

LendLease Global Commercial REIT

Bloomberg: LREIT SP | Reuters: LEND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Feb 2024

BUY

Last Traded Price (5 Feb 2024): S\$0.620 (STI : 3,134.29)

Price Target 12-mth: S\$0.90 (45% upside)

Analysts

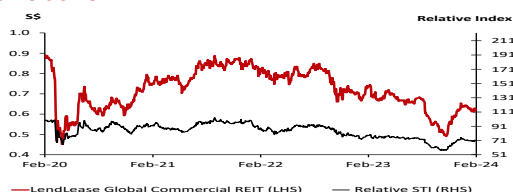
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What's New

- 1H24 revenue of S\$119.9m includes supplementary rents from Sky Italia termination; core revenue rose 5.1% y-o-y; DPU of 2.10Scts behind estimates on interest cost
- Portfolio occupancy declines to 88% as Sky Complex lease restructuring starts
- Retail reversions robust at +15.7%, tenant sales maintained across peak travel quarter in 4Q24
- Maintain BUY with unchanged TP of S\$0.90, revised FY24F yield of 6.8%

Price Relative



Forecasts and Valuation

FY Jun (S\$m)	2023A	2024F	2025F	2026F
Gross Revenue	205	220	230	238
Net Property Inc	154	170	178	184
Total Return	118	89.1	96.0	101
Distribution Inc	108	97.6	105	111
EPU (S cts)	3.42	3.78	4.02	4.21
EPU Gth (%)	(24)	11	6	5
DPU (S cts)	4.70	4.21	4.47	4.64
DPU Gth (%)	(6)	(10)	6	4
NAV per shr (S cts)	78.1	77.3	76.6	75.8
PE (X)	18.1	16.4	15.4	14.7
Distribution Yield (%)	7.6	6.8	7.2	7.5
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	39.5	40.2	40.3	40.3
ROAE (%)	4.3	4.9	5.2	5.5

Distn. Inc Chng (%):	(6)	(2)	(5)
Consensus DPU (S cts):	4.3	4.6	3.5
Other Broker Recs:	B: 6	S: 0	H: 2

Source of all data on this page: Company, DBS Bank Ltd, Bloomberg Finance L.P.

Rental uplift of +15% at Sky Complex post lease restructuring

Investment Thesis:

Attractive returns for an emerging suburban landlord. We remain comfortable in our view that LREIT's Singapore-focused portfolio should be relatively sheltered from any risks of asset devaluation from within. The share price has rebounded to from low and currently trades at a FY24F yield of c.6.8% and P/B of c.0.8x, at -1 standard deviation of its historical mean.

Steady organic growth, recent acquisition of Parkway Parade will contribute in FY24-25F. We forecast LREIT's EBITDA would grow at a CAGR of c.7% in FY23-25F, driven by a further rental reversion upside for its key assets, 313@Somerset and JEM. We expect these properties to see positive rental reversions of 5%-15% in the coming years, underpinned by strong tenant sales, exceeding pre-COVID levels by 15%, and healthy occupancy cost levels. In addition, LREIT will see a boost from the completion of the lease restructuring at Sky Complex, which should see revenue from the asset stabilise at c.€30m per annum (FY27), a +20% uplift from the rental revenue seen prior to the lease restructuring.

Likely to opt for asset sale rather than equity fundraising at this price. Contrary to market speculation, we think management is unlikely to pursue equity fundraising (EFR) at 0.8x P/B, given its stable financial metrics and strong lender support, implying that the pressure it faces to reduce gearing is lower than the market's perception. Instead, our preferred scenario is the asset sale of the JEM Tower of Sky Complex, Milan. Selling this could reduce gearing to c.32% with minimal DPU dilution.

BUY, TP maintained at S\$0.90. Our TP is based on DCF and factors in a higher interest cost, alongside a delay in contribution from the Grange carpark redevelopment.

Key Risks

Interest rate risk: A higher-for-longer interest rate environment could prompt us to cut our estimates further.

At A Glance

Issued Capital (m shrs)	2,324
Mkt. Cap (S\$m/US\$m)	1,441 / 1,073
Major Shareholders (%)	
LENDLEASE SREIT PTY LTD	23.2
Free Float (%)	76.8
3m Avg. Daily Val (US\$m)	2.6
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

LendLease Global Commercial REIT

WHAT'S NEW

1HFY24 results

- Gross revenue rose 17.9% y-o-y to S\$119.9m (+5.1% y-o-y after exclusion of supplementary rent from Sky Italia lease restructuring)
- NPI rose 22.2% y-o-y to S\$93.4m
- Distributable income declined 12% y-o-y to S\$49.3m, while 1H DPU of 2.10Scts makes up 47% our full-year estimate of 4.48Scts
- Retail reversions came in at a strong 15.7%
- Portfolio occupancy declined to 87.9% and was within expectations (SG assets maintained at c.100% occupancy), primarily due to a c.20% decline in Sky Complex's occupancy, where master lease tenant Sky Italia returned one out of three towers at the property
- Tenant sales rose 0.6% y-o-y, to be maintained within the range of c.110%-120% of pre-COVID levels in CY 2H24 with a similar boost in sales across December festivities with a spike to c.150% of pre-COVID levels
- Footfall trends better than expected, at c.100%-110% of pre-COVID levels for the period
- Supplementary rent received during this period from the Sky Italia lease restructuring was worth two years of rent from Block 3.
- Gearing reached 40.5% as at 31 December 2023, with an average cost of debt of 3.38% (+43bps q-o-q), higher than expectations
- Interest coverage ratio was 3.8x, with 61% of debt coming under fixed borrowing cost

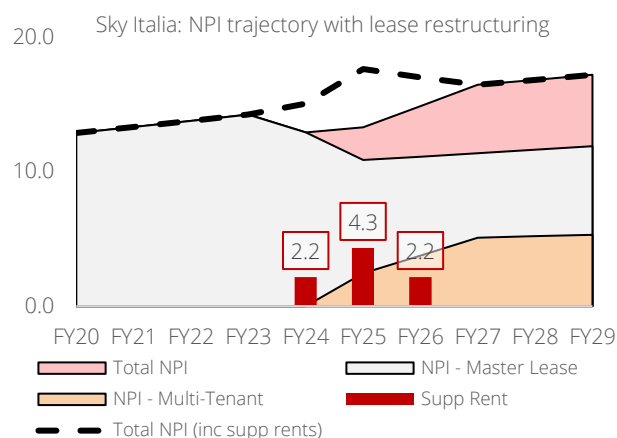
Well-positioned assets to capture domestic footfall. LREIT continues to show resilient retail operations, maintaining both traffic footfall and tenant sales across 4Q23, even as industry retail data shows a downward tick in spending as Singaporeans travel abroad. Reversions come in stronger than expected, at +15.7%. Meanwhile, more of the rental uplift, we understand, would only reflect as GRI in FY2H24.

Supplementary rent to buffer against rental gap at Sky Complex from FY2H24. Total one-off supplementary rents, which we estimate to be c.S\$13m, has been accounted for

in the books in 1H24 and should go towards income distribution to buffer against the temporary income gap in Milan, as announced by LREIT. Management has shared that the supplementary rents received from Sky Italia will be staggered across the two years, to match the 'loss' of master lease income during the period. In time to come, the ramp up of occupancy at Block 3 through a multi-tenant lease structure should start making contributions.

Shifting estimates to reflect lease restructuring at Sky Complex. The capex commitment to Sky Italia and for fitout works pertaining to Block 3 has not been shared, and we have considered a capex drawdown of c.S\$5m this year to fulfil the capex requirements of both parties, funded fully via debt. Moreover, we estimate that LREIT will be able to reach 50%/75% occupancy for the multi-tenanted Block 3 in FY25/FY26, at a rental rate of €280psm p.a., below submarket passing. Upon stabilisation and excluding supplementary rents, we expect the NPI contribution from the multi-tenanted segment to stabilise at c.33% (NLA exposure of c.27%), and for overall rental income from Sky Complex to stabilise at 15% higher in FY27, when supplementary rents fully taper off, than previous rates (FY23).

Sky Italia: NPI trajectory with lease restructuring (in €)



Source: DBS Bank Ltd

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Valuation upside from Sky Complex a medium-term driver to NAV? We see Sky Complex's lease restructuring to be a medium-term driver to NAV, which would uplift valuations at the property, albeit with more stress on the Lendlease Group's leasing team in the short term. The overall increase in passing rents for the asset will move in tandem with the backfilling of Building 3, which is newly released by master lease tenant Sky Italia and repositioned as a multi-tenant building. Leasing works should start by early CY2Q24 as LREIT repossess Building 3 this quarter, CY1Q24. There is potential for LREIT to bring up the rents for Block 3 closer to submarket rents, which are c.50% higher, at €320psm p.a., and effectively increase the asset valuation of Sky Complex, which is derived on a discounted cash flow basis. While a medium-term catalyst, we see this as a catalyst that could, over time, bring down LREIT's gearing of 40.5%, which is higher than the average of the overall retail sector.

Maintain BUY with TP of S\$0.90. We maintain our BUY call for LREIT with a revised DPU estimate for FY24F/FY25F of

4.2Scts/4.5Scts. We have shifted upwards our interest cost assumption by another 40bps this year to an average cost of 3.9% for the full year of FY24, while pushing back the income contribution from the Grange Carpark by another year. Our revised estimates translate to a 6.7%/7.1% forward yield.

Company Background

Lendlease Global Commercial REIT (LREIT) was listed on 2 October 2019 as a real estate investment trust with the principal objective of owning in-producing real estate across the globe. Its initial portfolio comprises full ownership stakes in two assets, namely retail mall 313@Somerset (Singapore) and office asset Sky Complex (Italy) and this has now grown to four assets (to include JEM and a 10% stake in Parkway Parade).

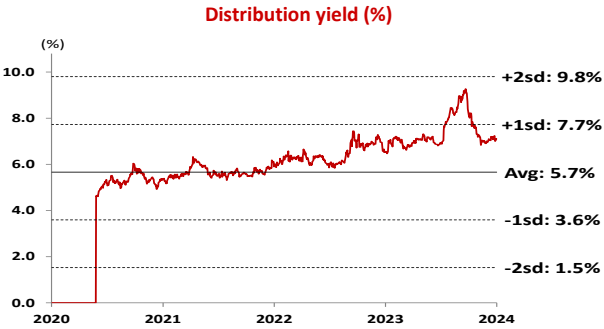
Interim Income Statement (\$m)

FY Jun	1H2023	2H2023	1H2024	% chg yoy	% chg hoh
Gross revenue	102	103	120	17.9	16.3
Property expenses	(25.3)	(25.6)	(26.5)	4.8	3.5
Net Property Income	76.4	77.5	93.4	22.2	20.5
Other Operating expenses	(1.4)	(3.2)	(1.5)	7.1	(52.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.67	0.39	2.14	221.3	456.6
Net Interest (Exp)/Inc	(23.5)	(27.2)	(32.0)	(36.1)	(17.8)
Exceptional Gain/(Loss)	15.6	21.7	(21.3)	nm	nm
Net Income	58.3	60.1	30.4	(47.9)	(49.4)
Tax	0.0	0.0	0.0	-	-
Minority Interest	(0.1)	0.44	(0.2)	(70.8)	nm
Net Income after Tax	48.7	51.2	20.7	(57.5)	(59.5)
Total Return	48.7	51.2	20.7	(57.5)	(59.5)
Non-tax deductible Items	7.30	0.98	28.6	291.2	2,826.4
Net Inc available for Dist.	56.0	52.2	49.3	(12.0)	(5.5)
Ratio (%)					
Net Prop Inc Margin	75.1	75.2	77.9		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank Ltd



Historical Distribution Yield and PB band



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates

LendLease Global Commercial REIT

Income Statement (\$m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Gross revenue	102	205	220	230	238
Property expenses	(26.2)	(50.9)	(49.7)	(51.9)	(54.3)
Net Property Income	75.5	154	170	178	184
Other Operating expenses	(15.9)	(23.1)	(23.7)	(24.3)	(24.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	4.76	0.0	2.70	2.70	2.70
Net Interest (Exp)/Inc	(15.8)	(50.7)	(59.0)	(59.5)	(59.7)
Exceptional Gain/(Loss)	55.0	(0.8)	(0.8)	(0.8)	(0.8)
Net Income	104	79.3	89.1	96.0	101
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	104	79.3	89.1	96.0	101
Total Return	153	118	89.1	96.0	101
Non-tax deductible Items	(68.9)	8.28	27.4	28.1	28.5
Net Inc available for Dist.	71.5	108	97.6	105	111
Growth & Ratio					
Revenue Gth (%)	29.3	101.5	7.1	4.7	3.6
N Property Inc Gth (%)	32.7	103.9	10.3	4.8	3.2
Net Inc Gth (%)	245.9	(23.4)	12.3	7.8	5.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	74.3	75.1	77.4	77.4	77.2
Net Income Margins (%)	101.9	38.7	40.6	41.8	42.5
Dist to revenue (%)	70.3	52.8	44.5	45.8	46.5
Managers & Trustee's fees	15.6	11.3	10.8	10.6	10.4
ROAE (%)	5.8	4.3	4.9	5.2	5.5
ROA (%)	2.8	2.1	2.3	2.5	2.7
ROCE (%)	1.7	3.5	3.9	4.1	4.2
Int. Cover (x)	3.8	2.6	2.5	2.6	2.7

Balance Sheet (\$m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Investment Properties	3,593	3,643	3,652	3,657	3,662
Other LT Assets	33.4	113	113	113	113
Cash & ST Invt	49.2	54.2	15.7	16.4	16.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	16.8	4.05	4.05	4.05	4.05
Other Current Assets	9.21	11.8	11.8	11.8	11.8
Total Assets	3,702	3,826	3,797	3,803	3,808
ST Debt	298	434	434	434	434
Creditor	56.1	58.1	14.6	15.3	15.9
Other Current Liab	0.23	0.61	0.61	0.61	0.61
LT Debt	1,152	1,079	1,093	1,098	1,102
Other LT Liabilities	17.0	24.7	24.7	24.7	24.7
Unit holders' funds	1,775	1,829	1,829	1,829	1,829
Minority Interests	403	401	401	401	401
Total Funds & Liabilities	3,702	3,826	3,797	3,803	3,808
Non-Cash Wkg. Capital	(30.3)	(42.9)	0.63	(0.1)	(0.6)
Net Cash/(Debt)	(1,401)	(1,458)	(1,511)	(1,515)	(1,519)
Ratio					
Current Ratio (x)	0.2	0.1	0.1	0.1	0.1
Quick Ratio (x)	0.2	0.1	0.1	0.1	0.1
Aggregate Leverage (%)	39.2	39.5	40.2	40.3	40.3

Source: Company, DBS Bank Ltd

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Cash Flow Statement (S\$m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Pre-Tax Income	153	118	89.1	96.0	101
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	(4.8)	0.02	(2.7)	(2.7)	(2.7)
Chg in Wkg.Cap.	24.6	16.0	(43.5)	0.69	0.55
Other Operating CF	(77.3)	39.5	27.4	28.1	28.5
Net Operating CF	95.2	174	70.3	122	128
Net Invnt in Properties	(1,879)	(6.6)	(9.4)	(4.6)	(4.8)
Other Invnts (net)	(4.5)	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	35.4	(85.9)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	2.70	2.70	2.70
Other Investing CF	0.39	6.71	0.0	0.0	0.0
Net Investing CF	(1,847)	(85.8)	(6.7)	(1.9)	(2.1)
Distribution Paid	(78.1)	(67.9)	(97.6)	(105)	(111)
Chg in Gross Debt	940	66.8	14.4	4.60	4.76
New units issued	639	0.0	0.0	0.0	0.0
Other Financing CF	(146)	(82.0)	(18.9)	(18.9)	(18.9)
Net Financing CF	1,355	(83.1)	(102)	(120)	(125)
Currency Adjustments	(1.4)	(0.2)	0.0	0.0	0.0
Chg in Cash	(398)	5.01	(38.5)	0.66	0.53
Operating CFPS (S cts)	3.08	6.82	4.83	5.08	5.29
Free CFPS (S cts)	(77.8)	7.22	2.59	4.92	5.11

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Feb 23	0.74	1.08	BUY
2:	10 Aug 23	0.67	0.90	BUY
3:	11 Sep 23	0.55	0.90	BUY

Source: DBS Bank Ltd

Analysts: Geraldine WONG

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 6 Feb 2024 06:35:21 (SGT)

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