

Lendlease Global Commercial REIT

Cost of borrowing peaks



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Singapore | REIT | 1Q25 UPDATE

13 November 2024

- No financials was provided in 1Q25. LREIT achieved resilient retail rental reversion of 11.4% (4Q24: +12%) and office rental saw 1.2% uplift (4Q24: +1.2%). The portfolio occupancy rate stands at 89.5%, with Sky Complex at 75% occupancy.
- Tenant sales declined by 5.7% YoY due to train disruption and strong SGD, trending at 107% of pre-COVID levels, with a 4% QoQ decrease. We believe rental reversion would moderate from the high level in FY24 and 12.1% of GRI is due for renewal in FY2025.
- We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.80. FY25e rental reversion is expected to be supported by marked-to-market rental upon successful backfilling on Building 3 Sky Complex and rental review of JEM office. DPU catalysts include the peak in borrowing costs and the potential divestment of JEM to deleverage, which could lead to lower financing costs. LREIT is trading at an FY25e/26e dividend yield of 7.31% / 7.60% and a P/NAV value of 0.76x.

The Positives

+ Backfilling on Building 3 Sky Complex is on track. Occupancy rate improved by 1.1%YoY to 75% at Sky Complex as a new lease has been signed at Building 3. LREIT is in discussion with two more prospects from Education and Co-working industry which is expected to boost occupancy rate to more than 30% upon deal close. The building receives strong leasing interest as leasing momentum is on the recovery in Milan with green certified building become tenant's key selection criteria.

+ Healthy operating metrics. LREIT achieved a retail rental reversion of 11.4%, with JEM outperforming at the high teens and 313@Somerset at the high single digits, as a major tenant renewed its lease at a lower rate than new tenants due to its large occupied space. Office rentals saw an uplift of 1.2%. We expect the reversion in 1H25 to be supported by at least 5% reversion from JEM's rental review in Dec24.

+ Cost of borrowing peaked. LREIT reported an all-in cost of borrowing of 3.74%, a slight increase of 0.16 ppt as low-cost hedging phased out, with current costs now fully reflecting new Euribor hedging. We believe the cost of borrowing has peaked, and LREIT will be relieved from interest rate headwinds in this financial year.

The Negative

- Muted sales. Tenant sales decreased by 5.7% YoY in 1Q25, impacted by a strong SGD against neighbouring countries, which has eroded spending power among international visitors. Sales at JEM were also affected by an MRT shutdown for over a week; sales might have matched last year's level if adjusted for this disruption. Sales continue to trend above pre-COVID levels, reaching 107% as of September 24, though a 3% gap in foot traffic remains to be bridged. Rental reversion for FY25e is anticipated to be in the high single digits.

Outlook

LREIT is engaging with prospects on a divestment of JEM office property, now valued at c.S\$450mn-480mn and is largely favored by institutional investors given its long WALE and stable income. Proceeds from the sale will be used either for redemption of the perpetual security due in April 2025 or to repay existing debt to lower gearing. Assuming a sale price of S\$450mn, we anticipate gearing to decrease by 8.1%.

Live Nation is still in the legal documentation stage. We expect it to be ready for public opening by the end of 2025.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.57
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.80
TOTAL RETURN	47.4%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	2,394
MARKET CAP (USD mn / SGD mn):	1022 / 1364
52 - WK HI/LO (SGD):	0.66 / 0.51
3M Average Daily T/O (mn):	6.11

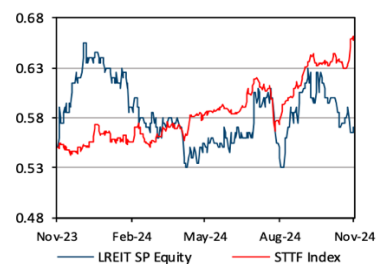
MAJOR SHAREHOLDERS

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(5.0)	5.1	(6.3)
STTF RETURN	4.8	16.6	21.2

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	104.8
P/NAV (x)	0.72	0.75	0.76	0.78
DPU (cents)	4.70	3.87	4.16	4.33
Dist. Yield (%)	8.25	6.79	7.31	7.60

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.19%; Terminal g: 1.5%)

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Maintain BUY with an unchanged TP of S\$0.80

We reiterate our BUY recommendation with an unchanged DDM-TP of S\$0.80. We expect FY25e rental reversion to be supported by market-aligned rental adjustments following the backfilling of Building 3 at Sky Complex and the rental review of JEM's office segment. Catalysts for DPU growth could include peaked borrowing costs and a potential JEM divestment to reduce gearing. LREIT is currently trading at an FY25e/26e dividend yield of 7.31% / 7.60% and a P/NAV value of 0.76x.

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)	(77,469)
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	76,562
Taxation	-	-	-	-	-
Net income after Tax	152,683	118,473	77,241	84,449	76,562
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	104,842

Per unit data

Y/E June	FY22	FY23	FY24	FY25e	FY26e
NAV (S\$)	0.78	0.79	0.76	0.75	0.73
DPU (S cents)	4.85	4.70	3.87	4.16	4.33

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	76,562
Adjustments	(82,073)	39,502	91,942	80,905	94,640
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)	(104,842)
Distributions to perp holders	(8,400)	(18,900)	(18,952)	(18,952)	(18,952)
Others	(16,591)	(38,348)	(54,546)	(46,506)	(47,408)
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)	0.73	0.72	0.75	0.76	0.78
Distribution Yield (%)	8.51	8.25	6.79	7.31	7.60
NPI yield (%)	0.74	0.75	0.75	0.76	0.76

Growth & Margins

Growth

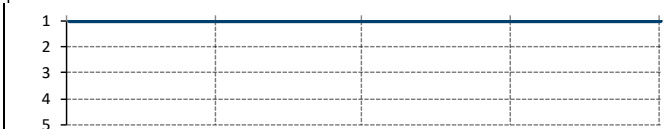
Revenue	101.5%	7.8%	3.3%	3.9%
Net property income	103.9%	7.4%	5.0%	3.5%
Distributable income	47.6%	-15.2%	9.3%	5.0%
DPU	-3.0%	-17.7%	7.6%	4.0%

Margins

NPI margin	75.1%	74.8%	76.1%	75.8%
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Key Ratios

ROE	6.9%	5.3%	3.5%	3.8%	7.1%
Gearing	40.3%	40.6%	40.9%	41.2%	42.0%

Ratings History

PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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