

COMPANY RESULTS

Lendlease Global Commercial REIT (LREIT SP)

2HFY23: Enlarging Scale In Home Base Singapore

Jem and 313@Somerset achieved rental reversion estimated at +6.1% in 2HFY23 and the positive momentum is expected to sustain into FY24. LREIT will focus on capturing the upside from 313@Somerset due to the tourism recovery and increased shopper traffic from the multi-functional event space at Grange Road Car Park. Management intends to continue expanding in Singapore. LREIT provides attractive FY24 distribution yield of 6.8%. Maintain BUY. Target Price: S\$0.89.

2HFY23 RESULTS

Year to 30 Jun (S\$m)	2H FY23	yoy % chg	Remarks
Gross Revenue	103.1	+65.1	Acquisition of 68.2% stake in Jem was completed on 22 Apr 22.
Net Property Income (NPI)	77.5	+69.0	Jem and 313@Somerset achieved positive rental reversion.
Distributable Income	52.2	+21.6	
DPU (S cent)	2.25	-8.4	Weighted average number of units increased by 37.6% yoy.

Source: LREIT, UOB Kay Hian

RESULTS

- Lendlease Global Commercial REIT (LREIT) reported 2HFY23 DPU of 2.25 S cents (-8.4% yoy), which is in line with our expectations.
- **Retail properties benefiting from recovery in consumption.** 313@Somerset and Jem have maintained high committed occupancy of 99% and 100% respectively as of Jun 23. LREIT achieved positive rental reversion of 4.8% for retail properties in FY23 (1HFY23: 2.0%, 2HFY23: 6.1%). Tenant retention is high at 82.4%. Essential services accounted for 58% of gross rental income. Management expects the positive momentum for rental reversion from its retail properties to be maintained in FY24.
- **Sky Complex benefitting from higher inflation.** Sky Complex in Milan achieved rental escalation of 5.9% effective May 23. 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).
- **Resiliency with stable margins and long WALE.** NPI margin was stable at 75.2% in 2HFY23, which demonstrates LREIT's ability to weather the negative impact from higher cost of utilities. LREIT has long portfolio WALE of 8.2 years by NLA and 5.5 years by GRI as of Jun 23.
- **Rise in capital values anchored by Singapore.** Portfolio valuation has increased by 1.4% yoy to S\$3.7b due to higher market rents and improved sentiment in the retail sector. Valuation for Jem and 313@Somerset increased 2.5% and 4.0% respectively. Valuation for Sky Complex dropped 9.2% as terminal cap rate expanded 75bp to 5.75%.
- **Weathering impact of higher interest rates.** Aggregate leverage was stable at 40.6% as of Jun 23. Weighted average cost of debt inched higher by 0.18ppt qoq to 2.69% in 4QFY23. Interest expense and amortisation of debt-related transaction costs increased 168% yoy. Interest coverage ratio of 4.2x has ample buffer above its debt covenants of 2.0x. 61% of its borrowings are hedged to fixed interest rates.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	102	205	213	218	223
EBITDA	60	131	135	139	143
Operating profit	60	131	135	139	143
Net profit (rep./act.)	140	100	58	59	62
Net profit (adj.)	36	63	58	59	62
EPU (S\$ cent)	2.1	2.7	2.5	2.5	2.6
DPU (S\$ cent)	4.9	4.7	4.6	4.6	4.7
PE (x)	32.0	24.6	27.0	26.7	25.6
P/B (x)	0.9	0.8	0.9	0.9	0.9
DPU Yld (%)	7.2	7.0	6.8	6.8	7.0
Net margin (%)	138.1	48.8	27.1	26.9	27.7
Net debt/(cash) to equity (%)	64.4	65.4	69.1	72.9	76.8
Interest cover (x)	3.8	2.6	2.2	2.2	2.2
ROE (%)	8.4	4.5	2.6	2.7	2.9
Consensus DPU (S\$ cent)	n.a.	n.a.	4.6	4.7	4.8
UOBKH/Consensus (x)	-	-	1.00	0.98	0.98

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

BUY

(Maintained)

Share Price	S\$0.67
Target Price	S\$0.89
Upside	+32.8%
(Previous TP)	S\$0.87)

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):	2,323.7
Market cap (S\$m):	1,556.9
Market cap (US\$m):	1,160.3
3-mth avg daily t'over (US\$m):	3.1

Price Performance (%)

52-week high/low	S\$0.85/S\$0.645			
1mth	3mth	6mth	1yr	YTD
2.3	(2.2)	(8.8)	(19.3)	(5.0)

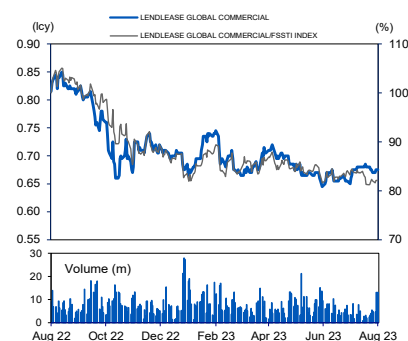
Major Shareholders

Lendlease Corp Ltd	26.3
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FY24 NAV/Share (S\$) 0.77

FY24 Net Debt/Share (S\$) 0.65

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Completed refinancing for Euro loan.** LREIT has obtained a €300m unsecured five-year sustainability-linked loan (drawdown in Oct 23) to refinance its Euro loan due in FY24. It has already met the target set for its sustainability-linked loan and achieved interest savings. The all-in interest rate for the new facility is expected to be low-3%. LREIT does not have any refinancing until FY25.

STOCK IMPACT

- **Retail in recovery mode.** Leasing activities were boosted by new mall openings, such as Woodleigh Mall and Komo Shoppes. Demand was driven by F&B operators (especially cafes), fashion and beauty & health. Retailers have gained confidence due to tourism recovery and the return of office crowds. Rents at Orchard Road and suburban malls increased by 2.9% and 3.1% yoy respectively in 2Q23. CBRE expects a recovery of retail rents in 2023 due to tourism recovery and below-average new retail supply. Retailers are paying higher rents to secure prime retail spaces.
- **Deepens presence in resilient suburban malls.** LREIT has acquired a 10.0% stake in Parkway Parade Partnership, which holds 291 strata lots in Parkway Parade (77.1% of total share value), for S\$88.9m in Jun 23. Parkway Parade is an integrated office and retail development in Marine Parade, which is 8km east of the Central Business District. It is a dominant suburban mall in the East Coast with a vibrant mix of retail and F&B offerings, such as Food Republic, FairPrice Xtra, Harvey Norman, Marks & Spencer and Uniqlo. It is connected to the upcoming Marine Parade MRT station, which is expected to launch in 2024. The property is valued at S\$1,380m.
- **Acquisition is small but accretive.** The acquisition enhances pro forma 1HFY23 DPU by 0.8%. NAV per unit remains unchanged at S\$0.78. LREIT has increased its exposure to resilient suburban malls. It has the flexibility to increase its indirect stake in Parkway Parade over time by exercising its pre-emptive rights.
- **Drawing more young shoppers to 313@Somerset.** Construction for the multi-functional event space at Grange Road Car Park is scheduled to commence in 3Q23 and is expected to be completed by mid-24. The event space is leased to Live Nation, a leading live entertainment company, and will attract more youth to 313@Somerset.
- **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 Grade A office space and 32,300sf of retail space, including Singtel's new flagship store.

EARNINGS REVISION/RISK

- We maintained our existing DPU forecast for FY24 and FY25.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.89 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

SHARE PRICE CATALYST

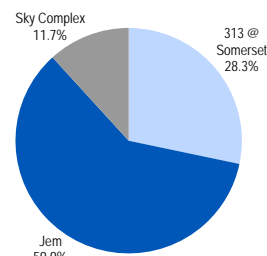
- 313@Somerset benefits from employees returning to their offices in the CBD and tourists flocking back to shop at Orchard Road. The new multi-functional event space at Grange Road Car Park will increase shopper traffic to 313@Somerset.
- Jem benefits from the development of Jurong Gateway as Singapore's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

KEY OPERATING METRICS – LREIT

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	yoy % Chg	qoq % Chg*
DPU (S cents)	2.45	n.a.	2.45	n.a.	2.25	-8.2%	-8.2%
Occupancy	99.8%	99.7%	99.8%	99.8%	99.9%	0.1ppt	0.1ppt
Aggregate Leverage	40.0%	39.4%	39.2%	39.3%	40.6%	0.6ppt	1.3ppt
Average Cost of Debt	1.69%	2.24%	2.35%	2.51%	2.69%	1ppt	0.2ppt
% Borrowings on Fixed Rate	59%	61%	61%	61%	61%	2ppt	0ppt
Weighted Debt Maturity (years)	2.8	2.8	2.6	2.3	2.1	-0.7yrs	-0.2yrs
WALE by NLA (years)	8.7	8.5	8.3	8.3	8.2	-0.5yrs	-0.1yrs

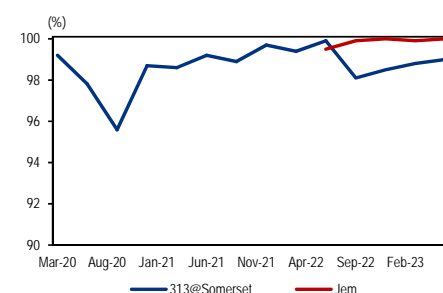
Source: LREIT, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY PROPERTY



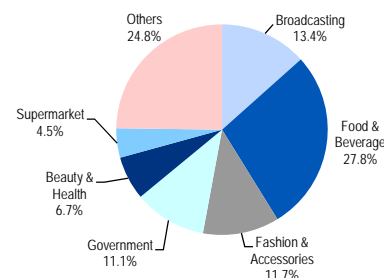
Source: LREIT

OCCUPANCY FOR JEM AND 313@SOMERSET



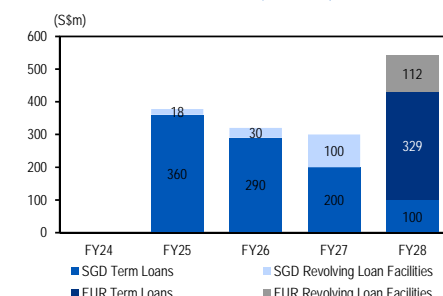
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (DEC 22)



Source: LREIT

DEBT MATURITY PROFILE (DEC 22)



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Net turnover	204.9	212.6	218.0	223.4
EBITDA	130.9	135.4	139.2	143.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	130.9	135.4	139.2	143.1
Associate contributions	1.1	0.0	0.0	0.0
Net interest income/(expense)	(50.7)	(61.0)	(63.8)	(64.4)
Pre-tax profit	118.5	74.4	75.4	78.7
Tax	0.0	0.0	0.0	0.0
Minorities	0.4	0.0	0.0	0.0
Preferred dividends	(18.9)	(16.8)	(16.8)	(16.8)
Net profit	99.9	57.6	58.6	61.9
Net profit (adj.)	62.6	57.6	58.6	61.9

BALANCE SHEET

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,650.0	3,650.0	3,650.0	3,650.0
Other LT assets	111.2	111.2	111.2	111.2
Cash/ST investment	54.2	37.0	20.0	2.9
Other current assets	10.9	12.8	13.0	13.1
Total assets	3,826.4	3,811.0	3,794.2	3,777.2
ST debt	433.6	433.6	433.6	433.6
Other current liabilities	58.7	60.0	61.5	63.0
LT debt	1,078.6	1,110.0	1,140.0	1,170.0
Other LT liabilities	24.7	24.7	24.7	24.7
Shareholders' equity	2,228.8	2,180.7	2,132.4	2,083.9
Minority interest	2.0	2.0	2.0	2.0
Total liabilities & equity	3,826.4	3,811.0	3,794.2	3,777.2

CASH FLOW

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Operating	174.0	137.3	143.0	147.0
Pre-tax profit	99.9	57.6	58.6	61.9
Working capital changes	16.0	(0.6)	1.3	1.4
Non-cash items	(3.5)	21.1	21.3	21.5
Other operating cashflows	61.6	59.2	61.8	62.2
Investing	(85.8)	(0.5)	(0.5)	(0.5)
Capex (growth)	(87.9)	0.0	0.0	0.0
Capex (maintenance)	(4.6)	(0.5)	(0.5)	(0.5)
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)	(154.1)	(159.5)	(163.6)
Distribution to unitholders	(67.9)	(105.7)	(106.9)	(110.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	66.8	31.4	30.0	30.0
Others/interest paid	(82.0)	(79.8)	(82.6)	(83.2)
Net cash inflow (outflow)	5.2	(17.3)	(16.9)	(17.1)
Beginning cash & cash equivalent	49.2	54.2	37.0	20.0
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	54.2	37.0	20.0	2.9

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	63.9	63.7	63.9	64.0
Pre-tax margin	57.8	35.0	34.6	35.2
Net margin	48.8	27.1	26.9	27.7
ROA	2.7	1.5	1.5	1.6
ROE	4.5	2.6	2.7	2.9
Growth				
Turnover	101.5	3.8	2.5	2.5
EBITDA	119.4	3.5	2.8	2.8
Pre-tax profit	(22.4)	(37.2)	1.3	4.3
Net profit	(28.8)	(42.3)	1.7	5.5
Net profit (adj.)	72.6	(8.0)	1.7	5.5
EPU	30.2	(8.9)	0.8	4.6
Leverage				
Debt to total capital	40.4	41.4	42.4	43.5
Debt to equity	67.8	70.8	73.8	77.0
Net debt/(cash) to equity	65.4	69.1	72.9	76.8
Interest cover (x)	2.6	2.2	2.2	2.2

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