

# CapitaLand Integrated Commercial Trust

Recovery in full swing

## SINGAPORE | REAL ESTATE (REIT) | FY21 RESULTS

- 1Q22 Revenue (+1.5% YoY) and NPI (+0.5% YoY) were in line; NPI formed 23.7% of our FY22 forecast.
- Negative retail reversions continue to narrow while higher discretionary spending lifted tenant sales.
- Strong leasing quarter for Singapore office portfolio; pencilling in 9.3% in reversions.
- Upgrade from ACCUMULATE to BUY, DDM-based (COE 6.41%) TP raised from S\$2.39 to S\$2.46 as we increase FY23e-26e DPUs by 3.1-3.3% to factor in acquisition of 70% stake in CapitaSky (fka 79 Robinson Road). CICT is positioned to benefit from the economic reopening given its exposure to downtown malls and returning office leasing demand. Catalyst for CICT include AEl, potential development, and acquisitions.

### Results at a glance

(SGD mn)	1Q22	1Q21	YoY	Comments
Gross Revenue	339.7	334.8	1.5%	Higher revenue across all segments
Net Property Income	248.3	247.1	0.5%	Revenue growth eroded by higher energy cost
	1Q22	FY21	1Q22 Avg to avg	
Retail portfolio	-4.1%	-13.8%	-1.3%	
Suburban	-0.2%	-2.4%	1.0%	
Downtown	-7.1%	-13.8%	-3.1%	

Source: Company, PSR

Note: Reversions measure incoming year 1 rents vs outgoing final rents. Avg to avg reversions include rental escalations

### The Positives

**+ Narrowing negative reversions reflective of improving tenant sentiment.** 1Q22 retail reversions came in at -4.1% compared with FY21's -7.9%, with reversions at suburban malls improving from -2.4% to -0.2% and downtown malls narrowing from -13.8% to -7.1%. CICT renewed 7% of retail NLA in 1Q22, with retention rate coming in at 91%. Despite 5.3% YoY decline in footfall, 1Q22 tenant sales gained 0.6% YoY, driven by discretionary trades such as fashion, accessories and beauty. Retail occupancy came in at 96.6% (-0.2ppts QoQ), due to leases expiring in Clarke Quay ahead of its impending AEI, excluding which occupancy would be 98.3%.

**+ Office reversions came in at +9.3%**, attributed to Singapore assets. CICT signed c.8mn sq ft of space in 1Q, 12% of which are new leases from tenants in the financial services, IT, media and telecommunications and manufacturing and distribution. Occupancy for the Singapore office portfolio improved from 90.4% to 92.3% but remains below market average of 93.8%. Significant occupancy gains at Six Battery Road (+8.7ppts), CapitaSpring (+7.0ppts) and Asia Square Tower 2 (+1.9ppts). Backfilling of Six Battery Road and Capital Tower still in progress, with occupancy coming in at 88.4% and 76.6% respectively. CICT is in advanced negotiations with several tenants for space at Capital Towers which would bring occupancy to c.94% if concluded. Tenant retention rate was high at 95.5%, albeit with some tenants choosing to downsize. We understand that some bank tenants who have previously downsized are requesting for more space.

### The Negative

**- Higher electricity cost expected in FY22.** Electricity accounts for c.5% of OPEX. The impact of rolling onto new electricity contracts at tariffs that are 90% higher YoY, will be felt in 1Q22 as well as in FY23 when the fixed contracts expire. The management is reviewing increasing the service charge but articulated that the higher electricity cost may be partially offset through higher gross turnover rents when retailers raise prices to cope with inflationary costs.



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### BUY (Upgraded)

LAST DONE PRICE	SGD 2.24
FORECAST DIV	SGD 0.087
TARGET PRICE	SGD 2.46
TOTAL RETURN	13.6%

### COMPANY DATA

BLOOMBERG CODE:	CICT SP Equity
O/S SHARES (MN) :	6,625
MARKET CAP (USD mn / SGD mn) :	10722 / 14841
52 - WK HI/LO (SGD) :	2.36 / 1.92
3M Average Daily T/O (mn) :	25.28

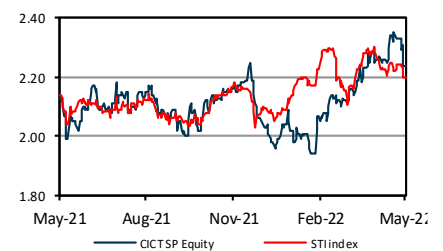
### MAJOR SHAREHOLDERS

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.4)	8.4	10.0
STI RETURN	(2.7)	0.4	7.1

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY20	FY21	FY22e	FY23e
Gross Revenue	745	1,305	1,446	1,515
NPI	513	951	1,049	1,100
Dist. Income	376	687	764	821
P/NAV	1.12	1.06	1.04	1.03
DPU (Scts)	8.69	10.40	11.13	11.97
Distribution Yield	3.9%	4.6%	5.0%	5.3%

Source: Company, PSR

### Valuation Method

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

Natalie Ong (+65 6212 1849)

Research Analyst

natalieongpf@phillip.com.sg

**Outlook**

The acquisition of the two Australian properties, 66 Goldburn Street and 100 Arthur Street, and 70% stake in CapitaSky were completed in Mar22 and Apr22 respectively. These acquisitions will feature more prominently from 2Q22 onwards.

AEI at Raffles City Shopping Mall is expected to be completed in 4Q22 while the AEI at Clarke Quay is pending final clearance from the authorities. The management is also starting to relook at redevelopment opportunities within the portfolio. The estimated legal purchase completion of 101-103 Miller Street was delayed from 1Q22 to 2Q22 and is pending approvals from the North Sydney Council and relevant transport authorities.

**Upgrade from ACCUMULATE BUY; DDM-based TP raised from S\$2.39 to S\$2.46**

FY23e-26e DPUs raised by 3.1-3.3% as we factor in acquisition of 70% stake in CapitaSky (fka 79 Robinson Road), lifting our DDM-TP from S\$2.39 to S\$2.46. CICT is positioned to benefit from the economic reopening given its exposure to downtown malls and returning office leasing demand. Catalysts for CICT include AEIs, potential development, and acquisitions.

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>Gross Revenue</b>	<b>787</b>	<b>745</b>	<b>1,305</b>	<b>1,446</b>	<b>1,515</b>
Property operating expenses	(229)	(232)	(354)	(397)	(415)
<b>Net Property Income</b>	<b>558</b>	<b>513</b>	<b>951</b>	<b>1,049</b>	<b>1,100</b>
Asset management fees	(50)	(51)	(82)	(107)	(88)
Finance costs	(118)	(133)	(190)	(251)	(267)
Net Income before tax and FV change	393	327	692	731	786
Share of JV's results	71	(14)	140	37	41
<b>Net income</b>	<b>482</b>	<b>313</b>	<b>832</b>	<b>768</b>	<b>827</b>
FV change in investment property	233	(394)	271	134	59
Total return before tax	697	350	1,102	959	886
Taxation	-	0	(19)	-	-
Total return after tax	697	350	1,083	959	886
<b>Income available for distribution</b>	<b>463</b>	<b>376</b>	<b>687</b>	<b>764</b>	<b>821</b>

### Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (Scts)	2.07	2.00	2.12	2.16	2.17
DPU (Scts)	11.97	8.69	10.40	11.13	11.97

### Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
<b>Net income</b>	697	350	1,083	959	886
Adjustments	(191)	107	(199)	(22)	121
WC changes	6	(63)	(56)	155	42
<b>Cash generated from ops</b>	<b>512</b>	<b>394</b>	<b>828</b>	<b>1,092</b>	<b>1,049</b>
<b>CFI</b>					
Purchase of Inv. propty., net	-	-	-	-	-
Capex, net	(126)	(44)	(94)	(54)	(59)
Dist. from JVs & equity invt.	77	57	349	70	74
<b>Cashflow from investments</b>	<b>(58)</b>	<b>(912)</b>	<b>256</b>	<b>(1,662)</b>	<b>23</b>
<b>CFF</b>					
Share issuance, net	-	-	250	-	-
Borrowings, net of repayments	(95)	995	(493)	1,236	(7)
Distributions to unitholders	(384)	(371)	(448)	(737)	(792)
Interest paid	(117)	(122)	(208)	(245)	(259)
<b>Cashflow from financing</b>	<b>(600)</b>	<b>499</b>	<b>(902)</b>	<b>252</b>	<b>(1,061)</b>
<b>Net change in cash</b>	<b>(146)</b>	<b>(19)</b>	<b>182</b>	<b>(317)</b>	<b>11</b>
<b>Ending cash</b>	<b>202</b>	<b>184</b>	<b>365</b>	<b>48</b>	<b>58</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Investment properties	10,416	21,366	21,431	23,580	23,696
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
<b>Total Non-current Assets</b>	<b>11,503</b>	<b>22,143</b>	<b>21,980</b>	<b>24,568</b>	<b>24,689</b>
Trade and other receivables	26	83	109	120	126
Cash and cash equivalents	202	184	365	48	58
<b>Total Current Assets</b>	<b>229</b>	<b>273</b>	<b>762</b>	<b>178</b>	<b>195</b>
<b>Total Assets</b>	<b>11,732</b>	<b>22,416</b>	<b>22,742</b>	<b>24,746</b>	<b>24,883</b>
<b>LIABILITIES</b>					
Trade and other payables	167	293	557	618	647
Borrowings	260	932	595	987	931
Security deposits	63	91	94	120	128
<b>Total Current Liabilities</b>	<b>495</b>	<b>1,334</b>	<b>1,259</b>	<b>1,737</b>	<b>1,719</b>
Borrowings	3,301	7,794	7,583	8,439	8,495
Security deposits	63	91	94	120	128
<b>Total Non-current liabilities</b>	<b>3,470</b>	<b>8,015</b>	<b>7,787</b>	<b>8,714</b>	<b>8,775</b>
<b>Total Liabilities</b>	<b>3,964</b>	<b>9,348</b>	<b>9,046</b>	<b>10,451</b>	<b>10,494</b>
<b>Net Assets</b>	<b>7,767</b>	<b>13,068</b>	<b>13,696</b>	<b>14,295</b>	<b>14,389</b>
<b>Represented by:</b>					
Unitholders funds	7,767	13,038	13,668	13,882	13,966
Non-controlling interests	-	30	28	413	423

### Valuation Ratios

	FY19	FY20	FY21	FY22e	FY23e
P/NAV	1.08	1.12	1.06	1.04	1.03
Distribution yield	5.3%	3.9%	4.6%	5.0%	5.3%
NPI yield	5.4%	2.4%	4.4%	4.4%	4.6%

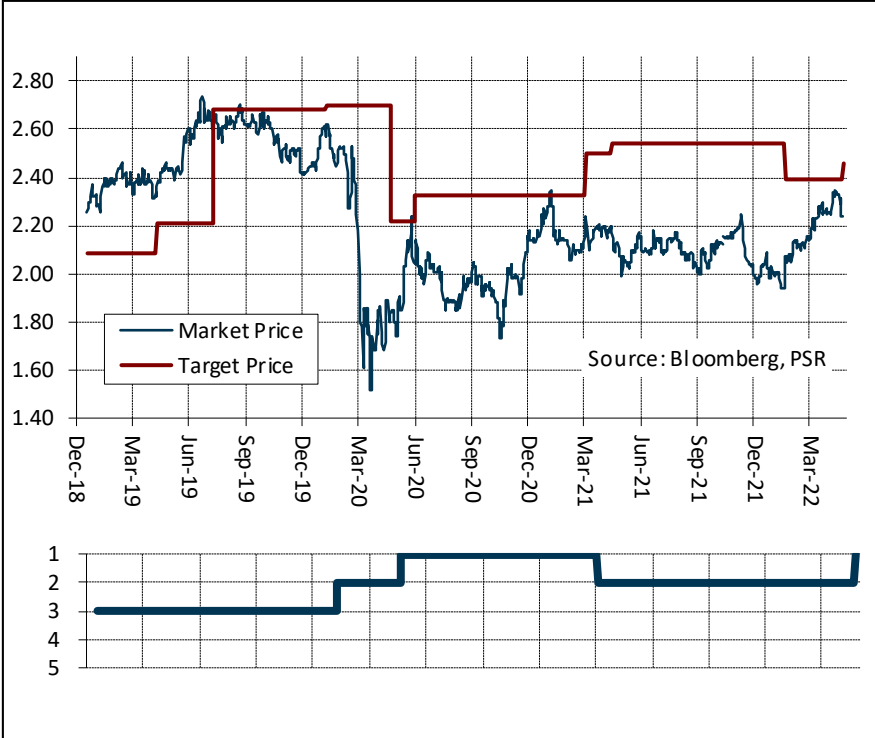
### Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
<b>Growth</b>					
Revenue	12.8%	-5.3%	75.1%	10.8%	4.8%
Net property income (NPI)	13.1%	-8.1%	85.5%	10.3%	4.8%
DPU	4.1%	-27.4%	19.7%	7.1%	7.5%
<b>Margins</b>					
NPI margin	70.8%	71.0%	72.9%	72.6%	72.6%

### Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
Gearing	34.2%	39.9%	37.6%	38.7%	38.5%
Interest coverage ratio	4.3x	3.4x	4.6x	3.9x	3.9x

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

**Contact Information (Research Team)**
**Head of Research**

 Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)
**Research Admin**

 Qystina Azli - [qystina@phillip.com.sg](mailto:qystina@phillip.com.sg)
**Consumer | Industrial | Conglomerates**

 Terence Chua – [terencechuatl@phillip.com.sg](mailto:terencechuatl@phillip.com.sg)
**Property | REITs**

 Natalie Ong – [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)
**Banking & Finance**

 Glenn Thum – [glennthumjc@phillip.com.sg](mailto:glennthumjc@phillip.com.sg)
**Small-Mid Cap**

 Vivian Ye – [yeqw@phillip.com.sg](mailto:yeqw@phillip.com.sg)
**US Technology Analyst (Internet)**

 Jonathan Woo – [jonathanwookj@phillip.com.sg](mailto:jonathanwookj@phillip.com.sg)
**Credit Analyst**

 Shawn Sng – [shawnsngkh@phillip.com.sg](mailto:shawnsngkh@phillip.com.sg)
**US Technology Analyst (Software/Services)**

 Ambrish Shah – [amshah@phillipcapital.in](mailto:amshah@phillipcapital.in)
**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

 Raffles City Tower  
 250, North Bridge Road #06-00  
 Singapore 179101  
 Tel +65 6533 6001  
 Fax +65 6535 6631  
 Website: [www.poems.com.sg](http://www.poems.com.sg)
**JAPAN**
**Phillip Securities Japan, Ltd.**

 4-2 Nihonbashi Kabuto-cho Chuo-ku,  
 Tokyo 103-0026  
 Tel +81-3 3666 2101  
 Fax +81-3 3666 6090  
 Website: [www.phillip.co.jp](http://www.phillip.co.jp)
**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd**

 15th Floor, Vorawat Building,  
 849 Silom Road, Silom, Bangkok,  
 Bangkok 10500 Thailand  
 Tel +66-2 6351700 / 22680999  
 Fax +66-2 22680921  
 Website [www.phillip.co.th](http://www.phillip.co.th)
**UNITED STATES**
**Phillip Capital Inc**

 141 W Jackson Blvd Ste 3050  
 The Chicago Board of Trade Building  
 Chicago, IL 60604 USA  
 Tel +1-312 356 9000  
 Fax +1-312 356 9005  
 Website: [www.phillipusa.com](http://www.phillipusa.com)
**INDIA**
**PhillipCapital (India) Private Limited**

 No.1, 18th Floor, Urmi Estate  
 95, Ganpatrao Kadam Marg  
 Lower Parel West, Mumbai 400-013  
 Maharashtra, India  
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
 Website: [www.phillipcapital.in](http://www.phillipcapital.in)
**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

 B-3-6 Block B Level 3 Megan Avenue II,  
 No. 12, Jalan Yap Kwan Seng, 50450  
 Kuala Lumpur  
 Tel +603 2162 8841  
 Fax +603 2166 5099  
 Website: [www.poems.com.my](http://www.poems.com.my)
**INDONESIA**
**PT Phillip Securities Indonesia**

 ANZ Tower Level 23B,  
 Jl Jend Sudirman Kav 33A  
 Jakarta 10220 – Indonesia  
 Tel +62-21 5790 0800  
 Fax +62-21 5790 0809  
 Website: [www.phillip.co.id](http://www.phillip.co.id)
**FRANCE**
**King & Shaxson Capital Limited**

 3rd Floor, 35 Rue de la Bienfaisance 75008  
 Paris France  
 Tel +33-1 45633100  
 Fax +33-1 45636017  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)
**AUSTRALIA**
**Phillip Capital Limited**

 Level 10, 330 Collins Street  
 Melbourne, Victoria 3000, Australia  
 Tel +61-03 8633 9803  
 Fax +61-03 8633 9899  
 Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)
**TURKEY**
**PhillipCapital Menkul Degerler**

 Dr. Cemil Bengü Cad. Hak Is Merkezi  
 No. 2 Kat. 6A Caglayan  
 34403 Istanbul, Turkey  
 Tel: 0212 296 84 84  
 Fax: 0212 233 69 29  
 Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)
**HONG KONG**
**Phillip Securities (HK) Ltd**

 11/F United Centre 95 Queensway  
 Hong Kong  
 Tel +852 2277 6600  
 Fax +852 2868 5307  
 Websites: [www.phillip.com.hk](http://www.phillip.com.hk)
**CHINA**
**Phillip Financial Advisory (Shanghai) Co Ltd**

 No 550 Yan An East Road,  
 Ocean Tower Unit 2318,  
 Postal code 200001  
 Tel +86-21 5169 9200  
 Fax +86-21 6351 2940  
 Website: [www.phillip.com.cn](http://www.phillip.com.cn)
**UNITED KINGDOM**
**King & Shaxson Capital Limited**

 6th Floor, Candlewick House,  
 120 Cannon Street,  
 London, EC4N 6AS  
 Tel +44-20 7426 5950  
 Fax +44-20 7626 1757  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)
**CAMBODIA**
**Phillip Bank Plc**

 Ground Floor of B-Office Centre, #61-64,  
 Norodom Blvd Corner Street 306, Sangkat  
 Boeung Keng Kang 1, Khan Chamkamorn,  
 Phnom Penh, Cambodia  
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
 Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)
**DUBAI**
**Phillip Futures DMCC**

 Member of the Dubai Gold and  
 Commodities Exchange (DGEX)  
 Unit No 601, Plot No 58, White Crown Bldg,  
 Sheikh Zayed Road, P.O.Box 212291  
 Dubai-UAE  
 Tel: +971-4-3325052 / Fax: + 971-4-3328895

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