Issuer Profile:
Neutral (4)

Ticker:
LREIT

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Lendlease Global Commercial REIT ("LREIT")

Issuer Profile:	Bond Recommendation:	
Neutral (4)	LREIT 4.2% PERP	Neutral

Fundamental Analysis Consideration
- Small but improving asset base
- Decent credit metrics and access to funding
- Bruising impact from the pandemic
- Sustainable and responsible REIT

Technical Analysis Consideration
- Visible retail presence
- Lack of international credit rating
- Decent yield while rates are low
- Potential supply risk

Summary

- **Retail SREIT with premier Orchard asset:** Listed on the SGX on 2 Oct 2019 with a market cap of SGD1.02bn as of 17 Sep 2021, LREIT is a Singapore-based REIT which holds (1) 313@somerset (which delivers 58.3% of portfolio net property income ("NPI")), (2) Sky Complex which is a grade A office in Milan in Italy (which delivers 41.7% of portfolio NPI) and 18.5% effective stake in Jem. The Sponsor is Lendlease Corporation Ltd, which is part of the Lendlease Group.
- **Bruising impact from the pandemic:** While tenant sales remain below pre-pandemic levels and the NPI of 313@somerset in FY2021 has fallen to 76.6% of the IPO forecast, occupancy remains healthy at 99.2%. Angled towards youth with a somewhat diversified tenant profile across Food & Beverages and Fashion & Accessories, LREIT has no shortage of tenants looking to occupy a position in the mall. Meanwhile, Sky Complex offers relative stability to the portfolio.
- **Income stability from Sky Complex:** With a triple net lease structure, actual NPI has come out slightly ahead of IPO forecast. The tenant, Sky Italia, is unlikely to walkaway given the lack of break clause till 2026 while rents have continued to be paid timely. The operations of Sky Italia remains resilient through the pandemic, according to LREIT.
- **Diversification through acquisition of Jem:** LREIT intends to lift its stake in Jem further to ~31.8%, which should reduce the portfolio concentration in 313@somserset (by asset) to ~55%-57% from 67.6%. Jem also provides some income stability with Ministry of National Development of Singapore as the master lessee of the office space, with no break clause till 2034. The office space constitutes 34.9% of the total NLA of Jem.
- **Sufficient balance sheet headroom though LREIT may remain acquisitive:** Assuming LREIT's interest in Jem increases to 31.8%, headline aggregate leverage is expected to remain healthy at around 34% (end-June 2021: 32.0%). However, if LREIT's portion of debt on Jem were to be consolidated, we estimate that LREIT's aggregate leverage would be 40%. We think LREIT may remain acquisitive and look to further increase its stake in Jem if the opportunity arises. LREIT may also look to acquire other assets from its Sponsor (or held by funds managed by Sponsor), which has AUD69bn total funds and assets under management.
- **Decent credit metrics and access to funding:** Our calculated EBITDA/Total Interest ratio looks decent at 4.3x as of the second half for the financial year ended 30 June 2021 ("2HFY2021"). If the Singapore economy remains open, we think rental waivers could reduce, which may lift EBITDA higher as 313@somerset's NPI should converge closer to IPO forecast (currently it is ~23% below forecast). LREIT has SGD249.3mn of cash as of 30 Jun 2021, SGD90mn 4-year term loan facility and a total of SGD80mn revolving credit facility, which sufficient to fund the additional stakes in Jem (~SGD160mn).
- **Sustainable and responsible REIT:** All three properties have received green awards and LREIT is also ranked amongst the top for its Global Real Estate Sustainability Benchmark score. Separately, LREIT is targeting net zero carbon emissions by 2025. As of 1 Jun 2021, LREIT has adopted the Code of Conduct for leasing of retail premises, which is a step forward to achieving fairer leasing agreements between landlords and tenants.

Company Background

Lendlease Global Commercial REIT ("LREIT") is a Singapore real estate investment trust ("SREIT") with a mandate to invest in retail and/or office income-producing properties globally. LREIT is listed on the Singapore Stock Exchange ("SGX") since 2 Oct 2019 with a market capitalisation of SGD1.02bn as at 17 Sep 2021. The SGD perpetual is issued by RBC Investor Services Trust Singapore Ltd, in its capacity as trustee of LREIT.

LREIT is managed by Lendlease Global Commercial Trust Management Pte Ltd, which is a wholly-owned subsidiary of LREIT's sponsor Lendlease Corporation Limited ("Sponsor"). The Sponsor is part of the Lendlease Group ("LLC", read more about LLC in our initiation report here), which is a leading Australian property company listed on the Australian Securities Exchange with operations in Australia, Asia, Europe and the Americas. LLC is structured as a stapled security comprising the Sponsor (a company) and Lendlease Trust (a trust). LLC does not have a controlling shareholder.

LREIT's portfolio comprises (1) 100%-owned 313@somerset which is a prime retail mall in Singapore, (2) 100%-owned Sky Complex which is a grade A office in Milan, (3) 18.5% effective stake in Jem which is a suburban retail mall in Singapore and (4) redevelopment of a 48,200 sq ft car park into a new multifunctional event space adjacent to 313@somerset.

The Sponsor and Lendlease Trust (which collectively makes up LLC) have granted a Right of First Refusal ("ROFR") to LREIT over any income-producing real estate asset used for office and/or retail purpose that is owned by LLC or majority owned by a Lendlease Private Fund.

LREIT is ranked first against 77 peers in the 2020 Global Real Estate Sustainability Benchmark, clinching first for regional Sector Leader status for both Asia Retail (Overall) and Asia Retail (Listed) categories.

Figure 1: Asset portfolio

Property	Location	Asset Type	Effective Ownership	Valuation*
313@somerset	Singapore	Retail	100%	SGD983mn
Grange Road carpark	Singapore	Event space	100%	SGD5.5mn
Sky Complex	Milan	Office	100%	SGD436.9mn
Jem	Singapore	Retail/Office	31.8%**	SGD660.486mn**

Source: Company, OCBC
**As at 30 Jun 2021*
*** Assume LREIT holds an effective 31.8%-stake. Currently, LREIT holds 18.5%-stake*

313@somerset and Grange Road car park redevelopment

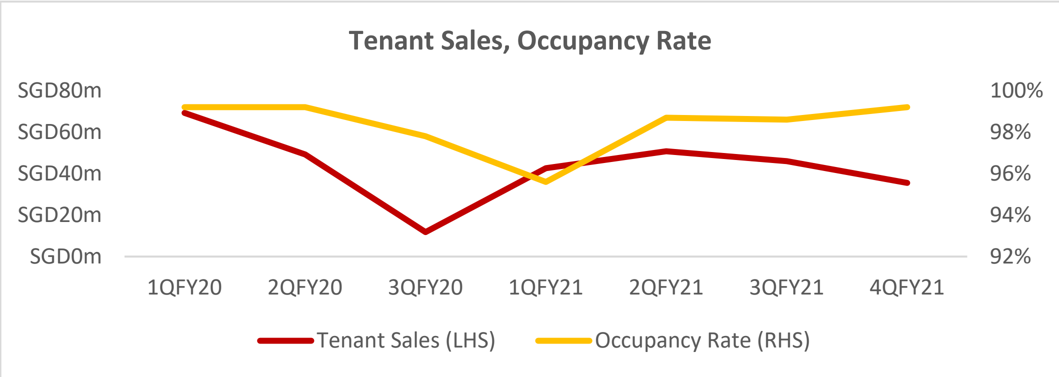
313@somerset is a premier retail mall located at 313 Orchard Road, Singapore 238895. The mall comprises a net lettable area of 288,318 sq ft as of 4QFY2021 spanning across eight floors, comprising three basement levels and five levels above ground and 220 car park lots, with direct access to Somerset MRT Station through an underground walkway and directly visible from both Orchard Road and Somerset Road. 313@somerset has garnered the BCA Green Mark Platinum Award, which is the highest recognition by the Building and Construction Authority ("BCA").

The mall is on a 99-year leasehold (21 Nov 2006 until 20 Nov 2105). Occupancy remains healthy at 99.2% as of 4QFY2021 though tenant sales remain below pre-pandemic levels due to movement restrictions. As of FY2020, gross turnover rent ("GTO") accounts for less than 5% of LREIT's gross revenue, though the proportion of GTO rents has likely risen in FY2021 due to impact from the pandemic as newer leases may be structured with a higher proportion of GTO rents. 313@somerset has 142 tenants as of 30 Jun 2020. 313@somerset is youth-focused with a heavier concentration to F&B tenants and stylish fashion stores (e.g. Love, Bonito and Pomelo).

Figure 2: Map of 313@somerset and Grange Road Carpark

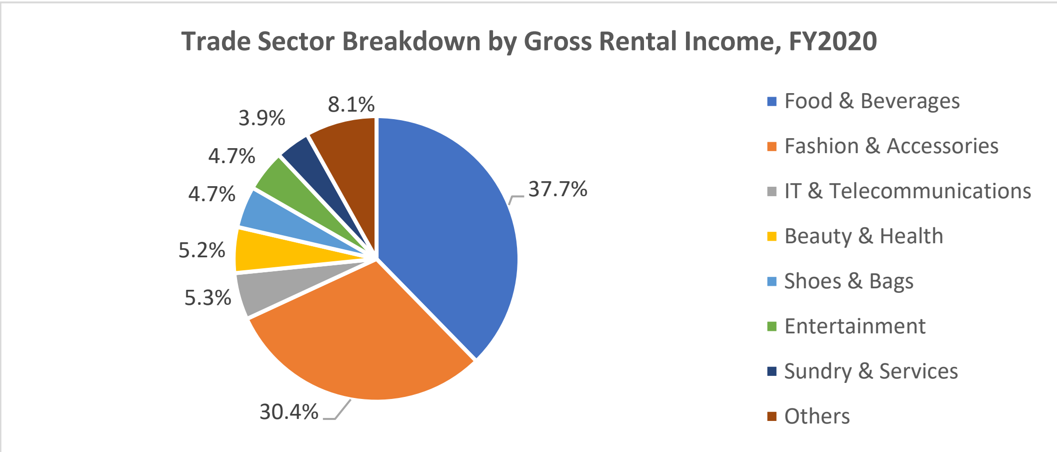
Source: Streetdirectory.com, OCBC

Figure 3: Tenant Sales & occupancy rate still below pre-pandemic levels despite some recovery



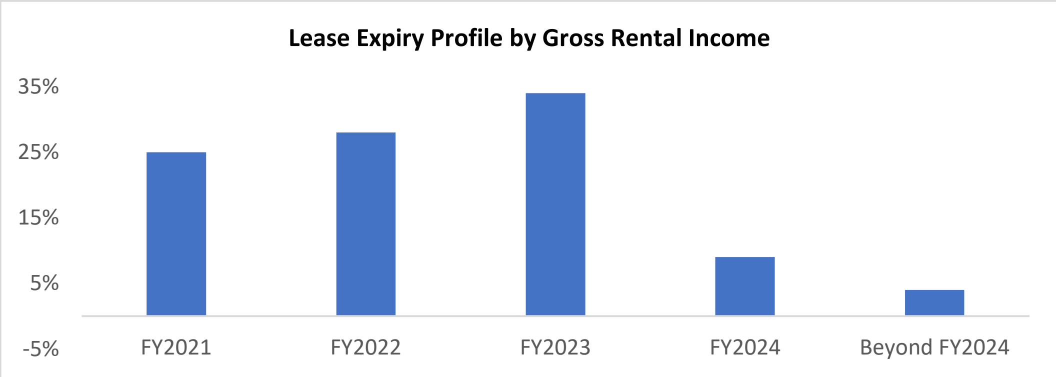
Source: Company, OCBC

Figure 4: Mall is geared towards F&B and Fashion & Accessories



Source: Company, OCBC

Figure 5: Lease expiries not concentrated in any given year



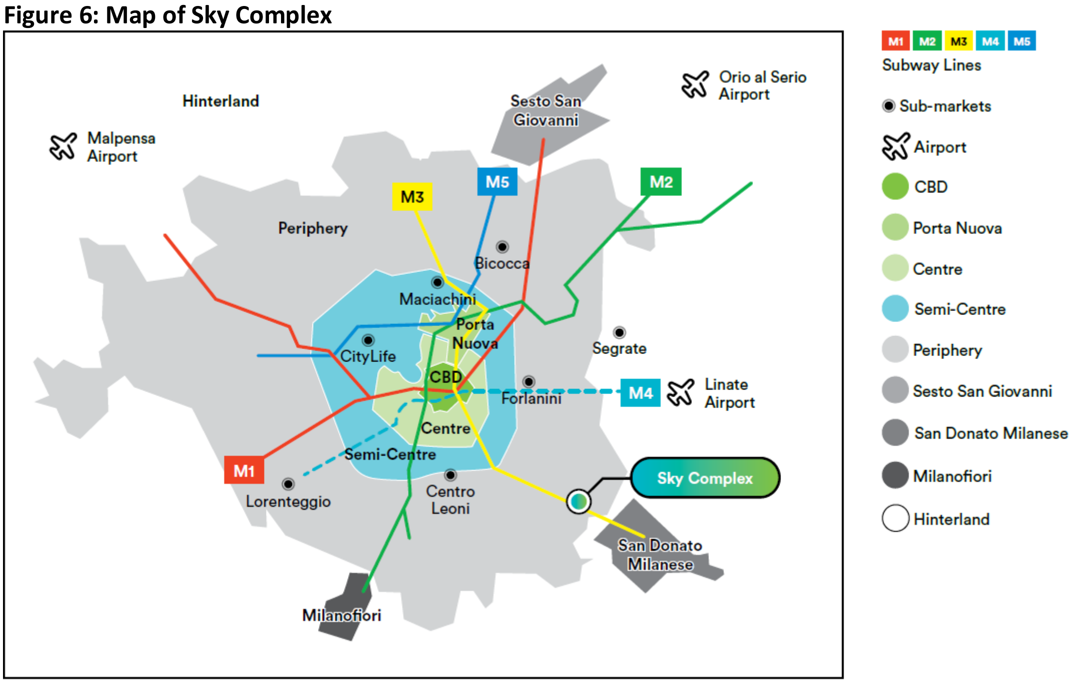
Source: Company, OCBC

LREIT won the tender on 13 June 2020 to redevelop the Grange Road car park into a new multi-functional event space, which is expected to begin construction by end-2021 and be operational in 2H2022-1H2023. The event space is expected to positively impact 313@somerset by connecting 313@somerset to Discovery Walk. Live Nation will be the anchor tenant of the event space. The event space will have an initial tenancy term of 3 years, which may be renewed for a further two tenancy terms of 3 years each, and a final tenancy term not exceeding 364 days. The redevelopment cost is estimated to be ~SGD10mn. With the new event space, 313@somerset's net lettable area is expected to expand to ~330,000 sq ft.

313@somerset and the Grange road carpark collectively is currently the largest asset in LREIT's portfolio with a valuation of SGD988.5mn as of 30 Jun 2021. In FY2021, we estimate that 313@somerset generated SGD52.4mn revenue and SGD33.2mn net property income ("NPI"), which makes up 66.5% and 58.3% of the total portfolio. 313@somerset's revenue and NPI was below LREIT's IPO forecast of SGD62.8mn and SGD43.3mn respectively mainly due to rental waivers and negative rental reversion.

<u>Sky Complex</u>

Figure 6: Map of Sky Complex



Source: Company, OCBC

Sky Complex in Milan, Italy, comprises three freehold Grade A office buildings with a net lettable area of 985,967 sq ft. Construction of buildings 1 (NLA: 482,309 sq ft) and 2 (NLA: 276,191 sq ft) were completed in 2008 while Building 3 (NLA: 240,616 sq ft) was completed in 2015 and is Leadership in Energy and Environmental Design ("LEED") Gold Certified, which is the second highest level awarded by LEED for green buildings. The buildings are connected by a multilevel bridge allowing for ease of access between the buildings. The office buildings have convenient access to the public transport system, standing 150m away from the Rogoredo subway station and 7.5km away from both the Duomo and Linate International Airport.

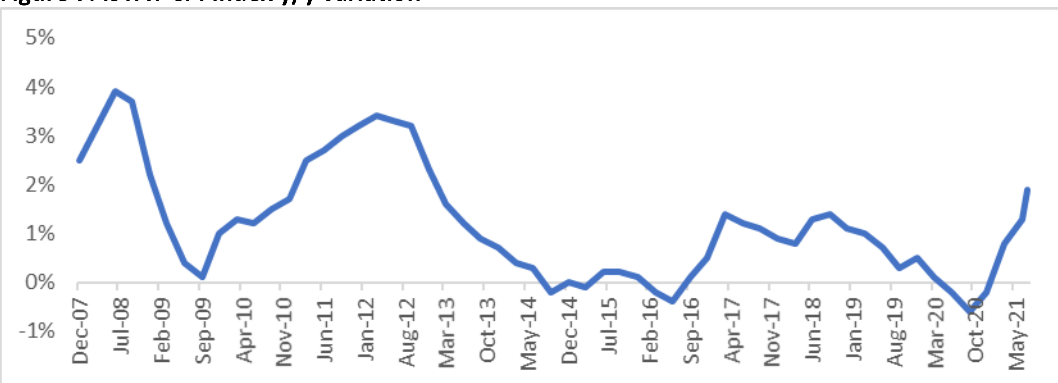
Sky Complex is located at Via Monte Penice 7 and Via Luigi Russolo 9 (Postal Code: 20138), which is in the southern part of the Milano Santa Giulia district, an emerging key office location. Milano Santa Giulia is an urban regeneration project with a total area of more than 1mn sqm. Italy's largest music academy, Guiseppe Verdi Conservatory, will set up a new campus in the south zone of Milano Santa Guila, which is adjacent to Sky Complex.

Configured with large and efficient floor plates to meet the regional needs of global organisations, Sky Complex is fully leased to Sky Italia on a triple-net basis (tenant responsible for property operating expenses) for a term of 12 + 12 years from 2008. As Sky Italia has waived the option to vacate the property on the first lease expiry in 2020, the lease expiry will be in May 2032 assuming the break option is not exercised by Sky Italia in 2026. Exercising the break clause requires 12 months of advance notice to LREIT. The lease is structured with annual rental step-up in May, with the amount equal to 75% of The Italian National Institute of Statistics ("ISTAT") positive consumer price index variation as of end-April each year.

Sky Italia is a subsidiary of Comcast Corporation company ("Comcast"). With a market cap of USD262.9bn as of 16 Sep 2021, Comcast is one of the largest broadcasting and cable television companies in the world by revenue and holds investment grade ratings from major global credit rating agencies. Despite the pandemic, no rental waiver has been granted to Sky Italia and it has made all its rental payments in a timely manner.

We estimate that Sky Complex generated SGD26.3mn in revenue and SGD23.7mn in net property income in FY2021, which is somewhat ahead of the forecast at IPO of SGD24.9mn and SGD22.5mn respectively.

Figure 7: ISTAT CPI Index y/y variation



Source: ISTAT, OCBC

Jem

Located within Jurong Gateway at 50 and 52 Jurong Gateway Road, Singapore 608550, Jem is an integrated office and suburban retail asset with 12 levels of office space and 6 levels of retail space. The total NLA is 892,148 sq ft, comprising 65.1% retail and 34.9% office. Jem is conveniently situated next to the Jurong East MRT and bus interchange and is located near residential communities. Jem has been awarded the BCA Green Mark Platinum version 4 and the mall was ranked third in Asia Retail category of 2019 Global Real Estate Sustainability Benchmark rankings.

Jem is on 99-year leasehold (27 Sep 2010 till 26 Sep 2109). Committed occupancy for the entire asset is 99.7%, with the office portion of Jem fully leased to Ministry of National Development of Singapore for 30 years, with ~24 years remaining on the lease as of 31 Mar 2021. By NLA, the mall is 58% occupied by trade mix from food and beverage, services, supermarket and hypermarket, and beauty and health. One of the largest tenants at the retail portion is IKEA, which takes 6500 sqm of space across 3 levels. The net property income was SGD81.9mn in FY2021.

Figure 8: Map of Jem

Source: Streetdirectory.com, OCBC

LREIT built its first 3.75% stake in Jem in Oct 2020 through the acquisition of 5%-stake in Lendlease Asian Retail Investment Fund 3 Ltd ("ARIF3"), which owns 75%-stake in Jem, from Lendlease International Pty Limited. This provided the pre-emptive rights for LREIT to acquire more stakes. In Aug 2021, LREIT acquired 53%-stake in Lendlease Jem Partners Fund Ltd ("LLJP") for SGD159.1mn, which owns the other 25%-stake in Jem, from two funds advised by affiliates of UBS Asset Management AG (which sold 45%-stake in LLJP) and Sumitomo Mitsui Banking Corporation (8%). The remaining 47%-stake in LLJP are held by third parties not related to LREIT. On 9 Sep 2021, LREIT announced the acquisition of a further 2%-stake in ARIF3 from the Sponsor for SGD18.3mn. As of now, LREIT holds 18.5% indirect stake in Jem.

LREIT is expected to further increase its stake in Jem, with the stated intention to acquire another 17.8% (worth ~SGD160mn) interest in ARIF3 by 31 Oct 2021 from the Sponsor and third-party investors. The third-party investors have offered their shares in the liquidity window from 6 Aug 2021 to 6 Sep 2021 (which should have closed) and it remains to be seen if LREIT will be acquiring the full 17.8%-stake as other shareholders in ARIF3 have exercised their pre-emption rights. By increasing the stake in Jem, LREIT will increase its strategic pre-emptive rights to buy further stakes in Jem.

Board of Directors and Management

Name of Board of Director	Position
Ng Hsueh Ling	Chairman
Tsui Kai Chong	Lead Independent Non-Executive Director

Simon John Perrott	Independent Non-Executive Director
Lee Ai Ming	Independent Non-Executive Director
Anthony Peter Lombardo	Non-Independent Non-Executive Director

Ms Ng Hsueh Ling succeeded Mr Anthony Peter Lombardo as the Chairman of the Board of Directors on 1 June 2021. Ms Ng is also a Managing Director and the Chief Investment Officer, Asia at Lendlease Investment Management Pte Ltd. Prior to Lendlease, Ms Ng was the Chief Executive Officer of Keppel REIT Management Limited, the manager of Keppel REIT, from 2009 to 2017. Prior to Keppel REIT, Ms Ng held various senior positions at Ascendas Pte Ltd (2005-2009), CapitaLand Financial Ltd (2002-2005) and CapitaLand Commercial Ltd (2000-2001). Ms Ng graduated with a Bachelor of Science (Estate Management) from the National University of Singapore.

Dr Tsui Kai Chong is an Independent Non-Executive Director of the Manager and the Lead Independent Director. He is also the Chairman of the Audit and Risk Committee and a Member of the Nomination and Remuneration Committee. Dr Tsui has been the Provost of the Singapore University of Social Sciences since 2005 and was previously the Chairman of the manager of Keppel REIT. Dr Tsui is also a non-executive director of the Intellectual Property Office of Singapore since 2015. Dr Tsui is a Chartered Financial Analyst and graduated from the Graduate School of Business Administration of New York University with MPhil, Finance and a PhD, Finance.

Mr Simon John Perrott ("Mr Perrott") is an Independent Non-Executive Director of the Manager. Mr Perrott is also a Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee. Mr Perrot is currently also an independent non-executive director of Lendlease Real Estate Investments Limited. Mr Perrot was previously the Chairman of CIMB Bank Australia (2012-2014), Chairman of RBS Australia (2019-2012) and held positions including Co-Head of Banking at ABN AMRO Bank N.V. (2002-2009). Mr Perrott graduated from the University of Melbourne with a Bachelor of Science and has a Master of Business Administration from the University of New South Wales.

Mr Anthony Peter Lombardo ("Mr Lombardo") is a Non-Independent Non-Executive Director of the Manager and a Member of the Audit and Risk Committee. Mr Lombardo was previously the Chairman of LREIT's Board of Directors, having since stepped down to serve as LLC's Group Chief Executive Officer. Mr Lombardo previously held various positions at LLC, including Chief Executive Officer of Lendlease Asia (2016-2021), Lendlease Corporations' Group Chief Financial Officer (2011-2016) and Group Head of Strategy/M&A (2007-2011). Mr Lombardo graduated with a Bachelor of Business, Accountancy from the Royal Melbourne Institute of Technology and is a Chartered Accountant with Chartered Accountants, Australia and New Zealand since 2000.

Mrs Lee Ai Ming is an Independent Non-Executive Director of the Manager. Mrs Lee is also the Chairman of the Nomination and Remuneration Committee and a Member of the Audit and Risk Committee. Mrs Lee is currently a Senior Consultant with Dentons Rodyk & Davidson LLP and independent director of Keppel Telecommunications & Transportation Ltd. She previously served on the boards of HTL International Holdings Pte Ltd, Keppel Land Limited and Keppel REIT Management Limited. Mrs Lee has been appointed as a Justice of the Peace since 2016. Mrs Lee holds a Bachelor of Laws (Honours) from the University of Singapore (now known as the National University of Singapore).

Name of Key Management	Position
Kelvin Chow	Chief Executive Officer
Joshua Liaw	Executive General Manager, Finance

Mr Kelvin Chow ("Mr Chow") is the Chief Executive Officer of the Manager. Mr Chow was previously the Managing Director of Investment Management in Asia at Lendlease Investment Management Pte Ltd (since 2018), Chief Financial Officer of Keppel REIT Management Limited (2015-2018) which is the manager of Keppel REIT, and Chief Financial Officer of SB Trust Management Pte Ltd (2012-2014) which is the manager of Soilbuild Business Space REIT. Mr Chow holds a Master of Business Administration from Universitas 21 Global and is a Fellow of the Association of Chartered Certified Accountants and member of the Institute of Singapore Chartered Accountants.

Mr Joshua Liaw ("Mr Liaw") is the Executive General Manager, Finance of the Manager. He was previously the General Manager, Finance Singapore of Lendlease Investment Management Pte. Ltd (since 2018) and was the Head of Treasury, Asia for Lendlease (2014-2018). Prior to Lendlease, Mr Liaw was a real estate banker at Standard Chartered Bank (2009-2014). Mr Liaw holds a Bachelor of Science in Economics (Summa Cum Laude) from the Singapore Management University and a Bachelor of Business in Logistics & Transport Management from the Royal Melbourne Institute of Technology.

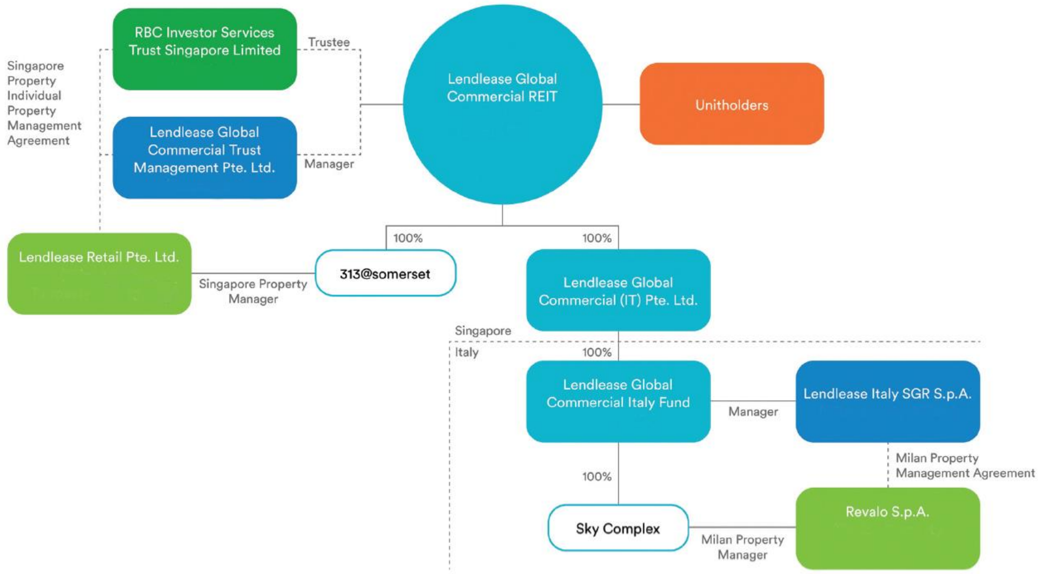
Key unitholders

Name / Entity	Number of units	% outstanding
Lendlease SREIT Pty Ltd	284,041,000	24.05
Fullerton Fund Management Co Ltd	45,974,613	3.89
Seatown Holdings Pte Ltd	11,626,974	0.98
BlackRock Inc	57,208,713	4.84
Oversea-Chinese Banking Corp Ltd	40,132,500	3.40
CIMB Group Holdings Bhd	31,970,200	2.71
Vanguard Group Inc	30,853,549	2.61

Source: Bloomberg, Company

The Sponsor is the largest unitholder given its deemed interest in Lendlease SREIT Pty Ltd. Several institutional funds are invested into LREIT though individually they do not exceed 5% of the total number of units.

Figure 8: Structure of LREIT



Source: Company

313@somerset is held directly by LREIT while Sky Complex is indirectly held through Lendlease Global Commercial (IT) Pte ltd, which allow distributions from Sky Complex to qualify for withholding tax exemption and foreign distribution income tax exemption.

Key Considerations

- **Bruising impact on LREIT's largest property 313@somerset from the pandemic:** LREIT ditched its IPO forecast for its FY2021 revenue and NPI following the onset of the pandemic. The actual FY2021 revenue and NPI of 313@somserset were 16.6% and 23.3% lower than forecast respectively because of rental waivers and negative rental reversions. Footfall as of FY2021 is 24.6mn, which is 45.9% lower compared to the pre-pandemic period in FY2019. Meanwhile, Apr-Jun 2021 tenant sales of SGD36mn is 48.7% lower compared to the pre-pandemic period of Oct-Dec 2019 (figures prior to this not publicly available as LREIT was listed in Oct 2019). Tenant retention (by NLA) fell to 61.5% as of FY2021 from FY2020's 86.6%. Figures for rental reversion are no longer disclosed since 4QFY2020 though we understand that a significant number of leases which expired have been re-leased with a higher portion of gross turnover rents and lower base rent. We estimate turnover rents to comprise 5% to 10% of FY2021's revenue (FY2020: less than 5%), and turnover rents may constitute a larger portion of revenue as more leases are renewed as newer leases are likely structured with a larger proportion of GTO rents. 313@somerset recorded valuation loss with the property value declining to SGD983mn as of FY2021 (FY2020: SGD1,008mn).

- **Some diversity in tenant profile and appeal of 313@somerset soften downside impact:** The profile of tenants at 313@somerset is somewhat diversified, though concentrated across two retail segments namely, Food & Beverages (end-June 2020: 37.7%) and Fashion & Accessories (30.4%). IT & Telecommunications (5.3%), Beauty & Health (5.2%), Shoes & Bags (4.7%), Entertainment (4.7%) and others (~12%). We believe the current split in tenant profile by industry remains similar as of end-June 2020, though there should be a slight tilt towards food & beverages from fashion & accessories. As a mall angled towards youth, it appears that there is no shortage of tenants looking to occupy a position in the mall, noting that occupancy has been kept in the high 90% levels throughout the pandemic though the tenure of lease has likely shortened. This should provide a cushion to the downside, though rents may soften somewhat further due to weak tenant sales. Its location above the busy Somerset MRT Station also provides constant traffic and ease of access through an underground walkway that connects to other malls in close proximity.

- **Income stability from Sky Complex:** We believe Sky Complex offers relative stability given its triple net lease structure. The property contributed SGD23.7mn in net property income as of FY2021, which is slightly ahead of forecast and forms 41.7% of LREIT's FY2021's NPI. We believe the tenant, Sky Italia, is unlikely to walk away given that there is no break clause until 2026 and rents have continued to be paid on a timely basis with no rental waiver. Sky Italia's parent company is Comcast Corporation, which is one of the world's largest broadcasting and cable television companies by revenue. We understand that the operations of Sky Italia remained resilient through the pandemic.

- **Reopening of the Singapore economy key to recovery:** With Singapore progressed from Phase 2 Heightened Alert (since 19 Aug 2021) and the increased proportion of the population being fully vaccinated (over 80% as of writing), restrictions have been partly lifted. This includes allowing a group of five who are vaccinated to dine at F&B establishments and allowing up to five persons per group for social gatherings. We believe traffic and tenant sales should increasingly return to 313@somerset. If global travel resumes, we believe tenant sales should be uplifted further by tourists who frequent Orchard Road (313@somerset is located in the Orchard Road vicinity).

- **Acquisition of Jem a key step to diversification and portfolio growth:** LREIT currently holds a 18.5% indirect stake in Jem through a 7%-interest in ARIF3 and 53%-interest in LLJP. LREIT will be acquiring another 3% to 17.8% interest in ARIF3 by 31 Oct 2021, which will lift its indirect stake in Jem to ~20.7% to ~31.8%. This will increase Jem's representation in LREIT's portfolio by asset value to ~14%-21% from the current 3.0% and reduce the portfolio concentration in 313@somerset to ~55%-57% from the current 67.6%. The increased stake also allows LREIT to further increase its strategic pre-emptive rights to buy further stakes in Jem. We believe Jem should provide some diversification as its performance should not be closely correlated to that of 313@somerset. Jem caters to the suburban retail segment in close proximity to key residential hubs which has demonstrated greater resilience during the pandemic though we understand from LREIT that Jem recorded negative rental reversion for its retail portion. Separately, with the Ministry of National Development of Singapore as the master lessee of the entire office space in Jem and no break clause till 2034, this should provide significant income stability. The office space constitutes 34.9% of the total NLA of Jem.

- **Will LREIT remain acquisitive?:** We believe that LREIT will continue to increase its stake in Jem when the opportunity arises (e.g. when existing stakeholders of ARIF3 or LLJP choose to exit their positions). That said, we think there could be short-term hurdles to further acquisition. As a Singapore REIT ("SREIT"), LREIT must hold at least 75% of the deposited property as income-producing real estate, according to Paragraph 7 of the Property Funds Appendix. As LREIT holds indirect stakes in Jem via in ARIF3 and LLJP, the proportion of income-producing real estate would fall to 75.9% (assuming LREIT acquires 31.8%-stake in Jem), which is just barely above the regulatory minimum. That said, we understand that if a 100%-stake in Jem were to be acquired, LREIT's stake in Jem would be reclassified as an income-producing real estate, which in turn will meet the requirement as stated in the Property Funds Appendix. Aside from Jem, the Sponsor and Lendlease Trust have granted a right of first refusal ("ROFR") to LREIT to acquire income-producing retail and office assets. The ROFR includes existing and future private funds managed by LLC. While LLC's total funds and asset under management of AUD69bn looks large, we think LREIT is likely keener on LLC's assets in Singapore, such as Paya Lebar Quarter.

- **Sufficient balance sheet headroom though part of the debt has been hidden from headlines:** Assuming LREIT's interest in Jem increases to 31.8%, headline aggregate leverage ratios are expected to remain healthy at around 34% (end-June 2021: 32.0%). The small magnitude of increase is because Jem's portion of debt will not be consolidated on LREIT's headline aggregate leverage given its associated stake in the funds which hold Jem. We estimate that Jem has a loan-to-value ratio of around 40%. If the asset level debt were to be fully consolidated onto LREIT's balance sheet, we estimate that LREIT would have an aggregate leverage of around 40%. We think LREIT will likely keep headline gearing figures below 40%, though there is a possibility that aggregate leverage could rise further depending on the eventual funding mix. If we account 50% of the perpetuals as debt, adjusted aggregate leverage would rise to ~38%, or ~40% post acquisition of Jem.

- **Decent access to funding:** LREIT's issuance of SGD200mn LREIT 4.2%-PERPc26s attracted an orderbook of SGD540mn, which we think demonstrates decent investor demand despite this being its maiden issuance. Aside from the initial 4-year committed SGD50mn revolving credit facility, LREIT has in Aug 2021 obtained a 4-year term loan facility of SGD90mn and another 4-year revolving credit facility of SGD30mn, which are meant to be utilised for the acquisition of Jem. Together with SGD249.3mn of cash as of 30 Jun 2021, we think this provides sufficient financing to cover the purchase of the additional stakes in Jem. There is no debt maturing in the near-term and no refinancing required till FY2023. Meanwhile, the assets are unencumbered, which provides financial flexibility to secure funding should the need arise.

- **Decent interest coverage and FX-hedged with financial flexibility:** Our calculated EBITDA/Total Interest ratio looks decent at 4.3x as of 2HFY2021, though this has edged down from 5.2x as of 1HFY2021 due to rental waivers impacting 313@somerset. The EUR285mn term loan (~SGD450mn) maturing in FY2024 provides a natural hedge given that LREIT holds Sky Complex.

- **Sustainable and responsible REIT:** All three properties have received green awards. LREIT is also ranked amongst the top for its Global Real Estate Sustainability Benchmark score. Separately, LREIT is targeting net zero carbon emissions by 2025, amongst other sustainability goals. LREIT has adopted the Code of Conduct for leasing of retail premises on 1 Jun 2021, despite this being voluntary, which is a step forward to achieving fairer leasing agreements between landlords and tenants.

Technical Considerations

Positives
- Visible retail presence
- Decent yield still amidst low interest rate environment

Negatives
- Significant near-term headwinds due to COVID-19
- Lack of credit rating
- Supply risk

Bond	Issuer Profile Rating	Aggregate Leverage	Maturity/Next Call Date	Ask YTW	Spread	Recommendation
LREIT 4.2% PERP	Neutral (4)	34%*	04/06/2026	3.89%	280bps	N
SGREIT 3.85% PERP	Neutral (4)	36.1%	15/12/2025	3.83%	281bps	OW
SPHRSP 4.1% PERP	Neutral (4)	30.4%	30/08/2024	3.83%	309bps	OW
SUNSP 4.25% PERP	Neutral (4)	43.1%	15/06/2026	3.98%	289bps	UW
SUNSP 3.8% PERP	Neutral (4)	43.1%	27/10/2025	3.97%	297bps	N
KREITS 3.15% PERP	Neutral (4)	38.9%	11/09/2025	3.59%	259bps	UW
MAGIC 3.5% PERP	Neutral (4)	41.8%	08/06/2026	3.67%	257bps	N
CRCTSP 3.375% PERP	Neutral (4)	35.9%	27/10/2025	3.75%	273bps	N

Indicative prices as at 17 Sep 2021 Source: Bloomberg
** Assume acquisition of 31.8%-stake in Jem is completed*

LREIT 4.2%-PERP with a first call date in June 2026 trades around 3.89% YTW, which is in-line with SREIT peers which we rate at Neutral (4) Issuer Profile. While LREIT sports a lower headline aggregate leverage than its peers, if we include the debt taken on Jem, aggregate leverage would be around 40%. The reset spread of LREIT 4.2%-PERP is 280bps, which is in-line with the peer average.

Although LREIT is new to the market, we think investors should be comfortable with the issuer given the familiarity with its sponsor. In addition, LREIT holds 313@somerset and stakes in Jem, both properties which should be recognizable by local investors.

The LREIT 4.2%-PERP is structured similarly as other SREIT perps with 5Y calls and reset without step-up. Similar to other SREIT perps, deferred distributions are non-cumulative though we are not overly concerned as LREIT is expected to make regular distributions to its unitholders, which should compel LREIT to similarly make distributions to holders of LREIT 4.2% PERP given the presence of dividend stopper. The perpetual is structured with SORA as the fallback benchmark language for reset.

Conclusion & Recommendation

Although LREIT has been weakened by the pandemic, with decrease in tenant sales and lower revenue from 313@somerset, we think there should be some recovery with the reopening of the Singapore economy. In any case, its portfolio statistics remain healthy with close to 100% occupancy and a healthy EBITDA/Total Interest of 4.3x as of 2HFY2021. We rate LREIT at a **Neutral (4) Issuer Profile**, which puts it in-line with peers such as Starhill Global REIT and SPH REIT. We are **Neutral** on LREIT 4.2% PERP as it is trading in-line with peers while there is potential supply risk if LREIT remains acquisitive.

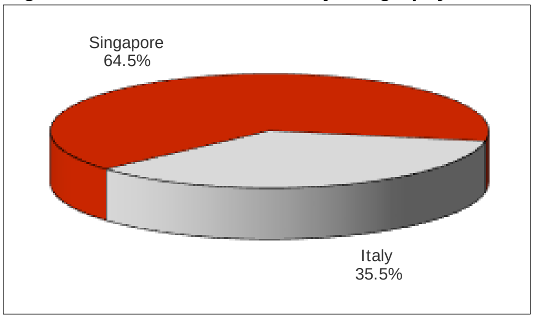
Lendlease Global Commercial REIT

Table 1: Summary Financials

Year End 31st Dec	2H2020	1H2021	2H2021
Income Statement (SGD'mn)			
Revenue	34.1	41.6	37.0
EBITDA	20.5	26.4	21.5
EBIT	20.5	26.4	21.5
Gross interest expense	4.8	5.1	5.0
Profit Before Tax	24.0	4.5	-5.8
Net profit	24.0	4.5	-5.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	83.7	46.4	249.3
Total assets	1,555.5	1,577.5	1,737.1
Short term debt	0.0	0.0	0.0
Gross debt	529.0	548.1	542.6
Net debt	445.3	501.6	293.3
Shareholders' equity	992.3	995.0	1,156.8
Cash Flow (SGD'mn)			
CFO	26.2	31.0	35.5
Capex	0.2	0.4	1.1
Acquisitions	4.5	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	15.1	20.6	27.5
Interest paid	1.9	2.0	2.4
Free Cash Flow (FCF)	26.0	30.7	34.4
Key Ratios			
EBITDA margin (%)	60.1	63.4	58.1
Net margin (%)	70.4	10.7	-15.6
Gross debt to EBITDA (x)	12.9	10.4	12.6
Net debt to EBITDA (x)	10.9	9.5	6.8
Gross Debt to Equity (x)	0.53	0.55	0.47
Net Debt to Equity (x)	0.45	0.50	0.25
Gross debt/total asset (x)	0.34	0.35	0.31
Net debt/total asset (x)	0.29	0.32	0.17
Cash/current borrowings (x)	N/M	N/M	N/M
EBITDA/Total Interest (x)	4.29	5.22	4.32

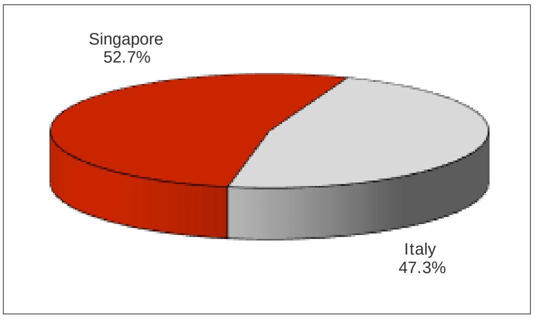
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 2H2021



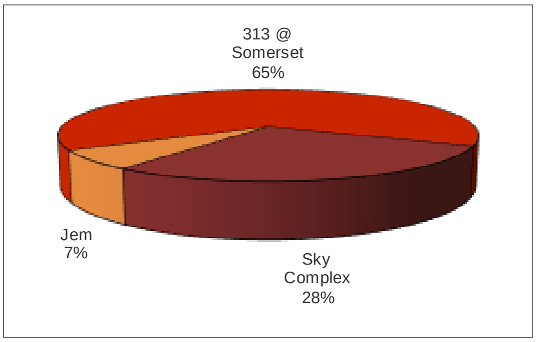
Source: Company

Figure 2: NPI breakdown by Geography - 2H2021



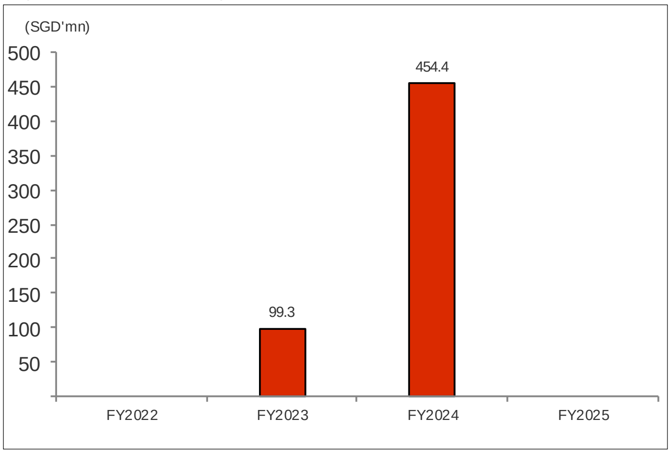
Source: Company

Figure 3: Asset breakdown by Property - 2H2021



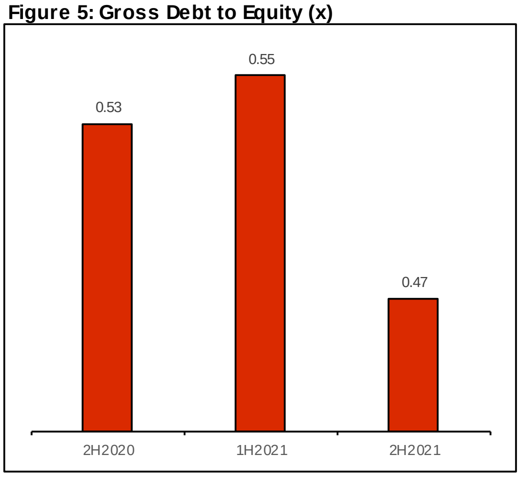
Source: Company

Figure 4: Debt Maturity Profile



Source: Company

Figure 5: Gross Debt to Equity (x)



Source: Company, OCBC estimates

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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