

### COMPANY UPDATE

## Frasers Centrepoint Trust (FCT SP)

Defensive Strength Supported By Essential Services

FCT is one of the most defensive S-REITs. Essential services account for 45% of its total NLA and contribute 54.4% of gross rental income. Tenant sales have surpassed pre-pandemic levels since Oct 21, and were 11% above pre-pandemic levels in Jun 22. It can weather uncertainties due to its strong balance sheet with low aggregate leverage of 33.9%. Maintain BUY for its defensive yield of 5.8% for FY23. Target price: S\$2.74.

### WHAT'S NEW

- Suburban malls are resilient and defensive.** Frasers Centrepoint Trust's (FCT) suburban retail malls have large population catchment and good connectivity to public transport. All its nine suburban retail malls are located on or next to MRT stations. Thus, shopper traffic was high at 136m (FY21). The portfolio serves a combined catchment population of 2.6m (46% of Singapore's population).
- Catering to daily necessities.** Essential services, comprising F&B, supermarket & hypermarket, groceries, beauty & health and other services (personal grooming, clinics and etc), are patronised by consumers on a regular basis. Suburban malls typically have a higher proportion of retail space allocated to essential services at 40% of NLA, compared to industry average of 20-30%. FCT allocates an even higher 45% of NLA for essential services. This defensive segment contributes 54.4% of gross rental income.
- Suburban malls benefitting from reopening.** FCT has turned around to achieve positive rent reversion of 1.7% (first year rent of incoming lease vs final year rent of outgoing lease) and 4.1% (average vs average) in 1HFY22. Shopper traffic grew 32% yoy in 3QFY22 with all suburban malls registering double-digit growth. Tenant sales increased 23% yoy in 3QFY23, driven by supermarkets, beauty & healthcare, leisure & entertainment and F&B. Tenant sales have surpassed pre-pandemic levels since Oct 21 and were 11% above pre-pandemic levels in Jun 22.
- Overcoming the bunching up of lease expiry in FY22.** Portfolio occupancy was maintained at a healthy 97.1% as of end-Jun 22. Dominant suburban malls, such as Causeway Point, Northpoint City North Wing and Waterway Point, registered high occupancies of 99.3%, 100% and 100% respectively. Occupancy at Changi City Point improved 3.4ppt qoq to 96.1% as more employees returned to work at Changi Business Park. Occupancy at White Sands improved 1.3ppt qoq to 95.3%. FCT has substantially completed the bulk of lease renewal required in FY22, which was initially 38.7% of total NLA.
- Progressively back filling vacant spaces.** Occupancy at Century Square dropped 10.4ppt qoq to 83.0% due to pre-termination by anchor tenant Filmgarde. FCT is in advanced negotiations with two potential replacement tenants. Management expects lease agreements to be signed in 4QFY22 and occupancy is expected to recover above 90%.

### KEY FINANCIALS

Year to 30 Sep (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	164	341	352	353	354
EBITDA	90	212	224	222	217
Operating profit	90	212	224	222	217
Net profit (rep./act.)	152	169	208	197	191
Net profit (adj.)	148	140	207	197	191
EPU (S\$ cent)	13.3	12.5	12.2	11.6	11.2
DPU (S\$ cent)	9.0	12.1	12.9	13.0	12.6
PE (x)	17.0	18.1	18.5	19.5	20.2
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	4.0	5.3	5.7	5.8	5.6
Net margin (%)	92.3	49.4	58.9	55.7	53.9
Net debt/(cash) to equity (%)	48.2	45.1	46.4	47.3	48.2
Interest cover (x)	3.3	4.6	5.3	4.3	4.1
ROE (%)	6.1	5.2	5.3	5.0	4.9
Consensus DPU (S\$ cent)	n.a.	n.a.	12.6	12.6	13.0
UOBKH/Consensus (x)	-	-	1.02	1.03	0.97

Source: Frasers Centrepoint Trust, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.26
Target Price	S\$2.74
Upside	+21.2%

### COMPANY DESCRIPTION

FCT is one of the largest owners of suburban retail malls in Singapore with AUM of S\$6.1b. It has nine suburban malls and one office building. Its retail malls are located in populous residential estates and close proximity to public transportation amenities, such as MRT stations and bus interchanges.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FCT SP
Shares issued (m):	1,702.1
Market cap (S\$m):	3,846.7
Market cap (US\$m):	2,751.3
3-mth avg daily t'over (US\$m):	4.6

### Price Performance (%)

52-week high/low S\$2.48/S\$2.21

1mth	3mth	6mth	1yr	YTD
0.8	6.6	3.0	(2.4)	5.2

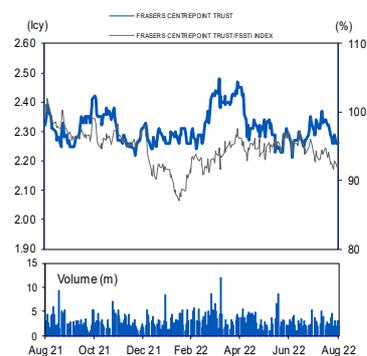
### Major Shareholders

Frasers Property Ltd	41.1%
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FY22 NAV/Share (S\$) 2.31

FY22 Net Debt/Share (S\$) 1.07

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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• **Conservative capital management.** Aggregate leverage remained low at 33.9% as of Jun 22. The average all-in cost of debt increased 20bp qoq to 2.4%. 69% of its borrowings are hedged to fixed interest rates. Management estimated that every 50bp increase in SOR/SORA will have a negative impact on DPU of 0.17 S cents per year.

### STOCK IMPACT

- **Defensive yield from necessity consumption.** FCT's suburban malls are well located with connectivity to MRT stations and bus interchanges and proximity to dense population catchments. FCT is one of the most defensive S-REITs due to: a) its focus on essential services at suburban malls, and b) low aggregate leverage of 33.9%.
- **Optimising income from suburban malls.** FCT seeks to maximise ancillary income from gross turnover (GTO) rent, pop-up stores at retail podium (atrium space), car park charges and advertising. In aggregate, ancillary income accounts for about 10% of gross revenue.
- **On the lookout for acquisition opportunities within Singapore.** FCT's balance sheet has deleveraged with aggregate leverage currently at 33.9%. It could tap on its sponsor pipeline, such as Northpoint City South Wing. It will also explore opportunities for acquisitions from third-party vendors, such as further increasing its stake in Waterway Point from 40% to 50%.
- **Top contender for inclusion into STI.** According to FTSE Russell, the four highest ranking non-constituents of the Straits Times Index (STI) by market capitalisation (in order of size) are Olam International, Suntec REIT, Keppel REIT and FCT. FCT is a top contender to replace any constituents that become ineligible as a result of corporate actions.

### POP-UP STORES AT RETAIL PODIUM – TIONG BAHRU PLAZA



Source: FCT

### POP-UP STORES AT RETAIL PODIUM – CENTURY SQUARE



Source: FCT

### EARNINGS REVISION/RISK

- We maintained our existing DPU forecast.

### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$2.74 is based on DDM (cost of equity: 7.0%, terminal growth: 2.6%).

### SHARE PRICE CATALYST

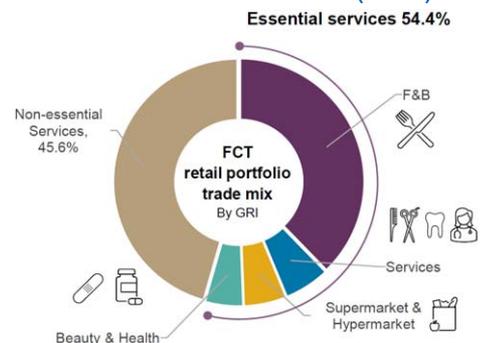
- Steady growth in shopper traffic and tenant sales as consumer spending normalises.
- Acquisition of Northpoint City South Wing from sponsor Frasers Property.

### KEY OPERATING METRICS

	1QFY22	2QFY22	3QFY22	yoy % Chg	qoq % Chg
DPU (S cents)	n.a.	6.14	n.a.	n.a.	n.a.
Occupancy	97.2%	97.8%	97.1%	0.7ppt	-0.7ppt
Aggregate Leverage	34.5%	33.3%	33.9%	0ppt	0.6ppt
Weighted All-in Financing Cost	2.2%	2.2%	2.4%	0.2ppt	0.2ppt
% Borrowing on Fixed Rates	54.0%	68.0%	69.0%	10ppt	1ppt
WALE by NLA (years)	1.84	1.87	1.85	0.2yrs	0yrs
Debt Maturity (years)	2.28	2.09	2.31	-0.5yrs	0.2yrs
Rental Reversions	n.a.	1.7%	n.a.	n.a.	n.a.

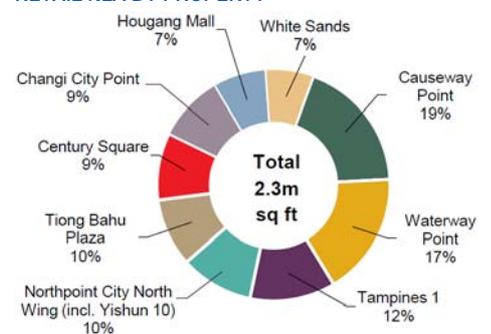
Source: FCT, UOB Kay Hian

### FOCUSED ON ESSENTIAL SERVICES (JUN 22)



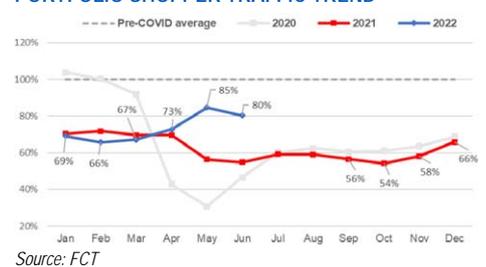
Source: FCT

### RETAIL NLA BY PROPERTY



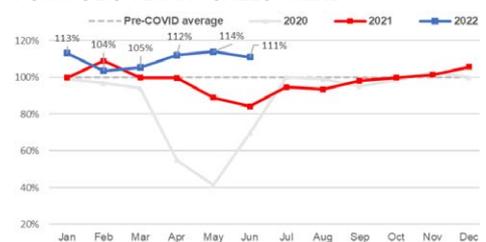
Source: FCT

### PORTFOLIO SHOPPER TRAFFIC TREND



Source: FCT

### PORTFOLIO TENANT SALES TREND



Source: FCT

### PROFIT & LOSS

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Net turnover	341.2	352.4	353.1	353.9
EBITDA	211.6	224.1	222.2	216.9
Deprec. & amort.	0.1	0.1	0.1	0.1
EBIT	211.5	224.0	222.1	216.8
Total other non-operating income	(25.4)	0.0	0.0	0.0
Associate contributions	3.8	19.7	26.5	27.0
Net interest income/(expense)	(45.9)	(42.6)	(51.8)	(53.0)
Pre-tax profit	172.2	201.6	196.8	190.7
Tax	(3.6)	6.0	0.0	0.0
Net profit	168.6	207.6	196.8	190.7
Net profit (adj.)	140.4	207.1	196.8	190.7

### BALANCE SHEET

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Fixed assets	5,506.7	5,508.0	5,508.0	5,508.0
Other LT assets	340.9	344.2	344.2	344.2
Cash/ST investment	42.2	49.0	40.0	41.2
Other current assets	9.0	14.8	14.8	14.8
<b>Total assets</b>	<b>5,898.8</b>	<b>5,916.0</b>	<b>5,907.0</b>	<b>5,908.1</b>
ST debt	204.8	150.0	150.0	150.0
Other current liabilities	117.4	93.9	94.3	94.7
LT debt	1,604.1	1,720.0	1,735.0	1,760.0
Other LT liabilities	53.7	24.1	24.2	24.2
Shareholders' equity	3,918.8	3,927.9	3,903.6	3,879.2
<b>Total liabilities &amp; equity</b>	<b>5,898.8</b>	<b>5,916.0</b>	<b>5,907.0</b>	<b>5,908.1</b>

### CASH FLOW

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>198.4</b>	<b>213.9</b>	<b>250.5</b>	<b>245.7</b>
Pre-tax profit	165.8	181.4	170.3	163.7
Deprec. & amort.	0.1	0.1	0.1	0.1
Associates	4.9	21.5	22.5	23.0
Working capital changes	56.0	(22.2)	0.3	0.4
Non-cash items	6.5	7.1	7.6	7.5
Other operating cashflows	(34.7)	26.1	49.7	51.0
<b>Investing</b>	<b>(470.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Capex (growth)	(926.0)	0.0	0.0	0.0
Capex (maintenance)	(5.8)	(5.0)	(5.0)	(5.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	438.0	0.0	0.0	0.0
Others	23.2	3.5	3.5	3.5
<b>Financing</b>	<b>285.8</b>	<b>(205.6)</b>	<b>(258.0)</b>	<b>(243.1)</b>
Distribution to unitholders	(150.0)	(224.0)	(221.2)	(215.0)
Issue of shares	1,334.7	0.0	0.0	0.0
Proceeds from borrowings	636.6	61.1	15.0	25.0
Loan repayment	(1,487.2)	0.0	0.0	0.0
Others/interest paid	(48.2)	(42.6)	(51.8)	(53.0)
Net cash inflow (outflow)	13.7	6.8	(9.0)	1.1
Beginning cash & cash equivalent	28.6	42.2	49.0	40.0
Ending cash & cash equivalent	42.2	49.0	40.0	41.2

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	62.0	63.6	62.9	61.3
Pre-tax margin	50.5	57.2	55.7	53.9
Net margin	49.4	58.9	55.7	53.9
ROA	3.4	3.5	3.3	3.2
ROE	5.2	5.3	5.0	4.9
<b>Growth</b>				
Turnover	107.5	3.3	0.2	0.2
EBITDA	134.4	5.9	(0.9)	(2.4)
Pre-tax profit	13.5	17.1	(2.4)	(3.1)
Net profit	11.2	23.1	(5.2)	(3.1)
Net profit (adj.)	(5.2)	47.5	(5.0)	(3.1)
EPU	(5.7)	(2.5)	(5.1)	(3.2)
<b>Leverage</b>				
Debt to total capital	31.6	32.3	32.6	33.0
Debt to equity	46.2	47.6	48.3	49.2
Net debt/(cash) to equity	45.1	46.4	47.3	48.2
Interest cover (x)	4.6	5.3	4.3	4.1

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