

COMPANY UPDATE

CapitaLand Integrated Commercial Trust (CICT SP)

Increasing Dominance Of Singapore's Retail Scene

ION Orchard is an iconic mall at the junction of Orchard Road and Scotts Road and is connected to Orchard MRT Station. Its estimated NPI yield of 5.0% compares favourably with recent transactions Nex (NPI yield: 4.8%), Changi City Point (4.3%) and Jurong Point (4.8%). The acquisition is accretive to DPU by 1.2%. We raise our 2025 DPU forecast by 6% due to contribution from ION Orchard, expansion in NPI margin and lower interest rates. Maintain BUY. Target price: S\$2.59.

WHAT'S NEW

- CapitaLand Integrated Commercial Trust (CICT) has entered into an agreement to acquire a 50.0% interest in ION Orchard and ION Orchard Link (an underground pedestrian link) from its sponsor CapitaLand Investment (CLI) at an agreed property value of S\$1,848.5m or S\$5,928psf.
- **Iconic ION Orchard strengthens CICT's retail portfolio.** ION Orchard is an iconic premium retail mall located at the junction of Orchard Road and Scotts Road. It is seamlessly connected to Orchard MRT Station, which is an interchange station serving the North-South Line and the Thomson-East Coast Line. ION Orchard has close to 300 international and local brands, ranging from luxury to necessity trades. It has eight storeys of retail space with total NLA of 623,600sf. Its large food hall at basement 4 serves an array of local, Asian and international culinary delights.
- **ION Orchard generates high shopper traffic,** including affluent consumers and tourists. ION Orchard serves the affluent consumers residing in about 20,000 private residential units in District 9, including those staying in the attached 56-storey condominium The Orchard Residences. There are also about 10,000 hotel rooms in the vicinity. Other potential shoppers include tourists visiting Orchard Road, which amounted to about 4.5m in 2023, equivalent to 12,328 tourists per day.
- **ION Orchard acquired at attractive valuation given its status as a trophy asset at an ultra prime location.** CICT disclosed that ION Orchard's gross yield was 7.1% in 1H24. According to management, ION Orchard's NPI margin was about 70%, which is similar to its existing retail portfolio. Thus, NPI yield from ION Orchard is expected to be around 5.0%, which compares favourably with recent transactions involving Nex (NPI yield: 4.8%), Changi City Point (NPI yield: 4.3%) and Jurong Point (NPI yield: 4.8%).
- **ION Orchard provides comprehensive coverage of downtown precinct along Orchard Road.** The acquisition of ION Orchard allows CICT to consolidate its presence downtown across major transportation nodes, namely Orchard, Dhoby Ghaut and City Hall MRT stations. Portfolio valuation is expected to increase 7.8% to S\$26.4b. Its retail NLA will likely increase 11% to 5.0m sf. Its exposure to downtown malls is expected to expand from 52% to 57% (Orchard Road: 25%, downtown core: 32%).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,442	1,560	1,600	1,776	1,803
EBITDA	947	1,014	1,059	1,169	1,187
Operating profit	947	1,014	1,059	1,169	1,187
Net profit (rep./act.)	723	863	734	829	851
Net profit (adj.)	756	749	734	829	851
EPU (S\$ cents)	11.4	11.3	10.6	11.3	11.6
DPU (S\$ cents)	10.6	10.8	10.7	11.4	11.7
PE (x)	18.7	18.9	20.1	18.8	18.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	5.0	5.0	5.0	5.3	5.5
Net margin (%)	50.2	55.3	45.9	46.7	47.2
Net debt/(cash) to equity (%)	66.3	65.8	65.8	66.3	66.5
Interest cover (x)	4.2	3.8	3.3	3.4	3.5
ROE (%)	5.2	6.1	5.0	5.4	5.5
Consensus DPU (S\$ cent)	-	-	10.8	11.3	11.8
UOBKH/Consensus (x)	-	-	0.99	1.01	0.99

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

BUY

(Maintained)

Share Price	S\$2.13
Target Price	S\$2.59
Upside	+21.6%
(Previous TP)	S\$2.42

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):	6,909.3
Market cap (S\$m):	14,716.8
Market cap (US\$m):	11,352.1
3-mth avg daily t'over (US\$m):	48.8

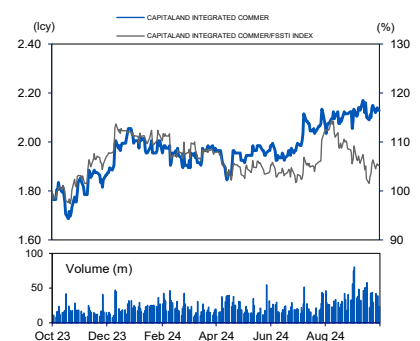
Price Performance (%)

52-week high/low	S\$2.20/S\$1.68			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.3	8.4	7.8	16.7	3.6

Major Shareholders

	%
Temasek Hldgs	24.0
FY24 NAV/Share (S\$)	2.12
FY24 Net Debt/Share (S\$)	1.39

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Recovery for downtown malls.** ION Orchard benefits from the recovery in tourism. Singapore Tourism Board (STB) expects international visitor arrivals to reach 15m-16m in 2024 (2023: 13.6m), bringing in tourism receipts of S\$26.0b-27.5b (2023: S\$27.2b). Visitor arrivals to Singapore increased 15.4% yoy to 3.9m in 2Q24, accounting for 84% of pre-pandemic levels. There will be no new supply of retail mall along Orchard Road from 2H24 to 2027.

- **Benefitting from lower interest rates.** About 24% of CICT's borrowings are on floating interest rates, which would benefit from upcoming rate cuts. UOB Global Economics & Markets Research forecasts 3M SORA to recede from 3.65% at mid-24 to 2.20% by end-25. CICT's current cost of debt is 3.5% in 1H24. We expect cost of debt to rise to 3.55% in 2H24 before easing to 3.4% in 2H25.

### STOCK IMPACT

- **ION Orchard is DPU accretive.** CICT estimated that the acquisition is accretive to DPU by 1.2% for 2023 and 0.9% for 1H24 on a pro forma basis. NAV per unit is expected to be relatively unchanged at S\$2.06. Aggregate leverage is also relatively unchanged at 39.9%.

- **Successfully completed fund raising.** CICT has completed the private placement of 171.7m new units at S\$2.04 each to raise S\$350.3m on 5 Sep 24. It also completed a non-renounceable 56-for-1,000 preferential offering of 377.3m new units at S\$2.007 each to raise S\$757.2m on 5 Sep 24. In total, it raised gross proceeds of S\$1,107.5m from the equity fund-raising exercise. FCT has also obtained new bank loans of S\$840m at an interest rate of high-3%.

- Sponsor CLI has fully subscribe to its entitlement under the preferential offering. The proposed acquisition is expected to be completed in 4Q24.

- **Improved cost efficiency.** NPI margin expanded 2.2ppt yoy to 73.5% in 1H24. Net property income for 1H24 increased 5.4% yoy due to lower utility expenses (-9% yoy) and savings from the new property management agreement (reimbursement of staff costs related to property management declined 22% yoy).

### EARNINGS REVISION/RISK

- We have raised our 2025 DPU forecast by 6% due to: a) contribution from ION Orchard, b) improvement in NPI margin, and c) lower interest rates.

### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$2.59 is based on the dividend discount model (cost of equity: 6.5%, terminal growth: 2.2%).

### 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.

### UNIVERSAL APPEAL WITH DIVERSE TRADE MIX FROM LUXURY TO ESSENTIAL

Trade Mix	Watches & Jewellery	Fashion	Beauty & Wellness	Lifestyle	Food & Beverage
Fine Jewellery & Watches					
Watches & Jewellery					
Luxury Fashion	Cartier	Louis Vuitton	Mizu Aesthetic Clinic	Leica	Taste Paradise
Handbags & Shoes	Harry Winston	Loewe	Thann	Steinway & Sons	Surrey Hills Grocer
Fashion	Rolex	Dior	Aesop	Tumi	Bacha Coffee
Beauty	Tiffany & Co.	Valentino	Guardian	Lululemon	Food Opera
Wellness services	G-SHOCK Casio	The Onitsuka	Guardian	Lululemon	Food Opera
Lifestyle	G-SHOCK Casio	Ecco	Guardian	Lululemon	Food Opera
Restaurants & Cafes	Love & Co.	Love Bonito	Kiehl's	HOKA	HEYTEA
Casual Dining	SK Jewellery	ZARA	Sephora	Singtel	Jasons Deli

Source: CICT

### ION ORCHARD



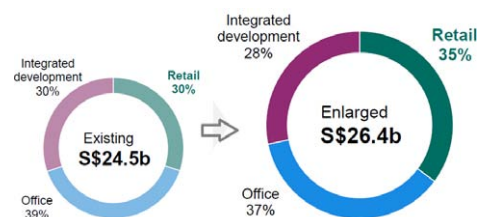
Source: CICT

### OVERVIEW – ION ORCHARD

Tenure	Leasehold tenure of 99 years with effect from 13 March 2006
Description	
Location	2 Orchard Turn, Singapore 238801
GFA	945,311sf
NLA	623,600sf
Gross Yield	7.1%
Committed occupancy	96%
Independent Valuation (100%)	S\$3,690m by Cushman & Wakefield S\$3,715m by Savills
Number of car park lots	520
Start of Operations	July 2009

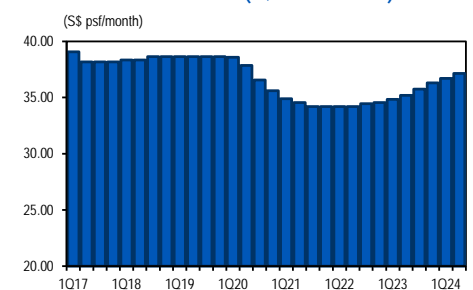
Source: CICT

### REINFORCING FOCUS ON SINGAPORE



Source: CICT

### ORCHARD ROAD RENTS (\$ PSF/MONTH)



Source: CBRE

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	1,559.9	1,599.7	1,776.1	1,803.3
EBITDA	1,013.8	1,059.0	1,168.5	1,187.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	1,013.8	1,059.0	1,168.5	1,187.3
Total other non-operating income	113.6	0.0	0.0	0.0
Associate contributions	15.6	13.4	21.5	21.5
Net interest income/(expense)	(263.6)	(320.3)	(341.1)	(337.3)
<b>Pre-tax profit</b>	<b>879.3</b>	<b>752.1</b>	<b>848.9</b>	<b>871.4</b>
Tax	(10.1)	(12.5)	(20.0)	(20.0)
Minorities	(6.6)	(5.6)	(0.4)	(0.4)
Preferred dividends	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>862.6</b>	<b>734.0</b>	<b>828.5</b>	<b>851.0</b>
Net profit (adj.)	749.0	734.0	828.5	851.0

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	24,029.9	26,087.2	26,232.2	26,262.2
Other LT assets	514.7	479.0	479.0	479.0
Cash/ST investment	140.7	156.6	147.4	133.6
Other current assets	53.8	73.1	80.4	81.5
<b>Total assets</b>	<b>24,739.1</b>	<b>26,795.8</b>	<b>26,939.0</b>	<b>26,956.3</b>
ST debt	1,001.4	1,467.1	1,467.1	1,467.1
Other current liabilities	487.0	516.5	572.0	580.6
LT debt	8,476.4	8,850.0	8,920.0	8,930.0
Other LT liabilities	372.6	312.5	334.3	337.7
Shareholders' equity	14,199.8	15,447.7	15,443.5	15,438.8
Minority interest	201.9	202.0	202.0	202.0
<b>Total liabilities &amp; equity</b>	<b>24,739.1</b>	<b>26,795.8</b>	<b>26,939.0</b>	<b>26,956.3</b>

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>1,079.8</b>	<b>1,191.9</b>	<b>1,195.7</b>	<b>1,155.2</b>
Pre-tax profit	765.8	752.1	848.9	871.4
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(15.6)	(13.4)	(21.5)	(21.5)
Working capital changes	29.9	1.8	36.2	5.6
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	299.7	451.4	332.0	299.6
<b>Investing</b>	<b>(38.9)</b>	<b>(2,048.5)</b>	<b>(85.0)</b>	<b>30.0</b>
Capex (growth)	0.0	(1,848.5)	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
<b>Financing</b>	<b>(1,148.6)</b>	<b>872.5</b>	<b>(1,119.8)</b>	<b>(1,199.0)</b>
Distribution to unitholders	(708.2)	(736.5)	(832.7)	(855.7)
Issue of shares	0.0	1,107.5	0.0	0.0
Proceeds from borrowings	(92.6)	839.4	70.0	10.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(347.9)	(338.0)	(357.1)	(353.3)
<b>Net cash inflow (outflow)</b>	<b>(107.7)</b>	<b>15.9</b>	<b>(9.1)</b>	<b>(13.8)</b>
Beginning cash & cash equivalent	248.4	140.7	156.6	147.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	140.7	156.6	147.4	133.6

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	65.0	66.2	65.8	65.8
Pre-tax margin	56.4	47.0	47.8	48.3
Net margin	55.3	45.9	46.7	47.2
ROA	3.5	2.8	3.1	3.2
ROE	6.1	5.0	5.4	5.5
<b>Growth</b>				
Turnover	8.2	2.5	11.0	1.5
EBITDA	7.1	4.5	10.3	1.6
Pre-tax profit	20.5	(14.5)	12.9	2.6
Net profit	19.2	(14.9)	12.9	2.7
Net profit (adj.)	(0.9)	(2.0)	12.9	2.7
EPU	(1.3)	(5.8)	6.9	2.3
<b>Leverage</b>				
Debt to total capital	39.7	39.7	39.9	39.9
Debt to equity	66.7	66.8	67.3	67.3
Net debt/(cash) to equity	65.8	65.8	66.3	66.5
Interest cover (x)	3.8	3.3	3.4	3.5

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