Asia Credit Research

OCBC Bank

Frasers Property Limited: Credit Update

Thursday, 31 May 2018

Stay Watchful

- FPL had largely persisted with its growth strategy via both organic as well as inorganic means. Investments looked to be spread between deepening existing operations as well as expanding into new geographies. The improving Singapore real estate market may spur further investments into development as well as investment properties, while a more recent push into European logistics and industrial assets may tax on FPL's resources further.

- The balance sheet expansion had been funded by FPL accessing capital markets to issue both bonds as well as perpetual securities, coupled with higher levels of bank loans. FPL has also started to diversify its funding sources, issuing bonds in both USD as well as THB. Management seems comfortable with higher levels of leverage relative to the past, though net gearing is expected to remain below the 100% handle. There remains ways for FPL to monetize its balance sheet via its family of REITs. The sizable investment property portfolio also offers recurring income, though the low percentage ownership of its REITs should be considered.

- We will retain our **Neutral (4) Issuer Profile on FPL** despite the weaker credit profile, though given FPL's sustained growth trajectory we would continue to monitor FPL's funding mix as well as management's signalling on FPL's optimal capital structure. Top picks in the curve include the earlier perpetual securities (FPLSP 4.88%-perp and FPLSP 5%-perp) with shorter call dates and higher reset spread. For seniors, the FPLSP 4.25% '26 looks interesting given the high carry (4.2% YTM), though duration concerns prevent an outright overweight recommendation.

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A) Background

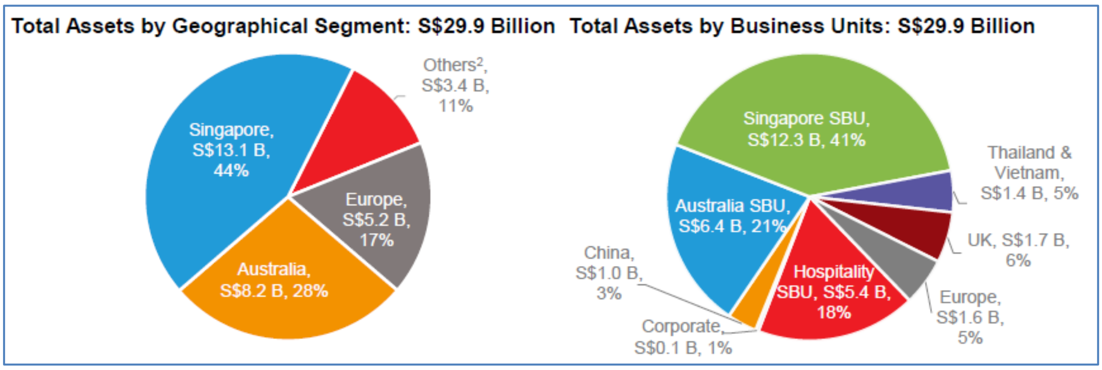
Since initiating our coverage on Frasers Property Limited ("FPL", formerly Frasers Centrepoint Limited) a year back[1], FPL had largely continued its growth strategy, entering into new market segments (such as its foray into European industrial properties via investments in Geneba Properties, in four UK business parks and in Alpha Industrial Holdings) as well as deepening existing exposures (additional investments into TICON, land purchases in Singapore). Total assets now stand at SGD29.9bn (end-2QFY2018 for the quarter ending March 2018), versus SGD24.2bn 18 months back.

To fund its growth, FPL had been actively tapping capital markets, raising SGD650mn in perpetual securities as well as THB7.5bn (~SGD313mn) in bonds since September 2017. Other recent borrowings include an AUD500mn senior unsecured revolving credit facility. Leverage has marched distinctly higher as a result, with net gearing at 96% (end-2QFY2018) versus a low of 68% (seen as at end-FY2016). These numbers do not yet factor some sizable capital commitments, such as the Alpha Industrial Holdings acquisition, as well as development costs for the Jiak Kim development. In this report, we will review FPL's recent performance, the funding needs given the numerous investments announced, as well as the

[1] OCBC Asia Credit - Frasers Centrepoint Limited Initiation Report (22 Mar 2017)

various ways that FPL could generate liquidity.

B) Recent Performance and Outlook



Source: Company, 2QFY2018 results presentation

FY2017 revenue increased 17.1% y/y to SGD4.03bn, driven by the Australia SBU (+13.3% y/y to SGD1.64bn) and the International segment (+183.0% y/y to SGD717.1mn), which helped offset flattish performance at the Hospitality SBU (+2.3% y/y to SGD807.3mn) and weakness in the Singapore SBU (-9.2% y/y to SGD859.2mn). Total PBIT was also up 16.1% y/y to SGD1.10bn, driven by gains seen in the International segment (+47.6% y/y to SGD274.1mn), Australia SBU (+33.2% y/y to SGD290.1mn) and Hospitality SBU (+14.2% y/y to SGD154.2mn). These helped to mitigate the PBIT decline at the Singapore SBU (-4.7% y/y to SGD408.2mn). <u>Looking forward though, we believe that FY2017 SBU trends are unlikely to repeat in FY2018</u>. There are already signs of this in 1HFY2018 results (ending March 2018), which saw total revenue fall 5.7% y/y to SGD1.58bn, while group PBIT increased marginally by 1.6% y/y to SGD518.6mn. In a reversal from FY2017, 1HFY2018 saw the Singapore SBU contribute strongly with revenue up 19.2% y/y to SGD449.8mn. Comparatively, the International segment revenue plunged 43.4% y/y to SGD216.0mn for the period. More details to be covered below.

<u>Singapore SBU</u>

For the Singapore SBU, 1HFY2018 revenue increased 19.2% y/y to SGD449.8mn, though PBIT was flattish (+0.8% y/y) at SGD192.1mn. Segment development revenue jumped 37% y/y to SGD223mn, boosted by progressive revenue recognized from North Park Residences (fully sold as of 29/01/18, targeted completion in 4QFY2018). Growth in development PBIT was lower at 21% y/y to SGD40mn, largely due to lower contributions from development JV / Associates (specifically the absence of contribution from the Watertown and Rivertrees Residences JVs in 1QFY2018 mitigated by maiden profit recognition from Seaside Residences JV in 2QFY2018).

Segment commercial revenue (which includes both REIT and non-REIT assets) increased by 4% to SGD223mn, though PBIT fell 10% to SGD142mn due to weaker performance at FCOT (refer to <u>OCBC Asian Credit Daily (23 Jan 2018)</u> and <u>OCBC Asia Credit - FCOT Earnings Review 1Q2018 (25 Apr 2018)</u> for a review of FCOT's 1QFY2018 and 2QFY2018 results), which had been affected by a key tenant vacating Alexandra Technopark as well as AEI / construction work at China Square Central. Performance was partly mitigated by improved contributions from The Centrepoint, which had completed its AEI in September 2016. The completion of the AEI at Northpoint City north wing, and commencement of operations at the newly competed south wing supported 2QFY2018 performance.

Looking forward, contribution from the <u>Singapore SBU's development revenue is likely to slow</u> as the only two majority-owned projects, North Park Residences and Parc Life (EC), are expected to be completed by end-FY2018. Furthermore, North Park Residences is already 100% sold and 75% completed (hence less percentage-of-completion revenue recognition remaining). Parc Life (EC) would result in a bumper 3QFY2018 as EC revenue can only be recognized upon TOP (Parc Life was reported to be completed, but revenue was not yet recognized in 2QFY2018 results). Aside from these two projects, there remains the 40%-owned Seaside Residences, which would only be ready in 2QFY2021. Total Singapore unrecognized development revenue is ~SGD0.6bn (this excludes Seaside Residences as it is minority owned). Aside from these, the only remaining land bank would be the Jiak Kim Street site, which FPL guided to have the potential to yield more than 500 units (target launch in 1H2019).

Singapore Residential Pipeline:

Project	Effective Share (%)	Total No. of Units	% of Units Sold	% Completion	Estimated Total Saleable Area (m sq ft)	Target Completion Date
Parc Life (EC)	80.0	628	78.7	100.0	0.7	Completed
North Park Residences	100.0	920	100.0	75.3	0.7	4Q FY18
Seaside Residences	40.0	843	71.9	17.7	0.7	2Q FY21

Source: Company, 2QFY2018 results presentation

For the Singapore SBU's commercial contributions, though there would be some weakness resulting from FCOT's near-term performance, given that Frasers Towers is on track for completion in 1H2018 and is already more than 70% pre-leased, Frasers Towers could start contributing from 3QFY2018 onwards. With an NLA of ~686,140 sqft, Frasers Towers could potentially generate ~SGD82mn in rental revenue per annum. The completion of Northpoint City's various components also boosted recurring income for the SBU. Finally, it should be noted that in December 2017, FCOT had widened its investment mandate to include European assets, and had jointly acquired a UK business park with FPL. With FPL increasingly active in Europe, we may see more such acquisitions by FCOT.

Australia SBU

For the Australia SBU, 1HFY2018 revenue dipped 0.9% y/y to SGD517.4mn due to fewer completions as well as lower settlements of wholly-owned residential projects (Shell Cove, Sunbury Fields) during 1QFY2018 though FPL was able to catch up in 2QFY2018 (Tailor's Walk, Avondale). Segment PBIT however surged 62.3% to SGD152.8mn due to share of profits from JV / Associate projects as FPL delivered several JV projects, such as Coorparoo Square in Queensland, Centrale in New South Wales and Point Cook in Victoria. Specifically, residential development segment contributed SGD67.0mn in PBIT, Investment properties / C&I development contributed SGD39.9mn in PBIT while FLT contributed SGD71.7mn in PBIT.

Australia Residential Pipeline for FY2018:

Project [1]	Effective Share (%)	Total No. of Units [2]	% of Units Sold	Estimated Total Saleable Area (m sq ft)	Target Completion Date
Cranbourne West (Casiana Grove) - L³, VIC	100	729	100.0	n/a	3Q FY18
Ryde (Putney Hill Stage 2, Peak) - H/MD, NSW	100	174	97.7	0.2	3Q FY18
Botany (Tailor's Walk, Building B) - H/MD, NSW	PDA[4]	185	69.7	0.2	3Q FY18
Wolli Creek (Discovery Point, Marq) - HD, NSW	100	231	98.3	0.2	3Q FY18
Botany (Tailor's Walk) - Retail, NSW	PDA[4]	1	100.0	0.0	3Q FY18
Papamoa (Coast Papamoa Beach) - L³, NZ	75	316	97.2	n/a	3Q FY18
Chippendale (Central Park, Duo) - HD, NSW	50	313	88.5	0.2	4Q FY18
Parkville (Parkside Parkville, Prosper) - HD, VIC	50	172	95.9	0.1	4Q FY18
Hamilton (Hamilton Reach, Riverlight East) - H/MD, VIC	100	155	65.8	0.1	4Q FY18
Hamilton (Hamilton Reach, Riverlight North) - H/MD, VIC	100	85	35.3	0.1	4Q FY18

Source: Company, 2QFY2018 results presentation

For the SBU's residential division, FPL recorded sales of 568 units across developments in

New South Wales, Victoria and Queensland (it had released 420 units for sale during the period). Comparatively, it settled 1,344 units (including non-wholly-owned developments) during 1HFY2018. Outlook wise, FPL guided that price growth in Sydney and Melbourne is slowing, and that Perth remains challenging given the soft economic environment. That being said, FPL plans to release 2,500 units in FY2018 (mainly in New South Wales and Victoria) and expects to complete and settle ~3,000 units (~1,660 more units are expected for the balance of FY2018). These levels of sales and settlements are comparable to the levels guided by FPL during end-FY2016 for FY2017. As at end-1HFY2018, FPL disclosed SGD1.9bn in unrecognized Australia residential development revenue (though this includes effective interest in joint arrangements). Most of the projects due for settlement this year are largely sold. In spite of near-term industry headwinds, FPL had indicated its desire to replenish its Australian land bank. Its residential development pipeline stood at 17,100 units (2QFY2017: 16,200 units) while gross development value stood at SGD8.8bn (2QFY2017: SGD8.0bn).

Regarding the SBU's investment properties / C&I development segment, for FPL's non-REIT Australian assets (SGD1.3bn in all), portfolio occupancy remained strong at 97.4%, though industrial portfolio saw negative rental reversion (-6.7% y/y) while the office portfolio saw declines in both occupancy (-4.6ppt to 94.2%) as well as rental reversion (-4.1ppt to 10.3%). With regards to C&I development, FPL saw 5 facilities delivered during 1HFY2018 while for the balance of FY2018 there is a further 9 facilities to be delivered, only 3 (GDV of SGD69mn) of these 14 facilities will be sold to 3rd parties. 3 (SGD98mn GDV) will be injected outright into FLT while the balance 8 (GDV of SGD360mn) will remain on FPL's balance sheet as investment property. As such, the revenue recognition from C&I development is likely to be soft for 2HFY2018. That being said, the asset injections would help FPL monetize part of its balance sheet (as FPL only owns 20.3% of FLT). For 1HFY2018, FLT reported 6.7% y/y increase in revenue to AUD86.0mn and 3.8% y/y increase in NPI to AUD70.5mn.

Looking forward, the Australia SBU's PBIT contribution to FPL could be <u>volatile quarter to quarter due to the timing of the deliveries at the residential side</u> (though the SGD1.9bn in unrecognized revenue would anchor performance). The biggest contributor to the SBU PBIT remains FLT though, which in turn is expected to grow given the planned asset injections.

<u>Hospitality SBU</u>

For the Hospitality SBU, 1HFY2018 revenue inched 0.3% higher y/y to SGD397.5mn, benefitting from the maiden revenue contribution from the Capri, Berlin, which commenced operations in May 2017. Revenue also benefit from FHT's acquisition of Novotel, Melbourne, in October 2016. Comparatively, PBIT fell 26.8% y/y to SGD59.6mn, with the largest driver being the absence of a SGD11mn mark-to-market gain on currency hedges recognized at the FHT level in 1QFY2017. The SBU also recorded lower contributions from its UK assets (specifically the MHDV group of hotels) due to weaker consumer sentiment affecting F&B spend as well as pre-opening expenses for its hotel in Dalian, China.

Currently, the Hospitality SBU reported ~SGD4.8bn in assets, of which roughly half sits in FHT (SGD2.4bn portfolio across 15 properties). FHT (23.3% owned) remains the largest contributor to SBU PBIT, generating SGD39.3mn. For 1HFY2018, FHT reported 0.9% y/y increase in revenue to SGD78.9mn (driven by the Melbourne acquisition) and the 0.4% y/y decrease in NPI to SGD59.2mn. RevPar weakness was actually seen in FHT's largest 2 markets (Australia and Singapore), which likely affected the performance of the existing portfolio (refer to <u>OCBC Asian Credit Daily (25 Jan 2018)</u> and <u>OCBC Asia Credit - Frasers Hospitality Earnings Review 2Q2018 (27 Apr 2018)</u> for more details on FHT's 1QFY2018 and 2QFY2018 results respectively). For the SBU's directly held assets (SGD2.4bn across 38 properties), FPL reported strong RevPar growth in North Asia (+15%, Beijing was highlighted as a contributor) and Europe (+6%, Germany was highlighted) while weakness was seen in Asia Pacific ex-North Asia (RevPar down 5% on Australian oversupply).

Looking forward, we believe that FPL would continue to grow FHT's portfolio, potentially via asset injections. This would also allow FPL to monetize part of its balance sheet (as non-controlling unitholders of FHT would fund part of the purchases). We believe it worthwhile to consider directly-held assets that could be injected by FPL into FHT. FPL's developmental pipeline of hospitality assets are also considered for the same reason. That being said, we don't believe that the MHDV group of boutique hotels (UK based hospitality chain which FPL acquired in June 2015) will be injected into FHT in the near future given the different positioning of the REIT assets.

Directly-held Hospitality Assets (excluding MHDV Group, end-FY2017):

Property	Country	CCY	Book Value (mn)	SGD
Frasers Suites Perth	Australia	AUD	113.3	115.6
Frasers Suites Melbourne	Australia	AUD	31	31.6
Capri, Brisbane	Australia	AUD	90.8	92.6
Fraser Suites Beijing	China	CNY	1215	253.1
Fraser Residence Jakarta	Indonesia	USD	34.3	44.6
Fraser Suites Kensington	UK	GBP	115	213.9
Fraser Place Manila	Philippines	PHP	1656	41.4
Capri, Barcelona	Spain	EUR	20.8	33.7
Capri, Changi City	Singapore	SGD	203.8	203.8
Fraser Place Robertson Walk	Singapore	SGD	214	214.0
Capri, Frankfurt	Germany	EUR	34.6	56.1
Capri, Berlin	Germany	EUR	36.2	58.6
			Total:	1359.0

Development Assets (end-FY2017)

Property	Country	CCY	Book Value (mn)	SGD
Frasers Suites Hamburg (4Q18)	Germany	EUR	49.6	80.4
Frasers Suites Dalian (2Q18)	China	CNY	481.3	100.3
Capri, China Square (1Q19)	Singapore	SGD	192.9	192.9
			Total:	373.5

Source: Company, OCBC

From the above, it can be seen that FPL currently holds SGD1.36bn in assets that could potentially be injected into FHT in the near future. Beyond this, there is a further SGD373.5mn in development assets that will be operational within 12 months.

International

International segment performance is sensitive to completion timings. Already, for 1HFY2018, contribution from the International segment plunged with segment revenue and PBIT falling 43.4% y/y to SGD216.0mn and 13.2% y/y to SGD135.3mn respectively. This was largely driven by the absence of significant sales and settlements of development projects in China (specifically Phase 3C1 of Baitang One in Suzhou) during 1QFY2018, though in 2QFY2018 the recognition of Phase 3B of Baitang One in Suzhou boosted results. Results were also supported by investment property contributions from Geneba Properties N.V and from the recent acquisitions of four UK business parks (completed 8 November 2017).

In general, we expect the future performance for the international segment to be volatile given how it captures both sizable investment property investments (such as Alpha Investment Holdings) as well as development projects across multiple geographies at various stages of completion (One Bangkok just broke ground).

Looking forward though, some of the assets held under the International segment could be injected into FPL's REITs. For example, FCOT had expanded its investment mandate to cover European assets and highlighted more than SGD4bn in acquisition pipeline from the right-of-first-refusal granted by FPL over relevant properties in Singapore, Australia and the UK.

ROFR assets from FPL for FCOT:

Source: FCOT 2QFY2018 results presentation

Another example would be FLT acquiring 21 properties (EUR596.8mn in portfolio value, or ~SGD972.8mn) in Germany and Netherlands from FPL for a consideration of EUR316.2mn (~SGD515.4mn) as well as debt assumption. These were the first non-Australian assets that FLT had acquired. The transaction was completed on 25/05/18. To fund this, FLT had raised SGD476.0mn in fresh equity via private placement and preferential offering, with FPL estimated to have subscribed to SGD97.1mn of the FLT equity raise, though the balance ~SGD380mn (in additional minority interest in FLT) would be the net cash proceeds that FPL would receive from injecting the assets into FLT. The transaction will be reflected in 3QFY2018 results.

As the above shows, FPL does have various assets that it could inject into its REITs. This recycling of capital is important as in the next section it will be shown that FPL had continued to invest in its growth phase.

C) Investments and Acquisitions

Since end-2QFY2018 (the period ending March 2018), FPL has further investments / capital commitments outstanding in the near-term:

Transactions		Amt	Completion Date
TICON 26.1% stake (via 49% JV)	SGD'mn	175.4	3QFY2018
TICON tender (+22.4% stake)	SGD'mn	306.7	3QFY2018
Alpha Industrial Holdings	SGD'mn	460.5	~3QFY2018
Netherlands warehouse	SGD'mn	39.3	~3QFY2018
Germany docking facilities	SGD'mn	198.0	2QFY2018-2QFY2019
Total		**1179.9**	

Source: Company, OCBC

Based on the list above, FPL is on the hook for almost SGD1.2bn in acquisition commitments till 1HFY2019. This excludes spending required for FPL's various developments. It should be noted that FPL has issued its maiden THB bond in December 2017 (raising THB2.5bn or ~SGD105mn), and has since raised a further three more THB bonds in 1QFY2018 aggregating THB5bn (~SGD210mn). These are likely raised to fund FPL's 19.9% effective stake in the One Bangkok development[2], with management having guided that overall capital commitments from FPL for the project to be THB7.1bn (~SGD297mn) over the development period.

D) Leverage Profile and Capital Management

With FPL continuing with its growth trajectory, it had been reliant on borrowings to fund its growth. This is shown with net gearing rising from the low of 68% (1QFY2017) to 96% (2QFY2018). Capital management actions taken in 2QFY2018 allowed insights to be gleaned given the sizable acquisitions / investments made, with FPL reporting SGD813.5mn in operating cash outflow (including interest service) as well as SGD1004.5mn in investing cash outflow during the quarter.

Large expenditures during 2QFY2018 include ~SGD878.4mn balance payment required for the Jiak Kim site, SGD320.0mn for the Farnborough Business Park acquisition (JV with FCOT) and SGD211.0mn for the first few German docking facilities to be acquired. It was not surprising that FPL and FCOT both tapped capital markets during 2QFY2018, with the former raising SGD300mn in perpetual securities while the latter raised SGD60mn in bonds and SGD100mn in equity. FPL also drew down SGD1.18bn in additional bank borrowings.

REIT Debt (2QFY2018)					
SGD'000	FCT	FCOT	FHT	FLT	**Total**
ST Unsecured	91,000	176,688	144,738	-	412,426
ST Secured	-	-	-	-	-
LT Unsecured	430,000	622,537	662,270	609,056	2,323,863
LT Secured	286,000	-	31,883	-	317,883

FPL Debt				FPL HoldCo Debt
SGD'000	1QFY18	2QFY18		2QFY18
ST Unsecured	1,196,845	1,156,591		744,165
ST Secured	538,887	718,330		718,330
LT Unsecured	1,994,378	2,766,919		443,056
LT Secured	8,984,188	9,557,438		9,239,555

Source: Company, OCBC

From the above tables, it can be seen that the bulk of FPL's SGD14.2bn in gross borrowings are actually HoldCo debt (SGD11.1bn worth). Of these, SGD10.0bn worth are secured borrowings, likely secured against FPL's large portfolio of directly-held investment properties. With that in mind, FPL still has SGD744.2mn in short-term unsecured HoldCo debt coming due. We believe these amounts to be manageable as it is just ~7% of total HoldCo debt, though it could mean that FPL may tap markets in the near future. FPL had last disclosed SGD2bn in unutilized banking facilities as of end-September 2017.

In our view, we do not believe that FPL would allow net gearing to trend above 100%, though we note that net gearing is at a record high at 96% in the most recent quarter. The net proceeds of ~SGD380mn from the asset injection into FLT would help drive leverage lower,

[2] OCBC Asian Credit Daily (4 Apr 2018)

though this should be balanced against the various near-term capital commitments flagged out earlier. It is also worth noting that borrowings at FPL's REITs are usually unsecured. As such, when assets get injected from FPL into its REITs (such as the European assets being injected into FLT), the associated borrowings would alter from secured HoldCo debt to unsecured REIT debt. Having considered FPL and its REITs liabilities, it is worth considering where the assets sit:

FPL / REIT Asset Breakdown:

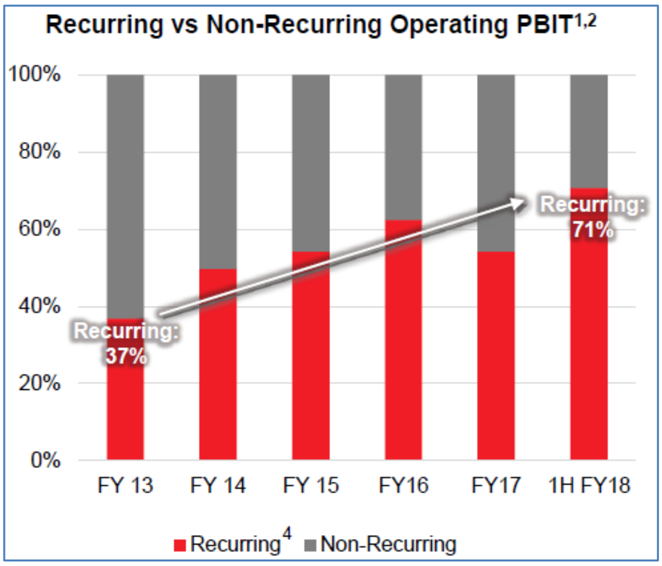
Entity	Total Assets (SGD'mn) (end-Dec 2016)	Precentage (end-Dec 2016)	Total Assets (SGD'mn) (end-Mar 2018)	Precentage (end-Mar 2018)
FCT (41.9% owned)	2645	11%	2763	9%
FCOT (24.9% owned)	2069	8%	2265	8%
FHT (23.3% owned)	2361	10%	2538	8%
FLT (20.4% owned)	1815	7%	2016	7%
FPL Standalone	15743	64%	20296	68%
FPL Consolidated	**24633**	**100%**	**29878**	**100%**

Source: Company, OCBC

From the above, it can be seen that FPL continues to directly hold 68% of its assets, or SGD20.3bn. In a separate disclosure, FPL indicated SGD26.5bn in total property assets, of which ~SGD5.5bn worth are development assets. Assuming that the assets held in the REITs are largely property assets, this leaves ~SGD11.4bn in non-development property assets directly held. The divestment / injection of these assets could help reduce FPL's leverage (aside from the monetization of its development properties). Note that the EUR596.8mn in European assets being injected into FLT are included in the ~SGD11.4bn.

The above calculations are very rough estimates. That being said, we had earlier on identified SGD1.36bn in Hospitality assets that could be injected into FHT in the near term, while FCOT had guided SGD4bn in ROFR pipeline assets from FPL. As such, we believe that a sizable portion of the SGD11.4bn mentioned could be monetized in the near future, which would help towards paring down FPL's SGD11.1bn in gross HoldCo debt (end-2QFY2018).

E) Liquidity and Maturity Profile

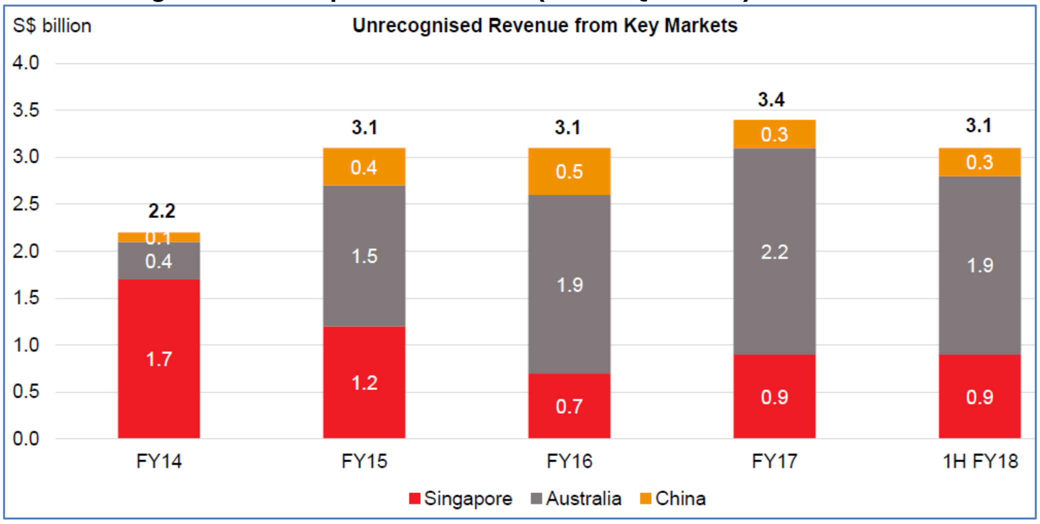


Source: Company, 2QFY2018 results presentation

One observable trend would be the increase in the proportion of recurring operating PBIT (as defined by FPL). This is largely driven by the increasing proportion of investment properties on FPL's balance sheet. That being said, ~SGD9.6bn in investment properties (36% out of SGD26.5bn in property assets) are held at the REIT level. As FPL holds low ownership stakes in its REITs (ranging from 20% - 42%), the bulk of REIT related recurring income would be diverted to REIT non-controlling interests. As a reference, FPL's platform of REITs pay out ~SGD385mn in distributions to unitholders annually (based on 1HFY2018 distributions). FPL's pro-rata annual share in these distributions (based on ownership) is ~SGD109mn. As a mitigation to its low REIT stakes, FPL would still receive the recurring cash flows from the investment properties directly held (the balance ~SGD16.9bn in property assets).

In general, FPL's liquidity ratios have weakened, with EBITDA / interest coverage worsening to 3.2x for 1HFY2018 (FY2017: 6.2x). This was largely due to the increase in interest expense (doubling from 1HFY2017) from higher levels of borrowings. If perpetual distributions are considered as well, FPL's coverage ratio will fall further to 2.5x. Cash / current borrowings had weaken as well from 1.4x (end-FY2017) to 0.8x (end-1HFY2018).

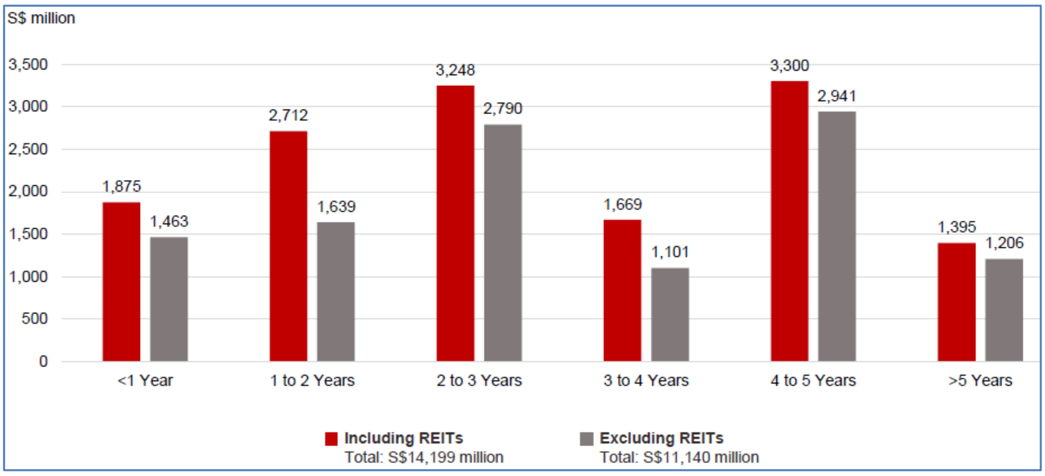
FPL Unrecognized Development Revenue (as at-2QFY2018):



Source: Company, 2QFY2018 results presentation

Another area which could support future performance would be the sizable unrecognized development revenue for units already sold but not delivered.

FPL Maturity Profile (as at-2QFY2018):



Source: Company, 2QFY2018 results presentation

The short-term maturities that FPL had already been discussed earlier on. Looking beyond, HoldCo debt due in the 2nd year (SGD1639mn) and 3rd year (SGD2790mn) are sizable. That said, most of this debt is likely to be secured and will likely be refinanced (only ~5% of FPL's long-term HoldCo debt is unsecured). Thus far, FPL's various REITs have continued to smoothly access capital markets.

F) Limitations to Asset Recycling via REITs

Singapore REITs have an aggregate leverage (debt / asset) cap of 45%, which roughly translates into net gearing of ~82%. To be conservative, several REITs (including the ones that FPL manages) have typically left some debt headroom, keeping aggregate leverage below 40% (or net gearing of ~67%).

As such, though FPL's consolidated net gearing was reported to be 96%, given that REIT-level net gearing is kept below 67%, more debt is being raised at the HoldCo level. This already can be seen, with FPL holding 68% of total assets directly, but bears 78% of total debt directly.

The above trend may be reversed with more asset injections into the REITs, as debt-funded assets held at the HoldCo level will be funded with a higher percentage of equity at the REIT level (to adhere to aggregate leverage caps) with non-controlling interest contributing to additional equity raised (as per the FLT European asset acquisition). The trade off to this of course would be more cash flows being diverted to non-controlling interest.

It is also worth mentioning that FPL had been keeping its net gearing in check via the issuance of perpetual securities (which are accounted for as equity on the balance sheet). Already, FPL has SGD1.95bn in perpetual securities outstanding. That being said, with interest rates drifting higher, it has becoming increasingly expensive for FPL to raise perpetual securities. Duration concerns have also dampened investor appetite. As such, with FPL's net gearing already approaching the management's target of 100% (hence limiting additional leverage), FPL would increasingly be reliant on monetizing its balance sheet via injection of assets into its REITs, selling assets to 3rd parties…or allow its leverage profile to worsen to levels previously unintended.

G) Conclusion

FPL has been persisting with its growth trajectory, acquiring sizable development plots (such as the Jiak Kim site), deepening its industrial and logistics exposure as well as aggressively acquiring investment properties in new markets such as Europe. To fund this, FPL had been relying on perpetual securities as well as additional borrowings, while recycling capital via asset injections into its REITs. Though FPL does have sizable recurring income from its investment properties, this is balanced against its low percentage ownership in its REITs. Its sizable unrecognized revenue pipeline should also be balanced against its declining Singapore residential inventories.

In aggregate, we will retain our Neutral (4) Issuer Profile for FPL for now despite its higher leverage and worsening liquidity ratios, acknowledging FPL's scale and diversity as well as opportunities to recycle capital via its REIT platform. That said, with FPL hitting the upper range of management's leverage targets, it would be prudent to monitor how FPL manages its credit profile in the near future, given its various capital commitments.

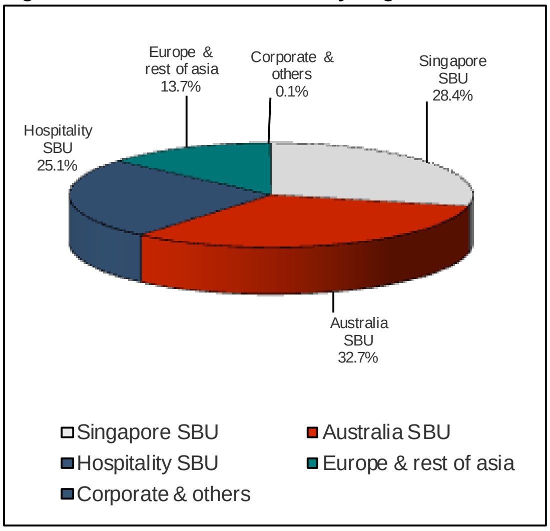
Frasers Property Ltd

Table 1: Summary Financials

Year Ended 30th Sep	FY2016	FY2017	1H2018
Income Statement (SGD'mn)			
Revenue	3,439.6	4,026.6	1,581.8
EBITDA	827.9	953.5	471.7
EBIT	773.3	894.9	444.6
Gross interest expense	206.6	153.5	146.8
Profit Before Tax	960.3	1,248.0	397.8
Net profit	597.2	689.1	201.0
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,731.3	2,137.3	1,529.3
Total assets	24,204.4	27,009.4	29,877.6
Gross debt	9,795.5	11,627.8	14,199.3
Net debt	8,064.2	9,490.6	12,669.9
Shareholders' equity	11,843.5	13,049.2	13,292.6
Total capitalization	21,639.0	24,677.0	27,491.8
Net capitalization	19,907.7	22,539.8	25,962.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	651.7	747.7	228.1
* CFO	931.3	794.2	-1,051.8
Capex	62.3	52.4	32.7
Acquisitions	1,169.4	2,185.3	1,693.2
Disposals	702.0	129.8	68.7
Dividend	520.7	612.6	307.3
Free Cash Flow (FCF)	869.0	741.9	-1,084.4
* FCF Adjusted	-119.0	-1,926.3	-3,016.2
Key Ratios			
EBITDA margin (%)	24.1	23.7	29.8
Net margin (%)	17.4	17.1	12.7
Gross debt to EBITDA (x)	11.8	12.2	15.1
Net debt to EBITDA (x)	9.7	10.0	13.4
Gross Debt to Equity (x)	0.83	0.89	1.07
Net Debt to Equity (x)	0.68	0.73	0.95
Gross debt/total capitalisation (%)	45.3	47.1	51.6
Net debt/net capitalisation (%)	40.5	42.1	48.8
Cash/current borrowings (x)	1.2	1.4	0.8
EBITDA/Total Interest (x)	4.0	6.2	3.2

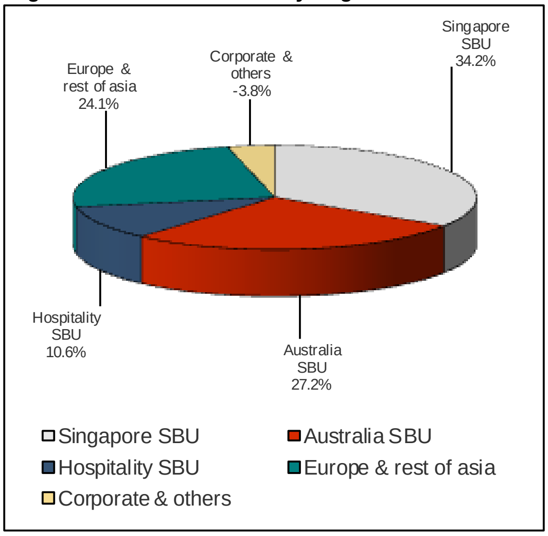
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2018



Source: Company

Figure 2: EBIT breakdown by Segment - 1H2018



Source: Company/ Corporate & others made operating losses

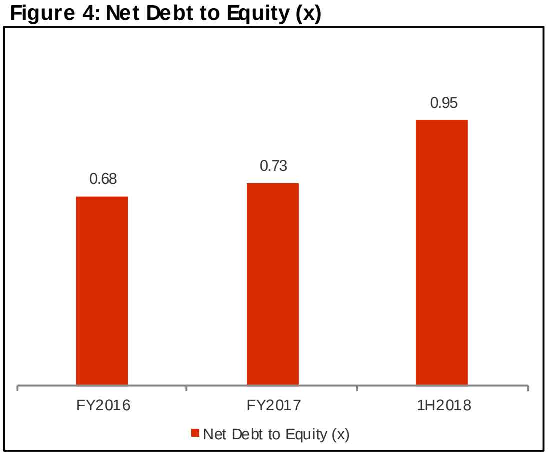
**FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense*

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/3/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,156.6	8.1%
Unsecured	718.3	5.1%
	1,874.9	**13.2%**
Amount repayable after a year		
Secured	2,766.9	19.5%
Unsecured	9,557.4	67.3%
	12,324.4	**86.8%**
Total	**14,199.3**	**100.0%**

Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company

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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