

28 March 2022

Property | REITS

## Capitaland Integrated Commercial Trust (CICT SP)

### Nearing Fair Value; Cut To NEUTRAL

**Neutral** (from Buy)

|                              |                      |
|------------------------------|----------------------|
| Target Price (Return):       | SGD2.35 (5.4%)       |
| Price (Market Cap):          | SGD2.23 (USD10,890m) |
| ESG score:                   | 3.33 (out of 4)      |
| Avg Daily Turnover (SGD/USD) | 46.3m/34.2m          |

- **D/G to NEUTRAL from Buy, with higher SGD2.35 TP from SGD2.20, 5% upside, c.5% yield.** Capitaland Integrated Commercial Trust's acquisition of 79 Robinson Road (RR) was largely anticipated, though pricing is slightly on the higher side, in our view. Its Singapore office and retail portfolio stand to benefit from the latest Government announcement for a significant relaxation of COVID-19 restrictions starting this week. With the stock up 15% since January, and trading at 1.1x P/BV with a c.5% yield, the positives are mostly priced in.
- **Acquisition of a 70% stake in RR** with CapitaLand Open End Real Estate Fund (COREF) acquiring the remaining 30% balance stake from a special purpose vehicle (SPV) held by sponsor Capitaland Investment (CLI) (65%) and Mitsui & Co., Ltd. and Tokyo Tatemono Co., Ltd (35%). The asset is a redevelopment of the former CPF building and was completed in Mar 2020 with a balance of 45 years lease tenure. The agreed value (100% basis) of SGD1.26bn or SGD2,423psf (at par with the latest independent valuation) translates to an initial 4% NPI yield.
- **Pricing on higher side but room for upside potential.** The acquisition price is 15% higher than Capitaland Investment Ltd's (end Dec 2021) carrying value of SGD1.1bn and 42% higher than nearby OUE Downtown office's SGD1,704psf (end Dec 2021) which has a similar land lease tenure. On the positive side, the asset comes with brand new high specifications and a BCA Green Mark Platinum certification (highest green rating). Additionally, there is room for occupancy upside from the current 92.9% with the office sector experiencing a continued positive demand. The asset comes with a long weighted average lease to expiry (WALE) of 5.8 years and rent step-ups for the majority of leases. The top three tenants which account for c.48% of income are Allianz, Equinix Asia Pacific, and The Boston Consulting Group.
- **To be funded by JCube divestment proceeds (SGD335m) and debt.** It will result in a DPU accretion of 2.9% (pro-forma FY21). Gearing post acquisition is expected at 41% indicating that subsequent acquisitions are likely to come with an equity fund raising. Management hinted that its next potential acquisition would be in Singapore and is also based on investor feedback for more Singapore exposure. We believe a likely candidate could be a remaining stake in recently completed CapitaSpring (currently CICT owns a 45% stake). Post-acquisition, Singapore accounts for 92% of its portfolio value with Australia and Germany accounting for 4% each.
- **We revise up our FY22-24F DPU by 2-3% factoring in acquisitions.** CICT scores high on the ESG front (3.3 out of 4.0), which is derived based on our proprietary in-house methodology and is reflective of its committed efforts to reduce carbon footprint and a good governance. As the score is three notches above country median, we have applied a 6% ESG premium.

#### Analysts

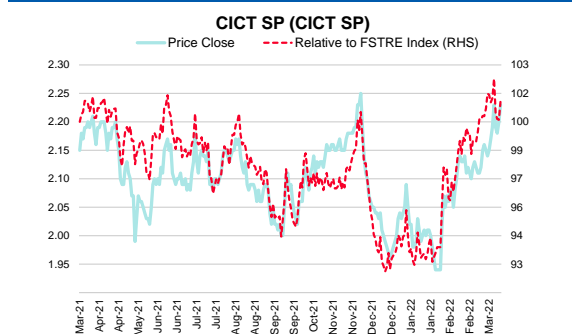
Singapore Research  
sg.research@rhbgroup.com

Shekhar Jaiswal  
+65 6320 0806  
shekhar.jaiswal@rhbgroup.com



#### Share Performance (%)

|                            | YTD         | 1m  | 3m   | 6m  | 12m |
|----------------------------|-------------|-----|------|-----|-----|
| Absolute                   | 9.3         | 5.2 | 12.1 | 7.2 | 5.2 |
| Relative                   | 7.6         | 1.7 | 8.9  | 5.4 | 1.7 |
| 52-wk Price low/high (SGD) | 1.94 – 2.25 |     |      |     |     |



Source: Bloomberg

#### Overall ESG Score: 3.33 (out of 4)

##### E: EXCELLENT

96% of CICT's portfolio has achieved a green rating GRESB 5-star rating. The company set a 2030 target to reduce carbon emission, energy, and water intensity by 78%, 35%, and 45% compared to 2008 levels and is on track to achieve it.

##### S: GOOD

CICT premises implemented various safety measures such as anti-microbial coating technology, protective acrylic screens, autonomous UV disinfection robots etc., to keep premises safe and minimize COVID-19 outbreak. In 2020, 18.5% of CICT employees attended Environment Health and Safety (EHS) related training clocking over 1,750 training hours.

##### G: EXCELLENT

Well established corporate governance framework and culture with 5 independent directors and 3 non independent directors. Good diversified board members with 7 of its 8 members having been part of the board for <3 years.

| Forecasts and Valuation           | Dec-20 | Dec-21 | Dec-22F | Dec-23F | Dec-24F |
|-----------------------------------|--------|--------|---------|---------|---------|
| Total turnover (SGDm)             | 745    | 1,305  | 1,423   | 1,471   | 1,483   |
| Net property income (SGDm)        | 513    | 951    | 1,055   | 1,092   | 1,101   |
| Reported net profit (SGDm)        | 360    | 1,084  | 893     | 934     | 879     |
| Total distributable income (SGDm) | 386    | 689    | 760     | 780     | 785     |
| DPS (SGD)                         | 0.06   | 0.11   | 0.11    | 0.12    | 0.12    |
| DPS growth (%)                    | (53.7) | 82.5   | 8.0     | 2.6     | 0.7     |
| P/B (x)                           | 1.10   | 1.06   | 1.06    | 1.05    | 1.04    |
| Dividend Yield (%)                | 2.6    | 4.7    | 5.1     | 5.3     | 5.3     |
| Return on average equity (%)      | 3.5    | 8.1    | 6.5     | 6.7     | 6.2     |
| Return on average assets (%)      | 2.1    | 4.8    | 3.8     | 3.8     | 3.6     |

Source: Company data, RHB

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## Financial Exhibits

|   |                                     |               |               |                |                |                |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>   | <b>Financial summary</b>            | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| Singapore   | Recurring EPS (SGD)                 | -             | 0.02          | 0.17           | 0.14           | 0.13           |
| Property  | EPS (SGD)                           | 0.09          | 0.17          | 0.14           | 0.14           | 0.13           |
| <b>Capitaland Integrated Commercial Trust</b>   | DPS (SGD)                           | 0.06          | 0.11          | 0.11           | 0.12           | 0.12           |
| CICT SP   | BVPS (SGD)                          | 2.02          | 2.11          | 2.09           | 2.12           | 2.14           |
| Neutral   | Return on average equity (%)        | 3.5           | 8.1           | 6.5            | 6.7            | 6.2            |
|   | Weighted avg adjusted shares (m)    | 4,183.76      | 6,489.94      | 6,608.96       | 6,609.67       | 6,610.41       |
| <b>Valuation basis</b>  | <b>Valuation metrics</b>            | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| DDM Methodology   | Recurring P/E (x)                   | na            | 13.35         | 16.51          | 15.79          | 16.76          |
|   | P/E (x)                             | 25.89         | 13.35         | 16.51          | 15.79          | 16.76          |
| <b>Key drivers</b>  | P/B (x)                             | 1.1           | 1.1           | 1.1            | 1.1            | 1.0            |
| I. Largest retail cum office REIT in Singapore benefitting from scale and diversification;  | FCF Yield (%)                       | 4.0           | 6.0           | 6.1            | 7.6            | 7.6            |
| II. Good quality assets and management team; and  | Dividend Yield (%)                  | 2.6           | 4.7           | 5.1            | 5.3            | 5.3            |
| III. Strong Sponsor and asset pipeline  | EV/EBITDA (x)                       | 1.55          | 0.61          | 0.58           | 0.34           | 0.19           |
|   | EV/EBIT (x)                         | 1.56          | 0.62          | 0.58           | 0.34           | 0.19           |
| <b>Key risks</b>  | <b>Income statement (SGDm)</b>      | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| Downside risks:   | Total turnover                      | 745           | 1,305         | 1,423          | 1,471          | 1,483          |
| I. Accelerating structural headwinds facing retail sector;  | EBITDA                              | 459           | 868           | 952            | 984            | 992            |
| II. Mass exit of popular retail and fashion brands; and   | Depreciation and amortisation       | (2)           | (5)           | 0              | 0              | 0              |
| III. Sharp spike in interest rates and faltering economy.   | Operating profit                    | 457           | 863           | 952            | 984            | 992            |
|   | Net interest                        | (119)         | (171)         | (211)          | (226)          | (233)          |
| The opposite represent upside risks.  | Income from associates & JVs        | (14)          | 140           | 57             | 74             | 76             |
|   | Exceptional income - net            | 430           | 0             | 0              | 0              | 0              |
|   | Pre-tax profit                      | 360           | 1,103         | 905            | 946            | 891            |
|   | Taxation                            | 0             | (19)          | (12)           | (12)           | (12)           |
|   | Recurring net profit                | (70)          | 1,084         | 893            | 934            | 879            |
| <b>Company Profile</b>  | <b>Cash flow (SGDm)</b>             | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| CapitaLand Integrated Commercial Trust (CICT) is the first and largest real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (SGX-ST). It debuted on SGX-ST as CapitaLand Mall Trust in July 2002 and was renamed CICT in November 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) purpose, located predominantly in Singapore. | Change in working capital           | (77)          | (51)          | (144)          | 19             | 11             |
|   | Cash flow from operations           | 424           | 969           | 905            | 1,118          | 1,120          |
|   | Capex                               | (54)          | (94)          | 0              | 0              | 0              |
|   | Cash flow from investing activities | (967)         | 213           | (1,184)        | 14             | 16             |
|   | Dividends paid                      | (371)         | (448)         | (756)          | (776)          | (781)          |
|   | Cash flow from financing activities | 524           | (902)         | 274            | (1,093)        | (1,105)        |
|   | Cash at beginning of period         | 202           | 184           | 365            | 357            | 393            |
|   | Net change in cash                  | (18)          | 279           | (4)            | 40             | 31             |
|   | Ending balance cash                 | 184           | 463           | 361            | 397            | 423            |
|   | <b>Balance sheet (SGDm)</b>         | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|   | Total cash and equivalents          | 184           | 365           | 357            | 393            | 419            |
|   | Tangible fixed assets               | 7             | 6             | 6              | 6              | 6              |
|   | Total investments                   | 21,874        | 21,751        | 23,479         | 23,600         | 23,664         |
|   | Total other assets                  | 262           | 222           | 228            | 218            | 218            |
|   | Total assets                        | 22,416        | 22,742        | 24,200         | 24,351         | 24,447         |
|   | Short-term debt                     | 932           | 595           | 500            | 500            | 500            |
|   | Total long-term debt                | 7,794         | 7,583         | 9,150          | 9,088          | 9,035          |
|   | Total liabilities                   | 9,348         | 9,046         | 10,359         | 10,316         | 10,276         |
|   | Shareholders' equity                | 13,068        | 13,696        | 13,841         | 14,035         | 14,170         |
|   | Total equity                        | 13,068        | 13,696        | 13,841         | 14,035         | 14,170         |
|   | Net debt                            | 8,543         | 7,812         | 9,293          | 9,195          | 9,116          |
|   | Total liabilities & equity          | 22,416        | 22,742        | 24,200         | 24,351         | 24,447         |
|   | <b>Key metrics</b>                  | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|   | Revenue growth (%)                  | (5.3)         | 75.1          | 9.1            | 3.3            | 0.8            |
|   | Recurrent EPS growth (%)            | (108.6)       | 0.0           | (19.2)         | 4.6            | (5.8)          |
|   | Operating EBITDA margin (%)         | 61.6          | 66.5          | 66.9           | 66.9           | 66.9           |
|   | Net profit margin (%)               | 48.4          | 83.1          | 62.7           | 63.5           | 59.3           |
|   | Dividend payout ratio (%)           | 104.2         | 63.4          | 84.7           | 83.1           | 88.9           |
|   | Capex/sales (%)                     | 7.3           | 7.2           | 0.0            | 0.0            | 0.0            |
|   | Interest cover (x)                  | 3.42          | 4.55          | 4.19           | 4.09           | 3.99           |

Source: Company data, RHB

Figure 1: CICT – fair value based on the Dividend Discount Model

|                        | FY22F | FY23F | FY24F | FY25F | Terminal value |
|------------------------|-------|-------|-------|-------|----------------|
| DPU (SGD cts)          | 11.36 | 11.67 | 11.75 | 11.96 | 237.36         |
| Fair value (SGD)       | 2.22  |       |       |       |                |
| ESG Premium/discount   | 0.13  |       |       |       |                |
| Target Price           | 2.35  |       |       |       |                |
| Current price (SGD)    | 2.23  |       |       |       |                |
| Price upside (%)       | 5.4   |       |       |       |                |
| Distribution yield (%) | 5.1   |       |       |       |                |
| Total Returns (%)      | 10.5  |       |       |       |                |
| <b>Assumptions</b>     |       |       |       |       |                |
| Risk-free rate (%)     | 2.8   |       |       |       |                |
| Beta                   | 0.8   |       |       |       |                |
| Cost of equity (%)     | 6.9   |       |       |       |                |
| Terminal growth (%)    | 1.8   |       |       |       |                |

Source: RHB

Figure 2: 79 Robinson road



Source: CICT

Figure 3: Property details

|  |  |
|--|--|
| Address                                      | 79 Robinson Road, Singapore 068897   |
| Description                                  | A 29-storey Grade A office tower with ancillary retail. Future underground pedestrian network will provide access to Tanjong Pagar MRT Station |
| Ownership after acquisition                  | CICT: 70.0% interest<br>COREF <sup>(1)</sup> : 30.0% interest  |
| Leasehold Tenure                             | 99 years with effect from 10 January 1968 (Balance of ~ 45 years as at 31 Dec 2021)  |
| Year of Completion                           | Main building TOP on 28 April 2020   |
| Gross Floor Area                             | 613,594 sq ft  |
| Net Lettable Area                            | <b>Total: 519,949 sq ft</b><br>Office: 514,950 sq ft and Retail: 4,999 sq ft   |
| Parking Lots                                 | 133 Car lots including electric vehicle lots; 4 Accessible lots; 92 Bicycle lots   |
| Committed Occupancy                          | 92.9%  |
| No of Tenants                                | 22   |
| Weighted Average Lease Expiry <sup>(2)</sup> | 5.8 years  |
| NPI Yield <sup>(3)</sup>                     | 4.0%   |

Notes:

(1) CapitaLand Open End Real Estate Fund FCP-RAIF (COREF), which is managed by CapitaLand Fund Management Pte. Ltd.

(2) Based on monthly gross rental income and excludes gross turnover rents.

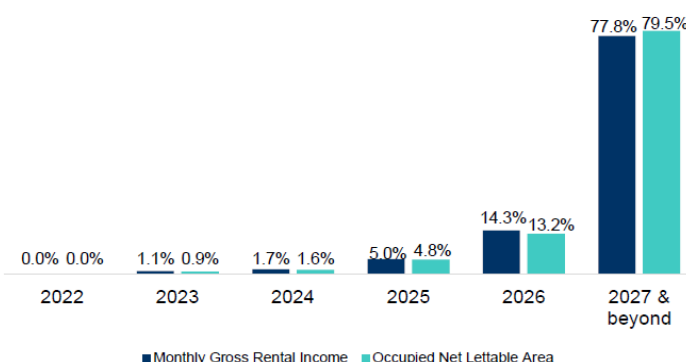
(3) Based on the pro forma NPI for January 2022 on an annualised basis.

Source: CICT

Figure 4: Lease expiry profile

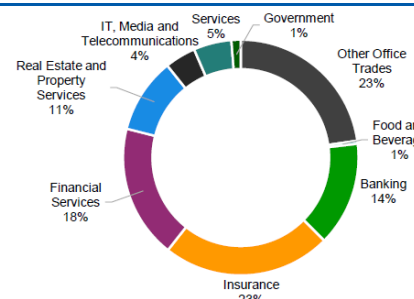
Weighted Average Lease to Expiry<sup>(1)</sup> = 5.8 years

- Includes rent step-ups for majority of the leases



Source: CICT

Figure 5: 79 RR tenant mix



Top 3 Tenants are Leading Global Companies; Make up ~48% of gross rental income <sup>(1)</sup> and WALE of 5.9 years<sup>(1)</sup>

| Tenant Name                 | Trade Category      | Description   |
|-----------------------------|---------------------|---|
| Allianz                     | Insurance           | Global financial services provider for insurance and asset management |
| Equinix Asia Pacific        | Financial Services  | Digital infrastructure provider                                       |
| The Boston Consulting Group | Other Office Trades | Global management consulting firm                                     |

Source: CICT

Recommendation Chart

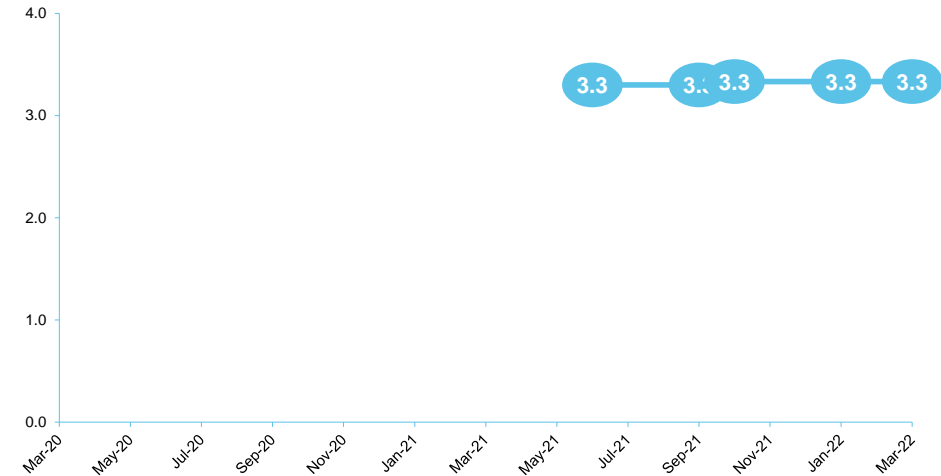


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2022-01-30 | Buy            | 2.20         | 1.94  |
| 2021-10-24 | Neutral        | 2.20         | 2.13  |
| 2021-01-21 | Neutral        | 2.10         | 2.30  |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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|                     |  |
|---------------------|--|
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| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
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#### KUALA LUMPUR

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470