

Frasers Centrepoint Trust

Healthy demand for space at suburban malls



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SINGAPORE | REAL ESTATE (REIT) | 1Q22 UPDATE

30 January 2022

- No financials provided in this business update. Retail occupancy of 97.2% above pre-pandemic occupancy. Nov 21 and Dec 21 tenant sales above pre-pandemic level.
- Healthy leasing momentum with c.68% of FY22 expiries committed or in advanced stages of negotiation. Reversions while not disclosed, have narrowed from FY21's -0.6%.
- Reiterate BUY, DDM TP (COE 6.48%) lowered from S\$2.83 to S\$2.64. FY22e-265e DPUs have been lowered by 3.0-5.3% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$2.83 to S\$2.64 on lower DPU estimates and higher cost of equity of 6.48% assumption (previous 6.38%). Catalysts expected from growth in mall catchment, asset enhancement and M&A/collaboration opportunities.

BUY (Maintained)

LAST DONE PRICE	SGD 2.26
FORECAST DIV	SGD 0.128
TARGET PRICE	SGD 2.64
TOTAL RETURN	22.5%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN):	1,701
MARKET CAP (USD mn / SGD mn):	2834 / 3844
52 - WK HI/LO (SGD):	2.66 / 2.22
3M Average Daily T/O (mn):	2.92

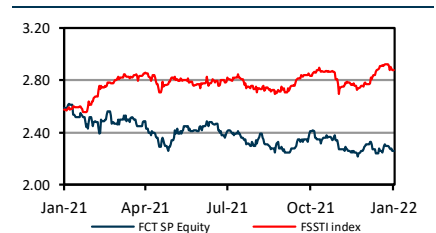
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	41.0%
SCHRODERS PLC	3.8%
VANGUARD GROUP INC	2.5%
T ROWE PRICE GROUP	1.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.3)	(3.0)	(2.2)
STI RETURN	3.8	1.9	3.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY20	FY21	FY22e	FY23e
Gross Rev (SGD mn)	164	341	373	383
NPI (SGD mn)	111	247	265	272
Dist Inc. (SGD mn)	72	205	217	220
P/NAV (x)	1.00	0.98	0.98	0.98
DPU, adj (Cents)	9.04	12.09	12.77	12.90
Distribution Yield	4.0%	5.3%	5.7%	5.7%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.48%, Terminal Growth 1.5%)

Natalie Ong (+65 6212 1849)

Research Analyst
natalieongpf@phillip.com.sg

Portfolio metrics at a glance

	4Q19	3Q20	1Q21	1Q22
	Jul-Sep19	Apr-Jun20	Oct-Dec20	Oct-Dec21
Occupancy	96.5%	94.6%	96.4%	97.2%
Tenant sales Ave.		56.4%	99.5%	102.0%
Shopper Footfall Ave.		99.0%	65.0%	59.0%

Source: FCT, PSR

The Positives

+ Retail occupancy of 97.2% surpassed FY19 levels (96.5%). 1Q22 occupancy was 2.1ppts higher YoY (1Q21: 95.2%), with six out of nine malls achieving occupancies between 97-100%. Laggards in the portfolio are Century Square (91.1%), Changi City Point (92.6%) and White Sands (92.5%). Changi City Point is located near business parks and the Singapore Expo. Tenant demand for the asset was weaker as it was impacted by lower footfall due to remote working and absence of trade shows and events. 2021 was a major renewal year for Century Square and Tiong Bahru Plaza as both assets underwent AEI and repositioning three years ago. The unfortunate timing of lumpy expiries during the pandemic has led to slower absorption of space.

+ Healthy leasing momentum - 14.4% of GRI de-risked. Lease expiries by GRI for FY22 reduced from 37.2% to 22.8%. As at end-Jan 22, half or remaining FY22 expiries (c.11%) have been committed or are under advanced negotiation. While no reversion number was disclosed, we understand that the reversions have improved from FY21's -0.6%.

+ November and December's tenant sales reached 101% and 106% of pre-pandemic levels due to increase in dine-in group size from two to five pax and festivities, benefitting F&B and jewellery and watch tenants.

The Negatives

- Occupancy at Central Plaza fell from 91.8% to 71.7% following the exit of an anchor tenant occupying a few lower floors. Anchor tenants are usually offered more favourable rates. As such, FCT could see positive reversions should the space be subdivided out and leased to multiple tenants. FCT is also exploring leasing the space out to quasi-retail tenants such as clinics and services as Central Plaza is connected to Tiong Bahru Plaza via a linkway on the second floor. Either strategy should yield higher rents compared to the rents charged to the anchor tenant. However, the multi-tenant lease strategy may result in a longer void period required to lease all the available floors.

Outlook

Return to normalcy to provide more even recovery among tenants. While tenants sales have recovered to pre-pandemic levels, recovery varies among and within trade sectors. For

instance, kiosk and easy-takeaway F&B tenants located along the walkways to the MRTs may see a pick-up in sales due to incidental spending from more employees returning to the office. Fashion and other sit-down F&B tenants may benefit from the larger group sizes and resumption of events.

Maintain BUY, TP lowered from S\$2.83 to S\$2.64

FY22e-265e DPUs have been lowered by 3.0-5.3% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$2.83 to S\$2.64 on lower DPU estimates and higher cost of equity of 6.48% assumption (previous 6.38%). The current share price implies FY22e DPU yields of 5.7%.

Catalysts include asset-enhancement initiatives, acquisitions from its sponsor's pipeline of assets, or acquiring or partnering companies with only one mall in their portfolios. The cost of implementing and maintaining loyalty programmes or omnichannel retailing is higher for single-mall owners, which may present acquisition opportunities.

Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross Revenue	196	164	341	373	383
Total Property expenses	(57)	(53)	(95)	(108)	(111)
Net Property Income	139	111	247	265	272
Net Finance (Expense)/Inc	(24)	(28)	(46)	(47)	(52)
Trust expenses	(2)	(2)	(3)	(3)	(3)
Manager's management fees	(17)	(18)	(32)	(30)	(31)
Net Income	97	65	166	185	186
Share of associate's results	13	75	(1)	1	1
Share of JV's results	5	11	17	20	20
Other Adjustments	8	(8)	16	12	12
Distribution to Unitholders	120	72	205	217	220

Per share data

Y/E Sep, SGD	FY19	FY20	FY21	FY22e	FY23e
NAV	2.21	2.27	2.30	2.31	2.30
DPU (Cents)	11.77	9.04	12.09	12.77	12.90

Cash Flow

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net Income	206	152	172	206	208
Adjustments	(80)	(54)	43	35	40
WC changes	4	(20)	(5)	16	2
Cashflow from operating activities	131	78	198	257	250
CFI					
Capex on inv properties	(5)	(11)	-	(5)	(5)
Others	(656)	(153)	(471)	20	21
Cashflow from investing activities	(661)	(164)	(471)	15	16
CFF					
Share issuance	437	-	1,335	-	-
Distributions to Unitholders	(114)	(85)	(150)	(205)	(217)
Others	197	186	(899)	3	(52)
Cashflow from financing activities	521	101	286	(201)	(270)
Net change in cash	(9)	15	14	71	(4)
CCE, end	13	29	42	113	110

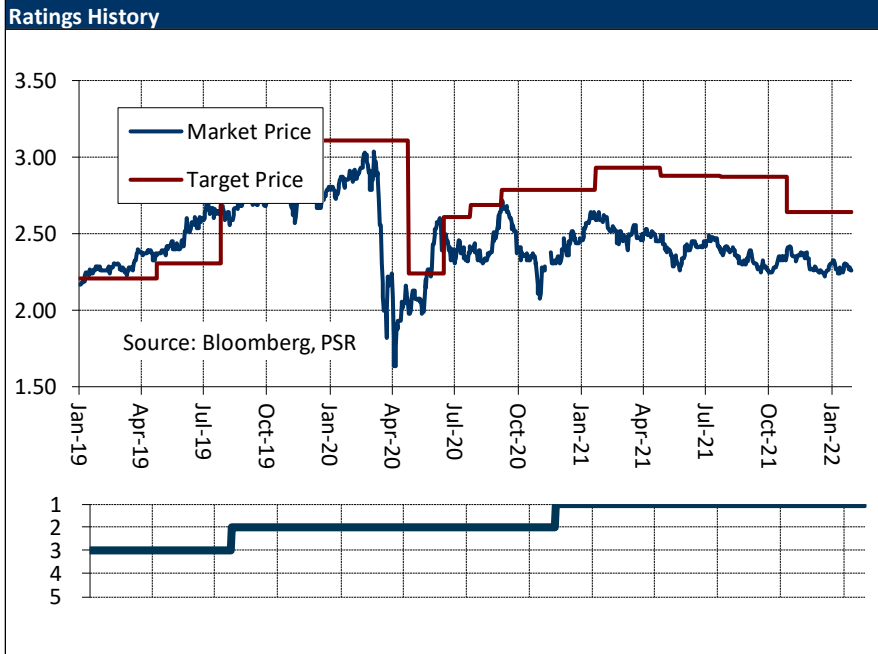
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	2,846	2,750	5,507	5,511	5,516
Investment in Associates	457	696	46	47	47
Non Current Assets	3,595	3,737	5,848	5,853	5,859
Trade and Other Receivables	3.1	9.7	9.0	11.2	11.5
Cash and Cash Equivalents	13	29	42	113	110
Current Assets	16	146	51	124	121
Total Assets	3,611	3,883	5,899	5,978	5,980
LIABILITIES					
Interest bearing borrowings	745	997	1,604	1,785	1,606
Others	30	31	54	54	54
Non-Current Liabilities	775	1,028	1,658	1,839	1,660
Trade and other payables	47	43	76	95	97
Interest bearing borrowings	295	255	205	74	253
Others	23	19	42	42	42
Current Liabilities	365	317	322	210	391
Total Liabilities	1,140	1,345	1,980	2,049	2,051
EQUITY					
Shareholder Equity	2,471	2,538	3,919	3,929	3,929

Valuation Ratios

Y/E Sep	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.02	1.00	0.98	0.98	0.98
Distribution yield	5.2%	4.0%	5.3%	5.7%	5.7%
NPI yield	4.9%	4.0%	4.5%	4.8%	4.9%
Growth & Margins	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	1.6%	-16.3%	107.5%	9.3%	2.8%
Net property income (NPI)	1.5%	-20.4%	122.4%	7.4%	2.9%
DPU	26.9%	-23.2%	33.7%	5.7%	1.1%
Margins					
NPI margin	70.9%	67.5%	72.3%	71.0%	71.1%
Net Income Margin	49.2%	39.8%	48.6%	49.6%	48.6%
Key Ratios					
Gearing	28.8%	32.2%	30.7%	31.1%	31.1%
ROA	2.7%	1.7%	2.8%	3.1%	3.1%
ROE	3.9%	2.6%	4.2%	4.7%	4.7%
Interest coverage ratio (x)	5.82	4.02	5.38	5.68	5.22



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Consumer | Industrial | Conglomerates

 Terence Chua – terencechuatl@phillip.com.sg
Property | REITs

 Natalie Ong – natalieongpf@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Small-Mid Cap

 Vivian Ye – yeqw@phillip.com.sg
US Technology Analyst (Hardware)

 Timothy Ang – timothyang@phillip.com.sg
US Technology Analyst (Internet)

 Jonathan Woo – jonathanwookj@phillip.com.sg
Technical Analyst

 Chua Wei Ren – chuawr@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website: www.phillip.co.th
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapiital.com.au
CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151 / 855 (0) 1620 0769
 Website: www.phillipbank.com.kh
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapiital.in
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapiital.com.tr
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGEX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: +971-4-3328895

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