

COMPANY UPDATE

Frasers Centrepoint Trust (FCT SP)

Pivoting Towards Dominant Suburban Malls

The acquisition of an additional 24.5% stake in Nex is accretive to pro forma 2023 DPU by 0.4%. We expect the acquisition to be completed in end-2QFY24 and contributions to kick in starting 3QFY24. NEX could be enhanced by: a) decanting existing carpark space for conversion into 60,000sf of commercial space, and b) rightsizing its tenant mix to reduce the reliance on anchor tenants. FCT provides defensive FY25 distribution yield of 5.3%. Maintain BUY. Target price: S\$2.73.

WHAT'S NEW

- **Rebalancing towards dominant suburban malls.** Frasers Centrepoint Trust (FCT) has entered into a share purchase agreement to acquire an additional 24.5% effective interest in suburban mall NEX from sponsor Frasers Property for S\$523.1m, bringing its effective interest to 50.0%. The agreed value for Nex is S\$2,127.0m or S\$3,352psf. Nex is the largest suburban mall in Northeast Singapore with total NLA of 634,631sf spread over seven levels, including two basement levels. It provided NPI yield of 4.8% for FY23.
- **Benefitting from demographic tailwind due to strategic location.** NEX is a dominant suburban mall in the Serangoon housing estate with an estimated resident population of 68,800 and 21,634 HDB flats. The vicinity has the highest population density of 19,600 per sq km, which is more than twice the national average of 7,500 per km sq. The size of the population catchment is expected to increase by 19,800 or 8.1% based on the supply of new residential units over the next five years.
- **Excellent connectivity.** NEX is located next to Serangoon MRT station, which connects to the North-East Line and Circle Line. In future, Cross Island Line will enhance connectivity and shopper traffic when phase 1 is completed in 2030. A new polyclinic with GFA of 150,800sf located opposite NEX is under construction and scheduled for completion in 2025. NEX'S high shopper traffic of 36m, which is equivalent to 3m per month, is a testimony to its central location and excellent transport infrastructure.
- **Oriented towards essential trades.** NEX's key tenants include FairPrice Xtra, Food Junction, Isetan, H&M and Shaw Theatres. Its committed occupancy was 100.0% as of Dec 23. Essential trades accounted for 48.6% of NEX's gross rental income, which is in line with other comparable suburban malls. NEX' occupancy cost is below FCT's 15.7%, which provides more room to raise rentals.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	357	372	349	356	358
EBITDA	222	228	219	223	226
Operating profit	222	228	219	223	225
Net profit (rep./act.)	207	211	201	201	207
Net profit (adj.)	204	205	190	201	207
EPU (S\$ cent)	12.0	12.1	11.1	11.2	11.5
DPU (S\$ cent)	12.2	12.2	11.6	12.1	12.2
PE (x)	19.1	19.1	20.6	20.6	20.1
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	5.3	5.3	5.1	5.3	5.3
Net margin (%)	58.1	56.8	57.5	56.6	57.7
Net debt/(cash) to equity (%)	44.7	54.4	48.9	51.4	52.0
Interest cover (x)	4.7	2.8	2.6	2.5	2.5
ROE (%)	5.3	5.3	4.9	4.8	5.0
Consensus DPU (S\$ cent)	n.a.	n.a.	11.9	12.0	12.5
UOBKH/Consensus (x)	-	-	0.98	1.01	0.97

Source: Frasers Centrepoint Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.30
Target Price	S\$2.73
Upside	+18.7%
(Previous TP)	S\$2.70

COMPANY DESCRIPTION

FCT is one of the largest owners of suburban retail malls in Singapore with portfolio valuation at S\$6.5b. 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):	1,805.5
Market cap (S\$m):	4,152.6
Market cap (US\$m):	3,088.1
3-mth avg daily t'over (US\$m):	4.9

Price Performance (%)

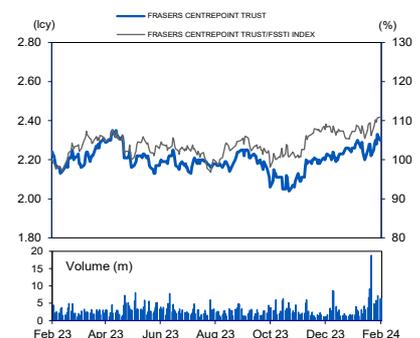
52-week high/low	S\$2.35/S\$2.04				
1mth	3mth	6mth	1yr	YTD	
1.8	10.0	5.5	1.3	1.8	

Major Shareholders

Frasers Property Ltd	41.5%
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FY24 NAV/Share (S\$)	2.32
FY24 Net Debt/Share (S\$)	1.13

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Focus on dominant suburban malls.** The acquisition is in line with FCT's strategy to focus on dominant suburban malls. It owns four of the 10 largest suburban malls in Singapore, which are NEX, Northpoint City North Wing, Causeway Point and Waterway Point. According to CBRE, FCT will increase its market share in retail malls outside the central area from 8.6% to 9.2% in terms of floor space, further cementing its lead ahead of CapitaLand Integrated Commercial Trust's (CICT) 8.7%.
- Acquisition is yield accretive.** The acquisition of 24.5% stake in NEX is accretive to pro forma 2023 DPU by 0.4% assuming cost of new loans at 3.8%. On a combined basis, the acquisition of 50.0% stake in NEX combined with the divestment of Changi City Point and Hektar REIT is accretive to pro forma 2023 DPU by 1.5%. On a combined basis, aggregate leverage would be reduced by 1.5ppt to 37.8%.
- Successfully completed equity fund raising.** FCT has completed the private placement of 91.7m new units at S\$2.18 each. It raised gross proceeds of S\$200m. FCT has also obtained new bank loans of S\$196m at an interest rate of 3.8%.
- Creating value by enhancing NEX.** Management is also looking at the feasibility of decanting the existing carpark space for conversion into commercial space. The asset enhancement initiative (AEI) is expected to provide additional NLA of 60,000sf and generate ROI of above 7% based on development cost of S\$80m-100m. Management expects the AEI to be accretive to DPU by another 0.5-0.7%. NEX is able to provide savings of S\$7m per year if the holding company is restructured into a limited liability partnership and qualifies for tax transparency.
- Generate rental growth through tenant remix.** NEX has several anchor and mini-anchor tenants, such as FairPrice Xtra, Isetan, H&M, Food Junction and Shaw Theatres, which accounted for 53% of its total NLA in aggregate. The proportion of retail space allocated to anchors and mini anchors is much larger compared with FCT's other dominant suburban malls at 41%. FCT could enhance rental yield from NEX by reconfiguring layout and rightsizing its tenant mix to reduce the reliance on anchor and mini-anchor tenants.
- Contributions to kick in starting 3QFY24.** The proposed acquisition is subject to approval by unitholders at an EGM. We expect the acquisition of 24.5% stake in NEX to be completed in end-2QFY24 and contributions to kick in starting 3QFY24.

EARNINGS REVISION/RISK

- We raise our DPU forecast by 0.8% to 12.1 S cents for FY25 (contribution from additional 24.5% stake in NEX) and by 1.0% to 12.2 S cents for FY26 (AEI for NEX).

VALUATION/RECOMMENDATION

- Maintain BUY** and target price of S\$2.73 based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

SHARE PRICE CATALYST

- Increase in shopper traffic and tenant sales driven by growth in domestic consumption.
- Acquisition of Northpoint City South Wing from sponsor Frasers Property; NEX obtaining tax transparency status.

KEY OPERATING METRICS

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	6.13	n.a.	6.02	n.a.	n.a.	n.a.
Occupancy	98.4%	99.2%	98.7%	99.7%	99.9%	1.5ppt	0.2ppt
Aggregate Leverage	33.9%	39.6%	40.2%	39.3%	37.2%	3.3ppt	-2.1ppt
Weighted All-in Financing Cost	3.5%	3.6%	3.7%	4.1%	4.3%	0.8ppt	0.2ppt
% Borrowing on Fixed Rates	73.0%	76.4%	63.0%	63.0%	63.4%	-9.8ppt	0.4ppt
WALE by NLA (years)	1.87	1.93	1.95	1.97	2.03	0.2yrs	0.1yrs
Debt Maturity (years)	1.82	1.91	2.53	2.33	2.80	1yrs	0.5yrs
Rental Reversions	n.a.	1.9%	n.a.	4.7%	n.a.	n.a.	n.a.

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

NEX AT SERANGOON



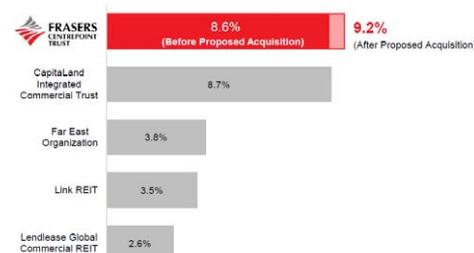
Source: FCT

OVERVIEW - NEX

Tenure	99 years leasehold commencing 26 Jun 08 (84 years remaining)
Description	7 levels of retail space including 2 basements (326 stores)
Location	23 Serangoon Central, Singapore 556083
GFA	942,131sf
NLA	634,631sf
Committed occupancy	100.0%
Key tenants	FairPrice Xtra, Cold Storage Supermarket, Food Junction, Food Republic, &Joy Japanese Food Street, Isetan, H&M, Courts and Shaw Theatres
Number of car park lots	400
Connection to public transportation	Serangoon Bus Interchange and Serangoon MRT station (North East Line and Circle Line)

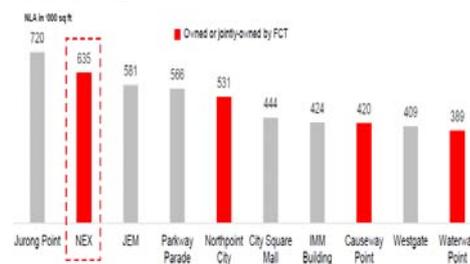
Source: FCT

OWNERS OF RETAIL MALLS OUTSIDE THE CENTRAL AREA BY FLOOR SPACE



Source: CBRE

TOP 10 RETAIL MALLS OUTSIDE THE CENTRAL AREA BY NLA



Source: CBRE

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	371.7	349.4	355.7	358.4
EBITDA	227.8	219.2	223.5	226.4
Deprec. & amort.	0.0	0.1	0.1	1.1
EBIT	227.8	219.1	223.4	225.3
Total other non-operating income	2.3	0.0	0.0	0.0
Associate contributions	56.2	55.2	66.1	71.4
Net interest income/(expense)	(81.0)	(84.3)	(88.1)	(90.1)
Pre-tax profit	211.4	200.8	201.4	206.6
Tax	(0.3)	0.0	0.0	0.0
Net profit	211.1	200.8	201.4	206.6
Net profit (adj.)	205.1	189.9	201.4	206.6

BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	5,220.5	5,258.5	5,258.5	5,258.5
Other LT assets	730.8	1,052.7	1,132.7	1,132.7
Cash/ST investment	32.2	44.8	30.6	35.2
Other current assets	391.7	26.1	26.3	26.3
Total assets	6,375.2	6,382.2	6,448.0	6,452.7
ST debt	353.5	353.5	353.5	353.5
Other current liabilities	150.5	98.1	100.3	101.6
LT debt	1,841.9	1,730.0	1,810.0	1,830.0
Other LT liabilities	56.0	33.1	33.6	33.8
Shareholders' equity	3,973.2	4,167.5	4,150.7	4,133.8
Total liabilities & equity	6,375.2	6,382.2	6,448.0	6,452.7

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	243.1	201.5	293.5	299.7
Pre-tax profit	149.1	134.8	135.3	135.2
Deprec. & amort.	0.0	0.1	0.1	1.1
Associates	50.4	55.2	66.1	71.4
Working capital changes	33.9	(51.4)	2.1	1.3
Non-cash items	11.6	6.3	6.4	6.4
Other operating cashflows	(1.8)	56.5	83.6	84.2
Investing	(356.9)	14.0	(81.5)	(1.5)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(8.3)	(43.0)	(85.0)	(5.0)
Investments	(400.0)	(321.9)	0.0	0.0
Proceeds from sale of assets	0.0	375.4	0.0	0.0
Others	51.4	3.5	3.5	3.5
Financing	107.8	(202.8)	(226.3)	(293.6)
Distribution to unitholders	(208.5)	(206.6)	(218.2)	(223.5)
Issue of shares	0.0	200.0	0.0	0.0
Proceeds from borrowings	1,147.0	(111.9)	80.0	20.0
Loan repayment	(749.9)	0.0	0.0	0.0
Others/interest paid	(80.8)	(84.3)	(88.1)	(90.1)
Net cash inflow (outflow)	(6.0)	12.6	(14.3)	4.6
Beginning cash & cash equivalent	38.2	32.2	44.8	30.6
Ending cash & cash equivalent	32.2	44.8	30.6	35.2

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	61.3	62.7	62.8	63.2
Pre-tax margin	56.9	57.5	56.6	57.7
Net margin	56.8	57.5	56.6	57.7
ROA	3.4	3.1	3.1	3.2
ROE	5.3	4.9	4.8	5.0
Growth				
Turnover	4.1	(6.0)	1.8	0.8
EBITDA	2.4	(3.8)	2.0	1.3
Pre-tax profit	5.1	(5.0)	0.3	2.6
Net profit	1.9	(4.9)	0.3	2.6
Net profit (adj.)	0.5	(7.4)	6.0	2.6
EPU	0.3	(7.5)	0.4	2.4
Leverage				
Debt to total capital	35.6	33.3	34.3	34.6
Debt to equity	55.3	50.0	52.1	52.8
Net debt/(cash) to equity	54.4	48.9	51.4	52.0
Interest cover (x)	2.8	2.6	2.5	2.5

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