

Lendlease Global Commercial REIT

Recovery on brakes



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SINGAPORE | REAL ESTATE | 3Q21 UPDATE

10 May 2021

- 3Q21 tenant sales and mall visits recovered to 94% and 77% of 3Q20 levels. Rental reversions were less negative. Financial impact of Code of Conduct expected to be immaterial.
- Higher construction costs likely for Grange Road Carpark redevelopment. Shelved AEI for 313 to proceed in stages to ensure minimal disruptions to footfall and sales.
- Maintain ACCUMULATE and DDM target price of S\$0.82 (COE 8%).

The Positives

+ Tenant sales recovered close to pre-Covid levels; improved leasing. 3Q21 tenant sales and number of mall visitors recovered to 94% and 77% of 3Q20 levels. The greater recovery in tenant sales was underpinned by growth in February and March. The leasing of 313 recovered slightly. While rental reversions were still negative, they improved QoQ. 313's occupancy remained high at 98.6%.

+ Minimal impact from Code of Conduct. Introduced on 26 March 2021, the Code of Conduct for the leasing of retail premises in Singapore provides guidelines for the negotiation of lease agreements in 11 areas, including rental structure, third-party fees, pre-termination by landlords or tenants and data-sharing. LREIT believes the impact will not be big as its current practice is already largely in line. Any effect will take the form of slightly lower rental and utility income from some leases contracted after 1 June 2021. The overall impact on FY21-22 net property income is expected to be less than 1%.

+ Event space at Grange Road Carpark substantially leased to Live Nation. The new multifunctional event space adjacent to 313 has been substantially leased to Live Nation, one of the world's leading live entertainment companies, as anchor tenant. Development is expected to commence in 2H21 and be completed in 2022. There are future upside opportunities if we consider joint marketing and cost synergies with 313.

The Negative

- Higher development costs expected for redevelopment. Due to costlier labour, additional PPE and safe distancing at work sites, the cost of redeveloping the Grange Road Carpark could increase. LREIT had also originally planned to improve the plot ratio at 313. This AEI, though, was temporarily shelved due to Covid-19. Considering the potential increase in development costs, LREIT has decided to unlock the additional gross floor area in stages. This is to ensure minimal disruptions to the mall's footfall and sales. We expect AEI contributions to valuations to be delayed till FY22.

Outlook

As Singapore raises its defense against Covid-19 following the worst outbreak of community infections in close to a year, the occupancy limit for malls has been reduced, again, to one person per 10 sqm of gross floor area from 8 sqm. The ruling will apply till 14 May 2021. Starting 8 May 2021, smaller social gatherings are also mandated, until 30 May. We expect footfall in 4Q21 to be compromised, though sales may hold up with more marketing campaigns and initiatives. LREIT may provide food delivery to help tenants tide through this period. We are not expecting any rental rebates, though. Sky Complex in Milan is expected to continue anchoring LREIT's portfolio with its stable recurring income.

Maintain ACCUMULATE and DDM target price of S\$0.82. Current price translates to a 6% FY21e distribution yield for total potential upside of 10.8%.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 0.785
FORECAST DIV	SGD 0.050
TARGET PRICE	SGD 0.820
TOTAL RETURN	10.8%

COMPANY DATA

BLOOMBERG CODE:	LREIT SP
O/S SHARES (MN) :	1,181
MARKET CAP (USD mn / SGD mn) :	696 / 927
52 - WK HI/LO (SGD) :	0.83 / 0.56
3M Average Daily T/O (mn) :	3.33

MAJOR SHAREHOLDERS

LENDLEASE SREIT PTY LTD	24.1%
TEMASEK HOLDINGS PTE LTD	4.9%
BLACKROCK INC	4.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.3)	3.6	10.0
STI RETURN	(0.4)	10.1	12.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY20*	FY21e	FY22e
Gross Rev (\$'000)	55,536	85,141	89,503
NPI (\$'000)	40,289	62,126	65,168
Dist. Inc. (\$'000)	35,672	55,509	58,644
P/NAV (x)	1.14	0.92	0.92
DPU (cents)	3.05	4.74	5.00
Dist. Yield (%)	3.16	6.03	6.38

*2 October 2019 - 30 June 2020

Source: Company, PSR

VALUATION METHOD

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

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Financials

Income Statement

Y/E June, (\$'000)	FY20*	FY21e	FY22e
Gross revenue	55,536	85,141	89,503
Property expenses	(15,247)	(23,015)	(24,334)
Net property income	40,289	62,126	65,168
Net Finance (Expense)/Inc.	(6,709)	(9,556)	(9,556)
Manager's fees	(4,865)	(7,759)	(7,884)
Other items	(12,955)	(1,832)	(1,832)
FV change, derivatives & ppts	(24,376)	14,121	-
Net income before tax	(8,616)	57,100	45,896
Taxation	-	(470)	(377)
Net income after Tax	(8,616)	56,631	45,519
Distribution adjustments	44,288	(1,121)	13,125
Income available for distribution	35,672	55,509	58,644

Per unit data

Y/E June	FY20*	FY21e	FY22e
NAV (\$)	0.85	0.86	0.85
DPU (S cents)	3.05	4.74	5.00

Cash Flow

Y/E June, (\$'000)	FY20*	FY21e	FY22e
CFO			
P&L after tax	(8,616)	56,631	45,519
Adjustments	48,402	8,435	22,681
WC changes	(3,420)	10,989	(8,869)
Cash generated from ops	36,366	76,054	59,331

CFI

Acquisition of IP	(1,451,542)	-	(10,000)
Investment in Financial Assets	-	(45,533)	-
Others	298	264	264
Cashflow from investments	(1,451,244)	(45,269)	(9,736)

CFF

Proceeds from issuance of units	1,027,792	-	-
Loans, net of repayments	514,050	45,400	-
Distributions	(15,067)	(55,509)	(58,644)
Others	(28,451)	(10,220)	(9,820)
Cashflow from financing	1,498,324	(20,329)	(68,464)

Net change in cash	83,446	10,456	(18,869)
Cash at the start of the period	-	83,678	94,134
FX changes	232	-	-
Ending cash	83,678	94,134	75,265

*2 October 2019 - 30 June 2020

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E June, (\$'000)	FY20*	FY21e	FY22e
ASSETS			
Investment properties	1,442,598	1,456,719	1,466,719
Investment in Financial Assets	-	45,533	45,533
Others	14,006	14,006	14,006
Total non-current assets	1,456,604	1,516,258	1,526,258
Trade receivables	10,553	21,804	12,211
CCE	83,678	94,134	75,265
Others	4,663	4,663	4,663
Total current assets	98,894	120,601	92,139
Total Assets	1,555,498	1,636,859	1,618,397
LIABILITIES			
Trade payables	21,827	44,067	25,605
Others	320	320	320
Total current liabilities	22,147	44,387	25,925
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	634,755	620,160
Net assets	992,250	1,002,104	998,237
Represented by:			
Unitholders' funds	992,250	1,002,104	998,237

Valuation Ratios

Y/E June	FY20*	FY21e	FY22e
P/NAV (x)	1.1	0.9	0.9
Distribution Yield (%)	3.2	6.0	6.4
NPI yield (%)	2.8	4.3	4.5

Growth & Margins

Growth			
Revenue	-	53.3%	5.1%
Net property income (NPI)	-	54.2%	4.9%
Distributable income	-	55.6%	5.6%
DPU	-	55.3%	5.6%

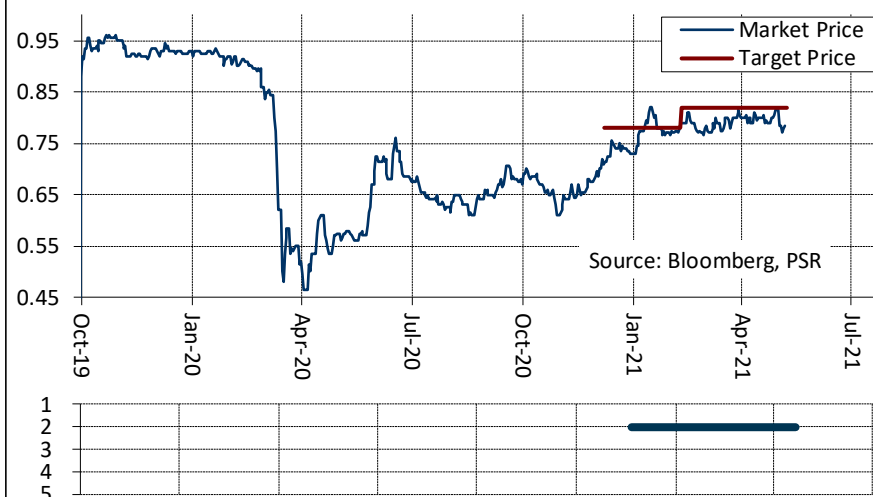
Margins

NPI margin	72.5%	73.0%	72.8%
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Key Ratios

Net Debt or (Net Cash)	445,321	480,265	499,134
Gearing	36.7%	39.4%	39.2%

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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