

Frasers Centrepoint Trust

Low occupancy cost to drive rental reversion

SINGAPORE | REAL ESTATE (REIT) | 3Q24 Update

- No financials were provided in the 3Q24 business update. Retail portfolio occupancy was 99.7%, with each retail mall having an occupancy rate of over 99%.
- 3Q24 shopper traffic and tenants' sales were up 4.1% and 0.7%, respectively. Financial year-to-date tenants' sales are 20% above pre-COVID 2019 levels. The AEI at Tampines 1 is expected to be completed by September 2024, with 100% committed occupancy.
- Maintain ACCUMULATE, with an unchanged DDM TP of S\$2.38. We expect 7% positive rental reversion for FY24e supported by the low occupancy cost of under 16% that averaged 17% pre-pandemic. Share price catalysts include more accretive acquisitions and lower-than-expected interest costs. The share trades at an FY24e DPU yield of 5.5%. There is no change in our estimates.

The Positives

+ 3Q24 retail portfolio occupancy remained high at 99.7% (2Q24: 99.9%; 3Q23: 98.7%). Occupancy was at least 99% across all the malls. The ability to negotiate higher rent is in FCT's favour with such high occupancy. Rental reversion for 3Q24 was like 1H24's rental reversion of +7.5%. We expect this healthy positive rental reversion trend to continue for the remaining 4.3% of leases (by GRI) that expire in FY24.

+ Improvements in tenants' sales and shopper traffic. 3Q24 tenants' sales and shopper traffic were 0.7% and 4.1% higher YoY, respectively. Financial year-to-date tenants' sales were 20% above pre-COVID 2019 levels. We expect tenants' sales to remain robust, supported by various government handouts to Singapore residents totalling over S\$10bn, such as the Assurance Package and the Cost-of-Living Support Package.

+ Healthy financial metrics. FCT's average cost of debt and adjusted ICR were stable QoQ at 4.2% and 3.26x, respectively. 67.2% of debt is hedged to a fixed rate. Aggregate leverage rose slightly from 38.5% to 39.1% QoQ due to a loan that was drawn down to fund Capex and working capital purposes. FCT has no loans due in FY24, and we expect FY24e/25e all-in cost of debt to be low 4%.

The Negative

- nil

Outlook

Resilient tenant sales, limited new retail supply expected over the next few years and healthy occupancy cost of under 16%, should support FCT's ability to raise rents. Inorganic growth opportunities include the acquisition of the sponsor's stake in Northpoint City South Wing and the remaining 50% stake in NEX. We expect FY24e year-end valuations to improve slightly from stable cap rates and the improving NPI of the properties.

The Tampines 1 (T1) AEI is on track to be completed by September 2024. Post completion, T1 will have 68 (28% of T1 NLA) new-to-mall concepts, such as Love Bonito and Yakiniku Like, and 46 (17% of T1 NLA) new-to-FCT concepts, such as Hawkers' Street and Aluxe. Roughly 9k sf of NLA was created and deployed to prime retail floors during this AEI. The projected ROI for this project is expected to outperform the initial 8% target.

Maintain ACCUMULATE with an unchanged DDM TP of 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 5.5%.



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26 July 2024

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.20
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.38
TOTAL RETURN	13.8%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,810
MARKET CAP (USD mn / SGD mn):	2960 / 3982
52 - WK HI/LO (SGD):	2.33 / 2.01
3M Average Daily T/O (mn):	2.78

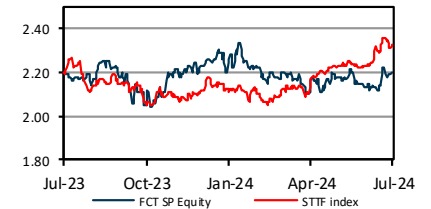
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.3	5.1	(0.0)
STTF RETURN	4.0	8.6	8.7

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)	0.95	0.95	0.95	0.96
DPU, adj (Cents)	12.23	12.15	12.12	12.43
Distribution Yield	5.6%	5.5%	5.5%	5.6%

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	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

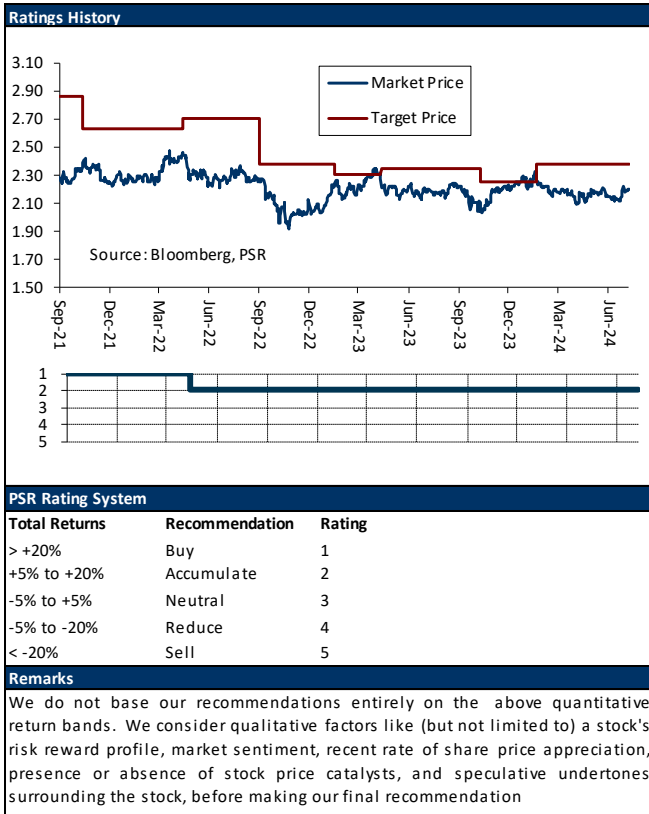
Source: Company, Phillip Securities Research (Singapore) Estimates

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 JV	294	312	731	1,250	1,252
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)	0.95	0.95	0.95	0.95	0.96
Distribution yield	5.5%	5.6%	5.5%	5.5%	5.6%
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%	33.3%	33.4%
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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