



Lendlease Global Commercial REIT

DPU is bottoming out

Singapore | REIT | FY24 RESULTS

7 August 2024

- Gross revenue for FY24 surged by 7.8% YoY to S\$220.9mn, in line with our estimates which includes the €10mn pre-termination fee recognized from SKY Complex Building 3.
- NPI and DPU missed our expectations by 6% due to elevated property operating expenses (which increased by 9.2% YoY), and rising financing costs (+32.8% YoY). Although the one-time €10mn pre-termination fee has been recognized, the distributable income will be adjusted to reflect amortization over a 2-year period. As a result, NPI and DPU stood at S\$165.3mn (+7.4% YoY) and 3.87 cents (-17.7% YoY), respectively.
- We reiterate our BUY recommendation with a revised DDM-TP of S\$0.80 (prev: S\$0.83), as retail demand growth is expected to decelerate with the post-COVID recovery tailwinds waning. Moderated rental reversion and tenant sales have been factored in for the upcoming year due to the current macroeconomic backdrop. Nevertheless, we expect revenue to increase by c.3% in FY25e, driven by the c.30% rental reversion upon backfilling of Building 3 and a rental review of the JEM office. We have reduced our FY25e/26e DPU forecasts by 10% to 4.03/4.30 cents on the back of the elevating financing cost. LREIT is currently trading at an FY25e dividend yield of 6.9% and a P/NAV of 0.76x.

Result at a glance

(S\$ MN)	FY24	FY23	YoY (%)	Comments
Gross Revenue	220.91	204.88	7.82%	2-year supplementary rent from Building 3 of Sky Complex
Net Property Income	165.28	153.94	7.37%	
Finance Cost	68.20	51.36	32.80%	Higher interest rate
DPU	3.87	4.70	-17.66%	Higher borrowing cost
NAV	0.76	0.79	-3.80%	Slightly enlarged unit base

Source: Company, PSR

The Positives

+ Sound operating matrix. Singapore rental reversion in FY24 achieved a 14% YoY growth. Sky Complex also saw a CPI-linked rental uplift of c.1.2%. We expect catalysts from both JEM and Sky Complex. The rental review for JEM office in Dec24 is expected to yield a reversion of c.5%, while Sky Complex is expected to be fully backfilled by 2H25 with rental reversion of c.30%. Altogether, this is expected to boost revenue by 2% for the upcoming FY if the leasing momentum in Milan continues into FY25.

+ Singapore asset to support portfolio valuation. Despite a 10.9% asset devaluation in SGD terms for Sky Complex, the portfolio valuation still improved by 0.9% YoY with JEM leading the performance (+3%YoY) and 313@Somerset achieving a 1.3% YoY uplift. We expect valuation to improve in the face of the ongoing rate cut in Europe and backfilling of Sky Complex Building.

The Negative

- Waning demand. The strong SGD has been challenging market expectations for sustainable tenant sales. LREIT has observed fading demand from both foreign visitors and local shoppers, as the strong SGD hampers inbound shopping and encourages outbound spending. Although sales continue to trend above pre-COVID levels (111% as of June 24), there remains a 4% gap in traffic that needs to be addressed. To add pressure on rental reversion in FY25, we believe that all the low rents signed during the COVID period will be phased out by the end of 2024. As a result, rental reversion in FY25e is expected to be in the high single digits.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.56
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 0.80
TOTAL RETURN	52.9%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	2,377
MARKET CAP (USD mn / SGD mn):	967 / 1307
52 - WK HI/LO (SGD):	0.69 / 0.49
3M Average Daily T/O (mn):	5.06

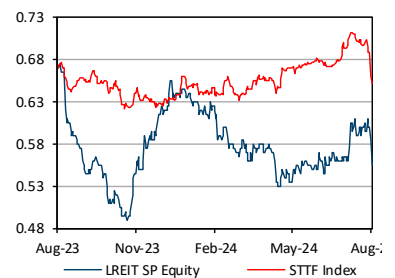
MAJOR SHAREHOLDERS

LENDLEASE SREIT PTY LTD	22.8%
LENDLEASE GCR INVESTMENT	3.3%
VANGUARD GROUP INC/ THE	3.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.3)	(6.6)	(11.7)
STTF RETURN	3.5	7.4	3.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY23	FY24	FY25e	FY26e
Gross Rev (\$m)	204.9	220.9	228.1	237.0
NPI (\$m)	153.9	165.3	173.5	179.6
Dist. Inc. (\$m)	107.9	91.4	99.9	112.7
P/NAV (x)	0.74	0.76	0.77	0.79
DPU (cents)	4.70	3.87	4.16	4.66
Dist. Yield (%)	8.11	6.67	7.18	8.03

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.58%; Terminal g: 1.5%)

LIU MIAOMIAO (+65 94673476)

Research Analyst

Liumm@phillip.com.sg

Outlook

LREIT is actively marketing the JEM office property, and with its updated valuation of approximately S\$450mn–480mn, we expect gearing to decrease by 8.1% assuming it is divested at S\$450mn. As the valuer has not yet incorporated the results of the rental review, we expect a higher premium to book value upon successful negotiation. Inquiries have been increasing since MPACT's recent transaction of the Anson Building, with around 10 prospects currently interested in the JEM office.

The occupancy rate for Sky Complex has improved from c.8.1% to c.22%, with rental reversion exceeding 50%. Demand is strong for green-certified buildings, particularly as Sky Complex is in Italy's only green-certified district. Several tenants are in the negotiation stage, with some looking to occupy 1–2 floors. However, due to prolonged decision-making, we expect the building to be fully leased by the calendar year of 2H25.

Maintain BUY with a lower TP of S\$0.80 (prev: S\$0.83)

Earnings for FY25e are expected to benefit from the significant rental upside at Sky Complex and the upcoming rental review of the JEM office. LREIT has taken a more proactive approach to capital management by adopting a more aggressive stance on fixed-rate borrowing (70% in Aug24), and we expect interest costs to remain stable at current levels for the next year. Additionally, a 30% reduction in utility costs, which will save c.4.5% of the overall operating cost, is expected to take effect in FY25, leading to an expected improvement in NPI margins.

We have revised our DDM-TP to S\$0.80 (prev:S\$0.83) and lowered our FY25e/26e DPU forecasts by 10% to 4.03/4.30, taking into account the higher interest expense and the fading recovery in demand.

Financials

Income Statement

Y/E June, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
Gross revenue	101,662	204,876	220,905	228,088	236,981
Property expenses	(26,154)	(50,939)	(55,625)	(54,554)	(57,348)
Net property income	75,508	153,937	165,280	173,534	179,633
Net Finance (Expense)	(15,803)	(50,711)	(66,929)	(64,036)	(69,567)
Manager's fees	(9,974)	(18,120)	(18,670)	(18,126)	(18,434)
Other items	33,955	(7,693)	4,176	(6,924)	(7,169)
FV change, derivatives	68,996	41,059	(9,727)	-	-
Share of profit from associat	5,319	579	(94)	-	-
(Loss)/Profit before tax	152,683	118,473	77,241	84,449	84,463
Taxation	-	-	-	-	-
Net income after Tax	152,683	118,473	77,241	84,449	84,463
P&L adjusted for perps	(10,753)	(18,900)	(18,952)	(18,952)	(18,952)
Distribution adjustments	(68,881)	8,278	33,128	34,399	47,232
Distributable income	73,049	107,851	91,417	99,895	112,743

Per unit data

Y/E June	FY22	FY23	FY24	FY25e	FY26e
NAV (\$)	0.78	0.79	0.76	0.75	0.73
DPU (S cents)	4.85	4.70	3.87	4.03	4.30

Cash Flow

Y/E June, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
P&L after tax	152,683	118,473	77,241	84,449	84,463
Adjustments	(82,073)	39,502	91,942	80,905	86,738
WC changes	24,618	16,036	(40,376)	(1,640)	1,779
Cash generated from ops	95,228	174,011	128,807	163,713	172,981

CFI

Acquisition of IP	(1,878,520)	(1,352)	-	-	-
Purchase of equity instrumen	-	(85,852)	-	-	-
Others	(2,158)	(3,924)	(6,231)	(1,000)	(1,000)
Cashflow from INV	1,847,247	85,788	(475)	1,000	1,000

CFF

Proceeds (units issuance)	648,815	-	(167)	-	-
Proceeds (perps issuance)	200,000	-	-	-	-
Loans, net of repayments	939,695	43,883	19,953	-	-
Distributions to unitholders	(69,728)	(67,926)	(93,544)	(99,895)	(112,743)
Distributions to perp holders	(8,400)	(18,900)	(18,952)	(18,952)	(18,952)
Others	(16,591)	(38,348)	(54,546)	(46,506)	(39,506)
Cashflow from financing	1,693,791	(81,291)	(147,256)	(165,353)	(171,202)
Net change in cash	3,636,266	178,508	(18,924)	(640)	2,779
Cash BEG	249,265	49,229	54,224	34,124	31,484
FX changes	(1,444)	(159)	(120)	-	-
Ending cash	3,885,531	227,737	35,300	33,484	34,262

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

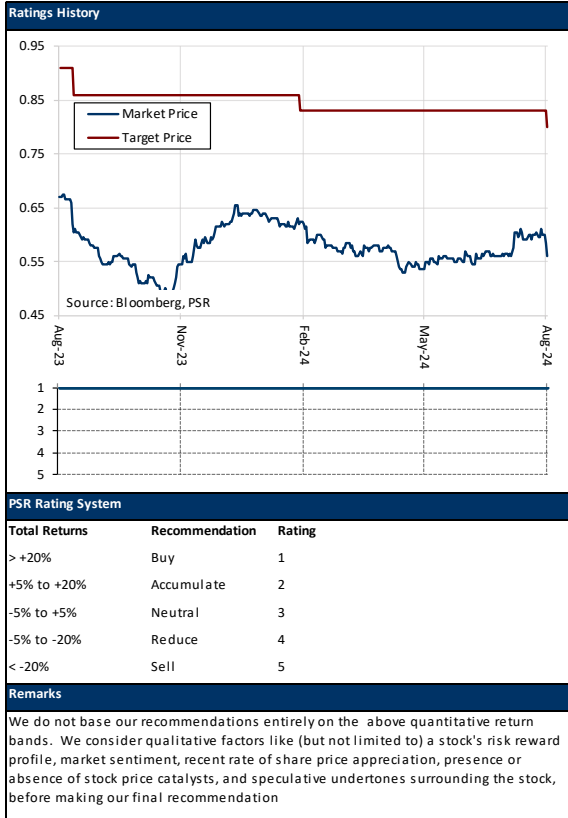
Y/E June, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Investment properties	3,593,332	3,642,854	3,673,150	3,674,150	3,675,150
Equity instrument at FV	-	85,784	86,098	86,098	86,098
Others	33,369	27,622	19,631	19,631	19,631
Total non-current assets	3,626,701	3,756,260	3,778,879	3,779,879	3,780,879
Trade receivables	16,820	4,049	8,092	11,404	11,849
Cash and cash equivalents	49,230	54,224	34,124	31,484	32,262
Others	9,213	11,818	8,719	8,719	8,719
Total current assets	75,263	70,091	50,935	51,607	52,830
Total Assets	3,701,964	3,826,351	3,829,814	3,831,486	3,833,709
LIABILITIES					
Trade payables	56,120	58,135	55,350	57,022	59,245
Loans and borrowings	297,754	433,611	357,716	428,811	428,811
Total current liabilities	354,108	492,353	413,322	486,089	488,312
Loans and borrowings	1,152,146	1,078,572	1,178,254	1,121,388	1,151,448
Others	17,017	24,661	25,935	25,935	25,935
Total non-current liabilities	1,169,163	1,103,233	1,204,189	1,147,323	1,177,383
Total Liabilities	1,523,271	1,595,586	1,617,511	1,633,412	1,665,696
Net assets	2,178,693	2,230,765	2,212,303	2,198,074	2,168,013
Represented by:					
Perpetuals	399,442	399,432	399,432	399,432	399,432
Unitholders' funds	1,775,412	1,829,344	1,811,647	1,797,418	1,767,357

Valuation Ratios

Y/E June	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	0.74	0.74	0.76	0.77	0.79
Distribution Yield (%)	8.36	8.11	6.67	6.95	7.41
NPI yield (%)	0.74	0.75	0.75	0.76	0.76

Growth & Margins

Growth						
Revenue		101.5%	7.8%	3.3%	3.9%	
Net property income		103.9%	7.4%	5.0%	3.5%	
Distributable income		47.6%	-15.2%	9.3%	12.9%	
DPU		-3.0%	-17.7%	4.1%	6.7%	
Margins						
NPI margin		75.1%	74.8%	76.1%	75.8%	
Key Ratios						
ROE		6.9%	5.3%	3.5%	3.8%	7.8%
Gearing		40.3%	40.6%	40.9%	41.2%	42.0%



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicon)

Jonathan Woo – jonathanwooki@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631

Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090

Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921

Website: www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969

Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099

Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809

Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017

Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899

Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29

Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307

Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940

Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757

Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia

Tel: 855 (0) 7796 6151/855 (0) 1620 0769

Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE

Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; 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, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.