

Lendlease Global Comm REIT (LREIT SP)

Driving resilience

Positive reversions and stable occupancy

LREIT's 1QFY24 business update confirms steady operations. Highlights were positive mid-teen rental reversion led by 313@somerset, an Orchard Road mall, while portfolio occupancy was stable. Gearing is relatively unchanged with guidance for interest costs to inch up with no refinancing in the current fiscal year ending Jun-24. Narrative on capital recycling remains unchanged but focus is on asset enhancement opportunities. All in, a stable set of business updates. We lower our DPU and cut our DDM-based TP by c.13% to SGD0.70, also factoring in higher cost of capital. BUY rating maintained.

Healthy portfolio statistics

Portfolio occupancy was at a high of 99.9%, unchanged from last quarter. Occupancy for Singapore retail was high at 99.7%, again unchanged from last quarter. Retail reversion stood at 16.3% driven by leases at 313@somerset, while retail leases at Jem generated mid-single digit reversion. Outlook is for positive reversion to sustain albeit at a lower level led by 313@somerset. Sky Complex has 70% physical occupancy excluding the space used for non-office related purpose such as data centre, etc. Bonus GFA of c.10k sqft at 313@somerset is likely to be commissioned by end-Jun-24. Timeline for redevelopment of Grange Road carpark has been pushed back to FY25 with the possibility of renegotiating the lease term.

Active capital management to manage gearing

Gearing stood at 40.6% unchanged from prior quarter. Cost of debt was 2.94% vs. 2.69% for June end. This was due to drawdown of EUR debt. LREIT has no refinancing for this fiscal year but cost of debt will be "low 3%" factoring in full year effect of EUR debt repricing. Adj. ICRx was 1.9x vs. 2.0x in prior quarter. While divestments are being explored, focus seems to be more on asset enhancement opportunities. Specifically, space in Sky Complex may be taken back, refurbished and marked-to-market on rents to generate upside, notwithstanding a mixed outlook on office.

Lower estimates and target price, maintain BUY

We lower our DPU estimates by 5-6% factoring in higher borrowing cost. Combined with a higher cost of equity, our TP is cut by c.13% to SGD0.70. We maintain our BUY rating as we think the high yield of 7.6% and 30% discount to book discounts the macro headwinds and high gearing of LREIT.

FYE Jun (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	102	205	217	225	229
Net property income	64	154	164	170	173
Core net profit	140	108	94	97	100
Core EPU (cts)	9.8	4.7	4.0	4.1	4.1
Core EPU growth (%)	nm	(52.2)	(14.4)	1.6	1.2
DPU (cts)	4.8	4.7	4.2	4.3	4.3
DPU growth (%)	6.2	(2.4)	(10.3)	1.4	1.1
P/NTA (x)	1.0	0.7	0.6	0.6	0.6
DPU yield (%)	6.1	7.1	7.5	7.6	7.7
ROAE (%)	10.3	6.6	6.6	6.6	4.6
ROAA (%)	5.2	2.9	2.4	2.4	2.5
Debt/Assets (x)	0.50	0.40	0.41	0.40	0.40
Consensus DPU	-	-	4.4	4.5	4.4
MIBG vs. Consensus (%)	-	-	(3.7)	(4.9)	(1.5)

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BUY

Share Price	SGD 0.57
12m Price Target	SGD 0.70 (+24%)
Previous Price Target	SGD 0.80

Company Description

LREIT is a real estate investment trust that invests in income-producing commercial properties globally.

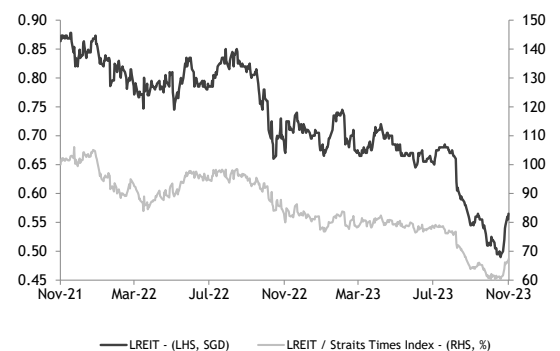
Statistics

52w high/low (SGD)	0.75/0.49
3m avg turnover (USDm)	3.5
Free float (%)	71.7
Issued shares (m)	2,327
Market capitalisation	SGD1.3B USD970M

Major shareholders:

Lendlease Group	26.9%
The Vanguard Group, Inc.	3.3%
Eastspring Asset Management (Thailand) C	1.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	(16)	(16)
Relative to index (%)	11	(13)	(17)

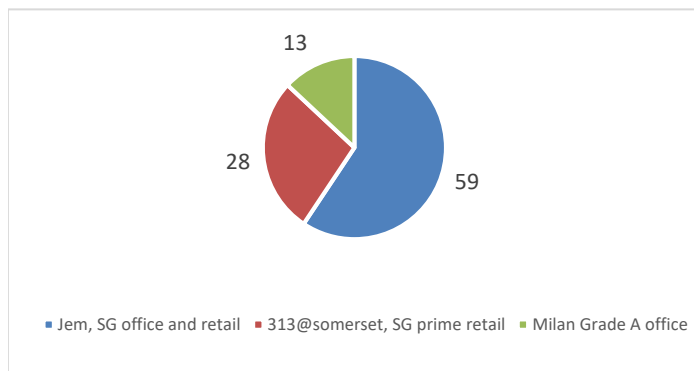
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- LREIT owns suburban and city centre retail and office assets in Singapore and Italy. It has an AUM of SGD3.6b with NLA of 2.2m sq. ft.
- The sponsor, Lendlease Group, is an international property and infrastructure group with a development pipeline of AUD121b and AUD48b of FUM as of Dec'22.
- LREIT has the potential to become a Singapore-centric commercial play as its sponsor has a significant local development pipeline.
- Strong ESG leadership; the first SREIT to attain net-zero carbon emissions in 2022, the highest tier five-star GRESB rating for ESG.
- Trading at a 15% discount to book and offers 7% yield.

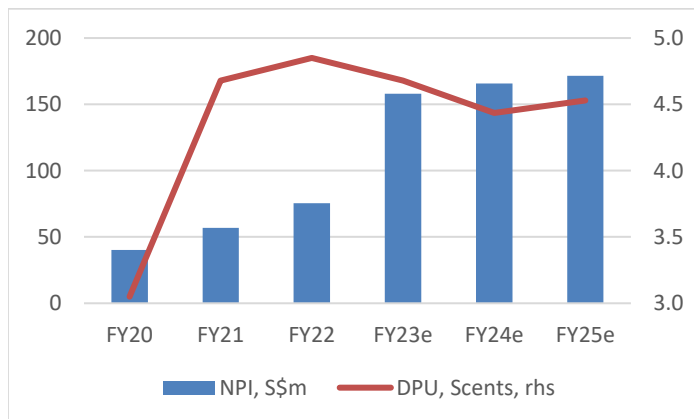
AUM breakdown (Mar 2023), SGD3.6b (%)



Financial Metrics

- We forecast DPU of 4.68c and 4.44c for FY23 and FY24 respectively. This compares with FY22 DPU of 4.85c. The drag is due to higher borrowing costs.
- We forecast debt cost excluding amortization cost to increase from 2.51% in 3QFY23 to 3.5% in FY24. We focus on passing rents for Jem retail and 313@somerset malls to rise by 4-7% in FY23-FY24.
- LREIT has SGD400m of perpetual securities with the first call date in April 2025 and hence, not an immediate financial consideration.

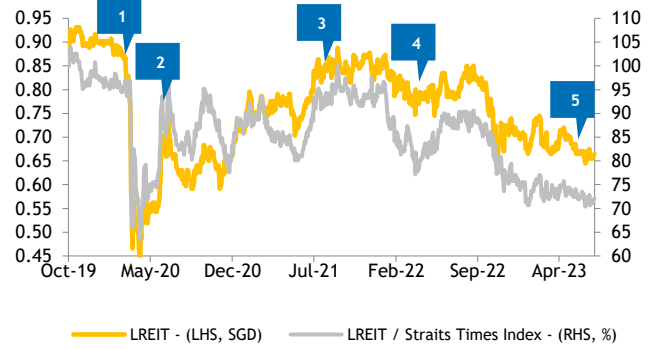
NPI and DPU trend



Source: Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. March 2020 Covid-19 outbreak - LREIT rolls out measures to support tenants, Milan office tenant activates BCP
2. June 2020 - LREIT wins tender to redevelop Grange Road Car Park
3. Aug 2021 - Completion of acquisition of 53% stake in Jem
4. Feb, Mar 2022 - To acquire remaining stake in Jem; placement and pref. in March
5. June 2023 - Acquires 10% stake in Parkway Parade

Swing Factors

Upside

- Economic and tourism rebound resulting in strong growth in rents for Jem retail and 313@somerset malls.
- Capital recycling and Singapore pure-play positioning.
- Benign macro conditions addressing the refinancing of perpetual securities and overall cost of debt.

Downside

- Elevated gearing and rising cost of funding.
- Elevated cost of funding complicating redemption of perpetual securities.
- Give up of space or non-renewal of leases by anchor tenants in office assets in Italy and Singapore.

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Risk Rating & Score ¹	14.2
Score Momentum ²	-1.7
Last Updated	17 Jul 2023
Controversy Score ³ (Updated: 17 Jul 2023)	None

Business Model & Industry Issues

- LREIT's principal investing strategy is to invest directly, or indirectly, in a diversified portfolio of stabilised income-producing retail and/or office real estate assets located globally. It may be critically analysed by ESG focused investors given the real estate sector's contribution to GHG emissions and LREIT's continued need to access capital for growth.
- The board and CEO oversee LREIT's sustainability performance with support from the Sustainability Working Committee (SWC). The SWC comprises representatives from the Manager's and sponsor's Finance, IR, Property Mgmt. and Sustainability teams.
- LREIT strives to: 1) maintain GRESB leadership; 2) achieve Mission Zero targets; and 3) create social value. It is aligned to sponsor's commitment as a signatory to the United Nations Global Compact and Principles of Responsible Investment.
- In 2022, LREIT was ranked first in GRESB rankings and is the first S-REIT to attain Net Zero Carbon, three years ahead of target.
- LREIT continues to be a strong performer on ESG metrics and benefits from a young portfolio. Alignment with sponsor will be a determinant of ESG outcome and we expect LREIT to scale new ESG heights.

Material E issues

- The material environmental issues are resource efficiency, climate change mitigation, adaptation and resilience building and responding to climate risk and opportunity by targeting GHG emissions.
- LREIT has maintained BCA Green Mark Platinum status.
- Committed to Mission Zero which aims to be net zero carbon by 2025 (applicable to Scope 1&2 emissions) and absolute zero carbon by 2040 (applicable to Scope 1, 2 & 3 emissions)
- Obtained SGD960m sustainability-linked loans and SGD335m of sustainability-linked derivatives in FY22, which are expected to generate net interest savings.
- Exceeded environmental targets on energy and water consumption as well as emissions intensity and waste reduction. 313@somerset is the first mall in Singapore to integrate green leases in 100% of its lease agreements.

Material S issues

- The material social issues include health and safety (customer and occupational health and safety), employment-related training and development, diversity and equal opportunity, and local communities.
- No work-related injuries and ill health incidents in FY22. Property manager is bizSAFE partner certified and attained a Silver Workplace Safety and Health award in 2022.
- Close to 90% of the Mgr's workforce positively rated learning & development programme, 26%pt more than SG norm.
- 40% of the board is female and 60% are independent. 55% of employees are female, according to FY22 annual report.
- 83% of the manager's employees volunteered in at least two of the community service projects in FY22.

Key G metrics and issues

- Key material issues related to governance are anti-corruption, regulatory compliance and customer privacy.
- LREIT is an externally managed REIT and the manager is a wholly owned subsidiary of its sponsor Lendlease Group, which supports its growth via a pipeline of development assets, and access to capital markets and funding partners.
- Board independence and diversity is high. LREIT's board comprises of 5 members and 3 of them are independent. None of the board members hold executive functions. 2 of the board members are women. Independent board members chair the two sub-committees, namely the Audit and Risk, and Nomination and Remuneration Committee.
- Management fee structure is in line with peers. It comprises of 0.3% of deposited property value as base fee and 5% of net property income as performance fee. In addition, acquisition and disposal fee are at 1% and 0.5% of deal value. Property management fee for the Singapore assets range between 1.85% and 2% of gross rental income and gross operating profit.
- Remuneration paid to senior management of the manager in FY22 was SGD1.2m, which is <2% of distributable income.
- Manager has grown the AUM from SGD1.4b during IPO to SGD3.6b by gradually buying stakes in Jem. The same procedure is being applied for Parkway Parade.
- LREIT is a member of various indices, such as the GPR 250 Index, GPR APREA Investable REIT 100 Index, MSCI Singapore Small Cap Index and FTSE NAREIT Global Developed Index. It was ranked among the Top 10 on the Singapore Governance and Transparency Index 2022.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Business updates

Fig 1:1Q Business updates

	1QFY23/Sep-22	4QFY23/June-23	1QFY24/Sep-23
Portfolio occupancy, %	99.7	99.9	99.9
Occupancy - Retail, %	99.3	99.7	99.7
JEM, %	99.9	100	100
313@somerset, %	98.1	99	98.9
YTD Office reversion, %	4	5.9	NA
YTD Retail reversion, %	1	4.8	16.3
YTD tenants sales growth, %	NA	NA	4.6
Gearing, %	39.4	40.6	40.6
Cost of debt, %	2.24	2.69	2.94
Adj. Int. coverage ratio, x	2.3	2.0	1.9
Fixed rate borrowings, %	61	61	61

Source: Maybank IBG Research, Company Data

2. Estimate changes

Fig 2: Estimate Changes

	FY24		FY25		FY24		FY25	
	Old	Old	New	New	% Chg.	% Chg.		
SGDm								
Gross revenue	219.6	227.2	217.5	225.5	-1.0	-0.8		
Net property income	165.8	171.5	164.2	170.3	-1.0	-0.7		
Mgmt fees & trust expenses	22.9	23.2	24.3	24.7	5.9	6.4		
Finance costs	51.2	53.3	58.5	61.8	14.2	16.0		
Distribution to unitholders	103.4	107.3	98.8	101.8	-4.5	-5.1		
DPU, SGDcts.	4.44	4.53	4.22	4.28	-5.0	-5.6		

Source: Maybank IBG Research

3. Valuation

We value LREIT using a three-stage dividend discount model. We use a cost of equity of 7.7% and medium-term growth rate of 2%. This is higher than prior cost of equity of 7.2% due to higher risk free rate. We lower our DPU by c.5-6% mostly led by higher borrowing cost. Along with higher discount rate, this results in a 13% cut in our TP to SGD0.70. LREIT yields 7.6% on our FY24 earnings projection and trades at a 30% discount to book which discounts for relatively higher gearing, in our view.

4. Risks

Slower-than-expected retail sales growth, master lease non-renewals for office tenants, elevated gearing, and dilutive transactions.

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	16.5	14.0	13.4	13.2	13.1
P/BV (x)	1.0	0.8	0.7	0.7	0.7
P/NTA (x)	1.0	0.7	0.6	0.6	0.6
DPU yield (%)	6.1	7.1	7.5	7.6	7.7
FCF yield (%)	30.6	10.4	12.9	13.2	13.2
INCOME STATEMENT (SGD m)					
Revenue	101.9	204.9	217.5	225.5	229.3
Net property income	64.1	153.9	164.2	170.3	173.0
Management and trustee fees	15.1	(23.1)	(24.3)	(24.7)	(24.8)
Net financing costs	(16.1)	(50.7)	(57.8)	(61.2)	(61.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	38.3	39.1	40.9	0.0
Pretax profit	147.4	118.5	121.2	125.2	86.9
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	(1.5)	0.4	0.4	0.4	0.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	140.4	118.8	121.6	125.6	87.2
Core net profit	140.4	108.2	94.3	97.3	100.1
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	49.2	54.2	149.5	149.8	150.1
Accounts receivable	16.8	4.0	4.0	4.0	4.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	3,599.4	3,642.9	3,687.0	3,732.9	3,732.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	14.5	7.8	7.8	7.8	7.8
Other assets	22.0	117.4	117.4	117.4	117.4
Total assets	3,702.0	3,826.3	3,965.7	4,011.9	4,012.2
ST interest bearing debt	298.0	433.6	433.6	433.6	433.6
Accounts payable	0.0	58.1	58.1	58.1	58.1
LT interest bearing debt	1,553.5	1,078.6	1,178.6	1,183.6	1,183.6
Other liabilities	71.3	24.9	24.9	24.9	24.9
Total Liabilities	1,922.7	1,595.2	1,695.2	1,700.2	1,700.2
Shareholders Equity	1,775.4	2,229.1	2,268.5	2,309.7	2,310.0
Minority Interest	3.8	2.0	2.0	2.0	2.0
Total shareholder equity	1,779.3	2,231.1	2,270.5	2,311.7	2,312.0
Total liabilities and equity	3,702.0	3,826.3	3,965.7	4,011.9	4,012.2
CASH FLOW (SGD m)					
Cash flow from operations	417.3	158.0	171.3	177.7	180.6
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(2,211.2)	(93.4)	(5.0)	(5.0)	0.0
Disposal of FA & investments	0.1	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.6	0.6	0.6	0.6
CF from investing activities	(2,211.1)	(92.7)	(4.4)	(4.4)	0.6
Dividends paid	(69.7)	(88.3)	(117.7)	(120.7)	(123.5)
Interest expense	41.7	(37.9)	(58.5)	(61.8)	(61.9)
Change in debt	1,164.2	43.9	100.0	5.0	0.0
Equity raised / (purchased)	639.3	(0.4)	0.0	0.0	0.0
Other financial activities	(138.2)	(0.3)	0.0	0.0	0.0
CF from financing activities	1,595.2	(83.1)	(76.1)	(177.5)	(185.4)
Effect of exchange rate changes	(1.4)	(0.2)	0.0	0.0	0.0
Net cash flow	(200.0)	(18.0)	90.9	(4.2)	(4.2)

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.5	101.0	6.2	3.7	1.7
Net property income growth	27.4	140.3	6.7	3.7	1.6
Core net profit growth	nm	(22.9)	(12.8)	3.2	2.9
Distributable income growth	na	na	na	na	na
Profitability ratios (%)					
Net property income margin	62.8	75.1	75.5	75.5	75.4
Core net profit margin	nm	52.8	43.4	43.2	43.7
Payout ratio	49.0	91.0	81.2	81.0	119.9
DuPont analysis					
Total return margin (%)	137.7	58.0	55.9	55.7	38.0
Gross revenue/Assets (x)	0.0	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.1	1.7	1.7	1.7	1.7
ROAE (%)	10.3	6.6	6.6	6.6	4.6
ROAA (%)	5.2	2.9	2.4	2.4	2.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	2.4	2.3	2.4	2.4
Net gearing (%) (excl. perps)	101.3	65.3	64.4	63.5	63.5
Net interest cover (x)	4.7	2.6	2.4	2.4	2.4
Debt/EBITDA (x)	nm	11.6	11.5	11.1	10.9
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,802.2	1,458.0	1,462.7	1,467.4	1,467.1
Debt/Assets (x)	0.50	0.40	0.41	0.40	0.40

Source: Company; Maybank IBG Research

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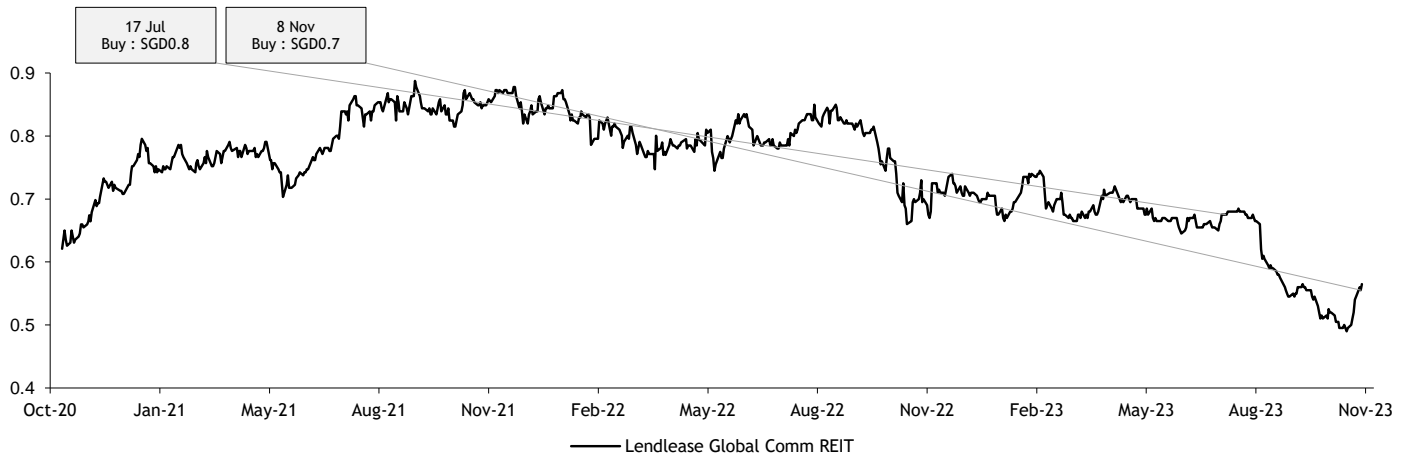
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