F·P·A FINANCIAL
Investment Perspectives
2 June 2021

REAL ESTATE EQUITY RESEARCH

Lippo Malls Indonesia Retail Trust

SGX: D5IU
Bloomberg: LMRT:SP
ISIN Code: SG1W27938677

RECOMMENDATION: NEUTRAL

Current Price: S$0.064
Current Target Price: S$0.070

Issued Units: 7,673.3 million (31 Mar 2021)
Market Capitalisation: S$491.1 million

52 Week Range: S$0.060 - S$0.142

PRICE PERFORMANCE

COMPANY DESCRIPTION

Lippo Malls Indonesia Retail Trust (LMIR Trust or the Trust) is a Singapore-based real estate investment trust with a portfolio comprising 22 retail malls and 7 retail spaces across major cities in Indonesia. The Sponsor is PT Lippo Karawaci Tbk (LPKR), a member of the Lippo Group.

SUMMARY

For Q1 2021, the LMIR Trust Group (Group) recorded gross revenue of S$43.6 million, a 32.8% y-o-y decline from a year ago. This was mainly given that the Trust had extended rental and service charge discounts to tenants which resulted in lower gross rental income and service charges and utilities recovery. Despite lower property operating expenses of S$17.8 million, net property income fell by 35.2% y-o-y to S$25.8 million. For the period, an after-tax loss of S$1.1 million was incurred compared to a S$0.5 million loss a year ago. Loss attributable to unitholders amounted to S$5.5 million, which translated to a loss per unit of 0.08 cents. Meanwhile, unitholders' distribution increased to S$6.1 million from S$3.5 million a year ago. This resulted in a distribution per unit of 0.08 cents, which has been paid on 20 May 2021.

RECOMMENDATION

In our last company update, we highlighted concerns over the negative impact of the Puri Mall acquisition on LMIR Trust's share price, given the need for a rights issue funding which would be dilutive. As expected, the share price has dropped sharply and recently traded at record low levels between S$0.063 and S$0.068. Based on our peer comparison analysis, LMIR Trust's current P/B multiple of 0.64x is below the peer average P/B of 1.00x. If LMIR Trust were to trade at the peer average P/B multiple of 1.00x, this would imply a target price of S$0.0997 which is a 55.8% upside from the current share price of S$0.064. However, amid a weak operating environment owing to ongoing virus-related concerns and no potential major catalyst in the short to medium term, we believe that there could be limited upside potential in LMIR Trust's share price. Adopting a conservative approach, we estimate a target price of S$0.070 which represents a 10% upside from the current price. Considering the above, we will revise upward our recommendation to neutral from sell. Our current recommendation considers the improvement in the Group's debt situation and longer-term earnings growth potential from a recovery in the Indonesian retail real estate sector.

KEY FINANCIALS

Full year, ended Dec 31	Revenue (S$ million)	EPS (cents)	P/E (x)	DPS (Cents)	Distribution yield (%)	NAV per unit (S$)	P/B (x)
2019 actual	273.0	(0.15)	n/m	2.23	34.84	0.282	0.23
2020 actual	148.5	(8.49)	n/m	0.34	5.31	0.174	0.37
2021 forecast*	174.4	0.17	37.65	0.19	2.97	0.0997	0.64
2022 forecast	209.3	0.67	9.55	0.61	9.53	-	-

n/m: not meaningful. Figures have been rounded.

P/E, P/B and dividend yield figures are based on current price of S$0.064

**Actual NAV per unit as at 31 March 2021*

Source: LMIR Trust, FPA Financial

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FINANCIAL REVIEW FOR Q1 2021

(I) Financial performance

For the first quarter ended 31 March 2021 (Q1 2021), the LMIR Trust Group (Group) recorded gross rental income of S$26.5 million, a 27.6% year-on-year (y-o-y) decrease from S$36.6 million in Q1 2020. This was mainly due to rental and service charge discounts extended to tenants (over and above the discounted rental attributed to the shorter operating hours) as well as relief adjustments to selected key tenants, both related and non-related. The decrease was also contributed by a S$3.0 million rental income loss from Binjai Supermall & Pejaten Village which were divested in 3Q 2020. However, a contribution amounting to S$5.9 million from Lippo Mall Puri (Puri Mall), which was acquired on 27 January 2021, partially offset the decrease in overall gross rental income.

Carpark income dropped by 51.0% y-o-y to S$1.2 million due to reduced vehicle traffic as compared to Q1 2020. Similarly, other rental income fell by 26.2% y-o-y to S$0.4 million. Meanwhile, service charges & utilities recovery fell to S$15.5 million, a 38.8% y-o-y decline from S$25.3 million in Q1 2020, mainly due to tenant support measures as noted above. The decrease was also due to a S$2.1 million loss of income in relation to service charges & utilities recovery from Binjai Supermall and Pejaten Village. However, a contribution amounting to S$1.6 million from Puri Mall partially offset the decrease in overall service charges & utilities recovery. As a result, the Group recorded gross revenue of S$43.6 million for the period, a 32.8% y-o-y decrease from S$64.9 million in Q1 2020, as shown in **Exhibit 1**.

Exhibit 1: Gross revenue breakdown for Q1 2021 and Q1 2020

[S$'000]	Q1 2021	Q1 2020	Change (%)
Gross rental income	26,482	36,569	-27.6%
Carpark income	1,208	2,464	-51.0%
Other rental income	448	607	-26.2%
Service charge & utilities recovery	15,470	25,288	-38.8%
Gross revenue	**43,608**	**64,928**	**-32.8%**

Source: LMIR Trust

Meanwhile, property management fees payable to PT Lippo Malls Indonesia, the property manager of the Trust's properties, declined by 40.9% y-o-y to S$1.1 million, due to lower revenue and lower net property income. In addition, property operating & maintenance expenses decreased by 31.9% y-o-y to S$14.1 million, mainly due to lower utilities consumption as a result of shorter operating hours and cost management measures adopted. Owing to these declines, property operating expenses amounted to S$17.8 million, a 29.2% decline from S$25.2 million in Q1 2020, as shown in **Exhibit 2**.

Exhibit 2: Property operating expenses breakdown for Q1 2021 and Q1 2020

[S$'000]	Q1 2021	Q1 2020	Change (%)
Land rental expenses	379	470	-19.4%
Property management fees	1,101	1,862	-40.9%
Legal & professional fees	461	409	12.7%
Depreciation of plant & equipment	718	903	-20.5%
Net allowance for impairment loss on trade receivables	945	637	48.4%
Property operating & maintenance expenses	14,134	20,766	-31.9%
Other property operating expenses	87	120	-27.5%
Property operating expenses	**17,825**	**25,167**	**-29.2%**

Source: LMIR Trust

As a result, the Group's net property income (NPI) dropped by 35.2% to S$25.8 million from S$39.8 million in Q1 2020, as shown in **Exhibit 3**.

Exhibit 3: Group NPI for Q1 2021 and Q1 2020

[S$'000]	1Q 2021	1Q 2020	Change (%)
Gross revenue	43,608	64,928	-32.8%
Property operating expenses	(17,825)	(25,167)	-29.2%
Net property income	25,783	39,761	-35.2%

Source: LMIR Trust

For the period, the Group recorded lower interest income of S$0.2 million and incurred other losses in relation to write-off of certain expenses upon the divestment of Binjai Supermall and Pejaten Village. Management fees payable to the REIT Manager, LMIRT Management Ltd, fell by 17.4% y-o-y to S$2.3 million largely owing to lower NPI, while trustee's fees increased marginally due to higher total assets.

Finance costs rose by 20.9% y-o-y to S$14.2 million mainly due to higher interest expenses, as the Trust issued a US$200.0 million bond in February 2021 for refinancing purposes (further discussed on page 7 and 8), as shown in **Exhibit 4**. Commitment fees of S$0.2 million were incurred in relation to an undrawn committed term loan facilities, which had been cancelled upon the issuance of the US$200.0 million bond.

Exhibit 4: Finance costs breakdown for Q1 2021 and Q1 2020

[S$'000]	Q1 2021	Q1 2020	Change (%)
Interest expense	12,485	10,832	15.3%
Amortisation of borrowing costs	1,444	881	63.9%
Commitment fees	234	-	n/m
Finance costs	**14,163**	**11,713**	**20.9%**

Source: LMIR Trust

Other expenses, which comprise bank charges, professional fees, security agent fees, valuation expenses, investor relation and listing expenses, increased by 10.5% y-o-y to S$0.8 million.

Lower realised foreign exchange adjustment losses was mainly due to no cash repatriation from Indonesian subsidiaries during the period. Meanwhile, amortisation of intangible assets rose to S$1.5 million due to the intangible assets recognised and amortised over the NPI guarantee in Puri Mall.

Consequently, pre-tax profit amounted to S$4.3 million for the period, down by 39.4% y-o-y, as shown in **Exhibit 5** on the next page.

Exhibit 5: Group pre-tax profit for 1Q 2021 and 1Q 2020

[S$'000]	1Q 2021	1Q 2020	Change (%)
Gross revenue	43,608	64,928	-32.8%
Property operating expenses	(17,825)	(25,167)	-29.2%
Net property income	25,783	39,761	-35.2%
Interest income	225	754	-70.2%
Other losses	(8)	-	n/m
Manager's management fees	(2,304)	(2,788)	-17.4%
Trustee's fees	(116)	(110)	5.5%
Finance costs	(14,163)	(11,713)	20.9%
Other expenses	(811)	(734)	10.5%
Realised gains on derivative financial instruments	843	-	n/m
Increase in fair values of derivative financial instruments	4,792	14,866	-67.8%
Realised foreign exchange losses	(8)	(1,082)	-99.3%
Unrealised foreign exchange losses	(8,398)	(31,242)	-73.1%
Amortisation of intangible assets	(1,511)	(574)	163.2%
Total return for the period before income tax	4,324	7,138	-39.4%

Source: LMIR Trust

Owing to lower revenue, income tax expenses fell by 28.7% to S$5.5 million from S$7.7 million in Q1 2020, as shown in **Exhibit 6**.

Exhibit 6: Income tax expenses breakdown for Q1 2021 and Q1 2020

[S$'000]	Q1 2021	Q1 2020	Change (%)
Income tax	4,417	6,663	-33.7%
Withholding tax	1,045	997	4.8%
Income tax expense	**5,462**	**7,660**	**-28.7%**

Source: LMIR Trust

Adjusting for income tax expenses, the Group incurred an after-tax loss of S$1.1 million for the period, compared with S$0.5 million for Q1 2020. Net of S$4.4 million accrued for distribution to perpetual securities holders, the loss attributable to unitholders was S$5.5 million. Accordingly, loss per unit amounted to 0.08 cents for the period as compared to 0.02 cents a year ago.

The Group's financial results for Q1 2021 and Q1 2020 are summarised in **Exhibit 7** on the next page.

Exhibit 7: Group's financial results for Q1 2021 and Q1 2020

[S$'000]	1Q 2021	1Q 2020	Change (%)
Gross revenue	43,608	64,928	-32.8%
Net property income	25,783	39,761	-35.2%
Total loss for the period after income tax	(1,138)	(522)	>100%
Total loss for the period after income tax attributable to:			
Unitholders	(5,507)	(522)	>100%
Perpetual securities holders	4,369	-	n/m
	(1,138)	(522)	>100%
Total loss after income tax attributable to unitholders	(5,507)	(522)	>100%
Weighted average number of units in issue	6,570,444	2,899,459	>100%
Earnings per unit (cents)	(0.08)	(0.02)	>100%

Source: LMIR Trust

Meanwhile, total distribution to unitholders amounted to S$6.1 million compared to S$3.5 million in Q1 2020. Accordingly, a distribution per unit (DPU) of 0.08 cents was declared for the period, with payment on or about 20 May 2021. The Group's statement of distribution for Q1 2021 and Q1 2020 are summarized in **Exhibit 8**.

Exhibit 8: Group's statement of distribution for Q1 2021 and Q1 2020

[S$'000]	Q1 2021	Q1 2020
Total loss for the period after tax before distribution - [A]	(1,138)	(522)
Add: net adjustments		
Manager's fee payable in the form of units	-	1,590
Depreciation of plant & equipment	718	903
Increase in fair values of derivative instrument	(4,792)	(14,866)
Unrealised foreign exchange losses	8,398	31,242
Amortisation of intangible assets	1,511	574
Amount reserved for distribution to perpetual securities holders	(4,369)	(4,369)
Net adjustments - [B]	1,466	15,074
Income available for distribution to Unitholders = [A] + [B]	328	14,552
Unitholders' distribution		
-as distribution from operations	-	-
-as distribution of unitholders' capital contribution	6,139	3,512
Total unitholders' distribution	6,139	3,512
Distribution per unit (DPU)	0.08	0.12

Source: LMIR Trust

(II) Capital management

Balance sheet

The Group's total assets increased by S$426.5 million to S$2,063.1 million as at 31 March 2021, from S$1,636.6 million as at 31 December 2020. This was largely attributed to an increase in investment properties by S$313.3 million to S$1,772.7 million, mainly due to the acquisition of Puri Mall in January 2021. Meanwhile, a S$63.3 million increase in cash & cash equivalents also contributed to the higher total assets.

Total liabilities increased by S$175.6 million to S$1,023.9 million as at 31 March 2021, from S$863.7 million as at 31 December 2020. This was mainly due to an increase in non-current borrowings of S$383.7 million, given the issuance of the US$200.0 million bond in February 2021 and drawdown of S$80.0 million term loan facilities and S$40.0 million vendor financing for the funding of Puri Mall acquisition. Part of the proceeds from the US$200.0 million bond were used to repay S$219.0 million in current borrowings, which comprised a S$175.0 million term loan facility and S$44.0 million in revolving credit facilities.

As a result, the Group reported net assets of S$1,023.9 million as at 31 March 2021, which comprised S$764.7 million in unitholders' funds and S$259.2 million in perpetual securities. Unitholders' funds increased by S$255.4 million mainly due to the issuance of about 4.7 billion units as part of the rights issue in January 2021 for the partial funding of Puri Mall's acquisition. Based on S$764.7 million in unitholders' funds, the Group's net asset value (NAV) per unit stood at 9.97 cents as at 31 March 2021, as compared with 17.40 cents as at 31 December 2020.

The summary of the Group's balance sheet as at 31 March 2021 and 31 December 2020 is summarized in **Exhibit 9**.

Exhibit 9: Summary of the Group's balance sheet as at 31 March 2021 and 31 December 2020

[S$'000]	31-Mar-21	31-Dec-20
Total assets	2,063,143	1,636,598
Total liabilities	1,039,279	863,651
Net assets	1,023,864	772,947
Net assets attributable to unitholders	764,708	509,329
Number of units in issue ('000)	7,673,336	2,926,795
NAV per share (cents)	9.97	17.40

Source: LMIR Trust

Financial leverage

During Q1 2021, the Group had made repayment of a S$175.0 million term loan facility and S$44.0 million in revolving credit facilities, as noted earlier on the previous page. Consequently, current borrowings reduced to zero as at 31 March 2021 from S$219.0 million as at 31 December 2020. Meanwhile, non-current borrowings increased to S$859.4 million as at 31 March 2021 from S$466.3 million as at 31 December 2020. As discussed on the previous page, the increase was mainly due to the issuance of a US$200.0 million bond in February 2021, as well as a drawdown of S$80.0 million term loan facilities and S$40.0 million vendor financing.

As a result, total borrowings amounted to S$859.4 million as at 31 March 2021 compared to S$685.3 million as at 31 December 2020. The breakdown of the Group's total borrowings as at 31 March 2021 and 31 December 2020 are summarized in **Exhibit 10**.

Exhibit 10: Breakdown of total borrowings as at 31 March 2021 and 31 December 2020

Borrowings	Note	Maturity	Interest rate (%)	31-Mar-21 S$'000	31-Dec-20 S$'000
Current borrowings:					
S$350.0 million term loan (Facility B)	1	Aug-21	3.15% + SOR*	-	175,000
Uncommitted revolving credit facility	2	Jan-21	3.75% + SOR	-	4,000
Uncommitted revolving credit facility	2	Jan-21	3.75% + SOR	-	40,000
Sub-total	-	-	-	-	219,000
Non-current borrowings:					
S$135.0 million term loan (Facility A)		Nov-22	3.05% + SOR	67,500	67,500
S$135.0 million term loan (Facility B)		Nov-23	3.25% + SOR	67,500	67,500
S$40.0 million vendor financing	3	Apr-22	3.65%	40,000	-
S$80.0 million term loan (Facility A1)	4	Jan-24	3.15% + SOR	60,000	-
S$80.0 million term loan (Facility A2)	4	Jan-26	3.57% + SOR	20,000	-
US$250.0 million Guarantee Senior Notes	5	Jun-24	7.25%	335,762	331,287
US$200.0 million Guarantee Senior Notes	6	Feb-26	7.50%	268,610	-
Sub-total	-	-	-	859,372	466,287
Total borrowings	**-**	**-**	**-**	**859,372**	**685,287**

**SOR refers to SGD Swap Offer Rate*

(1) Facility B of the Term Loan Facility was fully repaid on 24 February 2021.

(2) The uncommitted revolving credit facilities were fully repaid during Q1 2021.

(3) The Group drew down S$40.0 million vendor financing in January 2021, which is due in April 2022 and extendable by one year upon mutual consent. The effective interest rate is 4.06% after taking into consideration of withholding tax applicable.

(4) On 6 January 2021, the Group has obtained term loan facility of up to S$80.0 million. The term loan facility comprises of S$60.0 million (Facility A1) and S$20.0 million (Facility A2) with maturity tenure of 36 months and 60 months respectively. Both facilities were drawdown on 21 January 2021.

(5) Cross currency swap agreements were entered to swap the proceeds of the US$250.0 million Notes into Singapore Dollars with a weighted average fixed interest ratio of 6.71% per annum.

(6) Cross currency swap agreements were entered to swap the partial proceeds of the US$200.0 million Notes into Singapore Dollars with a weighted average fixed interest ratio of 6.65% plus 6 month SOR per annum.

Source: LMIR Trust

According to Bondsupermart data, the price of the US$200 million 7.50% bond has generally risen since it was issued on 9 February 2021, as shown in **Exhibit 11**. The bond was issued at a price of US$98.98 and recently achieved a bid price of US$104.27.

Exhibit 11: Price chart for LMIR Trust's US$200 million 7.50% bond

Source: Bondsupermart

Meanwhile, the price of the US$250 million 7.25% bond, which was issued in June 2019 at US$98.97, had declined sharply in March 2020, as shown in **Exhibit 12**. This could be explained partially by a weak outlook on corporate fundamentals during the peak of the Covid-19 pandemic. However, the bond price started to rebound in April 2020 as interest rates globally fell sharply given central banks' efforts to deal with the economic fallout from the pandemic. Recently, the bid price for the bond reached US$105.13 and has reverted to pre-covid levels.

Exhibit 12: Price chart for LMIR Trust's US$250 million 7.25% bond

Source: Bondsupermart

In terms of leverage, the Group's gearing ratio, measured by total debt over total assets, stood at 41.7% as at 31 March 2021 compared to 41.9% as at 31 December 2020, as shown in **Exhibit 13** on the next page.

Exhibit 13: Summary of the Group's leverage indicators as 31 March 2021 and 31 December 2020

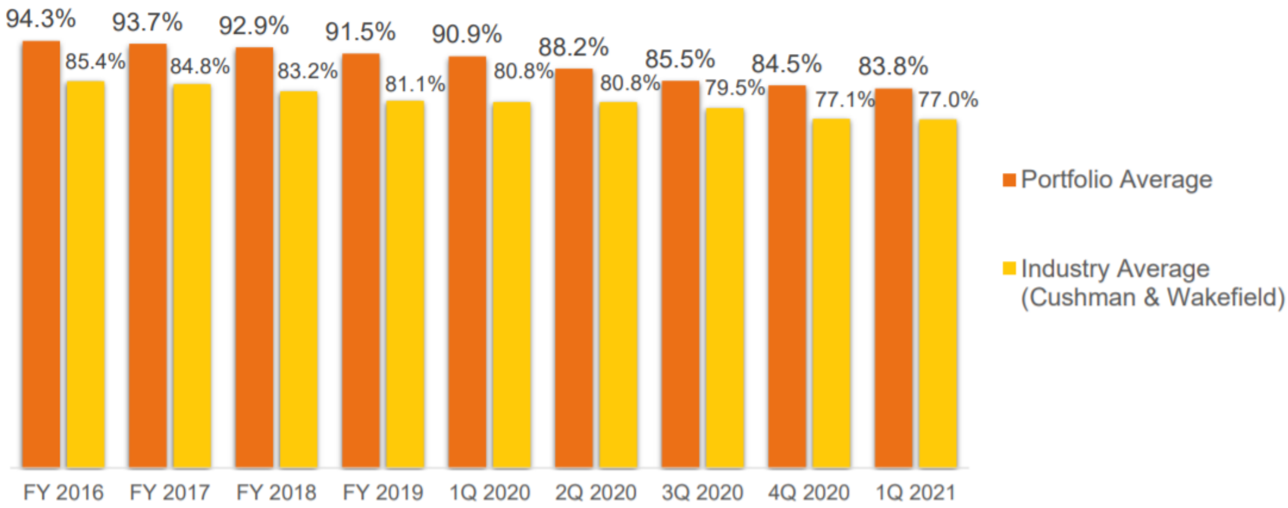
[S$'000]	31-Mar-21	31-Dec-20
Total assets	2,063,143	1,636,598
Total debt	859,372	685,287
Gearing ratio (%)	41.7%	41.9%
Interest coverage ratio (x)	1.3 times	1.8 times
All-in cost of debt (%)	6.46%	5.46%
Weighted average maturity of debt (years)	3.54	2.31

Source: LMIR Trust

PORTFOLIO OVERVIEW

Owing to the impact of COVID-19, the Trust's average portfolio occupancy had steadily declined over the quarters in 2020 and stood at 84.5% at the end of the year, as shown in **Exhibit 14**. Portfolio occupancy further declined to 83.8% in Q1 2021, despite an improved virus situation in Indonesia given the start of vaccination programs in January 2021. Encouragingly, portfolio occupancy has outperformed the industry average since the onset of the pandemic in Q1 2020, and prior as well.

Exhibit 14: LMIR Trust's average portfolio occupancy rate vs industry average



Source: LMIR Trust

In terms of lease profile, the Trust's portfolio had a weighted average lease expiry of 3.7 years as at 31 March 2021. The bulk of expiries, as a proportion of net lettable area (NLA), would occur in 2025 and beyond, as shown in **Exhibit 15**.

Exhibit 15: Lease expiry profile as at 31 March 2021

Lease expiry as at 31 March 2021	FY2021	FY2022	FY2023	FY2024	>FY2025
Number of unit lots expiring	847	862	467	802	664
Leased area expiring (sqm)	86,412	132,400	113,425	115,667	279,379
Expiries as % of total NLA as at 31 December	9.0%	13.8%	11.8%	12.0%	29.1%

Source: LMIR Trust

The above data in **Exhibit 15** suggests a relatively long lease profile which could help to provide greater certainty in terms of rental income. Year to date in March 2021, the portfolio achieved an average rental reversion of 1.4%. On the downside, only approximately 14.2% of expired leases or those due to expire in 2021 have renewed or committed to renew their leases, which may suggest relatively weak tenant retention.

INDUSTRY OVERVIEW

Here, we discuss the performance outlook of the Trust's retail properties. To do so, we will consider the economic outlook in Indonesia as well as the outlook of its retail real estate sector.

Indonesia's economic outlook

Owing to the impact of the Covid-19 pandemic, Indonesia's economy contracted for the fourth consecutive quarter in Q1 2021. During the period, gross domestic product (GDP) fell by 0.74% y-o-y, according to Statistics Indonesia (BPS). However, the decline was less severe than the 2.19% y-o-y annual contraction in Q4 2020, amid an economic recovery underpinned by fiscal support and vaccination progress. Looking ahead, the Indonesian government expects the economy to return to growth in Q2 2021, and recently maintained its forecast of 4.5%-5.3% GDP growth for full-year 2021. This is closely in-line with the International Monetary Fund's (IMF) latest projection of 4.3% annual GDP growth for Indonesia in 2021.

Indonesian retail real estate sector outlook

In Indonesia, the latest Retail Sales Survey by Bank Indonesia showed that retail sales rose by 6.1% month-on-month (m-o-m) compared to a 2.7% monthly contraction in February. The monthly growth was attributed to a spike in demand during the period leading up to the fasting month, coupled with conducive seasonal and weather conditions.

Owing to the positive impact of the mass vaccination program in Indonesia since January 2021, Cushman & Wakefield (C&W) highlighted that customer traffic steadily increased at malls across Jakarta in Q1 2021, although it has not returned to the pre-pandemic level yet. With no new supply, the overall occupancy rate of the Jakarta retail market was relatively stable at 77.0% in Q1 2021. Notwithstanding the visitors' traffic increase, majority of the retailers are still adopting a "wait and see" approach on their expansion plans.

Meanwhile, C&W data suggest that there was no increment in average rentals and service charge from a year ago in Q1 2021. Prime retail base rent stood at US$5.16 per square foot per month (psf pm), as shown in **Exhibit 16**.

Exhibit 16: Jakarta retail market statistics for Q1 2021

SUBMARKET	INVENTORY (SQ.M.)	VACANCY RATE	PRIME RETAIL UNIT BASE RENT		
			RP/SQM/MO	US$/SF/MO	EUR/SQM/MO
Primary Location	1,313,400	22.4%	Rp. 984,500	US$ 6.29	€ 57.67
Secondary Location	3,260,300	23.2%	Rp. 681,400	US$ 4.35	€ 39.92
OVERALL JAKARTA RETAIL TOTAL	4,573,700	23.0%	Rp. 807,700	US$ 5.16	€ 47.31

Source: C&W

Looking ahead, C&W expects rents to remain unchanged until the end of 2021. While some tenants in major retail centers which are doing well have reverted to paying normal rent, those who are still hit by the pandemic are still granted rental abatement or agreed payment deferment, albeit in relatively less amount.

SHARE PRICE PERFORMANCE REVIEW

Since our last company update issued on 8 September 2020, when LMIR Trust's share price closed at S$0.114, the share price has dropped significantly mainly due to the dilutive impact of a rights issue which raised funding for the acquisition of Puri Mall. As part of the rights issue, an aggregate of 4,682,872,029 rights units were issued. This comprised 3,494,047,165 rights issue issued to the REIT Manager and Bridgewater International Ltd (relevant entities) & their concert parties, and 1,188,824,864 rights unit issued to unitholders apart from the relevant entities & their concert parties. Following the issue of the rights units, the Sponsor held an aggregate interest of 58.35% of LMIR Trust's total units.

Previously, we have highlighted concerns regarding the negative impact of the Puri Mall acquisition on the share price. Further, a potential ratings downgrade by Moody's also weighed on sentiment about the Trust, and in turn its share price. Then, Moody's had placed LMIR Trust's B1 rating on review for a downgrade, in part given concerns over the Trust's ability to refinance its term loan facility which would expire in August 2021 as well as concerns about the extent and impact of linkages between LMIR Trust and its Sponsor, LPKR, following the Puri Mall acquisition, due to LPKR's weak credit profile.

As noted on page 7, the Group had in Q1 2021 refinanced its S$175.0 million term loan facility due in August 2021 and has no refinancing needs until April 2022, as shown in **Exhibit 10** on page 8.In the near term, it appears that the Group's debt situation has stabilized. However, against a backdrop of potentially weak financial performance in the coming months amid a challenged Indonesian retail environment, there could be cause for concerns over additional debt financing required. Further, there could potentially be continued negative sentiment given the financial concerns related to the Sponsor. Recently, Fitch Ratings affirmed its B- rating on LPKR with a stable outlook. The ratings firm highlighted that its latest rating reflects expectations that LPKR will maintain sufficient liquidity at the standalone level, which excludes key listed subsidiaries PT Lippo Cikarang Tbk and PT Siloam International Hospitals Tbk but includes other business units, to meet its obligations through end-2022. However, a key risk would be that the company may require further asset sales to boost liquidity beyond 2022.

The above concerns have seemingly been reflected in the share price movements for LMIR Trust. Recently, its shares traded at record low levels between S$0.063 and S$0.068. Given a weak operating environment owing to ongoing virus-related concerns and no potential major catalyst in sight, it appears that share price upside for LMIR Trust could be limited in the medium term.

FINANCIAL PROJECTIONS

In this section, we will provide our projections for the Group's revenue, earnings and distributions for the financial year ending 31 December 2021 (FY2021) and 31 December 2022 (FY2022).

(I) Revenue projection

FY2021

As noted on page 3, the Group's gross revenue declined by 32.8% y-o-y to S$43.6 million in Q1 2021. Compared to Q4 2020, gross revenue posted a 59.4% growth. This likely reflected improvement in retail mall performance as vaccination progress stimulated an increase in footfall and spending. Daily operating hours of the Trust's retail malls were extended to 10-11 hours in Q1 2021 compared to 8 hours in 2H 2020, which also benefitted performance.

However, LMIR Trust has announced that shopper traffic and sales have yet to recover to pre-Covid levels. Given the Indonesian government's target to inoculate 181 million people by 2022, it could suggest that more time is needed for extensive vaccine administration. This could potentially weigh on further improvement in retail activity in Indonesia. Meanwhile, retail traffic and sales contribution from tourism are expected to remain subdued against a weak international travel backdrop. To support business recovery for its tenants, the Trust continues to extend both rental and service charge discounts to tenants but at reduced rates, with the intention to continue to gradually reduce such discounts over 2021. As discussed on page 10, portfolio occupancy has declined in Q1 2021 and tenant retention currently remains relatively weak. Against a backdrop of elevated vacancy and continued pressure for landlords to retain and attract tenants, the upside for an increase in rents could be limited. As noted on page 11, C&W expects that rents would remain unchanged in Jakarta's retail market throughout 2021.

Considering the above, we would assume the same gross revenue of S$43.6 million in Q1 2021 for each of the remaining 3 quarters of 2021. Accordingly, projected gross revenue for FY2021 would be approximately S$174.4 million.

FY2022

For FY2022, we would expect stronger revenue performance against an improved retail backdrop. Further vaccination progress could potentially boost domestic mall footfall and spending, as Covid-19 restrictions become relaxed and people regain confidence to shop and dine in retail settings. On the tourism front, there could be some gradual resumption in international travel as a greater proportion of the global population gets vaccinated. Thus, we could expect further, if not complete, withdrawal of support extended to tenants, and the Trust's retail malls could also return to full operation hours. There could also be increased scope for rental growth as demand for retail spaces improve and mall vacancies decline.

Considering the above, we would assume a 20% y-o-y growth in gross revenue for FY2022 on the back of an improved performance outlook of the Trust's retail malls. Accordingly, projected gross revenue for FY2022 would be S$209.3 million = [120% x S$174.4 million in projected gross revenue for FY2021]

A summary of our projected gross revenue for FY2021 and FY2022 is shown in **Exhibit 17**.

Exhibit 17: Projected gross revenue for FY2021 and FY2022

Period	Gross revenue (S$'000)	y-o-y change (%)
FY2020 actual	148,535	-45.6%
FY2021 forecast	174,432	17.4%
FY2022 forecast	209,318	20.0%

Source: LMIR Trust, FPA Financial

(II) Earnings projection

Given our projected total revenue for FY2021 and FY2022, we will now estimate the Group's earnings for these periods.

Net property income

To project NPI, we will consider the Group's NPI margin. With reference to **Exhibit 18**, we note that NPI margin decreased over the last 3 years, and stood at 52.1% in FY2020.

Exhibit 18: Projected NPI for FY2021 and FY2022

	Actual			Forecast	
[S$'000]	FY2018	FY2019	FY2020	FY2021	FY2022
Gross revenue	230,299	273,001	148,535	174,432	209,318
NPI	164,967	176,205	77,357	90,844	135,010
NPI margin (%)	71.6%	64.5%	52.1%	52.1%	64.5%

Source: LMIR Trust, FPA Financial

For FY2021, we would assume the same NPI margin of 52.1% as in FY2020. In view of improved operating efficiency, we would assume NPI margin to increase to 64.5% as in FY2019. Accordingly, projected NPI for FY2021 and FY2020 would be S$90.8 million and S$135.0 million respectively.

Interest income

During FY2020, the Group recorded S$2.4 million in interest income compared to S$2.0 million in FY2019. While interest rates have recently risen, we would assume the same interest income of S$2.4 million in FY2020 for FY2021 and FY2022.

Manager's management fees

As noted on page 4, Manager's management fees relate to fees payable to the REIT Manager. The Group recorded lower Manager's management fees of S$7.5 million for FY2020 compared to S$12.2 million in FY2019, in part due to weaker NPI performance. For FY2021 and FY2022, we would assume Manager's management fees to be proxied based on the performance and base fee components. The former is fixed at 4.0% per annum of the Group's NPI, while the latter is based on 0.25% per annum of the value of the total assets.

Given the above projected NPI figures for FY2021 and FY2022, the projected base fees would be as follows:

- Projected performance fees for FY2021 = 4% x S$90.8 million in projected NPI = S$3.6 million
- Projected performance fees for FY2022 = 4% x S$125.6 million in projected NPI = S$5.4 million

Meanwhile, we would proxy the calculation for base fees based on the Group's latest total assets of S$2,063.1 million. The projected base fees for FY2021 and FY2022 would be as follows:

- Projected base fees for FY2021/FY2022 = 0.25% x S$2,063.1 million in total assets = S$5.2 million

Taking the sum of base and performance fees, the projected Manager's management fees for FY2021 and FY2022 would be S$8.8 million and S$10.6 million respectively, as shown in **Exhibit 19** on the next page.

Exhibit 19: Projected Manager's management fees for FY2021 and FY2022

	Forecast	
[S$'000]	FY2021	FY2022
Base fee	5,158	5,158
Performance fee	3,634	5,400
Manager's management fees	**8,792**	**10,558**

Source: FPA Financial

Trustee's fees

Trustee's fees shall not exceed 0.03% per annum of the value of the deposited property, subject to a minimum of $15,000 per month. In our earnings projection for FY2021 and FY2022, we would assume the minimum sum of S$15,000 per month, which would imply total trustee's fees of S$180,000 per year.

Finance costs

During FY2020, the Group incurred higher finance costs of S$48.0 million compared to S$41.4 million in FY2019, mainly due to an increase in interest expense given a drawdown of revolving credit facilities. The Group's finance costs breakdown for FY2019 and FY2020 is shown in **Exhibit 20**.

Exhibit 20: Breakdown of finance costs for FY2019 and FY2020

[S$'000]	FY2019	FY2020	Change (%)
Interest expense	37,485	42,900	14.4%
Amortisation of borrowing costs	3,892	3,353	-13.8%
Commitment fees	-	1,701	n/m
Finance costs	**41,377**	**47,954**	**15.9%**

Source: LMIR Trust

As noted on page 9, the Group's all-in cost of debt stood at 6.46% as at 31 March 2021. Recently, interest rates have increased given rising inflation expectations induced by an improved growth outlook. Against a backdrop of moderate inflation growth in FY2021, we would assume a 6.46% interest rate in the Group's borrowings. For FY2022, we could expect stronger inflation to push rates even higher, and thus would assume a 6.80% interest rate. Accordingly, the projected interest expense for FY2021 would be S$55.5 million = [6.46% x S$859.4 million in borrowings], assuming no debt repayment. Further assuming the Group does not make any repayment on borrowings during the period, the projected interest expense for FY2022 would be S$58.4 million = [6.80% x S$859.4 million in borrowings]. Meanwhile, we would assume a 10% increase in amortization of borrowing costs – given the Group's additional debt issued in Q1 2021 – and no change in commitment fees in FY2020 for FY2021 and FY2022. Accordingly, the projected finance costs for FY2021 and FY2022 would be S$60.9 million and S$63.8 million respectively, as shown in **Exhibit 21**.

Exhibit 21: Projected finance costs for FY2021 and FY2022

[S$'000]	FY2021	FY2022
Interest expense	55,515	58,437
Amortisation of borrowing costs	3,688	3,688
Commitment fees	1,701	1,701
Finance costs	**60,905**	**63,827**

Source: LMIR Trust, FPA Financial

Other expenses

During FY2020, the Group incurred other expenses of S$2.5 million compared to S$6.6 million a year ago, as shown in **Exhibit 22**. For FY2021 and FY2022, we would assume the same amount of S$2.5 million as in FY2020.

Exhibit 22: Projected other expenses for FY2021 and FY2022

	Actual		Forecast	
[S$'000]	FY2019	FY2020	FY2021	FY2022
Bank charges	71	96	96	96
Professional fees	1,031	750	750	750
Investor relation expenses	79	79	79	79
Listing expenses	35	35	35	35
Security agent fees	60	60	60	60
Valuation expenses	728	596	596	596
Flood mitigating expenditures	2,202	-	-	-
Other expenses	2,411	876	876	876
Total	**6,617**	**2,492**	**2,492**	**2,492**

Source: LMIR Trust, FPA Financial

Change in fair value of investment properties

For FY2020, the Group recorded a S$193.6 million decrease in fair value of investment properties as compared to a S$65.3 million fair value loss in FY2019. The decline in FY2020 was largely owing to the impact of the Covid-19 pandemic. For FY2021 and FY2022, we would assume no fair value gain or loss on investment properties.

For other items such as realised gain/loss on derivative financial instruments, change in fair value of derivative instruments and realized/unrealized exchange gain or loss, we would assume contribution to be zero.

Profit before income tax

Given the above projections, we would estimate a profit before tax of S$18.7 million and S$58.1 million for FY2021 and FY2022 respectively, as shown in **Exhibit 23.**

Exhibit 23: Projected profit before income tax

	Forecast	
[S$'000]	FY2021	FY2022
Gross revenue	174,432	209,318
Property operating expenses	(83,588)	(74,308)
Net property income	90,844	135,010
Interest income	2,374	2,374
Other losses	-	-
Manager's management fees	(8,792)	(10,558)
Trustee's fees	(180)	(180)
Finance costs	(60,905)	(63,827)
Other expenses	(2,492)	(2,492)
Decrease in fair value of investment properties	-	-
Realised gains on derivative financial instruments	-	-
Increase in fair values of derivative financial instruments	-	-
Realised foreign exchange losses	-	-
Unrealised foreign exchange losses	-	-
Amortisation of intangible assets	(2,197)	(2,197)
Total return for the period before income tax	18,653	58,130

Source: FPA Financial

Income tax expense

For FY2021 and FY2022, we would assume a tax rate of 17% to be levied on the Group's profit before income tax for the respective periods. Accordingly, the projected income tax expenses for FY2021 and FY2022 would be S$3.2 million = [17% x S$18.7 million] and S$9.9 million = [17% x S$58.1 million] respectively.

Projected profit after income tax

Adjusting for income tax expense, the projected after-tax profit for FY2021 and FY2022 would be S$15.5 million and S$48.2 million respectively. Less of profit attributable to perpetual securities holders, which would assume to be the same in FY2021 and FY2022 from FY2020, projected profit attributable to unitholders would be S$11.1 million and S$43.9 million for FY2021 and FY2022 respectively. Accordingly, the projected EPU for FY2021 and FY2022 would be 0.17 cents and 0.67 cents respectively. We have summarized our earnings projection in **Exhibit 24**.

Exhibit 24: Earnings projection for FY2021 and FY2022

	Forecast	
[S$'000]	FY2021	FY2022
Gross revenue	174,432	209,318
Property operating expenses	(83,588)	(74,308)
Net property income	90,844	135,010
Interest income	2,374	2,374
Other losses	-	-
Manager's management fees	(8,792)	(10,558)
Trustee's fees	(180)	(180)
Finance costs	(60,905)	(63,827)
Other expenses	(2,492)	(2,492)
Decrease in fair value of investment properties	-	-
Realised gains on derivative financial instruments	-	-
Increase in fair values of derivative financial instruments	-	-
Realised foreign exchange losses	-	-
Unrealised foreign exchange losses	-	-
Amortisation of intangible assets	(2,197)	(2,197)
Total return for the period before income tax	18,653	58,130
Income tax expense	(3,171)	(9,882)
Total return for the period after income tax	15,482	48,248
Total return for the period after income tax attributable to:		
Unitholders	11,113	43,879
Perpetual securities holders	4,369	4,369
	15,482	48,248
Total return after income tax attributable to unitholders	11,113	43,879
Weighted average number of units in issue	6,570,444	6,570,444
Earnings per unit (cents)	0.17	0.67

Source: FPA Financial

(III) Distribution projection

With our projected figures for profit/(loss) after tax, we would now estimate the Group's income available for distribution to unitholders. Following distribution adjustments as shown in **Exhibit 25**, the projected income available for distribution to unitholders for FY2021 and FY2022 would be S$14.3 million and S$47.1 million. Assuming all income available for distribution to be distributed, the projected DPU for FY2021 and FY2022 would be 0.19 cents and 0.61 cents respectively, as shown in **Exhibit 25**.

Exhibit 25: Distribution projection for FY2021 and FY2022

[S$'000]	FY2021	FY2022
Total profit for the period after tax before distribution - [A]	15,482	48,248
Add: net adjustments		
Manager's fee payable in the form of units	-	-
Depreciation of plant & equipment	3,233	3,233
Increase in fair values of derivative instrument	-	-
Unrealised foreign exchange losses	-	-
Amortisation of intangible assets	-	-
Amount reserved for distribution to perpetual securities holders	(4,369)	(4,369)
Net adjustments - [B]	(1,136)	(1,136)
Income available for distribution to Unitholders = [A] + [B]	14,346	47,112
Unitholders' distribution		
-as distribution from operations	-	-
-as distribution of unitholders' capital contribution	14,346	47,112
Total unitholders' distribution	14,346	47,112
Distribution per unit (DPU)	0.19	0.61

Source: FPA Financial

VALUATION ANALYSIS

Here, we perform an updated peer comparison analysis to account for the changes in the financial position of the Group and LMIR Trust's peer companies. **Exhibit 26** below summarises the data for the updated peer comparison analysis.

Exhibit 26: Peer comparison analysis

Company	SGX code	Price (S$) as at 2 June 21	Market cap (S$ million)	EPS [1] (Cents)	P/E (x)	DPS [2] (Cents)	Dividend yield (%)	NAV [3] (S$)	P/B (x)
Lippo Malls Indonesia Retail Trust	D5IU	0.064	491.09	(7.91)	n/m	0.30	4.69	0.10	0.64
Peer companies:									
CapitaLand Mall Trust [4]	C38U	2.090	13,523.76	5.40	38.69	8.68	4.15	2.01	1.04
Frasers Centrepoint Trust	J69U	2.390	4,061.64	11.97	19.97	10.37	4.34	2.31	1.03
Sasseur REIT	CRPU	0.915	1,109.07	4.44	20.59	6.97	7.62	0.92	0.99
SPH REIT [5]	SK6U	0.865	2,411.88	(2.83)	n/m	3.48	4.02	0.91	0.95
Peer average	**-**	**-**	**-**	**-**	**-**	**-**	**5.03**	**-**	**1.00**

Figures have been rounded. Companies are Singapore-listed, unless otherwise specified.

(1) 12-month trailing diluted EPS based on latest financial statements

(2) Based on 12-month trailing dividends

(3) As at 31 Mar 21, unless otherwise specified. On a per unit basis.

(4) NAV per unit as at 31 Dec 2020.

(5) NAV per unit as at 29 Feb 2021.

Source: Respective company data, FPA Financial

Based on the results in **Exhibit 26** above, we note that LMIR Trust is currently trading at a P/B multiple of 0.64x which is below the peer average P/B of 1.00x, which may suggest that it is undervalued at the current share price of S$0.064.

Adopting a relative valuation approach, the estimated target price would be S$0.0997 if LMIR Trust were to trade at the peer average P/B multiple of 1.00x.

- Estimated target price = [peer average P/B] x [latest reported NAV] = 1.00 x S$0.0997 = S$0.0997

This estimated target price would represent a 55.8% upside from the current price of S$0.064. However, as noted on page 12, there is currently no major catalyst which could justify upside potential in the share price. Moreover, there could higher perceived risks in the Indonesian economy as compared to Singapore, which could explain the lower valuation multiple for LMIR Trust. Adopting a conservative approach, we believe a smaller upside of 10% could be more reasonable, which would imply a target price of S$0.070.

INVESTMENT RECOMMENDATION

In our last company update issued on 8 September 2020, we highlighted concerns over the negative impact of the Puri Mall acquisition on LMIR Trust's share price, given the need for a rights issue funding which would be dilutive. As expected, the share price has dropped sharply and recently traded at record low levels between S$0.063 and S$0.068.

Based on our peer comparison analysis, LMIR Trust's current P/B multiple of 0.64x is below the peer average P/B of 1.00x. If LMIR Trust were to trade at the peer average P/B multiple of 1.00x, this would imply a target price of S$0.0997 which is a 55.8% upside from the current share price of S$0.064. However, amid a weak operating environment owing to ongoing virus-related concerns and no potential major catalyst in the short to medium term, we believe that there could be limited upside potential in LMIR Trust's share price. Adopting a conservative approach, we estimate a target price of S$0.070 which represents a 10% upside from the current price.

Considering the above, we will revise upward our recommendation to neutral from sell. Our current recommendation considers the improvement in the Group's debt situation and longer-term earnings growth potential from a recovery in the Indonesian retail real estate sector. However, there are risks to our target price which we will highlight in the Risk section on the next page.

RISKS TO THE UPSIDE IN TARGET PRICE

We will highlight below risk factors that could limit the upside in our target price for LMIR Trust.

Global economic slowdown due to continuation of control measures

With the progressive rollout of vaccines globally, the growth outlook for the global economy has improved. Latest April projections by the IMF indicate that the global economy would grow by 6.0% in 2021 after a 3.3% annual contraction in 2020.

However, the global growth outlook is still largely dependent on the how effectively vaccines are being distributed. The pace of distribution is likely to vary across different countries and thus the recovery could be uneven. Countries such as Taiwan, India and Singapore have recently experienced new rounds of virus infection. Against an uncertain virus backdrop, there is a possibility that border controls could remain in place for a prolonged period and limit international travel. Further, extended border control measures could also hinder the global economic recovery. This could have a negative impact on the Group’s revenue and earnings going forward.

Risk of a weak economic recovery in Indonesia

As noted on page 11, the Indonesian economy is expected to rebound in 2021 on the back of vaccination progress and fiscal support. Still, the economic outlook is susceptible to a potential virus resurgence, and in turn renewed lockdowns. In addition, the possibility of a stimulus withdrawal could potentially weigh on the recovery.

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