

COMPANY RESULTS

Lendlease Global Commercial REIT (LREIT SP)

1HFY22: Continual Enhancement Of 313@Somerset

313@Somerset achieved high single-digit positive rental reversion in 1HFY22. The mall downtown has utilised 660sf of untapped GFA to expand leasable space at two prime units at the ground floor leased to Puma (sportswear) and Ohayo Mama San (concept cafe). The redevelopment of Grange Road car park into a multi-functional event space is expected to be operational by early-23. LREIT provides an attractive distribution yield of 6.2% for FY23. Maintain BUY. Target Price: S\$1.03.

1HFY22 RESULTS

Year to 30 Jun (S\$m)	1HFY22	yoy % chg	Remarks
Gross Revenue	39.2	-5.8	Lower contributions from 313@Somerset and Sky Complex.
Net Property Income (NPI)	29.6	-2.5	Absence of provisions for doubtful debts of S\$1.5m in 1HFY21
Share of Profits from Associates	7.4	n.m.	Maiden contribution from Jem.
Distributable Income	28.6	+3.8	
DPU (cent)	2.40	+2.6	

Source: LREIT, UOB Kay Hian

RESULTS

- Lendlease Global Commercial REIT (LREIT) reported DPU of 2.40 S cents for 1HFY22 (+2.6% yoy), which is in line with our expectations.
- Revenue headwinds from COVID-19 pandemic and weak Euro.** Gross revenue and NPI declined 5.8% and 2.5% yoy respectively. Contribution from 313@Somerset was affected by double-digit negative rental reversion incurred in FY21. Contribution from Sky Complex was affected by the sharp 5% yoy depreciation of the Euro against the Singapore dollar. Property operating expenses dropped 14.9% yoy primarily due to an absence of provisions for doubtful debts of S\$1.5m incurred in 1HFY21.
- 313@Somerset saw continued recovery in occupancy.** LREIT's portfolio occupancy reached an all-time high at 99.9%. Occupancy at 313@Somerset improved 0.8ppt qoq to 99.7% in 2QFY22. Sky Complex maintained full occupancy of 100%.
- Rental reversion for 313@Somerset turned around to positive territory.** LREIT achieved a high single-digit positive rental reversion in 1HFY22. LREIT strengthened the tenancy mix and refreshed new offerings to rejuvenate 313@Somerset. New tenants include Oakley (sports equipment), Pearly Lustre (jewellery), Chimi's (Mexican food) and Ramburger (western food). 313@Somerset has a high tenant retention rate of 75.8%. Only 2% of the portfolio's total NLA is due for renewal for 2HFY22.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	56	79	85	91	94
EBITDA	33	46	52	57	59
Operating profit	33	46	52	57	59
Net profit (rep./act.)	(9)	(2)	44	52	54
Net profit (adj.)	27	38	44	52	54
EPU (S\$ cent)	2.3	3.2	3.7	4.4	4.5
DPU (S\$ cent)	3.1	4.7	4.7	5.3	5.3
PE (x)	37.2	26.5	22.8	19.4	18.7
P/B (x)	1.0	1.0	1.1	1.1	1.1
DPU Yld (%)	3.6	5.5	5.5	6.2	6.2
Net margin (%)	(15.5)	(2.5)	51.7	57.1	57.6
Net debt/(cash) to equity (%)	44.9	25.4	58.1	59.5	61.1
Interest cover (x)	5.0	5.6	4.9	5.1	5.3
ROE (%)	n.a.	n.a.	3.8	4.6	4.8
Consensus DPU (S\$ cent)	n.a.	n.a.	4.9	5.3	5.4
UOBKH/Consensus (x)	-	-	0.95	1.00	0.98

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

BUY

(Maintained)

Share Price	S\$0.85
Target Price	S\$1.03
Upside	+21.2%

COMPANY DESCRIPTION

LREIT invests in stabilised income-producing properties located 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):	1,012.9
Market cap (US\$m):	753.6
3-mth avg daily t'over (US\$m):	1.7

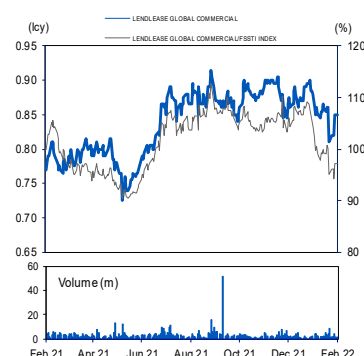
Price Performance (%)

52-week high/low	S\$0.915/S\$0.725			
1mth	3mth	6mth	1yr	YTD
(5.6)	(4.0)	(3.4)	10.4	(5.0)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Deploying bonus 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. LREIT has utilised 660sf of the untapped GFA to expand leasable space at two prime units at the ground floor leased to Puma (sportswear) and Ohayo Mama San (concept cafe). 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.
- Sky Complex: Providing income stability.** Sky Complex is on a long lease term to Sky Italia until 2032 and annual rental escalation is based on 75% of the changes in ISTAT consumer price index. It provides income stability due to long weighted average lease expiry (WALE) of 10.4 years.
- Maiden contribution from Jem.** LREIT has a 31.8% interest in Jem. It contributed profits of S\$7.4m. Jem added new tenants Fruit Paradise, Home & Giving, Anothersole and Sunday Staples. Jem's office component is 100% leased to the Ministry of National Development on a 30-year lease.
- Healthy balance sheet.** LREIT has a low aggregate leverage of 33.5%. About two-thirds of borrowings is denominated in the Euro, which provides a natural hedge and keeps weighted cost of debt low at 0.92%. LREIT have no refinancing till FY23. More than 90% of the borrowings is hedged to fixed rates.

STOCK IMPACT

- Redevelopment of car park draws shopper traffic to 313@Somerset.** Construction for the redevelopment of Grange Road Car Park into a multi-functional event space commenced at end-21. 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 expected to be operational by early-23.
- Acquiring the remaining 68.2% stake in Jem.** The two funds Lendlease Jem Partners Fund (LLJP) and Asia Retail Investment Fund 3 (ARIF3) have reached their liquidity window this year whereby its investors have to decide whether to hold or divest Jem. Being the largest investor in both LLJP and ARIF3, LREIT has significant influence over the decision. LREIT plans to acquire the remaining 68.2% stake in Jem worth S\$1.2-1.4b within the next 12 months.

EARNINGS REVISION/RISK

- We maintained our existing DPU forecast.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.03 is based on DDM (cost of equity: 6.0%, terminal growth: 1.0%).

SHARE PRICE CATALYST

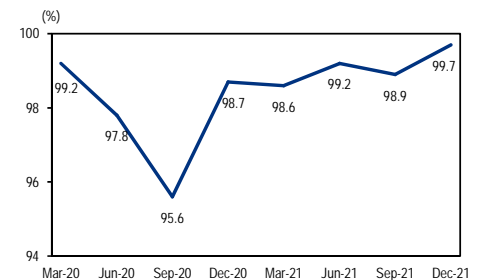
- 50% of employees have been allowed to work from their offices since 1 Jan 22, resulting in an increase in shopper traffic and tenant sales at downtown malls, such as 313@Somerset.
- Gradual reopening of Singapore's international border to tourists with addition of more vaccinated travel lanes (VTL) and increase in VTL quota in 2022 and 2023.

KEY OPERATING METRICS – LREIT

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.34	n.a.	2.34	n.a.	2.40	2.6%	2.6%
Occupancy	99.0%	99.7%	99.7%	99.8%	99.8%	99.9%	0.2ppt	0.1ppt
Aggregate Leverage	35.6%	35.5%	35.4%	32.0%	34.3%	33.5%	-2ppt	-0.8ppt
Average Cost of Debt	0.86%	0.88%	0.88%	0.88%	0.90%	0.92%	0.04ppt	0.02ppt
Weighted Debt Maturity (years)	2.8	2.7	2.4	2.2	2.3	2.0	-0.7yrs	-0.3yrs
WALE by NLA (years)	9.5	9.3	9.0	8.8	8.5	8.4	-0.9yrs	-0.1yrs

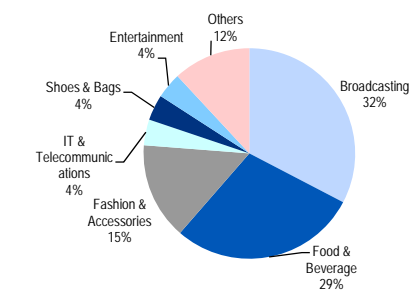
Source: LREIT, UOB Kay Hian

OCCUPANCY FOR 313@SOMERSET



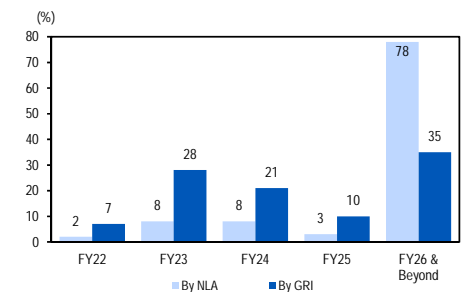
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (DEC 21)



Source: LREIT

LEASE EXPIRY PROFILE (DEC 21)



Source: LREIT

EVENT SPACE AT GRANGE ROAD CAR PARK



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Net turnover	78.7	84.9	91.0	94.5
EBITDA	46.5	51.9	56.8	59.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	46.5	51.9	56.8	59.3
Associate contributions	0.0	11.5	15.4	15.4
Net interest income/(expense)	(8.3)	(10.7)	(11.2)	(11.2)
Pre-tax profit	(1.3)	52.8	61.0	63.4
Tax	0.0	(0.5)	(0.6)	(0.6)
Preferred dividends	(0.6)	(8.4)	(8.4)	(8.4)
Net profit	(1.9)	43.9	52.0	54.4
Net profit (adj.)	37.6	43.9	52.0	54.4

BALANCE SHEET

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,425.4	1,441.9	1,441.9	1,441.9
Other LT assets	52.9	391.1	391.1	391.1
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	249.3	84.1	79.0	73.2
Other current assets	9.6	14.6	15.4	15.5
Total assets	1,737.1	1,931.6	1,927.3	1,921.7
Other current liabilities	28.0	25.0	26.6	27.0
LT debt	542.6	750.0	755.0	760.0
Other LT liabilities	9.7	9.7	9.7	9.7
Shareholders' equity	1,156.8	1,146.9	1,136.0	1,125.0
Total liabilities & equity	1,737.1	1,931.6	1,927.3	1,921.7

CASH FLOW

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Operating	66.5	92.1	73.9	75.7
Pre-tax profit	(1.9)	43.9	52.0	54.4
Working capital changes	6.2	(8.1)	0.8	0.2
Non-cash items	42.5	10.6	10.9	11.1
Other operating cashflows	19.8	45.7	10.2	10.1
Investing	(47.3)	(389.8)	(0.5)	(0.5)
Capex (growth)	(45.8)	(389.3)	0.0	0.0
Capex (maintenance)	(1.1)	(0.5)	(0.5)	(0.5)
Others	(0.3)	0.0	0.0	0.0
Financing	145.8	132.5	(78.5)	(81.1)
Distribution to unitholders	(48.1)	(54.9)	(62.9)	(65.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	200.0	207.4	5.0	5.0
Others/interest paid	(6.0)	(20.1)	(20.6)	(20.6)
Net cash inflow (outflow)	165.0	(165.2)	(5.1)	(5.8)
Beginning cash & cash equivalent	83.7	249.3	84.1	79.0
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	249.3	84.1	79.0	73.2

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	59.1	61.1	62.4	62.8
Pre-tax margin	(1.7)	62.2	67.0	67.1
Net margin	(2.5)	51.7	57.1	57.6
ROA	n.a.	2.4	2.7	2.8
ROE	n.a.	3.8	4.6	4.8
Growth				
Turnover	41.6	8.0	7.2	3.8
EBITDA	38.9	11.7	9.5	4.3
Pre-tax profit	n.a.	n.a.	15.6	3.9
Net profit	n.a.	n.a.	18.4	4.6
Net profit (adj.)	40.6	16.7	18.4	4.6
EPU	40.4	16.0	17.4	3.7
Leverage				
Debt to total capital	31.9	39.5	39.9	40.3
Debt to equity	46.9	65.4	66.5	67.6
Net debt/(cash) to equity	25.4	58.1	59.5	61.1
Interest cover (x)	5.6	4.9	5.1	5.3

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