Issuer Profile:
Neutral (4)

Ticker:
FCOTSP

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Frasers Commercial Trust ("FCOT")

Recommendation

- **Results for the financial year ended 30 Sep 2019 ("FY2019") were mediocre with revenue down by 6.2% y/y at SGD125.1mn and net property income ("NPI") lower by 7.4% y/y at SGD82.7mn. This was largely due to weaker performance at Alexandra Technopark ("ATP") and the divestment of 55 Market Street which took place in Aug 2018. Although the Australia properties did well, the weaker AUD against SGD erased the y/y gains recorded in AUD terms.**
- **We think the worst could be over at ATP as committed occupancy has recovered to ~97% at 30 Sep 2019 from a low of ~59% recorded at end Mar 2019, following the completion of the asset enhancement initiative ("AEI") works to boost the attractiveness and competitiveness of the property.**
- **In FY2019, China Square Central ("CSC") recorded its first full year of y/y growth in top line figures after three consecutive years of decline. We expect the performance at CSC to strengthen further, given the AEI works have just obtained Temporary Occupation Permit in 4QFY19 and business operations are estimated to commence in phases starting Nov 2019.**
- **Credit metrics of FCOT remains manageable, with aggregate leverage healthy at 28.6% (FY2018: 28.3%). EBITDA/Interest based on our calculation was 3.5x (FY2018: 3.0x). Although FCOT will see its FCOTSP 2.625% '20s with an outstanding amount of SGD100mn mature in Feb 2020, along with ~SGD80mn of bank borrowings versus a mere SGD21.5mn of cash on hand as at 30 Sep 2019, we are not overly concerned as all of its assets (total value: SGD2.2bn) remain unencumbered. In addition, with all of its bonds trading above par at the point of the writing, we think FCOT could also come to the market to refinance its FCOTSP'20s if it so wishes to. We are maintaining FCOT at Neutral (4) Issuer Profile.**
- **We think both of FCOTSP bonds are fair and are Neutral on them.**

Bond	Outstanding Amount	Maturity	Net gearing	Ask Yield	Spread
FCOTSP 2.625% '20	**SGD100mn**	**28/02/2020**	**27.6%**	**2.03%**	**56bps**
FCOTSP 2.835% '21	**SGD100mn**	**11/08/2021**	**27.6%**	**2.41%**	**101bps**
SUNSP 3.35% '20	SGD310mn	10/02/2020	35.4%	1.95%	47bps
SUNSP 3% '21	SGD150mn	16/07/2021	35.4%	2.53%	113bps

Indicative prices as at 11 Nov 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

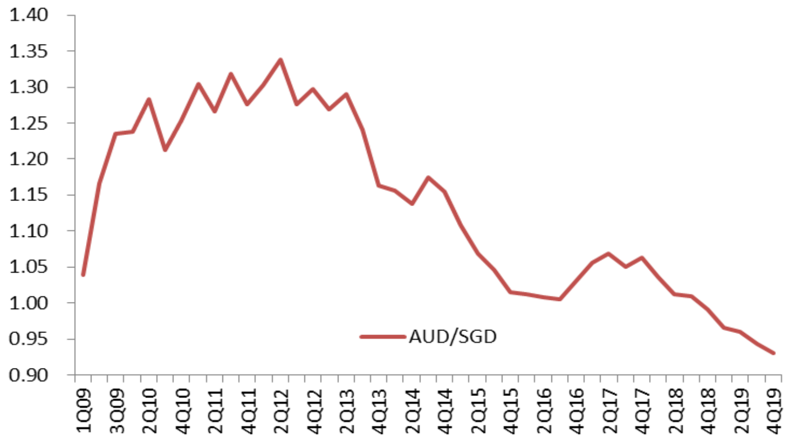
- Listed on the Singapore Exchange on 30 Mar 2006, Frasers Commercial Trust ("FCOT") holds a portfolio of six office and business park assets in Singapore, Australia and the United Kingdom. As at 30 Sep 2019, the total asset value was ~SGD2.2bn (Singapore: 56%, Australia: 37%, United Kingdom: 7%).
- The REIT is sponsored by Frasers Property Ltd ("FPL") which has a 26% interest in FCOT.
- FCOT's key assets comprise China Square Central ("CSC") and Alexandra Technopark ("ATP") in Singapore, and Caroline Chisholm Centre ("CCC") in Canberra, Australia.

Key Considerations

- **Mediocre FY2019:** Both gross revenue and NPI were lower y/y in FY19. Specifically, revenue has fallen by 6.2% y/y to SGD125.1mn from SGD133.3mn while NPI has slipped 7.4% y/y to SGD82.7mn from SGD89.3mn. FY19 result was dragged by ATP and the divestment of 55 Market Street which took place in Aug 2018. Excluding the divestment, gross revenue would have been lower by 2.7% y/y with NPI down by 4.0% y/y. Having said that, Farnborough Business Park ("FBP") which FCOT has a 50% stake in and accounts for under share of results of joint venture saw consistent y/y gains every quarter since its acquisition on 29 Jan 2018 (2QFY19: 18.3% y/y, 3QFY19: 8.1% y/y, 4QFY19: 16.8% y/y). As such, overall net income before foreign exchange, fair value changes and taxation was up by 2.4% y/y to SGD55.8mn from SGD54.6mn.

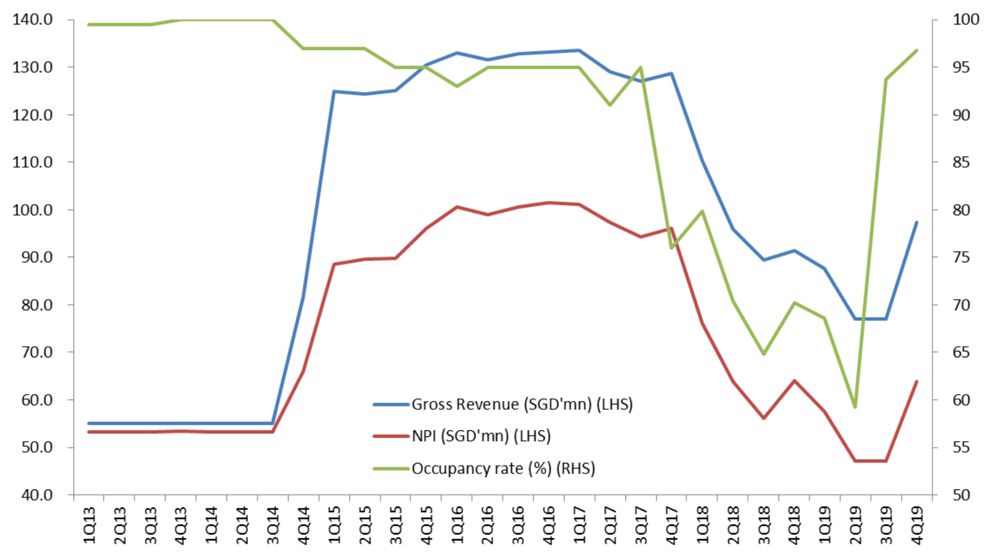
- **Weaker AUD against SGD did not help:** Within Australia, FCOT has CCC in Canberra, 357 Collins Street in Melbourne and a 50% stake in Central Park ("CP") in Perth. These properties in aggregate contribute significantly to FCOT and made up 52.3% of total revenue and 54.3% of total NPI in FY19. Although contributions from its Australia exposure have increased in AUD terms, gross revenue was down by 1.6% with NPI down by 1.7% y/y when converted into SGD terms, as the average AUD/SGD has weakened by 6.2% y/y over FY19. While the occupancy levels at FCOT's Australia properties has risen to 94.5% in FY19, versus 89.0% a year ago, the weaker AUD/SGD has erased any revenue gains. Looking forward, we think there is room for CP whose current committed occupancy rate is 83.0% to improve further (FY18: 70.0%) over the longer term as AEI works are underway to strengthen the property positioning as a premium-grade building in Perth CBD. The works are due for completion in roughly another three quarters' time. Having said that, it is apparent that the contribution of the Australia portfolio to FCOT remains largely dependent on the foreign exchange rate movement.

Figure 1: AUD/SGD over Time



- **Is the worst over for ATP…:** ATP, FCOT's largest asset, accounts for 27% of FCOT's portfolio valuation, revenue and NPI in FY19. Occupancy rate first started sliding in 4QFY17 with the departure of Hewlett-Packard Enterprise Singapore Pte Ltd ("HPE") which took up 17.2% of the property's net lettable area ("NLA"). Subsequently, Hewlett-Packard Singapore Pte Ltd ("HPS") too vacated ATP (Property NLA: 12.7%). Microsoft Operations Pte Ltd ("MO") which takes up 7.5% of ATP's NLA at present had in 2QFY19 exercised the option to pre-terminate its leases two years earlier on 26 Jan 2020. This brought ATP's committed occupancy to a low of 59.2% as at 31 Mar 2019 (i.e. 2QFY19). In the same quarter, ATP completed its AEI works. Fortunately, committed occupancy recovered to 93.7% as at 30 Jun 2019, with Google Asia Pacific Pte Ltd committing to ~33.3% of the property's NLA for a term of 5 years commencing in the first quarter of CY2020. As at 30 Sep 2019, committed occupancy was 96.8%. We expect occupancy at ATP to stabilise as forward lease commitments have been secured for ~72% of the space MO is vacating, with the balance under advanced discussions with prospective tenants. Over the coming quarters, the recovery in occupancy is expected to bring about y/y improvement in gross revenue and NPI at ATP.

Figure 2: Performance of ATP over Time



- **CSC is ready:** FY19 was the first full year CSC recorded y/y growth in top line figures after three consecutive years of decline. Revenue at CSC was markedly higher by 10.4% y/y to SGD25.7mn from SGD23.3mn, with NPI up by 12.8% y/y to SGD16.3mn from SGD14.4mn. Previously, NPI was down by -9.4% y/y in FY16 to SGD18.9mn, -9.6% y/y in FY17 to SGD17.1mn, and -15.7% y/y in FY18 to SGD14.4mn. Overall, the improvement seen in FY19 is slight relative to the decline observed over the years. We think the recent improvement can be attributed to the 304-room Capri by Fraser hotel within the development which has brought about an increase in customer base and footfall to the retail component of CSC since opening in May 2019 after ~3 years of construction. Given the SGD38mn AEI works which had commenced in early 2018, has obtained Temporary Occupation Permit in 4QFY19, we expect performance of CSC to strengthen substantially. With this AEI, the NLA of the retail podium has expanded by ~25% to around 80,000 sq ft. Business operations are estimated to commence in phases starting Nov 2019. In 4QFY19 results, management has shared that close to 80% of the space in the retail podium has been pre-committed, with around a further 10% currently under active negotiations. Committed occupancy rate of CSC was 89.9% as at 30 Sep 2019.

- **Manageable credit metrics:** Reported aggregate leverage is healthy at 28.6% (FY18: 28.3%). EBITDA/Interest based on our calculation was 3.5x (FY2018: 3.0x), due to a much lower interest relative to the slip in EBITDA. Average borrowing rate was lower at 2.97% p.a. versus 3.02% p.a. in FY18. In FY20, FCOT will see its FCOTSP 2.625% '20s with an outstanding amount of SGD100mn mature in Feb 2020, along with ~SGD80mn of bank borrowings. Although FCOT has a mere SGD21.5mn of cash on hand as at 30 Sep 2019, we are not overly concerned as all of its assets, which are valued at SGD2.2bn in aggregate, remain unencumbered. This offers FCOT flexibility to obtain secured borrowings if needed. With all of the FCOTSP bonds trading above par at the point of the writing, we think FCOT could also come to the market to refinance its FCOTSP'20s if it so wishes to. Finally, although the low leverage level provides substantial headroom for FCOT to acquire assets from sponsor, Frasers Property Ltd (which it has the right of first refusal for), we note that FCOT had in 3QFY19 declined the opportunity to acquire a 50% interest in Frasers Tower. We have viewed the move by FCOT favourably as large acquisitions could add pressure to FCOT's then issuer profile with AEIs ongoing multiple assets. We are maintaining FCOT at Neutral (4) Issuer Profile.

Explanation of Issuer Profile Rating / Issuer Profile Score

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 into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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