

# Frasers Centrepoint Trust

Retail recovery offset by macroeconomic headwinds

SINGAPORE | REAL ESTATE (REIT) | Update



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- Occupancy and tenant sales have recovered above pre-pandemic levels.
- Moderately protected from rising interest rates, with 69% of total borrowings hedged to a fixed rate. Every 50bps increase in SOR/SORA is estimated to impact DPU by c.1.3%.
- Maintain ACCUMULATE, DDM TP (COE 7.08%) lowered from S\$2.64 to S\$2.38. No change in DPU estimates. Cost of equity increased from 6.41% to 7.08% on higher risk-free rate assumption. The current share price implies a FY22e DPU yield of 5.7%. However, the yield spread has narrowed significantly since the start of the year from 4.36% to 2.65%.

## Investment Thesis

- Slight positive rental reversions expected.** 1H22 reversions came in at +1.7% (FY21 - 0.6%) and expected to be similar for the rest of the year. Portfolio tenant retention rate is still healthy at 70-80% of the total portfolio. FCT's retail portfolio has a well-spread lease maturity profile with a WALE of 1.85 years (by NLA) or 1.78 years (by GRI) and only 5.3% of expiring leases (by GRI) remain in 4Q22 for FY22. Shorter tenancies allow for faster repricing in rent to cope with surging interest rates.
- Occupancy and tenant sales above pre-pandemic levels.** Occupancy dipped slightly from 97.8% in 2Q22 to 97.1% in 3Q22, but still above pre-pandemic levels of 96.5%. FCT are in advanced negotiations with replacement tenants to fill the space left by Filmgarde at Century Square, which caused the slight dip in occupancy. Tenant sales in 3Q22 were up 23% YoY, and c.10% above pre-Covid levels. Shopper traffic in 3Q22 was up 32% YoY, and c.80% of pre-Covid levels. We expect the impact from the further easing of community measures, especially the one where mask-wearing is no longer required in indoor settings except for certain situations, to further increase shopper traffic going forward.
- Prudent hedging strategies in place to mitigate risks from interest rate volatilities.** 69% of total borrowings are hedged to fixed interest rate and the tenor of the hedge is usually matched with the debt maturity profile. All in, the cost of debt is 2.4%, and green loans account for c.31.6% of total borrowings. FCT has an aggregate leverage of 33.9%. Every 50bps increase in SOR/SORA is estimated to impact DPU by c.1.3%.

## Outlook

**On good footing to command rental growth.** Hybrid work arrangements should benefit FCT's malls, which are located near transportation nodes. Commute-driven footfall and incidental spending should see an uptick, lifting tenant sales and GTO revenue for FCT. Occupancy cost, at c.16-17%, is at the 5-year pre-pandemic average. Improving tenant sales should lower occupancy cost further, which may support FCT's ability to raise rents. Utilities represent c.7% of property operating expense and are fully hedged for FY22. Energy contracts will expire in end-FY22 and mid-FY23.

## Maintain ACCUMULATE, TP lowered from S\$2.71 to S\$2.38

No change in DPU estimates. Our DDM-TP is lowered from S\$2.71 to S\$2.38 as we increase our cost of equity from 6.41% to 7.08% on a higher risk-free rate assumption. P/NAV of 0.98x, which is trading near 5-year lows at -1 standard deviation level, might seem cheap. However, we think this is fair given the rising interest rate environment. The yield spread (dividend yield - 2 years Singapore government bond yield) has fallen from over 4% at the start of the year to 2.65%, and we expect this to fall even further as well. The current share price implies a FY22e DPU yield of 5.7%.

## ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.26
FORECAST DIV	SGD 0.128
TARGET PRICE	SGD 2.38
<b>TOTAL RETURN</b>	<b>11.0%</b>

### COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,701
MARKET CAP (USD mn / SGD mn):	2731 / 3847
52 - WK HI/LO (SGD):	2.50 / 2.20
3M Average Daily T/O (mn):	2.60

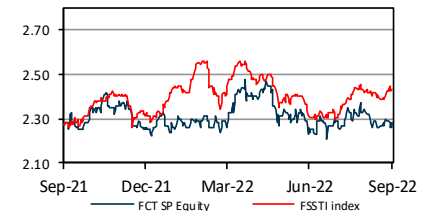
### MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	41.2%
VANGUARD GROUP INC	2.4%
SCHRODERS PLC	1.9%
BLACKROCK INC	1.8%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.6)	0.9	1.3
STI RETURN	0.5	6.8	8.3

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sept	FY20	FY21	FY22e	FY23e
Gross Rev (SGD mn)	164	341	373	384
NPI (SGD mn)	111	247	267	275
Dist Inc. (SGD mn)	72	205	217	222
P/NAV (x)	1.00	0.98	0.98	0.98
DPU, adj (Cents)	9.04	12.09	12.77	13.01
Distribution Yield	4.0%	5.3%	5.7%	5.8%

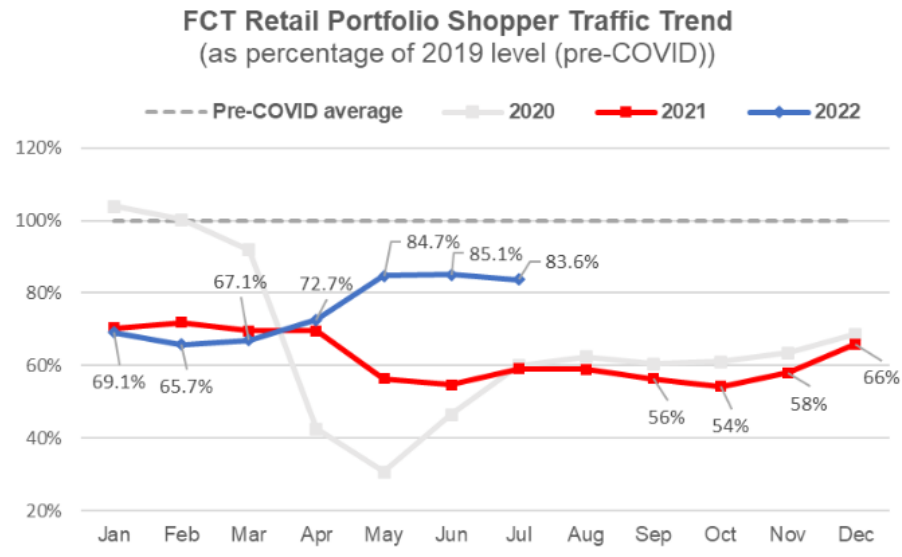
Source: Company, PSR

### Valuation Method

**DDM (Cost of equity 7.08%, Terminal Growth 1.5%)**

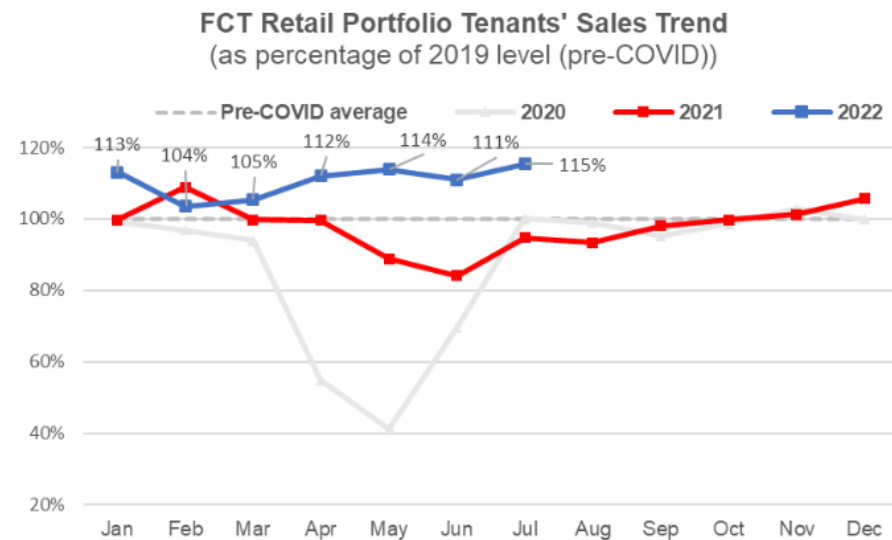
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**Figure 1: Shopper traffic around 80-85% of pre-pandemic**



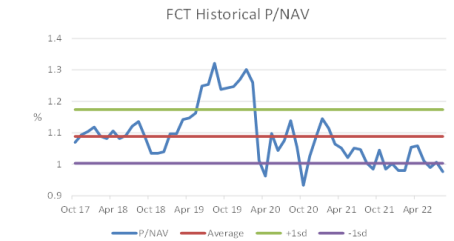
Source: FCT, PSR

**Figure 2: Tenant sales 10-15% above pre-pandemic**



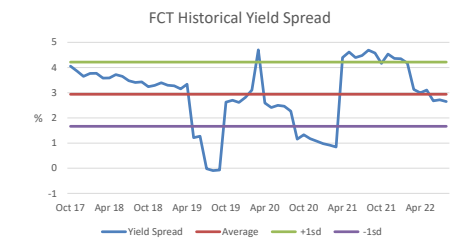
Source: FCT, PSR

**Figure 3: P/NAV of 0.98x near 5-year -1 standard deviation level**



Source: FCT, PSR

**Figure 4: Yield Spread at 2.65% is slightly under 5-year average**



Source: FCT, PSR

## Financials

### Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>Gross Revenue</b>	196	164	341	373	384
Total Property expenses	(57)	(53)	(95)	(106)	(109)
<b>Net Property Income</b>	<b>139</b>	<b>111</b>	<b>247</b>	<b>267</b>	<b>275</b>
Net Finance (Expense)/Inc	(24)	(28)	(46)	(46)	(52)
Trust expenses	(2)	(2)	(3)	(3)	(3)
Manager's management fees	(17)	(18)	(32)	(31)	(31)
<b>Net Income</b>	<b>97</b>	<b>65</b>	<b>166</b>	<b>187</b>	<b>188</b>
Share of associate's results	13	75	(1)	1	1
Share of JV's results	5	11	17	20	21
Other Adjustments	8	(8)	16	12	12
<b>Distribution to Unitholders</b>	<b>120</b>	<b>72</b>	<b>205</b>	<b>217</b>	<b>222</b>

### Per share data

Y/E Sep, SGD	FY19	FY20	FY21	FY22e	FY23e
NAV	2.21	2.27	2.30	2.31	2.31
DPU (Cents)	11.77	9.04	12.09	12.77	13.01

### Cash Flow

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
Net Income	206	152	172	208	210
Adjustments	(80)	(54)	43	35	40
WC changes	4	(20)	(5)	15	3
<b>Cashflow from operating activities</b>	<b>131</b>	<b>78</b>	<b>198</b>	<b>258</b>	<b>252</b>
<b>CFI</b>					
Capex on inv properties	(5)	(11)	-	(5)	(5)
Others	(656)	(153)	(471)	20	21
<b>Cashflow from investing activities</b>	<b>(661)</b>	<b>(164)</b>	<b>(471)</b>	<b>15</b>	<b>16</b>
<b>CFF</b>					
Share issuance	437	-	1,335	-	-
Distributions to Unitholders	(114)	(85)	(150)	(205)	(217)
Others	197	186	(899)	7	(49)
<b>Cashflow from financing activities</b>	<b>521</b>	<b>101</b>	<b>286</b>	<b>(198)</b>	<b>(267)</b>
<b>Net change in cash</b>	<b>(9)</b>	<b>15</b>	<b>14</b>	<b>75</b>	<b>2</b>
<b>CCE, end</b>	<b>13</b>	<b>29</b>	<b>42</b>	<b>117</b>	<b>119</b>

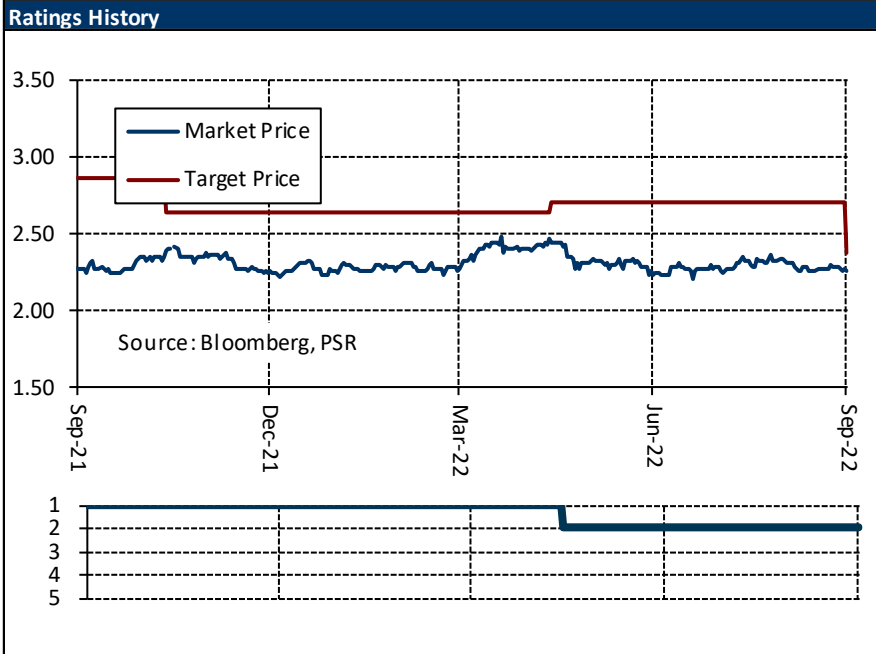
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Investment properties	2,846	2,750	5,507	5,511	5,516
Investment in Associates	457	696	46	47	47
<b>Non Current Assets</b>	<b>3,595</b>	<b>3,737</b>	<b>5,848</b>	<b>5,853</b>	<b>5,859</b>
Trade and Other Receivables	3.1	9.7	9.0	11.2	11.5
Cash and Cash Equivalents	13	29	42	117	119
<b>Current Assets</b>	<b>16</b>	<b>146</b>	<b>51</b>	<b>128</b>	<b>131</b>
<b>Total Assets</b>	<b>3,611</b>	<b>3,883</b>	<b>5,899</b>	<b>5,981</b>	<b>5,990</b>
<b>LIABILITIES</b>					
Interest bearing borrowings	745	997	1,604	1,788	1,612
Others	30	31	54	54	54
<b>Non-Current Liabilities</b>	<b>775</b>	<b>1,028</b>	<b>1,658</b>	<b>1,842</b>	<b>1,666</b>
Trade and other payables	47	43	76	93	96
Interest bearing borrowings	295	255	205	74	253
Others	23	19	42	42	42
<b>Current Liabilities</b>	<b>365</b>	<b>317</b>	<b>322</b>	<b>208</b>	<b>390</b>
<b>Total Liabilities</b>	<b>1,140</b>	<b>1,345</b>	<b>1,980</b>	<b>2,050</b>	<b>2,056</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>2,471</b>	<b>2,538</b>	<b>3,919</b>	<b>3,931</b>	<b>3,933</b>

### Valuation Ratios

Y/E Sep	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.02	1.00	0.98	0.98	0.98
Distribution yield	5.2%	4.0%	5.3%	5.7%	5.8%
NPI yield	4.9%	4.0%	4.5%	4.8%	5.0%
<b>Growth &amp; Margins</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22e</b>	<b>FY23e</b>
<b>Growth</b>					
Revenue	1.6%	-16.3%	107.5%	9.3%	2.9%
Net property income (NPI)	1.5%	-20.4%	122.4%	8.4%	2.8%
DPU	26.9%	-23.2%	33.7%	5.7%	1.9%
<b>Margins</b>					
NPI margin	70.9%	67.5%	72.3%	71.6%	71.5%
Net Income Margin	49.2%	39.8%	48.6%	50.2%	49.0%
<b>Key Ratios</b>					
Gearing	28.8%	32.2%	30.7%	31.1%	31.1%
ROA	2.7%	1.7%	2.8%	3.1%	3.1%
ROE	3.9%	2.6%	4.2%	4.8%	4.8%
Interest coverage ratio (x)	5.82	4.02	5.38	5.75	5.24



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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