



# Lendlease Global Commercial REIT

## Reopening tailwinds to lift tenant sales

### SINGAPORE | REAL ESTATE | 3Q22 UPDATE

- No financials provided in this operational update. Portfolio occupancy was stable at 99.9%.
- 313@Somerset delivered positive reversions for the third consecutive quarter, but tenant sales, which are at 90% of pre-pandemic levels, dipped 3.3% YoY due to dine-in cap of five pax in 3Q22 (3Q21: 8 pax).
- Acquisition of remaining stake in JEM was completed on 22 April 2022. We understand that reversions have been positive and tenant sales are at 110% of pre-pandemic levels.
- Upgrade to BUY from ACCUMULATE; DDM target price raised from S\$0.94 to S\$1.05. FY22e-26e DPU's lowered by 0.6-3.8% to factor in the issuance of perpetual securities. We lower our COE from 7.7% to 7.0% to reflect the lower risk associated with a predominantly Singapore-focused portfolio post-acquisition of JEM. Return to office and tourist visits are immediate catalyst for LREIT.

#### Operating metrics at a glance

313@Somerset	3Q22	3Q21	YoY	2Q22	QoQ
Tenant sales (\$m)	44.5	46.0	-3.3%	48.2	-7.7%
Footfall (mn)	5.8	6.60	-12.1%	6.5	-10.8%

Source: LREIT, PSR

#### The Positive

**+ Rental growth on the back of positive reversions and impending annual inflation-linked escalation.** LREIT delivered its third quarter of positive reversions at 313@Somerset, although signing rents are still c.3% below pre-pandemic levels. We understand that reversions at JEM, are also positive. LREIT's only Italian asset, Sky Complex, which is on a long lease that expires in May 2032, is subject to annual inflation-linked escalation every April. Using Mar22's CPI growth as in indication, we could see c. 5% of escalation on Sky Complex's rent in Apr22. Portfolio occupancy remained stable QoQ at 99.9% with only 3% of GRI to be de-risked in 4Q22.

#### The Negative

**- Tenant sales still below pre-pandemic levels due to absence of tourists.** Tenant sales at 313@Somerset dipped 3.3% YoY due to dine-in cap of five pax in 3Q22 (3Q21: 8 pax). 3Q22 tenant sales were at 90% of pre-pandemic levels as tourists, who typically accounts for 20-25% of 313@Ochard's tenant sale, have yet to return to pre-pandemic levels. Meanwhile, footfall and tenant sales at JEM have surpassed pre-pandemic levels, the latter coming in at 110% of 2019's levels. The lifting of workplace capacity to 100% should bring more footfall to both JEM and 313@Somerset, which are located near offices, and could further uplift tenant sales.

#### Outlook

LREIT has c.10k sq ft of additional GFA to unlock at 313@Somerset and intends to deploy it at the basement and ground floors of the mall, which command higher rents, timing AEs to coincide with lease renewals to minimise disruption. Once fully deployed, the additional GFA could increase NPI by 2-3%. Acquisition remains a lever of growth for LREIT. Among its two pipeline assets, Paya Lebar Quarters (PLQ) and Parkway Parade, the former will likely be the priority as Parkway Parade has not yet stabilised. Due to PLQ's size, LREIT may acquire PLQ in tranches via the respective strata titles.

#### Upgrade from ACCUMULATE to BUY, DDM target price raised from S\$0.94 to S\$1.05

FY22e-26e DPU's lowered by 0.6-3.8% to factor in the issuance of perpetual securities. We lower our COE from 7.7% to 7.0% to reflect the lower risk associated with its predominantly Singapore-focused portfolio post-acquisition of JEM. As such, our DDM-TP is increased from S\$0.94 to S\$1.05. LREIT's portfolio is anchored by JEM and 313@Somerset, which are dominant malls in their respective catchments and will benefit from return to office and tourist visits.

9 May 2022

#### BUY (Upgraded)

LAST CLOSE PRICE	SGD 0.81
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 1.05
TOTAL RETURN	36.4%

#### COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN) :	2,089
MARKET CAP (USD mn / SGD mn) :	1310 / 1813
52 - WK HI/LO (SGD) :	0.89 / 0.67
3M Average Daily T/O (mn) :	9.23

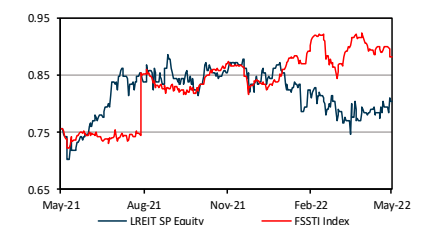
#### MAJOR SHAREHOLDERS

LENLEASE SREIT PTY LTD	17.5%
TEMASEK HOLDINGS PTE LTD	2.8%
BLACKROCK INC	2.7%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.9	1.9	(3.3)
STI RETURN	(2.7)	0.4	7.1

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E June	FY20*	FY21	FY22e	FY23e
Gross Rev (\$m)	55.5	78.7	107.9	219.6
NPI (\$m)	40.3	56.9	82.5	165.5
Dist. Inc. (\$m)	35.7	55.1	67.3	118.8
P/NAV (x)	1.14	0.99	1.02	1.04
DPU (cents)	3.05	4.68	4.93	5.22
Dist. Yield (%)	3.16	5.81	6.12	6.49

\*2 October 2019 - 30 June 2020

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity: 6.98%; Terminal g: 2%)

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## Financials

### Income Statement

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
<b>Gross revenue</b>	<b>55,536</b>	<b>78,651</b>	<b>107,931</b>	<b>219,613</b>
Property expenses	(15,247)	(21,733)	(25,428)	(54,142)
<b>Net property income</b>	<b>40,289</b>	<b>56,918</b>	<b>82,503</b>	<b>165,471</b>
Net Finance (Expense)/Inc.	(6,709)	(9,989)	(21,837)	(36,117)
Manager's fees	(4,865)	(6,856)	(9,403)	(17,285)
Other items	(12,955)	(12,790)	(22,509)	(6,753)
FV change, derivatives & ppts	(24,376)	(28,622)	10,959	-
Share of profit from associate	-	1,731	10,959	-
<b>(Loss)/Profit before tax</b>	<b>(8,616)</b>	<b>(1,339)</b>	<b>20,174</b>	<b>105,316</b>
Taxation	-	-	-	-
<b>Net income after Tax</b>	<b>(8,616)</b>	<b>(1,339)</b>	<b>20,174</b>	<b>105,316</b>
P&L adjusted for perps		(598)	(11,025)	(18,900)
Distribution adjustments	44,288	57,060	58,187	32,374
<b>Distributable income</b>	<b>35,672</b>	<b>55,123</b>	<b>67,336</b>	<b>118,789</b>

### Per unit data

Y/E June	FY20*	FY21	FY22e	FY23e
NAV (S\$)	0.85	0.81	0.79	0.78
DPU (S cents)	3.05	4.68	4.93	5.22

### Cash Flow

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
<b>CFO</b>				
<b>P&amp;L after tax</b>	<b>(8,616)</b>	<b>(1,339)</b>	<b>20,174</b>	<b>105,316</b>
Adjustments	48,402	58,126	69,458	52,205
WC changes	(3,420)	9,719	31,078	5,951
<b>Cash generated from ops</b>	<b>36,366</b>	<b>66,506</b>	<b>120,710</b>	<b>163,472</b>

### CFI

Acquisition of IP	(1,451,542)	-	(1,790,000)	-
Purchase of equity instrument a	-	(45,533)	(327,958)	-
Others	298	(1,756)	(6,432)	(1,945)
<b>Cashflow from investments</b>	<b>(1,451,244)</b>	<b>(47,289)</b>	<b>(2,124,390)</b>	<b>(1,945)</b>

### CFF

Proceeds from issuance of units	1,027,792	-	854,668	-
Proceeds from issuance of perp:	-	200,000	200,000	-
Loans, net of repayments	514,050	-	957,000	99,300
Distributions to unitholders	(15,067)	(48,145)	(67,336)	(118,789)
Distributions to perp holders			(11,025)	(18,900)
Others	(28,451)	(6,027)	(27,322)	(19,883)
<b>Cashflow from financing</b>	<b>1,498,324</b>	<b>145,828</b>	<b>1,905,984</b>	<b>(58,272)</b>
<b>Net change in cash</b>	<b>83,446</b>	<b>165,045</b>	<b>(97,696)</b>	<b>103,255</b>
Cash at the start of the period	-	83,678	249,264	151,568
FX changes	232	541	-	-
<b>Ending cash</b>	<b>83,678</b>	<b>249,264</b>	<b>151,568</b>	<b>254,824</b>

\*2 October 2019 - 30 June 2020

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E June, (S\$'000)	FY20*	FY21	FY22e	FY23e
<b>ASSETS</b>				
Investment properties	1,442,598	1,419,857	3,582,906	3,596,406
Equity instrument at FV	-	44,591	-	-
Others	14,006	13,829	19,812	8,308
<b>Total non-current assets</b>	<b>1,456,604</b>	<b>1,478,277</b>	<b>3,602,718</b>	<b>3,604,714</b>
Trade receivables	10,553	6,664	12,952	18,667
Cash and cash equivalent	83,678	249,264	151,568	155,524
Others	4,663	2,910	2,910	2,910
<b>Total current assets</b>	<b>98,894</b>	<b>258,838</b>	<b>167,430</b>	<b>177,101</b>
<b>Total Assets</b>	<b>1,555,498</b>	<b>1,737,115</b>	<b>3,770,148</b>	<b>3,781,815</b>
<b>LIABILITIES</b>				
Trade payables	21,827	27,393	64,759	76,425
Loans and borrowings	-	-	99,300	437,300
<b>Total current liabilities</b>	<b>22,147</b>	<b>28,016</b>	<b>164,682</b>	<b>514,348</b>
Loans and borrowings	528,999	542,573	1,413,838	1,092,124
Others	12,102	9,727	9,727	9,727
<b>Total non-current liabilities</b>	<b>541,101</b>	<b>552,300</b>	<b>1,423,565</b>	<b>1,101,851</b>
<b>Total Liabilities</b>	<b>563,248</b>	<b>580,316</b>	<b>1,588,247</b>	<b>1,616,199</b>
<b>Net assets</b>	<b>992,250</b>	<b>1,156,799</b>	<b>2,181,901</b>	<b>2,165,616</b>
<b>Represented by:</b>				
Perpetuals	-	198,897	398,897	398,897
Unitholders' funds	992,250	957,902	1,783,004	1,766,719

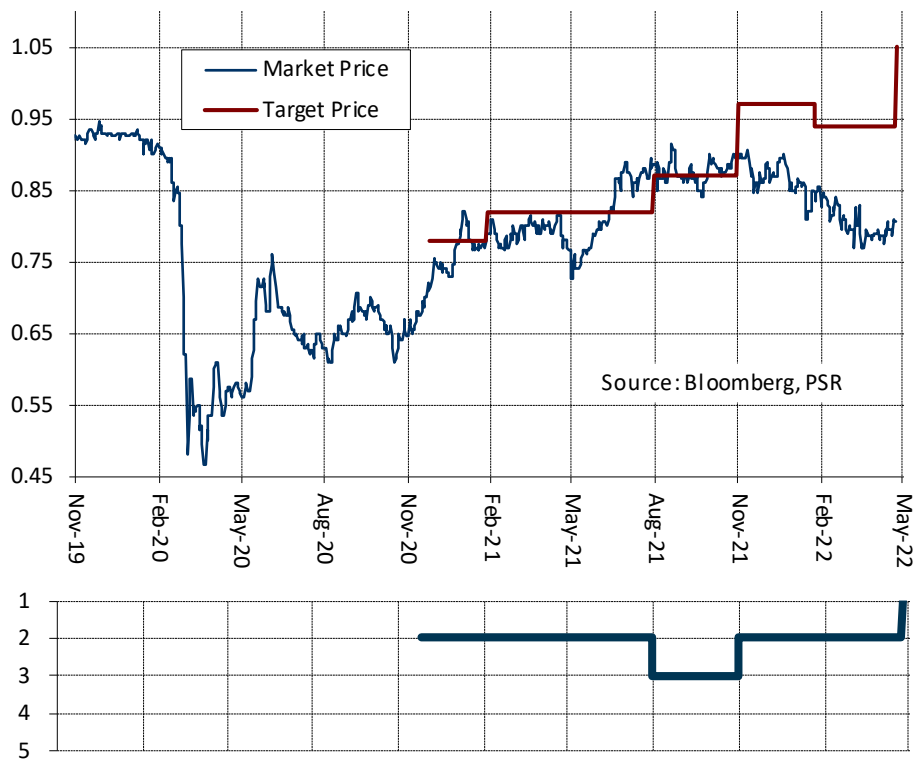
### Valuation Ratios

Y/E June	FY20*	FY21	FY22e	FY23e
P/NAV (x)	1.14	0.99	1.02	1.04
Distribution Yield (%)	3.16	5.81	6.12	6.49
NPI yield (%)	2.79	3.98	3.30	4.61

### Growth & Margins

Growth				
Revenue	-	41.6%	37.2%	103.5%
Net property income (NPI)	-	41.3%	45.0%	100.6%
Distributable income	-	54.5%	22.2%	76.4%
DPU	-	53.4%	5.3%	5.9%
Margins				
NPI margin	72.5%	72.4%	76.4%	75.3%
Key Ratios				
Net Debt or (Net Cash)	445,321	293,309	1,262,270	936,600
Gearing	34.0%	31.2%	40.1%	40.4%

**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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