

23 January 2024

Property | REITS

## Frasers Centrepoint Trust (FCT SP)

**Neutral** (Maintained)

### Healthy Operational Performance

Target Price (Return): SGD2.30 (2.9%)  
 Price (Market Cap): SGD2.24 (USD2,860m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (SGD/USD) 5.14m/3.82m

- **Keep NEUTRAL, higher SGD2.30 TP from SGD2.12, 3% upside.** Frasers Centrepoint Trust posted good set of 1Q operational numbers with a healthy occupancy uplift and positive rent reversions. Gearing has edged down to comfortable levels post recent divestments. It also managed to raise a fixed proportion of debt, taking advantage of the recent fall in lending rates. The current valuation of c.1x P/BV and FY24F yield of 5.4% broadly reflects the positives, though, and we recommend investors to buy on dips.
- **Retail portfolio committed occupancy rose** to 99.9% (+1.5ppts YoY, +0.2ppts QoQ) one occupancy improvements at Century Square (99.7%), Northpoint City North Wing (100%), and White Sands (99.8%). Management guided that overall rent reversions for the quarter well exceeded FY23's +4.7%, and is likely to be in high single-digits. Tenant demand remained healthy from a combination of new, expansionary, and consolidation demand – with the F&B and wellness segments still being the key drivers – while overall supply remains modest. 1Q tenant sales saw a slight dip (-0.7% YoY) due to renovations by several key anchor tenants – excluding this, it was slightly higher at +1.1% YoY. Overall, tenant sales across FCT's malls for 2023 stood at c.18% above pre-COVID-19 levels, which resulted in a healthy occupancy cost of c.16%.
- **Refinancing cost pressures are easing off**, with FCT noting that it had locked in its latest loan maturities at slightly below 4% levels (c.50bps lower than previous guidance). It had also increased its fixed rate proportion of debt by 10ppts QoQ to 73.1% of the overall. With this, the REIT has no refinancing due for the rest of the financial year.
- **Room for acquisitions**, with a lowering of gearing to 37.2% – FY23 (Sep): 39.3% – on the back of the Changi City Point and Hektar REIT stake divestments. This, in our view, allows FCT to selectively add up to a 10% stake in NEX mall (25.5% stake) from its sponsor at an estimated c.SGD210m without tapping the equity markets. In addition, with occupancy levels at Central Plaza now stabilising, we see the possibility of this being divested in FY24 – thereby adding an additional c.SGD200m-plus in funds, which could be recycled to further increase FCT's stake in NEX.
- **Tangible annual opex savings of SGD1m pa** is expected from various recent sustainable initiatives being implemented – this includes the installation of solar panels, food waste valorisation, water usage efficiency, and smart lifts. These are positive steps in our view and shows long-term benefits to FCT from the adoption of good ESG practices. Consequently, we raise our ESG score by two notches to 3.4 out of 4.0, resulting in a 6% ESG premium. We have also fine-tuned our FY26F-27F DPU by lowering financing cost and COE assumptions by 30bps on the back of a stronger balance sheet.

#### Analyst

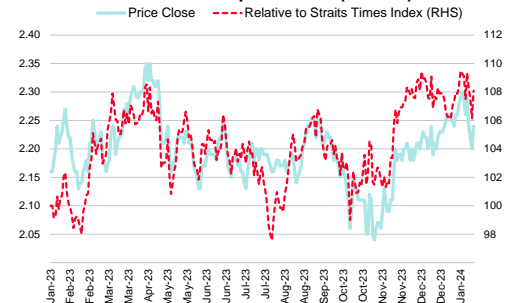
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.9)	0.4	9.3	1.8	3.7
Relative	1.9	0.1	6.9	5.8	8.1
52-wk Price low/high (SGD)	2.04 – 2.35				

#### Frasers Centrepoint Trust (FCT SP)



Source: Bloomberg

Forecasts and Valuation	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Total turnover (SGDm)	357	370	347	349	351
Net property income (SGDm)	259	266	249	251	252
Reported net profit (SGDm)	202	216	200	229	234
Total distributable income (SGDm)	204	207	210	214	218
DPS (SGD)	0.12	0.12	0.12	0.12	0.12
DPS growth (%)	100.7	(0.7)	(0.4)	1.7	1.4
P/B (x)	0.96	0.97	0.96	0.96	0.95
Dividend Yield (%)	5.5	5.4	5.4	5.5	5.6
Return on average equity (%)	5.1	5.4	5.0	5.7	5.8
Return on average assets (%)	3.4	3.5	3.2	3.8	3.8

Source: Company data, RHB

#### Overall ESG Score: 3.4 (out of 4)

##### E: EXCELLENT

FCT is on track with its target to achieve net zero carbon emissions by 2050. All assets are BCA Green Mark Gold certified or higher. It has also achieved a 5-star GRESB rating for a third consecutive year. FCT is currently rolling out installation of solar panels across its properties.

##### S: GOOD

All properties are SG Clean certified and one of its malls in Singapore was the first retail outlet to roll out ultraviolet-disinfectant autonomous mobile robots to enhance safety. The REIT is a pioneer in fostering inclusiveness and has embarked on a transformation programme to create disability and dementia awareness.

##### G: EXCELLENT

FCT has a high level of transparency in earnings and operating performance disclosures. The board has a diverse group of members, with the majority being independent directors. The REIT undertakes an external independent audit every year to evaluate the performance of its board.

## Financial Exhibits

Asia	Financial summary	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Singapore	Recurring EPS (SGD)	0.12	0.13	0.12	0.13	0.14
Property	EPS (SGD)	0.12	0.13	0.12	0.13	0.14
<b>Frasers Centrepoint Trust</b>	DPS (SGD)	0.12	0.12	0.12	0.12	0.12
FCT SP	BVPS (SGD)	2.33	2.32	2.33	2.34	2.36
Neutral	Return on average equity (%)	5.1	5.4	5.0	5.7	5.8
	Weighted avg adjusted shares (m)	1,701.52	1,707.05	1,712.88	1,718.44	1,723.74
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
DDM	Recurring P/E (x)	18.84	17.69	19.16	16.78	16.51
	P/E (x)	18.84	17.69	19.16	16.78	16.51
	P/B (x)	1.0	1.0	1.0	1.0	0.9
	FCF Yield (%)	6.2	6.2	5.6	5.5	5.7
	Dividend Yield (%)	5.5	5.4	5.4	5.5	5.6
	EV/EBITDA (x)	-	0.28	1.12	0.46	0.38
	EV/EBIT (x)	-	0.28	1.12	0.46	0.38
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
i. A pure play on the resilient Singapore suburban retail sector;	Total turnover	357	370	347	349	351
ii. Malls are well located with dominant positioning and in areas with a good catchment of population;	EBITDA	222	226	214	216	216
iii. Experienced management and strong sponsor.	Operating profit	222	226	214	216	216
	Net interest	(47)	(77)	(73)	(71)	(68)
	Income from associates & JVs	24	57	58	59	60
	Pre-tax profit	202	216	200	229	234
	Recurring net profit	202	216	200	229	234
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
i. Inflationary pressures increase in GST on retail tenants and shoppers;	Change in working capital	7	3	(2)	(5)	1
ii. Prolonged economic recession in Singapore lowering retail spending;	Cash flow from operations	241	247	220	218	224
iii. Growing threat from omni-channel strategies by retailers and food delivery platforms.	Capex	(6)	(8)	(4)	(4)	(4)
	Cash flow from investing activities	16	(357)	72	73	74
	Dividends paid	(208)	(208)	(208)	(212)	(215)
	Cash flow from financing activities	(254)	108	(616)	(284)	(285)
	Cash at beginning of period	42	38	32	37	43
	Net change in cash	3	(2)	(324)	6	13
	Ending balance cash	45	36	(292)	43	56
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
Frasers Centrepoint Trust (FCT) is a leading developer-sponsored REIT with total assets of approximately SGD6.9bn. The REIT is also one of the largest suburban retail mall owners in Singapore. Its Singapore retail portfolio comprises nine retail malls located in the suburban regions. It also has one office building.	Total cash and equivalents	38	32	37	43	56
	Total investments	5,869	5,951	5,990	6,023	6,057
	Total other assets	22	15	15	15	15
	Total assets	5,941	6,375	6,051	6,091	6,137
	Short-term debt	391	353	353	353	353
	Total long-term debt	1,419	1,842	1,507	1,507	1,507
	Total liabilities	1,977	2,402	2,057	2,055	2,058
	Shareholders' equity	3,964	3,973	3,993	4,036	4,079
	Total equity	3,964	3,973	3,993	4,036	4,079
	Net debt	1,772	2,163	1,824	1,817	1,805
	Total liabilities & equity	5,941	6,375	6,051	6,091	6,137
	<b>Key metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Revenue growth (%)	4.6	3.6	(6.1)	0.6	0.4
	Recurrent EPS growth (%)	9.2	6.5	(7.7)	14.2	1.7
	Operating EBITDA margin (%)	62.3	61.1	61.8	61.7	61.7
	Net profit margin (%)	56.7	58.5	57.7	65.7	66.7
	Dividend payout ratio (%)	102.9	96.1	103.7	92.3	92.1
	Capex/sales (%)	1.7	2.3	1.2	1.2	1.2
	Interest cover (x)	4.75	2.79	2.92	2.97	3.10

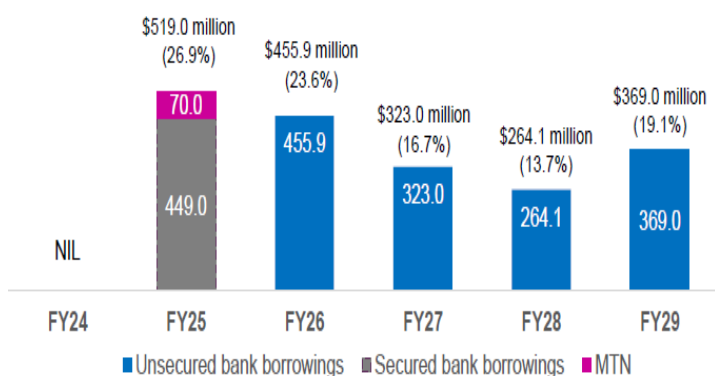
Source: Company data, RHB

Figure 1: DDM valuation

DDM	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (SG cents)	12.12	12.32	12.50	12.81	12.94	239.58
Intrinsic Value (SGD)	2.17					
ESG Premium/Discount (SGD)	0.13					
<b>Target Price (SGD)</b>	2.30					
Current price (SGD)	2.24					
Price upside (%)	2.9%					
Distribution yield (%)	5.4%					
Total returns (%)	8.3%					
<b>Assumptions</b>						
Risk-free rate (%)	2.75%					
Beta	0.9					
Cost of equity (%)	7.5%					
Terminal growth (%)	2.0%					

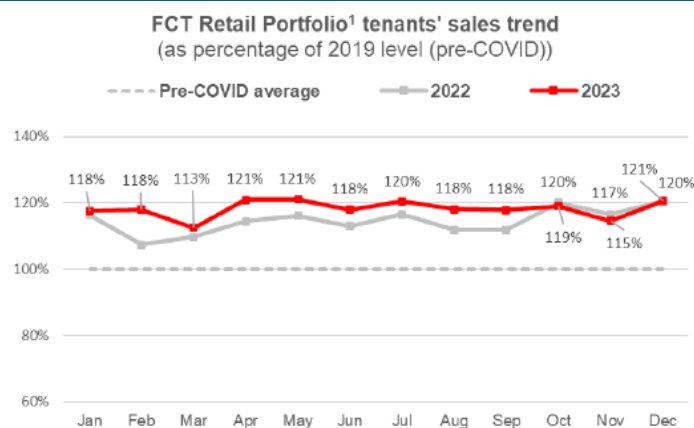
Source: RHB

Figure 2: No loan refinancing needed until FY25



Source: Company data

Figure 3: Tenant sales continue to trend well above pre-pandemic levels



Source: Company data

Figure 4: Trade mix as of Dec 2023

Trade category (by order of decreasing % of total GRI)	As % of total NLA	As % of total GRI
Food & Beverage	29.5%	36.8%
Beauty & Healthcare	11.0%	14.9%
Fashion & Accessories	10.7%	11.4%
Sundry & Services	6.3%	8.5%
Supermarket & Grocers	11.3%	6.5%
Information & Technology	2.5%	2.9%
Leisure & Entertainment	7.6%	2.8%
Homeware & Furnishing	3.1%	2.7%
Jewellery & Watches	1.1%	2.7%
Department Store	4.9%	2.5%
Books, Music, Arts & Craft, Hobbies	3.9%	2.4%
Electrical & Electronics	3.3%	2.3%
Education	2.9%	2.0%
Sports Apparel & Equipment	1.8%	1.6%
Vacant	0.1%	0.0%
	100.0%	100.0%

Source: Company data

Figure 5: Limited retail supply in the pipeline

Year	Project	Micro-market	Area (sf)
2024	Guoco Midtown II	Downtown Core	20,000
	IOI Central Boulevard Towers	Downtown Core	30,000
	Odeon Towers (A/A)	Downtown Core	25,000
	46 & 58 Kim Yam Road	Rest of Central	150,000
	Marine Parade Underground Mall	Fringe	99,800
	Labrador Tower	Fringe	28,300
	The Linq	Fringe	25,100
	Dairy Farm Mall	OCR	32,300
	Pasir Ris Mall	OCR	289,900
	Keppel South Central	Downtown Core	27,300
Canning Hill Square	Rest of Central	96,800	
2025	West Mall	OCR	20,000
	Lentor Modern	OCR	64,600
	Punggol Digital District	OCR	185,000
2026	TMW Maxwell	Downtown Core	35,200
	Central Mall/Central Square	Rest of Central	33,900
	Piccadilly Grand/Galleria	Fringe	21,600

Source: CBRE (4Q23), Company data

## Emissions And ESG

### Trend analysis

FCT reduced Scope 2 energy and greenhouse gas or GHG emissions intensity by 15.3% and 15.6% when compared to its FY19 baseline. Based on available (but not verified) data points, FCT's Scope 1 emissions represents <1% of the portfolio's Scope 2 emissions (from electricity consumption).

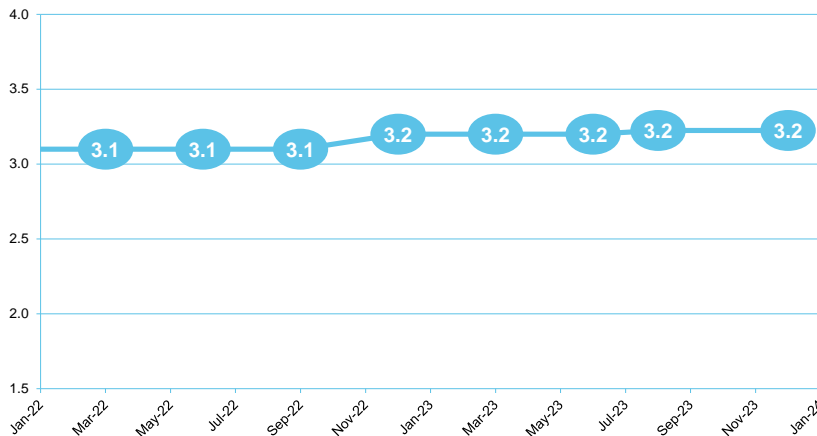
Emissions (tCO2e)	Sep-21	Sep-22	Sep-23
Scope 1	na	na	na
Scope 2	25,354	24,622	na
Scope 3	39,900	40,420	na
Total emissions	65,254	65,042	na

Source: Company data, RHB

## Latest ESG-Related Developments

- Implementing food waste valorisation across five of its malls starting Jan 2024.
- Rolling out the installation of solar photovoltaic panels across six malls in 2024.
- It signed a supply agreement for Tampines 1 and Century Square to form two of the three key injection nodes in Singapore's first brownfield distributed district cooling network.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-25	Neutral	2.12	2.11
2023-09-26	Neutral	2.15	2.18
2023-08-30	Neutral	2.13	2.23
2023-01-29	Neutral	2.10	2.24
2022-12-05	Neutral	2.09	2.05
2021-10-27	Neutral	2.45	2.36
2021-07-26	Neutral	2.40	2.36
2020-12-17	Neutral	2.40	2.50
2020-09-13	Neutral	2.40	2.67
2020-07-26	Neutral	2.16	2.39
2020-04-27	Neutral	2.07	2.00
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

Source: RHB, Bloomberg

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