

Frasers Centrepoint Trust (FCT SP)

Preferred Retail Play

BUY

Share Price SGD 2.23
 12m Price Target SGD 2.55 (+15%)
 Previous Price Target SGD 2.55

4Q/FY18 NDR: Positive mall growth + deal potential

We hosted an NDR for FCT in Singapore following its 4Q18 results. Key highlights include: (1) discussions about its 4Q/FY18 operational performance; (2) positive growth outlook for its malls; and (3) potential acquisition opportunities. We marginally lowered FY19E/20E est.'s (1-2%) following an operationally strong quarter and introduced FY21. Our DDM-based SGD2.55 TP (COE: 7.0%, LTG: 2.0%) is unchanged. We continue to prefer FCT for its strengthening suburban mall footprint, visible growth drivers and potential acquisition catalysts. BUY.

Operationally strong quarter

Excluding FRS 17 and 39 accounting adjustments, 4Q18 revenue and NPI grew 5.3% YoY and 1.4% YoY. Property expenses rose 14.3% YoY on higher utility costs, carpark-related expenses at Anchorpoint (from FY18) and one-off items (professional fees, ad-hoc maintenance). Operationally, NPI at Northpoint (NCNW) and ChangiCity Point (CCP) jumped 12.7% YoY and 11.7% YoY on stronger occupancies, up from 92.5% to 96.5% at NCNW and 92.6% to 93.8% at CCP. Portfolio occupancy improved to 94.7% with stronger performance across all malls except for Causeway Point (CWP) due to transitional vacancies. Excluding NCNW, shopper traffic rose 5.0% YoY, while tenant sales accelerated to +3.6% YoY (from 3.4% YoY in 3Q18).

Looking to stronger reversions in FY19

Rental reversion was slower at +0.2% from +5.0% in 3Q, bringing full-year to +3.2%. Reversions were slower at CWP (+1.3%) from deliberate tenant remixing while Bedok Point was weak at -23.3%. Its occupancy should improve to 85% in 1Q19 as a new restaurant opens; management shared that rents have likely bottomed out. Meanwhile its Anchorpoint vacancy has been backfilled by a new F&B tenant set to open in 1Q 2019. Expiring leases in FY19 are concentrated at CWP (37.9%) and Anchorpoint (54.7%). They are mostly anchor tenants and food courts, with low renewal risk. We see stronger rental growth upside at CWP from underlying demand.

Acquisitions supported by sponsor pipeline assets

Its low 28.6% gearing and estimated SGD500m debt headroom (at 40% gearing) will support acquisitions. FCT's sponsor pipeline assets - the Northpoint City's South Wing and Waterway Point (33% interest, now in its first lease renewal cycle) could strengthen its suburban mall footprint, while expansion into Australia is further down the road.

FYE Sep (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	182	193	208	222	231
Net property income	130	137	151	160	167
Core net profit	111	111	120	126	130
Core EPU (cts)	12.0	12.0	12.9	13.5	13.9
Core EPU growth (%)	2.1	0.1	7.1	4.8	3.1
DPU (cts)	11.9	12.0	12.9	13.5	13.9
DPU growth (%)	1.3	0.9	7.1	4.8	3.1
P/NTA (x)	1.0	1.1	1.1	1.0	0.9
DPU yield (%)	5.6	5.3	5.8	6.0	6.2
ROAE (%)	6.1	5.8	6.1	6.1	5.9
ROAA (%)	4.1	4.0	4.2	4.2	4.1
Debt/Assets (x)	0.29	0.29	0.29	0.27	0.26
Consensus DPU	-	-	12.5	13.0	12.7
MKE vs. Consensus (%)	-	-	2.8	3.8	9.7

Chua Su Tye

chuasutye@maybank-ke.com.sg

(65) 6231 5842

Company Description

FCT is a real estate investment trust that invests in income-producing properties used primarily for retail purposes.

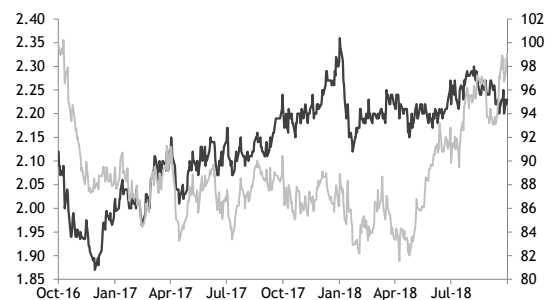
Statistics

52w high/low (SGD)	2.36/2.12
3m avg turnover (USDm)	1.5
Free float (%)	61.0
Issued shares (m)	925
Market capitalisation	SGD2.1B USD1.5B

Major shareholders:

Frasers Centrepoint Ltd.	37.8%
Frasers Centrepoint AM	4.1%
Schroders	3.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(2)	(0)
Relative to index (%)	6	7	10

Source: FactSet

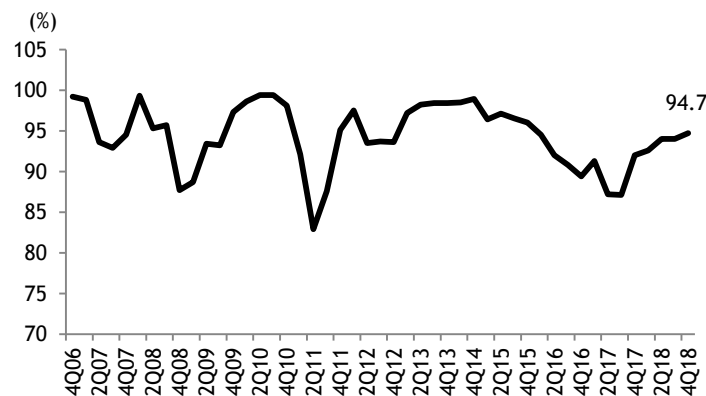
Fig 1: Summary financials 4Q/FY18A comparison

FYE 31 Mar	4Q17 (SGD m)	3Q18 (SGD m)	4Q18 (SGD m)	Change (% YoY)	Change (% QoQ)	YTD18 (SGD m)	% of FYE	FY18E (SGD m)
Gross revenue	48.2	48.3	48.5	0.5	0.4	193.3	95.0	203.6
Property expenses	(13.7)	(13.3)	(15.6)	14.4	17.4	(56.2)	101.4	(55.4)
Net property income	34.6	35.0	32.9	(4.9)	(6.1)	137.2	92.6	148.2
Borrowing costs	(4.7)	(5.0)	(5.3)	12.8	6.7	(20.0)	98.1	(20.4)
Distributable income to unitholders	28.2	28.3	25.8	(8.4)	(8.7)	110.6	93.8	117.9
Distribution per unit (SGD cts)	2.97	3.05	2.86	(3.6)	(6.3)	12.0	94.3	12.7
NAV per unit (SGD)	2.02	2.02	2.08					
Aggregate leverage (%)^	29.0	29.3	28.6	(40)	(70)			
All-in financing cost (%)^	2.3	2.5	2.6	30	10			
Occupancy (%)^	92.0	94.0	94.7	270	70			
Rental reversion (%)^	8.3	5.0	0.2	(810)	(480)			
NPI margin (%)^	71.7	72.4	67.8	(392)	(469)			

^Change in basis points

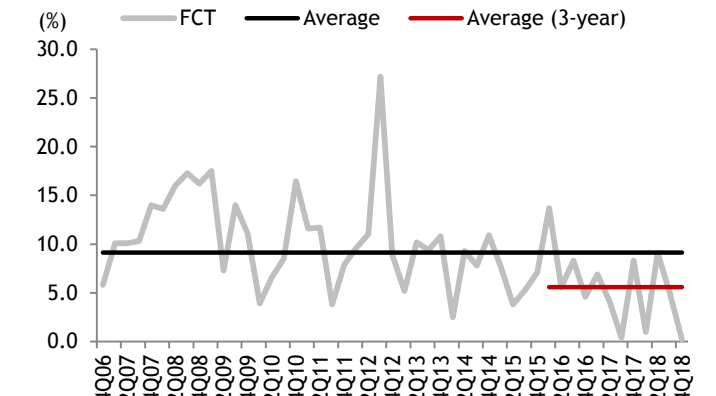
Source: Company data, Maybank Kim Eng

Fig 2: Occupancy (4Q06 to 4Q18)



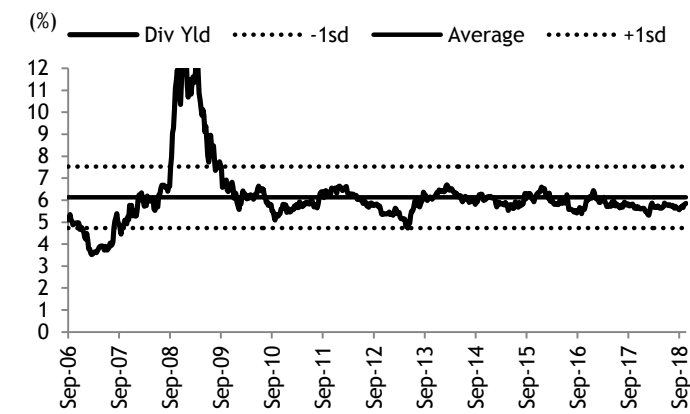
Source: Company data

Fig 3: Rental reversion (4Q06 to 4Q18)



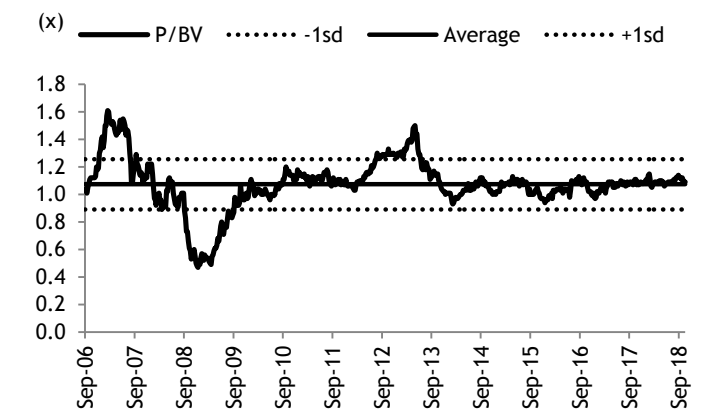
Source: Company data

Fig 4: FCT's DPU yield compressed due to Northpoint AEI, which commenced in Mar 2016



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: P/BV undemanding at historical avg.



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 6: Forecast changes

	FY19E (old)	FY20E (old)	FY19E	FY20E	FY19E (% change)	FY20E (% change)
Revenue (SGDm)	210.7	221.2	208.5	221.5	-1.0	0.1
NPI (SGDm)	153.4	161.3	150.9	160.3	-1.6	-0.6
DPU (SGD)	13.1	13.6	12.9	13.5	-1.4	-0.6

Source: Maybank Kim Eng

Fig 7: S-REITs valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												17	18E	19E	20E	
Retail							13.7	25.6			0.98	5.9	5.8	5.9	6.1	31
Capita Mall Trust (CMT)	Hold	2.14	2.15	0.5	5.4	5.8	7.6	21.5	66	2.01	1.06	5.2	5.4	5.3	5.6	34
Fraser's Ctr Trust (FCT)	Buy	2.23	2.55	14.3	5.5	19.8	2.1	2.1	58	2.08	1.07	5.3	5.5	5.7	5.8	29
Starhill Global (SGREIT)	Hold	0.67	0.65	(3.0)	6.8	3.8	1.5	1.3	65	0.91	0.73	7.3	6.8	7.1	7.1	35
SPH REIT	Hold	1.00	1.00	0.5	5.5	6.0	2.6	0.7	25	0.94	1.05	5.5	5.5	5.7	5.8	25
Retail & Office							9.5	20.6			0.98	5.5	5.6	5.6	5.8	36
Suntec REIT (SUN)	Hold	1.81	1.94	7.2	5.6	12.8	4.8	11.7	72	2.08	0.87	5.5	5.6	5.6	5.8	38
Mapletree Comm. (MCT)	Hold	1.61	1.50	(6.8)	5.6	(1.2)	4.6	8.9	66	1.49	1.08	5.5	5.6	5.6	5.8	35
Office							12.3	24.4			0.80	6.7	6.7	6.7	6.6	38
CapitaLand Comm. (CCT)	Hold	1.73	1.80	4.0	5.2	9.2	6.5	16.5	70	1.84	0.94	5.0	5.2	5.2	5.2	38
Keppel REIT (KREIT)	Hold	1.12	1.19	6.2	5.6	11.8	3.8	5.6	54	1.40	0.80	5.1	5.6	5.7	5.9	39
Fraser's Comm. (FCOT)	NR	1.42					1.3	1.7	75	1.60	0.89	6.9	6.8	6.8	6.8	35
OUE Comm. (OUECT)	NR	0.47					0.7	0.6	17	0.81	0.58	10.0	9.2	9.0	8.4	40
Industrial							23.1	53.7			1.06	7.3	7.4	7.5	7.6	36
Ascendas REIT (AREIT)	Buy	2.56	3.05	19.1	6.7	25.8	8.0	27.8	81	2.07	1.24	6.2	6.7	6.9	6.7	36
Mapletree Ind. (MINT)	Buy	1.95	2.20	12.8	6.5	19.3	3.7	5.7	68	1.46	1.34	6.0	6.5	6.8	7.2	36
Mapletree Log. (MLT)	Hold	1.24	1.30	4.8	6.4	11.2	4.4	9.0	69	1.13	1.10	6.2	6.4	6.5	6.6	38
Cache Logistics Trust	Buy	0.72	0.95	31.9	8.8	40.7	0.8	1.8	90	0.70	1.02	9.2	8.8	9.0	9.4	36
AIMS AMP (AAREIT)	Buy	1.34	1.50	11.9	7.9	19.8	0.9	1.5	87	1.37	0.98	7.3	7.9	7.9	7.9	34
Keppel DC REIT (KDCREIT)	NR	1.36					1.8	5.4	75	1.01	1.35	5.2	5.6	5.9	6.2	32
ESR REIT	NR	0.49					1.6	0.9	58	0.68	0.72	7.8	8.1	8.3	8.8	30
Soilbuild BS REIT	NR	0.59					0.6	0.7	64	0.64	0.93	9.7	8.5	8.6	n.a.	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.3	72	0.54	0.78	n.a.	n.a.	n.a.	n.a.	38
Hospitality & Residential							8.7	7.9			0.85	6.9	7.0	7.3	7.5	34
Ascott Res. Trust (ART)	Hold	1.07	1.15	7.5	6.7	14.2	2.3	1.9	55	1.23	0.87	7.0	6.7	6.8	6.9	36
CDL HT (CDLHT)	Buy	1.49	1.80	20.8	6.5	27.3	1.8	2.9	63	1.52	0.98	6.2	6.5	6.7	6.9	33
OUE HT (OUEHT)	NR	0.66					1.2	1.0	52	0.76	0.86	7.8	7.7	8.2	8.9	39
Far East HT (FEHT)	Buy	0.61	0.75	23.0	7.0	29.9	1.1	1.0	41	0.87	0.70	6.5	7.0	7.3	7.7	40
Fraser's HT (FHT)	Buy	0.70	0.80	14.3	7.0	21.3	1.3	0.5	39	0.78	0.90	6.9	7.0	7.3	7.3	34
Ascendas HT (AHT)	NR	0.81					0.9	0.4	64	1.01	0.80	n.a.	n.a.	n.a.	n.a.	24
Offshore REITs							15.2	15.8			0.86	8.2	7.7	8.0	8.2	34
Sasseur REIT	Buy	0.69	0.90	30.4	8.7	39.1	0.8	0.2	22	0.91	0.76	n.a.	8.7	9.0	9.3	33
Mapletree Greater China	NR	1.12					3.5	7.3	69	1.32	0.85	6.6	6.8	6.9	6.9	39
CapitaLand Retail China	NR	1.36					1.3	1.6	62	1.71	0.80	7.4	7.7	7.9	8.2	32
Fortune REIT (HKD)	NR	8.74					2.9	0.4	72	16.09	0.54	5.8	6.0	6.1	6.5	27
Lippo Malls Ind. RT	NR	0.25					0.7	1.2	63	0.30	0.82	13.9	10.6	10.6	11.0	35
Manulife REIT (USD)	NR	0.78					1.4	1.2	93	0.83	0.93	7.6	7.4	7.9	8.1	34
Keppel_KBS US REIT	NR	0.66					0.6	0.3	86	0.89	0.74	n.a.	9.1	9.5	9.6	34
IREIT Global	NR	0.74					0.5	0.1	31	0.69	1.06	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.67					0.3	0.0	37	0.83	0.80	n.a.	n.a.	n.a.	n.a.	34
Fraser's Log. & Ind. (FLT)	NR	1.03					2.1	3.3	79	0.92	1.12	7.4	6.7	6.7	6.8	31
EC World REIT	NR	0.70					0.5	0.2	42	0.91	0.76	8.5	n.a.	n.a.	n.a.	29
Cromwell REIT (EUR)	NR	0.56					1.4	0.2	28	0.53	1.05	n.a.	7.6	8.3	8.2	35
Healthcare							2.6	2.5			1.36	6.0	5.9	6.2	6.2	36
Parkway Life REIT	NR	2.67					1.6	1.5	54	1.75	1.52	5.0	4.6	4.9	4.9	38
First REIT	NR	1.21					1.0	1.1	67	1.01	1.20	7.1	7.3	7.4	7.5	34
Total REITs							85	151			0.95	7.0	6.9	7.1	7.2	35
S-REIT yield spread																
FSTREI Index																2.8
SGS 10Y bond yield																5.4
																2.6

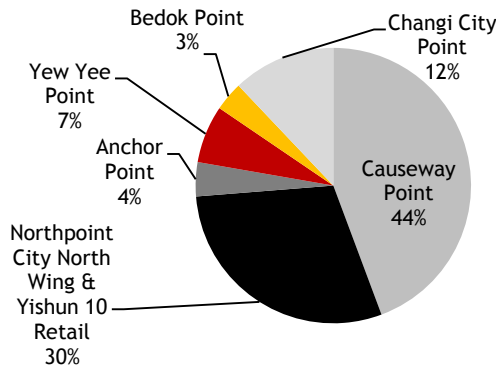
Prices as of 24 Oct 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- FCT owns six suburban retail properties valued at SGD2.75b with a total of 1.08m sf NLA, which are located near or next to MRT stations or bus interchanges.
- About 79% of its tenants (by gross rental income) are in non-discretionary retail trades, and relatively insulated from retail sector headwinds.
- Sponsor Frasers Property offers a pipeline carried at SGD2.2b, including 33% stake in Waterway Point (opened in Jan 2016) and Northpoint City's South Wing.

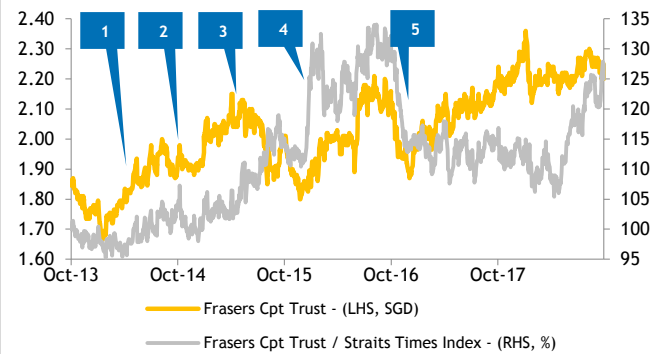
AUM breakdown (as of end-Sep 2018)



Source: Company

Price Drivers

Historical share price trend



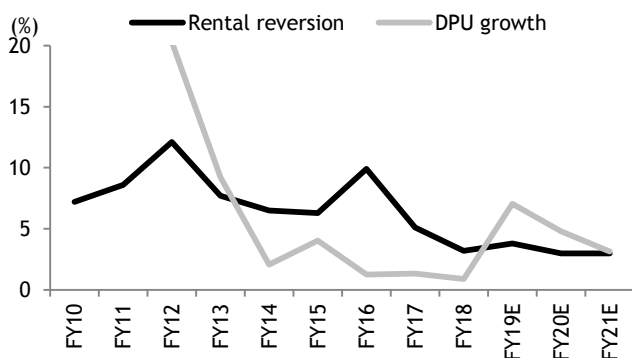
Source: Company, FactSet, Maybank Kim Eng

1. Apr-14: Acquires Changi City Point for SGD305m, its largest deal post-IPO with the mall served by the Expo MRT, an interchange station for the existing East-West Line and future Downtown Line 3.
2. Oct-14: Reports 4Q14 results with revenue/NPI, up 16%/15% YoY on +10.9% rental reversion and revenue/NPI of Causeway Point (its largest asset at 44% of AUM), up 4.1%/4.5% YoY.
3. Jul-15: Reports 3Q15 results with Bedok Point occupancy down QoQ from 94.2% to 84.9% due to tenant re-mixing.
4. Jan-16: Reports +13.7% portfolio rental reversion for Dec-15 quarter from Causeway Point (+12.5%), Northpoint (+26.3%) and Changi City Point (+15.4%).
5. Nov-16: Acquires all 10 ground-floor strata-titled units of the retail podium at Yishun 10, which is adjacent to its Northpoint development, for SGD37.8m.

Financial Metrics

- DPU forecast to grow at 7-3% in FY19-21, above its 5-year historical average of 1.9%.
- Rental reversions should stay positive from positioning of its assets, which are relatively resilient, and gain from post-AEI at its Northpoint City's North Wing.

Rental reversion and DPU growth



Source: Company, Maybank Kim Eng estimates.

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

chuasutye@maybank-ke.com.sg

FYE 30 Sep	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	17.7	18.9	17.3	16.5	16.0
P/BV (x)	1.0	1.1	1.1	1.0	0.9
P/NTA (x)	1.0	1.1	1.1	1.0	0.9
DPU yield (%)	5.6	5.3	5.8	6.0	6.2
FCF yield (%)	6.3	6.5	6.7	7.1	7.4
INCOME STATEMENT (SGD m)					
Revenue	181.6	193.3	208.5	221.5	231.3
Net property income	129.6	137.2	150.9	160.3	167.5
Management and trustee fees	(14.9)	(15.6)	(16.7)	(17.7)	(18.5)
Net financing costs	(17.6)	(20.4)	(23.0)	(25.5)	(27.9)
Associates & JV	4.1	4.6	4.6	4.6	4.6
Exceptionals	94.9	61.6	38.4	176.4	135.8
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	193.9	165.7	154.2	298.0	261.5
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	110.6	111.3	119.5	125.5	129.8
Distributable inc to unitholders	109.8	111.3	119.5	125.5	129.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	13.5	21.9	26.9	26.9	26.9
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.1	0.1	0.1	0.1	0.1
Investment properties	2,668.1	2,749.0	2,813.6	2,989.9	3,125.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	64.9	66.3	55.1	55.1	55.1
Other assets	4.3	3.1	3.1	3.1	3.1
Total assets	2,750.9	2,840.4	2,898.8	3,075.1	3,210.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	32.7	46.2	46.2	46.2	46.2
LT interest bearing debt	797.5	812.6	832.6	832.6	832.6
Other liabilities	48.4	47.8	47.8	47.8	47.8
Total Liabilities	878.7	906.6	926.6	926.6	926.6
Shareholders Equity	1,872.2	1,933.8	1,972.2	2,148.5	2,284.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,872.2	1,933.8	1,972.2	2,148.5	2,284.3
Total liabilities and equity	2,750.9	2,840.4	2,898.8	3,075.1	3,210.9
CASH FLOW (SGD m)					
Cash flow from operations	122.2	136.9	138.0	146.5	153.1
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(66.2)	(15.5)	(15.0)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	(2.0)	4.0	4.6	4.6	4.6
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
CF from investing activities	(68.2)	(11.6)	(10.4)	4.6	4.6
Dividends paid	(108.2)	(112.2)	(119.5)	(125.5)	(129.8)
Interest expense	(14.4)	(19.6)	(23.0)	(25.5)	(27.9)
Change in debt	64.0	15.0	20.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(0.6)	(0.2)	0.0	0.0	0.0
CF from financing activities	(59.2)	(117.0)	(122.6)	(151.1)	(157.7)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(5.2)	8.3	5.0	0.0	0.0

FYE 30 Sep	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.2)	6.5	7.8	6.2	4.4
Net property income growth	(0.2)	5.9	10.0	6.2	4.5
Core net profit growth	2.3	0.6	7.4	5.0	3.4
Distributable income growth	1.6	1.4	7.4	5.0	3.4
Profitability ratios (%)					
Net property income margin	71.3	71.0	72.4	72.3	72.4
Core net profit margin	60.9	57.6	57.3	56.7	56.1
Payout ratio	99.3	100.0	100.0	100.0	100.0
DuPont analysis					
Total return margin (%)	60.9	57.6	57.3	56.7	56.1
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.5	1.4	1.4
ROAE (%)	6.1	5.8	6.1	6.1	5.9
ROAA (%)	4.1	4.0	4.2	4.2	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.1	3.1	3.3	3.5
Net gearing (%) (excl. perps)	41.9	40.9	40.9	37.5	35.3
Net interest cover (x)	6.4	5.9	5.8	5.6	5.3
Debt/EBITDA (x)	7.1	6.8	6.2	5.8	5.6
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	784.0	790.7	805.7	805.7	805.7
Debt/Assets (x)	0.29	0.29	0.29	0.27	0.26

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY

Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

WONG Chew Hann, CA

Regional Head of Institutional Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow

Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

ECONOMICS

Suhaimi ILIAS

Chief Economist
Malaysia | Philippines | China
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin

Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye

Singapore
(65) 6231 5844
leejuye@maybank-ke.com.sg

Dr Zamros DZULKAFLI

(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN

(603) 2297 8685
ramesh@maybank-ib.com

FX

Saktiandi SUPAAT

Head, FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG

(65) 6320 1347
wongkl@maybank.com.sg

Leslie TANG

(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM

(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY

Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN

Hong Kong / Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson PHOON, ACA

(65) 6231 5831
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi

(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA

(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung

(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

ONG Chee Ting, CA

(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ

(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA

(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA

(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA

(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling

(603) 2297 8691 lee.yl@maybank-ib.com
• Glove • Ports • Shipping • Healthcare

Ivan YAP

(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG

(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

Adrian WONG

(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions

Jade TAM

(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples

Mohd Hafiz HASSAN

(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Building Materials • Small & Mid Caps

Amirah AZMI

(603) 2082 8769 amirah.azmi@maybank-ib.com
• Media • Plantations

TEE Sze Chiah

Head of Retail Research

(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe

(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA

Head of Research

(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy • Industrials
• SMID Caps - Regional

CHUA Su Tye

(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA

(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Property • REITs (Office)

Luis HILADO

(65) 6231 5848 luis hilado@maybank-ke.com.sg
• Telcos

LAI Gene Lih

(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology

HONG KONG / CHINA

Mitchell KIM

Head of Research

(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Christopher WONG

(852) 2268 0652 christopherwong@kimeng.com.hk
• HK & China Properties

Jacqueline KO, CFA

(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ricky NG, CFA

(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Sonija LI, CFA, FRM

(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

Stefan CHANG, CFA

(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Tony REN, CFA

(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

Wendy LI

(852) 2268 0647 wendyli@kimeng.com.hk
• Consumer & Auto

INDIA

Jigar SHAH

Head of Research

(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL

(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL

(91) 22 6623 2605
vishalperiwal@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR

Head of Research

(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA

(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI

(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN

(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Minda OLANAN

Head of Research

(63) 2 849 8840
minda_olanan@maybank-atrke.com
• Strategy • Conglomerates

Katherine TAN

(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Conglomerates • Ports

Luis HILADO

(65) 6231 5848 luis hilado@maybank-ke.com.sg
• Telcos

Romel LIBO-ON

(63) 2 849 8844
romel_libo-on@maybank-atrke.com
• Property

Kayzer LLANDA

(63) 2 849 8839
kayzer_llanda@maybank-atrke.com
• Utilities

THAILAND

Maria LAPIZ

Head of Institutional Research

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

Ornmongkol TANTITANATORN

(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Power & Utilities • Infrastructure

Surachai PRAMUALCHAROENKIT

Head of Retail Research
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Ekachai TARAPORN TIP

Deputy Head

(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Sutthichai KUMWORACHAI

Deputy Head

(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Suttatip PEERASUB

(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Temporn TANTIVIVAT

(66) 2658 5000 ext 1520
temporn.t@maybank-ke.co.th
• Property

Jaroopan WATTANAWONG

(66) 2658 5000 ext 1404
jaroopan.w@maybank-ke.co.th
• Transportation • Small cap

Sorrabhol VIRAMETEEKUL

Head of Digital Research
(66) 2658 5000 ext 1550
sorrabhol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT

(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Kritsapong PATAN

(66) 2658 5000 ext 1310
kritisapong.p@maybank-ke.co.th
• Chartist

Apisit PATTARASAKOLKIAT

(66) 2658 5000 ext 1405
apisit.p@maybank-ke.co.th
• Chartist

VIETNAM

LE Hong Lien, ACCA

Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,

Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen

(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen,

Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRUONG Quang Binh,

Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep

(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi

(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam

(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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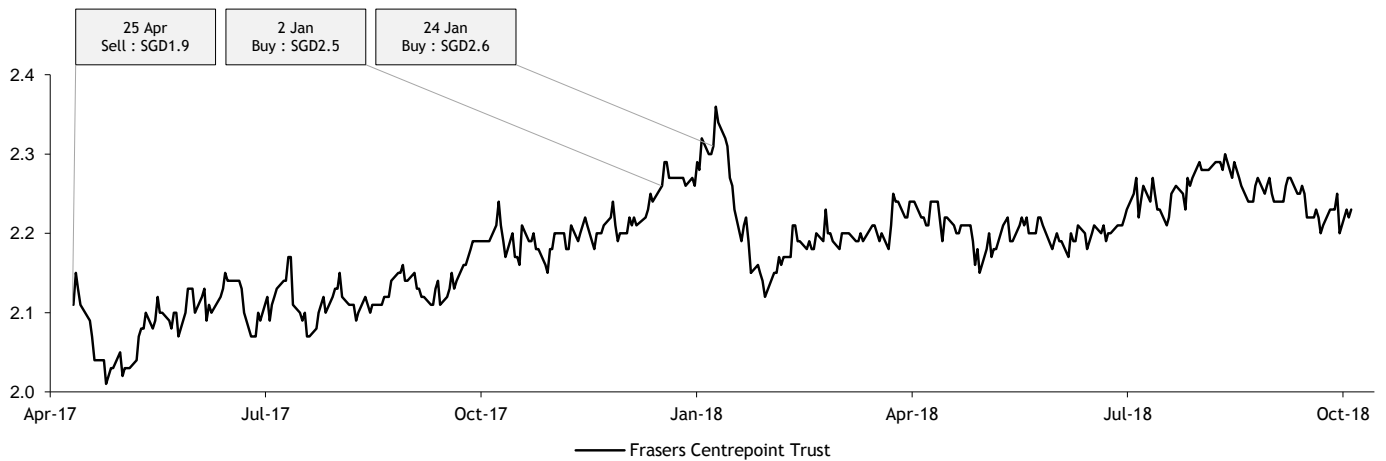
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Historical recommendations and target price: Fraser's Centrepoint Trust (FCT SP)



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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136


Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090


Hong Kong

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104


London

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302


Indonesia

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189


New York

Maybank Kim Eng Securities USA
Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886

Fax: (212) 688 3500


India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604


Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888

Fax: (63) 2 848 5738


Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)


Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888

Fax : (84) 8 38 271 030


Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686

Fax: (966) 26068787


South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia

Hariato Liong
hariato.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288


North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

London

Mark Howe
mhowe@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629