27 April 2020

Property | REITS

Frasers Centrepoint Trust (FCT SP)

Neutral (Maintained)

A Resilience Test

Target Price (Return):	SGD2.07 (4.5%)
Price:	SGD1.98
Market Cap:	USD1,556m
Avg Daily Turnover (SGD/USD)	10.3m/7.29m

- **Keep NEUTRAL with a new SGD2.07 TP from SGD2.55, 5% upside plus 5% yield.** The uncertainty from COVID-19 is expected to have a profound impact on the retail sector. However, we expect Frasers Centrepoint Trust's suburban malls, which mainly cater for domestic necessity spending, to fare relatively better. While occupancies and rent have so far been holding up well, we expect strong near-term headwinds if the pandemic prolongs. Among retail REITs, FCT remains our preferred pick.

  Retention of 50% of 2Q distributable income – to buffer the brunt of COVID-19's impact – to be felt in 3QFY20 (Sep). While 2Q distributable income rose 25% YoY, DPU declined 48.7% on the 50% retention of distributable income and enlarged unit base. This retention is to buffer the rental impact from the extended circuit breaker – 7 Apr to 1 Jun – which has resulted in closures of all malls except for essential shops (eg supermarkets, pharmacies, etc) and food & beverage outlets (takeaways only). Additionally, the passing of a new bill allowing tenant rental deferments of up to six months has resulted in some cash flow uncertainties. So far, only one of FCT's tenant has requested for a deferral. In terms of rent rebates, it is currently offering c.2 months of rental waivers – including property tax rebates of c.1 month – and tenants can also utilise their cash security deposits to offset one month of rent. In light of the extended circuit breaker announced recently, management is reviewing this package for further assistance to its tenants.
- **Slight dip in occupancy, but rent reversions remain healthy.** Overall mall occupancy dipped 1.2ppts QOQ to 96.1%, mainly due to Northpoint City North Wing and Changi City Point (CCP). CCP saw non-renewal of two leases and pre-termination of one tenant. Leasing activities are expected to remain fairly slow, and we envisage the possibility of more short-term leases due to the circuit breaker. Rent reversion was a healthy 5.2%, as most of the leases were signed before COVID-19's worsening. Looking ahead, we expect rent reversions to be flattish at best. 2Q shopper traffic and Dec 2019-Feb 2020 tenant sales saw 2.4% and 4% declines.
- **No balance sheet concerns, but interest costs are likely to see an increase.** Gearing is low at 33.3%, well below the raised 50% threshold limit, with an interest cover of 6.4x (minimum requirement: 1.5x). However, with Moody's and Standard & Poor's recently downgrading FCT's credit rating a notch, we believe borrowings will likely see a 20-50bps rise (now: 2.44%). About 17% and 23% of FY20-21's debts are due for refinancing.
- **Earnings and DDM changes.** We have revised our FY20F-22F DPUs by 22%, 9%, and 6% to factor in rental rebates for this year, and lower occupancies and rent growth. Our COE assumption is raised 70bps to 7.5%.

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (SGDm)	193	196	159	186	193
Net property income (SGDm)	137	139	113	132	137
Reported net profit (SGDm)	166	207	77	124	130
Total distributable income (SGDm)	111	119	110	130	137
DPS (SGD)	0.12	0.11	0.10	0.12	0.12
DPS growth (%)	0.1	(10.8)	(8.0)	18.1	4.6
P/B (x)	0.95	0.90	0.91	0.91	0.92
Dividend Yield (%)	6.1	5.4	5.0	5.9	6.1
Return on average equity (%)	8.7	9.4	3.1	5.1	5.4
Return on average assets (%)	5.9	6.4	2.1	3.5	3.6

Source: Company data, RHB

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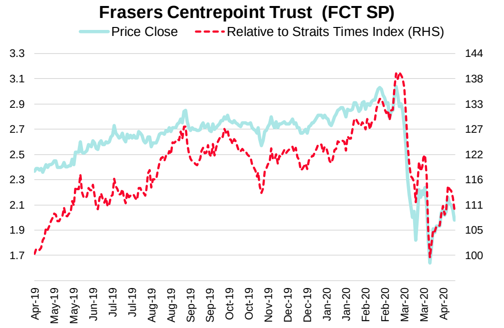
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.5)	(1.0)	(30.5)	(28.0)	(16.0)
Relative	(7.6)	(7.6)	(8.3)	(7.5)	9.1
52-wk Price low/high (SGD)					1.64 – 3.04



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Property
Frasers Centrepoint Trust
FCT SP
Neutral

Valuation basis

DDM methodology

Key drivers

i. Resilient suburban shopper spend;
ii. Diversified portfolio of malls across Singapore;
iii. Strong sponsor and assets pipeline.

Key risks

Downside risks:

i. Structural impact from COVID-19 increasing vacancy;
ii. Prolonged economic recession in Singapore lowering retail spend;
iii. Growing threat from omni-channel strategies by retailers and food delivery platforms.

Upside risk: A relatively quick recovery from COVID-19 and vice versa.

Company Profile

FCT is a retail REIT focused on growing unitholder value through asset management, financial management, and strategic investments. The trust invests in retail properties in Singapore and overseas.

Financial summary	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Recurring EPS (SGD)	0.18	0.21	0.07	0.11	0.12
EPS (SGD)	0.18	0.21	0.07	0.11	0.12
DPS (SGD)	0.12	0.11	0.10	0.12	0.12
BVPS (SGD)	2.08	2.21	2.18	2.17	2.16
Return on average equity (%)	8.7	9.4	3.1	5.1	5.4
Weighted avg adjusted shares (m)	926.41	1,001.95	1,117.78	1,119.94	1,121.72

Valuation metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Recurring P/E (x)	11.03	9.61	28.90	17.86	17.04
P/E (x)	11.03	9.61	28.90	17.86	17.04
P/B (x)	0.9	0.9	0.9	0.9	0.9
FCF Yield (%)	6.6	6.4	4.0	5.4	5.5
Dividend Yield (%)	6.1	5.4	5.0	5.9	6.1
EV/EBITDA (x)	- 0.39	0.15	0.10	- 0.01	- 0.06
EV/EBIT (x)	- 0.39	0.15	0.10	- 0.01	- 0.06

Income statement (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover	193	196	159	186	193
EBITDA	120	121	94	113	118
Operating profit	120	121	94	113	118
Net interest	(20)	(24)	(31)	(31)	(31)
Income from associates & JVs	3	29	42	42	43
Pre-tax profit	166	207	77	124	130
Recurring net profit	166	207	77	124	130

Cash flow (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Change in working capital	12	4	(6)	5	2
Cash flow from operations	136	131	93	123	125
Capex	(15)	(5)	(4)	(4)	(4)
Cash flow from investing activities	(12)	(661)	37	38	39
Dividends paid	(112)	(114)	(110)	(130)	(137)
Cash flow from financing activities	(117)	521	(129)	(153)	(159)
Cash at beginning of period	14	22	13	15	23
Net change in cash	8	(8)	2	8	5
Ending balance cash	21	14	15	23	28

Balance sheet (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total cash and equivalents	22	13	15	23	28
Total investments	2,815	3,595	3,566	3,566	3,566
Total other assets	0	0	0	0	0
Total assets	2,840	3,611	3,585	3,593	3,598
Short-term debt	217	295	295	295	288
Total long-term debt	596	745	757	765	773
Total liabilities	907	1,140	1,148	1,164	1,169
Shareholders' equity	1,934	2,471	2,437	2,429	2,429
Total equity	1,934	2,471	2,437	2,429	2,429
Net debt	791	1,027	1,037	1,037	1,033
Total liabilities & equity	2,840	3,611	3,585	3,593	3,598

Key metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Revenue growth (%)	6.5	1.6	(19.1)	16.8	4.1
Recurrent EPS growth (%)	(14.4)	14.9	(66.8)	61.8	4.8
Operating EBITDA margin (%)	62.0	61.7	59.2	60.8	61.2
Net profit margin (%)	86.0	105.2	48.2	66.9	67.5
Dividend payout ratio (%)	66.9	57.9	144.0	105.1	104.9
Capex/sales (%)	8.0	2.5	2.7	2.3	2.2
Interest cover (x)	5.99	4.92	3.06	3.65	3.85

Source: Company data, RHB

Figure 1: DDM valuation

DDM	FY20F	FY21F	FY22F	FY23F	Terminal value
DPU (cents)	9.86	11.64	12.18	12.24	225.55
Fair value (SGD)	**2.07**				
Current price (SGD)	1.98				
Price upside (%)	4.5%				
Distribution yield (%)	5.0%				
Total returns (%)	9.5%				
Assumptions					
Risk-free rate (%)	2.75%				
Beta	0.8				
Cost of equity (%)	7.5%				
Terminal growth (%)	2.0%				

Source: RHB

Figure 2: Key performance metrics

Operating performance	2Q19	3Q19	4Q19	1Q20	2Q20
Portfolio occupancy (%)	96.0	96.8	96.5	97.3	96.1
Retail rental reversion (%)	2.0	3.1	3.9	5.0	5.2
DPU (cents)	3.14	3.00	2.91	3.06	1.61
	FY-1	**FY-2**	**FY-3**	**FY-4**	**FY-5**
Lease expiry profile: (gross rent %)	39.6	32.1	24.7	26.6	14.0
Capital management	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**
All-in cost of borrowing (%)	2.80	2.70	2.60	2.57	2.44
Aggregate leverage (%)	28.8	23.5	32.9	33.2	37.4
Term of debt (years)	2.40	2.30	2.30	2.50	2.13

Source: Company data

Figure 3: Rental reversions by malls (1HFY20)

(1 Oct 2019 – 31 Mar 2020)	No. of renewals	Leased area renewed (sq ft)	As % of property's NLA	Change compared with preceding rental rates[1]
Causeway Point	28	85,469	20.3%	6.0%
Northpoint City North Wing[2]	30	38,752	16.9%	2.8%
Waterway Point	36	61,441	16.5%	6.0%
Changi City Point	24	41,851	20.4%	5.7%
Bedok Point	7	7,674	9.3%	1.6%
YewTee Point	8	14,189	19.3%	6.5%
Anchorpoint	9	19,908	28.0%	5.7%
FCT portfolio average	**142**	**269,284**	**18.5%**	**5.2%**

Source: Company data

Figure 4: Mall occupancy trends

Mall Occupancy	31 Mar 19	30 Jun 19	30 Sep 19	31 Dec 19	31 Mar 2020
Causeway Point	97.4%	97.5%	97.0%	97.8%	97.9%
Northpoint City North Wing[1]	96.5%	97.1%	99.0%	99.2%	97.0%
Waterway Point	-	-	98.0%	97.3%	96.3%
Changi City Point	96.7%	96.4%	95.9%	95.8%	91.8%
Bedok Point	88.7%	95.0%	95.7%	95.7%	94.3%
YewTee Point	94.1%	96.5%	97.1%	98.6%	98.6%
Anchorpoint	95.0%	95.0%	79.0%	93.5%	93.1%
FCT Portfolio	**96.0%**	**96.8%**	**96.5%**	**97.3%**	**96.1%**

Source: Company data

Figure 5: Lease expiries by malls (FY20)

Lease Expiries in FY2020 As at 31 March 2020	Number of leases expiring	Lease area expiring (sq ft)	as % of leased area of property	as % of total GRI of property
Causeway Point	45	44,916	10.9%	17.6%
Northpoint City North Wing[1]	56	42,375	19.0%	23.9%
Waterway Point	14	19,839	5.6%	4.4%
Changi City Point	11	22,314	11.8%	10.5%
Bedok Point	6	19,189	24.6%	18.9%
YewTee Point	6	5,877	8.1%	8.0%
Anchorpoint	15	11,603	16.6%	20.1%
Total FCT	**153**	**165,573**	**11.8%[2]**	**14.0%[3]**

Source: Company data

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-10-24	Neutral	2.55	2.75
2019-08-30	Neutral	2.55	2.75
2019-05-17	Neutral	2.25	2.40
2019-04-25	Neutral	2.19	2.37
2018-10-25	Neutral	2.19	2.22
2018-10-16	Neutral	2.24	2.23

Source: RHB, Bloomberg

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