

### COMPANY RESULTS

#### Frasers Centrepoint Trust (FCT SP)

1HFY22: Resilient And Defensive Shield

Rent reversion turned around to positive territory at 1.7% in 1HFY22. Retail occupancy improved 0.6ppt qoq to 97.8% in 2QFY22. Tenant sales have surpassed pre-COVID-19 levels since Oct 21. FCT is a defensive shield due to its focus on necessity spending at suburban retail malls. It is well positioned to pursue acquisitions after lowering its aggregate leverage to 33.3% through divestment. BUY for a defensive distribution yield of 5.3% for FY22. Target price: S\$2.96.

#### 1HFY22 RESULTS

Year to 30 Sep (\$m)	1HFY22	yoy % chg	Remarks
Gross Revenue	176.2	+1.5	Full six months contributions from acquisition of 63.1% stake in ARF.
Net Property Income	130.5	+3.8	
Dividends from Associates & JVs	10.2	+47.2	Contribution mainly from 40% stake in Waterway Point.
Distributable Income	104.4	+3.3	Retained taxable income of S\$4.8m out of prudence.
DPU (cent)	6.136	+2.3	

Source: FCT, UOB Kay Hian

#### RESULTS

- **Frasers Centrepoint Trust (FCT)** reported DPU of 6.136 S cents for 1HFY22, up 2.3% yoy. It retained taxable income of S\$4.8m out of prudence. Excluding the amount retained, distributable income would have increased 9.6%.
- **Repositioned to focus on dominant malls.** Gross revenue and net property income (NPI) increased 1.5% and 3.8% yoy respectively in 1HFY22 due to full six months of contributions from the acquisition of the remaining 63.1% stake of AsiaRetail Fund (ARF), which was completed on 27 Oct 20 (five months of contributions in 1HFY21). This was offset by the divestment of Anchorpoint, Bedok Point and YewTee Point. FCT did not grant any rental rebate in 1HFY22.
- **Rent reversion recovered to positive territory.** FCT achieved positive rent reversion of 1.7% (FY21: -0.6%) (first year rent of incoming lease vs final year rent of outgoing lease) and 4.1% (average vs average) in 1HFY22. Century Square recorded positive rent reversion of 8%, while Causeway Point, Waterway Point and White Sands registered positive rent reversion of 2%. FCT has committed to 176 leases covering 312,731sf of retail space in 1HFY22. Leases accounting for 15.2% of total retail NLA are expiring and have to be renewed in 2HFY22.
- **Occupancy cost has eased to 16.2% in 1HFY22** (FY21: 17.5%). Thus, there is room for FCT to push for higher rents as retailers benefit from the easing of safe distancing measures. Management will focus on replacing weak tenants with refreshed offerings that are more relevant and attractive to consumers.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	164	341	352	353	354
EBITDA	90	212	224	222	217
Operating profit	90	212	224	222	217
Net profit (rep./act.)	152	169	208	200	195
Net profit (adj.)	148	140	208	200	195
EPU (S\$ cent)	13.3	12.5	12.2	11.8	11.4
DPU (S\$ cent)	9.0	12.1	12.9	13.2	12.8
PE (x)	18.3	19.4	19.9	20.6	21.3
P/B (x)	1.1	1.1	1.1	1.1	1.1
DPU Yld (%)	3.7	5.0	5.3	5.4	5.3
Net margin (%)	92.3	49.4	59.0	56.7	55.0
Net debt/(cash) to equity (%)	48.2	45.1	46.4	47.3	48.2
Interest cover (x)	3.3	4.6	5.3	4.6	4.4
ROE (%)	6.1	5.2	5.3	5.1	5.0
Consensus DPU (S\$ cent)	n.a.	n.a.	12.7	12.8	13.1
UOBKH/Consensus (x)	-	-	1.01	1.03	0.98

Source: Frasers Centrepoint Trust, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$2.43
Target Price	S\$2.96
Upside	+21.8%
(Previous TP)	S\$2.98

#### COMPANY DESCRIPTION

FCT is one of the largest owners of suburban retail malls in Singapore with AUM of S\$6.1b. It has nine suburban malls and one office building. Its retail malls are located in populous residential estates and close proximity to public transportation amenities, such as MRT stations and bus interchanges.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FCT SP
Shares issued (m):	1,701.3
Market cap (S\$m):	4,134.1
Market cap (US\$m):	2,996.6
3-mth avg daily t'over (US\$m):	6.2

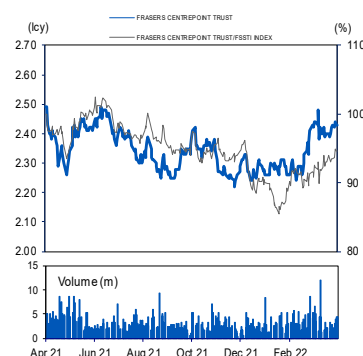
#### Price Performance (%)

52-week high/low	S\$2.49/S\$2.22			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.8	6.6	3.0	(2.4)	5.2

#### Major Shareholders

Frasers Property Ltd	41.1
FY22 NAV/Share (S\$)	2.31
FY22 Net Debt/Share (S\$)	1.07

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Occupancy edges higher.** Retail occupancy improved by 0.6ppt qoq to 97.8% in 1HFY22. The sequential improvement was led by Tampines 1, Century Square and White Sands where occupancy improved 1.7ppt, 2.3ppt and 1.3ppt respectively to 98.8%, 93.4% and 93.8%. Refreshed offerings include Scarlett (supermarket for imported products from China) at Waterway Point, Malaysia Chiak! (Malaysian street hawker food) at Tampines 1 and Chateraise (Japanese confectionery) at White Sands.
- Tenant sales have surpassed pre-COVID-19 levels since Oct 21.** Shopper traffic has improved since group size for dining in at F&B establishments was increased from two to five persons on 22 Nov 21. Work-from-home is no longer the default since Jan 22. With more employees headed back to their offices, footfall has increased during peak morning and evening hours. Group size for dining in was further increased to 10 persons on 29 Mar 22.
- Conservative capital management.** Aggregate leverage was low at 33.3% as of Mar 22. The average all-in cost of debt remains stable at 2.2%. The proportion of borrowings hedged to fixed interest rates has increased from 58% to 68%. Management estimated that every 50bp increase in Swap Offer Rate/Singapore Overnight Rate Average has a negative impact on DPU of 0.169 S cents per year.

### STOCK IMPACT

- Defensive yield from necessity consumption.** FCT's suburban malls are well located with connectivity to MRT stations and bus interchanges, close proximity to dense population catchments, and cater to essential services and non-discretionary spending.
- From Dorscon Orange to Yellow.** Singapore has downgraded the Disease Outbreak Response System Condition (Dorscon) level from orange to yellow. The cap on group size of 10 persons for dining in at F&B establishments was lifted since 26 Apr 22. Safe distancing between individuals is no longer required, whether indoors or outdoors. All employees are allowed back to their workplaces since 26 Apr 22, compared with the previous limit of 75%. The substantial easing will improve shopper traffic and tenant sales at FCT's suburban malls.
- Cushion against the blow from higher cost of electricity.** FCT has fully hedged the electricity rates for its suburban retail malls in various tranches to reduce concentration risks. The hedges will progressively expire in FY22 and FY23, which cushions FCT against a sudden spike in electricity rates.
- On lookout for opportunities to acquire within Singapore.** FCT's balance sheet has deleveraged with aggregate leverage currently at 33.3%. It could tap on its sponsor pipeline, such as Northpoint City South Wing. It will also explore opportunities for acquisitions from third-party vendors, such as further increasing its stake in Waterway Point from 40% to 50%.

### EARNINGS REVISION/RISK

- We trimmed FY22 DPU marginally by 0.5%. Improved performance from its suburban retail malls helps FCT to cope with higher operating expenses from higher cost of electricity.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$2.96 is based on DDM (cost of equity: 6.0%, terminal growth: 1.8%).

### SHARE PRICE CATALYST

- Gradual but steady recovery in shopper traffic and tenant sales, accompanied by progressive easing of social distancing measures.
- Acquisition of Northpoint City South Wing from sponsor Frasers Property.

### KEY OPERATING METRICS

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	yoy % Chg	qoq % Chg
DPU (S cents)	n.a.	6.00	n.a.	6.09	n.a.	6.14	2.3	0.8
Occupancy	96.4%	96.1%	96.4%	97.3%	97.2%	97.8%	1.7ppt	0.6ppt
Aggregate Leverage	37.7%	35.2%	33.9%	33.3%	34.5%	33.3%	-1.9ppt	-1.2ppt
Weighted All-in Financing Cost	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	0.04ppt	0ppt
% Borrowing on Fixed Rates	49.3%	54.0%	59.0%	56.0%	54.0%	68.0%	14ppt	14ppt
WALE by NLA (years)	1.55	1.54	1.62	1.64	1.84	1.87	0.3yrs	0yrs
Debt Maturity (years)	3.00	2.64	2.80	2.47	2.28	2.09	-0.6yrs	-0.2yrs
Rental Reversions	n.a.	-0.7%	n.a.	-0.6%	n.a.	1.7%	2.4ppt	2.3ppt

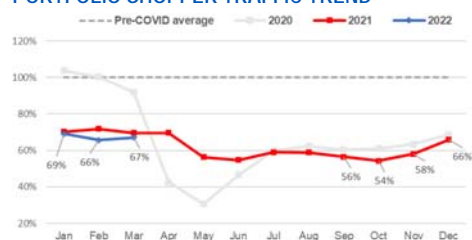
Source: FCT, UOB Kay Hian

### ESSENTIAL SERVICES BY GROSS RENTAL INCOME (SEP 21)



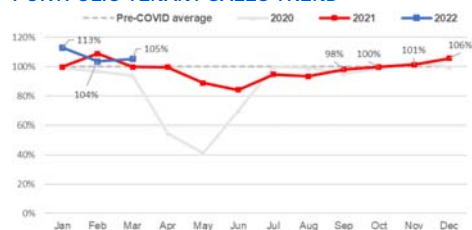
Source: FCT

### PORTFOLIO SHOPPER TRAFFIC TREND



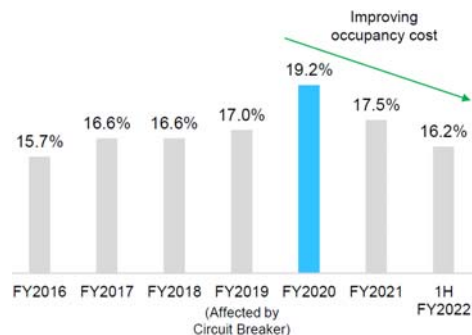
Source: FCT

### PORTFOLIO TENANT SALES TREND



Source: FCT

### OCCUPANCY COST FOR FCT'S RETAIL MALLS



Source: FCT

### PROFIT & LOSS

Year to 30 Sep (S\$m)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>341.2</b>	<b>352.4</b>	<b>353.1</b>	<b>353.9</b>
EBITDA	211.6	224.1	222.2	216.9
Deprec. & amort.	0.1	0.1	0.1	0.1
EBIT	211.5	224.0	222.1	216.8
Total other non-operating income	(25.4)	0.0	0.0	0.0
Associate contributions	3.8	19.7	26.5	27.0
Net interest income/(expense)	(45.9)	(42.2)	(48.3)	(49.3)
<b>Pre-tax profit</b>	<b>172.2</b>	<b>202.1</b>	<b>200.3</b>	<b>194.5</b>
Tax	(3.6)	6.0	0.0	0.0
<b>Net profit</b>	<b>168.6</b>	<b>208.1</b>	<b>200.3</b>	<b>194.5</b>
Net profit (adj.)	140.4	207.6	200.3	194.5

### BALANCE SHEET

Year to 30 Sep (S\$m)	2021	2022F	2023F	2024F
Fixed assets	5,506.7	5,508.0	5,508.0	5,508.0
Other LT assets	340.9	344.2	344.2	344.2
Cash/ST investment	42.2	49.0	40.0	41.2
Other current assets	9.0	14.8	14.8	14.8
<b>Total assets</b>	<b>5,898.8</b>	<b>5,916.0</b>	<b>5,907.0</b>	<b>5,908.1</b>
ST debt	204.8	150.0	150.0	150.0
Other current liabilities	117.4	93.9	94.3	94.7
LT debt	1,604.1	1,720.0	1,735.0	1,760.0
Other LT liabilities	53.7	24.1	24.2	24.2
Shareholders' equity	3,918.8	3,927.9	3,903.6	3,879.2
<b>Total liabilities &amp; equity</b>	<b>5,898.8</b>	<b>5,916.0</b>	<b>5,907.0</b>	<b>5,908.1</b>

### CASH FLOW

Year to 30 Sep (S\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>198.4</b>	<b>213.9</b>	<b>250.5</b>	<b>245.7</b>
Pre-tax profit	165.8	181.9	173.8	167.5
Deprec. & amort.	0.1	0.1	0.1	0.1
Associates	4.9	21.5	22.5	23.0
Working capital changes	56.0	(22.2)	0.3	0.4
Non-cash items	6.5	7.1	7.6	7.5
Other operating cashflows	(34.7)	25.6	46.2	47.2
<b>Investing</b>	<b>(470.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Capex (growth)	(926.0)	0.0	0.0	0.0
Capex (maintenance)	(5.8)	(5.0)	(5.0)	(5.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	438.0	0.0	0.0	0.0
Others	23.2	3.5	3.5	3.5
<b>Financing</b>	<b>285.8</b>	<b>(205.6)</b>	<b>(258.0)</b>	<b>(243.1)</b>
Distribution to unitholders	(150.0)	(224.5)	(224.7)	(218.8)
Issue of shares	1,334.7	0.0	0.0	0.0
Proceeds from borrowings	636.6	61.1	15.0	25.0
Loan repayment	(1,487.2)	0.0	0.0	0.0
Others/interest paid	(48.2)	(42.2)	(48.3)	(49.3)
<b>Net cash inflow (outflow)</b>	<b>13.7</b>	<b>6.8</b>	<b>(9.0)</b>	<b>1.1</b>
Beginning cash & cash equivalent	28.6	42.2	49.0	40.0
Ending cash & cash equivalent	42.2	49.0	40.0	41.2

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	62.0	63.6	62.9	61.3
Pre-tax margin	50.5	57.3	56.7	55.0
Net margin	49.4	59.0	56.7	55.0
ROA	3.4	3.5	3.4	3.3
ROE	5.2	5.3	5.1	5.0
<b>Growth</b>				
Turnover	107.5	3.3	0.2	0.2
EBITDA	134.4	5.9	(0.9)	(2.4)
Pre-tax profit	13.5	17.3	(0.9)	(2.9)
Net profit	11.2	23.4	(3.7)	(2.9)
Net profit (adj.)	(5.2)	47.9	(3.5)	(2.9)
EPU	(5.7)	(2.3)	(3.6)	(3.0)
<b>Leverage</b>				
Debt to total capital	31.6	32.3	32.6	33.0
Debt to equity	46.2	47.6	48.3	49.2
Net debt/(cash) to equity	45.1	46.4	47.3	48.2
Interest cover (x)	4.6	5.3	4.6	4.4

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