

Company update

Frasers Centrepoint Trust

Research Team
Singapore | Real Estate

Rating **HOLD** (as at 30 January 2023)
 Last Close **SGD 2.24**
 Fair Value **SGD 2.28**

Good strategic fit, but watch the borrowing costs

- **1QFY23 (financial year ending Sep 2023) retail portfolio committed occupancy rose 0.9 percentage points (ppt) quarter-on-quarter (QoQ) to 98.4%**
- **Cost of debt increased 50 basis points (bps) to 3.5%**
- **Announced joint acquisition of 50% interest in NEX retail mall with sponsor (effective stake of 25.5% for FCT)**

Investment thesis

Fraser's Centrepoint Trust (FCT) had established a strong track record of delivering positive distribution per unit (DPU) growth every year since its listing in Jul 2006 to FY19. However, this impressive track record was broken in FY20 given unprecedented measures introduced by the Singapore government to tackle the Covid-19 pandemic, such as mandatory rental relief to tenants. FY21 saw a firm rebound in DPU back to FY19 levels, while FY22 growth came in at +1.2%. We believe this can be attributed to FCT's portfolio of suburban malls in Singapore which are relatively more defensive and resilient in nature given their dominant positions in their respective catchment areas. Looking ahead, we expect FCT to largely benefit from Singapore's reopening, and also like its defensive positioning given expectations of an economic slowdown and possible recession in some developed countries. However, the spike in borrowing costs and FCT's relatively large debt maturities from FY23 to FY25 would likely exert downward pressure on its DPU.

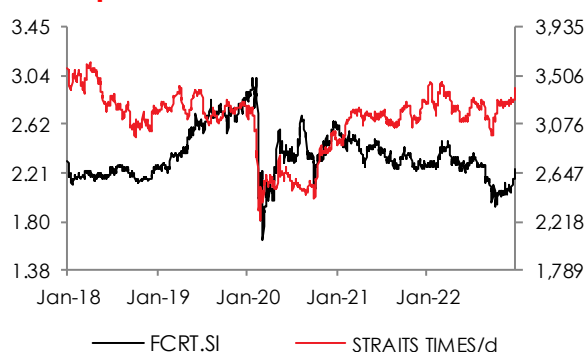
Investment summary

- **Solid and resilient operating metrics** – FCT provided a business update for 1QFY23. Its retail portfolio committed occupancy rate increased by 0.9 ppt QoQ to 98.4%, and this was broad-based across its assets. The biggest increase came from Changi City Point, which registered an improvement of 4.1 ppt to 97.8%. Century Square was the only mall with an occupancy lower than 90% (88.7%), but FCT is in negotiations with a prospective tenant for ~8% of the mall's net lettable area (NLA), which is an anchor space. Rental reversions were positive for the

Security information

Ticker	FCRT.SI
Market Cap (SGD b)	3.8
Daily turnover (SGD m)	3.1
Free Float	63%
Shares Outstanding (m)	1,702
Top Shareholder	FCL Trust Holdings Pte. Ltd. 36.7%

Price performance chart



Financial summary

SGD m	FY22	FY23E	FY24E
Gross revenue	356.9	365.2	369.2
Net property income	258.6	263.0	265.2
Total return for the period	207.3	185.5	184.2
Distribution to unitholders	208.2	206.1	205.3
DPU (\$ cents)	12.23	12.05	11.96

Key ratios

	FY22	FY23E	FY24E
DPU yield (%)	5.5	5.4	5.3
P/NAV (x)	1.0	1.0	1.0
ROE (%)	5.3	4.7	4.6
Aggregate leverage (%)	33.0	34.3	34.3

Source: Refinitiv, REIT Manager, Internal estimates

reporting quarter, according to management, though actual figures are only disclosed semi-annually. FCT's retail portfolio tenants' sales came in 16%, 14% and 18% above 2019 levels for the months of Oct, Nov and Dec 2022, respectively. For 2022, tenants' sales were 12% above pre-Covid level, while shopper traffic averaged around 80% of pre-pandemic level. FCT highlighted an asset enhancement initiative (AEI) for Tampines 1, which would entail ~8k square feet of additional NLA due to various bonus gross floor area (GFA) schemes. Management estimates a return on investment of 8%, based on an enhancement cost component of SGD31m. The AEI would commence in phases from 2Q23 to 3Q24, with the mall remaining open for operations.

- **Jump in average cost of debt to 3.5%** – FCT's aggregate leverage ratio increased from 33.0% (as at 30 Sep 2022) to 33.9%, with 73% of its borrowings hedged. Its average cost of debt increased by 50 basis points (bps) QoQ to 3.5%, and could trend further upwards to the high-3% level by FCT's financial year end. FCT also has a relatively sizeable portion of its debt maturing from FY23 to FY25 (74.1% of its total borrowings).
- **Proposed joint acquisition of 50% interest in NEX retail mall with sponsor (effective stake of 25.5% for FCT)** – Separately, FCT announced with its sponsor Frasers Property Limited the joint acquisition of a 50% interest in the entity which holds the retail property NEX, of which FCT's effective stake in the mall would be 25.5%. NEX is the largest suburban retail mall in the Northeast region of Singapore, and is integrated with Serangoon Bus Interchange and the Serangoon MRT station. We view this property as a good strategic fit to FCT's portfolio. The agreed property value was SGD2,077.8m on a 100% basis, or SGD3,274 per square foot (psf) NLA, and would translate to an entry net property income yield of high-4%. Funding would come from debt for now, with an interest cost of less than 4.3% locked in for three years. According to FCT, the estimated FY22 pro forma DPU accretion would be +0.5%, while pro forma aggregate leverage is estimated to increase to 38.5%. We cut our FY23 and FY24 DPU forecasts by 4.3% and 4.5%, respectively, on higher borrowing cost assumptions. We have not factored in this proposed acquisition in our model. Our fair value estimate is lowered from SGD2.36 to SGD2.28 after adjustments.

ESG Updates

- FCT's ESG rating was upgraded by ESG Research in May 2022. This was driven by improved corporate governance practices, such as enhanced disclosures with regards to FCT's executive pay practices. According to research, FCT also leads its peers in corporate ethics practices in its home market. It has adopted industry-typical initiatives to reduce waste, and energy and water use across its properties, and has also set interim carbon emissions targets for 2035 as part of its climate mitigation initiatives. Based on FCT's disclosures, we note that FCT has plans to install a network of 36 electric vehicle (EV) charging points across 12 Frasers malls. The first phase of the installation will be for 27 EV charging points across eight malls by Sep 2022. This initiative is in line with its sponsor Frasers Property's goal to be net-zero carbon by 2050. All ten of FCT's properties are least BCA Gold certified.

Potential catalysts

- Divestment of assets at prices above valuation.
- DPU accretive acquisitions.
- Better-than-expected momentum in footfall and tenants' sales for its malls.

Investment risks

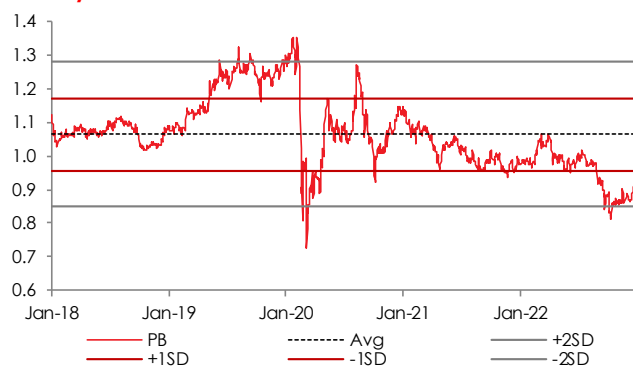
- A slowdown in macroeconomic conditions may dampen consumer sentiment.
- A rising interest rate environment could raise the borrowing costs for FCT.
- Slowdown in portfolio rental reversions.

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
FRASERS CENTREPOINT TRUST (FCRT.SI)	19.1	19.4	1.0	1.0	23.4	23.1	5.5	5.5	5.0	5.0
CAPITALAND INTEGRATED COMMERCIAL TRUST (CMLT.SI)	19.4	18.6	1.0	1.0	25.9	24.0	5.1	5.3	5.4	6.2
MAPLETREE PAN ASIA COMMERCIAL TRUST (MACT.SI)	19.3	19.4	1.0	1.0	26.7	22.6	5.3	5.3	5.9	5.4
STARHILL GLOBAL REAL ESTATE INVESTMENT TRUST (STHL.SI)	14.7	13.7	0.7	0.7	17.5	17.2	6.8	6.9	5.1	5.6
PARAGON REIT (PARA.SI)	14.0	19.2	1.1	1.1	16.0	21.1	6.6	5.3	7.5	5.8

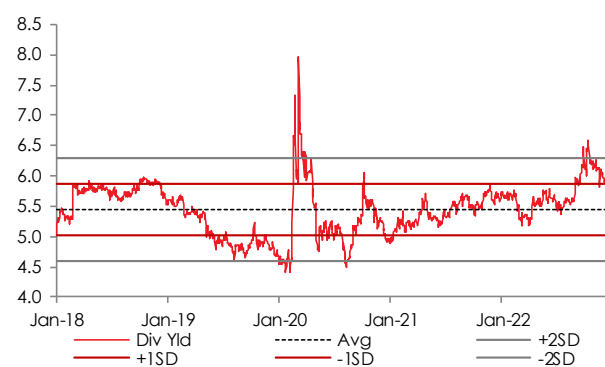
Source: Refinitiv

Price/Book chart



Source: Refinitiv

Dividend Yield chart



Source: Refinitiv

Company overview (as of 30 September 2022)

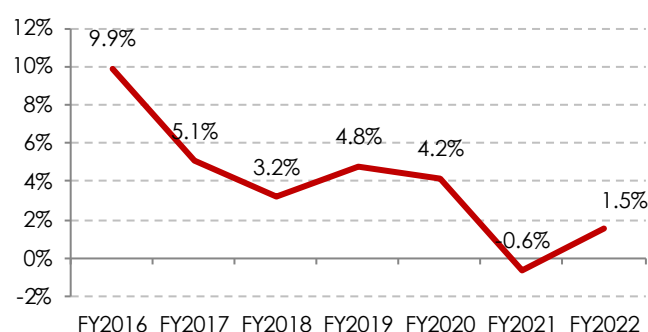
Company description

FCT is a leading developer-sponsored retail REIT and one of the largest suburban retail mall owners in Singapore with total assets of ~SGD6.2b. FCT's current property portfolio comprises nine retail malls and an office building located in the suburban regions of Singapore, near homes and within minutes to transportation amenities. The retail portfolio has approximately 2.3m square feet of net lettable area with over 1,400 leases with a strong focus on providing for necessity spending, food & beverage and essential services. The portfolio comprises Causeway Point, Northpoint City North Wing (including Yishun 10 Retail Podium), Changi City Point, Waterway Point (40%-interest but to be increased to 50%), Tiong Bahru Plaza, White Sands, Hougang Mall, Century Square and Tampines 1 and an office property (Central Plaza). FCT's malls enjoy stable and recurring shopper footfall supported by commuter traffic and residential population in the catchment. FCT also holds a 30.5% stake in Hektar Real Estate Investment Trust, a retail-focused REIT in Malaysia listed on the Main Market of Bursa Malaysia Securities Berhad.

FCT is index constituent of several benchmark indices including the FTSE EPRA/NAREIT Global Real Estate Index Series (Global Developed Index), FTSE ST Real Estate investment Trust Index, MSCI Singapore Small Cap Index and the SGX iEdge S-REIT Leaders Index.

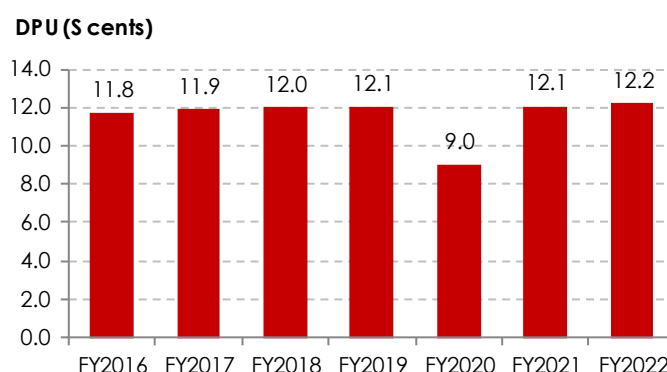
Listed on the Main Board of the Singapore Exchange Securities Trading Limited since 5 Jul 2006, FCT is managed by Frasers Centrepoint Asset Management Ltd., a real estate management company and a wholly-owned subsidiary of Frasers Property Limited.

Portfolio Rental Reversions



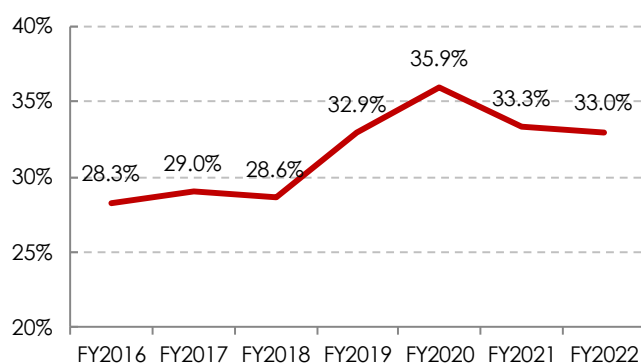
Source: REIT Manager

Distribution per unit (\$ cents)



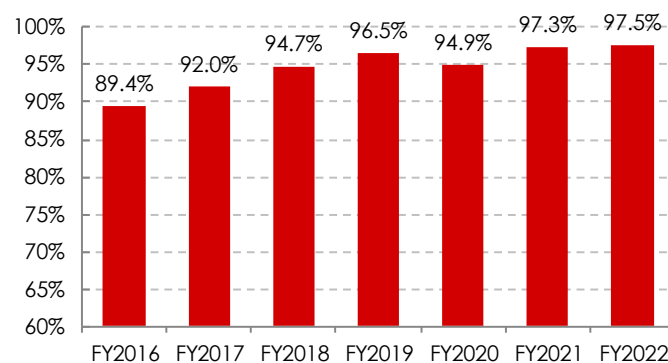
Source: REIT Manager

Gearing Ratio Trend



Source: REIT Manager

Portfolio Occupancy Trend



Source: REIT Manager

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2018 30/09/2018	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022
Revenue	193.3	196.4	164.4	341.1	356.9
- Cost of Revenue	71.4	73.9	71.9	126.9	130.9
Gross Profit	122.0	122.5	92.5	214.2	226.0
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	2.0	13.2	3.2	28.3	7.2
Operating Income or Losses	120.0	109.4	89.2	185.9	218.8
- Interest Expense	20.0	24.6	27.6	45.9	44.4
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-66.9	-121.2	-90.1	-32.3	-26.8
Pretax Income	166.8	206.0	151.8	172.2	201.2
- Income Tax Expense (Benefit)	--	0.0	0.1	3.6	-6.1
Income Before XO Items	166.8	205.9	151.7	168.6	207.3
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
Net Income/Net Profit (Losses)	166.8	205.9	151.7	168.6	207.3
Net Inc Avail to Common Shareholders	166.8	205.9	151.7	168.6	207.3
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	166.8	217.9	155.5	194.0	208.0
Basic Earnings per Share	0.2	0.2	0.1	0.1	0.1
Basic Weighted Avg Shares	933.0	997.6	1,125.4	1,670.2	1,701.5
Diluted EPS Before Abnormal Items	0.2	0.2	0.1	0.1	0.1
Diluted EPS Before XO Items	0.2	0.2	0.1	0.1	0.1
Diluted EPS	0.2	0.2	0.1	0.1	0.1
Diluted Weighted Avg Shares	934.8	999.3	1,127.0	1,672.4	1,703.8

Profitability Ratios

12 Months Ending	FY2018 30/09/2018	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022
Returns					
Return on Common Equity	8.77	9.35	6.06	5.22	5.26
Return on Assets	5.97	6.38	4.05	3.45	3.50
Return on Capital	7.65	6.63	5.68	4.36	3.60
Return on Invested Capital	-	7.62	6.49	4.75	4.15
Margins					
Operating Margin	51.69	43.13	37.49	41.03	48.87
Incremental Operating Margin	0.99	0.83	0.87	1.09	1.19
Pretax Margin	86.28	104.87	92.32	50.49	56.37
Income before XO Margin	86.28	104.87	92.27	49.43	58.07
Net Income Margin	86.28	104.87	92.27	49.43	58.07
Net Income to Common Margin	86.28	104.87	92.27	49.43	58.07
Additional					
Effective Tax Rate	-	0.01	0.05	2.10	-3.03
Dvd Payout Ratio	55.58	48.76	57.41	100.46	83.86
Sustainable Growth Rate	8.72	9.31	6.02	5.17	5.21

Credit Ratios

12 Months Ending	FY2018 30/09/2018	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022
Total Debt/EBIT	6.77	8.61	13.79	8.58	8.23
Net Debt/EBIT	6.59	8.50	13.48	8.38	8.06
EBIT to Interest Expense	5.99	4.90	3.29	4.59	4.95
Long-Term Debt/Total Assets	20.97	20.63	25.68	27.19	23.89
Net Debt/Equity	0.41	0.42	0.48	0.45	0.45

Source: Refinitiv

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