

COMPANY RESULTS

CapitaLand Integrated Commercial Trust (CICT SP)

3Q22: Disciplined And Patient Approach To Acquisitions

Downtown malls swung to positive rental reversion of 3.8% in 3Q22. Occupancy for CICT's Singapore office portfolio improved 3.1ppt qoq to 96.0%. Management will adopt a disciplined and patient approach towards acquisitions, cognisant of difficulties in raising funds through the equity market. CICT provides an attractive 2023 distribution yield of 6.7%. Upgrade to BUY. Target price: S\$2.14.

3Q22 BUSINESS UPDATE

Year to 31 Dec (S\$m)	3Q22	yoy % chg	Remarks
Gross Revenue	374.1	+13.7	Growth from Office and Integrated Developments.
Retail	139.5	+2.1	
Office	126.1	+29.6	Progressively backfilled vacant spaces.
Integrated Developments	108.5	+14.1	Comprises Raffles City Singapore, Funan, Plaza Singapura and The Atrium.
Net Property Income (NPI)	273.3	+12.7	
Retail	99.9	+2.3	Did not grant rental waiver this year.
Office	95.4	+27.7	Benefitting from recovery in occupancies and positive rental reversion.
Integrated Developments	78.0	+11.1	Interest in RCS increased from 60% to 100% post-merger.

Source: CICT, UOB Kay Hian

RESULTS

- CapitaLand Integrated Commercial Trust (CICT) reported 3Q22 business update with gross revenue and NPI growing 13.7% and 12.7% yoy respectively, in line with our expectations.
- Reopening a boon for downtown malls.** CICT's retail portfolio recorded positive rental reversion of 0.6% in 9M22 (average incoming vs average outgoing) (1H22: -0.5%). We estimate that rental reversion was positive at 2.9% for suburban malls and 3.8% for downtown malls in 3Q22. Retail occupancy improved slightly by 0.3ppt qoq to 96.8%. Downtown malls experienced stronger growth in tenant sales of 36.5% yoy (suburban: +10.7% yoy) but suburban malls experienced stronger positive rental reversion of 1.8% (downtown malls: -0.3%) during 9M22. Management disclosed that tenant sales for suburban malls are already 5% above pre-pandemic levels, while that of downtown malls are on the verge of climbing above pre-pandemic levels.
- Office maintained positive momentum.** CICT's office portfolio registered positive rental reversion of 7.9% in 9M22. Average Singapore office rent was stable at S\$10.52psf as of Sep 22. Office occupancy improved 2.2ppt qoq to 94.1% on a group-wide basis. Singapore office portfolio saw occupancy improve by 3.1ppt qoq to 96.0%. Occupancy at Capital Tower has improved by 13.6ppt qoq to 90.7% after CICT secured ByteDance to backfill 120,000sf of office space vacated by JPMorgan. Committed office leases will contribute to cash flow starting Jan 23 (after the fit-out period).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	745	1,305	1,419	1,480	1,499
EBITDA	446	862	932	963	976
Operating profit	446	862	932	963	976
Net profit (rep./act.)	350	1,083	774	703	694
Net profit (adj.)	313	813	716	703	694
EPU (S\$ cents)	7.1	12.4	10.8	10.6	10.4
DPU (S\$ cents)	8.7	10.4	10.9	11.6	11.7
PE (x)	24.3	14.0	16.1	16.5	16.7
P/B (x)	0.9	0.8	0.8	0.8	0.8
DPU Yld (%)	5.0	6.0	6.3	6.7	6.7
Net margin (%)	46.9	83.0	54.6	47.5	46.3
Net debt/(cash) to equity (%)	65.5	57.2	67.6	68.3	69.3
Interest cover (x)	3.8	5.1	4.4	3.7	3.5
ROE (%)	3.4	8.1	5.6	5.0	5.0
Consensus DPU (S\$ cent)	n.a.	n.a.	11.1	11.8	12.0
UOBKH/Consensus (x)	-	-	0.98	0.98	0.97

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

BUY

(Upgraded)

Share Price	S\$1.74
Target Price	S\$2.14
Upside	+23.0%
(Previous TP)	S\$2.17

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):	6,632.1
Market cap (S\$m):	11,539.9
Market cap (US\$m):	8,112.4
3-mth avg daily t'over (US\$m):	28.2

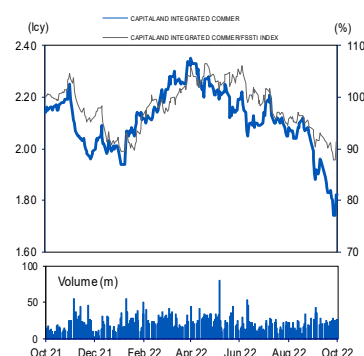
Price Performance (%)

52-week high/low	S\$2.35/S\$1.74			
1mth	3mth	6mth	1yr	YTD
(14.3)	(16.7)	(25.6)	(18.3)	(14.7)

Major Shareholders

Temasek Hldgs	23.7
FY22 NAV/Share (S\$)	2.12
FY22 Net Debt/Share (S\$)	1.43

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA
 +65 6590 6620
 jonathankoh@uobkayhian.com

- Integrated developments: Providing resiliency and diversification.** Committed occupancy for integrated developments was stable at 97.5% in 3Q22. CICT will benefit from higher occupancies at the two hotels at Raffles City Singapore and serviced residence at CapitaSpring. Room rates for Swissotel The Stamford and Fairmont Singapore are 2-3x higher than pre-pandemic levels, and CICT will benefit from an uplift in variable rents.
- Resilient balance sheet to weather external uncertainties.** Aggregate leverage increased slightly by 0.6ppt qoq to 41.2% in 3Q22. Cost of debt saw a slight up-tick of 0.1ppt qoq to 2.5%. Average term to maturity eased by 0.3 years to 4.1 years. 80% of its borrowings are hedged to fixed interest rates. Management estimated that every 1% increase in interest rates will raise annual interest expense by S\$20m and reduce DPU by 0.3 S cents per year.

STOCK IMPACT

- Reopening positive for both retail and office properties.** Safe distancing between individuals and the cap on group size of 10 persons for dining in at F&B establishments were lifted on 26 Apr 22. All employees have been allowed back to their workplaces since 26 Apr 22. Wearing of masks is no longer required indoors since 29 Aug 22. Masks are only mandatory at healthcare facilities and public transport.
- Retailers operating at full capacity without restrictions.** Retail sales excluding motor vehicles grew 16.2% yoy in Aug 22, the 5th consecutive month of double-digit growth. Leasing activities have picked up in 3Q22, driven primarily by F&B operators, and augmented by online fashion and athleisure retailers. According to CBRE, prime retail rents for suburban and Orchard Road have increased 1.8% and 0.7% yoy respectively to S\$30.50psf/month and S\$34.45psf/month in 3Q22. Landlords have gained confidence to raise rents due to improving shopper traffic and tenant sales.
- Office recovery has strengthened and broadened.** According to CBRE, office rents for Grade A core CBD increased 8.9% yoy and 2.7% qoq to S\$11.60psf/month in 3Q22. This is the 6th consecutive quarter of sequential growth, and office rents have surpassed the pre-pandemic peak of S\$11.55psf/month set in 4Q19. Net absorption was strong at 0.56m sf. Leasing activities were driven by technology companies, flexible workspace operators and non-bank financial institutions. New projects Guoco Midtown and Central Boulevard Towers attracted fresh pre-commitments.
- Disciplined and prudent approach to acquisitions.** As widely reported in the mass media, CICT is bidding to acquire the Mercatus Portfolio, which comprises three suburban malls - Nex, Thomson Plaza (strata title) and Jurong Point (strata title). Management did not comment on the outcome of bidding but emphasised that CICT will adopt a prudent and patient approach towards acquisitions. The cost of capital is elevated given the uncertain macroeconomic environment. CICT's ability to acquire is currently hampered by difficulties in raising funds through the equity market.
- Coping with higher cost of electricity.** CICT will be increasing service charges to offset rising costs starting Jan 23.

EARNINGS REVISION/RISK

- We trimmed our 2022 DPU forecast by 3.5% as new office tenants will only contribute to cash flow starting Jan 23 (after the fit-out period). Our 2023 DPU is marginally reduced by 0.6% to 11.6 S cents.

VALUATION/RECOMMENDATION

- Upgrade to BUY.** Our target price of S\$2.14 is based on Dividend Discount Model (cost of equity: 7.25%, terminal growth: 2.0%).

SHARE PRICE CATALYST

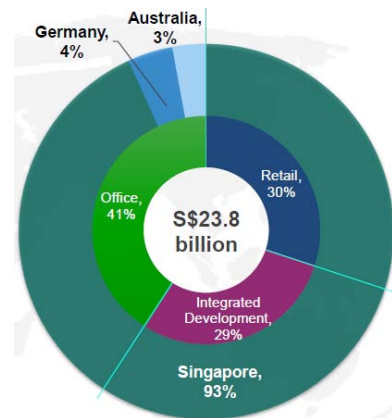
- Steady recovery in shopper traffic and tenant sales due to easing of social distancing measures.
- Asset enhancement and redevelopment of existing properties.
- Positive outlook for the office sector with limited supply and healthy pre-commitments within core CBD.

KEY OPERATING METRICS - CICT

CICT Key Metrics	1Q22	2Q22	3Q22	yoy % change	qoq % change*
Revenue (S\$m)	339.7	347.9	374.1	13.7%	7.5%
NPI (S\$m)	248.3	253.3	273.3	12.7%	7.9%
DPU (S cents)	n.a.	5.22	n.a.	n.a.	n.a.
NAV per unit (S\$)	n.a.	2.11	n.a.	n.a.	n.a.
Occupancy	93.6%	93.8%	95.1%	0.7ppt	1.3ppt
Aggregate Leverage	39.1%	40.6%	41.2%	0.3ppt	0.6ppt
All-in-Financing Cost	2.30%	2.40%	2.50%	0.2ppt	0.1ppt
% Borrowing in Fixed Rates	85.0%	81.0%	80.0%	n.a.	-1.0ppt
WALE by Gross Rental	3.7	3.8	3.8	0.8yrs	0yrs
Debt Maturity	3.9	4.4	4.1	0yrs	-0.3yrs
Rental Reversions (Retail)	-4.1%	-3.2%	-2.3%	5.7ppt	0.9ppt

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

AUM BY GEOGRAPHY AND ASSET TYPE



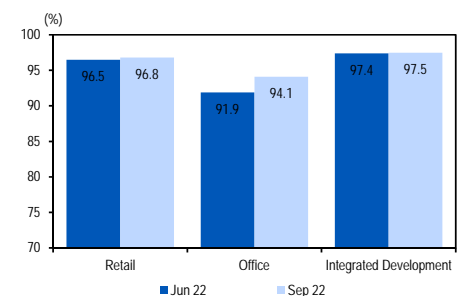
Source: CICT

RENT REVERSION (9M22)

9M22	Incoming Year 1 Rents vs Average Incoming Rents	
	Outgoing Final Rents	Average Outgoing Rents
Suburban Malls	0.1%	1.8%
Downtown Malls	-4.3%	-0.3%
CICT Retail Portfolio	-2.3%	0.6%

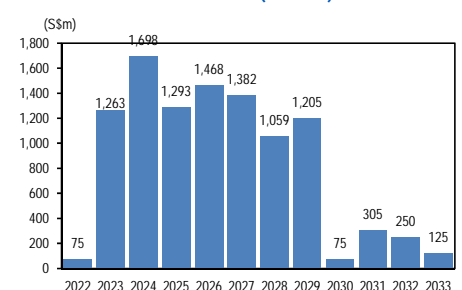
Source: CICT

OCCUPANCY RATE BY ASSET TYPE



Source: CICT

DEBT MATURITY PROFILE (SEP 22)



Source: CICT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	1,305.1	1,418.6	1,479.8	1,499.1
EBITDA	862.3	931.6	963.3	976.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	862.3	931.6	963.3	976.4
Associate contributions	140.2	16.9	20.9	20.9
Net interest income/(expense)	(170.7)	(213.0)	(260.0)	(283.0)
Pre-tax profit	1,102.3	793.8	724.2	714.3
Tax	(19.2)	(16.5)	(20.0)	(20.0)
Minorities	0.0	(2.9)	(0.8)	(0.8)
Net profit	1,083.1	774.4	703.4	693.5
Net profit (adj.)	812.6	716.1	703.4	693.5

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	827.5	882.8	951.3	939.1
Pre-tax profit	831.8	735.5	724.2	714.3
Associates	(140.2)	(16.9)	(20.9)	(20.9)
Working capital changes	238.8	(254.5)	8.4	2.6
Other operating cashflows	(102.9)	418.7	239.6	243.0
Investing	256.4	(1,639.3)	52.0	52.0
Capex (growth)	0.0	(2,031.3)	0.0	0.0
Capex (maintenance)	(93.6)	(30.0)	(30.0)	(30.0)
Proceeds from sale of assets	292.7	340.0	0.0	0.0
Others	57.2	82.0	82.0	82.0
Financing	(902.4)	633.6	(999.3)	(971.8)
Distribution to unitholders	(448.0)	(723.4)	(770.4)	(780.8)
Issue of shares	250.0	0.0	0.0	0.0
Proceeds from borrowings	(480.2)	1,585.9	50.0	100.0
Others/interest paid	(224.2)	(228.9)	(279.0)	(291.0)
Net cash inflow (outflow)	181.5	(122.9)	3.9	19.3
Beginning cash & cash equivalent	183.6	365.1	242.2	246.1
Ending cash & cash equivalent	365.1	242.2	246.1	265.4

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	21,437.2	23,817.2	23,817.2	23,817.2
Other LT assets	542.6	564.3	564.3	564.3
Cash/ST investment	365.1	242.2	246.1	265.4
Other current assets	396.9	122.1	126.3	127.6
Total assets	22,741.9	24,745.7	24,753.9	24,774.5
ST debt	594.6	1,113.1	1,113.1	1,113.1
Other current liabilities	665.2	445.6	463.2	468.7
LT debt	7,582.6	8,650.0	8,700.0	8,800.0
Other LT liabilities	203.6	243.3	250.8	253.2
Shareholders' equity	13,667.8	14,084.0	14,017.0	13,929.7
Minority interest	27.9	209.7	209.7	209.7
Total liabilities & equity	22,741.9	24,745.7	24,753.9	24,774.5

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.1	65.7	65.1	65.1
Pre-tax margin	84.5	56.0	48.9	47.7
Net margin	83.0	54.6	47.5	46.3
ROA	4.8	3.3	2.8	2.8
ROE	8.1	5.6	5.0	5.0
Growth				
Turnover	75.1	8.7	4.3	1.3
EBITDA	93.3	8.0	3.4	1.4
Pre-tax profit	215.2	(28.0)	(8.8)	(1.4)
Net profit	209.6	(28.5)	(9.2)	(1.4)
Net profit (adj.)	159.2	(11.9)	(1.8)	(1.4)
EPU	73.5	(13.0)	(2.1)	(1.7)
Leverage				
Debt to total capital	37.4	40.6	40.8	41.2
Debt to equity	59.8	69.3	70.0	71.2
Net debt/(cash) to equity	57.2	67.6	68.3	69.3
Interest cover (x)	5.1	4.4	3.7	3.5

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