%
Bedok Point	-10.1%	-17.9%	-30.2%	-	-31.2%	-12.5%	6.2%
Changi City Point	12.2%	21.7%	8.3%	7.4%	2.7%	6.2%	7.5%
<b>Portfolio</b>	<b>6.9%</b>	<b>4.1%</b>	<b>0.4%</b>	<b>8.3%</b>	<b>1.0%</b>	<b>9.1%</b>	<b>5.0%</b>

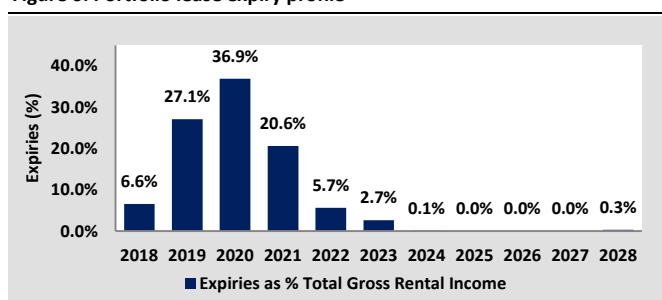
Source: Company Data, KGI Research

Figure 5: Property valuation and rent psf



Source: Company Data, KGI Research

Figure 6: Portfolio lease expiry profile



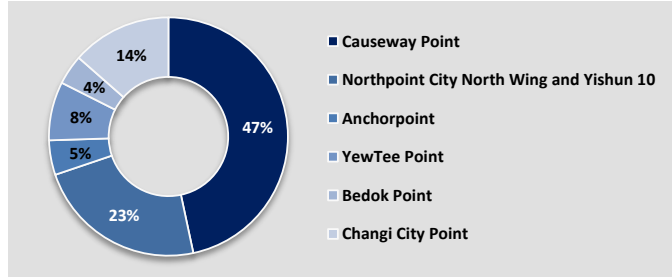
Source: Company Data, KGI Research

Figure 7: Company overview

Frasers Centrepoint Trust (FCT) is a Singapore retail real estate investment trust. The portfolio includes six Singapore suburban malls with an NLA of 1.1mn sq ft and a 31% equity stake in Malaysian-listed Hektar REIT. As of 31 December 2017, the Singapore properties represented a combined appraisal value of S\$2.7bn. It's properties include, Causeway Point, Northpoint City North Wing and Yishun 10, Anchorpoint, YewTee Point, Bedok Point and Changi City Point. The REIT is managed by Frasers Centrepoint Asset Management Ltd (the manager) which is wholly owned by Frasers Centrepoint Limited (the sponsor).

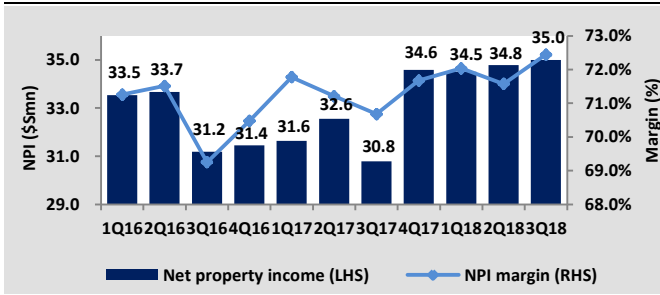
Source: Company

Figure 8: 2017 Gross revenue breakdown by property



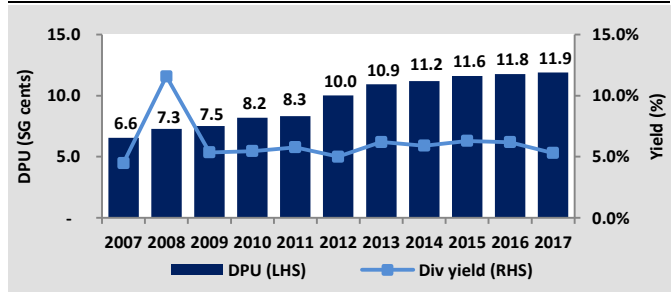
Source: Company Data, KGI Research

Figure 9: Quarterly NPI and NP margin



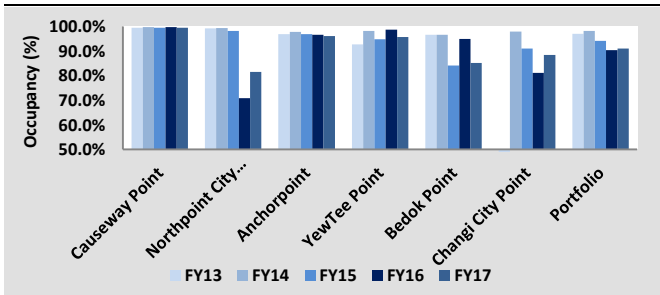
Source: Company Data, KGI Research

Figure 10: DPU and dividend yield



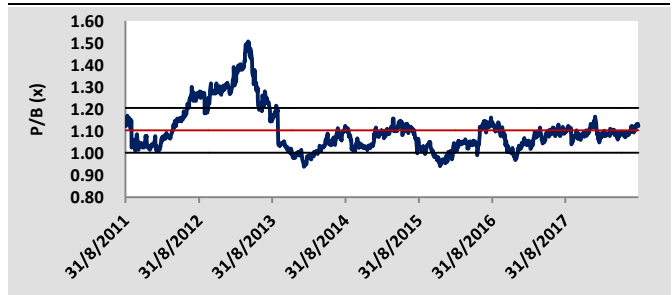
Source: Company Data, KGI Research

Figure 11: Portfolio occupancy



Source: Company Data, KGI Research

Figure 12: Historical P/B band



Source: Bloomberg, KGI Research

## Financials

INCOME STATEMENT (SGD mn)	2013	2014	2015	2016	2017
Net revenue	158.0	168.8	189.2	183.8	181.6
Property expenses	(46.4)	(50.7)	(58.2)	(54.0)	(52.0)
<b>Net property income</b>	<b>111.6</b>	<b>118.1</b>	<b>131.0</b>	<b>129.9</b>	<b>129.6</b>
REIT Manager's fees	(11.5)	(12.9)	(14.1)	(14.2)	(14.5)
REIT Trustee's fees	(1.5)	(1.7)	(1.6)	(1.6)	(2.6)
Net interest expense	(17.7)	(18.4)	(19.2)	(17.2)	(17.6)
<b>Net profit/(loss)</b>	<b>80.9</b>	<b>85.1</b>	<b>96.2</b>	<b>96.8</b>	<b>94.8</b>
Change in fair value - investment ppty	195.7	69.5	64.0	28.4	94.4
<b>Total return before tax</b>	<b>287.8</b>	<b>165.1</b>	<b>171.5</b>	<b>123.4</b>	<b>193.9</b>
Income tax	0.0	0.0	0.0	0.0	0.0
<b>Total return after tax</b>	<b>287.8</b>	<b>165.1</b>	<b>171.5</b>	<b>123.4</b>	<b>193.9</b>
Income available for distribution	90.1	95.4	106.4	112.2	106.5
<b>Distribution to unitholders</b>	<b>90.1</b>	<b>95.4</b>	<b>106.4</b>	<b>108.1</b>	<b>109.8</b>
BALANCE SHEET (SGD mn)	2013	2014	2015	2016	2017
Cash and cash equivalents	39.7	41.7	16.2	18.7	13.5
Trade and other receivables	3.5	5.3	5.4	6.8	4.3
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>43.2</b>	<b>47.1</b>	<b>21.6</b>	<b>25.5</b>	<b>17.8</b>
Investment properties	2,019.5	2,400.0	2,464.0	2,509.0	2,668.1
Intangible, others	71.8	74.7	63.1	60.0	65.0
<b>Total assets</b>	<b>2,134.5</b>	<b>2,521.8</b>	<b>2,548.7</b>	<b>2,594.5</b>	<b>2,750.9</b>
Trade and other payables	45.7	39.9	31.8	39.4	32.7
ST Borrowings	60.0	95.0	278.0	218.0	152.0
Other current liabilities	15.0	18.3	17.9	21.4	17.3
<b>Total current liabilities</b>	<b>120.6</b>	<b>153.2</b>	<b>327.7</b>	<b>278.8</b>	<b>202.0</b>
LT Borrowings	529.0	644.0	440.0	516.0	645.5
Other non-current liabilities	22.5	25.9	26.5	24.0	31.1
<b>Total liabilities</b>	<b>672.2</b>	<b>823.1</b>	<b>794.2</b>	<b>818.8</b>	<b>878.7</b>
Unitholders' funds and reserves	1,462.4	1,698.7	1,754.5	1,775.6	1,872.2
<b>Total liabilities and equity</b>	<b>2,134.5</b>	<b>2,521.8</b>	<b>2,548.7</b>	<b>2,594.5</b>	<b>2,750.9</b>
CASH FLOW STATEMENT (SGD mn)	2013	2014	2015	2016	2017
<b>Total return before tax</b>	<b>287.8</b>	<b>165.1</b>	<b>171.5</b>	<b>123.4</b>	<b>193.9</b>
Depreciation & amortisation	0.0	0.0	0.1	0.1	0.0
Other non-cash adjustments	(186.8)	(58.4)	(53.8)	(4.7)	(73.8)
Changes in working capital	11.8	(6.4)	2.3	7.2	2.0
<b>Cash flows from operations</b>	<b>112.8</b>	<b>100.3</b>	<b>120.0</b>	<b>126.0</b>	<b>122.2</b>
Capital expenditure	(9.5)	(1.5)	(5.4)	(17.5)	(27.8)
Acquisition of investment properties	0.0	(298.7)	0.0	0.0	(38.4)
Other investing cashflow	4.4	4.5	4.7	4.4	(2.1)
<b>Cash flows from investing</b>	<b>(5.0)</b>	<b>(295.6)</b>	<b>(0.6)</b>	<b>(13.2)</b>	<b>(68.2)</b>
Borrowings raised / (repaid)	(2.8)	133.5	(39.1)	(0.2)	49.6
Equity raised / (bought back)	0.0	161.5	0.0	0.0	0.0
Dividends paid	(87.8)	(94.5)	(105.7)	(108.4)	(108.2)
Other financing cash flow	(0.3)	(3.1)	(0.1)	(1.7)	(0.6)
<b>Cash flows from financing</b>	<b>(90.9)</b>	<b>197.4</b>	<b>(144.9)</b>	<b>(110.3)</b>	<b>(59.2)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>16.8</b>	<b>2.0</b>	<b>(25.5)</b>	<b>2.5</b>	<b>(5.2)</b>
Beginning Cash	22.9	39.7	41.7	16.2	18.7
<b>Ending Cash</b>	<b>39.7</b>	<b>41.7</b>	<b>16.2</b>	<b>18.7</b>	<b>13.5</b>
KEY RATIOS	2013	2014	2015	2016	2017
DPU (SG cents)	10.9	11.2	11.6	11.7	11.9
Dividend yield (%)	6.2	5.9	6.3	6.2	5.3
NAV per share (S\$)	1.8	1.9	1.9	1.9	2.0
Price/NAV (x)	1.0	1.0	1.0	1.0	1.1
<b>Profitability (%)</b>					
NPI margin	70.6	70.0	69.2	70.6	71.3
Net margin	51.2	50.5	50.8	52.7	52.2
ROE (excl. FV changes in investment properties)	6.3	6.0	6.2	5.4	5.5
ROA (excl. FV changes in investment properties)	4.3	4.1	4.2	3.7	3.7
<b>Growth (%)</b>					
Revenue growth	0.0	6.8	12.1	(2.9)	(1.2)
NPI growth	0.0	5.8	11.0	(0.9)	(0.2)
DPU growth	0.0	2.4	3.7	1.3	1.0
<b>Financial Structure (x)</b>					
Interest coverage	6.3	6.4	6.8	7.6	7.3
Gearing	27.6	29.3	28.2	28.3	29.0

Source: Company Data, KGI Research

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<b>Rating</b>	<b>Definition</b>
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<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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