Asia Credit Research

# Earnings Review: Frasers Property Ltd ("FPL")

## Recommendation

- 1QFY2019 results look decent with strong reported PBIT contribution (+50.7% y/y to SGD354.4mn), mainly due to timing of completion in Australia and China as well as contributions from business parks acquired in the UK. While the Singapore landbank looks dry, the significant pipeline in Australia should provide a buffer.
- 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),** 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%. FPLSP '21s also look somewhat interesting trading wider than GUOLSP 3.62% '21s. We also like both FPLSP 4.88% PERP and FPLSP 5% PERP.

## Relative Value:

| Bond | Maturity date/ Reset Date | Net gearing | Ask Yield | Spread |
|---|---|---|---|---|
| FPLSP 3.95% '21s | 07/10/2021 | 0.87x | 3.39% | 143bps |
| FPLSP 4.25% '26s | 21/04/2026 | 0.87x | 4.22% | 210bps |
| FPLSP 4.15% '27s | 23/02/2027 | 0.87x | 4.28% | 211bps |
| FPLSP 4.88% PERP | 24/09/2019 | 0.87x | 3.97% | 197bps |
| FPLSP 5% PERP | 09/03/2020 | 0.87x | 4.26% | 229bps |
| FPLSP 3.95% PERP | 05/10/2027* | 0.87x | 5.18%* | 298bps |
| FPLSP 4.38% PERP | 17/01/2028 | 0.87x | 5.23% | 301bps |
| FNNSP 3.09% '22s | 23/03/2022 | 0.10x | 3.37% | 141bps |
| FNNSP 3.8% '27s | 21/04/2027 | 0.10x | 3.99% | 181bps |
| GUOLSP 3.62% '21s | 30/03/2021 | 0.86x | 3.29% | 135bps |
| GUOLSP 4.6% PERP | 23/01/2025 | 0.86x | 5.28% | 321bps |

*Indicative prices as at 21 Feb 2019 Source: Bloomberg, OCBC, Company*
*Net gearing based on latest available quarter*
**Yield to step-up date*

## Key Considerations

- **Stronger topline due to Australia…:** FPL reported 1QFY2019 results for the quarter ending 31 Dec. Revenue rose 44.7% y/y to SGD1.08bn, mainly due to (1) outperformance in the Australia SBU (+19.4% y/y to SGD471.1mn) with 580 units settled in 1QFY2019 and (2) outperformance in the Europe & rest of Asia SBU (+132.8% y/y to SGD159.5mn) with sales and settlements from Phase 3B of Baitang One (Suzhou), contribution from business parks acquired over FY2018 and consolidation of Frasers Property Thailand (previously known as TICON) from Apr 2018. The remaining segments saw small declines, such as Singapore SBU (-4.1% y/y to SGD242.7mn) and Hospitality SBU (-0.5% y/y to SGD210.0mn).

- **… with higher profitability from all segments:** In-line with higher revenue, reported PBIT rose 50.7% y/y to SGD354.4mn. Australia SBU saw a significant rise (+119.1% y/y to SGD139.4mn) mainly due to residential development (+424% y/y to SGD83.9mn). Europe & rest of Asia (+111.4% y/y to SGD89.5mn) grew strongly with better results from (1) Europe (+23.5% y/y to SGD36.3mn), (2) China which reversed from loss of SGD1.2mn in 1QFY2018 to +SGD27.8mn, (3) Thailand and Vietnam which saw 80.1% y/y increase to SGD25.4mn. Singapore SBU (+0.8% y/y to SGD101.6mn) and Hospitality SBU (+8.4% y/y to SGD39.8mn) posted smaller growth. As a result, net profit rose 50.0% y/y to SGD213.8mn.

- **Not overly worried over decline in earnings visibility from development:** Unrecognised revenue from development dwindled to SGD1.6bn (FY2018:

**Issuer Profile: Neutral (4)**

Ticker: **FPLSP**

**Background**

Frasers Property Ltd ("FPL") is a leading Singapore developer by total assets (SGD32.8bn as of end-Dec 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% 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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SGD2.2bn, FY2017: SGD3.4bn), which is smaller than FY2018's revenue booked from property sales of SGD2.47bn. This is due to the decline in landbank in Singapore with completion of Parc Life EC in FY2018 and TOP achieved for North Park Residences which has been fully sold. That said, we expect property development to continue contributing in the medium term with planned release of 2,300 units in Australia in FY2019 (which exceeds 1,622 units sold in FY2018) while 455-unit Rivière (Jiak Kim site) is expected to be launched in 1HCY2019. In the longer term, we think Australia will be the main contributor to development pipeline. 15,000 units worth SGD7.7bn in gross development value remains in Australia's development pipeline, which should buffer the dry landbank in Singapore.

- **REITs are a key source of contribution and integral to support FPL's credit profile:** We estimate that FPL receives over SGD120mn dividends p.a. from its listed REITs (FCT, FCOT, FHT, FLT). The REITs also account for ~32% of FPL's total assets worth SGD10.6bn. The REITs have delivered overall positive results in 1QFY2019. Under the Singapore, Australia and Hospitality SBUs, the REITs contribute SGD114.2mn PBIT in 1QFY2019 (+4.5% y/y), representing 32.3% of FPL's total PBIT. We have discussed that 42.0%-owned FCT's saw NPI growth (+2.5% y/y to SGD35.4mn) from higher rents and occupancy at its larger malls. FLT's adjusted net property income grew 46.5% y/y on the back of acquisitions in Europe, Australia and Netherlands though 24.3%-owned FHT's NPI fell 1.2% y/y to SGD31.1mn due to weaker performance in Malaysia and Japan (which are FHT's smaller markets) and 25.6%-owned FCOT's NPI fell 15.0% y/y to SGD21.1mn due to lower occupancy and divestments. The REITs also provide an avenue for 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.

- **FPL-owned investment properties are also significant contributors:** Non-REIT investment properties are also significant contributors, which represent more than SGD12.7bn of assets. Based on Singapore, Australia and Hospitality SBUs, PBIT contribution increased 50.9% y/y to SGD59.9mn. This may grow as FPL is developing 14 industrial facilities in Australia, of which nine with an investment value of SGD254mn will remain on the balance sheet of FPL. FPL has also been active on acquisitions to boost its investment portfolio, for example with the acquisition of a 17.8265%-stake in a fund with 6 Singapore retail malls for SGD356.4mn.

- **Remain comfortable with credit profile:** Net gearing is flattish q/q at 0.87x as operating cashflows (SGD362.2mn) was consumed by cash used for investing activities (SGD142.3mn) and dividends/distributions (SGD205.1mn). Despite having higher net gearing than peers such as CapitaLand Ltd (0.56x) and City Developments Ltd (0.33x), we remain comfortable with FPL with its recurring income (from ownership in REITs and other investment properties) and the potential to recycle assets (e.g. non-REIT 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 |

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

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