

# Singapore Company Focus

# Frasers Commercial Trust

Bloomberg: FCOT SP | Reuters: FRCR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Oct 2015

## BUY

Last Traded Price: S\$1.395 (STI : 3,068.46)  
Price Target : S\$1.53 (10% upside) (Prev S\$1.51)

Reason for Report : Results

Potential Catalyst: Acquisitions

Where we differ: In line with consensus

### Analyst

Rachael TAN +65 6682 3713 rachaeltan@dbs.com

Derek Tan +65 6682 3716 derektan@dbs.com

### Result Summary

FY Sep (\$\$ m)	4Q 2015	4Q 2014	3Q 2015	% chg yoy	% chg qoq
<b>P&amp;L Items</b>					
Sales	37.2	31.8	34.7	16.9	7.3
Net Property Inc	27.4	23.8	24.3	15.0	12.6
Net Income Aft Tax	31.3	19.8	14.0	58.5	123.6
Net Inc avail. for Dist.	18.8	15.0	16.1	25.6	17.0
<b>Other Data (%)</b>					
Net Prop Inc Margin	73.6	74.8	70.1		
Dist. Payout Ratio	100.0	100.0	100.0		
DPU (S cts)	2.5	2.2	2.4	14.0	7.2

### Financial Summary

FY Sep (\$\$ m)	2014A	2015F	2016F	2017F
Gross Revenue	119	142	155	160
Net Property Inc	91	102	113	115
Total Return	87	75	67	69
Distribution Inc	57	68	78	80
EPU (S cts)	8.9	9.6	8.6	8.7
EPU Gth (%)	(1)	8	(11)	2
DPU (S cts)	8.5	9.7	9.9	10.1
DPU Gth (%)	8	15	2	2
NAV per shr (S cts)	161.3	154.1	153.0	152.0
PE (X)	15.7	14.6	16.3	16.0
Distribution Yield (%)	6.1	7.0	7.1	7.2
P/NAV (x)	0.9	0.9	0.9	0.9
Agg. Leverage (%)	36.8	36.0	36.1	36.2
ROAE (%)	5.6	6.1	5.6	5.7

### At A Glance

Issued Capital (m shrs)	785
Mkt. Cap (S\$m/US\$m)	1,095 / 783
3m Avg. Daily Val (US\$m)	0.9

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trust

**Principal Business:** Frasers Commercial Trust is a real estate investment trust that invests in income-producing commercial office properties in Singapore and Australia. As of 30th Sept 2015, FCOT's portfolio was worth an aggregate of S\$2.0bn. About 62% of its assets are derived from its properties in Singapore and the remaining 38% from Australia.

Source: Company, DBS Bank, Bloomberg Finance L.P.

## On a steady growth path

- 4Q15 DPU of 2.52Scts was up 14% y-o-y – in line
- Contribution from 357 Collins Street to drive earnings in FY16
- Maintain BUY, TP S\$1.53

### Highlights

**Alexandra Technopark the clear winner.** FCOT's 4Q15 distributable income of S\$19m grew 26% y-o-y, on the back of a 45% jump in NPI at Alexandra Technopark (ATP) following the expiry of its master lease in August 2014, as well as maiden contribution from 357 Collins Street.

This more than offset declines in contribution from Central Park and Caroline Chisholm Centre due to the weak AUD.

### Outlook

**Positive but moderating reversions for Singapore portfolio.** The Trust continued to reap upside from its underrented Singapore portfolio, as China Square Central (CSC), 55 Market Street and ATP recorded positive reversions of 8%, 3% and 18% respectively.

However, we expect reversions to moderate going forward, given that (a) ATP's passing rent for expiring leases are S\$3.90 vs signings of S\$4.00, and (b) CSC and 55 Market Street could see some vacancy and rental risk as keen competition for tenants in Grade A offices amid large supply spill over into Grade B offices.

**Australia portfolio to remain operationally steady.** Earnings growth in FY16 will be driven by full year contribution from the recently acquired 357 Collins Street in Melbourne. With 97% of leases embedded with average annual escalations of 3.9% and a long WALE of 5.6 years, this asset will provide earnings visibility and growth for the Trust.

Rio Tinto (which accounts for 6% of the REIT's gross income) has signed a 12-year lease extension at Central Park from FY18 to FY30. This renewal improves the property's WALE from 2.9 to 7.1 years, reducing vacancy risk in a building where many of its tenants have been impacted by the commodity slowdown in Australia.

### Valuation:

We have assumed some distribution from capital to support the temporary loss of income at CSC due to construction of the hotel as well as interior renovation works. This will also help to mitigate anticipated currency losses from the Australian properties in light of a further weakness in the AUD. At current price, FCOT offers investors a dividend yield of 7.1% and potential total return of 17%, which is

**Frasers Commercial Trust**

attractive, in our view. We maintain our BUY call, with TP raised slightly to S\$1.53 to account for our revised earnings estimates.

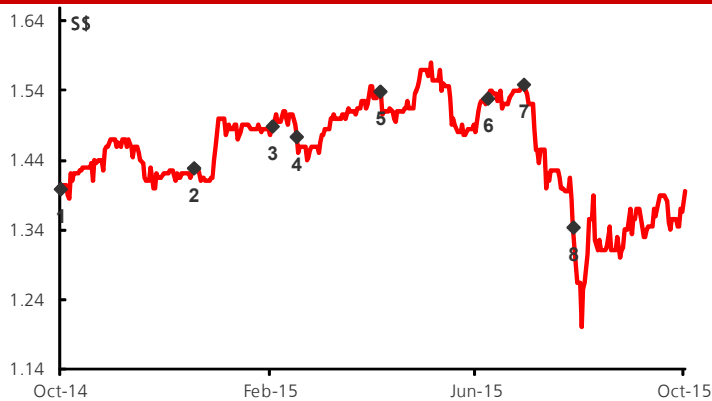
**Key Risks:**

**Rising interest rates.** Average cost of debt stood at 3.0% as of 4Q15. The Trust has no refinancing needs until FY17, and has hedged 81% of gross borrowings, giving it a good measure of protection against short-term fluctuations in interest rates. However we expect interest rates to climb

slowly going forward in line with market expectations of a rate hike.

**Unfavourable forex movements .** As FCOT derives c.45% of its NPI in AUD while distributions are based in SGD, foreign currency fluctuations will have an impact on distributions. The Manager has hedged its AUD exposure on a rolling basis of 6-9 months, and given the negative movement of AUD, we have lowered our exchange rate assumption.

**Target Price & Ratings History**



S.No.	Date	Closing Price	Target Price	Rating
1	23 Oct 14	1.40	1.53	BUY
2	09 Jan 15	1.43	1.53	BUY
3	24 Feb 15	1.49	1.53	BUY
4	10 Mar 15	1.48	1.53	BUY
5	28 Apr 15	1.54	1.74	BUY
6	30 Jun 15	1.53	1.79	BUY
7	21 Jul 15	1.55	1.76	BUY
8	19 Aug 15	1.35	1.51	BUY

*Note : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

#### **GENERAL DISCLOSURE/DISCLAIMER**

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

#### **ANALYST CERTIFICATION**


The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his/her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

#### **COMPANY-SPECIFIC / REGULATORY DISCLOSURES**

1. DBS Bank Ltd., DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates have a proprietary position in Frasers Commercial Trust recommended in this report as of 30 Sep 2015.
2. DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may beneficially own a total of 1% of any class of common equity securities of the company mentioned as of 30 Sep 2015.
3. **Compensation for investment banking services:**  
DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from Frasers Commercial Trust.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

**RESTRICTIONS ON DISTRIBUTION**

<b>General</b>	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
<b>Australia</b>	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
<b>Hong Kong</b>	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
<b>Indonesia</b>	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
<b>Malaysia</b>	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBRS"). Recipients of this report, received from ADBRS are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBRS (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.   Wong Ming Tek, Executive Director, ADBRS
<b>Singapore</b>	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
<b>Thailand</b>	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
<b>United Kingdom</b>	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
<b>Dubai</b>	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 <sup>rd</sup> Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
<b>United States</b>	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
<b>Other jurisdictions</b>	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

**DBS Bank Ltd.**

12 Marina Boulevard, Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel. 65-6878 8888  
Company Regn. No. 196800306E