

# Frasers Centrepoint Trust

Falling tenant sales hindrance to healthier reversions

SINGAPORE | REAL ESTATE (REIT) | 1Q19 RESULTS

- 1Q19 NPI and DPU in line with our forecast. Improved NPI margins for Causeway Point and Changi City Point (CCP), with the latter performing exceptionally well.
- Secured refinancing and prepayment of certain 2019 borrowings and 2020 debt.
- Waning rental reversions for CCP and Northpoint North Wing. Flat same-store tenant sales growth during the Sep-Nov 2018 period, declining in excess of -1% YoY.
- Maintain Neutral with unchanged TP of S\$2.21.

## The Positives

**+ Improved NPI margins for CWP and CCP.** Causeway Point (CWP) and Changi City Point (CCP) recorded higher NPI margins YoY, the latter of which performed exceptionally well (+12.7% YoY increase in revenue in comparison to the +2.7% YoY increase in expenses) due to the progressive tenant reconfiguration of the addition of more outlet tenants, as well as the heightened positioning of the mall on the back of the enhanced connectivity from the opening of Downtown Line 3 (one year since its opening in Oct 2017).

**+ Secured refinancing and prepayment of certain 2019 borrowings and 2020 debt.** FCT had secured commitments for the refinancing and prepayment of S\$190mn borrowings – these are for the S\$60mn MTN (due April 2019), S\$60mn of unsecured bank borrowings (due June 2019), and the pre-payment of \$70mn of secured bank borrowing (due Dec 2019 (FY2020)). It is intended to term out the remaining S\$102mn of unsecured bank borrowings expiring in FY2019, in due course.

## The Negatives

**- Waning rental reversions for CCP and NPNW.** Just over half of CCP's and close to a third of NPNW's expiring leases (by GRI) for FY2019 had been renewed in this first quarter alone, albeit on lower reversions (QoQ basis) of -1.3% (4Q18: 0.5%) and 1.9% (4Q18: 2.4%), respectively.

**- Flat same-store tenant sales growth.** Tenant sales (excl. NPNW) in the Sep-Nov 2018 period declined in excess of -1% YoY. On the same note, occupancy cost inched up to 16.6% for FY18 – this figure has crept up steadily over the past three years from 15.3% in FY15, in part due to NPNW's AEI.

## Outlook

The Manager expressed confidence that healthy reversions will continue to be clocked for CCP, despite the opening of Changi Jewel (Jewel) in March 2019, which is one train stop away. However the Manager acknowledged that there could be a temporary adverse impact on sales and footfall for CCP, but also took note that the positioning of Jewel (said to comprise a higher proportion of SMEs than any of the malls in FCT's portfolio) would be different than that of CCP.

Construction for the \$15mn AEI (underground pedestrian link) at CWP will take place from end-Feb to Dec 2019, and some downtime in terms of temporal loss in occupancy and footfall is expected during this time period. However the addition of this underpass will bring about improved connectivity and expand the catchment area for CWP in the long run.

Separately, it was announced that the CEO of the Manager of FCT, Dr. Chew Tuan Chiong, will step down by end-2019 after a decade with the Group, and that his successor will be announced in due course.

## Maintain NEUTRAL with unchanged TP of S\$2.21

Our target price translates to a FY19e yield of 5.3% and a P/NAV of 1.09.



StocksBnB.com

22 January 2019

## NEUTRAL (Maintained)

LAST DONE PRICE	SGD 2.26
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.21
TOTAL RETURN	3.3%

## COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	928
MARKET CAP (USD mn / SGD mn):	1541 / 2096
52 - WK HI/LO (SGD):	2.36 / 2.11
3M Average Daily T/O (mn):	0.90

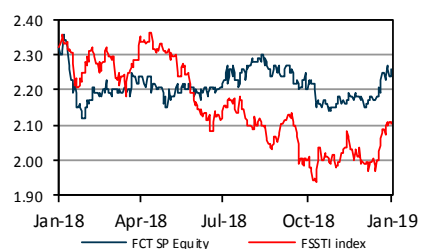
## MAJOR SHAREHOLDERS (%)

FRASERS PROPERTY LTD	41.9%
SCHRODERS PLC	4.9%
VANGUARD GROUP	1.8%
DIMENSIONAL FUND ADVISORS LP	1.4%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.2	0.0	6.0
STIRETURN	5.9	(6.5)	(6.1)

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Sept	FY 17	FY 18	FY 19e	FY 20e
Gross Rev (SGD mn)	182	193	199	210
NPI (SGD mn)	130	137	143	151
Dist Inc. (SGD mn)	110	111	112	119
P/NAV (x)	194	167	109	116
DPU, adj (Cents)	12	12	12	13
Distribution Yield	5.3%	5.3%	5.3%	5.7%

Source: Company Data, Bloomberg

## Valuation Method

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

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Gross Revenue</b>	184	182	193	199	210
Total Property expenses	(54)	(52)	(56)	(56)	(59)
<b>Net Property Income</b>	<b>130</b>	<b>130</b>	<b>137</b>	<b>143</b>	<b>151</b>
Net Finance (Expense)/Inc	(17)	(18)	(20)	(20)	(21)
Trust expenses	(2)	(3)	(2)	(2)	(3)
Manager's management fees	(14)	(14)	(15)	(16)	(16)
<b>Net Income</b>	<b>97</b>	<b>95</b>	<b>100</b>	<b>104</b>	<b>112</b>
Other Adjustments	7	11	8	4	4
Distributions from associates	4	5	4	4	4
<b>Distribution to Unitholders</b>	<b>108</b>	<b>110</b>	<b>111</b>	<b>112</b>	<b>119</b>

### Per share data

Y/E Sep, SGD	FY16	FY17	FY18	FY19e	FY20e
NAV	1.93	2.02	2.08	2.09	2.09
DPU (Cents)	11.75	11.87	12.01	12.08	12.83

### Cash Flow

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Net Income	123	194	167	109	116
Adjustments	(5)	(74)	(42)	20	19
WC changes	7	2	12	(5)	4
<b>Cashflow from operating activities</b>	<b>126</b>	<b>122</b>	<b>137</b>	<b>124</b>	<b>140</b>
<b>CFI</b>					
Capex on inv properties	(18)	(28)	(15)	(17)	-
Others	4	(40)	4	3	4
<b>Cashflow from investing activities</b>	<b>(13)</b>	<b>(68)</b>	<b>(12)</b>	<b>(13)</b>	<b>4</b>
<b>CFF</b>					
Share issuance	-	-	-	-	-
Distributions to Unitholders	(108)	(108)	(112)	(111)	(118)
Others	(2)	49	(5)	(17)	(21)
<b>Cashflow from financing activities</b>	<b>(110)</b>	<b>(59)</b>	<b>(117)</b>	<b>(127)</b>	<b>(138)</b>
<b>Net change in cash</b>	<b>3</b>	<b>(5)</b>	<b>8</b>	<b>(17)</b>	<b>6</b>
<b>CCE, end</b>	<b>19</b>	<b>14</b>	<b>22</b>	<b>5</b>	<b>11</b>

### Balance Sheet

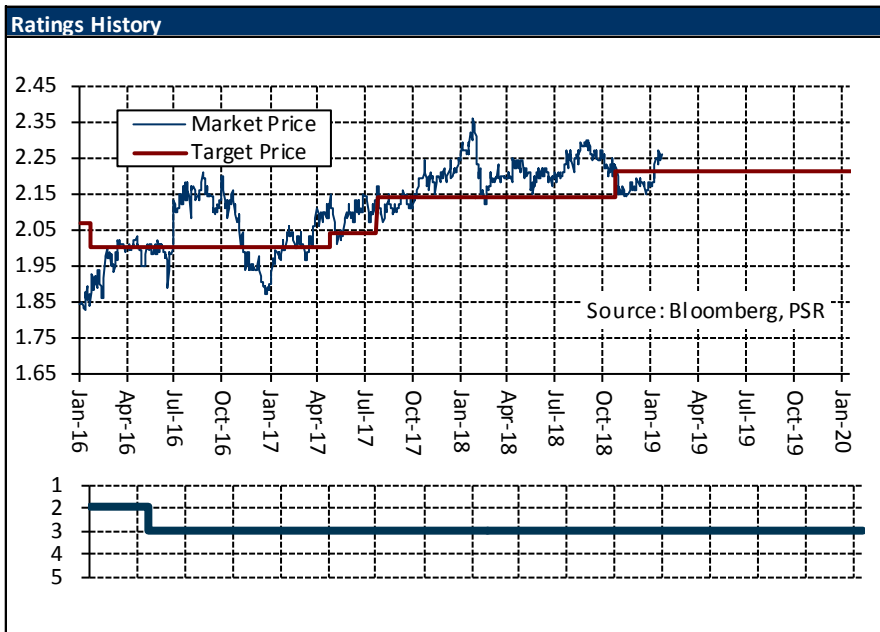
Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
Investment properties	2,509	2,668	2,749	2,764	2,764
Investment in Associates	-	65	66	66	66
<b>Non Current Assets</b>	<b>2,569</b>	<b>2,733</b>	<b>2,815</b>	<b>2,831</b>	<b>2,831</b>
Trade and Other Receivables	6.8	4.3	3.0	5.0	5.3
Cash and Cash Equivalents	19	14	22	5	11
<b>Current Assets</b>	<b>26</b>	<b>18</b>	<b>25</b>	<b>10</b>	<b>16</b>
<b>Total Assets</b>	<b>2,594</b>	<b>2,751</b>	<b>2,840</b>	<b>2,841</b>	<b>2,847</b>
<b>LIABILITIES</b>					
Interest bearing borrowings, non current	516	646	596	596	583
Others	24	31	32	30	30
<b>Non-Current Liabilities</b>	<b>540</b>	<b>677</b>	<b>627</b>	<b>626</b>	<b>613</b>
Trade and other payables	40	33	46	35	37
Interest bearing borrowings, current	218	152	217	217	230
Others	21	17	16	18	18
<b>Current Liabilities</b>	<b>279</b>	<b>202</b>	<b>280</b>	<b>270</b>	<b>285</b>
<b>Total Liabilities</b>	<b>819</b>	<b>879</b>	<b>907</b>	<b>896</b>	<b>897</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>1,776</b>	<b>1,872</b>	<b>1,934</b>	<b>1,945</b>	<b>1,949</b>

### Valuation Ratios

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	1.17	1.12	1.08	1.08	1.08
Distribution yield (%)	5.2%	5.3%	5.3%	5.3%	5.7%
NPI yield (%)	5.2%	4.9%	5.0%	5.2%	5.5%
<b>Growth &amp; Margins</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19e</b>	<b>FY20e</b>
<b>Growth</b>					
Revenue	-2.9%	-1.2%	6.5%	2.9%	5.7%
Net property income (NPI)	-0.9%	-0.2%	5.9%	4.4%	5.7%
DPU	1.3%	1.0%	1.3%	0.5%	6.3%
<b>Margins</b>					
NPI margin	70.6%	71.3%	71.0%	72.0%	72.0%
Net Income Margin	52.7%	52.2%	51.7%	52.5%	53.2%
<b>Key Ratios</b>					
Gearing	28.3%	29.0%	28.6%	28.6%	28.5%
ROA	3.7%	3.4%	3.5%	3.7%	3.9%
ROE	5.5%	5.1%	5.2%	5.4%	5.7%

Source: Company, Phillip Securities Research (Singapore) Estimates

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



### 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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