CICT 3Q 2024 Business Updates: Summary of Analyst Call

TUESDAY, 5 NOVEMBER 2024

Sharing by CEO, Tony Tan

The third quarter 2024 is business as usual. We raised some equity from the third quarter to fourth quarter of 2024 and that will have an impact on the financials [with the enlarged unitholding base]. We completed the acquisition of ION Orchard and ION Orchard Link on 30 October 2024, a day immediately after getting unitholders' approval at the EGM. This gives us two months of income contribution from the acquisition, in November and December of 2024.

- Operationally, the third quarter is quieter, and hopefully we will see some pick-up in the fourth quarter.
- Some frictional vacancies seen in the portfolio occupancy. Largely occupancy decline seen at Main Airport Center, Frankfurt, which we will address.
- Hope to drive more robust tenant sales numbers.
- The positive rental reversions are laying out nicely. As guided previously, we should expect high single digit percentage positive rental reversions for all retail and office leases signed in 2024.
- In the fourth quarter 2024, we are already working on the leases expiring in the first half of 2025.
- There are various macro events unfolding this month that will have impacts on various fronts including interest rates, business sentiments, and consumer sentiments.

We will need to manage our business and operations with agility. Looking to 2025, we hope to capture opportunities out there.

Question and Answer Session

1. Analyst from JP Morgan asked about the year-to-date tenant sales. He was surprised by the downtown malls performance given the expected pick-up from increased tourist arrivals and more workers returning to office.

- Although downtown mall's tenant sales were lower on a per square foot basis, it is higher on an absolute quantum basis while suburban malls tenant sales is on the converse trend. Event-driven activities like F1 and National Day celebration contributed positively to the downtown malls segment, but the holiday periods had some negative impact on sales. Leisure and entertainment also lifted the downtown malls' sales. The overall performance is in line with the broader market.
- The team is closely monitoring Singapore's shopping scene and trends in the longer term, given the strong Singapore dollar and high costs environment.

2. **What is the guidance on borrowing cost for FY 2025?**

- Borrowing costs is expected to be in the high 3% range for next year. This may vary depending on the prevailing market conditions next year.

3. **What is the guidance for the retail and office rental reversions, will they be around mid-single digit % in FY 2025?**

- We expect the positive rental reversions for our retail and office portfolio to be around low single digit % next year. The range could vary depending on the market environment.

4. **Analyst from Morgan Stanley asked about any update on the divestment status of 21 Collyer Quay.**

- We will update when we are ready.

5. **How is the retail occupancy cost compared to pre-COVID levels?**

- The retail portfolio occupancy cost inched up 0.1 percentage point quarter-on-quarter to reach 17.6%. Downtown malls' occupancy cost is around 19% and suburban malls' at around 16%.

6. **Analyst from Goldman Sachs queried about the plan for management fees in units (MFU) for FY 2024 and FY 2025 before tax transparency for ION Orchard and ION Orchard Link is obtained, and the timeline for achieving the tax transparency status.**

- We have the discretion to determine the level of management fees to be received in units. As such, we will first monitor and assess the performance of the acquisition and portfolio. There are other levers which we can consider using to bridge the period while we seek to explore the tax transparency status of the entity holding ION Orchard and ION Orchard Link. Getting tax transparency status is a complex process and is expected to take some time. It requires further dialogue with our joint venture partner and relevant authorities' approval.

7. **Analyst from Macquarie asked about the occupancy decline at Main Airport Center and strategies for improvement.**

- There is a strategy to improve the occupancy of Main Airport Center located in Frankfurt, Germany. While we are actively focused on backfilling the vacancy of the asset, there are also plans to upkeep the asset through renovations under our regular capital expenditure plan. The Frankfurt Airport Office district sub-market is facing challenging market conditions given the fact that there are new completions that are still partially leased.

8. What is the proportion and currency of the foreign loans which are expiring or requiring refinancing in 2025?

- Around S$1.3 billion of debt is due for refinancing in 2025. About S$830 million of debt are Singapore dollar fixed rate bonds. The bank loans due in 2025 include some Euro loans.

  For information on the interest rates of existing medium term notes, please refer to the link on CICT's website, Investor Centre.

9. Analyst from HSBC sought insights on year-end valuations and asked if there are any potential downward valuation risks for overseas assets?

- In Australia, the transactions in the market will probably translate to a cap rate expansion for asset valuation. We are expecting the cap rate expansion to be in the range of around half to one percent.

- In Germany, we expect the value of Gallileo to go up slightly while that of Main Airport Center to ease. On an overall portfolio basis, we expect values to remain stable.

10. On the office sector, what are the some of the forward leases and any risk of negative rent reversions given high expiring rents next year?

- In the Singapore office leasing scene, the recent new completion is still holding up their rental rates. We are actively monitoring the upcoming new supply and their potential impact. According to property consultants, there will be around 400,000 square feet of secondary stock in the market next year largely due to moves by the companies who have committed to the newly completed office building. Overall, there could be some competition from the rent perspective.

- For CICT's leases expiring in 1H 2025, the expiring rents are higher at around $12. However, a larger portion of CICT's expiries is only coming up the second half of the year and the expiring rents are lower. We will look to balance the rents to achieve positive rent reversions.

11. Analyst from Citibank followed up on the proportion of MFU to be issued and asked if CICT will pull other levers such as distribution of past divestment gains or distribution from CICT's stake in the REITs.

- Potentially, CICT can consider distributing the income received from the investment in the two REITs as one of the levers. We will also monitor the overall performance of the portfolio and review the performance of ION Orchard.

12. Any asset enhancement initiative (AEI) potential for ION Orchard at this point? Will the tax transparency be completed by next year?

- There are AEI plans that are set in motion prior to our completion of the acquisition, which will proceed and likely to take place over the next two years.

- In terms of timing, there are three hurdles to clear. Tax transparency is a joint effort and is predicated on the joint venture's partner agreement. Secondly, we will also need to look at mitigating any potential issues and finally, we will also require the authority's approval to restructure and obtain the tax transparency.

13. Analyst from CLSA asked if a Dividend Reinvestment Plan (DRP) was being considered instead of MFU.

- The DRP is not necessarily a tool we will deploy every year. We will assess.

14. What is the progress like on backfilling the occupancy at ION?

- Committed occupancy at ION Orchard is currently higher than 96%. There will always be some transitional vacancy due to the timing of leases.

15. Analyst from UOB questioned about the backfilling vacant spaces at CapitaGreen and CQ @ Clarke Quay, and whether there are any prospective tenants currently?

- We are actively engaging prospective tenants to backfill vacancies at CapitaGreen. Efforts to attract new tenants at CQ @ Clarke Quay are still ongoing, and we are also experimenting new concepts.

16. Would CICT consider Changi Jewel as part of the sponsor pipeline and is it a good fit to CICT's portfolio?

- CICT will evaluate all potential opportunities, but it is hard to comment without numbers. Changi Jewel is unique as it is sitting on airport land with a shorter leasehold tenure. From a retail perspective, it has a good design, potentially requiring high maintenance. We will need to assess the cost versus the rents it can command.

17. Analyst from DBS noted the retail downtown and suburban reversions are quite close although the downtown reversion should be stronger. Are there any low-hanging fruits?

- We are actively managing the rent reversion and will consider the tenant sales trend and current occupancy costs. There are evolving trends where downtown malls are not just attractive to tourists, they are also popular destinations for family and friends' gatherings. From an asset management perspective, we actively track the performance of the respective trades and manage the mix of offerings. Our portfolio is in a reasonably good position for downtown and suburban malls.

18. Do we see a higher number of reverse enquiries for CICT's assets?

- There is slightly more investment activity in the market now compared to before, but it is not yet back to the high levels we have seen in the past. Investors also take a longer time for decision-making. We are beginning to see some interest from core investors slowly coming back to the market compared to mainly value-add investors previously.

19. Analyst from RHB Research inquired about the variable rent of RC Hotel's performance in the quarter and how do you see its performance in 2025?

- The hotel component broadly performed well, with increased occupancy and stable room rates boosted by increased tourist arrivals. Broadly, tourism, business activity and MICE events are picking up. Overall, the performance in 3Q 2024 was healthy and better year-on-year.

20. How should we look at the investment/divestment/ fundraising plans in the next six to twelve months.

- It is part and parcel of CICT's portfolio reconstitution strategy, which will be aligned with our long-term goals to optimise, monetise and boost our portfolio over time. Any corporate action will be dependent on the size of the opportunities available, market conditions and capital management and availability options.