

Rating Action: Moody's affirms Frasers Centrepont's Baa2 rating on ARF acquisition; changes outlook to stable from negative

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Singapore, September 07, 2020 -- Moody's Investors Service has affirmed Frasers Centrepont Trust's (FCT) Baa2 issuer rating.

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

The rating action follows FCT's announcement on 3 September that it will (1) acquire the balance 63.1% stake in AsiaRetail Fund Limited (ARF); (2) raise up to SGD1.3 billion through an equity offering; (3) divest Bedok Point for SGD108 million.

"The affirmation of FCT's Baa2 rating balances Moody's expectation that FCT's business profile will improve considerably following the completion of the proposed acquisition, but that its leverage will remain elevated over the next 12-18 months," says Sweta Patodia, a Moody's Analyst.

"The change in outlook to stable reflects FCT management's commitment to maintain its credit profile as evidenced by its planned equity issuance and asset disposal, which in turn will also help to enhance the trust's liquidity profile. The change in outlook also takes into account the improvement in tenant sales and shopper traffic at FCT's retail malls, which have rebounded strongly following a sharp slump during the circuit breaker period in Singapore," adds Patodia, who is also Moody's Lead Analyst for FCT.

The transaction remains subject to unitholder approvals and is expected to close over the next 2-3 months.

RATINGS RATIONALE

FCT's business profile will improve materially upon completion of the proposed acquisition, with its asset size increasing by almost 70% to SGD6.6 billion from SGD3.9 billion currently. With ownership of 6% of total retail space in Singapore, FCT will become the second largest mall owner in the country after CapitaLand Mall Trust (CMT, A2 under review for downgrade).

The acquisition will also strengthen FCT's position as one of the leading suburban retail mall operators in Singapore. Upon completion, FCT will own 10.2% of total suburban retail space in Singapore, only marginally lower than CMT's 10.6%.

Following the completion of the proposed acquisition, FCT will own a 100% stake in ARF and will consolidate it within its financial statements, compared to the current practice of equity accounting.

With full consolidation, FCT's revenue and EBITDA mix will improve. The higher contribution from ARF will also help to mitigate the earnings concentration risk from Causeway Point. Moody's expects Causeway Point's earnings contribution to reduce to around 23% by the fiscal year ending September 2021 (fiscal 2021) from around 36% for the six months ended 31 March 2020.

Notwithstanding the significant improvement in FCT's business profile, ARF has almost \$1.4 billion of debt outstanding, which when consolidated into FCT's financial statements will limit the improvement in FCT's financial metrics.

Nonetheless, given that 100% of the proposed acquisition will be funded out of equity, the impact on FCT's credit metrics will be contained.

In particular, FCT's net debt/EBITDA, which Moody's expect to be around 11.0x for fiscal 2020, will improve to around 8.8x-9.0x by fiscal 2021, pro forma for the acquisition.

ESG considerations

In terms of environmental, social and governance (ESG) risks, FCT's rating considers the significant related-party transactions between the trust and its sponsor, Frasers Property Limited. However, this risk is mitigated

by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through the board, which mainly consists of independent directors. The rating also takes into consideration FCT management's track record of pursuing measured approach to growth through prudent asset recycling and balanced funding mix.

Liquidity

Pro forma for the proposed transactions, FCT will have excellent liquidity. FCT intends to use a part of the equity proceeds to repay SGD250 million of existing debt, leaving just SGD50 million maturing till fiscal 2021. In comparison, proforma cash and cash equivalents were around SGD187 million as of 30 June 2020.

FCT also has access to SGD100 million of long term committed revolving credit facilities in addition to other short term uncommitted facilities.

FCT's liquidity is further supported by its long-term banking relationships and track record of strong access to the debt and equity capital markets.

Outlook

The stable outlook reflects Moody's expectation that FCT will be able to maintain its track record of strong operating performance, and that its credit metrics will return to within the rating thresholds by fiscal 2022 as it benefits from a full year of earnings contribution from ARF.

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

Upgrade over the next 12 months is unlikely given the uncertain operating environment and elevated leverage levels. Over a longer term, Moody's could upgrade FCT's rating if it reduces its leverage through additional asset disposals or by other means such that its adjusted net debt/EBITDA falls below 8.0x on a sustained basis.

Moody's could downgrade FCT's rating if: (1) the operating environment deteriorates, leading to higher vacancy levels and a decline in the trust's operating cash flow; (2) the trust's financial metrics significantly weaken, such that adjusted net debt/EBITDA rises above 9.0x and/or EBITDA interest cover falls below 3.0x; (3) the trust fails to meet the 50% gearing ratio stipulated by the Monetary Authority of Singapore.

Material delays in execution of the proposed equity issuance or asset divestment initiatives will defer the expected recovery in credit metrics and exert negative ratings pressure.

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

Frasers Centrepoint Trust is a Singapore real estate investment trust listed on the Singapore Exchange since 5 July 2006. The trust has a portfolio of six suburban malls, namely Causeway Point, Northpoint City North Wing (including Yishun 10 retail podium), Anchorpoint, YewTee Point, Bedok Point and Changi City Point.

FCT also owns a (1) 31.15% stake in Hektar Real Estate Investment Trust, which is a retail-focused REIT in Malaysia and is listed on the Bursa Malaysia Securities Berhad; (2) 40% stake in Sapphire Start Trust (SST) which holds Waterway Point; and (3) 36.9% stake in AsiaRetail Fund Limited (ARF), which owns a portfolio of five retail malls and an office building in Singapore, and one retail mall in Malaysia.

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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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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_1133569.

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