Moody's
INVESTORS SERVICE

Rating Action: Moody's affirms Frasers Commercial's Baa2 rating, changes outlook to stable from negative

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Singapore, February 09, 2021 -- Moody's Investors Service has affirmed Frasers Commercial Trust's (FCOT) Baa2 issuer rating.

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

Moody's has also changed the outlook on all ratings to stable from negative.

"The outlook change to stable from negative reflects an improvement in FCOT's earnings and our expectation that its credit metrics will remain appropriately positioned for its ratings over the next 12-18 months despite an uncertain demand environment for office assets," says Sweta Patodia, a Moody's Analyst.

"The affirmation of FCOT's Baa2 rating balances the trust's geographically diversified asset portfolio and strong tenant base with its small scale," adds Patodia.

RATINGS RATIONALE

FCOT's leverage, as measured by net debt/EBITDA, improved to around 6.4x for the fiscal year ended 30 September 2020 (fiscal 2020) from 8.6x for fiscal 2019. The reduction in leverage was driven by higher earnings following lease commencement by Google Asia Pacific Pte Ltd (Google) in 2020.

The earnings increase was also supported by higher contribution from Farnborough Business Park, following the acquisition of the balance 50% stake in the asset for SGD157.7 million (GBP90.1 million) in April 2020.

The acquisition was funded by equity from Frasers Logistics & Commercial Trust (FLCT), FCOT's 100% unitholder, which further supported the improvement in the trust's credit metrics.

Moody's expects FCOT's leverage to hover around 6.5x-7.0x over the next 12-18 months, which remains appropriate for its Baa2 rating.

Demand for office space could remain depressed even beyond the pandemic, if a portion of the workforce continues to work remotely. This could result in lower occupancy levels or lower rentals or both. FCOT's high quality tenant base as well as its long lease expiry will partly mitigate such risks.

FCOT's Baa2 rating reflects the trust's (1) balanced portfolio of properties in the well-regulated markets of Singapore (Aaa stable), Australia (Aaa stable) and the United Kingdom (UK) (Aa3 stable); (2) prudent financial management; and (3) robust tenant base.

As of 30 September 2020, the trust had cash and cash equivalents of SGD52 million compared to SGD256 million of debt maturing over the next 12 months implying an inadequate liquidity position. Nonetheless, Moody's expects refinancing risk to be mitigated by the trust's track record of access to funding. FCOT also had SGD284 million of undrawn credit facilities as of 30 September 2020.

In terms of environmental, social and governance (ESG) risks, FCOT's status as a privately-owned trust gives rise to risks of concentrated ownership, as well as limited transparency and financial disclosures.

However, this risk is mitigated by the listed status of its parent, FLCT, which is subject to the regulatory oversight provided by the Monetary Authority of Singapore, and by the fact that more than half of the board of Frasers Logistics & Commercial Asset Management Pte Ltd, FLCT's manager, comprises independent directors.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given FCOT's small scale and uncertainty around longer term demand trends for office assets, an upgrade is unlikely over the next 12-18 months. However, over the longer term, FCOT's rating could be upgraded if its asset base increases in line with peers, and both FCOT and FLCT improve their leverage, as measured by net debt/EBITDA, to below 6.5x on a sustained basis.

FCOT's rating could be downgraded if the operating environment deteriorates, leading to higher vacancy levels for the portfolio and declining operating cash flows, in turn weakening its credit metrics. Specific credit metrics that Moody's would consider for a downgrade include (1) adjusted net debt/EBITDA exceeding 8.0x at the FCOT level and 8.5x at the FLCT level; (2) adjusted EBITDA interest coverage falling below 3.0x at the FCOT level; (3) any evidence of disruption in FCOT's liquidity, which in turn could affect its ability to refinance its upcoming debt maturities.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms in September 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1095505. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Frasers Commercial Trust (FCOT) is a privately owned sub-trust under Frasers Logistics & Commercial Trust. As of 30 September 2020, FCOT had a portfolio of six properties -- an office building and a business space campus in Singapore, three office buildings in Australia, and a business park in the UK -- with a combined appraised value of around SGD2.4 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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Sweta Patodia
Analyst
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Vikas Halan
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077