

CapitaLand Int. Comm. Trust (CICT SP)

Delivering growth

Topline growth more than offsets higher funding cost

CICT reported 2H DPU of 5.45cts, +1.7% YoY. FY DPU of 10.75cts, +1.6% YoY was c.1% below cons./our est. Organic growth and full-year contribution of acquired assets was partially offset by higher borrowing costs. Occupancy rose while retail reversions gained strength. Singapore supported portfolio value. Focus is on asset enhancements (AEI) and proactive portfolio management. We lift DPU estimates and combined with a lower discount rate, raise our DDM-based TP to SGD2.10. Maintain BUY.

Proactive portfolio and prudent cost management

2H revenue and NPI of SGD785.2 and SGD563.6m was c. +4% YoY. FY revenue and NPI of SGD1,559.9 and SGD1115.9m was +8.2% and +7% YoY, respectively. Growth for 2H was led by higher rents and occupancies. Meanwhile, prudent cost management maintained operating jaws. Contribution from prior acquisitions also contributed to full year growth. All-in funding cost rose 20bps HoH/70bps YoY to 3.5%. Guide is for funding cost to be in "mid 3%" range. Valuation rose 1.2%, led by gains in Singapore which more than offset continued weakness in overseas offices in Australia and Germany. As such, gearing inched down to 39.9% (3Q 40.8%).

Steady operations; focus on asset enhancements

Occupancy was stable QoQ at 97.3%. Frictional vacancies in local malls and lower occupancy in German offices was offset by higher occupancy in Singapore and Australian offices and integrated developments. Office reversion came in at +9%, relatively steady vs. 3Q while retail reversions gained strength at +8.5% for full year (7.8% for 9M). However, tenant sales growth moderated to 1.8% YoY for the full-year from 4% for 9M. Guide is for mid-single digit positive reversion for retail. CQ@ Clarke Quay is at the final stage of asset enhancement initiative (AEI) with 85% pre-commits. CICT is embarking on AEIs for IMM Building (SGD48m, target RoI 8%), Gallileo (EUR175-215m) and 101 Miller Street (AUD9m) planned to be completed in the next two years. While the Gallileo AEI costs almost same as the asset, it is needed for its continued relevance.

Maintain BUY

Factoring in lost income from Gallileo but better portfolio performance and completion of AEI, we leave our FY24 DPU est. unchanged but raise FY25 by 1.8%. Coupled with a lower discount rate, our TP rises to SGD2.10. While 5.6% yield is at mid-point of its historical range, we like CICT's SG-centric resilient income profile and strong credit standing.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,442	1,560	1,547	1,580	1,638
Net property income	1,043	1,116	1,104	1,132	1,173
Core net profit	713	728	749	777	823
Core EPU (cts)	10.8	11.0	11.2	11.5	12.1
Core EPU growth (%)	1.5	1.8	1.8	3.2	5.5
DPU (cts)	10.6	10.8	11.0	11.3	11.9
DPU growth (%)	1.7	1.6	1.9	3.2	5.5
P/NTA (x)	1.0	1.0	0.9	0.9	0.9
DPU yield (%)	5.2	5.2	5.5	5.7	6.0
ROAE (%)	4.9	5.8	7.2	7.2	6.3
ROAA (%)	3.0	2.9	3.0	3.1	3.2
Debt/Assets (x)	0.39	0.38	0.38	0.38	0.38
Consensus DPU	-	-	11.0	11.2	12.0
MIBG vs. Consensus (%)	-	-	(0.4)	0.5	(0.6)

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BUY

Share Price	SGD 1.98
12m Price Target	SGD 2.10 (+6%)
Previous Price Target	SGD 1.90

Company Description

CapitaLand Integrated Commercial Trust operates as a real estate investment trust, established through the merger of CMT and CCT.

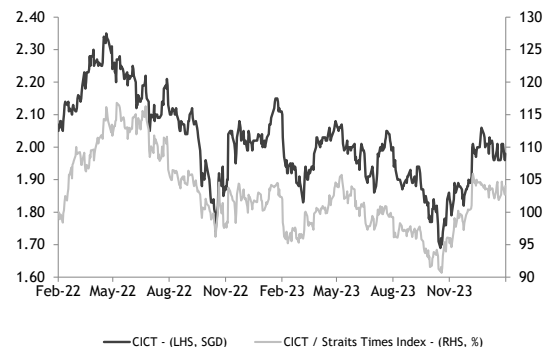
Statistics

52w high/low (SGD)	2.10/1.69
3m avg turnover (USDm)	27.7
Free float (%)	68.1
Issued shares (m)	6,652
Market capitalisation	SGD13.2B
	USD9.8B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	19.7%
DBS Group Holdings Ltd.	9.4%
The Vanguard Group, Inc.	2.8%

Price Performance



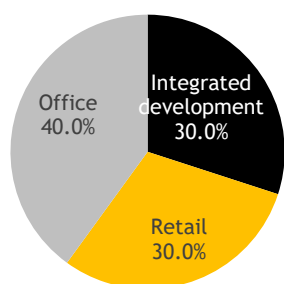
	-1M	-3M	-12M
Absolute (%)	(1)	6	(6)
Relative to index (%)	0	8	1

Source: FactSet

Value Proposition

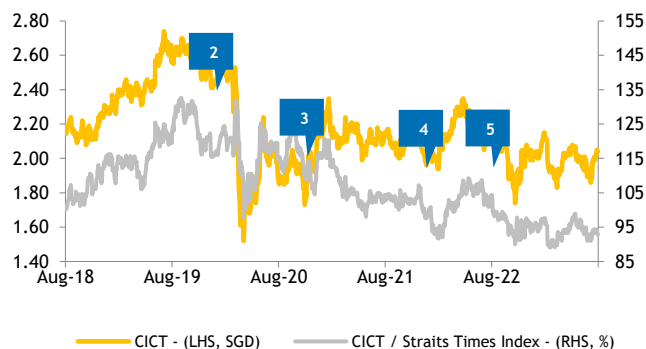
- Formed in Nov 2020 as a result of the merger between CCT and CMT, and is the largest proxy to Singapore commercial real estate, with 23 retail, office and integrated development assets in Singapore and Germany valued at SGD24.2b as of end-Dec 2021.
- Backed by sponsor CapitaLand Investment, one of Asia’s largest real-estate investment managers with SGD121b in real estate AUM and SGD86b of funds-under-management (FUM) as at end-Dec 2021.
- Sponsor offers a right-of-first refusal pipeline with a book value equivalent to 15-20% of its AUM.
- A more diversified AUM and higher SGD5.8b development headroom to add growth options, and support its portfolio remodelling over the medium term.

AUM breakdown (as of end-Dec 2022)



Source: Company

Price Drivers

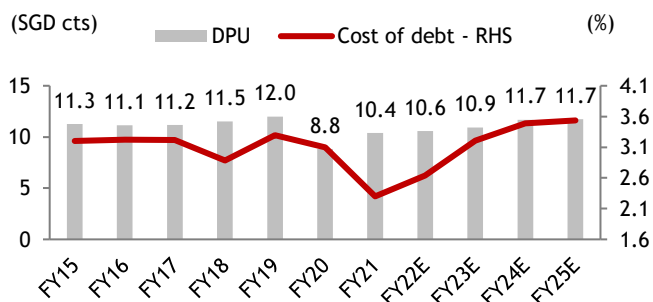


- Aug-18: CMT acquires remaining 70% interest in Westgate for SGD789.6m from its sponsor at 4.3% NPI yield.
- Jan-20: CMT announces merger with CCT to create the largest S-REIT and second largest APAC commercial REIT with a SGD22.4b AUM.
- Nov-20: CMT renamed as CICT, commenced trading post-merger, with three distinct property segments (retail, office and integrated development).
- Dec-21: Recycles part of One George Street divestment proceeds to two Grade A Australian office properties from sponsor at 5.2% NPI yield and +3.1% DPU accretion.
- Mar-22: Proposed acquisition of 70% interest in 79 Robinson Road

Financial Metrics

- DPU to improve by 3% YoY and 7% YoY in FY23E and FY24E, due to higher occupancies and rents in Singapore and Australian asset contributions offset by borrowing cost
- FY24E to see full impact of positive reversions that started in FY23 due to stronger tenant sales from downtown and suburban malls.
- NPI contributions from its office properties to recover in FY23E after AELs (at 20 Collyer Quay and 6 Battery Road) and earnings from CapitaSpring post-redevelopment. FY24E will likely to see fall in contribution from Commerzbank asset

Cost of debt and DPU growth profile



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail or office space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail or office space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score¹	10.2 (Low)
Score Momentum²	-0.7
Last Updated	24 Nov 2022
Controversy Score³ (Updated: 24 Nov 2022)	0

Business Model & Industry Issues

- CICT draws on its available pool of funds to invest in commercial real estate, undertake asset enhancements, and redevelop properties to optimise value for its unit holders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to its permissible investments, leverage limits, and annual reporting requirements are closely regulated by the MAS under Singapore’s code on collective investment schemes. Independence, real estate and capital markets know-how on its board is high, with representation by members with international experience, essential given its overseas portfolio will increasingly be a growth platform.
- As the largest owner of shopping centre floor space and office properties in Singapore, it attentively monitors building and environmental efficiency across its 10.6m sf NLA, and has set medium-term 2030 targets on carbon emission, energy and water intensity reductions. These efforts have also been recognised by the Global Real Estate Sustainability Benchmark.
- Its large and diversified portfolio has increased the extent for value-generating redevelopments and AELs. The repositioning of Funan into an integrated development with retail, office and co-living spaces has broadened the scope of its social initiatives

Material E issues

- All 21 Singapore properties are BCA Green Mark certified, with 4 certified GOLD and 4 GoldPLUS, which is the minimum target set for new developments, and 12 achieving the highest Platinum certification.
- Long-term targets are aligned to science-based goals in CapitaLand’s 2030 Sustainability Master Plan, from a 2008 base year, to reduce by 2030: (a) energy intensity by 35%; (b) carbon emissions intensity by 78%; (c) water intensity by 45%; and to achieve (d) 35% of electricity consumption from renewable sources; and (e) 25% recycling rate.
- Green/ sustainability-linked loans are now c.27% of total borrowings, after it secured an additional SGD2.1b in loan facilities in 1H22

Material S issues

- Its sponsor allocates up to 3.0% of its annual wage bill towards learning and development programmes for its employees, which is supported by its in-house training hub - CapitaLand Institute of Management and Business.
- Gender diversity is high at CICT, with female representation at 57% amongst all employees (in 2021), 63% at the management level, and the Chairman’s seat on the board.
- Funan, which was redeveloped and conceptualised as an integrated development to comprise retail, office and co-living spaces, to offer roof-top urban farming, an indoor rock-climbing facility, and 170 bicycle bays. It will also leverage digital tools to enhance the shopper experience.
- Two of its malls house community libraries and both have gained additional GFA from URA’s community and sports facilities scheme.

Key G metrics and issues

- Managed externally by wholly-owned subsidiaries of its sponsor CapitaLand Investment, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high - 5 of its 8 members, including the Chairman, are independent, and the CEO is the only executive and non-independent member.
- Revised performance fee from 2.85% of gross revenue to 4.25% of NPI at the 2016 AGM. This, and its base fee at 0.25% of deposited property and acquisition and disposal fee at 1.0% and 0.5% of deal value, is comparable to peers.
- The cumulative remuneration of its key management team including the CEO has never represented >0.6% of the REIT’s distributable income since this was first reported in FY16.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency. Management retained 70% of its 1Q20 distributable income in light of a challenging outlook for its retail properties due to Covid-19.
- Has scaled up via DPU-accretive acquisitions from its sponsor’s pipeline. The deal process is rigorous; involving a review by the board’s audit committee, and if valued >5% of NAV, unit holders’ approval at an EGM.
- Its merger with CCT was effective in Nov 2020 as it aimed to create a third largest APAC REIT with SGD22.9b AUM across 10.4m sf of commercial NLA, and serve as its sponsor’s primary investment vehicle for commercial real estate in Singapore and other developed markets.
- Generated value from its AELs at Junction 8 and IMM, and divestments of Rivervale Mall and Sembawang Shopping Centre (192% and 218% over purchase price). Maintains one of the strongest balance sheets amongst peers - leverage has fallen steadily from 38.4% at end-2011 to 37.2% at end-2021, but should rise steadily with growth in AUM.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Result highlights

Fig 1: Result highlights

SGDm.	2H23	% YoY	% HoH	FY22	FY23	% YoY
Gross revenue	785.1	4	1	1441.7	1559.9	8
Retail	411.4	3	1	790.1	820.5	4
Sub-urban retail	218.3			429.6	436.8	
Downtown retail	193.1			360.4	383.7	
Office	321.9	5	2	563.7	638.0	13
CBD office	220.6			384.9	435.2	
Office - Funan, RCS, Atrium@Orchard	45.5			86.5	90.5	
Office - Australia	26.7			37.5	56.2	
Office-Germany	29.0			54.8	56.2	
Hotel	51.8	5	4	87.9	101.4	15
Retail	285.7			556.4	570.5	
Office	264.8			463.6	521.9	
Integrated developments	234.7			421.6	467.6	
Gross revenue	785.2			1441.6	1560.0	
Retail	197.6			394.1	396.3	
Office	203.9			346.5	391.0	
Integrated developments	162.1			302.7	328.6	
Net property income	563.6			1043.3	1115.9	
Gross revenue	785.2	4.1	1.3	1441.7	1560.0	8.2
Property expenses	-221.6			-398.4	-444.1	
Net property income	563.6	4.0	2.0	1043.3	1115.9	7.0
Borrowing costs	-168.1	21.8	9.2	-242.4	-322.1	32.8
Mgmt. Fees & Trust expenses	-49.5			-95.4	-98.4	3.1
Total distributable income	362.5	2.1	2.6	702.4	715.7	1.9
DPU (SGD cts)	5.45	1.7	2.8	10.58	10.75	1.6
NAV per unit (SGD)	2.13	0.5	0.5	2.12	2.13	0.5
Aggregate leverage (%)	39.9	(50)	(50)	40.4	39.9	(50)
All-in financing cost (%)	3.4	70	20	2.7	3.4	70
Occupancy (%)	97.3	150	60	95.8	97.3	
-Retail	98.5			98.3	98.5	
- Office	96.7			94.4	96.7	
- Office, SG	98.5					
- Office, Germany	94.5					
- Office, AU	88.5					
-Integrated Development	98.5			97.1	98.5	
Office YTD Rent reversion, %	9.0	140	(60)			
Retail YTD rent reversion (%)	8.5	730	160			
-Suburban	8.3					
- Downtown	8.8					
Retail YTD tenant sales psf YoY growth (%)	1.8					
-Suburban	1.9					
- Downtown	2.5					
NPI margin (%)	71.8	(6)	49	72.4	71.5	

Source: Maybank IBG Research, Company Data

2. Estimate changes

Fig 2: Estimate changes

SGDm	FY24E (old)	FY25E (old)	FY24E (new)	FY25E (new)	FY24E, % Chng	FY25E, % Chng
Revenue	1520.7	1540.7	1546.8	1579.7	1.7%	2.5%
NPI	1161.7	1176.7	1104.3	1132.2	-4.9%	-3.8%
Mgmt fees	-116.7	-118.0	-115.5	-117.9	-1.0%	-0.1%
Borrowing cost	-357.0	-366.0	-358.0	-357.2	0.3%	-2.4%
Distrib. income	722.4	728.6	736.2	763.1	1.9%	4.7%
DPU (SGD cts.)	10.96	11.10	10.95	11.30	0.0%	1.8%

Source: Maybank IBG Research

3. Valuation

We value CICT using a 3-stage DDM model with a cost of equity of 7.4% vs. prior input of 7.7%. We tweak up our DPU estimates factoring in better portfolio contribution, partially offset by higher number of units due to dividend reinvestment scheme. Along with a lower discount rate, our target price increases to SGD2.10. We maintain our BUY rating. While the yield of 5.6% is mid-range of its historical band, we like CICT's resilient income profile from its Singapore-centric portfolio and A-rated credit to withstand a protracted higher interest rate period.

4. Risks

Slower-than-expected growth in tourist arrivals, non-renewal of office leases, higher interest rates, and dilutive M&As

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	19.3	19.2	18.1	17.5	16.6
P/BV (x)	1.0	1.0	0.9	0.9	0.9
P/NTA (x)	1.0	1.0	0.9	0.9	0.9
DPU yield (%)	5.2	5.2	5.5	5.7	6.0
FCF yield (%)	7.6	7.9	6.5	6.6	8.2
INCOME STATEMENT (SGD m)					
Revenue	1,441.7	1,559.9	1,546.8	1,579.7	1,637.6
Net property income	1,043.3	1,115.9	1,104.3	1,132.2	1,172.9
Management and trustee fees	(150.3)	(157.8)	(174.4)	(178.0)	(182.7)
Net financing costs	(242.4)	(322.1)	(358.0)	(357.2)	(354.5)
Associates & JV	42.5	15.6	29.6	29.5	32.6
Exceptionals	(32.8)	113.6	415.2	419.4	248.6
Other pretax income/expenses	15.9	58.5	24.0	24.0	24.0
Pretax profit	672.0	819.9	1,037.9	1,067.0	937.8
Income tax	(4.1)	(10.1)	(10.1)	(10.1)	(10.1)
Minorities	5.0	5.0	5.0	5.0	5.0
Discontinued operations	5.0	5.0	5.0	5.0	5.0
Total return avail to unitholders	672.9	814.8	1,032.8	1,061.9	932.7
Core net profit	713.0	728.5	749.4	776.7	822.9
Distributable inc to unitholders	702.4	715.7	736.2	763.1	808.4
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	248.4	140.7	157.0	70.8	84.5
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5.3	4.9	4.9	4.9	4.9
Investment properties	23,744.8	24,024.9	24,440.2	24,859.6	25,108.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	361.2	348.6	348.6	348.6	348.6
Other assets	306.9	220.0	220.0	220.0	220.0
Total assets	24,666.6	24,739.1	25,170.6	25,503.9	25,766.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	323.9	342.7	342.7	342.7	342.7
LT interest bearing debt	9,585.3	9,477.7	9,577.7	9,677.7	9,677.7
Other liabilities	478.1	517.0	517.0	517.0	517.0
Total Liabilities	10,387.2	10,337.4	10,437.4	10,537.4	10,537.4
Shareholders Equity	14,073.4	14,199.8	14,531.3	14,764.6	15,026.9
Minority Interest	205.9	201.9	201.9	201.9	201.9
Total shareholder equity	14,279.4	14,401.7	14,733.2	14,966.5	15,228.8
Total liabilities and equity	24,666.6	24,739.1	25,170.6	25,503.9	25,766.2
CASH FLOW (SGD m)					
Cash flow from operations	1,023.5	1,079.8	1,033.7	1,060.3	1,098.7
Capex	0.3	0.0	(175.0)	(175.0)	0.0
Acquisitions & investments	(950.1)	(118.6)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	18.9	17.7	29.6	29.5	32.6
Other investing cash flow	5.2	62.1	19.2	19.2	43.3
CF from investing activities	(925.7)	(38.9)	(126.1)	(126.2)	75.9
Dividends paid	(684.8)	(708.2)	(736.2)	(763.1)	(808.4)
Interest expense	(237.4)	(329.6)	(358.0)	(357.2)	(354.5)
Change in debt	714.6	(100.4)	100.0	100.0	0.0
Equity raised / (purchased)	0.0	0.0	102.6	0.0	0.0
Other financial activities	(2.6)	(2.5)	0.0	0.0	0.0
CF from financing activities	(210.3)	(1,140.7)	(891.6)	(1,020.2)	(1,162.9)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(112.4)	(99.8)	16.0	(86.1)	11.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.5	8.2	(0.8)	2.1	3.7
Net property income growth	9.7	7.0	(1.0)	2.5	3.6
Core net profit growth	3.7	2.2	2.9	3.6	5.9
Distributable income growth	4.1	1.9	2.9	3.6	5.9
Profitability ratios (%)					
Net property income margin	72.4	71.5	71.4	71.7	71.6
Core net profit margin	49.5	46.7	48.4	49.2	50.3
Payout ratio	98.3	98.1	98.2	98.2	98.2
DuPont analysis					
Total return margin (%)	46.7	52.2	66.8	67.2	57.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	4.9	5.8	7.2	7.2	6.3
ROAA (%)	3.0	2.9	3.0	3.1	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.4	2.4	2.4	2.4
Net gearing (%) (excl. perps)	65.4	64.8	63.9	64.2	63.0
Net interest cover (x)	3.7	3.0	2.6	2.7	2.8
Debt/EBITDA (x)	10.8	9.9	10.3	10.2	9.8
Capex/revenue (%)	nm	0.0	11.3	11.1	0.0
Net debt/ (net cash)	9,336.9	9,337.0	9,420.8	9,606.9	9,593.2
Debt/Assets (x)	0.39	0.38	0.38	0.38	0.38

Source: Company; Maybank IBG Research

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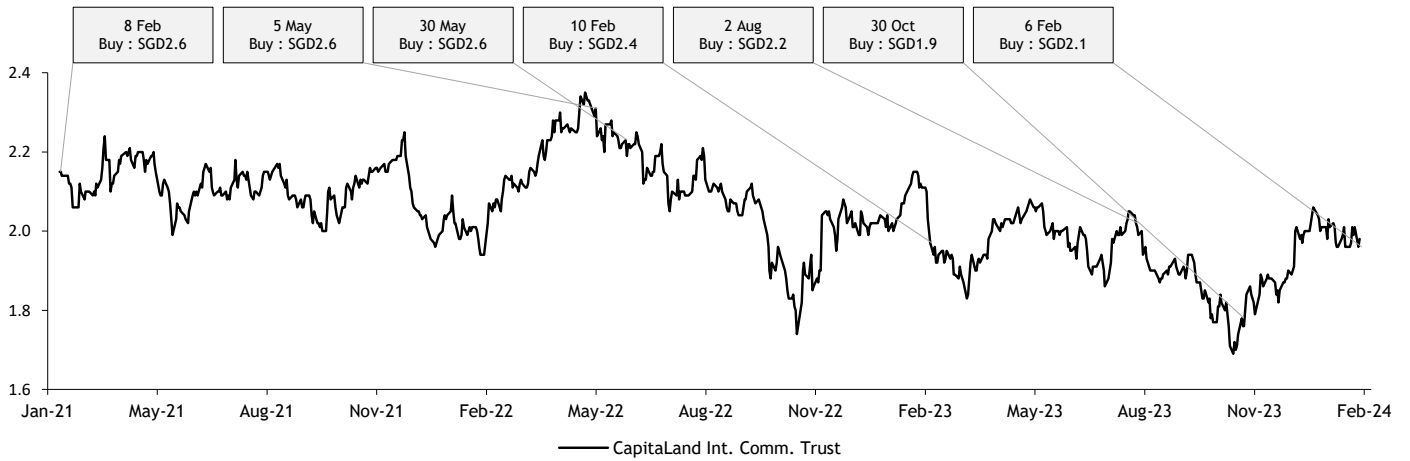
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