

Lendlease Global Commercial REIT

Higher reversion for longer

Singapore | REIT | FY23 RESULTS

- FY23 revenue and NPI doubled to S\$204.9m and S\$153.9m, respectively, and were below our expectations at 94% and 91%. Healthy retail rental reversion of 4.8% and increasing contribution from Jem were the main driving factors. We anticipate these trends to continue in FY24e, with additional upside potential from 313@somerset.
- FY23 DPU was at 101.5% of our expectations. DPU decreased to 4.7 cents (-3.2% YoY) due to rising interest costs at 2.69% (+1% YoY).
- We reiterate our BUY recommendation with a decrease in FY24e-25e DPU forecasts to S\$4.38 - 4.63 cents on the back of rising interest rates. Our DDM-TP adjusted down to S\$0.86. We expect FY24e earnings will be supported by stronger rental reversion and potential inorganic growth.

Result at a glance

(\$'000)	FY23	FY22	YoY (%)	Comments
Gross Revenue	204,876	101,662	101.53%	Revenue doubled due to full contribution from Jem and strong rental reversion
Net Property Income	153,937	75,508	103.87%	NPI margin remain stable at 75%
Finance Cost	(51,358)	(16,062)	219.75%	Higher interest rate
DPU	4.70	4.85	-3.02%	
NAV	0.79	0.78	0.87%	Acquisition of Parkway Parade

Source: Company, PSR

The Positives

+ Strong rental reversion continues in FY24e, with LREIT achieving an overall retail rental reversion of 4.8%, driven by Jem's improved performance. The Sky Complex in Milan (tied to the CPI index) experienced a 5.9% rental escalation. Tenant sales at the portfolio level increased 2.5 times, surpassing pre-COVID levels by over 16% in Jun23 while Footfalls have normalized to 100%. We expect the rental trend of Jem to stabilize in 2H23, while 313@somerset's rental is projected to gradually increase as international visitors return.

+ Portfolio occupancy stays at 99.9% as of Jun23 and tenant retention at 82.4%. Thanks to healthy operating metrics, the portfolio valuation experienced a 1.4% uplift, driven by Jem (+2.5% YoY) and 313@somerset (+4.0% YoY). The Sky Complex in Milan was the main setback (-9.2% YoY), attributed to a 0.75% increase in the terminal cap rate due to inflation and rising interest rates.

The Negative

- Gearing nudged up to 40.6% (+1.3% QoQ) upon completion of the Parkway Parade (PP) acquisition (7.7% stake). Rising borrowing costs are expected to continue into FY24e. LREIT has already refinanced the €285m Loan in Aug23, which accounts for one-third of its total borrowing. With the new rate taking effect, the interest rate for FY24e is expected to be around 3.5%.

Outlook

LREIT has recently concluded the acquisition of Parkway Parade, securing 10% of the sponsor's stake (7.7% of the total value), for S\$88.9m. This integrated office and retail development is poised to benefit from the upcoming completion of the Marine Parade MRT station in 2024. The NPI yield is anticipated to rise up to c.5.6%, and we believe LREIT will continue to increase its stake, as Singapore remains the focal point of its expansion strategy.



StocksBnB.com

15 August 2023

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.67
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.86
TOTAL RETURN	36.5%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	2,324
MARKET CAP (USD mn / SGD mn):	1220 / 1627
52 - WK HI/LO (SGD):	0.86 / 0.66
3M Average Daily T/O (mn):	6.08

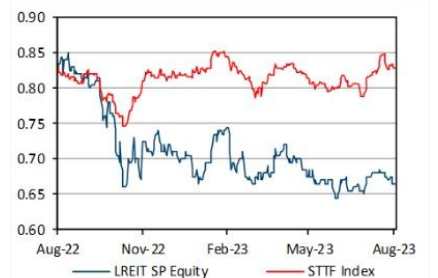
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.8	(2.9)	(2.4)
STTF RETURN	5.1	3.4	4.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY22	FY23	FY24e	FY24e
Gross Rev (\$m)	101.7	204.9	223.9	233.5
NPI (\$m)	75.5	153.9	168.9	176.0
Dist. Inc. (\$m)	73.0	107.9	102.5	109.3
P/NAV (x)	1.01	0.89	0.87	0.89
DPU (cents)	4.85	4.70	4.38	4.63
Dist. Yield (%)	6.14	6.72	6.53	6.91

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.65%; Terminal g: 1.5%)

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Research Analyst

Maintain BUY with a lower TP of S\$0.86 (prev. S\$0.91)

LREIT is currently trading at FY24e yields of 6.53%. We anticipate stronger rental reversion from 313@somerset in FY24e as international visitors gradually return, and Jem continues to deliver stable income. Factoring in the rising borrowing costs, our DDM-TP has been adjusted downward to S\$0.86, with projected FY24-25e DPU of S\$4.38 - 4.63 cents. We raised our FY24e interest rate assumptions by 0.4% points.

Financials

Income Statement

Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	78,651	101,662	204,876	223,929	233,460
Property expenses	(21,733)	(26,154)	(50,939)	(55,011)	(57,468)
Net property income	56,918	75,508	153,937	168,918	175,993
Net Finance (Expense)	(9,989)	(15,803)	(50,711)	(68,884)	(66,489)
Manager's fees	(6,856)	(9,974)	(18,120)	(17,843)	(18,202)
Other items	(12,790)	33,955	(7,693)	(6,900)	(7,169)
FV change, derivatives	(30,353)	68,996	41,059	2,964	3,543
Share of profit from assoc	-	5,319	579	579	1,158
(Loss)/Profit before tax	(1,338)	152,683	118,473	78,256	87,676
Taxation	-	-	-	-	-
Net income after Tax	(1,338)	152,683	118,473	78,256	87,676
P&L adjusted for perps	(598)	(10,753)	(18,900)	(18,900)	(18,900)
Distribution adjustments	57,060	(68,881)	8,278	43,180	40,569
Distributable income	55,124	73,049	107,851	102,535	109,345

Per unit data

Y/E June	FY21	FY22	FY23	FY24e	FY25e
NAV (\$)	0.81	0.78	0.79	0.77	0.75
DPU (S cents)	4.68	4.85	4.70	4.38	4.63

Cash Flow

Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
P&L after tax	(1,338)	152,683	118,473	78,256	87,676
Adjustments	58,126	(82,073)	39,502	85,423	83,374
WC changes	9,719	24,618	16,036	4,807	2,507
Cash generated from op	66,507	95,228	174,011	168,486	173,556

CFI

Acquisition of IP	-	(1,878,520)	(1,352)	-	-
Purchase of equity instrum	(45,533)	-	(85,852)	-	-
Others	(1,098)	(2,158)	(3,924)	(1,770)	(1,770)
Cashflow from INV	47,289	1,847,247	85,788	1,770	1,770

CFF

Proceeds (units issuance)	-	648,815	-	-	-
Proceeds (perps issuance)	200,000	200,000	-	-	-
Loans, net of repayments	-	939,695	43,883	-	-
Distributions to unitholders	(48,145)	(69,728)	(67,926)	(102,535)	(109,345)
Distributions to perp holder	-	(8,400)	(18,900)	(18,900)	(18,900)
Others	(4,403)	(16,591)	(38,348)	(49,045)	(49,606)
Cashflow from financing	147,452	1,693,791	(81,291)	(170,481)	(177,851)
Net change in cash	261,248	3,636,266	178,508	(225)	(2,525)
Cash BEG	83,679	249,265	49,229	54,224	50,459
FX changes	541	(1,444)	(159)	-	-
Ending cash	345,467	3,885,531	227,737	53,999	47,934

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

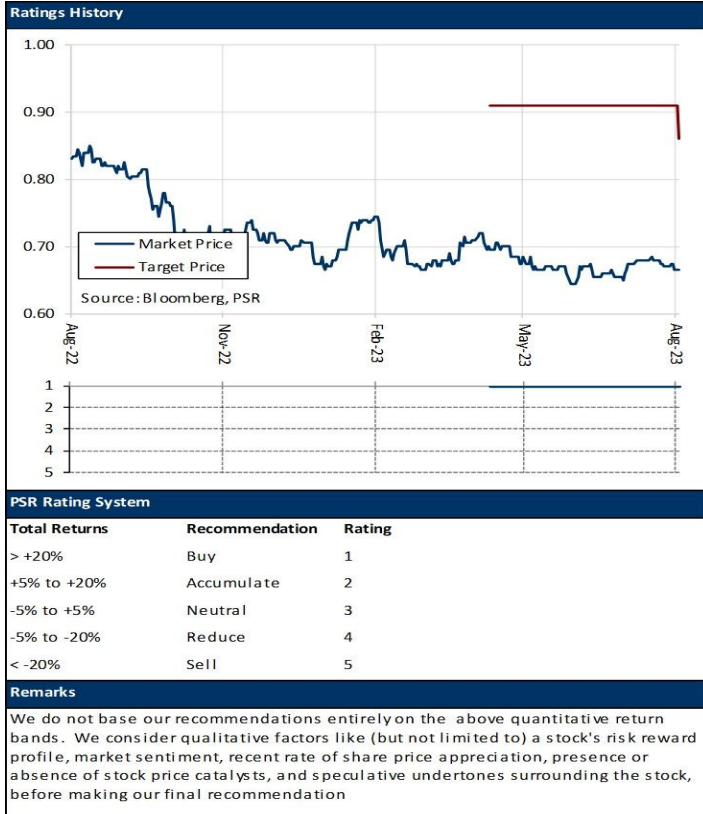
Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	1,419,857	3,593,332	3,642,854	3,645,271	3,647,688
Equity instrument at FV	44,591	-	85,784	85,784	85,784
Others	13,829	33,369	27,622	27,622	27,622
Total non-current assets	1,478,277	3,626,701	3,756,260	3,758,677	3,761,094
Trade receivables	6,664	16,820	4,049	19,034	19,844
Cash and cash equivalents	249,264	49,230	54,224	50,459	44,394
Others	2,910	9,213	11,818	11,818	11,818
Total current assets	258,838	75,263	70,091	81,311	76,056
Total Assets	1,737,115	3,701,964	3,826,351	3,839,988	3,837,150
LIABILITIES					
Trade payables	27,393	56,120	58,135	77,927	81,244
Loans and borrowings	-	297,754	433,611	428,811	378,811
Total current liabilities	28,016	354,108	492,353	507,345	460,662
Loans and borrowings	542,573	1,152,146	1,078,572	1,103,858	1,171,388
Others	9,727	17,017	24,661	24,661	24,661
Total non-current liabilities	552,300	1,169,163	1,103,233	1,128,519	1,196,049
Total Liabilities	580,316	1,523,271	1,595,586	1,635,864	1,656,711
Net assets	1,156,799	2,178,693	2,230,765	2,204,124	2,180,439
Represented by:					
Perpetuals	198,897	399,442	399,432	399,432	399,432
Unitholders' funds	957,902	1,775,412	1,829,344	1,802,703	1,779,018

Valuation Ratios

Y/E June	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.02	1.01	0.89	0.87	0.89
Distribution Yield (%)	5.64	6.14	6.72	6.53	6.91
NPI yield (%)	3.98	3.01	4.25	4.64	4.83

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	41.6%	29.3%	101.5%	9.3%	4.3%
Net property income	41.3%	32.7%	103.9%	9.7%	4.2%
Distributable income	54.5%	32.5%	47.6%	-4.9%	6.6%
DPU	53.4%	3.6%	-3.0%	-6.9%	5.8%
Margins					
NPI margin	72.4%	74.3%	75.1%	75.4%	75.4%
Key Ratios					
Net Debt	293,309	1,102,916	1,024,348	1,053,399	1,126,994
Gearing	37.0%	40.3%	40.6%	41.1%	41.5%



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