

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Enhancing 313@Somerset And Jem; Weathering Higher Cost Of Debts

LREIT will utilise untapped GFA of 10,200sf to progressively add more prime spaces at 313@Somerset. The multi-functional event space will attract more young shoppers when it is operational by end-23. The new Kopitiam Food Hall, which opened on 15 Sep 22, will enhance the mix of anchor tenants at Jem. We cut FY24 DPU by 10% due to higher S\$ interest rates and refinancing of a term loan of €285m in Oct 23. Maintain BUY for an attractive FY23 yield of 6.4%. Target price: S\$0.82.

WHAT'S NEW

- **Deploying untapped 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 under URA Master Plan 2019. Lendlease Global Commercial REIT (LREIT) has utilised 660sf to expand leasable space at two prime units leased to Puma (sportswear) and Ohayo Mama San (concept cafe). Puma opened its 7,100sf flagship store at 313@Somerset in Jul 22, its first in Southeast Asia. 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.
- **Multi-functional event space draws young shoppers to 313@Somerset.** LREIT will redevelop Grange Road Car Park into a multi-functional event space. The space is anchored by Live Nation, a leading live entertainment company listed on the NYSE (ticker: LYV US). The redevelopment provides double-digit ROI with average rent for NLA of 42,000sf at high single-digits. Live Nation will organise 4-5 events per day with an audience of 2,500-3,500 persons per event, which will draw more youth to 313@Somerset. The event space is scheduled to be operational by end-23.
- **Enhancing tenant mix at Jem.** LREIT continues to enhance the retail component of Jem (65% of NLA), which 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. 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 to demand for more retail space. Kopitiam Food Hall with 26 stalls occupying 18,000sf of retail space opened on 15 Sep 22. Jem has also started to lease its atrium space to increase tenants' brand engagement with shoppers.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	79	102	215	223	228
EBITDA	46	60	134	140	143
Operating profit	46	60	134	140	143
Net profit (rep./act.)	(2)	140	84	80	83
Net profit (adj.)	38	36	84	80	83
EPU (S\$ cent)	3.2	2.1	3.7	3.5	3.6
DPU (S\$ cent)	4.7	4.9	4.6	4.4	4.5
PE (x)	22.6	34.4	19.7	20.9	20.3
P/B (x)	0.9	0.9	0.9	1.0	1.0
DPU Yld (%)	6.5	6.7	6.4	6.1	6.3
Net margin (%)	(2.5)	138.1	38.9	35.9	36.4
Net debt/(cash) to equity (%)	25.4	64.4	65.2	66.9	68.6
Interest cover (x)	5.6	3.8	4.0	3.3	3.3
ROE (%)	n.a.	8.4	3.9	3.7	3.9
Consensus DPU (S\$ cent)	n.a.	n.a.	4.8	4.9	5.2
UOBKH/Consensus (x)	-	-	0.97	0.91	0.87

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

BUY

(Maintained)

Share Price	S\$0.725
Target Price	S\$0.82
Upside	+13.1%
(Previous TP)	S\$0.91)

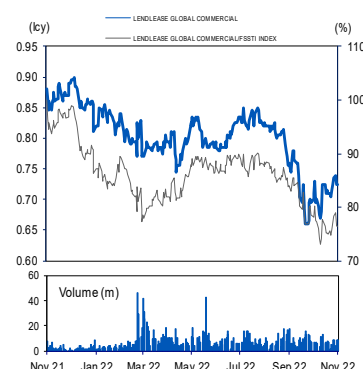
COMPANY DESCRIPTION

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):	2,287.0			
Market cap (\$m):	1,658.1			
Market cap (US\$m):	1,208.5			
3-mth avg daily t'over (US\$m):	4.2			
Price Performance (%)				
52-week high/low				
				\$S0.873/\$S0.660
1mth	3mth	6mth	1yr	YTD
4.3	(11.6)	(9.4)	(14.1)	(16.5)
Major Shareholders				%
Lendlease Corp Ltd				26.2
-				-
-				-
FY23 NAV/Share (\$S)				0.77
FY23 Net Debt/Share (\$S)				0.61

PRICE CHART



Source: Bloomberg

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- **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). Singtel and Lendlease Group 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.

STOCK IMPACT

- **Defensive strength enhanced with acquisition of Jem.** LREIT has become more defensive with suburban retail accounting for 47% of portfolio valuation. It has a high concentration in essential services trades, which accounts for 59% of GRI. It has long WALE of 8.5 years by NLA and 5.5 years by GRI.
- **1QFY23 business update.** LREIT's portfolio committed occupancy remained high at 99.7% (313@Somerset: 98.1%, Jem: 99.9% and Sky Complex: 100.0%) in 1QFY23. It achieved positive rental reversion of 1% for its retail portfolio, comprising 313@Somerset and Jem. Sky Complex achieved rental escalation of 4%. LREIT's tenant retention was healthy at 69%. It has de-risked by reducing leases due for renewal in FY23 from 23.9% to 14.5% of GRI.
- **Completed refinancing for FY23.** Aggregate leverage improved 0.6ppt qoq to 39.4% in 1QFY23. Interest coverage ratio remains healthy at 6.9x, well above minimum levels required by its loan covenants. Average debt maturity is stable at 2.8 years. Unfortunately, average cost of debts has increased 0.55ppt qoq to 2.24% due to; a) higher SGD interest rates, and b) refinancing of term loans of S\$99.3m with a five-year sustainability-linked term loan of S\$100m. 61% of its borrowings are hedged to fixed rates.
- **Rising interest rates in Europe.** European Central Bank (ECB) has increased the interest rate for main refinancing operation by 75bp to 2.00% on 1 Nov 22. ECB President Christine Lagarde appears to be concerned about looming recession in 2023 and the risk of over-tightening. UOB Global Economics & Markets Research expects ECB to hike by 75bp before pausing (50bp on 15 Dec 22 and 25bp on 2 Feb 23), bringing the refinancing rate to 2.75% in 1Q23.

EARNINGS REVISION/RISK

- We cut our DPU forecasts by 5% for FY23 and 10% for FY24 due to higher average cost of debts. We expect LREIT's average cost of debts to reach 3.45% in 2QFY24 due to: a) higher interest rates in Singapore and Europe, and b) we have assumed that term loan of €285.0m (S\$414.8m) would be refinanced at 3.75% in Oct 23.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price for LREIT of S\$0.82 is based on DDM (cost of equity: 7.5%, terminal growth: 2.2%).
- LREIT trades at an attractive FY23 distribution yield at 6.4% (CICT: 5.2%, FCT 6.1%, MPACT: 5.9% and SUN: 6.5%).

SHARE PRICE CATALYST

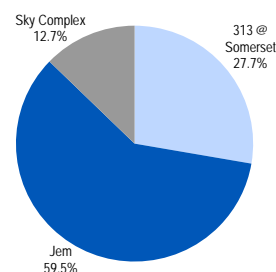
- 313@Somerset benefits from office workers returning to the CBD and tourists back shopping at Orchard Road. The new multi-functional event space constructed on Grange Road Car Park will increase shopper traffic to 313@Somerset.
- Jem benefits from development of Jurong Gateway as Singapore's second CBD.

KEY OPERATING METRICS – LREIT

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	yoy% chg	qoq % chg*
DPU (S cents)	n.a.	2.40	n.a.	2.45	n.a.	n.a.	n.a.
Occupancy	99.8%	99.9%	99.9%	99.8%	99.7%	-0.1ppt	-0.1ppt
Aggregate Leverage	34.3%	33.5%	27.7%	40.0%	39.4%	5.1ppt	-0.6ppt
Average Cost of Debt	0.90%	0.92%	0.98%	1.69%	2.24%	1.34ppt	0.6ppt
Weighted Debt Maturity (years)	2.3	2.0	1.8	2.8	2.8	0.5yrs	0yrs
WALE by NLA (years)	8.5	8.4	8.2	8.7	8.5	0yrs	-0.2yrs

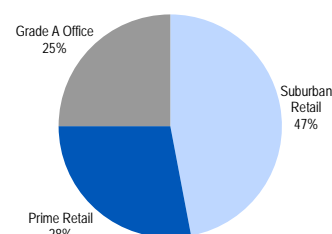
Source: LREIT, UOB Kay Hian * hoh % Chg for DPU.

PORTFOLIO VALUATION BY PROPERTY



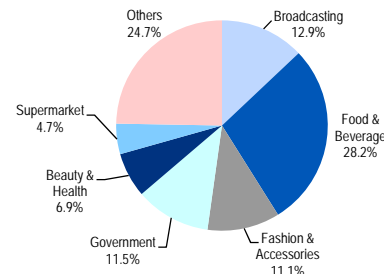
Source: LREIT

PORTFOLIO VALUATION BY ASSET CLASS



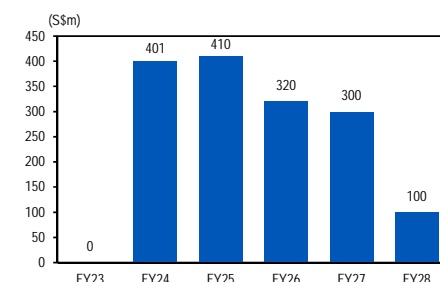
Source: LREIT

TENANT BASE BY GROSS RENTAL INCOME



Source: LREIT

DEBT MATURITY PROFILE



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Net turnover	101.7	215.2	222.6	228.2
EBITDA	59.6	134.3	139.5	143.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	59.6	134.3	139.5	143.4
Associate contributions	4.8	0.0	0.0	0.0
Net interest income/(expense)	(15.8)	(33.7)	(42.8)	(43.5)
Pre-tax profit	152.7	100.6	96.7	99.9
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	83.8	79.9	83.1
Net profit (adj.)	36.3	83.8	79.9	83.1

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	56.4	55.4	59.2
Other current assets	23.6	35.9	36.7	37.4
Total assets	3,702.0	3,706.9	3,706.6	3,711.2
ST debt	297.8	300.0	300.0	300.0
Other current liabilities	56.4	73.0	74.9	76.8
LT debt	1,152.1	1,160.0	1,180.0	1,205.0
Other LT liabilities	17.0	17.0	17.0	17.0
Shareholders' equity	2,174.9	2,153.0	2,130.9	2,108.6
Minority interest	3.8	3.8	3.8	3.8
Total liabilities & equity	3,702.0	3,706.9	3,706.6	3,711.2

CASH FLOW

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Operating	591.9	158.0	143.1	147.0
Pre-tax profit	140.4	83.8	79.9	83.1
Working capital changes	14.5	4.4	1.1	1.1
Non-cash items	(51.9)	20.3	20.6	20.8
Other operating cashflows	488.9	49.4	41.5	42.0
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	(150.3)	(143.6)	(142.7)
Distribution to unitholders	(71.5)	(105.6)	(102.0)	(105.4)
Issue of shares	648.8	0.0	0.0	0.0
Proceeds from borrowings	809.6	7.9	20.0	25.0
Others/interest paid	(26.8)	(52.5)	(61.6)	(62.3)
Net cash inflow (outflow)	(200.0)	7.2	(1.0)	3.8
Beginning cash & cash equivalent	249.3	49.2	56.4	55.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	49.2	56.4	55.4	59.2

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	58.7	62.4	62.7	62.8
Pre-tax margin	150.2	46.7	43.4	43.8
Net margin	138.1	38.9	35.9	36.4
ROA	5.2	2.3	2.2	2.2
ROE	8.4	3.9	3.7	3.9
Growth				
Turnover	29.3	111.7	3.5	2.5
EBITDA	28.3	125.2	3.9	2.8
Pre-tax profit	n.a.	(34.1)	(3.8)	3.3
Net profit	n.a.	(40.3)	(4.6)	4.0
Net profit (adj.)	(3.6)	130.9	(4.6)	4.0
EPU	(34.3)	74.2	(5.5)	3.0
Leverage				
Debt to total capital	40.0	40.4	40.9	41.6
Debt to equity	66.7	67.8	69.5	71.4
Net debt/(cash) to equity	64.4	65.2	66.9	68.6
Interest cover (x)	3.8	4.0	3.3	3.3

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