

Frasers Centrepoint Trust

Tenant sales remain weak



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SINGAPORE | REAL ESTATE (REIT) | 3Q17 RESULTS

25 July 2017

- 3Q17 results were within our expectations. 9M17 DPU at 74.4% of our FY17e DPU.
- Suburban malls' rentals continue to drop as evident from slowing reversions.
- Tenant sales remain weak (-3.3% YoY excl. Northpoint) despite higher shopper traffic (+3.7% YoY).
- Improved occupancies expected at Northpoint and Changi City Point by year end.
- Maintain Neutral with a higher DDM-derived target price of S\$2.14.

Results at a glance

(SGD mn)/Sept Yr End	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	43.6	45.0	(3.3)	Lower gross rent especially from Northpoint undergoing Asset Enhancement Initiatives and lower occupancy at Bedok Point
Net property income	30.8	31.2	(1.3)	Lower property expenses as a result of property tax writeback
Distributable income	26.3	25.8	1.8	Higher proportion of management fees paid in units
DPU (Cents)	3.00	3.04	(1.3)	Higher number of units; Includes S\$1.4mn of retained cash

Source: Company, PSR

The positives

+ Causeway Point (CWP) continues to support earnings: Contributing 53% of portfolio net property income (NPI), CWP was one of only two malls with positive YoY growth in NPI for 3Q17 (+5% vs portfolio -1.3%). Occupancy cost remains low (c.16.5%) at the mall despite a drop in tenant sales. (FCT FY16: 15.7%, CMT FY16: 19%).

+ Northpoint (NP) 90% pre-committed 2months from completion: Enhancement works is expected to complete on schedule in September 2017. Management guided that they are on track to achieve the targeted 9% increase in gross rents post-AEI, or even better.

+ Expo Downtown Line 3 to open 21 October 2017, adjacent Changi City Point (CCP) expected to see better occupancies: Occupancy at the mall has improved from 81.1% at FY16 to 87.4% as at 1 July 2017. As the new station opens, we expect CCP to recover from the 80+% occupancy rates it has suffered due to the construction works.

The negatives

- Suburban malls' rentals continue to drop as evident from slowing reversions: 3Q17 portfolio rental reversions at 0.4%, the weakest level for the year (1Q: 6.9%, 2Q: 4.1%).

- Higher portfolio shopper traffic (+3.7% YoY) at malls did not translate to higher tenant sales: Tenant sales remain weak (-3.3% YoY excl. NP), although this is an improvement from the prior 3-month period (-6.9% YoY excl. NP).

Outlook

We expect retail sales and spot rents to recover by 2H17 and 1H18 respectively, though the recovery will be weak. With Northpoint and Changi City Point looking to perform better by year end post-AEI, and the opening of DTL3, the improved occupancies at these malls should support DPU. Together with CWP, these three malls contributed c.85% of NPI in 3Q17. DPU is expected to remain stable despite the improved operating performance as management reverts to taking lesser fees in units (leaving less cash for distribution).

Maintain NEUTRAL with a higher target price of S\$2.14.

We raised our FY18e/FY19e DPU by 3.8%/4.7% to reflect the better operating performance of post-AEI-Northpoint and Changi City Point. Accordingly, our target price increases from S\$2.04 to S\$2.14. This translates to an FY17e yield of 5.6% and P/NAV of 1.11.

Neutral (Maintained)

LAST DONE PRICE	SGD 2.14
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 2.14
TOTAL RETURN	5.4%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	922
MARKET CAP (USD mn / SGD mn):	1449 / 1973
52 - WK HI/LO (SGD):	2.22 / 1.87
3M Average Daily T/O (mn):	101

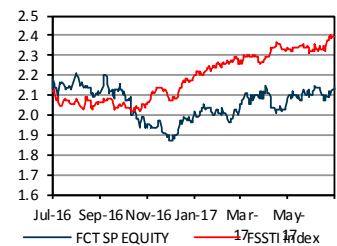
MAJOR SHAREHOLDERS (%)

FRASERS CENTREPOINT LTD	416%
NIKKO ASSET MGMT	7.8%
SCHRODERS PLC	5.42%
SCHRODER INV MGMT HK LTD	3.62%
SUMITOMO MITSUI ASSET MGMT	3.49%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	19	3.9	2.4
STIRETURN	3.51	6.75	16.90

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

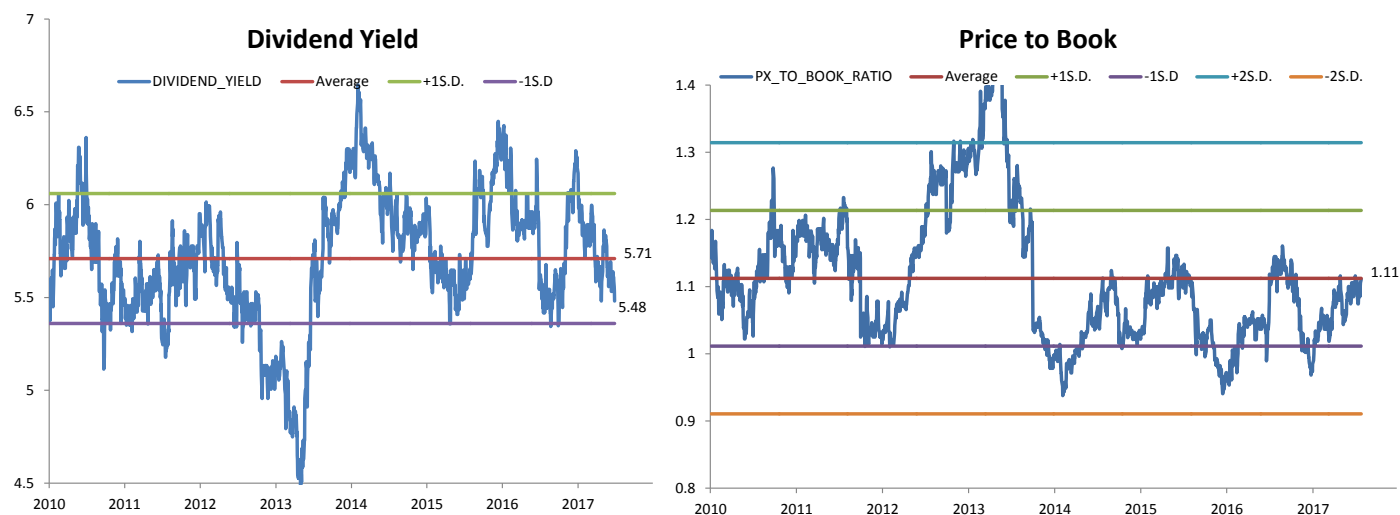
SGD mn	FY 15	FY 16	FY 17e	FY 18e
Gross Revenue	189.2	183.8	187.5	226.9
NPI	131.0	129.9	129.8	160.5
Dist Inc.	106.4	108.1	111.1	126.0
P/NAV (x)	1.05	0.95	1.12	1.11
DPU (Cents)	1161	1176	12.00	12.40
Dist yield %	5.8	5.58	5.69	5.88

Source: Company Data, PSR est.

Valuation Method

DDM (Cost of equity 7.2%, Terminal Growth 1.5%)

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Figures 1 and 2: FCT trades at below post-GFC average yield and close to average P/NAV


Source: Bloomberg, Phillip Securities Research (Singapore)

Figure 3: Peer comparison table

Name	PSR CALL	PSR TARGET PRICE	Mkt Cap (SGD mn)	Price (S\$)	Dvd Yld: D-1	Latest Gearing	P/B	Average cost of debt (%)
FRASERS CENTREPOINT TRUST	NEUTRAL	2.14	1,973	2.14	5.51	30.00	1.11	2.20
CAPITAMALL TRUST	NEUTRAL	2.01	7,268	2.05	5.43	31.84	1.06	3.20
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1.44	1,440	1.62	6.22	36.40	1.03	2.49
BHG RETAIL REIT			366	0.74	7.27	26.44	0.90	3.75
MAPLETREE GREATER CHINA COMM			3,113	1.11	6.62	39.15	0.85	2.78
STARHILL GLOBAL REIT			1,701	0.78	6.45	34.85	0.85	3.16
SPH REIT			2,517	0.99	5.60	25.55	1.06	2.79

Source: Bloomberg, Phillip Securities Research (Singapore)

Financials

Statement of Total Return and Distribution Statement

Y/E Sept, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Gross Revenue	189.2	183.8	187.5	226.9	232.0
Total Property expenses	(58.2)	(54.0)	(57.7)	(66.4)	(67.9)
Net Property Income	131.0	129.9	129.8	160.5	164.1
Net Finance (Expense)/Inc	(19.3)	(17.2)	(18.1)	(24.9)	(26.9)
Asset Manager's fees	(14.1)	(14.2)	(14.1)	(16.8)	(16.9)
Net Income	96.2	96.8	95.9	117.0	118.3
Other Adjustments	6.0	6.9	10.6	4.2	4.2
Distributions from associates	4.2	4.4	4.6	4.8	5.1
Distributions to unitholders	106.4	108.1	111.1	126.0	127.6

Per share data (Cents)

Y/E Sept	FY15	FY16	FY17e	FY18e	FY19e
NAV	1.91	1.93	1.91	1.92	1.91
DPU	11.6	11.8	12.0	12.4	12.5

Cash Flow

Y/E Sept, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Net Income	171.5	123.4	95.9	117.0	118.3
Adjustments	(53.7)	(4.2)	28.8	29.2	31.3
WC changes	(6.4)	6.7	5.2	8.1	1.0
Cashflow from ops	120.0	126.0	129.9	154.3	150.6
CFI					
Capex on inv properties	(5.4)	(17.5)	(5.4)	(5.4)	(5.4)
Cashflow from investing activities	(0.6)	(13.2)	(39.8)	(366.2)	(0.2)
CFF					
Share issuance	-	-	-	185.7	-
Loans, net of repayments	(21.0)	16.0	39.0	180.0	-
Distributions to unitholders	(105.7)	(108.4)	(111.1)	(126.0)	(127.6)
Cashflow from financing	(144.9)	(110.3)	(93.3)	213.9	(155.4)
Net change in cash	(25.5)	2.5	(3.2)	2.0	(5.0)
CCE, end	16.2	18.7	15.5	17.6	12.6

Source: Company, Phillip Securities Research (Singapore) Estimates

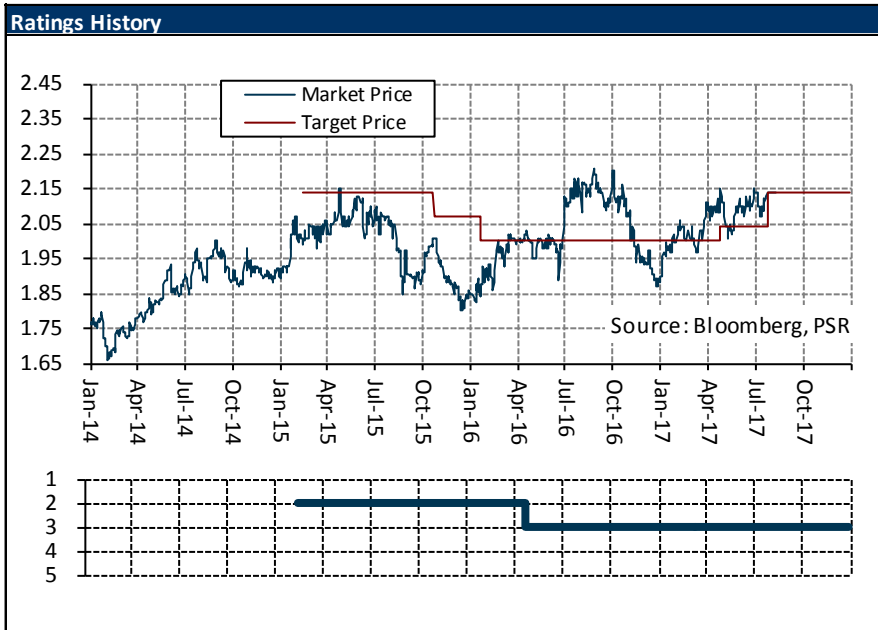
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sept, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
Investment properties	2,464	2,509	2,548	2,914	2,914
Investment in Associates	62.8	59.8	59.8	59.8	59.8
Non Current Assets	2,527	2,569	2,608	2,974	2,974
Trade and Other Receivables	5.4	6.8	5.9	7.2	7.3
Cash and Cash Equivalents	16.2	18.7	15.5	17.6	12.6
Current Assets	21.7	25.6	21.5	24.7	19.9
Total Assets	2,549	2,594	2,629	2,998	2,994
LIABILITIES					
Trade and other payables	31.8	40.0	44.3	53.6	54.8
Interest bearing borrowings	278.0	218.0	60.0	120.0	70.0
Current Liabilities	327.7	278.8	125.2	194.5	145.7
Interest bearing borrowings	440.0	516.0	713.0	833.0	883.0
Non Current liabilities	466.5	540.0	737.0	857.0	907.0
Total Liabilities	794.2	818.8	862.2	1,051.5	1,052.7
EQUITY					
Shareholder Equity	1,754.5	1,775.6	1,767.2	1,946.8	1,940.8

Valuation Ratios

Y/E Sept	FY15	FY16	FY17e	FY18e	FY19e
P/NAV	1.05	1.09	1.10	1.10	1.11
Distribution yield (%)	5.77	5.58	5.69	5.88	5.95
NPI yield (%)	5.3%	5.2%	5.1%	5.5%	5.6%
Growth & Margins (%)	FY15	FY16	FY17e	FY18e	FY19e
Growth					
Revenue	6.8%	-2.1%	1.2%	21.0%	2.2%
Net property income (NPI)	5.8%	-0.9%	0.0%	23.6%	2.2%
DPU	3.8%	1.4%	2.1%	3.4%	1.1%
Margins					
NPI margin	70.0%	70.1%	69.2%	70.7%	70.7%
Net Income Margin	50.5%	52.3%	51.1%	51.6%	51.0%
Key Ratios					
Gearing	28.2%	29.3%	30.3%	32.7%	32.7%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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