

4 September 2024

Property | REITS

CapitaLand Integrated Commercial Trust (CICT SP)

Buy (Maintained)

Proposes To Acquire ION Orchard; BUY

Target Price (Return): SGD2.30 (+8%)
 Price (Market Cap): SGD2.13 (USD10,971m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 45.8m/34.4m

- **Stay BUY and TP of SGD2.30, 8% upside with c.5% FY24F yield.** We are neutral on CapitaLand Integrated Commercial Trust's proposal to acquire a 50% stake in the shopping mall ION Orchard and ION Orchard Link (both termed under "ION Orchard" in this report), as the pricing is slightly on the higher end. However, from a market timing perspective, the deal comes at an opportune time with rate cuts on the horizon – the REIT's enhanced size, Singapore focus and improved liquidity post acquisition will help to propel its share price further.
- **Acquiring 50% stake in ION Orchard for SGD1.85bn** (SGD3.7bn on a 100% basis) from its sponsor, CapitaLand Investment (CLI SP, NR). The remaining 50% stake is held by the Hong Kong developer, Sun Hung Kai Properties. The acquisition price is in between the latest two independent valuations. But based on end-2023 financials, the asset was valued in CLI's book at c.SGD3.4bn and will result in a c.SGD150m gain for its sponsor. Gross yield (1H) for the deal is ~7.1%, and we estimate NPI yield to be in the mid-4% range. The iconic high-end mall has a balance lease of 81 years and sits on top of the Orchard MRT station, and houses various top brands (Figure 3). The committed occupancy rate is at ~96%, while management guided for rent reversions to be in high single digits – similar to that of its other downtown Singapore malls. The acquisition will strengthen CICT's Singapore focus, which investors are likely to view favourably. Downtown malls (by NLA) will account for 57% of its Singapore retail exposure, from 52%.
- **To be funded by a majority of equity**, with private placement proceeds of no less than SGD350m, at an issue price range of SGD2.038-2.091 (1-3.5% discount to adjusted VWAP) and preferential offering of SGD757m at SGD2.007 per unit (56 preferential units for every 1,000 existing units). The rest will be funded by debt, with CICT guiding for debt cost in the high 3%. Based on the above funding (and assuming the 70% entire management fee paid in units vs 50% currently) CICT expects *pro forma* DPU accretion at 1.2% (for FY23) and +0.9% (1H24). There is, however, potential upside of an extra 1% to DPU accretion, if CICT manages to get tax transparency status for income, subject to its JV partner's agreement and government approvals.
- **Gearing post acquisition should stay stable, at 39.9%.** We also see room for more divestments in the near term from mature/non-core assets, eg Bukit Panjang Plaza, 21 Collyer Quay and Citadines Raffles Place – the proceeds of such may be channelled to acquisitions and asset enhancements.
- **We maintain estimates** pending EGM approval (November) for the deal, after which the acquisition is expected to be concluded by end-2024. CICT's ESG score of 3.4 (out of 4.0) is three notches higher than country median, so we applied a 6% ESG premium to its intrinsic value derive our TP.

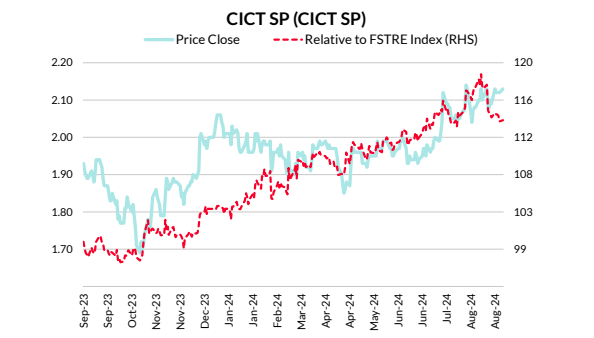
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	0.0	8.7	11.5	11.5
Relative	9.7	(2.9)	2.5	6.9	15.3
52-wk Price low/high (SGD)				1.69	-2.14



Source: Bloomberg

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

99% of CICT's portfolio by GFA have green ratings. CICT is aligned with its sponsor on its 2030 revised Sustainability Master Plan which has set targets to reduce carbon intensity emissions, energy consumption intensity and water consumption intensity by 72%, 15% and 15% by 2030 (compared to 2019 levels) and is on track to achieve it.

S: EXCELLENT

All of CICT's contractors and vendors have committed to abide by Supply Chain Code of Conduct. 99.6% of its staff have attended at least one ESG training course. The REIT also undertakes a high level of community engagements with total employee volunteer hours exceeding 755.

G: GOOD

CICT has a well-established corporate governance framework and culture, with its Board having five independent directors and four non-independent ones. There is detailed earnings disclosure and active investor engagement.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	1,442	1,560	1,546	1,582	1,626
Net property income (SGDm)	1,043	1,116	1,122	1,144	1,167
Reported net profit (SGDm)	727	873	795	818	854
Total distributable income (SGDm)	714	732	739	763	803
DPS (SGD)	0.11	0.11	0.11	0.11	0.12
DPS growth (%)	1.8	1.8	0.5	3.0	4.8
P/B (x)	0.99	0.99	0.99	0.99	0.99
Dividend Yield (%)	5.0	5.1	5.1	5.2	5.5
Return on average equity (%)	5.2	6.1	5.5	5.7	5.9
Return on average assets (%)	3.1	3.5	3.2	3.3	3.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (SGD)	0.10	0.13	0.12	0.12	0.13
Property	EPS (SGD)	0.11	0.13	0.12	0.12	0.13
CapitaLand Integrated Commercial Trust	DPS (SGD)	0.11	0.11	0.11	0.11	0.12
CICT SP	BVPS (SGD)	2.15	2.16	2.14	2.15	2.16
Buy	Return on average equity (%)	5.2	6.1	5.5	5.7	5.9
	Weighted avg adjusted shares (m)	6,639.58	6,663.41	6,669.98	6,694.88	6,720.62
Valuation basis						
DDM	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	21.11	16.26	17.87	17.44	16.77
	P/E (x)	19.45	16.26	17.87	17.44	16.77
	P/B (x)	1.0	1.0	1.0	1.0	1.0
	FCF Yield (%)	6.2	6.9	9.1	7.6	8.3
	Dividend Yield (%)	5.0	5.1	5.1	5.2	5.5
	EV/EBITDA (x)	(0.66)	(0.83)	(0.79)	(0.75)	(0.79)
	EV/EBIT (x)	(0.66)	(0.83)	(0.79)	(0.75)	(0.79)
Key drivers						
i. Largest retail cum office REIT in Singapore benefitting from scale and diversification;						
ii. Good-quality assets and management team;						
iii. Strong sponsor and asset pipeline.						
Key risks						
i. Continued spike in interest rates and the economy falling into a recession;						
ii. Structural headwinds facing the office and retail sectors;						
iii. Weak performance of its overseas assets.						
Company Profile						
CapitaLand Integrated Commercial Trust (CICT) is the first and largest REIT listed on the SGX. It debuted on the SGX as CapitaLand Mall Trust in Jul 2002, and was renamed CICT in Nov 2020 following the merger with CapitaLand Commercial Trust. CICT owns and invests in quality income-producing assets primarily used for commercial (including retail and/or office) purposes that are located predominantly in Singapore.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	1,442	1,560	1,546	1,582	1,626
	EBITDA	952	1,022	1,024	1,045	1,066
	Depreciation and amortisation	(4)	(5)	0	0	0
	Operating profit	948	1,018	1,024	1,045	1,066
	Net interest	(227)	(264)	(337)	(336)	(322)
	Income from associates & JVs	42	16	57	58	59
	Exceptional income - net	57	0	0	0	0
	Pre-tax profit	731	883	805	827	864
	Taxation	(4)	(10)	(10)	(10)	(10)
	Recurring net profit	670	873	795	818	854
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	54	25	163	(49)	29
	Cash flow from operations	1,009	1,099	1,288	1,088	1,181
	Capex	(127)	(118)	0	0	0
	Cash flow from investing activities	(930)	16	64	65	5
	Dividends paid	(685)	(708)	(734)	(758)	(798)
	Cash flow from financing activities	(248)	(1,149)	(1,278)	(1,066)	(1,152)
	Cash at beginning of period	365	248	141	152	175
	Net change in cash	(169)	(34)	74	87	35
	Ending balance cash	196	215	215	239	210
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	248	141	152	175	205
	Tangible fixed assets	5	5	5	5	5
	Total investments	24,106	24,373	24,497	24,609	24,722
	Total other assets	226	166	151	165	180
	Total assets	24,667	24,739	24,913	25,066	25,226
	Short-term debt	1,155	1,001	700	500	600
	Total long-term debt	8,430	8,476	8,936	9,236	9,166
	Total liabilities	10,387	10,337	10,608	10,658	10,717
	Shareholders' equity	14,279	14,402	14,304	14,408	14,509
	Total equity	14,279	14,402	14,304	14,408	14,509
	Net debt	9,337	9,337	9,484	9,561	9,561
	Total liabilities & equity	24,667	24,739	24,913	25,066	25,226
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	10.5	8.2	(0.9)	2.4	2.7
	Recurrent EPS growth (%)	(39.6)	29.8	(9.0)	2.4	3.9
	Operating EBITDA margin (%)	66.0	65.5	66.2	66.0	65.6
	Net profit margin (%)	50.4	56.0	51.4	51.7	52.5
	Dividend payout ratio (%)	96.6	82.2	90.9	91.4	92.2
	Capex/sales (%)	8.8	7.6	0.0	0.0	0.0
	Interest cover (x)	3.91	3.16	2.99	3.07	3.26

Source: Company data, RHB

Figure 1: DDM valuation table

	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (SG cents)	10.83	11.16	11.71	12.12	224.20
Fair value (SGD)	2.17				
ESG Premium/discount	0.13				
Target Price	2.30				
Current price (SGD)	2.10				
Price upside (%)	9.5				
Distribution yield (%)	5.2				
Total Returns (%)	14.7				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.0				
Terminal growth (%)	1.8				

Source: RHB

Figure 2: ION Orchard



Source: Company data

Figure 3: ION Orchard has a diverse mix of tenants involved in many trades

Trade Mix	Watches & Jewellery	Fashion	Beauty & Wellness	Lifestyle	Food & Beverage
Fine Jewellery & Watches					
Watches & Jewellery	Cartier	Louis Vuitton	Mizu Aesthetic Clinic	Leica	Taste Paradise
Luxury Fashion					
Handbags & Shoes	Harry Winston	Loewe	Thann	Steinway & Sons	Surrey Hills Grocer
Fashion					
Beauty	Rolex	Dior	Aesop	Tumi	Bacha Coffee
Wellness services					
Lifestyle	Tiffany & Co.	The Onitsuka	Guardian	Lululemon	Food Opera
Restaurants & Cafes					
Casual Dining	G-SHOCK Casio	Ecco	Kiehl's	HOKA	HEYTEA
	Love & Co.	Love Bonito	Sephora	Singtel	Jasons Deli
	SK Jewellery	ZARA			

Source: Company data

Emissions And ESG

Trend analysis

For 2023, CICT's Scope 1 and 2 emissions marginally decreased by 1% YoY. This was achieved despite the increase in business activity last year. The carbon emissions intensity for its Singapore operating properties has decreased by 19% compared to levels recorded in the base year of 2019. Its water consumption and waste consumption intensity have fallen by 15% and 21% compared to 2019 figures.

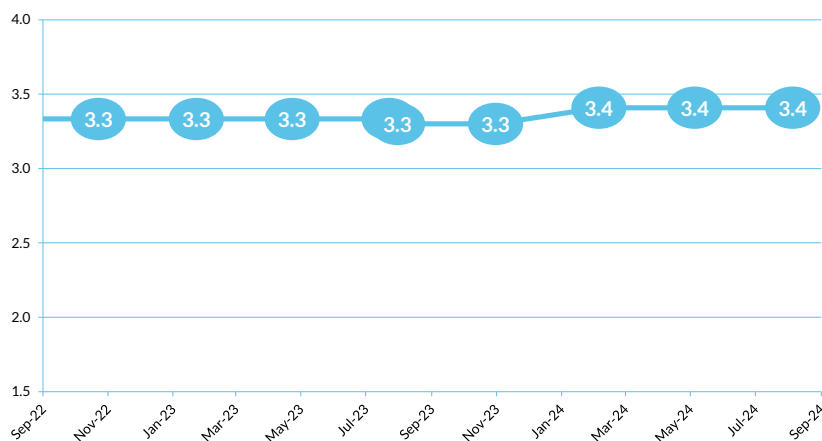
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	42	30	33
Scope 2	62,646	64,906	64,272
Scope 3	91,991	91,804	97,967
Total emissions	154,679	156,740	162,272

Source: Company data, RHB

Latest ESG-Related Developments

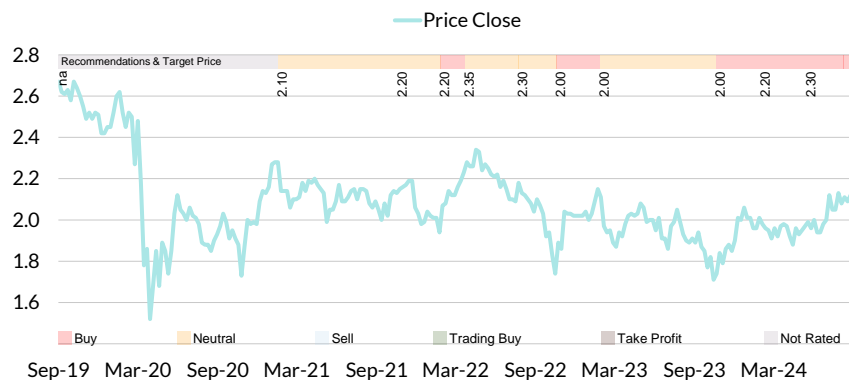
- CICT installed a 2.4 MW solar PV system, and is making strides towards its 2023 goal of using 45% renewable energy in its total electricity consumption.
- It has maintained a 5-star GRESB rating, with an improved overall score.
- CICT has committed to achieve net zero by 2050, for its Scope 1 and 2 emissions..

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-13	Buy	2.30	2.10
2024-04-19	Buy	2.20	1.88
2024-02-07	Buy	2.20	1.99
2023-10-26	Buy	2.00	1.71
2023-08-01	Neutral	2.00	2.04
2023-02-01	Neutral	2.00	2.11
2022-10-24	Buy	2.00	1.74
2022-07-28	Neutral	2.30	2.13
2022-03-28	Neutral	2.35	2.23
2022-01-30	Buy	2.20	1.94
2021-12-07	Neutral	2.20	2.05
2021-10-24	Neutral	2.20	2.13
2021-07-28	Neutral	2.10	2.11
2021-01-21	Neutral	2.10	2.30

Source: RHB, Bloomberg

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