

BUY

Last Traded Price (4 Feb 2022): S\$0.850 (STI : 3,331.41)
Price Target 12-mth: S\$1.06 (24% upside) (Prev S\$1.10)

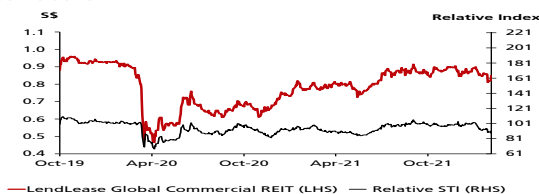
Analyst

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What's New

- 1H22 DPU of 2.40 Scts trends behind estimates
- Eyes peeled for JEM acquisition which will be next on the books with inorganic DPU growth potential
- Softer rent recovery profile at 313@Somerset with anticipation of full rent recovery in FY24, albeit recovery in underlying operating metrics
- Lower TP to S\$1.06; Decent forward yield of 5.6% on current levels with compelling 8% growth in DPU

Price Relative



Forecasts and Valuation

FY Jun (\$m)	2020A	2021A	2022F	2023F
Gross Revenue	55.5	78.7	79.0	88.6
Net Property Inc	40.3	56.9	59.1	65.9
Total Return	(8.6)	(1.3)	50.4	55.6
Distribution Inc	35.7	55.1	56.8	62.4
EPU (S cts)	0.97	2.52	4.19	4.60
EPU Gth (%)	nm	160	66	10
DPU (S cts)	3.04	4.66	4.76	5.21
DPU Gth (%)	nm	53	2	9
NAV per shr (S cts)	83.9	80.3	79.6	78.8
PE (X)	87.6	33.7	20.3	18.5
Distribution Yield (%)	3.6	5.5	5.6	6.1
P/NAV (X)	1.0	1.1	1.1	1.1
Aggregate Leverage (%)	34.0	31.2	37.1	37.4
ROAE (%)	1.2	3.1	5.3	5.8

Distn. Inc Chng (%): (11) (6)
Consensus DPU (S cts): 4.90 5.30
Other Broker Recs: B: 6 S: 0 H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Orchard rents at an inflexion point

Investment Thesis

Aimed for the bull's eye – full control of JEM may happen within a year. We believe that a golden opportunity exists for LREIT to fully acquire JEM mixed development within the coming year. A dominant mall in the West, we see positives from a pivot into the suburban retail space while its SG exposure will increase to 85% (vs 75%) as LREIT emerges as the upcoming Singapore-focused retail play.

An optimal capital structure to drive accretion. We believe that LREIT can digest JEM accretively and our optimal capital structure is to use 75% equity and 25% perpetual securities, bringing accretion of c.0.9% while keeping gearing at an optimal <40%. The inclusion of debt will bring gearing a tad higher to 42%, and accretion may rise to c.6.0%.

Central rents at an inflexion point. Central passing rents continue to be at an inflexion point alongside staggered lease renewals. Bulk of lease expiries in FY23 (c.42% of 313@Somerset by GRI) could be the pulling factor for a sharper normalization in rents in the coming results, which we anticipate full recovery back to above S\$18 psf pm by end FY24 while maintaining current positive reversion rents close to c.+10%.

Valuation:

Maintain BUY, TP S\$ 1.06. Our discounted cash flow valuation factors in (i) 2.0% risk free rate, (ii) 1.0 beta, (iii) 6.31% WACC, and (iv) 2.0% terminal growth to derive a target price of S\$1.06.

Where we differ:

Structured to weather storms. 313@Somerset continues to show resiliency with high tenant retention of c.80% maintained. The Sky Complex lease remains rock solid with a 12-year triple net master lease expiring in 2032.

Key Risks to Our View:

Key risks to our view include the threat of a second wave of COVID-19 in Singapore.

At A Glance

Issued Capital (m shrs)	1,192
Mkt. Cap (S\$m/US\$m)	1,013 / 753
Major Shareholders (%)	
Lendlease SREIT Pty Ltd	23.8
Temasek Holdings Pte Ltd	4.8
Blackrock Inc	4.8
Free Float (%)	66.6
3m Avg. Daily Val (US\$m)	1.7
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Orchard rents at an inflexion point

1H22 DPU of 2.40 Scts trending behind estimates

- LREIT announced 1H22 gross revenue and NPI of S\$39.2m (-5.8% y-o-y) and S\$29.6m (-2.5% y-o-y)
- Distributable income came in higher at S\$28.6m (+3.8% y-o-y) due to contributions c.31.8% stake in JEM which came in on the income from associates line.
- DPU at 2.40 Scts (+2.6 Scts) trends below our full year estimates at 5.34 Scts.
- This was partly contributed by soft performance at 313@Somerset and foreign exchanges losses from Sky Complex.

Improvement in operating metrics at 313@Somerset with additional 660 sqft in retail space

- 313@Somerset achieved a record-high occupancy of 99.7% on a 76% tenant retention ratio.
- Full year tenant sales grew 7.8% y-o-y to S\$166.4m.
- Notable new leases signed during this half include Puma's flagship store lease, which will take over the Mark & Spencer's short term lease, or the anchor retail plot previously occupied by Forever21.
- We understand that leased rents are on-par to rates previously signed by Forever21.
- An additional 660 sqft of retail space has been unlocked at the mall from an increase in plot ratio in two prime ground floor units, expanding total mall NLA to 288,937 sqft.
- Underlying operating metrics continue to improve, with NPI margin back to normalised levels at c.70% this half, an improvement from 2H21 at 61%.
- Rental rebates provided in 1H22 has also decreased close to zero as opposed to c.S\$3m provided in the last financial year.

Eyes peeled for JEM's acquisition in the near horizon

- We believe that the expansion of additional stakes in JEM continues to sit in the near-term horizon.
- Current indirect interest stands at 31.8%, with management looking closer to rapidly ramp up additional stakes in the dominant suburban mixed development.
- The pivot into the suburban retail space will increase local Singapore exposure 85% (from 75%) as LREIT emerges as the upcoming Singapore-focused retail play.

- JEM continues to perform in-line with suburban retail performance, with retail sales normalising ahead of pre-COVID levels.
- With a return to office slowly coming back to effect, transient footfall will likely increase at the mall, given it's prime train connectivity as a major MRT exchange station.

New launches to add vibrancy to Sky Complex submarket Sky Complex continues to provide stable income stream to the portfolio

- Two grade-A office building adjacent to Sky Complex, Spark One and Spark Two will be completed by next quarter (2Q22) and will add more vibrancy to the Milano Santa Giulia submarket.
- Spark One has been c.80% pre-let to a global engineering company, Saipem.

Capital management remains steady and robust

- More than 90% of borrowings hedged on fixed rates
- Gearing ratio remains healthy at 33.5%, with a ICR of 9.7x
- Upcoming refinancing in FY23 at a quantum of c.S\$100m can be refinanced with existing bank facilities, as a result, keeping running cost of debt stable at the current levels of 0.92%.

Current prime retail rents at an inflexion point

- We note that current passing rents continue to be at an inflexion points even as broader tenant sales sees recovery.
- LREIT recorded positive rental reversions in the high single digit range for the period. We estimate current passing rents to be at c.85% of normalised basis (quarter ending Dec'19 post IPO listing) and in line with industry statistics on central Orchard rents.
- Given the staggering of lease renewal and the current pace of reversion rates, recovery in passing rents will likely materialize closer to FY23-24.
- Bulk of the leases at c.42% by GRI at 313@Somerset will be up for renewal in the coming financial year, which we think will be pivotal in locking in higher passing rents for the overall mall, and potentially slower should lease negotiations be ahead.

LendLease Global Commercial REIT

Softening rental estimates at 313@Somerset, new TP of S\$1.06. We have pushed back rental recovery at 313@Somerset in line with current lease expiry profile at the mall, with a 6.4% and 4.8% y-o-y increase in passing rents at the mall to normalized levels at c.S\$18 in FY24. Further acquisitions has not been priced in at, which could potentially see further DPU upside with additional stakes in JEM. New TP of S\$1.06 translates to a decent forward FY22F yield of 5.6% on current price levels and with a compelling 8% y-o-y growth in DPU.

Company Background

Lendlease Global Commercial REIT (LLGCR) was listed on 2 October 2019 as a real estate investment trust with the principal objective of owning in-producing real estate across the globe.

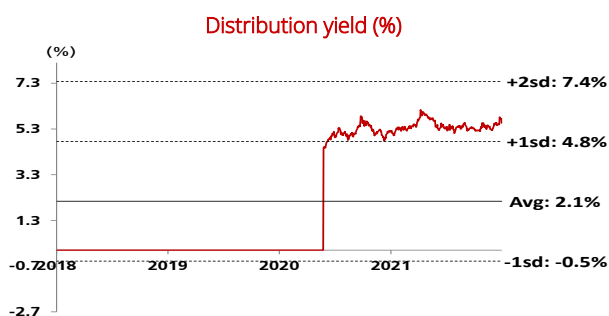
The initial portfolio will comprise full ownership stakes in two assets, namely retail mall 313@somerset (Singapore) and office asset Sky Complex (Italy).

Interim Income Statement (S\$m)

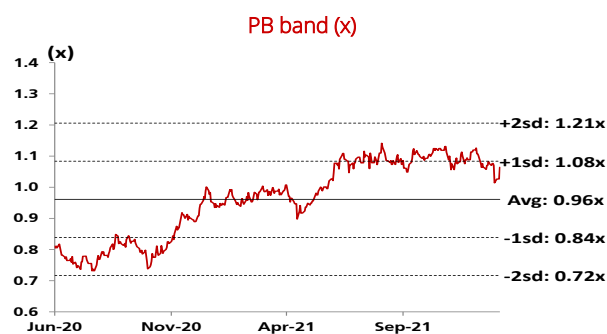
FY Jun	1H2021	2H2021	% chg hoh
Gross revenue	41.6	37.0	(11.0)
Property expenses	(11.2)	(10.5)	(6.2)
Net Property Income	30.4	26.5	(12.7)
Other Operating expenses	(1.5)	(1.2)	(20.5)
Other Non Opg (Exp)/Inc	0.0	1.73	nm
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(5.0)	(5.0)	0.9
Exceptional Gain/(Loss)	(15.5)	7.20	nm
Net Income	4.46	25.5	471.7
Tax	0.0	0.0	-
Minority Interest	0.0	0.0	-
Net Income after Tax	4.46	25.5	471.7
Total Return			
Non-tax deductible Items	23.1	34.0	47.1
Net Inc available for Dist.	27.5	28.2	2.3
Ratio (%)			
Net Prop Inc Margin	73.0	71.6	
Dist. Payout Ratio	100.0	0.0	

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (\$m)

FY Jun	2020A	2021A	2022F	2023F
Gross revenue	55.5	78.7	79.0	88.6
Property expenses	(15.2)	(21.7)	(19.9)	(22.7)
Net Property Income	40.3	56.9	59.1	65.9
Other Operating expenses	(6.8)	(10.4)	(9.0)	(9.3)
Other Non Opg (Exp)/Inc	0.0	1.73	0.0	0.0
Associates & JV Inc	0.0	(9.2)	11.8	13.5
Net Interest (Exp)/Inc	(6.7)	(10.0)	(11.5)	(14.5)
Exceptional Gain/(Loss)	(15.3)	0.93	0.0	0.0
Net Income	11.5	29.9	50.4	55.6
Tax	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	11.5	29.9	50.4	55.6
Total Return	(8.6)	(1.3)	50.4	55.6
Non-tax deductible Items	44.3	57.1	14.7	15.2
Net Inc available for Dist.	35.7	55.1	56.8	62.4
Growth & Ratio				
Revenue Gth (%)	N/A	41.6	0.5	12.1
N Property Inc Gth (%)	nm	41.3	3.8	11.5
Net Inc Gth (%)	nm	160.7	68.5	10.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	72.5	72.4	74.8	74.4
Net Income Margins (%)	20.7	38.1	63.8	62.7
Dist to revenue (%)	64.2	70.1	71.9	70.4
Managers & Trustee's fees	12.3	13.3	11.4	10.5
ROAE (%)	1.2	3.1	5.3	5.8
ROA (%)	0.7	1.7	2.7	3.0
ROCE (%)	2.3	3.2	2.8	3.1
Int. Cover (x)	5.0	4.7	4.4	3.9

Source: Company, DBS Bank

LendLease Global Commercial REIT

Balance Sheet (\$m)

FY Jun	2020A	2021A	2022F	2023F
Investment Properties	1,443	1,420	1,427	1,435
Other LT Assets	14.0	58.4	396	396
Cash & ST Invt	83.7	249	32.5	33.1
Inventory	0.0	0.0	0.0	0.0
Debtors	10.6	6.66	6.66	6.66
Other Current Assets	4.66	2.91	2.91	2.91
Total Assets	1,555	1,737	1,865	1,873
ST Debt	0.0	0.0	0.0	0.0
Creditor	21.8	27.4	5.27	5.91
Other Current Liab	0.32	0.62	0.62	0.62
LT Debt	529	543	693	700
Other LT Liabilities	12.1	9.73	9.73	9.73
Unit holders' funds	992	958	958	958
Minority Interests	0.0	199	199	199
Total Funds & Liabilities	1,555	1,737	1,865	1,873
Non-Cash Wkg. Capital	(6.9)	(18.4)	3.68	3.04
Net Cash/(Debt)	(445)	(293)	(660)	(667)
Ratio				
Current Ratio (x)	4.5	9.2	7.1	6.5
Quick Ratio (x)	4.5	9.2	7.1	6.5
Aggregate Leverage (%)	34.0	31.2	37.1	37.4

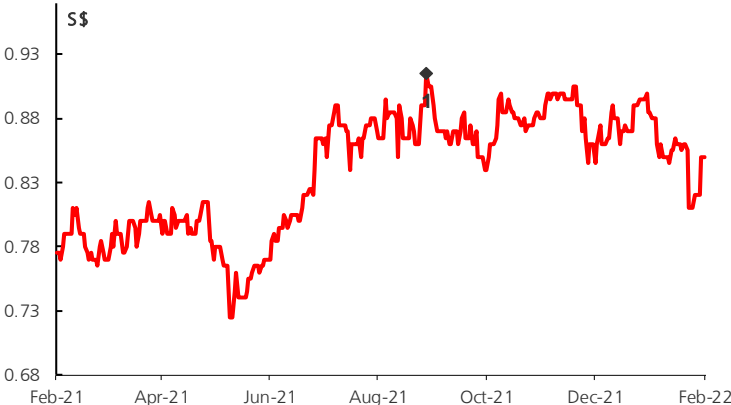
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Jun	2020A	2021A	2022F	2023F
Pre-Tax Income	(8.6)	(1.3)	50.4	55.6
Dep. & Amort.	3.87	5.20	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	0.0	9.22	(11.8)	(13.5)
Chg in Wkg.Cap.	(3.4)	9.72	(22.1)	0.64
Other Operating CF	44.5	43.7	14.7	15.2
Net Operating CF	36.4	66.5	31.2	57.9
Net Invt in Properties	(1,452)	(1.1)	(7.6)	(7.7)
Other Invt (net)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	(337)	0.0
Div from Assoc. & JVs	0.0	0.0	11.8	13.5
Other Investing CF	0.53	(46.1)	0.0	0.0
Net Investing CF	(1,451)	(47.3)	(333)	5.77
Distribution Paid	(15.1)	(48.1)	(56.8)	(62.4)
Chg in Gross Debt	511	0.0	150	7.72
New units issued	1,002	0.0	0.0	0.0
Other Financing CF	0.0	(4.4)	(8.4)	(8.4)
Net Financing CF	1,498	(52.5)	84.9	(63.1)
Currency Adjustments	0.23	0.54	0.0	0.0
Chg in Cash	83.7	(32.8)	(217)	0.64
Operating CFPS (S cts)	3.36	4.78	4.43	4.74
Free CFPS (S cts)	(120)	5.50	1.97	4.15

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Sep 21	0.92	1.19	BUY

Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Bank
Analyst: Geraldine WONG
Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 7 Feb 2022 06:25:24 (SGT)

Dissemination Date: 7 Feb 2022 08:26:03 (SGT)

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LendLease Global Commercial REIT

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