

COMPANY RESULTS

Lendlease Global Commercial REIT (LREIT SP)

1HFY24: DPU Augmented By Supplementary Rent In 2024 And 2025

LREIT achieved strong positive rental reversion of 15.7% (313@Somerset: 20%, Jem: 10%) in 1HFY24. Committed occupancy for its retail properties was stable at 99.6%. LREIT has received supplementary rent, estimated at S\$13m and equivalent to 0.55 S cents per unit, from Sky Italia for Building 3. It will distribute the supplementary rent to unitholders over a two-year timeframe in 2024 and 2025. LREIT provides an attractive FY25 distribution yield of 7.6%. Maintain BUY. Target price: S\$0.93.

1HFY24 RESULTS

Year to 30 Jun (S\$m)	1H FY24	yoy % chg	Remarks
Gross Revenue	119.9	+17.9	Include supplementary rent estimated at S\$13m.
Net Property Income (NPI)	93.4	+22.2	
Distributable Income	49.3	-12.0	Finance costs increased 38.7% yoy.
DPU (S cent)	2.10	-14.5	The number of units increased by 4.5% yoy.

Source: LREIT, UOB Kay Hian

RESULTS

- Lendlease Global Commercial REIT (LREIT) reported DPU of 2.10 S cents for 1HFY24 (-14.5% yoy), which is slightly below our expectations of 2.27 S cents.
- Recognised supplementary rent from Sky Complex.** Gross revenue and NPI increased 17.9% and 22.2% yoy respectively in 1HFY24 due to supplementary rent from lease restructuring with Sky Italia recognised in advance. The supplementary rent, estimated at S\$13m and equivalent to 0.55 S cents per unit, will be distributed to unitholders over a two-year timeframe in 2024 and 2025. Excluding the supplementary rent, gross revenue increased by 5.1% yoy.
- Retail properties generated strong positive reversions.** LREIT's retail portfolio generated positive retail rental reversion of 15.7% in 1HFY24 (313@Somerset: 20%, Jem: 10%) (FY23: 4.8%). It maintained high committed occupancies of 98.9% for 313@Somerset and 100.0% for Jem. Tenant retention rate was healthy at 80.6%. Tenant sales increased 0.5% yoy. Essential services accounted for 57% of gross rental income.
- Option to pre-terminate removed from restructured leases.** The lease expiry for Building 1 and Building 2 remains relatively unchanged in Jan 33, although Sky Italia has an option to renew for another six years. Sky Italia no longer has the option to terminate the leases in 2026. Rentals for Building 1 and Building 2 of Sky Complex have been revised upwards by 1.5% from the existing in-place rents due to the lease restructuring, on top of the recent positive 5.9% rental escalation in May 23.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	102	205	224	216	223
EBITDA	60	131	148	138	143
Operating profit	60	131	148	138	143
Net profit (rep./fact.)	140	100	46	55	57
Net profit (adj.)	36	63	67	55	57
EPU (S\$ cent)	2.1	2.7	2.9	2.4	2.4
DPU (S\$ cent)	4.9	4.7	4.4	4.7	4.7
PE (x)	29.6	22.7	21.3	26.3	25.6
P/B (x)	0.8	0.8	0.8	0.8	0.9
DPU Yld (%)	7.8	7.5	7.1	7.6	7.4
Net margin (%)	138.1	48.8	20.6	25.5	25.7
Net debt/(cash) to equity (%)	64.4	65.4	67.7	72.1	76.5
Interest cover (x)	3.8	2.6	2.4	2.2	2.1
ROE (%)	8.4	4.5	2.1	2.6	2.7
Consensus DPU (S\$ cent)	n.a.	n.a.	4.3	4.5	3.4
UOBKH/Consensus (x)	-	-	1.03	1.05	1.37

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

BUY

(Maintained)

Share Price	S\$0.625
Target Price	S\$0.93
Upside	+48.8%
(Previous TP)	S\$0.87

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):	1,470.5
Market cap (US\$m):	1,101.3
3-mth avg daily t'over (US\$m):	2.8

Price Performance (%)

52-week high/low S\$0.745/S\$0.49

1mth	3mth	6mth	1yr	YTD
(2.3)	15.7	(7.4)	(15.0)	(3.1)

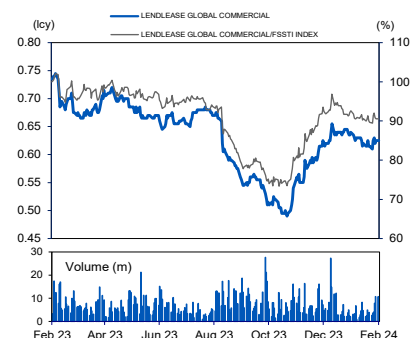
Major Shareholders

	%
Lendlease Corp Ltd	27.7

FY24 NAV/Share (S\$) 0.77

FY24 Net Debt/Share (S\$) 0.64

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
 +65 6590 6620
 jonathankoh@uobkayhian.com

- **Working on backfilling Building 3 at higher rents.** Sky Italia has returned Building 3 to LREIT in 1Q24 upon the completion of reinstatement works. The average passing rent at Spark One and Spark Two is €300-320psm per year, which are developed by sponsor Lendlease Group and adjacent to Sky Complex, much higher than €200psm per year for Sky Complex. Thus, there is upside for Sky Complex after Building 3 is backfilled in terms of generating higher rental income and higher valuation.
- **Hit by higher interest rates.** Finance costs increased 38.7% yoy in 1HFY24 amid higher interest rates. Average cost of debt increased 1.02ppt yoy to 3.37% after LREIT drew down a €300m unsecured five-year sustainability-linked loan in Oct 23. 61% of its borrowings are hedged to fixed interest rates. Aggregate leverage was stable at 40.5%. There is no refinancing until FY25.

STOCK IMPACT

- **Retail market remains resilient.** According to CBRE, leasing demand was strong in 4Q23, driven by F&B operators, fashion brands and proliferation of pop-up stores. Vacancy for Orchard Road tightened by 1.1ppt to 11.8% due to back-to-office momentum. Conversely, vacancy for the suburban market rose by 0.8ppt qoq to 4.9% after some retailers consolidated their footprint at fringe locations. Thus, rents for Orchard have increased by 3.8% in 3Q23, faster than 3.1% yoy for the suburban market. The supply of new retail space totalled 1.34m sf from 4Q23 to 2026, equivalent to 0.48m sf per year, which was below historical average by 23%. CBRE expects retail rents to maintain the growth trajectory in 2024.
- **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 estimate 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 12-18 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 the Urban Redevelopment Authority (URA) once its plan for asset enhancement initiative (AEI) is finalised.

EARNINGS REVISION/RISK

- We raise our existing FY25 DPU forecast by 9% due to the supplementary rent from Sky Italia and backfilling of vacant space at Sky Complex.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.93 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.

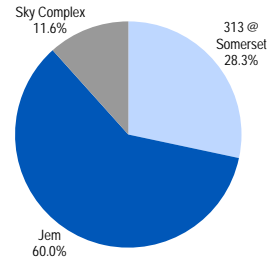
KEY OPERATING METRICS - LREIT

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	yoy % Chg	qoq % Chg*
DPU (S cents)	2.45	n.a.	2.25	n.a.	2.1	-14.3%	-6.7%
Occupancy	99.8%	99.8%	99.9%	99.9%	99.6%	-0.2ppt	-0.3ppt
Aggregate Leverage	39.2%	39.3%	40.6%	40.6%	40.5%	1.3ppt	-0.1ppt
Average Cost of Debt	2.35%	2.51%	2.69%	2.94%	3.37%	1.02ppt	0.4ppt
% Borrowings on Fixed Rate	61%	61%	61%	61%	61%	0ppt	0ppt
Weighted Debt Maturity (years)	2.6	2.3	2.1	3.1	3.0	0.4yrs	-0.1yrs
WALE by NLA (years)	8.3	8.3	8.2	8.0	7.9	-0.4yrs	-0.1yrs

* hoh % chg for DPU

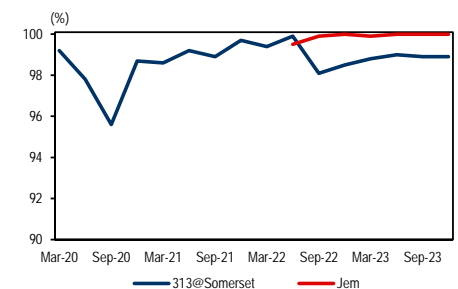
Source: LREIT, UOB Kay Hian

PORTFOLIO VALUATION BY PROPERTY (DEC 23)



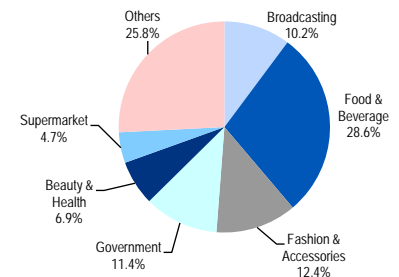
Source: LREIT

OCCUPANCY FOR JEM AND 313@SOMERSET



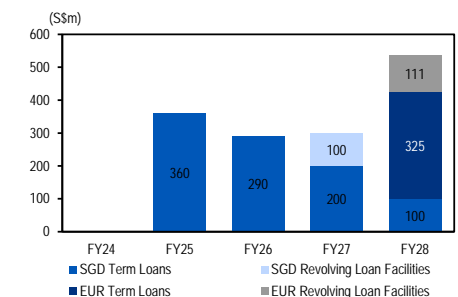
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (DEC 23)



Source: LREIT

DEBT MATURITY PROFILE



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Net turnover	204.9	224.2	216.3	222.8
EBITDA	130.9	147.8	138.0	142.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	130.9	147.8	138.0	142.7
Associate contributions	1.1	0.7	0.0	0.0
Net interest income/(expense)	(50.7)	(61.9)	(63.9)	(66.4)
Pre-tax profit	118.5	65.3	74.1	76.2
Tax	0.0	0.0	0.0	0.0
Minorities	0.4	(0.2)	0.0	0.0
Preferred dividends	(18.9)	(19.0)	(18.9)	(18.9)
Net profit	99.9	46.2	55.2	57.3
Net profit (adj.)	62.6	67.5	55.2	57.3

BALANCE SHEET

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,650.0	3,649.3	3,653.3	3,657.3
Other LT assets	111.2	99.7	99.7	99.7
Cash/ST investment	54.2	60.6	64.4	70.1
Other current assets	10.9	13.7	14.0	14.1
Total assets	3,826.4	3,823.2	3,831.3	3,841.1
ST debt	433.6	0.0	0.0	0.0
Other current liabilities	58.7	58.5	61.3	62.9
LT debt	1,078.6	1,540.0	1,600.0	1,660.0
Other LT liabilities	24.7	38.9	38.9	38.9
Shareholders' equity	2,228.8	2,183.7	2,128.9	2,077.2
Minority interest	2.0	2.1	2.1	2.1
Total liabilities & equity	3,826.4	3,823.2	3,831.3	3,841.1

CASH FLOW

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Operating	174.0	169.0	143.5	147.0
Pre-tax profit	99.9	46.2	55.2	57.3
Working capital changes	16.0	(3.0)	2.5	1.4
Non-cash items	(3.5)	59.0	31.2	31.5
Other operating cashflows	61.6	66.8	54.5	56.9
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)	(158.7)	(135.7)	(137.4)
Distribution to unitholders	(67.9)	(102.0)	(110.0)	(109.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	66.8	27.8	60.0	60.0
Others/interest paid	(82.0)	(84.5)	(85.8)	(88.3)
Net cash inflow (outflow)	5.2	6.4	3.8	5.7
Beginning cash & cash equivalent	49.2	54.2	60.6	64.4
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	54.2	60.6	64.4	70.1

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	63.9	65.9	63.8	64.0
Pre-tax margin	57.8	29.1	34.3	34.2
Net margin	48.8	20.6	25.5	25.7
ROA	2.7	1.2	1.4	1.5
ROE	4.5	2.1	2.6	2.7
Growth				
Turnover	101.5	9.4	(3.5)	3.0
EBITDA	119.4	12.9	(6.6)	3.4
Pre-tax profit	(22.4)	(44.8)	13.5	2.8
Net profit	(28.8)	(53.7)	19.5	3.7
Net profit (adj.)	72.6	7.7	(18.1)	3.7
EPU	30.2	6.7	(18.9)	2.8
Leverage				
Debt to total capital	40.4	41.3	42.9	44.4
Debt to equity	67.8	70.5	75.2	79.9
Net debt/(cash) to equity	65.4	67.7	72.1	76.5
Interest cover (x)	2.6	2.4	2.2	2.1

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W