Asia Credit Research

OCBC Bank

Frasers Centrepoint Limited: New Credit Review

Wednesday, March 22, 2017

Recommendations Summary

Issuer Profile:	Bond Recommendation:	
Neutral	Straight Bonds	Neutral
	Perpetuals	Overweight
Fundamental Analysis Considerations • Significant scale with sizable investment property portfolio • Diversified business lines as well as geographical footprint • Execution risk in integrating acquisitions. Growth phase could pressure credit profile	Technical Analysis Considerations • Active secondary curve • Unrated • Frequent issuance could result in secondary pricing pressure.	

S&P: Not rated
Moody's: Not rated
Fitch: Not rated

Ticker: **FCL SP**

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
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Key credit considerations

- **Large regional integrated property firm with increasingly global footprint:** FCL is the 2nd largest integrated property company in Singapore with SGD24.6bn in total assets. Core markets are Singapore and Australia, with secondary markets such as China and Thailand. Entities related to the Sirivadhanabhakdi family (2nd richest family in Thailand, TCC Group) control 87.5% of FCL's stock. Executive management is largely professional (from before the acquisition by the controlling family). Group structure now consists of both the HoldCo FCL as well as its family of REITs (FCT, FCOT, FHT and FLT).

- **Recurring income and sizable unrecognised development revenue:** FCL has 3 Strategic Business Units ("SBU"): Singapore (47% of assets[1]), Australia (27%) and Hospitality (21%) as well as its International Business unit. Though the Singapore development business has been soft, FCL has ~SGD3.5bn in unrecognised development revenue across its markets, supporting future revenue. Investment properties have continued to provide recurring income, though revaluation gains are likely to be muted in the near-term. The hospitality segment faced some near-term headwinds (Brexit had some impact), though this is mitigated by geographical diversification. Looking forward, FCL is likely to persist in its growth strategy, relying on its REITs for balance sheet optimization.

- **Cash Flow & Liquidity Flexibility**: Quarterly EBITDA has been lumpy due to the development business, though ~SGD600mn in recurring income is generated per annum. Acquisitions have weighed on cash flow, though this is mitigated by asset recycling through its REITs. Distributions from REITs alone are adequate to cover HoldCo level interest service (though perpetual securities distribution sizable). Adjusted interest + perp distribution coverage was 3.6x (end-FY2016).

- **Manageable Leverage**: Net gearing has improved to 68% (end-1QFY2017) since the Australand acquisition in FY2014, due to capital recycling via the IPO of FHT and FLT, as well as asset injections into the REITs. LTM net debt / EBITDA remain elevated at 8.9x though better than FY2015's 10.5x. Maturity profile manageable till 2019 (SGD1.8bn T/L for Australand matures). This is mitigated by SGD3.9bn in directly held investment properties as well as SGD2.5bn in investment properties under construction. Main credit risk remains balance sheet expansion. Limits on aggregate leverage at the REIT levels could hamper balance sheet growth unless additional equity is raised.

[1] *As of end-FY2016, excluding cash and bank deposits*

I) Company Background

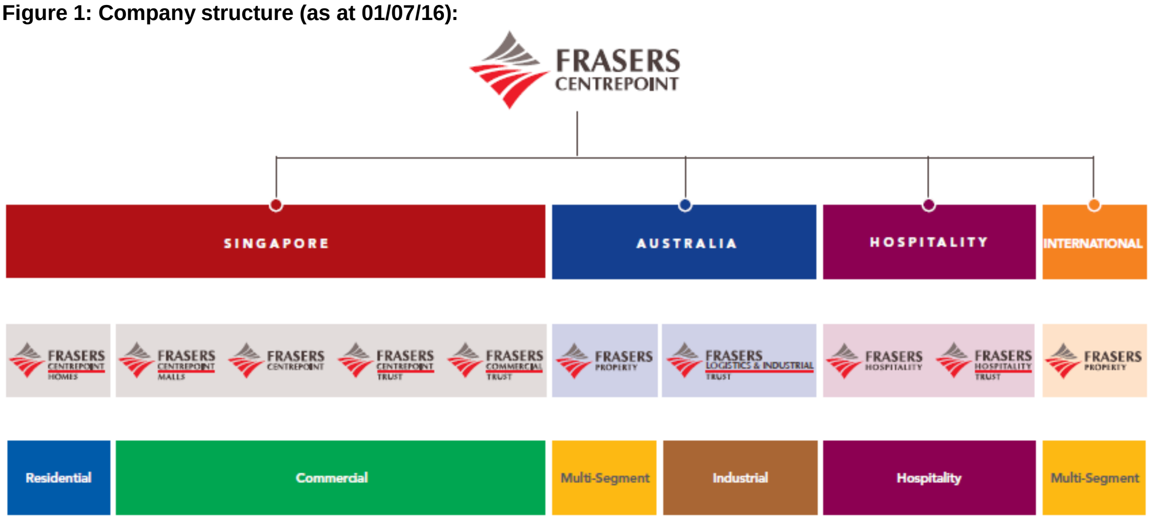
Frasers Centrepoint Limited ("FCL") is a diversified property conglomerate, with exposure in residential, commercial and hospitality real estate. It is the second largest integrated property developer in Singapore by total assets, with SGD24.6bn as of end-1QFY2017. Comparatively, CapitaLand ("CAPL", #1) had SGD45.7bn in total assets while City Development Limited ("CIT", #3) had SGD19.8bn. FCL reported total sales of SGD3.44bn for the fiscal year ending September 2016, with PBIT contribution from overseas operations now 61% of the total.

FCL was formerly the property development arm of Fraser and Neave Limited ("F&N"). It had been in the property development business since 1980, building The Centrepoint (one of the first major shopping centres along Orchard Road). FCL became a subsidiary of F&N in 1990 and launched its first residential project in 1993. FCL expanded overseas in 1996, with an integrated development in Vietnam, and developed its first industrial project in 1997. In 1998, FCL entered into the hospitality industry by developing and launching serviced residences in Singapore. FCL was subsequently listed on the SGX in January 2014, via a spin-off transaction, with F&N shareholders receiving a share of FCL for every two shares of F&N held. As such, the fiscal year ending September 2015 was the first full fiscal of FCL as an independent company.

Not long after FCL was listed, it did a transformational acquisition in the middle of 2014, acquiring Australand Property Group ("Australand"), an ASX-listed diversified Australian property company (formerly CAPL's Australian arm) for AUD2.6bn. This caused total assets to double to current levels, with the Australand business renamed as Frasers Property Australia ("FPA"). It is worth noting that before the acquisition of Australand, FCL had already deemed Australia to be one of its two key overseas markets (China was the other market), with 16% of its property assets (SGD1.4bn of SGD9.0bn) based in Australia (as of end-3QFY2013). Post the acquisition, assets in Australia jumped to SGD7.4bn (as of end-FY2015).

From 01/07/16 onwards, FCL adopted a new organizational structure. Previously, FCL reported four divisions (Residential, Commercial, Hospitality and Frasers Property Australia) to represent each major business line. Now, FCL instead organizes around three Strategic Business Units ("SBU"): Singapore (47% of assets[2]), Australia (27%) and Hospitality (21%) as well as its International Business unit. Post restructuring, reporting will be focused on geographical footprint instead (excluding FCL's Hospitality segment due to its global nature) with Singapore and Australia being key markets, and secondary regions of China, Southeast Asia and the UK being reported under the International business.

Figure 1: Company structure (as at 01/07/16):



Source: Company AR2016

[2] *As of end-FY2016, excluding cash and bank deposits*

Leveraging Off the REITs

Since listing, FCL has been positioning and utilizing real estate investment trusts ("REIT") to expand its balance sheet. When FCL first listed, it was already managing Frasers Centrepoint Trust ("FCT", 41.4% owned), a REIT that focuses on retail assets. It had also been managing Frasers Commercial Trust ("FCOT", 26.9% owned), a REIT that focuses on office assets. Subsequently, in July 2014, FCL listed part of its hospitality assets as Frasers Hospitality Trust ("FHT", 22.3% owned). In June 2016, FCL listed part of its Australian industrial assets as Frasers Logistics & Industrial Trust ("FLT", 20.4% owned). It should be noted that though FCL is not the majority owner of these REITs, FCL consolidates these REITs into its financial statements as per FRS110 as it controls the REIT managers.

Figure 2: FCL and its REITs total assets (as of end-December 2016)

Entity	Total Assets (SGD'mn)	Percentage
FCT (41.4% owned)	2645	11%
FCOT (26.9% owned)	2069	10%
FHT (22.3% owned)	2361	8%
FLT (20.4% owned)	1815	7%
FCL standalone	15743	64%
FCL Consolidated	**24633**	**100%**

Source: Company, OCBC

As such, ~35% of FCL's total assets are held indirectly via its REITs. With this, FCL now controls a REIT representing each major commercial real estate class: Retail, Office, Hospitality & Industrial. Looking forward, we expect FCL to grow its balance sheet via the use of its REITs**.** Recent examples include FHT's announced acquisition of Novotel Melbourne for AUD237mn (announced on 10/09/16). The REITs are also channels for FCL to recycle its standalone balance sheet, by injecting assets into its REITs. Examples of possible pipeline assets include Waterway Point, to potentially be injected into FCT as well as Frasers Tower (currently under development), to potentially be injected into FCOT. This strategy would be similar to the one deployed by CAPL, which has REITs supporting its Retail, Office and Hospitality investment property exposures. The difference is in scale, as both CAPL's retail and office REITs are roughly four times the size of FCL's (in terms of assets).

II) Ownership

Figure 3: Major shareholder as at 02/03/17

Investor	Beneficiary	Shares	Stake
TCC Assets Ltd	Charoen & Khunying Sirivadhanabhakdi	1,716,160,124	59.1%
Thai Beverage PCL	Charoen & Khunying Sirivadhanabhakdi	824,847,644	28.4%

Source: Bloomberg, based on 2,906,063,461 common shares outstanding

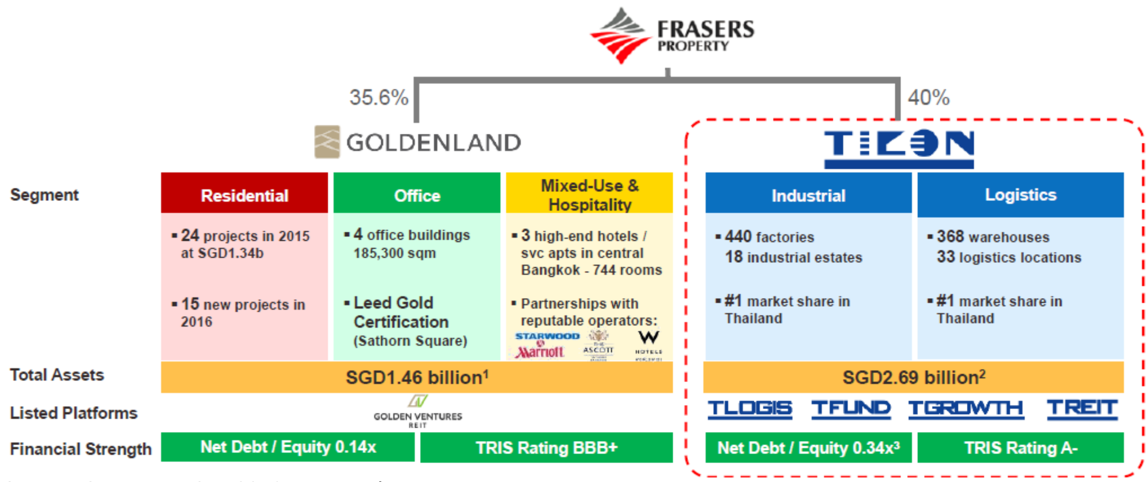
FCL is about 87.5% controlled by entities relating to Thai billionaire, Charoen Sirivadhanabhakdi and his wife. Mr Sirivadhanabhakdi's main holding company is the private Thailand-based TCC Group (a conglomerate with interests in F&B, property and financials). Other notable holdings include SGX-listed Thai Beverage (Thailand's largest beer maker). Mr Sirivadhanabhakdi had previously acquired control in F&N in January 2013, and had retained control over FCL post the spin-off. FCL has largely evolved into the global property platform of Mr Sirivadhanabhakdi / TCC Group. Executive control by the Sirivadhanabhakdi family has also been strengthened, with Mr Sirivadhanabhakdi's son, Panote Sirivadhanabhakdi, taking over as CEO of FCL since 01/10/16. Mr Sirivadhanabhakdi was last ranked by Forbes to be the 2nd richest person in Thailand, with a net worth of USD14.8bn. It is worth noting that the Sirivadhanabhakdi family has been maintaining its control over FCL via the use of perpetual securities as a replacement for straight equity (to avoid dilution), as well as by leveraging off its REITs. Out of the SGD12.3bn in total equity (end-1QFY2017), SGD1.39bn was in perpetual securities and a further SGD3.99bn was non-controlling interest (the other unitholders of the REITs). As such, rather than dilute their ownership in FCL, the Sirivadhanabhakdi family could continue to utilize perpetual securities or leverage off its group of REITs to fuel future asset growth.

Thus far, there have been synergies between FCL and the broader TCC Group. For example, the TCC Group injected 6 hotel assets into the initial FHT portfolio before FHT's IPO. It is worth noting as well that the TCC Group continues to hold about 38.5% of FHT. In addition, to manage potential areas of conflict, FCL was granted the right-of-first-refusal ("ROFR") over investment or development opportunities in residential, retail, office, business space, mixed use and hospitality assets across the world, except for in Thailand, for deals shown to the TCC Group. In addition, FCL has the right to participate ("RTP") for any such property related opportunities (outside Thailand) initiated by the TCC Group.

The Thailand Angle

We believe that FCL continues to be in the growth phase, with an eye on expanding further overseas beyond its traditional markets of Singapore, Australia and China. European exposure has been climbing (largely hospitality related) while in the region one potential growth market would be Thailand, where there are potential synergies with TCC Group. FCL had spent SGD196mn in FY2015 acquiring ~35% of Golden Land Property Development ("GOLD"), a Sirivadhanabhakdi family-related company. Though the transaction was considered an Interested Person Transaction ("IPT") by the SGX, as the transaction was 3.5% of FCL's NTA (lower than the 5% threshold required for shareholder approval), only an announcement / disclosure was required. Subsequently, additional stakes were taken, with FCL now holding ~39.9% of GOLD. GOLD's core business was residential and commercial property development and management, with a focus on Thailand. It was also GOLD's intention to utilize REITs as a means to expand. GOLD had subsequently formed a JV with Univentures PCL (another Sirivadhanabhakdi related company, and co-shareholder in GOLD) to set up and manage Golden Ventures REIT (an office REIT focused on Bangkok). GOLD is expected to tap on FCL's expertise in large-scale mixed-used developments going forward. In addition, during 1QFY2017, FCL acquired ~40% in TICON Industrial Connection Public Company Limited ("TICON") for SGD520mn via a share subscription agreement (closing targeted for 2QFY2017). TICON is a leading developer and owner of industrial properties in Thailand. Like FCL, TICON has a holistic platform, from property Development, property management to REIT management. This extended FCL's exposure in Thailand from residential and commercial/hospitality mixed-used developments to industrial properties. It is worth noting that FCL's stakes in GOLD and TICON are likely capped by the "foreign shareholding limit" of cumulative 49% for a Thai company's issued and paid up capital.

Figure 4: FCL's Thailand business as at 09/11/16



Source: Company,4QFY2016 presentation
Note: Total Assets include both reported assets and REIT assets.

III) Management

As mentioned earlier, FCL saw recent management transition with Mr Panote Sirivadhanabhakdi taking over as CEO since 01/10/16 onwards (he had been a non-executive and non-independent member of the board since March 2013). He was previously the CEO of Univentures PCL for the last nine years. The previous CEO, Mr Lim Ee Seng, retired after helming the firm since 2004. As part of the appointment announcement, the organizational changes resulting in the formation of the various SBUs was also announced. The Singapore SBU (which saw the biggest changes) is managed by Mr Christopher Tang (previously the CEO of Commercial & Greater China, FCL, since 2006). The CEOs of the other two SBUs, Australia (Mr Rod Fehring, who was with Australand since 2010) and Hospitality (Mr Choe Peng Sum, since 2007), will remain the same. In total, the 3 SBUs account for ~90% of FCL's total assets (with the balance comprising the rest of FCL's international business). In addition, FCL's CFO, Mr Chia Khong Shoong, has been in the role since 2009. As such, though the Sirivadhanabhakdi family looks to be getting more involved in FCL's operational matters (Charoen & Khunying Sirivadhanabhakdi are non-executive chairman and vice-chairman respectively), the executive team remains professional managers that have been with F&N / FCL for some time. There was some indication that Mr Panote Sirivadhanabhakdi will be more focused on growing FCL's international business. This has been substantiated with the recent acquisitions in Thailand.

IV) Business Overview & Analysis

Figure 5: Segment contribution

SBU	FY2015		FY2016		1QFY2017	
(SGD'000)	Sales	%Total	Sales	%Total	Sales	%Total
Singapore	1137.2	32	946.2	28	202.0	21
Australia	1372.9	39	1449.4	42	215.7	22
Hospitality	566.3	16	789.5	23	207.6	21
International	483.5	14	253.4	7	346.2	26
Others	1.7	0	1.2	0	0.2	0
Total	**3561.5**	**100**	**3439.6**	**100**	**971.7**	**100**

Source: Company

FCL currently divides its operations into four broad segments:

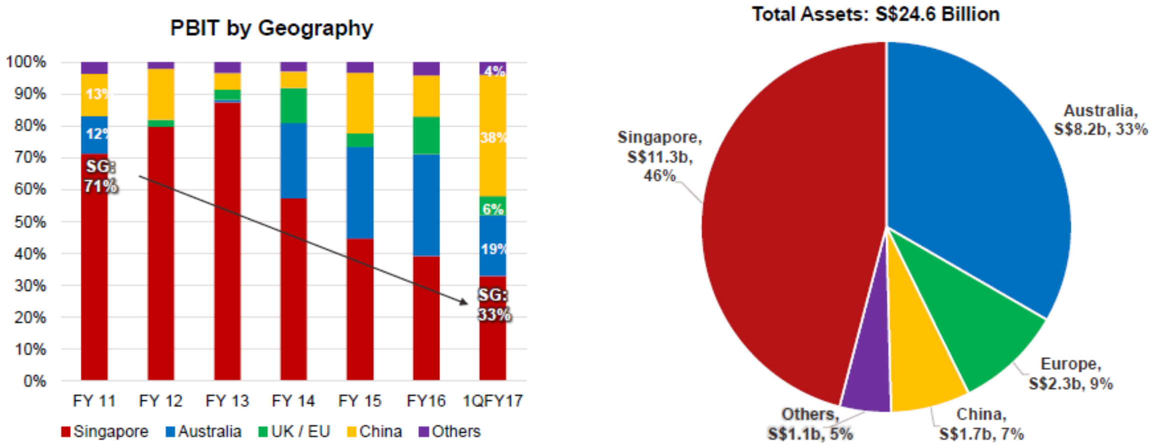
1. **Singapore SBU (47% of assets[3])**: This consists of Singapore's development properties (residential and commercial), non-REIT investment property portfolio as well as FCT and FCOT.
2. **Australia SBU (27% of assets)**: This segment captures the development properties (residential, commercial and industrial) and investment properties for Australia and New Zealand. This segment also includes FLT.
3. **Hospitality (21% of assets)**: This segment includes the ownership and operation of hospitality assets globally (both directly held as well as via FHT).
4. **International**: Consists of development and commercial operations in secondary markets of China, the UK, Vietnam and Thailand.

As can be seen above, contribution from the Singapore SBU has been on the decline, in part due to the slower residential development revenue as a result of the softer domestic market. Australia was relatively stable y/y between FY2015 and FY2016, though 1QFY2017 saw some slowdown due to lower levels of completion and settlements of residential projects. The Hospitality segment saw increased revenue contributions largely due to inorganic growth. The International segment saw revenues surge during 1QFY2017 largely due to deliveries at a Suzhou residential project. As such, it can be expected that revenue contributions of the various segments can be volatile from period to period due to the development revenue recognition portion of each segment.

[3] *As of end-FY2016, excluding cash and bank deposits*

Geographical Exposure

Figure 6: Breakdown of assets and PBIT by geography



Source: Company, 1QFY2017 presentation

From the previous chart, it can be seen that the bulk of FCL's assets by geography were still based in Singapore (46%). This was followed by Australia (33%) and Europe (9%). The large shift in geographical PBIT contribution was largely driven by the Australand acquisition in FY2014, as well as the lumpiness in overseas development revenue recognition. Given the concerns on European assets post Brexit, it would be worthwhile to review FCL's exposure more closely:

Figure 7: FCL European exposure

Asset	Location	Type	Value (SGD'mn)
UK Hotels (FHT)	UK	Hospitality	~325
Maritim Hotel Dresden (FHT)	Germany	Hospitality	~88
MHDV Group (UK boutique hotel chain)	UK	Hospitality	~486
Capri Frankfurt, Berlin & Barcelona	Germany / Spain	Hospitality	~128
Fraser Suites Kensington	UK	Hospitality	~206
Fraser Suites Hamburg (U/C)	Germany	Hospitality	49
5 residential developments (3 U/C)	UK	Residential	Undisclosed
Central House	UK	Mixed	~86
Total			**2300**

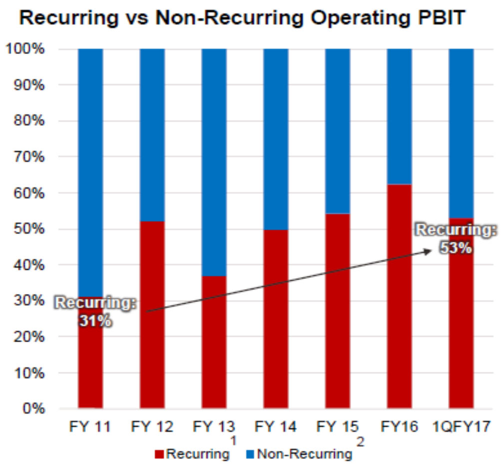
**Values are estimated and based on last disclosed book or acquisition values. The above list excludes possible intangibles arising from acquisitions, such as in the case of MHDV Group.*

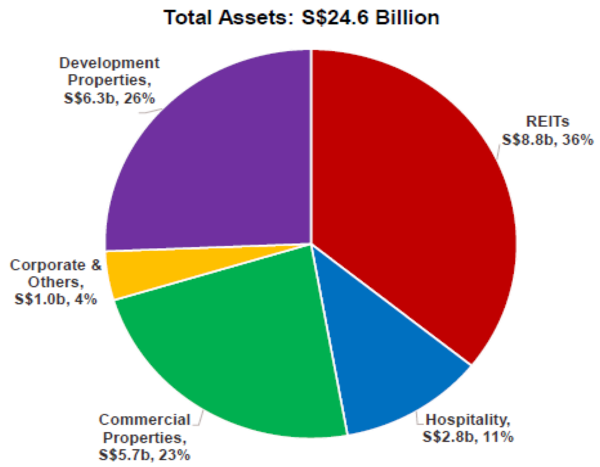
Of the SGD2.3bn in European assets (as of end-1QFY2017), FHT holds ~SGD413mn worth, of which ~SGD325mn was UK exposure. FCL also directly held sizable hospitality assets as well, with the largest exposure being the Malmaison and Hotel du Vin Property Holdings Limited ("MHDV") group of 29 UK boutique hotels (acquired in June 2015). FCL subsequently used MHDV to acquire four more UK hotels in December 2015. The balance European exposure would be residential development assets (2 projects currently under development), as well as some land in the UK. The 4 UK residential projects which FCL is currently monetizing have either completed recently, or will be completed by end-3QFY2017. <u>In aggregate, we estimate that FCL's UK exposure was about SGD2.03bn, or ~8% of total assets.</u> This is comparable to CIT's exposure of 11% of total assets[4] (~SGD2.2bn). With a sizable part of FCL's UK assets (~50%) being hospitality related, the impact of Brexit remains uncertain as the ~10% fall in GBP (against SGD) post the Brexit vote till end-2016 would have pressured RevPAR and asset values (in SGD terms), but news of the spur in leisure travellers might offset this. For now, FCL has already recognized SGD153.0mn in FX translation losses during 3QFY2016, largely due to its UK exposure. For FY2016 though, the translation losses due to Brexit on UK was offset by the strong AUD rally in 4QFY2016, with full-year FY2016 ending with a slight FX translation gain. In addition, pre-sales for the UK residential developments totalled SGD0.3bn in unrecognized revenue. As such, we believe the overall impact of Brexit to be mixed for FCL, but manageable relative to FCL's balance sheet.

[4] *CDL Statement on UK's European Union (EU) Referendum Result – 24/06/16*

Recurring Income

Figure 8: FCL recurring income





Source: Company, 1QFY2017 Presentation

FCL defined recurring income as PBIT generated from the Commercial Properties, Hospitality and REITs. It can be seen that from FY2013 onwards share of recurring operating PBIT has steadily increased from less than 40% in FY2013 to over 60% in FY2016. Management has indicated a target of 60% – 70%. Currently, more than 70% of FCL's total assets are recurring income assets. 1QFY2017 broke the trend as it saw a surge in development revenue recognized in China upon deliveries. In general, recurring income has largely been static. The last time a specific number was publicly disclosed, before the reorganization of the Singapore SBU, recurring income was largely static at ~SGD465mn (for 9MFY2015 and 9MFY2016). This is largely due to non-recurring PBIT being largely development related and hence volatile from period to period (but less so on an annual basis). As a comparison, as of end-2016, ~76% of CAPL's total assets contribute to recurring income, while for CIT its 52%. We estimate that FCL generated ~SGD600mn in recurring PBIT for FY2016.

A) Singapore SBU

Figure 9: Singapore SBU segment performance

	FY2015		FY2016		1QFY2017	
(SGD'000)		y/y		y/y		y/y
Revenue	1137.2	-	946.2	-17%	202.0	+73%
PBIT*	572.9	-	428.2	-25%	105.9	+5%
PBIT margin	50.4%	-	45.3%	-510bps	52.4%	-3390bps
FV Gain	54.8	-	-30.5	-	N/A	-
Segment Assets	9986.1	-	9922.8	-	N/A	-

*Source: Company, *PBIT defined as Profit before interest, fair value change, taxation and exceptional items*

As mentioned, this segment consists of Singapore's development properties (residential and commercial), non-REIT investment property portfolio as well as FCT and FCOT.

Figure 10: Singapore development projects

Project	Effective Share (%)	Total No. of Units[2]	% of Units Sold	% Completion	Estimated Total Saleable Area (m sq ft)	Target Completion Date
eCO	33.3	750	99.2	94.1	0.7	2Q FY17
Watertown	33.3	992	100.0	91.7	0.8	2Q FY17
Rivertrees Residences	40.0	496	98.4	91.4	0.5	3Q FY17
North Park Residences	100.0	920	76.4	29.0	0.7	4Q FY18
Parc Life (EC)	80.0	628	17.2[2]	60.8	0.7	2Q FY18

Source: Company, 1QFY2017 Presentation

As can be seen in Figure 10, FCL currently has 5 projects under development, of which 3 are targeted for completion in FY2017. These three projects (which are JVs) are almost fully sold. For North Park Residences (~77,335 sqm residential GFA), we estimate a total saleable value of ~SGD1.1bn based on ~SGD1350 psf, of which 76.4% has been sold. Parc Life EC, which was launched in April 2016, had options and sales totalling ~25%. As such, the bulk of FCL's Singapore development assets have already been sold, with FCL reporting SGD0.7bn in unrecognized revenue (as at end-2016). This would mitigate the current soft conditions for the domestic residential market. The only land bank that FCL has exposure to would be its 40% stake in a Siglap site (FCL's share for the land was ~SGD250mn). The Siglap development, Seaside Residences, is expected to be launched in 2Q2017, and rumoured to be priced at SGD1500 – SGD1600 psf (land cost was SGD858 psf ppr).

Figure 11: Singapore SBU investment properties

Property	Effective interest at 30 Sep 16 (%)	Book value at 30 Sep 16 ($'M)	Net lettable area (sq ft)	Occupancy FY15/16 (%)	Occupancy FY14/15 (%)
SINGAPORE: REIT (Frasers Centrepoint Trust)					
Anchorpoint	41.5	103.0	70,989	96.7	96.9
Bedok Point	41.5	108.0	82,713	95.0	84.2
Causeway Point	41.5	1,143.0	415,792	99.8	99.5
Northpoint[1]	41.5	672.0	225,032	70.9	98.2
YewTee Point	41.5	172.0	73,670	98.7	94.8
Changi City Point	41.5	311.0	207,244	81.2	91.1
SINGAPORE: Non-REIT retail asset					
Robertson Walk	100.0	126.0	97,045	91.2	89.0
The Centrepoint	100.0	580.0	307,713[6]	79.1	61.9
Valley Point (Retail)	100.0	50.0	43,216	100.0	90.1
Eastpoint Mall[2]	0.0	NA	213,478	94.1	84.1
Waterway Point	33.3	1,016.0	371,181	95.7	90.0[9]
Northpoint City (Retail)[3]	100.0	1,142.0	317,614	NA	NA
Total Retail			**2,425,687**		
SINGAPORE: REIT (Frasers Commercial Trust)					
55 Market Street	27.2	139.0	71,796	92.0	95.8
Alexandra Technopark	27.2	508.0[5]	1,043,891	94.8	94.6
China Square Central	27.2	562.5	369,824	88.9[7]	96.2[8]
OVERSEAS: REIT (Frasers Commercial Trust)					
Australia, Canberra - Caroline Chisholm Centre	27.2	237.0	433,182	100.0	100.0
Australia, Perth - Central Park[4]	13.6	552.2	712,706	80.2	88.6
Australia, Melbourne - 357 Collins Street	27.2	266.7	343,616	100.0	98.4
SINGAPORE: Non-REIT office/business park asset					
Alexandra Point	100.0	296.0	199,592	86.2	91.2
Valley Point Office Tower	100.0	272.0	183,141	84.0	91.8
51 Cuppage Road	100.0	400.0	273,591	84.4	76.6
Frasers Tower[3]	100.0	1,113.0	687,499	NA	NA
Total Office/Business Park			**4,318,838**		
Total Commercial Properties			**6,744,525**		

1 Undergoing asset enhancement
2 Managed asset
3 Currently under development. NLA subject to change
4 FCOT has 50% indirect interest in the asset
5 Book value as reported by FCOT. The Group adjusted the book value to reflect its freehold interest in the property
6 NLA reflects FCL's strata area. It excludes leased area from MCST
7 Committed occupancy as at 30 September 2016. Lower occupancy as certain units were affected by the commencement of construction for the hotel development and additions and alterations at China Square Central. Refer to FCOT Circular to Unitholders dated 3 June 2015 for details. Occupancy for the office component was 99.4%
8 Committed occupancy as at 30 September 2015
9 Occupancy based on committed leases

Source: Company AR2016

FY2016 saw Singapore SBU segment PBIT decline 25.3% y/y to SGD428.2mn. This was largely driven by a slump in development contribution, which saw PBIT decline by 45.0% y/y to SGD128.3mn. Though the TOP of the Twin Fountains EC in March 2016 helped boost PBIT, it was not enough to offset the stronger contributions seen in the previous year from prior projects. Looking forward, with the declining inventory in FCL's domestic projects, development contribution in the Singapore SBU is expected to fall. For investment property contribution, REIT assets saw PBIT increase 4.4%, largely due to the full-year contribution of 357 Collins Street (in FCOT). This also helped to offset weaker performance at FCT, due to the on-going AEI at Northpoint[5]. For non-REIT properties, PBIT fell 42.8% y/y to SGD59.9mn as the maiden profit contribution from the Waterway Point JV was not enough to offset the SGD47mn fair value gain recognized in FY2015 from the JV holding One@Changi City. In general, the Singapore SBU also saw an aggregate fair value loss of SGD30.5mn. This could be driven by the book value of The Centrepoint declining from SGD620mn (FY2015) to SGD580mn (FY2016).

For 1QFY2017, Singapore SBU segment PBIT increased 5.4% y/y to SGD105.9mn. Development PBIT was supported by sales at North Park Residence as well as the sale of a good class bungalow at Holland Park. REIT properties were relatively stable as well (PBIT fell 1.8% y/y, again likely to the on-going Northpoint AEI). Comparatively, non-REIT properties PBIT fell 26.5% y/y to SGD14.4mn, driven by the lag of one-off fair value gain recognized on the TOP of Waterway Point. Looking forward, the TOP of the retail and residential component of Northpoint City, as well as the completion of Frasers Tower (Tanjong Pagar, 687,499sqft NLA) in 2018, would help support near-team Singapore SBU performance. In aggregate, unrecognized development revenue for the Singapore SBU stood at SGD0.7bn (end-2016).

B) International

Figure 12: International segment performance

	FY2015		FY2016		1QFY2017	
(SGD'000)		y/y		y/y		y/y
Revenue	483.5	-	253.4	-48%	346.2	841%
PBIT*	212.7	-	185.7	-13%	137.7	776%
PBIT margin	44.0%	-	73.3%	+2930bps	39.8%	-300bps
FV Gain	0.1	-	0.2	-	N/A	-
Segment Assets	5413.0	-	1137.9	-	N/A	-

*Source: Company, *PBIT defined as Profit before interest, fair value change, taxation and exceptional items*

As mentioned, the segment consists of development and commercial operations in secondary markets of China, the UK, Vietnam and Thailand. For FY2016, China was the biggest contributor to the segment, generating SGD117.5mn in segment PBIT. The balance was driven by the completion and settlement of Riverside Quarter (Blk 5C), UK. PBIT was weaker versus FY2015 due to the absence of the divestment of Crosspoint mall in Beijing.

Figure 13: China development projects

Project	Effective Share (%)	Total No. of Units	% of Units Sold	Saleable Area (m sq ft)	Target Completion Date
Baitang One (Phase 3C1), Suzhou	100	706	100.0	0.8	Completed
Gemdale Megacity (Phase 3B), Songjiang, Shanghai	45	575	98.6	0.6	4Q FY17
Gemdale Megacity (Phase 3A), Songjiang, Shanghai	45	278	100.0	0.3	4Q FY17
Baitang One (Phase 3B), Suzhou	100	380	9.5	0.6	4Q FY17

Source: Company, 1QFY2017 Presentation

The surge in 1QFY2017 revenue and PBIT was largely due to FCL delivering its Baitang One (P3C1) project, with FCL booking SGD327.2mn in revenue and SGD125.7mn in PBIT from China during the quarter. FCL could potentially see a similar surge in 4QFY2017 due to the completion of the Gemdale Megacity FVs as well as Baitang One (P3B), though the latter is still in the

[5] Please refer to our standalone coverage of FCT for more details.

process of ramping up sales (launched July 2016). Looking forward, FCL still has ~2700 units worth of land bank in China, which could support the International segment's performance over the next few years.

Figure 14: China land bank

Site	Effective Share (%)	Estimated Total No. of Units	Estimated Total Saleable Area (m sq ft)
Baitang One (Phase 3C2), Suzhou	100	377	0.5
Chengdu Logistics Hub (Phase 2A), Chengdu	80	179	1.0
Gemdale Megacity (Phase 4–6), Songjiang, Shanghai	45	2,192	2.8

Source: Company, 1QFY2017 Presentation

In the UK, though Seven Riverside Quarter was completed during 1QFY2017, FCL was still in the process of selling units. During the quarter itself, FCL sold ~11units. It would also seem that the other two UK projects currently under development have had their target completion dates delayed by a quarter, though they are still expected to be completed in FY2017. Unrecognized pre-sale revenue from the UK currently totals SGD0.3bn, while land bank stands at 133 residential units and 200,000 sqft of mixed development at Central House.

Figure 15: UK development projects and land bank

Project	Effective Share (%)	Total No. of Units[1]	% of Units Sold	Saleable area (m sf)	Target Completion Date
Five Riverside Quarter	80	149	80%	0.1	Completed
Seven Riverside Quarter	80	87	54%	0.1	Completed
Camberwell Green	80	101	47%	0.1	2Q FY17
Vauxhall Sky Gardens	80	237	100%	0.2	3Q FY17

Site	Effective Share (%)	Estimated Total No. of Units[1]	Saleable area (m sf)
Nine Riverside Quarter (consented scheme)	80	133	0.1
Central House (commercial mixed development)	100	-	0.2 to 0.3[2]

Source: Company, 1QFY2017 Presentation

Looking forward, it is likely that development contributions from China and UK would remain lumpy. Currently unrecognized revenue from pre-sales (SGD0.2bn from China, SGD0.3bn from the UK) should help support performance. That said FCL looks to be more selective when stocking up on more land bank for these two markets, given property policy uncertainty for the China market and Brexit for the UK market. In particularly, FCL had indicated previously that they were in no rush to acquire additional land in China. With the recent GOLD and TICON acquisitions, these two assets could be increasing contributors to the segment. GOLD reported ~SGD41mn in net profit for 2016, while TICON reported SGD11mn.

C) Hospitality SBU

Figure 16: Hospitality segment performance

	FY2015		FY2016		1QFY2017	
(SGD'000)		y/y		y/y		y/y
Revenue	566.3	-	789.5	+39%	207.6	-2%
PBIT*	124.5	-	135.0	+8%	48.8	2%
PBIT margin	22.0%	-	17.1%	-490bps	23.5%	-100bps
FV Gain	109.3	-	-10.2	-	N/A	-
Segment Assets	4486.2	-	4429.0	-	N/A	-

*Source: Company, *PBIT defined as Profit before interest, fair value change, taxation and exceptional items*

FCL's Hospitality SBU is a globally integrated serviced residence and hotel owner-operator with a presence in over 80 cities. Its footprint largely spans Europe, the Middle East, Asia and Australia.

The service apartments are largely managed under FCL's own brand, Fraser Suites, while hotels are operated by third-party managers. It is worth noting that FCL has recently started its own brand for hotels, Capri, and coupled with the MHDV acquisition, we could potentially see more FCL internal branded hotels under the segment. Management has indicated a target of 17 Capri by Fraser assets by 2019. FHT contributes ~16% of total segment revenue[6]. As such, the bulk of segment assets are outside the REIT. In aggregate, the Hospitality SBU owns 7,290 serviced apartments and hotel rooms and leased / manages a further 8,445 units of serviced apartments (as of end-2016). The segment looks to be on a growth phase, though largely via management of third-party assets ("asset lite"). In the pipeline, by 2020 FCL will add a further 1041 of owned units, signed up a further 7,484 units of serviced apartments to be managed, and may potentially have 1,585 more units to be managed or injected outright from the TCC Group. It is FCL's target to have 30,000 units under management by 2019. In particular, China seems to be a market which FCL is keen to grow, targeting 7,000 units by 2019. Furthermore, FHT provides a platform for FCL to recycle its balance sheet. As such, we believe that FCL would have several levers to pull to spur growth in its Hospitality segment without overtly straining its balance sheet. As a comparison, CAPL's serviced residence arm Ascott has over 50,000 units.

Figure 17: FCL hospitality assets (directly held, managed as well as in FHT)

	Properties		Room Count	
	31 Dec 16	31 Dec 15	31 Dec 16	31 Dec 15
Operational				
Asia	39	38	8,876	8,542
Australia	6	6	1,661	1,661
Europe	53	49	4,480	3,556
Middle East and Africa	6	5	718	637
TOTAL	**103**	**98**	**15,735**	**14,396**
Pipeline				
Asia	28	29	6,833	6,680
Australia	0	0	0	0
Europe	6	4	769	611
Middle East and Africa	5	9	923	1,501
TOTAL	**40**	**42**	**8,525**	**8,792**

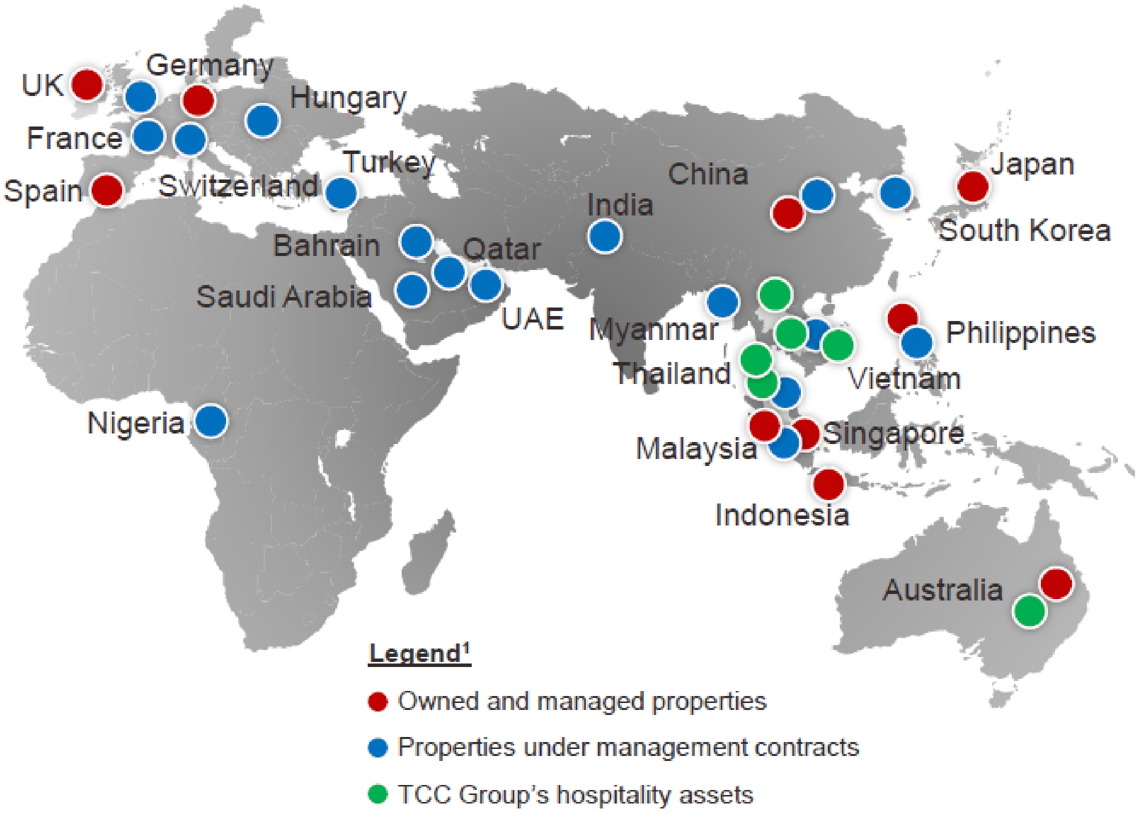
Source: Company, 1QFY2017 Presentation

Given the growth posture of the Hospitality SBU, historical revenue growth was largely inorganic, such as the MHDV acquisition and the full-year contribution from the 6 hotels injected by the TCC Group into FHT (during 4QFY2014) for FY2015. For FY2016, revenue growth (+39%) was driven by the four hotels acquired by MHDV in December 2015 (for GBP36.1mn), along with the Maritim Hotel Dresden acquisition by FHT (June 2016). Earnings though continue to see pressure, with PBIT margin compressing 490bps between FY2015 and FY2016, and compressing 100bps between 1QFY2016 and 1QFY2017. FCL expects the domestic market to remain soft, with reduced corporate travel demand continuing to pressure both ADR as well as occupancy, leading to RevPAR pressure. The supply situation in Singapore seems to be improving though, with 2,866 net rooms to be added in 2017 versus 3,930 net rooms added in 2016[7]. For Australia, FCL expects demand to be uneven, with additional supply and softness in Brisbane's and Perth's respective economies keeping conditions tough, though strength in Melbourne and Sydney provides some mitigation. Europe had been challenged by uncertainty post-Brexit as well as terrorist acts suppressing leisure travel in France, though Spain and Germany have benefited from some destination rotation. The continued softness in the GBP is expected to support tourism in the UK. The bright spot looks to be China, with China posting growth in hotel occupancy as

[6] *Please refer to our standalone coverage of FHT for more details.*
[7] *FCL - 1QFY2017 Presentation*

well as RevPAR (though ADR was flattish) in November 2016. The supply situation for the four first-tier cities remains a concern, with a supply growth of over 10% over the next five years. In aggregate, it would seem that the core hospitality markets that FCL focused on are facing headwinds in the short term. This could mean continued margin pressure. The weakness in these markets could also suppress asset prices, inviting FCL to make more acquisitions. Looking forward, we expect stabilized asset acquisitions to be made directly by FHT, and that such acquisitions would be conservatively funded (such as the SGD266.3mn equity-funded acquisition of the Novotel Melbourne in October 2016 by FHT) given the aggregate leverage cap on REITs. FCL would likely continue to develop greenfield assets (such as the Capri by Fraser China Square), which could eventually be injected into FHT.

Figure 18: FCL's hospitality assets geographical footprint



Source: Company, 1QFY2017 Presentation

D) Australia SBU

Figure 19: Australia SBU segment performance

	FY2015		FY2016		1QFY2017	
(SGD'000)		y/y		y/y		y/y
Revenue	1372.9	-	1449.4	+6%	215.7	-29%
PBIT*	267.0	-	217.8	-18%	39.3	-33%
PBIT margin	19.4%	-	15.0%	-440bps	18.2%	-90bps
FV Gain	79.1	-	200.3	-	N/A	-
Segment Assets	852.4	-	5658.6	-	N/A	-

*Source: Company, *PBIT defined as Profit before interest, fair value change, taxation and exceptional items*

The Australia SBU comprises of largely the former Australand business, as well as the existing Frasers Property Australia business. As mentioned earlier, it captures the development properties (residential, commercial and industrial) and investment properties for Australia and New Zealand. This segment also includes FLT. As the Australand acquisition was completed in 4QFY2014, the financial information prior to FY2015 is not comparable. Given that Australand was a material recent acquisition, it would be worthwhile to consider FCL's rationale for the acquisition:

- **Existing Foothold**: Pre-transaction, FCL had AUD1.2bn in development portfolio, which were mainly residential and hospitality. FCL had been involved in Australia since 2000.
- **Geographical Diversification + Recurring Income**: Aside from increasing FCL's overseas exposure, the acquisition would cause FCL's PBIT from recurring income to jump +122% to SGD415mn (for FY2013, compared to pre-transaction). Recurring income would also increase to 54% of total PBIT post transaction (up from 33%).
- **Investment Properties:** Australand had AUD1.2bn worth of office portfolio (17 assets across Victoria and NSW). Average cap rate of 7.5% with WALE of 4.8 years (then). The industrial portfolio was worth AUD1.2bn (51 assets across Australia) with an average cap rate of 8.4% and WALE of 5.8 years. Both portfolios had cap rates and WALE higher than Singapore equivalents, though the cap rates were likely also a function of higher Australian interest rates. These assets were also suitable for FCL to inject into REITs, such as into FCOT for office assets (such as 357 Collins Street being injected into FCOT in FY2015). Some of the Australian industrial investment properties ultimately formed FLT's IPO portfolio. The fall in cap rates[8] (likely due to the cuts in Australia rates) for office to 6.8%, and for industrial to 7.1% also allowed the valuation of FCL's Australian assets to rally. As of end-1QFY2017, the Australia SBU still directly held SGD0.4bn worth of industrial assets, and SGD0.7bn in office assets.
- **Huge residential pipeline:** Australand had 11.4 years in weighted average development life, with 19,450 lots totalling AUD7.5bn in end value (as of end-FY2013). The pipeline remains strong, with a gross development value of SGD8.3bn (FCL has been acquiring land) as of end-1QFY2017
- **C&I development capability and land bank:** Australand had 255 hectares worth of industrial landbank, with a C&I (commercial and industrial) end value of AUD1.8bn. The assets developed could be earmarked as FCL's investment properties, or developed for third parties. Currently (end-1QFY2017), FCL still has a C&I development pipeline with SGD1.7bn in gross development value, as well as 102 hectares of land bank.

Aside from the entry into the C&I development business in Australia, management had also indicated that the retail assets that the Australia SBU developed could be managed internally (previously, such retail assets were sold to third parties). FCL currently has AUD525bn in retail gross development value across 6 developments in the pipeline. These developments are largely "town centre" type assets that complement FCL's residential development projects. Such retail assets could potentially end up in FCT (which is currently a pure-play Singapore mall REIT). Due to the Australia SBU's large size, FCL is vulnerable to FX risk. For example, FCL reported SGD390.3mn in foreign currency translation losses in FY2015, due to the over 10% slump in AUD versus SGD during FY2015.

In terms of recent performance, for FY2016, segment PBIT declined by 19.3% y/y to SGD217.8mn. This was largely driven by SGD47mn worth of impairments on residential inventory, mostly in Western Australia. Excluding the impairments, PBIT would have been down 1.9% y/y, with PBIT from residential development seeing strong contribution. PBIT from investment properties / C&I development fell 26.5% y/y to SGD177.6mn, in part due to divestment of investment properties to external parties. For 1QFY2017, FCL again reported a decline in Australia SBU PBIT, which fell 32.6% y/y to SGD39.3mn. The main cause of this was residential development swinging from a PBIT of SGD8.9mn in 1QFY2016 to negative PBIT of SGD6.7mn. FCL had indicated that there were lower levels of completions and settlements for residential units compared to the prior year. Looking forward, FCL has over 2,700 units of residential units planned for completion and settlement for the balance of FY2017. As of end-2016, FCL had SGD2.3bn worth of unrecognized Australian residential revenue (based on pre-sales), which should help support the segment's revenue in the near future. For the C&I side, FCL had 4 projects with SGD117mn of gross development revenue to be delivered, as well as a further 6 projects with investment value worth SGD239mn in the pipeline. FCL is continuing to invest in its Australia SBU, having acquired more land in Victoria during 1QFY2017 with a gross development value of SGD457mn.

[8] *FCL - 1QFY2017 Presentation*

Figure 20: Australia SBU residential development projects (near-term completions)

Project[1]	Effective Share (%)	Total No. of Units[2]	% of Units Sold	Estimated Total Saleable Area (m sq ft)	Target Completion Date
Hamilton (Hamilton Reach, Atria North) - H/MD, QLD	100	81	87.7	0.1	2Q FY17
Carlton (APT) - H/MD, VIC	65	143	99.3	0.1	2Q FY17
Campsie (Clemton Park Village, Garden) - H/MD, NSW	50	45	95.6	0.0	2Q FY17
Campsie (Clemton Park Village, Podium) - H/MD, NSW	50	89	100.0	0.1	2Q FY17
Campsie (Clemton Park Village, Piazza) - H/MD, NSW	50	40	97.5	0.0	2Q FY17
Campsie (Clemton Park Village, Retail) - H/MD, NSW	50	1	0.0	n/a	2Q FY17
Kangaroo Point (Yungaba House/Other) - HD, QLD	100	18	33.3	n/a	2Q FY17
Chippendale (Central Park, Connor) - HD, NSW	50	178	100.0	0.1	2Q FY17
Ryde (Putney Hill Stage 2, Canopy) - H/MD, NSW	100	131	99.2	0.1	2Q FY17
Sunshine West (Callaway Park) - H/MD, VIC	50	666	99.8	n/a	3Q FY17
Parkville (Parkside Parkville, Flourish) - H/MD, VIC	50	81	98.8	0.1	3Q FY17
North Coogee (Port Coogee JV1) - L3, WA	50	357	97.5	n/a	4Q FY17
Cranbourne West (Casiana Grove) - L3, VIC	100	729	98.6	n/a	4Q FY17
Coorparoo (Coorparoo Square, Central Tower) - H/MD, QLD	50	96	100.0	0.1	4Q FY17
Coorparoo (Coorparoo Square, North Tower) - H/MD, QLD	50	155	96.8	0.1	4Q FY17
Botany (Tailor's Walk, Building A) - H/MD, NSW	PDA[3]	19	89.5	0.0	4Q FY17
Botany (Tailor's Walk, Building E) - H/MD, NSW	PDA[3]	59	47.5	0.0	4Q FY17

Source: Company, 1QFY2017 Presentation

V) Financial Analysis

Liquidity Analysis

Figure 21: FCL's Liquidity Profile

SGD'mn	FY2015	FY2016	1QFY2017
Operating Cash Flow[1]	518.0	931.3	14.1
Capex	-45.3	-62.3	-274.9
Free Cash Flow	**472.7**	**869.0**	**-260.7**
Acquisition / Development of Investment Properties	-1526.5	-717.6	-190.4
EBITDA / Interest Coverage[2]	**4.7x**	**4.9x**	**8.6x**
Cash / Current Borrowings	**1.3x**	**1.2x**	**0.8x**

1) *Operating cash flow net of interest service*
2) *Our EBITDA excludes FV gains, for quarterly figures EBITDA is annualized.*

Due to the adoption of FRS 110, the REITs that FCL manages have been consolidated onto the group's financial statements from FY2015 onwards. As can be seen above, for FY2015 and FY2016, FCL generated positive free cash flow. We note however that the firm continues to be on a growth phase, and has been acquiring / developing investment properties. This has resulted in significant cash outflow. For 1QFY2017, the sizable capex seen was largely the acquisition of the Novotel Melbourne (at the FHT level) which was accounted for as additions to PPE. Operating cash flow for the quarter was also lower due to progressive development of residential projects in Australia. We note that FCL's cash / current borrowings ratio has worsened from 1.2x (FY2016) to 0.8x (1QFY2017). Rather than a sharp decline in cash balance, the deterioration was driven by the increase in short-term debt, from SGD1.47bn to SGD2.06bn q/q. That said, FCL continues to have good access to capital markets, having issued a SGD398mn 10-year bond in February 2017 to meet its liquidity needs. Looking forward, we believe that FCL would continue to be making acquisitions at the REIT level, or recycle assets from FCL's standalone balance sheet into the REITs.

Figure 22: FCL / REITs Borrowings (1QFY2017)

			FCL ownership %						
			41.4%	22.3%	26.9%	20.4%			
(SGD'000)	FCL Group		FCT	FHT	FCOT	FLT		REIT Aggregate	% of Group
ST Secured	969		0	0	0	0		0	0.0%
ST Unsecured	1,094		259	115	180	0		554	50.6%
LT Secured	1,679		286	31	0	533		849	50.6%
LT Unsecured	6,234		240	647	565	0		1,453	23.3%
Total Borrowings	**9,976**		**785**	**793**	**745**	**533**		**2,856**	**28.6%**
Total Assets	**24,633**		**2,645**	**2,361**	**2,069**	**1,815**		**8,890**	**36.1%**
Debt / Assets	**40.5%**		**29.7%**	**33.6%**	**36.0%**	**29.4%**		**32.1%**	

Source: Company, OCBC

From the previous table, it can be seen that there remains some room on FCT's and FLT's balance sheet to take on more assets (assuming that the REITs strive to keep Debt / Assets below 40%). Currently, REITs account for ~36% of FCL's total assets. We expect the proportion to increase, with FCL injecting more assets into the REITs going forward. This would be a source of liquidity. In addition, acquisitions made at the REIT level would be funded by other unitholders, helping to preserve capital at the FCL level. An example of this would be the recent acquisition of the Novotel in Melbourne for AUD237mn (~SGD243mn). This was entirely funded by a FHT rights issue (raising ~SGD266mn). As such, given that FCL is subscribing to its pro-rata entitlement, the capital committed to the acquisition from FCL HoldCo was ~SGD58mn.

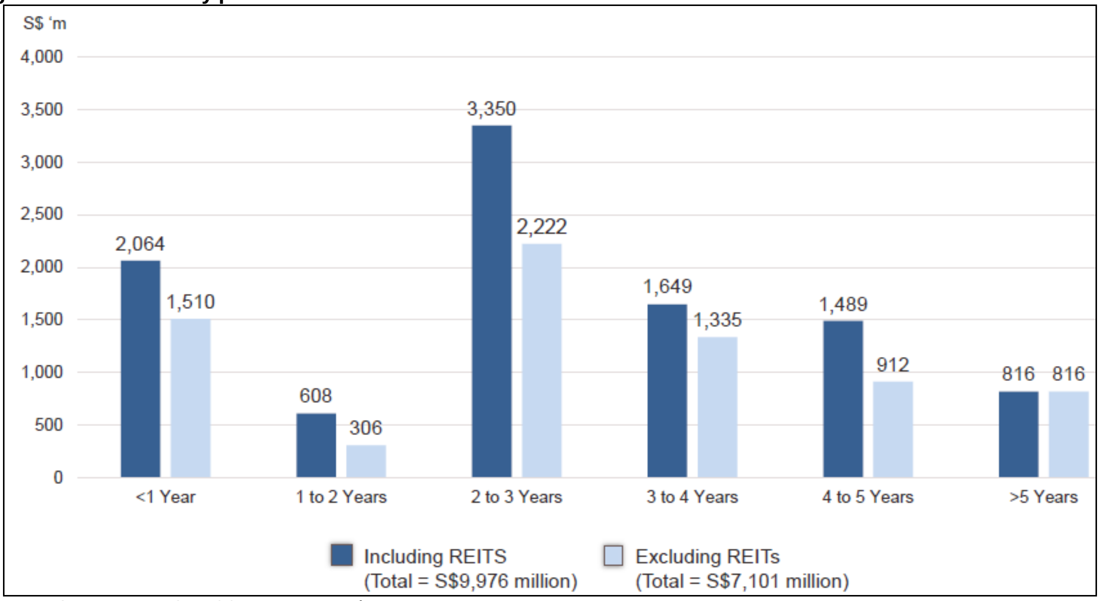
In addition, as REITs are required to pay out 90% of their taxable income in order to enjoy tax exempt status by the IRAS, this ensures that REITs would continue to upstream distributions to the FCL holding company. From the below table, it can be estimated that FCL received SGD105.2mn in distributions from its REITs in FY2016. In addition, FCL had SGD167.5mn in consolidated interest expense for FY2016, of which SGD77.5mn is estimated to occur at the REIT level. As such, the balance interest expense serviced by FCL directly would be SGD90.0mn, largely met by the REIT distributions alone. In addition, we mentioned earlier that FCL generated ~SGD600mn in recurring income for FY2016. Interest coverage has also improved slightly from 4.7x (end-FY2015) to 4.9x (end-FY2016) due to the lower interest expense (from the decline in gross borrowings). We note though, that FCL issued significant amounts of perpetual securities, totalling SGD1.3bn (we have excluded the FHT perp). These perpetual securities pay out SGD64.5mn in distributions each year, and though these distributions are formally discretionary, we consider these distributions to be a drag on liquidity comparable to interest service. If perpetual security distributions are included into interest coverage, pro-forma FY2016 interest coverage would fall to 3.6x. This is still manageable in our view.

Figure 23: FCL REITs distributions & interest expense (FY2016)

	FCL ownership %			
	41.4%	22.3%	26.9%	20.4%
(SGD'000)	FCT	FHT	FCOT	FLT*
REIT Distribution	108.1	86.7	77.6	99.2
FCL's share	**44.8**	**19.3**	**20.9**	**20.2**
REIT Interest Expense	17.2	19.1	24.8	16.4

**Note that for FLT, 1QFY2017 income available for distribution to unitholders and interest expense were annualized.*
Source: Company, OCBC

Figure 24: FCL maturity profile



Source: Company, 1QFY2017 Presentation

It can be seen that for the next three years, FCL has about SGD6.0bn in borrowings due (SGD4.0bn if REITs' debt are excluded). Comparatively, FCL generates about ~SGD600mn of recurring income per annum as well as holds SGD2.0bn in cash and bank deposits on the balance sheet (as of end-2016). In addition, FCL also has SGD3.5bn worth (as of end-2016) of unrecognized revenue from the pre-sales of residential developments (across Singapore, UK, China and Australia). These should help support FCL's refinancing over the next few years. In addition, we estimated that FCL had SGD3.9bn in directly held (non-REITs) completed investment properties (as of end-FY2016), which could potentially be injected into REITs (assets such as MHDV, The Centrepoint, FPA office assets etc) or sold to third parties for additional liquidity. There are also development assets such as Frasers Tower (expected completion in 2018) and North Point City (expected completion in 2017) with a current book value of SGD1.1bn and SGD1.1bn respectively. The monetization of these assets could help mitigate the maturity wall seen at the 2-3 year mark (totalling SGD3.4bn, excluding REITs debt). We note that FCL and its REITs have continued to enjoy capital market access, with FCL issuing SGD398mn in bonds in February 2017, while FCOT issued SGD150mn worth of bonds in 1Q2017.

Leverage Analysis

Figure 25: FCL's Leverage Profile

SGD'mn	FY2015	FY2016	1QFY2017
Gross Debt / EBITDA	12.0x	11.9	8.2x
Net Debt / EBITDA	10.5x	9.8x	6.9x
Gross Debt / Equity	99%	83%	81%
Net Debt / Equity	86%	68%	68%

Note: Our EBITDA excludes FV gains, for quarterly figures EBITDA is annualized.

From the above, we can see that FCL is highly leveraged in terms of net debt / EBITDA at 10.5x and 9.8x for FY2015 and FY2016. This is however not dissimilar to peers such as CAPL, which had net debt / EBITDA of 10.3x and 7.9x for 2015 and 2016 respectively. Property developers tend to have lumpy EBITDA due to the timing of delivery of development assets. The recent softness in domestic residential markets had also strained EBITDA for Singapore developers. If we calculated EBITDA bottom-up (which includes fair value gains on investment properties as well as contributions from JVs / associates), FY2016 net debt / adjusted EBITDA would have been 6.6x. For 1QFY2017, net debt / EBITDA numbers were distinctly better due to the strong development income contribution (non-recurring). On net debt / LTM EBITDA basis it would have been 8.9x.

On a net gearing (net debt / equity) basis, leverage shot up sharply due to the Australand acquisition in FY2014. Since then, FCL has been deleveraging the group, largely via the recycling of assets into its REITs. The most recent example of this would be the IPO of FLT during 3QFY2016. FCL has also been raising perpetual securities at the REIT level, such as FHT's issuance, also during 3QFY2016. These two actions raised ~SGD1.1bn in net proceeds during the quarter, with the FCL group paying down SGD894.2mn in net borrowings. This allowed net gearing to improve distinctly from 87% (end-1HFY2016) to 68% (end-FY2016). Comparatively, CAPL reported 41% in net gearing (end-2016). We previously noted that FCL had been bearing significant FX translation losses due to its overseas assets. Though these translation losses have not hit P&L, they have impacted shareholder's equity, hence adding negative pressure on net gearing during those periods. Looking forward, with the FCL group of companies looking to remain on the growth path, it is unlikely that we will see decisive improvements to FCL's credit profile from current levels.

VI) Technical Considerations

Positives

- Existing active SGD curve provides good secondary trading colour
- Prolific issuer means sustained flows
- Cross defaults apply (but aggregate sums must total SGD75mn or more)
- Financial covenant: consolidated net borrowings not exceeding consolidated tangible net worth by 1.5x.

Negatives

- Issuer and related issuer sustained supply may pressure secondary prices
- Unrated
- Organizational structural complexity

Relative Value

Peers	Offer Spread above SDSW	Net Gearing
FCLSP'27	**165bps**	**68%**
CAPLSP'24	85bps	41%
CITSP'26	81bps	16%

*Indicative spreads based on offer prices from Bloomberg on 22/03/17

For the longer end of the curve, we believe that the ~80bps wider spread above its comparable sized peers CAPL and CIT look to be fair, reflecting FCL's more aggressive balance sheet. We would only expect further convergence towards CIT and CAPL levels when FCL tapers its growth plans and focuses on deleveraging. It is worth noting though that the market has acknowledged FCL's prior attempts to deleverage, with the FCLSP'27 being issued at +150bps above 10Y SDSW compared to the FCLSP'26 being issued at +183bps in April 2016.

Existing Curve	Offer Spread above SDSW
FCLSP 3.7 '19	99bps
FCLSP 2.5 '21 (USD swap to SGD)	176bps
FCLSP 3.95 '21	120bps
FCLSP 3.65 '22 (retail tranche)	134bps
FCLSP 3.8 '22	140bps
FCLSP 4.25 '26	159bps
FCLSP 4.15 '27	165bps
FCLSP 4.88 perp-c19	240bps (YTC)
FCLSP 5 perp-c20	247bps (YTC)

*Indicative spreads based on offer prices from Bloomberg on 22/03/17

In general, we believe that the FCL curve is fairly priced. The exception seems to be the sole USD issue, in which investors take on FX swap risk (hence illiquidity) in exchange for a distinct pickup in yield. The perpetual securities look attractive as the premium of ~150bps (YTC basis) above senior bonds could potentially compress to 100bps – 120bps levels.

VII) Conclusion & Recommendation

FCL is one of the largest integrated property companies in Singapore, and has been diversifying both its geographical footprint (into Australia and Europe) as well as ramping up its investment property portfolio in recent years. The former has made FCL less reliant on the domestic residential property market, while the latter has provided FCL with recurring income (with management target for recurring income to be 60% – 70% of total PBIT). FCL has also increasingly utilized its family of REITs to recycle its balance sheet, generating liquidity as well as reducing leverage. This helps to offset the borrowings taken as part of FCL's inorganic growth strategy. Though FCL remains very much in the growth phase, we expect that FCL's credit and liquidity profile would not deviate too far from current levels, with FCL expanding its balance sheet mainly at the REIT level. That said, further transformational acquisitions the scale of Australand should not be discounted and remains a risk. **We will initiate coverage of FCL with a Neutral Issuer Profile**. With regards to bond recommendation, we are **Neutral on the straight bonds, and Overweight the perpetual securities on valuation.**

Figure 26: Key financial highlights

Frasers Centerpoint Ltd

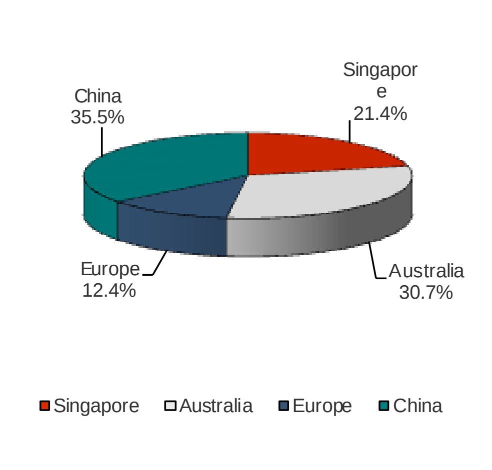
Table 1: Summary Financials

Year Ended 30th Sep	FY2015	FY2016	1Q2017
Income Statement (SGD'mn)			
Revenue	3,561.5	3,439.6	971.7
EBITDA	874.5	826.2	302.6
EBIT	833.7	773.3	288.3
Gross interest expense	186.2	167.5	35.0
Profit Before Tax	1,196.5	960.3	312.3
Net profit	771.3	597.2	187.5
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,373.1	1,731.3	1,625.2
Total assets	23,066.7	24,204.4	24,632.8
Gross debt	10,529.2	9,795.5	9,976.5
Net debt	9,156.1	8,064.2	8,351.2
Shareholders' equity	10,651.0	11,843.5	12,291.9
Total capitalization	21,180.2	21,639.0	22,268.4
Net capitalization	19,807.0	19,907.7	20,643.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	812.0	650.1	201.8
* CFO	518.0	931.3	14.1
Capex	45.3	62.3	274.9
Acquisitions	1,784.2	794.6	190.4
Disposals	76.5	661.8	0.0
Dividend	481.8	520.7	86.0
Free Cash Flow (FCF)	472.7	869.0	-260.7
* FCF Adjusted	-1,716.8	215.5	-537.1
Key Ratios			
EBITDA margin (%)	24.6	24.0	31.1
Net margin (%)	21.7	17.4	19.3
Gross debt to EBITDA (x)	12.0	11.9	8.2
Net debt to EBITDA (x)	10.5	9.8	6.9
Gross Debt to Equity (x)	0.99	0.83	0.81
Net Debt to Equity (x)	0.86	0.68	0.68
Gross debt/total capitalisation (%)	49.7	45.3	44.8
Net debt/net capitalisation (%)	46.2	40.5	40.5
Cash/current borrowings (x)	1.3	1.2	0.8
EBITDA/Total Interest (x)	4.7	4.9	8.6

Source: Company, OCBC estimates

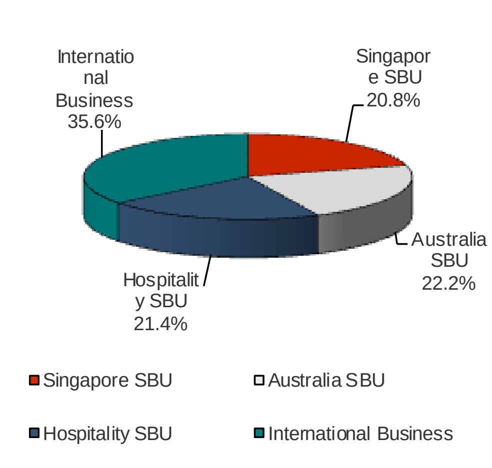
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 1: Revenue breakdown by Geography - 1Q2017



Source: Company

Figure 2: Revenue breakdown by Segment - 1Q2017



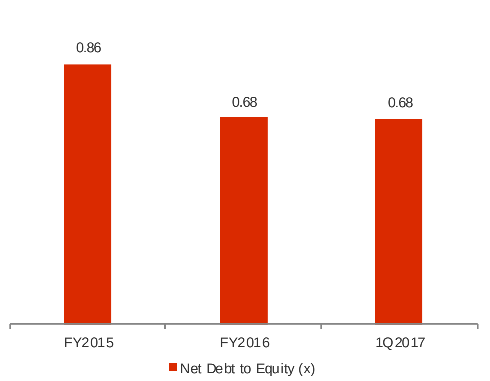
Source: Company, OCBC estimates

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/12/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	969.3	9.7%
Unsecured	1094.4	11.0%
	2063.7	**20.7%**
Amount repayable after a year		
Secured	1678.6	16.8%
Unsecured	6234.2	62.5%
	7912.8	**79.3%**
Total	**9976.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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