

# Frasers Centrepoint Trust

Suburban malls continue to outperform

SINGAPORE | REAL ESTATE (REIT) | 1H22 RESULTS

- 1H22 DPU of 6.136 Scts (+2.3% YoY) was in line and formed 48% of our FY22e forecast. Revenue grew 1.5% YoY on full contribution of ARF acquisition while NPI margin improved YoY from 72.4% to 74.1% due to decrease in property expenses and lower doubtful debt provisions, locking in 3.8% YoY NPI growth.
- Retail reversions were positive at 1.7%; occupancy, tenant sales and NPI margin were above pre-pandemic levels.
- Downgrade from BUY to ACCUMULATE, DDM TP (COE 6.41%) raised from S\$2.64 to S\$2.71. No change in FY22e DPU estimate. FY23e-26e DPUs have been raised by 1.0-1.3% on better rental growth outlook and higher NPI margin.

## Results at a glance

(SGD mn)	1H22	1H21	YoY (%)	Comments
Gross Revenue	176.2	173.6	1.5%	Higher due to full year contribution from acquisition of 66.11% stake in ARF in Oct2020, partially offset by loss of contribution from divestment of Bedok point, Anchorpoint and Yew Tee Point
Net Property Income	130.5	125.7	3.8%	NPI margin improved to 72.4% from 74.1%, back to pre-pandemic levels, due to lower property expense and doubtful debt provision
Dist. Income	109.2	101.1	8.0%	
DPU (Cents)	6.136	5.996	2.3%	S\$4.8mn (4.7% of DI) or 0.28 Scts/sh retained for prudence. If 100% paid out, DPU would be 6.418 Scts (+7% YoY)

Source: Company, PSR

## The Positives

**+ Retail reversions turned positive.** 1H22 reversions came in at +1.7% (FY21 -0.6%), ranging from 0.4-8.8%, positive across all malls except Changi City Point (CCP). CCP's reversions came in at -3.6%, improving from FY21's -9.8%. The removal of capacity limits and 100% workplace capacity effective from 26 April 2022 should boost tenant confidence and demand for CCP as more footfall befalls the neighbouring Expo and business parks. This bodes well for the 24% of GRI expiring at CCP in FY22.

**+ Occupancy and tenant sales above pre-pandemic levels.** Retail occupancy improved from 97.2% to 97.8%, surpassing pre-pandemic occupancy of 96.5%. Tenant sales were above the pre-pandemic level for five consecutive months ended Mar22. We expect the impact from larger dine-in group size of 10 and return of atrium sales to be captured in 2H22 earnings.

**+ NPI Margin Improved YoY in 1H22, from 72.4% to 74.1%.** This was largely attributed to cost savings from digitalisation of security functions and better contract prices due to FCT's larger scale post-ARF acquisition. We could see better NPI margin for 2H22 as relaxation of Safe Management Measures (SMM) in Apr22 should lift revenue on the back of returning atrium sales, higher gross turnover (GTO) and carpark income, while removal of SMM-related cost and energy hedges in place for FY22 should keep OPEX stable.



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## ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 2.47
FORECAST DIV	SGD 0.128
TARGET PRICE	SGD 2.71
TOTAL RETURN	14.7%

### 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

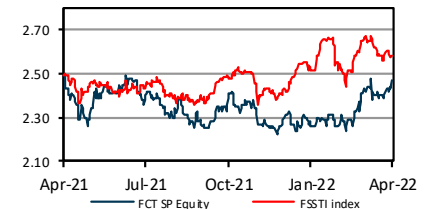
### MAJOR SHAREHOLDERS

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	1.6	9.3	6.9
STI RETURN	(2.1)	3.9	8.0

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sept	FY20	FY21	FY22e	FY23e
Gross Rev (SGD mn)	164	341	373	384
NPI (SGD mn)	111	247	267	275
Dist Inc. (SGD mn)	72	205	217	222
P/NAV (x)	1.09	1.07	1.07	1.07
DPU, adj (Cents)	9.04	12.09	12.77	13.01
Distribution Yield	3.7%	4.9%	5.2%	5.3%

Source: Company, PSR

### Valuation Method

DDM (Cost of equity 6.41%, Terminal Growth 1.5%)

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### The Negative

- **Backfilling of Central Plaza still underway.** Occupancy gained 5.6ppts from 71.7% to 77.3% at Central Plaza. The backfilling of three floors of space (c.20% of NLA) which was returned by an anchor tenant in 1Q22 is in progress. We understand that FCT is in advanced negotiations with a mini anchor tenant. Strategies for leasing up the space include subdividing the space and leasing to quasi-retail tenants, both strategies should yield higher rents compared to the rents charged to the anchor tenant. As such, we expect to see positive reversions for this space.

### Outlook

**On good footing to command rental growth.** Hybrid work arrangements should benefit FCT's malls, which are located near transportation nodes. Commute-driven footfall and incidental spending should see an uptick, lifting tenant sales and GTO revenue for FCT. Occupancy cost, at 16.2%, is at the 5-year pre-pandemic average. Improving tenant sales should lower occupancy cost further, which may support FCT's ability to raise rents.

Utilities represent c.7% of property operating expense and are fully hedged for FY22. Energy contracts will expire in end-FY22 and mid-FY23.

### Downgrade from BUY to ACCUMULATE, TP raised from S\$2.64 to S\$2.71

No change in FY22e DPU estimate. FY23e-26e DPUs have been raised by 1.0-1.3% on better rental growth outlook and NPI margin. DDM-based TP raised S\$2.64 to S\$2.71 on higher DPU estimates and lower cost of equity of 6.41% assumption (previous 6.48%). The current share price implies FY22e DPU yields of 5.2%.

## Financials

### Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>Gross Revenue</b>	196	164	341	373	384
Total Property expenses	(57)	(53)	(95)	(106)	(109)
<b>Net Property Income</b>	<b>139</b>	<b>111</b>	<b>247</b>	<b>267</b>	<b>275</b>
Net Finance (Expense)/Inc	(24)	(28)	(46)	(47)	(52)
Trust expenses	(2)	(2)	(3)	(3)	(3)
Manager's management fees	(17)	(18)	(32)	(31)	(31)
<b>Net Income</b>	<b>97</b>	<b>65</b>	<b>166</b>	<b>187</b>	<b>188</b>
Share of associate's results	13	75	(1)	1	1
Share of JV's results	5	11	17	20	21
Other Adjustments	8	(8)	16	12	12
<b>Distribution to Unitholders</b>	<b>120</b>	<b>72</b>	<b>205</b>	<b>217</b>	<b>222</b>

### Per share data

Y/E Sep, SGD	FY19	FY20	FY21	FY22e	FY23e
NAV	2.21	2.27	2.30	2.31	2.31
DPU (Cents)	11.77	9.04	12.09	12.77	13.01

### Cash Flow

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
Net Income	206	152	172	208	210
Adjustments	(80)	(54)	43	35	40
WC changes	4	(20)	(5)	15	3
<b>Cashflow from operating activities</b>	<b>131</b>	<b>78</b>	<b>198</b>	<b>258</b>	<b>252</b>
<b>CFI</b>					
Capex on inv properties	(5)	(11)	-	(5)	(5)
Others	(656)	(153)	(471)	20	21
<b>Cashflow from investing activities</b>	<b>(661)</b>	<b>(164)</b>	<b>(471)</b>	<b>15</b>	<b>16</b>
<b>CFF</b>					
Share issuance	437	-	1,335	-	-
Distributions to Unitholders	(114)	(85)	(150)	(205)	(217)
Others	197	186	(899)	7	(49)
<b>Cashflow from financing activities</b>	<b>521</b>	<b>101</b>	<b>286</b>	<b>(198)</b>	<b>(267)</b>
<b>Net change in cash</b>	<b>(9)</b>	<b>15</b>	<b>14</b>	<b>75</b>	<b>2</b>
<b>CCE, end</b>	<b>13</b>	<b>29</b>	<b>42</b>	<b>117</b>	<b>119</b>

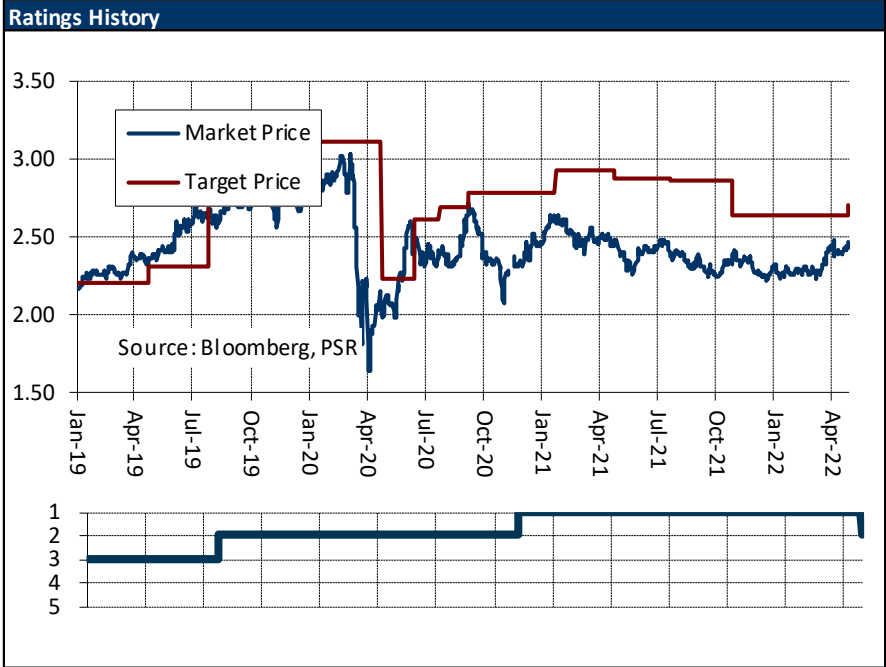
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sep, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Investment properties	2,846	2,750	5,507	5,511	5,516
Investment in Associates	457	696	46	47	47
<b>Non Current Assets</b>	<b>3,595</b>	<b>3,737</b>	<b>5,848</b>	<b>5,853</b>	<b>5,859</b>
Trade and Other Receivables	3.1	9.7	9.0	11.2	11.5
Cash and Cash Equivalents	13	29	42	117	119
<b>Current Assets</b>	<b>16</b>	<b>146</b>	<b>51</b>	<b>128</b>	<b>130</b>
<b>Total Assets</b>	<b>3,611</b>	<b>3,883</b>	<b>5,899</b>	<b>5,981</b>	<b>5,989</b>
<b>LIABILITIES</b>					
Interest bearing borrowings	745	997	1,604	1,788	1,612
Others	30	31	54	54	54
<b>Non-Current Liabilities</b>	<b>775</b>	<b>1,028</b>	<b>1,658</b>	<b>1,842</b>	<b>1,666</b>
Trade and other payables	47	43	76	93	96
Interest bearing borrowings	295	255	205	74	253
Others	23	19	42	42	42
<b>Current Liabilities</b>	<b>365</b>	<b>317</b>	<b>322</b>	<b>208</b>	<b>390</b>
<b>Total Liabilities</b>	<b>1,140</b>	<b>1,345</b>	<b>1,980</b>	<b>2,050</b>	<b>2,056</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>2,471</b>	<b>2,538</b>	<b>3,919</b>	<b>3,931</b>	<b>3,933</b>

### Valuation Ratios

Y/E Sep	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.12	1.09	1.07	1.07	1.07
Distribution yield	4.8%	3.7%	4.9%	5.2%	5.3%
NPI yield	4.9%	4.0%	4.5%	4.8%	5.0%
<b>Growth &amp; Margins</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22e</b>	<b>FY23e</b>
<b>Growth</b>					
Revenue	1.6%	-16.3%	107.5%	9.3%	2.9%
Net property income (NPI)	1.5%	-20.4%	122.4%	8.4%	2.8%
DPU	26.9%	-23.2%	33.7%	5.7%	1.9%
<b>Margins</b>					
NPI margin	70.9%	67.5%	72.3%	71.6%	71.5%
Net Income Margin	49.2%	39.8%	48.6%	50.2%	49.0%
<b>Key Ratios</b>					
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%	4.8%	4.8%
Interest coverage ratio (x)	5.82	4.02	5.38	5.74	5.24



### 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

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