

Singapore

ADD (no change)

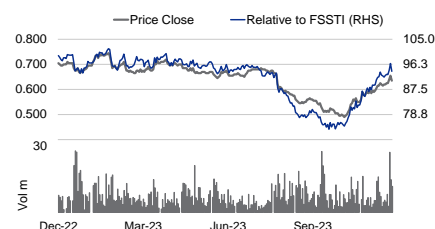
Consensus ratings*: Buy 7 Hold 2 Sell 0

Current price:	S\$0.635
Target price:	S\$0.83
Previous target:	S\$0.82
Up/downside:	30.7%
CGS-CIMB / Consensus:	10.3%
Reuters:	LEND.SI
Bloomberg:	LREIT SP
Market cap:	US\$1,122m
	S\$1,494m
Average daily turnover:	US\$3.21m
	S\$4.34m
Current shares o/s:	1,181m
Free float:	74.6%

*Source: Bloomberg

Key changes in this note

- FY24F DPU lowered by 0.7%.
- FY25F DPU raised by 1.4%.
- FY26F DPU raised by 1.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.4	13.4	-10.6
Relative (%)	10.8	18	-6.7

Major shareholders	% held
Lendlease SREIT PTY LTD	24.2
Temasek Holdings Pte Ltd	4.9
BlackRock Inc	4.9

Analyst(s)



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Lendlease Global Commercial REIT

First step towards restoring inorganic growth

- Restructuring of Sky Complex lease is the first step in the divestment plan for Building 3, which will improve gearing and restore inorganic growth ability.
- Favourable restructuring outcome - long lease with pre-termination fee.
- Reiterate Add. Potential DPU upside on faster lease-up of Building 3.

Buildings 1 & 2 leases re-leased on similar terms; till Jan 2033

LREIT announced that it has restructured the lease for Sky Complex, which comprises Buildings 1, 2 and 3 and originally ran until May 2032 with an option to pre-terminate the lease in 2026. LREIT signed a new lease for buildings 1 and 2 with the current tenant for an initial term of 9 years and 1 month, running from 15 Dec 23 till 15 Jan 2033. The tenant has the option to renew the lease for an additional 6 years. The new lease is also subject to annual indexation based on the increase in the ISTAT CPI. There is no pre-termination clause in the new lease. The starting annual rent for Buildings 1 and 2 will be approximately 1.5% higher than the existing in-place rent based on the original lease. This increase is in addition to the recent positive 5.9% rental increase in May 2023. The new lease includes a tenant incentive in line with market standards.

Two years “pre-termination fee” for return of Building 3 in 1QCY24

Tenant Sky Italia will return Building 3 to LREIT in 1QCY24, upon the completion of reinstatement works, and will pay LREIT a “pre-termination” consideration equivalent to 2 years of existing annual rent of Building 3, which will help to mitigate vacancy risk as LREIT attempts to lease up the building as a multi-tenanted building. Market rents are €300-350 per sq m p.a., c.60-86% above the previous rent paid by Sky Italia, providing rental upside for LREIT, in our view.

First step towards deleveraging & restoring inorganic growth story

Restructuring of the Sky Complex lease is positive for LREIT and is the first step towards LREIT’s divestment strategy for Sky Complex. LREIT expects valuation uplift for Building 3 post-conversion to multi-tenancy, after which it plans to divest the building, crystallise divestment gain and improve its gearing ratio. Management estimates that tenant concentration risk will fall from 13.6% of 1QFY6/24 gross rental income to c.10.2% of pro forma 1QFY6/24 gross rental income (assuming Building 3 was returned during the period).

Reiterate Add, DPU upside if LREIT can lease Building 3 up faster

We tweak our FY24F-26F DPU forecasts by -0.7%+1.4% to factor in the restructured lease at Sky Complex. FY24F DPU slips 0.7% as we pencil the 1.5% rent increase for 5.5 months in FY24F, which is lower than our previously forecast annual indexation, while FY25F-26F DPU increases by 1.1-1.4% as we impute the two year “pre-termination” consideration for Building 3, while assuming that LREIT will be able to secure some tenancies from FY25F onwards. Our DDM-based TP rises from S\$0.82 to S\$0.83. Potential re-rating catalysts: stronger rental reversions and improvements in financial metrics which would restore its ability to grow inorganically.

Financial Summary	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Gross Property Revenue (S\$m)	101.7	204.9	215.0	228.5	234.8
Net Property Income (S\$m)	75.5	153.9	161.4	171.9	176.4
Net Profit (S\$m)	98.0	119.3	74.8	84.1	89.3
Distributable Profit (S\$m)	71.5	108.2	99.9	109.9	115.1
DPS (S\$)	0.031	0.047	0.042	0.046	0.048
Dividend Yield	4.95%	7.33%	6.68%	7.25%	7.49%
Asset Leverage	39.3%	39.6%	39.7%	40.1%	40.6%
BVPS (S\$)	0.78	0.79	0.77	0.75	0.73
P/BV (x)	0.81	0.81	0.83	0.85	0.87
Recurring ROE	3.58%	4.45%	4.11%	4.67%	5.00%
% Change In DPS Estimates			(0.71%)	1.39%	1.15%
DPS/Consensus DPS (x)			0.96	1.02	1.08

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Key earnings changes

FYE Dec	Previous			New			Change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Gross revenue (S\$ m)	215.8	225.5	231.5	215.0	228.5	234.8	-0.4%	1.3%	1.4%
NPI	162.1	170.4	175.0	161.4	171.9	176.4	-0.4%	0.9%	0.8%
Distribution income (S\$ m)	100.6	108.4	113.8	99.9	109.9	115.1	-0.7%	1.4%	1.2%
DPS (Scts)	4.27	4.54	4.70	4.24	4.61	4.76	-0.7%	1.4%	1.2%
Target price (S\$)		0.82			0.83			1.2%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: SREIT peer comparison

SREIT	Bloomberg Ticker	Rec.	Price (LC) as at		Target Price (LC) (DDM-based)	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			19 Dec 23	19 Dec 23						FY23F	FY24F	FY25F
Hospitality												
CapitaLand Ascott Trust	CLAS SP	Add	0.96	1.32	\$2,713	35.2%	1.16	0.83	6.3%	7.2%	7.5%	
CDL Hospitality Trust	CDREIT SP	Add	1.11	1.43	\$1,038	38.4%	1.31	0.85	5.6%	6.4%	6.9%	
Far East Hospitality Trust	FEHT SP	Add	0.68	0.77	\$1,015	32.2%	0.85	0.79	5.7%	6.3%	6.5%	
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%	
	Simple Average					36.3%		0.80	5.6%	6.2%	6.5%	
Industrial												
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%	
CapitaLand Ascendas REIT	CLAR SP	Add	2.93	3.06	\$9,659	36.7%	2.31	1.27	5.5%	5.6%	5.8%	
ESR-LOGOS REIT	EREIT SP	Add	0.31	0.39	\$1,761	37.7%	0.33	0.92	8.7%	8.4%	8.4%	
Frasers Logistics & Commercial Trus	FLT SP	Add	1.12	1.27	\$3,149	28.6%	1.30	0.86	6.3%	6.0%	6.1%	
Keppel DC REIT	KDCREIT SP	Add	1.82	2.53	\$2,352	37.3%	1.37	1.33	5.6%	6.0%	6.2%	
Mapletree Industrial Trust	MINT SP	Add	2.43	2.61	\$5,170	37.9%	1.88	1.29	5.6%	5.6%	5.8%	
Mapletree Logistics Trust	MLT SP	Add	1.66	1.88	\$6,191	38.9%	1.42	1.17	5.4%	5.2%	5.2%	
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	32.4%	0.53	0.73	7.9%	7.9%	8.2%	
	Simple Average					35.7%		1.24	6.6%	6.5%	6.7%	
Office												
Keppel REIT	KREIT SP	Add	0.93	1.14	\$2,627	39.5%	1.31	0.71	6.4%	6.5%	6.8%	
OUE Commercial REIT	OUECT SP	Hold	0.29	0.36	\$1,174	39.1%	0.59	0.48	7.4%	7.6%	7.8%	
Suntec REIT	SUN SP	Hold	1.21	1.25	\$2,632	42.7%	2.09	0.58	5.9%	5.7%	6.0%	
	Simple Average					40.4%		0.59	6.6%	6.6%	6.8%	
Retail												
CapitaLand Integrated Commercial	CICT SP	Add	1.98	2.17	\$9,898	40.8%	2.12	0.93	5.5%	5.6%	5.8%	
Frasers Centrepoint Trust	FCT SP	Add	2.19	2.52	\$2,815	39.3%	2.31	0.95	5.5%	5.4%	5.5%	
Lendlease Global Commercial REIT	LREIT SP	Add	0.64	0.83	\$1,122	40.6%	0.78	0.81	7.3%	6.7%	7.3%	
Mapletree Pan Asia Commercial Trus	MPACT SP	Add	1.50	1.54	\$5,913	40.7%	1.81	0.83	6.4%	5.7%	5.8%	
Paragon REIT	PGNREIT SP	Hold	0.86	0.88	\$1,832	30.1%	0.91	0.95	5.4%	5.4%	5.8%	
Starhill Global REIT	SGREIT SP	Add	0.52	0.62	\$873	37.4%	0.80	0.64	7.4%	7.7%	7.9%	
	Simple Average					38.2%		0.85	6.3%	6.1%	6.3%	
Overseas-centric												
CapitaLand China Trust	CLCT SP	NR	0.92	NA	\$1,139	34.7%	1.55	0.59	8.6%	9.2%	9.5%	
Elite Commercial REIT	ELITE SP	Add	0.30	0.49	\$183	46.0%	0.51	0.59	12.1%	13.6%	13.6%	
Manulife US REIT	MUST SP	Add	0.08	0.25	\$142	56.7%	0.40	0.20	48.6%	48.2%	47.4%	
Sasseur REIT	SASSR SP	Add	0.68	0.95	\$630	26.2%	0.83	0.81	9.2%	9.3%	9.8%	
	Simple Average					41.2%		0.55	19.6%	20.1%	20.1%	
Healthcare												
Parkway Life REIT	PREIT SP	Add	3.57	4.50	\$1,622	35.3%	2.33	1.53	4.1%	4.2%	4.3%	
	Simple Average					35.1%		1.53	4.1%	4.2%	4.3%	
	Simple average for SIN					37.8%		0.86	8.3%	8.4%	8.6%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

NR estimates are based on Bloomberg consensus forecasts



ESG in a nutshell

In the 2022 Global Real Estate Sustainability Benchmark (GRESB) rankings, LREIT received a 5-star rating, clinched the Global sector Leader in Retail and retained its position as Regional Sector Leader status for both Asia Retail (Overall) and Asia Retail (Listed) categories for the fourth consecutive year since its listing in Oct 2019. It also scored an A for public disclosure. LREIT's properties in Singapore, namely 313@somerset and Jem, achieved the Building and Construction Authority's (BCA) Green Mark Platinum certifications since FY21 while Sky Complex was awarded the LEED Gold certification in FY22.

Keep your eye on

Acquisition of Jem strengthened LREIT's income stream and increased LREIT's market capitalisation by 1.8x, raising its profile in the investor community. Greater market capitalisation and visibility could lead to ESG ratings and inclusion into funds with an ESG-focused investment mandate.

Implications

Our current valuations have not ascribed a premium/discount for LREIT's lack of ESG rating.

ESG highlights

As reported in LREIT's FY6/22 Annual Report, LREIT achieved its net zero carbon target (Scope 1 & 2) since Aug 2022, three years ahead of its original target in 2025. Under Mission Zero, in which it aims to reach absolute zero carbon emissions by 2040 (Scope 1, 2 & 3), LREIT has set ambitious greenhouse gas emissions (GHG) reduction targets across its portfolio within its reporting boundary.

LREIT exceeded its targets in all resources in FY23, reducing water, energy and GHG emissions intensities by 14%, 18% and 18% respectively, vs. the baseline year of FY22.

Implications

The continuous efforts to improve ESG should have a positive impact on LREIT's operations and financials in the longer term, in our view.

Trends

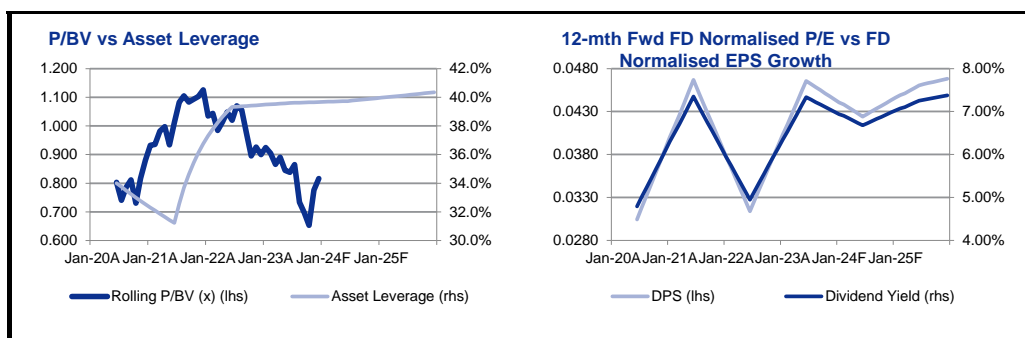
As of Jun 2023, sustainability-linked loans accounted for approximately 70% of LREIT's total debt. This is in addition to approximately S\$215m of sustainability-linked interest rate swaps.

Implications

This emphasis on incorporating sustainable financing into its financing structure underscores LREIT's commitment towards ESG causes. Given the increasing demand for sustainable assets and investing, we believe LREIT's sustainable financing efforts will further raise its overall attractiveness, especially in the sustainable investing community.

SOURCES: CGS-CIMB RESEARCH

BY THE NUMBERS



Profit & Loss

(\$m)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Rental Revenues	101.7	204.9	215.0	228.5	234.8
Other Revenues					
Gross Property Revenue	101.7	204.9	215.0	228.5	234.8
Total Property Expenses	(26.2)	(50.9)	(53.7)	(56.6)	(58.4)
Net Property Income	75.5	153.9	161.4	171.9	176.4
General And Admin. Expenses					
Management Fees	(11.2)	(18.9)	(19.8)	(20.3)	(20.6)
Trustee's Fees	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Other Operating Expenses	(4.3)	(3.8)	(4.7)	(4.8)	(4.8)
EBITDA	59.6	130.9	136.3	146.3	150.5
Depreciation And Amortisation					
EBIT	59.6	130.9	136.3	146.3	150.5
Net Interest Income	(15.8)	(50.7)	(61.5)	(62.2)	(61.2)
Associates' Profit					
Other Income/(Expenses)	5.1	0.0	0.0	0.0	0.0
Exceptional Items	49.1	39.2	0.0	0.0	0.0
Pre-tax Profit	98.0	119.3	74.8	84.1	89.3
Taxation	0.0	0.0	0.0	0.0	0.0
Minority Interests					
Preferred Dividends					
Net Profit	98.0	119.3	74.8	84.1	89.3
Distributable Profit	71.5	108.2	99.9	109.9	115.1

Cash Flow

(\$m)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Pre-tax Profit	98	119	75	84	89
Depreciation And Non-cash Adj.	16	51	61	62	61
Change In Working Capital	25	16	25	6	3
Tax Paid	0	0	0	0	0
Others	-43	-12	26	26	27
Cashflow From Operations	95	174	186	179	180
Capex	-2	-5	-3	-6	-6
Net Investments And Sale Of FA	-1,879	0	0	0	0
Other Investing Cashflow	34	-81	1	1	1
Cash Flow From Investing	-1,847	-86	-2	-5	-5
Debt Raised/(repaid)	966	67	0	5	5
Equity Raised/(Repaid)	649	0	0	0	0
Dividends Paid	-70	-68	-100	-110	-115
Cash Interest And Others	8	-82	-69	-69	-68
Cash Flow From Financing	1,553	-83	-168	-174	-178
Total Cash Generated	-199	5	16	-0	-3
Free Cashflow To Firm	-1,752	89	185	175	176
Free Cashflow To Equity	-793	118	136	129	132

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Total Investments	3,599	3,736	3,739	3,745	3,751
Intangible Assets	0	0	0	0	0
Other Long-term Assets	13	13	13	13	13
Total Non-current Assets	3,612	3,749	3,751	3,757	3,763
Total Cash And Equivalents	49	54	70	70	67
Inventories	0	0	0	0	0
Trade Debtors	17	4	4	5	5
Other Current Assets	9	12	12	12	12
Total Current Assets	75	70	86	86	83
Trade Creditors	56	58	77	82	84
Short-term Debt	298	434	374	304	214
Other Current Liabilities	0	1	1	1	1
Total Current Liabilities	354	492	451	386	298
Long-term Borrowings	1,152	1,079	1,151	1,239	1,347
Other Long-term Liabilities	17	25	31	32	33
Total Non-current Liabilities	1,169	1,103	1,182	1,271	1,380
Shareholders' Equity	1,775	1,829	1,811	1,793	1,775
Minority Interests	4	2	2	2	2
Preferred Shareholders Funds	399	399	399	399	399
Total Equity	2,179	2,231	2,213	2,194	2,176

Key Ratios

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Gross Property Revenue Growth	29%	102%	5%	6%	3%
NPI Growth	33%	104%	5%	7%	3%
Net Property Income Margin	74.3%	75.1%	75.0%	75.2%	75.1%
DPS Growth	(32.7%)	48.3%	(8.9%)	8.6%	3.3%
Gross Interest Cover	3.71	2.55	2.19	2.32	2.42
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	73%	91%	134%	131%	129%
Current Ratio	0.21	0.14	0.19	0.22	0.28
Quick Ratio	0.21	0.14	0.19	0.22	0.28
Cash Ratio	0.14	0.11	0.16	0.18	0.22
Return On Average Assets	3.61%	3.18%	1.95%	2.19%	2.32%

Key Drivers

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Singapore passing rent (\$\$/sf/mth)	15.2	15.6	16.0	16.4	16.7
Italy passing rent (\$\$/sf/mth)	1.4	1.5	1.5	1.5	1.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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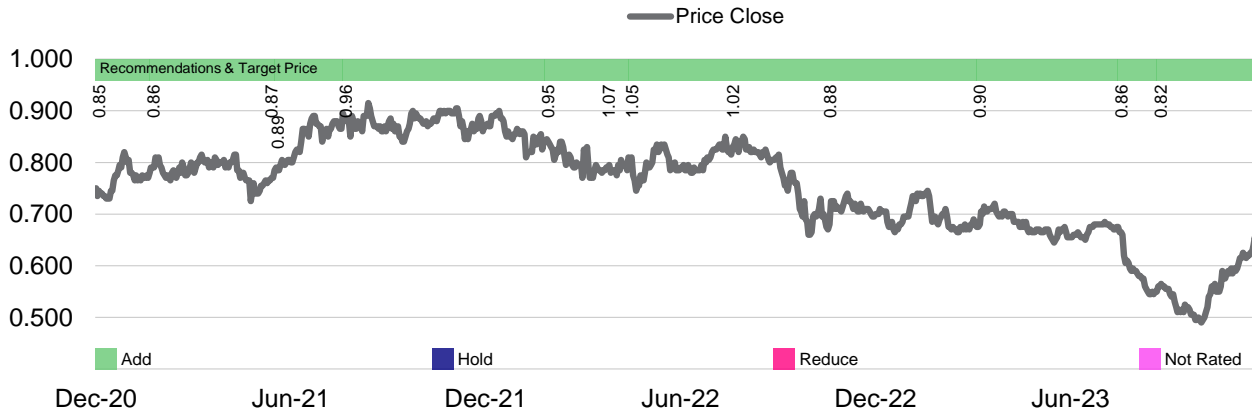
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Lendlease Global Commercial REIT (LREIT SP)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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