

Lendlease

FACT SHEET

MAY 2024

I A M
INCOME ASSET
MANAGEMENT

Lendlease

Issuer Outline

Lendlease Group designs, develops, and manages property and infrastructure assets. The Company constructs apartments, commercial buildings, government offices, retirement living, and educational facilities. Lendlease serves customers worldwide.

Sector:	Industrial
Sub-Sector:	Engineering&Construction
Country:	AU
Ownership:	Public

IAM Credit View

Lendlease recently announced it will be exiting the international construction business, with development and construction businesses focussed solely in Australia. Accordingly, Lendlease will book impairments of between A\$1.15-\$1.475bn (pre-tax) in FY24 as it writes down goodwill in the US/UK construction business. In our view, this is credit positive for the long-term credit profile. Scale of the business will fall, which is credit negative, however domestic development is significantly more attractive from both a margin and legal risk perspective relative to overseas.

The restructuring will free up A\$4.5bn in capital over FY24-FY28 (A\$2.8bn within 12 months), which can be used to reduce gearing and return capital to shareholders via a A\$500m on-market buyback. Gearing is expected to fall to 5-15% by the end of FY26 (currently 22.9%) and save A\$150m pa in cost savings from less workers/other cost savings.

We see this as credit positive for the Lendlease bond curve. The company intends to sell assets, reduce debt, and increase shareholder returns, all within the bounds of an investment-grade rating. Given the scale of asset sales and debt reduction required, there may be potential bond buybacks. There is still value in the AUD Lendlease bonds which are trading wider than other investment-grade names in Australia and could see 20-30bps spread outperformance from here as a downgrade from Baa3/BBB- is now certainly off the table.

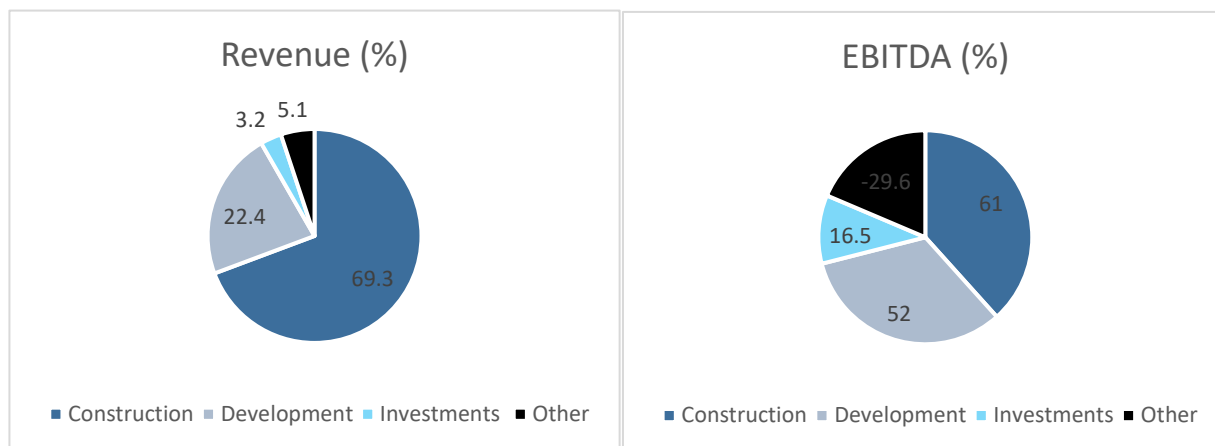
Issuer Credit Rating & Outlook

Agency	Rating	Outlook
S&P	-	-
Moody's	Baa3	STABLE
Fitch	BBB-	STABLE

Key Financials (AUD m)

LTM (31Dec)	06/2023	06/2022
Revenue	10,373	8,964
EBITDA	(35)	(79)
NPAT	(232)	(99)
EBITDA Margin (%)	(0)	(1)
Total Assets	18,214	17,101
Total Debt	3,665	2,765
Net Debt	2,765	1,468
Total Debt/Total Equity (%)	55.16	39.67
Total Debt/Total Assets (%)	20.12	16.17

Revenue and EBITDA Composition



(LTM 30 June 2023)

Strengths of Lendlease

- A\$4bn global restructuring from international operations. This simplifies the company for debt reduction and shareholder distribution. Potential bond buybacks are likely.
- Recurring earnings offset development risk. Lendlease's credit profile is supported by stable and predictable revenues from its investment portfolio and its asset management business.
- Strong financial profile. Its company defined gearing has now migrated to 5-15% which is low for a BBB rated entity.

Weaknesses of Lendlease

- Office vacancy risk. Australia's final stage of office-asset writedowns could see capitalisation rates expand to 7% in FY25. This will correspond with peak office vacancies in Sydney and Melbourne.
- Development risk. Lendlease's developments are associated with lumpy cashflows due to project commencements and completions. Exposure to cyclical residential and construction sectors, and the associated mismatch between investment outflows and cash receipts on projects are a key risk.

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0259224	AUD80m	Sr Unsecured	5.425%	Semi-annual	7 February 2028	7 February 2028	- / Baa3 / BBB-
AU3CB0275550	AUD500m	Sr Unsecured	3.400%	Semi-annual	27 October 2027	27 October 2027	- / Baa3 / BBB-
AU3CB0278711	AUD300m	Sr Unsecured	3.700%	Semi-annual	31 March 2031	31 March 2031	- / Baa3 / BBB-
XS2383508590	GBP42.1m	Sr Unsecured	3.500%	Annual	2 February 2033	2 February 2033	- / Baa3 / BBB-
XS1602127992	SGD300m	Sr Unsecured	3.900%	Semi-annual	27 April 2027	27 April 2027	- / Baa3 / BBB-
XS1418635337	USD400m	Sr Unsecured	4.500%	Semi-annual	26 May 2026	26 May 2026	NR / Baa3 / BBB-

Disclosure

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