

Frasers Commercial Trust (FCOT SP)

Buy (Maintained)

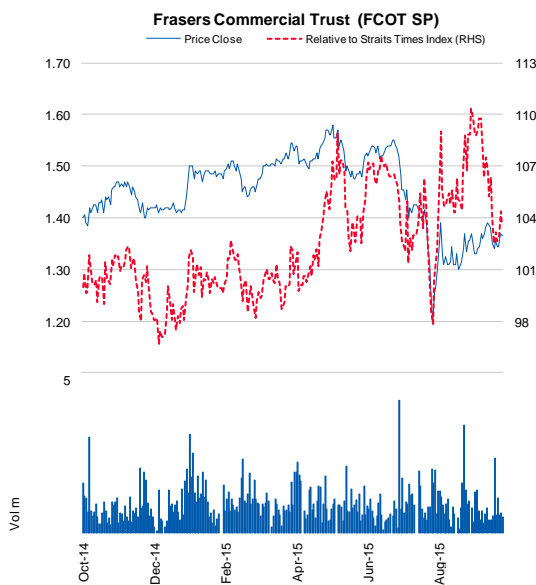
Property - REITS

 Target Price: **SGD1.54**

Market Cap: USD769m

 Price: **SGD1.37**

More Excitement From Alexandra Technopark

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	1.19m/0.85m
Cons. Upside (%)	21.9
Upside (%)	12.4
52-wk Price low/high (SGD)	1.20 - 1.58
Free float (%)	72
Share outstanding (m)	785
Shareholders (%)	
Frasers Centrepoint	27.5
First Eagle Investment Management	2.0
Teachers Advisors	1.7

Share Performance (%)					
	YTD	1m	3m	6m	12m
Absolute	(3.5)	2.2	(11.4)	(11.7)	(2.5)
Relative	6.2	(3.7)	(1.8)	1.4	2.7

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FCOT has had a great year as its full year DPU grew 14.1% YoY, meeting ~97% of our expectations. However, in view of a bleak office rental outlook, we maintain BUY and lower our DDM-derived TP to SGD1.54 (from SGD1.71, 12% upside). Despite a slight dip in occupancy to 95.4%, we note that its portfolio commanded a strong rental reversion up to 17.6% for the quarter. We also see potential to unlock further value from Alexandra Technopark via AEI.

- ◆ **Had a good year, results within our expectations.** Frasers Commercial Trust (FCOT) registered 4Q15 strong DPU growth of 14.0/14.1% YoY, meeting ~97% of our full year expectations. The strong performance was underpinned by: i) a higher contribution from underlying leases following the expiry of the master lease in Alexandra Technopark (ATP) and, ii) offset by the weaker Australian currency.
- ◆ **Stable Occupancy, with strong rental reversion in SG.** The average portfolio occupancy for the quarter dipped slightly to 95.4% (previous: 96.5%), while maintaining strong positive rental reversion from +2.8% to +17.6%. As a result, the overall weighted average rental reversion of ~17% for its Singapore portfolio for FY15. However, given the bleak outlook within the office leasing market, we think the high double digit rental reversion is unlikely to be sustainable in the following year.
- ◆ **What could be next for the counter?** We see a potential to unlock further value from Alexandra Technopark from its asset enhancement initiative (AEI), given that the science park building had not undergone refurbishment for the past 15 years. Compared to the approximately SGD6.50psf/month asking price for its Mapletree Business City (MBC) counterpart, we believe that the rent for ATP can be raised after AEI. Assuming a 25% increase in ATP's asking price SGD5.00psf/month, it would still be at a wide 30% discount to MBC's rental rates.
- ◆ **Maintain BUY with a lower TP of SGD1.54.** We continue to like the REIT for its exposure to the less-volatile office spaces. In addition, we think that the AEI on ATP would provide a catalyst to its share price performance in the near term. However, we lower our TP to SGD1.54 in view of a weak office leasing outlook. Maintain BUY.

Forecasts and Valuations	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total turnover (SGDm)	119	142	146	148	151
Net property income (SGDm)	91	102	104	106	108
Reported net profit (SGDm)	87	70	145	105	106
Total distributable income (SGDm)	57.3	63.0	71.4	72.6	74.2
DPS (SGD)	0.09	0.10	0.10	0.09	0.09
DPS growth (%)	8.7	13.2	0.2	(5.7)	1.0
Recurring P/E (x)	10.5	13.5	6.9	10.3	10.3
P/B (x)	0.85	0.89	0.90	0.88	0.87
Dividend Yield (%)	6.2	7.1	7.1	6.7	6.7
Return on average equity (%)	8.1	6.1	12.1	8.6	8.4
Return on average assets (%)	4.7	3.6	7.2	5.2	5.2
Interest coverage ratio (x)	3.69	3.95	4.89	4.87	4.87

Source: Company data, RHB

Figure 1: FCOT's 4Q15 results summary

(SGD m)	4Q14	3Q15	4Q15	%QoQ	%YoY	Comments
Gross revenue	31.8	34.7	37.2	7.3	16.9	
Property operating expenses	(8.0)	(10.4)	(9.8)	(5.2)	22.6	
Net property income	23.8	24.3	27.4	12.6	15.0	Net property income for 4Q15 was 15% YoY higher than that of 4Q14. The increase was mainly due to higher income contribution from the underlying leases of Alexandra Technopark following the expiry of the master lease, and the completion of the acquisition of 357 Collins Street.
Manager's management fees	(3.1)	(3.0)	(3.2)	6.4	4.2	
Trust expenses	(0.6)	(0.4)	(1.3)	218.1	133.5	Trust expenses for 4Q15 increased by SGD0.8m as compared to 4Q14. The increase was attributable to the divestment fee paid to the Manager and other professional fees and expenses in respect of the China Square Central Hotel Transaction.
EBIT	20.2	20.9	22.9	9.4	13.4	
Interest income	0.1	0.1	0.2	68.1	131.8	
Finance costs	(5.8)	(5.5)	(6.2)	13.3	6.6	
Net income before foreign exchange differences, fair value changes and taxation	14.5	15.6	16.9	8.4	16.6	
Foreign exchange (loss)/gain	(0.6)	(0.4)	(0.7)	91.4	21.0	
Net change in fair value of investment properties	29.4	(0.4)	6.4	NM	(78.3)	
Net change in fair value of derivative financial instruments	1.2	(0.0)	0.3	NM	(73.2)	
Realised (loss)/gain on derivative financial instruments	0.0	0.1	0.3	327.4	3,800.0	
Gain on divestment	0.0	0.0	0.0	NM	NM	
Total return before tax	44.5	14.8	23.2	56.5	(47.9)	
Taxation	4.7	(0.8)	8.1	NM	74.3	
Total return for the period	49.2	14.0	31.3	123.6	(36.3)	
Net effect of non-tax deductible / (non-taxable) items and other adjustments	(34.2)	2.1	(12.5)	NM	(63.5)	
Income available for distribution to Unitholders and CPPU holders	15.0	16.1	18.8	17.0	25.6	
Distribution to unitholders	15.0	16.1	18.8	17.0	25.6	
Number of units (end of period) ('m)	676.8	684.0	783.4	14.5	15.8	
DPU (SGD-cts)	2.21	2.35	2.52	7.2	14.0	
Payout ratio (%)	100.0%	100.0%	100.0%	0.0 ppt	0.0 ppt	
NPI margin (%)	74.8%	70.1%	73.6%	5.0 ppt	(1.6) ppt	

Source: RHB, Company

Figure 2: FCOT's FY15 result summary

(SGD m)	FY14	FY15	% YoY	RHB FY15F	% of FY15F	Comments
Gross revenue	118.8	142.2	19.6	140.77	101%	
Property operating expenses	(28.3)	(40.3)	42.6	(40.39)	100%	
Net property income	90.6	101.9	12.5	100.38	101%	Net property income for FY15 was 12.5% YoY higher mainly due to higher income contribution from ATP, and acquisition of 357 Collins Street.
Manager's management fees	(11.9)	(12.2)	3.0	(12.79)	96%	
Trust expenses	(2.0)	(2.5)	29.1	(2.00)	127%	Trust expenses for FY15 increased by SGD\$0.6m as compared to FY14. The increase was mainly attributable to divestment fee paid to the Manager and other professional fees and expenses in respect of the China Square Central Hotel Transaction.
EBIT	76.7	87.1	13.5	85.59	102%	
Interest income	0.2	0.4	70.6	0.24	171%	
Finance costs	(20.8)	(22.1)	6.3	(17.65)	125%	
Net income before foreign exchange differences, fair value changes and taxation	56.2	65.4	16.5	68.18	96%	
Foreign exchange (loss)/gain	(0.6)	(2.5)	309.3	0.00	NM	
Net change in fair value of investment properties	27.4	5.4	(80.4)	29.47	18%	
Net change in fair value of derivative financial instruments	2.3	1.0	(54.7)	0.00	NM	
Realised (loss)/gain on derivative financial instruments	(0.1)	0.7	NM	0.00	NM	
Gain on divestment	0.2	0.0	NM	44.80	0%	
Total return before tax	85.4	70.0	(18.0)	142.45	49%	
Taxation	1.9	5.2	180.7	(2.23)	-233%	
Total return for the period	87.2	75.2	(13.8)	140.21	54%	
Net effect of non-tax deductible / (non-taxable) items and other adjustments	(29.9)	(7.4)	(75.3)	(71.31)	10%	
Income available for distribution to Unitholders and CPPU holders	57.3	67.8	18.4	83.89	81%	
Distribution to unitholders	57.3	67.8	18.4	(66.15)	-103%	
Number of units (end of period) ('m)	2,693.0	2,828.1	5.0	686	412%	
DPU (SGD-cts)	8.51	9.71	14.1	10.00	97%	
Payout ratio (%)	100.0%	100.0%	0.0 ppt	-78.9%		
NPI margin (%)	76.2%	71.6%	(6.0) ppt	71.3%		

Source: RHB, Company

Figure 3: FCOT's DDM-derived TP

	FY16F	FY17F	FY18F	Terminal value
DPU (SGD cents)	10.00	10.35	10.48	182.44
Fair Value (SGD)	1.54			
Current price	1.37			
Price upside (%)	12.6%			
Distribution yield (%)	7.3%			
Total return (%)	19.9%			
Assumption				
Risk-free rate (%)	3.00%			
Beta	0.8			
Cost of equity (%)	7.4%			
Terminal growth (%)	1.6%			

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total turnover	119	142	147	150	155
Property operating expenses	(28)	(40)	(42)	(43)	(45)
Net property income	91	102	105	107	111
Management fees	(12)	(12)	(13)	(14)	(14)
Trust expenses	(2)	(3)	(2)	(2)	(2)
Operating EBIT	77	87	89	91	94
Operating EBITDA	77	87	89	91	94
Net income from investments	30	7	88	46	55
Interest income	0	0	0	0	0
Interest expense	(21)	(22)	(18)	(18)	(19)
Exchange gains	(1)	(3)	-	-	-
Pre-tax profit	85	70	159	119	131
Taxation	2	1	(2)	(2)	(2)
Profit after tax & minorities	87	70	157	117	129
Reported net profit	87	70	157	117	129
Adjustment for distributable income	(30)	(7)	(84)	(43)	(52)
Total distributable income	57	63	72	74	77

Source: Company data, RHB

Cash flow (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Operating profit	77	87	89	91	94
Change in working capital	10	2	2	1	1
Other operating cash flow	(20)	(22)	(15)	(15)	(15)
Operating cash flow	66	67	76	77	80
Interest received	(0)	(0)	(0)	(0)	(0)
Interest paid	21	22	18	18	19
Tax paid	(5)	(0)	(2)	(2)	(2)
Cash flow from operations	82	88	92	93	97
Capex	(3)	(2)	(3)	(3)	(3)
Other investing cash flow	(0)	(0)	0	0	0
Cash flow from investing activities	(3)	(2)	(3)	(3)	(3)
Dividends paid	(49)	(54)	(69)	(71)	(74)
Increase in debt	2	58	-	-	-
Other financing cash flow	(27)	(22)	(18)	(18)	(19)
Cash flow from financing activities	(74)	(18)	(87)	(90)	(93)
Cash at beginning of period	43	47	62	56	57
Total cash generated	5	68	1	1	1
Implied cash at end of period	48	115	63	57	58

Source: Company data, RHB

Financial Exhibits

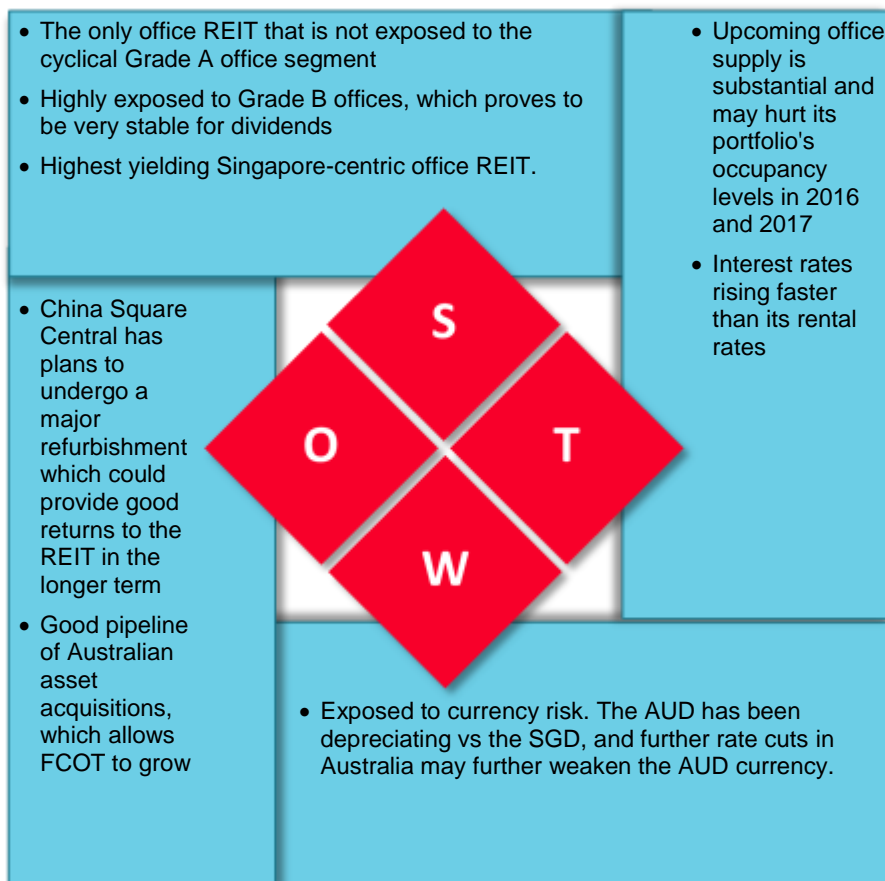
Balance Sheet (SGDm)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Total cash and equivalents	47	62	56	57	58
Accounts receivable	9	9	6	6	6
Other current assets	1	8	1	1	1
Total current assets	57	79	62	63	64
Total investments	1,825	1,955	1,948	1,998	2,056
Total other assets	0	0	0	0	0
Total non-current assets	1,825	1,955	1,948	1,998	2,057
Total assets	1,882	2,034	2,011	2,061	2,121
Short-term debt	-	-	180	135	365
Accounts payable	22	30	30	31	31
Other current liabilities	4	10	5	5	5
Total current liabilities	26	39	214	170	401
Total long-term debt	692	732	512	557	327
Other liabilities	72	56	70	70	71
Total non-current liabilities	764	788	582	628	398
Total liabilities	790	828	797	798	799
Share capital	1,091	1,207	1,214	1,263	1,322
Shareholders' equity	1,091	1,207	1,214	1,263	1,322
Other equity	0	-	-	-	-
Total equity	1,091	1,207	1,214	1,263	1,322
Total liabilities & equity	1,882	2,034	2,011	2,061	2,121

Source: Company data, RHB

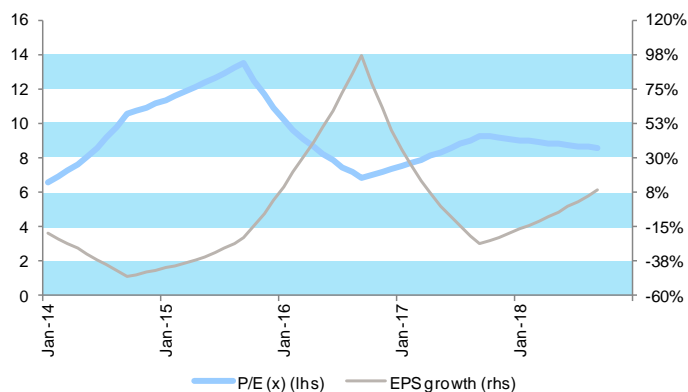
Key Ratios (SGD)	Sep-14	Sep-15	Sep-16F	Sep-17F	Sep-18F
Revenue growth (%)	0.5	19.6	3.3	2.4	3.3
Net profit growth (%)	(45.9)	(19.3)	122.7	(25.2)	10.0
EPS growth (%)	(47.4)	(22.3)	97.0	(26.1)	8.6
BVPS growth (%)	1.1	(4.4)	(0.7)	2.7	3.3
Net profit margin (%)	73.4	49.5	106.7	78.0	83.1
Return on average assets (%)	4.7	3.6	7.7	5.8	6.2
Return on average equity (%)	8.1	6.1	12.9	9.5	10.0
Net debt to equity (%)	59.1	55.5	52.4	50.3	48.0
DPS	0.09	0.10	0.10	0.09	0.09
Recurrent cash flow per share	0.12	0.13	0.12	0.12	0.12

Source: Company data, RHB

SWOT Analysis

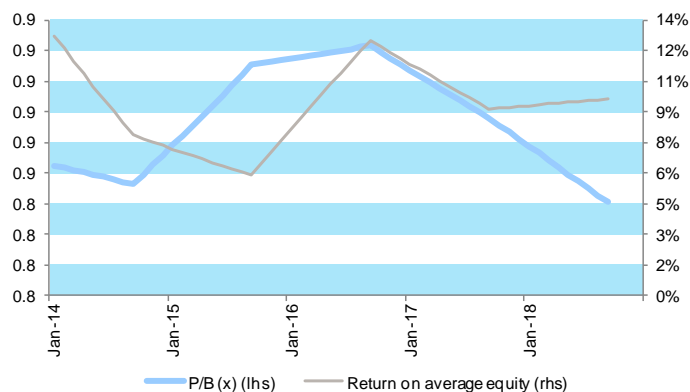


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Frasers Commercial Trust is a real estate investment trust. The Trust invests primarily in income-producing commercial office properties and its current portfolio consists of office buildings located in Singapore and Australia.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-16	Buy	1.71	1.54
2013-07-25	Neutral	1.43	1.35
2013-04-30	Buy	1.65	1.56
2013-03-08	Buy	1.51	1.35
2013-01-28	Buy	1.51	1.37
2013-01-09	Buy	1.51	1.31
2012-12-06	Buy	1.51	1.24
2012-12-04	Buy	1.41	1.24
2012-10-29	Buy	1.41	1.24
2012-07-26	Buy	1.23	1.10

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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