

Frasers Centrepoint Trust

Reaping the fruits post AEI



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SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

26 April 2018

- NPI and DPU within our estimates.
- Positive rental reversion of 9.1% in 2Q18, driven by Causeway Point (CWP).
- Financing costs stable, despite having only 56% of debt on fixed rate.
- Portfolio tenant sales down 1.2% yoy, excluding Northpoint North Wing (NPNW).
- Maintain Neutral with an unchanged DDM-derived target price of S\$2.14.

Results at a glance

(SGD mn)/Sept Yr End	2Q18	2Q17	YoY (%)	1H18	1H17	YoY (%)	Comments
Gross Revenue	48.6	45.7	6.3	96.5	89.8	7.5	Driven by 32% YoY increase in revenue from Northpoint City North Wing (NPNW) post AEI
Net property income	34.8	32.6	6.9	69.3	64.2	8.0	Corresponding increase in property operating expenses
Distributable income	28.7	28.0	2.5	56.5	54.6	3.4	Lower percentage (40%) of management fees paid in units, vs 70% year ago
DPU (Cents)	3.10	3.04	2.0	6.1	5.9	2.9	

Source: Company, PSR

The Positives

+ **Portfolio occupancy inched up slightly to 94%**, an improvement from 92% in FY17. This is mainly driven by improved occupancy at NPNW post AEI. Only weakness in occupancy came from Bedok Point which dipped to 77.8% from 85% at FY17. Portfolio occupancy cost now stands at just under 16%. Over the past 4 FYs, this has ranged between 15.3%-16.6%.

+ **Positive rental reversion of 9.1% in 2Q18, driven by Causeway Point (CWP)**. This was mainly attributed to the lease renewal of an anchor tenant which drove an 18.9% positive reversion at CWP. Lease was last signed 5 years ago. Overall, 1H18 average reversions came in at 3.9%, decent in current challenging environment, but lowest when measured against the 5.1%-15% full-year range since FY07.

+ **Financing costs stable**. All-in borrowing cost is at 2.4%, up 10bps from FY17, despite having only 56% of debt hedged on fixed rate. Management expressed being comfortable with the current level of hedging. Average hedged level across all S-REITs is c.76%.

The Negatives

- **Overall portfolio tenant sales down 1.2% yoy, excluding NPNW**. No impact on CWP's tenant sales was observed since the opening of Northpoint City in Dec 2017, despite being only two MRT stations apart. CWP, biggest mall in FCT's portfolio contributing c.47% of FY17 revenue, saw tenant sales come in flat YoY.

Outlook

Completion of asset enhancement works at NPNW in Dec 17 will continue to be the main earnings catalyst for FY18, as the mall ramps up occupancy. We also expect a gradual normalisation of the percentage of management fees to be paid in units towards 20%. Only major risk to DPU is a sharp rise in interest rates given that 44% of debt is on floating rate.

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%.

Neutral (Maintained)

LAST DONE PRICE	SGD 2.22
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 2.14
TOTAL RETURN	1.6%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	926
MARKET CAP (USD mn / SGD mn):	1549 / 2055
52 - WK HI/LO (SGD):	2.36 / 2.01
3M Average Daily T/O (mn):	138

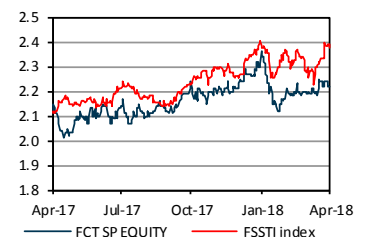
MAJOR SHAREHOLDERS (%)

FRASERS CENTREPOINT LTD	41.9%
SCHRODERS PLC	5.9%
SUMITOMO MITSUI ASSET MGMT	3.37%
VANGUARD GROUP	1.62%
TMB ASSET MGMT	1.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.9	(2.7)	10.6
STI RETURN	4.83	(0.28)	17.69

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

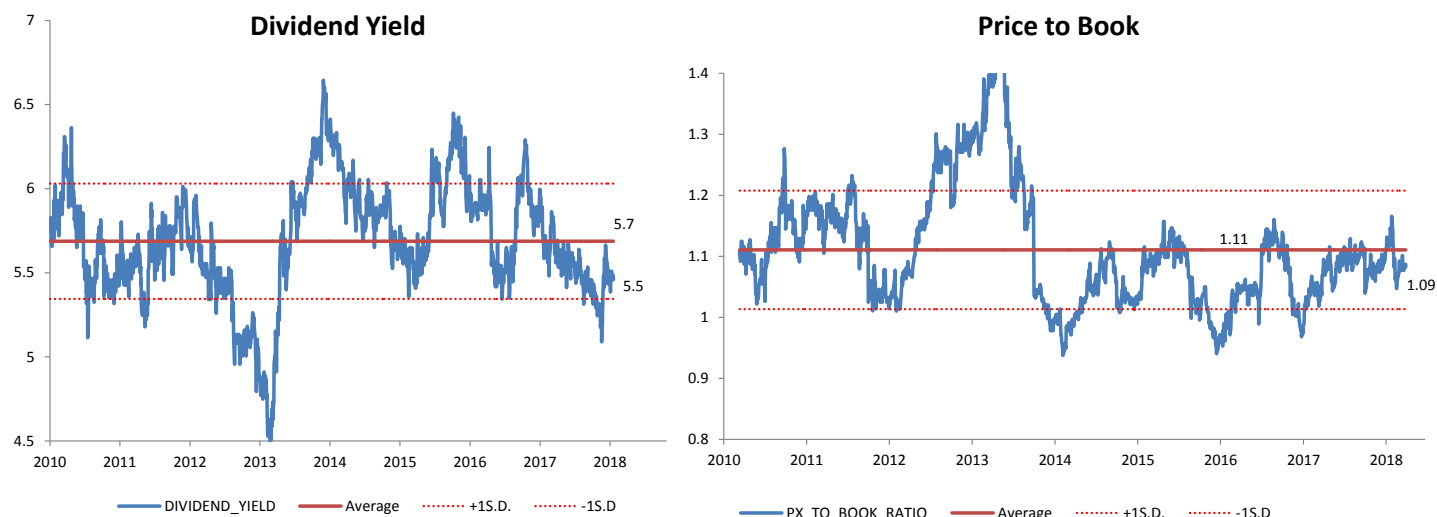
SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	183.8	181.6	203.3	208.4
NPI	129.9	129.6	143.8	147.4
Dist Inc.	108.1	109.8	113.7	115.2
P/NAV (x)	0.95	1.05	1.06	1.07
ROE (%)	5.50	5.40	5.60	5.70
DPU (Cents)	1176	1190	1230	1240
Dist yield %	5.58	5.56	5.73	5.8

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: Portfolio occupancy boosted by NPNW's gradual ramp up in occupancy since opening in Dec 17.

- ◆ Excluding Yishun 10 retail podium, occupancy for Northpoint City North Wing as at 31 March 2018 was 96.4% (March 2017: 59.4%)

Mall Occupancy	31 Mar 17	30 June 17	30 Sep 17	31 Dec 17	31 Mar 18
Causeway Point	99.3%	99.1%	99.5%	99.9%	99.3%
Northpoint City North Wing (Includes Yishun 10 Retail Podium)	60.7%	65.9%	81.6%	86.8%	94.0%
Changi City Point	89.7%	84.0%	88.5%	86.0%	90.6%
Bedok Point	83.2%	81.7%	85.2%	85.3%	77.8%
YewTee Point	97.3%	98.5%	95.7%	94.4%	93.0%
Anchorpoint	95.3%	94.3%	96.2%	94.4%	93.3%
FCT Portfolio	87.2%	87.1%	92.0%	92.6%	94.0%

Source: Company

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

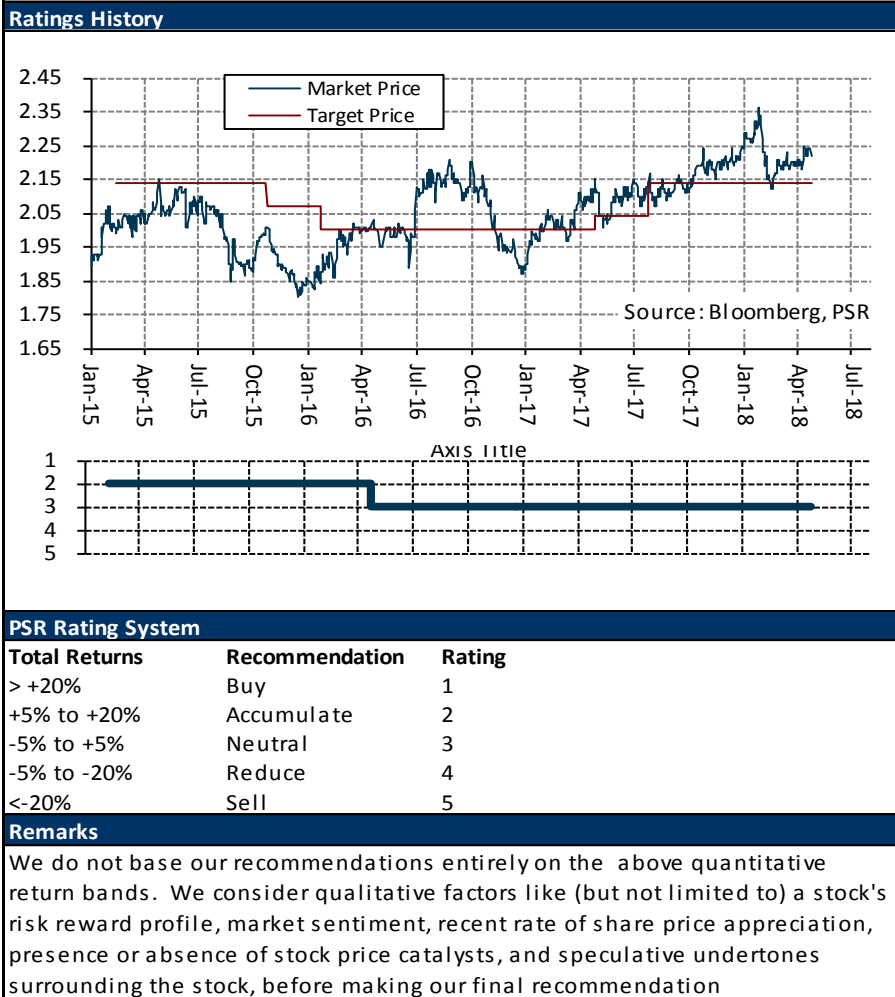
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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%



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