

Frasers Centrepoint Trust

High portfolio occupancy with stable valuations



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SINGAPORE | REAL ESTATE (REIT) | FY23 RESULTS

27 October 2023

- 2H23/FY23 DPU of 6.02/12.15 Singapore cents was 1.2%/0.6% lower YoY, but in line with our expectations and formed 49%/100% of our FY23e forecast. Retail portfolio occupancy increased 2.2ppts YoY to 99.7% (3Q23: 98.7%).
- FY23 tenants' sales and shopper traffic improved 7.3% and 24.7% YoY respectively. YTD tenants' sales averaged c.17% above pre-COVID levels. Retail portfolio valuation rose 0.6% YoY to S\$8.74bn with unchanged cap rates.
- Maintain ACCUMULATE, DDM TP lowered from S\$2.35 to S\$2.29 as we roll forward our forecasts. We have reduced both FY24e and FY25e DPU forecasts by 5% after accounting for the divestments of Changi City Point and FCT's stake in Hektar REIT. We expect positive rental reversions to remain intact for FY24e, supported by the low occupancy cost of 15.6% and tenants' sales growth. The current share price implies a FY24e DPU yield of 5.9%.

Results at a glance

(SGD mn)	2H23	2H22	YoY (%)	FY23	FY22	YoY (%)	Comments
Gross Revenue	184.1	180.7	1.8%	369.7	356.9	3.6%	Higher gross rent, atrium and car park income, partially offset by lower contribution from Tampines 1 due to ongoing AEI.
Net Property Income	129.6	128.1	1.1%	265.6	258.6	2.7%	2H23 property expenses rose S\$1.9mn or 3.6% YoY due to higher utilities expenses, higher repair and maintenance costs and higher staff costs.
Finance Costs	(45.3)	(26.5)	71.3%	(81.0)	(46.8)	73.0%	Higher interest expense.
Dist. Income	103.1	103.8	-0.7%	207.7	208.2	-0.2%	
DPU (Cents)	6.020	6.091	-1.2%	12.15	12.23	-0.6%	S\$1.1mn of 2H23 DI retained, while S\$3mn of previously retained DI in 1H23 was released in 2H23.

Source: Company, PSR

The Positives

+ Retail portfolio occupancy nearly full at 99.7% (+2.2ppts YoY; +1.0ppts QoQ). Excluding Tampines 1 which is undergoing AEI, occupancy at all nine malls came in at 99% or higher. Rental reversions for the retail portfolio were +4.7% for FY23; and we expect similar rental reversions for FY24e, when 29.3% of leases by GRI will be expiring.

+ Tenants' sales and shopper traffic continued to grow 7.3% and 24.7% YoY respectively for FY23 indicating robust demand. FY23 tenants' sales averaged c.17% above pre-COVID levels. Improving tenants' sales should lower occupancy costs further (currently at 15.6% and 6-year lows), and this should support FCT's ability to raise rents.

+ Retail portfolio valuation increased by S\$52.7 million, or 0.6%, to S\$8.74bn with unchanged cap rates. This suggests that suburban retail malls in Singapore continue to exhibit resilience despite rising interest rates. The below-historical-average and low retail supply of 1.21mn sq ft through to 2025 makes up only 2.4% of the current private retail stock, and this is expected to support valuations and rental rates going forward.

+ No refinancing risks in FY24. After S\$353.5mn, or 16%, of total debt that was originally due in FY24 has been refinanced to FY29, there are no more refinancing requirements in FY24. 63% of total debt has been hedged to fixed rate, and the YTD all-in cost of debt increased 10bps QoQ to 3.8%. We expect the all-in cost of debt to increase to above 4% in FY24e. ICR remains healthy at 3.47x. Gearing, currently at 39.3%, is expected to drop to 36.1% on a pro forma basis assuming the net proceeds from the divestment of Changi City Point and interest in Hektar REIT are used to repay certain debts.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.05
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.29
TOTAL RETURN	17.4%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,708
MARKET CAP (USD mn / SGD mn):	2818 / 3740
52 - WK HI/LO (SGD):	2.38 / 1.9
3M Average Daily T/O (mn):	3.16

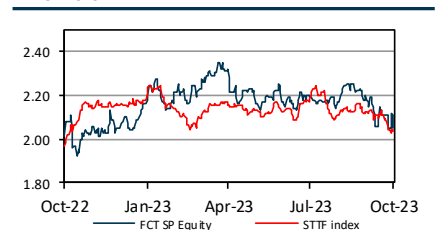
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.1)	(3.7)	3.3
STTF RETURN	(4.1)	(4.4)	(1.4)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY22	FY23	FY24e	FY25e
Gross Rev (SGD mn)	357	370	357	363
NPI (SGD mn)	259	266	252	256
Dist Inc. (SGD mn)	208	208	207	212
P/NAV (x)	0.88	0.88	0.89	0.89
DPU, adj (Cents)	12.23	12.15	12.07	12.35
Distribution Yield	6.0%	5.9%	5.9%	6.0%

Source: Company, PSR

Valuation Method

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

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The Negative

- **Higher operating costs** from higher energy and water prices, as well as higher manpower costs, will likely eat into NPI margins in FY24e. We expect NPI margins to drop from 71.8% in FY23 to 70.6% in FY24e.

Outlook

FCT has done well on the transactions, with 5 different transactions announced in FY23 with a total value of S\$1.1bn. The most recent were the divestments of Changi City Point and FCT's interest in Hektar REIT (expected to be completed by the end of this year), with the divestment proceeds planned to repay debt with the highest interest cost. Going forward, further inorganic growth opportunities include the acquisition of the sponsor's pipeline of assets such as the 24.5% effective interest in NEX and Northpoint City South Wing.

The first batch of AEI units at Tampines 1 is expected to be completed in Nov 23, with tenants beginning operations from Dec 23. The mall continues to operate as works are staged and more than 94% of AEI spaces have been pre-committed to date. The full completion of Tampines 1 AEI is expected in 4Q24.

Maintain ACCUMULATE, DDM TP lowered from S\$2.35 to S\$2.29

We lower both FY24e and FY25e DPU forecasts by 5% as we roll forward our forecasts. The current share price implies a FY24e DPU yield of 5.9%.

Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Gross Revenue	341	357	370	357	363
Total Property expenses	(95)	(98)	(104)	(105)	(107)
Net Property Income	247	259	266	252	256
Net Finance (Expense)/Inc	(46)	(47)	(81)	(76)	(76)
Trust expenses	(3)	(4)	(4)	(3)	(3)
Manager's management fees	(32)	(33)	(35)	(31)	(29)
Net Income	166	176	149	142	148
Share of associate's results	(1)	(1)	6	-	-
Share of JV's results	17	25	51	48	49
Other Adjustments	16	12	20	18	16
Distribution to Unitholders	205	208	208	207	212

Per share data

Y/E Sep, SGD	FY21	FY22	FY23	FY24e	FY25e
NAV	2.30	2.33	2.32	2.31	2.31
DPU (Cents)	12.09	12.23	12.15	12.07	12.35

Cash Flow

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net Income	172	201	212	190	197
Adjustments	43	25	28	37	35
WC changes	(5)	9	3	(5)	1
Cashflow from operating activities	198	234	243	222	234
CFI					
Capex on inv properties	-	(6)	(8)	(5)	(5)
Others	(471)	22	(349)	411	48
Cashflow from investing activities	(471)	16	(357)	407	43
CFF					
Share issuance	1,335	-	-	-	-
Distributions to Unitholders	(150)	(208)	(208)	(208)	(207)
Others	(899)	(46)	316	(398)	(73)
Cashflow from financing activities	286	(254)	108	(606)	(280)
Net change in cash	14	(4)	(6)	23	(3)
CCE, end	42	38	32	55	52

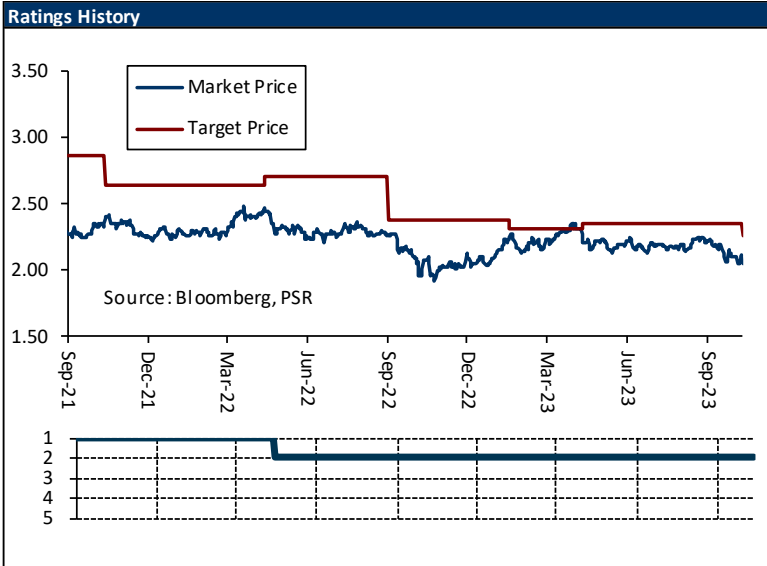
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	5,507	5,516	5,221	5,225	5,230
Investment in Associates	46	41	-	-	-
Non Current Assets	5,848	5,891	5,966	5,972	5,979
Trade and Other Receivables	9.0	8.9	8.8	10.7	10.9
Cash and Cash Equivalents	42	38	32	55	52
Current Assets	51	50	409	70	67
Total Assets	5,899	5,941	6,375	6,042	6,046
LIABILITIES					
Interest bearing borrowings	1,604	1,419	1,842	1,360	1,323
Others	54	50	56	56	56
Non-Current Liabilities	1,658	1,470	1,898	1,416	1,379
Trade and other payables	76	71	95	92	93
Interest bearing borrowings	205	391	353	513	553
Others	42	46	55	55	55
Current Liabilities	322	507	504	660	701
Total Liabilities	1,980	1,977	2,402	2,076	2,080
EQUITY					
Shareholder Equity	3,919	3,964	3,973	3,966	3,965

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.89	0.88	0.88	0.89	0.89
Distribution yield	5.9%	6.0%	5.9%	5.9%	6.0%
NPI yield	4.5%	4.7%	5.1%	4.8%	4.9%
Growth & Margins	FY22	FY23	FY24e	FY25e	FY26e
Growth					
Revenue	107.5%	4.6%	3.6%	-3.5%	1.8%
Net property income (NPI)	122.4%	4.9%	2.7%	-5.2%	1.8%
DPU	33.7%	1.2%	-0.6%	-0.7%	2.4%
Margins					
NPI margin	72.3%	72.5%	71.8%	70.6%	70.6%
Net Income Margin	48.6%	49.2%	40.3%	39.8%	40.7%
Key Ratios					
Gearing	32.9%	32.8%	39.3%	35.8%	35.9%
ROA	2.8%	3.0%	2.3%	2.3%	2.4%
ROE	4.2%	4.4%	3.8%	3.6%	3.7%
Interest coverage ratio (x)	5.38	5.53	3.29	3.32	3.38



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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