

Lendlease Global Commercial REIT

Low-teens rental reversion expected for JEM office



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Singapore | REIT | 1H25 RESULTS

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- Gross revenue and NPI declined by 13.6% and 19.8% YoY, respectively, accounting for 46% and 45% of our FY25e estimates. This was due to the absence of pre-termination fee paid by Sky Italia and the longer-than-expected backfilling of Building 3 Sky Complex. NPI margin was impacted by a one-off expense of c.£1mn for equipment repairs, which has yet to be capitalized, along with higher marketing expenses.
- DPU plunged by 14.3% YoY to 1.8 cents, which was in line with our estimates and formed 48% of our FY25e forecast. Higher financing costs dragged down DPU since the cost of borrowing inched up by 20bps YoY.
- Retail rental reversion remained resilient in FY25e, achieving 10.7% for retail and 1.2% for office, despite tenant sales falling 5.2% YoY. We have revised our FY25e/26e DPU forecasts lower by 2%/2% to 3.70/4.05 cents, reflecting the slower-than-expected backfilling of Building 3 at Sky Complex. We maintain our BUY recommendation with a lower DDM-TP of S\$0.74 (prev: S\$0.76). While FY25e earnings are expected to benefit from low-teens rental reversion of both Singapore retail and Jem Office, DPU growth may be constrained by uncertainty surrounding the interest rate cut trajectory.

Result at a glance

(\$ MN)	1H25	1H24	YoY (%)	Comments
Gross Revenue	103.59	119.92	-13.61%	Supplementary rent received from the lease restructuring of Sky Complex
Net Property Income	74.92	93.38	-19.77%	One-off expenses, such as marketing costs and equipment repairs
Finance Cost	34.16	32.71	4.42%	Cost of debt increased by 20bps
DPU	1.80	2.10	-14.29%	
NAV	0.74	0.76	-2.63%	

Source: Company, PSR

The Positives

+ Resilient rental reversion. LREIT achieved rental reversions of 10.7% for Singapore retail and 1.2% for Buildings 1 & 2 of Sky Complex in 1H25. Despite a 5.2% YoY decline in tenant sales and footfall remaining below pre-COVID levels (due to a strong Singapore dollar fuelling outbound spending), LREIT continues to observe robust occupier demand in CBD locations. Meanwhile, the rental review for Jem Office is in its final stages and is expected to conclude by Feb25, retrospectively contributing to revenue from Jan25 onwards. (is this correct?) We anticipate a low-teens rental reversion.

The Negative

- The backfilling of Building 3 at Sky Complex is taking longer than expected, with occupancy improving to c.31% (from 8.1% in Mar24), bringing the total portfolio occupancy to 92.3%. Although the new rental has been marketed at an average of c.30% rental reversion, the actual cash flow will only materialize from 1H26e onwards.

+ Adjusted ICR deteriorates. The cost of borrowing increased by 20 bps YoY to 3.57%. We believe borrowing costs have peaked, as they dipped by 17 bps QoQ. However, the extent of interest rate headwinds will hinge on the FED rate cuts this year, which could follow a volatile trajectory. Nevertheless, LREIT reported an adjusted ICR of 1.5x, aligning with the MAS threshold. With no further debt refinancing obligations in FY25e, LREIT is actively managing the S\$200mn perpetual securities maturing in April 25. We believe a new perpetual issuance is feasible, as an estimated rate of c.5% would be lower than the current 5.25% cost and the rollover rate of c.6%.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.54
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.74
TOTAL RETURN	45.1%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN):	2,423
MARKET CAP (USD mn / SGD mn):	952 / 1296
52 - WK HI/LO (SGD):	0.63 / 0.51
3M Average Daily T/O (mn):	2.98

MAJOR SHAREHOLDERS

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(2.7)	(6.0)	(0.9)
STTF RETURN	0.7	8.4	1.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY23	FY24	FY25e	FY26e
Gross Rev (\$m)	204.9	220.9	213.0	224.5
NPI (\$m)	153.9	165.3	159.3	168.9
Dist. Inc. (\$m)	107.9	91.4	87.1	98.1
P/NAV (x)	0.69	0.71	0.72	0.73
DPU (cents)	4.70	3.87	3.70	4.05
Dist. Yield (%)	8.71	7.17	6.85	7.49

Source: Company, PSR

VALUATION METHOD

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

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Outlook

Management remains committed to its capital recycling plans to address the gearing issue, which has long weighed on share price performance. JEM Office is the preferred asset for divestment over Sky Complex Milan. LREIT is actively engaging with several funds and ultra-high-net-worth individuals to finalize a deal before the end of 2025. While we anticipate a slight discount to its book value of S\$450mn due to the high valuations of Singapore assets, management still expects a positive yield from the divestment.

Meanwhile, the long-awaited tenant, Live Nation, has commenced construction and is expected to be operational from 2H26. With a capacity of 3,000 attendees and a higher-than-average GTO under the revenue-sharing model, we foresee substantial revenue upside from this new tenant.

Maintain BUY with a lower TP of S\$0.74 (prev: S\$0.76)

We reiterate our BUY recommendation with a lower DDM-TP of S\$0.74 (prev: S\$0.76) due to the slower-than-expected backfilling of Building 3, Sky Complex. We expect FY25e rental reversion to be supported by low-teens increases in retail and the Jem office rental review. LREIT is currently trading at an FY25e/26e dividend yield of 6.9% / 7.5% and a P/NAV of 0.74x.

Financials

Income Statement

Y/E June, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
Gross revenue	101,662	204,876	220,905	213,010	224,484
Property expenses	(26,154)	(50,939)	(55,625)	(53,759)	(55,541)
Net property income	75,508	153,937	165,280	159,251	168,942
Net Finance (Expense)	(15,803)	(50,711)	(66,929)	(68,686)	(64,827)
Manager's fees	(9,974)	(18,120)	(18,670)	(17,412)	(17,899)
Other items	33,955	(7,693)	4,176	(2,474)	(2,590)
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	70,679	83,627
Taxation	-	-	-	-	-
Net income after Tax	152,683	118,473	77,241	70,679	83,627
P&L adjusted for perps	(10,753)	(18,900)	(18,952)	(18,952)	(18,952)
Distribution adjustments	(68,881)	8,278	33,128	35,411	33,405
Distributable income	73,049	107,851	91,417	87,139	98,081

Per unit data

Y/E June	FY22	FY23	FY24	FY25e	FY26e
NAV (\$S)	0.78	0.79	0.76	0.75	0.74
DPU (\$ cents)	4.85	4.70	3.87	3.70	4.05

Cash Flow

Y/E June, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
P&L after tax	152,683	118,473	77,241	70,679	83,627
Adjustments	(82,073)	39,502	91,942	86,568	83,201
WC changes	24,618	16,036	(40,376)	(4,656)	2,295
Cash generated from ops	95,228	174,011	128,807	152,591	169,124

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)	(87,139)	(98,081)
Distributions to perp holders	(8,400)	(18,900)	(18,952)	(18,952)	(18,952)
Others	(16,591)	(38,348)	(54,546)	(51,157)	(34,766)
Cashflow from financing	1,693,791	(81,291)	(147,256)	(157,247)	(151,798)
Net change in cash	3,636,266	178,508	(18,924)	(3,656)	18,325
Cash BEG	249,265	49,229	54,224	34,124	28,468
FX changes	(1,444)	(159)	(120)	-	-
Ending cash	3,885,531	227,737	35,300	30,468	46,793

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	10,650	11,224
Cash and cash equivalents	49,230	54,224	34,124	28,468	44,793
Others	9,213	11,818	8,719	8,719	8,719
Total current assets	75,263	70,091	50,935	47,837	64,736
Total Assets	3,701,964	3,826,351	3,829,814	3,827,716	3,845,615
LIABILITIES					
Trade payables	56,120	58,135	55,350	53,252	56,121
Loans and borrowings	297,754	433,611	357,716	428,811	428,811
Total current liabilities	354,108	492,353	413,322	482,319	485,188
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	1,629,642	1,662,571
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)	0.69	0.69	0.71	0.72	0.73
Distribution Yield (%)	8.98	8.71	7.17	6.85	7.49
NPI yield (%)	0.74	0.75	0.75	0.75	0.75

Growth & Margins

Growth

Revenue	101.5%	7.8%	-3.6%	5.4%
Net property income	103.9%	7.4%	-3.6%	6.1%
Distributable income	47.6%	-15.2%	-4.7%	12.6%
DPU	-3.0%	-17.7%	-4.4%	9.3%

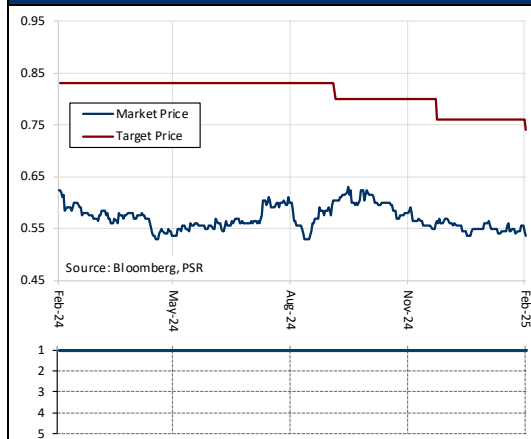
Margins

NPI margin	75.1%	74.8%	74.8%	75.3%
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Key Ratios

ROE	6.9%	5.3%	3.5%	3.2%	7.7%
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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