

Frasers Centrepoint Trust

The "NEX" acquisition

SINGAPORE | REAL ESTATE (REIT) | 1Q23 Update

- No financials are provided in this business update. Retail occupancy improved 1.2% YoY to 98.4%. Tenant sales and shopper traffic improved 13.4% and 38.3% YoY respectively.
- Fraser's Centrepoint Trust and its sponsor, Fraser's Property, announced the joint acquisition of 50% interest in NEX at an agreed property value of S\$2,077.8 million on a 100% basis, in line with appraised value.
- Maintain ACCUMULATE, DDM TP (COE 6.90%) lowered from S\$2.38 to S\$2.31. We trim our FY23e-FY25e DPU estimates by 6-8% after factoring in the NEX acquisition and higher borrowing costs. The current share price implies a FY23e DPU yield of 5.5%.

The Positives

+ Retail portfolio occupancy improved 0.9% QoQ to 98.4%, aided by Century Square (+1.9%), Changi City Point (+4.1%), White Sands (+1.9%) and Hougang Mall (+1.6%). Leases signed in the quarter were at positive rental reversions. Occupancy at eight of their nine malls came in at above 97.8%. Leasing negotiations are ongoing to backfill the anchor space (~8% NLA) at Century Square left by Filmgarde.

+ Tenant sales and shopper traffic grew 13.4% and 38.3% YoY, averaging 116% and 82% of pre-pandemic levels for the quarter, respectively. However, we expect tenant sales growth to moderate to single digits going forward due to the increase in Goods and Services Tax and a slowdown in consumer spending.

The Negative

- High cost of debt. All in cost of debt for 1Q23 increased 50bps QoQ to 3.5%. FCT's 73% of debt hedged to fixed rate (Sep 22: 71%) is on the lower end compared to most peers. About 46% of debt matures in FY23-FY24 and is likely to be refinanced at a above 4%.

The Acquisition

- FCT and its sponsor, Fraser's Property, announced the joint acquisition of a 50% stake in NEX. Post-acquisition, FCT will hold a 25.5% interest while Fraser's Property will hold a 24.5% interest.
- The purchase consideration for FCT's 25.5% stake, estimated to be S\$340mn based on the adjusted net asset value of the trust of S\$1,305mn, is in line with its latest valuation of S\$2,077mn. FCT will fund this by taking on a 3-year debt with an estimated all in interest cost of 4.3%.
- The deal is 0.52% DPU accretive on a pro-forma basis assuming full debt funding, with a post-acquisition gearing of 38.5%.
- We think NEX is a good strategic fit for FCT's portfolio as it is one of the largest suburban retail malls in Singapore with excellent connectivity to public transport. It also has a committed occupancy of 99.9% and a remaining lease period of 85 years.

Outlook

FCT announced a S\$38mn asset enhancement initiative (AEI) for Tampines 1 where NLA from lower yielding floors will be transferred to B1, L1 and L2 as well as an additional c.8000 sq ft of NLA from various bonus GFA schemes. Management estimated a ROI of 8% on the back of higher rents and asset valuation gains. FCT's operating metrics continues to improve, but its short debt maturity and low interest hedge ratio will offset these gains going forward.

Maintain ACCUMULATE, TP lowered from S\$2.38 to S\$2.31

FY23e-FY25e DPU estimates are trimmed by 6-8% after factoring the NEX acquisition and higher borrowing costs. The current share price implies a FY23e DPU yield of 5.5%.



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3 Feb 2023

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.25
FORECAST DIV	SGD 0.119
TARGET PRICE	SGD 2.31
TOTAL RETURN	8.0%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,704
MARKET CAP (USD mn / SGD mn):	2925 / 3817
52 - WK HI/LO (SGD):	2.5 / 1.9
3M Average Daily T/O (mn):	2.96

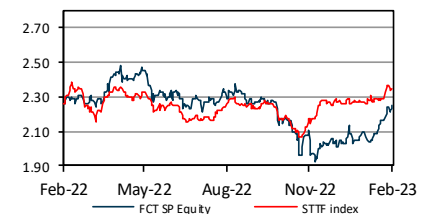
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.2	8.8	6.2
STI RETURN	3.5	8.1	3.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY21	FY22	FY23e	FY24e
Gross Rev (SGD mn)	341	357	373	384
NPI (SGD mn)	247	259	260	268
Dist Inc. (SGD mn)	205	208	203	213
P/NAV (x)	0.98	0.97	0.97	0.97
DPU, adj (Cents)	12.09	12.23	11.93	12.45
Distribution Yield	5.4%	5.4%	5.3%	5.5%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.90%, Terminal Growth 1.5%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Gross Revenue	164	341	357	373	384
Total Property expenses	(53)	(95)	(98)	(113)	(116)
Net Property Income	111	247	259	260	268
Net Finance (Expense)/Inc	(28)	(46)	(47)	(80)	(80)
Trust expenses	(2)	(3)	(4)	(4)	(4)
Manager's management fees	(18)	(32)	(33)	(30)	(31)
Net Income	65	166	176	145	153
Share of associate's results	75	(1)	(1)	1	2
Share of JV's results	11	17	25	47	48
Other Adjustments	(8)	16	12	12	12
Distribution to Unitholders	72	205	208	203	213

Per share data

Y/E Sep, SGD	FY20	FY21	FY22	FY23e	FY24e
NAV	2.27	2.30	2.33	2.32	2.32
DPU (Cents)	9.04	12.09	12.23	11.93	12.45

Cash Flow

Y/E Sep, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Net Income	152	172	201	193	203
Adjustments	(54)	43	25	41	40
WC changes	(20)	(5)	9	25	2
Cashflow from operating activities	78	198	234	260	245
CFI					
Capex on inv properties	(11)	-	(6)	(5)	(5)
Others	(153)	(471)	22	47	48
Cashflow from investing activities	(164)	(471)	16	42	43
CFF					
Share issuance	-	1,335	-	-	-
Distributions to Unitholders	(85)	(150)	(208)	(208)	(203)
Others	186	(899)	(46)	(78)	(78)
Cashflow from financing activities	101	286	(254)	(286)	(281)
Net change in cash	15	14	(4)	16	6
CCE, end	29	42	38	54	60

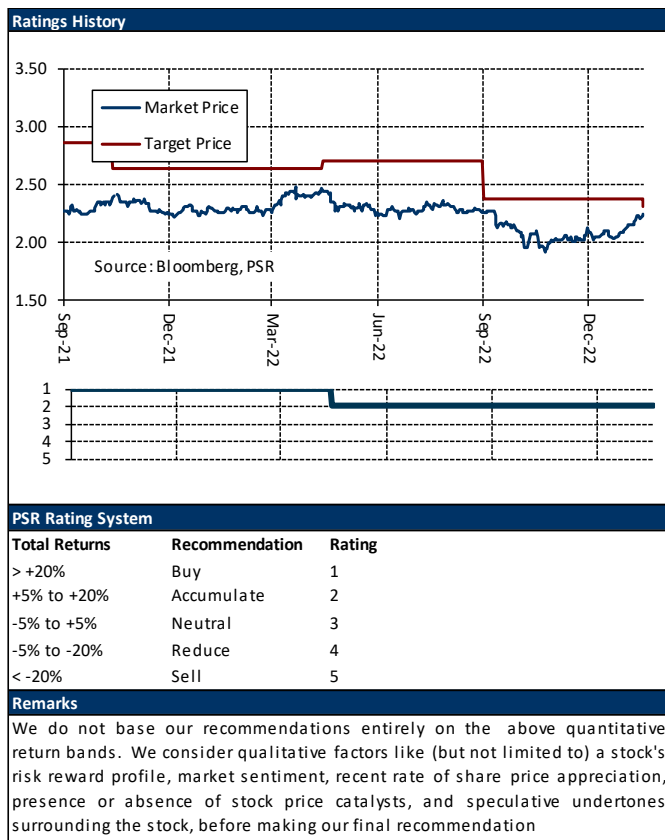
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Investment properties	2,750	5,507	5,516	5,521	5,526
Investment in Associates	696	46	41	41	41
Non Current Assets	3,737	5,848	5,891	6,311	6,318
Trade and Other Receivables	9.7	9.0	8.9	11.2	11.5
Cash and Cash Equivalents	29	42	38	54	60
Current Assets	146	51	50	68	75
Total Assets	3,883	5,899	5,941	6,379	6,392
LIABILITIES					
Interest bearing borrowings	997	1,604	1,419	1,657	1,787
Others	31	54	50	50	50
Non-Current Liabilities	1,028	1,658	1,470	1,707	1,838
Trade and other payables	43	76	71	98	101
Interest bearing borrowings	255	205	391	570	442
Others	19	42	46	46	46
Current Liabilities	317	322	507	714	588
Total Liabilities	1,345	1,980	1,977	2,421	2,426
EQUITY					
Shareholder Equity	2,538	3,919	3,964	3,958	3,967

Valuation Ratios

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.99	0.98	0.97	0.97	0.97
Distribution yield	4.0%	5.4%	5.4%	5.3%	5.5%
NPI yield	4.0%	4.5%	4.7%	4.7%	4.9%
Growth & Margins	FY21	FY22	FY23e	FY24e	0
Growth					
Revenue	-16.3%	107.5%	4.6%	4.5%	3.1%
Net property income (NPI)	-20.4%	122.4%	4.9%	0.4%	3.3%
DPU	-23.2%	33.7%	1.2%	-2.4%	4.3%
Margins					
NPI margin	67.5%	72.3%	72.5%	69.6%	69.8%
Net Income Margin	39.8%	48.6%	49.2%	39.0%	39.9%
Key Ratios					
Gearing	32.2%	30.7%	30.5%	34.9%	34.9%
ROA	1.7%	2.8%	3.0%	2.3%	2.4%
ROE	2.6%	4.2%	4.4%	3.7%	3.9%
Interest coverage ratio (x)	4.02	5.38	5.53	3.23	3.33



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