

# Frasers Centrepoint Trust

Primed and awaiting imminent growth



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## SINGAPORE | REAL ESTATE (REIT) | FY19 RESULTS

25 October 2019

- 4Q19 and FY19 NPI and DPU in line with our forecast.
- Positive rental reversions, higher footfall and increase in FY19 revenue (excluding non-cash accounting adjustments).
- Growth catalysts include FCT's pipeline assets, intensification of Woodlands and Punggol will benefit CWP and WWP, renewed strength in fringe retail rents and possible acquisition of PGIM's assets.
- Maintain ACCUMULATE with higher TP of S\$3.11 (prev. S\$2.77). Higher target price due to the addition of the 6.7% stake in Waterway Point and FCT's increased stake in PGIM.

### Results at a glance

(SGD mn)	4Q19	4Q18	YoY (%)	FY19	FY18	YoY (%)	Comments (4Q19 vs 4Q18)
<b>Gross Revenue</b>	42.7	43.3	-1.5%	173.5	171.5	1.2%	Revenue was lower due to non-cash accounting adjustments. Excluding which, 4Q19/FY19 revenue and NPI were up 2.8%/1.7% and 4.8%/1.5% due to better occupancy and higher average rentals
<b>Net Property Income</b>	32.8	32.9	-0.1%	139.3	137.2	1.5%	Excluding non-cash accounting adjustments, 4Q19 NPI was S\$34.14mn, 4.8% higher YoY
<b>Distributable Income</b>	30.4	25.8	17.9%	118.7	111.3	6.6%	Higher due to acquisition and subsequent increase in stakes in PGIM and WWP
<b>DPU (Cents)</b>	2.91	2.86	1.8%	12.07	12.02	0.5%	Higher percentage of management fees paid in units (4Q19/4Q18 35%/20%)

Source: Company, PSR

### The Positives

**+ Positive rental reversions of 4.8% for FY19 (FY18 +3.2%).** Highest reversions registered at Causeway Point (CWP) (+7.4%), FCT's largest contributor to revenue. Reversions for the rest of the assets ranged from -1.4% to 2.2%.

**+ Shopper traffic up 8.9% in 4Q19 while tenant sales came in flat.** Northpoint City North Wing (NPNW), Changi City Point (CCP) and Waterway Point (WP) registered growth in tenant sales between 2% to 6%. However, this was offset by lower tenant sales at due to business disruptions at CWP (partial closure of basement due to underground pedestrian link (UPL) works) and Anchorpoint (changes in anchor tenant).

### The Negatives

**- Occupancy slipped 0.3ppts QoQ to 36.5%.** Causeway Point's occupancy was 97.0%, lower compared with 98.4% last year due to the ongoing works relating to the construction of the UPL link at its basement level, which is expected to complete in December 2019. Anchorpoint's occupancy currently at 79.0%, is expected to improve to 94.2% when the new tenants complete their fitting-out progressively in October and November 2019.

### ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.75
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 3.11
TOTAL RETURN	17.5%

### COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,116
MARKET CAP (USD mn / SGD mn):	2252 / 3070
52 - WK HI/LO (SGD):	2.87 / 2.12
3M Average Daily T/O (mn):	3.12

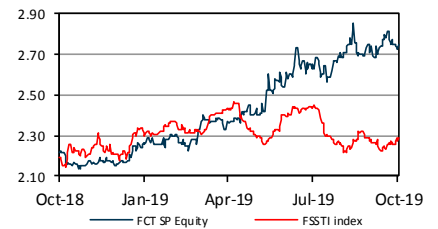
### MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	36.4%
SCHRODERS PLC	4.4%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.4	3.1	29.1
STI RETURN	0.1	(5.4)	7.8

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sept	FY18	FY19	FY20e	FY21e
Gross Rev (SGD mn)	193	196	201	206
NPI (SGD mn)	137	139	169	172
Dist Inc. (SGD mn)	111	120	166	179
P/NAV (x)	1.36	1.32	1.24	1.34
DPU, adj (Cents)	12.01	12.08	14.81	15.99
Distribution Yield	4.4%	4.4%	5.4%	5.8%

Source: Company, PSR

### Valuation Method

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

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### Outlook

FCT's malls are located in suburban residential areas with the following characteristics:

1. Comparatively lower retail space per capita, for instance (<3 sqft of mall floorspace per capita versus >6 sqft in the central parts of SG) (Figure 1)
2. Located adjacent to transport hubs (MRT stations and bus interchanges) (Figure 2)
3. Suburban districts are beneficiaries of SG's decentralisation and will experience an increase in catchment population (Figure 3)
4. Revenue underpinned by necessity spending (Figure 4)

The two largest malls in FCT's portfolio will benefit from URA's draft master plan 2019. CWP will benefit from the repositioning of Woodlands Regional Centre as the largest economic hub while Waterway Point will benefit from the business park and university infrastructure aimed at supporting digital economy jobs.

PGIM Real Estate AsiaRetail Fund (PGIM ARF) is an open-ended fund primarily holding suburban retail assets in SG (6 assets) and Malaysia (2 assets). PGIM's malls bear similar characteristics and yields as FCT's assets (Figure 2). FCT's interest in PGIM has progressively increased (due to the redemption of PGIM shareholders from the fund) and currently stands at 24.8%. Together with Sponsor Frasers Property Ltd's (FPL) 63.1% stake, the group has an 87.9% stake in PGIM (Figure 5). 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.

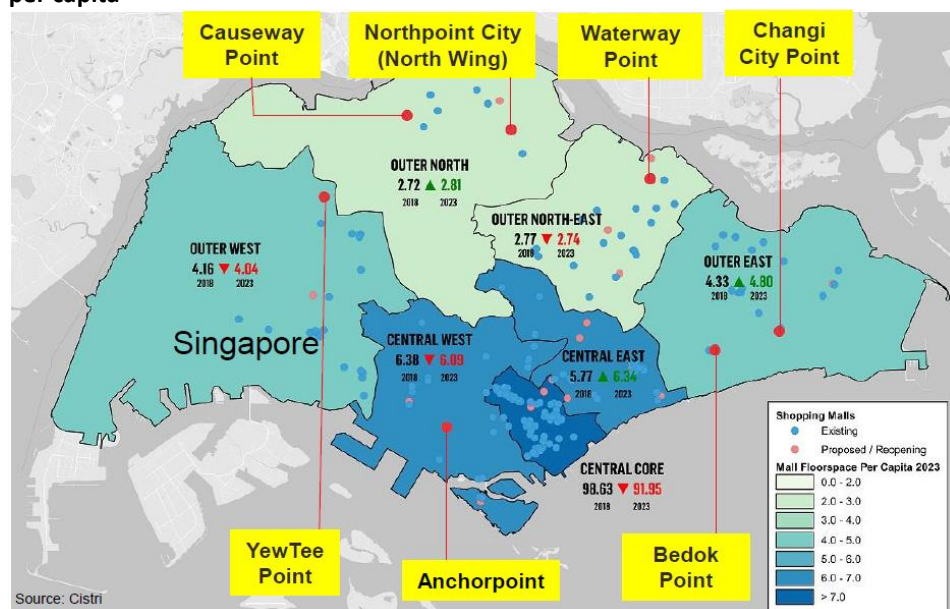
### Maintain ACCUMULATE with higher TP of S\$3.11 (prev. S\$2.77).

We adjusted our forecast to account for the addition of the 6.7% stake in Waterway Point and FCT's increased stake in PGIM. We believe there is further upside to FCT's valuation, with growth catalysts stemming from

- A. Pipeline assets (Figure 6);
- B. Potential acquisition of PGIM's assets;
- C. FCT's capability to tap on strength in fringe retail rents.

Our target price translates to a FY20e/FY21e distribution yield of 5.4%/5.8% and a total upside of 17.5%.

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



Source: Company, Cistri, PSR

**Figure 4: Five out of six of the top trade categories contribution to Gross Retail Income are necessity spending**

No.	Trade Classifications	4Q19
1	Food & Beverage	37.8%
2	Fashion	14.4%
3	Beauty & Health	11.3%
4	Services	9.1%
5	Household	7.1%
6	Supermarket & Hypermarket	4.9%

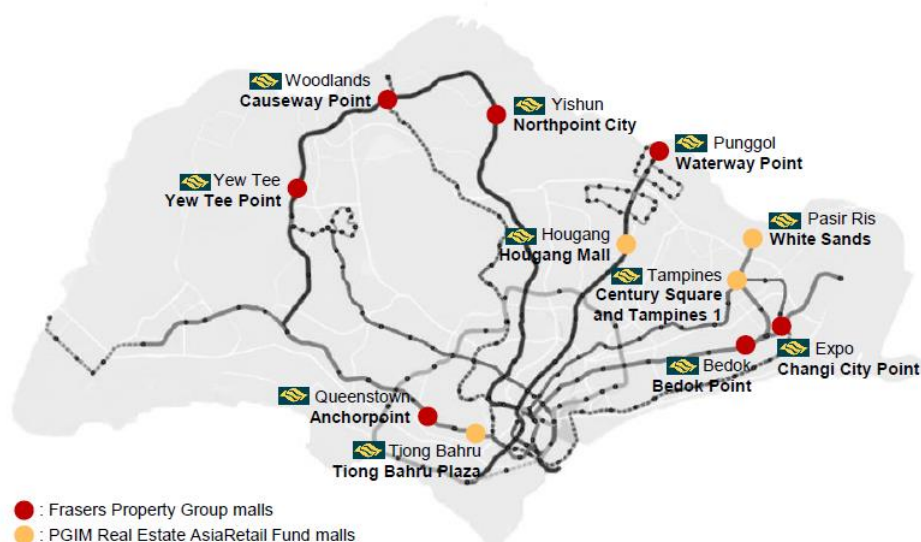
Source: Company, PSR

**Figure 5: FCT and FPL's respective stakes in PGIM**

	FCT	PFL	Total
04 Apr 19	18.8%	47.8%	66.6%
28 Apr 19	21.1%	53.7%	74.9%
30 Sep 19	24.8%	63.1%	87.9%

Source: Company, PSR

Figure 2: Malls located adjacent to transport hubs (MRT stations and bus interchanges)



Source: NUS, Company

Figure 3: Projected 67.6% jump in HDB units surrounding FCT's three largest malls

FCT Malls	HDB Town	Populati on @ 31 March 2018	Current HDB units	HDB units Under construc-tion	Current Units + Units under constructi on	HDB Projected Ultimate	Growth potential to Projected Ultimate
Causeway Point	Woodlands	242,500	68,153	3,164	71,317	102,000	43%
Northpoint City	Yishun	196,600	62,786	4,154	66,940	84,000	25%
	Sembawang	73,500	26,834	3,497	30,331	65,000	114%
Waterway Point	Punggol	134,100	49,229	8,806	58,035	96,000	65%

Source: HDB, Company

Figure 6: 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.
Northpoint City North Wing - for comparison (FCT's current asset)		733	20,276	96.5%	81.6%

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

## Financials

### Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>Gross Revenue</b>	182	193	196	201	206
Total Property expenses	(52)	(56)	(57)	(33)	(34)
<b>Net Property Income</b>	<b>130</b>	<b>137</b>	<b>139</b>	<b>169</b>	<b>172</b>
Net Finance (Expense)/Inc	(18)	(20)	(24)	(28)	(28)
Trust expenses	(3)	(2)	(2)	(3)	(3)
Manager's management fees	(14)	(15)	(17)	(17)	(18)
<b>Net Income</b>	<b>95</b>	<b>100</b>	<b>97</b>	<b>121</b>	<b>124</b>
Share of associate's results	4	4	13	20	20
Share of JV's results	1	1	5	28	29
Other Adjustments	11	8	8	7	8
<b>Distribution to Unitholders</b>	<b>110</b>	<b>111</b>	<b>120</b>	<b>166</b>	<b>179</b>

### Per share data

Y/E Sep, SGD	FY17	FY18	FY19	FY20e	FY21e
NAV	2.02	2.08	2.21	2.05	1.82
DPU (Cents)	11.87	12.01	12.08	14.81	15.99

### Cash Flow

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
Net Income	194	167	206	168	182
Adjustments	(74)	(42)	(80)	(13)	(16)
WC changes	2	12	4	(6)	(3)
<b>Cashflow from operating activities</b>	<b>122</b>	<b>137</b>	<b>131</b>	<b>149</b>	<b>163</b>
<b>CFI</b>					
Capex on inv properties	(28)	(15)	(5)	(5)	(5)
Others	(40)	4	(656)	46	49
<b>Cashflow from investing activities</b>	<b>(68)</b>	<b>(12)</b>	<b>(661)</b>	<b>41</b>	<b>43</b>
<b>CFF</b>					
Share issuance	-	-	437	-	-
Distributions to Unitholders	(108)	(112)	(114)	(155)	(176)
Others	49	(5)	197	(33)	(29)
<b>Cashflow from financing activities</b>	<b>(59)</b>	<b>(117)</b>	<b>521</b>	<b>(188)</b>	<b>(205)</b>
<b>Net change in cash</b>	<b>(5)</b>	<b>8</b>	<b>(9)</b>	<b>2</b>	<b>2</b>
<b>CCE, end</b>	<b>14</b>	<b>22</b>	<b>13</b>	<b>15</b>	<b>17</b>

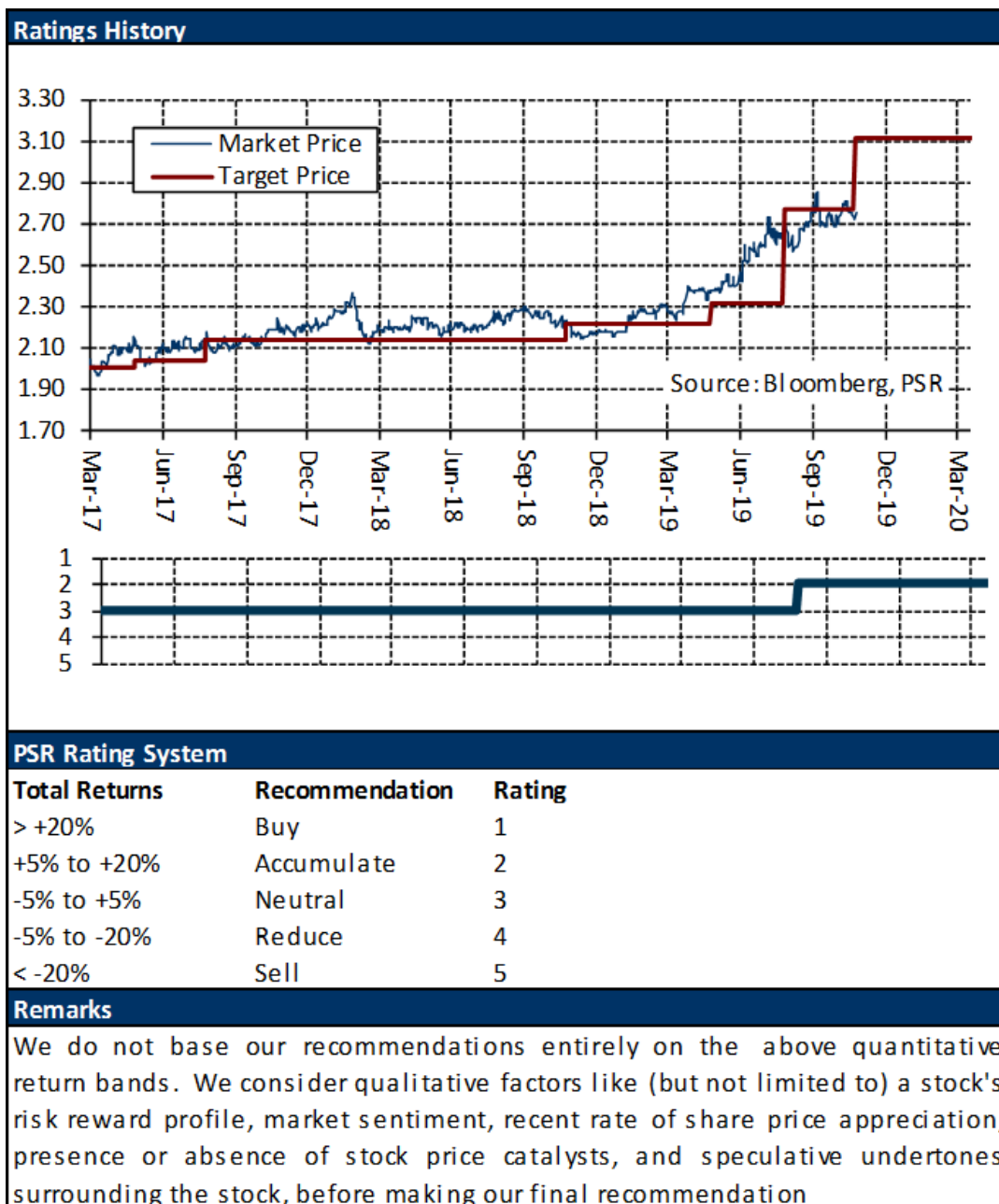
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Investment properties	2,668	2,749	2,846	2,851	2,856
Investment in Associates	65	66	457	458	459
<b>Non Current Assets</b>	<b>2,733</b>	<b>2,815</b>	<b>3,595</b>	<b>3,488</b>	<b>3,495</b>
Trade and Other Receivables	4.3	3.0	3.1	6.5	6.9
Cash and Cash Equivalents	14	22	13	15	17
<b>Current Assets</b>	<b>18</b>	<b>25</b>	<b>16</b>	<b>22</b>	<b>24</b>
<b>Total Assets</b>	<b>2,751</b>	<b>2,840</b>	<b>3,611</b>	<b>3,510</b>	<b>3,519</b>
<b>LIABILITIES</b>					
Interest bearing borrowings, non current	646	596	745	704	969
Others	31	32	30	29	29
<b>Non-Current Liabilities</b>	<b>677</b>	<b>627</b>	<b>775</b>	<b>733</b>	<b>998</b>
Trade and other payables	33	46	47	56	60
Interest bearing borrowings, current	152	217	295	401	135
Others	17	16	23	23	286
<b>Current Liabilities</b>	<b>202</b>	<b>280</b>	<b>365</b>	<b>480</b>	<b>481</b>
<b>Total Liabilities</b>	<b>879</b>	<b>907</b>	<b>1,140</b>	<b>1,213</b>	<b>1,479</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>1,872</b>	<b>1,934</b>	<b>2,471</b>	<b>2,297</b>	<b>2,040</b>

### Valuation Ratios

Y/E Sep	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.36	1.32	1.24	1.34	1.51
Distribution yield	4.3%	4.4%	4.4%	5.4%	5.8%
NPI yield	4.9%	5.0%	4.9%	5.9%	6.0%
<b>Growth &amp; Margins</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20e</b>	<b>FY21e</b>
<b>Growth</b>					
Revenue	-1.2%	6.5%	1.6%	2.6%	2.2%
Net property income (NPI)	-0.2%	5.9%	1.5%	21.3%	2.0%
DPU	1.0%	1.3%	0.5%	22.6%	8.0%
<b>Margins</b>					
NPI margin	71.3%	71.0%	70.9%	83.8%	83.7%
Net Income Margin	52.2%	51.7%	49.2%	59.9%	60.1%
<b>Key Ratios</b>					
Gearing	29.0%	28.6%	28.8%	31.5%	31.4%
ROA	3.4%	3.5%	2.7%	3.4%	3.5%
ROE	5.1%	5.2%	3.9%	5.3%	6.1%
Interest coverage ratio (x)	7.35	6.85	5.82	6.03	6.25







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