



Lendlease Global Commercial REIT

Rental upside to come from Sky Complex Milan

Singapore | REIT | 3Q24 UPDATE

- No financials were provided for 3Q24. Portfolio committed occupancy plunged 11% YoY to 88.8% in the face of the departure of the anchor tenant of Sky Complex, which returned one-third of the space. However, on a QoQ basis, it improved by 0.9% due to the backfilling of Sky Complex by 8.1%.
- Rental reversion for both retail and office remained resilient, achieving 15.3% and 1.5%, respectively. We expect rental reversion to maintain at the current level for FY24e and earnings to be supported by the long-lease office tenant, which accounted for c.22% of the total income.
- We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.83 and FY24e-25e DPU forecast of 4.16-4.59 Singapore cents. We expect potential upside from the high rental reversion upon the successful backfilling of Building 3 Sky Complex Milan and the completion of Live Nation in Grange Road.

Result at a glance

	3Q24	3Q23	YoY (%)	Comments
Occupancy rate	88.80%	99.80%	(11ppt)	Departure of Sky Italia in Milan
Gearing	41.0%	39.3%	4.3ppt	
Cost of debt	3.5	2.5	39.44%	
ICR (X)	3.4	4.6	-26.09%	

Source: Company, PSR

The Positives

+ Robust retail rental reversion of 15.3% with 313 achieving c.20% and Jem delivering resilient performance of c.10%. Rental reversion for offices saw a slight cooling down, landing at 1.5% in 3Q24. However, stable support comes from tenants with long lease periods, contributing to c.22% of the total gross rental income. We expect rental reversion for the whole year FY24e to be c.15% (FY23: 4.8%).

+ Potential rental uplift from Jem and Sky Complex. We anticipate rental upside from Building 3 Sky Complex Milan, driven by healthy office demand in the surrounding area and lower-than-average rental rates previously signed by Sky Italia. In 3Q24, LREIT secured 8.1% of the net lettable area (NLA) leases through internal sourcing. LREIT expects backfilling to be completed by 50% by the end of 2024, with the rental reversion of c. 30-40% to match current market rates. Jem is also reviewing its rental at the end of 2024, and the current market rental is c.20% higher than the previous rent signed five years ago. We expect rental escalation to be in the high-teens, resulting in an improvement in revenue by c.2% upon successful negotiation.

The Negative

- NIL

Outlook

There is some delay in the construction of Live Nation. LREIT updated that they are currently in the cost budgeting stages. Since construction usually takes one year to be completed, we expect Live Nation to be introduced by 2H25. With a capacity of more than 2,000 concertgoers per event, four events per day translate to generate additional footfall of 1mn per year which is 2.5% of the total 313@somerset footfall. This would lead to higher GTO and a reduction in occupancy rates, paving the way for future rental reversion.

7 May 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.55
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 0.83
TOTAL RETURN	58.7%

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

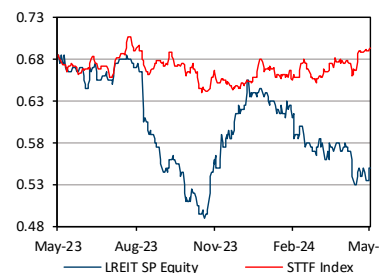
MAJOR SHAREHOLDERS

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	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	0.71	0.72
DPU (cents)	4.85	4.70	4.16	4.59
Dist. Yield (%)	6.14	8.40	7.56	8.35

Source: Company, PSR

VALUATION METHOD

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

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Sky Complex in Milan currently sees demand coming from the F&B and Real Estate sectors. LREIT doesn't have a specific sector target and is seeing more expansion demands with small to medium-sized inquiries.

The sources of new tenants are mainly internal channels, and prospects are looking good at this point. If all current negotiations were secured, the occupancy rate would surge to c.50%. LREIT will engage with agencies moving forward, and we expect the building to be fully backfilled by 2025.

Maintain BUY with an unchanged TP of S\$0.83

LREIT is currently trading at FY24e yields of 7.56% and 0.7x P/NAV. We expect that Singapore's strong rental reversion momentum will persist in FY24, with upside expected from the backfilling of Sky Complex Milan. Our DDM-TP remains unchanged at S\$0.83, with projected FY24-25e DPUs of S\$4.16-4.59 Singapore cents.

Financials

Income Statement

Y/E June, (S\$'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 (S\$)	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, (S\$'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

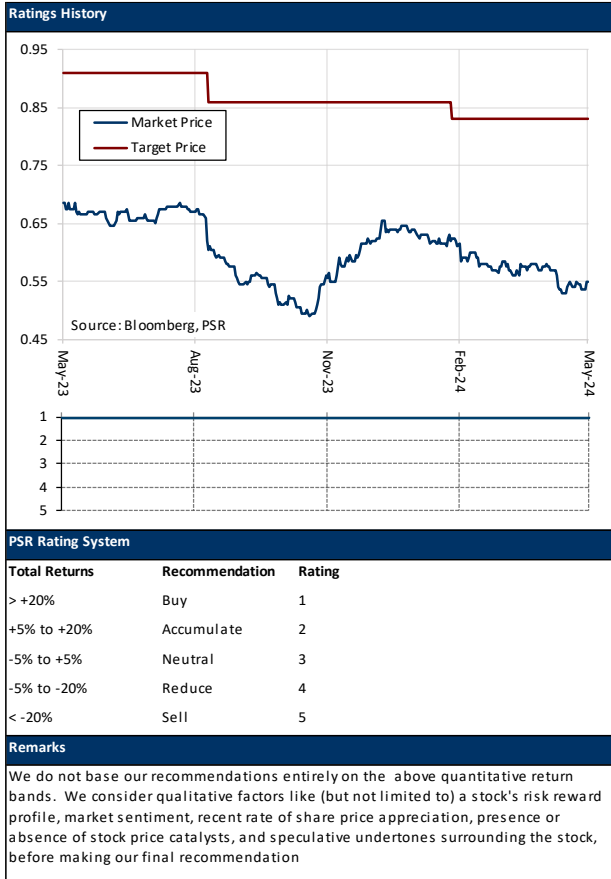
Y/E June, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	1,419,857	3,593,332	3,642,854	3,645,271	3,647,688
Equity instrument at FV	44,591	-	85,784	85,784	85,784
Others	13,829	33,369	27,622	27,622	27,622
Total non-current assets	1,478,277	3,626,701	3,756,260	3,758,677	3,761,094
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	0.71	0.72
Distribution Yield (%)	5.64	6.14	8.40	7.56	8.35
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					
ROE	-0.1%	6.9%	5.3%	3.6%	4.2%
Gearing	37.0%	40.3%	40.6%	41.1%	41.5%



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