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Rating Action: Moody's affirms Frasers Commercial Trust's Baa2 ratings; changes outlook to negative

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Singapore, September 25, 2017 -- Moody's Investors Service has affirmed Frasers Commercial Trust's (FCOT) Baa2 issuer rating.

Moody's has also affirmed the Baa2 backed senior unsecured debt ratings of FCOT Treasury Pte. Ltd. and the (P)Baa2 rating of its backed senior unsecured medium-term note (MTN) program.

At the same time, Moody's has changed the outlook on all ratings to negative from stable.

The change in outlook follows FCOT's announcement on 22 September 2017 that Hewlett Packard Enterprise Singapore Pte Ltd (HPES) intends to vacate over 90% of the space it currently leases from FCOT upon expiration of the relevant leases on 30 September 2017 and 30 November 2017.

RATINGS RATIONALE

"The change in outlook reflects the likely weakening of FCOT's financial profile, given the increase in the vacancy rates following HPES' lease expiry," says Saranga Ranasinghe, a Moody's Assistant Vice President and Analyst.

HPES contributed 7.1% of FCOT's gross rental income for the month ended 30 June 2017. Its decision to vacate over 90% of the space it currently leases will weaken FCOTs debt leverage -- as measured by net debt/EBITDA -- and reduce the head room on the current Baa2 rating.

Furthermore, FCOT has leased out separately a further 304,920 square feet, making up approximately 11.1% of its total gross rental income for the month ended 30 June 2017, to Hewlett Packard Singapore Pte Ltd (HPS). Accordingly, there is uncertainty around HPS' plans to renew these leases when they expire in November 2017.

Any reduction in the space leased by HPS will further weaken FCOT's financial profile.

Alexandra Technopark (with the Hewlett Packard leases) is currently undergoing asset enhancement that will complete by mid-2018. The asset enhancement is geared towards rejuvenating and transforming Alexandra Technopark into a vibrant, engaging and stimulating business campus and will include the introduction of new amenities, such as food courts, an exercise area and barbeque pits. Moody's expects that the asset enhancement will improve its ability to attract new tenants to the space and boost rental income for the trust.

Despite the risk associated with the Hewlett Packard leases, the operating performance of FCOT's Singapore assets remain strong —against the backdrop of a challenging office leasing environment in Singapore—due to the assets' lower-than-market passing rents and the lower competition within the Grade B office space where the assets are positioned.

FCOT's Baa2 rating reflects its balanced portfolio of properties in the well-regulated markets of Singapore (Aaa stable) and Australia (Aaa stable), prudent financial management, and track record of a strong operating performance.

The rating is unlikely to be upgraded, given the negative outlook. However, the outlook could return to stable if FCOT is able to successfully lease out the space vacated by HPES and possibly by HPS, such that its net debt/EBITDA remains comfortably below 8.0x and the trust successfully refinances its 2018 debt maturities ahead of time.

FCOT's ratings could be downgraded if: (1) the vacated space is not leased out to third parties in a timely manner, and/or (2) the operating environment deteriorates, leading to higher vacancy levels for the rest of the portfolio and declining operating cash flow, and/or (3) the trust's financial metrics weaken, with adjusted debt/total deposited assets exceeding 40%, adjusted net debt/EBITDA exceeding 8.0x, and/or adjusted

EBITDA interest coverage falling below 3x.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Frasers Commercial Trust (FCOT), formerly known as Allco Commercial REIT, listed on the Singapore Stock Exchange in March 2006. It was acquired by Frasers Centrepoint Limited on 14 August 2008, and then renamed.

FCOT has a portfolio of six properties—two office buildings and one business park in Singapore and three office buildings in Australia—with a combined appraised value of approximately SGD2.0 billion at 30 June 2017.

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