

ASIAN GEMS CORPORATE HIGHLIGHTS

CapitaLand Integrated Commercial Trust (CICT SP)

Increasing Dominance Of Singapore's Retail Scene

The acquisition of ION Orchard allows CICT to consolidate its presence downtown across the Orchard, Dhoby Ghaut and City Hall MRT stations, which are interchange stations that naturally attract huge footfall. Upon completion of the acquisition in 4Q24, CICT could work on enhancing the upper floors and obtaining tax transparency. Management is keen to expand in integrated developments, which are more resilient throughout economic cycles. Maintain BUY. Target price: S\$2.59.

WHAT'S NEW

- ION Orchard provides comprehensive coverage of downtown precinct.** The acquisition of ION Orchard allows CapitaLand Integrated Commercial Trust (CICT) to consolidate its presence downtown across major transportation nodes, namely the Orchard, Dhoby Ghaut and City Hall MRT stations. All three are interchange stations that naturally attract huge footfall, each with a unique positioning. ION Orchard at Orchard MRT station has universal appeal, encompassing luxury goods to basic necessities. It serves affluent residents staying at Cairnhill, Orchard and Tanglin and is popular with tourists. Plaza Singapura at Dhoby Ghaut MRT station is family-oriented and located near Singapore Management University and School of the Arts. Raffles City at City Hall MRT station is within the Civic District with many historical landmarks, such as the Supreme Court, City Hall, Parliament House and the Padang. Retailers, especially those with multiple brands and price points, would engage CICT to better position themselves to address the different market segments.
- Further enhancing ION Orchard.** Management sees room to increase rental income from the upper floors (levels 3, 4 and 5) through an asset enhancement initiative (AEI). It intends to maintain ION Orchard's prestige as an iconic premium mall. CICT will work on obtaining tax transparency for ION Orchard after the acquisition is completed by 4Q24.
- CICT is evaluating plans to enhance Plaza Singapura and The Atrium** at Dhoby Ghaut MRT station. Management will review the mix of anchors and mini anchors. URA's Master Plan 2019 envisages a green urban corridor at Dhoby Ghaut, reminiscent of Orchard Road's origin as a road lined with nutmeg and clove plantations and fruit orchards. The contiguous green oasis comprising Istana Park and Dhoby Ghaut Green, which are in front of The Istana (official residence and office of the President), would have many play areas for children. The population within its catchment is increasing due to residential housing at Mount Sophia and the redevelopment of Peace Centre. Plaza Singapura and The Atrium would have a complementary tenant mix and be more closely integrated to enhance traffic flow. The potential AEI could commence in late-25 or 2026.

KEY FINANCIALS

Year to 31 Dec (\$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)	18.6	18.8	20.0	18.7	18.3
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	5.0	5.1	5.1	5.4	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)	-	-	10.9	11.3	11.8
UOBKH/Consensus (x)	-	-	0.98	1.01	0.99

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

BUY

(Maintained)

Share Price	S\$2.12
Target Price	S\$2.59
Upside	+22.2%

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):	7,286.6
Market cap (S\$m):	15,447.6
Market cap (US\$m):	11,818.2
3-mth avg daily t'over (US\$m):	50.0

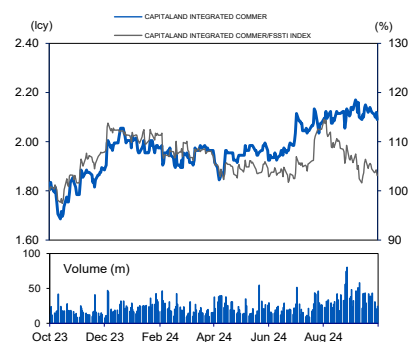
Price Performance (%)

52-week high/low	S\$2.20/S\$1.68			
1mth	3mth	6mth	1yr	YTD
(0.7)	6.8	7.9	20.1	3.2

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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- Remains solidly anchored to home base Singapore.** CICT would remain predominantly invested in Singapore, which would account for 94.2% of portfolio valuation post-acquisition of ION Orchard. It would continue to strengthen its Singapore portfolio through acquisitions and AEIs to increase its overall resiliency. Management is keen on expansion in integrated developments, which are more resilient throughout economic cycles. The office and residential components in integrated developments provide a constant flow of shoppers to the retail component. As for its overseas assets, CICT intends to focus on its existing investments in Australia and Germany. It does not want to dabble in a third overseas market.
- Sustainable improvement in cost efficiency.** NPI margin expanded 2.2ppt yoy to 73.5% in 1H24. Utility expenses declined 9% yoy. There is room for further reduction in utility expenses when the new electricity contract commences in 2025. Staff costs related to property management declined 22% yoy. Under the new property management agreement, CICT pays leasing commissions (variable cost) instead of reimbursing staff cost incurred for leasing (fixed cost).
- Benefitting from lower interest rates.** About 24% of CICT's borrowings are on floating interest rates, which would benefit from the 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. The all-in interest rate for short-term bank loans is about 4%. Given the inverted yield curve in Singapore, the all-in interest rate for 10-year medium term notes is below 4%. 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 0.9% for 1H24 on a pro forma basis assuming 70% of management fees is paid in units. DPU accretion could improve to 2.2% if CICT manages to secure tax transparency for ION Orchard. NAV per unit is expected to be relatively unchanged at S\$2.06. Aggregate leverage is also relatively unchanged at 39.9%.
- Successfully completed fundraising.** CICT 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 fundraising exercise. CICT has also obtained new bank loans of S\$840m at an interest rate of high-3%.
- The EGM will be held on 29 Oct 24 at 2:30pm. The proposed acquisition is expected to be completed in 4Q24.

EARNINGS REVISION/RISK

- We maintain our existing DPU forecast.

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	Fashion	Beauty & Wellness	Lifestyle	Food & Beverage
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	The Onitsuka	Lululemon	Food Opera
Beauty	G-SHOCK Casio	Ecco	Guardian	HOKA	HEYTEA
Wellness services	Love & Co.	Love Bonito	Kiehl's	Singtel	Jasons Deli
Lifestyle	SK Jewellery	ZARA	Sephora		
Restaurants & Cafes					
Casual Dining					

Source: CICT

ION ORCHARD



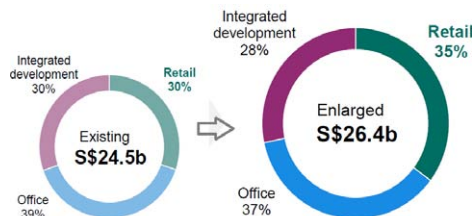
Source: CICT

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

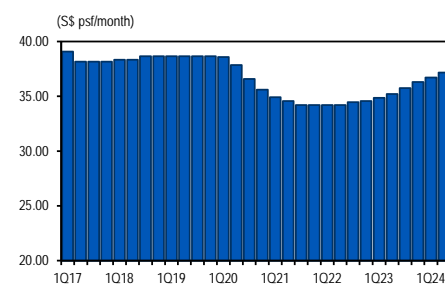
Source: CICT

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)
Perpetual Securities	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

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

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

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

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