

2 February 2023

Property | REITS

## CapitaLand Integrated Commercial Trust (CICT SP)

Fairly Valued; Cut To NEUTRAL

**Neutral** (from Buy)

Target Price (Return): SGD2.00 (-5%)  
Price (Market Cap): SGD2.11 (USD10,631m)  
ESG score: 3.33 (out of 4)  
Avg Daily Turnover (SGD/USD) 38.6m/28.0m

### Analyst

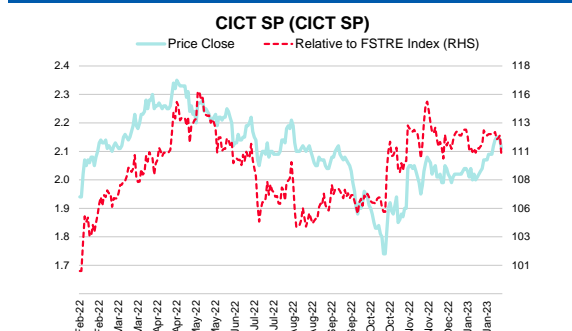
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- **Downgrade to NEUTRAL from Buy, TP remains at SGD2.00, 5% downside.** CapitaLand Integrated Commercial Trust's 2H22 and FY22 results were slightly below our expectations. Portfolio operating metrics improved in 4Q22 and FY22, but growth was comparatively lower vs that of peers. The positive momentum is expected to be maintained in 1H23 before slowing down in 2H23 – but operational gains will be offset by higher interest and inflationary pressures. Valuations are fair – CICT is trading at its BV and offers 5% dividend yields.
- **2H22 distributable income and DPU rose 5% YoY and 3% YoY** aided by rental growth and acquisitions. This was partly offset by higher interest expenses. FY22 DPU was at 97% of our forecast, being dragged down by higher-than-expected financing costs. CICT's overall portfolio (on a same-store basis) was stable, as the gains on Singapore assets were offset by losses at the German segment due to higher discount rates, terminal yield as well as FX impact. Service charges have been raised across assets, which should partially offset utility and operating cost pressures ahead.
- **About 81% of the REIT's borrowings are hedged** but this could fall to 70% if CICT decides to roll over its debt expiring this year to floating interest rates. Overall interest cost for FY23 is expected to be in the mid 3% levels (from 2.7%). Every 1% increase in rates will have a c.3% impact on DPU.
- **Rent growth expected to slow down but remain positive.** Retail and office rent reversions both turned positive in FY22, at 1.2% and 7.6% respectively, with stronger rent growth recorded in 4Q22. Looking ahead, the momentum is expected to carry on in 1H23. Although market demand has softened slightly, the supply remains tight for both segments, with low-single digit positive rent reversions expected. On the retail front, tenant sales (FY22) rose 23% YoY, with a sharper recovery seen in downtown malls. Potential upside could come from Raffles City Singapore hospitality portfolio for FY23. Overall committed occupancy rose 0.7ppt QoQ to 95.8%, and is expected to remain firm at c.95% levels this year.
- **Acquisitions are challenging** as CICT's net gearing is on the high side at 40.4% but there is a possibility of the REIT paring down its stake in some office assets, or selling smaller malls and increasing its stake in some newer assets, ie CapitaSpring and CapitaSky. Ongoing asset enhancements at CQ @ Clarke Quay is expected to be completed by 3Q23, and committed occupancy (including leases in advanced negotiations) stands at 80%.
- **We trim FY23-24F DPU by 2-3%** by mainly adjusting interest cost assumptions. CICT has one among the highest ESG scores among the S-REITs under our coverage, at 3.3 (out of 4.0). This is three notches above the country median, so we applied a 6% ESG premium to its intrinsic value to derive our TP.

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	3.4	10.5	(3.7)	8.8
Relative	(3.1)	(3.1)	(1.8)	2.2	10.1
52-wk Price low/high (SGD)	1.74 – 2.35				



Source: Bloomberg

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

#### E: EXCELLENT

96% of CICT's assets have achieved a GRESB 5-star rating. The REIT has set targets to reduce carbon emissions, energy and water usage intensity by 78%, 35% and 45% by 2030 compared to 2008 levels – and is on track to achieve them.

#### S: GOOD

Its properties have implemented various safety measures such as anti-microbial coating technology, protective acrylic screens, autonomous UV disinfection robots to keep people safe and minimise the chances of a new outbreak of COVID-19 infections. There is a high level of community engagement. In 2020, 18.5% of CICT employees attended Environment Health and Safety (EHS) related training, clocking over 1,750 training hours.

#### G: EXCELLENT

CICT has a well-established corporate governance framework and culture, with five independent directors and three non-independent ones. The Board is diverse, with seven out of its eight members having been part of the board for less than three years.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	1,305	1,442	1,471	1,483	1,505
Net property income (SGDm)	951	1,043	1,068	1,079	1,101
Reported net profit (SGDm)	1,084	727	701	761	760
Total distributable income (SGDm)	689	714	727	726	739
DPS (SGD)	0.11	0.11	0.11	0.11	0.00
DPS growth (%)	82.5	1.6	1.2	(0.6)	(100.0)
P/B (x)	1.00	0.98	1.00	0.99	0.99
Dividend Yield (%)	5.0	5.1	5.2	5.1	0.0
Return on average equity (%)	8.1	5.2	4.9	5.4	5.3
Return on average assets (%)	4.8	3.1	2.8	3.0	3.0

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Singapore	Recurring EPS (SGD)	0.17	0.10	0.11	0.11	0.11
Property	EPS (SGD)	0.17	0.11	0.11	0.11	0.11
<b>CapitaLand Integrated Commercial Trust</b>	DPS (SGD)	0.11	0.11	0.11	0.11	0.00
CICT SP	BVPS (SGD)	2.11	2.16	2.12	2.12	2.13
Neutral	Return on average equity (%)	8.1	5.2	4.9	5.4	5.3
	Weighted avg adjusted shares (m)	6,489.94	6,626.12	6,646.16	6,668.32	6,690.91
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
DDM	Recurring P/E (x)	12.63	20.87	20.00	18.49	18.58
	P/E (x)	12.63	19.23	20.00	18.49	18.58
	P/B (x)	1.0	1.0	1.0	1.0	1.0
	FCF Yield (%)	6.4	6.3	8.9	7.7	7.0
	Dividend Yield (%)	5.0	5.1	5.2	5.1	0.0
	EV/EBITDA (x)	- 0.28	- 0.83	- 0.64	- 0.66	- 0.61
	EV/EBIT (x)	- 0.28	- 0.83	- 0.64	- 0.66	- 0.61
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Largest retail-cum-office REIT in Singapore benefitting from scale and diversification;	Total turnover	1,305	1,442	1,471	1,483	1,505
ii. Good-quality assets and management team;	EBITDA	868	952	959	969	989
iii. Strong sponsor and asset pipeline	Depreciation and amortisation	(5)	(4)	0	0	0
	Operating profit	863	948	959	969	989
	Net interest	(171)	(227)	(320)	(329)	(350)
	Income from associates & JVs	140	42	67	69	70
	Exceptional income - net	0	57	0	0	0
	Pre-tax profit	1,103	731	707	769	770
	Taxation	(19)	(4)	(6)	(8)	(10)
	Recurring net profit	1,084	670	701	761	760
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Continued spike in interest rates and the economy falling into a recession;	Change in working capital	(51)	54	174	12	(91)
ii. Mass exit of popular retail and fashion brands from malls;	Cash flow from operations	969	1,009	1,242	1,090	991
iii. Structural headwinds facing the office and retail sectors.	Capex	(94)	(127)	0	0	0
	Cash flow from investing activities	213	221	10	10	10
	Dividends paid	(448)	(685)	(724)	(722)	(734)
	Cash flow from financing activities	(902)	(248)	(1,252)	(1,092)	(995)
	Cash at beginning of period	184	365	248	245	250
	Net change in cash	279	982	0	8	6
	Ending balance cash	463	1,347	248	254	256
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
CapitaLand Integrated Commercial Trust (CICT) is the first and largest REIT listed on the Singapore Exchange (SGX-ST). It debuted on the SGX-ST as CapitaLand Mall Trust in Jul 2002 and was renamed CICT in Nov 2020 following a merger with CapitaLand Commercial Trust. CICT owns and invests in quality income-producing assets primarily used for commercial (including retail and/or office) purposes, with properties predominantly located in Singapore.	Total cash and equivalents	365	248	245	250	251
	Tangible fixed assets	6	5	5	5	5
	Total investments	21,751	24,106	24,228	24,411	24,595
	Total other assets	222	226	217	235	254
	Total assets	22,742	24,667	24,840	25,049	25,228
	Short-term debt	595	1,155	800	700	500
	Total long-term debt	7,583	8,430	9,032	9,253	9,627
	Total liabilities	9,046	10,387	10,749	10,879	10,992
	Shareholders' equity	13,696	14,279	14,091	14,170	14,236
	Total equity	13,696	14,279	14,091	14,170	14,236
	Net debt	7,812	9,337	9,587	9,703	9,877
	Total liabilities & equity	22,742	24,667	24,840	25,049	25,228
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	75.1	10.5	2.0	0.8	1.5
	Recurrent EPS growth (%)	0.0	(39.5)	4.3	8.1	(0.5)
	Operating EBITDA margin (%)	66.5	66.0	65.2	65.4	65.7
	Net profit margin (%)	83.1	50.4	47.7	51.3	50.5
	Dividend payout ratio (%)	63.4	98.1	103.2	94.9	0.0
	Capex/sales (%)	7.2	8.8	0.0	0.0	0.0
	Interest cover (x)	4.55	3.91	2.91	2.86	2.75

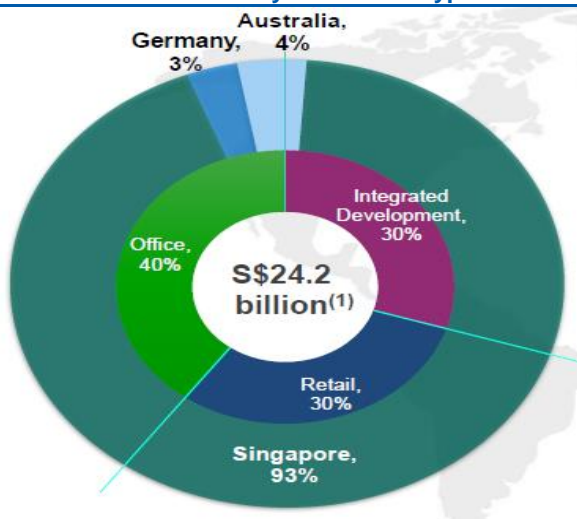
Source: Company data, RHB

Figure 1: DDM valuation

	FY23F	FY24F	FY25F	FY26F	Terminal value
DPU (SG cents)	10.74	10.67	10.82	11.24	202.51
Fair value (SGD)	1.89				
ESG Premium/discount	0.11				
<b>Target Price</b>	<b>2.00</b>				
Current price (SGD)	2.14				
Price upside (%)	(6.4)				
Distribution yield (%)	5.0				
Total Returns (%)	(1.4)				
<b>Assumptions</b>					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.4				
Terminal growth (%)	1.8				

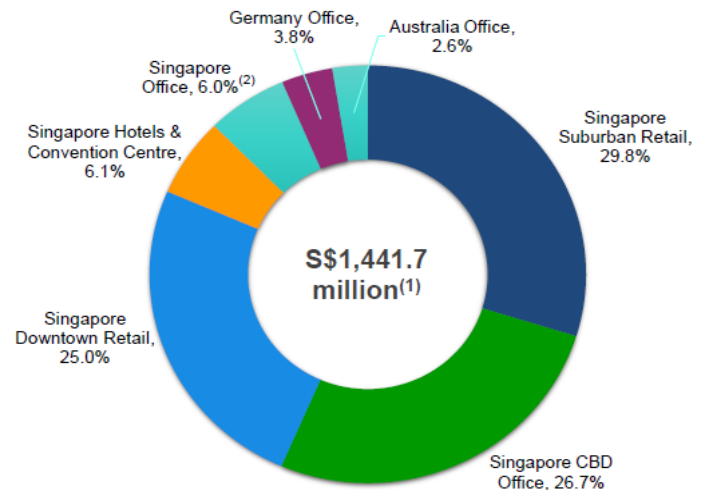
Source: RHB

Figure 2: Asset breakdown by market and type



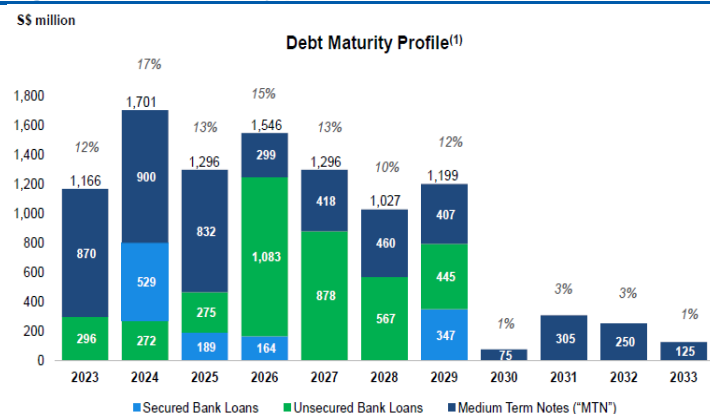
Source: Company data

Figure 3: Revenue breakdown by asset and type



Source: Company data

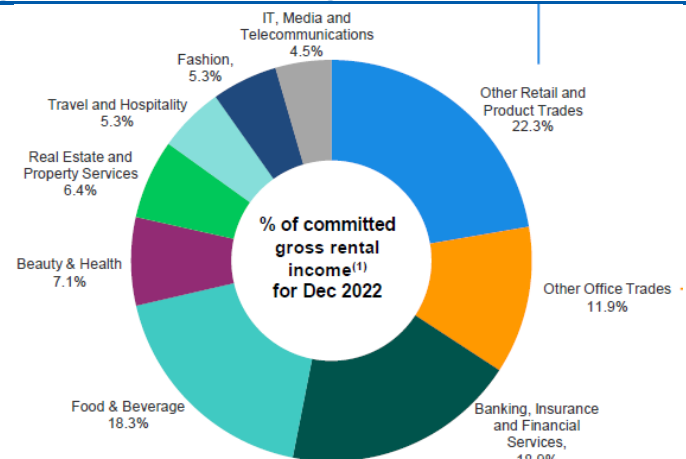
Figure 4: Debt maturity profile



Notes:  
(1) Based on CICT Group's borrowings, including proportionate share of borrowings in joint ventures as at 31 December 2022.  
(2) Computed on full year basis on floating rate borrowings of CICT Group (excluding proportionate share of borrowings in joint ventures) as at 31 December 2022.  
(3) Based on the number of units in issue as at 31 December 2022.

Source: Company data

Figure 5: Tenant mix according to sector



Source: Company data

## Recommendation Chart

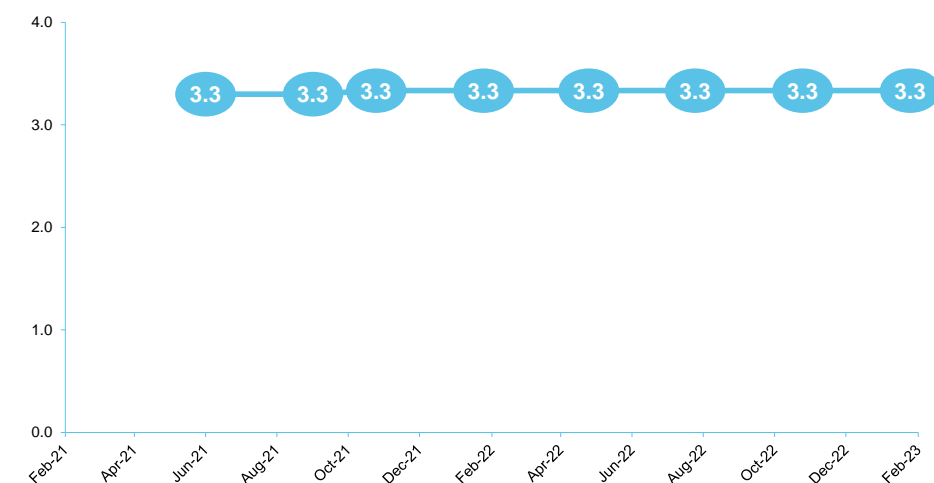


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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

## ESG Rating History



Source: RHB

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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
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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