

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

7 Feb 2024

BUY

Last Traded Price (6 Feb 2024): S\$1.98 (STI : 3,125.68)

Price Target 12-mth: S\$2.30 (16% upside)

Analysts

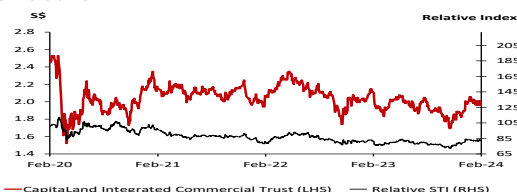
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What's New

- FY23 DPU +1.6% y-o-y to 10.75 Scts, in line with our estimates. 4Q23 NPI +5% q-o-q, held up by office portfolio
- Key positives: i) Estimated 4Q23 reversions remain high; ii) more than half of office leases expiring in FY24 now in advance negotiations; iii) retail occupancy cost still has room to grow
- Key factors to watch: i) Galileo AEI, lasting 18 months from Feb 24; ii) potential asset recycling
- Maintain BUY; TP of S\$2.30

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Gross Revenue	1,442	1,560	1,529	1,542
Net Property Inc	1,043	1,116	1,120	1,130
Total Return	723	863	638	651
Distribution Inc	713	728	703	717
EPU (S cts)	11.4	11.2	9.53	9.68
EPU Gth (%)	(8)	(1)	(15)	2
DPU (S cts)	10.6	10.8	10.3	10.4
DPU Gth (%)	2	2	(4)	1
NAV per shr (S cts)	212	213	211	210
PE (X)	17.4	17.6	20.8	20.5
Distribution Yield (%)	5.3	5.4	5.2	5.3
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	39.7	38.3	37.7	37.7
ROAE (%)	5.5	5.3	4.5	4.6

Distn. Inc Chng (%): -
 Consensus DPU (S cts): -
 Other Broker Recs: B: 14 S: 0 H: 3

Source of all data on this page: Company, DBS Bank Ltd, Refinitiv

Strong Singapore Inc

Investment Thesis:

CapitaLand Integrated Commercial Trust (CICT) is the largest integrated commercial SREIT that rides on the upcycle of the office and retail markets in Singapore. With its Singapore assets contributing more than 90% of its revenue, CICT rides on the stability and resilience of the Singapore economy.

Proxy to relatively stable Singapore economy, with inorganic opportunities. CICT's portfolio comprises >90% of the commercial properties in Singapore. Despite the potential headwinds, we believe CICT is a proxy to a relatively more stable Singapore economy. Aside from its organic growth potential, CICT is one of the few SREITs with an opportunity to acquire newly completed prime Singapore commercial assets, potentially from its sponsor's pipeline.

China tourists returning to Singapore could mean another boost to growth, which could drive the company's share price performance. Our TP has a total upside of 22%, of which 5% is from the FY24F dividend yield, 2.5% from terminal growth, and 14.5% from a valuation re-rating as a proxy to Singapore's more resilient and stable economy and being a leader in the S-REIT space.

Maintain BUY rating; TP of S\$2.30. We maintain our BUY rating and TP of S\$2.30. We expect Singapore assets will likely remain stable with upside from retail and office, riding on the strong positive reversions over the past year. While overall growth could moderate with the AEI plans at Galileo, recent reports of a potential asset recycling by CICT to pare down gearing levels, could bode well for investors, in our view.

Key Risks

The key risks to our view are an economic downturn, as well as a prolonged recovery and weak sentiment. Any delay in Chinese tourists returning could delay the recovery trajectory.

At A Glance

Issued Capital (m shrs)	6,649
Mkt. Cap (S\$m/US\$m)	13,164 / 9,772
Major Shareholders (%)	
Temasek Holdings Pte Ltd	24.5
BlackRock Inc	7.0
Free Float (%)	68.5
3m Avg. Daily Val (US\$m)	29.0
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

Strong Singapore Inc

FY2023 performance was in line with our estimates, gearing trended down marginally, with improved valuation mainly from Singapore assets; more than half of the office leases expiring in FY24 are currently in advance negotiation.

- CICT's FY23 DPU +1.6% y-o-y to 10.75 Scts, in line with our estimates. This was led by revenue and NPI growth of 8% y-o-y and 7% y-o-y, respectively.
- 4Q23 revenue and NPI grew 4% y-o-y (0.7% q-o-q) and 8% y-o-y (5% q-o-q), respectively.
- 4Q23 portfolio NPI was held up mainly by office (+26% y-o-y; 19% q-o-q) while retail was stable (+1.6% y-o-y; flat q-o-q) and integrated development was down (-5% y-o-y; -5% q-o-q).
- FY23 EBIT was +7% y-o-y, in line with NPI growth. 2H23 EBIT was +4% y-o-y (+2% q-o-q), also in line with NPI growth, mainly contributed by the office portfolio.
- Gearing improved to 39.9%, vs. 40.8% in 3Q23, mainly due to a slight increase in portfolio valuation (+2% y-o-y) while average cost of debt inched up marginally q-o-q to 3.4% (vs. 3.3% in 3Q23). ICR remained stable at 3.1x.
- Debt ratio ($(D+P)/A$) improved marginally h-o-h to 38.3% from 38.9% in 1H23 and 41.9% in 2H22, led by the improved portfolio valuation. EBITDA ICR held stable, at healthy levels of 3.1x (vs. 3.2x in 1H23 and 3.4x in 2H22).
- Portfolio valuation was mainly held up by Singapore assets (+2% y-o-y; retail +2.9%; office +0.8%) despite stable cap rates. Australia assets -10% y-o-y with a 37bps to 87bps cap rate expansion, while German office valuation -10% with terminal yield expanding 1.45% to 1.9%.

Key highlights from operations

- Portfolio occupancy stable q-o-q at 97.3%
- Estimated reversions were higher for both retail (11%) and office (9%) in 4Q23 (retail reversions were mainly from suburban portfolio [+12%])
- Tenant sales +2% y-o-y, led by downtown malls (+3% y-o-y)
- Occupancy cost was at 16.3%, with room to grow
- CICT is in advance negotiation for more than half of the office leases expiring in FY24 (4.5% of 8.3% of leases expiring) and 12% of retail leases (1.5% of 12.3% of leases expiring)
- AEI at Clarke Quay was completed with launch targeted for 2Q24, with a refreshed look and 50% new tenants. Occupancy is currently at c.85%
- Average office signing rents inched higher to S\$10.49psf vs. S\$10.45psf in 3Q23

Key highlights from the briefing

- Management expects retail reversions to be resilient at a high single digit while office reversions could be at a mid-single digit.
- Average cost of debt could stay flattish at c.3.5% in FY24, assuming no further interest rate hikes.
- Management observed more activity in the transaction market in Singapore and believes they may look at asset recycling to pare down gearing. The ideal gearing level would be 37% to 38%.
- Post the completion of the Clarke Quay AEI, CICT now embarks on new AEI projects. IMM and North Sydney are to drive short-term growth while the AEI at Galileo post the departure of its tenant at the end of Jan 24 will likely drive medium-term growth.
- IMM AEI is expected to be S\$48m with a target ROI of c.8%. The AEI is targeted for completion by 2Q2025, and pre-committed occupancy for phases 1 & 2 is at c.70% (including advance negotiations).
- CICT has begun a c.AU\$9m transformation at 101 Miller Street to attract potential tenants and retain existing tenants. It is also partnering with The Work Project to provide concierge services and flexible workspace solutions at the ground-level lobby and L10 at 100 Arthur Street.
- Post the departure of the tenant by the end of Jan 24, AEI work at Galileo will commence in Feb 24 and is expected to take at least 18 months. The estimated capex (debt funded) is €175m to €215m. It is currently in advance negotiations with a prospective tenant for the majority of the space. Management expects an uplift in rents.

Maintain BUY; TP of S\$2.30. We maintain our BUY rating and TP of S\$2.30. We expect Singapore assets will likely remain stable with upside from retail and office, riding on the strong positive reversions over the past year. However, overall growth could moderate with the AEI plans at Galileo. Recent news reports point at potential asset recycling by CICT to pare down gearing levels, which could bode well for investors, in our view. With more than 90% of its portfolio comprising Singapore assets, we believe CICT is a close proxy of the resilient Singapore economy.

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.

Summary of results

Summary of results	4Q2023	3Q2023	% q-o-q	4Q2022	% y-o-y	FY2023	FY2022	% y-o-y
Revenue (\$m)	393.9	391.3	0.7%	380.0	4%	1,559.9	1,441.7	8%
NPI (\$m)	288.6	275.0	4.9%	268.4	8%	1,115.9	1,043.3	7%
Income avail for distribution (\$m)	n/a	n/a	n/a	n/a	n/a	728.5	713.0	2%
Income distributed (\$m)	n/a	n/a	n/a	n/a	n/a	715.7	702.4	2%
DPU (Scts)	n/a	n/a	n/a	n/a	n/a	10.75	10.58	1.6%
Gearing (%)	39.9%	40.8%	-0.9 ppt	40.4%	-0.5 ppt	39.9%	40.4%	-0.5 ppt
Average cost of debt (%)	3.4%	3.3%	0.1 ppt	2.7%	0.7 ppt	3.4%	2.7%	0.7 ppt
WALE (yrs)	3.4	3.5	-0.1	3.7	-0.3	3.4	3.7	-0.3
ICR (x)	3.1	3.1	0	3.7	-0.6	3.1	3.7	-0.6
Hedging ratio	78%	78%	0 ppt	81%	-3 ppt	78%	81%	-3 ppt

Source: Company, DBS Bank Ltd

Key operational highlights

Key Operational Data	4Q2023	3Q2023	% q-o-q	4Q2022	% y-o-y
Portfolio occupancies	97.3%	97.3%	0 ppt	95.8%	1.5 ppt
Retail	98.5%	99.0%	-0.5 ppt	98.3%	0.2 ppt
Office	96.7%	96.4%	0.3 ppt	94.4%	2.3 ppt
Integrated Developments	98.5%	98.0%	0.5 ppt	97.1%	1.4 ppt
Rental reversions (%)					
Retail (cumulative)	8.5%	7.8%	0.7 ppt	-1.5%	10 ppt
- suburban	8.3%	7.4%	0.9 ppt	0.7%	7.6 ppt
- downtown	8.8%	8.4%	0.4 ppt	-3.5%	12.3 ppt
Office (cumulative)	9.0%	8.8%	0.2 ppt	7.6%	1.4 ppt
Portfolio WALE (years, GRI)	3.4	3.5	-0.1	3.7	-0.3
Retail	2.0	2.1	-0.1	2.2	-0.2
Office	3.4	3.5	-0.1	3.8	-0.4
Integrated development	4.9	5.0	-0.1	5.2	-0.3
Shopper Traffic (y-o-y, cumulative)	8.6%	12.9%	-4.3 ppt	25.0%	-16.4 ppt
Tenant Sales (y-o-y, cumulative)	1.8%	4.0%	-2.2 ppt	22.5%	-20.7 ppt
Av office rent (\$psf pm) - SG	10.49	10.45	0.4%	10.53	0%

Source: Company, DBS Bank Ltd

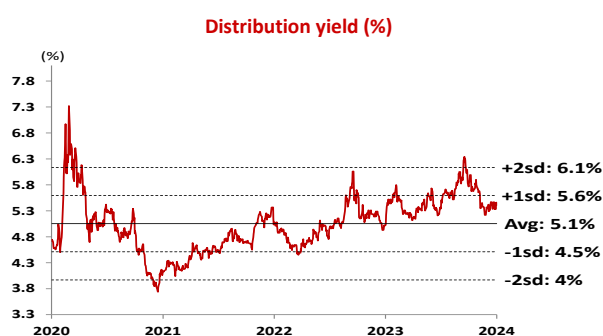
CapitaLand Integrated Commercial Trust

Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	754	775	785	4.1	1.3
Property expenses	(212)	(222)	(222)	4.3	(0.4)
Net Property Income	542	552	564	4.0	2.0
Other Operating expenses	(50.9)	(50.1)	(52.1)	2.4	3.9
Other Non Opg (Exp)/Inc	6.01	40.2	7.03	17.0	(82.5)
Associates & JV Inc	36.1	5.61	9.97	(72.4)	77.8
Net Interest (Exp)/Inc	(135)	(150)	(161)	(18.9)	(7.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	398	398	368	(7.5)	(7.6)
Tax	2.38	(4.3)	(5.8)	nm	33.6
Minority Interest	0.0	(5.8)	(0.8)	nm	(85.9)
Net Income after Tax	400	388	361	(9.7)	(6.9)
Total Return	310	388	475	53.3	22.4
Non-tax deductible Items	52.0	(31.6)	(111)	nm	252.6
Net Inc available for Dist.	362	359	370	2.1	2.9
Ratio (%)					
Net Prop Inc Margin	71.8	71.3	71.8		
Dist. Payout Ratio	98.2	98.4	98.1		

Source of all data: Company, DBS Bank Ltd

Historical Distribution Yield and PB band



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



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

CapitaLand Integrated Commercial Trust

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	1,305	1,442	1,560	1,529	1,542
Property expenses	(354)	(398)	(444)	(409)	(413)
Net Property Income	951	1,043	1,116	1,120	1,130
Other Operating expenses	(88.8)	(96.5)	(102)	(119)	(120)
Other Non Opg (Exp)/Inc	12.7	11.0	47.2	3.06	3.06
Associates & JV Inc	140	42.5	15.6	18.1	22.9
Net Interest (Exp)/Inc	(183)	(237)	(311)	(369)	(369)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	832	763	766	653	666
Tax	(19.2)	(4.1)	(10.1)	(6.1)	(6.3)
Minority Interest	0.02	(2.5)	(6.7)	(8.9)	(8.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	813	757	749	638	651
Total Return	1,083	723	863	638	651
Non-tax deductible Items	56.8	61.5	65.0	65.5	66.0
Net Inc available for Dist.	687	713	728	703	717
Growth & Ratio					
Revenue Gth (%)	75.1	10.5	8.2	(2.0)	0.8
N Property Inc Gth (%)	85.5	9.7	7.0	0.4	0.9
Net Inc Gth (%)	159.4	(6.9)	(1.0)	(14.8)	2.1
Dist. Payout Ratio (%)	100.0	98.5	98.2	98.2	98.2
Net Prop Inc Margins (%)	72.9	72.4	71.5	73.2	73.2
Net Income Margins (%)	62.3	52.5	48.0	41.7	42.2
Dist to revenue (%)	52.7	49.5	46.7	46.0	46.5
Managers & Trustee's fees	6.8	6.7	6.5	7.8	7.8
ROAE (%)	6.1	5.5	5.3	4.5	4.6
ROA (%)	3.6	3.2	3.0	2.6	2.6
ROCE (%)	3.8	4.1	4.1	4.1	4.1
Int. Cover (x)	4.7	4.0	3.3	2.7	2.7

Source: Company, DBS Bank Ltd

CapitaLand Integrated Commercial Trust

Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Gross revenue	659	688	754	775	785
Property expenses	(180)	(186)	(212)	(222)	(222)
Net Property Income	479	502	542	552	564
Other Operating	(44.2)	(45.6)	(50.9)	(50.1)	(52.1)
Other Non Opg (Exp)/Inc	10.5	4.99	6.01	40.2	7.03
Associates & JV Inc	133	6.37	36.1	5.61	9.97
Net Interest (Exp)/Inc	(82.4)	(102)	(135)	(150)	(161)
Exceptional Gain/(Loss)	0.0	57.3	0.0	0.0	0.0
Net Income	496	423	398	398	368
Tax	(11.8)	(6.5)	2.38	(4.3)	(5.8)
Minority Interest	0.58	(2.5)	0.0	(5.8)	(0.8)
Net Income after Tax	485	414	400	388	361
Total Return	756	414	310	388	475
Non-tax deductible Items	(413)	(62.5)	52.0	(31.6)	(111)
Net Inc available for Dist.	349	351	362	359	370
Growth & Ratio					
Revenue Gth (%)	2	4	10	3	1
N Property Inc Gth (%)	1	5	8	2	2
Net Inc Gth (%)	48	(15)	(3)	(3)	(7)
Net Prop Inc Margin (%)	72.6	73.0	71.8	71.3	71.8
Dist. Payout Ratio (%)	100.0	98.9	98.2	98.4	98.1

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	21,431	23,745	24,025	24,252	24,423
Other LT Assets	549	593	520	520	520
Cash & ST Invt	365	248	141	290	112
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	109	61.8	50.5	72.2	72.9
Other Current Assets	288	18.6	3.35	3.35	3.35
Total Assets	22,742	24,667	24,739	25,137	25,130
ST Debt	595	1,155	1,001	1,001	1,001
Creditor	557	324	343	765	771
Other Current Liab	107	126	110	98.6	98.7
LT Debt	7,583	8,430	8,476	8,476	8,476
Other LT Liabilities	205	352	407	407	407
Unit holders' funds	13,668	14,073	14,200	14,178	14,156
Minority Interests	28.0	206	202	211	220
Total Funds & Liabilities	22,742	24,667	24,739	25,137	25,130
Non-Cash Wkg. Capital	(267)	(370)	(399)	(788)	(794)
Net Cash/(Debt)	(7,812)	(9,337)	(9,337)	(9,188)	(9,366)
Ratio					
Current Ratio (x)	0.6	0.2	0.1	0.2	0.1
Quick Ratio (x)	0.4	0.2	0.1	0.2	0.1
Aggregate Leverage (%)	36.6	39.7	38.3	37.7	37.7

Source: Company, DBS Bank Ltd

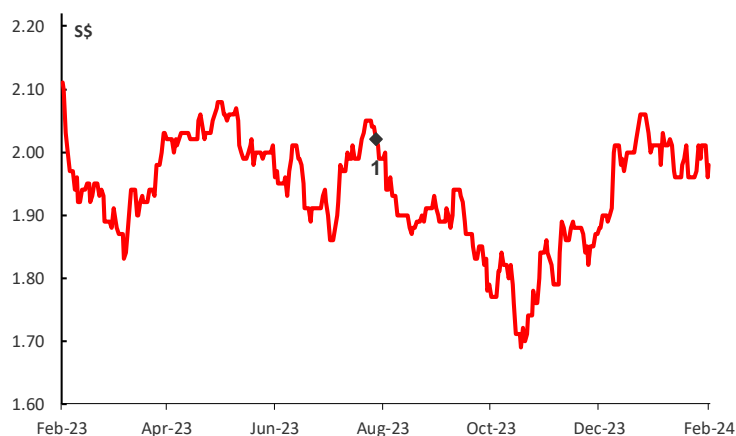
CapitaLand Integrated Commercial Trust

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	1,083	726	869	653	666
Dep. & Amort.	4.86	(12.3)	4.73	0.0	0.0
Tax Paid	(5.5)	(9.3)	(7.0)	(17.2)	(6.1)
Associates & JV Inc/(Loss)	(140)	(42.5)	(15.6)	(18.1)	(22.9)
Chg in Wkg.Cap.	(50.6)	53.7	24.5	400	5.86
Other Operating CF	(64.1)	308	204	0.0	0.0
Net Operating CF	828	1,024	1,080	1,018	643
Net Invnt in Properties	(93.6)	(127)	(118)	(227)	(171)
Other Invnts (net)	0.0	(823)	0.0	0.0	0.0
Invnts in Assoc. & JV	293	1.55	3.00	0.0	0.0
Div from Assoc. & JVs	56.4	17.4	14.7	18.1	22.9
Other Investing CF	0.81	4.71	61.6	0.0	0.0
Net Investing CF	256	(926)	(38.9)	(209)	(148)
Distribution Paid	(448)	(685)	(708)	(691)	(705)
Chg in Gross Debt	(493)	715	(92.6)	0.0	0.0
New units issued	250	0.0	0.0	31.2	31.4
Other Financing CF	(212)	(244)	(348)	0.0	0.0
Net Financing CF	(902)	(214)	(1,149)	(660)	(673)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	182	(117)	(108)	149	(178)
Operating CFPS (S cts)	13.4	14.6	15.8	9.22	9.47
Free CFPS (S cts)	11.2	13.5	14.4	11.8	7.02

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Aug 23	2.02	2.30	BUY

Source: DBS Bank Ltd

Analysts: Rachel TAN

Derek TAN

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 Ltd unless otherwise specified.

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