

COMPANY UPDATE

CapitaLand Integrated Commercial Trust (CICT SP)

Quality Portfolio That Commands Well-deserved Premium

CICT continues to enhance its retail malls with the latest initiative being the repositioning of IMM Building into an outlet mall scheduled for completion in 3Q25. Management expects its Grade A office buildings to sustain high single-digit rental reversion. The divestment of 21 Collyer Quay is more advantageous as it is DPU accretive and better positions CICT for the next major acquisition. CICT provides a resilient 2025 distribution yield of 5.1%. Maintain BUY. Target price: S\$2.29.

WHAT'S NEW

- Enhancing IMM Building.** CapitaLand Integrated Commercial Trust (CICT) has commenced asset enhancement initiatives (AEI) for 126,000sf of retail space at Level 1 of IMM Building to strengthen its outlet offerings, having already added a Fila Kids Outlet and Anta Kids Outlet in 1Q24. It will also right-size the supermarket's footprint, refresh common areas and upgrade mall amenities. Committed occupancy for Phase 1 and 2 of the AEI, including leases under advanced negotiations, is high at 75%. IMM Building will remain operational during the AEI, which will be carried out over four phases. Upon completion in 3Q25, IMM will be the largest outlet mall in Singapore with 110 outlet stores. Management targets to achieve ROI of 8% for the capex of S\$48m.
- The office market remains resilient** with vacancy for Grade A Core CBD tightening by 0.2ppt yoy to 3.6% in 1Q24. IOI Central Boulevard has just received TOP in 2Q24 and is 50% pre-committed. On a brighter note, shadow spaces have been significantly reduced from 0.7m sf to 0.2m sf, which eases the competition with office landlords. CICT's Grade A office properties are well located and continue to command premium rents. We expect occupancy to remain relatively stable at 95% with minor fluctuations caused by transitory vacancy. Management expects positive rental reversion to be sustainable at high single-digit in 2H24 (1Q24: 14.1%).
- Raising funds by tapping on its MTN programme.** CICT is rated A- by Standard & Poor's and A3 by Moody's. CICT has issued S\$300m of fixed-rate notes at 3.75% in Jul 24. The fixed-rate notes have a tenure of 10 years and mature on 10 Jul 2034. The attractive coupon rate of 3.75% is a reflection of CICT's strong credit standing. Medium-term notes (MTN) account for 46% of CICT's total borrowings.
- Cost of debt could peak in 4Q24.** Average cost of debt inched up slightly by 0.1ppt qoq to 3.5% in 1Q24. Management expects cost of debt to peak at high-3% in 4Q24. 76% of its borrowings are on fixed interest rates. We expect the positive impact from the lower interest rates to be offset by negative impact from refinancing, which will lead to a stable cost of debt in 2025. Aggregate leverage was stable at 40.0% as of Mar 24.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,442	1,560	1,559	1,621	1,650
EBITDA	947	1,014	1,022	1,064	1,084
Operating profit	947	1,014	1,022	1,064	1,084
Net profit (rep./act.)	723	863	687	717	735
Net profit (adj.)	756	749	687	717	735
EPU (S\$ cents)	11.4	11.3	10.3	10.7	10.9
DPU (S\$ cents)	10.6	10.8	10.2	10.6	10.9
PE (x)	18.3	18.6	20.3	19.5	19.1
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	5.1	5.1	4.9	5.1	5.2
Net margin (%)	50.2	55.3	44.1	44.3	44.5
Net debt/(cash) to equity (%)	66.3	65.8	67.6	68.4	68.5
Interest cover (x)	4.2	3.8	3.0	3.1	3.1
ROE (%)	5.2	6.1	4.8	5.0	5.2
Consensus DPU (S\$ cent)	n.a.	n.a.	10.9	11.0	12.0
UOBKH/Consensus (x)	-	-	0.94	0.97	0.91

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

BUY

(Maintained)

Share Price	S\$2.09
Target Price	S\$2.29
Upside	+9.6%
(Previous TP	S\$2.22)

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):	6,734.6
Market cap (S\$m):	14,075.2
Market cap (US\$m):	10,487.5
3-mth avg daily t'over (US\$m):	31.9

Price Performance (%)

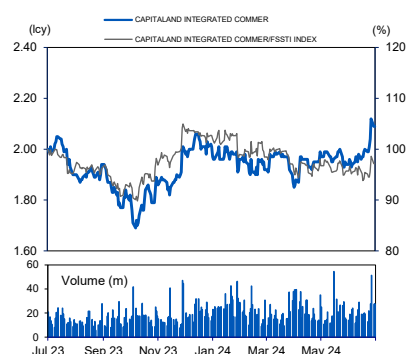
52-week high/low	S\$2.12/S\$1.69			
1mth	3mth	6mth	1yr	YTD
7.7	10.0	3.5	6.1	1.5

Major Shareholders

Temasek Hldgs	24.0
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FY24 NAV/Share (S\$)	2.12
FY24 Net Debt/Share (S\$)	1.44

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

• **Potential asset recycling in the works.** CICT could deleverage by divesting Bukit Panjang Plaza (cap rate: 4.8%, valuation: S\$360m) and/or 21 Collyer Quay (cap rate: 3.45%, valuation: S\$649m). Comparing the two candidates, a divestment of 21 Collyer Quay is more advantageous due to the following reasons:

a) Assuming proceeds from the divestment is fully utilised to repay high-cost debts at 4.0%, the divestment of 21 Collyer Quay will be DPU accretive by 0.7%. Conversely, the divestment of Bukit Panjang Plaza is DPU dilutive by 0.7%.

b) We estimate that CICT's aggregate leverage could be reduced by a more significant 1.6ppt to 38.4% for the divestment of 21 Collyer Quay, compared with a smaller 0.9ppt to 39.1% for the divestment of Bukit Panjang Plaza. Divesting 21 Collyer Quay would better position CICT for its next major acquisition.

• **Secures ECB as new anchor tenant at Gallileo.** CICT has secured the European Central Bank (ECB), the central bank for the Euro zone, as the new anchor tenant at Gallileo. Gallileo is a 38-storey Grade A office building located in the banking district of Frankfurt, Germany. The ECB will occupy 93% of the building's total NLA for a period of 10 years. CICT has commenced AEI to upgrade Gallileo, including mechanical, electrical & plumbing systems, office lobbies and ESG-related works, in Feb 24. The AEI costs €175m-215m and will be carried out in three phases over 18 months. CICT will progressively hand over the leased area to the ECB starting 2H25.

EARNINGS REVISION/RISK

• We maintain our existing DPU forecasts.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$2.29 is based on the dividend discount model (cost of equity: 6.75%, terminal growth: 2.2%). We lowered cost of equity from 7.0% to 6.75% due to CICT's ability to raise debt financing at low cost.

SHARE PRICE CATALYST

• Steady recovery in shopper traffic and tenant sales at CICT's downtown malls driven by a recovery in tourist arrivals and work-from-office momentum.

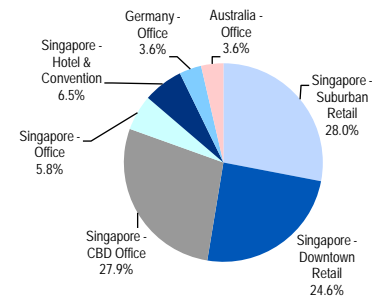
• Asset enhancement and redevelopment of existing properties.

KEY OPERATING METRICS – CICT

	1Q23	2Q23	3Q23	4Q23	1Q24	yoy % change	qoq % change*
DPU (S cents)	n.a.	5.30	n.a.	5.45	n.a.	n.a.	n.a.
NAV per unit (S\$)	n.a.	2.12	n.a.	2.13	n.a.	n.a.	n.a.
Occupancy	96.2%	96.7%	97.3%	97.3%	97.0%	0.8ppt	-0.3ppt
Aggregate Leverage	40.9%	40.4%	40.8%	39.9%	40.0%	-0.9ppt	0.1ppt
All-in-Financing Cost	3.1%	3.2%	3.3%	3.4%	3.5%	0.4ppt	0.1ppt
% Borrowing in Fixed Rates	77%	78%	78%	78%	76%	-1ppt	-2ppt
WALE by Gross Rental	3.7	3.6	3.5	3.4	3.6	-0.1yrs	0.2yrs
Debt Maturity	4.2	4.3	4.1	3.9	3.8	-0.4yrs	-0.1yrs

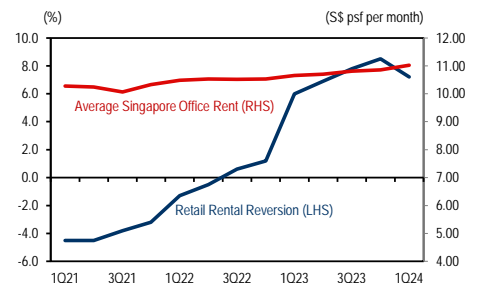
* hoh % chg for DPU and NAV per unit
Source: CICT, UOB Kay Hian

GROSS REVENUE BY ASSET TYPE (2023)



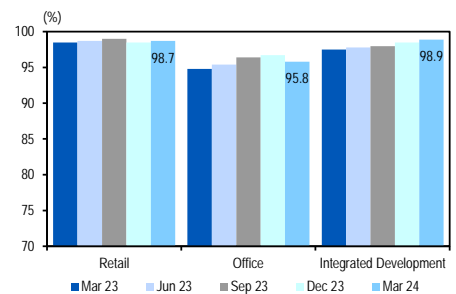
Source: CICT

RENTAL REVERSION FOR RETAIL AND AVERAGE SINGAPORE OFFICE RENT



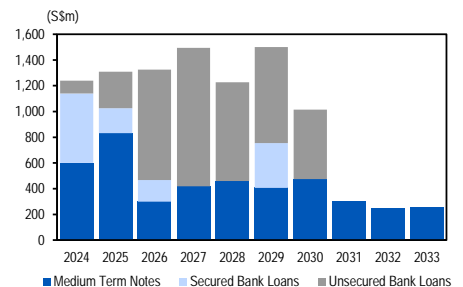
Source: CICT

OCCUPANCY RATES



Source: CICT

DEBT MATURITY PROFILE



Source: CICT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	1,559.9	1,559.1	1,620.8	1,650.3
EBITDA	1,013.8	1,021.7	1,063.9	1,084.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	1,013.8	1,021.7	1,063.9	1,084.1
Associate contributions	15.6	20.9	20.9	20.9
Net interest income/(expense)	(263.6)	(335.0)	(347.0)	(349.5)
Pre-tax profit	879.3	707.5	737.7	755.4
Tax	(10.1)	(20.0)	(20.0)	(20.0)
Minorities	(6.6)	(0.4)	(0.4)	(0.4)
Net profit	862.6	687.1	717.3	735.0
Net profit (adj.)	749.0	687.1	717.3	735.0

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	1,079.8	971.7	1,044.9	1,052.2
Pre-tax profit	765.8	707.5	737.7	755.4
Associates	(15.6)	(20.9)	(20.9)	(20.9)
Working capital changes	29.9	(6.5)	12.7	6.1
Other operating cashflows	299.7	291.6	315.3	311.6
Investing	(38.9)	(200.0)	(85.0)	30.0
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(118.1)	(260.0)	(145.0)	(30.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	79.2	60.0	60.0	60.0
Financing	(1,148.6)	(759.5)	(956.3)	(1,082.0)
Distribution to unitholders	(708.2)	(682.1)	(713.3)	(731.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(92.6)	273.6	120.0	15.0
Others/interest paid	(347.9)	(351.0)	(363.0)	(365.5)
Net cash inflow (outflow)	(107.7)	12.2	3.5	0.3
Beginning cash & cash equivalent	248.4	140.7	152.9	156.5
Ending cash & cash equivalent	140.7	152.9	156.5	156.8

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	24,029.9	24,289.9	24,434.9	24,464.9
Other LT assets	514.7	514.7	514.7	514.7
Cash/ST investment	140.7	152.9	156.5	156.8
Other current assets	53.8	67.4	70.0	71.2
Total assets	24,739.1	25,024.9	25,176.0	25,207.5
ST debt	1,001.4	1,001.4	1,001.4	1,001.4
Other current liabilities	487.0	509.9	529.3	538.6
LT debt	8,476.4	8,750.0	8,870.0	8,885.0
Other LT liabilities	372.6	357.0	364.6	368.2
Shareholders' equity	14,199.8	14,204.8	14,208.8	14,212.4
Minority interest	201.9	201.9	201.9	201.9
Total liabilities & equity	24,739.1	25,024.9	25,176.0	25,207.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	65.0	65.5	65.6	65.7
Pre-tax margin	56.4	45.4	45.5	45.8
Net margin	55.3	44.1	44.3	44.5
ROA	3.5	2.8	2.9	2.9
ROE	6.1	4.8	5.0	5.2
Growth				
Turnover	8.2	(0.1)	4.0	1.8
EBITDA	7.1	0.8	4.1	1.9
Pre-tax profit	20.5	(19.5)	4.3	2.4
Net profit	19.2	(20.3)	4.4	2.5
Net profit (adj.)	(0.9)	(8.3)	4.4	2.5
EPU	(1.2)	(8.6)	4.0	2.1
Leverage				
Debt to total capital	39.7	40.4	40.7	40.7
Debt to equity	66.7	68.6	69.5	69.6
Net debt/(cash) to equity	65.8	67.6	68.4	68.5
Interest cover (x)	3.8	3.0	3.1	3.1

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