

Fraser's Centrepont Trust

Increasing stake in NEX

SINGAPORE | REAL ESTATE (REIT) | 1Q24 Update

- No financials were provided in the 1Q24 business update. Retail portfolio occupancy increased 1.5ppts YoY and 0.2ppts QoQ to 99.9%, with rental reversions exceeding FY23's +4.7%.
- DPU-accretive acquisition of an additional 24.5% stake in NEX, with further upside potential if tax transparency is achieved.
- Maintain ACCUMULATE; DDM TP raised from S\$2.29 to S\$2.38. We increase our FY24e-26e DPU estimates by 0.4-1% after accounting for the acquisition. We expect c.5% positive rental reversion for FY24e, supported by the low occupancy cost of 15.5% post-acquisition. Catalysts include more accretive acquisitions and tax transparency treatment for FCT's stake in NEX. The current share price implies a FY24e DPU yield of 5.2%.

The Positives

+ Retail portfolio occupancy is almost full at 99.9% (+1.5ppts YoY; +0.2ppts QoQ). Management guided that rental reversions for the quarter were above FY23's +4.7%, and we expect this positive rental reversion trend to continue for the 20.3% of leases (by GRI) that expire in FY24.

+ Gearing improved from 39.3% to 37.2%, after using the proceeds from the divestments of Changi City Point and interest in Hektar REIT to pay off some debt. The all-in cost of debt increased 20bps QoQ to 4.3%, and the proportion of fixed-interest rate borrowings stands at 63.4%. Green loans now account for 72.5% of total borrowings. FCT has no debt expiring in FY24.

The Negative

- Tenant sales were down 0.7% YoY in 1Q24 due to several key anchor tenants undergoing renovations, and from a higher base in 2023. Excluding this, it was up 1.1% and was 18% above pre-COVID levels. Portfolio shopper traffic was 3.1% higher YoY, and F&B continues to be the key demand driver. Occupancy cost remains healthy at 15.5%.

Acquisition of an additional 24.5% stake in NEX

FCT announced the proposed acquisition of the sponsor's 24.5% interest in NEX for S\$523.1mn, taking FCT's stake to 50% post-acquisition. The agreed property value of S\$2.127bn, based on the average of two independent valuations as of 31 Dec 2023, was 2.4% higher than when FCT purchased the initial 25.5% stake. The NPI yield of 4.8% for this transaction was similar to the initial stake due to improvement in the underlying asset performance. This transaction is funded by a private placement to raise S\$200mn, which was oversubscribed by 2.5x with 91.744mn shares issued at S\$2.18, and debt financing.

We like this transaction as NEX is a high-quality asset and a good strategic fit for FCT's diversified prime suburban retail portfolio. Post-acquisition, FCT will be the largest prime suburban retail space owner in Singapore, and this enhances its ability to attract and retain tenants, possibly offering them a wider choice of locations.

Based on a 3.8% debt funding cost, this transaction is expected to be 0.4% accretive to FY23 pro-forma DPU (1.5% DPU accretive if including adjustments for divestment of Changi City Point and Hektar REIT). There is also a potential S\$7mn in tax savings if FCT can restructure the holding company to a limited liability partnership structure for tax transparency, subject to JV partner's agreement and authorities' approval. Post-acquisition gearing is expected to be 37.8%.



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5 February 2024

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.33
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.38
TOTAL RETURN	7.4%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,714
MARKET CAP (USD mn / SGD mn):	2972 / 3993
52 - WK HI/LO (SGD):	2.35 / 2.01
3M Average Daily T/O (mn):	2.99

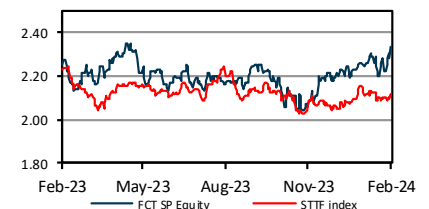
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	5.5	15.2	5.0
STTF RETURN	(1.5)	3.2	(1.8)

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	219	225
P/NAV (x)	1.00	1.00	1.01	1.01
DPU, adj (Cents)	12.23	12.15	12.12	12.43
Distribution Yield	5.2%	5.2%	5.2%	5.3%

Source: Company, PSR

Valuation Method

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

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Outlook

Resilient tenant sales should support FCT's ability to raise rents further, supported by the healthy occupancy cost of c.15.5%. Inorganic growth opportunities include the acquisition of the sponsor Northpoint City South Wing and the remaining 50% stake in NEX.

The first batch of completed AEI works at Tampines 1 commenced operations in Dec 2023, and the full AEI completion is expected by September 2024. The mall continues to operate as works are staged and more than 97% of AEI spaces have been pre-committed to date.

Maintain ACCUMULATE; DDM TP raised from S\$2.29 to S\$2.38

Catalysts include stronger-than-forecast rental reversions and accretive acquisitions. Risks include a slowdown in retail sales. The current share price implies an FY24e DPU yield of 5.2%.

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)	(89)	(89)
Trust expenses	(3)	(4)	(4)	(3)	(3)
Manager's management fees	(32)	(33)	(35)	(31)	(29)
Net Income	166	176	149	129	134
Share of associate's results	(1)	(1)	6	-	-
Share of JV's results	17	25	51	70	71
Other Adjustments	16	12	20	23	22
Distribution to Unitholders	205	208	208	219	225

Per share data

Y/E Sep, SGD	FY21	FY22	FY23	FY24e	FY25e
NAV	2.30	2.33	2.32	2.31	2.30
DPU (Cents)	12.09	12.23	12.15	12.12	12.43

Cash Flow

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net Income	172	201	212	198	206
Adjustments	43	25	28	35	33
WC changes	(5)	9	3	(9)	1
Cashflow from operating activities	198	234	243	224	239
CFI					
Capex on inv properties	-	(6)	(8)	(5)	(5)
Others	(471)	22	(349)	111	69
Cashflow from investing activities	(471)	16	(357)	106	64
CFF					
Share issuance	1,335	-	-	200	-
Distributions to Unitholders	(150)	(208)	(208)	(208)	(219)
Others	(899)	(46)	316	(291)	(87)
Cashflow from financing activities	286	(254)	108	(299)	(306)
Net change in cash	14	(4)	(6)	31	(2)
CCE, end	42	38	32	63	61

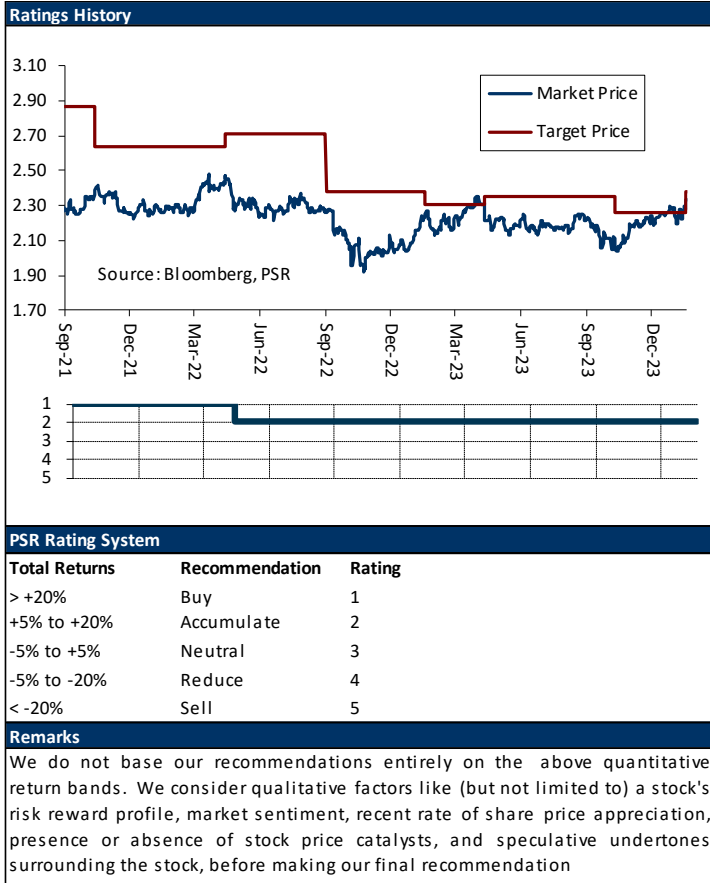
Source: Company, Phillip Securities Research (Singapore) Estimates

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	6,490	6,497
Trade and Other Receivables	9.0	8.9	8.8	10.7	10.9
Cash and Cash Equivalents	42	38	32	63	61
Current Assets	51	50	409	77	75
Total Assets	5,899	5,941	6,375	6,567	6,572
LIABILITIES					
Interest bearing borrowings	1,604	1,419	1,842	1,676	1,639
Others	54	50	56	56	56
Non-Current Liabilities	1,658	1,470	1,898	1,732	1,695
Trade and other payables	76	71	95	88	89
Interest bearing borrowings	205	391	353	513	553
Others	42	46	55	55	55
Current Liabilities	322	507	504	657	697
Total Liabilities	1,980	1,977	2,402	2,388	2,392
EQUITY					
Shareholder Equity	3,919	3,964	3,973	4,179	4,180

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.01	1.00	1.00	1.01	1.01
Distribution yield	5.2%	5.2%	5.2%	5.2%	5.3%
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%	-0.2%	2.5%
Margins					
NPI margin	72.3%	72.5%	71.8%	70.6%	70.6%
Net Income Margin	48.6%	49.2%	40.3%	36.0%	37.0%
Key Ratios					
Gearing	32.9%	32.8%	39.3%	41.9%	41.9%
ROA	2.8%	3.0%	2.3%	2.0%	2.0%
ROE	4.2%	4.4%	3.8%	3.1%	3.2%
Interest coverage ratio (x)	5.38	5.53	3.29	2.82	2.87



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