

CapitaLand Integrated Commercial Trust

Portfolio reconstitution amidst recovery

SINGAPORE | REAL ESTATE (REIT) | FY21 RESULTS

- FY21 DPU of 10.40 Scts (+19.7% YoY) was in line, forming 102% of our forecast.
- Operating metrics continue to improve; tenants' sales lifted by broader recovery amongst trade sectors while negative retail reversions continue to narrow.
- Portfolio occupancy declined by 2.5ppts YoY due to timing of lease expiries at Capital Tower and Six Battery Road and trading impacted Clarke Quay.
- Maintain ACCUMULATE, DDM-based (COE 6.41%) TP lowered from S\$2.54 to S\$2.39. FY22e-26e DPU lowered by 5.2-6.7% to factor in higher utility and energy costs as well as the rising cost of borrowing. Our DDM-based TP dips from S\$2.54 to S\$2.39 on lower DPU estimates and higher cost of equity of 6.41% assumption (previous 6.27%). Catalysts for CICT include asset enhancement initiatives and acquisition.

Results at a glance

(SGD mn)	2H21	2H20*	YoY (%)	FY21	FY20*	YoY (%)	Comments
Gross Revenue	659.4	426.8	54.5%	1305.1	745.2	75.1%	Merger between CMT and CCT completed on 21 Oct 2020. FY21 revenue higher upon consolidation of CCT and Raffles City, previously recognised as JV.
Net Property Income	478.9	296.4	61.6%	951.1	512.7	85.5%	
Distributable Income	338.8	259.7	30.5%	674.7	369.4	82.7%	2H20 DI included S\$46.4mn in distributable income that was retained in 1H20
DPU (Cents)	5.22	5.73	-8.9%	10.40	8.69	19.7%	

Source: Company, PSR

* Merger of CMT and CCT to form CICT was completed on 21 October 2020

The Positives

+ Recovery in tenant sales and narrowing negative reversions support improving tenant sentiment. Full-year retail reversions narrowed to -7.3% (1H21: -9.1%). Suburban and downtown reversions were -2.4% and -13.8% respectively. Tenant retention remains stable at 82% (FY20 84.5%). Broader recovery amongst trade categories was observed from the 12.2% YoY growth in total tenants' sales, with nine out of 15 trade categories showing YoY growth. However, FY21 tenant sales psf was still below pre-pandemic levels, at 87.8% of FY19's monthly average. Rental support has also eased – FY21 rental waivers came in at S\$27mn, slightly more than half a month of rent, compared to the S\$128.4mn in rebates disbursed in FY20.

+ Valuation uplift of 3.5% or S\$752.8mn YoY. Retail assets saw a modest 3% valuation uplift on the back of recovering performance while cap rates remain unchanged. Office and integrated development assets accounted for 45% and 52% of the revaluation gains, owing to cap rate compressions for office assets and CapitaSpring achieving TOP in Nov 21. Clarke Quay and Raffles City took a S\$52mn and S\$107mn write-down due to CAPEX provisions for upcoming AEI works. Valuation for Gallileo fell by 13.2% of S\$76mn as valuers factored in the exercise of lease break option by Commerzbank, which will bring forward the lease expiring from 2029 to 2024.

+ Portfolio reconstitution and entry into new market. CICT divested its 50% stake in OGS for S\$640.7mn at an exit yield of 3.17%, 9.1% above valuation price on 30 Sep 21. It also entered a new market, Australia, making a A\$1.1bn investment in two Grade A office buildings and 50% interest in integrated development, 101-103 Miller Street and Greenwood Plaza. These three Australian acquisitions carry an average NPI yield of 5.1% and a pro-forma DPU accretion of 2.8%. Post-acquisition, Australia represents c.5% of AUM. Capital recycling continued into FY22 - CICT announced the sale of JCube for S\$340.0m at NPI yield of c.4%, 21.9% above FY21 valuation, realising net gains of S\$56.7mn.



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4 February 2022

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.02
FORECAST DIV	SGD 0.087
TARGET PRICE	SGD 2.39
TOTAL RETURN	22.5%

COMPANY DATA

BLOOMBERG CODE:	CICT SP Equity
O/S SHARES (MN) :	6,609
MARKET CAP (USD mn / SGD mn) :	9935 / 13349
52 - WK HI/LO (SGD) :	2.27 / 1.92
3M Average Daily T/O (mn) :	19.76

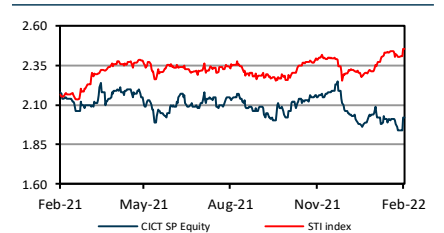
MAJOR SHAREHOLDERS

CAPITALAND	28.5%
BLACKROCK INC	5.9%
NATIONAL TRADES UNION CONGRESS	4.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.5)	(3.8)	(1.0)
STI RETURN	5.8	3.5	6.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY20	FY21	FY22e	FY23e
Gross Revenue	745	1,305	1,410	1,460
NPI	513	951	1,023	1,059
Dist. Income	376	687	768	795
P/NAV	1.01	0.95	0.96	0.96
DPU (Scts)	8.69	10.40	11.19	11.58
Distribution Yield	4.3%	5.1%	5.5%	5.7%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.41%, Terminal Growth 1.5%)

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The Negative

- **Portfolio occupancy of 93.9% was 2.5ppts lower YoY** as both retail and office register lower occupancy. Retail occupancy of 96.8% was 1.2ppts lower YoY. Downtown malls saw occupancy decline between 1.1-4.0%, with the exception of Bugis Junction which saw 0.4ppts improvement, while suburban malls have recovered to pre-pandemic occupancy. Occupancy at Clarke Quay fell 16.1ppts YoY to 73.5% as entertainment and nightlife tenants continue to be impacted by restrictions. The asset will undergo AEI once the necessary regulatory approvals have been obtained.

Office occupancy of 91.5% (- 3.6ppts YoY) lags CBD core average occupancy of 93.3% due to lower occupancy at Capital Tower (76.8%) and Six Battery Road (79.7%). The management is in advance negotiations with a major tenant for the space vacated by JP Morgan at Capital Tower. If successfully signed, occupancy at Capital Tower will increase from 79.7% to 90%. The completion of AEI at Six Battery Road has been delayed from end-2021 to 1Q22. Occupancy at Six Battery Road increased from 79.7% to 90% post-FY21 upon securing a tenant in Jan22. Strong leasing interest at CapitaSpring brought committed occupancy to 91.5% (3Q21: 83.1%), with another 5% of NLA in advanced stages of negotiation.

Outlook

Further relaxation of dine-in group size and return to office should help tenants' sales, especially at downtown malls. As measures ease and office capacity is lifted to 50% in Jan 22, the management noted that footfall at downtown malls has improved, albeit at the expense of suburban malls. As recovery continues, we could see more writebacks for retail assets, which are still 1.6-3.5% below 2019 valuations.

We understand from the management that FY22 portfolio reconstitution efforts will be focused on Singapore. ION Orchard is a low-hanging fruit, in our view, given that the mall is a matured asset that has been operating since 2009. 79 Robinson Road, JEWEL and CapitaSpring are relatively new assets that have not reached stabilisation but are potential pipeline assets in the mid-term.

Maintain ACCUMULATE, DDM-based TP lowered from S\$2.54 to S\$2.39

FY22e-26e DPU lowered by 5.2-6.7% to factor in higher utility and energy costs as well as the rising cost of borrowing. Our DDM-based TP dips from S\$2.54 to S\$2.39 on lower DPU estimates and higher cost of equity of 6.41% assumption (previous 6.27%). Catalysts for CICT include asset enhancement initiatives and acquisition.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross Revenue	787	745	1,305	1,410	1,460
Property operating expenses	(229)	(232)	(354)	(388)	(401)
Net Property Income	558	513	951	1,023	1,059
Asset management fees	(50)	(51)	(82)	(96)	(96)
Finance costs	(118)	(133)	(190)	(237)	(252)
Net Income before tax and FV changes	393	327	692	730	752
Share of JV's results	71	(14)	140	37	41
Net income	482	313	832	767	793
FV chang in investment property	233	(394)	271	107	56
Total return before tax	697	350	1,102	931	849
Taxation	-	0	(19)	-	-
Total return after tax	697	350	1,083	931	849
Income available for distribution	463	376	687	768	795

Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (Scts)	2.07	2.00	2.12	2.10	2.11
DPU (Scts)	11.97	8.69	10.40	11.19	11.58

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net income	697	350	1,083	931	849
Adjustments	(191)	107	(199)	(8)	109
WC changes	6	(63)	(56)	134	30
Cash generated from ops	512	394	828	1,057	989
CFI					
Purchase of Inv. propty., net	-	-	-	-	-
Capex, net	(126)	(44)	(94)	(54)	(56)
Dist. from JVs & equity invt.	77	57	349	70	74
Cashflow from investments	(58)	(912)	256	(795)	26
CFF					
Share issuance, net	-	-	250	-	-
Borrowings, net of repayments	(95)	995	(493)	702	(7)
Distributions to unitholders	(384)	(371)	(448)	(741)	(767)
Interest paid	(117)	(122)	(208)	(231)	(244)
Cashflow from financing	(600)	499	(902)	(272)	(1,021)
Net change in cash	(146)	(19)	182	(10)	(6)
Ending cash	202	184	365	355	349

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	10,416	21,366	21,431	22,308	22,418
Associate and JV	841	508	320	759	763
Equity Instrument at Fair Value	215	219	193	194	194
Financial derivatives	25	31	21	21	21
Total Non-current Assets	11,503	22,143	21,980	23,296	23,410
Trade and other receivables	26	83	109	117	122
Cash and cash equivalents	202	184	365	355	349
Total Current Assets	229	273	762	483	480
Total Assets	11,732	22,416	22,742	23,779	23,891
LIABILITIES					
Trade and other payables	167	293	557	602	624
Borrowings	260	932	595	987	931
Security deposits	63	91	94	117	123
Total Current Liabilities	495	1,334	1,259	1,719	1,692
Borrowings	3,301	7,794	7,583	7,902	7,958
Security deposits	63	91	94	117	123
Total Non-current liabilities	3,470	8,015	7,787	8,174	8,231
Total Liabilities	3,964	9,348	9,046	9,893	9,923
Net Assets	7,767	13,068	13,696	13,886	13,968
Represented by:					
Unitholders funds	7,767	13,038	13,668	13,856	13,936
Non-controlling interests	-	30	28	30	32

Valuation Ratios

	FY19	FY20	FY21	FY22e	FY23e
P/NAV	0.98	1.01	0.95	0.96	0.96
Distribution yield	5.9%	4.3%	5.1%	5.5%	5.7%
NPI yield	5.4%	2.4%	4.4%	4.6%	4.7%
Growth & Margins					
Growth					
Revenue	12.8%	-5.3%	75.1%	8.1%	3.5%
Net property income (NPI)	13.1%	-8.1%	85.5%	7.5%	3.6%
DPU	4.1%	-27.4%	19.7%	7.6%	3.5%
Margins					
NPI margin	70.8%	71.0%	72.9%	72.5%	72.5%
Key Ratios					
Gearing	34.2%	39.9%	37.6%	38.5%	38.3%
Interest coverage ratio	4.3x	3.4x	4.6x	4.0x	4.0x

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