

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

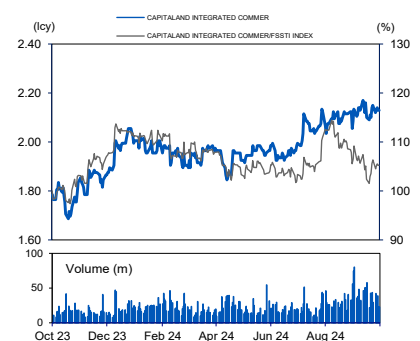
Price Performance (%)

52-week high/low	S\$2.20/S\$1.68			
1mth	3mth	6mth	1yr	YTD
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)

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

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

Source: CICT

ION ORCHARD



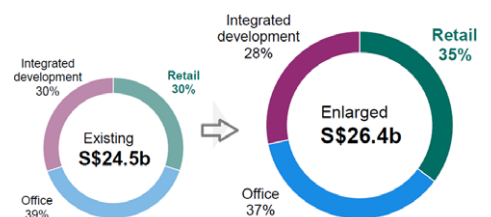
Source: CICT

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

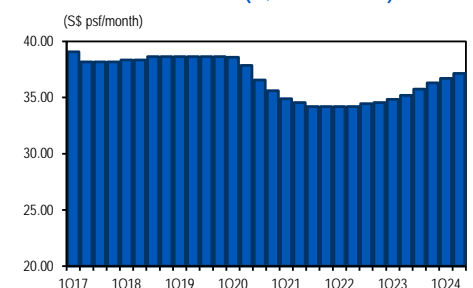
Source: CICT

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)
Pre-tax profit	879.3	752.1	848.9	871.4
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
Net profit	862.6	734.0	828.5	851.0
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
Total assets	24,739.1	26,795.8	26,939.0	26,956.3
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
Total liabilities & equity	24,739.1	26,795.8	26,939.0	26,956.3

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	1,079.8	1,191.9	1,195.7	1,155.2
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
Investing	(38.9)	(2,048.5)	(85.0)	30.0
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
Financing	(1,148.6)	872.5	(1,119.8)	(1,199.0)
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)
Net cash inflow (outflow)	(107.7)	15.9	(9.1)	(13.8)
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
Profitability				
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
Growth				
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
Leverage				
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

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W