

**Issuer:** Frasers Centrepoint Asset Management Ltd.

**Security:** Frasers Centrepoint Trust

**Meeting details:**

Date: 23 January 2018

Time: 10.00 a.m.

Venue: Level 2, Alexandra Point, 438 Alexandra Road, Singapore 119958

## Company Description

Frasers Centrepoint Trust ("FCT") is a Singapore-domiciled retail real estate investment trust ("REIT"). FCT was listed on the mainboard of the Singapore Exchange Securities Trading Limited (SGX-ST) on 5 July 2006. FCT has a market capitalisation of approximately S\$1.95 billion as at 29 September 2017.

FCT's principal activity is to invest in income-producing properties used primarily for retail purposes, in Singapore and overseas. Its primary objectives are to deliver regular and stable distributions to unitholders and to achieve long-term capital growth. The objectives are achieved through a combination of its organic, enhancement and acquisition growth strategies. FCT also owns a 31.15% equity stake in an associate of FCT, Hektar Real Estate Investment Trust, which is listed on the Main Market of Bursa Malaysia Securities Berhad.

FCT's portfolio comprises six quality suburban malls in Singapore with a total appraised value of \$2.67 billion as at 30 September 2017. These malls are Causeway Point, Northpoint City North Wing (including Yishun 10 retail podium), Changi City Point, Bedok Point, YewTee Point and Anchorpoint. FCT's suburban malls are located in residential areas with good shopper catchment and connectivity to public transport, and they offer the shoppers a wide range of products and services that cater to their convenience, necessity shopping needs and dining options. The malls enjoy high occupancy and steady shopper traffic which underpin the stability of FCT's net property income.

FCT has achieved steady portfolio growth and delivered stable distribution returns to unitholders through prudent capital management and successful execution of its growth strategies. Its total assets grew from S\$938 million at its initial public listing to S\$2.75 billion as at 30 September 2017. The distribution per unit to unitholders also grew steadily to 11.90 cents in FY2017 at a compounded annual growth rate of 6.4% over the eleven years since its listing.

FCT is managed by the Manager of FCT, Frasers Centrepoint Asset Management Ltd., a real estate management company and a subsidiary of Frasers Centrepoint Limited.

(Source: <http://www.fraserscentrepointtrust.com/About%20Us/Overview.aspx>)

**Q1.** The REIT achieved a historical high distribution per unit (“DPU”) of 11.9 cents, which is the 11<sup>th</sup> consecutive year of steady DPU growth, backed by higher occupancy rate of 92.0% and a positive portfolio average rental reversion of 5.1% for the financial year ended 30 September 2017.

As noted in the Letter to Unitholders, the portfolio occupancy cost (which is the ratio of gross rent to the tenants’ sales) increased to 16.6% in FY2017 from 15.7% in FY2016 (page 16 of the annual report). It was 15.3% in FY2015.

In addition, portfolio tenants’ sales in FY2017 were 5.7% lower year-on-year, or 3.4% lower if Northpoint City North Wing were excluded due to ongoing asset enhancement initiative. All malls saw a decline in sales volume. Only Changi City Point reported an increase in shopper traffic while three other malls saw a drop of shopper traffic of between 0.4% to 8.6% (shopper traffic was flat at Bedok Point and YewTee Point).

- a) **What is the REIT manager’s strategy to improve shopper traffic and tenants’ sales so that the REIT can continue to grow its rental/distributable income of its portfolio in a steady and sustainable manner?**
- b) **Specifically, how is the REIT addressing the increasing competition from e-commerce?**

**Q2.** The REIT’s net asset value per unit has increased from \$1.93 as at 30 September 2016 to \$2.02 as at 30 September 2017. The value of investment properties increased from \$2.509 billion in 2016 to \$2.668 billion in 2017, with gearing at 29.0% as at 30 September 2017.

Based on the Operations & Financial Review (page 32), the properties in the REIT’s portfolio achieved the following net property income:

Net Property Income	FY2017 Oct 16 to Sep 17 <sup>(a)</sup> (\$'000)	FY2016 Oct 15 to Sep 16 (\$'000)	Increase / (Decrease) %
Causeway Point	65,539	62,031	5.7%
Northpoint City North Wing and Yishun 10 retail podium	29,742	33,333	(10.8%)
Anchorpoint	4,633	4,698	(1.4%)
YewTee Point	10,049	10,206	(1.5%)
Bedok Point	3,663	4,226	(13.3%)
Changi City Point	15,932	15,358	3.7%
<b>Total FCT</b>	<b>129,558</b>	<b>129,852</b>	<b>(0.2%)</b>

(a) Included results of Yishun 10 Retail Podium acquired on 16 November 2016

(Source: Frasers Centrepoint Trust Annual Report 2017)

On page 35 of the annual report, the valuations of the individual assets are shown, as follows:

Property	FY2017 Valuation at 30 September 2017				FY2016 Valuation at 30 September 2016			
	Valuation (\$ million)	Valuation (\$ psf NLA) <sup>(b)</sup>	Cap rate <sup>(a)</sup>	Valuer	Valuation (\$ million)	Valuation (\$ psf NLA) <sup>(b)</sup>	Cap rate <sup>(a)</sup>	Valuer
Causeway Point	1,190.0	2,862	4.85%	KF	1,143.0	2,749	5.35%	ETC <sup>(c)</sup>
Northpoint City North Wing	733.0	3,360	4.75%	Savills	672.0	2,986	5.35%	KF
Changi City Point	318.0	1,534	5.25%	Colliers	311.0	1,501	5.75%	Colliers
YewTee Point	178.0	2,416	5.25%	Savills	172.0	2,335	5.50%	Savills
Bedok Point	105.0	1,269	5.25%	Savills	108.0	1,306	5.50%	Savills
Anchorpoint	104.6	1,473	4.75%	Savills	103.0	1,451	5.25%	Savills
Yishun 10 retail podium	39.5	3,794	4.00%	Colliers				
<b>Total</b>	<b>2,668.1</b>				<b>2,509.0</b>			

(a) As indicated by property valuers.

(b) psf NLA: per square foot of net lettable area

(c) ETC: Edmund Tie & Company (SEA) Pte. Ltd.

(Source: Frasers Centrepoint Trust Annual Report 2017)

The valuation of investment properties is also highlighted as a key audit matter by the Independent Auditors in their report (page 120). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

- a) **Can the audit committee (AC) help unitholders understand the selection process for the independent property valuers?**
- b) **The REIT's two largest assets saw a change in the valuer from FY2017 to FY2016. What was the reason for the change in the choice of the valuer?**

The capitalisation rate has dropped by 25 and 60 basis points, from a year ago. For instance, Northpoint City North Wing has a capitalisation rate of 4.75%, down from 5.35%.

- c) **Would the AC help unitholders understand the reasons for the lower capitalisation rates? Are the valuations more aggressive given the lower capitalisation rates?**

On a portfolio basis, the REIT's net property income has dipped by 0.2%. Causeway Point and Changi City Point showed increases of 5.7% and 3.7% respectively while the net property income of the other four assets dropped by as much as 13.3%. Excluding the newly acquired Yishun 10 retail podium, the portfolio value of \$2.629 billion is 4.8% higher, compared to the valuation of \$2.509 billion as at 30 September.

- d) **Coupled with the likely interest rate hikes in 2018, can the board justify these valuations and help unitholders reconcile the higher valuations with the operating performance of the underlying assets?**

**Q3.** The REIT currently has fixed or hedged-to-fixed interest rates for about 55% of its borrowings which amount to \$798.0 million as at 30 September 2017. As an example, in the 2013 Annual Report, the REIT then said that it had reduced its risk exposure to rising interest rates by having 94% of its borrowings on fixed rates or swapped to fixed rates.

- a) **Can the REIT manager help unitholders understand its current view of the interest rates trends?**
- b) **How is the manager pro-actively managing the REIT's interest rates risks? What is the guideline given by the board to the REIT manager to mitigate the REIT's interest rates risks?**