



Lendlease Global Commercial REIT

Room for organic and inorganic growth

SINGAPORE | REAL ESTATE | 2Q22 RESULTS

- 1H22 DPU of 2.40 Scts (+2.6% YoY) was in line, forming 48.4% of our FY22 forecast. DPU was lifted by the acquisition of an additional 28.1% stake in JEM over Aug-Sep21.
- 313@Somerset occupancy at an all-time high of 99.7%, 17% of GRI de-risked with weighted average reversions in high single-digits.
- Gradual deployment of c.11k sq ft from higher plot ratio could lift NPI by 2-3%.
- Maintain ACCUMULATE, DDM target price lowered from S\$0.97 to S\$0.94. FY22e-26e DPUs have been lowered by 1.4-1.9% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$0.97 to S\$0.94 on lower DPU estimates and higher cost of equity of 7.72% assumption (previous 7.66%). Impending acquisition of remaining stake in JEM and deployment of additional GFA at 313@Somerset are catalysts for LREIT.

Results at a glance

S\$ mn	1H22	1H21	YoY	Comments
Gross revenue	39.2	41.7	-6.0%	Lower due to negative reversions at 313@Somerset and lower revenue from Sky Complex due to depreciation of SGD against EUR
Net property income	29.6	30.4	-2.5%	Due to lower property expense from absence of doubtful debt provision and lower marketing, insurance and salary expenses
Distributable income, which includes:	28.6	27.5	3.8%	Higher due to acquisition of additional 28.1% stake in JEM over Aug-Sep21, bringing LREIT's stake in JEM from 3.75% to 31.85%.
Distribution from assoc. (JEM)	7.4	1.7	n.m.	LREIT acquired an effective stake of 3.75% in JEM on 1 Oct 20 (1H22: 31.85%)
DPU	2.40	2.34	2.6%	

Source: Company, PSR

The Positive

+ Higher occupancy, positive reversions and unlocking of GFA at 313@Somerset. 99.7% occupancy at 313@Somerset is at an all-time high, up 1.0ppt YoY. Approximately 20K sq ft of NLA, or 17% of GRI signed in 1H22, reducing FY22 expiries by GRI from 24% to 7%. Leases signed in 1H22 yielded positive, high single-digit reversions, a sharp reversal from negative double-digit reversion seen in FY21. LREIT utilised 660 sq ft out of the 11k sq ft arising from the increase in permissible plot ratio from 4.9x to 5.6x. The unlocked space will be deployed to two stores, Puma and Ohayo Mama San, which are located at prime units on the ground floor. Remixing of tenant mix in earlier quarters has pulled in more shoppers, improving tenants' sales for existing tenants. Tenants were more willing to renew their leases at higher rates given the improvement in tenant sales.

+ Robust portfolio metrics. Interest coverage ratio improved QOQ, from 8.8x to 9.7x (adjusted ICR: 5.0x) with cost of borrowing steady at 0.92%. 90% of borrowing have been hedged in 1H22, lower compared to the 100% hedge employed previously. We understand that this was due to revolving facilities in place, which are usually on floating rates. Gearing improved by 0.8ppts from 34.3% to 33.5%. The management shared that rent in arrears has reduced and is below pre-pandemic levels, crediting the improvement to the rebalancing of tenant mix in favour of tenants that are trading better and have stronger cash flows.

The Negative

- 1H22 revenue dragged down by lower GRI from negative reversions and lower GTO rent from 313@Somerset. YoY decline in turnover rent. 1H22 GRI was c.7% lower YoY due to negative double-digit reversions on 14k sq ft, or 17% of GRI signed at 313@Somerset in FY21.

7 February 2022

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 0.85
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 0.94
TOTAL RETURN	16.6%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	1,192
MARKET CAP (USD mn / SGD mn):	753 / 1013
52 - WK HI/LO (SGD):	0.92 / 0.7
3M Average Daily T/O (mn):	2.69

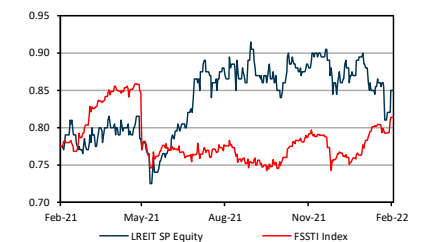
MAJOR SHAREHOLDERS

LENDLEASE SREIT PTY LTD	24.1%
TEMASEK HOLDINGS PTE LTD	4.9%
BLACKROCK INC	4.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(5.6)	(4.0)	(5.0)
STI RETURN	4.8	4.0	6.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY20*	FY21	FY22e	FY23e
Gross Rev (\$m)	55.5	78.7	85.5	89.7
NPI (\$m)	40.3	56.9	64.4	68.1
Dist. Inc. (\$m)	35.7	55.1	58.0	64.7
P/NAV (x)	1.14	1.05	1.06	1.08
DPU (cents)	3.05	4.68	4.87	5.39
Dist. Yield (%)	3.16	5.51	5.73	6.34

*2 October 2019 - 30 June 2020

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.72%; Terminal g: 2%)

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The negative reversions were inevitable given the tenants' market in 2020 and 2021. However, we think that the strategy to prioritise occupancy and refresh 313's tenant mix has paid off. LREIT retained and signed tenants that weathered the pandemic well or are expanding, lifting the vibrancy and positioning of 313@Somerset as a lifestyle and shopping destination. This ensured high occupancy and pricing power for positive reversions in 1H22. 2Q22 tenant sales grew 31.7% QoQ but were 5.1% lower YoY due to tighter restrictions during the Oct-Nov21 period. 1H22 tenants' sales were 9.2% lower YoY, leading to a 30.7% YoY decline in GTO revenue.

Outlook

The remaining 10,200 sqft from the plot ratio uplift will be utilised when there are renewals or changes in tenants to minimise the impact of AEI works on mall vibrancy and recovery of tenants' operations. LREIT intends to deploy the additional space towards prime locations on the lower floors. Once fully deployed, the additional GFA could increase NPI by 2-3%.

Acquisition of an additional 28.1% stake in JEM in Aug-Sep21 brings LREIT's stake to 31.85%. The management is optimistic about acquiring the remaining stake in JEM within the next 12 months and is in discussions with the remaining investors. The remaining stake of JEM carries a valuation of c.S\$1.4bn. Gearing of 33.5% implies a debt headroom of c.S\$150mn.

All three buildings in LREIT's Italian assets, Sky Complex, are 100% leased to Sky Italia, a broadcasting and cable television company. Sky Complex is Sky Italia's headquarters and only office location. The asset is on a long lease that expires in May 2032, with a lease break option in 2024, subject to a one-year notice period. In-place rents are c.30% below market rents, implying possible positive reversions if the lease break is executed.

Maintain ACCUMULATE, DDM target price lowered from S\$0.97 to S\$0.94

FY22e-26e DPUs have been lowered by 1.4-1.9% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$0.97 to S\$0.94 on lower DPU estimates and higher cost of equity of 7.72% assumption (previous 7.66%). Impending acquisition of remaining stake in JEM and deployment of additional GFA at 313@Somerset are catalysts for LREIT. The current share price implies FY22e DPU yields of 5.7%.

Financials

Income Statement

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
Gross revenue	55,536	78,651	85,477	89,722
Property expenses	(15,247)	(21,733)	(21,035)	(21,618)
Net property income	40,289	56,918	64,442	68,104
Net Finance (Expense)/Inc.	(6,709)	(9,989)	(13,065)	(13,331)
Manager's fees	(4,865)	(6,856)	(8,108)	(8,299)
Other items	(12,955)	(12,790)	(3,672)	(3,842)
FV change, derivatives & pptides	(24,376)	(28,622)	13,821	16,107
Share of profit from associate	-	1,731	13,821	16,107
(Loss)/Profit before tax	(8,616)	(1,339)	51,684	58,739
Taxation	-	-	-	-
Net income after Tax	(8,616)	(1,339)	51,684	58,739
P&L adjusted for perps	-	(598)	(8,400)	(8,400)
Distribution adjustments	44,288	57,060	14,764	14,322
Distributable income	35,672	55,123	58,048	64,660

Per unit data

Y/E June	FY20*	FY21	FY22e	FY23e
NAV (S\$)	0.85	0.81	0.80	0.79
DPU (S cents)	3.05	4.68	4.87	5.39

Cash Flow

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
CFO				
P&L after tax	(8,616)	(1,339)	51,684	58,739
Adjustments	48,402	58,126	22,628	21,062
WC changes	(3,420)	9,719	1,799	1,119
Cash generated from ops	36,366	66,506	76,111	80,919

CFI

Acquisition of IP	(1,451,542)	-	-	-
Purchase of equity instrument at FV	-	(45,533)	(347,100)	-
Others	298	(1,756)	(10,849)	(3,049)
Cashflow from investments	(1,451,244)	(47,289)	(357,949)	(3,049)

CFF

Proceeds from issuance of units	1,027,792	-	-	-
Proceeds from issuance of perps	-	200,000	-	-
Loans, net of repayments	514,050	-	145,000	99,300
Distributions to unitholders	(15,067)	(48,145)	(58,048)	(64,660)
Distributions to perp holders	-	-	(8,400)	(8,400)
Others	(28,451)	(6,027)	(6,525)	(6,728)
Cashflow from financing	1,498,324	145,828	72,027	19,512
Net change in cash	83,446	165,045	(209,811)	97,382
Cash at the start of the period	-	83,678	249,264	39,453
FX changes	232	541	-	-
Ending cash	83,678	249,264	39,453	136,835

*2 October 2019 - 30 June 2020

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
ASSETS				
Investment properties	1,442,598	1,419,857	1,420,357	1,434,170
Equity instrument at fair value	-	44,591	391,691	391,691
Others	14,006	13,829	24,229	13,516
Total non-current assets	1,456,604	1,478,277	1,836,277	1,839,377
Trade receivables	10,553	6,664	7,242	7,602
Cash and cash equivalents	83,678	249,264	39,453	37,535
Others	4,663	2,910	2,910	2,910
Total current assets	98,894	258,838	49,605	48,047
Total Assets	1,555,498	1,737,115	1,885,882	1,887,424
LIABILITIES				
Trade payables	21,827	27,393	29,770	31,249
Loans and borrowings	-	-	99,300	437,300
Total current liabilities	22,147	28,016	129,693	469,172
Loans and borrowings	528,999	542,573	594,864	263,518
Others	12,102	9,727	9,727	9,727
Total non-current liabilities	541,101	552,300	604,591	273,245
Total Liabilities	563,248	580,316	734,284	742,417
Net assets	992,250	1,156,799	1,151,598	1,145,007
Represented by:				
Perpetuals	-	198,897	198,897	198,897
Unitholders' funds	992,250	957,902	952,701	946,110

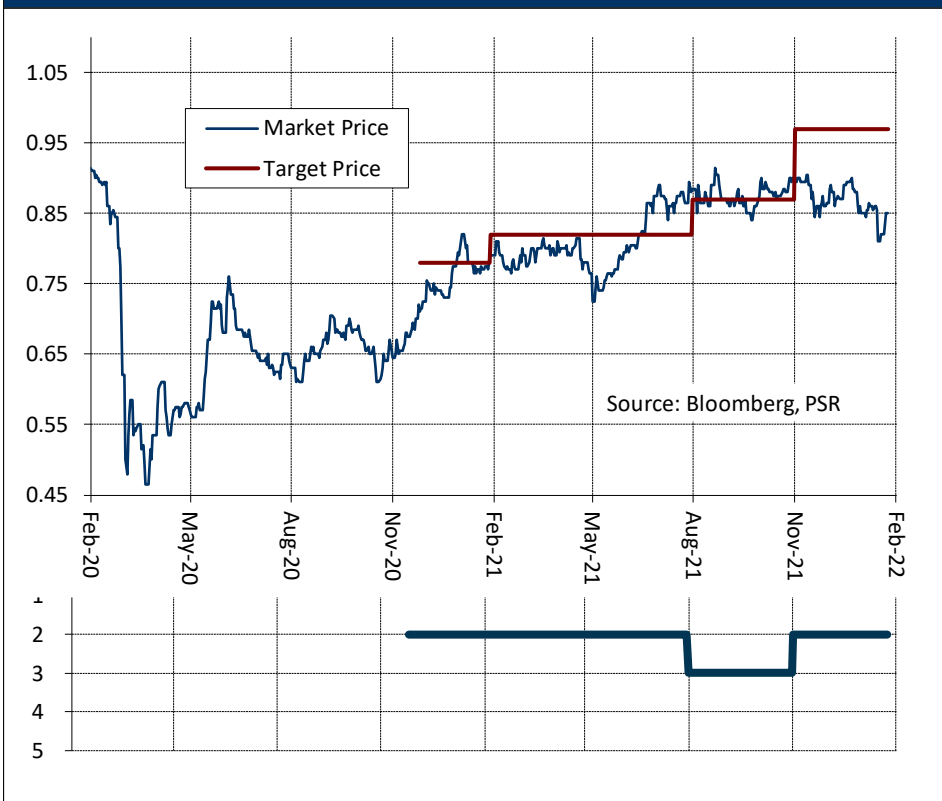
Valuation Ratios

Y/E June	FY20*	FY21	FY22e	FY23e
P/NAV (x)	1.14	1.05	1.06	1.08
Distribution Yield (%)	3.16	5.51	5.73	6.34
NPI yield (%)	2.79	3.98	4.54	4.77

Growth & Margins

Growth				
Revenue	-	41.6%	8.7%	5.0%
Net property income (NPI)	-	41.3%	13.2%	5.7%
Distributable income	-	54.5%	5.3%	11.4%
DPU	-	53.4%	4.1%	10.7%
Margins				
NPI margin	72.5%	72.4%	75.4%	75.9%
Key Ratios				
Net Debt or (Net Cash)	445,321	293,309	555,411	225,983
Gearing	34.0%	31.2%	36.8%	37.1%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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