FIIG | Factsheet

Lendlease Finance Ltd

24 November 2021

Sector: Real Estate
Sub-sector: Diversified
Country: Australia
Ownership: Public

Disclaimer

This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.

Issuer Outline

Lendlease Finance Ltd (LLF) is a wholly owned financing subsidiary of Lendlease Group (LLG, Lendlease, Group). LLG is a leading multinational property and infrastructure development company, established in 1958 and headquartered in Sydney. The Group mainly operates within Australia but has a global footprint in Asia, the Americas and Europe.

The Group has end to end capabilities across all aspects of real estate – from concept and planning, to design and delivery through to funding and investment management. The Group operates through three core segments; Development, Construction and Investments.

In FY21, local operations represented ~70% of EBITDA, the Americas ~17%, Europe ~6.5% and Asia ~6%. Development and construction activities represent about 70% of EBITDA, with the remaining coming from Investments. As at 30 June 2021, total assets under managements were AUD28.5bn and funds under management were AUD40bn.

The Group is listed on the Australian Stock Exchange and has a market capitalisation of approximately AUD7.5bn as of 24 November 2021.

Key Financials (AUDm)

LTM (30 Jun)	2021
Revenue	9,892
EBITDA	757
Interest Expense	(129)
Total Assets	17,000
Cash	1,662
Debt	2,357
Net Debt / Tangible Assets	5.0%
EBITDA/Interest	5.9x

Source: Company, FIIG estimates

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0275550	AUD 500m	Snr Unsecured (Green Bond)	3.40%	Semi-Annual	29 Jul 2027	27 Oct 2027
AU3CB0278711	AUD 300m	Snr Unsecured (Green Bond)	3.70%	Semi-Annual	31 Dec 2030	31 Mar 2031

[1]*Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call*

Lendlease Finance Ltd

Strengths

- **Well established market position:** LLG is one of the leading property and infrastructure groups, globally, with a focus on investment and development. The Group has an integrated business model with control over concept and planning, design and delivery and investment management. LLG's long and established track record (i.e. ANZ Martin Place, ICC Sydney and Athlete's Village [UK]) enables it to successfully bid for residential, commercial and infrastructure projects, creating long-term projects such as the recently established partnership with Google in San Francisco, United States.
- **Strong commitment to sustainability:** Lendlease has set industry leading carbon targets; to support these targets the Group is phasing out diesel and gas and increasing its use of renewable energy. Its Australian Building business has provided carbon neutral construction for three consecutive years and 100 per cent of construction projects in Chicago are powered using renewable electricity.

  In recent years, LLG has increased its focus on sustainable developments. Over the last 20 years, the Group has delivered Australia's first 5-star rated green building under the Green Building Council of Australia's rating system. Further projects include Darling Quarter (6-star Green Rating) and Library at the Dock (6-star Green Rating). LLG has also created its Global Sustainability Framework targeting reductions in emissions, energy, water and waste. The Group aims to achieve absolute zero carbon by 2040 and deliver AUD250m of social value by 2025.
- **Strong development pipeline:** LLG's integrated business profile has enabled it to successfully bid for various projects. As at 30 June 2021, the Group had an AUD114bn development pipeline. Due to its scale, LLG can undertake projects of varying sizes providing short, medium and long term earnings visibility, while also acting as a barrier to entry. Despite COVID-19 providing macroeconomic and operational headwinds, Moody's Investor Service (Moody's) expects the pandemic to delay future earnings (as opposed to loss of revenue).
- **Diversified earnings profile portfolio:** The Group operates in targeted 'Gateway Cities' located in Australia (i.e. Sydney and Melbourne), Asia (i.e. Tokyo and Shanghai), Europe (i.e. Milan and London) and the Americas (i.e. New York and Chicago), with revenue derived from its development, investments and construction operating segments. During FY21, LLG generated AUD8.7bn in operating revenue; ~23% from development, ~4% from investments and ~74% from construction. In addition, ~49% of operating revenue was generated in Australia, ~4% in Asia, ~16% in Europe and ~31% in the Americas.
- **Experienced management team:** LLG's management team has deep experience and sound understanding of the Group's business, commitment to risk management and focus on sustainability. Tony Lombardo was appointed as Global CEO (previously CEO Asia and Group CFO) in June 2021, he has over 25 years' experience in real estate development, investment management, finance and mergers and acquisitions. **Further**, other senior executives such as Denis Hickey (CEO of America's) and David Hutton (Head of Development) have over 30 years' experience.
- **Sound liquidity and strong balance sheet:** The Group continues to maintain a conservative balance sheet with sound liquidity. As at 30 June 2021, LLG had liquidity of ~AUD4.9bn comprising of AUD1.7bn in cash and cash equivalents, AUD3.2bn available in undrawn facilities. Consistent with the Group's strategy of maintaining its investment grade credit rating, gearing (net debt/total tangible assets) remains conservative at 5% (well below its lower bound of its 10-20% targeted gearing range).
- **Notes benefit from a guarantee and negative pledge:** The notes will be unconditionally and irrevocably guaranteed by Guarantors in the Trust Deed including Lendlease Corporation Ltd (unsecured guarantor). The notes also benefit from a Negative Pledge, so long as the notes remain outstanding neither the Issuer nor the Guarantors will undertake a financial encumbrance (other than permitted) which are deemed materially less beneficial to the interest of noteholders.

Lendlease Finance Ltd

Risks

- Disruption from COVID-19 pandemic: Despite improving market conditions, the COVID-19 pandemic continues to create ongoing challenging operating conditions impacting productivity, expected timing of completion and expected costs to complete. Other impacts include projects being put on hold in some markets, with delays in securing and commencement of new projects (albeit much less than in 2H20). LLG report an AUD222m statutory net profit for FY21 (up from a loss of AUD310m). Return in Invested Capital (ROIC) was below the groups target ranges for Development 7.2% (target range 10-13%) and in Construction 5.9% (target range 6-9%).

  Despite the headwinds posed by COVID-19, Moody's expects below trend financial performance to persist for 12-18 months. Further, the ratings agency identifies LLG's strong development pipeline and funds management portfolio as key factors supporting an earnings rebound post-pandemic.

- Exposure to developments, construction and cash flow volatility: In relation to developments, the scale of individual projects is large, exceeding AUD1bn. In addition, LLG is exposed, but not limited to, delayed revenue recognition from projects which overrun schedules, industrial disputes, changes in government infrastructure policy, environmental issues and failure to obtain necessary approvals, permits or licenses. These factors could result in significantly diminished earnings or actual losses incurred if costs escalated and/or demand fell sharply (leading to further cash flow volatility through economic cycles).

  LLG's construction business is inherently risky because the company is exposed to fixed-price contracts, where it agrees to carry out a particular construction project for a set price and within a restricted time frame. The company bears the cost and time overrun risk

- Exit risks in relation to divestment of noncore operations: The Group maintains a dynamic business strategy, consistently reassessing operating segment and project performance, selling assets identified by management as noncore.

  Most recently the group have completed the sale of its Engineering business, Services (conditional sales agreements signed in July 2021) and US Telecommunications and Energy businesses.

- Refinancing risk: Property development and investment is capital intensive and dependent on access to funding, along with the refinancing and/or variation of existing debt facilities. An inability to obtain the necessary funding on acceptable terms or a material increase in the costs of funding may have an adverse impact.

Lendlease Finance Ltd

Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.

No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.

FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. FIIG's AFS Licence does not authorise it to give personal advice. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at www.fiig.com.au/fsg.

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.