

Forterra Trust

"The Place" will be ready in 6 Months

Forterra Trust (Forterra) reported an expected set of 1Q results with revenue dipping 0.6% QoQ to S\$15.0m. The revenue is likely to decline further following the sale of the Beijing Logistics Park and the expiry of all leases in Huai Hai Mall.

The Place (Previously known as The HQ) was also rebranded and we are seeing progress in the pre-commitment rate. Phase 1 retail area and phase 2 had pre-committed rate of about 70% and 90% respectively. Mechanical, electrical and plumbing work are currently being carried out in phase 3 and Forterra is starting to market this asset. There is no change to the scheduled completion date – phase 1 is expected to complete in September 2014 and Phase 2 and 3 are expected to complete in end 2014.

We expect the office supply to balloon over the next two years, primarily in the non-prime area. We reckon that The Place will stand out given its attractive features such as a big shopping mall, accessibility and proximity to the CBD and Hongqiao Airport.

Results Summary: 1Q gross revenue dipped about 0.6% QoQ to S\$15.0m mainly due to slightly lower contribution from the Central Park Mall asset. However, net property income rose by 1.9% QoQ to S\$8.5m as a result of lower business and property related taxes. The administrative expenses and finance expenses were relatively stable QoQ.

In this quarter, Forterra saw the renewal of 14 leases (mainly office units in The Place) with a rental uplift of about 3.2% vs 3.6% in the previous quarter. We attribute the phenomenon to new commercial supply in the market and that the retail podium is under refurbishment. We also believe that Forterra is holding on to its rental rate and the occupancy rate should improve in 3Q, once the retail podium is completed.

The investment properties experienced a S\$67m QoQ decline to S\$2.37bn mainly due to weaker RMB vs S\$. The amount of current interest bearing loans also climbed from S\$92m in end 2013 to S\$360m in 1Q 2014. The loans were mainly tied to the Huai Hai Mall (about RMB300m) and The Place (the bulk of the remaining). We expect the bulk of the loan to be renewed over the next two quarters and remain mainly US\$ denominated.

Invest

- Intrinsic Value S\$2.24
- Prev Closing S\$1.785

Main Activities

Forterra owns and develops income producing properties such as offices and retail properties in first tier and second tier cities of China.

Financial Highlights			
(Y/E Dec) S\$m	FY12	FY13	FY14F
Gross Rent Income	99.0	77.0	62.0
Net Prop Income	58.8	48.9	33.1
Amt for distribute	(16.1)	(32.9)	(32.8)
Div (S cts)	0	0	0

Source: Voyage Research Estimates

Key ratios (FY15F)	
PER	13.9
P/BV	0.46
ROE	3.3%
Debt/Equity	69%
Current ratio	0.64

Source: Voyage Research Estimates

Indexed Price Chart

Green (FSSTI)

Black (Forterra)



Source: Bloomberg

52wks High-Low	S\$ 2.45/S\$1.60
Number of Shares	254m
Market Capitalization	S\$453m

Analyst:

Ng Kian Teck, Deputy Head of Research

kianteck@voyageresearch.com

Tel: 6227 2107

Company Update: The Beijing Logistics Park was sold on 16 April and the gain on sale of investment will only be recognized in 2Q 2014. We are of the view that Forterra will conserve the cash given the possible AEI works in Huai Hai Mall, development in Central Park Mall and the upcoming loan renewals. That said, we are of the view that Forterra will only declare dividend distribution in 2015.

In this quarter, Forterra also announced the positioning of The Place (previously known as The HQ). This large scale shopping mall (comprising the retail podium in phase 1, food street in phase 2 and retail mall in phase 3) is poised to be a mid-high retail and lifestyle destination that holds tenants that are mainly in the 1) fashion and accessories, 2) kids, household and lifestyle and 3) food & beverage segments. Given the huge Japanese and Korean community in the area, we expect the management to bring in some International and Asian iconic names to service these residents.

Figure 1: The Place Targeted Trade Mix



Source: Company

The Huai Hai Mall is now scheduled for re-designing and Forterra is currently talking to potential tenants to understand the kind of concepts that they are looking for. The revamp is likely to commence in 2H 2014. The Central Park Mall is still undergoing the planning phase and we expect more details in later 2014/early 2015.

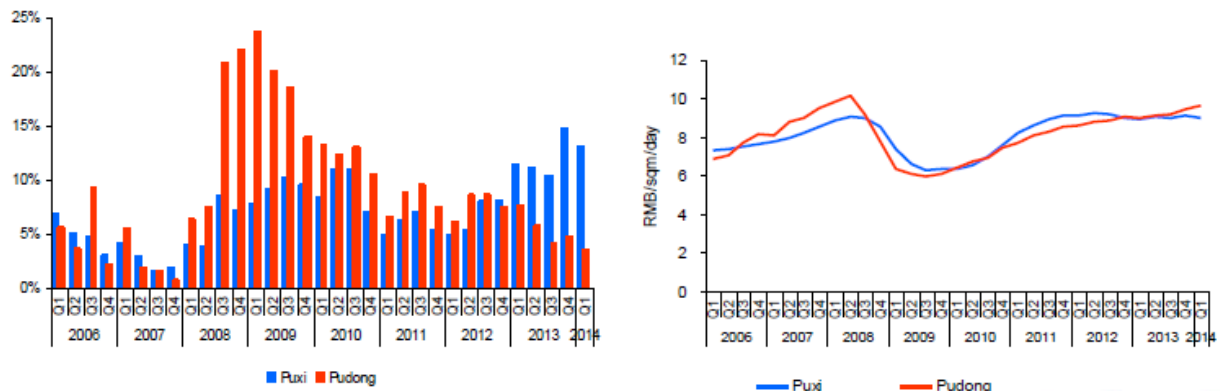
Industry Outlook: There is a slight dip in the vacancy rate in Pudong and Puxi areas and the rental rate is relatively unchanged. The Grade A office supply in 2014 and 2015 is likely to be huge with potentially close to 2m sqm entering the market. Approximately 70% of them are situated outside the prime areas and this indicated that about 600,000 sqm of prime Grade A office area will enter the market vs the current supply of about 5.4m sqm. A few of the projects are situated near the Hongqiao International Airport but The Place has a relatively better location when compared to them. Though there is an influx of commercial projects over the next two years, we reckon that The Place had unique features such as a big shopping mall, accessibility and proximity to the CBD and Hongqiao Airport and have an advantage over the rest.

Figure 2: Quarterly Breakdown

RMB ('000)	1Q 2012	2Q 2012	3Q 2012	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014
The Place	72.8	73.3	66.8	47.5	56.1	51.1	49.5	48.1	47.8
Central Plaza	26.4	27.3	26.3	28.4	27.5	15.3	0.0	0.0	0.0
Forterra House	9.3	9.5	8.2	8.0	7.0	8.2	10.3	9.8	9.9
Central Park Mall	14.5	14.3	14.2	14.2	13.9	13.6	17.7	5.4	4.8
HuaiHai Mall	6.5	6.8	5.3	5.8	4.7	4.6	3.3	2.2	1.9
Beijing Logistics Park			4.0	8.9	7.7	7.9	7.6	7.9	7.9
Total gross rental income	129.5	131.2	124.8	113.0	117.8	100.8	88.7	73.7	72.4
Net property income	79.7	84.3	78.3	54.1	78.3	66.3	56.2	40.5	40.9
Net property income margin	61.5%	64.3%	62.7%	47.8%	66.4%	65.8%	63.4%	54.9%	56.5%

Source: Company, Voyage Research

Figure 3: Grade A Office Vacancy (Left) and Grade A Office Rent Right)



Source: Company

Forecast and Valuation: We are adjusting our FY14 estimates to take into account the sale of Beijing Logistics Park and the expiry of all leases in Huai Hai Mall. We also assumed minimal contribution from The Place’s retail segment in 2014 as there may be some rent-free period for the tenants. We also reduced the rental contribution of the Extension in 2015 to 10 months due to the above reason. Our model indicated an intrinsic value of S\$2.24 per share.

Figure 4: Dividend Model

Asset (Rental rate per sqm day)	Type	GLA (sqm)	2012	2013*	2014F	2015F	2016F	2017F
The Place	Office	85,432	6.6	6.9	7.1	7.4	7.7	8.0
	Retail	54,621	4.9	6	12	12.3	12.7	13.2
Central Plaza	Office	32,674	7.72	7.9				
	Retail	4,882	10	10.5				
Forterra House	Office	12,911	6.3	6.5	6.7	6.8	6.9	7.0
	Retail	1,212	9	9.4	9.7	10	10.2	10.4
Central Park Mall	Retail	43,463	3.7	3.8	3.0	3.00	5	5
*	Additional Retail	171,500					1	2.5
Beijing Logistics Park	Warehouse	66,749	1.5	1.16	1.16			
	Others	7,439	1.5	1.2	1.2			
The Place Extension	Retail	37,897				15	15.5	16
	Office	25,264				8.3	8.3	8.5
Huai Hai Mall	Retail	7,620	9	5.4	5.4	12.5	12.5	12.7
RMB mn			2012	2013	2014F	2015F	2016F	2017F
The HQ			260.4	204.8	228.2	469.5	486.5	505.6
Central Plaza			108.4	42.8				
Forterra House			33.2	35.3	35.4	36.0	36.5	37.1
Central Park Mall*			57.2	50.5	23.5	46.9	140.0	232.6
Beijing Logistic Park			12.9	31.1	8.5	0.0	0.0	1.0
The HQ Extension			0.0	0.0	0.0	233.4	287.0	295.6
Huai Hai Mall			24.7	14.9	1.9	17.1	34.3	34.8
Gross Revenue			499.3	381.0	297.4	803.0	984.3	1106.7
Profit attributable to unitholders before distribution			46.7	(52.5)	(11.2)	36.7	51.3	61.1
Shares Outstanding				285	285	285	285	285
Dividend per share (S cents)				0.0	0.0	5.1	8.8	11.2
Discount Rate					1.000	0.922	0.849	0.783
Explicit Value			21					
Terminal Value			203	Cost of Equity	8.5%			
Price per share (S cents)			224	Terminal Growth	4.0%			

*: Internal Estimates

Source: Voyage Research Estimates

Figure 5: Financial Forecasts and Estimates

S\$ 'mn	2010*	2011	2012	2013	2014F	2015F	2016F
Gross rental income	39.5	92.7	99.0	77.0	62.0	167.3	205.1
Net property income	22.6	58.1	58.8	48.9	33.1	113.8	143.0
PATMI before Distribution	39.6	209.4	46.7	(52.5)	(11.2)	36.7	51.3
Amt available for distribute - ops	24.9	(2.9)	(16.1)	(32.9)	(32.8)	24.4	41.8
Dividend (S cents)	5.0	5.0	0.0	0.0	0.0	5.1	8.8
Total Current Assets	128	89	579	239	221	199	197
Total Non-Current Assets	1,875	2,670	2,238	2,439	2,465	2,490	2,516
Total Current Liabilities	73	171	472	344	346	350	352
Total Non-Current Liabilities	973	1,287	1,088	1,011	1,143	1,101	1,056
Stockholder Equity	957	1,170	1,127	1,189	1,063	1,100	1,166
Net profit for the period	39.6	209.4	46.7	-52.5	-11.2	36.7	51.3
Cash from Operating Activities	11.8	36.2	49.6	0.8	23.5	69.7	88.5
Cash from Investing Activities	76.5	-183.7	-52.6	93.4	-0.8	-1.0	-1.0
Cash from Financing Activities	-29.6	88.4	9.4	-28.1	-20.9	-90.1	-55.9
Net Change in Cash	58.7	-59.1	6.4	66.2	1.8	-21.4	31.5
Net Cash - Beginning Balance	85.2	99.0	39.8	36.1	104.6	106.4	85.0
Net Cash - Ending Balance	99.0	39.8	36.1	104.6	106.4	85.0	116.5
ROE	7.8%	17.9%	4.1%	-4.4%	-1.1%	3.3%	4.4%
ROA	8.6%	12.4%	4.7%	0.4%	1.4%	3.7%	4.4%
Debt/Equity	69%	78%	66%	60%	69%	63%	60%
Gearing Level	35%	34%	33%	29%	30%	28%	28%
Current Ratio	1.74	0.52	1.23	0.69	0.64	0.57	0.56
P/E	5.7	2.2	9.8	NA	-45.4	13.9	9.9
P/B	0.45	0.39	0.41	0.38	0.48	0.46	0.44

*: From May 19 to 31 Dec

Source: Voyage Research Estimates

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE:

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio.

Voyage Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
