

Frasers Centrepoint Trust

All the right moves, in all the right places



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SINGAPORE | REAL ESTATE (REIT) | 3Q19 RESULTS

29 July 2019

- 3Q19 NPI and DPU in line with our forecast.
- Better performance from higher portfolio occupancy and positive rental reversions despite the softer retail sector.
- Growth catalysts include FCT's pipeline assets, (heightened positioning of Causeway Point, renewed strength in fringe retail rents and possible acquisition of PGIM's assets).
- Upgrade to ACCUMULATE with higher TP of S\$2.77 (prev. S\$2.31). Higher target price due to the acquisition of Waterway Point (33.3% stake) and a lower risk-free rate assumption.

Results at a glance

(SGD mn)	3Q19	3Q18	YoY (%)	Comments
Gross Revenue	49.1	48.3	1.6%	Mainly due to the improvement in revenue from Northpoint City North Wing and Changi City Point
Net Property Income	34.6	35.0	-1.1%	Lower due to absence of property tax refunds
Net Income	22.7	25.3	-10.1%	Lower due to higher borrowing costs from additional borrowing and higher interest rate on loans
Share of Associates' Results	7.0	1.0	587.4%	Higher due to share of PGIM's share of results for the quarter ended 31 March 2019 (lagged quarterly basis) (3Q18: Nil)
Distributable Income	31.8	28.3	12.4%	Higher distributions from associates and higher amount of cash retained due to higher percentage of management fees paid in units in 3Q19 (55%) vs 3Q18 (30%)
DPU (Cents)	3.02	3.0	1.7%	

Source: Company, PSR

The Positives

+ Better performance despite softer retail sector outlook. Shopper traffic up 6.1% YoY, due to higher traffic at NPNW and YewTee Point. Tenant sales psf grew a modest 2.9% YoY for the two months ending May 2019. Revenue improved 1.6% YoY with all malls recording higher revenues, save for Causeway Point (CWP) whose occupancy took a hit due to AEI works for the underground pedestrian link (TBC December 2019). Largest contributors to revenue growth were NPNW (+3.8%), Changi City Point (+5.5%) and Bedok Point (+13.9%).

+ Higher portfolio occupancy and positive rental reversions. Portfolio occupancy improved from 96.0% to 96.8%. Better occupancy at all malls except Changi City Point (-30bps) and Anchorpoint (occupancy unchanged). Significant improvements in occupancy at Bedok Point (88.7% to 95.0%), YewTee Point (94.1% to 96.5%) and Northpoint City North Wing (NPNW) (96.5% to 97.1%). Positive rental reversions at all malls, except YewTee Point (-2.5%), with reversions for the portfolio as a whole coming in at +3.1%.

The Negatives

- Post-Waterway Point acquisition gearing increased to 32.7% (FY18 28.6%) and lower interest coverage ratio of 4.5x (FY18 5.6x). Gearing increased a significant 410bps post-Waterway Point acquisition. However, the gearing of 32.7% is still conservative in our view, given the gearing limit of 45%. Borrowing cost ticked up 10bps to 2.7% due to higher percentage of borrowing on fixed cost (3Q19/FY18 67%/64%).

ACCUMULATE (Upgraded)

LAST DONE PRICE	SGD 2.68
FORECAST DIV	SGD 0.126
TARGET PRICE	SGD 2.77
TOTAL RETURN	8.1%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,116
MARKET CAP (USD mn / SGD mn):	2170 / 2968
52 - WK HI/LO (SGD):	2.74 / 2.12
3M Average Daily T/O (mn):	2.59

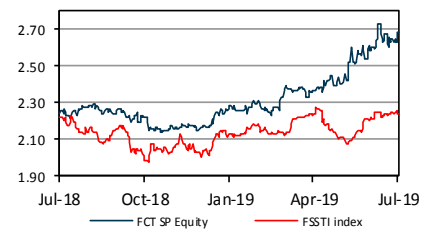
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	35.4%
SCHRODERS PLC	4.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.8	13.4	26.0
STI RETURN	2.4	2.6	5.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY17	FY18	FY19e	FY20e
Gross Rev (SGD mn)	182	193	198	210
NPI (SGD mn)	130	137	142	152
Dist Inc. (SGD mn)	110	111	126	160
P/NAV (x)	1.14	1.32	1.29	1.27
DPU, adj (Cents)	11.87	12.01	12.65	14.28
Distribution Yield	4.4%	4.5%	4.7%	5.3%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.55%, Terminal Growth 1.5%)

Natalie Ong (+65 6212 1849)

Research Analyst
natalieongpf@phillip.com.sg

Outlook

FCT’s malls are located in suburban residential areas with comparatively lower retail space per capita, for instance, <3 sqft of mall floorspace per capita versus >6 sqft in the central parts of Singapore (Figure 1). FCT’s biggest asset, CWP, stands to gain tremendously from the transformation of Woodlands Regional Centre, which will anchor itself as the largest economic hub in the North region. Waterway Point (33.3% stake), FCT’s latest acquisition, is also primed to benefit from the absence of supply coming onto the outer north-east area, and will likely remain the dominant mall.

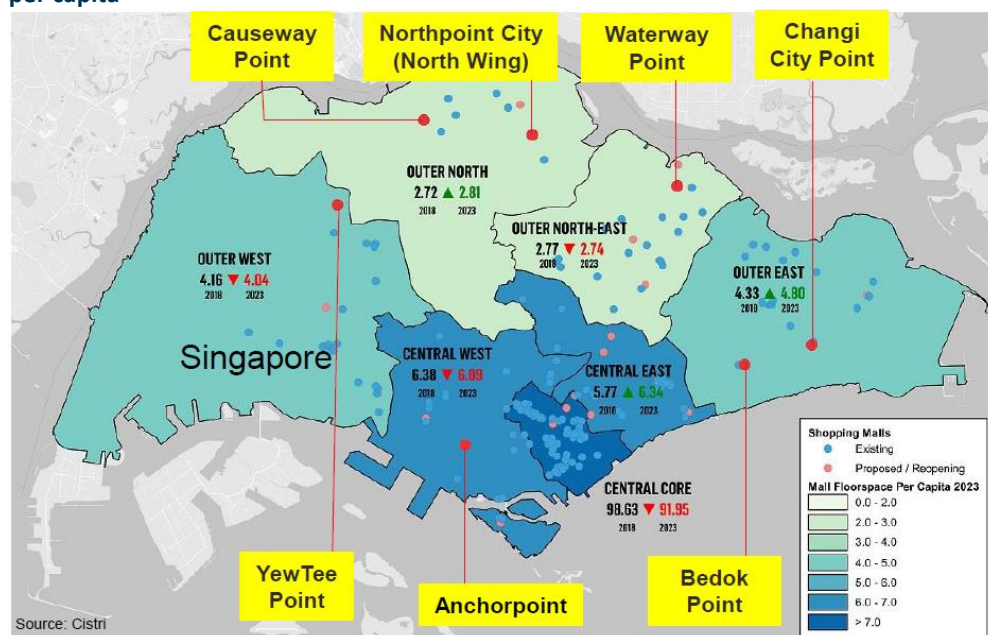
FCT’s interest in PGIM increased from 18.8% to 21.13% due to the redemption of PGIM shareholders from the fund. Together with Sponsor Frasers Property Ltd’s (FPL) 53.74% stake, the group has a 74.87% stake in PGIM. As a private fund, PGIM does not enjoy tax transparency treatment that FCT does - we estimate PGIM’s tax rate to be approximately 10% - 15%. PGIM’s portfolio consists of several suburban retail malls and further entrenches FCT’s presence in the suburban retail space. With the group’s controlling stake in PGIM, FCT’s acquisition of some of PGIM’s assets appears to be in the cards and would yield immediate tax savings.

Upgrade to ACCUMULATE with higher TP of S\$2.77 (prev. S\$2.31).

We adjusted our forecast to account for the acquisition of the 33.3% stake in Waterway Point and FCT’s increased stake in PGIM. We reduced the risk-free rate owing to the lower interest rate environment – and in doing so, our cost of equity is reduced from 6.90% to 6.55%. We believe there is further upside to FCT’s valuation, with growth catalysts stemming from

- (i) Pipeline assets (Figure 2)
- (ii) Possible acquisition of PGIM’s assets (Figure 3)
- (iii) Re-positioning of CWP
- (iv) FCT’s capability to tap on the renewed strength in fringe retail rents (Figure 4).

Figure 1: FCT’s malls are located in regions that have comparatively lower mall floorspace per capita



Source: Company, Cistri, PSR

Figure 2: FCT's pipeline properties

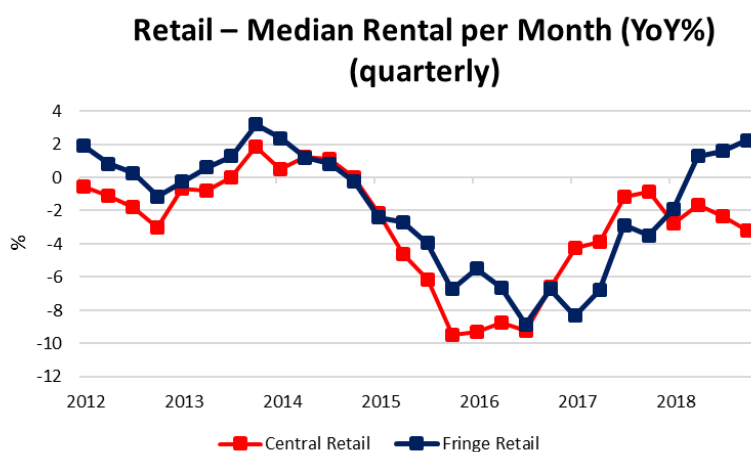
Property	FPL's Effective interest	Book value (\$\$mn)	NLA (sqm)	Occupancy (FY18)	Occupancy (FY17)
Robertson Walk	100%	136	8,900	80.7%	85.6%
The Centrepoint	100%	561	32,900	92.3%	88.6%
Valley Point (retail)	100%	57	4,000	89.2%	89.6%
Northpoint City South Wing	100%	1,122	27,000	87.5%	N.A.
<i>Northpoint City North Wing - for comparison (FCT's current asset)</i>					
		733	20,276	96.5%	81.6%

Source: Company, FPL's FY18 Annual Report, PSR

Figure 3: PGIM's portfolio

PGIM AsiaRetail Fund Limited (PGIM ARF)	
Singapore	Malls
	Tiong Bahru Plaza
	White Sands
	Hougang Mall
	Century Square
	Tampines 1
Malaysia	Central Plaza
	1st Avenue Mall
	Island Plaza
	Setapak Central
	Seremban Prima

Source: Company, PSR

Figure 4: Growth of fringe retail rents have caught up and exceeded that of central retail rents the past year (latest data: 1Q19)


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	198	210
Total Property expenses	(54)	(52)	(56)	(55)	(58)
Net Property Income	130	130	137	142	152
Net Finance (Expense)/Inc	(17)	(18)	(20)	(26)	(33)
Trust expenses	(2)	(3)	(2)	(2)	(3)
Manager's management fees	(14)	(14)	(15)	(16)	(16)
Net Income	97	95	100	99	100
Other Adjustments	7	11	8	8	7
Distributions from associates	4	5	4	22	54
Distribution to Unitholders	108	110	111	126	160

Per share data

Y/E Sep, SGD	FY16	FY17	FY18	FY19e	FY20e
NAV	1.93	2.02	2.08	2.11	2.08
DPU (Cents)	11.75	11.87	12.01	12.65	14.28

Cash Flow

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Net Income	123	194	167	123	155
Adjustments	(5)	(74)	(42)	6	(16)
WC changes	7	2	12	(7)	(4)
Cashflow from operating activities	126	122	137	122	135
CFI					
Capex on inv properties	(18)	(28)	(15)	(5)	(5)
Others	4	(40)	4	(801)	54
Cashflow from investing activities	(13)	(68)	(12)	(806)	49
CFF					
Share issuance	-	-	-	437	-
Distributions to Unitholders	(108)	(108)	(112)	(114)	(158)
Others	(2)	49	(5)	354	(23)
Cashflow from financing activities	(110)	(59)	(117)	677	(181)
Net change in cash	3	(5)	8	(6)	3
CCE, end	19	14	22	16	19

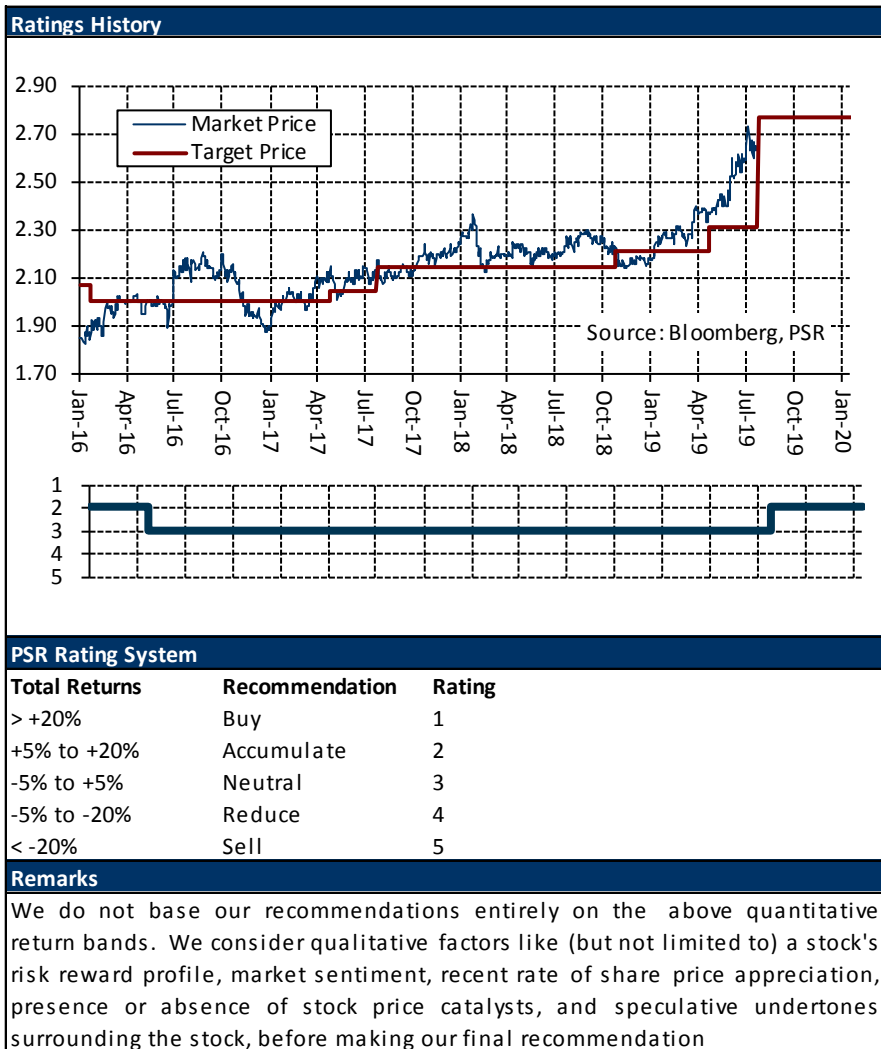
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	2,509	2,668	2,749	2,752	2,757
Investment in Associates	-	65	66	895	895
Non Current Assets	2,569	2,733	2,815	3,647	3,652
Trade and Other Receivables	6.8	4.3	3.0	5.9	6.4
Cash and Cash Equivalents	19	14	22	16	19
Current Assets	26	18	25	22	25
Total Assets	2,594	2,751	2,840	3,669	3,678
LIABILITIES					
Interest bearing borrowings, non current	516	646	596	1,040	969
Others	24	31	32	29	29
Non-Current Liabilities	540	677	627	1,069	998
Trade and other payables	40	33	46	58	63
Interest bearing borrowings, current	218	152	217	160	266
Others	21	17	16	22	22
Current Liabilities	279	202	280	240	351
Total Liabilities	819	879	907	1,308	1,349
EQUITY					
Shareholder Equity	1,776	1,872	1,934	2,360	2,329

Valuation Ratios

Y/E Sep	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	1.12	1.32	1.29	1.27	1.29
Distribution yield	4.4%	4.4%	4.5%	4.7%	5.3%
NPI yield	5.2%	4.9%	5.0%	5.2%	5.5%
Growth & Margins	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	-2.9%	-1.2%	6.5%	2.3%	6.1%
Net property income (NPI)	-0.9%	-0.2%	5.9%	3.9%	6.9%
DPU	1.3%	1.0%	1.3%	5.3%	12.9%
Margins					
NPI margin	70.6%	71.3%	71.0%	72.0%	72.6%
Net Income Margin	52.7%	52.2%	51.7%	49.9%	47.7%
Key Ratios					
Gearing	28.3%	29.0%	28.6%	32.7%	33.6%
ROA	3.7%	3.4%	3.5%	2.7%	2.7%
ROE	5.5%	5.1%	5.2%	4.2%	4.3%
Interest coverage ratio (x)	7.56	7.35	6.85	5.54	4.58



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Siti Nursyazwina - syazwina@phillip.com.sg
Banking & Finance | Healthcare

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi - chengz@phillip.com.sg
Telco | Technology

 Alvin Chia - alvinchiawy@phillip.com.sg
Property | REITs | Transport

 Natalie Ong - natalieongpf@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
US Equity

 Edmund Xue – edmundxuejj@phillip.com.sg
Technical Analyst

 Chua Wei Ren – chuawr@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website www.phillip.co.th
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapital.in
CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769
 Website: www.phillipbank.com.kh
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com
SRI LANKA
Asha Phillip Securities Limited

 No. 60, 5th Lane,
 Colombo 3, Sri Lanka
 Tel: (94) 11 2429 100
 Fax: (94) 11 2429 199
 Website: www.ashaphillip.net
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGEX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: + 971-4-3328895

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