

29 July 2022

Property | REITS

CapitaLand Integrated Commercial Trust (CICT SP)

Neutral (Maintained)

A Transitional Year

- **Keep NEUTRAL, with new TP of SGD2.30 from SGD2.35, 8% upside.** 1H22 results came in slightly below our expectations. Operationally, many of CapitaLand Integrated Commercial Trust's assets are still ramping up, resulting in weaker income growth compared to peers. The REIT has also been slightly more impacted from higher utility costs, with most of its hedges rolling over to high market rates. With relatively high gearing, we believe accretive acquisitions are likely to be challenging, and see limited catalysts.
- **Flattish 1H DPU** as income growth was offset by higher expenses and a larger unit base, accounting for c.47% of full year DPU. Operating expenses (1H) rose 4.4% YoY, driven by a 48% increase in utility costs as its fixed hedges expired in 2Q, with the full impact to be felt from 2H. The impact is expected to be offset by a gradual rollout of higher service charges. Interest costs crept up by 10bps to 2.4%, with a slightly lower fixed hedge of 81% (from 85%). About 12% or c.SGD1.2bn of loans are due for expiry in 1H23, which we believe should push interest costs slightly higher by 10-20bps.
- **Singapore office portfolio remains a bright spot**, with occupancy improving 0.6ppt QoQ to 92.9% and is set to move higher in 2H, with 13% of leases at Capital Tower under advanced negotiations. 2H22-2023 should also see a ramp up in income contribution as many of its Singapore assets (CapitaSpring, Six Battery Road, and 21 Collyer Quay) are in a ramp-up/rent-free phase. Rent reversion (1H) stayed strong at +8.5% and is expected to remain in mid-to-high single digits for rest of the year. On the other hand, performance of its Australia market remains soft with 66 Goulburn Street occupancy declining 4.8ppts QoQ, and a slower-than-expected ramp up at 100 Arthur Street (68.8%). Commerzbank, anchor tenant occupying nearly 98.2% of Galileo, Frankfurt, will also be vacating in early 2024 and could pose leasing challenges in current market conditions.
- **Retail sector is staging a recovery**, with average rent reversion (1H) turning flattish at -0.5% (excluding Raffles City +1.1%). Tenant sales at its malls rose 16% YoY, and is near pre-COVID-19 levels with a sharp recovery at downtown malls post full reopening in 2Q. Portfolio occupancy remains flattish at 98.5%. Clarke Quay, which bore the brunt of the impact during COVID-19, is set to undergo major asset enhancements (AEI) at an estimated capex of SGD62m, transforming it into a day-and-night destination. The AEI will be done in phases until 3Q23, with ROI estimated to be in the mid-single digits.
- **Possible candidate for Mercatus assets** ([Mercatus Asset Sale](#)), but we see limitations in terms of DPU accretion, with a high gearing of 40.6%.
- **We lower FY22F-24F DPU by 2-3% factoring in lower NPI margin.** CICT has a high ESG score of 3.3 out of 4.0. As its score is three notches above the country median, we apply a 6% ESG premium.

Target Price (Return): SGD2.30 (+8%)
 Price (Market Cap): SGD2.14 (USD10,225m)
 ESG score: 3.33 (out of 4)
 Avg Daily Turnover (SGD/USD) 48.4m/34.9m

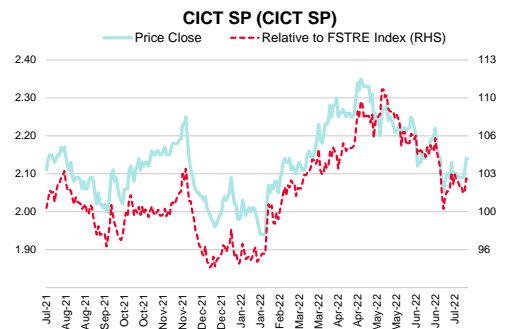
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	(2.3)	(8.6)	9.2	1.9
Relative	5.9	(2.7)	(5.8)	7.5	2.6
52-wk Price low/high (SGD)	1.94 – 2.35				



Source: Bloomberg

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	1,036	1,072	1,086
Reported net profit (SGDm)	360	1,084	871	914	865
Total distributable income (SGDm)	386	689	739	761	771
DPS (SGD)	0.06	0.11	0.11	0.11	0.12
DPS growth (%)	(53.7)	82.5	5.0	3.0	1.3
P/B (x)	1.06	1.01	1.02	1.01	1.00
Dividend Yield (%)	2.7	4.9	5.2	5.4	5.4
Return on average equity (%)	3.5	8.1	6.3	6.6	6.1
Return on average assets (%)	2.1	4.8	3.7	3.8	3.5

Source: Company data, RHB

Overall ESG Score: 3.33 (out of 4)

E: EXCELLENT

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

S: GOOD

CapitaLand 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. High level of community engagements. 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.

Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	-	0.02	0.17	0.13	0.13
Property	EPS (SGD)		0.09	0.17	0.13	0.13
CapitaLand Integrated Commercial Trust	DPS (SGD)		0.06	0.11	0.11	0.12
CICT SP	BVPS (SGD)		2.02	2.11	2.09	2.14
Neutral	Return on average equity (%)		3.5	8.1	6.3	6.6
	Weighted avg adjusted shares (m)		4,183.76	6,489.94	6,608.98	6,609.71
						6,610.49
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM Methodology	Recurring P/E (x)	na	12.81	16.23	15.47	16.35
	P/E (x)	24.85	12.81	16.23	15.47	16.35
	P/B (x)	1.1	1.0	1.0	1.0	1.0
	FCF Yield (%)	4.1	6.3	6.4	7.8	7.8
	Dividend Yield (%)	2.7	4.9	5.2	5.4	5.4
	EV/EBITDA (x)	0.73 -	0.06 -	0.06 -	0.29 -	0.43
	EV/EBIT (x)	0.74 -	0.06 -	0.06 -	0.29 -	0.43
Key drivers	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Largest retail cum office REIT in Singapore benefitting from scale and diversification;	Total turnover	745	1,305	1,423	1,471	1,483
ii. Good quality assets and management team; and	EBITDA	459	868	933	964	977
iii. Strong Sponsor and asset pipeline	Depreciation and amortisation	(2)	(5)	0	0	0
	Operating profit	457	863	933	964	977
	Net interest	(119)	(171)	(213)	(225)	(232)
	Income from associates & JVs	(14)	140	57	74	76
	Exceptional income - net	430	0	0	0	0
	Pre-tax profit	360	1,103	883	926	877
	Taxation	0	(19)	(12)	(12)	(12)
	Recurring net profit	(70)	1,084	871	914	865
Key risks	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Accelerating structural headwinds facing retail sector;	Change in working capital	(77)	(51)	(127)	20	7
ii. Weak performance from overseas assets; and	Cash flow from operations	424	969	903	1,099	1,100
iii. Sharp spike in interest rates and faltering economy.	Capex	(54)	(94)	0	0	0
	Cash flow from investing activities	(967)	213	(1,185)	15	16
	Dividends paid	(371)	(448)	(735)	(757)	(767)
	Cash flow from financing activities	524	(902)	296	(1,074)	(1,090)
	Cash at beginning of period	202	184	365	374	410
	Net change in cash	(18)	279	13	40	26
	Ending balance cash	184	463	378	414	436
Company Profile	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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 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) purpose, located predominantly in Singapore.	Total cash and equivalents	184	365	374	410	432
	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	24,217	24,369	24,460
	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	10,376	10,333	10,289
	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	9,276	9,178	9,103
	Total liabilities & equity	22,416	22,742	24,217	24,369	24,460
Key metrics	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(5.3)	75.1	9.1	3.3	0.8
	Recurrent EPS growth (%)	(108.6)	0.0	(21.1)	4.9	(5.4)
	Operating EBITDA margin (%)	61.6	66.5	65.5	65.5	65.9
	Net profit margin (%)	48.4	83.1	61.2	62.2	58.3
	Dividend payout ratio (%)	104.2	63.4	84.3	82.8	88.7
	Capex/sales (%)	7.3	7.2	0.0	0.0	0.0
	Interest cover (x)	3.42	4.55	4.10	4.01	3.93

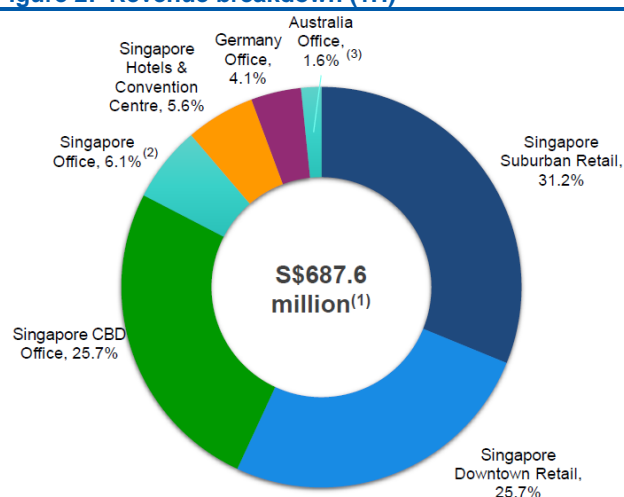
Source: Company data, RHB

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

	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SG cents)	11.04	11.38	11.53	11.73	232.92
Fair value (SGD)	2.17				
ESG Premium/discount	0.13				
Target Price	2.30				
Current price (SGD)	2.14				
Price upside (%)	7.5				
Distribution yield (%)	4.9				
Total Returns (%)					
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	6.9				
Terminal growth (%)	1.8				

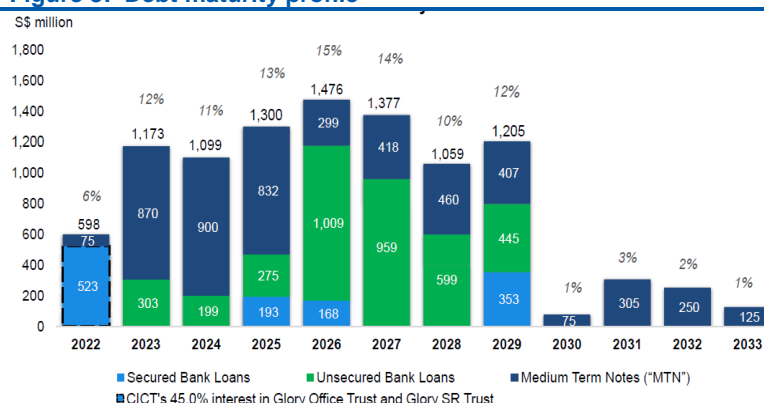
Source: RHB

Figure 2: Revenue breakdown (1H)



Source: CICT

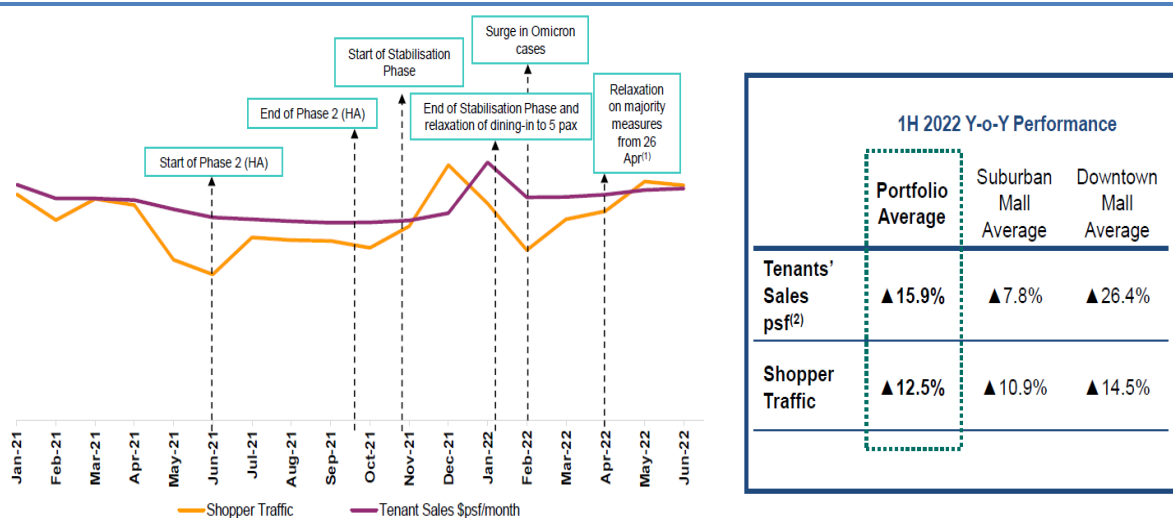
Figure 3: Debt maturity profile



Notes:
(1) Based on CICT Group's borrowings, including share of joint ventures' borrowings, as at 30 June 2022.
(2) Computed on full year basis on floating rate borrowings of CICT Group (excluding proportionate share of joint ventures' borrowings) as at 30 June 2022.
(3) Based on the number of units in issue as at 30 June 2022.
Please visit CICT's website for details of the respective MTN notes.

Source: CICT

Figure 4: Shopper traffic and tenant sales trend



Source: Company data

1H 2022 Y-o-Y Performance		
	Suburban Mall Average	Downtown Mall Average
Tenants' Sales pspf ⁽²⁾	▲ 7.8%	▲ 26.4%
Shopper Traffic	▲ 10.9%	▲ 14.5%

Recommendation Chart

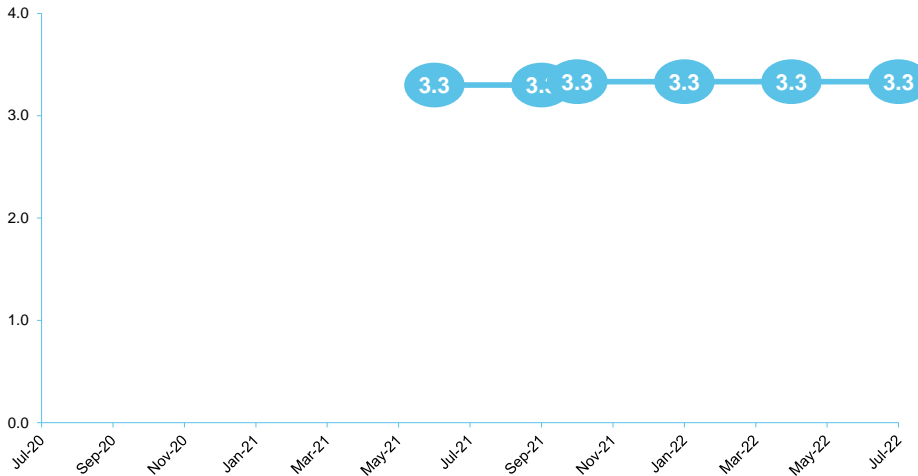


Date	Recommendation	Target Price	Price
2022-03-28	Neutral	2.35	2.23
2022-01-30	Buy	2.20	1.94
2021-12-07	Neutral	2.20	2.05
2021-10-24	Neutral	2.20	2.13
2021-07-28	Neutral	2.10	2.11
2021-01-21	Neutral	2.10	2.30

Source: RHB, Bloomberg

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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