

Lendlease Global Commercial REIT

Higher for longer interest rate



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Singapore | REIT | UPDATE (MODEL UPDATE)

27 November 2024

- Although interest rates have peaked, we expect that the all-in cost of borrowing for LREIT will hover at the current high level of c.3.7% in FY25e. This is due to the high proportion of loans tied to fixed rates, which will delay the benefit of any future interest rate cuts for LREITs.
- Sky Complex Milan is taking longer than expected to backfill the vacant building, dragging portfolio occupancy down to 75%. We expect the building to be fully tenanted by the end of the calendar year 2025, resulting in an income vacuum for FY25e.
- We reiterate our BUY recommendation with a revised DDM-TP of S\$0.76 (prev: S\$0.80). FY25e earnings are expected to be supported by low-teens retail rental reversion, with an upside from the JEM Office rental review, which we estimate at >5%. DPU will likely face another year of erosion due to higher-for-longer interest rates, as the rate cut trajectory under Trump's presidency remains uncertain. We lower our FY25e/FY26e DPU forecasts by 10%/5% to 3.78/4.18 cents, reflecting a reduced expectation of three rate cuts by the end of 2025 (prev: five). LREIT is trading at an FY25e/FY26e yield of 6.6%/7.3% and a P/NAV of 0.76x.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.56
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.76
TOTAL RETURN	43.1%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN) :	2,423
MARKET CAP (USD mn / SGD mn) :	1007 / 1357
52 - WK HI/LO (SGD) :	0.66 / 0.51
3M Average Daily T/O (mn) :	5.67

MAJOR SHAREHOLDERS

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(1.8)	(1.8)	(7.1)
STTF RETURN	4.5	11.0	21.6

Outlook

Gearing remains high, at 40.7% as of 1Q25 (1Q24: 40.6%). With S\$360mn in bank loans and S\$200mn in perpetual securities maturing in Apr25, LREIT has initiated early discussions with banks on refinancing options.

We believe divestment is the most viable solution to address the high gearing. JEM is well-positioned for this, given its long lease tenure and credible anchor tenant, the Ministry of National Development. The upcoming rental review in Dec 24 is likely to bolster its valuation, and we expect the sale price to align with its current book value of at least S\$450mn. If the proceeds are fully utilized to repay debt, we estimate gearing could decline by c.8%.

Maintain BUY with a lower TP of S\$0.76 (prev: S\$0.80)

We revise our FY25e/FY26e DPU forecasts lower by 10%/5% to 3.78/4.18 cents, reflecting a reduced assumption of three rate cuts by the end of 2025 (previously five). Subsequently, we raise our cost of equity estimate by 10% to 7.95% to reflect persistent interest rate headwinds. LREIT currently trades at an FY25e/FY26e dividend yield of 6.6%/7.3% and a P/NAV of 0.76x.

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	178.3
Dist. Inc. (\$m)	107.9	91.4	90.6	101.1
P/NAV (x)	0.72	0.75	0.76	0.77
DPU (cents)	4.70	3.87	3.78	4.18
Dist. Yield (%)	8.25	6.79	6.63	7.33

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.95%; Terminal g: 1.5%)

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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)	(58,680)
Net property income	75,508	153,937	165,280	173,534	178,301
Net Finance (Expense)	(15,803)	(50,711)	(66,929)	(73,337)	(64,827)
Manager's fees	(9,974)	(18,120)	(18,670)	(18,126)	(18,367)
Other items	33,955	(7,693)	4,176	(6,924)	(7,155)
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	75,148	87,954
Taxation	-	-	-	-	-
Net income after Tax	152,683	118,473	77,241	75,148	87,954
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	32,139
Distributable income	73,049	107,851	91,417	90,594	101,141

Per unit data

Y/E June	FY22	FY23	FY24	FY25e	FY26e
NAV (S\$)	0.78	0.79	0.76	0.75	0.74
DPU (S cents)	4.85	4.70	3.87	3.78	4.18

Cash Flow

Y/E June, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
P&L after tax	152,683	118,473	77,241	75,148	87,954
Adjustments	(82,073)	39,502	91,942	90,206	81,936
WC changes	24,618	16,036	(40,376)	(1,640)	1,779
Cash generated from ops	95,228	174,011	128,807	163,713	171,668

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)	(90,594)	(101,141)
Distributions to perp holders	(8,400)	(18,900)	(18,952)	(18,952)	(18,952)
Others	(16,591)	(38,348)	(54,546)	(55,807)	(34,766)
Cashflow from financing	1,693,791	(81,291)	(147,256)	(165,353)	(154,859)
Net change in cash	3,636,266	178,508	(18,924)	(640)	17,809
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	49,293

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

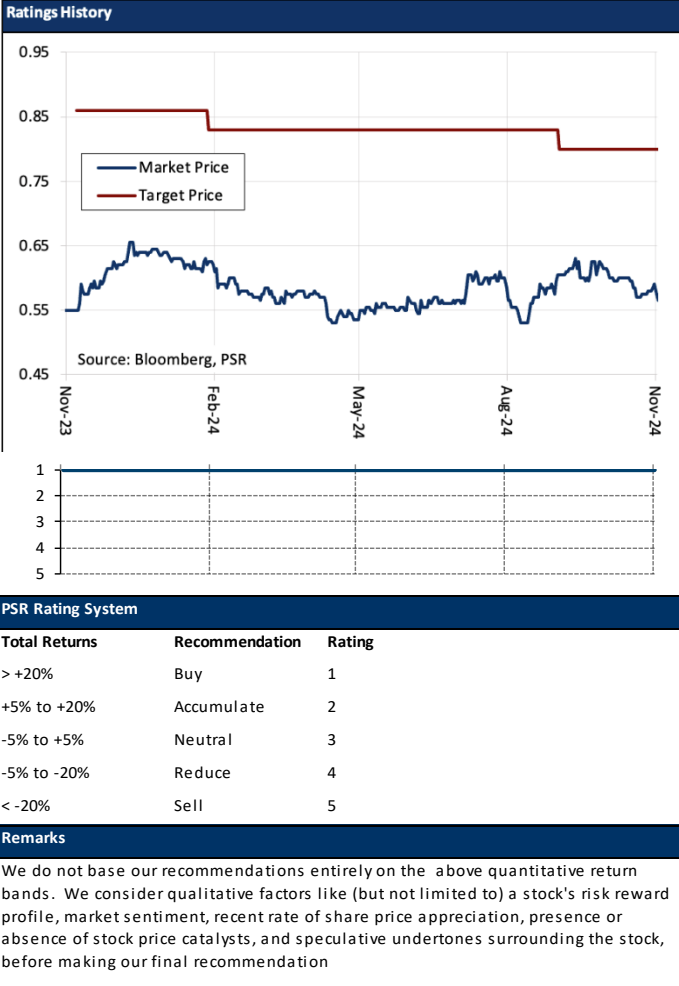
Y/E June, (S\$'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Investment properties	3,593,332	3,642,854	3,673,150	3,674,150	3,675,150
Equity instrument at FV	-	85,784	86,098	86,098	86,098
Others	33,369	27,622	19,631	19,631	19,631
Total non-current assets	3,626,701	3,756,260	3,778,879	3,779,879	3,780,879
Trade receivables	16,820	4,049	8,092	11,404	11,849
Cash and cash equivalents	49,230	54,224	34,124	31,484	47,293
Others	9,213	11,818	8,719	8,719	8,719
Total current assets	75,263	70,091	50,935	51,607	67,861
Total Assets	3,701,964	3,826,351	3,829,814	3,831,486	3,848,740
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	2,183,044
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	1,782,388

Valuation Ratios

Y/E June	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	0.73	0.72	0.75	0.76	0.77
Distribution Yield (%)	8.51	8.25	6.79	6.63	7.33
NPI yield (%)	0.74	0.75	0.75	0.76	0.75

Growth & Margins

Growth						
Revenue		101.5%	7.8%	3.3%	3.9%	
Net property income		103.9%	7.4%	5.0%	2.7%	
Distributable income		47.6%	-15.2%	-0.9%	11.6%	
DPU		-3.0%	-17.7%	-2.4%	10.6%	
Margins						
NPI margin		75.1%	74.8%	76.1%	75.2%	
Key Ratios						
ROE		6.9%	5.3%	3.5%	3.4%	8.1%
Gearing		40.3%	40.6%	40.9%	41.2%	42.0%



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