Singapore Company Update

CapitaLand Integrated Commercial Trust

Bloomberg: CICT SP | Reuters: CMLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Aug 2022

BUY

Last Traded Price (11 Aug 2022): S$2.11 (STI : 3,301.96)
Price Target 12-mth: S$2.70 (28% upside)

Analyst
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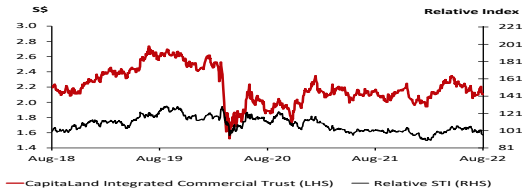
What's New

- CICT is the strongest contender for Mercatus' portfolio among local retailers, in our view
- Mercatus portfolio would potentially benefit CICT with a longer runway of assets as it builds a bigger base of resilient suburban malls in Singapore
- Preferred funding option is for CICT to acquire a 30% stake and team up with capital partner(s) for the remaining stake; reduces gearing risks
- Maintain BUY; TP of S$2.70

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2021A	2022F	2023F	2024F
Gross Revenue	1,305	1,428	1,502	1,537
Net Property Inc	951	1,021	1,116	1,144
Total Return	1,083	729	738	765
Distribution Inc	687	733	802	830
EPU (S cts)	12.4	10.1	11.1	11.4
EPU Gth (%)	74	(18)	9	3
DPU (S cts)	10.4	10.8	11.8	12.1
DPU Gth (%)	20	4	9	3
NAV per shr (S cts)	206	206	205	204
PE (X)	17.0	20.8	19.1	18.5
Distribution Yield (%)	4.9	5.1	5.6	5.7
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	36.6	39.4	39.3	39.3
ROAE (%)	6.1	4.9	5.4	5.6
Distn. Inc Chng (%):		11.2	12.0	12.2
Consensus DPU (S cts):		11.5	12.0	12.3
Other Broker Recs:		B: 16	S: 1	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

The One and Only

Investment Thesis

Reopening, recovery, and regrowth – CICT is a key beneficiary. CapitaLand Integrated Commercial Trust (CICT) is a key proxy and beneficiary of the reopening play. We estimate CICT could deliver a 6% two-year DPU CAGR, one of the stronger growth rates among its peers.

Riding on the office upcycle re-rating. Given the strong upward trajectory in the Singapore office market, we believe CICT, as the largest S-REIT with a Singapore-centric commercial portfolio, is well positioned to ride on the office upcycle.

Rare opportunity to acquire good-quality, prime Singapore commercial assets from sponsor pipeline. CICT is one of the few S-REITs with an opportunity to acquire newly completed prime Singapore office assets (for instance, the remaining 50% stake in CapitaSpring), and potentially more commercial Singapore assets in the sponsor pipeline.

Valuation:

Maintain BUY rating, TP of S$2.70. Maintain our BUY rating and target price (TP) of S$2.70. Our TP implies a P/NAV of 1.3x, at +1SD of its historical range.

Where we differ:

Riding on the office upcycle re-rating. As the largest commercial S-REIT, CICT is poised to ride on the Singapore office upcycle and retail recovery. Despite near-term potential headwinds, we are one of the first to look forward on its growth potential following from its portfolio optimisation and asset recycling efforts.

Key Risks to Our View:

The key risks to our view are an economic downturn, as well as a prolonged recovery and weak sentiment. Setbacks from new waves of the pandemic could delay CICT's recovery.

At A Glance

Issued Capital (m shrs)	6,630
Mkt. Cap (Sm/USm)	13,988 / 10,216
Major Shareholders (%)	
Temasek Holdings Pte Ltd	22.1
Free Float (%)	77.9
3m Avg. Daily Val (US$m)	36.5

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

ed: JS/ sa: SM, PY, CS

WHAT'S NEW

The One and Only

The sale of Mercatus' S$4.1bn suburban retail portfolio has created a buzz in the market especially when a rare portfolio of gems is up for sale. Given the significant operational scale and lack of availability of suburban assets for sale in Singapore, it has garnered strong interests from investors, especially retail landlords / operators.

The last time we saw a rare portfolio of Singapore retail assets transacted was in 2019 when Frasers Property Group (Frasers Centrepoint Limited together with its sponsor Frasers Property Limited) launched a buyout of PGIM's c.S$2bn worth of retail assets.

The Mercatus portfolio comprises of 4 suburban malls, where we believe at least 3 out of the 4 assets are "dominant malls" and stand out in their own respective suburban vicinity, in our view. The assets are situated at big residential catchment areas and strategically located near / at key transport nodes (MRT stations and bus interchanges).

Please refer to our previous report for more details on the Mercatus portfolio – Singapore Retail REITs – prized portfolio up for grabs.

According to media reports, CICT has been named as one of the contenders for the portfolio, along with Link REIT and Frasers Centrepoint Limited. We believe CICT is probably the strongest contender among the local retailers given its larger size post the CCT-CMT merger compared to its peers. Moreover, CICT being the largest retail landlord / operator in Singapore would be able to draw synergies and economies of scale when both portfolios are combined.

Please refer to our previous report for our views on the comparisons of the candidates for the portfolio – Regional Real Estate - May the Best Man win Mercatus

How does Mercatus' portfolio augment CICT's portfolio?

Building base in Singapore suburban retail mall, that has proven to be relatively more resilient. The Mercatus portfolio is an opportunity for CICT to further build its base in Singapore's suburban retail malls. With the Mercatus portfolio, CICT's suburban mall portfolio's NPI contribution to its retail portfolio will increase to 57% from 50% and NPI contribution to the Group will increase to 36% from 30%.

CICT's overall retail portfolio will increase to 62% vs 60% by NPI contribution and 48% from 41% by NLA.

While retail sector has been going through a structural change with the uprising of e-commerce, Singapore's retail especially suburban retail malls have shown resilience during difficult times such as COVID-19 pandemic and periods of recession.

CICT & Mercatus Portfolio: Building base in more resilient suburban retail malls in Singapore

CICT	Current		Including Mercatus' Portfolio	
	by NLA	by NPI	by NLA	by NPI
Retail Portfolio				
Suburban Malls	48%	50%	61%	54%
CBD Mall	52%	50%	39%	46%
Total Portfolio				
Suburban Malls	19%	30%	29%	34%
CBD Mall	21%	30%	19%	28%

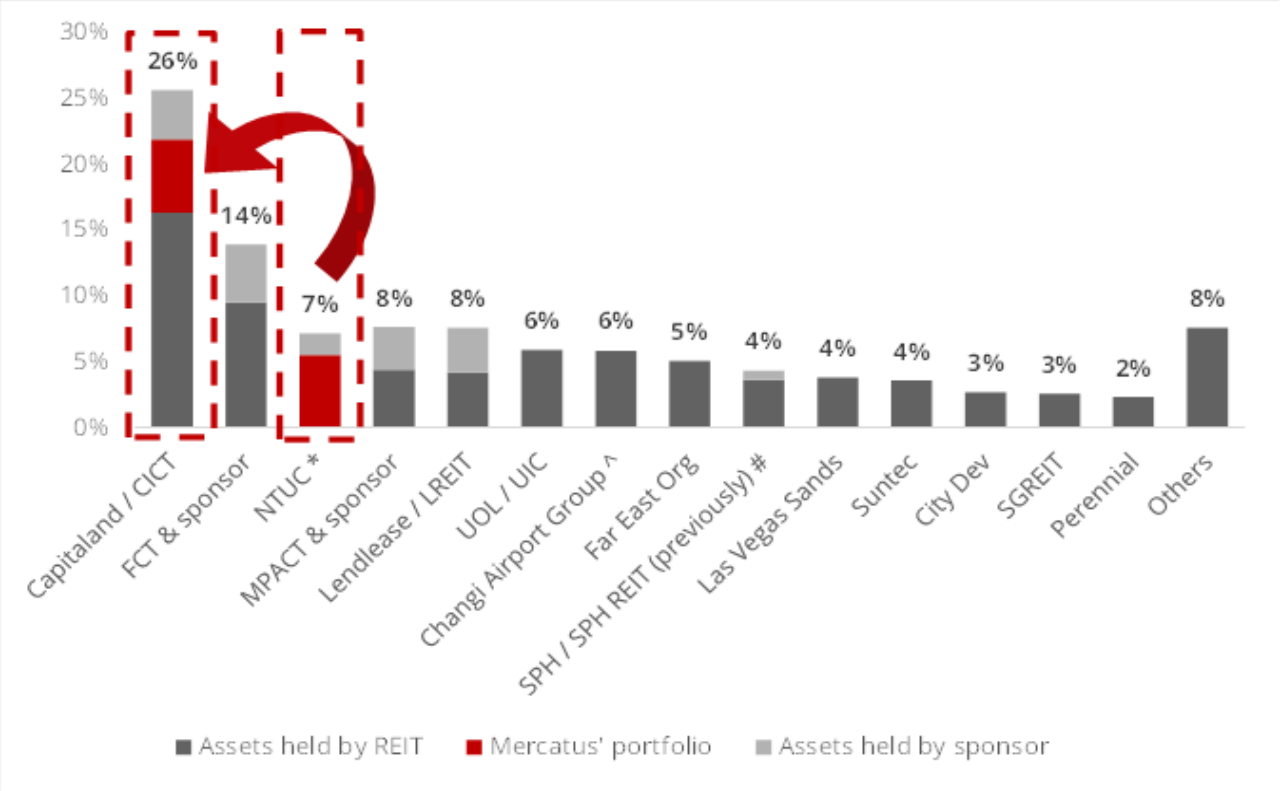
Source: Company, DBS Bank

Largest Singapore retailer to draw synergies and asset rejuvenation opportunities. CICT is the largest retailer in Singapore with 16% market share by NLA and together with its sponsor, they have a market share of 20%. The Mercatus portfolio will likely add another 6% market share.

Given CICT's dominance in Singapore's retail sector, we believe it will be able to draw synergies and extract more economies of scale from the portfolio. In addition, we believe CICT will be able to reap further benefits through asset rejuvenation or tenant remixing given its extensive platform of new / existing retailers in Singapore.

Room to raise yields? We estimate the portfolio average rent to be close to c.S$15psf per month (ranging between S$10psf per month and S$16psf per month), and we believe the yield has the potential to increase over time. The average rental in FY21 was c.4% lower than the rental achieved during the pre-COVID times of FY17-19A.

Mercatus' portfolio adds c.6% of market share by NLA to CICT, largest Singapore retailer together with its sponsor



** NTUC – including Mercatus' portfolio*
^Comprises 100% of Jewel
 # taken private by Cuscaden consortium comprising HPL, Mapletree and CLA
Source: Companies, DBS

Does the financial metrics work for CICT to acquire? – Benefits of being large thanks to the previous merger for a longer runway. With the CCT-CMT merger, CICT has the benefit of being the largest SREIT by market cap which gives them more room to acquire large portfolio of assets when good opportunity arises such as this. Compared to its local peers, CICT is probably the only SREIT that has the capacity to acquire on its own. However, given its high gearing at close to 41%, we are mindful that CICT might stretch its balance sheet.

Prefers partnership with capital partner(s) to keep gearing risks manageable in a rising interest rate environment. Given that CICT has various funding options to potentially fund the acquisition of Mercatus' portfolio if successful, we estimate a few scenarios taking various permutations into consideration with DPU accretion in mind. Please refer to the table below.

In our view, we believe the preferred funding option for the acquisition is Scenario 2 which assumes that CICT teams up with capital partner(s) to acquire the portfolio and takes a 30% stake in the portfolio. This allows CICT to keep gearing at 41.6% vs 40.6% as at Jun22, a manageable level in a rising interest rate environment. In this scenario, DPU and NAV are marginally accretive. With a longer runway and opportunities to yield up the assets, we believe CICT will be able to reap more benefits in the longer-term.

In Scenario 3, we estimate a potential rights issue at 10% discount to current share price. While the deal will still be marginally accretive, we are concerned the huge offering at a discounted price may cause dilution and near-term overhang on the share price.

Who could be potential capital partner(s)? The most likely capital partner would be its sponsor. The benefit of keeping the assets within the CapitaLand Group would give the Group easier access in managing and recalibrating the assets. In addition, CICT would have a pipeline to acquire on a piecemeal basis when capital markets are more conducive to raise funds.

An alternative capital partner could be NTUC Income retaining some interest on the assets in exchange for CICT shares. NTUC Income could remain as a passive capital partner while able to ride on the upside when these assets yield up to its full potential.

Maintain BUY; TP of S$2.70. We believe CICT's potential acquisition of the Mercatus portfolio (if successful) would build a longer runway for CICT as it expands further into the resilient Singapore suburban mall sector. However, we are mindful CICT may overstretch its balance sheet if it undertakes the acquisition on its own, which could be risky in a rising interest rates environment. As such, we would prefer the assistance of a capital partner(s) in exchange for a potential ROFR for future acquisition of the remaining stake by CICT. Given the concern of funding risks, we believe it may cause a near-term overhang on CICT's share price.

Potential scenarios of various funding options; prefer Scenario 2

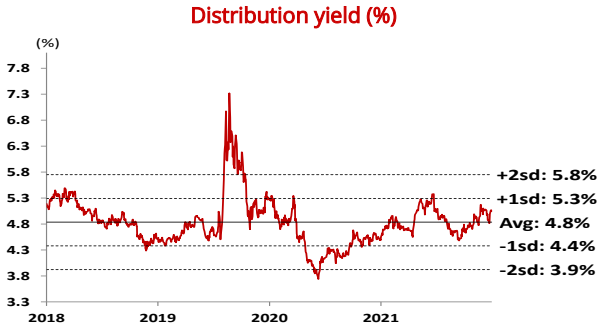
	Current	Scenario 1A CICT (standalone)	Scenario 1B CICT (standalone)	Scenario 2 Capital Partner (Sponsor/3rd party /NTUC	Scenario 3 Rights Issue
Stake in Mercatus' (%)		100%	100%	30%	100%
LTV		85%	60%	60%	70%
Equity (% of Market Cap)	S$14.1bn	4%	12%	4%	9%
Discount to current price	S$2.13	0%	0%	0%	10%
Gearing (Jun22)	40.6%	47.0%	43.4%	41.6%	44.8%
DPU accretion (fr FY21)	10.38 Scts	2.3%	0.3%	0.1%	0.2%
NAV accretion (fr FY21)	S$2.06	0.1%	0.3%	0.1%	-0.6%

Source: DBS estimates

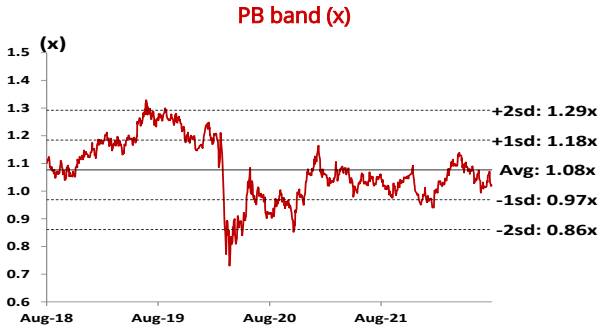
Company Background

CapitaLand Integrated Commercial Trust (CICT) is the largest real estate investment trust listed in Singapore as a result of the merger of CapitaLand Mall Trust (CMT) and CapitaLand Commercial Trust (CCT). Following the merger, its portfolio of assets comprises predominantly retail assets in Singapore and office assets in Singapore and Germany. By asset mix, the office segment makes up c.40%, while retail and integrated developments account for c.30% each.

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (S$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	745	1,305	1,428	1,502	1,537
Property expenses	(232)	(354)	(407)	(386)	(393)
Net Property Income	**513**	**951**	**1,021**	**1,116**	**1,144**
Other Operating expenses	(55.8)	(88.8)	(109)	(116)	(117)
Other Non Opg (Exp)/Inc	12.5	12.7	3.06	3.06	3.06
Associates & JV Inc	(14.1)	140	28.3	40.7	43.1
Net Interest (Exp)/Inc	(131)	(183)	(246)	(280)	(280)
Exceptional Gain/(Loss)	(10.8)	0.0	0.0	0.0	0.0
Net Income	**313**	**832**	**697**	**764**	**793**
Tax	0.0	(19.2)	(16.1)	(17.7)	(18.3)
Minority Interest	0.0	0.02	(8.3)	(8.3)	(8.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**313**	**813**	**672**	**738**	**765**
Total Return	350	1,083	729	738	765
Non-tax deductible Items	35.4	56.8	60.6	63.9	64.6
Net Inc available for Dist.	376	687	733	802	830
Growth & Ratio					
Revenue Gth (%)	(5.3)	75.1	9.4	5.2	2.3
N Property Inc Gth (%)	(8.1)	85.5	7.3	9.4	2.5
Net Inc Gth (%)	(37.6)	159.4	(17.3)	9.7	3.7
Dist. Payout Ratio (%)	98.3	100.0	98.0	98.0	98.0
Net Prop Inc Margins (%)	68.8	72.9	71.5	74.3	74.4
Net Income Margins (%)	42.0	62.3	47.1	49.1	49.8
Dist to revenue (%)	50.4	52.7	51.3	53.4	54.0
Managers & Trustee's fees	7.5	6.8	7.7	7.7	7.6
ROAE (%)	3.0	6.1	4.9	5.4	5.6
ROA (%)	1.8	3.6	2.9	3.1	3.2
ROCE (%)	2.7	3.8	3.9	4.2	4.3
Int. Cover (x)	3.5	4.7	3.7	3.6	3.7

Source: Company, DBS Bank

Interim Income Statement (S$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	318	427	646	659
Property expenses	(102)	(130)	(173)	(180)
Net Property Income	216	296	472	479
Other Operating	(24.3)	(31.6)	(44.7)	(44.2)
Other Non Opg (Exp)/Inc	4.82	7.70	2.17	10.5
Associates & JV Inc	(28.0)	13.9	6.73	133
Net Interest (Exp)/Inc	(56.0)	(75.2)	(101)	(82.4)
Exceptional Gain/(Loss)	0.0	(10.8)	0.0	0.0
Net Income	113	200	335	496
Tax	0.0	0.06	(7.4)	(11.8)
Minority Interest	0.0	0.08	(0.6)	0.58
Net Income after Tax	125	200	327	485
Total Return	(167)	517	327	756
Non-tax deductible Items	312	(310)	3.12	(413)
Net Inc available for Dist.	161	224	338	349
Growth & Ratio				
Revenue Gth (%)	N/A	34	51	2
N Property Inc Gth (%)	nm	37	59	1
Net Inc Gth (%)	nm	77	63	48
Net Prop Inc Margin (%)	68.0	69.4	73.1	72.6
Dist. Payout Ratio (%)	68.3	115.8	99.4	100.0

Balance Sheet (S$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Investment Properties	21,366	21,431	23,139	23,149	23,164
Other LT Assets	777	549	605	605	605
Cash & ST Invts	184	365	20.4	46.5	49.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	83.0	109	67.4	71.0	72.6
Other Current Assets	6.37	288	288	288	288
Total Assets	22,416	22,742	24,120	24,160	24,179
ST Debt	932	595	595	595	595
Creditor	293	557	714	751	768
Other Current Liab	109	107	113	114	115
LT Debt	7,794	7,583	8,744	8,754	8,764
Other LT Liabilities	220	205	205	205	205
Unit holders' funds	13,038	13,668	13,714	13,697	13,679
Minority Interests	30.3	28.0	36.2	44.6	53.4
Total Funds & Liabilities	22,416	22,742	24,120	24,160	24,179
Non-Cash Wkg. Capital	(313)	(267)	(471)	(506)	(522)
Net Cash/(Debt)	(8,543)	(7,812)	(9,318)	(9,302)	(9,309)
Ratio					
Current Ratio (x)	0.2	0.6	0.3	0.3	0.3
Quick Ratio (x)	0.2	0.4	0.1	0.1	0.1
Aggregate Leverage (%)	40.0	36.6	39.4	39.3	39.3
Z-Score (X)	4.9	4.9	4.9	4.9	4.9

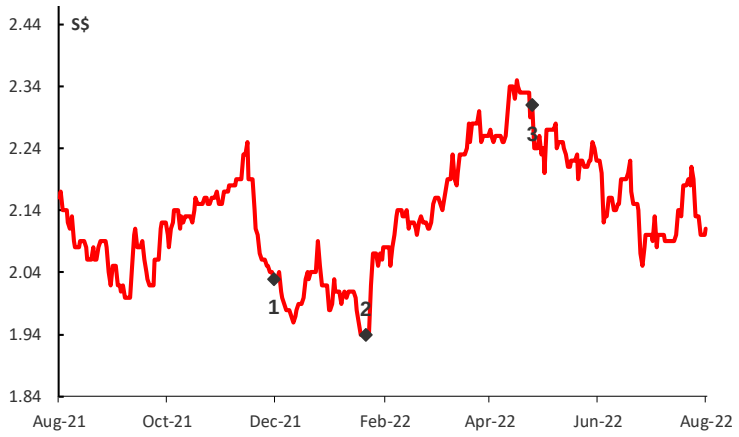
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	350	1,083	697	764	793
Dep. & Amort.	2.88	4.86	0.0	0.0	0.0
Tax Paid	(0.1)	(5.5)	(10.1)	(16.1)	(17.7)
Associates &JV Inc/(Loss)	14.1	(140)	(28.3)	(40.7)	(43.1)
Chg in Wkg.Cap.	(63.1)	(50.6)	198	33.7	15.5
Other Operating CF	90.5	(64.1)	0.0	0.0	0.0
Net Operating CF	394	828	856	741	747
Net Invt in Properties	(1.5)	(93.6)	(1,701)	(10.0)	(15.0)
Other Invts (net)	(926)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(43.5)	293	0.0	0.0	0.0
Div from Assoc. & JVs	56.8	56.4	28.3	40.7	43.1
Other Investing CF	1.94	0.81	0.0	0.0	0.0
Net Investing CF	(912)	256	(1,673)	30.7	28.1
Distribution Paid	(371)	(448)	(718)	(786)	(813)
Chg in Gross Debt	1,004	(493)	1,161	10.0	10.0
New units issued	0.0	250	28.9	30.4	30.7
Other Financing CF	(134)	(212)	0.0	0.0	0.0
Net Financing CF	499	(902)	472	(745)	(773)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(18.6)	182	(345)	26.1	2.85
Operating CFPS (S cts)	10.4	13.4	9.92	10.6	10.9
Free CFPS (S cts)	8.95	11.2	(12.7)	11.0	10.9

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Dec 21	2.03	2.50	BUY
2:	31 Jan 22	1.94	2.45	BUY
3:	05 May 22	2.31	2.70	BUY

Note *: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are DBS Bank unless otherwise specified.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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2. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Frasers Centrepoint Trust, LendLease Global Commercial REIT, Suntec REIT, Starhill Global REIT recommended in this report as of 31 Jul 2022.

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7. Olivier Lim Tse Ghow, a member of DBS Group Holdings Board of Directors, is a Advisor of Frasers Property Ltd as of 30 Jun 2022.

Disclosure of previous investment recommendation produced:

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