

Lendlease Global Commercial REIT

High rental reversion and rental upside from Sky Complex



StocksBnB.com

Singapore | REIT | 1H24 RESULTS

- Gross revenue increased by 17.9% to S\$119.9mn with the 2-year supplementary rental from Building 3 of Sky Complex and form 55% of our FY24e forecast.
- NPI increased 22.2% YoY while DPU slid 14.5% YoY to 2.1 cents, and were 54%/52% of our FY24e estimates. High rental reversion was sustained with 313@somerset at c.20%, and Jem provided a stable contribution at c.10%.
- We reiterate our BUY recommendation with lower DDM-TP of S\$0.83 and FY24e-25e DPU forecast of 4.16-4.59 Singapore cents. Erosion of DPU brought by higher-for-longer interest rates will still be apparent. We expect FY24e earnings will be supported by strong rental reversion.

Result at a glance

(\$'000)	1H24	1H23	YoY (%)	Comments
Gross Revenue	119,917	101,733	17.87%	2-year supplementary rent from Building 3 of Sky Complex
Net Property Income	93,381	76,424	22.19%	
Finance Cost	32,710	23,586	38.68%	Higher interest rate
DPU	2.10	2.45	-14.29%	Higher borrowing cost
NAV	0.77	0.79	-2.53%	Slightly enlarged unit base

Source: Company, PSR

The Positives

+ Resilient rental reversion of 15.7%, with 313@somerset contributing c.20%, and Jem delivering stable support of c.10%. Due to the lingering effects of COVID-19 base rents, we expect a rental reversion in the high teens for 313@somerset and in the low teens for Jem in 2025, as 20.3% of the lease by GRI is set to expire.

+ Stable operating metrics. Tenant sales continue to trend above pre-COVID levels and increased 0.6% YoY in 1H24. F&B, entertainment, and necessities outperformed. Despite lower contributions from GTO, we expect sales to benefit the top line with the influx of Chinese tourists, facilitated by the 30-day visa-free policy.

The Negative

- Borrowing cost inched up. There was no indication of a near-term reversal in the interest rate trajectory.-LREIT having hedged 61% of its borrowings, will not experience much benefit from a potential interest rate cut in the future. With the implementation of the new rate, the expected interest rate for FY24e is c.3.5% (1H24: 3.37%).

Outlook

We don't expect any impact on DPU from the departure of the master lessee in Building 3 of the Sky Complex in Milan, as the tenant has paid 2-year rental supplements to be distributed over the 2 years. The building is slated for multi-tenancy, and we expect it will be backfilled by 1H25. Leasing prospects look promising, with commitments for a few floors. Current rentals for new buildings in the periphery range from €310 to €350 per sqm, c.65-85% above the previous rent paid by Sky Italia, providing rental upside for LREIT. It paves the way for future divestment, given the improved operational position. There is reduced concentration risk from 13.6% to 10.2% by GRI. Upon restructuring, the early termination clause has been removed, thus providing stable cash flow till 2033. The asset is currently valued at €290.5mn which will lower the gearing to c.32% from the current 40.5% level upon divestment.

5 February 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.62
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 0.83
TOTAL RETURN	40.8%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	2,353
MARKET CAP (USD mn / SGD mn):	1092 / 1459
52 - WK HI/LO (SGD):	0.75 / 0.49
3M Average Daily T/O (mn):	6.11

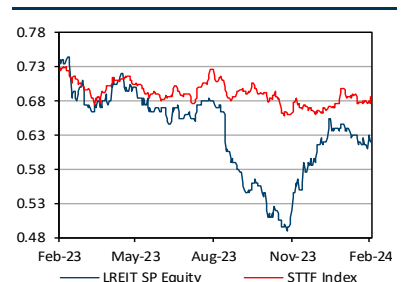
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.9)	19.2	(3.9)
STTF RETURN	(3.0)	2.8	(3.0)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY22	FY23	FY24e	FY25e
Gross Rev (\$m)	101.7	204.9	223.2	232.8
NPI (\$m)	75.5	153.9	178.2	185.5
Dist. Inc. (\$m)	73.0	107.9	97.4	108.5
P/NAV (x)	1.01	0.71	0.79	0.80
DPU (cents)	4.85	4.70	4.16	4.59
Dist. Yield (%)	6.14	8.40	6.82	7.53

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

Maintain BUY with a lower TP of S\$0.83 (prev. S\$0.86)

LREIT is currently trading at FY24e yields of 6.82% and 0.79x P/NAV. We expect upside from a mark-to-market rental uplift upon successful backfilling of Building 3, Sky Complex, and better-than-expected international travel numbers to support further rental reversion in 313@somerset. Factoring in the higher-for-longer borrowing costs, our DDM-TP has been adjusted downward to S\$0.83, with projected FY24-25e DPU of 4.16-4.59 Singapore cents. We raise our FY24e interest rate assumption by 0.2% points.

Financials

Income Statement

Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	78,651	101,662	204,876	223,181	232,770
Property expenses	(21,733)	(26,154)	(50,939)	(44,977)	(47,242)
Net property income	56,918	75,508	153,937	178,204	185,528
Net Finance (Expense)	(9,989)	(15,803)	(50,711)	(74,129)	(67,136)
Manager's fees	(6,856)	(9,974)	(18,120)	(18,307)	(18,679)
Other items	(12,790)	33,955	(7,693)	(6,875)	(7,148)
FV change, derivatives	(30,353)	68,996	41,059	-	-
Share of profit from associat	-	5,319	579	-	-
(Loss)/Profit before tax	(1,338)	152,683	118,473	78,894	92,566
Taxation	-	-	-	-	-
Net income after Tax	(1,338)	152,683	118,473	78,894	92,566
P&L adjusted for perps	(598)	(10,753)	(18,900)	(18,900)	(18,900)
Distribution adjustments	57,060	(68,881)	8,278	37,443	34,846
Distributable income	55,124	73,049	107,851	97,437	108,512

Per unit data

Y/E June	FY21	FY22	FY23	FY24e	FY25e
NAV (\$)	0.81	0.78	0.79	0.77	0.76
DPU (S cents)	4.68	4.85	4.70	4.16	4.59

Cash Flow

Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
P&L after tax	(1,338)	152,683	118,473	78,894	92,566
Adjustments	58,126	(82,073)	39,502	91,087	84,452
WC changes	9,719	24,618	16,036	4,611	2,522
Cash generated from ops	66,507	95,228	174,011	174,591	179,540

CFI

Acquisition of IP	-	(1,878,520)	(1,352)	-	-
Purchase of equity instrumen	(45,533)	-	(85,852)	-	-
Others	(1,098)	(2,158)	(3,924)	(2,417)	(2,417)
Cashflow from INV	47,289	1,847,247	85,788	2,417	2,417

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)	(97,437)	(108,512)
Distributions to perp holders	-	(8,400)	(18,900)	(18,900)	(18,900)
Others	(4,403)	(16,591)	(38,348)	(53,643)	(49,606)
Cashflow from financing	147,452	1,693,791	(81,291)	(169,980)	(177,018)
Net change in cash	261,248	3,636,266	178,508	7,028	4,939
Cash BEG	83,679	249,265	49,229	54,224	56,418
FX changes	541	(1,444)	(159)	-	-
Ending cash	345,467	3,885,531	227,737	61,252	61,357

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

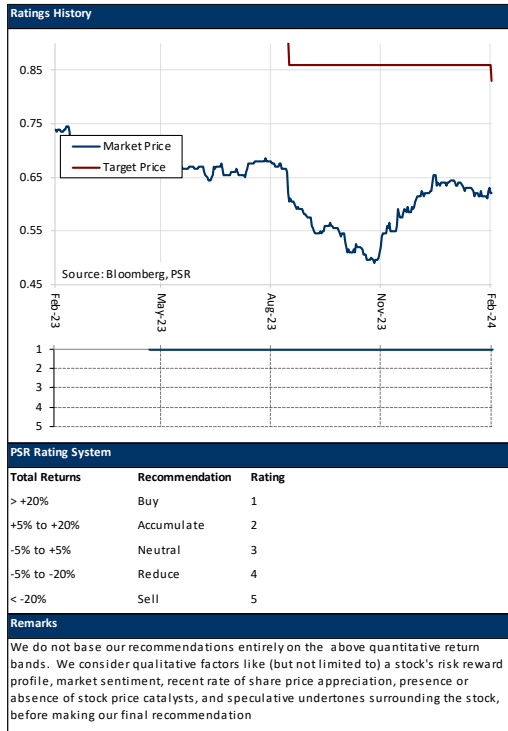
Y/E June, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	1,419,857	3,593,332	3,642,854	3,645,271	3,647,688
Equity instrument at FV	44,591	-	85,784	85,784	85,784
Others	13,829	33,369	27,622	27,622	27,622
Total non-current assets	1,478,277	3,626,701	3,756,260	3,758,677	3,761,094
Trade receivables	6,664	16,820	4,049	18,970	19,785
Cash and cash equivalents	249,264	49,230	54,224	56,418	56,523
Others	2,910	9,213	11,818	11,818	11,818
Total current assets	258,838	75,263	70,091	87,206	88,126
Total Assets	1,737,115	3,701,964	3,826,351	3,845,883	3,849,220
LIABILITIES					
Trade payables	27,393	56,120	58,135	77,667	81,004
Loans and borrowings	-	297,754	433,611	428,811	378,811
Total current liabilities	28,016	354,108	492,353	507,085	460,422
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	1,635,604	1,656,471
Net assets	1,156,799	2,178,693	2,230,765	2,210,279	2,192,749
Represented by:					
Perpetuals	198,897	399,442	399,432	399,432	399,432
Unitholders' funds	957,902	1,775,412	1,829,344	1,808,858	1,791,328

Valuation Ratios

Y/E June	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.02	1.01	0.71	0.79	0.80
Distribution Yield (%)	5.64	6.14	8.40	6.82	7.53
NPI yield (%)	3.98	3.01	4.25	4.89	5.09

Growth & Margins

Growth					
Revenue	41.6%	29.3%	101.5%	8.9%	4.3%
Net property income	41.3%	32.7%	103.9%	15.8%	4.1%
Distributable income	54.5%	32.5%	47.6%	-9.7%	11.4%
DPU	53.4%	3.6%	-3.0%	-11.6%	10.5%
Margins					
NPI margin	72.4%	74.3%	75.1%	79.8%	79.7%
Key Ratios					
Net Debt	293,309	1,102,916	1,024,348	1,047,440	1,114,865
Gearing	37.0%	40.3%	40.6%	41.1%	41.5%



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	Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst Shawn Sng – shawnsngkh@phillip.com.sg	Property REITs Liu Miaomiao – liumm@phillip.com.sg	Conglomerate Transport Peggy Mak – peggymak@phillip.com.sg
US Tech Analyst (Software/Services) Ambrish Shah – amshah@phillipventuresifsc.in	US Tech Analyst (Digital Entertainment/Semicon) Jonathan Woo – jonathanwookj@phillip.com.sg	US Tech Analyst (Hardware/E-commerce/ETF) Helena Wang – henawang@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	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	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
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	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	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
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	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	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
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	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	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
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	TURKEY PhillipCapital Menkul Degerler Dr. Cemil Bengü Cad. Hak Is Merkezi No. 2 Kat. 6A Caglayan 34403 Istanbul, Turkey Tel: 0212 296 84 84 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr	DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGEX) 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 to 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.