

Company update

Frasers Centrepoint Trust

Research Team

Singapore | Real Estate

Rating BUY (as at 25 October 2024)
Last Close SGD 2.27
Fair Value SGD 2.53

Stable 2HFY24 DPU and asset valuations

- **2HFY24 (financial year ending 30 Sep 2024) distribution per unit (DPU) flat year-on-year (YoY); down 0.9% for FY24**
- **Solid rental reversions of 7.7% clocked in FY24 while retail portfolio committed occupancy nearly full at 99.7% (unchanged quarter-on-quarter (QoQ))**
- **Slightly higher portfolio valuation which helped lower aggregate leverage ratio to 38.5%, or 0.6 percentage points (ppt) lower QoQ**

Investment thesis

Fraser's Centrepoint Trust (FCT) had previously established a strong track record of delivering positive DPU growth every year since its listing in Jul 2006 to FY19. However, this impressive track record was broken in FY20 given unprecedented measures introduced by the Singapore government to tackle the Covid-19 pandemic, such as mandatory rental relief to tenants. FY21 saw a firm rebound in DPU back to FY19 levels. Growth continued in FY22 (+1.2%), but the jump in borrowing costs led to FY23 and FY24 DPU declining marginally by 0.6% and 0.9%, respectively. The start of the Federal Reserve's (Fed) rate cut cycle would provide some reprieve, although it will take time for cost of debt to come down more meaningfully, in our view. Operationally, we believe FCT's relatively more defensive and resilient portfolio of suburban malls in Singapore would position it favourably amid an uncertain macroeconomic landscape, given their dominant positions in their respective catchment areas. Management's astute divestments has also alleviated the strain on its balance sheet, and it is now better positioned to pursue inorganic growth opportunities and asset enhancement initiatives (AEI).

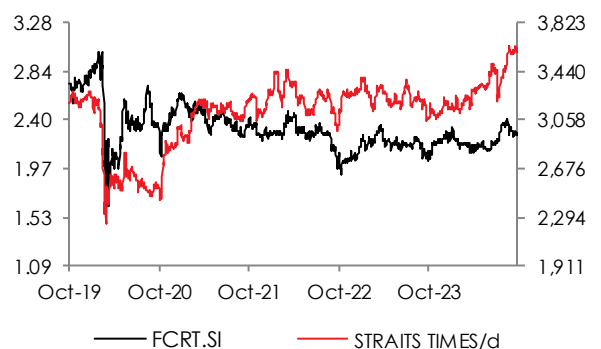
Investment summary

- **2HFY24 DPU flat YoY but down slightly 0.9% for FY24** – FCT's 2HFY24 gross revenue and NPI fell 2.5% and 0.6% YoY to SGD179.5m and 128.8m. This was due largely to loss of income from the divestment of Changi City Point and AEI at Tampines 1. However, DPU came in

Security information

Ticker	FCRT.SI
Market Cap (SGD b)	4.1
Daily turnover (SGD m)	7.9
Free Float	60%
Shares Outstanding (m)	1,817
Top Shareholder	FCL Trust Holdings Pte. Ltd. 34.5%

Price performance chart



Financial summary

SGD m	FY24	FY25E	FY26E
Gross revenue	351.7	347.4	349.2
Net property income	253.4	252.7	254.4
Total return for the period	197.5	195.3	203.5
Distribution to unitholders	214.3	220.7	225.7
DPU (\$ cents)	12.04	12.08	12.30

Key ratios

	FY24	FY25E	FY26E
DPU yield (%)	5.3	5.3	5.4
P/NAV (x)	1.0	1.0	1.0
ROE (%)	4.9	4.7	4.9
Aggregate leverage (%)	38.5	38.5	38.5

Source: Refinitiv, REIT Manager, Internal estimates

flat at 6.02 Singapore cents. For FY24, FCT's NPI dipped 4.6% to SGD253.4m due to similar reasons highlighted earlier. Finance costs rose 3.9% to SGD84.2m, while the number of units outstanding increased 6%, such that overall DPU declined by 0.9% to 12.042 Singapore cents. This accounted for 100.9% of our forecast, which we deem to be in-line with our expectations.

- **Robust rental reversions coupled with healthy levels of occupancy** – FCT achieved robust retail portfolio rental reversions of 7.7% in FY24 (FY23: 4.7%). What made it even more impressive was that this rental uplift was for a sizeable 31% of FCT's retail portfolio net lettable area (NLA). Causeway Point clocked healthy rental reversions of 8.8% for 43% of the mall's NLA and we believe this reflects retailers' confidence, notwithstanding the upcoming Johor Bahru-Singapore Rapid Transit System earmarked for end 2026. Overall retail portfolio occupancy was unchanged at a high level of 99.7%. Tampines 1 completed its AEI and the return on investment (ROI) exceeded management's target of 8%. FCT's tenants' sales and shopper traffic grew 1.2% and 4.2%, respectively in FY24, with the former averaging 20% above pre-pandemic levels (using FY19 as benchmark). As rents have grown faster than tenants' sales, FCT's retail portfolio cost increased from 15.6% in FY23 to 16.0% in FY24, but we would still consider this a very healthy level.
- **Slight uptick in portfolio valuations while aggregate leverage ratio declined to 38.5%** – FCT's year end valuation exercise saw no surprises. Cap rates for all its assets remained unchanged, while overall portfolio value rose 1.2% to SGD5,283m. Its aggregate leverage ratio moved down from 39.1% (as at 30 Jun 2024) to 38.5%, partly due to the revaluation gains. Management has secured facilities to refinance its debt due in FY25 and has no refinancing needs until FY26. Overall debt hedged increased to 71.4%, while all-in average cost of debt edged down by 10bps QoQ to 4.1%. Management expects this to stay around the low-4% level in FY25. We raise our FY25 DPU forecast slightly by 0.7% and roll forward our valuations with a marginally lower cost of equity assumption of 6.1% (previously 6.2%). Consequently, our fair value estimate increase from SGD2.46 to SGD2.53.

ESG Updates

- FCT's ESG rating was upgraded in Jun 2024. This was driven largely by its talent management practices that outperform its peers, while it also has business ethics practices and green building efforts that lead most peers. Based on FCT's disclosures, we note that

FCT is rolling out the installation of solar power panels across its properties, and has plans to install a network of 36 electric vehicle (EV) charging points across 12 Frasers malls. This initiative is in line with its sponsor Frasers Property's goal to be net-zero carbon by 2050. All 10 of FCT's properties are at least BCA Gold certified. FCT also achieved the highest 5-Star rating in the 2024 GRESB Real Estate Assessment and this was its fourth consecutive year of achieving a 5-Star rating.

Potential catalysts

- Divestment of assets at prices above valuation.
- DPU accretive acquisitions.
- Better-than-expected momentum in footfall and tenants' sales for its malls.

Investment risks

- A slowdown in macroeconomic conditions may dampen consumer sentiment.
- A rising interest rate environment could raise the borrowing costs for FCT.
- Slowdown in portfolio rental reversions.

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
FRASERS CENTREPOINT TRUST (FCRT.SI)	19.7	18.8	1.0	1.0	24.3	23.6	5.4	5.6	5.0	5.2
CAPITALAND INTEGRATED COMMERCIAL TRUST (CMLT.SI)	18.6	17.7	1.0	1.0	23.4	22.5	5.3	5.5	5.1	5.5
MAPLETREE PAN ASIA COMMERCIAL TRUST (MACT.SI)	17.1	16.6	0.8	0.8	20.5	20.4	5.8	6.1	4.8	5.0
STARHILL GLOBAL REAL ESTATE INVESTMENT TRUST (STHL.SI)	12.5	12.5	0.7	0.7	16.3	16.0	7.4	7.6	5.7	5.8
PARAGON REIT (PARA.SI)	19.3	19.6	1.0	1.0	18.7	18.2	4.7	5.0	5.1	5.1

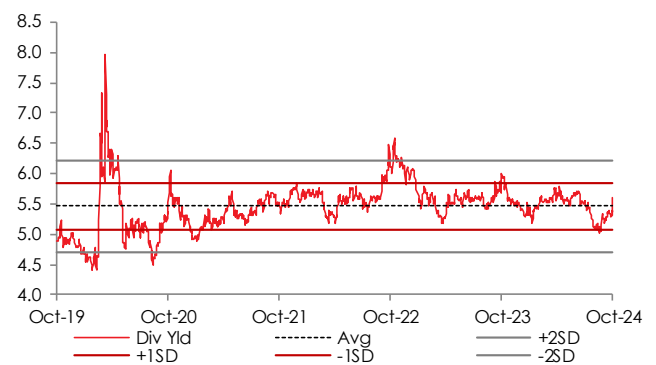
Source: Refinitiv

Price/Book chart



Source: Refinitiv

Dividend Yield chart



Source: Refinitiv

Company overview (as of 30 September 2024)

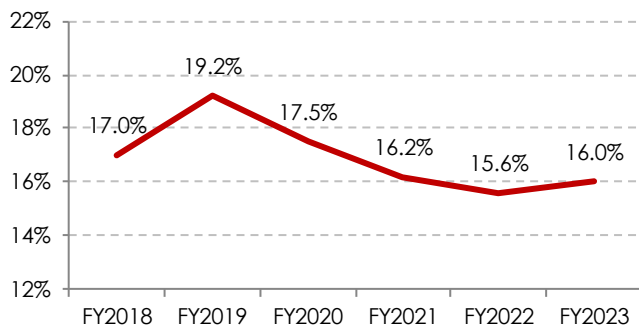
Company description

FCT is a leading developer-sponsored retail REIT and one of the largest suburban retail mall owners in Singapore with total assets of ~SGD7.1b. FCT's current property portfolio comprises nine retail malls and an office building located in the suburban regions of Singapore, near homes and within minutes to transportation amenities. The retail portfolio has approximately 2.7m square feet of net lettable area with over 1,700 leases with a strong focus on providing for necessity spending, food & beverage and essential services. The portfolio comprises Causeway Point, Century Square, Hougang Mall, NEX (effective 50.0% interest), Northpoint City North Wing (including Yishun 10 Retail Podium), Tampines 1, Tiong Bahru Plaza, Waterway Point (50.0% interest), White Sands and an office property (Central Plaza). FCT's malls enjoy stable and recurring shopper footfall supported by commuter traffic and residential population in the catchment.

FCT is a constituent of several benchmark indices including the FTSE EPRA/NAREIT Global Real Estate Index Series (Global Developed Index), the Straits Times Index (STI), FTSE ST Real Estate Investment Trust Index, MSCI Singapore Small Cap Index and the SGX iEdge S-REIT Leaders Index.

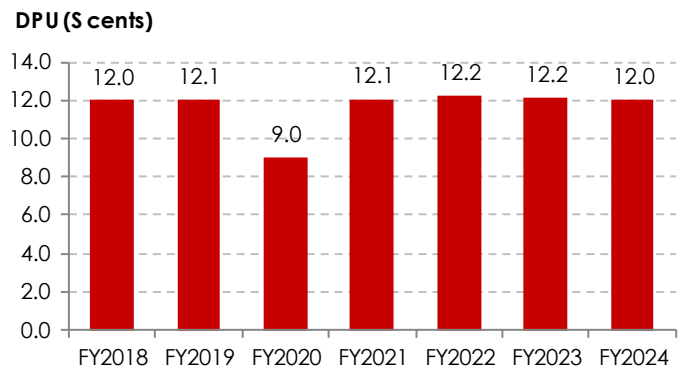
Listed on the Main Board of the Singapore Exchange Securities Trading Limited since 5 Jul 2006, FCT is managed by Frasers Centrepoint Asset Management Ltd., a real estate management company and a wholly-owned subsidiary of Frasers Property Limited.

Portfolio occupancy cost



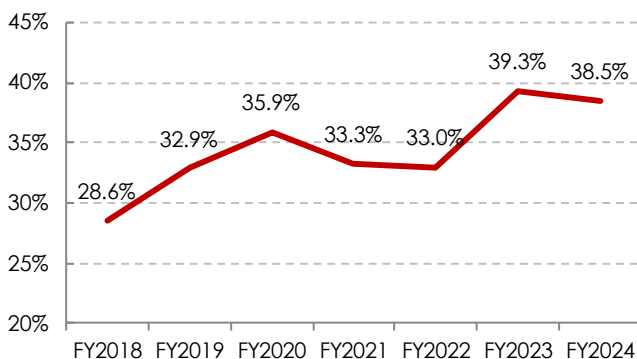
Source: REIT Manager

Distribution per unit (\$ cents)



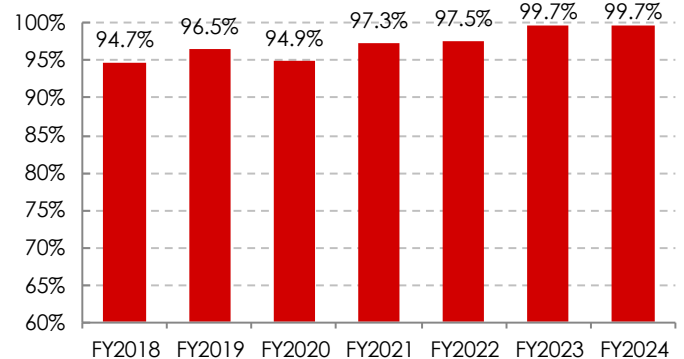
Source: REIT Manager

Aggregate leverage ratio trend



Source: REIT Manager

Portfolio occupancy trend



Source: REIT Manager

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022	FY2023 30/09/2023
Revenue	196.4	164.4	341.1	356.9	369.7
- Cost of Revenue	73.9	71.9	126.9	130.9	139.6
Gross Profit	122.5	92.5	214.2	226.0	230.2
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	13.2	3.2	28.3	7.2	6.8
Operating Income or Losses	109.4	89.2	185.9	218.8	223.3
- Interest Expense	24.6	27.6	45.9	44.4	78.3
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-121.2	-90.1	-32.3	-26.8	-67.1
Pretax Income	206.0	151.8	172.2	201.2	212.2
- Income Tax Expense (Benefit)	0.0	0.1	3.6	-6.1	0.3
Income Before XO Items	205.9	151.7	168.6	207.3	212.0
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
Net Income/Net Profit (Losses)	205.9	151.7	168.6	207.3	212.0
Net Inc Avail to Common Shareholders	205.9	151.7	168.6	207.3	212.0
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	217.9	155.5	194.0	208.0	216.0
Basic Earnings per Share	0.2	0.1	0.1	0.1	0.1
Basic Weighted Avg Shares	997.6	1,125.4	1,670.2	1,701.5	1,706.4
Diluted EPS Before Abnormal Items	0.2	0.1	0.1	0.1	0.1
Diluted EPS Before XO Items	0.2	0.1	0.1	0.1	0.1
Diluted EPS	0.2	0.1	0.1	0.1	0.1
Diluted Weighted Avg Shares	999.3	1,127.0	1,672.4	1,703.8	1,710.9

Profitability Ratios

12 Months Ending	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022	FY2023 30/09/2023
Returns					
Return on Common Equity	9.35	6.06	5.22	5.26	5.34
Return on Assets	6.38	4.05	3.45	3.50	3.44
Return on Capital	6.77	5.81	4.45	3.69	3.55
Return on Invested Capital	7.86	6.70	4.90	4.28	4.03
Margins					
Operating Margin	43.13	37.49	41.03	48.87	39.24
Incremental Operating Margin	0.83	0.87	1.09	1.19	0.80
Pretax Margin	104.87	92.32	50.49	56.37	57.40
Income before XO Margin	104.87	92.27	49.43	58.07	57.33
Net Income Margin	104.87	92.27	49.43	58.07	57.33
Net Income to Common Margin	104.87	92.27	49.43	58.07	57.33
Additional					
Effective Tax Rate	0.01	0.05	2.10	-3.03	0.12
Dividend Payout Ratio	48.76	57.41	100.46	83.86	82.53
Sustainable Growth Rate	9.31	6.02	5.17	5.21	5.30

Credit Ratios

12 Months Ending	FY2019 30/09/2019	FY2020 30/09/2020	FY2021 30/09/2021	FY2022 30/09/2022	FY2023 30/09/2023
Total Debt/EBIT	8.61	13.79	8.58	8.23	9.67
Net Debt/EBIT	8.50	13.48	8.38	8.06	9.53
EBIT to Interest Expense	4.90	3.29	4.59	4.95	2.90
Long-Term Debt/Total Assets	20.63	25.68	27.19	23.89	28.89
Net Debt/Equity	0.42	0.48	0.45	0.45	0.54

Source: Refinitiv

ANALYST DECLARATION:

The analyst(s) who prepared this report certifies that the opinions contained herein accurately and exclusively reflect his or her views about the securities of the listed entity, and that he or she has taken reasonable care to maintain independence and objectivity in respect of the opinions herein.

The analyst(s) who wrote this report holds financial interests in the listed entity. The analyst's/analysts' connected persons hold financial interests in the listed entity.

The analyst(s) does not receive compensation directly or indirectly related to the inclusion of specific recommendations or views in this report. The reporting line of the analyst(s) is separate from and independent of the business solicitation or marketing departments of Oversea-Chinese Banking Corporation Limited ("OCBC Bank") Group.

The analyst(s) or his/her associate confirms that he or she does not serve as directors or officers of the listed entity, and the listed entity or other third parties have not provided or agreed to provide any compensation or other benefits to the analyst(s) in connection with this report.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without the written consent of OCBC Investment Research Private Limited ("OIR" or "we"). This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein or to participate in any particular trading or investment strategy. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. In the event that you choose not to seek advice from a financial adviser, you should consider whether investment in securities and the securities mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OIR, OCBC Securities Private Limited ("OSPL") and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OIR and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

RATINGS AND RECOMMENDATIONS:

- OIR's technical comments and recommendations are short-term and trading oriented.
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 10% based on the current price; a HOLD rating indicates total expected returns (excluding dividends) within +10% and -5%; a SELL rating indicates total expected returns (excluding dividends) less than -5%. For REITs and Business Trusts, total expected returns including dividends apply.
- For companies with market capitalisation of S\$150m and below, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 30%; a HOLD rating indicates total expected returns (excluding dividends) within a +/-30% range; a SELL rating indicates total expected returns (excluding dividends) less than -30%. For REITs and Business Trusts, total expected returns including dividends apply.

Co.Reg.no.: 198301152E

Published by OCBC Investment Research Private Limited