

Frasers Logistics and Commercial Trusts Merger



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Background

The acquisition of Frasers Commercial Trust (FCOT) by Frasers Logistics & Industrial Trust (FLT) into an enlarged entity was recently announced on 2 December 2019, to transform FLT into a top-10 in the S-REIT space in terms of market capitalisation. Frasers Property Limited (FPL), the manager of both Trusts, will own 21.9% of the combined entity after the merger, which is expected to complete end Mar/Apr 2020.

Credit positives for the merger include potential lower cost of funding for FLT due to greater size and liquidity and access to investors, greater debt headroom for FLT for acquisitions of Right of First Refusal (ROFR) assets from its sponsor FPL, as well as benefits for the Frasers Group from synergies from the combined operations of FLT and FCOT.

Despite FLT, which focuses on industrial properties in Australia, acquiring the commercial property focused FCOT, FLT's CEO Robert Wallace stated that the REIT's focus would remain on the industrial property business.

New debt funding to be explored

As per the announcement, upon success of the merger, FLT will be acquiring the remaining 50% of Farnborough Business Park, a 46.5 hectare freehold business park in the United Kingdom, for a consideration of £90.1mn. As FLT intends to fund this acquisition using 100% debt, new bond issues may be explored in the future.

What this means for FPLSP bondholders

As Frasers Property Limited (FPL) is the guarantor of FPLSP bonds, bondholders may be interested in the impact of the merger on FPL's credit profile.

As the merger is between FLT and FCOT, it does not involve FPL as the manager, and is not expected to have a material effect on the net tangible assets per share or earnings per share of FPL and its subsidiaries for the current financial year, as stated in the announcement by the Group.

However, management at FPL expects the Group to benefit from synergies obtained from the merger in the future through its 21.9% stake in the enlarged entity.

What this means for FCOTSP bondholders

FCOT currently has three issues of bond in the market, all of which have a cessation of trading put clause which allows FCOT bondholders the option to sell their bonds back to FCOT at par upon FCOT's delisting.

With limited liquidity due to small issue sizes (S\$60mn to S\$100mn), the exercisability of the put option provides an exit opportunity for FCOT bondholders who are looking to liquidate their holdings and/or switch into other REIT bonds on the market that may provide better yield.

Tickers:

FLT
FCOT

FCOT bonds	Issue size
FCOTSP 3.185% '23s	60mn
FCOTSP 2.835% '21s	100mn
FCOTSP 2.625% '20s	100mn

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Figure 1 compares FCOTSP’s bonds with the bonds of FCOT comparable peers. On a comparable-maturity basis, SUNSP 3.4% ‘23s which is trading at +11bps spread of FCOTSP’s 3.185% ‘23s, is an attractive alternative for bondholders seeking a pureplay commercial REIT bond.

Figure 1: SUNSP 3.4 ‘23s may provide an attractive switch for FCOT 3.185% ‘23s holders

Bonds	Maturity date	Aggregate leverage	Ask YTM	Z-Spread
FCOTSP 2.625% ‘20s	28/02/2020	35.4%	1.97%	48
FCOTSP 3.185% ‘23s	28/02/2023	35.4%	2.62%	122
FCOTSP 2.835% ‘21s	11/08/2021	35.4%	2.83%	145
SGREIT 3.50% ‘21s	26/02/2021	36.1%	2.22%	84
SGREIT 3.40% ‘23s	26/05/2023	36.1%	2.38%	96
SGREIT 3.14% ‘26s	03/10/2026	36.1%	2.73%	117
SUNSP 3.4% ‘23s	10/05/2023	38.1%	2.75%	133
SUNSP 3.355% ‘25s	07/02/2025	38.1%	2.99%	151

Source: Bloomberg, indicative prices as at 6 December 2019

Aggregate leverage based on latest available quarter

We emphasise that there is no obligation for FCOT bondholders to sell their bonds upon the merger, merely an option.

The enlarged REIT may be able to command lower borrowing costs due to the synergies, stability and diversification. However, in order to unlock cost savings from lower borrowing costs, FLT-FCOT will have to redeem all the existing FCOTSP bonds and reissue new bonds. As such, FCOT bondholders may see a better offer on the table should FLT-FCOT choose to incentivise bondholders to sell back their bonds.

Management at Frasers indicated there will be updates for bondholders in the upcoming future.

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