COMPANY UPDATE

CapitaLand Integrated Commercial Trust (CICT SP)

Office Gaining Momentum; Retail Recovering Gradually

CICT is in advanced negotiations for new leases to backfill vacant spaces at Capital Tower and CapitaSky, which could potentially improve occupancies by 18ppt and 3ppt respectively to 94% and 95.8%. New supply from IOI Central Boulevard Towers coming on stream in 4Q23 is likely to be largely pre-committed. Rent reversion for retail could remain weak due to changes in the tenant mix at some of its retail malls. CICT provides 2023 distribution yield of 5.4%. Maintain BUY. Target price: S$2.50.

WHAT'S NEW

- **Office: Back working from the office again.** Outlook has brightened with all employees allowed back to their workplaces since 26 Apr 22. 47% of employees have returned to work from their offices as of Apr 22. Island-wide net absorption has reversed to positive territory for three consecutive quarters and was 307,282sf in 1Q22. Leasing demand is driven by non-bank financial services, technology, pharmaceutical and fast-moving consumer goods sectors. Vacancy rate for Grade A Core CBD has tightened from the peak of 5.5% in 3Q21 to the current 4.5% in 1Q22. CBRE forecast rents for Grade A Core CBD to recover 6.9% to S$11.55psf/month in 2022 due to limited new supply.

- **Upside from backfilling vacant office space.** Occupancy for Singapore office improved 1.9ppt qoq to 92.3% in 1Q22. There is room to further ramp up occupancies at Capital Tower (76.6%), CapitaGreen (93.6%) and Six Battery Road (88.4%). We understand that CapitaLand Integrated Commercial Trust (CICT) is in advanced negotiations to finalise a lease agreement with ByteDance to backfill 120,000sf of office space at Capital Tower vacated by JPMorgan. If successfully closed, the new tenant would bring occupancy at Capital Tower back to 94%. Occupancy at newly-acquired CapitaSky (70% stake) is also expected to improve 2.9ppt to 95.8%. Rent reversion could be flat or slightly positive in 2022. Capital Tower should generate positive rent reversion due to low expiry rent of S$5.99psf pm, offset by high expiry rent at AST2 (S$11.31psf pm), CapitaGreen (S$11.33psf pm) and Six Battery Road (S$11.67psf pm).

- **New supply pre-committed by technology giants.** We understand that Amazon and Meta Platforms are in advanced negotiations to lease office space at IOI Central Boulevard Towers, the only new supply within core CBD over the next three years. Amazon could take up 369,000sf of office space covering 11 floors, representing 29% of the available office space of 1,258,000sf from IOI Central Boulevard Towers. Amazon is expected to consolidate its presence at Marina Bay by keeping 90,000sf of office space at CICT's Asia Square Tower 2 (AST2) (three floors), which is linked to IOI Central Boulevard Towers by a second-storey link bridge.

- **Retail: Recovery in consumer spending.** Safe distancing between individuals is no longer required, whether indoors or outdoors. Food & Beverage establishments are operating at full capacity as the cap on group size of 10 persons was lifted since 26 Apr 22. Consumer spending on Department Stores, Wearing Apparel & Footwear and Cosmetics, Toiletries & Medical Goods have recovered +17.2%, +25.8% and +25.2% yoy respectively in Mar 22. Food & Alcohol also grew +19.6% yoy.

KEY FINANCIALS

Year to 31 Dec (S$m)	2020	2021	2022F	2023F	2024F
Net turnover	745	1,305	1,407	1,478	1,498
EBITDA	446	862	919	962	976
Operating profit	446	862	919	962	976
Net profit (rep./act.)	350	1,083	763	736	735
Net profit (adj.)	313	813	701	736	735
EPU (S$ cents)	7.1	12.4	10.6	11.1	11.0
DPU (S$ cents)	8.7	10.4	11.4	12.1	12.3
PE (x)	31.1	17.9	21.0	20.1	20.1
P/B (x)	1.1	1.1	1.1	1.1	1.1
DPU Yld (%)	3.9	4.7	5.1	5.4	5.6
Net margin (%)	46.9	83.0	54.2	49.8	49.1
Net debt/(cash) to equity (%)	65.5	57.2	69.9	70.6	71.7
Interest cover (x)	3.8	5.1	4.4	4.2	4.1
ROE (%)	3.4	8.1	5.6	5.4	5.4
Consensus DPU (S$ cent)	n.a.	n.a.	11.4	12.0	12.3
UOBKH/Consensus (x)	-	-	1.00	1.01	1.00

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

BUY

(Maintained)

Share Price	S$2.22
Target Price	S$2.50
Upside	+12.6%
(Previous TP	*S$2.46)*

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):	6,629.6
Market cap (S$m):	14,717.6
Market cap (US$m):	10,745.1
3-mth avg daily t'over (US$m):	41.8

Price Performance (%)

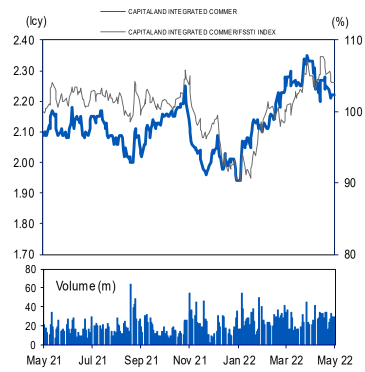
52-week high/low S$2.35/S$1.94

1mth	3mth	6mth	1yr	YTD
(5.1)	4.7	1.4	9.9	8.8

Major Shareholders	%
Temasek Hldgs	23.7
-	-
-	-

FY22 NAV/Share (S$)	2.06
FY22 Net Debt/Share (S$)	1.44

PRICE CHART



Source: Bloomberg

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- **Downtown malls to lead recovery.** Retail occupancy was stable at 96.6% in 1Q22. Tenant sales at suburban malls are already 1% above pre-COVID-19 levels, while tenant sales at downtown malls remain 14% below pre-COVID-19 levels. Management estimated mild negative rental reversion at 1.3% in 1Q22, based on average incoming rents vs average outgoing rents (suburban malls: +1.0%, downtown malls: -3.1%). We expect recovery from downtown malls, such as Bugis Junction, Funan, Plaza Singapura and Raffles City Singapore (RCS), which benefit more from the return of office crowd and tourists.

- **Rent reversion likely to be weak as retailers remain apprehensive.** CBRE expects retail rents to be stable in 1H22 before more meaningful pick-up in 2H22. New supply is limited to addition and alteration works at existing retail malls outside the central region and there is no significant mall completion in 2022. Many retailers are adopting a wait-and-see approach before committing to new leases. Retailers need a sustained period of recovery lasting 12-15 months before confidence is restored. CICT's rent reversion could remain weak due to potential change in tenant mix at some of its retail malls, such as Clark Quay.

STOCK IMPACT

- CICT is working on two asset enhancement initiatives (AEI) as part of its proactive asset management strategy:

- **AEI for RCS.** CICT will commence AEI for the three floors of retail space at RCS previously occupied by Robinsons. It plans to reconfigure 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. 50% of the retail space is pre-committed. Management targets completion by 4Q22.

- **AEI for CQ.** The JV between CapitaLand (CICT's sponsor) and City Developments to redevelop Liang Court will rejuvenate the surrounding area around Clarke Quay (CQ). CICT plans to enhance CQ by changing the trade mix to complement Liang Court. CQ will be repositioned to serve the residential population within the vicinity with more tenants that operate during the day (a departure from the current orientation towards nightlife). Detailed plans are still being finalised.

- **Diversified sources of funding.** CICT has an active medium term note programme, which accounted for 32% of its total borrowings. CICT's enlarged scale and increased diversification post-merger with CapitaLand Commercial Trust (CCT) has enabled CICT to secure a competitive coupon rate from institutional investors.

- **Coping with higher interest rates.** Aggregate leverage increased 1.9ppt qoq to 39.1% in 1Q22. Average term to maturity is 3.9 years and 85% of its borrowings are on fixed interest rates. It has stable cost of debt of 2.3%. Management estimated that a 1% increase in interest rates would result in addition interest expense of S$12.9m per year and reduce DPU by 0.2 S cents.

EARNINGS REVISION/RISK

- We raised our 2022 and 2023 DPU forecast by 2% due to the improving outlook for the office portfolio.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price for CICT of S$2.50 is based on Dividend Discount Model (cost of equity: 6.0%, terminal growth: 1.2%).

SHARE PRICE CATALYST

- Uptrend in the office sector. Steady recovery in shopper traffic and tenant sales due to easing of social distancing measures.

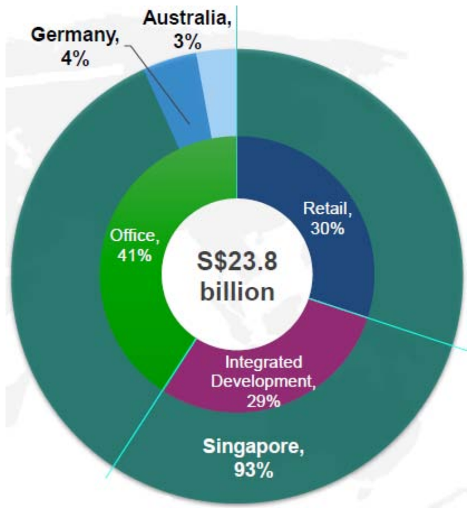
- Asset enhancement and redevelopment of existing properties.

KEY OPERATING METRICS – CICT

CICT Key Metrics	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % chg	qoq % chg*
Revenue (S$m)	334.8	310.9	329.0	330.4	339.7	1.5%	2.8%
NPI (S$m)	247.1	225.1	242.6	236.3	248.3	0.5%	5.1%
DPU (S cents)	n.a.	5.18	n.a.	5.22	n.a.	n.a.	n.a.
NAV per unit (S$)	n.a.	2.05	n.a.	2.07	n.a.	n.a.	n.a.
Occupancy	97.1%	94.9%	94.4%	93.9%	93.6%	-3.5ppt	-0.3ppt
Aggregate Leverage	40.8%	40.5%	40.9%	37.2%	39.1%	-1.7ppt	1.9ppt
All-in-Financing Cost	2.4%	2.4%	2.3%	2.3%	2.3%	-0.1ppt	0ppt
WALE by Gross Rental	3.1	3.1	3.0	3.2	3.7	0.6yrs	0.5yrs
Debt Maturity	4.4	4.3	4.1	3.9	3.9	-0.5yrs	0yrs
Rental Reversions (Retail)	n.a.	-4.5%	-8.0%	-7.3%	-4.1%	-4.1ppt	3.2ppt

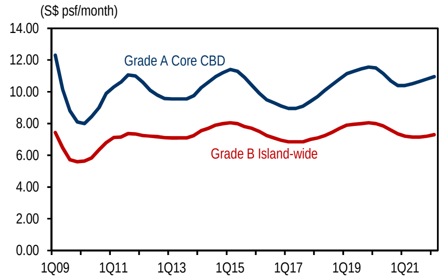
Source: CICT, UOB Kay Hian
** hoh % chg for DPU and NAV per unit.*

AUM BY GEOGRAPHY AND ASSET TYPE



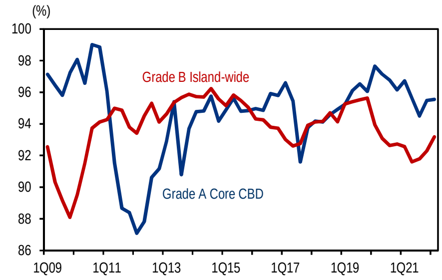
Source: CICT

OFFICE RENTS



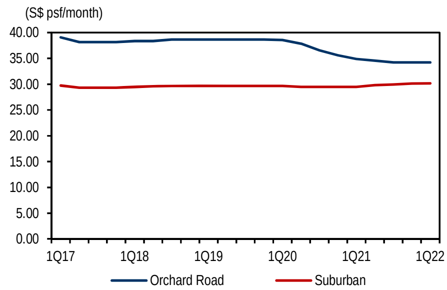
Source: CBRE

OFFICE OCCUPANCY RATES



Source: CBRE

PRIME ORCHARD ROAD RENTS VS SUBURBAN RENTS



Source: CBRE

PROFIT & LOSS

Year to 31 Dec (S$m)	2021	2022F	2023F	2024F
Net turnover	1,305.1	1,406.6	1,478.4	1,497.8
EBITDA	862.3	919.1	962.3	975.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	862.3	919.1	962.3	975.5
Associate contributions	140.2	10.4	20.9	20.9
Net interest income/(expense)	(170.7)	(207.9)	(226.9)	(240.1)
Pre-tax profit	1,102.3	783.6	756.3	756.3
Tax	(19.2)	(20.0)	(20.0)	(20.0)
Minorities	0.0	(0.8)	(0.8)	(0.8)
Net profit	1,083.1	762.8	735.5	735.5
Net profit (adj.)	812.6	700.8	735.5	735.5

BALANCE SHEET

Year to 31 Dec (S$m)	2021	2022F	2023F	2024F
Fixed assets	21,437.2	23,122.5	23,122.5	23,122.5
Other LT assets	542.6	542.6	542.6	542.6
Cash/ST investment	365.1	230.6	261.4	278.8
Other current assets	396.9	164.4	172.3	174.4
Total assets	22,741.9	24,060.1	24,098.7	24,118.3
ST debt	594.6	594.6	594.6	594.6
Other current liabilities	665.2	339.9	356.7	361.2
LT debt	7,582.6	9,200.0	9,280.0	9,380.0
Other LT liabilities	203.6	223.5	232.3	234.7
Shareholders' equity	13,667.8	13,674.1	13,607.2	13,519.9
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	22,741.9	24,060.1	24,098.7	24,118.3

CASH FLOW

Year to 31 Dec (S$m)	2021	2022F	2023F	2024F
Operating	827.5	(79.2)	947.1	915.2
Pre-tax profit	831.8	721.6	756.3	756.3
Associates	(140.2)	(10.4)	(20.9)	(20.9)
Working capital changes	238.8	(352.5)	4.9	1.3
Other operating cashflows	(102.9)	(438.0)	206.7	178.4
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)	634.0	(968.4)	(949.7)
Distribution to unitholders	(448.0)	(756.4)	(802.5)	(801.6)
Issue of shares	250.0	0.0	0.0	0.0
Proceeds from borrowings	(480.2)	1,617.4	80.0	100.0
Others/interest paid	(224.2)	(226.9)	(245.9)	(248.1)
Net cash inflow (outflow)	181.5	(134.5)	30.7	17.5
Beginning cash & cash equivalent	183.6	365.1	230.6	261.4
Ending cash & cash equivalent	365.1	230.6	261.4	278.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.1	65.3	65.1	65.1
Pre-tax margin	84.5	55.7	51.2	50.5
Net margin	83.0	54.2	49.8	49.1
ROA	4.8	3.3	3.1	3.1
ROE	8.1	5.6	5.4	5.4
Growth				
Turnover	75.1	7.8	5.1	1.3
EBITDA	93.3	6.6	4.7	1.4
Pre-tax profit	215.2	(28.9)	(3.5)	(0.0)
Net profit	209.6	(29.6)	(3.6)	(0.0)
Net profit (adj.)	159.2	(13.8)	4.9	(0.0)
EPU	73.5	(14.8)	4.6	(0.3)
Leverage				
Debt to total capital	37.4	41.7	42.0	42.4
Debt to equity	59.8	71.6	72.6	73.8
Net debt/(cash) to equity	57.2	69.9	70.6	71.7
Interest cover (x)	5.1	4.4	4.2	4.1

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