

### COMPANY UPDATE

## Lendlease Global Commercial REIT (LREIT SP)

Eking Out Mild DPU Accretion

Jem is a dominant suburban mall at Jurong Gateway, the commercial hub of Jurong Lake District. The acquisition has increased AUM by 2.1x to S\$3.6b, of which the resilient suburban retail accounts for the lion's share of 46.8%. By securing full ownership of 100%, LREIT is able to generate tax savings of S\$5.6m per year. It will also benefit from a potential increase in weightage in the FTSE EPRA Nareit Developed Asia Index. FY23 distribution yield is attractive at 6.3%. Maintain BUY. Target Price: S\$1.08.

### WHAT'S NEW

- Expansion to suburban retail through full ownership of Jem.** Lendlease Global Commercial REIT (LREIT) has announced the proposed acquisition of the remaining 68.2% stake in Jem based on agreed property value of S\$2,079m. Jem generated NPI of S\$90.8m and provides NPI yield of 4.4% in FY21 (excluding COVID-19-related one-off rental abatements and expected credit loss).
- Sponsor Lendlease Group stays invested in LREIT.** LREIT will acquire 13.1% stake in Lendlease Asian Retail Investment Fund 3 (ARIF3) from sponsor Lendlease Group for S\$116m to be satisfied by issuance of 142m new LREIT units at S\$0.82. Lendlease Group will also subscribe to its pro rata share in the preferential offering of S\$118m.
- Jem is an integrated office and retail asset located in Jurong Gateway** (touted to be Singapore's second CBD), the commercial hub of the Jurong Lake District. It has direct connectivity to both the Jurong East MRT interchange station and bus interchange and is near amenities, such as the Ng Teng Fong General Hospital. It is one of the largest suburban malls in Singapore with six levels of retail space. Its retail tenants include IKEA, FairPrice Xtra, Cathay Cineplexes, Don Don Donki, Uniqlo and Koufu. Its office component has a long WALE of 24 years. Jem's office component comprises 12 levels of office space fully leased to the Ministry of National Development (MND) under a 30-year lease with a rent review every five years. Jem has committed occupancy of 100%.
- Strong catchment from the estimated population of 1.1m residents.** Jurong Innovation District, a 600ha advanced manufacturing hub, will create over 95,000 new jobs. The first phase would be completed in 2022. The upcoming 700ha Tengah Forest Town is set in lush greenery and will add 42,000 new homes (public housing: 30,000 units, private properties: 12,000 units) upon completion. It has a car-free town centre and 20% of land will be dedicated green spaces. The area will be served by the new Jurong Region MRT Line, which will open in stages from 2027 to 2029.

### KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	56	79	85	219	225
EBITDA	33	46	52	138	142
Operating profit	33	46	52	138	142
Net profit (rep./act.)	(9)	(2)	46	101	105
Net profit (adj.)	27	38	46	101	105
EPU (S\$ cent)	2.3	3.2	3.9	4.2	4.4
DPU (S\$ cent)	3.1	4.7	4.9	5.3	5.3
PE (x)	36.7	26.2	21.3	19.9	19.2
P/B (x)	1.0	1.0	1.0	1.1	1.1
DPU Yld (%)	3.6	5.6	5.8	6.3	6.3
Net margin (%)	(15.5)	(2.5)	54.4	46.1	46.7
Net debt/(cash) to equity (%)	44.9	25.4	58.0	73.0	75.3
Interest cover (x)	5.0	5.6	4.9	4.8	4.9
ROE (%)	n.a.	n.a.	4.0	6.3	5.2
Consensus DPU (S\$ cent)	n.a.	n.a.	4.9	5.3	5.4
UOBKH/Consensus (x)	-	-	0.99	1.00	0.98

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

## BUY

(Maintained)

Share Price	S\$0.84
Target Price	S\$1.08
Upside	+28.6%
(Previous TP)	S\$1.03

### COMPANY DESCRIPTION

LREIT invests in stabilised income-producing properties globally, which are used for retail and/or office purposes. Its initial portfolio comprises 313@Somerset at Orchard Road in Singapore and Sky Complex in Milan, Italy.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LREIT SP
Shares issued (m):	1,191.6
Market cap (S\$m):	1,001.0
Market cap (US\$m):	743.6
3-mth avg daily t'over (US\$m):	1.7

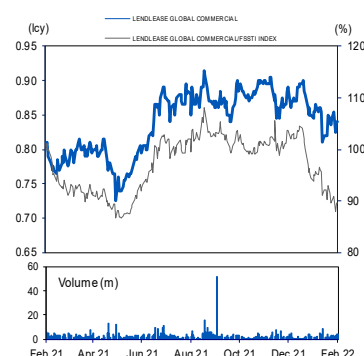
### Price Performance (%)

52-week high/low	S\$0.915/S\$0.725			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.2)	(6.1)	(5.1)	3.7	(6.1)

### Major Shareholders

Lendlease Corp Ltd	26.5%
FY22 NAV/Share (S\$)	0.80
FY22 Net Debt/Share (S\$)	0.56

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Becoming more diversified and resilient.** The proposed acquisition expands LREIT's AUM by 2.1x to S\$3.6b. The resilient and defensive suburban retail will account for 46.8% of the enlarged portfolio compared to 16.3% based on the existing 31.8% effective stake. In terms of trade sector mix, the acquisition increases the exposure to essential services and non-discretionary trade from 52% to 59% of gross rental income. The government through the Ministry of National Development accounted for 12% of gross rental income. Portfolio WALE also improves from 8.4 to 8.9 years.
- Benefitting from tax transparency.** LREIT attains tax transparency by owning 100% of Jem. It will be able to generate recurrent tax savings of S\$5.6m per annum.
- Squeezing out yield accretion.** The acquisition is accretive to pro forma 1HFY22 DPU by 3.6% (excluding COVID-19-related one-off rental abatements and expected credit loss incurred by Jem). Pro forma NAV per share as of Dec 21 is slightly reduced by 1.2% to S\$0.80. The calculation assumes equity fund raising (EFR) with issuance of 1,025m new units at S\$0.82 to raise S\$837m.
- Target completion by Jun 22.** EGM will be held on 7 Mar 22 to seek unitholders' approval for the proposed acquisition of the remaining 68.2% effective interest in Jem. LREIT will also seek unitholders' approval for the issuance of 1,265.3m new units through private placement and non-renounceable preferential offering.
- Focusing on expansion in Singapore.** LREIT will increase its exposures to other gateway cities through ROFR provided by its sponsor. Lendlease Group has a strong presence in Singapore through Paya Lebar Quarter (30% stake) and Parkway Parade (10.2% stake). It also has long-standing presence in Australia, Asia (Singapore, Malaysia, China and Japan), Europe (Italy and the UK) and the US.

### EARNINGS REVISION/RISK

- Sizeable ERF.** We assumed EFR of 1,025m new units at S\$0.80 each and additional S\$-denominated bank borrowings of S\$828m at interest rate of 2.2%. The funding mix between debt and equity is 47:53. We raised our existing FY23 DPU forecast by 0.6%.

### VALUATION/RECOMMENDATION

- More uncertainties as acquisition is sizeable.** Financial markets have become choppy. Execution risk for completing the acquisition has increased.
- Maintain BUY.** Our target price of S\$1.08 is based on DDM (cost of equity: 6.0%, terminal growth: 1.2% (previous: 1.0%)).

### SHARE PRICE CATALYST

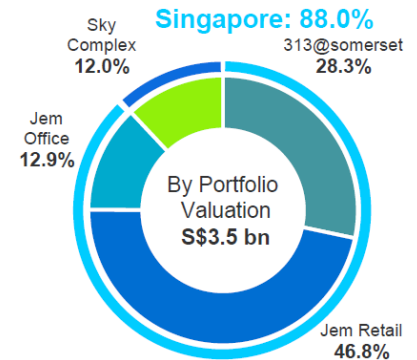
- Larger market cap and free float and higher trading liquidity leading to higher weightage in the FTSE EPRA Nareit Developed Asia Index.
- 50% of employees allowed to work from their offices since 1 Jan 22, which increased shopper traffic and tenant sales at downtown malls, such as 313@Somerset.
- Gradual reopening of Singapore's international border to tourists with addition of more vaccinated travel lanes (VTL) and increase of VTL quota in 2H22 and 2023.

### PROPERTY DETAILS – JEM

GFA	1,164,336sf
NLA	892,502sf
Committed Occupancy	100.0%
Weighted Average Lease Expiry (years)	5.9 by GRI 9.2 by NLA
Independent Valuations (as at 31 Dec 21)	JLL: \$2,086m (\$\$2,337psf) CBRE: \$2,063m (\$\$2,311psf)
Agreed Property Value	S\$2,079m
Capitalisation Rate	Retail: 4.5% Office: 3.5%
Title	Leasehold of 99 years commencing 27 Sep 10
NPI (FY2021)	S\$90.8m (exclude COVID-19 related one-off rental abatement and expected credit loss)
NPI Yield Based on Agreed Property Value (FY2021)	4.4% (lower at 4.0% if we include COVID-19 related one-off rental abatement and expected credit loss)

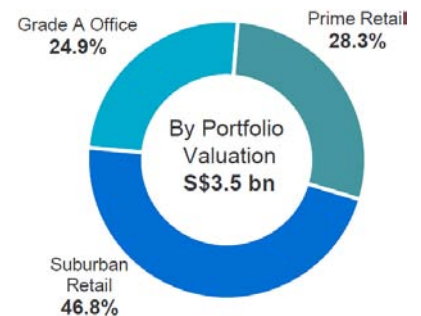
Source: LREIT

### PORTFOLIO DIVERSIFICATION & RESILIENCY



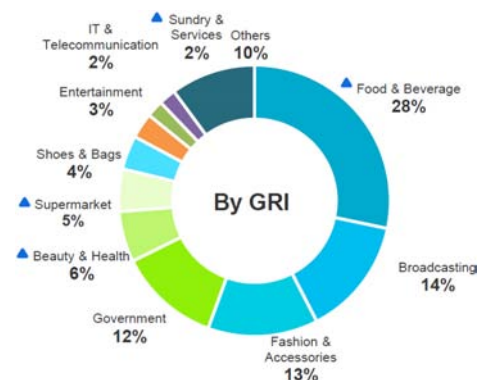
Source: LREIT

### RESILIENCY FROM EXPOSURE TO SUBURBAN RETAIL



Source: LREIT

### DIVERSIFIED TRADE SECTOR MIX



Source: LREIT

### PROFIT & LOSS

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Net turnover	78.7	85.4	218.7	225.2
EBITDA	46.5	52.2	137.9	142.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	46.5	52.2	137.9	142.4
Associate contributions	0.0	13.8	0.0	0.0
Net interest income/(expense)	(8.3)	(10.7)	(28.7)	(28.8)
Pre-tax profit	(1.3)	55.4	109.2	113.6
Tax	0.0	(0.6)	0.0	0.0
Preferred dividends	(0.6)	(8.4)	(8.4)	(8.4)
Net profit	(1.9)	46.5	100.8	105.2
Net profit (adj.)	37.6	46.5	100.8	105.2

### CASH FLOW

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>66.5</b>	<b>94.8</b>	<b>159.6</b>	<b>145.6</b>
Pre-tax profit	(1.9)	46.5	100.8	105.2
Working capital changes	6.2	(8.0)	19.3	0.6
Non-cash items	42.5	10.6	20.5	20.7
Other operating cashflows	19.8	45.7	19.1	19.0
<b>Investing</b>	<b>(47.3)</b>	<b>(389.8)</b>	<b>(1,762.7)</b>	<b>(0.5)</b>
Capex (growth)	(45.8)	(389.3)	(2,145.0)	0.0
Capex (maintenance)	(1.1)	(0.5)	(0.5)	(0.5)
Proceeds from sale of assets	0.0	0.0	382.8	0.0
Others	(0.3)	0.0	0.0	0.0
<b>Financing</b>	<b>145.8</b>	<b>130.1</b>	<b>1,600.8</b>	<b>(140.7)</b>
Distribution to unitholders	(48.1)	(57.2)	(126.8)	(131.4)
Issue of shares	0.0	0.0	933.6	0.0
Proceeds from borrowings	200.0	207.4	833.0	30.0
Others/interest paid	(6.0)	(20.1)	(39.1)	(39.2)
Net cash inflow (outflow)	165.0	(164.9)	(2.3)	4.4
Beginning cash & cash equivalent	83.7	249.3	84.4	82.1
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	249.3	84.4	82.1	86.5

### BALANCE SHEET

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,425.4	1,441.9	3,586.9	3,586.9
Other LT assets	52.9	391.1	8.3	8.3
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	249.3	84.4	82.1	86.5
Other current assets	9.6	14.7	32.5	33.1
<b>Total assets</b>	<b>1,737.1</b>	<b>1,932.0</b>	<b>3,709.7</b>	<b>3,714.7</b>
Other current liabilities	28.0	25.2	62.3	63.5
LT debt	542.6	750.0	1,583.0	1,613.0
Other LT liabilities	9.7	9.7	9.7	9.7
Shareholders' equity	1,156.8	1,147.1	2,054.7	2,028.5
<b>Total liabilities &amp; equity</b>	<b>1,737.1</b>	<b>1,932.0</b>	<b>3,709.7</b>	<b>3,714.7</b>

### KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	59.1	61.2	63.0	63.2
Pre-tax margin	(1.7)	64.9	49.9	50.4
Net margin	(2.5)	54.4	46.1	46.7
ROA	n.a.	2.5	3.6	2.8
ROE	n.a.	4.0	6.3	5.2
<b>Growth</b>				
Turnover	41.6	8.6	156.1	3.0
EBITDA	38.9	12.4	163.9	3.3
Pre-tax profit	n.a.	n.a.	97.1	4.0
Net profit	n.a.	n.a.	117.0	4.4
Net profit (adj.)	40.6	23.4	117.0	4.4
EPU	40.4	22.7	7.3	3.4
<b>Leverage</b>				
Debt to total capital	31.9	39.5	43.5	44.3
Debt to equity	46.9	65.4	77.0	79.5
Net debt/(cash) to equity	25.4	58.0	73.0	75.3
Interest cover (x)	5.6	4.9	4.8	4.9

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