

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

1QFY24: More Resilient Than Widely Perceived

LREIT achieved strong positive rental reversion of 16.3% (313@Somerset: >20%, Jem: high single-digit) in 1QFY24. Committed occupancy for its retail properties is stable at 99.7%. Divestment of the office block at Jem is an available option should LREIT decide to deleverage. LREIT provides an attractive FY24 distribution yield of 8.0%. Maintain BUY. Target price: S\$0.80.

WHAT'S NEW

- Lendlease Global Commercial REIT (LREIT) provided its 1QFY24 business update.
- 313@Somerset provides uplift to rental reversion.** Committed occupancy for retail properties is stable at 99.7% (Jem: 100% and 313@Somerset: 98.9%). The two retail properties registered strong positive rental reversion of 16.3% (313@Somerset: >20%, Jem: high single-digit) (FY23: 4.8%). Management attributed the strong performance to healthy leasing activities and uplift in retail market sentiment. Tenant sales registered growth of 4.6% yoy. Tenant retention rate is healthy at 78.2%.
- Office portfolio provides stable cash flow.** Office block at Jem in Singapore and Sky Complex in Milan, Italy are wholly leased to Singapore's Ministry of National Development until 2044 and Sky Italia until 2032 respectively. The office portfolio has long WALE at 12.1 years by NLA and 14.6 years by GRI.
- Resilient balance sheet.** Aggregate leverage is stable at 40.6% as of Sep 23. Average cost of debt increased 0.25ppt to 2.94%. 61% of its borrowings are hedged to fixed rates.
- Completed refinancing for Euro loan.** LREIT has obtained a €300m unsecured five-year sustainability-linked loan (drawdown in Oct 23) to refinance its Euro loan due in FY24. It has already met the target set for its sustainability-linked Euro loan. The all-in interest rate for the new sustainability-linked Euro loan is expected to be mid-3%. LREIT does not have any loans due for refinancing until FY25.

STOCK IMPACT

- Retail market remains resilient.** Leasing activities remained strong, supported by retailers' optimism on consumer sentiment. Demand was driven by F&B operators and services (wellness and travel). Recovery for Orchard Road is supported by recovery in tourism due to strong pipeline of MICE events and sell-out concerts. Rents at Orchard Road increased by 3.8% yoy to S\$35.75psf, while rents at suburban malls jumped by 3.1% yoy to S\$31.45psf in 3Q23. CBRE expects higher retail rents in 2023 due to tourism recovery and below-average new retail supply.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	102	205	214	220	226
EBITDA	60	131	137	141	145
Operating profit	60	131	137	141	145
Net profit (rep./act.)	140	100	54	52	55
Net profit (adj.)	36	63	54	52	55
EPU (S\$ cent)	2.1	2.7	2.3	2.3	2.4
DPU (S\$ cent)	4.9	4.7	4.4	4.3	4.4
PE (x)	26.3	20.2	23.8	24.6	23.6
P/B (x)	0.7	0.7	0.7	0.7	0.8
DPU Yld (%)	8.7	8.5	8.0	7.8	8.0
Net margin (%)	138.1	48.8	25.0	23.8	24.5
Net debt/(cash) to equity (%)	64.4	65.4	69.2	73.0	77.1
Interest cover (x)	3.8	2.6	2.1	2.0	2.0
ROE (%)	8.4	4.5	2.4	2.4	2.6
Consensus DPU (S\$ cent)	n.a.	n.a.	4.4	4.5	4.4
UOBKH/Consensus (x)	-	-	1.01	0.96	1.01

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

BUY

(Maintained)

Share Price	S\$0.555
Target Price	S\$0.80
Upside	+44.1%
(Previous TP)	S\$0.79

COMPANY DESCRIPTION

LREIT invests in stabilised income-producing properties located globally, which are used for retail and/or office purposes. Its portfolio comprises two retail malls 313@Somerset at Orchard Road and Jem at Jurong East in Singapore and Sky Complex with three grade A office buildings in Milan, Italy.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LREIT SP
Shares issued (m):	2,327.5
Market cap (S\$m):	1,291.7
Market cap (US\$m):	953.4
3-mth avg daily t'over (US\$m):	3.6

Price Performance (%)

52-week high/low	S\$0.745/S\$0.49			
1mth	3mth	6mth	1yr	YTD
8.8	(17.2)	(19.0)	(19.6)	(21.3)

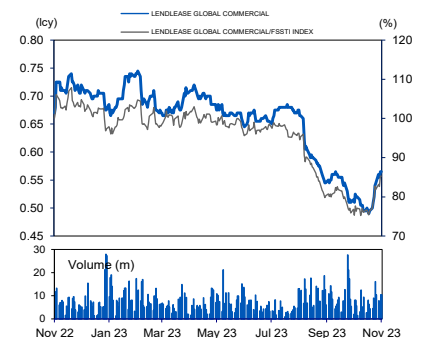
Major Shareholders

Lendlease Corp Ltd	26.3
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FY24 NAV/Share (S\$) 0.77

FY24 Net Debt/Share (S\$) 0.65

PRICE CHART



Source: Bloomberg

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- Option to deleverage through divestment.** LREIT could consider divesting the office block at Jem, which is fully leased to the Ministry of National Development (MND) under a 30-year lease with a rent review every five years. It has a long WALE of 21 years with lease expiry in Dec 44. The 12 levels of office space have NLA of 311,000sf (35% of Jem's total NLA). The government through MND accounted for 11.0% of LREIT's gross rental income as of Sep 23. We estimated that the office block at Jem provides NPI yield of 3.5% and is valued at S\$480m.
- Multi-functional event space will draw more shopper traffic to 313@Somerset.** Construction for the multi-functional event space at Grange Road Car Park is scheduled to commence before end-23. Construction will take between 12 and 18 months to complete. The event space is leased to Live Nation, a leading live entertainment company, and will attract more youths to 313@Somerset.
- Deploying more bonus GFA at prime spaces in FY24.** 313@Somerset has untapped GFA of 10,860sf due to the increase in permissible plot ratio from 4.9 to 5.6. It has utilised 660sf to expand leasable space at two prime units 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 other tenants. LREIT has to obtain approval from URA before commencing enhancement of 313@Somerset.

EARNINGS REVISION/RISK

- We raised our existing DPU forecasts by 0.7% for FY24 due to the stronger positive rental reversion for LREIT's retail portfolio.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$0.80 is based on DDM (cost of equity: 7.5%, terminal growth: 2.2%).

SHARE PRICE CATALYST

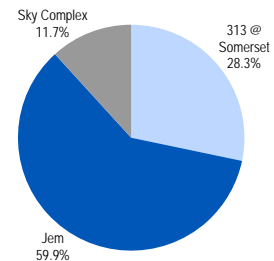
- 313@Somerset benefits from employees returning to their offices in the CBD and tourists flocking back to shop at Orchard Road. The new multi-functional event space at Grange Road Car Park will increase shopper traffic to 313@Somerset.
- Jem benefits from the development of Jurong Gateway as Singapore's second CBD.

KEY OPERATING METRICS - LREIT

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	2.45	n.a.	2.25	n.a.	n.a.	n.a.
Occupancy	99.7%	99.8%	99.8%	99.9%	99.9%	0.2ppt	0ppt
Aggregate Leverage	39.4%	39.2%	39.3%	40.6%	40.6%	1.2ppt	0ppt
Average Cost of Debt	2.24%	2.35%	2.51%	2.69%	2.94%	0.7ppt	0.3ppt
% Borrowings on Fixed Rate	61%	61%	61%	61%	61%	0ppt	0ppt
Weighted Debt Maturity (years)	2.8	2.6	2.3	2.1	3.1	0.3yrs	1yrs
WALE by NLA (years)	8.5	8.3	8.3	8.2	8.0	-0.5yrs	-0.2yrs

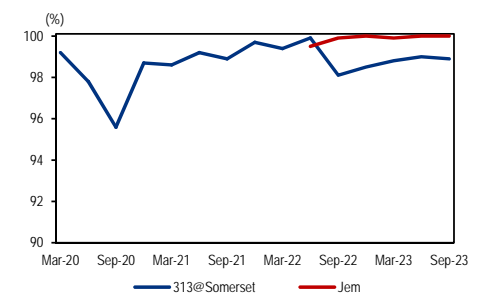
Source: LREIT, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY PROPERTY (JUN 23)



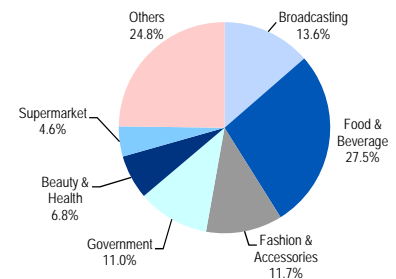
Source: LREIT

OCCUPANCY FOR JEM AND 313@SOMERSET



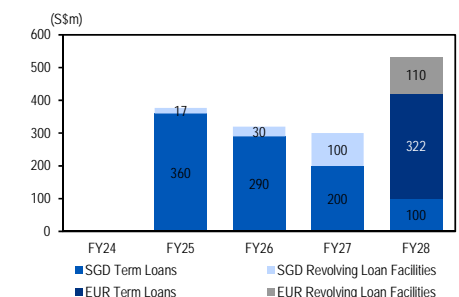
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (SEP 23)



Source: LREIT

DEBT MATURITY PROFILE (SEP 23)



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Net turnover	204.9	214.4	220.3	225.9
EBITDA	130.9	136.7	140.8	144.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	130.9	136.7	140.8	144.8
Associate contributions	1.1	0.0	0.0	0.0
Net interest income/(expense)	(50.7)	(66.3)	(71.7)	(72.8)
Pre-tax profit	118.5	70.4	69.2	72.0
Tax	0.0	0.0	0.0	0.0
Minorities	0.4	0.0	0.0	0.0
Preferred dividends	(18.9)	(16.8)	(16.8)	(16.8)
Net profit	99.9	53.6	52.4	55.2
Net profit (adj.)	62.6	53.6	52.4	55.2

CASH FLOW

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Operating	174.0	138.6	144.3	148.2
Pre-tax profit	99.9	53.6	52.4	55.2
Working capital changes	16.0	(0.1)	1.4	1.4
Non-cash items	(3.5)	31.1	31.4	31.6
Other operating cashflows	61.6	53.9	59.1	60.0
Investing	(85.8)	(2.0)	(2.0)	(2.0)
Capex (growth)	(87.9)	0.0	0.0	0.0
Capex (maintenance)	(4.6)	(2.0)	(2.0)	(2.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	6.7	0.0	0.0	0.0
Financing	(83.1)	(135.4)	(141.2)	(145.4)
Distribution to unitholders	(67.9)	(101.7)	(100.8)	(103.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	66.8	51.4	50.0	50.0
Others/interest paid	(82.0)	(85.1)	(90.5)	(91.6)
Net cash inflow (outflow)	5.2	1.2	1.1	0.8
Beginning cash & cash equivalent	49.2	54.2	55.4	56.5
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	54.2	55.4	56.5	57.3

BALANCE SHEET

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,650.0	3,652.0	3,654.0	3,656.0
Other LT assets	111.2	111.2	111.2	111.2
Cash/ST investment	54.2	55.4	56.5	57.3
Other current assets	10.9	12.9	13.0	13.2
Total assets	3,826.4	3,831.5	3,834.7	3,837.7
ST debt	433.6	433.6	433.6	433.6
Other current liabilities	58.7	60.6	62.2	63.7
LT debt	1,078.6	1,130.0	1,180.0	1,230.0
Other LT liabilities	24.7	24.7	24.7	24.7
Shareholders' equity	2,228.8	2,180.6	2,132.3	2,083.7
Minority interest	2.0	2.0	2.0	2.0
Total liabilities & equity	3,826.4	3,831.5	3,834.7	3,837.7

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	63.9	63.7	63.9	64.1
Pre-tax margin	57.8	32.8	31.4	31.9
Net margin	48.8	25.0	23.8	24.5
ROA	2.7	1.4	1.4	1.4
ROE	4.5	2.4	2.4	2.6
Growth				
Turnover	101.5	4.7	2.7	2.6
EBITDA	119.4	4.4	3.1	2.9
Pre-tax profit	(22.4)	(40.6)	(1.7)	4.1
Net profit	(28.8)	(46.4)	(2.3)	5.5
Net profit (adj.)	72.6	(14.4)	(2.3)	5.5
EPU	30.2	(15.2)	(3.2)	4.5
Leverage				
Debt to total capital	40.4	41.7	43.1	44.4
Debt to equity	67.8	71.7	75.7	79.8
Net debt/(cash) to equity	65.4	69.2	73.0	77.1
Interest cover (x)	2.6	2.1	2.0	2.0

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