COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Makes Progress In Backfilling Building 3 And Locking In Lower Costs

LREIT achieved strong positive rental reversion of 20% for 313@Somerset and >10% for Jem in 3QFY24. Occupancy for its retail properties was stable at 99.4%. Management has secured new electricity tariff contracts for Jem and 313@Somerset, which reduces utilities expenses by 30% or S$4m-5m per year. Rents for the office block at Jem could be adjusted higher by 20% during a rent review at end-24. LREIT provides FY25 distribution yield of 8.7%. Maintain BUY. Target price: S$0.96.

WHAT'S NEW

- Lendlease Global Commercial REIT (LREIT) provided a business update for 3QFY24. Below are the key takeaways.
- **Resilient domestic consumption drives positive rental reversion in Singapore.** LREIT's retail portfolio achieved positive rental reversion of 15.3% on an average vs average basis in 3QFY24 (313@Somerset: 20%, Jem: >10%). It maintained a high committed occupancy of 99.4% (313@Somerset: 98.7%, Jem: 99.7%) and healthy tenant retention of 86.2%. Tenant sales increased 2.6% yoy in 3QFY24 and was 18% above pre-pandemic levels in Mar 24. Essential services accounted for 57% of gross rental income.
- **Upside from higher office rents at Jem.** The lease with the Ministry of National Development, which fully occupies the office block at Jem, is scheduled for a rent review at end-24. Management sees potential for rents to be adjusted higher by 20% compared with levels five years ago.
- **Proactively pursuing cost containment and improving cost efficiency.** Management has secured a two-year electricity tariff contract for Jem and 313@Somerset at a lower rate, which reduces utilities expenses by 30% or S$4m-5m per year for the next two years. The lower electricity tariff kicks in starting Jul 24.
- **Starting to backfill vacant space at Building 3.** Two new tenants (food & beverage and real estate) have committed to 8% of Sky Complex Building 3's NLA at market rents of €300-350psm per year within three months after the lease was restructured, which represents positive rental reversion of about 50%. Thus, occupancy for LREIT's office portfolio improved 1.7ppt qoq to 81.2%. Management sees positive leasing interest from various sectors, including telecommunications, engineering and mining, which implies that occupancy for Building 3 could potentially improve to 50% by end-24.
- **Healthy balance sheet.** Aggregate leverage inched higher by 0.5ppt qoq to 41.0% as of Mar 24 due to a loan drawdown of S$20m to finance capex for Sky Complex Buildings 1 and 2. Average cost of debt was 3.50% in 9MFY24 (3QFY24: 3.75%). Of its total borrowings, 61% is hedged to fixed rates. There is no refinancing due until FY25.

KEY FINANCIALS

Year to 30 Jun (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	102	205	223	214	225
EBITDA	60	131	147	139	147
Operating profit	60	131	147	139	147
Net profit (rep./act.)	140	100	45	56	61
Net profit (adj.)	36	63	66	56	61
EPU (S$ cent)	2.1	2.7	2.9	2.4	2.6
DPU (S$ cent)	4.9	4.7	4.4	4.8	4.8
PE (x)	26.1	20.0	19.1	22.8	21.0
P/B (x)	0.7	0.7	0.7	0.7	0.8
DPU Yld (%)	8.8	8.5	8.0	8.7	8.8
Net margin (%)	138.1	48.8	20.2	26.1	27.3
Net debt/(cash) to equity (%)	64.4	65.4	68.7	73.1	77.5
Interest cover (x)	3.8	2.6	2.4	2.2	2.2
ROE (%)	8.4	4.5	2.0	2.6	2.9
Consensus DPU (S$ cent)	n.a.	n.a.	4.3	4.6	4.7
UOBKH/Consensus (x)	-	-	1.02	1.04	1.03

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

BUY

(Maintained)

Share Price	S$0.55
Target Price	S$0.96
Upside	+74.5%
(Previous TP	*S$0.93)*

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):	2,376.6
Market cap (S$m):	1,307.1
Market cap (US$m):	968.2
3-mth avg daily t'over (US$m):	2.1

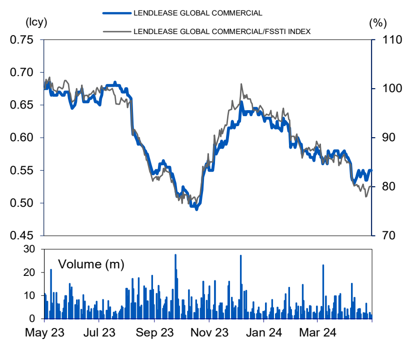
Price Performance (%)

52-week high/low S$0.685/S$0.49

1mth	3mth	6mth	1yr	YTD
(4.3)	(9.8)	(1.8)	(19.7)	(14.7)

Major Shareholders	%
Lendlease Corp Ltd	28.0
FY24 NAV/Share (S$)	0.77
FY24 Net Debt/Share (S$)	0.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Continued recovery in retail rents.** Leasing momentum remained strong in 1Q24 due to resilient consumer spending boosted by the disbursement of CDC vouchers. Demand was driven by food & beverage operators and the proliferation of new-to-market brands. Downtown malls outperformed due to tourism recovery, high-profile concerts, and back-to-office momentum. Vacancy for Orchard Road tightened by 0.6ppt to 8.7% in 4Q23, while vacancy for the suburban market was stable at 3.9%. Thus, rents for Orchard have increased by 5.3% in 1Q24, faster than 2.7% yoy for the suburban market. CBRE expects retail rents to continue to recover in 2024.
- **Multi-functional event space will draw more shopper traffic to 313@Somerset.** Live Nation, the tenant for the multi-functional event space at Grange Road Car Park, has just completed the tender for construction. Construction for the multi-functional event space should commence in 1QFY25. Construction is expected to take 12-18 months. The event space will attract more youths to 313@Somerset.
- **Deploying untapped GFA at 313@Somerset in FY24.** 313@Somerset has untapped GFA of 10,860sf due to an increase in permissible plot ratio from 4.9 to 5.6. It has utilised 660sf to expand leasable space at two prime units on level one leased to Puma (sportswear) and Ohayo Mama San (concept cafe). LREIT is working on deploying the remaining untapped GFA of 10,200sf while minimising disruption to its existing tenants. LREIT will seek approval from the Urban Redevelopment Authority (URA) once its plan for asset enhancement initiative (AEI) is finalised.

EARNINGS REVISION/RISK

- We raise our DPU forecast by 1% for FY25 and by 4% for FY26 due to positive impacts from the rent review at Jem's office block and lower electricity tariff.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$0.96 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

SHARE PRICE CATALYST

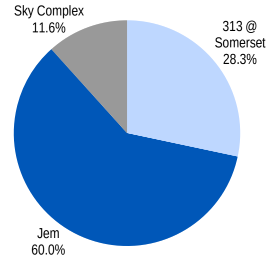
- 313@Somerset benefits from employees returning to their offices in the CBD and tourists flocking back to shop at Orchard Road. The new multi-functional event space at Grange Road Car Park will increase shopper traffic to 313@Somerset.
- Jem benefits from the development of Jurong Gateway as Singapore's second CBD.

KEY OPERATING METRICS – LREIT

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	2.25	n.a.	2.1	n.a.	n.a.	n.a.
Occupancy	99.8%	99.9%	99.9%	87.9%	88.8%	-11ppt	0.9ppt
Aggregate Leverage	39.3%	40.6%	40.6%	40.5%	41.0%	1.7ppt	0.5ppt
Average Cost of Debt	2.51%	2.69%	2.94%	3.37%	3.50%	0.99ppt	0.1ppt
% Borrowings on Fixed Rate	61%	61%	61%	61%	61%	0ppt	0ppt
Weighted Debt Maturity (years)	2.3	2.1	3.1	3.0	2.8	0.5yrs	-0.2yrs
WALE by NLA (years)	8.3	8.2	8.0	7.9	7.8	-0.5yrs	-0.1yrs

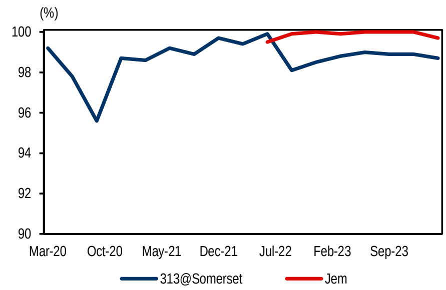
*Source: LREIT, UOB Kay Hian   * hoh % chg for DPU*

PORTFOLIO VALUATION BY PROPERTY



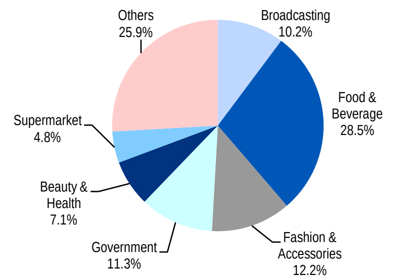
Source: LREIT

OCCUPANCY FOR JEM AND 313@SOMERSET



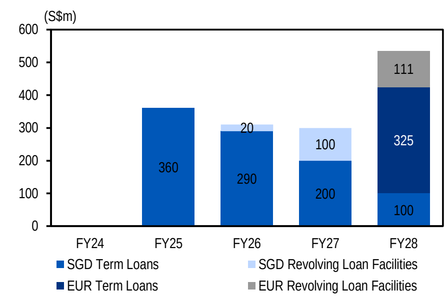
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (MAR 24)



Source: LREIT

DEBT MATURITY PROFILE



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (S$m)	2023	2024F	2025F	2026F
Net turnover	204.9	222.8	214.0	224.9
EBITDA	130.9	146.8	139.4	147.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	130.9	146.8	139.4	147.3
Associate contributions	1.1	0.7	0.0	0.0
Net interest income/(expense)	(50.7)	(62.1)	(64.5)	(67.0)
Pre-tax profit	118.5	64.2	74.9	80.3
Tax	0.0	0.0	0.0	0.0
Minorities	0.4	(0.2)	0.0	0.0
Preferred dividends	(18.9)	(19.0)	(18.9)	(18.9)
Net profit	99.9	45.0	56.0	61.4
Net profit (adj.)	62.6	66.3	56.0	61.4

BALANCE SHEET

Year to 30 Jun (S$m)	2023	2024F	2025F	2026F
Fixed assets	3,650.0	3,669.3	3,673.3	3,677.3
Other LT assets	111.2	99.7	99.7	99.7
Cash/ST investment	54.2	54.9	58.8	55.2
Other current assets	10.9	13.6	13.9	14.2
Total assets	3,826.4	3,837.5	3,845.6	3,846.3
ST debt	433.6	0.0	0.0	0.0
Other current liabilities	58.7	57.7	60.8	63.4
LT debt	1,078.6	1,555.0	1,615.0	1,665.0
Other LT liabilities	24.7	38.9	38.9	38.9
Shareholders' equity	2,228.8	2,183.7	2,128.8	2,076.8
Minority interest	2.0	2.1	2.1	2.1
Total liabilities & equity	3,826.4	3,837.5	3,845.6	3,846.3

CASH FLOW

Year to 30 Jun (S$m)	2023	2024F	2025F	2026F
Operating	174.0	167.3	145.1	152.7
Pre-tax profit	99.9	45.0	56.0	61.4
Working capital changes	16.0	(3.7)	2.7	2.4
Non-cash items	(3.5)	59.0	31.4	31.8
Other operating cashflows	61.6	67.0	55.1	57.1
Investing	(85.8)	(24.0)	(4.0)	(4.0)
Capex (growth)	(87.9)	0.0	0.0	0.0
Capex (maintenance)	(4.6)	(24.0)	(4.0)	(4.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	6.7	0.0	0.0	0.0
Financing	(83.1)	(142.6)	(137.2)	(152.3)
Distribution to unitholders	(67.9)	(100.8)	(110.8)	(113.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	66.8	42.8	60.0	50.0
Others/interest paid	(82.0)	(84.7)	(86.4)	(88.9)
Net cash inflow (outflow)	5.2	0.7	3.9	(3.6)
Beginning cash & cash equivalent	49.2	54.2	54.9	58.8
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	54.2	54.9	58.8	55.2

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	63.9	65.9	65.1	65.5
Pre-tax margin	57.8	28.8	35.0	35.7
Net margin	48.8	20.2	26.1	27.3
ROA	2.7	1.2	1.5	1.6
ROE	4.5	2.0	2.6	2.9
Growth				
Turnover	101.5	8.7	(3.9)	5.1
EBITDA	119.4	12.2	(5.0)	5.7
Pre-tax profit	(22.4)	(45.8)	16.7	7.3
Net profit	(28.8)	(54.9)	24.3	9.7
Net profit (adj.)	72.6	5.8	(15.6)	9.7
EPU	30.2	4.8	(16.4)	8.7
Leverage				
Debt to total capital	40.4	41.6	43.1	44.5
Debt to equity	67.8	71.2	75.9	80.2
Net debt/(cash) to equity	65.4	68.7	73.1	77.5
Interest cover (x)	2.6	2.4	2.2	2.2

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