Asia Credit Research

Earnings Review: Frasers Centrepoint Trust ("FCT")

Issuer Profile: Neutral (3)

Ticker: **FCTSP**

Background

Listed on the SGX in July 2006, Frasers Centrepoint Trust ("FCT") is a pure-play suburban retail REIT in Singapore, sponsored by Frasers Centrepoint Ltd ("FCL", which holds a 42% interest in FCT). Since its IPO, FCT's portfolio value has grown to SGD2.67bn as at end-FY2017. Its portfolio comprises 6 suburban retail malls in Singapore - Causeway Point, Changi City Point, Northpoint, Bedok Point, Anchorpoint, and YewTee Point. FCT also owns a 31.2%-stake in Malaysia-listed Hektar REIT ("H-REIT", a retail focused REIT).

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Recommendation

- FCT's performance continues to be anchored by its largest assets, with Causeway Point continuing to perform, while Northpoint's stabilization would drive near-term performance. We will retain our Neutral (3) Issuer Profile, though we note that FCT remains on the prowl for assets and that the sizable debt headroom is likely transient.
- Comparing the FCTSP '24s, MCTSP '24s, and CAPITA '24s (we hold all three at Neutral (3) Issuer Profile), the FCTSP '24s look fair versus the MCTSP '24s. It looks attractive versus the CAPITA '24s given FCT's lower aggregate leverage and wider spread for comparable duration.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
FCTSP 2.77% '24	08/11/2024	29.2%	3.22%	73bps
MCTSP 3.28% '24	23/09/2024	34.5%	3.23%	76bps
CAPITA 3.75% '24	02/08/2024	33.5%	3.13%	67bps

Indicative prices as at 30 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Key Considerations

- **Stabilization of Northpoint mitigates NPI weakness**: FCT reported 2QFY2018 results. Gross revenue increased 6.3% y/y to SGD48.6mn, while NPI was up 6.9% y/y to SGD34.8mn. Similar to the prior periods, the biggest driver of performance was Northpoint City North Wing ("Northpoint") which reported 31.7% y/y higher property income to SGD13.3mn and 44.8% y/y higher NPI to SGD10.0mn as it completed its AEI and occupancy ramped back up to 94.0% (compared to the low of 60.7% seen in 2QFY2017). This helped mitigate NPI declines at most of FCT's other assets such as Causeway Point and Changi City Point. Excluding Northpoint, portfolio NPI would have declined 3.3% y/y to SGD24.8mn. Northpoint's performance has been largely consistent with our expectations (refer to OCBC Asian Credit Daily (25 Oct 2017)) though we note that the positive effect would start to ebb post FY2018.

- **One-off items impacted the larger assets**: For Causeway Point, despite the 1.3% y/y increase in property income, NPI declined 0.2% y/y due to a 6.3% increase in expenses, partly driven by the absence of a non-recurring property tax write back seen in 2QFY2017. For Changi City Point, both property income (-3.6% y/y) and NPI (-9.7% y/y) declined with the former due to the absence of one-off back-billing seen in 2QFY2017, while the latter was driven by higher marketing related expenses. In our view, Causeway Point is likely to see a reversion to its historical strong performance, given that rental reversion and occupancy both remain firm. For Changi City Point though, we are more circumspect, as NPI trend has been more mixed (FY2015: SGD16.3mn, FY2016: SGD15.4mn, FY2017: SGD15.9mn). For FCT's smaller assets, we continue to see weakness at Bedok Point with its NPI falling 31.7% y/y to SGD0.56mn. Though occupancy was cited as a reason for Bedok Point's woes (it fell 7.5ppt q/q to 77.8%), we believe that the sharp negative rental reversion of 21.3% seen in FY2017 (for 36.7% of property NLA) would affect performance of the mall going forward. In mitigation, Bedok Point now only generates 1.6% of portfolio NPI and would have minimal impact on portfolio performance going forward.

- **Improving portfolio statistics**: Portfolio committed occupancy had improved q/q to 94.0% (1QFY2018: 92.6%). This was largely driven by the sharp increase at Northpoint to 94.0% (1QFY2018: 86.8%) as well as gains at Chang City Point (up 4.6 ppt q/q to 90.6%). Portfolio rental reversion was strong at +9.1%, as 62% of the leases executed were at Causeway Point (one of FCT's better performing assets), with Causeway Point reporting +18.9% in rental reversion (an anchor tenant taking ~33,500 sqft NLA renewed). Surprisingly, Northpoint reported -6.1% rental reversion (though for just 2.1% of mall NLA). Near-term lease expiries look manageable at 9.1% of NLA for 2HFY2018 with most of the expiring leases at the larger malls as well as YewTee Point. WALE (by NLA) has improved to 2.1 years (FY2017: 1.82 years). Traffic and tenant sales (both excluding Northpoint City) were +0.5% y/y and -1.2% y/y respectively. It was mentioned during the previous quarter that the closure of certain entrances for renovation had hit Northpoint's traffic, with the mall seeing 32.6% lower traffic during 1QFY2018. For 2QFY2018, management indicated that traffic is still stabilizing at Northpoint given that Northpoint South Wing (not in the portfolio) opened in December 2017. Tenant sales for Northpoint however surged 47.8% y/y during 2QFY2018 as the effects of the AEI fade away.

- **Strong credit profile**: Aggregate leverage remains low at 29.2% (1QFY2018: 29.4%). Reported EBIT / Interest coverage was stable at 6.6x (1QFY2018: 6.5x). Debt due in 2HFY2018 looks manageable at SGD91mn, as though FCT's cash balance stands at SGD15.8mn, secured borrowings are only ~10% of FCT's total assets. It is also worth noting that only the smaller 3 assets are mortgaged, accounting for the SGD286mn in secured debt. FCT's three largest assets (Causeway Point, Northpoint and Changi City Point) are unencumbered, which provides financial flexibility. As mentioned during the previous quarter, management had guided that they are looking at both third-party assets in Singapore and overseas (specifically Australia and Malaysia). As at end-1QFY2018 though, they have not commenced conversation with their sponsor regarding pipeline assets. In our view, FCT has largely retained its sizable debt headroom for potential acquisitions, and such acquisitions would determine FCT's future leverage trajectory.

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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

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.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform 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.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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