

Frasers Centrepoint Trust

A watertight deal



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

24 May 2019

- FCT proposed an acquisition of a 33.33% interest in Waterway Point from its Sponsor.
- Equity fund raising of 184mn new units totaling S\$437.4mn (S\$369.6mn private placement and S\$67.8mn pro-rata non-renounceable preferential offering) at S\$2.382 and S\$2.350 per new unit, respectively.
- WWP has an NPI yield of 4.7% and is expected to contribute c.16.5% of the total return (on a pro-forma basis) of FCT's enlarged portfolio, diversifying FCT's earnings base.
- We expect FY19e/FY20e DPU to rise 0.4% and 2.2%, respectively.
- Maintain NEUTRAL with higher TP of S\$2.36 (prev. S\$2.31).

What is the news?

- Proposed acquisition of a **33.33%** interest in Waterway Point (WWP) from its Sponsor, Frasers Property Limited (FPL) for a consideration of **S\$1.3bn (on a 100% basis)** – an implied **c.S\$433.3mn** for FCT's equity-accounted stake (see figure 1 for details on WWP).
- Equity fund raising (EFR) of **c.S\$437.4mn** comprising:
 - Private placement proceeds of **S\$369.6mn** which included an fully-taken over-allotment option (2.3x subscribed on 17 May 2019, at the top end of a price range of S\$2.30-2.382 per new unit)
 - A pro-rata and non-renounceable preferential offering of **c.S\$67.8mn** for S\$2.30-2.383 per new unit
- Gross proceeds from EFR intended to partially finance the proposed WWP Acquisition (**c.S\$245.3mn**) as well as to partially pare down bridging loans related to the earlier announced acquisition of stake in PGIM Real Estate AsiaRetail Fund Limited (PGIM ARF) (**c.S\$176.4mn**).

Impact on FCT

- Expected pro-forma DPU accretion of +0.29% from the proposed WWP acquisition, and +0.65% if also including the PGIM ARF stake (figure 7).
- Pro-forma gearing following the proposed WWP acquisition would be at 30.7% (FY2018: 28.6%), and at 33.2% if also including the PGIM ARF stake (figure 5).
- WWP is expected to contribute c.16.5% of the total return (on a pro-forma basis) of FCT's enlarged portfolio.

What do we think?

A highly anticipated and positive move, with FCT's last sizeable acquisition only back in 2014 (Changi City Point). We believe there is upside for rental escalation and reversion rates, supported by the recent resilience of fringe retail rents (figure 8), as well as favourable attributes specific to WWP – it is part of an integrated residential and retail development with an adjoining visitors' centre and is next to the Punggol MRT/LRT stations. According to Cistri, the population in WWP's trade area is expected to increase by a CAGR of +3.8% to 201k by 2023. This comes even after the stabilisation phase of the area, which saw tenant sales and footfall at WWP surge 10% and 4%, respectively, from 2017-2018 (figure 4).

Outlook

WWP's NPI yield of 4.7% is in line with the FCT's portfolio average, and is poised to match that of its bigger portfolio malls – Causeway Point (CWP) and Northpoint North Wing (NPNW) – which are currently north of 5%, given that it is still in a stabilisation phase (WWP only commenced operations in 2016). Further, this acquisition helps diversify FCT's earnings base as both CWP and NPNW account for two-thirds of FY18 NPI.

Maintain NEUTRAL with higher TP of S\$2.36 (prev. S\$2.31).

We adjust our FY19e and FY20e DPU estimates by +0.4% and +2.2%, respectively (assuming completion by 4QFY19), to account for the proposed WWP acquisition. Our target price had been adjusted accordingly to S\$2.36 (prev. S\$2.31). We maintain our NEUTRAL call on FCT.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 2.42
FORECAST DIV	SGD 0.122
TARGET PRICE	SGD 2.36
TOTAL RETURN	2.7%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	930
MARKET CAP (USD mn / SGD mn):	1633 / 2250
52 - WK HI/LO (SGD):	2.45 / 2.12
3M Average Daily T/O (mn):	155

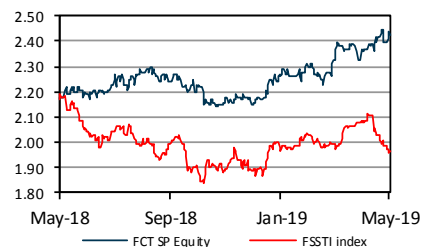
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	42.1%
SCHRODERS PLC	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.8	7.5	18.6
STIRETURN	(4.3)	(14)	(5.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY17	FY18	FY19e	FY20e
Gross Rev (SGD mn)	182	193	199	209
NPI (SGD mn)	130	137	144	151
Dist Inc. (SGD mn)	110	111	114	121
P/NAV (x)	194	167	133	218
DPU, adj (Cents)	11.9	12.0	12.24	13.06
Distribution Yield	4.9%	5.0%	5.1%	5.4%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.9%, Terminal Growth 1.5%)

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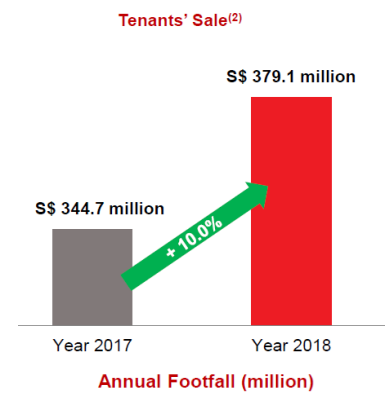
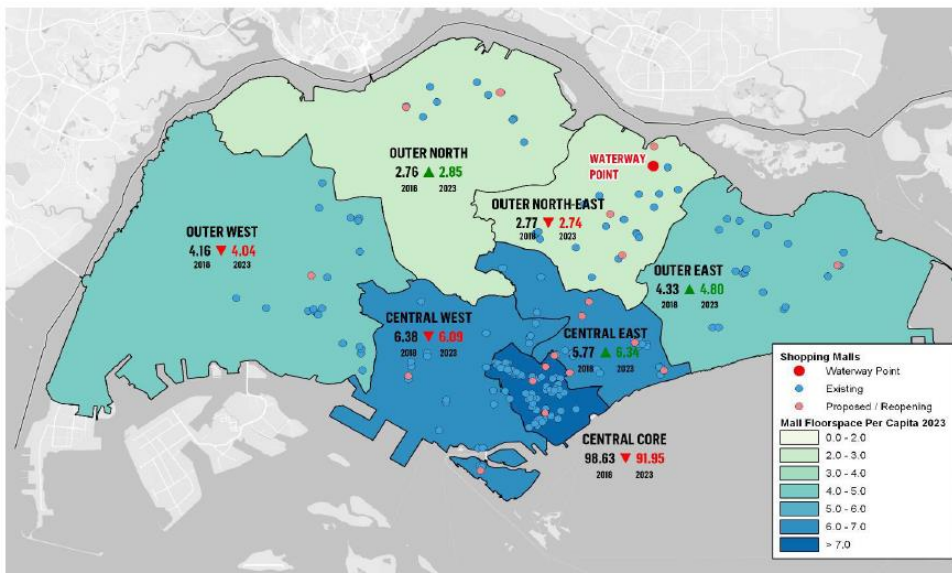
Figure 1: Key attributes of Waterway Point

Year of Completion / Operation Date	2015 / April 2016
Title	99-year leasehold title commencing 18 May 2011
GFA (sqft)	542,493
NLA (sqft)	371,200
No. of storeys	4
Car park lots	623
WALE as at 31 Mar 2019	By GRI: 1.80 years
Committed Occupancy as at 31 March 2019	98.1%
Key tenants	FairPrice Finest, Shaw Theatres, Toys "R" Us, Best Denki, Daiso, Cotton On, H&M, Uniqlo, Koufu
NPI (FY2018) (S\$m n)	61.1
NPI Yield (based on Agreed Property Value of S\$1.3bn)	4.7%

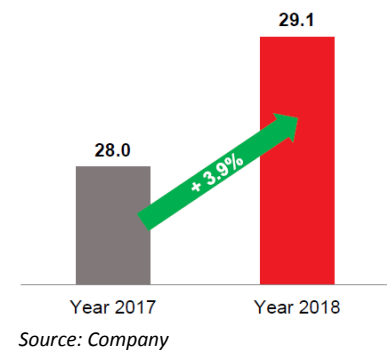
Source: Company, PSR

Figure 2: Waterway Point


Source: RSP Architects

Figure 4: Strong tenant sales and footfall amid stabilisation phase

Figure 3: Trade area has one of the lowest retail mall floor space per capita in Singapore at 2.77sqft, compared to that of Singapore's average of 5.9sqft


Source: Company



Source: Company

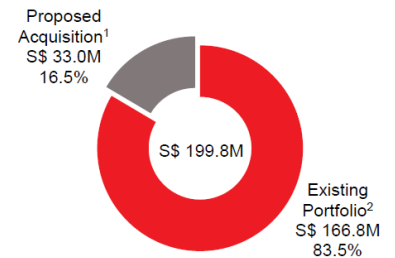
Figure 5: Gearing rises only marginally after the proposed WWP acquisition

	Before proposed Waterway Point Acquisition + PGIM ARF Acquisition	After proposed WWP Acquisition	Effect of proposed WWP Acquisition	After proposed WWP Acquisition + PGIM ARF Acquisition	Effect of PGIM ARF Acquisition
Total Debt (\$m)	812.6	1,004	191.0	1,211	206.9
Total Unitholders' Funds (\$m)	1,933.8	2,180	245.8	2,357	177.4
Total capitalisation (\$m)	2,746.3	3,183	436.9	3,568	384.3
Gearing (%)	28.6	30.7	2.1	33.2	2.5

Source: Company, PSR

Figure 6: WWP is expected to contribute c.16.5% of the total return of the enlarged portfolio

Total Return for FY2018 post Acquisition (on pro forma basis)



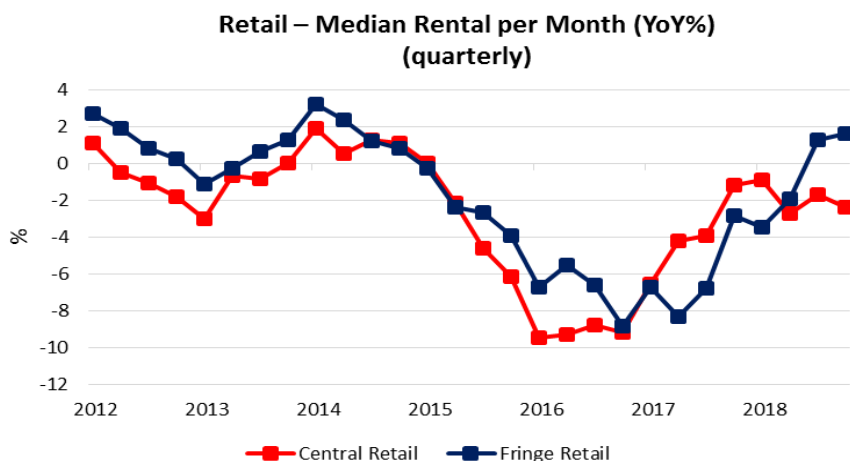
Source: Company

Figure 7: DPU accretion of 0.29% following the WWP acquisition, on a pro-forma basis

	Before proposed Waterway Point Acquisition + PGIM ARF Acquisition	After proposed WWP Acquisition	Effect of proposed WWP Acquisition	After proposed WWP Acquisition + PGIM ARF Acquisition	Effect of PGIM ARF Acquisition
Total return for the year (\$'000)	166,820	199,781	32,961	215,363	15,582
Distributable Income (\$'000)	111,316	124,728	13,412	134,743	10,015
Weighted average number of Issued and Issuable Units ('000)	925,881	1,034,504	108,623	1,113,568	79,064
DPU (Singapore cents)	12.015	12.049	0.03	12.093	0.04
DPU Accretion (%)	-	0.29	0.29	0.65	0.36
NAV per Unit (\$)*	2.08	2.10	0.02	2.11	0.01

*Based on the Number of Issued & Issuable Units as at 30 Sep 2018

Source: Company, PSR

Figure 8: Growth of fringe retail rents have caught up and exceeded that of central retail rents the past year


Source: CEIC, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross Revenue	184	182	193	199	209
Total Property expenses	(54)	(52)	(56)	(55)	(59)
Net Property Income	130	130	137	144	151
Net Finance (Expense)/Inc	(17)	(18)	(20)	(21)	(21)
Trust expenses	(2)	(3)	(2)	(2)	(3)
Manager's management fees	(14)	(14)	(15)	(16)	(18)
Net Income	97	95	100	105	109
Other Adjustments	7	11	7	4	4
Distributions from associates	4	5	4	10	29
Distribution to Unitholders	108	110	111	114	121

Per share data

Y/E Sep, SGD	FY16	FY17	FY18	FY19e	FY20e
NAV	1.93	2.02	2.08	3.06	3.16
DPU (Cents)	11.75	11.87	12.01	12.24	13.06

Cash Flow

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Net Income	123	194	167	133	218
Adjustments	(5)	(74)	(42)	27	40
WC changes	7	2	12	(7)	4
Cashflow from operating activities	126	122	137	153	262
CFI					
Capex on inv properties	(18)	(28)	(15)	(17)	-
Others	4	(40)	4	(424)	29
Cashflow from investing activities	(13)	(68)	(12)	(441)	29
CFF					
Share issuance	-	-	-	437	-
Distributions to Unitholders	(108)	(108)	(112)	(112)	(120)
Others	(2)	49	(5)	(23)	(66)
Cashflow from financing activities	(110)	(59)	(117)	302	(186)
Net change in cash	3	(5)	8	14	105
CCE, end	19	14	22	35	141

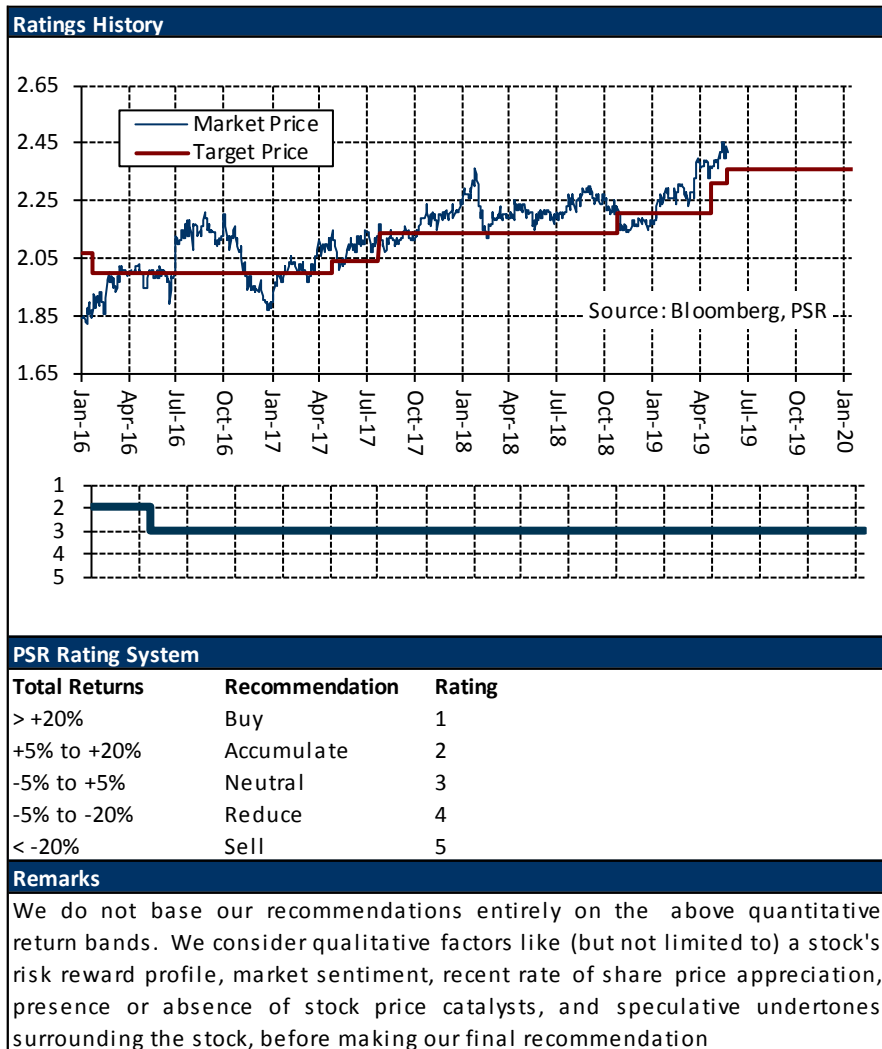
Balance Sheet

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	2,509	2,668	2,749	3,631	3,631
Investment in Associates	-	65	66	66	66
Non Current Assets	2,569	2,733	2,815	3,698	3,698
Trade and Other Receivables	6.8	4.3	3.0	5.0	5.2
Cash and Cash Equivalents	19	14	22	35	141
Current Assets	26	18	25	40	146
Total Assets	2,594	2,751	2,840	3,738	3,844
LIABILITIES					
Interest bearing borrowings, non current	516	646	596	456	585
Others	24	31	32	30	30
Non-Current Liabilities	540	677	627	486	615
Trade and other payables	40	33	46	35	37
Interest bearing borrowings, current	218	152	217	359	230
Others	21	17	16	18	18
Current Liabilities	279	202	280	412	285
Total Liabilities	819	879	907	898	900
EQUITY					
Shareholder Equity	1,776	1,872	1,934	2,840	2,944

Valuation Ratios

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	1.25	1.20	1.16	0.79	0.76
Distribution yield	4.9%	4.9%	5.0%	5.1%	5.4%
NPI yield	5.2%	4.9%	5.0%	4.0%	4.2%
Growth & Margins	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	-2.9%	-1.2%	6.5%	2.8%	5.4%
Net property income (NPI)	-0.9%	-0.2%	5.9%	4.7%	5.0%
DPU	1.3%	1.0%	1.3%	1.9%	6.7%
Margins					
NPI margin	70.6%	71.3%	71.0%	72.3%	72.0%
Net Income Margin	52.7%	52.2%	51.7%	52.6%	52.3%
Key Ratios					
Gearing	28.3%	29.0%	28.6%	21.8%	21.2%
ROA	3.7%	3.4%	3.5%	2.8%	2.8%
ROE	5.5%	5.1%	5.2%	3.7%	3.7%

Source: Company, Phillip Securities Research (Singapore) Estimates



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