

Frasers Centrepoint Trust (FCT SP)

Buy (Maintained)

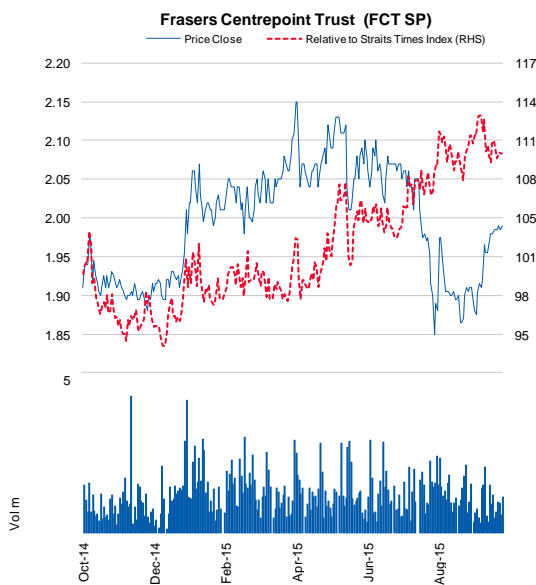
Property - REITS

 Target Price: **SGD2.22**

Market Cap: USD1,310m

 Price: **SGD1.99**

Northpoint a Growth Engine After AEI

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	2.22m/1.59m
Cons. Upside (%)	5.5
Upside (%)	11.6
52-wk Price low/high (SGD)	1.85 - 2.15
Free float (%)	59
Share outstanding (m)	917
Shareholders (%)	
Frasers Centrepoint Ltd	41.3
Schroders PLC	6.0
Capital Group Companies	4.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.0	4.2	(3.9)	(4.3)	4.2
Relative	15.1	(0.8)	6.4	9.5	9.7

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FCT announced a set of stable 4QFY15 (Jun) and FY15 results as its portfolio booked 7.1% positive rental reversion for the quarter. **Maintain BUY, with a DDM-derived TP of SGD2.22 (11.6% upside).** While there was no change in the cap rate, investment properties were revalued upwards by +2.7%, mainly driven by stronger earning power from Causeway Point. We continue to like the REIT for its resilient earnings. We also see more growth opportunities for the portfolio as it announces its intention to refurbish Northpoint.

- ◆ **A good stable run in FY15.** Frasers Centrepoint Trust (FCT) announced stable 4QFY15/FY15 DPU growth of 2.7%/3.8% YoY respectively, meeting ~97% of our full-year estimate. The growth was well supported by a respectable 7.1% positive rental reversion, ranging from 2.0% to 14.7% across the portfolio for the quarter. Overall portfolio occupancy dipped slightly to 96.0%, mainly due to the repositioning of Changi City Point (CCP) and Bedok Point (BP). We remain optimistic on the retail scene, as we observed an increase in shopper traffic and tenant sales for the quarter – at 8.4% and 2.1% YoY respectively.
- ◆ **Next growth engine – AEI on Northpoint.** The REIT has also announced its intention to commence an asset enhancement initiative (AEI) on Northpoint in Mar 2016, which will be completed in phases over 18 months. We like management's long-term view on this initiative as it intends to enable the mall to benefit from a seamless connection with the upcoming retail component of Northpoint City, which is slated to be completed by 2018. Given FCT's good track record on AEIs, we are expecting ROI on refurbishment works of ~10%.
- ◆ **Still a Top Pick, with a TP of SGD2.22.** We forecast its rental reversion to remain at 6-7% next year. We remain optimistic on the REIT as most of the leases expiring next year are to be renewed in its core assets (see Figure 1). Management has also mentioned that occupancy costs for the REIT has dropped to below 16% (FY14: ~16%) – which would better position the REIT during renewal negotiations, in our opinion. We maintain BUY, with an unchanged DDM-derived TP of SGD2.22.

Forecasts and Valuations	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total turnover (SGDm)	169	189	194	196	199
Net property income (SGDm)	118	131	135	137	139
Reported net profit (SGDm)	165	171	136	142	141
Total distributable income (SGDm)	95	106	111	113	114
DPS (SGD)	0.10	0.12	0.12	0.12	0.12
DPS growth (%)	(3.1)	12.5	4.1	1.4	1.2
Recurring P/E (x)	10.3	10.7	13.4	12.9	13.0
P/B (x)	1.07	1.04	1.00	0.99	0.97
Dividend Yield (%)	5.2	5.8	6.1	6.2	6.2
Return on average equity (%)	10.4	9.9	7.6	7.7	7.5
Return on average assets (%)	7.1	6.7	5.2	5.3	5.2
Interest coverage ratio (x)	5.60	5.97	6.34	6.38	6.42

Source: Company data, RHB

Figure 1: Most of the leases expiring in FY16 would be renewed in FCT's core assets

FY2016	Number of leases expiring	Net lettable area (NLA) expiring (sq ft)	As % of leased area of mall	As % of total gross rent of mall
Causeway Point	57	105,021	25.4%	24.1%
Northpoint	36	57,635	39.0%	36.0%
Changi City Point	54	86,993	46.1%	44.8%
Bedok Point	12	14,557	20.9%	23.1%
YewTee Point	23	14,616	20.6%	22.9%
Anchorpoint	25	23,366	34.0%	35.1%
Total FCT	277	320,021	30.7%	29.9%

Source: RHB

Figure 2: FCT's 4Q15 results summary

(SGDm)	4Q14	3Q15	4Q15	%QoQ	%YoY	Comments
Gross revenue	46.7	47.1	47.5	0.8	1.7	Gross revenue for the quarter ended 30 Sep 2015 totaled SGD47.5m was comparable to that of the last quarter ended 30 Jun 2015.
Property expenses	(18.4)	(14.2)	(15.8)	10.8	(14.2)	Property expenses for the quarter ended 30 Sep 15 were 10.8% YoY higher due to higher maintenance expenses and other property expenses and are partially offset by property tax refunds.
Net property income	28.3	32.9	31.7	(3.5)	12.0	
Manager's management fees	(3.5)	(3.5)	(3.5)	0.1	1.1	
Trust expenses	(0.5)	(0.4)	(0.4)	(10.3)	(31.8)	
EBIT	24.3	29.0	27.8	(3.8)	14.6	
Interest income	0.0	0.1	0.0	NM	NM	
Borrowing costs	(5.0)	(4.7)	(4.4)	(5.9)	(11.6)	
Net income	22.3	24.4	23.4	(3.9)	4.9	
Total return before tax	94.7	25.6	89.8	250.2	(5.1)	
Taxation	0.0	0.0	0.0	NM	NM	
Total return for the period after tax	94.7	25.6	89.8	250.2	(5.1)	
Net tax adjustments	2.0	4.6	1.0	(78.7)	(51.0)	
Distribution from associate	1.1	3.3	1.0	(70.5)	(15.6)	
Income available for distribution	25.5	80.7	25.7	(68.1)	0.9	
Distribution to unitholders	25.5	80.2	(26.2)	NM	NM	
Number of units (end of period) (m)	915.8	916.8	917.2	0.0	0.2	
DPU (cents)	2.79	3.04	2.86	(5.8)	2.7	
NAV	1.85	1.85	1.91	3.2	3.2	
Payout ratio (%)	100.0%	99.4%	101.9%	0.0 ppt	0.0 ppt	
NPI margin (%)	60.7%	69.8%	66.8%	(0.0) ppt	0.1 ppt	

Source: RHB

Figure 3: FCT's FY15 results summary

(SGDm)	FY14	FY15	% YoY	RHB FY15F	% of FY15F	Comments
Gross revenue	168.8	189.2	12.1	190.9	99.2	Gross revenue for the year ended 30 Sep 2015 was 12.1% YoY higher, mainly contributed by the addition of CCP to the portfolio.
Property expenses	(50.7)	(58.2)	14.9	(57.4)	101.4	Property expenses for the year ended 30 Sep 2015 increased 14.9% YoY mainly due to the addition of CCP to the portfolio, as well as higher maintenance expenses.
Net property income	118.1	131.0	11.0	133.5	98.2	
Manager's management fees	(12.9)	(14.1)	9.5	(14.2)	99.5	
Trust expenses	(1.7)	(1.6)	(5.9)	0.0	NM	
EBIT	103.5	115.4	11.4	117.5	98.2	
Interest income	0.1	0.2	121.0	0.1	206.7	
Borrowing costs	(18.5)	(19.3)	4.6	(18.6)	103.8	
Net income	85.1	96.2	13.0	98.9	97.3	
Total return before tax	165.1	171.5	3.9	202.9	84.5	
Taxation	0.0	0.0	NM	0.0	NM	
Total return for the period after tax	165.1	171.5	3.9	202.9	84.5	
Net tax adjustments	5.7	8.7	52.5	6.0	145.9	
Distribution from associate	4.6	6.5	41.6	4.6	141.6	
Income available for distribution	95.4	160.2	67.8	109.5	146.3	
Distribution to unitholders	95.4	158.8	66.3	109.5	145.0	
Number of units (end of period) ('m)	915.8	916.8	0.1	917	100.0	
DPU (cents)	11.19	11.61	3.8	11.95	97.2	
NAV	1.85	1.85	0.0	1.96	94.5	
Payout ratio (%)	100.0%	99.1%	(3.4) ppt	100.0%		
NPI margin (%)	70.0%	69.2%	0.4 ppt	69.9%		

Source: RHB

Figure 4: Performance of key metrics

Operating Performance:	4Q14	1Q15	2Q15	3Q15	4Q15
Portfolio Occupancy: (%)	98.9	96.4	97.1	96.5	96.0
Retail Rental Reversion: (%)	10.9	7.7	3.8	5.3	7.1
DPU (cents)	2.79	2.75	2.96	3.04	2.86
	FY-1	FY-2	FY-3	FY-4	FY-5
Lease Expiry Profile: (Gross Rent %)	N.A	N.A	N.A	N.A	N.A
Capital Management:	4Q14	1Q15	2Q15	3Q15	4Q15
All-in cost of borrowing: (%)	2.51	2.66	2.79	2.29	2.40
Aggreg. Leverage: (%)	29.3	29.3	28.6	28.7	28.2
Term of Debt: (years)	2.50	2.25	2.08	2.15	1.60

Source: Company data

Figure 5: FCT's DDM valuation

DDM	FY16F	FY17F	FY18F	FY19F	Terminal Value
DPU (SGD cts)	12.09	12.25	12.40	12.59	274.46
Fair value (SGD)	2.22				
Current price (SGD)	1.99				
Price upside (%)	11.6%				
Distribution yield (%)	5.7%				
Total return (%)	17.3%				
Assumptions					
Risk-free rate (%)	3.00%				
Beta	0.80				
Cost of equity (%)	7.4%				
Terminal growth (%)	2%				

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total turnover	169	189	194	196	199
Property operating expenses	(51)	(58)	(58)	(59)	(60)
Net property income	118	131	135	137	139
Management fees	(13)	(16)	(14)	(15)	(15)
Trust expenses	(2)	-	(2)	(2)	(2)
Operating EBIT	104	115	119	121	122
Operating EBITDA	104	115	119	121	122
Net income from investments	80	75	36	40	37
Interest income	0	0	0	0	0
Interest expense	(18)	(19)	(19)	(19)	(19)
Pre-tax profit	165	171	136	142	141
Profit after tax & minorities	165	171	136	142	141
Reported net profit	165	171	136	142	141
Adjustment for distributable income	(70)	(65)	(25)	(29)	(27)
Total distributable income	95	106	111	113	114

Source: Company data, RHB

Cash flow (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Operating profit	104	115	119	121	122
Change in working capital	(6)	2	1	1	1
Other operating cash flow	(15)	(17)	(16)	(16)	(16)
Operating cash flow	82	100	105	106	108
Interest received	18	19	19	19	19
Interest paid	(0)	(0)	(0)	(0)	(0)
Cash flow from operations	100	119	123	125	127
Capex	(1)	(4)	(4)	(4)	(4)
Other new investments	(299)	-	-	-	-
Other investing cash flow	5	7	7	7	7
Cash flow from investing activities	(296)	2	2	2	2
Dividends paid	(94)	(109)	(111)	(113)	(114)
Proceeds from issue of shares	161	-	-	-	-
Increase in debt	150	-	-	-	-
Other financing cash flow	(20)	(19)	(19)	(19)	(19)
Cash flow from financing activities	197	(128)	(130)	(132)	(133)
Cash at beginning of period	40	42	16	41	36
Total cash generated	2	(6)	(4)	(4)	(4)
Implied cash at end of period	42	35	12	36	32

Source: Company data, RHB

Financial Exhibits

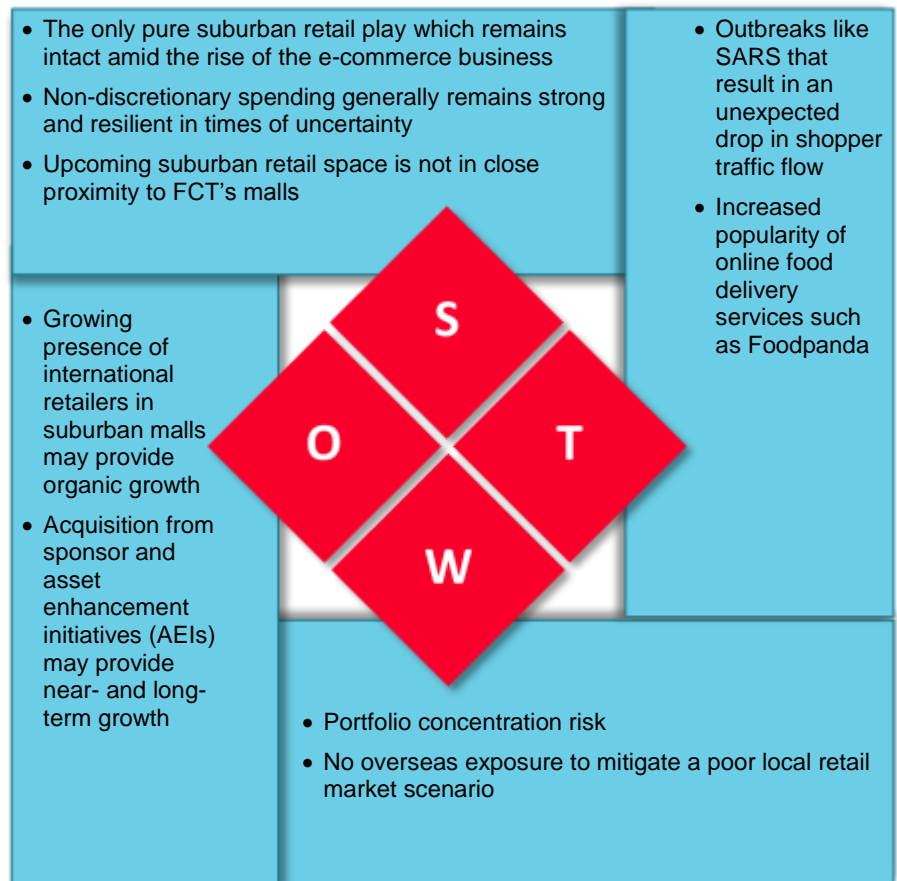
Balance Sheet (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total cash and equivalents	42	16	41	36	32
Accounts receivable	5	5	6	6	6
Total current assets	47	22	46	42	38
Total investments	2,475	2,527	2,610	2,647	2,682
Total other assets	0	0	0	0	0
Total non-current assets	2,475	2,527	2,610	2,647	2,682
Total assets	2,522	2,549	2,656	2,690	2,720
Short-term debt	95	278	95	95	95
Accounts payable	40	32	46	46	47
Other current liabilities	18	18	20	20	20
Total current liabilities	153	328	160	161	162
Total long-term debt	644	440	644	644	644
Other liabilities	26	27	29	30	30
Total non-current liabilities	670	467	673	674	674
Total liabilities	823	794	833	835	836
Share capital	1,706	1,775	1,830	1,862	1,892
Other reserves	(7)	(20)	(7)	(7)	(7)
Shareholders' equity	1,699	1,755	1,823	1,855	1,884
Total equity	1,699	1,755	1,823	1,855	1,884
Total liabilities & equity	2,522	2,549	2,656	2,690	2,720

Source: Company data, RHB

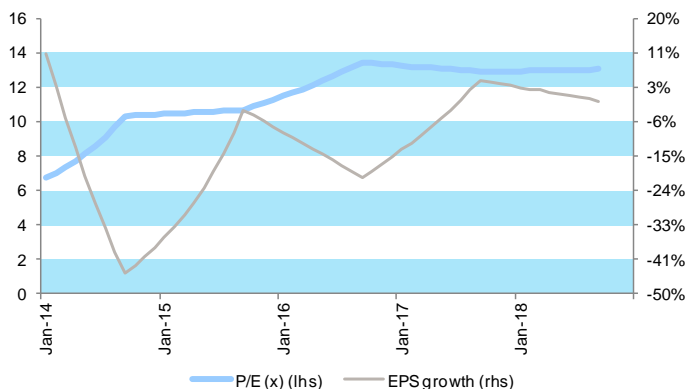
Key Ratios (SGD)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Revenue growth (%)	6.8	12.1	2.3	1.5	1.4
Net profit growth (%)	(42.6)	3.6	(20.5)	4.4	(0.9)
EPS growth (%)	(44.7)	(3.3)	(20.6)	4.3	(1.0)
BVPS growth (%)	4.6	3.1	3.7	1.6	1.4
Net profit margin (%)	97.8	90.3	70.2	72.2	70.6
Return on average assets (%)	7.1	6.7	5.2	5.3	5.2
Return on average equity (%)	10.4	9.9	7.6	7.7	7.5
Net debt to equity (%)	41.0	40.0	38.3	37.9	37.5
DPS	0.10	0.12	0.12	0.12	0.12
Recurrent cash flow per share	0.12	0.13	0.13	0.14	0.14

Source: Company data, RHB

SWOT Analysis

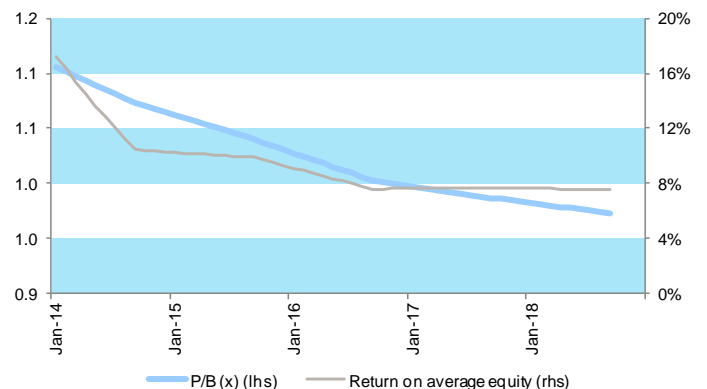


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Frasers Centrepoint Trust is a retail real estate investment trust focused on growing unitholder value through asset management, financial management and strategic investments. The trust invests in retail properties in Singapore and overseas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-04-02	Buy	2.22	2.02
2013-07-24	Buy	2.22	1.97
2013-04-17	Neutral	2.20	2.24
2013-01-23	Buy	2.20	2.00
2013-01-09	Buy	2.10	1.99
2012-12-03	Buy	2.10	1.97
2012-10-23	Buy	2.10	1.91
2012-07-19	Buy	1.89	1.76
2012-04-24	Buy	1.77	1.58
2012-01-19	Buy	1.65	1.48

Source : RHB, Bloomberg

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