December 15, 2020

REITs

Singapore

CapitaLand Int. Comm. Trust (CICT SP)

Proxy To Recovery

BUY

Share Price	SGD 2.16
12m Price Target	SGD 2.50 (+16%)

Larger REIT poised for growth, maintain BUY

CICT has emerged post-merger as Singapore's largest REIT and also among Asia's largest, with a SGD22.4b AUM diversified across 24 retail, office and integrated development assets. Valuations are undemanding at 5.2% FY21 dividend yield and 1.0x PB versus history and peers, and we reinstate coverage at BUY with a DDM-based TP of SGD2.50 (COE: 5.9%, LTG: 1.5%). We see near-term catalyst from DPU recovery in 2021 and medium-term earnings upside as it leverages added development capacities into value-accretive AEIs and redevelopment opportunities.

Negative retail rent reversions to moderate

We expect negative reversions to moderate in 2021 as social-distancing measures continue to ease, and retail recovery gains traction. Shopper traffic has remained stable since Phase 2's reopening as tenants' sales have gradually improved, returning to 89% of pre-Covid levels, versus 85% in 1H20. We expect its suburban malls to be more resilient in terms of occupancy and rents. But there's optimism as the rent-relief cycle seen in 3Q20 has peaked, and tenants expanding again in 2021-22.

AEI/redevelopment completions back office growth

Its office portfolio is likely to face higher vacancies in 2021, but NPI growth will be supported by the completion of AEIs at 20 Collyer Quay, and commencement of its WeWork lease in 4Q21, and 6 Battery Road. Occupancies should gradually improve from 2021 onwards. In addition, there should be earnings contribution from the 45%-owned CapitaSpring development from 2022. The latter's pre-commitment is at 34.9% but we expect occupancy to rise to 50% upon completion (in 2H21) and then progressively stabilise in 2023.

Upside from higher development headroom

We expect CICT to scale up on its enlarged asset base, supported by low 39.7% gearing and SGD2.2b debt headroom (at 45% limit). Its sponsor offers a SGD5.2b acquisition pipeline, but we think management will likely prioritise its value-accretive AEIs and redevelopment plans with the higher SGD5.8b development headroom, and view its less resilient downtown malls - Raffles City, Clarke Quay and Plaza Singapura as key candidates.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	698	787	659	1,367	1,400
Net property income	494	558	448	984	1,006
Core net profit	429	462	389	707	750
Core EPU (cts)	12.0	12.5	9.9	10.9	11.6
Core EPU growth (%)	3.3	4.1	(20.7)	10.0	6.0
DPU (cts)	11.5	12.0	9.1	10.9	11.6
DPU growth (%)	3.1	4.0	(23.7)	19.6	6.0
P/NTA (x)	1.1	1.2	1.0	1.1	1.0
DPU yield (%)	5.1	4.9	4.2	5.1	5.4
ROAE (%)	9.2	8.8	1.1	4.2	5.8
ROAA (%)	3.9	4.0	2.2	3.1	3.3
Debt/Assets (x)	0.32	0.30	0.40	0.40	0.40
Consensus DPU	-	-	8.9	11.5	12.0
MKE vs. Consensus (%)	-	-	3.0	(5.0)	(3.5)

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Company Description

CapitaLand Integrated Commercial Trust operates as a real estate investment trust, established through the merger of CMT and CCT.

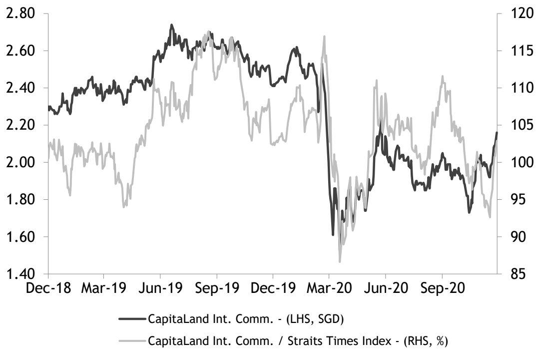
Statistics

52w high/low (SGD)	2.62/1.52
3m avg turnover (USDm)	29.0
Free float (%)	66.5
Issued shares (m)	3,546
Market capitalisation	SGD7.7B
	USD5.7B

Major shareholders:

CapitaLand Ltd.	28.0%
NTUC Enterprise Co-operative Ltd.	5.5%
The Vanguard Group, Inc.	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	8	7	(11)
Relative to index (%)	4	(5)	2

Source: FactSet

Link to sector note:

Singapore REITs - Office REITs: Working In A New Normal | POSITIVE

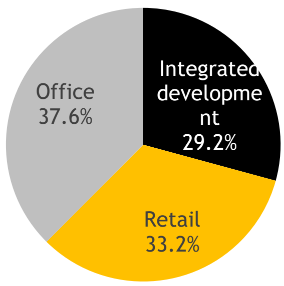
ESG
Tear Sheet Insert

Co. Reg No: 198700034E MICA (P) : 099/03/2012

Value Proposition

- It was formed in Nov 2020 as a result of the merger between CCT and CMT and is the largest S-REIT, with 24 retail, office and integrated development assets valued at SGD22.4b as of end-Sep 2020.
- Backed by sponsor CapitaLand (CAPL SP, Not-rated), one of Asia's largest real-estate players with a global portfolio valued at SGD133.3b as of end-Sep 2020 after its Ascendas-Singbridge merger.
- Sponsor offers a right-of-first refusal pipeline with a book value equivalent to 24% of its AUM.
- A more diversified AUM and higher SGD5.8b development headroom to add growth options, and support its portfolio remodelling over the medium term.

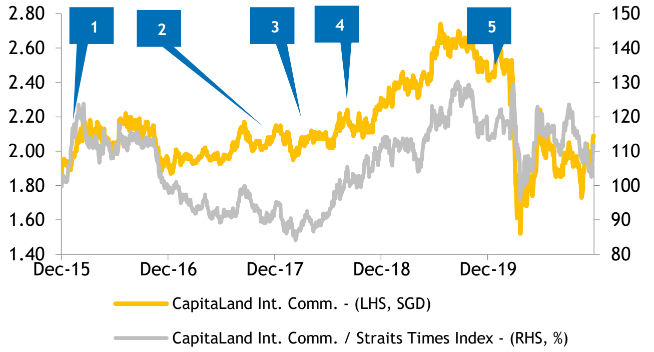
AUM breakdown (as of end-Sep 2020)



Source: Company

Price Drivers

Historical share price trend



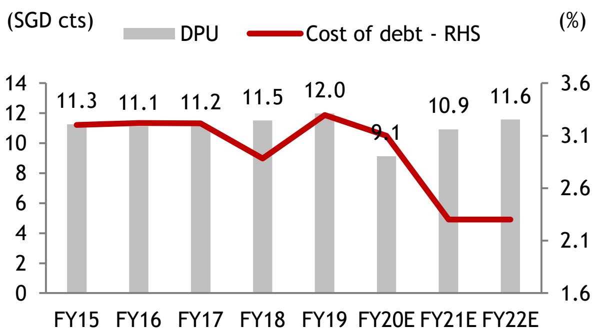
Source: Company, FactSet, Maybank Kim Eng

1. Dec-15: CMT announces plan to redevelop Funan DigitaLife Mall into an integrated development to unlock about 388k sf of untapped GFA.
2. Aug-17: CMT divests Funan's serviced residences component to Ascott based on agreed land value of SGD90.5m, resulting in a net gain of SGD20.6m.
3. Apr-18: CMT divests Sembawang Shopping Centre for SGD248.0m, at 3.9% cap rate, and 96.8% above valuation, to contribute a net gain of SGD119.6m.
4. Aug-18: CMT acquires remaining 70% interest in Westgate for SGD789.6m from its sponsor at 4.3% NPI yield.
5. Jan-20: CMT announces merger with CCT to create the largest S-REIT and second largest APAC commercial REIT with a SGD22.4b AUM.

Financial Metrics

- DPUs to improve by 20% YoY and 6% YoY in FY21 and FY22, due to lower rental rebates to retail tenants, and borrowing costs.
- Negative retail rental reversions to moderate in FY21-22E due to stronger tenant sales, especially for its more resilient suburban malls.
- NPI contributions from its office properties to recover in 2022 after AEIs (at 20 Collyer Quay and 6 Battery Road) and earnings from CapitaSpring post-redevelopment.

Rental reversion and DPU growth profile



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail or office space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail or office space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Business Model & Industry Issues

- CICT draws on its available pool of funds to invest in retail real estate, undertake asset enhancements, and redevelop properties to optimise value for its unit holders. Its activities relating to permissible investments, leverage limits and annual reporting requirements are closely regulated by the MAS under Singapore's code on collective investment schemes.
- As the largest owner of shopping centre floor space and office properties in Singapore, it attentively monitors building and environmental efficiency across its 9.3m sf NLA, and has set long-term targets on energy, carbon emission and water intensity reductions. These efforts have been recognised by the Global Real Estate Sustainability Benchmark.
- Its large and diversified portfolio has increased the extent for redevelopments and AEIs. The repositioning of Funan by CMT into an integrated development with retail, office and co-living spaces has broadened the scope of its social initiatives.

Material E issues

- All 22 Singapore properties are BCA Green Mark certified, with 4 certified GOLD and 5 GoldPLUS, which is the minimum target set for new developments, and 11 achieving the highest Platinum certification.
- A mandatory environmental impact assessment to identify threats/ opportunities of project site and its surroundings is carried out during a development's feasibility phase, with significant findings and their cost implications submitted for the board's approval.
- Long-term targets are explicit and aligned to its sponsor's, based on a 2008 base year, to reduce: (a) energy intensity by 20% by 2020 (was 24.5% in 2019) and 25% by 2030; (b) carbon emissions intensity by 23% by 2020 (43.1%) and by 30% by 2030; and (c) water intensity by 20% by 2020 (20.0%), and by 30% by 2030.
- CMT secured a first 5-year SGD200m green loan from OCBC while CCT issued an 8-year SGD124m green bond in FY19 to finance their BCA Green Mark certified properties.

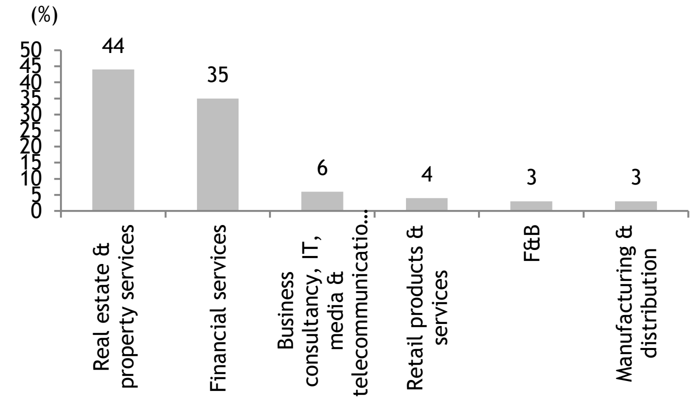
Material S issues

- Its sponsor allocates up to 3.0% of its annual wage bill towards learning and development programmes for its employees, which is supported by its in-house training hub - CapitaLand Institute of Management and Business.
- Gender diversity is high at CMT, with female representation at 54.8% amongst all employees (in 2019), 60.9% at the management level, and the Chairman's seat on the board.
- Funan, which was redeveloped and conceptualised as an integrated development to comprise retail, office and co-living spaces, to offer roof-top urban farming, an indoor rock-climbing facility, and 170 bicycle bays. It will also leverage digital tools to enhance the shopper experience.
- Two of its malls house community libraries and both have gained additional GFA from URA's community and sports facilities scheme.

Key G metrics and issues

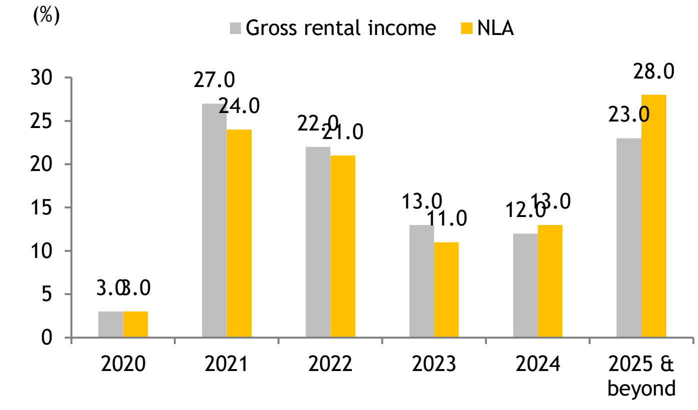
- Managed externally by wholly-owned subsidiaries of its sponsor CapitaLand, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is fairly high – 5 of its 9 members, including the Chairman, are independent, and the CEO is the only executive and non-independent member.
- Revised performance fee from 2.85% of gross revenue to 4.25% of NPI at the 2016 AGM. This, and its base fee at 0.25% of deposited property and acquisition and disposal fee at 1.0% and 0.5% of deal value, is comparable to peers.
- The cumulative remuneration of its key management team including the CEO has never represented >0.6% of the REIT's distributable income since this was first reported in FY16.
- Payout ratio for taxable income has been consistently maintained at 100%, above the minimum 90% threshold for tax transparency. Management retained 70% of its 1Q20 distributable income in light of a challenging outlook for its retail properties due to Covid-19.
- Has scaled up via DPU-accretive acquisitions from its sponsor's pipeline. The deal process is rigorous; involving a review by the board's audit committee, and if valued >5% of NAV, unit holders' approval at an EGM.
- Its merger with CCT was effective on 21 Oct 2020. It aims to create the third largest APAC REIT with SGD22.9b AUM across 10.4m sf of commercial NLA, and serve as its sponsor's primary investment vehicle for commercial real estate in Singapore and other developed markets.
- Generated value from its AEIs at Junction 8 and IMM, and divestments of Rivervale Mall and Sembawang Shopping Centre (192% and 218% over purchase price).
- Maintains one of the strongest balance sheets amongst peers – leverage has fallen steadily from 38.4% at end-2011 to 32.9% at end-2019, while interest coverage ranged from 3.6-4.7x.

Fig 1: CCT - new leases signed in 3Q20 by trade sector



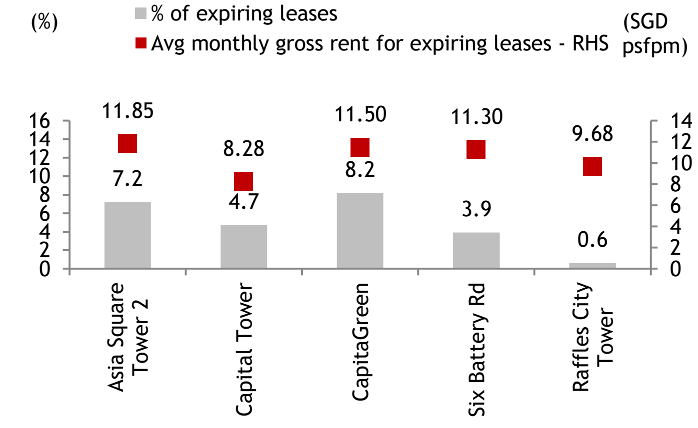
Source: Company data

Fig 2: CCT - office lease expiry profile



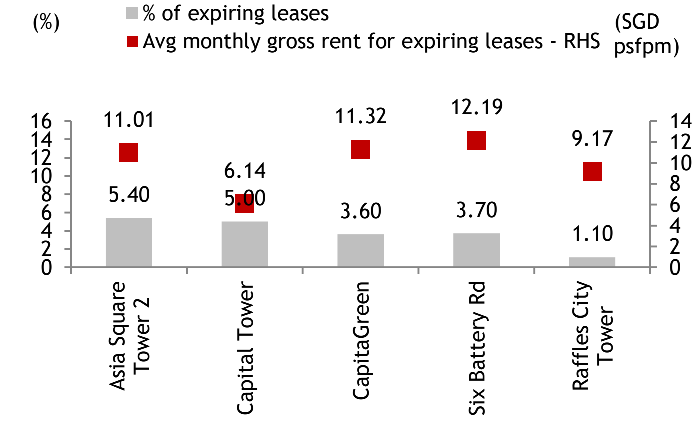
Source: Company data, as of end-Sep 2020

Fig 3: CCT - office leases expiring in 2021



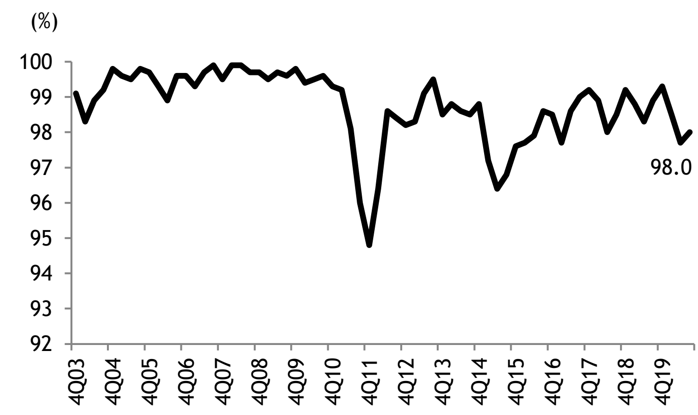
Source: Company data, as of end-Sep 2020

Fig 4: CCT - office leases expiring in 2022



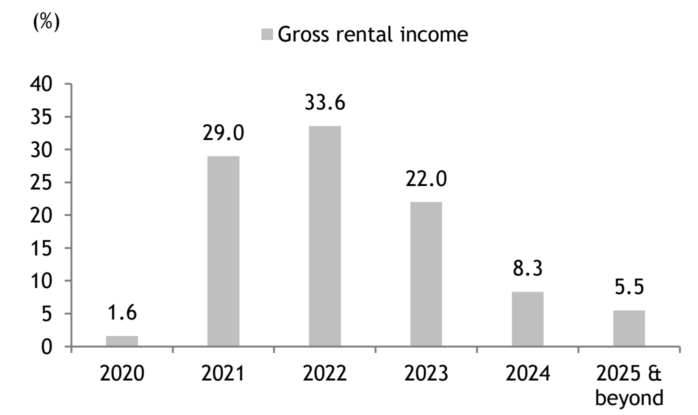
Source: Company data, as of end-Sep 2020

Fig 5: CMT - retail occupancy supported by suburban malls



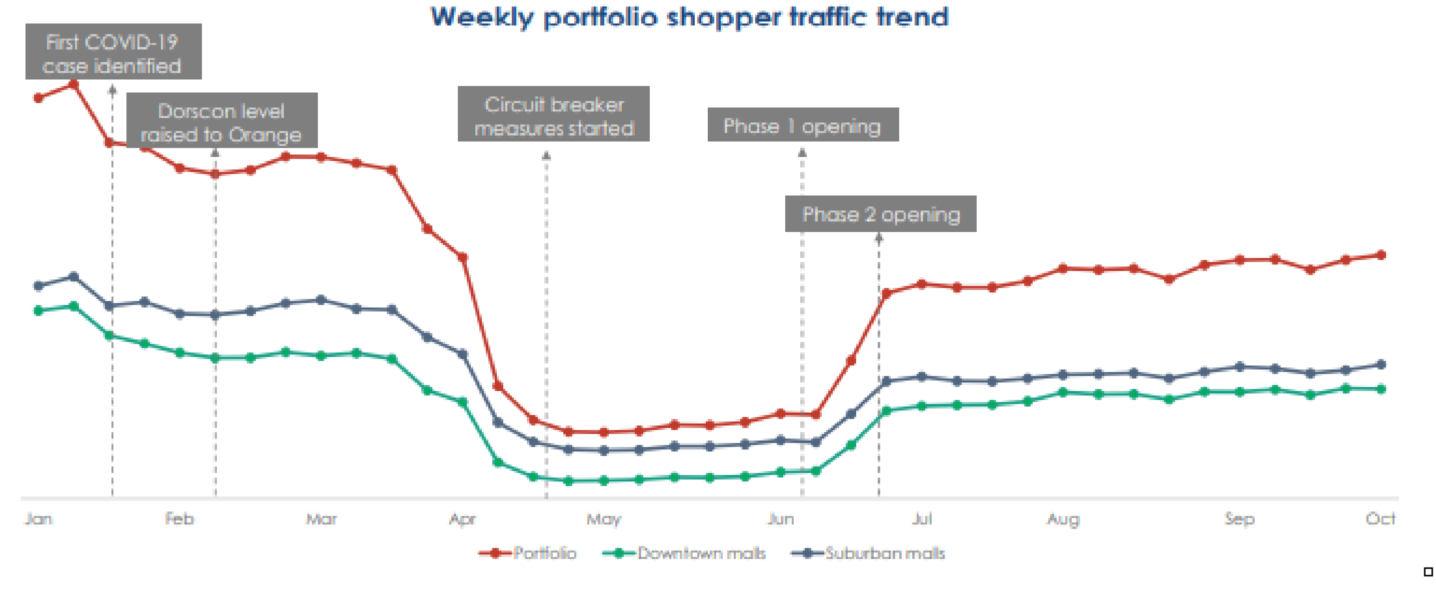
Source: Company data

Fig 6: CMT - retail lease expiry profile



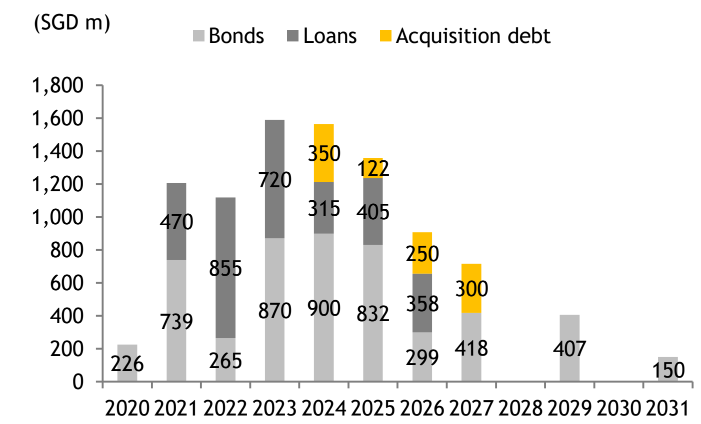
Source: Company data, as of end-Sep 2020

Fig 7: CMT - shopper traffic has recovered to 60% of pre-COVID levels, with better improvement at suburban malls



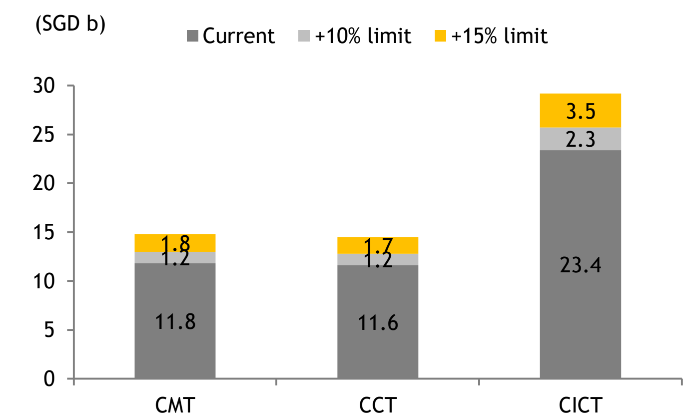
Source: Company data, (1) Week of 30 Aug 2020 vs first week of Jan 2020, (2) index rebased to first week of Jan 2020

Fig 8: CICT debt-maturity profile



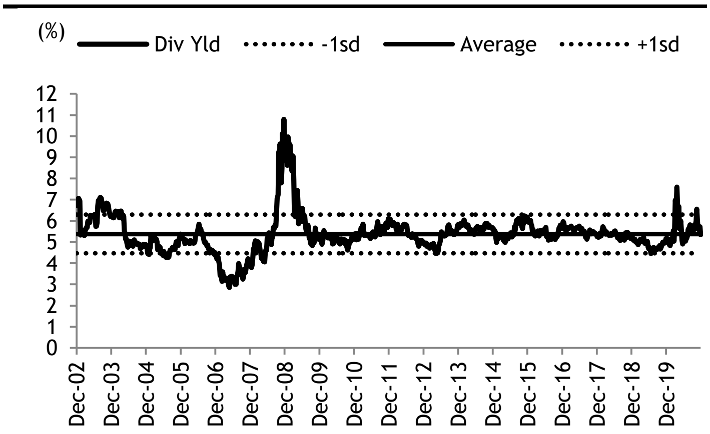
Source: Company data

Fig 9: CICT development headroom post-merger at SGD5.8b



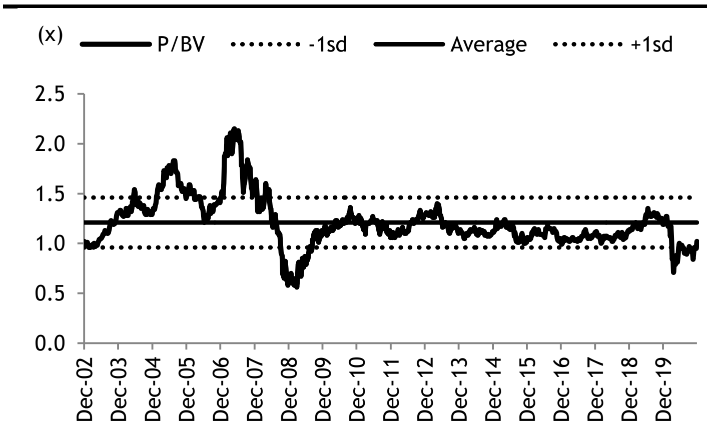
Source: Company data

Fig 10: DPU yield DPU yield at close to +1SD above its 18-year historical average



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 11: P/BV at 1.0x suggests that concerns on declining office rents and office values have been priced in



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 12: Portfolio details

	Location	Type	Interest (%)	NLA total (sf)	Title (Years)	Occupancy (%)	Purchase (SGD m)	Valuation (SGD m)	Cap value (SGD)	Cap rates (%)
Tampines Mall	Singapore	Retail	100.0	356,228	99 to 2091	100.0	409.0	1,085.0	3,009	4.70
Junction 8	Singapore	Retail	100.0	254,209	99 to 2090	100.0	295.0	799.0	3,125	4.70
Funan Mall	Singapore	Int. development	100.0	531,922	99 to 2078	98.7	191.0	775.0	1,396	R: 4.85, O: 3.90
IMM	Singapore	Retail	100.0	963,174	60 to 2049	98.8	247.4	675.0	685	R: 6.20, W: 7.00
Plaza Singapura	Singapore	Int. development	100.0	484,154	Freehold	98.3	710.0	1,349.0	2,685	4.40
Bugis Junction	Singapore	Retail	100.0	396,604	99 to 2089	99.3	605.8	1,106.0	2,742	4.70
JCube	Singapore	Retail	100.0	206,938	99 to 2090	96.8	68.0	288.0	1,314	4.85
Lot One	Singapore	Retail	100.0	227,671	99 to 2092	99.2	243.8	537.0	2,333	4.70
Bukit Panjang Plaza	Singapore	Retail	100.0	163,625	99 to 2093	96.8	161.3	330.0	1,980	4.80
Atrium @ Orchard	Singapore	Int. development	100.0	385,332	99 to 2107	97.5	839.8	764.0	1,913	R: 4.65, O: 3.75
Clarke Quay	Singapore	Retail	100.0	293,248	99 to 2089	92.3	268.0	414.0	1,344	4.85
Bugis+	Singapore	Retail	100.0	214,408	60 to 2065	99.9	295.0	357.0	1,646	5.20
Bedok Mall	Singapore	Retail	100.0	222,469	60 to 2110	97.6	794.0	794.0	3,502	4.60
Westgate	Singapore	Retail	100.0	410,535	60 to 2110	98.6	1,128.0	1,131.0	2,657	4.50
Asia Sq Tower 2	Singapore	Office	100.0	777,413	99 to 2107	97.0	2,094.0	2,134.0	2,746	3.45
CapitaGreen	Singapore	Office	100.0	701,048	99 to 2073	99.8	1,600.5	1,618.0	2,308	3.95
Capital Tower	Singapore	Office	100.0	734,696	99 to 2094	98.0	793.9	1,389.0	1,891	3.55
Six Battery Road	Singapore	Office	100.0	494,341	999 to 2825	79.4	675.2	1,414.0	2,863	3.45
21 Collyer Quay	Singapore	Office	100.0	200,469	999 to 2849	100.0	153.9	465.5	2,322	3.45
Raffles City	Singapore	Int. development	100.0	808,150	99 to 2078	96.0	2,166.0	3,266.0	-	R: 4.70, O: 3.95, H: 4.75
One George Street	Singapore	Office	50.0	445,835	99 to 2102	98.2	582.5	561.0	2,517	3.55
CapitaSpring	Singapore	Int. development	45.0	647,000	99 to 2081	34.9	-	466.7	-	
Galileo	Germany	Office	94.9	436,179	Freehold	100.0	540.7	534.3	1,291	
Main Airport Center	Germany	Office	94.9	648,466	Freehold	90.2	387.1	387.7	630	
Total				**11,004,114**				**22,640.2**		

Source: Company data, O = Office, R = Retail, W = Warehouse, H = Hotel

Fig 13: Pipeline assets

Property	Location	Type	NLA total (sf)	Interest (%)	Attributable NLA (sf)	Attributable book value (SGD m)	Book value (SGD psf)
ION Orchard	Singapore	Retail	622,999	50.0	311,500	1,710	5,490
Jewel Changi Airport	Singapore	Retail	576,000	49.0	282,240	824	2,920
CapitaSpring	Singapore	Office	635,000	55.0	349,250	570	1,632
79 Robinson Road	Singapore	Office	514,000	65.0	334,100	543	1,625
Shinjuku Front Tower	Japan	Office	623,408	20.0	124,682	256	2,053
Kokugikan Front	Japan	Office	65,000	100.0	65,000	67	1,031
Sun Hamada	Japan	Office	90,000	100.0	90,000	58	644
Yokohama Blue Avenue	Japan	Office	373,000	100.0	373,000	455	1,220
Anam Tower	Japan	Office	180,708	6.0	10,842	10	922
Citibank Center	South Korea	Office	179,144	99.0	177,353	145	818
Jongro Place	South Korea	Office	635,000	55.0	349,250	570	1,632
Total					**2467,216**	**5,208**	

Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	19.6	20.5	23.7	19.8	18.7
P/BV (x)	1.1	1.2	1.0	1.1	1.0
P/NTA (x)	1.1	1.2	1.0	1.1	1.0
DPU yield (%)	5.1	4.9	4.2	5.1	5.4
FCF yield (%)	5.6	5.6	4.5	6.4	6.5
INCOME STATEMENT (SGD m)					
Revenue	697.5	786.7	659.2	1,367.0	1,399.6
Net property income	**493.5**	**558.2**	**447.8**	**983.5**	**1,006.0**
Management and trustee fees	(75.3)	(84.1)	(105.0)	(155.7)	(158.2)
Net financing costs	(98.2)	(118.5)	(111.2)	(212.8)	(212.8)
Associates & JV	129.0	89.2	111.5	19.6	41.1
Exceptionals	199.0	215.1	(240.8)	(77.9)	89.1
Other pretax income/expenses	10.7	7.1	7.1	7.1	7.1
Pretax profit	**656.4**	**665.0**	**107.6**	**560.3**	**768.7**
Income tax	0.4	0.0	0.0	0.0	0.0
Minorities	5.0	5.0	5.0	5.0	5.0
Discontinued operations	5.0	5.0	5.0	5.0	5.0
Total return avail to unitholders	**661.7**	**670.0**	**112.6**	**565.3**	**773.7**
Core net profit	429.4	461.9	389.4	707.2	750.3
Distributable inc to unitholders	410.7	441.6	358.3	707.2	750.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	348.5	202.2	513.9	513.9	513.9
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2.8	3.3	3.3	3.3	3.3
Inverstment properties	10,075.6	10,415.8	18,971.2	18,901.4	18,972.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,020.5	840.9	3,284.6	3,276.6	3,294.7
Other assets	54.3	269.5	269.5	269.5	269.5
Total assets	**11,501.7**	**11,731.7**	**23,042.5**	**22,964.6**	**23,053.8**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	199.3	166.9	166.9	166.9	166.9
LT interest bearing debt	3,627.8	3,560.9	9,251.0	9,251.0	9,251.0
Other liabilities	245.3	236.7	236.7	236.7	236.7
Total Liabilities	**4,072.4**	**3,964.4**	**9,654.5**	**9,654.5**	**9,654.5**
Shareholders Equity	7,429.3	7,767.2	13,388.0	13,310.1	13,399.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**7,429.3**	**7,767.2**	**13,388.0**	**13,310.1**	**13,399.2**
Total liabilities and equity	**11,501.7**	**11,731.7**	**23,042.5**	**22,964.6**	**23,053.8**
CASH FLOW (SGD m)					
Cash flow from operations	**455.9**	**511.5**	**383.9**	**895.2**	**916.8**
Capex	(0.2)	(1.0)	(0.5)	(0.5)	(0.5)
Acquisitions & investments	(316.0)	(141.1)	(11,240.0)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	72.3	76.9	111.5	19.6	41.1
Other investing cash flow	9.0	6.9	5.7	5.7	5.7
CF from investing activities	**(235.0)**	**(58.2)**	**(11,123.3)**	**24.7**	**46.2**
Dividends paid	(455.6)	(384.3)	(358.3)	(707.2)	(750.3)
Interest expense	(97.1)	(116.6)	(111.2)	(212.8)	(212.8)
Change in debt	(114.1)	(91.0)	5,690.1	0.0	0.0
Equity raised / (purchased)	271.6	(4.0)	5,830.4	0.0	0.0
Other financial activities	0.0	(3.7)	0.0	0.0	0.0
CF from financing activities	**(395.2)**	**(599.6)**	**11,051.1**	**(919.9)**	**(963.1)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**(174.2)**	**(146.3)**	**311.7**	**0.0**	**0.0**

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	12.8	(16.2)	107.4	2.4
Net property income growth	3.2	13.1	(19.8)	119.7	2.3
Core net profit growth	4.0	7.6	(15.7)	81.6	6.1
Distributable income growth	3.8	7.5	(18.9)	97.4	6.1
Profitability ratios (%)					
Net property income margin	70.8	71.0	67.9	71.9	71.9
Core net profit margin	61.6	58.7	59.1	51.7	53.6
Payout ratio	95.7	95.6	92.0	100.0	100.0
DuPont analysis					
Total return margin (%)	94.9	85.2	17.1	41.3	55.3
Gross revenue/Assets (x)	0.1	0.1	0.0	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.7	1.7	1.7
ROAE (%)	9.2	8.8	1.1	4.2	5.8
ROAA (%)	3.9	4.0	2.2	3.1	3.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	3.0	2.4	2.4	2.4
Net gearing (%) (excl. perps)	44.1	43.2	65.3	65.6	65.2
Net interest cover (x)	4.2	4.0	3.1	3.9	4.0
Debt/EBITDA (x)	8.7	7.5	nm	11.2	11.0
Capex/revenue (%)	0.0	0.1	0.1	0.0	0.0
Net debt/ (net cash)	3,279.3	3,358.7	8,737.1	8,737.1	8,737.1
Debt/Assets (x)	0.32	0.30	0.40	0.40	0.40

Source: Company; Maybank

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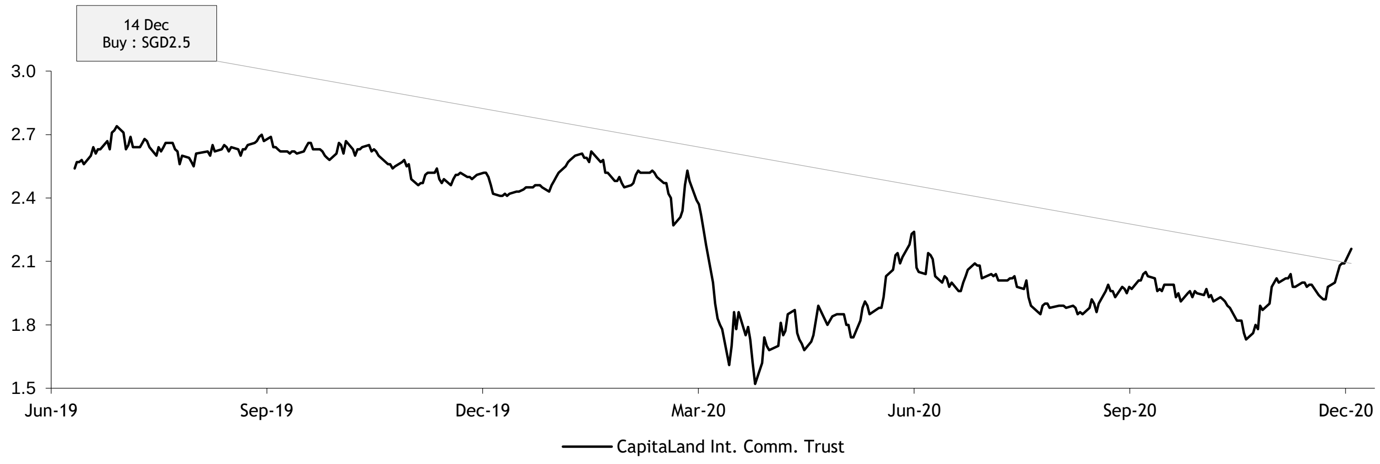

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