

Frasers Centrepoint Trust

Supported by the Causeway Point pillar again

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- 1Q17 revenue dropped 6.4% y/y mainly due to Northpoint renovation works (Up 0.4% excluding Northpoint).
- Supported by strong performance at Causeway Point, which has become a consistent story for FCT.
- Discussions with Northpoint tenants over post AEI re-tenancy going well.
- Structural challenges facing the retail industry remain.

Results at a glance

(SGD mn)	1Q17	1Q16	y-y (%)	Comments
Gross Revenue	44.1	47.1	-6.4%	Mainly due to loss of revenue from Northpoint Asset Enhancement works
Net property income	31.6	33.5	-5.7%	
Distributable income	27.7	27.7	-0.2%	Higher % of asset management fees paid in units, freeing up more cash for distribution
DPU (Cents)	2.89	2.87	0.7%	

Source: Company, PSR

What is in the news?

Supported by the Causeway Point pillar again. Causeway Point (CWP) and YewTee Point were the two best performing malls in FCT's portfolio in FY16 and the only two malls which recorded y-o-y increases in gross revenue then. The trend continues into 1Q17 as Causeway Point's 3.4% y-o-y gross revenue growth helped partially offset the negative impact of Northpoint's lower occupancies due to AEI.

A closer look at the continued strong performance of Causeway Point. Despite attaining flat retail sales growth, CWP managed to achieve positive rental reversions of 10.6% in 1Q17, after achieving a similarly strong 9.6% for FY16. Management guided that despite this, CWP's occupancy cost remains the lowest of the whole portfolio, and also low versus other comparable malls. Low occupancy costs give landlords more headroom to raise rents.

We compare CWP with a similar suburban mall Tampines Mall (TM). Both enjoy similar shopper traffic and similar catchment population size (and population age distribution, which translates to spending power). Though TM enjoys similar footfall but over a 15% smaller NLA (which could translate to higher sales productivity), we expect this to be offset by a lower conversion rate given the higher density of shopping malls around the Tampines MRT area (Tampines One, Century Square, Tampines Mall). As such, given the close similarities of the two malls, the 10% lower average rentals at CWP versus TM lead us to conclude that the recent strong rental reversion performance of CWP is justifiable and not unsustainable, provided management is able to continue optimizing the tenant and trade mix at the mall to sustain the sales productivity of the mall.

	Causeway Point	Tampines Mall
Net Lettable Area (NLA) (sq ft)	415,774	354,688
Annual Shopper Traffic (mn)	24.9	26.1
Gross Revenue S\$ (2015)	81.0	76.8
NPI S\$ (2015)	59.1	56.8
Population Catchment size	Woodlands Town: 250,290	Tampines Town: 261,230
Key Tenants	Metro, Courts, Cold Storage, Food Republic, Cathay	NTUC, Isetan, H&M, GV, Kopitiam
Population Age distribution	Similar	
Average gross rent S\$/sq ft/mth	16.23	18.04

Source: Company Annual Reports, SingStats

23 January 2017

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.97
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 2.00
TOTAL RETURN	7.7%

COMPANY DATA

O/S SHARES (MN) :	920
MARKET CAP (USD mn / SGD mn) :	1270 / 1807
52 - WK HI/LO (SGD) :	2.23 / 1.85
3M Average Daily T/O (mn) :	124

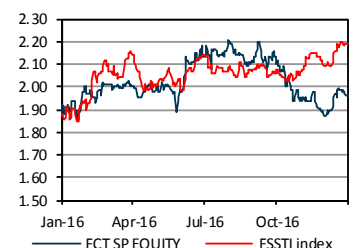
MAJOR SHAREHOLDERS (%)

FRASERS CENTREPOINT LTD	41.6%
SCHRODERS PLC	5.4%
SCHRODERS INVESTMENT MGMT HK LTI	3.63%
SUMITOMO MITSUI ASSET MGMT CO	3.49%
SCHRODERS INVT MGMT GRP	2.00%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	4.0	(7.8)	11.6
STIRETURN	3.43	6.35	22.17

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	224.9
NPI	131.0	129.9	129.8	155.7
Dist Inc.	106.4	108.1	109.1	119.4
P/NAV (x)	1.05	0.95	1.05	1.05
DPU (Cents)	11.61	11.76	11.78	11.75
Dist yield %	5.8	6.39	5.89	5.88

Source: Company Data, PSR est.

Valuation Method

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

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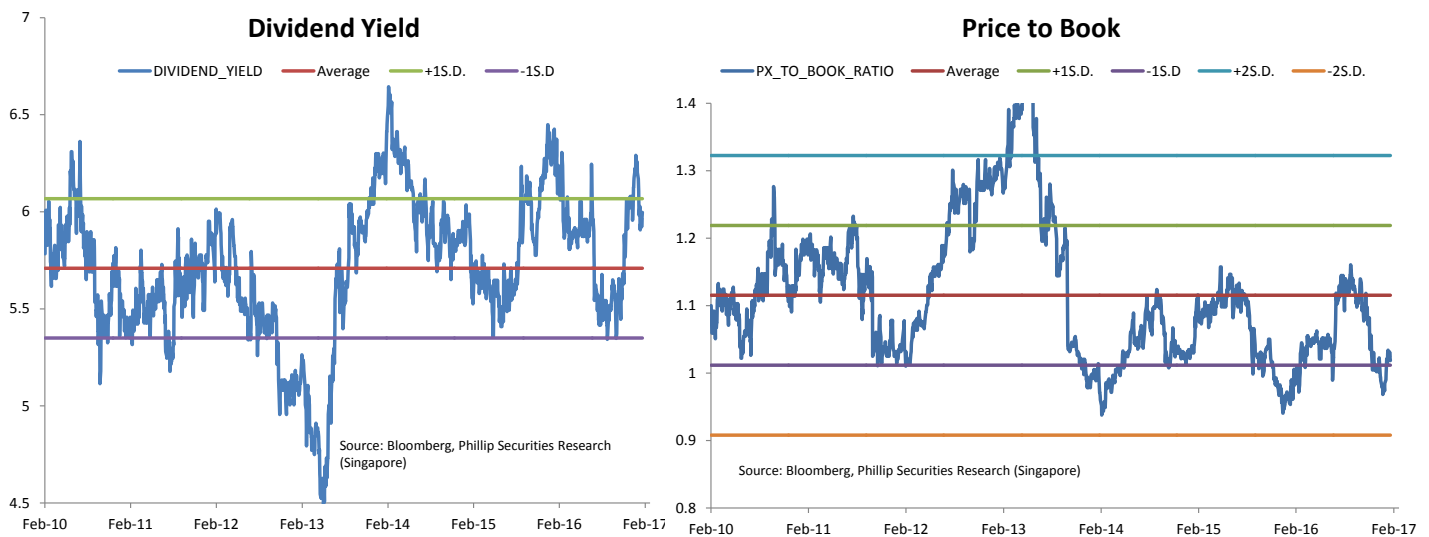
Discussions with Northpoint tenants over post AEI re-tenancy going well. Management guided that they hope to achieve a 9% increase in rental rates at NP post-AEI. Ongoing negotiations with tenants hoping to take up tenancy post-AEI are tracking close to these targeted rents, according to management. We are optimistic of the success of the AEI, noting the previous success of management's conducted AEIs on Causeway Point (2012: ROI 17%), Northpoint (2010: ROI 10.7%) and Anchorpoint (2008: ROI 14.1%).

Structural challenges facing the retail industry remain.

FCT's portfolio remains stable thanks to its dominant malls in the northwest regions of Woodlands and Yishun, though other smaller malls such as Bedok Point continue to struggle. We are also optimistic of the prospects of the potential acquisition target from its sponsor's portfolio, Waterway Point. Nonetheless, we think the challenges posed by the threat of e-commerce are increasing, especially with better last mile delivery solutions and the impending entrance of Amazon into Singapore.

Investment Action

Trading at a yield of 6% and Price/NAV of close to 1x, we think FCT is trading at fair valuations, given the challenges facing the retail industry. We maintain our NEUTRAL call, and DDM-derived target price remains unchanged at \$2.



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	224.9	228.3
Total Property expenses	(58.2)	(54.0)	(57.7)	(69.2)	(70.2)
Net Property Income	131.0	129.9	129.8	155.7	158.1
Net Finance (Expense)/Inc	(19.3)	(17.2)	(20.1)	(26.9)	(29.5)
Asset Manager's fees	(14.1)	(14.2)	(14.1)	(16.5)	(16.6)
Net Income	96.2	96.8	93.9	110.5	110.1
Other Adjustments	6.0	6.9	10.6	4.1	4.2
Distributions from associates	4.2	4.4	4.6	4.8	5.1
Distributions to unitholders	106.4	108.1	109.1	119.4	119.4

Per share data (Cents)

Y/E Sept	FY15	FY16	FY17e	FY18e	FY19e
NAV	1.91	1.93	1.91	1.91	1.90
DPU	11.6	11.8	11.8	11.8	11.7

Cash Flow

Y/E Sept, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Net Income	171.5	123.4	93.9	110.5	110.1
Adjustments	(53.7)	(4.2)	30.8	31.1	33.7
WC changes	(6.4)	6.7	5.2	7.7	0.7
Cashflow from ops	120.0	126.0	129.9	149.3	144.5
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)	(356.5)	(0.2)
CFF					
Share issuance	-	-	-	176.0	-
Loans, net of repayments	(21.0)	16.0	39.0	180.0	-
Distributions to unitholders	(105.7)	(108.4)	(109.1)	(119.4)	(119.4)
Cashflow from financing	(144.9)	(110.3)	(93.3)	208.8	(149.6)
Net change in cash	(25.5)	2.5	(3.2)	1.6	(5.3)
CCE, end	16.2	18.7	15.5	17.2	11.8

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

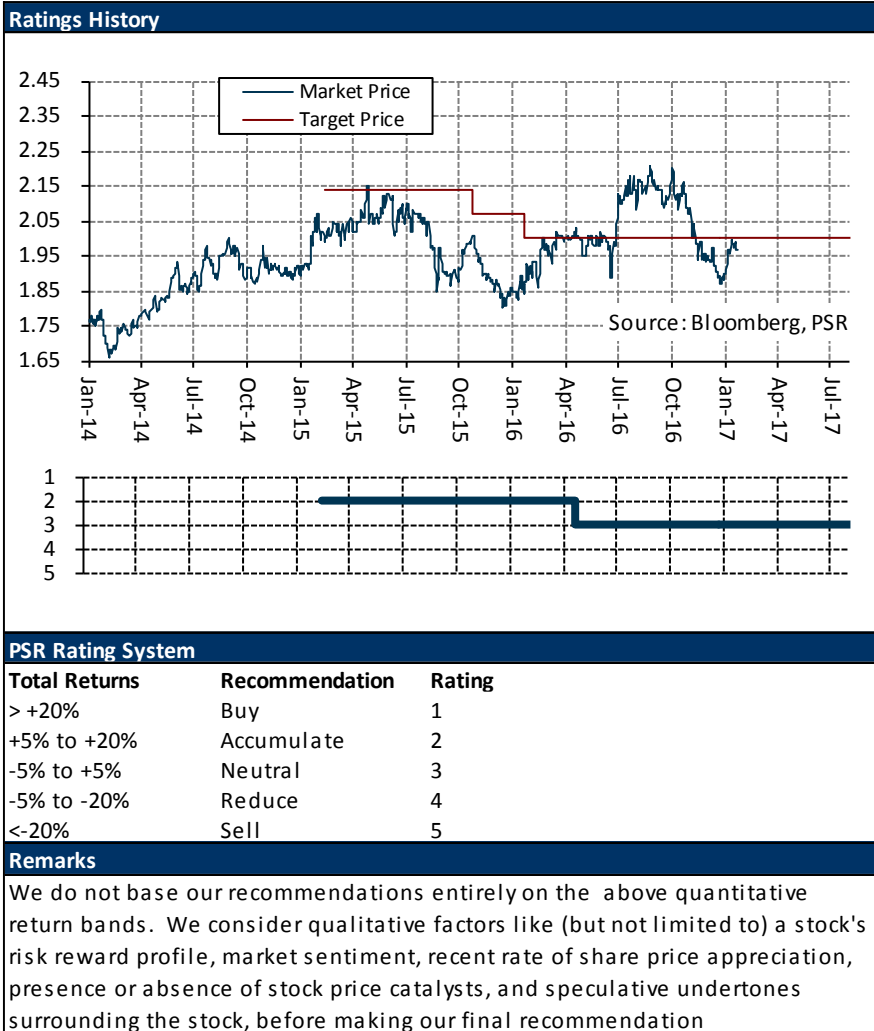
Y/E Sept, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
Investment properties	2,464	2,509	2,548	2,904	2,904
Investment in Associates	62.8	59.8	59.8	59.8	59.8
Non Current Assets	2,527	2,569	2,608	2,964	2,964
Trade and Other Receivables	5.4	6.8	5.9	7.1	7.2
Cash and Cash Equivalents	16.2	18.7	15.5	17.2	11.8
Current Assets	21.7	25.6	21.5	24.3	19.0
Total Assets	2,549	2,594	2,629	2,988	2,983
LIABILITIES					
Trade and other payables	31.8	40.0	44.3	53.2	54.0
Interest bearing borrowings	278.0	218.0	60.0	120.0	70.0
Current Liabilities	327.7	278.8	125.2	194.0	144.8
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	1,051.0	1,051.9

EQUITY

Shareholder Equity	1,754.5	1,775.6	1,767.2	1,937.1	1,931.1
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Valuation Ratios

Y/E Sept	FY15	FY16	FY17e	FY18e	FY19e
P/NAV	1.05	0.95	1.05	1.05	1.05
Distribution yield (%)	5.77	6.39	5.89	5.88	5.86
NPI yield (%)	5.3%	5.2%	5.1%	5.4%	5.4%
Growth & Margins (%)	FY15	FY16	FY17e	FY18e	FY19e
Growth					
Revenue	6.8%	-2.1%	1.2%	19.9%	1.5%
Net property income (NPI)	5.8%	-0.9%	0.0%	19.9%	1.5%
DPU	3.8%	1.4%	0.2%	-0.2%	-0.3%
Margins					
NPI margin	70.0%	70.1%	69.2%	69.2%	69.2%
Net Income Margin	50.5%	52.3%	50.1%	49.1%	48.2%
Key Ratios					
Gearing	28.2%	29.3%	30.3%	32.8%	32.8%



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