

# Fraser's Centrepoint Trust

Presentation at SGX-Julius Baer Luncheon Event

20 March 2019



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# Frasers Centrepoint Trust (FCT)

- ◆ Six suburban retail properties located in Singapore's densely-populated residential areas, with excellent footfall catchment and connection to public transport infrastructure
- ◆ Tenancy-mix focused on necessity and convenience shopping; F&B and services which remain resilient through economic cycles
- ◆ Strong track record: 12 consecutive years of Distribution per Unit (DPU) growth since IPO in 2006
- ◆ Poised for Growth: Opportunities to acquire retail properties from Sponsor and 3<sup>rd</sup> parties; AEI and organic growth from current properties
- ◆ Sponsored by Frasers Property Limited

**Market Cap of  
S\$2.1 billion<sup>1</sup>**

Bloomberg: FCT SP  
Reuters: J69U.SI  
SGX: J69U



**Total appraised  
value of S\$2.75  
billion<sup>2</sup>**

**Total net lettable  
area of 1.1  
million square  
feet**

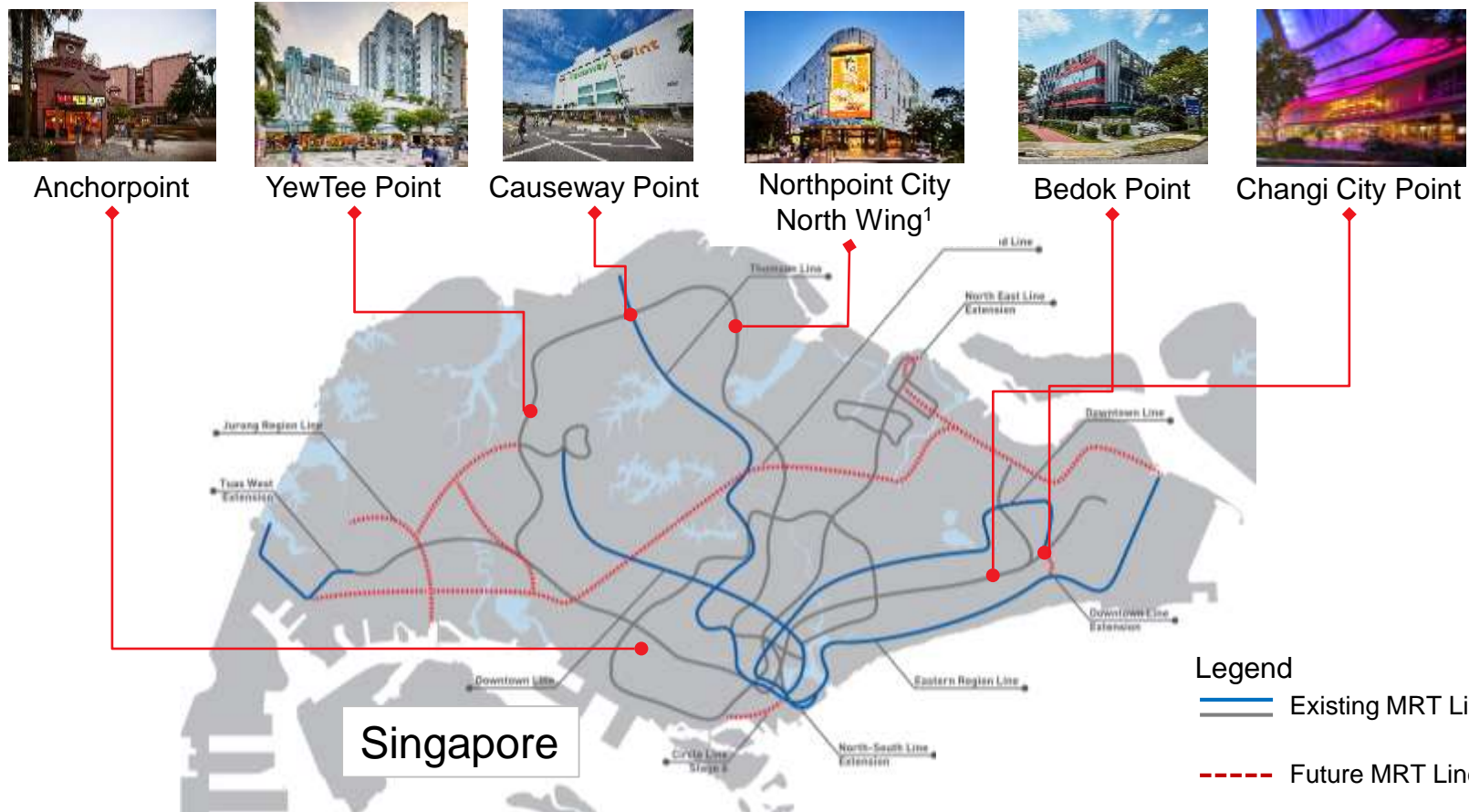


1. Based on closing price of \$2.29 on 28 February 2019

2. As at 30 September 2018

# Portfolio of six suburban retail properties

- ◆ Well-located suburban retail properties that enjoy good connectivity to public transport, high footfall and high occupancy



1. Also includes Yishun 10 retail podium located next to Northpoint City North Wing | Map source: URA Master Plan, Illustration not to scale



# FCT malls are well-connected with public transport nodes

Northpoint City, located in Yishun Central



Linkway to the Expo MRT Station of Downtown Line from basement of Changi City Point



Through-block link at Causeway Point leading to Woodlands MRT station and Bus Interchange



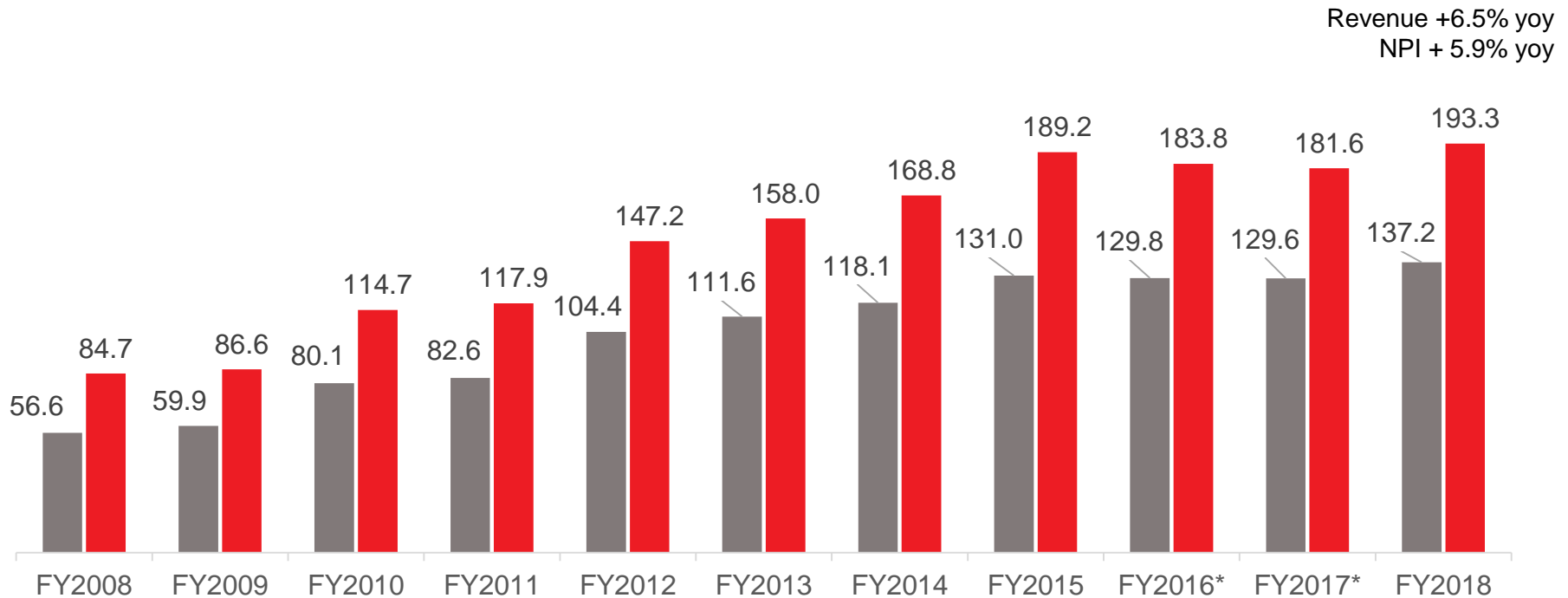
YewTee MRT Station next to YewTee Point



# Consistent performance

Revenue and Net Property Income (\$ million)

■ Net Property Income ■ Gross Revenue

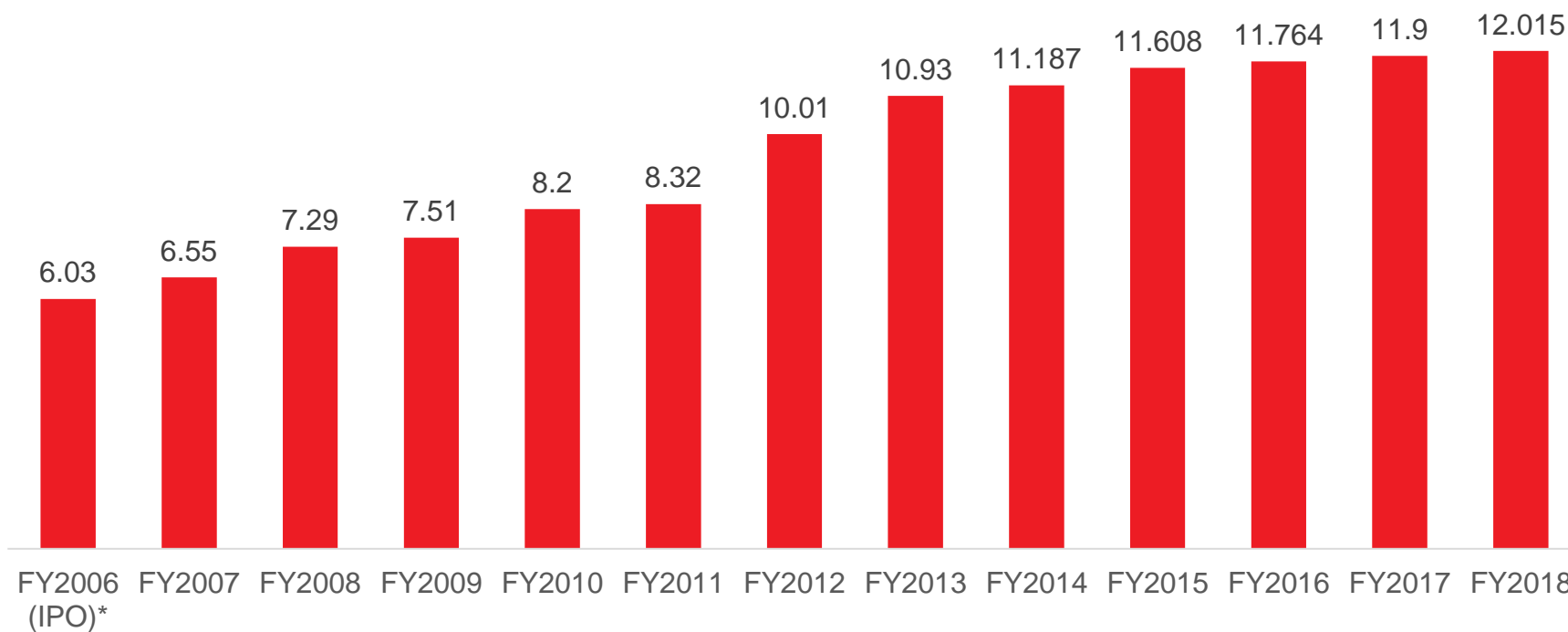


\* Revenue and Net Property Income in FY2016 and FY2017 were affected by the asset enhancement works at Northpoint City North Wing

# Steady DPU growth

12 consecutive years of DPU growth

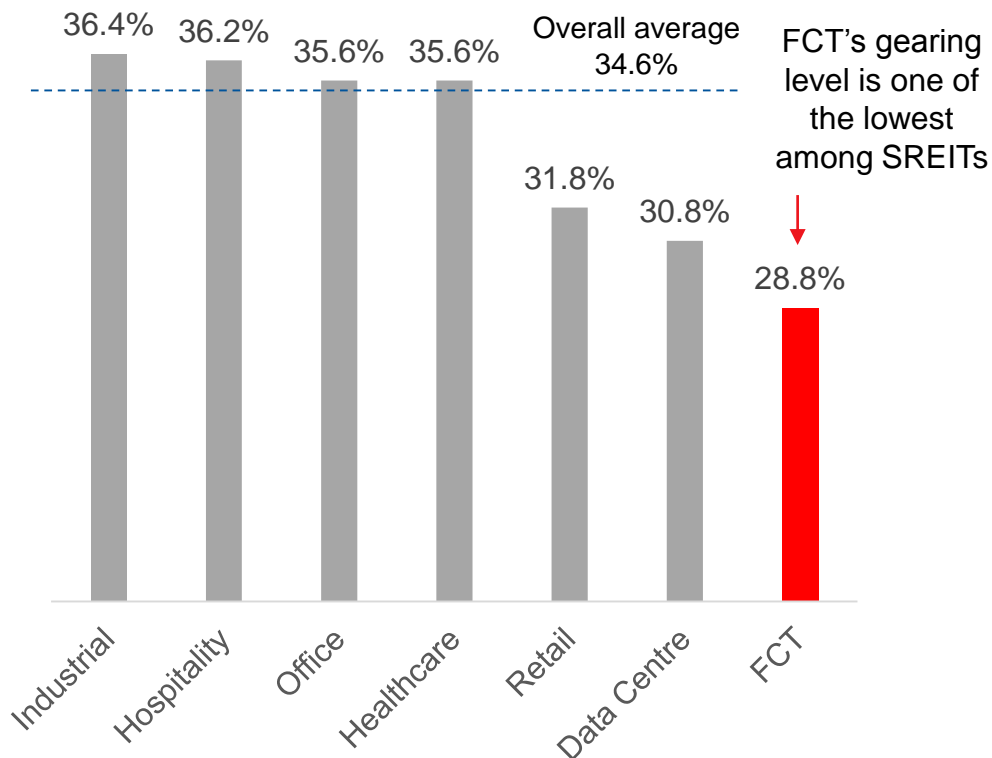
Distribution per Unit (\$ cents)



\* Annualised DPU for the period 5 Jul 06 (IPO) to 30 September 2006.

# Strong financial position

Gearing level of SREIT by sector<sup>1</sup>



## Key financial indicators as at 31 Dec 2018

Gearing level <sup>1</sup>	28.8%
Interest Cover <sup>2</sup>	5.92 times
Weighted average debt maturity	1.8 years
Percentage of borrowings on fixed rates or hedged via interest rate swaps	54% <sup>3</sup>
Unencumbered assets as % of total assets	85.8%
All-in average cost of borrowings	2.7%
Corporate credit rating <ul style="list-style-type: none"> <li>S&amp;P</li> <li>Moody's</li> </ul>	BBB+ (Stable) Baa1 (Stable)

1. The ratio of total outstanding borrowings over total assets as at stated balance sheet date
2. Earnings before interest and tax (EBIT) divided by interest expense

<sup>1</sup> Source: OCBC Investment Research Weekly S-REITs Tracker, 11 March 2019



# Clear growth strategies

## Acquisition Growth

Northpoint 2  
YewTee Point

2010



Bedok  
Point

2011



Changi City  
Point

2014



Yishun 10 Retail  
Podium

2016



Future



Northpoint South Wing  
(Singapore)



Waterway Point (33.3%)  
(Singapore)



Acquisition opportunities  
of 3<sup>rd</sup> party assets in  
S'pore and overseas

## Enhancement Growth (AEI)

Anchorpoint  
(2008)



Northpoint  
(2010)



Causeway Point  
(2012)



Northpoint City  
North Wing  
(2017)



Causeway Point  
UPL\*  
(2019)



\*UPL: Underground Pedestrian Link

## Organic Growth



Rental Growth



High Occupancy



High Footfall

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# Some misconceptions in Retail & Retail REITS

## **Some Misconceptions in Retail & Retail REITs**

1. The brick-and-mortar retail malls are dying due to e-commerce
2. Rising interest rates should be mitigated by aggressive hedging
3. Retail mall as an asset will eventually lose its value

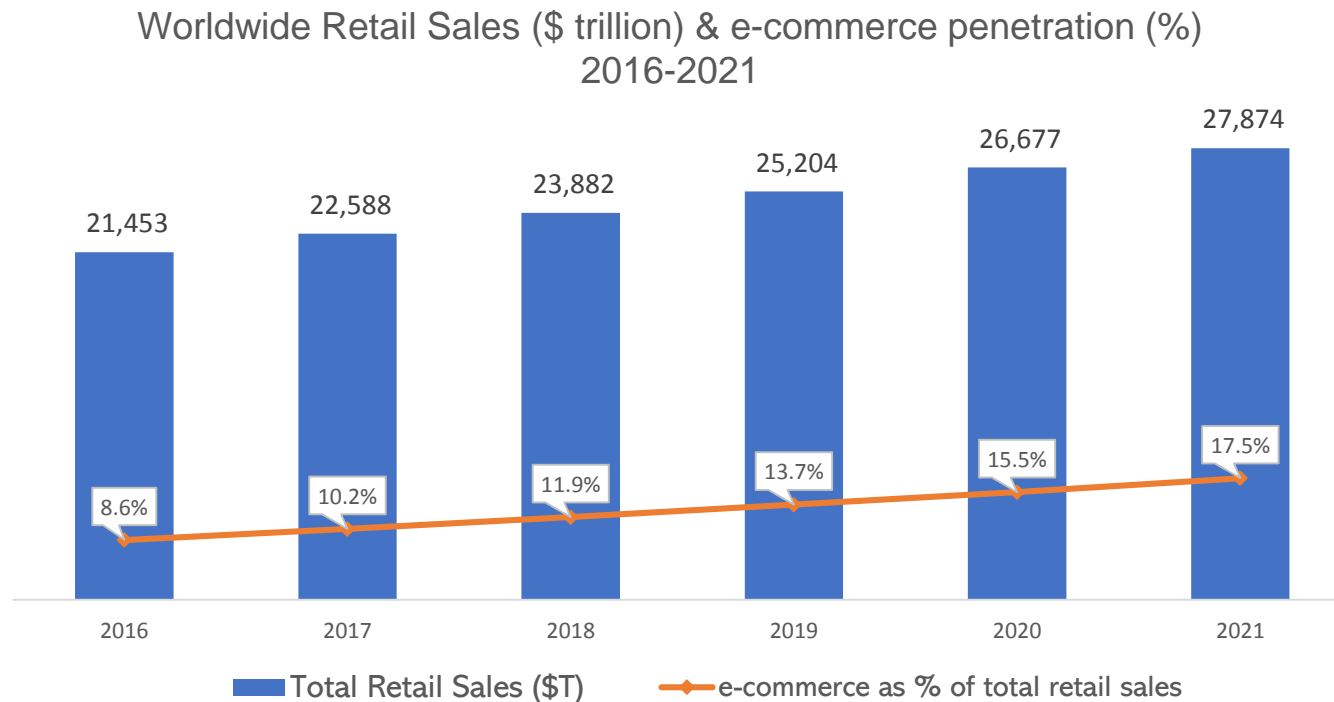
# **Misconception 1: Brick-and-mortar retail malls are dying due to e-commerce**

- ♦ **Decline for some brick-and-mortar malls due to other reasons:**
  - Competition / Oversupply
  - Economy slow down
  - Changing consumer taste and lifestyle
- ♦ **Impression amplified by “personal experience”**
- ♦ **Retail business is location-biased and country-specific:**
  - Suburban malls v City malls
  - Singapore / Asia v US & European



# WW retail sales continue to grow even as e-commerce grows

Brick-and-mortar retail sales still account for more than 80% of the sales

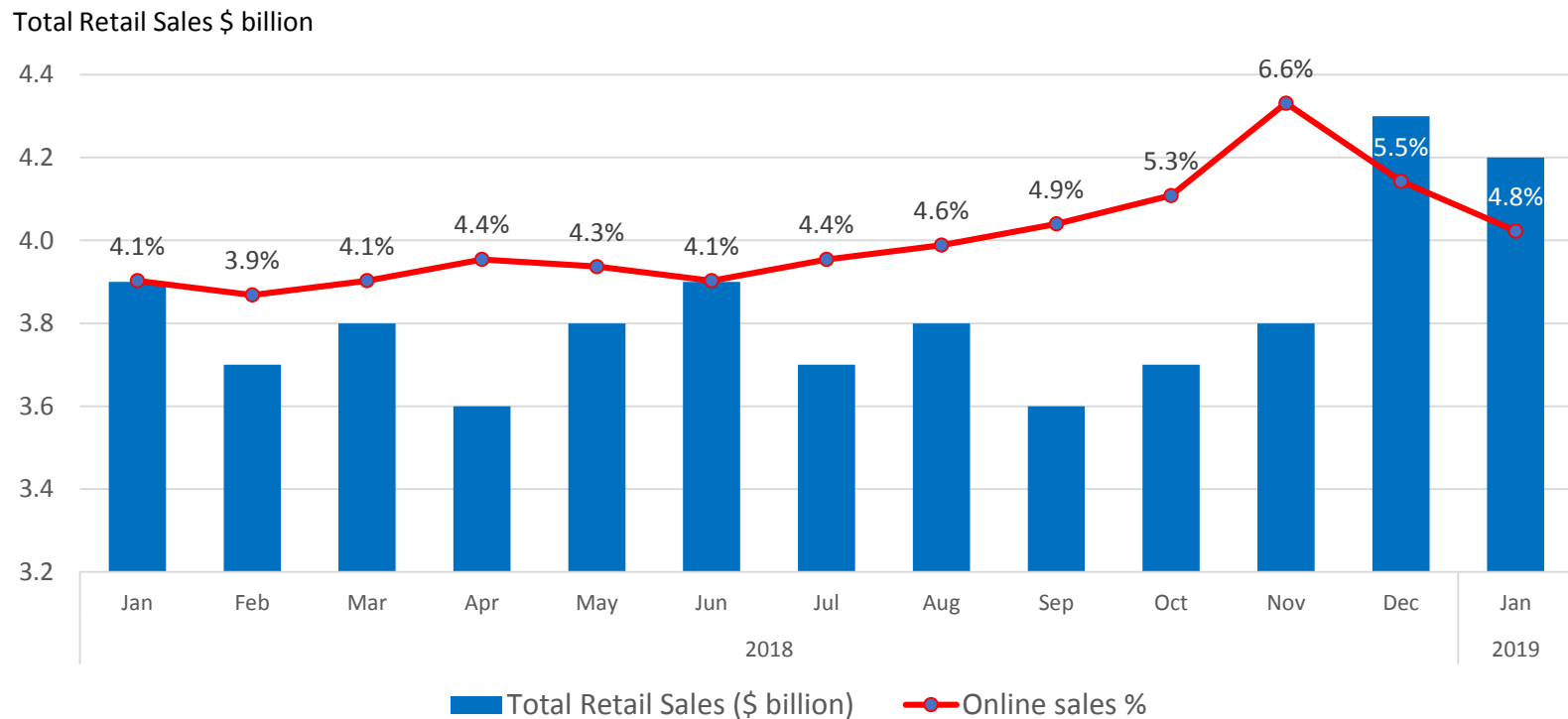


Source: [www.emarketer.com](http://www.emarketer.com), Jan 2018



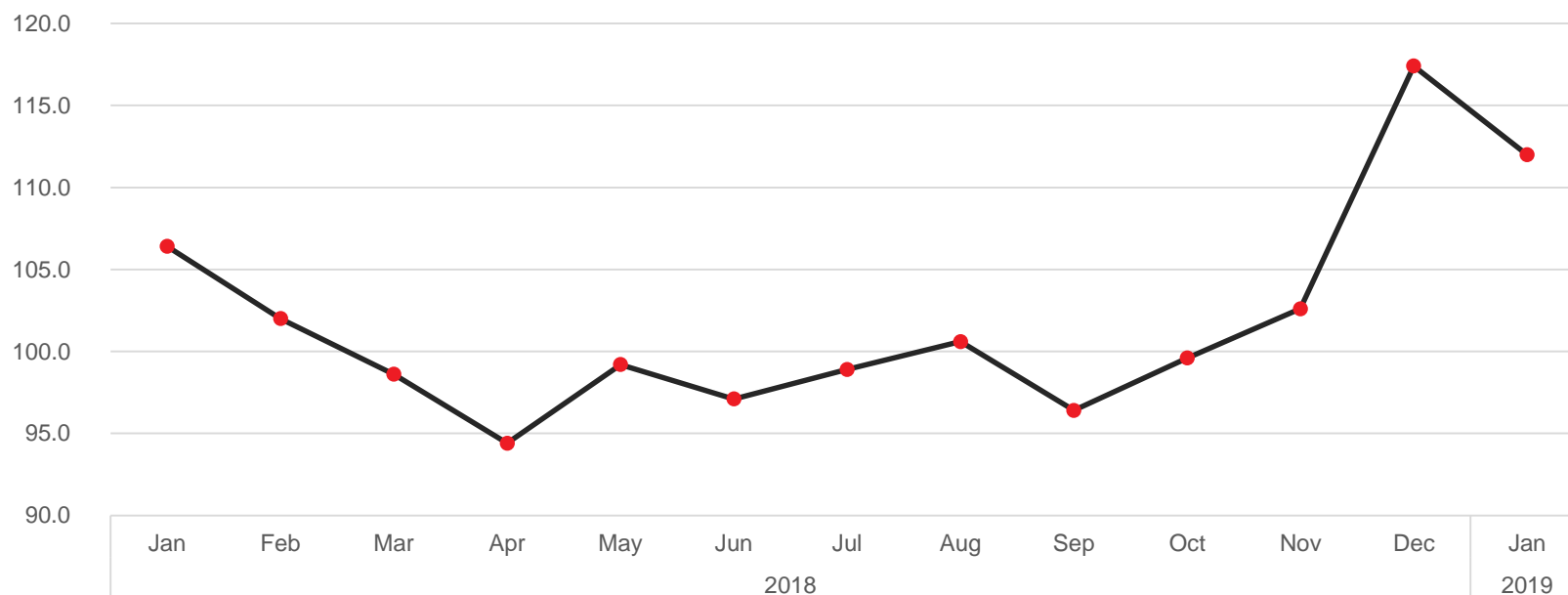
# E-commerce is <10% of total retail sales in Singapore

## Singapore Total Retail Sales and % of Online Sales



# Retail sales remain resilient

Retail Sales Index (excluding motor vehicles) at Current Prices  
(2017 = 100)

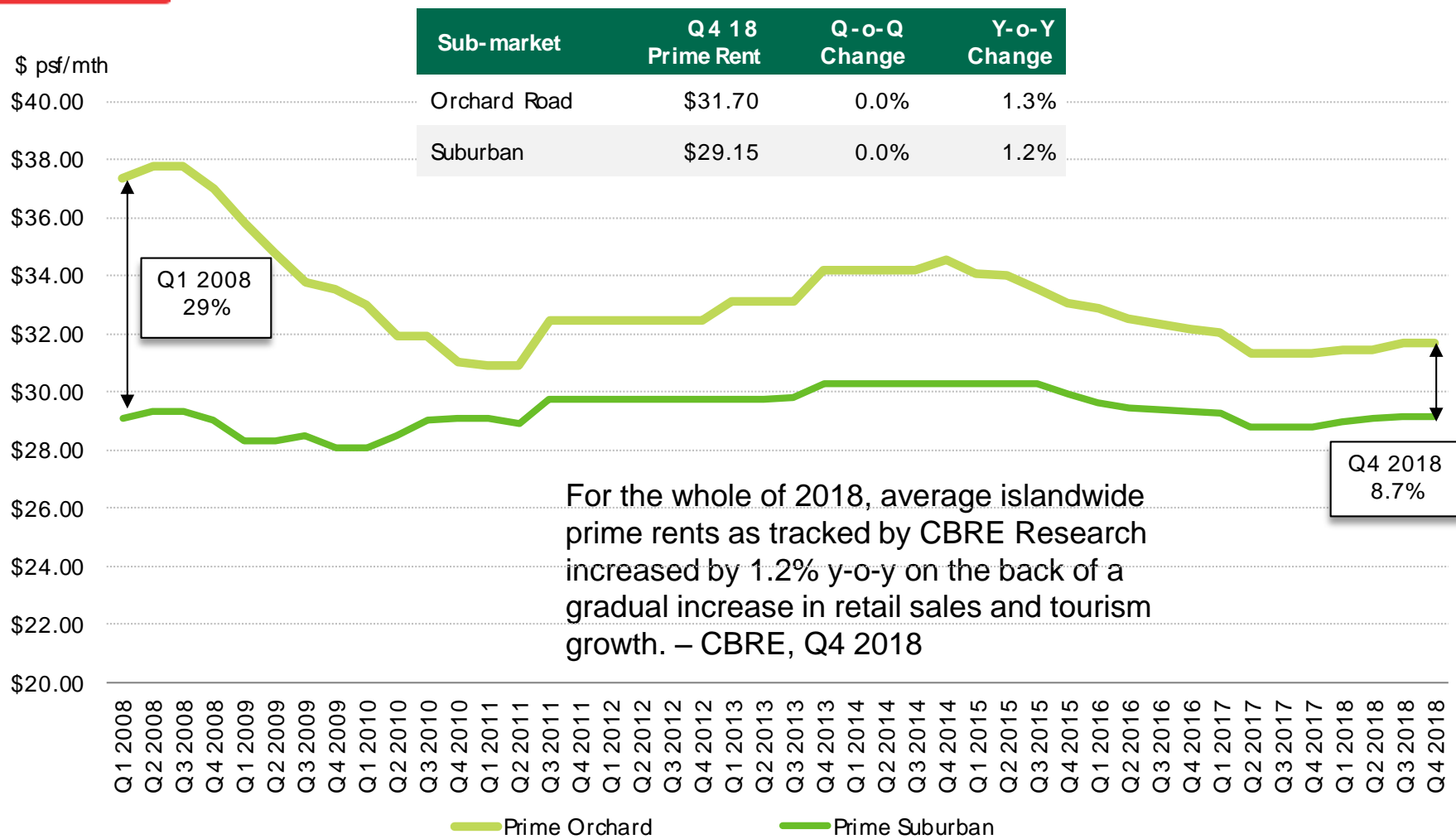


Seasonal Adjustment: Seasonal effects are observed in the RSI as there are usually intra-year periodic variations that repeat during the fixed period of time every year. To better reflect the underlying trends of the monthly sales, the RSI index is seasonally adjusted to remove the seasonal effects.

The RSI covers retail sales of: (a) (multi-channel) retailers in Singapore that sell via both physical stores and online/ecommerce sites; (b) retailers in Singapore that sell via physical stores only; and (c) retailers in Singapore that sell mainly via online/e-commerce sites

Source: Department of Statistics Singapore, March 2019

# Prime Rent Up



# Convergence of online and brick-and-mortar; emphasis on retail as an experience and

## Muji to continue expansion in Singapore



Muji to set up two more stores by year end, including at Jewel Chang Airport

See: Ann Tan

Many bricks and mortar retailers are finding it hard time these days but Japanese minimalist and consumer goods company Muji still remains optimistic.

The firm - official name is Ryohin Keikaku - intends to keep expanding its presence with two more stores set to open by the end of this year, including one at Jewel Chang Airport.

Existing stores may also see their space expanded to offer a wider range of products and services, said Muji president Satoru Matsuzaki in an interview with The Straits Times.

He said through an interview: "Muji have been growing in Singapore especially in the last three years. It's been a success story." The company has seen a steady stream of new stores opening in Singapore, to support an annual turnover of one billion yen (\$1.4 billion) in its growing revenue. The 22 branches in the 2.5 km² area, it also has around 1,000 employees, including cleaners and staff.

The firm Muji made a significant impact in 2018. There are some 11 firms, including a flagship

Straits Times, 11 March 2019

“In a world of online shopping, it is more important than ever that Muji stores provide an experience for consumers rather than just a routine purchase”

Satoru Matsuzaki, Muji President

## Habitat by Honest Bee



“The future of shopping may not be a binary battle between online sites and bricks-and-mortar shops, but an amalgam of the two”

Straits Times, 21 October 2018

# Suburban malls remain very much relevant

They offer convenience, wide range of options, delightful experience – because experience matters



Necessity & convenience shopping



Fun for the family



Delightful shopper experiences



Everyday dining



Essential services



Social and family dining



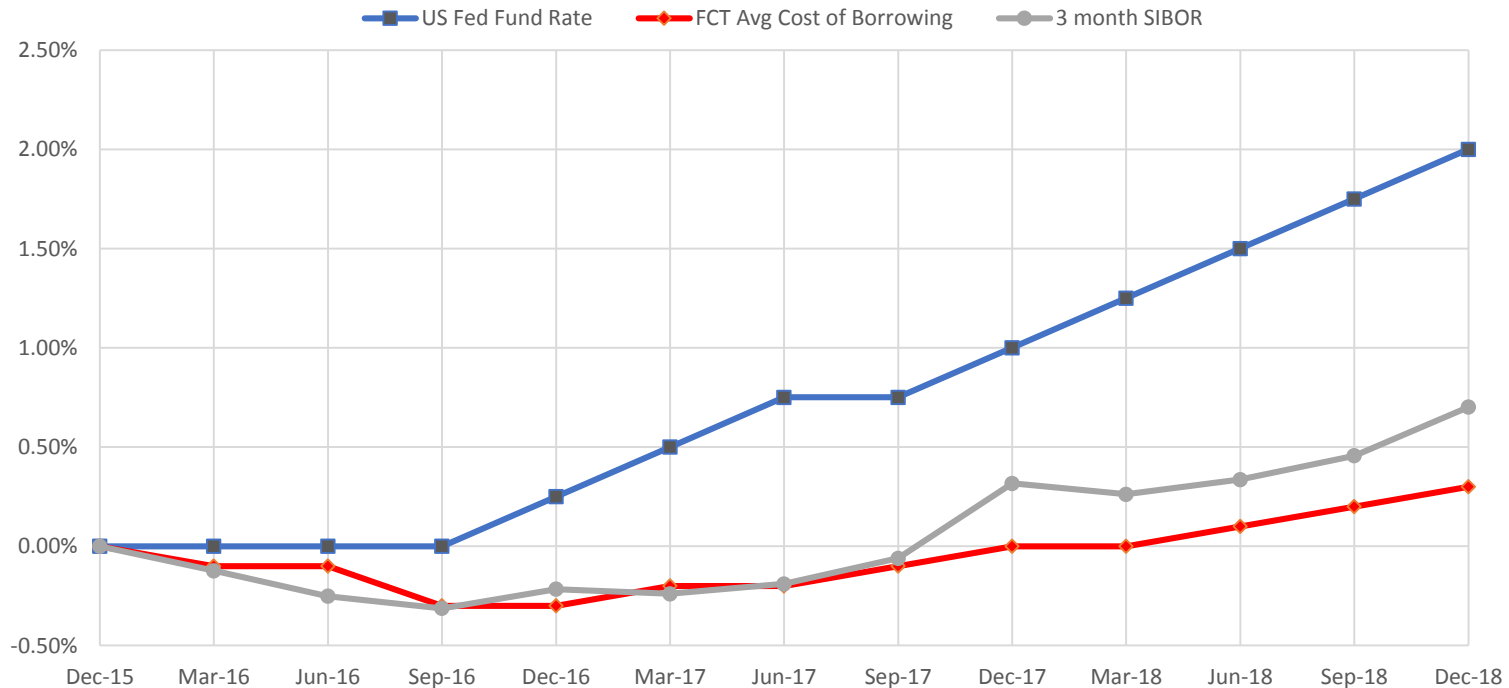
## **Misconception 2: Rising interest rates should be mitigated by aggressive hedging**

- ◆ Generally true for all REITs and is also true for most businesses except those on the capital-provider side (banks and lenders)
- ◆ The borrowing cost also depends on other factors:
  - ❑ Base rate used (e.g. SOR: which also depends on the US/SGD exchange rate)
  - ❑ Proportion of floating v fixed interest rate
  - ❑ Bank's Spread and the upfront fees
- ◆ Will rising interest rates affect the valuations of the property portfolio?
- ◆ When everyone agrees that interest rate is going to rise, should one hedge to the max?

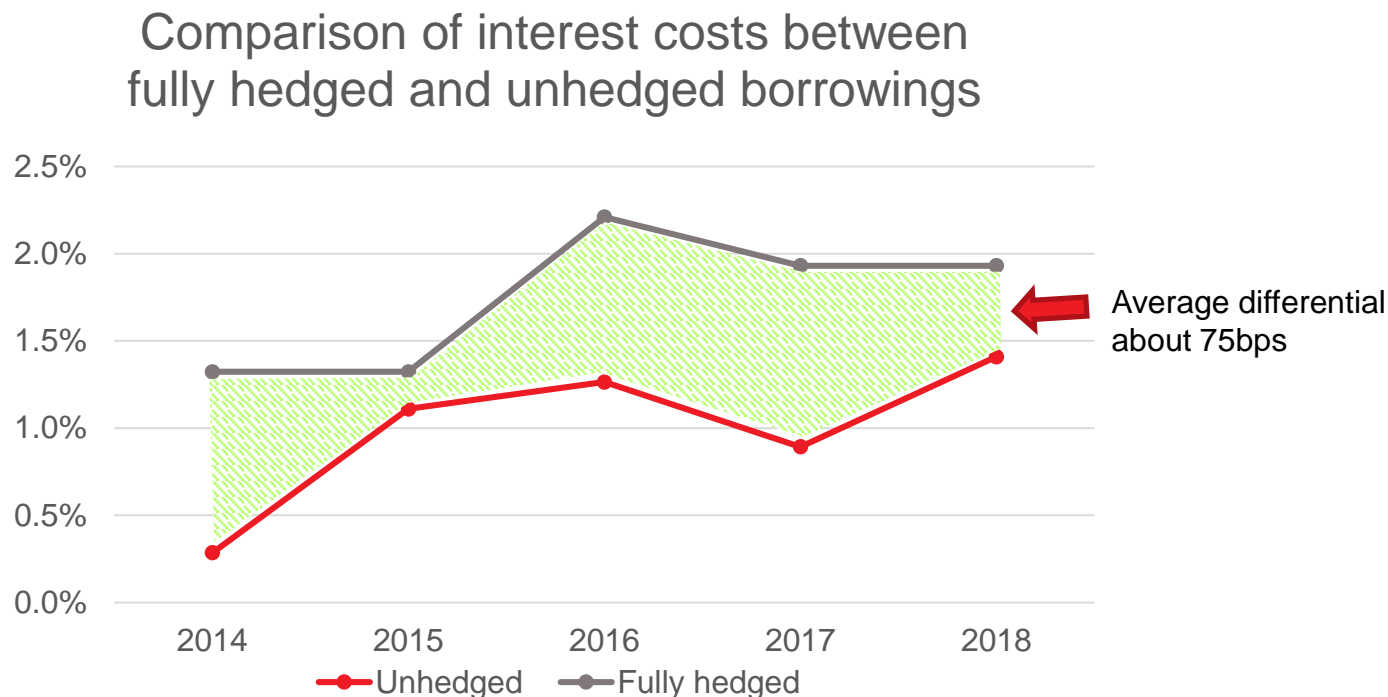
# Interest rate hikes

The Fed has raised interest rates **9** times since 2015, fed fund rate is up 200 bps since December 2015, but rate of increase for local borrowing cost is slower.

Cumulative Increase in interest rate / cost of borrowing

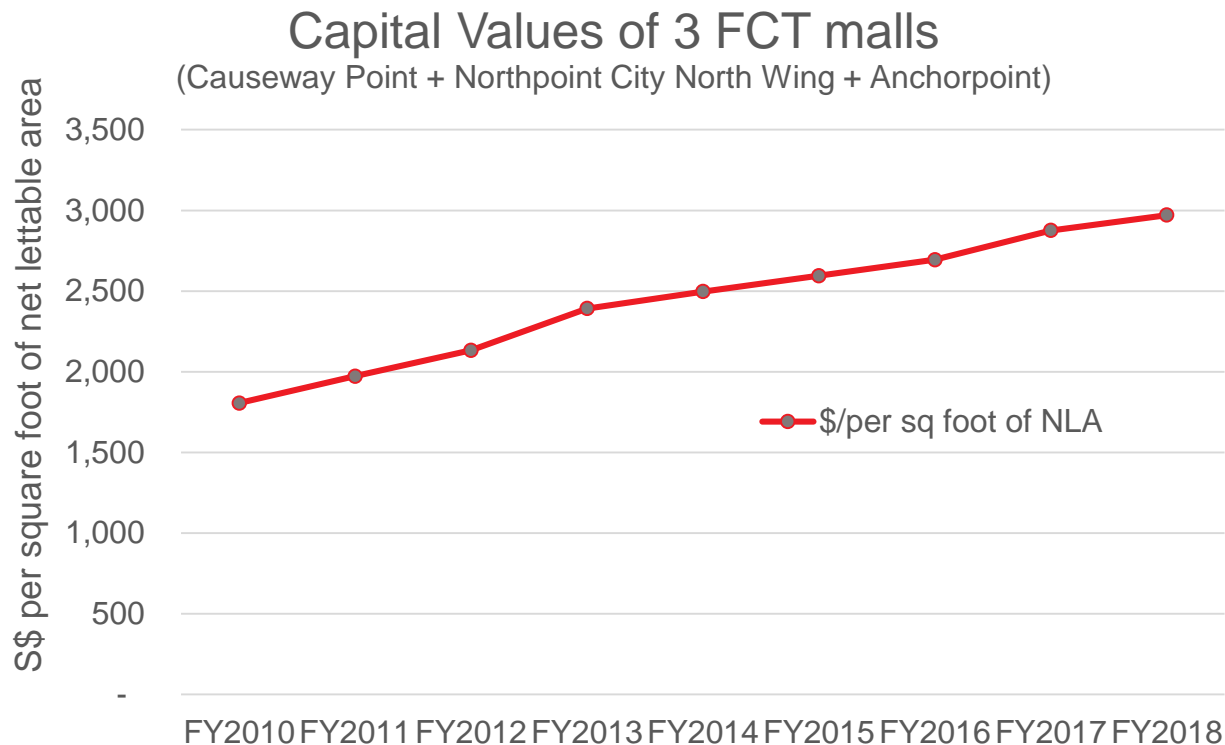


# When everyone agrees that interest rate is going to rise, should one hedge to the max?



## Misconception 3: Retail mall as an asset will eventually lose its value

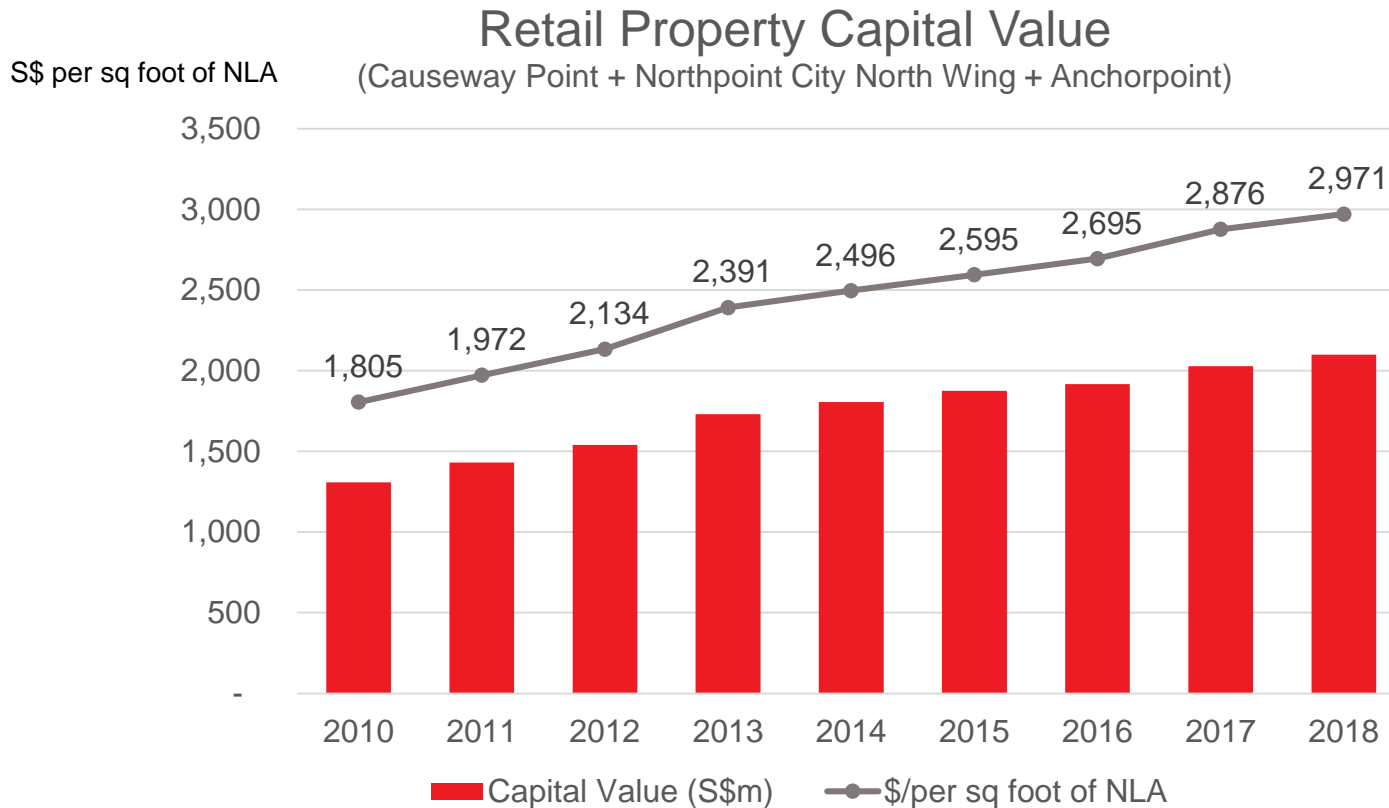
Value of retail properties continue to increase over the years



Values as at 30 September of each year (FCT's financial year end)

## Misconception 3: Retail mall as an asset will eventually lose its value

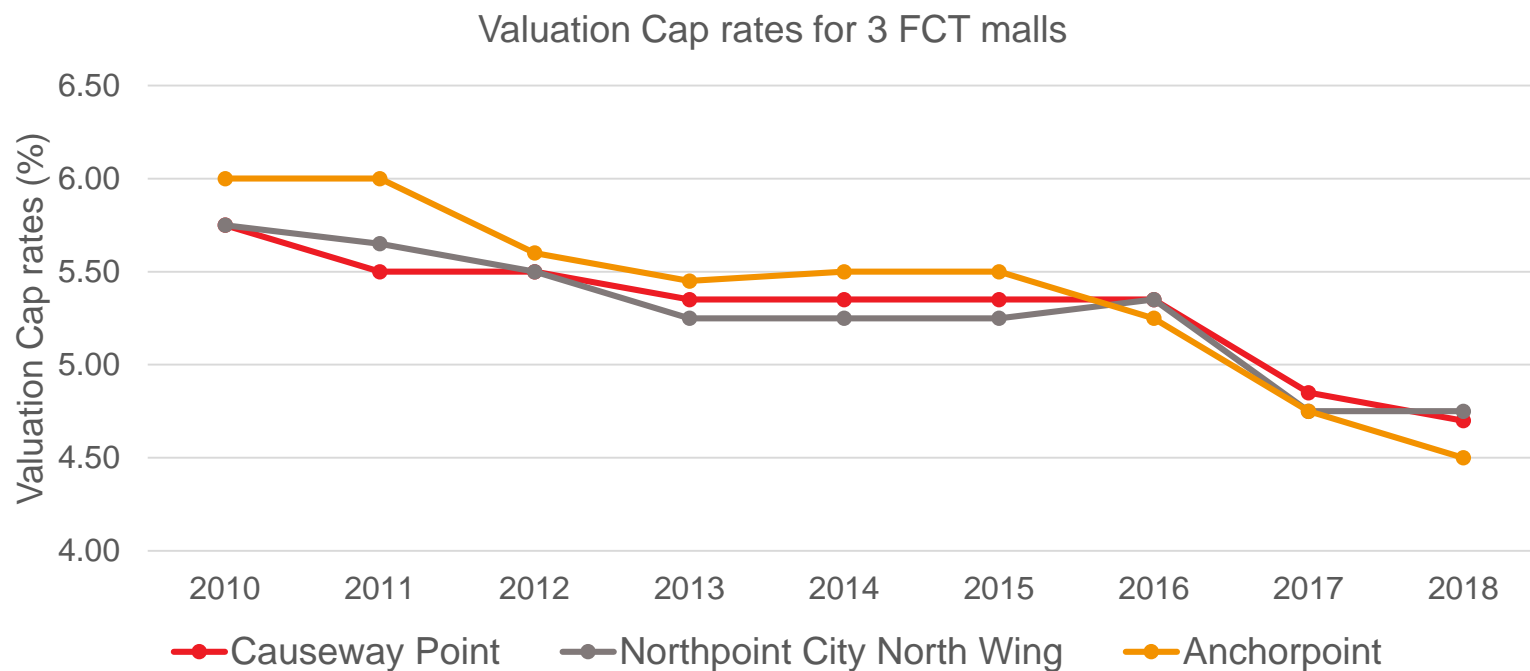
- The retail properties on a per square foot basis continue to increase in value over the years





# The impact on capitalisation rates of properties

While interest rate has increased, the valuation cap rates for retail properties have remained relatively stable and even compressed in recent years.

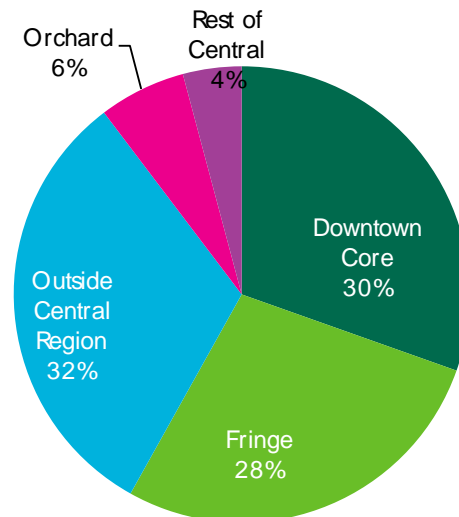
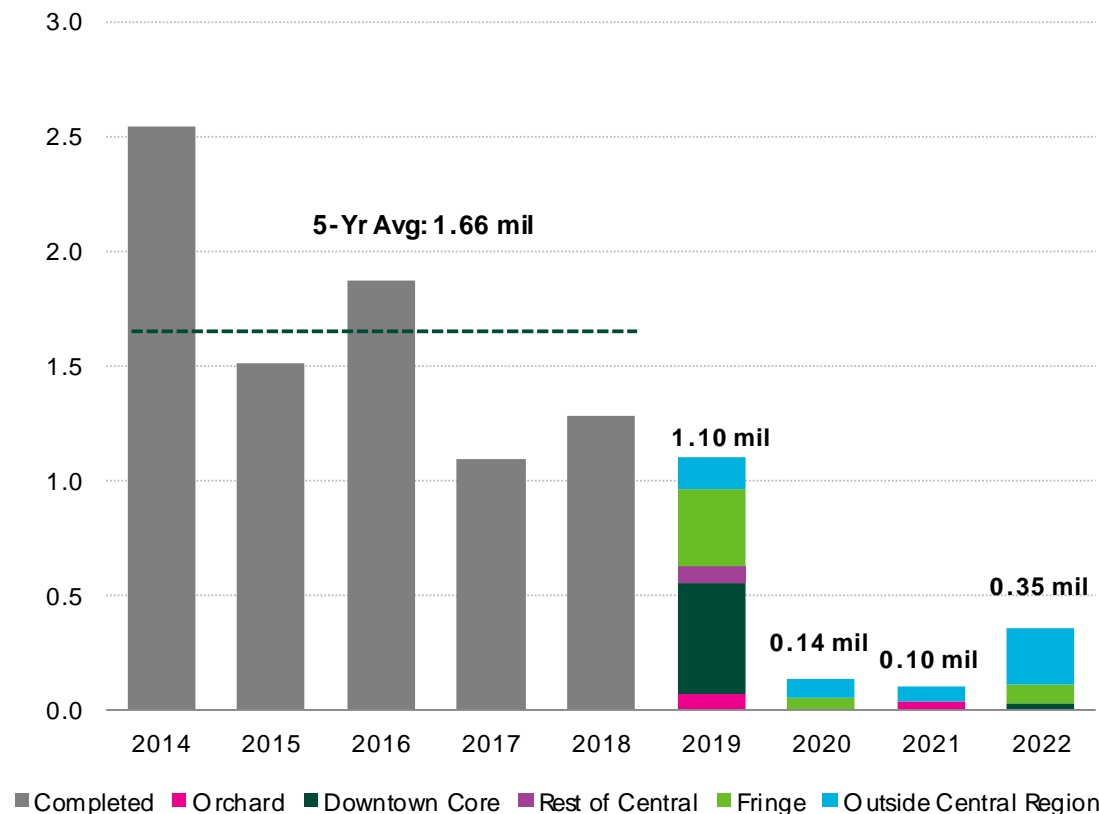


The cap rates as used by independent valuers, as at 30 September of each year (FCT's financial year end)

# Limited upcoming new retail supply after 2019

NLA (mil sq ft)

Composition of supply from 2019 to 2022:



Note: Numbers include additional space carved out during AEI and if the development is closed entirely the total new NLA of enhanced asset is included. Future supply tracks projects with NLA of 20,000 sf and more.

Source: CBRE Research

# Recap

1. Brick-and-mortar malls not dying but evolving with e-commerce
2. Impact of rising interest rates on
  - Impact on REIT share price – low correlation with interest rate trend
  - Impact on valuation cap rates – no apparent correlation for retail properties
  - Should you hedge to the max?
3. Value of retail properties remain resilient

**Experience  
matters.**

