COMPANY RESULTS

CapitaLand Integrated Commercial Trust (CICT SP)

1H23: Resilient Growth From Singapore; Green Shoots Overseas

Singapore provided resilient growth with office and retail leases registering positive rent reversions of 9.6% and 6.9% respectively. We saw green shoots from overseas markets. Occupancy at 66 Goulburn Street in Sydney improved 8.8ppt qoq to 95.9%. CICT is close to securing a financial institution as a replacement tenant at Gallileo but will incur downtime of 18 months during the AEI. CICT provides 2023 distribution yield of 5.2%. Maintain BUY. Target price: S$2.20.

1H23 RESULTS

Year to 31 Dec (S$m)	1H23	yoy % chg	Remarks
Gross Revenue			
Retail	284.8	+3.2	Benefitting from recovery in retail rents.
Office	257.1	+19.6	Acquisition of CapitaSky and Australia properties.
Integrated Developments	232.9	+18.5	Comprises Raffles City Singapore, Funan, Plaza Singapura and The Atrium.
Total	774.8	+12.7	
Net Property Income (NPI)			
Retail	198.7	+0.9	Affected by higher operating expenses, including utilities.
Office	187.1	+14.8	New leases contribute to cash flow starting 2Q23.
Integrated Developments	166.5	+17.6	
Total	552.3	+10.1	
Distributable Income	353.2	+1.7	
DPU (S cents)	5.30	+1.5	

Source: CICT, UOB Kay Hian

RESULTS

- CapitaLand Integrated Commercial Trust (CICT) reported 1H23 DPU of 5.30 S cents (+1.5% yoy), which is in line with our expectations.
- **Growth from Singapore and acquisitions.** Gross revenue and NPI increased 12.7% and 10.1% respectively in 1H23, driven by acquisitions of CapitaSky and its Australia properties and completion of asset enhancement initiative (AEI) at Raffles City Singapore. The majority of CICT's Singapore properties achieved higher rental income.
- **Uptrend for both retail and office.** CICT signed 1.0m sf of new leases and renewals (retail: 0.5m sf, office: 0.5m sf). Global payments start-up Nium selected Capital Tower to be their strategic hub in Singapore. Tenant retention rates for its office and retail leases were high at 91.7% and 86.8% respectively. Office and retail leases for the Singapore portfolio registered positive rent reversions of 9.6% and 6.9% respectively.
- **Higher portfolio occupancy driven by Australia.** Portfolio occupancy improved 0.5ppt qoq to 96.7% (retail: +0.2ppt qoq to 98.7%, office: +0.6ppt qoq to 95.4%). Occupancy for Australia has improved 5.2ppt qoq to 88.6% due to 66 Goulburn Street (+8.8ppt qoq to 95.9%). CICT achieved good take-up for new fitted-out office suites as tenants could shift in for immediate occupation. Management saw leasing interest from legal, professional services and technology companies in Australia.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,305	1,442	1,558	1,609	1,624
EBITDA	862	947	1,013	1,051	1,062
Operating profit	862	947	1,013	1,051	1,062
Net profit (rep./act.)	1,083	723	747	732	744
Net profit (adj.)	813	756	747	732	744
EPU (S$ cents)	12.4	11.4	11.2	11.0	11.1
DPU (S$ cents)	10.4	10.6	10.7	10.9	11.0
PE (x)	16.4	17.9	18.2	18.6	18.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	5.1	5.2	5.2	5.3	5.4
Net margin (%)	83.0	50.2	47.9	45.5	45.8
Net debt/(cash) to equity (%)	57.2	66.3	65.9	65.7	65.6
Interest cover (x)	5.1	4.2	3.9	3.3	3.3
ROE (%)	8.1	5.2	5.3	5.2	5.3
Consensus DPU (S$ cent)	n.a.	n.a.	11.2	11.4	11.6
UOBKH/Consensus (x)	-	-	0.95	0.96	0.95

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

BUY

(Maintained)

Share Price	S$2.04
Target Price	S$2.20
Upside	+7.8%
(Previous TP	*S$2.29)*

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):	6,651.6
Market cap (S$m):	13,569.2
Market cap (US$m):	10,174.1
3-mth avg daily t'over (US$m):	24.3

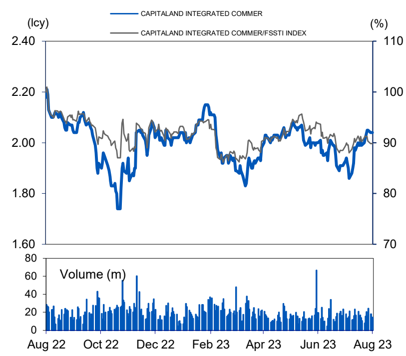
Price Performance (%)

52-week high/low S$2.21/S$1.74

1mth	3mth	6mth	1yr	YTD
6.8	0.5	(3.3)	(6.8)	0.0

Major Shareholders	%
Temasek Hldgs	24.0
-	-
-	-
FY23 NAV/Share (S$)	2.12
FY23 Net Debt/Share (S$)	1.40

PRICE CHART



Source: Bloomberg

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- **Integrated developments: Providing resiliency and diversification.** Committed occupancy for integrated developments was stable at 97.8% in 2Q23. CICT benefits from higher room rates at the two hotels at Raffles City Singapore and serviced residence at CapitaSpring, which provide an uplift from variable rents.

- **Prudent capital management.** Aggregate leverage was stable at 40.4%. Average cost of debt inched marginally higher by 0.1ppt qoq to 3.2%. CICT issued S$400m fixed rates notes due 19 Jun 30 at 3.938%. Average term to maturity was 4.3 years. 78% of its borrowings were hedged to fixed interest rates.

STOCK IMPACT

- **Retail market has picked up.** Leasing activities were boosted by new mall openings, such as Woodleigh Mall and Komo Shoppes. Demand was driven by F&B operators (especially cafes), fashion and beauty & health. Retailers have gained confidence due to tourism recovery and the return of office crowds. Rents at Orchard Road increased by 2.9% yoy, while rents at suburban malls jumped by 3.1% yoy. CBRE expects a recovery of retail rents in 2023 due to tourism recovery and below-average new retail supply. Retailers are willing to pay higher rents to secure prime retail spaces.

- **Competition from new office supply.** According to CBRE, rents for Grade A office space in core CBD has increased 4.4% yoy and 0.4% qoq to S$11.80psf/month in 2Q23 as vacancy tightened 0.2ppt yoy to 4.0%. Most tenants prefer to renew existing leases at higher rents to avoid incurring additional expenses for relocating. There was healthy demand from private wealth and asset management companies, legal firms, professional services and flexible workspace providers. Going forward, rents could come under pressure due to the completion of IOI Central Boulevard Towers. CBRE expects rents for Grade A office space in core CBD to be flat for 2H23.

- **Close to securing replacement tenant for Gallileo.** Management sees pick-up in leasing interest in Frankfurt from financial services, renewable energy and aviation sectors. Gallileo will undergo AEI for 18 months after the lease with Commerzbank expires in Jan 24. Gallileo would not be generating income during the AEI. CICT is in advanced negotiations with a prospective tenant in the financial services industry to take up most of the NLA at Gallileo post-AEI.

- **Revamped and enhanced CQ @ Clark Quay to reopen by 4Q23.** CICT will invest S$62m to transform CQ @ Clarke Quay from a nightlife attraction to a day-and-night destination. The property is repositioned to serve the residential population within the vicinity. It will recreate a new warehouse facade and refresh dining areas and community spaces. It will also improve the infrastructure for thermal comfort. Pre-commitment has reach 85% of NLA. The AEI provides ROI of mid-single-digit. CQ @ Clarke Quay is expected to complete AEI by late-2H23 and will contribute to CICT's performance in 2024 when tenants progressively commence operations.

EARNINGS REVISION/RISK

- We trimmed our 2024 DPU forecast by 4% after raising cost of debt to 3.5% to factor in refinancing borrowings of S$1,528m (15% of total borrowings).

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$2.20 is based on the Dividend Discount Model (cost of equity: 7.0%, terminal growth: 2.2%).

SHARE PRICE CATALYST

- Steady recovery in shopper traffic and tenant sales at CICT's downtown malls driven by workers returning to offices and recovery in visitor arrivals.

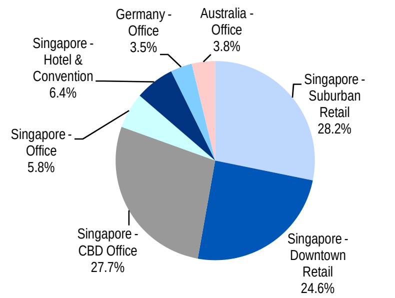
- Asset enhancement and redevelopment of existing properties.

KEY OPERATING METRICS – CICT

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy % chg	qoq % chg*
DPU (S cents)	5.22	n.a.	5.36	n.a.	5.30	1.5%	-1.1%
NAV per unit (S$)	2.11	n.a.	2.12	n.a.	2.12	0.4%	0.0%
Occupancy	93.8%	95.1%	95.8%	96.2%	96.7%	2.9ppt	0.5ppt
Aggregate Leverage	40.6%	41.2%	40.4%	40.9%	40.4%	-0.2ppt	-0.5ppt
All-in-Financing Cost	2.4%	2.5%	2.7%	3.1%	3.2%	0.8ppt	0.1ppt
% Borrowing in Fixed Rates	81.0%	80.0%	81.0%	77.0%	78.0%	-3ppt	1ppt
WALE by Gross Rental	3.8	3.8	3.7	3.7	3.6	-0.2yrs	-0.1yrs
Debt Maturity	4.4	4.1	3.9	4.2	4.3	-0.1yrs	0.1yrs

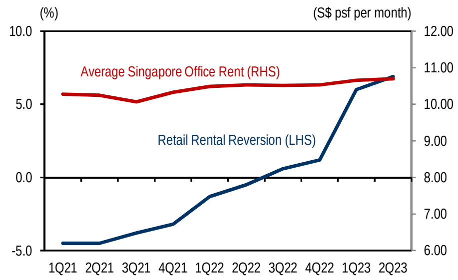
Source: CICT, UOB Kay Hian   ** hoh % chg for DPU and NAV per unit.*

GROSS REVENUE BY ASSET TYPE (1H23)



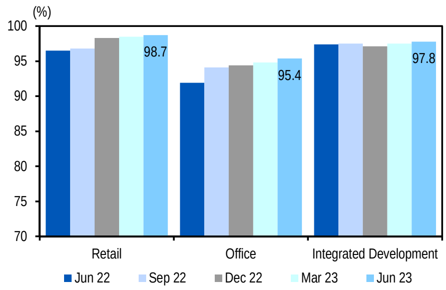
Source: CICT

RENTAL REVERSION FOR RETAIL AND AVERAGE SINGAPORE OFFICE RENT



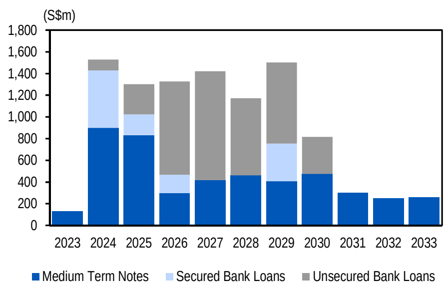
Source: CICT

OCCUPANCY RATES



Source: CICT

DEBT MATURITY PROFILE (JUN 23)



Source: CICT

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	1,441.7	1,558.2	1,608.9	1,624.3
EBITDA	946.8	1,013.5	1,051.1	1,061.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	946.8	1,013.5	1,051.1	1,061.6
Associate contributions	42.5	16.0	20.9	20.9
Net interest income/(expense)	(226.5)	(262.2)	(319.2)	(318.5)
Pre-tax profit	730.0	767.3	752.8	764.0
Tax	(4.1)	(14.3)	(20.0)	(20.0)
Minorities	(2.5)	(6.0)	(0.4)	(0.4)
Net profit	723.4	747.0	732.4	743.6
Net profit (adj.)	756.1	747.0	732.4	743.6

BALANCE SHEET

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Fixed assets	23,750.1	23,831.8	23,831.8	23,831.8
Other LT assets	587.6	579.0	579.0	579.0
Cash/ST investment	248.4	263.7	298.1	258.3
Other current assets	80.5	68.4	70.5	71.2
Total assets	24,666.6	24,743.0	24,779.5	24,740.3
ST debt	1,155.0	431.3	431.3	431.3
Other current liabilities	485.0	526.7	542.7	547.5
LT debt	8,430.2	9,140.0	9,150.0	9,100.0
Other LT liabilities	317.0	317.7	323.9	325.8
Shareholders' equity	14,073.4	14,119.6	14,123.9	14,128.0
Minority interest	205.9	207.7	207.7	207.7
Total liabilities & equity	24,666.6	24,743.0	24,779.5	24,740.3

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	1,023.5	1,023.4	1,057.7	1,042.7
Pre-tax profit	762.8	767.3	752.8	764.0
Associates	(42.5)	(16.0)	(20.9)	(20.9)
Working capital changes	(151.9)	23.2	10.4	3.2
Other operating cashflows	455.1	248.9	315.3	296.4
Investing	(926.0)	30.0	30.0	30.0
Capex (growth)	(1,153.9)	0.0	0.0	0.0
Capex (maintenance)	(126.9)	(30.0)	(30.0)	(30.0)
Proceeds from sale of assets	331.1	0.0	0.0	0.0
Others	23.6	60.0	60.0	60.0
Financing	(214.3)	(1,038.1)	(1,053.2)	(1,112.5)
Distribution to unitholders	(684.8)	(709.9)	(728.1)	(728.1)
Issue of shares	(3,684.8)	0.0	0.0	0.0
Proceeds from borrowings	4,376.1	(13.9)	10.0	(50.0)
Others/interest paid	(220.8)	(314.3)	(335.2)	(334.5)
Net cash inflow (outflow)	(116.7)	15.3	34.4	(39.8)
Beginning cash & cash equivalent	365.1	248.4	263.7	298.1
Ending cash & cash equivalent	248.4	263.7	298.1	258.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	65.7	65.0	65.3	65.4
Pre-tax margin	50.6	49.2	46.8	47.0
Net margin	50.2	47.9	45.5	45.8
ROA	3.1	3.0	3.0	3.0
ROE	5.2	5.3	5.2	5.3
Growth				
Turnover	10.5	8.1	3.3	1.0
EBITDA	9.8	7.0	3.7	1.0
Pre-tax profit	(33.8)	5.1	(1.9)	1.5
Net profit	(33.2)	3.3	(2.0)	1.5
Net profit (adj.)	(6.9)	(1.2)	(2.0)	1.5
EPU	(8.1)	(1.5)	(2.3)	1.2
Leverage				
Debt to total capital	40.2	40.0	40.1	39.9
Debt to equity	68.1	67.8	67.8	67.5
Net debt/(cash) to equity	66.3	65.9	65.7	65.6
Interest cover (x)	4.2	3.9	3.3	3.3

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