

Frasers Centrepoint Trust

Slowing rental reversions need a faster retail boost



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

24 January 2018

- 1Q17 gross revenue and DPU at 23.6% and 24.5% of our estimates (excl. acquisitions).
- Stabilisation of tenant sales (excl. Northpoint North Wing, NPNW), up 0.2% YoY.
- Slower rental reversions at 1% (FY17: 5.1%), dragged down by Bedok Point.
- Maintain Neutral with an unchanged DDM-derived target price of S\$2.14.

Neutral (Maintained)

LAST DONE PRICE	SGD 2.30
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 2.14
TOTAL RETURN	-1.9%

Results at a glance

(SGD mn)/Sept Yr End	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	47.9	44.1	8.7	Mainly due to improvement in occupancy at Northpoint City North Wing with the completion of AEI
Net property income	34.5	31.6	9.1	7.7% higher property expenses due to higher utilities tariffs and maintenance expenses
Distributable income	27.8	26.7	4.2	Lower percentage (50%) of management fees paid in units, vs 70% year ago
DPU (Cents)	3.00	2.89	3.8	

Source: Company, PSR

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	925
MARKET CAP (USD mn / SGD mn):	164 / 228
52 - WK HI/LO (SGD):	2.32 / 1.96
3M Average Daily T/O (mn):	101

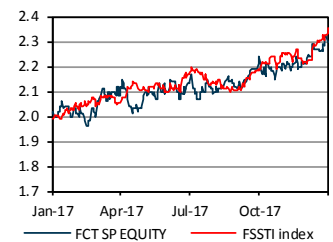
MAJOR SHAREHOLDERS (%)

FRASERS CENTREPOINT LTD	41.9%
SCHRODERS PLC	5.9%
SUMITOMO MITSUI ASSET MGMT	3.37%
VANGUARD GROUP	16.2%
TMB ASSET MGMT	1.13%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.1	6.5	23.9
STIRETURN	5.43	7.20	22.44

PRICE VS. STI



Source: Bloomberg, PSR

The Positives

+ Portfolio tenant sales (excl NPNW) stabilised and up 0.2% yoy (vs 1-year trough of -6.9% YoY in 2Q17): Tenant sales have seen a gradual improvement since 2Q17. Nonetheless, the improvement has been slightly slower than the overall recovery in the general retail sales index since June 2017 (July-Nov average excl. motor +2.9%).

+ Slight improvement in portfolio occupancy to 92.6%, supported by gradual resumption of occupancies at NPNW post-AEI: Occupancy at NPNW improved to 87% from 82% the prior quarter. The continued resumption in trading occupancy at NPNW is expected to drive revenue growth for FY18.

The Negatives

- Slowing rental reversions at 1% (FY17: 5.1%) primarily dragged down by Bedok Point. Should this level of rental reversion level sustain throughout FY18, it will represent the weakest since listing.

- Slow pick-up in improvements for underperforming malls: Changi City Point was a surprising underperformer with occupancy languishing at 86% (vs 88.5% at Sept 17) despite the opening of the Downtown Line 3 on 21 Oct 2017. Bedok mall remains weak with flat occupancy at 85%, although it only accounts for 3% of FY17 NPI.

- Increase in financing costs due to drawing down of longer-term MTN: Financing costs jumped 19.4% YoY to S\$4.9mn. This is likely due to the associated costs for the drawdown of longer-dated S\$70mn MTN (due 2024) in the quarter. Weighted average debt expiry is up qoq from 2.34y to 2.7y and the average cost of debt edges up slightly qoq to 2.4%.

Outlook

Despite an improving retail outlook, rental reversions could remain in the low single digits as higher occupancy costs impede further significant hikes in rents. Ramp up in occupancies for NPNW is expected to drive FY18 revenue but this is likely mitigated by the gradual reduction in management fees taken in units (FY17: 70%) vs our forecasted FY18e of 25%.

Maintain NEUTRAL with an unchanged target price of S\$2.14.

This translates to an FY18e yield of 5.7% and P/NAV of 1.06. This is in line with average post GFC yields of 5.7%.

KEY FINANCIALS

SGD mn	FY 16	FY 17	FY 18e	FY 19e
Gross Revenue	183.8	181.6	203.3	208.4
NPI	129.9	129.6	143.8	147.4
Dist Inc.	108.1	109.8	113.7	115.2
P/NAV (x)	0.95	1.05	1.06	1.07
ROE (%)	5.50	5.40	5.60	5.70
DPU (Cents)	11.76	11.90	12.30	12.40
Dist yield %	5.58	5.56	5.73	5.8

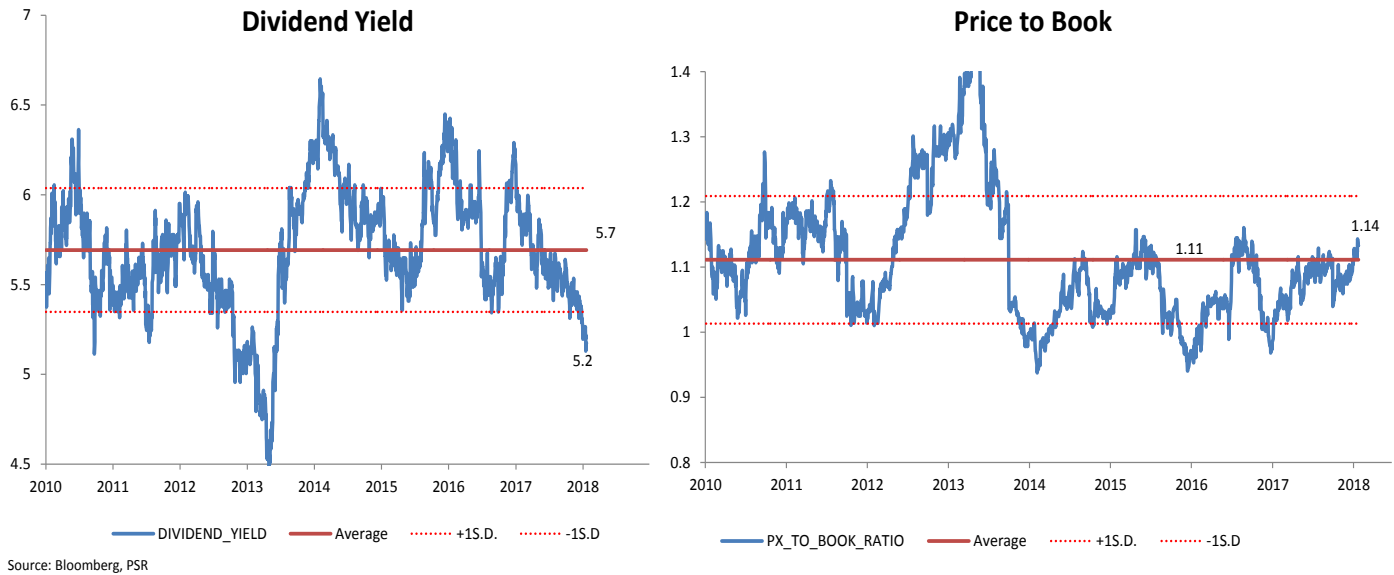
Source: Company Data, PSR est.

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

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
FRASERS CENTREPOINT TRUST	NEUTRAL	2.14	2,128	2.30	5.17	28.99	1.13
CAPITAMALL TRUST	NEUTRAL	2.01	7,270	2.05	5.43	31.84	1.05
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1.66	1,575	1.63	6.20	35.13	1.00
BHG RETAIL REIT			405	0.81	6.74	26.44	0.98
MAPLETREE COMMERCIAL TRUST			4,750	1.65	5.46	36.37	1.20
MAPLETREE GREATER CHINA COMM			3,552	1.26	5.92	39.15	1.01
STARHILL GLOBAL REIT			1,690	0.78	6.22	35.23	0.84
SPH REIT			2,720	1.06	5.22	25.32	1.12

Source: Bloomberg, PSR

Figure 4: New F&B tenants at NPNPW

New F&B concepts and brands



TAKEZO RAMEN



PUTIEN



HOKKAIDO BAKED CHEESE TART



TENDERFRESH



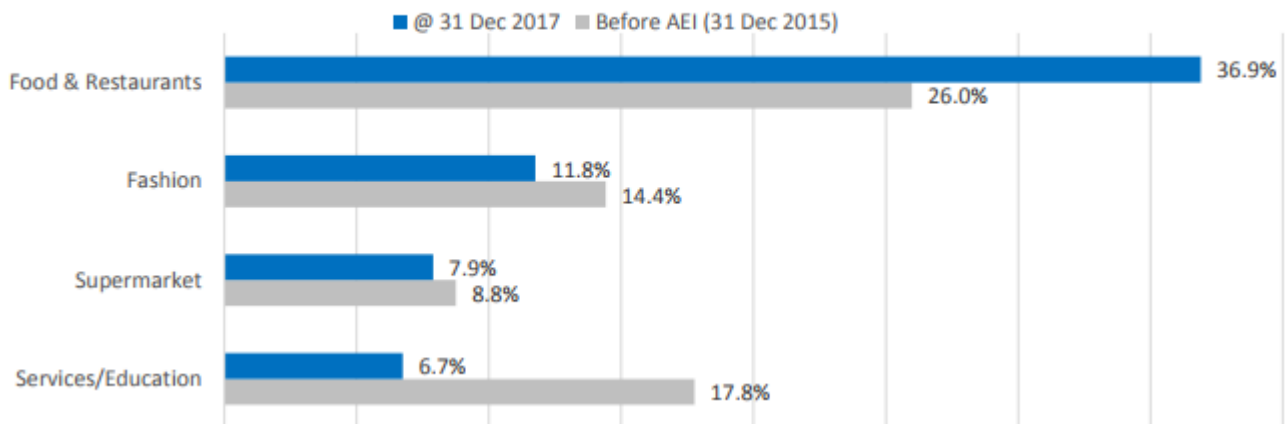
A ONE CLAYPOT HOUSE



JINJJA!! CHICKEN

Figure 5: Increasing exposure to higher-paying F&B tenants at NPNW

Comparison of % of leased area of major trade sectors at North Wing



Financials

Statement of Total Return and Distribution Statement

Y/E Sept, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	189.2	183.8	181.6	203.3	208.4
Total Property expenses	(58.2)	(54.0)	(52.0)	(59.5)	(61.0)
Net Property Income	131.0	129.9	129.6	143.8	147.4
Net Finance (Expense)/Inc	(19.3)	(17.2)	(17.6)	(20.6)	(22.6)
Asset Manager's fees	(14.1)	(14.2)	(14.5)	(15.7)	(15.9)
Net Income	96.2	96.8	94.8	104.7	106.0
Other Adjustments	6.0	6.9	11.0	3.9	4.0
Distributions from associates	4.2	4.4	4.7	5.0	5.2
Distributions to unitholders	106.4	108.1	109.8	113.7	115.2

Per share data (Cents)

Y/E Sept	FY15	FY16	FY17	FY18e	FY19e
NAV	1.91	1.93	2.02	2.01	2.00
DPU	11.6	11.8	11.9	12.3	12.4

Cash Flow

Y/E Sept, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net Income	171.5	123.4	193.9	104.7	106.0
Adjustments	(53.7)	(4.2)	(73.7)	24.6	26.7
WC changes	(6.4)	6.7	2.0	13.2	1.0
Cashflow from ops	120.0	126.0	122.2	142.6	133.7
CFI					
Capex on inv properties	(5.4)	(17.5)	(27.8)	(5.4)	(5.4)
Cashflow from investing activities	(0.6)	(13.2)	(68.2)	(0.4)	(0.2)
CFF					
Share issuance	-	-	-	-	-
Loans, net of repayments	(21.0)	16.0	64.0	-	-
Distributions to unitholders	(105.7)	(108.4)	(108.2)	(113.7)	(115.2)
Cashflow from financing	(144.9)	(110.3)	(59.2)	(135.0)	(138.6)
Net change in cash	(25.5)	2.5	(5.2)	7.1	(5.1)
CCE, end	16.2	18.7	13.5	20.6	15.6

Source: Company, Phillip Securities Research (Singapore) Estimates

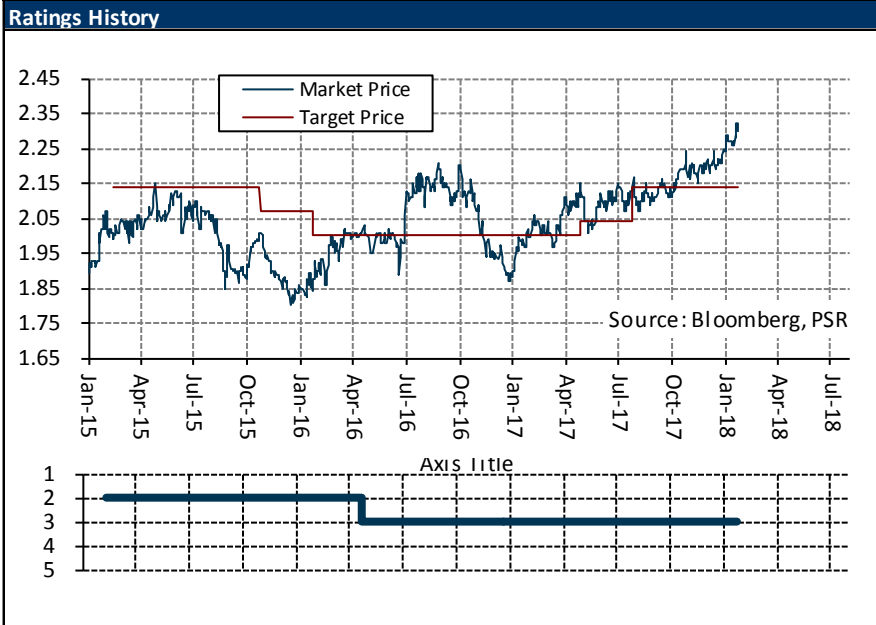
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sept, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	2,464	2,509	2,668	2,848	2,848
Investment in Associates	62.8	59.8	64.9	64.9	64.9
Non Current Assets	2,527	2,569	2,733	2,913	2,913
Trade and Other Receivables	5.4	6.8	4.3	6.4	6.6
Cash and Cash Equivalents	16.2	18.7	13.5	20.6	15.6
Current Assets	21.7	25.6	17.8	27.1	22.2
Total Assets	2,549	2,594	2,751	2,940	2,935
LIABILITIES					
Trade and other payables	31.8	40.0	32.7	48.1	49.3
Interest bearing borrowings	278.0	218.0	152.0	120.0	70.0
Current Liabilities	327.7	278.8	202.0	185.4	136.6
Interest bearing borrowings	440.0	516.0	645.5	857.9	907.9
Non Current liabilities	466.5	540.0	676.3	888.6	938.6
Total Liabilities	794.2	818.8	878.7	1,074.1	1,075.3
EQUITY					
Shareholder Equity	1,754.5	1,775.6	1,872.2	1,866.0	1,859.9

Valuation Ratios

Y/E Sept	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.05	1.09	1.06	1.06	1.07
Distribution yield (%)	5.77	5.58	5.55	5.73	5.80
NPI yield (%)	5.3%	5.2%	4.9%	5.0%	5.2%
Growth & Margins (%)	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	6.8%	-2.1%	-2.0%	12.0%	2.5%
Net property income (NPI)	5.8%	-0.9%	-0.2%	11.0%	2.5%
DPU	3.8%	1.4%	0.9%	3.3%	1.2%
Margins					
NPI margin	70.0%	70.1%	71.3%	70.7%	70.7%
Net Income Margin	50.5%	52.3%	52.2%	51.5%	50.9%
Key Ratios					
Gearing	28.2%	29.3%	29.0%	33.3%	33.3%
ROA	3.8%	3.7%	3.4%	3.6%	3.6%
ROE	5.5%	5.5%	5.1%	5.6%	5.7%



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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