MOODY'S
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Credit Opinion: Frasers Centrepoint Trust

Global Credit Research - 17 Feb 2015

Singapore

Ratings

Category	Moody's Rating
Outlook	Positive
Issuer Rating -Dom Curr	Baa1

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Key Indicators

[1]**Frasers Centrepoint Trust**

	9/30/2011	9/30/2012	9/30/2013	9/30/2014
Total Deposited Assets (SGD Million) [2]	$1,750.9	$1,887.9	$2,059.2	$2,474.6
EBITDA (SGD Million)	$76.0	$96.2	$103.1	$108.3
Debt/ Total Deposited Assets [2]	31.4%	30.2%	27.6%	29.4%
EBITDA/ Fixed Charges	4.1x	5.5x	6.1x	6.1x
Secured Debt/ Total Deposited Assets [2]	14.80%	17.50%	15.70%	13.3%

[1] All ratios are calculated using Moody's standard accounting adjustments. [2] Total deposited assets =Total non-current assets + Cash. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

(1) Portfolio of suburban retail malls have good operating track record, providing for income stability

(2) Exposed to inherent lease renewal risk

(3) Concentration risk is reduced and partially mitigated by a diverse tenant base

(4) Strong financial profile but scale is small relative to similarly rated peers

(5) Experienced management team

Corporate Profile

Frasers Centrepoint Trust (FCT) is a Singapore-based real estate investment trust (REIT), listed on the Singapore Exchange since 5 July 2006. It has a portfolio of six suburban malls, comprising Causeway Point, Northpoint, Anchorpoint, Yew Tee Point, Bedok Point and Changi City Point. The assets had a total appraised value of SGD2.4 billion as of 30 September 2014.

FCT also owns a 31.2% stake in Hektar Real Estate Investment Trust, which is a retail-focused REIT in Malaysia and listed on the Bursa Malaysia Securities Berhad.

The sponsor, Frasers Centrepoint Ltd (FCL, unrated) holds a 41.2% stake in FCT. On 9 January 2014, FCL was listed on the Singapore Exchange following the demerger from Fraser and Neave (F&N, unrated). FCL is 59.4% held by TCC Assets Ltd (unrated) and 28.5% by InterBev Investment Ltd (unrated).

FCT is managed by Frasers Centrepoint Asset Management Ltd, which is also a wholly-owned subsidiary of FCL.

SUMMARY RATING RATIONALE

On 17 February 2015, the outlook of FCT's Baa1 issuer rating was changed to positive from stable and the rating was affirmed. The rating action reflects FCT's enlarged asset portfolio, which remains focused on the resilient suburban retail sector, as well as its strong financial profile that is supported by a long track record of prudent financial management.

FCT's Baa1 issuer rating reflects its portfolio of good-quality and well-located suburban retail malls, which have good operating track record, thereby providing for income stability. The trust also has a strong financial profile and have displayed financial discipline on growth.

FCT's rating is constrained by its small scale relative to similarly rated peers and concentration risk from its largest asset, Causeway Point. Nonetheless, the concentration risk has declined gradually over the years and is partially mitigated by its diverse tenant base. Like other S-REITs, the trust faces inherent liquidity risks resulting from high dividend payout ratios and minimal cash balances.

DETAILED RATING CONSIDERATIONS

(1) Portfolio of suburban retail malls have good operating track record, providing for income stability

FCT started with a portfolio of three retail malls that had a total net lettable area (NLA) of approximately 640,000 square feet and a total appraised value of less than SGD1 billion. The trust has grown substantially over the years and as of 30 September 2014, it held a portfolio of six retail malls with a total NLA of 1,087,042 square feet and a total appraised value of SGD2.4 billion.

FCT's malls are generally well-located in densely populated residential areas which is good for retail trade and enjoy good access to public transportation such as the mass rapid transit (MRT) and buses.

The malls are also spread across different suburban areas in Singapore: (1) Northpoint and Causeway Point are in Yishun and Woodlands respectively, in the north; (2) Anchorpoint is in Queensway, in the south; (3) YewTee Point is in Choa Chu Kang, in the west; and (4) Bedok Point and Changi City Point are in Bedok and Changi Business Park respectively, in the east.

Changi City Point was the latest addition to FCT's portfolio, acquired from Ascendas Frasers Pte Ltd (unrated) -- a 50-50 joint venture between Frasers Centrepoint Limited (unrated) and Ascendas Development Pte Ltd (unrated) in June 2014.

We view suburban retail malls to be the most stable asset class because rental incomes are derived from tenants selling primarily non-discretionary goods and services to residents and commuters from the surrounding catchment area.

FCT's rating is underpinned by the resilient performance of its assets. Even through the global financial crisis in 2008-2009, the trust was able to maintain high portfolio occupancy rates of above 97% and achieved positive rental reversions of 15% over preceding rents for the financial year ended 30 September 2009 (FY2009).

(2) Exposed to inherent lease renewal risk

Like all other retail property owners in Singapore, FCT's leases are typically for three years. Consequently, it will be exposed to significant lease renewal risk as approximately one-third of its leases are due to expire each year.

As of 30 September 2014, FCT`s average lease profile is relatively short, with a weighted average lease term to expiry of 1.4 years by gross rental income. A total of 39.4% of its leases will expire in FY2015; 26.4% in FY2016, and 31.1% in FY2017.

However, the management team has been managing lease renewals well as FCT's portfolio occupancy, even when impacted by asset enhancement works, have consistently been above 80% since inception.

In FY2014, FCT's portfolio occupancy rate on a like-for-like basis, excluding Changi City Point is 99%, an increase from 98.4% in the previous year. Both Causeway Point and Northpoint recorded occupancy rate of almost 100%. Furthermore, occupancy rate at Bedok Point and Yew Tee Point improved 1.5%-point to 98.2% and 3.9%-point to 96.6%, respectively.

The trust also signed a total of 212 new leases and/or renewals, equivalent to 87,107 square feet of NLA, achieving a positive rental reversion of 6.5% in FY2014.

(3) Concentration risk is reduced and partially mitigated by a diverse tenant base

The concentration risk from FCT's largest asset, Causeway Point, remains relatively high. The mall accounted for 44% of FCT's portfolio by valuation as at 30 September 2014. We expect it to contribute approximately 40% of gross revenue after taking into account the full contribution from Changi City Point.

Nonetheless, the risk has reduced from the previous year, when Causeway Point made up 50% of the trust's portfolio by valuation and contributed over 48% by gross rental income.

With the acquisition of Changi City Point, FCT will benefit from an enlarged and further diversified tenant base with the addition of more than 130 tenants, including new tenants such as Nike Factory Store, Samsonite Service Centre, The Petite Park and Tung Lok Signature.

FCT's revenue concentration risk from Causeway Point is also partially mitigated by the trust's diverse and high-quality tenants that operate across various sectors.

As of 30 September 2014, FCT's top ten tenants accounted for 22.0% of total gross rental income. The key tenants include one of Singapore's largest supermarket retailers -- Cold Storage, major department store -- Metro and electronic retailers -- Courts and Harvey Norman. The other key tenants include Copitiam Pte Ltd and Food Republic Pte Ltd, which are well-established local food court operators.

(4) Strong financial profile but scale is small relative to similarly rated peers

FCT continued to maintain a strong financial profile, with an adjusted debt/total deposited assets ratio of 29.4% and an adjusted EBITDA interest coverage ratio of 6.8x in FY2014.

More importantly, the trust displayed financial discipline on growth, as evidenced by its latest acquisition of Changi City Point in June 2014. Despite having sufficient headroom to fully fund the acquisition by debt, FCT used a balanced mix of debt and equity.

In terms of its interest rate management, FCT has taken a prudent approach to hedge its exposure. As of 30 September 2014, 75% of the trust's borrowings are either on a fixed-rate basis or were hedged via interest rate swaps and the average cost of borrowings achieved was 2.5%, lowered from 2.7% in the previous year.

The trust is not exposed to foreign exchange risks as all of its borrowings are denominated in Singapore dollars.

Nonetheless, FCT's total asset size of SGD2.4 billion with an EBITDA of SGD108 million in FY2014, is small compared to other Baa1-rated peers. In our rated universe, the average asset size of Baa1-rated S-REITs is approximately SGD4.5 billion, with an annual EBITDA of approximately SGD200 million.

(5) Experienced management team

We believe that FCT's management has extensive experience in Singapore's real estate industry, and has the ability to achieve its growth strategies.

FCT is also well positioned for growth via acquisitions from a ready pipeline provided by its sponsor, FCL. Assets held under FCL which could fit into FCT's portfolio in the longer term include Robertson Walk, Valley Point and The Centrepoint.

Although F&N was acquired by the TCC Group companies in 2013 and following which, FCL was demerged from F&N and became listed on the Singapore Stock Exchange on 8 January 2014, the management team of FCT remains unchanged.

Liquidity Profile

As of 30 September 2014, FCT had a total debt of SGD739 million, comprising both secured and unsecured SGD bank loans obtained from a syndicate of banks as well as unsecured medium-term note issuances under its SGD1 billion medium-term note program. On the other hand, the trust had cash and bank balances of around SGD42 million.

Going forward, we expect capex requirements to be mainly for maintenance as FCT's portfolio of assets are fairly new or had been through asset enhancement works since its inception.

FCT has SGD25 million of medium term notes maturing in February 2015 and a further SGD70 million in June 2015. However, we do not foresee any immediate refinancing risk as the trust has proven its ability to refinance all its debt through strong relationships with its lending banks and the debt capital markets.

Despite the high dividend payout ratios required of the S-REITs, which results in them maintaining a minimum cash balance, we believe FCT's balance sheet strength and its ability to access the capital markets should support the trust's efforts to raise any funding necessary for its expansion and/or debt payments.

Rating Outlook

The positive rating outlook reflects Moody's expectation that FCT will continue to demonstrate its ability to deliver strong operating results and grow its portfolio whilst maintaining a strong financial profile.

What Could Change the Rating - Up

The rating could be upgraded if FCT (1) grows its asset base closer to SGD3 billion to SGD4 billion through successful acquisitions; and (2) maintains adjusted debt/total deposited assets below 35% and adjusted EBITDA interest coverage ratio above 4x.

What Could Change the Rating - Down

On the other hand, the rating could return to stable if (1) the operating environment deteriorates leading to higher vacancy levels and declines in operating cash flow; and/or (2) financial metrics weaken with adjusted debt/total deposited assets rising above 40%, EBITDA interest coverage falling below 3x and adjusted secured debt/ total deposited assets exceeding 15% on a consistent basis.

Other Considerations

According to Moody's global rating methodology for REITs and other commercial property firms (please see Moody's "Rating Methodology for REITs and Other Commercial Property Firms," published in July 2010), FCT's credit profile maps to the Baa category, which is consistent with the assigned standalone rating assigned.

Rating Factors

Frasers Centrepoint Trust

REITs and Other Commercial Property Firms [1][2]	**Aa**	**A**	**Baa**	**Ba**	**B**
Factor 1: Liquidity and Funding (24.5%)					
a) Liquidity Coverage				x	
b) Debt Maturities					x
c) FFO Payout				x	
d) Amount of Unencumbered Assets			x		
Factor 2: Leverage and Capital Structure (30.5%)					
a) Debt / Gross Assets		x			
b) Net Debt / EBITDA				x	
c) Secured Debt / Gross Assets			x		
d) Access to Capital			x		
Factor 3: Market Position and Asset Quality (22%)					

a) Franchise / Brand Name			x		
b) Gross Assets(USD Million)				x	
c) Diversity: Location / Tenant / Industry / Economic				x	
d) Development Pipeline	x				
e) Asset Quality			x		
Factor 4: Cash Flows and Earnings (23%)					
a) EBITDA Margin (YTD)			x		
b) EBITDA Margin Volatility		x			
c) EBITDA / Fixed Charges (YTD)	x				
d) Joint Venture Exposure (YTD)	x				

[1] All ratios are calculated using Moody's standard accounting adjustments. [2] As of 9/30/2014; Source: Moody's Financial Metrics

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