MOODY'S
INVESTORS SERVICE

ASSESSMENT
27 October 2023

Send Your Feedback

Contacts

Muhammad Ibrahim
Associate Lead Analyst-SF
muhammad.ibrahim@moodys.com

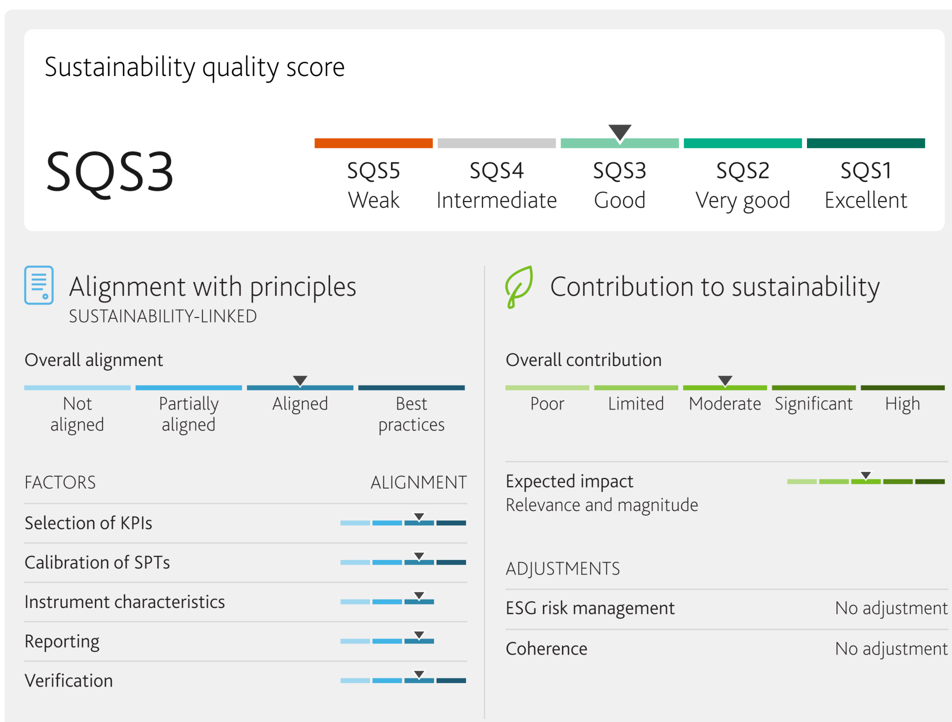
Jeffrey Lee
VP-Sustainable Finance
sukjoonjeffrey.lee@moodys.com

CapitaLand China Trust

Second Party Opinion – Sustainability-Linked Finance Framework Assigned SQS3 Sustainability Quality Score

Summary

We have assigned an SQS3 Sustainability Quality Score (good) to CapitaLand China Trust's (CLCT) sustainability-linked finance framework, dated October 2023. The issuer has established its framework to issue sustainability-linked instruments to finance general corporate purposes and has selected three key performance indicators (KPIs), including issuer's portfolio gross floor area (GFA) with green building certifications, renewable energy and energy consumption intensity (ECI). The main feature of this type of financing is the variation in the instrument's financial or structural characteristics, depending on whether the issuer achieves predefined sustainability objectives. The framework is aligned with the five core components of the International Capital Market Association's (ICMA) Sustainability-Linked Bond Principles (SLBP) 2023, and the Loan Market Association, the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Sustainability-Linked Loan Principles (SLLP) 2023. The framework demonstrates a moderate contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of CLCT's sustainability-linked finance framework, including the framework's alignment with the ICMA's SLBP 2023 and LMA/APLMA/LSTA's SLLP 2023. The issuer selected three sustainability KPIs — portfolio GFA with green building certifications, renewable energy and ECI — as outlined in Appendix 2 of this report.

Our assessment is based on CLCT's sustainability-linked finance framework, dated October 2023, and our opinion reflects our point-in-time assessment of the details provided, including public and non-public information.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

CapitaLand China Trust (CLCT) is Singapore's largest China-focused real estate investment trust (REIT) with total assets of around $5.2 billion as of 31 December 2022. CLCT has a portfolio that consists of 11 shopping malls, five business parks and four logistics parks. The geographically diversified portfolio has a total GFA of around 2.0 million square meters, located across 12 leading Chinese cities.

Asset classes by assets under management (AUM) constitute retail 76.4%, business parks 16.4% and logistics parks 7.2%.

CLCT is managed by CapitaLand China Trust Management Limited, a wholly owned subsidiary of Singapore-listed CapitaLand Investment Limited (CLI).

Strengths

» All three KPIs selected are relevant, and the sustainability performance targets (SPTs) align with CapitaLand Group's 2030 Sustainability Master Plan.

» The KPI(s) definition(s) explicitly relies on external references, allowing them to be benchmarked.

» The means of achieving the SPTs are detailed and disclosed.

Challenges

» KPIs 2 and 3 of renewable energy and energy consumption intensity do not fully address the Issuer's scope 3 that comprises the majority of the emissions in the building sector. Whereas, KPI 1 of achieving green certification potentially has a higher reach, such as addressing embodied carbon in the building life cycle, but this KPI 1 can be used on a standalone basis.

Alignment with principles

CLCT's sustainability-linked finance framework is aligned with the five components of SLBP 2023 and SLLP 2023:

- ○ Green Bond Principles (GBP)
- ○ Social Bond Principles (SBP)
- ○ Green Loan Principles (GLP)
- ○ Social Loan Principles (SLP)
- ✓ Sustainability-Linked Bond Principles (SLBP)
- ✓ Sustainability Linked Loan Principles (SLLP)

Selection of key performance indicators

Not aligned	Partially aligned	▼ Aligned	Best practices

Definition – ALIGNED

CLCT has clearly defined its KPIs in its framework, which will be made public. The KPIs' scope covers all existing properties under CLCT excluding CapitaMall Shuangjing, and for KPIs 1 and 3, the coverage in addition excludes third-party-managed properties (logistics).

Measurability, verifiability and benchmarking – ALIGNED

The KPIs are measurable, with the unit of measurement for KPI 1 defined as the percentage of the portfolio GFA with green building certification, for KPI 2 as the percentage of renewable energy and for KPI 3 as the ECI in terms of kilowatt hours per square metre per month (kWh/m2/month).

The KPIs' calculation methodology has been consistent over time. The issuer has indicated that in case of a change in methodology, the changes will be disclosed to investors and subjected to a post-issuance external review. The KPIs' external assurance is conducted at the CLI group level, which includes CLCT data. For example, KPIs 1 and 3 data are part of the CLI global sustainability report 2022, which undergoes third-party verification. KPI 2 is a newly established KPI with zero baseline as of year-end 2022. All KPIs relate to external references and can be benchmarked against the historical trendline and peers' performance. The issuer has disclosed three-year historical performance of KPI 3, while data for KPIs 1 and 2 pertains to year 2022 only.

Relevance and materiality – ALIGNED

KPI 1 is relevant to CLCT's business strategy for its current and future operations, and the coverage represents 75% of the issuer's business based on total GFA and 89% based on the issuer's AUM. KPI 2 is somewhat relevant to the issuer and primarily addresses scope 2. The issuer's GHG scope reporting currently only includes its operational carbon and scope 2 accounts for 30% of the issuer's operational carbon. It is noted that operational carbon accounts for around 70% of the emissions in the building sector. As such, KPI 2 aims to reduce scope 2 and is considered significant to the issuer's footprint. KPI 3 addresses a key environmental challenge, that is, the decarbonization of the sector, although it does not fully reflect scope 3.

The level of relevance and the significance of the KPIs are analyzed in detail in the "Contribution to sustainability" section.

Best practices identified

» The calculation methodology is consistent and in case of any methodology change, the issuer commits to post-issuance external review of the relevant changes

» The KPI(s) definition(s) explicitly rely on external references, allowing them to be benchmarked

Calibration of sustainability performance targets

Not aligned | Partially aligned | **Aligned** | Best practices

Consistency and ambition – ALIGNED
The SPTs are consistent with the issuer's sustainability strategy and align with CapitaLand Group's 2030 Sustainability Master Plan. The selected KPIs are part of the issuer's environmental, social and governance (ESG) objectives defined under its integrated sustainability report 2022.

For KPI 1, achieving green certification for 100% of CLCT's portfolio GFA by 2030 constitutes a positive trend compared with the business-as-usual (BaU) scenario, where an overall increase of 15% was observed during 2019-22. For KPI 2, the issuer commits to achieve 20% renewable capacity, a positive BaU consideration as the historical figures of KPI 2 were 0% for 2019-22. For KPI 3, the issuer's commitments reflect planned improvements compared with the baseline. Two identified peers in the region disclosed all the three KPI targets, which are ambitious, while other peers have disclosed targets, if any, on a selective basis. In addition, based on sector standards, the target criteria for KPI 3 do not fully align with low-carbon building standard definition under the Climate Bonds Initiative (CBI).

The level of ambition of all the KPIs is analyzed in detail in the "Contribution to sustainability" section.

The issuer has disclosed the means to achieving SPTs. The means used to achieve the renewable target for KPI 2 include the use of power purchasing agreements (PPAs). While the use of PPAs is considered relatively low-impact[1], the borrower has indicated that onsite installation is the key measure to achieve renewable energy target.

Disclosure – BEST PRACTICES
The selected baseline year is set as year 2019 for all the three KPIs. The baseline seems to be relevant and reliable, and the overall SPT duration is set as 2030 for each KPI. The issuer has set relevant intermediary target(s) for each of the KPIs, allowing sufficient visibility into the KPIs' performance. The applicable SPT targets are indicated in 'appendix 2'.

Best practices identified

» Disclosure of the means for achieving the SPT(s) as well as their respective contribution in quantitative terms to the SPTs OR as well as any other key factors beyond the issuer/borrower's direct control that may affect the achievement of the SPT(s)

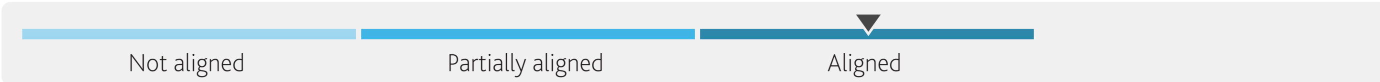
» Disclosure of the timeline, baseline and trigger events, including relevant intermediate targets

Instrument characteristics

Not aligned | Partially aligned | **Aligned**

Variation of structural characteristics – ALIGNED
The issuer commits to disclose the structural/financial changes and trigger events in the pre-issuance documentation. The mechanism of structural/financial adjustment(s) may include variation(s) in the coupon or redemption price, with the degree of variation expected to be significant and commensurate with the impact of the trigger event.

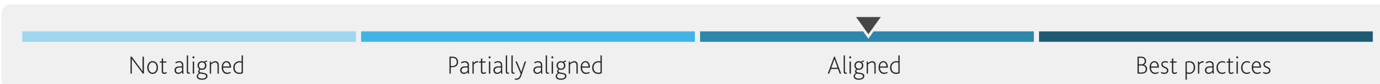
Reporting



Transparency of reporting – ALIGNED

CLCT will disclose the performance of the selected KPI(s) and compare against the relevant SPT(s) once a year, at a minimum, until the last target observation date of the financial instrument. The intended scope and granularity of the reporting include calculation methodologies and the positive impact achieved from working toward the KPI(s) and SPT(s).

Verification

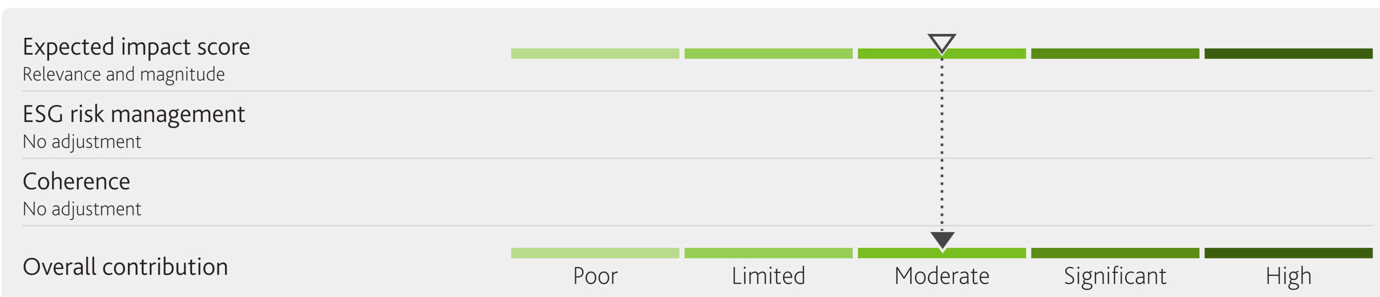


Verification process – ALIGNED

CLCT commits to engage an independent external reviewer for its annual reporting to verify the performance of the KPI(s) against each SPT. The external review will also take place in case of significant changes that may impact the financial instrument's financial and/or structural characteristics. The duration of the verification for bonds is likely to be until the last trigger event, whereas for loans it is expected until the maturity of the loans.

Contribution to sustainability

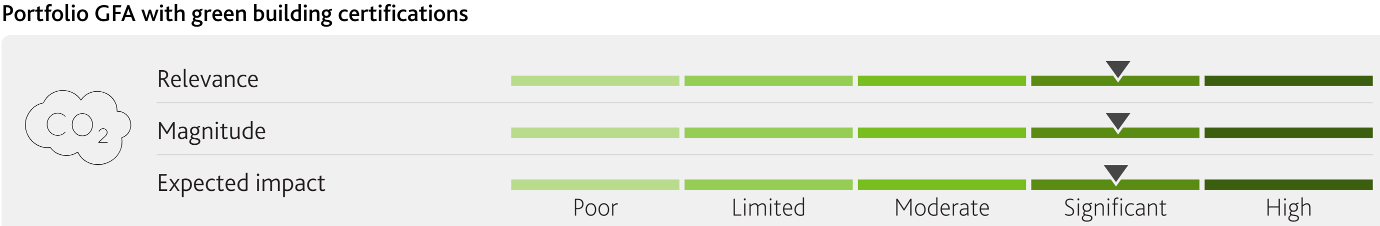
The framework demonstrates a moderate expected contribution to sustainability.



Expected impact

The expected impact of the three KPIs and their SPTs on sustainability objectives is moderate. We assigned weights of 50% to KPI 1, and 25% each to KPIs 2 and 3, based on the frequency with which these three KPIs will be used for future instrument issuances under the framework, as shared by the Issuer. A detailed assessment is provided below.

Portfolio GFA with green building certifications



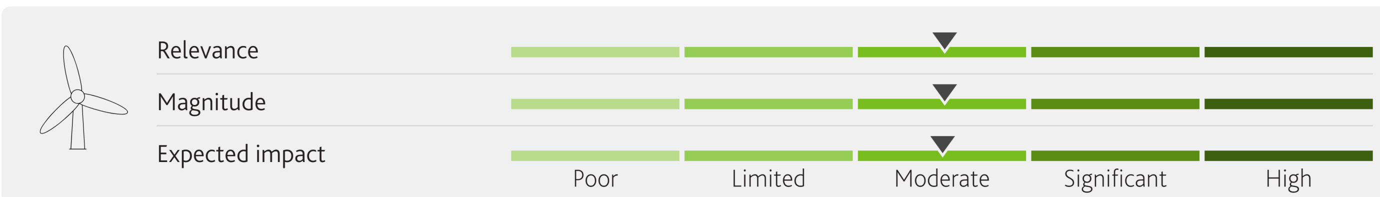
The KPI exhibits significant relevance because the KPI potentially addresses the building sector's key challenge of decarbonization through established proxies. The issuer aims to achieve a minimum green certification level that satisfies CLI's Sustainability Master Plan 2030 targets of LEED Gold, BREAM Excellent, Edge certified and China Green Building Label 2 star rating. The coverage represents 75% of the issuer's business based on total GFA and 89% based on the issuer's AUM. Currently, the issuer has six properties in its portfolio that have achieved LEED Gold. We note that the certifications typically cover diverse topics related to the environmental and social impact of buildings and achieving a minimum required threshold level may not ascertain that the issuer is addressing the most important topics such as emissions reduction. But when setting a higher threshold, such as LEED Gold or above, the certification level sufficiently demonstrates that the issuer is addressing sustainability holistically and covering building emissions performance to meet the threshold level.

The KPI is likely to have significant magnitude because the KPI demonstrates positive improvement compared to both historical performance and sector standards. Achieving green certification for 100% of CLCT's portfolio GFA by 2030 constitutes a positive BaU scenario. The issuer commits to an average increase in GFA certification by 12 percentage points per year over the SPT period until 2030, which is higher than the five-percentage-point annual increase observed in the past three years.

In peer benchmarking, two of the identified peers commit to certify 100% of their portfolios as green buildings over 4 to 8 years timeline. Most of the regional peers have not made any commitments but have disclosed their current portfolio's GFA certification level, with the top five REITs having achieved green building certification on average for 95% of their current portfolios. As such, the Issuer's commitment of achieving 100% of its portfolio GFA with green building certification is broadly in line with the identified industry leaders.

Additionally, the Global Alliance for Buildings and Construction (GABC) proposed a series of targets to decarbonize the global building stock, including building certification for operational performance. Based on the proposed accelerated targets, 20% of all buildings should be certified by 2030 and 60% by 2040. By aiming to achieve green certification for 100% of its GFA by 2030, the issuer exceeds sector expectations.

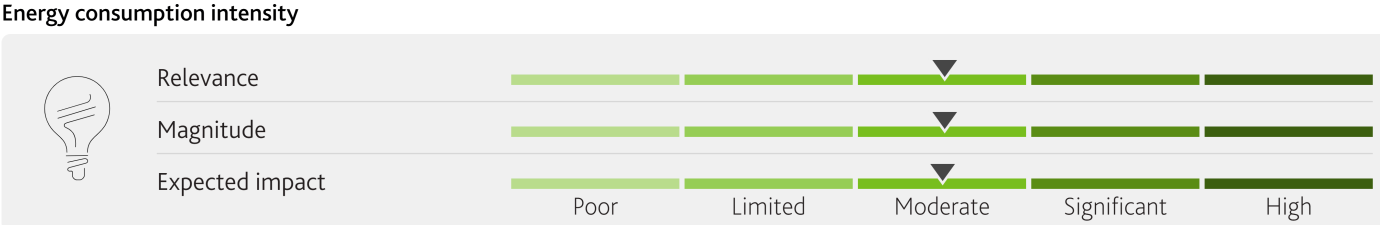
Renewable energy



KPI 2 reflects moderate relevance. While the KPI is important to the decarbonization of the building sector, it mainly addresses the issuer's scope 2, which has limited coverage. Onsite installation is the key activity to achieve renewable energy target, however use of PPAs will be considered to offset any remaining emissions. The issuer's reported GHG emissions only cover operational carbon, which represents around 70% of the total emissions within the building sector, of which the issuer's scope 2 accounts for 30%. The KPI intends to increase renewable energy capacity and procurement, and is considered relevant to the issuer's environmental footprint. Increasing renewables capacity is in line with China's goal of renewable expansion and supports the country's commitment to achieve net-zero target by 2060.

KPI 2 has moderate magnitude. The issuer commits to achieve 20% renewable capacity, a material improvement compared to the historical figures of KPI 2 of 0% for 2019-22. In comparison, one of the peers has committed to achieve 100% renewable capacity by 2035 and another peer has committed to achieve 35% renewable capacity by 2030, where both the targets have a higher ambition than that of the issuer. However, the issuer is faring better than many of its peers that have not made any commitments to increase the use of renewable energy. Overall, the issuer's efforts seem to be above the sector average in terms of disclosing the renewable commitment, while also noting that the targets disclosed are relatively less ambitious than those of the identified peers.

Energy consumption intensity



KPI 3 has moderate relevance given the KPI does not fully reflect scope 3. Massive reduction in emission intensity in the building sector is required, which will be achieved through energy efficiency and electrification of the sector. More than 85% of the buildings need to be zero-carbon ready by 2050, according to International Energy Agency[2]. The issuer intends to improve energy efficiency through various activities including reduction in ventilation, efficient lighting and air-conditioning, and installation of time sensors, and by implementing an IoT platform for monitoring.

KPI 3 has a moderate magnitude. For BaU assessment, the SPT is assessed against the 2019 baseline figure only and does not include the 2020-22 ECI performance in the analysis, as the period was affected by the coronavirus pandemic, which led to lower footfall at the issuer's properties. Compared with the 2019 baseline figure, the SPT points to future improvements.

In comparison, three peers have disclosed their targets to reduce energy intensity by around 1.5 to 2 percentage points per year over 5 to 10 years, while the issuer's target aims to reduce intensity by 1.5 percentage points per year, which is broadly in line with the ambition of some of its leading peers.

One of the sector standards that allows for a benchmarking of this indicator is CBI's eligibility criteria using the relative performance improvement approach, which requires a building asset/portfolio to achieve an improvement in emissions intensity of 30% for a five-year tenor instrument. In comparison, the issuer's commitment of a 12% reduction in energy consumption intensity seems less ambitious, assuming the Issuer's ECI reduction leads to a proportionate reduction in its emissions intensity. We also note, however, that where KPI 3 is used together with KPI 2, which intends to use renewable energy, then the issuer's combined commitments under both KPIs 2 and 3 can potentially be considered in reach of CBI's emissions intensity improvement requirement.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. Because of the nature of the instrument, the proceeds cannot be earmarked. In addition, the selected KPIs intend to address the ESG issues that are related to the issuer's industry.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The coherence of KPIs with the issuer's sustainability strategy is embedded in our analysis of the relevance and magnitude within the "Contribution to sustainability" section.

Appendix 1 - Mapping KPIs to the United Nations' Sustainable Development Goals

The three KPIs included in CLCT's sustainability-linked finance framework are likely to contribute to five of the United Nations' (UN) Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	KPI 2: renewable energy procured/installation	7.2: Increase substantially the share of renewable energy in the global energy mix
	KPI 3: energy consumption intensity	7.3: Double the global rate of improvement in energy efficiency
GOAL 9: Industry, Innovation and Infrastructure	KPI 1: portfolio GFA with green building certifications	9.1: Develop sustainable infrastructure to support economic development and human well-being, focusing on equitable access
GOAL 11: Sustainable Cities and Communities	KPI 1: portfolio GFA with green building certifications	11.1: Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
GOAL 12: Responsible Consumption and Production	KPI 1: portfolio GFA with green building certifications	12.2: Achieve the sustainable management and efficient use of natural resources
GOAL 13: Climate Action	KPI 1: portfolio GFA with green building certifications	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the KPIs and associated sustainability objectives/benefits documented in the issuer's framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of KPIs in CLCT's sustainability-linked finance framework

KPIs	SPTs	Baseline	Track record		SPT observation				
		2019	2022	2023	2026	2027	2028	2029	2030
Portfolio GFA with green building certifications*	Achieve 100% by 2030	0.0%	15.0%	36.0%	60.0%	70.0%	80.0%	90.0%	100.0%
Renewable energy**	Achieve 20% increase by 2030	0.0%	0.0%	0.0%	12.0%	14.0%	16.0%	18.0%	20.0%
Energy consumption intensity*** (kWh/m2/month)	Reduce 12% by 2030	8.61	5.15	8.23	7.95	7.86	7.76	7.67	7.58

*CLI managed properties ex. SJ and logistic
**CLI managed properties ex. SJ
*** CLI managed properties ex. SJ and logistic

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 Science Based Targets: Addressing the challenges of scope 2 emissions reporting

2 IEA: Net Zero by 2025 - A roadmap for the Global Energy Sector

REPORT NUMBER 1377437