Asia Credit Research

Earnings Review: Frasers Commercial Trust ("FCOT")

Recommendation

- FCOT continues to face transitional issues with its Singapore assets, with unlikely improvement to be seen for the balance of FY2018. That being said, FCOT had funded the Farnborough acquisition in a way that preserved its debt headroom. We will retain our Neutral (4) Issuer Profile, though potential future asset injections by the sponsor may burden FCOT's balance sheet.
- We prefer the FCOTSP 3.185% '23s versus the SUNSP 2.85% '23s. It offers a spread pickup of 11bps despite maturing half a year earlier. Suntec REIT's leverage may also increase given that it acquired the balance 50% of the Southgate during 1Q2018.
- We have both FCOT and Suntec REIT at Neutral (4) Issuer Profile.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
FCOTSP 3.185% '23	28/02/2023	35.3%	3.13%	77bps
SUNSP 2.85% '23	02/08/2023	36.4%	3.05%	66bps

Indicative prices as at 25 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (4)

Ticker: **FCOTSP**

Background

Frasers Commercial Trust ("FCOT") is a REIT that holds largely office and business park assets and is sponsored by Frasers Property Ltd ("FPL", which holds a 26.8% interest in FCOT). FCOT reported a portfolio value of SGD2,071mn (end-FY2017), which comprises of China Square Central ("CSC"), Alexandra Technopark ("ATP") and 55 Market Street in Singapore, as well as 357 Collins Street, Melbourne Caroline Chisholm Centre, Canberra and 50% of Central Park, Perth in Australia.

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Key Considerations

- **Weakness in Singapore as expected**: FCOT reported 2QFY2018 results, with gross revenue down 18.0% y/y to SGD33.0mn and NPI down a sharper 25.3% y/y to SGD22.4mn. This was largely as expected, given the exit of HP Enterprise and the staggered exit of HP Singapore from ATP (current committed occupancy stands at 70.4%, down almost 10ppt q/q), which caused property NPI to plunge 34% y/y to SGD6.4mn (ATP is FCOT's largest asset by NPI contribution). CSC also saw property NPI fall by 28% to SGD3.2mn due to the closure of the retail podium for its SGD38mn AEI (construction started in 1Q2018), to better position the asset for when the Capri hotel opens in mid-2019. 55 Market Street in Raffles Place also had a weak quarter, reporting NPI decline of almost 20% y/y due to softer occupancy (87.9%). Our previous expectations [1] for FCOT's FY2018 performance are being realized, though given the low committed occupancy of ATP as at 1HFY2018, the asset may take a longer time than expected to ramp back higher. Given the timing of the opening of the new hotel, and completion of CSC's AEI, FCOT's portfolio may only see stabilized cash flows in the latter part of FY2019.

- **Weakness in Australia a disappointment**: FCOT's Australian assets continued to be affected by the weaker AUD (which weakened ~3.5% against SGD during 2QFY2018). Lower occupancy had also affected the Central Park, Perth and 357 Collins Street, Melbourne. Central Park was badly affected by the 16.9ppt y/y fall in committed occupancy to 68.3%, which caused property revenue and NPI to decline 26.2% and 40.0% respectively. The asset was affected by the lower amount of space renewed by major tenant, Rio Tinto. In general, though Prime Grade office vacancies in the Perth CBD are recovering, it still stands at 14.2%. Looking forward, the Farnborough Business Park acquisition (50% stake, completed end-January 2018) may help contribute to performance. On a full-quarter basis, the asset is estimated to contribute SGD2.2mn in NPI to FCOT.

- **Portfolio statistics remain challenging**: In aggregate, portfolio committed occupancy remained weak at 83.5%, falling further q/q from 86.6% (1QFY2018) with all six assets reporting lower occupancy. WALE improved q/q to 4 years (1QFY2018: 3.6 years). That being said, the Australia leases have longer WALE. Singapore WALE is lower with CSC at 1.7 years, ATP at 1.6 years and 55 Market

[1] Singapore Credit Outlook 2018

Street at 1.8 years. Portfolio WALE had also benefited from the acquisition of Farnborough Business Park (7.5 years).

- **UK acquisition modest impact to leverage**: Aggregate leverage had increased slightly to 35.3% (1QFY2018: 34.8%). The increase was largely driven by the acquisition of 50% of Farnborough Business Park, which was ultimately funded by SGD100mn in rights issue and SGD60mn in bonds. Reported interest coverage stood at 4.1x (1QFY2018: 4.3x), with the average borrowing rate at 2.99% (1QFY2018: 3.04%). Floating rate borrowings are 18% of gross borrowings. Near-term borrowings look manageable, with SGD136mn in AUD bank loans and SGD40mn in SGD bank loans due. Maturity profile is well termed-out, with an average of ~SGD160mn due annually till FY2022. All of FCOT's assets are unencumbered, which offers flexibility. The biggest risk to FCOT's credit profile remains potential asset injections by its sponsor. FCOT had disclosed SGD4bn in pipeline assets with right of first refusal granted by its sponsor for assets in Singapore, Australia and the UK. As a mitigating factor, it would seem that the sponsor's industrial and logistic assets in Europe are intended for injection in Frasers Logistics & Industrial Trust based on recent transactions[2].

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

[2] OCBC Asian Credit Daily (20 Apr)

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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Analyst Declaration

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