

COMPANY UPDATE

Lendlease Global Commercial REIT (LREIT SP)

Ingesting The Acquisition Of Jem In 3QFY22

313@Somerset maintained positive rent reversion at mid single-digit and high occupancy of 99.4% in 3QFY22. Sky Complex will enjoy rental escalation of 4.68% starting May 22 based on the 6.24% increase in ISTAT CPI in Apr 22. LREIT benefits from full contribution and tax transparency from Jem in FY23 as the acquisition of the remaining 68.2% stake was completed in Apr 22. LREIT provides an attractive FY23 distribution yield of 7%. Maintain BUY. Target price: S\$1.05.

RESULTS

- Lendlease Global Commercial REIT (LREIT) provided a business update for 3QFY22.
- 313@Somerset maintained positive reversion.** Portfolio occupancy was stable at 99.9% in 3QFY22. Occupancy at 313@Somerset eased slightly by 0.3ppt qoq to 99.4%. The downtown mall maintained positive rent reversion at mid single-digit.
- Strengthened tenant mix with refreshed offerings.** New tenants at 313@Somerset include kskin (express beauty care from South Korea), Chinese Tofu Magician (chewy mochi drink from Hunan, China), Sukiya (authentic beef bowl from Japan) and Fjallraven (outdoor apparel from Sweden). 313@Somerset has a healthy tenant retention rate of 71.1%. Only 1% of the portfolio's total NLA is due for renewal for 4QFY22.
- Deploying bonus GFA for new tenancies on prime spaces.** 313@Somerset has untapped GFA of 10,860sf due to the increase in permissible plot ratio from 4.9 to 5.6. LREIT has utilised 660sf of the untapped GFA to expand leasable space at two prime units at the ground floor 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 the operations of other tenants.
- Sky Complex: Benefitting from higher inflation.** Sky Complex is on a long lease term to Sky Italia until 2032 and annual rental escalation is based on 75% of the changes in ISTAT consumer price index (CPI). ISTAT CPI increased 6.24% in Apr 22. Thus, Sky Complex will enjoy rental escalation of 4.68% starting May 22. Sky Complex maintained full occupancy of 100%. It has long weighted average lease expiry (WALE) of 10.1 years.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	56	79	112	222	229
EBITDA	33	46	70	140	145
Operating profit	33	46	70	140	145
Net profit (rep./act.)	(9)	(2)	53	93	98
Net profit (adj.)	27	38	53	93	98
EPU (S\$ cent)	2.3	3.2	3.3	4.4	4.6
DPU (S\$ cent)	3.1	4.7	4.8	5.5	5.5
PE (x)	35.4	25.2	24.9	18.4	17.7
P/B (x)	1.0	1.0	1.1	1.1	1.1
DPU Yld (%)	3.8	5.8	5.9	6.7	6.7
Net margin (%)	(15.5)	(2.5)	47.8	42.1	42.7
Net debt/(cash) to equity (%)	44.9	25.4	78.9	80.3	82.3
Interest cover (x)	5.0	5.6	4.4	4.7	4.8
ROE (%)	n.a.	n.a.	3.4	4.7	5.0
Consensus DPU (S\$ cent)	n.a.	n.a.	4.8	5.1	5.2
UOBKH/Consensus (x)	-	-	1.00	1.07	1.05

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

BUY

(Maintained)

Share Price	S\$0.785
Target Price	S\$1.05
Upside	+33.8%

COMPANY DESCRIPTION

LREIT invests in stabilised income-producing properties located globally, which are used for retail and/or office purposes. Its initial portfolio comprises 313@Somerset at Orchard Road in Singapore and Sky Complex in Milan, Italy.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	LREIT SP
Shares issued (m):	2,088.9
Market cap (S\$m):	1,767.7
Market cap (US\$m):	1,278.2
3-mth avg daily t'over (US\$m):	5.1

Price Performance (%)

52-week high/low	S\$0.888/S\$0.703			
1mth	3mth	6mth	1yr	YTD
0.0	(4.8)	(8.6)	3.1	(9.6)

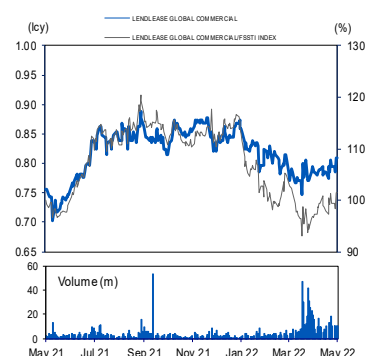
Major Shareholders

Lendlease Corp Ltd	19.5%
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FY22 NAV/Share (S\$) 0.76

FY22 Net Debt/Share (S\$) 0.75

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA

+65 6590 6620

jonathankoh@uobkayhian.com

- Healthy balance sheet.** LREIT has low aggregate leverage of 27.7% as of Mar 22. Aggregate leverage would increase to 40.7% after completing the acquisition of 68.2% stake in Jem in Apr 22. Management estimates that weighted cost of debt will increase from current 0.98% to 1.2% after the issuance of sustainability-linked loan of S\$860m to finance the acquisition. LREIT has sufficient bank facilities to refinance debt due in FY23. 90% of the borrowings are hedged to fixed rates.

STOCK IMPACT

- Jem: Enhancing scale in home base Singapore.** LREIT has completed the acquisition of the remaining 68.2% stake in Jem on 22 Apr 22. Jem achieved positive rent reversion in 3QFY22. With ownership of Jem at 100%, LREIT is able to generate recurrent savings of S\$5.6m per year from tax transparency.
- Becoming more diversified and resilient.** The acquisition expanded LREIT's AUM by 2.1x to S\$3.6b. The resilient and defensive suburban retail will account for 46.8% of the enlarged portfolio compared to 16.3% previously, based on its previous 31.8% effective stake. In terms of trade sector mix, the acquisition increases the exposure to essential services and non-discretionary trade from 52% to 59% of gross rental income. Jem has a quality base of tenants, such as IKEA, FairPrice Xtra, Cathay Cineplexes, Don Don Donki, Uniqlo and Koufu. The government through the Ministry of National Development accounted for 12% of gross rental income. Portfolio WALE will also improve from 8.4 to 8.9 years.
- Focusing on expansion in Singapore.** LREIT plans to grow through acquisitions by tapping on the rights of first refusal (ROFR) provided by its sponsor. Lendlease Group has a strong presence in Singapore through Paya Lebar Quarter (30% stake) and Parkway Parade (10.2% stake).
- Shielded from higher cost of electricity in FY23.** Management has locked in cost of electricity for 313@Somerset and Jem at fixed rates in FY23. Utilities account for 6-8% of operating expenses, lower than comparable retail malls, due to energy saving features, including atrium daylighting to maximise the use of natural sunlight, usage of low-E double glazed glass for the facades, and installation of solar panels.

EARNINGS REVISION/RISK

- The acquisition of the 68.2% stake in Jem was funded by private placement (S\$400m), preferential offering (S\$249m), perpetual securities (S\$200m) and sustainability link loan (S\$860m). We have raised our existing FY23 DPU forecast by 3% as equity fund raising was downsized by 23%.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.05 is based on DDM (cost of equity: 6.25% (previous: 6.0%), terminal growth: 1.2%).

SHARE PRICE CATALYST

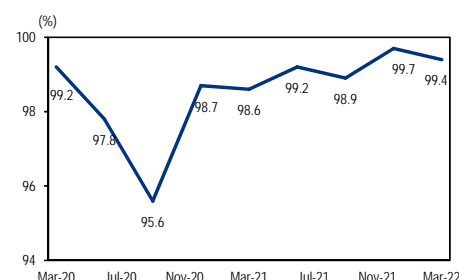
- All employees have been allowed to work from their offices since 1 Apr 22, which will increase shopper traffic and tenant sales at downtown malls, such as 313@Somerset.
- Reopening of Singapore's international borders through the Vaccinated Travel Framework, which commenced in Apr 22, bringing tourists back to shop at Orchard Road.

KEY OPERATING METRICS - LREIT

	1QFY22	2QFY22	3QFY22	yoy % Chg	hoh % Chg
DPU (S cents)	n.a.	2.40	n.a.	n.a.	n.a.
Occupancy	99.8%	99.9%	99.9%	0.2ppt	0ppt
Aggregate Leverage	34.3%	33.5%	27.7%	-7.7ppt	-5.8ppt
Average Cost of Debt	0.90%	0.92%	0.98%	0.1ppt	0.06ppt
Weighted Debt Maturity (years)	2.3	2.0	1.8	-0.6yrs	-0.2yrs
WALE by NLA (years)	8.5	8.4	8.2	-0.8yrs	-0.2yrs

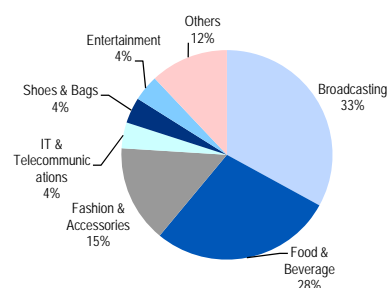
Source: LREIT, UOB Kay Hian

OCCUPANCY FOR 313@SOMERSET



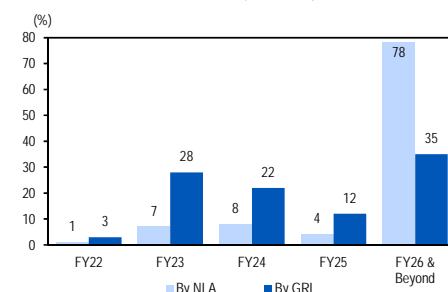
Source: LREIT

GROSS RENTAL INCOME BY TRADE SECTOR (MAR 21)



Source: LREIT

LEASE EXPIRY PROFILE (DEC 21)



Source: LREIT

CONSUMER PRICE INDEX - ITALY



Source: LREIT

PROFIT & LOSS

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Net turnover	78.7	111.8	222.0	228.9
EBITDA	46.5	69.7	140.1	145.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	46.5	69.7	140.1	145.1
Associate contributions	0.0	10.1	0.0	0.0
Net interest income/(expense)	(8.3)	(16.0)	(29.9)	(30.4)
Pre-tax profit	(1.3)	63.8	110.2	114.6
Tax	0.0	(0.4)	0.0	0.0
Preferred dividends	(0.6)	(10.0)	(16.8)	(16.8)
Net profit	(1.9)	53.4	93.4	97.8
Net profit (adj.)	37.6	53.4	93.4	97.8

BALANCE SHEET

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,425.4	3,586.9	3,586.9	3,586.9
Other LT assets	52.9	8.3	8.3	8.3
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	249.3	76.3	96.6	95.0
Other current assets	9.6	21.5	32.9	33.6
Total assets	1,737.1	3,692.9	3,724.7	3,723.7
Other current liabilities	28.0	39.3	63.2	64.5
LT debt	542.6	1,650.0	1,680.0	1,700.0
Other LT liabilities	9.7	9.7	9.7	9.7
Shareholders' equity	1,156.8	1,993.9	1,971.8	1,949.5
Total liabilities & equity	1,737.1	3,692.9	3,724.7	3,723.7

CASH FLOW

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Operating	66.5	116.0	155.1	148.3
Pre-tax profit	(1.9)	53.4	93.4	97.8
Working capital changes	6.2	(0.6)	12.4	0.7
Non-cash items	42.5	12.2	20.6	20.9
Other operating cashflows	19.8	51.1	28.6	28.8
Investing	(47.3)	(2,152.0)	(0.5)	(0.5)
Capex (growth)	(45.8)	(2,151.5)	0.0	0.0
Capex (maintenance)	(1.1)	(0.5)	(0.5)	(0.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.3)	0.0	0.0	0.0
Financing	145.8	1,863.0	(134.2)	(149.4)
Distribution to unitholders	(48.1)	(66.2)	(115.5)	(120.2)
Issue of shares	0.0	648.8	0.0	0.0
Proceeds from borrowings	200.0	1,307.4	30.0	20.0
Others/interest paid	(6.0)	(27.1)	(48.7)	(49.2)
Net cash inflow (outflow)	165.0	(173.0)	20.3	(1.7)
Beginning cash & cash equivalent	83.7	249.3	76.3	96.6
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	249.3	76.3	96.6	95.0

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	59.1	62.4	63.1	63.4
Pre-tax margin	(1.7)	57.1	49.6	50.1
Net margin	(2.5)	47.8	42.1	42.7
ROA	n.a.	2.0	2.5	2.6
ROE	n.a.	3.4	4.7	5.0
Growth				
Turnover	41.6	42.1	98.5	3.1
EBITDA	38.9	50.0	101.0	3.5
Pre-tax profit	n.a.	n.a.	72.6	4.0
Net profit	n.a.	n.a.	74.9	4.8
Net profit (adj.)	40.6	41.9	74.9	4.8
EPU	40.4	1.5	35.4	3.7
Leverage				
Debt to total capital	31.9	45.3	46.0	46.6
Debt to equity	46.9	82.8	85.2	87.2
Net debt/(cash) to equity	25.4	78.9	80.3	82.3
Interest cover (x)	5.6	4.4	4.7	4.8

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