

CHINA
DEVELOPMENT
FINANCIAL

Frasers Centrepoint Trust

(FCT SP/FCRT.SI)

3Q19 results update; AEI works to fuel organic growth in the coming few quarters

Geraldine Wong / 65 6202 1193 / Geraldine.wong@kgi.com

- **3Q19 DPU within expectations.** Including DPU of 3.0 Scts declared this quarter, 9M19 DPU makes up 75% of our previous forecast at 12.0 Scts.
- **Increased accessibility within CWP and NP.** With 37.3% of leases by GRI expiring next year, we expect positive rental reversion originating from CWP and NP.
- **Long acquisition runway.** Future growth will be fuelled by additional stake in PGIM and WWP; benchmark inclusion may happen as early as this Sep.
- **Maintain Neutral.** Compelling growth story; dividend yield will likely remain below 5% in FY20.

Financials & Key Operating Statistics

SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	181.6	193.3	204.8	229.3	234.5
Net property income	145.2	153.1	164.5	185.7	189.9
Distributable income	110.6	111.1	124.6	145.3	148.8
DPU (SGD cents)	11.7	12.1	12.0	12.4	12.6
DPU growth (%)	-	3%	-1%	4%	2%
Div Yield (%)	6.2%	5.6%	4.6%	4.7%	4.8%
NAV (SGD cents)	2.0	2.1	2.1	2.1	2.2
Price / Book (x)	0.9	1.0	1.2	1.2	1.2
NPI Margin (%)	80%	79%	80%	81%	81%
Net Margin (%)	115%	95%	69%	67%	68%
Gearing (%)	29.9%	29.6%	32.7%	32.5%	32.2%
ROE (%)	11%	9%	6%	6%	7%

Source: Company Data, KGI Research

3Q19 DPU within expectations. Gross revenue was \$49.1mn this quarter (+1.6% YoY), or 72.7% of our full year forecast (\$204.9mn) YTD. This was primarily fuelled by organic growth across all assets apart from Causeway Point (CWP), which is undergoing AEI. DPU declared this quarter was 3.0 Scts (-1.7% YoY), bringing 9M19 DPU to a total of 7.5 Scts, which makes up 75% of our previous FY19 DPU forecast of 12.2 Scts. Our DPU increased marginally, taking into consideration the near term boost in shopper traffic within CWP and Northpoint (NP).

Increased accessibility within CWP and NP. The underground pedestrian link way currently under construction within CWP will link the mall to Wood Grove, a mixed development asset across the road by end 2019. The upcoming Thomson East Coast Line (Stage 1) will be slated to operate by end of this year, and will increase accessibility through three stations within the Woodlands precinct. The main Woodlands TEL station will enjoy a direct linkage to CWP. The new integrated bus interchange at Yishun that will have direct access to NP will also commence operations as early as mid FY20, and will serve c.50k commuters daily. We think this will provide some rental upside in the coming quarters, especially since 37.3% of leases by GRI will expire in FY20, of which c.62% will come from CWP and NP.

Portfolio occupancy improved 80 bps. Overall portfolio occupancy improved 80 bps QoQ and average rental reversion came in at +3.1% primarily led by Causeway Point

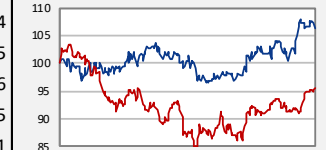
Neutral (Maintain)

Price as of 25 Jul 19 (SGD)	2.63	Performance (Absolute)	
12M TP (S\$)	2.51	1 Month (%)	0.8
Previous TP (S\$)	2.33	3 Month (%)	13.9
Upside, incl div (%)	-4.2%	12 Month (%)	26.0

Trading data

Mkt Cap (\$mn)	2,934
Issued Shares (mn)	1,115
Vol - 3M Daily avg (mn)	2.6
Val - 3M Daily avg (\$mn)	6.5
Free Float (%)	64.51

Perf. vs STI Index (Red)



Major Shareholders

TCC Assets	35.4%
Schroders PLC	4.4%
TMB Asset Management	2.1%

Previous Recommendations

24-Jun-19	NEUTRAL S\$2.33
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and Bedok Point. Bedok Point delivered several surprises this quarter, after occupancy bottomed at 78.1% the same period last year. The asset recorded strong rental reversion of +8.1% and improved occupancy to 95.0% (+7.1% QoQ) after a tenant review. Shopper traffic and tenant sales also improved 6.1% and 2.9% YoY, consistent with the other positives.

Inorganic growth from Waterway Point, PGIM and H-REIT. Acquisition in WWP (33.3% stake) was completed on 11 Jul, and will start contributing from 4Q19 onwards. We expect quarterly net contributions of \$5mn, \$4mn and \$0.75mn respectively from WWP, PGIM and H-REIT, making up 23% of our income distribution forecast in FY20. One off dividends may materialise as PGIM may look to divest all three Malaysian properties within the portfolio. Notably, there was a one-off distribution (c.\$3.8mn) from PGIM following the divestment of Liang Court. Part of the divestment gains not distributed was used for a redeeming exercise, which was instead, reflected as an increase in FCT's stake from 18.8% to 21.1%.

Hopeful for benchmark inclusion in September. FCT will likely be the next retail REIT to be considered for inclusion within the FTSE EPRA Nareit Developed Index. This may happen as early as the next quarterly review in Sep.

Valuation & Action: Maintain NEUTRAL, TP of S\$2.51. We increase our 12M TP from S\$2.33 to S\$2.51. FCT is poised to benefit from a long acquisition runway in both PGIM and WWP in the future. While we like FCT's compelling growth story, investors should note that dividend yield will likely remain below 5% in FY20 from the YTD price rally (+21%).

Risks: Rise in financing expenses alongside increase in borrowing; negative rental reversions in the smaller malls.

Financials

FYE 30 Sep					
INCOME STATEMENT (SGD mn)					
	2017A	2018A	2019F	2020F	2021F
Gross revenue	181.6	193.3	204.8	229.3	234.5
Property expenses	(36.4)	(40.2)	(40.3)	(43.6)	(44.6)
Net property income	145.2	153.1	164.5	185.7	189.9
REIT Manager's fees	(14.5)	(15.2)	(15.8)	(15.6)	(15.8)
REIT Trustee's fees	(2.6)	(2.0)	(1.8)	(2.1)	(2.2)
Net interest expense	(17.6)	(20.0)	(26.6)	(33.6)	(33.6)
Net profit/(loss)	110.5	115.9	120.3	134.4	138.4
Change in fair value - investment ppty	94.6	62.7	0.0	0.0	0.0
Others	4.4	4.1	21.0	19.9	19.9
Total return before tax	209.5	182.7	141.3	154.3	158.3
Income tax	(15.6)	(16.0)	(16.7)	(18.1)	(18.6)
Total return after tax	193.9	166.8	124.5	136.2	139.7
Distributable income	110.6	111.1	124.6	145.3	148.8
BALANCE SHEET (SGD mn)					
	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	13.5	21.9	13.2	40.2	68.1
Trade and other receivables	4.3	3.0	6.1	6.1	6.4
Other current assets	0.0	0.1	0.0	0.0	0.0
Total current assets	17.8	24.9	19.3	46.4	74.5
Investment properties	2,668.1	2,749.0	3,190.1	3,190.1	3,190.1
Investment in associates and others	65.0	66.4	454.4	454.4	454.4
Total assets	2,750.9	2,840.4	3,663.8	3,690.9	3,719.1
Trade and other payables	50.0	62.5	75.9	77.1	78.1
Borrowings	152.0	217.0	393.9	393.9	393.9
Total current liabilities	202.0	279.5	469.8	471.1	472.0
LT Borrowings	645.5	595.6	804.8	804.8	804.8
Other non-current liabilities	31.1	31.5	30.9	31.6	32.2
Total liabilities	878.7	906.6	1,305.6	1,307.5	1,309.0
Unitholders' funds and reserves	1,872.2	1,933.5	2,358.2	2,383.4	2,410.0
Total liabilities and equity	2,750.9	2,840.2	3,663.8	3,690.9	3,719.0
CASH FLOW STATEMENT (SGD mn)					
	2017A	2018A	2019F	2020F	2021F
Total return before tax	193.9	166.8	119.8	136.2	139.7
Share of JV and associates results	(4.4)	(3.8)	(21.6)	(19.9)	(19.9)
Other non-cash adjustments	(69.3)	(38.0)	37.1	42.7	42.7
Changes in working capital	2.0	11.8	2.3	22.9	22.9
Cash flows from operations	122.2	136.9	137.6	181.9	185.4
Distribution from JV and associate	4.7	4.0	6.4	16.6	16.6
Acquisition of investment properties	(45.2)	0.0	(816.6)	0.0	0.0
Other investing cashflow	(27.8)	(15.5)	(11.0)	0.0	0.0
Cash flows from investing	(68.2)	(11.6)	(821.2)	16.6	16.6
Borrowings raised / (repaid)	64.0	15.0	386.6	0.0	0.0
Equity raised / (bought back)	0.0	0.0	437.4	0.0	0.0
Dividends paid	(108.2)	(112.2)	(115.5)	(137.9)	(140.7)
Other financing cashflow	(14.9)	(19.8)	(33.5)	(33.6)	(33.6)
Cash flows from financing	(59.2)	(117.0)	674.9	(171.5)	(174.3)
FX Effects, Others	0.0	0.0	0.0	0.0	0.0
Net increase in cash	(5.2)	8.3	(8.7)	27.0	27.8
Beginning Cash	18.7	13.5	21.9	13.2	40.2
Ending cash	13.5	21.9	13.2	40.2	68.0
KEY RATIOS					
	2017A	2018A	2019F	2020F	2021F
DPU (SGD cents)	11.7	12.1	12.0	12.4	12.6
Dividend yield %	6.2%	5.6%	4.6%	4.7%	4.8%
NAV per share (SGD cents)	2.0	2.1	2.1	2.1	2.2
Price/NAV (x)	0.9	1.0	1.2	1.2	1.2
Profitability (%)					
NPI Margin	80%	79%	80%	81%	81%
Net Margin	115%	95%	69%	67%	68%
ROE	11%	9%	6%	6%	7%
ROA	7%	6%	3%	4%	4%
Financial Structure					
Interest Coverage (x)	12.9	10.1	6.3	5.6	5.7
Gearing (%)	29.9%	29.6%	32.7%	32.5%	32.2%

Source: Company Data, KGI Research

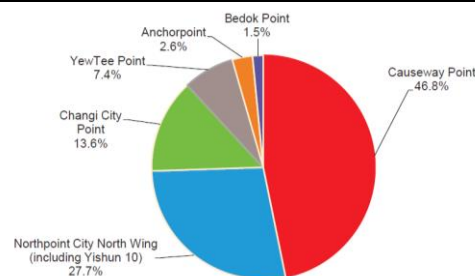
Company Snapshot

Figure 1: Company profile

Frasers Centrepoint Trust (FCT) is a Singapore real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 5 July 2006. FCT's portfolio consists of six quality Singapore suburban malls located in residential areas and positioned to serve necessity shopping needs to the nearby residential catchment. The REIT is managed by the Frasers Centrepoint Asset Management Ltd., a real estate management company and subsidiary of Frasers Centrepoint Limited.

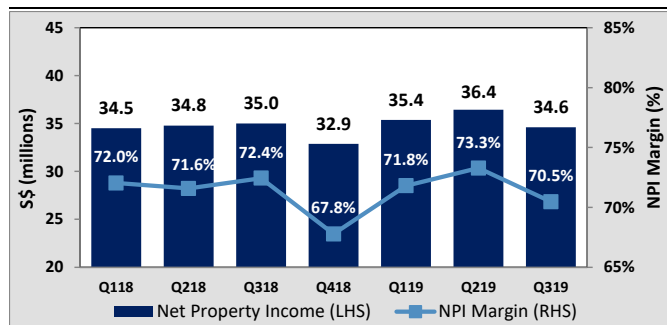
Source: Company

Figure 2: Portfolio breakdown by NPI contribution



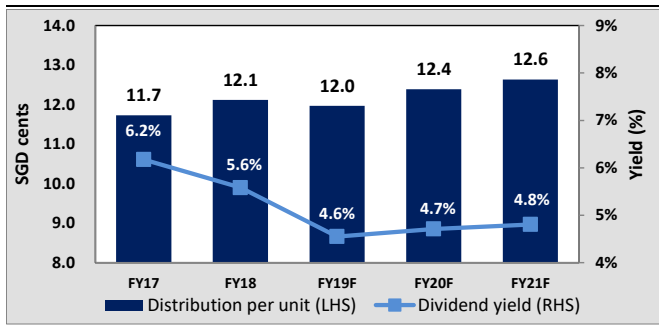
Source: Company Data, KGI Research

Figure 3: NPI and NPI margins



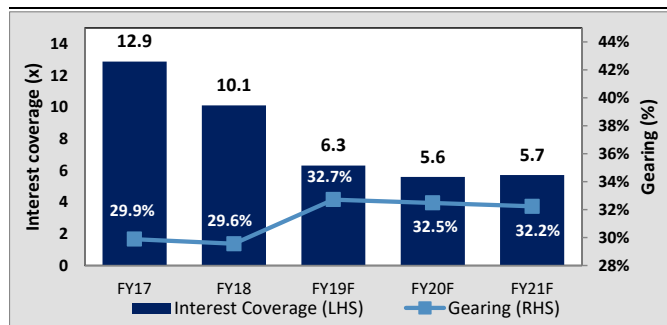
Source: Company Data, KGI Research

Figure 4: DPU and Dividend yield



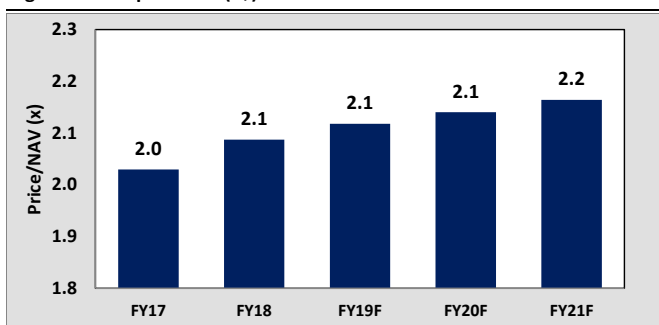
Source: Company Data, KGI Research

Figure 5: Interest coverage ratio and gearing ratio



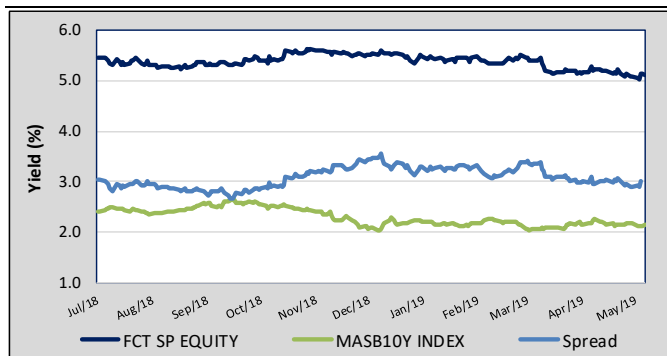
Source: Company Data, KGI Research

Figure 6: NAV per share (S\$)



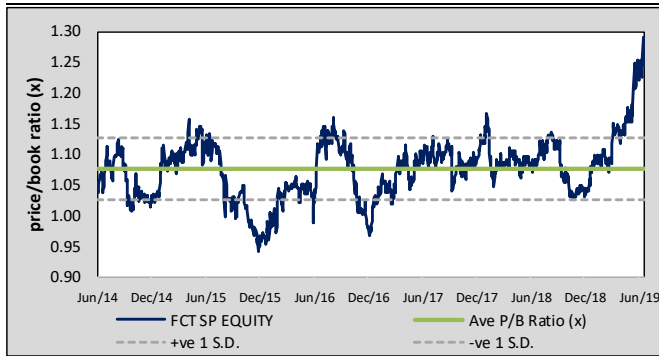
Source: Company Data, KGI Research

Figure 7: Yield spread above 10Y Government Bond



Source: Company Data, KGI Research

Figure 8: 5y Historical P/B band



Source: Company Data, KGI Research

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
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