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LENDLEASE GLOBAL COMMERCIAL REIT

A cut above the rest

SINGAPORE | REAL ESTATE | INITIATION

- Stable income from Milan commercial property for next 12 years (FY20 GRI: 34%). Retail foothold in the heart of Singapore poised to benefit from Phase 3 (GRI: 66%) reopening.
- We see organic growth of c.2% from annual rental escalations and upcoming developments in Orchard/313. Coupled with inorganic growth opportunities from the sponsor's stabilized pipeline of assets, of up to c.A$32.4bn.
- Initiate coverage with ACCUMULATE and DDM TP (cost of equity 8%) of S$0.78. Valuations attractive at FY21 yields of 6.1% vs. diversified retail peers of 5.2%.

KEY HIGHLIGHTS

Company Background

Lendlease Global Commercial REIT (LREIT) primarily invests in stabilised income-producing real-estate assets globally, for retail and/or office purposes. Its portfolio comprises a leasehold interest in 313@Somerset (313), a retail mall in the heart of Singapore, and a freehold interest in Sky Complex (SC), a Grade A office asset in Milan. Its portfolio has an appraised value of S$1.4bn. On 1 October 2020, LREIT acquired an effective 3.75% stake in Jem for S$45mn, a shopping mall in Jurong, Singapore.

Investment Highlights

1. **Highly stable portfolio built for growth.** We see income stability from SC, which has been 100% leased by Sky Italia for the next 12 years (FY20 GRI: 34%). The remaining 66% of its GRI stems from 313 (WALE of 1.8 years by GRI). Fixed rents historically account for more than 95% of LREIT's gross revenue. With recovering tenant sales and returning footfalls, we expect fixed rents to continue contributing more than 90% to LREIT's portfolio GRI in FY22. Both properties have built-in rental escalations: based on CPI for SC and 2.7% for 313.

2. **313 to bottom out with the help of Phase 3.** As Singapore moves towards Phase 3, the group size for gatherings and capacity limits is expected to increase. Higher-risk activities like bars and karaokes will also be allowed. With this, we expect more get-togethers and higher consumption spending. As F&B tenants contribute 37.7% to 313's GRI, we believe that a further relaxation of Covid-19 measures will generate more footfall and sales back to 80% and 85% of pre-Covid levels respectively, from 60% and 70% currently.

3. **Strong organic and inorganic growth outlook.** Besides natural rent growth through rent escalations, LREIT is redeveloping the Grange Road carpark and working on AEI to increase 313's plot ratio. While major AEI work has been temporarily delayed, the Grange Road redevelopment is set to be operational by 1H22. Additionally, LREIT has a ROFR which covers any proposed offer or interest in stabilized retail and office assets, should Lendlease Group be looking to divest. We are estimating a pipeline of up to c.A$32.4bn. LREIT will benefit from being the only REIT vehicle for Lendlease Group.

4. **Attractive valuations vs. peers.** FY21e/FY22e dividend yields of 6.1%/6.6% outperform the average forward yields of diversified retail REITs' 5.2%/6.0%. LREIT is also trading at 0.86x P/B, slightly below diversified retail REITs' 0.90x.

We initiate coverage with an ACCUMULATE. Our DDM TP is S$0.78, implying 14.2% upside potential, inclusive of FY21e dividend yields of 6.1%.

14 December 2020

ACCUMULATE (Initiation)

LAST CLOSE PRICE	SGD 0.725
FORECAST DIV	SGD 0.048
TARGET PRICE	SGD 0.780
TOTAL RETURN	14.2%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN) :	1,177
MARKET CAP (USD mn / SGD mn) :	638 / 853
52 - WK HI/LO (SGD) :	0.95 / 0.44
3M Average Daily T/O (mn) :	3.40

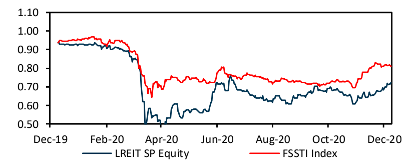
MAJOR SHAREHOLDERS (%)

LENDLEASE SREIT PTY LTD	24.1%
TEMASEK HOLDINGS PTE LTD	4.9%
BLACKROCK INC	4.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	9.2	8.3	(21.0)
STI RETURN	4.8	13.9	(6.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY19	FY20	FY21e	FY22e
Gross Rev ($'000)	n.a.	55,536	84,451	87,936
NPI ($'000)	n.a.	40,289	58,319	62,629
Dist. Inc. ($'000)	n.a.	35,672	51,849	56,124
P/NAV (x)	n.a.	1.14	0.86	0.86
DPU (cents)	n.a.	3.05	4.42	4.79
Dist. Yield (%)	n.a.	3.16	6.10	6.61

*19 July-31 Dec 2019

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 8%; Terminal g: 2%)

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THE REIT

LREIT was listed on 2 October 2019 on the main board of SGX at S$0.88 per share. Its Manager is Lendlease Global Commercial Trust Management Pte. Ltd., an indirect wholly-owned subsidiary of its sponsor. In May and June 2020, LREIT was included in the MSCI Singapore Index and GPR APREA Investable REIT 100 Index.

THE SPONSOR: LENDLEASE CORPORATION LIMITED

Lendlease Corporation Limited (LLC AU, Not Rated) is part of the Lendlease Group (LGroup), a leading international property and infrastructure group listed on the Australian Securities Exchange. Lendlease Group is one of the largest developers in the world, with a global development pipeline value approaching A$113bn. It operates in 17 gateway cities:

- Asia: Singapore, Sydney, Brisbane, Melbourne, Perth, Beijing, Shanghai, Tokyo and Kuala Lumpur
- Europe: London, Milan and Rome
- United States: New York, Boston, Chicago, San Francisco and Los Angeles

Figure 1: Lendlease's global presence

Source: Company

Figure 2: Melbourne Quarter, Australia

Source: Company

Lendlease Group (LGroup) has delivered projects globally for 60 years. To date, it has 21 urbanisation projects. These include Paya Lebar Quarter (Singapore), Melbourne Quarter (Melbourne, Australia, Fig. 2), The Exchange TRX (Kuala Lumpur, Malaysia) and Milano Santa Giulia (Milan, Italy). The Group's core construction business had backlog revenue of A$14bn globally as at FY20. It also managed 14 wholesale funds with more than A$36bn for about 150 institutional investors.

THE ASSETS

LREIT holds two properties in its portfolio and an indirect 3.75% interest in Jem.

Figure 3: LREIT's portfolio

As at 30 June 2019	Sky Complex (SC)	313 @ Somerset (313)
Location	Milan, Italy	Singapore
Number of Tenants	1	142
Key Tenants	Sky Italia	Multiple*
WALE by GRI (years)	12.9	1.6
Valuation (S$mn)	444.5	1,008
Net Lettable Area (sq ft)	985,967	288,277
FY20 NPI contribution (%)	41.9%	58.1%
Occupancy (%)	97.8%	100%

Source: Company, PSR

** E.g. Food Republic, Zara, Cotton On*

a. **Sky Complex: stable income generator.** Strategically located in one of Milan's newest and most vibrant office precincts in the Milano Santa Giulia area, this property consists of three Grade-A office buildings wholly anchored by Sky Italia. Sky Italia is owned by ComCast Corporation, the world's largest broadcasting company by revenue (Forbes, 2020). Milano Santa Giulia is a strategic area due to its connection to the historical centre of Milan and easy access to all transportation modes. The latter include the Tangenziale Est Milan Ring Road, a high-speed railway station, and Linate Airport. The strategic location and high-quality office buildings in Milan's peripheral office submarket have led to its highest take-up rates in the Milan office market in the past three years.

Figure 4: Sky Complex

Figure 5: Location of Sky Complex

Source: Company

b. **313@Somerset: a differentiated lifestyle destination mall.** 313@Somerset offers 288,277 sqft of prime retail NLA along the main Orchard Road belt, Singapore's most famous shopping and tourist precinct. It is situated smack in the middle of Orchard Road with direct access to the Somerset MRT Station. 313's tenants include leading global brands such as Zara, Forever 21 and Cotton On and dining establishments such as Hai Di Lao, Brotzeit and Marché. Over the past three years, annual footfalls averaged 45.5mn, about 8x Singapore's population.

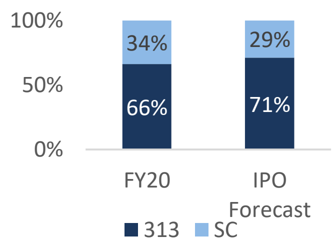
Figure 6: 313@Somerset

Figure 7: Location of 313@Somerset

Source: Company

INVESTMENT MERITS

Figure 8: FY20 breakdown by GRI



1. **Highly stable portfolio built for growth.** Portfolio committed occupancy is 99%. We see income stability for SC, which contributes 33.7% (Fig. 8) to FY20 gross rental income. This is because SC has been 100% leased to Sky Italia in a triple net lease structure. Its WALE is long at 12.1 years, with a lease break option only in 2026. It has an annual step-up feature which is based on 75% ISTAT consumer price index variation. The remaining 66.3% of the portfolio's income comes from 313, with a WALE of 1.8 years by GRI. About 60% of 313's leases are built with annual rental escalations of 2.7%.

Figure 9: LREIT's lease expiries by GRI and NLA

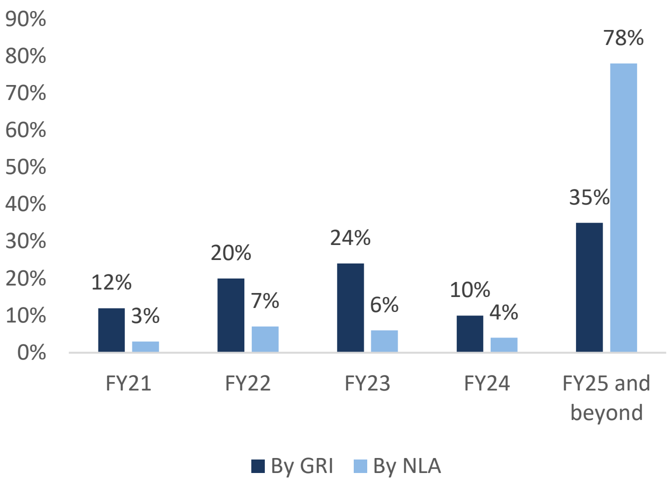
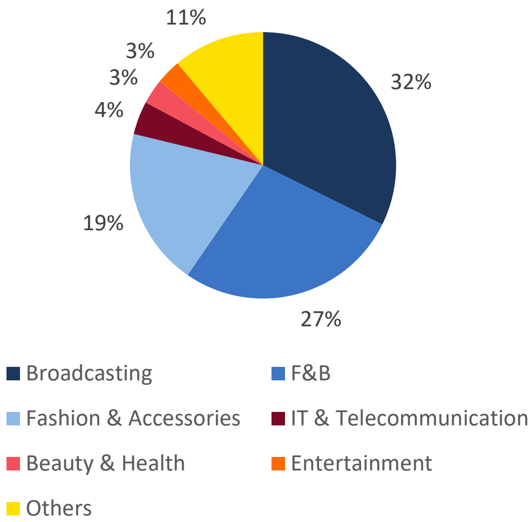
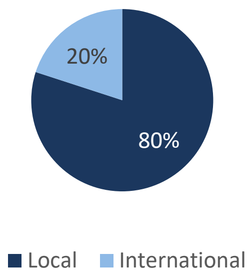


Figure 10: Tenant trade mix is 30% broadcasting, 70% retail



Source: Company, PSR

Figure 13: Footfall mix in 313



SC has been resilient throughout Covid-19. To date, Sky Italia has paid up all its rents in a timely manner. Over at 313, struggling tenants with leases expiring in 1Q21 had been offered short-term extensions of 6-12 months or 3-year leases with lower base rents and higher turnover rents in the first year. As recovering tenant sales and footfalls are expected to return confidence to tenants, we expect upcoming leases to be renewed with a higher fixed rent component. Historically, gross turnover rent accounts for less than 5% of LREIT's gross revenue. We are expecting fixed rents to contribute more than 90% to portfolio GRI in FY22.

<u>Minimal drag on FY21 anticipated.</u> As of date, most of 313 had reopened, except for one KTV which will reopen soon. Tenant sales and footfall had recovered to 70% and 60% of pre-Covid levels. Separately, LREIT has flushed out all the rental rebates to be given to tenants by the end of FY20 (30 June 2020). Hence, we are not expecting any residual abatements in FY21. Although six tenants had applied for rent deferral under Singapore's Covid-19 temporary measures, none has exercised this. That said, we still expect FY21 revenue and NPI to underperform its IPO forecasts by 3% and 7.5% respectively, due to the short-term leases provided in 1Q21. We are expecting arrears to rise 20-30% as some tenants temporarily cancelled GIRO payments while waiting for government rebates.

<u>313 to bottom out with the help of Phase 3.</u> As Singapore moves towards Phase 3 reopening, more activities are expected to resume. An increase in the group size for gatherings and capacity as well as reopening of higher-risk bar, pub, karaoke and night-club outlets should bring back more get-togethers and consequently, consumption. As F&B tenants contribute 37.7% to 313's GRI, we believe that further relaxation of Covid-19 measures will return footfalls to about 80% of pre-Covid levels. Tenant sales are expected to recover to 85% of pre-Covid levels. In addition, the air travel bubble announced by the Singapore and Hong Kong authorities in October, albeit delayed, could be a step towards the reopening of borders.

2. Organic growth for 313 with redevelopments

313's lifestyle youth hub to appeal to New-Age tenants. 313 sits above the Somerset MRT station. This is an enviable location along Orchard Road, as it is smack in the heart of the shopping belt. With its proximity to public transportation, 313 is an optimal location for omnichannel players to locate their physical stores. Love, Bonito, Singapore's largest local fashion brand, chose 313 as the venue for its first physical store in Singapore. Further bridging the online to offline trend, 313 also attracted Pomelo, which opened its first store in Singapore in 2019. In our view, 313 is a gem that remains attractive to new-to-market online brands due to its strategic location in a prime leisure spot and ability to provide myriad experiences and services to similar target audiences. We are fairly certain that this differentiation of 313 as a 'lifestyle x new-age mall' will be able to draw more footfall and sales. Not resting on this laurel, LREIT is exploring partnerships with brands and education providers to monetise its atrium space.

Figure 14: Love, Bonito at 313

Rejuvenating Orchard Road via Grange Road carpark redevelopment. On 13 June 2020, LREIT won a joint tender to redevelop the 48,200 sqft carpark at Grange Road into a new multi-functional event space. This redevelopment is part of the STB-URA-NParks-LTA's blueprint to rejuvenate Orchard Road. Somerset has been designated to continue providing lifestyle offerings to youths. Set to be operational in the first half of 2022, the concept offers a first-of-its-kind lifestyle experience along Orchard Road. It will have multiple dedicated event spaces, an independent cinema, hawker stalls serving local delights and a food and beverage attraction. LREIT is collaborating with Live Nation, the world's leading live entertainment company, on this project. Other partners include The Projector and Museum of Food. With the inclusion of the Grange Road event space, 313's net lettable area will expand by 14% to 330,000 sq ft.

Figure 15: Grange Road carpark is located right beside 313

Figure 11: The curated space will create synergies with Discovery Walk and is expected to strengthen LREIT's retail and lifestyle presence in Orchard Road

Source: Company

Development cost is S$10mn or less than 1% of LREIT's deposited property value. This will be funded by LREIT's working capital, spread throughout the development phase. We are expecting the development to be yield-accretive at a conservative return of investment of 10% p.a. (FY22 DPU accretion: 1%). There are future upside opportunities if we consider joint marketing and cost synergies with 313 (Fig. 16).

AEI to increase plot ratio for 313. The URA granted 313 an increase in plot ratio under its Master Plan 2019, from 4.9+ to 5.6, resulting in a potential increase of up to 1,008 sqm of space. LREIT has identified areas of expansion. However, in light of current economic conditions, major work has been temporarily shelved. We are looking at a possible delay till FY22 before the AEI contributes to valuation.

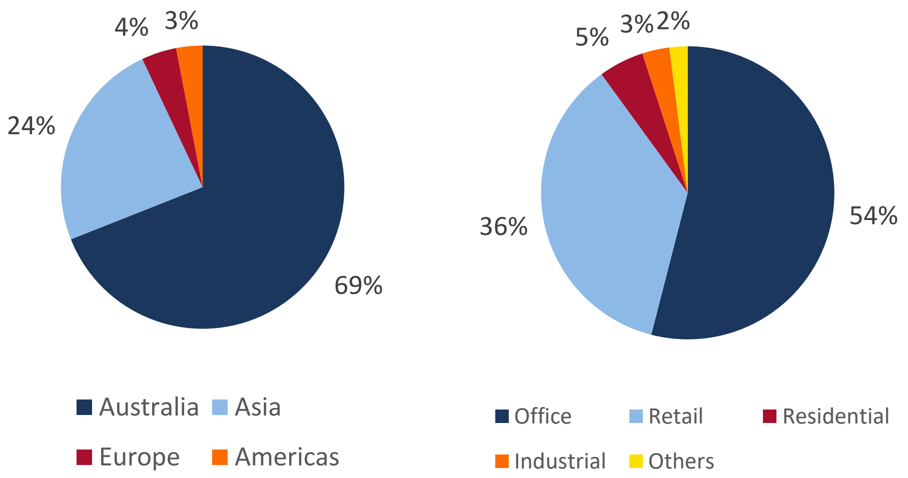
Figure 16: Plot ratio to increase from 4.9 to 5.6

Source: Company, URA

3. **Inorganic growth opportunities; the only REIT under sponsor.** Keeping its global and broad-based investment mandate, LREIT will be the only investment vehicle that the Lendlease Group will have. LREIT has ROFR agreements with Lendlease Trust and Lendlease Corporation which covers any proposed offer or private funds managed by Lendlease Group, if it is to dispose any interest in any stabilized assets globally, used for office and/or retail purposes.

   For the asset to be considered stabilized, there are a few criteria: 1) the asset must be generating rentals at market rates; 2) it must be operating at a minimum occupancy of 80%; 3) there should be no major AEI planned for the next two years so that the property is readily generating income for investors. Within the A$36bn FUM of the sponsor, we are estimating up to c.A$32.4bn worth of stabilized assets that may present future acquisition opportunities for LREIT.

Figure 12: Stabilised assets in FUM mainly comprise investments in Singapore and Australia; ROFR is only for office and retail assets.



Source: Company, PSR

Assets in the pipeline closer to home include Paya Lebar Quarter (PLQ, 30% interest), Parkway Parade (PP, 10% interest) and Jem, where LREIT recently acquired a 3.75% stake in. PLQ recently opened in 3Q19, hence it may be too early to conclude that the property is generating a stable income stream. While PP has been operational since 2012, it is not ideal due to its near-term need for AEIs and the nearby construction of Marine Parade MRT due for completion in 2023.

<u>LREIT's near-term priority is to add to its stake in Jem</u>. Jem is an integrated office and retail development in Jurong Gateway, the commercial hub of the Jurong Lake District. It is one of the largest suburban malls in Singapore with retail space on six levels. Anchor tenants like NTUC FairPrice and IKEA occupy 30% of the mall. It also comprises 12 levels of office space which have been 100% leased to the Ministry of National Development for the next 30 years. It is a stabilised asset with high fixed recurring income.

On 1 October 2020, LREIT acquired 5.0% of Lendlease Asian Retail Investment Fund 3 (ARIF3), which holds a 75.0% indirect interest in Jem. This brings LREIT's effective stake in JEM to 3.75%. The S$45mn cost is fully debt-funded. Return of investment is c.2%. The Lendlease Group still holds a 15.1% stake in ARIF3. The 3.75% stake in Jem is expected to add 2% to FY21's DPU.

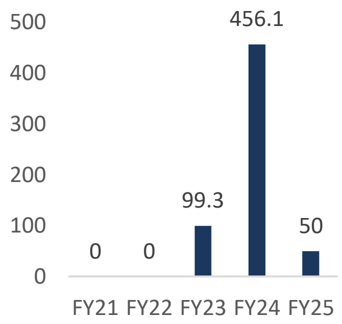
<u>Other probable markets</u> to be evaluated include Australia, where LREIT's sponsor has a significant presence. LREIT is also open to looking at third-party transactions in Europe. With pro-forma gearing of 36.9% post-acquisition and low cost of debt of 0.86% p.a., we see room for LREIT to pursue more acquisition opportunities.

Figure 17: Paya Lebar Quarter

Figure 18: Parkway Parade

Figure 19: Jem

Figure 20: No refinancing needs for its existing debt facilities till FY23 (S$ mn)



Source: Company, PSR

VALUATION

We initiate coverage with an ACCUMULATE rating and DDM-derived target price of S$0.78. With prospective dividend yields of 6.1%, total potential upside is 14.2%. Our target price is based on 4-year projections and assumes cost of equity of 8% and a terminal growth rate of 2%.

LREIT is trading at 0.86x P/B, which is above pure retail REITs' 0.74x but below diversified retail REITs' 0.90x. LREIT's FY21e/FY22e dividend yields of 6.1%/6.6% also outperform the average forward yields of diversified retail REITs' 5.2%/6.0%. We believe valuations are still attractive, with Phase 3 reopening and potential developments providing near-term catalysts.

Figure 21: Peer comparison

	Mkt. Cap. (S$mn)	Price (S$)	P/NAV	Trailing yield (%)	Total Returns 1M (%)	Total Returns YTD (%)	FY20/21 yield (%)	FY21/22 yield (%)
Retail								
FRASERS CENTREPOINT TRUST*	4,008	2.360	1.1	2.6	2.6	(11.5)	4.8	6.0
SPH REIT	2,304	0.830	0.8	3.3	6.4	(20.7)	6.4	6.4
STARHILL GLOBAL REIT	1,067	0.485	0.6	2.9	5.5	(31.7)	8.0	8.7
CAPITALAND RETAIL CHINA TRUS	1,908	1.320	0.8	7.1	5.8	(13.0)	5.8	7.4
SASSEUR REIT	975	0.810	0.9	7.7	7.1	(0.6)	7.5	8.0
DASIN RETAIL TRUST*	601	0.775	0.6	5.2	(2.5)	(3.1)	6.5	7.3
BHG RETAIL REIT	291	0.570	0.7	4.7	5.6	(12.9)	n.a	n.a
UNITED HAMPSHIRE US REIT	283	0.570	0.7	3.1	3.7	N/A	8.8	10.7
LIPPO MALLS INDONESIA RETAIL	246	0.084	0.5	16.4	(4.5)	(60.7)	4.8	11.9
Average			0.7	5.9	3.3	(19.3)	6.6	8.3
Diversified								
CAPITALAND INTEGRATED COMMERCIAL TRUST*	13,524	2.090	1.0	5.6	5.6	(10.8)	4.3	5.6
MAPLETREE COMMERCIAL TRUST	6,829	2.060	1.2	3.4	3.5	(10.2)	4.1	4.5
SUNTEC REIT	4,181	1.480	0.7	6.5	0.7	(14.9)	4.8	5.8
MAPLETREE NORTH ASIA COMMERC	3,044	0.935	0.7	8.0	3.3	(14.5)	6.7	7.7
LENDLEASE GLOBAL COMMERCIAL TRUST*	**853**	**0.725**	**0.9**	**4.2**	**9.2**	**(19.8)**	6.1	6.6
Average			0.9	5.5	4.4	(14.0)	5.2	6.0

**Rated. All forecasts without * are Bloomberg consensus estimates as of 11 December 2020*
Source: PSR, Bloomberg

RISK FACTORS

1. **Small portfolio; subdued retail outlook.** LREIT's main portfolio comprise only two properties currently. About 58.1% of its FY20 NPI was reliant on Singapore's prime retail market. Due to general economic weakness, retail leasing is expected to be subdued. Given that there are several malls in the Orchard Road belt (Ion Orchard, Orchard Central), 313 faces competition in retaining and attracting quality tenants. We conservatively estimate rental reversions of -10%/5%/10% for leases expiring in FY21e (25% of the GRI)/FY22e/FY23e. We assume that the 3% annual rent escalation remains constant for the next three years.

2. **Limited growth prospects for SC in near term.** Due to slower global economic growth, we are expecting limited growth in SC's rental escalations. Its annual step-up feature is based on 75% ISTAT consumer price index variation. In our models, annual rental escalations estimated for the leases at SC in FY21e/FY22e/FY23e are 0%/0%/3%.

APPENDIX 1: SINGAPORE'S RETAIL INDUSTRY

Weaker retail demand expected. Estimates from the Ministry of Trade and Industry suggest that the Singapore economy contracted 7.0% YoY in 3Q20. Due to Covid-19, Singapore's GDP growth forecast for 2020 has been cut to "-7.0 to -4.0%". Consumption growth may continue to weaken on the back of economic uncertainties.

According to SingStat, retail sales excluding motor vehicles decreased 12.7% in September YoY. Apart from Supermarkets & Hypermarkets, Furniture & Household Equipment and Recreational Goods (Fig. 24), most industries' sales dropped by 10-40% YoY. September's estimated total retail sales value was S$3.2bn. Of this, online sales constituted 11.2%. This figure been largely stable since Singapore exited its circuit breaker. Total sales of F&B services in September 2020 were estimated at S$629mn, down 29.9% YoY. Of this, online F&B made up 20.4%. We are looking forward to a gradual recovery of overall retail sales and F&B services under Phase 3 reopening.

Figure 22: Retail Sales Index (ex. motor vehicles) seasonally adjusted

Figure 23: Change in retail sales by industry

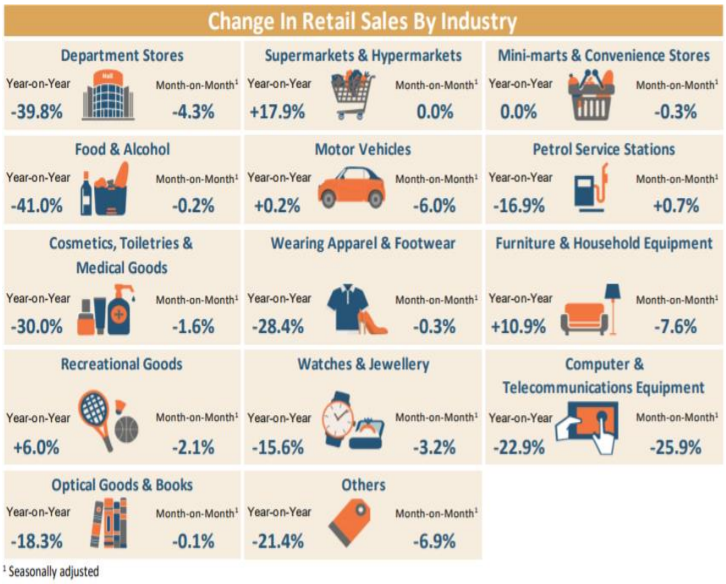
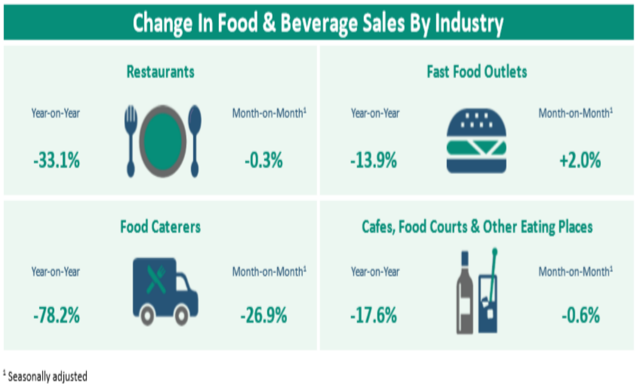


Figure 24: Change in F&B sales by industry

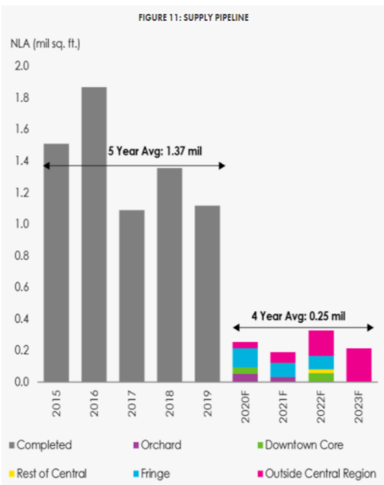


Source: SingStat

Minimal upcoming supply in Orchard to support retail rents. The retail supply pipeline is expected to dwindle to 0.3mn sq ft in 2020 (Fig. 26) from 1.1mn sqft in 2019, which comprised major completions like Funan, the PLQ mall, Tekka Place and redevelopment of Raffles Hotel Shopping Arcade. CBRE estimates a 4-year average supply of 0.3mn sqft p.a. for 2020-2023. This is much lower than the 5-year historical average of 1.4mn sqft p.a. Suburban and Fringe areas will account for the bulk of future supply, at 47.8% and 29.6% respectively. Orchard Road supply remains minimal at c.10%. Several upcoming developments will be redevelopment projects or from mixed-use projects with retail podiums. This limited future supply is commensurate with generally lower demand.

Moving forward, the weaker leasing demand may place growing pressures on landlords to maintain rents and occupancy. Tourism-reliant submarkets such as Orchard Road and Harbourfront are more likely to be affected by competitive leasing strategies while suburban malls in densely populated areas should remain more resilient. However, 313 should be relatively less impacted as tourists historically make up only 20% of its footfalls. We believe that it will continue to benefit from local spending with the help of Phase 3 reopening. The completion of the Grange Road redevelopment in mid FY22 should further boost footfall and sales for 313.

Figure 25: Minimal upcoming Orchard supply



Source: CBRE, URA Realis

APPENDIX 2: ITALY'S OFFICE MARKET

As Europe is experiencing a second wave of Covid-19, its recovery that began in early 3Q20 has been stunted. Italy's GDP and employment are expected to fall by 9.8% and 8% in 2020. However, as Milan is the business and financial heart of the country, it is expected to recover to pre-crisis levels before the rest of the country.

Figure 26: GDP growth to recover in 2021

Source: Colliers International

After a strong first quarter, absorption rates in Milan's office industry fell far below their 10-year average. Small-medium transactions of Grade A buildings were the most affected. Take-up of new space has slowed down, as tenants revise their needs for footage and number of workstations. That said, buildings in prime locations continue to draw interest. Prime rents have been stable, although tenants have been asking for bigger incentive packages due to the economic environment (Fig. 29). Although overall take-up could be lower than previous years due to Covid-19 (Fig. 30), prime yields are expected to be stable on the back of sustained rents and valuation over the next few quarters.

Figure 27: Market statistics

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	YTD OVERALL TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	4.8 %	55,000	215,000	600	3.25 %
Centre	8.6 %	9,000	43,000	480	4.00 %
Semi Centre	2.3 %	12,000	107,000	370	4.50 %
Periphery	12.9 %	80,000	347,000	280	4.75 %
Hinterland	13.8 %	35,000	108,000	240	5.75 %
TOTALS	**9.0 %**	**192,000**	**815,000**	**600**	**3.25%**

Source: Cushman and Wakefield

Figure 28: Overall vacancy & prime rents

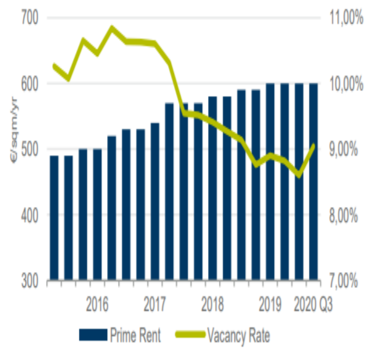
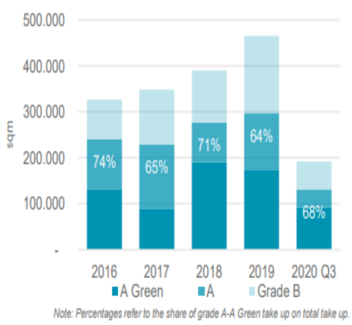
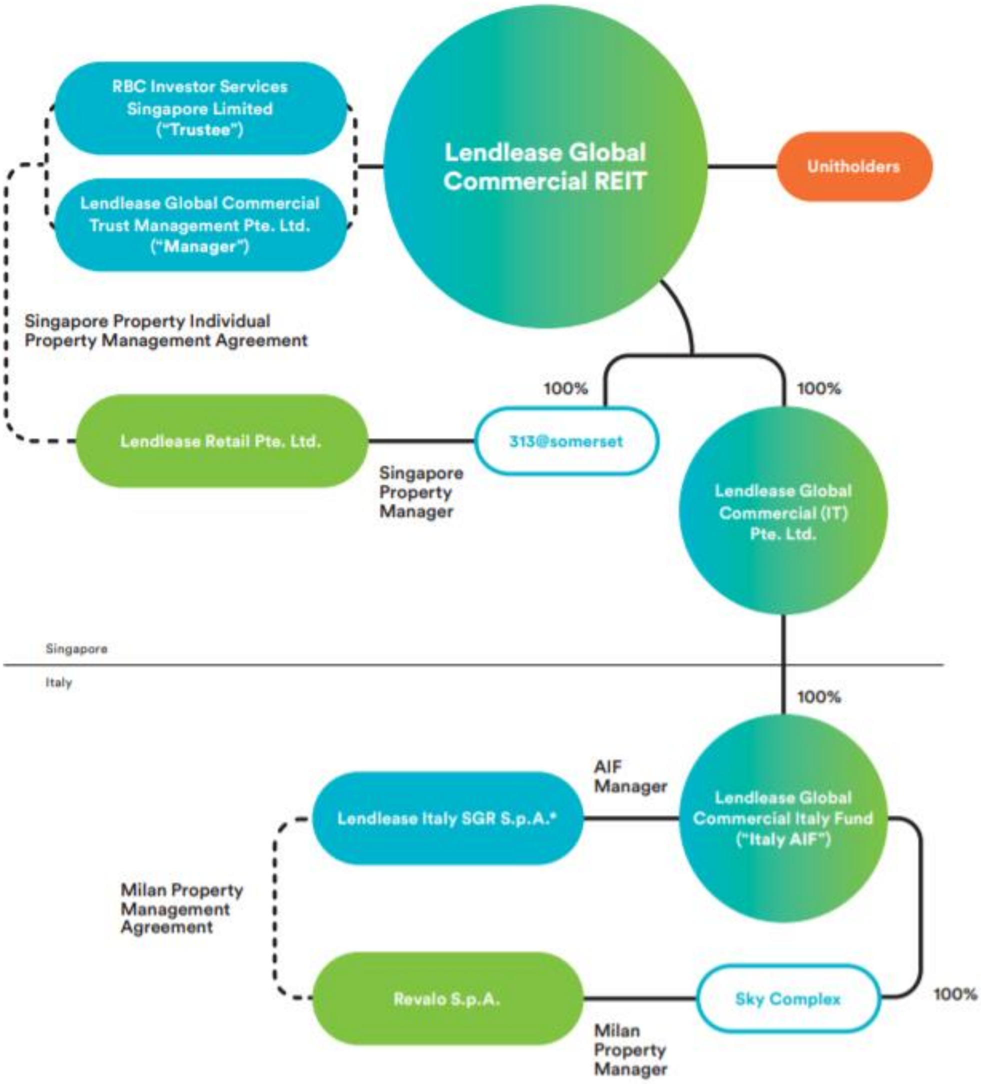


Figure 29: Take-up by grade



Source: Colliers International, Cushman and Wakefield

APPENDIX 3: LREIT'S TRUST STRUCTURE



Source: Company

APPENDIX 4: LREIT AT A GLANCE

Name	Lendlease Global Commercial REIT. Listed on 2 October 2019 on the main board of SGX @ S$0.88.
Assets	1 freehold office property in Italy, Milan (Sky Complex) which was valued at S$444.5m in 1Q21. 1 99-year leasehold retail property in Singapore (313) which was valued at S$1,008mn in 1Q21. 3.75% stake in an integrated office and retail development located in Singapore (Jem) valued at S$2bn in 4Q20.
Sponsor	Lendlease Corporation, part of Australia-based Lendlease Group.
Manager	Lendlease Global Commercial Trust Management Pte. Ltd
Dividends	To distribute at least 90% of its distributable income.
Gearing	Shall not at any time exceed 50%.
Lease Structure	**313@Somerset:** WALE of 1.9 years by NLA and 1.8 years by GRI; 60% of 313's leases are built with annual rental escalation of 2.7%. **Sky Complex:** WALE of 12.1 years by NLA and GRI. There is an annual step-up feature in the lease which is based on 75% ISTAT consumer price index variation.
Top 3 Tenants by GRI	Sky Italia (30%), Food Republic (4.1%) and Cotton On (3.4%)
Sky Italia's Master Lease	Sky Italia occupies 100% of Sky Complex. Leases are expected to expire in 2032 (lease break option only eligible in 2026)
Income and Withholding Tax Rate in Italy	Investors will not be subjected to any withholding or income tax from this foreign sourced income.
FX risk	Interest-rate risk is 100% hedged to fixed-rate debt through interest-rate swaps and options. Forex risk on Euro is also mitigated for Sky Complex via a Euro term loan.

Source: Company, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E June, ($'000)	FY20	FY21e	FY22e
Gross revenue	**55,536**	**84,451**	**87,936**
Property expenses	(15,247)	(26,131)	(25,307)
Net property income	**40,289**	**58,319**	**62,629**
Net Finance (Expense)/Inc.	(6,709)	(9,556)	(9,556)
Manager's fees	(4,865)	(7,553)	(7,697)
Other items	(12,955)	(1,832)	(1,832)
FV change, derivatives & ppties	(24,376)	-	-
Net income before tax	**(8,616)**	**39,379**	**43,544**
Taxation	-	(324)	(358)
Net income after Tax	**(8,616)**	**39,055**	**43,186**
Distribution adjustments	44,288	12,794	12,938
Income available for distribution	**35,672**	**51,849**	**56,124**

Per unit data

Y/E June	FY20	FY21e	FY22e
NAV (S$)	0.85	0.84	0.84
DPU (S cents)	3.05	4.42	4.79

Cash Flow

Y/E June, ($'000)	FY20	FY21e	FY22e
CFO			
P&L after tax	**(8,616)**	**39,055**	**43,186**
Adjustments	48,402	22,350	22,494
WC changes	(3,420)	20,174	(23,858)
Cash generated from ops	**36,366**	**81,579**	**41,822**
CFI			
Acquisition of IP	(1,451,542)	-	(10,000)
Investment in Financial Assets	-	(45,900)	-
Others	298	264	264
Cashflow from investments	**(1,451,244)**	**(45,636)**	**(9,736)**
CFF			
Proceeds from issuance of units	1,027,792	-	-
Loans, net of repayments	514,050	45,400	-
Distributions	(15,067)	(51,849)	(56,124)
Others	(28,451)	(10,220)	(9,820)
Cashflow from financing	**1,498,324**	**(16,669)**	**(65,944)**
Net change in cash	**83,446**	**19,274**	**(33,858)**
Cash at the start of the period	-	83,678	102,952
FX changes	232	-	-
Ending cash	**83,678**	**102,952**	**69,094**

*19 July-31 Dec 2019
Source: Company, Phillip Securities Research (Singapore) Estimates

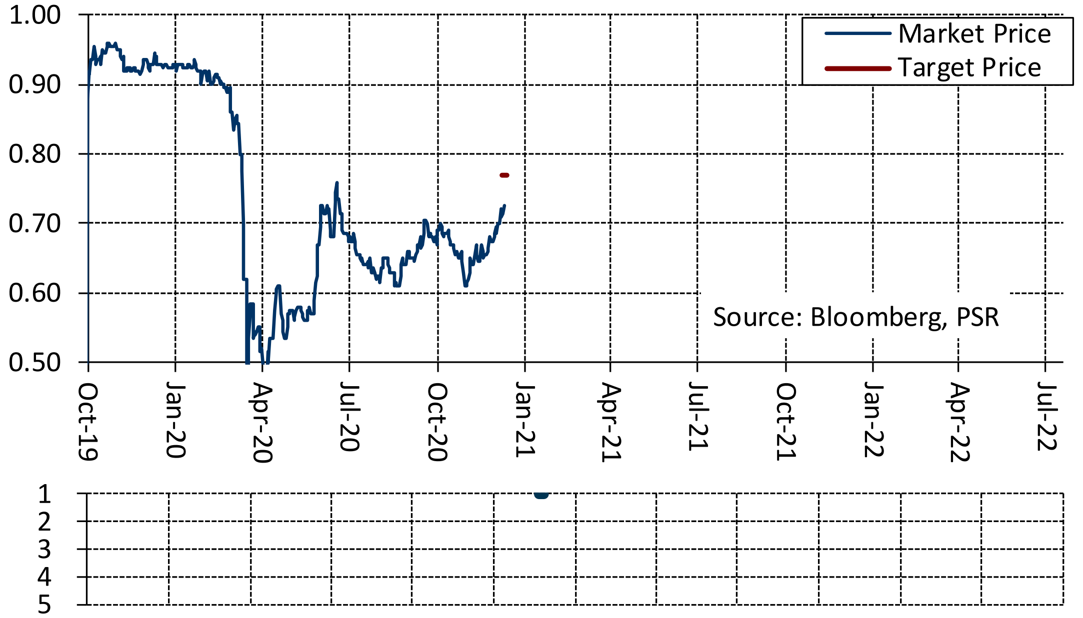
Balance Sheet

Y/E June, ($'000)	FY20	FY21e	FY22e
ASSETS			
Investment properties	1,442,598	1,442,598	1,452,598
Investment in Financial Assets	-	45,900	45,900
Others	14,006	14,006	14,006
Total non-current assets	1,456,604	1,502,504	1,512,504
Trade receivables	10,553	21,542	11,878
CCE	83,678	102,952	69,094
Others	4,663	4,663	4,663
Total current assets	98,894	129,157	85,635
Total Assets	1,555,498	1,631,661	1,598,139
LIABILITIES			
Trade payables	21,827	52,990	19,468
Others	320	320	320
Total current liabilities	22,147	53,310	19,788
Loans and borrowings	528,999	574,399	574,399
Others	12,102	15,969	19,836
Total non-current liabilities	541,101	590,368	594,235
Total Liabilities	563,248	643,678	614,023
Net assets	992,250	987,983	984,116
Represented by:			
Unitholders' funds	992,250	987,983	984,116

Valuation Ratios

Y/E June	FY20	FY21e	FY22e
P/NAV (x)	1.1	0.9	0.9
Distribution Yield (%)	3.2	6.1	6.6
NPI yield (%)	2.8	4.0	4.3
Growth & Margins (%)			
Growth			
Revenue	-	52.1%	4.1%
Net property income (NPI)	-	44.8%	7.4%
Distributable income	-	45.3%	8.2%
DPU	-	45.1%	8.2%
Margins			
NPI margin	72.5%	69.1%	71.2%
Key Ratios			
Net Debt or (Net Cash)	445,321	471,447	505,305
Gearing (%)	36.7%	39.8%	39.5%

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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