

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Addressing Risk Of Pre-termination By Sky Italia

The restructuring of leases with Sky Italia has a neutral impact on LREIT. The lease expiry for Building 1 and 2 remains unchanged in 2032, although Sky Italia has an option to renew for another six years. LREIT is compensated S\$6m for the early termination of Building 3. Prospective new tenants for Building 3 include companies in the technology, real estate and energy industries. LREIT provides an attractive FY24 distribution yield of 8.0%. Maintain BUY. Target price: S\$0.87.

WHAT'S NEW

- Restructured lease with tenant Sky Italia.** Lendlease Global Commercial REIT (LREIT) has entered into a new lease agreement with Sky Italia in respect of Sky Complex located in Milan, Italy. The tenant will lease Buildings 1 and 2 for an initial term of nine years and one month commencing on 15 Dec 23 (tenant has no right to pre-terminate) with an option to renew for an additional six years at market rents. The starting annual rent for Buildings 1 and 2 is 1.5% higher than the existing in-place rent. The tenant will return Building 3 to LREIT in 1Q24 upon the completion of reinstatement works. It will compensate LREIT two years of existing annual rent, which we estimate at €4m (S\$6m).
- Addressing risk of pre-termination or downsizing by Sky Italia.** The new lease agreement allays investors' concern over the risk of Sky Italia exercising its option to pre-terminate in 2026. The original lease expires in May 2032 but Sky Italia has the option to terminate its lease in 2026. LREIT intends to utilise Building 3 for multi-tenancy purpose, which reduces tenant concentration risk. LREIT's reliance on largest tenant Sky Italia would be reduced from 13.6% to 10.2% of pro forma 1QFY24 gross rental income. Building 3 accounts for only 3.9% of LREIT's monthly gross rental income. LREIT has the potential to secure new tenants at higher prevailing market rates.

STOCK IMPACT

- MSG evolving into major decentralised office district.** The Milano Santa Giulia (MSG) has transformed into Milan's key decentralised office district. The southern zone, where Sky Complex is located, has been designated as the new business district in Milan. Italy's largest music academy, Giuseppe Verdi Conservatory, will set up a new campus in the south zone of MSG, adjacent to Sky Complex, by end-25.
- Winter Olympics brings prominence.** The northern zone is being redeveloped into a large urban park that integrates smart technology and sustainability initiatives. The new Metro Line 4 connecting Rogoredo station to Linate Airport was completed in 2023. The Winter Olympics will be held in the northern zone in 2026.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	102	205	213	218	224
EBITDA	60	131	136	139	143
Operating profit	60	131	136	139	143
Net profit (rep./act.)	140	100	53	51	54
Net profit (adj.)	36	63	53	51	54
EPU (S\$ cent)	2.1	2.7	2.3	2.2	2.3
DPU (S\$ cent)	4.9	4.7	4.4	4.3	4.4
PE (x)	30.1	23.1	27.7	29.0	27.7
P/B (x)	0.8	0.8	0.8	0.9	0.9
DPU Yld (%)	7.6	7.4	6.9	6.7	6.9
Net margin (%)	138.1	48.8	24.8	23.3	24.0
Net debt/(cash) to equity (%)	64.4	65.4	69.3	73.2	77.4
Interest cover (x)	3.8	2.6	2.1	1.9	2.0
ROE (%)	8.4	4.5	2.4	2.4	2.5
Consensus DPU (S\$ cent)	n.a.	n.a.	4.4	4.5	4.5
UOBKH/Consensus (x)	-	-	1.00	0.95	0.97

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

BUY

(Maintained)

Share Price	S\$0.635
Target Price	S\$0.87
Upside	+37.0%
(Previous TP)	S\$0.89

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):	2,352.8
Market cap (S\$m):	1,494.0
Market cap (US\$m):	1,125.9
3-mth avg daily t'over (US\$m):	3.2

Price Performance (%)

52-week high/low	S\$0.745/S\$0.49			
1mth	3mth	6mth	1yr	YTD
3.3	22.1	(4.5)	(9.9)	(1.6)

Major Shareholders

Lendlease Corp Ltd	27.7
FY24 NAV/Share (S\$)	0.77
FY24 Net Debt/Share (S\$)	0.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Good prospects for higher rents.** Sponsor Lendlease Group has developed two Grade A office buildings, Spark One and Spark Two, adjacent to Sky Complex. The development is anchored by Saipem, a global engineering and drilling specialist. The average passing rents at Spark One and Spark Two is €300-320psm per year, much higher than €200psm per year for Sky Complex. Prospective new tenants for Building 3 include companies in the technology, real estate and energy industries. There is upside for valuation of Sky Complex after Building 3 is backfilled at higher rents.
- 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 in 1H24. Construction takes between 12 to 18 months and completion is expected in 1H25. The event space is leased to Live Nation, a leading live entertainment company, and will attract more youths to 313@Somerset.
- Deploying untapped GFA at 313@Somerset in FY24.** 313@Somerset has untapped GFA of 10,860sf due to a previous increase in permissible plot ratio from 4.9 to 5.6. It has utilised 660sf to expand leasable space at two prime units at level one leased to Puma (sportswear) and Ohayo Mama San (concept cafe). LREIT is working on deploying the remaining untapped GFA of 10,200sf while minimising disruption to its existing tenants. LREIT will seek approval from Urban Redevelopment Authority (URA) once its plan for asset enhancement initiative (AEI) is finalised.

EARNINGS REVISION/RISK

- We trim our existing FY25 DPU forecast by 1.6% assuming that Building 3 at Sky Complex is backfilled by 50%.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$0.87 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

SHARE PRICE CATALYST

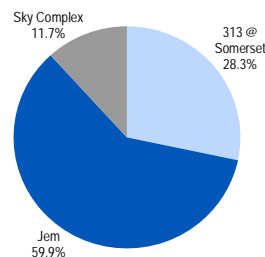
- 313@Somerset benefits from employees returning to their offices in the CBD and tourists flocking back to shop at Orchard Road. The new multi-functional event space at Grange Road Car Park will increase shopper traffic to 313@Somerset.
- Jem benefits from the development of Jurong Gateway as Singapore's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

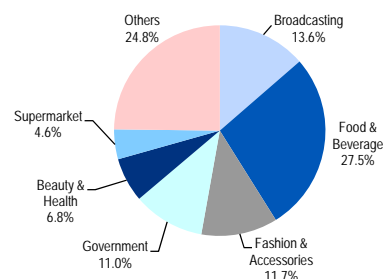
TRANSFORMATION OF THE MSG DISTRICT



- 1 Spark One and Two, Grade A office buildings, with ancillary retail fully leased, adding vibrancy in the precinct
- 2 Residential area with 1,800 families and a shopping & entertainment street
- 3 Community park of size 45,000 sqm
- 4 New campus of Giuseppe Verdi Conservatory, the largest music academy in Italy
- 5 Multifunctional arena where 2026 Winter Olympics will be held

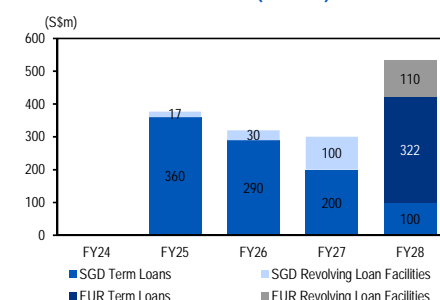
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (SEP 23)



Source: LREIT

DEBT MATURITY PROFILE (SEP 23)



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (S\$m)	2023	2024F	2025F	2026F
Net turnover	204.9	213.3	218.2	223.8
EBITDA	130.9	135.9	139.3	143.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	130.9	135.9	139.3	143.3
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	69.6	67.7	70.5
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	52.8	50.9	53.7
Net profit (adj.)	62.6	52.8	50.9	53.7

CASH FLOW

Year to 30 Jun (S\$m)	2023	2024F	2025F	2026F
Operating	174.0	137.2	142.8	146.7
Pre-tax profit	99.9	52.8	50.9	53.7
Working capital changes	16.0	(0.7)	1.5	1.4
Non-cash items	(3.5)	31.1	31.3	31.5
Other operating cashflows	61.6	53.9	59.1	60.1
Investing	(85.8)	(4.0)	(4.0)	(4.0)
Capex (growth)	(87.9)	0.0	0.0	0.0
Capex (maintenance)	(4.6)	(4.0)	(4.0)	(4.0)
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)	(134.5)	(139.6)	(143.8)
Distribution to unitholders	(67.9)	(100.9)	(99.2)	(102.2)
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	(1.3)	(0.9)	(1.1)
Beginning cash & cash equivalent	49.2	54.2	52.9	52.0
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	54.2	52.9	52.0	50.9

BALANCE SHEET

Year to 30 Jun (S\$m)	2023	2024F	2025F	2026F
Fixed assets	3,650.0	3,654.0	3,658.0	3,662.0
Other LT assets	111.2	111.2	111.2	111.2
Cash/ST investment	54.2	52.9	52.0	50.9
Other current assets	10.9	12.8	13.0	13.1
Total assets	3,826.4	3,830.9	3,834.2	3,837.2
ST debt	433.6	433.6	433.6	433.6
Other current liabilities	58.7	60.0	61.6	63.1
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	2,180.7	2,132.4	2,083.8
Minority interest	2.0	2.0	2.0	2.0
Total liabilities & equity	3,826.4	3,830.9	3,834.2	3,837.2

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	63.9	63.7	63.9	64.0
Pre-tax margin	57.8	32.6	31.0	31.5
Net margin	48.8	24.8	23.3	24.0
ROA	2.7	1.4	1.3	1.4
ROE	4.5	2.4	2.4	2.5
Growth				
Turnover	101.5	4.1	2.3	2.6
EBITDA	119.4	3.8	2.5	2.9
Pre-tax profit	(22.4)	(41.3)	(2.8)	4.2
Net profit	(28.8)	(47.2)	(3.7)	5.6
Net profit (adj.)	72.6	(15.7)	(3.7)	5.6
EPU	30.2	(16.5)	(4.6)	4.6
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	69.3	73.2	77.4
Interest cover (x)	2.6	2.1	1.9	2.0

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