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Lendlease 31s offering yield of ~6%

By Jacob Braddy

As yields have continued to tighten, the list of bonds yielding 6% has become mostly non-existent as many of the recent issuances are now trading at premiums, well over par. This has led us to revisit opportunities elsewhere, namely in low-coupon bonds that were issued prior to interest rates moving higher, which are trading at significant discounts. One bond that fits this approach is the Lendlease 3.70% 2031 senior unsecured bond. We can access these bonds at a capital price of \$87.51 offering a yield of 6.02%.

The group released their results this week, which showed a loss of ~\$1.5 billion as they continue to exit their international construction business, with their focus being solely in Australia. We see this as credit positive for Lendlease from a long-term perspective as "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." (see IAM Factsheet)

Through these movements Lendlease is effectively de-risking the business, which should make it a stronger credit in the long-term. This involves focusing on its investment segment, which includes its asset management arm. This will see capital redeployed away from its development arm and reduce their exposure to lumpy revenue streams to more stable cash flow from the investment segment. This is a medium to long-term plan so the benefits will not occur immediately but will help their BBB-/Baa3 credit rating.

To be clear, the discount at which these bonds are trading is not due to the credit profile of Lendlease deteriorating, but mainly because the bonds were issued in a low-interest rate environment, as these were issued in March 2021. As reiterated by our Credit Research Team "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."

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