

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Revival Of HSR A Potential Bonanza

Jem, LREIT's largest asset which accounts for 59.3% of its portfolio valuation, will benefit from the revival of the HSR. The upcoming HSR, if agreed and constructed, would bring more vibrancy to Jurong Gateway as the second CBD in Singapore. Jem will benefit from an increase in shopper traffic due to patronage of employees working in office buildings nearby and tourists from across the ASEAN region. BUY for its attractive FY23 distribution yield of 6.2%. Target price: S\$0.99.

WHAT'S NEW

- **Warmer ties rekindle HSR.** Prime Minister Ismail Sabri Yaakob has expressed Malaysia's eagerness to revive the 350km Kuala Lumpur (KL)-Singapore High Speed Rail (HSR), which cuts travelling time between KL and Singapore to 90 minutes. If possible, the Malaysians would like to speed up the planning process as Malaysia also wants to establish a HSR between Kuala Lumpur and Bangkok. The HSR could connect Singapore all the way to Bangkok if all three ASEAN countries can reach an agreement.
- Prime Minister Lee Hsien Loong stated that Singapore would be receptive to fresh proposals on the HSR project during a joint press conference with Datuk Seri Ismail to launch the Vaccinated Travel Lane – Land in Dec 21. Since then, the ministries of transport of both Singapore and Malaysia have been in constant dialogue.
- **Terminal station for HSR located near Jem.** The terminal station for the HSR in Singapore would be situated at Jurong Lake District. The 12ha site is currently occupied by Jurong Country Club and is 600m from Jurong East MRT Station, which is served by the North-South and East-West MRT lines. Connectivity will be enhanced when Jurong Region Line Phase 2 is completed in 2027.

STOCK IMPACT

- **Prime beneficiary of the KL-Singapore HSR.** LREIT's newly acquired Jem is located adjacent to the Jurong East MRT Station, which is 600m away from the HSR's terminal station. Jem has become LREIT's largest asset, accounting for 59.3% of portfolio valuation (suburban retail: about 46%, office: about 13%) after LREIT completed the acquisition of the remaining 68.2% stake on 22 Apr 22.
- **Jem will benefit from increased shopper traffic.** The upcoming HSR, if agreed and constructed, would bring more vibrancy to Jurong Gateway as the second CBD in Singapore. Jem will benefit from an increase in shopper traffic brought about by the patronage of employees working in office buildings nearby and tourists from across the ASEAN region.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	79	102	215	221	226
EBITDA	46	60	134	138	142
Operating profit	46	60	134	138	142
Net profit (rep./act.)	(2)	140	93	96	99
Net profit (adj.)	38	36	93	96	99
EPU (S\$ cent)	3.2	2.1	4.1	4.2	4.3
DPU (S\$ cent)	4.7	4.9	5.0	5.1	5.2
PE (x)	25.5	38.9	20.1	19.6	19.2
P/B (x)	1.0	1.0	1.1	1.1	1.1
DPU Yld (%)	5.7	5.9	6.2	6.3	6.4
Net margin (%)	(2.5)	138.1	43.3	43.5	43.9
Net debt/(cash) to equity (%)	25.4	64.4	65.2	66.9	68.6
Interest cover (x)	5.6	3.8	5.5	5.5	5.5
ROE (%)	n.a.	8.4	4.3	4.5	4.7
Consensus DPU (S\$ cent)	n.a.	n.a.	5.0	5.2	5.2
UOBKH/Consensus (x)	-	-	1.01	0.99	1.00

Source: Lendlease Global Commercial REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.82
Target Price	S\$0.99
Upside	+20.7%
(Previous TP)	S\$0.96

COMPANY DESCRIPTION

LREIT invests in stabilised income-producing properties located globally, which are used for retail and/or office purposes. Its portfolio comprises two retail malls 313@Somerset at Orchard Road and Jem at Jurong East in Singapore and Sky Complex with three grade A office buildings in Milan, Italy.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LREIT SP
Shares issued (m):	2,277.1
Market cap (S\$m):	1,867.2
Market cap (US\$m):	1,335.6
3-mth avg daily t'over (US\$m):	4.9

Price Performance (%)

52-week high/low	S\$0.888/S\$0.745			
1mth	3mth	6mth	1yr	YTD
(1.8)	2.5	2.4	(1.7)	(5.6)

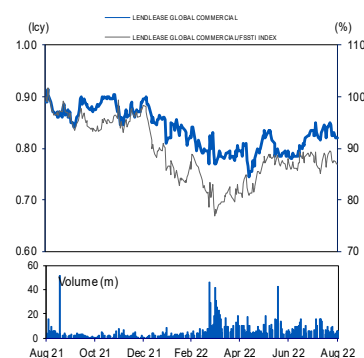
Major Shareholders

Lendlease Corp Ltd	19.5%
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FY23 NAV/Share (S\$) 0.77

FY23 Net Debt/Share (S\$) 0.61

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Benefitting from development of Jurong Gateway as the second CBD.** Jem is a popular suburban mall with shopper traffic at 22m per year and occupancy at 100%. The link bridge connecting Jem to Perennial Business City with NLA of over 1m sf is already completed. Perennial Business City is expected to progressively commence operations in 2022, which will increase the flow of office workers visiting Jem during lunch time and after work.
- Maximising returns from Jem.** The retail component (65% of NLA) achieved positive rent reversion in FY22 and provides annual rental escalation of 3.2%. The suburban mall has an attractive mix of anchor tenants, such as IKEA, FairPrice Xtra, Don Don Donki, H&M, and UNIQLO. The office component (35% of NLA) is fully leased to the Ministry of National Development (MND) under a 30-year lease with mark-to-market rent reviews every five years. With ownership of Jem at 100%, LREIT can generate recurrent savings of S\$5.6m per year from tax transparency.
- Strengthened tenant mix and brand engagement at Jem.** Kopitiam Food Hall has leased 18,000sf of retail space. The new food court is currently undergoing fitting out and will open at Jem in Sep 22. The food court will introduce a new concept of serving all cuisines around Asia in a cosy nature setting. LREIT has converted the seating area at basement 1 into two leasable units (850sf). Management plans to unlock additional NLA at level one (4,600sf) to cater for demand for more retail space. Jem has started to lease its atrium space to increase tenants' brand engagement with shoppers.
- Focusing on expansion in Singapore.** LREIT plans to grow through acquisitions by tapping on the right of first refusal (ROFR) provided by its sponsor. Lendlease Group has a strong presence in Singapore through Paya Lebar Quarter (30% stake) and redevelopment of Comcentre (49% stake). Singapore Telecommunications (Singtel) and Lendlease have entered into a 51:49 JV to redevelop Comcentre at 31 Exeter Road. The new Comcentre comprises two 20-storey buildings with 1,184,000sf of premium grade/Grade A office space and 32,300sf of retail space, including Singtel's new flagship store.

EARNINGS REVISION/RISK

- We maintain our existing DPU forecasts.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price for LREIT of S\$0.99 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2% (previous: 2.0%)).
- LREIT trades at an attractive FY23 distribution yield at 6.2% (CIC: 5.5%, FCT 5.7%, MPACT: 5.7% and SUN: 6.4%).

SHARE PRICE CATALYST

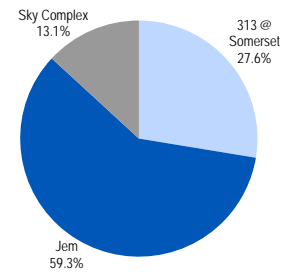
- The cap on group size of 10 persons for dining in at F&B establishments was lifted and all employees were allowed back to their offices since 26 Apr 22. The easing of such measures would increase shopper traffic and tenant sales at 313@Somerset and Jem.
- Reopening of Singapore's international borders with the vaccinated travel framework (VTF) since Apr 22 would bring tourists back to 313@Somerset.

KEY OPERATING METRICS

	1QFY22	2QFY22	3QFY22	4QFY22	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	2.40	n.a.	2.45	4.7%	2.1%
Occupancy	99.8%	99.9%	99.9%	99.8%	0ppt	-0.1ppt
Aggregate Leverage	34.3%	33.5%	27.7%	40.0%	8ppt	12.3ppt
Average Cost of Debt	0.90%	0.92%	0.98%	1.69%	0.81ppt	0.71ppt
Weighted Debt Maturity (years)	2.3	2.0	1.8	2.8	0.6yrs	1yrs
WALE by NLA (years)	8.5	8.4	8.2	8.7	-0.1yrs	0.5yrs

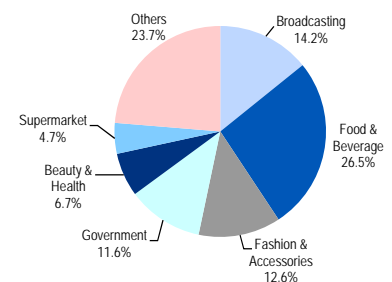
Source: LREIT, UOB Kay Hian * hoh % Chg for DPU.

PORTFOLIO VALUATION BY PROPERTY



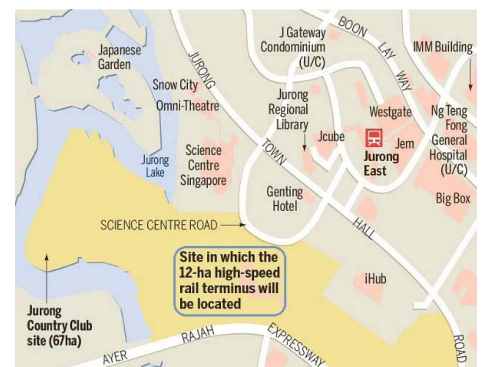
Source: LREIT

TENANT BASE BY GROSS RENTAL INCOME



Source: LREIT

JURONG COUNTRY CLUB SITE



Source: The Straits Times

HSR TERMINAL AT JURONG LAKE DISTRICT



Source: LTA

PROFIT & LOSS

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Net turnover	101.7	214.9	220.7	225.6
EBITDA	59.6	134.1	138.2	141.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	59.6	134.1	138.2	141.6
Associate contributions	4.8	0.0	0.0	0.0
Net interest income/(expense)	(15.8)	(24.2)	(25.3)	(25.7)
Pre-tax profit	152.7	109.9	112.9	115.9
Tax	0.0	0.0	0.0	0.0
Minorities	(1.5)	0.0	0.0	0.0
Preferred dividends	(10.8)	(16.8)	(16.8)	(16.8)
Net profit	140.4	93.1	96.1	99.1
Net profit (adj.)	36.3	93.1	96.1	99.1

CASH FLOW

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Operating	591.9	157.7	141.5	145.1
Pre-tax profit	140.4	93.1	96.1	99.1
Working capital changes	14.5	4.3	0.8	1.0
Non-cash items	(51.9)	20.3	20.6	20.7
Other operating cashflows	488.9	39.9	24.1	24.3
Investing	(2,152.0)	(0.5)	(0.5)	(0.5)
Capex (growth)	(2,151.5)	0.0	0.0	0.0
Capex (maintenance)	(0.5)	(0.5)	(0.5)	(0.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	1,360.1	(150.1)	(142.2)	(145.8)
Distribution to unitholders	(71.5)	(115.0)	(118.1)	(121.3)
Issue of shares	648.8	0.0	0.0	0.0
Proceeds from borrowings	809.6	7.9	20.0	20.0
Others/interest paid	(26.8)	(43.0)	(44.1)	(44.5)
Net cash inflow (outflow)	(200.0)	7.1	(1.3)	(1.3)
Beginning cash & cash equivalent	249.3	49.2	56.3	55.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	49.2	56.3	55.0	53.8

BALANCE SHEET

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Fixed assets	3,599.4	3,599.4	3,599.4	3,599.4
Other LT assets	29.7	15.2	15.2	15.2
Cash/ST investment	49.2	56.3	55.0	53.8
Other current assets	23.6	35.9	36.4	37.0
Total assets	3,702.0	3,706.8	3,706.0	3,705.4
ST debt	297.8	300.0	300.0	300.0
Other current liabilities	56.4	72.9	74.2	75.8
LT debt	1,152.1	1,160.0	1,180.0	1,200.0
Other LT liabilities	17.0	17.0	17.0	17.0
Shareholders' equity	2,174.9	2,153.0	2,131.0	2,108.7
Minority interest	3.8	3.8	3.8	3.8
Total liabilities & equity	3,702.0	3,706.8	3,706.0	3,705.4

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	58.7	62.4	62.6	62.8
Pre-tax margin	150.2	51.1	51.1	51.4
Net margin	138.1	43.3	43.5	43.9
ROA	5.2	2.5	2.6	2.7
ROE	8.4	4.3	4.5	4.7
Growth				
Turnover	29.3	111.4	2.7	2.2
EBITDA	28.3	124.9	3.0	2.5
Pre-tax profit	n.a.	(28.0)	2.7	2.7
Net profit	n.a.	(33.7)	3.2	3.1
Net profit (adj.)	(3.6)	156.6	3.2	3.1
EPU	(34.3)	93.6	2.2	2.2
Leverage				
Debt to total capital	40.0	40.4	40.9	41.5
Debt to equity	66.7	67.8	69.5	71.1
Net debt/(cash) to equity	64.4	65.2	66.9	68.6
Interest cover (x)	3.8	5.5	5.5	5.5

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