

## Earnings Review: Frasers Property Ltd (“FPL”)

### Recommendation

- 3QFY2018 results appear flattish with the boost in revenue from Singapore due to completion of Parc Life EC offset by fall in Australia development revenue due to timing of completions. Going forward, with the Singapore landbank appearing rather dry, we can expect recurring reported PBIT (9MFY2018: 67%) to continue rising as a proportion of total PBIT.
- Despite falling q/q, net gearing remains somewhat high at 91% (2QFY2018: 96%). That said, we remain comfortable with FPL and continue to hold its **Issuer Profile at Neutral (4)**, supported by strong cashflow from its REITs and investment properties.
- Within the FPLSP curve, we continue to like FPLSP 4.25% ‘26s as it trades above 4%. We also like FPLSP 4.88% PERP and FPLSP 5% PERP as we think it is likely for both perps to be called, given their wider reset spread. Between FPLSP 3.95% PERP and FPLSP 4.38% PERP, we prefer the former given the nearer reset date. We also note that FPLSP 3.95% PERP trades at a wider spread than GUOLSP 4.6% PERP, despite rating GuocoLand Ltd with a lower Issuer Profile at Neutral (5). Between the FNNSP and FPLSP curve, we prefer the former given that Fraser and Neave Ltd has lower net gearing while yields are similar between both curves.

### Issuer Profile: Neutral (4)

Ticker: **FPLSP**

### Background

Frasers Property Ltd (“FPL”) is a leading Singapore developer by total assets (SGD31.7bn as of end-June 2018). Core markets are Singapore and Australia, with secondary markets such as China and Thailand. Entities related to the Sirivadhanabhakdi family (of Thailand’s TCC Group) control 87.2% of FPL’s stock. Sponsored REITs include Frasers Centrepoint Trust (“FCT”), Frasers Commercial Trust (“FCOT”), Frasers Hospitality Trust (“FHT”) and Frasers Logistics and Industrial Trust (“FLT”).

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### Relative Value:

Bond	Maturity date/ Reset Date	Net gearing	Ask Yield	Spread
FPLSP 3.95% ‘21s	07/10/2021	0.91x	3.34%	133bps
FPLSP 4.25% ‘26s	21/04/2026	0.91x	4.10%	176bps
FPLSP 4.15% ‘27s	23/02/2027	0.91x	4.17%	179bps
FPLSP 4.88% PERP	24/09/2019	0.91x	3.71%	199bps
FPLSP 5% PERP	09/03/2020	0.91x	3.97%	213bps
FPLSP 3.95% PERP	05/10/2022	0.91x	5.43%	335bps
FPLSP 4.38% PERP	17/01/2028	0.91x	5.52%	254bps
FNNSP 3.09% ‘22s	23/03/2022	0.14x	3.31%	127bps
FNNSP 3.8% ‘27s	21/04/2027	0.14x	4.03%	164bps
GUOLSP 3.62% ‘21s	30/03/2021	0.92x	3.46%	150bps
GUOLSP 4.6% PERP	23/01/2025	0.92x	4.96%	271bps

*Indicative prices as at 21 Aug 2018 Source: Bloomberg, OCBC, Company  
Net gearing based on latest available quarter*

### Key Considerations

- Flattish 3QFY2018 revenue with Singapore up and Australia down...:** Revenue was relatively flattish, declining 2.7% y/y to SGD1.4bn due to mixed results from the various business segments. Despite the bumper revenue from the Singapore SBU segment (+180% y/y to SGD680.1mn) mainly due to the settlement of Parc Life EC (revenue recognised only on completion) and progressive profit recognition from Seaside Residences, the Australia SBU segment revenue declined to SGD288.3mn (3QFY2017: SGD682.5mn) mainly due to the timing of revenue and profit recognition of development properties.
- ... though bottomline was impacted by higher interest cost:** Europe & rest of Asia SBU segment also declined to SGD195.1mn (3QFY2017: SGD273.4mn) though this is one-off due to the absence of completion of projects last year (e.g. settlement of Vauxhall Sky Gardens in UK). Meanwhile, revenue from Hospitality remained flattish at SGD197.8mn (3QFY2017: SGD199.5mn). In-line with overall revenue trends, reported EBIT before fair value changes and exceptional items was flattish at SGD360.5mn (3QFY2017: SGD356.6mn). However, due to a surge in net interest expense by 111.6% y/y to SGD70.4mn due to higher debt position y/y, profit before fair value changes, tax and exceptional items fell 10.3% y/y to SGD290.1mn.

- **Singapore development landbank looking dry though Australia's pipeline remains large:** Contribution from Singapore's development segment may trend down as the only significant unsold landbank is the site at Jiak Kim (500 units), which will launch in 1H2019. North Park Residences is already fully sold and will complete by end-FY2018 while the 40%-owned Seaside Residences is already 84% sold, which will be ready in 2QFY2021. Meanwhile in Australia, FPL has 15,650 units worth SGD8.2bn in gross development value in the pipeline. In particular, 600 units may be launched in 4QFY2018, with 1,250 units already launched thus far in 9MFY2018. However, as the recognition of revenue is tied to the deliveries, PBIT from this segment may remain volatile quarter to quarter.
- **Listed REITs and recurring income from FPL-owned investment properties continue to deliver:** We estimate that FPL receives ~SGD100mn dividends p.a. from its listed REITs (FCT, FCOT, FHT, FLT), and we estimate these account for ~33% of FPL's total assets. In the latest earnings of its REITs which we covered earlier, [FCT's 3QFY2018 NPI \(+13.7% y/y to SGD35mn\) benefited from strong results from Northpoint City North Wing](#), supported by the completion of the South Wing (100% owned by FPL) in 1QFY2018. However, [FHT's NPI \(-2.8% y/y to SGD28.5mn\) dipped slightly](#) while FCOT's [NPI plunged \(-26.9% y/y to SGD20.4mn\) with lower occupancy at Alexandra TechnoPark](#). Meanwhile, adjusted NPI from FLT rose 27.4% y/y to SGD39.3mn due to acquisition of 4 properties. Meanwhile, Frasers Tower has started contributing as it was completed in end-May 2018 with 80% pre-lease commitment. Together with the commencement of South Wing of Northpoint City, PBIT for Singapore Commercial Properties increased 12% y/y to SGD118mn.
- **Diversification into overseas market:** Beyond Singapore and Australia, FPL has been venturing into and deepening exposure in newer markets. TICON has been consolidated with deemed interest increasing to 89.46% on 17 May 2018 (from 67.0%) following a tender offer, which added SGD1.6bn to the investment properties (SGD20.2bn) on the balance sheet. We estimate that another ~SGD400mn were added to FPL's investment properties in 3QFY2018 with the acquisition of Alpha Industrial Holdings. As a recap, FPL also acquired 99.5% stake in Geneba in 4QFY2017 for ~EUR363mn (~SGD570mn), four business parks in the UK in 1QFY2018 for £103mn (~SGD181mn) and Farnborough Business Park in the UK (via 50-50 JV with FCOT) in 2QFY2018 for £174.6mn (SGD314.8mn).
- **Net gearing remains somewhat high though we remain comfortable with credit profile supported by investment properties and REITs:** Net gearing fell to 91% q/q (from 96%), mainly due to higher net cash from operating activities of SGD729.8mn with (1) SGD380.7mn unlocked from properties held for sale, which should be mainly due to settlements of Parc Life EC in Singapore and (2) increase in payables of SGD231.8mn due to higher amounts due to an associate in China. We continue to maintain FPL at Neutral (4) Issuer Profile, albeit precariously given the still somewhat higher net gearing, due to the strong recurring income which forms 67% of PBIT, diversified portfolio of assets by geography and asset class. In addition, the REIT vehicles allow FPL to recycle assets, for example 21 industrial properties were injected by FPL into FLT for EUR596.8mn (SGD972.8mn), which was completed on 25 May 2018. We estimate that there remains over SGD10bn in non-development property assets directly held, which could help reduce FPL's leverage if recycled. Meanwhile, FPL continues to enjoy access in the capital markets, for example through the recent issuance of THB2.3bn (~SGD96mn) FPLSP 3.02% '22s and THB1.2bn (~50mn) FPLSP 3.88% '28s.

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#### Explanation of Issuer Profile Rating (“IPR”) / Issuer Profile Score (“IPS”)

**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 (“IPR”) into a 7 point Issuer Profile Score (“IPS”) 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.

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**Analyst Declaration**

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