

## COMPANY RESULTS

### Lendlease Global Commercial REIT (LREIT SP)

2HFY22: Benefitting From Recovery In Retail Sales

LREIT delivered good results with 2HFY22 DPU increasing 4.9% yoy to 2.45 S cents. 313@Somerset achieved positive rental reversion of 3.6% in FY22 and tenant sales exceeded pre-pandemic levels in 4QFY22. Jem contributed as a subsidiary for two months in May and June. Being a pure play on Singapore, LREIT benefits from the reopening of the economy and return of tourists to Orchard Road. LREIT provides an attractive FY23 distribution yield of 6.1%. Maintain BUY. Target Price: S\$0.96.

#### 2HFY22 RESULTS

Year to 30 Jun (S\$m)	2HFY22	yoy % chg	Remarks
Gross Revenue	62.5	+68.6	Acquisition of 68.2% stake in Jem was completed on 22 Apr 22.
Net Property Income (NPI)	45.9	+72.9	313@Somerset achieved positive rental reversion and higher occupancy.
Distributable Income	42.9	+55.6	
DPU (cent)	2.45	+4.9	Number of units increased by 92.8% yoy.

Source: LREIT, UOB Kay Hian

#### RESULTS

- Lendlease Global Commercial REIT (LREIT) reported good results with 2HFY22 DPU increasing 4.9% yoy to 2.45 S cents, which is in line with our expectations.
- 313@Somerset maintained positive rental reversion.** NPI grew 72.9% yoy in 2HFY22 due to accretive acquisition of Jem (acquisition of 68.2% stake completed on 22 Apr 22) and better operating performance from 313@Somerset. 313@Somerset achieved positive rental reversion of 3.6% in FY22 and tenant sales have exceeded pre-pandemic levels in 4QFY22. Occupancy at 313@Somerset improved 0.5ppt qoq to 99.9% in 4QFY22. Jem contributed as a subsidiary in May and June. LREIT's office portfolio, comprising Sky Complex and the office component of Jem, is fully occupied.
- Deploying bonus GFA for new tenancies on prime spaces.** 313@Somerset has untapped GFA of 10,860sf due to the increase in permissible plot ratio from 4.9 to 5.6. LREIT has utilised 660sf of the untapped GFA to expand leasable space at two prime units leased to Puma (sportswear) and Ohayo Mama San (concept cafe). Puma has opened its 7,100sf flagship store, its first in Southeast Asia, at 313@Somerset. The remaining untapped GFA of 10,200sf will be deployed during fit-out periods for new tenants to avoid disruption to the operations of other tenants.
- Strengthened tenant mix and brand engagement at Jem.** Kopitiam Food Hall is currently undergoing fitting out and will open at Jem soon. 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. Jem has started to lease its atrium space to increase tenants' brand engagement with shoppers.
- Sky Complex benefitting from higher inflation.** Sky Complex maintained full occupancy of 100%. It is on a long-term lease to Sky Italia until 2032 and annual rental escalation is based on 75% of the changes in ISTAT consumer price index (CPI). ISTAT CPI increased 6.24% in Apr 22, which translated to rental escalation of 4.68% in May 22. It has long weighted average lease expiry (WALE) of 9.9 years.

#### 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.	5.1	5.3	n.a.
UOBKH/Consensus (x)	-	-	0.99	0.97	-

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

## BUY

(Maintained)

Share Price	S\$0.82
Target Price	S\$0.96
Upside	+17.1%
(Previous TP)	S\$0.95)

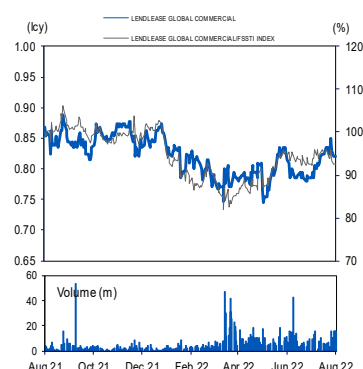
#### COMPANY DESCRIPTION

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 (\$m):	1,867.2			
Market cap (US\$m):	1,353.9			
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
4.5	1.9	1.2	(2.3)	(5.6)
Major Shareholders				%
Lendlease Corp Ltd				26.2
-				-
-				-
FY23 NAV/Share (\$)				0.77
FY23 Net Debt/Share (\$)				0.61

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Gains in valuations.** Valuation for Jem has increased 2.3% to S\$2,134m due to recovery in shopper traffic and tenant sales. Valuation for Sky Complex has increased 18.4% to €3234.5m due to higher market rents. LREIT recognised gains in fair value of investment properties of S\$49.1m in 2HFY22.
- Healthy balance sheet.** Post-acquisition of Jem, aggregate leverage is 40.0% as of Jun 22 (Mar 22: 27.7%). Cost of debt has increased to 1.69% as of Jun 22 (Mar 22: 0.98%) due to issuance of sustainability-linked loans of S\$860m to finance the acquisition of Jem and higher interest rates. LREIT has undrawn bank facilities of S\$257.7m to refinance borrowings of S\$99.3m due in FY23. Sustainable financing accounted for 62% of its total borrowings.
- Sensitivity to higher interest rates.** 59% of the borrowings are hedged to fixed rates. Management estimated that every increase in the base rate of 50bp reduces DPU by 2.8%. We expect cost of debt to reach 1.90% by end-FY23.

### STOCK IMPACT

- Benefitting from reopening in Singapore.** Safe distancing between individuals is no longer required, whether indoors or outdoors since 26 Apr 22. The cap on group size of 10 persons for dining in at F&B establishments was lifted. All employees are allowed back to their workplaces. The substantial easing will improve shopper traffic and tenant sales at 313@Somerset and Jem.
- Welcoming tourists back to 313@Somerset.** The Vaccinated Travel Framework has replaced the Vaccinated Travel Lane scheme since 1 Apr 22 and the requirement for pre-departure COVID-19 tests was abolished on 26 Apr 22. Visitor arrivals to Singapore have surged 30% mom to 543,732 or 35% of pre-pandemic levels in Jun 22. The return of tourists, which typically accounts for 20-25% of shopper traffic, would restore shopper traffic at 313@Somerset back to pre-pandemic levels.
- Maximising returns from Jem.** Jem has become LREIT's largest asset, accounting for 46.8% of asset under management (AUM) after it completed the acquisition of the remaining 68.2% stake on 22 Apr 22. The retail component (65% of NLA) achieved positive rent reversion in FY22 and provides annual rental escalation of 3.2%. 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 is able to generate recurrent savings of S\$5.6m per year from tax transparency.
- Focus on expansion in Singapore.** LREIT plans to grow through acquisitions by tapping on 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). 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 trimmed our existing FY23 and FY24 DPU by 3.1% and 1.3% respectively due to higher interest rates.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$0.96 is based on DDM (cost of equity: 7.25%, terminal growth: 2.0%).

### SHARE PRICE CATALYST

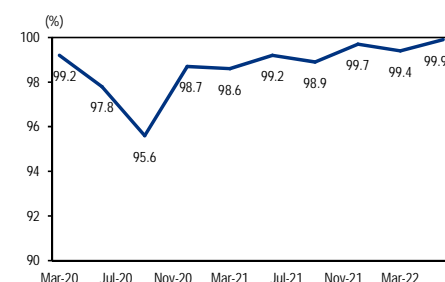
- All employees are allowed to work from their offices since 1 Apr 22, increasing shopper traffic and tenant sales at 313@Somerset and Jem.
- Reopening of Singapore's international borders through the vaccinated travel scheme, which commenced in Apr 22, bringing tourists back to 313@Somerset.

### KEY OPERATING METRICS – LREIT

	1QFY22	2QFY22	3QFY22	3QFY22	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

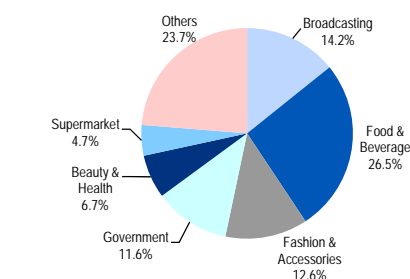
Source: LREIT, UOB Kay Hian \* hoh % chg for DPU

### OCCUPANCY FOR 313@SOMERSET



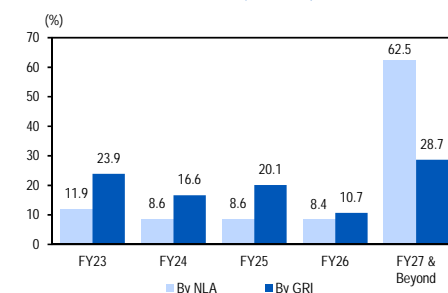
Source: LREIT

### GROSS RENTAL INCOME BY TRADE SECTOR (JUN 22)



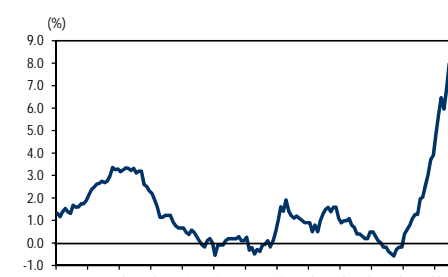
Source: LREIT

### LEASE EXPIRY PROFILE (JUN 22)



Source: LREIT

### CONSUMER PRICE INDEX – ITALY



Source: LREIT

### 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

### 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

### 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

### 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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