

COMPANY UPDATE

Frasers Centrepoint Trust (FCT SP)

Sharpening Focus On Dominant Suburban Malls

FCT intends to divest CCP for S\$338m in cash, which represents an attractive exit yield of 4.3%. Proceeds from the divestment would be utilised to repay loans with higher interest rates and reduce aggregate leverage from 40.2% to 37.1%. Cost of borrowings is expected to improve by 0.1ppt to 3.6%. FCT's suburban malls cater to basic necessities and benefit from the hybrid work arrangement. The company provides defensive FY24 distribution yield of 5.3%. Maintain BUY. Target price: S\$2.50.

WHAT'S NEW

- **Rebalancing towards dominant suburban malls.** Frasers Centrepoint Trust (FCT) has entered into a sale and purchase agreement with an unrelated third party to divest Changi City Point (CCP) for S\$338m in cash. The divestment is expected to complete on 15 Nov 23. The estimated net divestment gain is S\$10.9m above valuation at S\$325m as at Sep 22. Exit yield was attractive at 4.3%.
- **Profile not aligned to overall strategy.** CCP with NLA of 208,453sf is located within Changi Business Park and connected to the Singapore Expo MRT station. Its remaining leasehold is relatively short at 46 years. Unlike FCT's other suburban malls with large catchment of residential population, shoppers at CCP are typically employees working at Changi Business Park or conference attendees at Singapore Expo. CCP has its fair share of ups and downs. Its occupancy slipped to a low of 90.4% during the COVID-19 pandemic. CCP is currently being repositioned as an outlet mall in the East.
- **Portfolio matrices enhanced through divestment.** Portfolio committed occupancy is expected to improve from 98.7% to 99.3%. Average gross rent psf is expected to increase 3.7%, while tenants' sales psf is expected to increase 3.9%.
- **Improve resiliency of balance sheet.** Management intends to utilise the net proceeds to repay loans with higher interest rates and reduce pro forma aggregate leverage from 40.2% to 37.1%. Cost of borrowings is expected to improve by 0.1ppt to 3.6%.

KEY FINANCIALS

| Year to 30 Sep (S\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 341 | 357 | 373 | 354 | 357 |
| EBITDA | 212 | 222 | 235 | 222 | 224 |
| Operating profit | 212 | 222 | 235 | 222 | 224 |
| Net profit (rep./act.) | 169 | 207 | 208 | 196 | 188 |
| Net profit (adj.) | 140 | 204 | 208 | 186 | 188 |
| EPU (S\$ cent) | 12.5 | 12.0 | 12.2 | 10.9 | 11.0 |
| DPU (S\$ cent) | 12.1 | 12.2 | 12.2 | 11.6 | 11.7 |
| PE (x) | 17.7 | 18.4 | 18.1 | 20.3 | 20.1 |
| P/B (x) | 1.0 | 0.9 | 1.0 | 1.0 | 1.0 |
| DPU Yld (%) | 5.5 | 5.5 | 5.5 | 5.3 | 5.3 |
| Net margin (%) | 49.4 | 58.1 | 55.7 | 55.5 | 52.6 |
| Net debt/(cash) to equity (%) | 45.1 | 44.7 | 56.1 | 57.6 | 58.1 |
| Interest cover (x) | 4.6 | 4.7 | 3.1 | 2.6 | 2.6 |
| ROE (%) | 5.2 | 5.3 | 5.2 | 5.0 | 4.8 |
| Consensus DPU (S\$ cent) | n.a. | n.a. | 12.1 | 12.2 | 12.6 |
| UOBKH/Consensus (x) | - | - | 1.00 | 0.95 | 0.93 |

Source: Frasers Centrepoint Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$2.21 |
| Target Price | S\$2.50 |
| Upside | +13.1% |
| (Previous TP) | S\$2.52 |

COMPANY DESCRIPTION

FCT is one of the largest owners of suburban retail malls in Singapore with portfolio valuation at S\$6.9b. It has ten 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): | 1,708.5 |
| Market cap (S\$m): | 3,775.7 |
| Market cap (US\$m): | 2,788.1 |
| 3-mth avg daily t'over (US\$m): | 4.2 |

Price Performance (%)

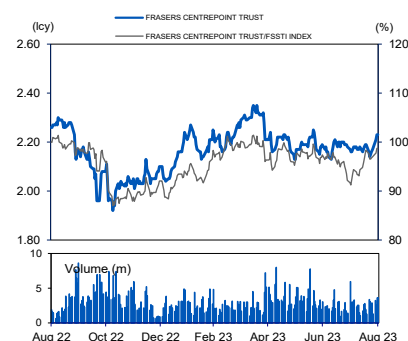
| | | | | | |
|------------------|-----------------|-------|-------|-----|--|
| 52-week high/low | S\$2.35/S\$1.92 | | | | |
| 1mth | 3mth | 6mth | 1yr | YTD | |
| 1.4 | 2.8 | (1.8) | (2.2) | 5.2 | |

Major Shareholders

| | |
|----------------------|-------|
| Frasers Property Ltd | 41.2% |
|----------------------|-------|

| | |
|---------------------------|------|
| FY23 NAV/Share (S\$) | 2.33 |
| FY23 Net Debt/Share (S\$) | 1.30 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Retail sentiment has improved.** FCT's suburban malls benefit as consumers prioritise their spending on essential goods and services. Shopper traffic was 9% below pre-pandemic levels, but tenants' sales were 17% above pre-pandemic levels as of Jun 23. On a ytd basis, FCT's tenant sales were 16% above pre-pandemic levels.
- Retail market has picked up.** Leasing activities were boosted by new mall openings, such as Woodleigh Mall and Komo Shoppes. Demand was driven by F&B operators (especially cafes), fashion and beauty & health. Retailers have gained confidence due to tourism recovery and the return of office crowds. According to CBRE, rents at suburban malls jumped by 3.1% yoy to S\$31.15psf/month in 2Q23. CBRE expects a recovery of retail rents in 2023 due to tourism recovery and below-average new retail supply. Retailers are willing to pay higher rents to secure prime retail spaces.
- Scaling up suburban malls in Singapore.** FCT had completed the acquisition of a 25.5% interest in NEX and an additional 10.0% interest in Waterway Point in Feb 23. According to Cistri, FCT has the largest market share of 10.5% for suburban shopping malls' floor space, ahead of CICT at 9.6% as of Mar 23. FCT serves a population catchment of 2.6m, which is close to half of Singapore's population.
- AEI for Tampines 1.** FCT plans to invest S\$38m to enhance Tampines 1 with additional NLA of 8,000sf from various bonus GFA schemes. Leasing has gained strong traction with more than 90% of the additional NLA already pre-committed. The asset enhancement initiative (AEI) commenced in Apr 23 and is scheduled to be completed in 3Q24. It is estimated to provide a ROI of 8% by generating higher rents.

EARNINGS REVISION/RISK

- We maintain our existing FY24 DPU forecast of 11.6 S cents as proceeds from the divestment of CCP is utilised to repay loans with higher interest rates.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$2.50** based on DDM (cost of equity: 7.0%, terminal growth: 2.5%).

SHARE PRICE CATALYST

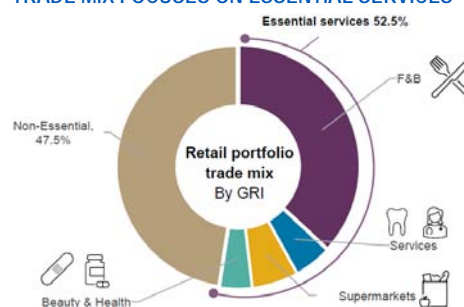
- Increase in shopper traffic and tenant sales driven by healthy growth in domestic consumption.
- Acquisition of NEX (effective stake of 24.5%) and Northpoint City South Wing from sponsor Frasers Property.

KEY OPERATING METRICS

| | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | yoy % Chg | qoq % Chg* |
|--------------------------------|--------|--------|--------|--------|--------|-----------|------------|
| DPU (S cents) | n.a. | 6.09 | n.a. | 6.13 | n.a. | n.a. | n.a. |
| Occupancy | 97.1% | 97.5% | 98.4% | 99.2% | 98.7% | 1.6ppt | -0.5ppt |
| Aggregate Leverage | 33.9% | 33.0% | 33.9% | 39.6% | 40.2% | 6.3ppt | 0.6ppt |
| Weighted All-in Financing Cost | 2.4% | 2.5% | 3.5% | 3.6% | 3.7% | 1.3ppt | 0.1ppt |
| % Borrowing on Fixed Rates | 69.0% | 71.0% | 73.0% | 76.4% | 63.0% | -6ppt | -13.4ppt |
| WALE by NLA (years) | 1.85 | 1.87 | 1.87 | 1.93 | 1.95 | 0.1yrs | 0yrs |
| Debt Maturity (years) | 2.31 | 2.03 | 1.82 | 1.91 | 2.53 | 0.2yrs | 0.6yrs |
| Rental Reversions | n.a. | 1.5% | n.a. | 1.9% | n.a. | n.a. | n.a. |

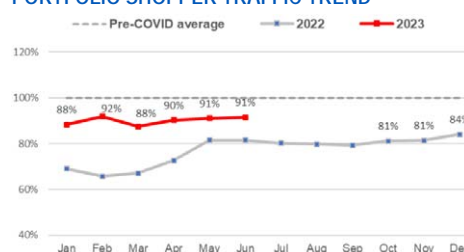
Source: FCT * hoh % chg for DPU & rental reversions

TRADE MIX FOCUSES ON ESSENTIAL SERVICES



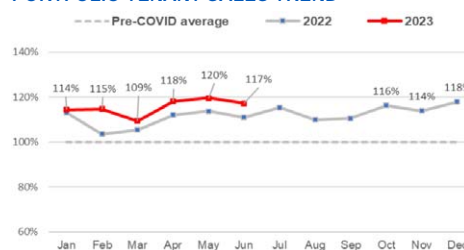
Source: FCT

PORTFOLIO SHOPPER TRAFFIC TREND



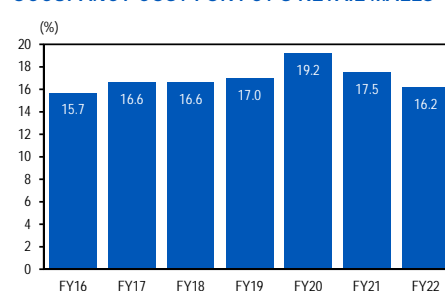
Source: FCT

PORTFOLIO TENANT SALES TREND



Source: FCT

OCCUPANCY COST FOR FCT'S RETAIL MALLS



Source: FCT

PROFIT & LOSS

| Year to 30 Sep (\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------|--------|--------|--------|
| Net turnover | 356.9 | 373.2 | 354.0 | 356.9 |
| EBITDA | 222.4 | 235.0 | 222.3 | 224.3 |
| Deprec. & amort. | 0.0 | 0.1 | 0.1 | 0.1 |
| EBIT | 222.4 | 234.9 | 222.2 | 224.2 |
| Total other non-operating income | 0.0 | 0.2 | 0.0 | 0.0 |
| Associate contributions | 22.4 | 49.0 | 49.4 | 50.5 |
| Net interest income/(expense) | (46.8) | (76.1) | (86.1) | (87.0) |
| Pre-tax profit | 201.2 | 208.1 | 196.4 | 187.6 |
| Tax | 6.1 | (0.3) | 0.0 | 0.0 |
| Net profit | 207.3 | 207.8 | 196.4 | 187.6 |
| Net profit (adj.) | 204.0 | 207.8 | 185.5 | 187.6 |

BALANCE SHEET

| Year to 30 Sep (\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 5,516.1 | 5,517.7 | 5,230.7 | 5,230.7 |
| Other LT assets | 353.1 | 770.9 | 1,110.9 | 1,110.9 |
| Cash/ST investment | 38.2 | 38.1 | 37.4 | 35.5 |
| Other current assets | 33.9 | 23.3 | 22.8 | 22.9 |
| Total assets | 5,941.4 | 6,350.1 | 6,401.9 | 6,400.1 |
| ST debt | 390.7 | 777.6 | 777.6 | 777.6 |
| Other current liabilities | 116.7 | 97.6 | 92.6 | 93.4 |
| LT debt | 1,419.5 | 1,480.0 | 1,540.0 | 1,550.0 |
| Other LT liabilities | 50.5 | 37.1 | 35.8 | 36.0 |
| Shareholders' equity | 3,964.1 | 3,957.8 | 3,955.9 | 3,943.1 |
| Total liabilities & equity | 5,941.4 | 6,350.1 | 6,401.9 | 6,400.1 |

CASH FLOW

| Year to 30 Sep (\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|----------------|----------------|----------------|----------------|
| Operating | 233.6 | (163.0) | 603.2 | 277.1 |
| Pre-tax profit | 175.6 | 159.0 | 136.1 | 137.1 |
| Deprec. & amort. | 0.0 | 0.1 | 0.1 | 0.1 |
| Associates | 24.6 | 42.2 | 45.4 | 46.5 |
| Working capital changes | (0.5) | (18.4) | (4.5) | 0.7 |
| Non-cash items | 6.5 | 6.7 | 6.4 | 6.4 |
| Other operating cashflows | 27.4 | (352.7) | 419.7 | 86.2 |
| Investing | 16.0 | (1.5) | (379.5) | (1.5) |
| Capex (growth) | 0.0 | 0.0 | (340.0) | 0.0 |
| Capex (maintenance) | (5.9) | (5.0) | (43.0) | (5.0) |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 21.9 | 3.5 | 3.5 | 3.5 |
| Financing | (253.7) | 164.5 | (224.4) | (277.5) |
| Distribution to unitholders | (208.0) | (206.9) | (198.3) | (200.4) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 387.0 | 447.5 | 60.0 | 10.0 |
| Loan repayment | (387.0) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (45.7) | (76.1) | (86.1) | (87.0) |
| Net cash inflow (outflow) | (4.1) | (0.0) | (0.7) | (1.9) |
| Beginning cash & cash equivalent | 42.2 | 38.2 | 38.1 | 37.4 |
| Ending cash & cash equivalent | 38.2 | 38.1 | 37.4 | 35.5 |

KEY METRICS

| Year to 30 Sep (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|-------|-------|--------|-------|
| Profitability | | | | |
| EBITDA margin | 62.3 | 63.0 | 62.8 | 62.8 |
| Pre-tax margin | 56.4 | 55.7 | 55.5 | 52.6 |
| Net margin | 58.1 | 55.7 | 55.5 | 52.6 |
| ROA | 3.5 | 3.4 | 3.1 | 2.9 |
| ROE | 5.3 | 5.2 | 5.0 | 4.8 |
| Growth | | | | |
| Turnover | 4.6 | 4.6 | (5.1) | 0.8 |
| EBITDA | 5.1 | 5.7 | (5.4) | 0.9 |
| Pre-tax profit | 16.8 | 3.4 | (5.6) | (4.5) |
| Net profit | 22.9 | 0.3 | (5.5) | (4.5) |
| Net profit (adj.) | 45.3 | 1.9 | (10.7) | 1.1 |
| EPU | (4.0) | 1.7 | (10.9) | 1.0 |
| Leverage | | | | |
| Debt to total capital | 31.3 | 36.3 | 36.9 | 37.1 |
| Debt to equity | 45.7 | 57.0 | 58.6 | 59.0 |
| Net debt/(cash) to equity | 44.7 | 56.1 | 57.6 | 58.1 |
| Interest cover (x) | 4.7 | 3.1 | 2.6 | 2.6 |

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