

COMPANY RESULTS

CapitaLand Integrated Commercial Trust (CICT SP)

2H21: Triple-Play On Reopening In Singapore

CICT's retail portfolio was resilient with occupancy improving 0.4ppt qoq to 96.8% in 4Q21. Occupancies at Capital Tower and Six Battery Road are expected to recover back above 90% after securing new tenants in 1Q22. Besides contributing to higher physical occupancy at its office buildings, CICT's downtown malls and integrated developments also benefit as more employees return to work in their offices. Distribution yield is attractive at 6.1% for 2023F. Maintain BUY. Target price: S\$2.45.

2H21 RESULTS

Year to 31 Dec (S\$m)	2H21	yoy % chg	Remarks
<u>Gross Revenue</u>	659.4	+54.5	Merger of CMT and CCT was completed on 21 Oct 20.
Retail	136.6	+12.6	
Office	195.4	+166.9	Office properties contributed since 21 Oct 20.
Integrated Developments	194.0	+70.5	Comprises Raffles City Singapore (RCS), Funan, Plaza Singapura and The Atrium.
<u>Net Property Income (NPI)</u>	478.9	+61.6	
Retail	189.2	+16.9	Granted less rental waiver of S\$8.4m to retail tenants in 2H21.
Office	148.2	+167.0	
Integrated Developments	141.5	+79.1	Interest in RCS increased from 60% to 100% post-merger.
Distributable Income	338.8	+30.4	Taxable income of S\$46.4m previously retained in 1Q20 and S\$6.25m from RCS
DPU (S cents)	5.22	-8.9	were released in 1H20.

Source: CICT, UOB Kay Hian

RESULTS

- CapitaLand Integrated Commercial Trust's (CICT) reported DPU of 5.22 S cents for 2H22, which comprises advance distribution of 4.85 S cents for 1 Jul 21 to 15 Dec 21 and 0.37 S cents for 16-31 Dec 21. The results were in line with our expectations.
- **Suburban malls stay resilient.** Retail occupancy improved by 0.4ppt qoq to 96.8% in 4Q21. Management estimated negative rental reversion at 7.3% in 2021 (9M21: 8.0%) based on rents in the first year versus outgoing final rents (suburban malls: -2.4% (9M21: -3.8%), downtown malls: -13.8% (9M21: -14.3%)). Food & Beverage accounted for 38% of new leases secured, followed by Home Furnishing at 21% and Beauty & Health at 11%. Retention rate was healthy at 82.3%.
- **Recovery in shopper traffic and tenant sales.** Shopper traffic has recovered since dining in at F&B establishments for groups of up to five persons were permitted since 22 Nov 21. Tenant sales have surged above pre-pandemic levels for suburban mall and reached 85% of pre-pandemic levels at downtown malls in Dec 21. CICT granted less rental waivers of S\$8.4m to retail tenants in 2H22.
- **Transitory vacancies progressively backfilled.** Occupancy for Singapore office eased 2.2ppt qoq to 90.4% in 4Q21. Occupancy at Capital Tower slipped 20.4ppt qoq to 76.8% after JPMorgan relocated to CapitaSpring. CICT is in advance negotiations with a new tenant, which could potentially bring occupancy back up to 94% in 1Q22. Occupancy for Asia Square Tower 2 improved 12.8ppt qoq to 95.6% in 4Q21 after securing a consultancy company as tenant. For Six Battery Road, CICT has secured a new tenant in 1Q22, which would restore occupancy from 80% to 90%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	745	1,305	1,331	1,372	1,391
EBITDA	446	862	893	922	935
Operating profit	446	862	893	922	935
Net profit (rep./fact.)	350	1,083	746	717	718
Net profit (adj.)	313	813	684	717	718
EPU (S\$ cents)	7.1	12.4	10.3	10.8	10.8
DPU (S\$ cents)	8.7	10.4	11.1	11.8	12.1
PE (x)	27.1	15.6	18.8	18.0	18.0
P/B (x)	1.0	0.9	0.9	0.9	1.0
DPU Yld (%)	4.5	5.4	5.7	6.1	6.2
Net margin (%)	46.9	83.0	56.0	52.3	51.6
Net debt/(cash) to equity (%)	65.5	57.2	63.6	64.3	65.4
Interest cover (x)	3.8	5.1	4.6	4.5	4.3
ROE (%)	3.4	8.1	5.5	5.3	5.3
Consensus DPU (S\$ cent)	n.a.	n.a.	11.6	12.1	12.0
UOBKH/Consensus (x)	-	-	0.96	0.98	1.01

Source: CapitaLand Integrated Commercial Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.94
Target Price	S\$2.45
Upside	+26.3%
(Previous TP)	S\$2.39

COMPANY DESCRIPTION

CICT is the first and largest S-REIT listed on the SGX. It was established as CapitaLand Mall Trust (CMT) in Jul 02 and was renamed CICT in Nov 20 following the merger with CapitaLand Commercial Trust (CCT).

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CICT SP
Shares issued (m):	6,608.6
Market cap (S\$m):	12,820.7
Market cap (US\$m):	9,511.6
3-mth avg daily t'over (US\$m):	29.0

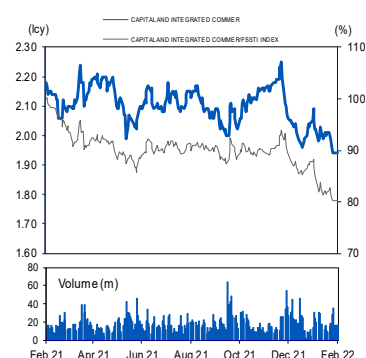
Price Performance (%)

52-week high/low	S\$2.25/S\$1.94			
1mth	3mth	6mth	1yr	YTD
(4.9)	(10.2)	(9.8)	(10.2)	(4.9)

Major Shareholders

CapitaLand Investment Ltd	22.6
FY22 NAV/Share (S\$)	2.06
FY22 Net Debt/Share (S\$)	1.31

PRICE CHART



Source: Bloomberg

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- Appreciation in capital values.** CICT recognised gains in fair value of investment properties of S\$270.5m. The appreciation in capital values came mainly from office properties, such as 21 Collyer Quay (+S\$162m), Asia Square Tower Two (+S\$97m) and Capital Tower (+S\$60m). Its 45% interest in CapitaSpring is now valued on completed basis instead of development basis, which lifted valuation by S\$406m. CICT marked down the valuation for Clark Quay by S\$52m and Galileo in Germany by S\$72m. NAV per unit increased 3% yoy to S\$2.06.
- Deleveraged through divestment of OGS.** Aggregate leverage moderated 3.7ppt qoq to 37.2% after completing divestment of One George Street (OGS) and private placement to raise S\$250m in Dec 21. Aggregate leverage is expected to increase to 40% after completing acquisition of three properties in Sydney, Australia.
- CICT has committed facilities in place to refinance debts of S\$1,099m maturing in 2022. Average cost of debt was stable at 2.3%. 83% of its borrowings are hedged to fixed interest rates. Average term to maturity is healthy at 3.9 years.

STOCK IMPACT

- Triple-play on reopening in Singapore.** Working from home is no longer the default and 50% of employees have been allowed back to their offices since 1 Jan 22. Physical occupancy at office buildings has improved to 50% in January. The return of the office crowd will enhance shopper traffic and tenant sales at CICT's downtown malls and integrated developments.
- Value creation from asset recycling.** CICT has entered into agreement to acquire two trusts that hold 66 Goulburn Street and 100 Arthur Street located in Sydney, Australia with agreed property value at A\$672m (S\$672m). The acquisition is estimated to be accretive to pro form 1H21 DPU by 3.1%. CICT has also entered into agreement to acquire 50% interest in 101-103 Miller Street & Greenwood Plaza in Sydney for A\$422m (S\$409.3m). The acquisition is estimated to be accretive to pro form 1H21 DPU by 1%. These acquisitions are expected to be completed in 1Q22. CICT completed the divestment of OGS for S\$640.7m or S\$2,875psf in Dec 21. It has also entered into agreement to divest JCube, a leisure and edutainment mall located in Jurong Lake District, for S\$340m.
- CapitaSpring to contribute more significantly in 2H22.** CapitaSpring received temporary occupation permits (TOP) in Nov 21. It has secured JPMorgan Chase and Sumitomo Mitsui Banking Corporation as anchor tenants. Other tenants include Square Point, The Work Project, Saxo Markets and Red Hat. CapitaSpring has achieved committed occupancy of 91.5% and another 5% is under advanced negotiation. 10 tenants have commenced operations. Committed leases start contributing progressively from 1H22 and more significantly from 2H22.
- AEIs for RCS.** CICT will commence asset enhancement for the three floors of retail space at Raffles City Singapore (RCS) previously occupied by Robinsons. CICT plans to reconfigure the 111,000sf of retail space into smaller units for specialty retail and large format stores. New offerings include Calvin Klein, Acqua di Parma, Elemis and House of Wei. Management targets completion by 4Q22.
- Enhancing flow of shopper traffic to Funan.** The 100m underground pedestrian link between City Hall MRT interchange station and Funan Basement 2 has opened in Dec 21, which facilitates traffic flow during the festive shopping season.

EARNINGS REVISION/RISK

- Our 2023 DPU forecast is unchanged after factoring: a) acquisitions of 66 Goulburn Street, 100 Arthur Street and 101-103 Miller Street & Greenwood Plaza in Sydney, Australia, b) divestment of One George Street and JCube, and c) private placement of 127.6m new units at S\$1.96.

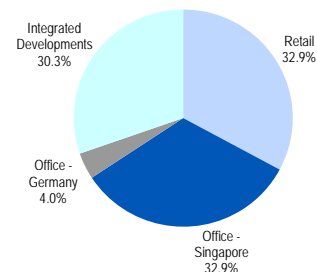
VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$2.45 is based on Dividend Discount Model (cost of equity: 6.0%, terminal growth: 1.2%).

SHARE PRICE CATALYST

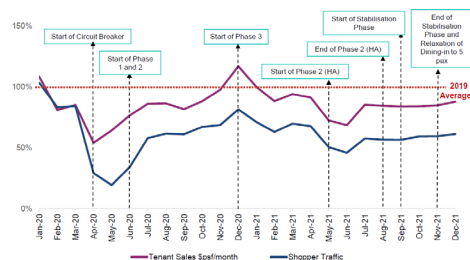
- Steady recovery in shopper traffic and tenant sales with progressive easing of social distancing measures after the Omicron variant wave has subsided.
- Asset enhancement and redevelopment of existing properties.

AUM BY ASSET TYPE



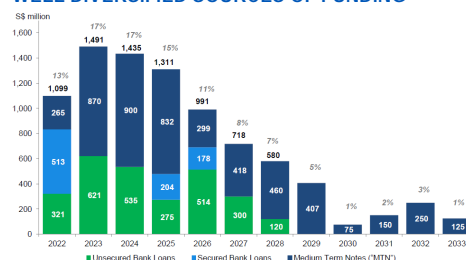
Source: CICT

TENANT SALES AND SHOPPER TRAFFIC VS AVERAGE FOR 2019



Source: CICT

WELL DIVERSIFIED SOURCES OF FUNDING



Source: CICT

KEY OPERATING METRICS - CICT

CICT Key Metrics	1Q21	2Q21	3Q21	4Q21	yoy % change	hoh % change
Revenue (S\$m)	334.8	310.9	329.0	330.4	19.5%	0.4%
NPI (S\$m)	247.1	225.1	242.6	236.3	23.1%	-2.6%
DPU (S cents)	n.a.	5.18	n.a.	5.22	-8.9%	0.8%
NAV (S\$)	n.a.	2.05	n.a.	2.07	2.7%	0.9%
Occupancy	97.1%	94.9%	94.4%	93.9%	-4.1ppt	-0.5ppt
Aggregate Leverage	40.8%	40.5%	40.9%	37.2%	-3.4ppt	-3.7ppt
All-in-Financing Cost	2.4%	2.4%	2.3%	2.3%	-0.5ppt	0ppt
WALE by Gross Rental	3.1	3.1	3.0	3.2	1.4yrs	0.2yrs
Debt Maturity	4.4	4.3	4.1	3.9	-0.2yrs	-0.2yrs
Rental Reversions (Retail)	n.a.	-4.5%	-8.0%	-7.3%	-2.9ppt	0.7ppt

Source: CICT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	1,305.1	1,331.5	1,372.3	1,391.4
EBITDA	862.3	892.7	921.6	935.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	862.3	892.7	921.6	935.2
Associate contributions	140.2	5.3	20.9	20.9
Net interest income/(expense)	(170.7)	(193.5)	(204.6)	(217.6)
Pre-tax profit	1,102.3	766.5	737.8	738.4
Tax	(19.2)	(20.0)	(20.0)	(20.0)
Minorities	0.0	(0.8)	(0.8)	(0.8)
Net profit	1,083.1	745.7	717.0	717.6
Net profit (adj.)	812.6	683.7	717.0	717.6

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	21,437.2	22,240.5	22,240.5	22,240.5
Other LT assets	542.6	542.6	542.6	542.6
Cash/ST investment	365.1	217.7	219.6	235.8
Other current assets	396.9	156.2	160.6	162.7
Total assets	22,741.9	23,156.9	23,163.3	23,181.6
ST debt	594.6	594.6	594.6	594.6
Other current liabilities	665.2	322.4	331.9	336.4
LT debt	7,582.6	8,320.0	8,380.0	8,480.0
Other LT liabilities	203.6	214.2	219.2	221.6
Shareholders' equity	13,667.8	13,677.7	13,609.5	13,521.0
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	22,741.9	23,156.9	23,163.3	23,181.6

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	827.5	752.7	898.7	873.7
Pre-tax profit	831.8	704.5	737.8	738.4
Associates	(140.2)	(5.3)	(20.9)	(20.9)
Working capital changes	238.8	(357.6)	2.8	1.3
Other operating cashflows	(102.9)	411.2	178.9	154.8
Investing	256.4	(689.3)	52.0	52.0
Capex (growth)	0.0	(1,081.3)	0.0	0.0
Capex (maintenance)	(93.6)	(30.0)	(30.0)	(30.0)
Proceeds from sale of assets	292.7	340.0	0.0	0.0
Others	57.2	82.0	82.0	82.0
Financing	(902.4)	(210.9)	(948.8)	(909.4)
Distribution to unitholders	(448.0)	(735.7)	(785.2)	(783.8)
Issue of shares	250.0	0.0	0.0	0.0
Proceeds from borrowings	(480.2)	737.4	60.0	100.0
Others/interest paid	(224.2)	(212.5)	(223.6)	(225.6)
Net cash inflow (outflow)	181.5	(147.4)	1.9	16.2
Beginning cash & cash equivalent	183.6	365.1	217.7	219.6
Ending cash & cash equivalent	365.1	217.7	219.6	235.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.1	67.0	67.2	67.2
Pre-tax margin	84.5	57.6	53.8	53.1
Net margin	83.0	56.0	52.3	51.6
ROA	4.8	3.2	3.1	3.1
ROE	8.1	5.5	5.3	5.3
Growth				
Turnover	75.1	2.0	3.1	1.4
EBITDA	93.3	3.5	3.2	1.5
Pre-tax profit	215.2	(30.5)	(3.7)	0.1
Net profit	209.6	(31.2)	(3.8)	0.1
Net profit (adj.)	159.2	(15.9)	4.9	0.1
EPU	73.5	(16.9)	4.5	(0.2)
Leverage				
Debt to total capital	37.4	39.4	39.7	40.1
Debt to equity	59.8	65.2	65.9	67.1
Net debt/(cash) to equity	57.2	63.6	64.3	65.4
Interest cover (x)	5.1	4.6	4.5	4.3

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