

## Earnings Review: Frasers Centrepoint Trust ("FCT")

### Recommendation

- FCT's credit profile remains intact, despite its recent acquisitions of a 18.8% interest in PGIM Real Estate AsiaRetail Fund ("PGIM ARF") and a 33.3% stake in Waterway Point. Aggregate leverage, while higher at ~29.7% based on our calculation, is substantially lower than expected, due to the significant equity funding used to finance these purchases. Overall, FCT continues to be anchored by its larger assets. We **retain our Neutral (3) Issuer Profile**. That said, we remain wary that Northpoint City South wing may potentially be injected into FCT further down the road.
- Comparing the FCTSP '24s, MCTSP '24s, and FHREIT '24s (we hold all three at Neutral (3) Issuer Profile), the **FCTSP '24s look somewhat attractive** versus the MCTSP '24s. FCTSP '24s is offering a spread pickup of ~29bps for a two month longer tenor. We also prefer FCTSP '24s over FHREIT '24s, given FCTSP has a relatively lower aggregate leverage.

### Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
FCTSP 2.77% '24	08/11/2024	28.8%	3.27%	131bps
MCTSP 3.28% '24	23/09/2024	33.1%	2.97%	102bps
FHREIT 3.08% '24	08/11/2024	34.0%	3.24%	128bps

*Indicative prices as at 17 May 2018 Source: Bloomberg  
Aggregate leverage based on latest available quarter*

### 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 Property Ltd ("FPL", which holds a 42% interest in FCT). As at 31 March 2019, FCT's portfolio value is SGD2.75bn, comprising 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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### Key Considerations

- **Broad based growth:** Gross revenue was up by 2.3% y/y to SGD49.7mn while NPI was 4.8% higher y/y at SGD36.4mn in the second quarter of financial year ending 30 September 2019 ("2QFY2019"). The improvement was broad-based, led by Changi City Point (+12.0% y/y and +24.6% y/y growth in gross revenue and NPI respectively). Changi City Point also saw occupancy rate increase to 96.7% (from 90.6% a year ago). Overall portfolio occupancy came off slightly to 96.0% from 96.4% as at 31 Dec 2018, with 3.7% of FCT's total NLA renewed at an average rental reversion of +2.0% during the quarter. Looking forward, there is a remaining 11.4% of leases by gross rental income coming due in FY2019 and 37.8% in FY2020. Shopper traffic was up by 2.4% y/y from Jan – Mar 2019 while tenants' sales dipped by 1.3% y/y over a three-month period from Dec to Feb 2019. The lower tenants' sales were attributed mainly to transitional vacancies at Causeway Point.
- **Acquisition of PGIM Real Estate AsiaRetail Fund:** FCT had on 28 Feb 2019 and 21 March 2019 announced the purchase of a initial 17.1312% stake (for SGD342.5mn, completed on 4 April 2019) and an additional 1.67% stake (for SGD33.5mn, pending completion) in PGIM ARF. This fund owns and manages six retail malls in Singapore – namely Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square and Tampines 1 – and office property, Central Plaza and four retail malls in Malaysia. We think this move entrenches FCT's position in the suburban mall space and enlarges the potential pipeline of assets that FCT may pursue in the future for growth. We note that the FPL holds a 47.82% stake in PGIM ARF and in aggregate, FPL has a deemed interest of 66.6% stake in the fund. As such, we think it would make sense for FPL and FCT to jointly pursue gaining control of the fund and possibly reap the synergies between the malls in PGIM ARF and FPL/FCT. Management has financed the first leg of the transaction with a bridging loan and is expected to do the same for the second leg, as well as repay the bridging loan by a combination of equity (~SGD176.4mn, and based on our estimation, up to a maximum of SGD238mn) and term loan.

- **Purchased one-third stake in Waterway Point:** FCT also bought 33.3% stake in Waterway Point on 16 May 2019 for SGD433.3mn, with a net property income yield of 4.7%. Given that both Jurong Point and Westgate transacted at a NPI yield of ~4.2%-4.4%, we think FCT's most recent purchase was at a good price. Total outlay for FCT is SGD440.6mn, made up of SGD240.8mn for a one-third of the total issued units of Sapphire Star Trust, SGD191mn for the pro rata share of a bank loan and SGD8.8mn for fees and expenses. Management has guided that it will fund ~SGD249.6mn (~56.6% of total outlay) with equity, and the balance of SGD191mn via borrowings. Waterway Point, located in Punggol Central, has a NLA of 371,200 sq ft and committed mall occupancy of 98.1%. Net property income recorded in FY2018 was SGD61.1mn. We estimate that Waterway Point will account for ~12.2% of the new portfolio valuation (including 18.8% of PGIM ARF).
- **Credit profile remains strong:** Apart from factoring in the Waterway Point and PGIM ARF transactions and that the upsize option was exercised in full to raise SGD369.6mn proceeds from the private placements on 17 May 2019, we also assumed that SGD109.7mn will be raised from the pro rata and non-renounceable preferential offering and any excess funds raised via equity will be used to pare down debt. With that we find resultant aggregate leverage is slightly higher at 29.7% (31 March 2019: 28.8%). The increase in aggregate leverage is less than expected, as a significant amount of equity was used to finance the transactions. Even though debt coming due in FY2019 is SGD291mn, and FCT has a cash balance of SGD13.4mn as at 31 March 2019, we are not overly concerned as only the smaller 3 assets are mortgaged. FCT's three largest assets (Causeway Point, Northpoint and Changi City Point) remain unencumbered, providing FCT financial flexibility. We estimate that FCT will have debt headroom of ~SG560mn, post its acquisitions. In our view, Northpoint City South wing remains a potential asset that may be injected into FCT by its Sponsor, which could drive FCT's leverage higher.

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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**

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

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