THE EDGE SINGAPORE
BUSINESS & INVESTMENT WEEKLY

HD **Corporate: FCL to get boost from sale of assets to REITs, developments in Australia, the UK**

BY By Goola Warden
WC 2,405 words
PD 19 May 2014
SN The Edge Singapore
SC EDGESI
LA English

LP

If Frasers Centrepoint Ltd seems eager to turn around its Singapore residential developments quickly these days, it isn't your imagination. Even in the best of times, the diversified property group eschews using its balance sheet to hold unsold residential property. Now, amid signs of weakening prices, it is actively avoiding any form of landbanking.

"There is no notion of landbanking in Singapore, because the holding cost is too high and punitive measures for holding land beyond five years are very heavy," says Lim Ee Seng, CEO of FCL during the company's recent results briefing.

TD

For residential developments in Singapore, land cost is often 60% to 80% of the total development cost. "In Singapore, you need to be very efficient. It used to take 12 months from the day of purchasing the land to the launch [of the development]. From there, we've cut the time — to 11 months, 10 months, eight months," he says, adding that everything from obtaining planning approval to designing brochures and building showflats has to be done within this amount of time. "We aspire to be within six months."

The way Lim sees it, the total debt service ratio cap has adversely affected the ability of property investors to obtain a mortgage. And, the buyers themselves are holding back, as they think prices are poised to fall further. Developers who chose to hold unsold stock rather than cut their selling prices could be making a mistake. "In the longer term, you don't know what's going to happen. I would rather price to sell rather than try to maximise the price," Lim says.

Shares in many property developers have been trading at steep discounts to book value, largely because of concern that the value of their assets may decline. Now, launch prices of some residential projects are being lowered, and developers are writing down the value of their unsold property.

For instance, Wheelock Properties cut prices at The Panorama by 10% to 14% this month versus the launch price in January. Wheelock's price cut follows those of CapitaLand for Sky Habitat, United Engineers for Eight Rivertrees and MCL Land for Hallmark. Wheelock Properties also made a $110 million provision for The Panorama in its 4QFY2013 results. OUE made a $105 million provision for its Twin Peaks development in its 1QFY2014 results.

Is FCL in danger of having to cut the selling prices of its developments too? How much downside is there to residential property prices in Singapore? "It all depends on whether other developers will cut prices," Lim says. "If all developers follow suit, then the market will correct accordingly. Even if that happens, I don't see a major correction." He adds that there is still a pool of people who will invest in housing, including couples setting up families, people aspiring to upgrade and new citizens.

As for its own developments in Singapore, a prominent project with a significant amount of unsold units is RiverTrees Residences. Located in Sengkang, the project was launched in February and is 51% sold. Prices are averaging $1,099 psf, according to a recent report by Daiwa Securities. "We have been moving units, albeit at a slower rate than previously. I don't see a need to cut prices at this point of time," Lim says. "Rivertrees was launched at a level we think the market will accept eventually. I don't like to sell high and subsequently reduce the price. You [will] upset the people who supported you."

Cautious on China

Land cost as a proportion of total development cost is much lower outside Singapore, ranging from 20% to 40% in markets such as Australia and China. However, there is also less scope for FCL to reduce the time it takes to turn around a development property in these markets. “In China, we have to go through so many stages, many layers to get approval,” Lim says. “In Australia, the hindrance is not so much the planning authorities but the non-government groups such as the greenies, the neighbourhood committee and so on.”

Whatever the case, FCL has been reducing its exposure to China in the past couple of years amid growing signs of the property sector becoming overheated. Notably, in late 2012, it sold down its interest in a large development project in the Shanghai suburb of Songjian. It also sold a shopping mall in Shanghai and is looking to offload another. It plans to sell the Chengdu Logistics Park, after deciding that it does not want to be exposed to that sector.

These moves appear to have been well timed. On May 13, the Chinese government released figures that showed newly started construction projects for the January-to-April period fell 22.1% y-o-y. Citi says in a recent report that the Chinese developers it tracks recorded a 6% m-o-m decline in April sales. “We believe the physical market has reached a critical point,” it adds in the report.

Lim says, “The focus now is to develop the assets in our existing landbank and also to look for opportunities from the fallout… in the property market in China.” FCL is developing a residential project at Baitang One in Suzhou, where half of the 4,000 units have been sold. Some 1,000 units out of an estimated 6,000 to 7,000 units at the Songjian project have also been sold. Revenue and earnings will be recognised as these projects are completed.

Meanwhile, FCL’s residential property sales in Australia could help offset any weakness in Singapore and China, according to analysts. “We expect Australia to remain the key earnings driver with the completion of The Mark and Frasers Landing in 3Q2014, and... offset the drop in Singapore earnings,” notes CIMB Research in a report.

The company’s London developments could also provide an earnings cushion. FCL is working on projects in areas such as Wandsworth and Vauxhall. “We are now doing the second last phase [of Wandsworth Riverside] and proceeding with the final phase, and the whole block at Vauxhall has been presold even before starting development,” Lim says. Although prices are too high in central London for any new acquisitions of development property, FCL is looking for opportunities south of the River Thames and on the outskirts of London, he adds.

Support from new owner

FCL is 88%-owned by companies linked to Thai billionaire Charoen Sirivadhanabhakdi. He came to control it as a result of his takeover of Fraser and Neave, which was completed in January 2013. FCL was spun out of F&N and listed separately in January this year. Having paid a lofty price for F&N and FCL, Charoen has plenty of reason to tread carefully now. Yet, he is not standing in the way of FCL’s pursuit of growth.

Lim says FCL’s controlling shareholder leaves the day-to-day running of the company to his team of executives. Both Charoen and his son Panote sit on both FCL’s board and executive committee. “In this regard, they are very involved,” Lim says. “I have certain limits on investments and, if it’s beyond that, I have to go to the executive committee, and beyond that… to the board.”

In September, FCL won a tender for a mixed-use land parcel at Yishun Central for $1.43 billion. The site is adjacent to Northpoint mall, which is held by Frasers Centrepoint Trust (FCT). FCL manages the real estate investment trust (REIT) and owns 41% of it. The new land parcel in Yishun will be developed into a 12-storey integrated complex comprising 900 residential units, a retail mall, bus interchange and a community club. Separately, FCL recently purchased an office property site on Cecil Street for $924 million and plans to build a Grade-A office building on it.

Lim says FCL is trying to get the Yishun project — where the retail portion will be called Northpoint Phase 3 — launched as soon as possible, but adds that it is unlikely to get off the ground before year-end. “Unfortunately, Yishun is not something we can launch in six months. We have to build the temporary bus terminal. After that, we’ve to wait for the bus station to transfer,” he says, adding that only then can FCL have the land title transferred.

The price FCL paid for the property works out to $600 psf ppr and it is likely to price the residential units at the development at $1,100 to $1,200 psf. “It should be workable,” Lim says. On the other hand, the retail component is likely to be leased at $21 psf per month. Lim points out that Northpoint 3 will consist of only two floors, and low floors in a shopping mall tend to command relatively high rents. When it is completed, the enlarged Northpoint will comprise some 600,000 sq ft of net lettable area. Once income from Northpoint Phase 3 has stabilised, it is likely to be injected into FCT.

Investment property moves

In the months ahead, even as the outlook for residential property development in Singapore and around the region turns cloudy, FCL could get a boost from the sale of its investment properties to its REITs. FCT is in the process of acquiring Changi City Point from FCL for $305 million, or $1,472 psf and translating into a net property income (NPI) yield of 5.4%. FCT plans to finance the acquisition with equal proportions of debt and equity.

According to Religare Institutional Research, the acquisition will increase FCT's assets by 14.5% and NPI by 14.7%. However, FCT's distribution per unit (DPU) is likely to get only a 1% boost. "FCT could still reap more upside from the acquisition, as — with the mall having opened just two years ago — FCT is set to enjoy the rent uplift from the first reversion cycle, which would make the acquisition more accretive," Religare says in a recent report. FCT will seek approval from its unitholders for the deal at an EGM scheduled for May 29.

Another property FCL might offload is Alexandra Point, according to Lim. This property is likely to be shunted to Frasers Commercial Trust (FCOT), the group's commercial property REIT. The Cecil Street Grade-A building is also earmarked for FCOT, says Lim. For now, nearly half of FCOT's NPI comes from Australian properties, such as the Caroline Chisholm Centre in Canberra and Central Park in Perth. "The yields are good, and typically office leases are very long, with a ratchet clause, which means it can only go up," says Lim, referring to commercial properties in Australia.

Hospitality REIT next

Now, FCL is working on creating a third REIT, by leveraging on the hospitality property portfolio of Charoen's corporate empire. "The hospitality REIT is something we had been talking about for quite some time. The concern was that our own portfolio was relatively small," says Chia Khong Shoong, chief financial officer at FCL. "Now, with our new shareholder, who has a portfolio of international hotels, we have an opportunity for creating a REIT platform that is more scaled."

FCL plans to divest six serviced residences comprising 830 serviced apartments to the new REIT. They are Fraser Suites Singapore, Fraser Suites Sydney, Fraser Place Canary Wharf, Fraser Suites Queens Gate, Fraser Suites Glasgow and Fraser Suites Edinburgh. The sale consideration is set at a minimum of $651.7 million. Charoen's TCC Group will inject six hotels with 1,928 rooms into the REIT. They are InterContinental Singapore, Novotel Rockford Darling Harbour, Park International London, Best Western Cromwell London, ANA Crowne Plaza Kobe and Westin Kuala Lumpur.

Besides lightening its balance sheet, the setting-up of the third REIT will also give FCL's fee income a boost, Chia says. "We don't need to retain significant stakes in our REITs. We felt the 22% threshold is sufficient for us. In any case, we are the REIT manager and own 100% of the manager, and are in a position to drive the strategy behind the REIT."

Earnings visibility

FCL's most famous property — Centrepoint on Orchard Road — remains something of a problem. FCL had planned to redevelop the property along with the adjacent StarHub Centre. Yet, it has not been able to get an en-bloc deal for the 44 leasehold residential units at Centrepoint going. Nevertheless, FCL continues to earn decent rents from the retail space it owns at the mall. "We can afford to bide our time on Centrepoint. Sometimes, it's nice to have a little bit in the cupboard for the future," CFO Chia says.

Even with nothing happening at Centrepoint, FCL is not lacking earnings visibility in the months ahead, say analysts. In 2QFY2014, the company saw earnings fall 20% to $70 million because of adjustments to its balance sheet related to its spin-off from F&N. However, revenue during the quarter was up a robust 48% to $501 million, and profit before tax was up 32% to $143.8 million. According to CIMB, FCL's "core" earnings were actually up 37% in the quarter. "The outperformance really came from earnings recognition from overseas developments in Australia and the UK upon completion," it says in a report.

CIMB forecasts earnings of $522.6 million for FY2014 and $526.2 million for FY2015. "FCL remains one of our top picks, given its strong earnings visibility from $2.8 billion of unrecognised presales, redevelopment potential and a hospitality trust launch as a potential catalyst," CIMB says. It figures shares in FCL ought to trade at $2.06, a 40% discount to its revised net net asset value of $2.96 a share.

FCL has a free float of just 12%, a vestige of the takeover battle that Charoen waged for F&N. On July 9, the moratorium on share sales by his Thai Beverage and TCC Group will end. Some analysts and traders expect the two companies to do a share placement then, which will improve FCL's free float and perhaps stir trading activity in the stock. "The release of more float by TCC would be a key positive catalyst for the stock," the Daiwa report says.

CO ceprol : Frasers Centrepoint Ltd | ctrpni : Centrepoint

IN i815020602 : Real Estate Investment Trusts | i81502 : Trusts/Funds/Financial Vehicles | i8150206 : Investment Trusts/Funds | icre : Real Estate/Construction | ifinal : Financial Services | iinv : Investing/Securities | ireest : Real Estate | i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services

RE singp : Singapore | austr : Australia | uk : United Kingdom | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | eecz : European Union Countries | eurz : Europe | seasiaz : Southeast Asia | weurz : Western Europe

PUB The Edge Publishing Pte Ltd

AN Document EDGESI0020140521ea5j00003

