

Fraser's Centrepont Trust

Expected to ride out uncertainties next year

23 October 2015

SINGAPORE | REAL ESTATE (REIT) | RESULTS

Fraser's Centrepont Trust (FCT) announced their FY15 results yesterday morning. DPU for FY15 grew to a new high of 11.6 cents, the ninth consecutive year of DPU growth since FCT listed. However, this comes slightly below our expectation due to Changi City Point and Bedok Point's weaker performance against our forecasts. FCT's two main malls Causeway Point and Northpoint continue to drive group performance.

Results at a glance

(SGD mn)	FY15	FY14	y-y (%)	Comments
Gross Revenue	189.2	168.8	12.1	Addition of Changi City Point (CCP) to portfolio in June 2014
Property Expenses	58.2	50.7	14.9	Addition of CCP, higher maintenance expense and other property expenses
Net property income	131.0	118.1	11.0	
Distributable income	106.4	95.4	11.5	
DPU (Cents)	11.60	11.19	3.7	

Source: Company, PSR

Actual Results vs PSR Estimate

(SGD mn)	FY15	PSR Estimates	Act. vs PSR Estimate (%)	Comments
Gross Revenue	189.2	193.7	(2.3)	Weaker actual performance from Bedok Point and Changi City Point
Property Expenses	58.2	54.7	6.4	Higher actual maintenance and other property expenses
Net property income	131.0	139.0	(5.8)	
Distributable income	106.4	111.5	(4.6)	
DPU (Cents)	11.60	12.20	(4.9)	

Source: Company, PSR

Key takeaways from analyst briefing:

- FY15 Overall Portfolio occupancy dropped almost 3% yoy to 96% from 98.9% in FY14.** Causeway Point and Northpoint continue to drive earnings, with c.66% of total NLA renewed in FY15 coming from these two malls. Changi City Point suffered a dip in occupancy in FY15 despite the opening of the new Singapore University of Technology and Design in the vicinity this year, which was expected to drive footfall, and thereby tenant sales.

Figure 1: Mall Occupancy Table

Mall Occupancy	30 Sep 14	31 Dec 14	31 Mar 15	30 Jun 15	30 Sep 15
Causeway Point	99.8%	99.5%	99.6%	99.2%	99.5%
Northpoint	99.4%	96.3%	99.1%	99.0%	98.2%
Changi City Point	97.9%	91.7%	90.1%	92.4%	91.1%
Bedok Point	98.2%	90.8%	94.2%	84.9%	84.2%
YewTee Point	96.6%	96.7%	97.6%	95.6%	94.8%
Anchorpoint	97.8%	98.8%	98.8%	98.1%	96.9%
FCT Portfolio	98.9%	96.4%	97.1%	96.5%	96.0%

Source: Company, PSR

Management guided that occupancies at these two malls are likely to remain around current levels in the near term while tenant re-adjusting takes place. We think Changi City Point should start to improve towards end of next year once construction work on the Downtown Line MRT 3 completes in early 2017. This could be a booster to earnings in FY17.

- Overall Portfolio Rental Reversions similar to FY14.** Overall portfolio rental reversion came in at 6.3%, lower than the 6.5% in FY14 by a whisker. This is the lowest level of rental reversion FCT has seen since IPO in 2006.

ACCUMULATE (Maintained)

CLOSING PRICE (S\$, 22 Oct 15)	2.01
FORECAST DIVIDEND	0.11
TARGET PRICE (S\$)	2.07
TOTAL RETURN (%)	8.6%

SHARE DATA

OUTSTANDING SHARES (MN)	915
MARKET CAP (S\$ US\$)	1,843 / 1,322
52 WEEK RANGE (S\$)	1.84 / 2.15
Volume (3m avg, mn shares)	1.22

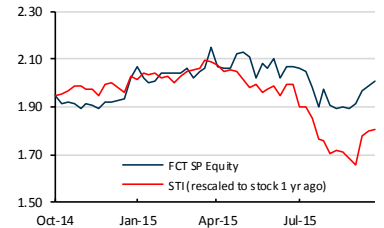
TOP THREE SHAREHOLDERS (%)

FRASERS CENTREPOINT	41.3
SCHRODERS PLC	6.0
SCHRODER INVESTMENT	2.1

PRICE PERFORMANCE (%)

	1 mo	3 mo	1 yr
FRASERS CENTREPO	5.2	(2.9)	3.6
STRAITS TIME INDEX	5.9	(9.6)	(5.1)

PRICE VS. STI



Source: Bloomberg, PSR

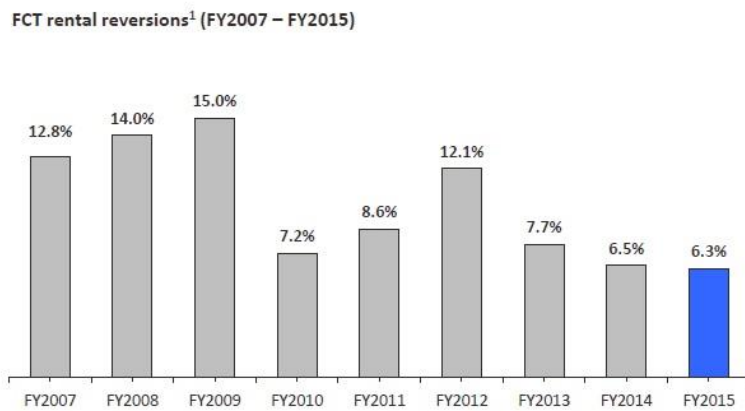
Key financials (S\$ mn)

FYE Sep	FY14	FY15	FY16e	FY17e
Gross Revenue	168.8	189.2	191.5	218.0
Property Expenses	(50.7)	(58.2)	(58.9)	(67.1)
NPI	118.1	131.0	132.6	151.0
Dist. To unitholders	95.4	106.4	102.9	118.0
P/NAV	1.02	1.05	1.08	1.09
DPU (SGD cents)	11.2	11.6	11.2	11.7
Dist. Yield	5.9	5.8	5.6	5.8

Source: Bloomberg

Tan Dehong (+65 6531 1229)

tandh@phillip.com.sg

Figure 2: Historical Rental Reversions
Maintaining positive rental reversions through economic cycles


Source: Company, PSR

- **Outperforming trade sectors remain the same.** Management guided that F&B outlets, supermarkets and sports outlets are the outperforming sectors. Fashion shops, especially the smaller ones have struggled. We think malls are getting increasingly service-oriented and it is hardly surprising small fashion shops and CD/book shops would bear the brunt of the onslaught of e-commerce and the proliferation of websites and services like Taobao, Qoo10, and iTunes.
- **Upcoming AEI for Northpoint to commence March 2016.** The upcoming AEI will focus on enhancing shopper experience and facilitating the integration of Northpoint with the upcoming retail component of Northpoint City by Frasers Centrepoint Limited. Northpoint will remain open for business throughout the course of the AEI. Management expects human traffic in the mall to remain strong even during the AEI period. Updates on the AEI would be provided in due course.
- **Update on potential acquisition of Waterway Point.** Management remains non-committal on any possible time frame for the acquisition, but noted that with just a few months to opening of the mall, pre-committed occupancy has hit about 90%.

What do we think?

- **Uncertainties in FY16.** Apart from the yet-to-be-known scale and disruption of the AEI on Northpoint commencing in March 2016, and its impact on earnings, Changi City Point and Bedok Point are expected to remain sluggish due to i) continuing MRT works (only expected to end early 2017) and ii) seemingly unloved Bedok Point's continued struggle to attract tenants despite approximate passing rents going at less than half that of Bedok Mall, just a 5minute walk away.
- **Potentially higher funding costs over the next 2 years a second headwind.** In addition to the uncertain leasing outcomes surrounding Changi City Point and Bedok Point, FCT faces potentially higher finance costs with 65.2% of total debt due for re-financing over the 2 years.
- **Optimistic over long term prospects with hugely exciting properties in the pipeline.** Investors willing to look past the near term uncertainties should see themselves duly rewarded in the long term with 2 hugely exciting properties in the sponsor's pipeline, Waterway Point and Northpoint City.

Investment Actions

We maintain our ACCUMULATE call with a reduced DDM-derived target price of S\$2.07 from \$2.14. We cut some of our growth assumptions on the back of continued weakness from

Bedok Point and the weaker than anticipated performance from Changi City Point.

Name	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%) A
FRASERS CENTREPOINT TRUST	1,834	2.00	5.77	1.08	29.3
SPH REIT	2,390	0.95	5.79	1.00	25.5
CAPITAMALL TRUST	7,285	2.06	5.33	1.12	32.1
STARHILL GLOBAL REIT	1,745	0.80	6.39	0.88	35.4
CAPITARETAIL CHINA TRUST	1,255	1.49	6.85	0.88	28.5
SUNTEC REIT	4,226	1.68	5.74	0.80	34.7

Financials

Statement of Total Return and Distribution Statement

Y/E Sept, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Gross Revenue	158.0	168.8	189.2	191.5	218.0
Total Property expenses	(46.4)	(50.7)	(58.2)	(58.9)	(67.1)
Net Property Income	111.6	118.1	131.0	132.6	151.0
Net Finance (Expense)/Inc	(17.7)	(18.5)	(19.3)	(21.3)	(23.1)
Asset Manager's fees	(11.5)	(12.9)	(14.1)	(14.0)	(14.9)
Net Income	80.9	85.1	96.2	95.6	111.2
FV change, Inv properties	195.7	69.5	64.0	-	-
Distributions to unitholders	87.8	95.4	106.4	102.9	118.0

Per share data (Cents)

Y/E Sept	FY13	FY14	FY15	FY16e	FY17e
NAV	1.77	1.85	1.91	1.86	1.85
DPU	10.9	11.2	11.6	11.2	11.7

Cash Flow

Y/E Sept, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
Net Income	287.8	165.1	171.5	95.6	110.2
Adjustments	(186.8)	(58.4)	(53.7)	24.0	26.4
WC changes	11.8	(6.4)	2.7	13.4	5.6
Cashflow from ops	112.8	100.3	120.0	133.2	142.2
CFI					
Capex on inv properties	(9.5)	(1.5)	(5.4)	(3.4)	(3.4)
Cashflow from investing activities	(5.0)	(295.6)	(0.6)	1.0	(337.1)
CFF					
Share issuance	-	161.5	-	-	158.4
Loans, net of repayments	12.0	150.0	(21.0)	-	180.0
Distributions to unitholders	(87.8)	(94.5)	(105.7)	(102.9)	(118.0)
Cashflow from financing	(90.9)	197.4	(144.9)	(127.3)	194.1
Net change in cash	16.8	2.0	(25.5)	6.9	(0.9)
CCE, end	39.7	41.7	16.2	23.1	22.3

Source: Company, Phillip Securities Research (Singapore) Estimates

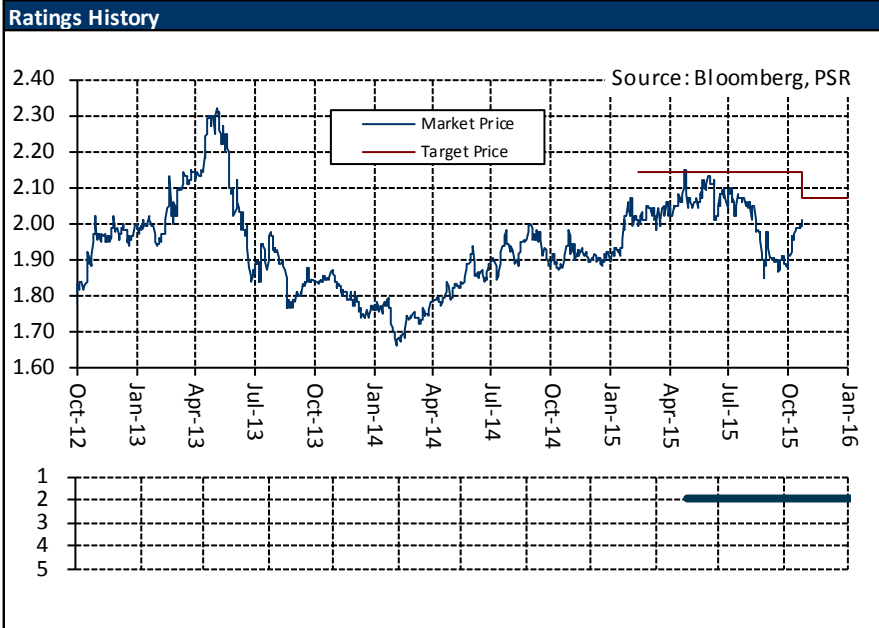
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sept, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
Investment properties	2,020	2,400	2,464	2,464	2,802
Investment in Associates	71.7	74.5	62.8	62.8	62.8
Non Current Assets	2,091	2,475	2,527	2,527	2,865
Trade and Other Receivables	3.5	5.3	5.4	6.1	6.9
Cash and Cash Equivalents	39.7	41.7	16.2	23.1	22.3
Current Assets	43.2	47.2	21.7	29.2	29.2
Total Assets	2,135	2,522	2,549	2,556	2,894
LIABILITIES					
Trade and other payables	45.7	39.9	31.8	45.3	51.5
Current portion of security deposit	14.2	17.5	17.1	17.1	17.1
Interest bearing borrowings	60.0	95.0	278.0	190.0	60.0
Current Liabilities	120.6	153.2	327.7	253.1	129.4
Interest bearing borrowings	529.0	644.0	440.0	563.0	873.0
Non current portion of security deposit	22.0	25.3	26.0	26.0	26.0
Non Current liabilities	551.5	669.9	466.5	589.5	899.5
Total Liabilities	672.2	1,562.1	794.2	842.7	1,028.9
EQUITY					
Shareholder Equity	1,462.4	1,698.7	1,754.5	1,713.4	1,865.6

Valuation Ratios

Y/E Sept	FY13	FY14	FY15	FY16e	FY17e
P/NAV	0.99	1.02	1.05	1.08	1.09
Distribution yield (%)	5.92	5.93	5.77	5.58	5.82
NPI yield (%)	5.5%	4.9%	5.3%	5.4%	5.4%
Growth & Margins (%)	FY13	FY14	FY15	FY16e	FY17e
Growth					
Revenue	24.9%	7.3%	6.8%	12.1%	13.8%
Net property income (NPI)	26.4%	6.9%	5.8%	11.0%	13.8%
DPU	20.3%	11.7%	8.1%	-3.3%	4.3%
Margins					
NPI margin	70.9%	70.6%	70.0%	69.2%	69.2%
Net Income Margin	50.3%	51.2%	50.5%	50.8%	51.0%
Key Ratios					
Gearing	30.1%	29.3%	28.2%	29.5%	32.2%



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)

Management

Chan Wai Chee
(CEO, Research - Special Opportunities)

yebo@phillip.com.sg

Research Operations Officer

Mohamed Ghazali
ghazali@phillip.com.sg

Macro | Equities

Soh Lin Sin
sohls@phillip.com.sg

Property Developers | Hospitality

Peter Ng
peterngmc@phillip.com.sg

Transport & Logistics

Richard Leow,
CFTe
richardleowwt@phillip.com.sg

REITs

Dehong Tan
tandh@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

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

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Futures 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

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.phillipcapiatal.in

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
Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: <http://www.phillipbank.com.kh/>

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

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

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

AUSTRALIA

Phillip Capital Limited
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

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.phillipcapiatal.com.tr

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

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

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

SRI LANKA

Asha Phillip Securities Limited
2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
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
Website: www.phillipcapiatal.in

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