Asia Credit Research

Earnings Review: Frasers Property Ltd ("FPL")

Issuer Profile: Neutral (4)

Ticker: **FPLSP**

Background

Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD33.2bn as of end-Mar 2019). 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% 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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Recommendation

- Results are lackluster with reported EBIT down by 9.9% y/y due to a largely dry development pipeline in Singapore. Overall, FPL is shifting away from development assets to recurring income sources, with development as of 2QFY2019 contributing just 15% of total property assets.
- Despite the somewhat high net gearing of 0.87x, unchanged q/q, we remain comfortable with FPL and continue to hold its **Issuer Profile at Neutral (4). FPL** is supported by strong cashflows from its REITs and investment properties.
- Within the FPLSP curve, we see most value in FPLSP '26s and '27s, which trade above 4%. Amongst the FPL curve, we like FPLSP 4.98% PERP, FPLSP 4.25% '26s and FPLSP 5% PERP the most.

Relative Value:

Bond	Maturity date/ Reset Date	Net gearing	Ask Yield	Spread
FPLSP 3.95% '21s	07/10/2021	0.87x	3.00%	107bps
FPLSP 4.25% '26s	21/04/2026	0.87x	3.93%	185bps
FPLSP 4.15% '27s	23/02/2027	0.87x	4.00%	188bps
FPLSP 4.88% PERP	24/09/2019	0.87x	3.72%	178bps
FPLSP 5% PERP	09/03/2020	0.87x	4.35%	243bps
FPLSP 3.95% PERP	05/10/2027*	0.87x	4.92%	277bps
FPLSP 4.38% PERP	17/01/2028	0.87x	4.88%	271bps
FPLSP 4.98% PERP	11/04/2024	0.87x	4.67%	270bps
FNNSP 3.09% '22s	23/03/2022	0.11x	3.22%	129bps
FNNSP 3.8% '27s	21/04/2027	0.11x	3.71%	158bps
GUOLSP 3.62% '21s	30/03/2021	0.86x	3.23%	131bps
GUOLSP 4.6% PERP	23/01/2025	0.86x	4.60%	259bps

Indicative prices as at 8 May 2019 Source: Bloomberg, OCBC, Company
Net gearing based on latest available quarter
**Yield to step-up date*

Key Considerations

- **Lacklustre results with fewer settlements of development projects:** FPL announced 2QFY2019 results for the quarter ending 31 Mar 2019. Revenue rose by 11.1% y/y to SGD934.3mn. This was mainly due to increased contribution from the Australia SBU (+55.1% y/y to SGD481.7mn) which more than offset the fall from the Singapore SBU (-32.0% y/y to SGD133.7mn). However, reported EBIT fell by 9.9% y/y to SGD191.1mn due to share of results of JVs and associates falling 39.9% y/y to SGD31.7mn as a result of timing of settlements of development projects. Despite the weaker reported EBIT and interest expense increasing 55.1% y/y to SGD108.7mn (interest expense is no longer capitalised following completion of Frasers Tower), net profit rose 11.2% y/y to SGD183.7mn due to SGD31.2mn fair value gains on investment properties.

- **No longer much of a Singapore property developer:** For the Singapore SBU, the revenue fall was mainly due to the depletion of the development landbank with only SGD2mn revenue recorded for the development. However, reported EBIT for the segment rose 9.0% y/y to SGD96.6mn, mainly due to increased contribution from retail & commercial (non-REIT portion) which rose to SGD34.3mn (2QFY2018: SGD25mn) following the completion of Frasers Tower (opened in May 2018) and higher occupancy at the south wing of Northpoint City. Meanwhile, REITs contributed higher reported EBIT (+1.6% y/y to SGD50.5mn) to the Singapore SBU. The development landbank remains rather dry, with the only significant upcoming launch being Rivière (535 total apartments) at Jiak Kim St, which FPL paid SGD955.4mn under a GLS tender. We think FPL no longer find residential sites in Singapore attractive following the Jul 2018 cooling measures.

- **Higher contribution from Australia SBU though sustainability will be the key:** For the Australia SBU, the surge in revenue was mainly due to sales and settlements from residential projects at Central Park in Chippendale, New South Wales. Reported EBIT rose 18.6% y/y to SGD100.5mn though this was only partly due to the residential segment (+14.4% y/y to SGD46.1mn). Contribution from listed REITs (+28.7% y/y to SGD44.9mn) is significant, mainly from outperformance at FLT. While 1452 units will be released in 2HFY2019, sustainability of earnings contribution from development will be key we as note that the pre-sales from the Australian development pipeline has shrunk considerably to SGD0.9bn (FY2018: SGD1.5bn, FY2017: SGD2.2bn). The residential development pipeline is still substantial at SGD7.9bn in gross development value, which provides sufficient work ahead. According to FPL, default rates on apartment sales are unlikely to increase significantly though there is a trend that settlements are taking longer due to tighter credit.

- **Decline in contribution from hospitality and Europe/rest of Asia:** Hospitality SBU reported EBIT fell 9.5% y/y to SGD20.7mn in 2QFY2019. This was due to both the non-REIT and REIT segments. We note 1HFY2019 RevPAR has declined for the non-REIT portfolio in North Asia (-2.7% y/y), Asia Pacific excluding North Asia (-5.3% y/y) and Europe (-0.3% y/y). Meanwhile, FHT (which makes up 78.3% of the SBU's reported EBIT) reported EBIT decline of 6.3% y/y to SGD16.2mn. We elaborated on FHT's soft results previously. For Europe & rest of Asia SBU, reported EBIT fell 17.5% y/y to SGD76.6mn. This is one-off as the fall is due to tapering off of sales and settlements from Phase 3B of Baitang One, Suzhou (which delivered higher contributions in 2QFY2018). Contribution from China (which saw EBIT fall 51% y/y to SGD19.8mn) may recover with pre-sold revenue increasing to SGD0.7bn in 1HFY2019 (FY2018: SGD0.3bn).

- **Scaling down on development and focusing more on recurring segments:** Overall, the trend continues to show FPL moving away from development. With the development pipeline drying up, development comprises just 15% of total property assets (FY2018: 17%) though we understand that FPL is targeting for 15-20% allocation to the segment. Meanwhile, recurring EBIT is the majority contributor. As such, while returns are lower because of more muted development activities, a larger portion of earnings is recurring. As of 1HFY2019, recurring EBIT forms 68% of the reported operating EBIT (FY2018: 65%). The most recent move, to acquire stakes in PGIM fund which totals SGD958mn, should boost earnings from the recurring income segment. According to FPL, even with FCT's 18.8%-stake in the PGIM fund, FPL does not have control over the PGIM fund.

- **Remain comfortable with credit profile:** Net gearing remains unchanged q/q at 87%. However, this has yet to factor the settlement for ~SGD600mn acquisition of a further 29.99% stake in PGIM Real Estate AsiaRetail Fund Ltd, which should be reflected in 3QFY2019's results though we only expect net gearing to rise to ~89% given the issuance of SGD400mn FPLSP 4.98% PERP. While net gearing is higher than peers (e.g. City Developments Ltd, CapitaLand Ltd), we continue to hold FPL at a Neutral (4) Issuer Profile for now given FPL's diversified profile (geographically and by assets), anchored by recurring income from its REITs and investment properties.

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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

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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

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