

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Ingesting The Acquisition Of Jem

Jem attracts shopper traffic of 22m per year due to an attractive mix of anchor tenants, such as IKEA, FairPrice Xtra, Don Don Donki, H&M, and UNIQLO. It provides organic growth from positive rent reversion and annual rental escalation of 3.2%. The return of tourists in 2H22 would restore shopper traffic at 313@Somerset back to pre-pandemic levels. Unit price has corrected 15% from its recent peak and FY23 distribution yield is attractive at 6.8%. Maintain BUY. Target price: S\$1.01.

WHAT'S NEW

- Maximising returns from Jem.** Jem has become Lendlease Global Commercial REIT's (LREIT) largest asset, accounting for 46.8% of asset under management (AUM) after it completed the acquisition of the remaining 68.2% stake on 22 Apr 22. The retail component (65% of NLA) achieved positive rent reversion in 2QFY22 and 3QFY22. It provides organic growth with annual rental escalation of 3.2%. The office component (35% of NLA) is fully leased to the Ministry of National Development (MND) under a 30-year lease with mark-to-market rent reviews every five years. With ownership of Jem at 100%, LREIT is able to generate recurrent savings of S\$5.6m per year from tax transparency.
- Benefitting from development of Jurong Gateway as the second CBD.** Jem is a popular suburban mall with shopper traffic at 22m per year and occupancy at 100%. Management plans to unlock additional NLA at level one (4,600sf) and basement one (850sf) to cater for demand for more retail space. The link bridge connecting Jem to Perennial Business City with NLA of over 1m sf is already completed. Perennial Business City is expected to progressively commence operations in 2022, which will increase the flow of office workers visiting Jem. Over the longer term, connectivity to Jem will improve with the new Jurong Region MRT Line that will commence operations in stages from 2027 to 2029.
- Welcoming tourists back to 313@Somerset.** The Vaccinated Travel Framework has replaced the Vaccinated Travel Lane scheme since 1 Apr 22 and the requirement for pre-departure COVID-19 tests was subsequently abolished on 26 Apr 22. Visitor arrivals to Singapore have increased 43% mom to 294,304 in Apr 22 (19% of pre-pandemic levels). Shopper traffic was 5.8m in 3QFY22, representing 67% of pre-pandemic levels. The return of tourists, which typically accounts for 20-25% of shopper traffic, would restore shopper traffic at 313@Somerset back to pre-pandemic levels.
- 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.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	56	79	107	215	222
EBITDA	33	46	66	135	140
Operating profit	33	46	66	135	140
Net profit (rep./act.)	(9)	(2)	50	89	93
Net profit (adj.)	27	38	50	89	93
EPU (S\$ cent)	2.3	3.2	3.1	4.2	4.4
DPU (S\$ cent)	3.1	4.7	4.6	5.2	5.2
PE (x)	33.9	24.1	25.4	18.4	17.7
P/B (x)	0.9	0.9	1.0	1.0	1.1
DPU Yld (%)	3.9	6.0	5.9	6.8	6.8
Net margin (%)	(15.5)	(2.5)	47.0	41.4	42.1
Net debt/(cash) to equity (%)	44.9	25.4	78.9	80.3	82.3
Interest cover (x)	5.0	5.6	4.2	4.6	4.7
ROE (%)	n.a.	n.a.	3.2	4.5	4.8
Consensus DPU (S\$ cent)	n.a.	n.a.	4.8	5.2	5.4
UOBKH/Consensus (x)	-	-	0.95	1.01	0.97

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

BUY

(Maintained)

Share Price	S\$0.775
Target Price	S\$1.01
Upside	+30.3%
(Previous TP)	S\$1.05

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):	2,088.9
Market cap (S\$m):	1,745.2
Market cap (US\$m):	1,258.9
3-mth avg daily t'over (US\$m):	5.5

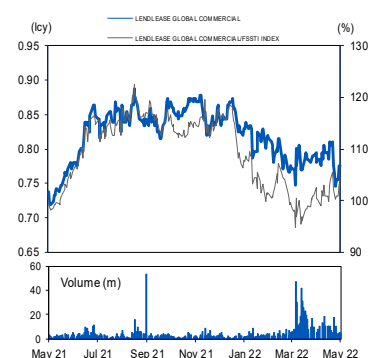
Price Performance (%)

52-week high/low	S\$0.888/S\$0.718			
1mth	3mth	6mth	1yr	YTD
(1.9)	(5.5)	(11.2)	7.2	(10.7)

Major Shareholders

Lendlease Corp Ltd	19.5%
FY22 NAV/Share (S\$)	0.76
FY22 Net Debt/Share (S\$)	0.75

PRICE CHART



Source: Bloomberg

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- 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 had 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 (18 months to complete).

- Sky Complex: Benefitting from higher inflation.** 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 (CPI). ISTAT CPI increased 6.24% in Apr 22. Thus, Sky Complex will enjoy rental escalation of 4.68% starting May 22. Sky Complex has maintained full occupancy of 100%. It has long weighted average lease expiry (WALE) of 10.1 years as of Mar 22.

STOCK IMPACT

- Focusing on expansion in Singapore.** LREIT plans to grow through acquisitions by tapping on the rights of first refusal (ROFR) granted by its sponsor. Lendlease Group has a strong presence in Singapore through Paya Lebar Quarter (30% stake) and Parkway Parade (10.2% stake).

- Shielded from higher cost of electricity in FY23.** Management has locked in cost of electricity for 313@Somerset and Jem at fixed rates in FY23. Utilities account for 6-8% of operating expenses, lower than comparable retail malls, due to energy saving features, including atrium daylighting to maximise the use of natural sunlight, usage of low-E double glazed glass for the facades, and installation of solar panels.

EARNINGS REVISION/RISK

- Factoring in weakness of the euro.** The euro has depreciated by 5.6% against the Singapore dollar on an ytd basis, which will reduce the contributions from Sky Complex (12% of AUM). Thus, we have trimmed our FY23 DPU forecast by 4%.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price for LREIT of S\$1.01 is based on DDM (cost of equity: 6.25%, terminal growth: 1.2%).

SHARE PRICE CATALYST

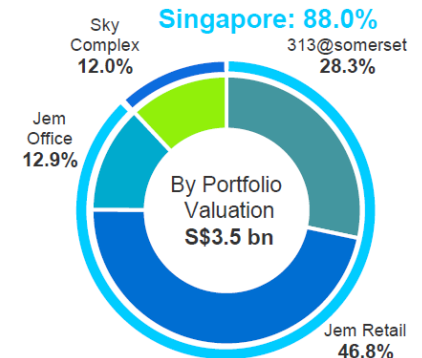
- The cap on group size of 10 persons for dining in at F&B establishments was lifted and all employees have been allowed back to their offices since 26 Apr 22. These would increase shopper traffic and tenant sales at 313@Somerset and Jem.
- Reopening of Singapore's international borders with the vaccinated travel framework (VTF) would bring tourists back to 313@Somerset.

KEY OPERATING METRICS - LREIT

	1QFY22	2QFY22	3QFY22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.40	n.a.	n.a.	n.a.
Occupancy	99.8%	99.9%	99.9%	0.2ppt	0ppt
Aggregate Leverage	34.3%	33.5%	27.7%	-7.7ppt	-5.8ppt
Average Cost of Debt	0.90%	0.92%	0.98%	0.1ppt	0.06ppt
Weighted Debt Maturity (years)	2.3	2.0	1.8	-0.6yrs	-0.2yrs
WALE by NLA (years)	8.5	8.4	8.2	-0.8yrs	-0.2yrs

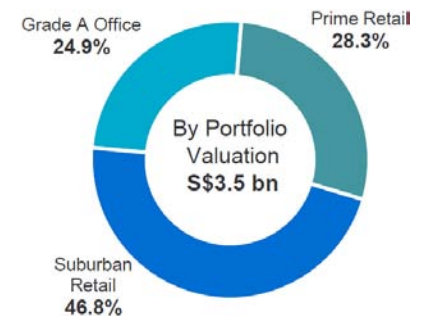
Source: LREIT, UOB Kay Hian

PORTFOLIO DIVERSIFICATION & RESILIENCY



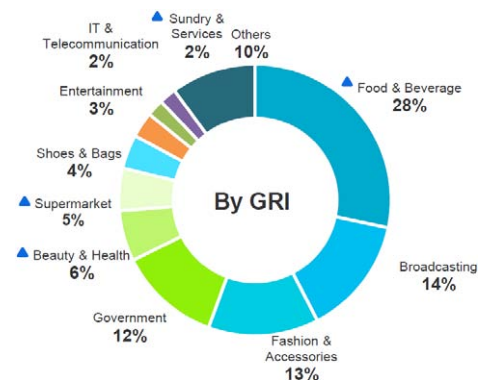
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RESILIENCY FROM EXPOSURE TO SUBURBAN RETAIL



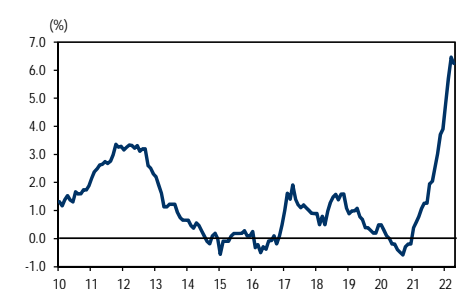
Source: LREIT

DIVERSIFIED TRADE SECTOR MIX



Source: LREIT

CONSUMER PRICE INDEX - ITALY



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Net turnover	78.7	106.5	215.1	221.7
EBITDA	46.5	66.0	135.3	140.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	46.5	66.0	135.3	140.0
Associate contributions	0.0	10.1	0.0	0.0
Net interest income/(expense)	(8.3)	(15.6)	(29.5)	(29.7)
Pre-tax profit	(1.3)	60.5	105.8	110.2
Tax	0.0	(0.4)	0.0	0.0
Preferred dividends	(0.6)	(10.0)	(16.8)	(16.8)
Net profit	(1.9)	50.1	89.0	93.4
Net profit (adj.)	37.6	50.1	89.0	93.4

BALANCE SHEET

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,425.4	3,586.9	3,586.9	3,586.9
Other LT assets	52.9	8.3	8.3	8.3
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	249.3	55.7	56.1	54.7
Other current assets	9.6	20.7	32.0	32.6
Total assets	1,737.1	3,671.5	3,683.2	3,682.5
Other current liabilities	28.0	37.6	61.2	62.5
LT debt	542.6	1,630.0	1,640.0	1,660.0
Other LT liabilities	9.7	9.7	9.7	9.7
Shareholders' equity	1,156.8	1,994.1	1,972.3	1,950.2
Total liabilities & equity	1,737.1	3,671.5	3,683.2	3,682.5

CASH FLOW

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Operating	66.5	111.4	150.1	143.2
Pre-tax profit	(1.9)	50.1	89.0	93.4
Working capital changes	6.2	(1.5)	12.3	0.7
Non-cash items	42.5	12.0	20.3	20.6
Other operating cashflows	19.8	50.8	28.5	28.5
Investing	(47.3)	(2,152.0)	(0.5)	(0.5)
Capex (growth)	(45.8)	(2,151.5)	0.0	0.0
Capex (maintenance)	(1.1)	(0.5)	(0.5)	(0.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.3)	0.0	0.0	0.0
Financing	145.8	1,847.0	(149.1)	(144.1)
Distribution to unitholders	(48.1)	(62.7)	(110.8)	(115.5)
Issue of shares	0.0	648.8	0.0	0.0
Proceeds from borrowings	200.0	1,287.4	10.0	20.0
Others/interest paid	(6.0)	(26.6)	(48.3)	(48.5)
Net cash inflow (outflow)	165.0	(193.6)	0.4	(1.4)
Beginning cash & cash equivalent	83.7	249.3	55.7	56.1
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	249.3	55.7	56.1	54.7

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	59.1	61.9	62.9	63.1
Pre-tax margin	(1.7)	56.8	49.2	49.7
Net margin	(2.5)	47.0	41.4	42.1
ROA	n.a.	1.9	2.4	2.5
ROE	n.a.	3.2	4.5	4.8
Growth				
Turnover	41.6	35.4	101.9	3.1
EBITDA	38.9	41.9	105.1	3.5
Pre-tax profit	n.a.	n.a.	74.8	4.2
Net profit	n.a.	n.a.	77.6	5.0
Net profit (adj.)	40.6	33.1	77.6	5.0
EPU	40.4	(4.8)	37.5	4.0
Leverage				
Debt to total capital	31.9	45.0	45.4	46.0
Debt to equity	46.9	81.7	83.2	85.1
Net debt/(cash) to equity	25.4	78.9	80.3	82.3
Interest cover (x)	5.6	4.2	4.6	4.7

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