

S Immo

Embarking on an extensive investment plan

S Immo reported a 10% increase in EPRA net tangible assets (NTA) per share in Q221 to €27.21 (and 13% in H121), supported by c €129m of property revaluation gains, primarily in its German portfolio (72% of H121 gains), including the positive impact from the Berlin rental cap repeal on its residential portfolio. One of its top priorities will be the redeployment of proceeds from the sale of its CA Immo stake and the potential disposal of its IMMOFINANZ stake into new properties. It is also launching a new share buyback programme in September for c 1.36% of its share capital.

Improving rental income and hotel result in Q221

S Immo's funds from operations (FFO1) increased by c 47% y-o-y to €25.6m in Q221, primarily on the back of higher rental income and revenues from operating costs (assisted by acquisitions), with gross margin on rental activity at 82% in Q221 vs 70% in Q220, a gradually recovering result from its owner-operated hotels (supported by COVID-19 subsidies in Austria), and dividend income from CA Immo (which in 2020 was paid in H220). The occupancy rate across S Immo's portfolio was 93.2% in H121 versus 94.4% in H120. Consequently, its EPRA EPS went up to €0.21 versus €0.07 in Q220.

More than €1.0bn to be invested in properties

Following the failed takeover bid from IMMOFINANZ, S Immo's management announced in July 2021 the sale of its 5.96% stake in CA Immo. The proceeds represent dry powder for new property investments of c €450m at a loan-to-value (LTV) of 50% (ie close to S Immo's current LTV level of 45.3%). S Immo is also in discussions to sell its 13.42% stake in IMMOFINANZ, which at the current market price would add a further c €700m of investment capacity. This compares to S Immo's average annual cash outflow for property investments of c €113.2m pa in 2016–20. Consequently, S Immo is embarking on quite an ambitious agenda.

Valuation: Discount to EPRA NTA above peers

Despite the cancelled IMMOFINANZ takeover bid, the company's shares trade close to the offered €22.00 per share. This represents a c 23% discount to the last reported EPRA NTA per share at end-June 2021, which is higher than the current median peer discount of 15%. Based on Refinitiv consensus, S Immo's expected FY21e and FY22e FFO1 yields currently stand at 3.6% and 4.5%, respectively, compared to peer medians of 4.6% and 5.0%, respectively.

Consensus estimates

Year end	Revenue (€m)	EPRA NTA/share (€)	FFO1* (€m)	DPS (€)	P/EPRA NTA (x)	Dividend yield
12/19	210.4	26.23	64.7	0.70	0.8	3.3
12/20	173.9	24.06	42.4	0.70	0.9	3.4
12/21e	187.4	N/A	53.0	0.56	N/A	2.7
12/22e	240.9	N/A	66.0	0.74	N/A	3.5

Source: S Immo, Refinitiv at 2 September 2021. Note: *Funds from operations defined as net income excl. property revaluation/disposal gains, D&A and selected other non-cash charges.

Real estate

2 September 2021

Price €20.90

Market cap €1,538m

Share price graph



Share details

Code	SPI
Listing	Vienna
Shares in issue	73.6m
Net debt (€bn) at end June 2021	1.51
LTV (net) at end June 2021	45.3%

Business description

S Immo is a real estate investment company, with headquarters in Vienna. It invests in Austria, Germany and selected CEE/SEE markets. At end-June 2021, it held properties with a book value of c €2.5bn, including commercial (68%) and residential (30%) properties, as well as land plots (2%).

Bull

- Solid track record as illustrated by NAV total return.
- Extensive experience in leveraging property cycles.
- Moderate LTV and good liquidity.

Bear

- Execution risk associated with the redeployment of proceeds from the sale of stakes in CA Immo and IMMOFINANZ
- Potential impact from the 'work from home' setup on demand for office space.
- Inflationary pressure may trigger interest rate hikes and negative valuation effects.

Analyst

Milosz Papst +44 (0)20 3077 5700
financials@edisongroup.com

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Q221 results: Solid property revaluation gains

S Immo reported a net profit excluding minorities of €126.9m compared to €37.3m in Q220, driven by strong property revaluation gains of €129.0m in Q221 versus €41.8m in Q220. This brought the company's revaluation result in H121 to €131.5m, broadly in line with management's expectations communicated on 6 July 2021 at c €130m. The revaluation of S Immo's German portfolio accounted for 72% of the H121 gains (€94.5m), followed by Austria (€28.9m) and Central and Eastern Europe (CEE; €8.1m) accounting for 22% and 6%, respectively. The residential property portfolio (with 93% of its book value in Germany) was positively revalued by €81.4m assisted, among others, by the German rental cap repeal (see our last [outlook note](#) for details). Management highlighted that the company has already collected most of the difference between the initially contracted and restricted rents in Berlin. S Immo's office portfolio contributed a further €39.8m and its retail portfolio was also positively revalued by €10.8m. S Immo's hotels held as investment property (two hotels in Czech Republic and one each in Romania and Slovakia) were revalued slightly downwards by €0.8m. The remaining €0.3m represents an increase in the value of S Immo's land plots.

FFO1 supported by higher rental income, hotel operations profit and the CA Immo dividend

S Immo's FFO1 stood at €25.6m in Q221 and was up 47% (or by €8.2m) year-on-year, assisted by 1) higher rental income and revenues from operating costs (€6.2m), 2) improved gross operating profit of its hotel operations (€2.1m) and 3) the €4.6m dividend from CA Immo, which in 2020 was paid in the second half of the year due to the postponed annual general meeting (AGM) amid COVID-19. The above was partially offset by a rise in administrative expenses (€4.0m) and other items (€0.7m). Rental income increased by 8.2% y-o-y to €31.9m in Q221, assisted by acquisitions, in particular the Zagrebtower office building in Croatia acquired in October 2020 and properties bought in Germany, as well as the overall good operating performance of existing properties. We note that H121 rental income does not fully reflect the Campus 6.2 and 6.3 office properties in Bucharest (with a rental income of €6.7m pa) as their acquisition was closed in June 2021.

Management expects the occupancy rate to increase

The occupancy rate across the company's property portfolio was slightly down at 93.2% in H121 versus 94.4% in H120, but management expects the rate to increase in the coming quarters as the company has some vacant 'strategic' lettable space in Germany. For example, it is currently in the process of re-letting around 90 residential units in Berlin. The company has not experienced any negative trends in terms of letting activity in its retail portfolio lately. Gross margin on rental activities reached 82% in Q221 versus 70% in Q220 and 75% in Q219. The year-on-year increase was assisted by lower property operating expenses on the back of more limited value adjustments and write-offs of trade receivables (€0.3m in H121 vs €3.4m in H120).

Marriott hotel in Vienna benefiting from COVID-19 subsidies

Hotel operations posted a gross profit of €2.2m in H121 (vs €0.1m in H120), assisted by COVID-19 subsidies in Austria of c €5m in H121 and some recovery in tourism activity. In Q221 alone, gross profit was €3.5m versus a €1.4m loss in Q220. Management highlighted during the Q221 analyst call that the Marriott hotel in Budapest is again profitable, while the hotel in Vienna is gradually returning to profitability. As some smaller conferences are now planned onsite, management expects an improved result from hotel operations in Q321 compared to Q221.

Exhibit 1: Q221 and H121 results highlights

€000s, unless otherwise stated	Q221	Q220	change y-o-y	H121	H120	change y-o-y
Rental income	31,867	29,439	8.2%	63,859	60,572	5.4%
Revenues from operating costs	7,930	6,398	23.9%	17,060	15,996	6.7%
Revenues from hotel operations	8,262	1,269	551.1%	10,156	11,182	-9.2%
Total revenues	48,059	37,106	29.5%	91,075	87,750	3.8%
Other operating income	314	759	-58.6%	1,968	1,086	81.2%
Property operating expenses	(13,640)	(15,233)	-10.5%	(31,895)	(32,076)	-0.6%
Hotel operating expenses	(4,769)	(2,713)	75.8%	(7,962)	(11,052)	-28.0%
Gross profit	29,964	19,919	50.4%	53,186	45,708	16.4%
gross margin on rental activities	82%	70%	12.1pp	77%	73%	3.3pp
gross operating profit on hotel operations	3,493	(1,444)	NM	2,194	130	NM
Gains on property disposals	0	0	NM	0	0	NM
Management expenses	(8,452)	(5,157)	63.9%	(13,582)	(9,583)	41.7%
EBITDA	21,512	14,762	45.7%	39,604	36,125	9.6%
D&A	(2,383)	(2,240)	6.4%	(4,733)	(4,529)	4.5%
Results from property valuation	128,997	41,765	208.9%	131,477	10,226	1185.7%
EBIT	148,126	54,287	172.9%	166,348	41,822	297.8%
Financing cost	(7,604)	(10,298)	-26.2%	(14,662)	(24,155)	-39.3%
Financing income	8,718	412	2016.0%	10,241	979	946.1%
of which: dividend income	6,341	0	NM	6,341	0	NM
Results from companies measured at equity	2,051	1,311	56.4%	2,199	1,364	61.2%
Financial result	3,165	(8,575)	NM	(2,222)	(21,812)	NM
Pre-tax profit	151,291	45,712	231.0%	164,126	20,010	720.2%
Income taxes	(23,877)	(8,185)	191.7%	(26,818)	(3,903)	587.1%
Consolidated net income	127,414	37,527	239.5%	137,308	16,107	752.5%
attributable to shareholders in parent	126,872	37,297	240.2%	136,746	15,858	762.3%
attributable to non-controlling interests	542	230	135.7%	562	249	125.7%
Earnings per share (€)	1.79	0.52	244.2%	1.93	0.22	777.3%
EPRA EPS (€)	0.21	0.07	200.0%	0.30	0.17	76.5%

Source: S Immo accounts

Retaining a sound balance sheet

S Immo's LTV stood at 45.3% at end-June 2021, slightly down versus the 46.8% at end-2020. Its average cost of funding was down to 2.17% in H121 versus 2.29% in FY20, with bank loans at 1.24% and bonds at 2.13%. This was assisted by the issue of the €150m green bond (at a coupon rate of 1.75%) in February 2021.

EPRA NTA total return at 10% in Q221

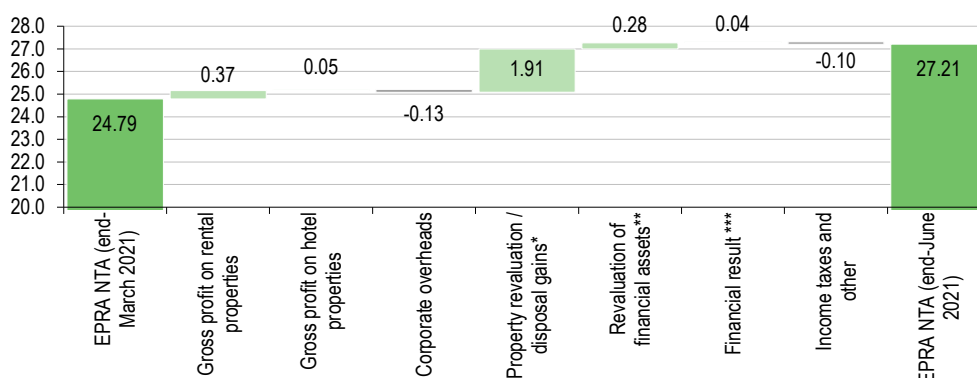
S Immo's EPRA NTA per share reached €27.21 at end-June 2021, increasing by c 10% versus end-March 2021 (see Exhibit 2) and 13% versus end-2020. This was primarily driven by the above-mentioned property revaluation gains, which together with the change in value of S Immo's owner-operated Marriott hotels (which is reflected in the EPRA NTA but not in the P&L) added €1.91 to the company's EPRA NTA per share in Q221. This was further assisted by the c 9% price appreciation of IMMOFINANZ's shares during the quarter, partially offset by a slight 3% decline in CA Immo's share price (translating into a combined net €19.7m increase in the value of S Immo's minority stakes in both companies). After reporting date, IMMOFINANZ's share price is up by a further 13%.

While CA Immo already paid a dividend to S Immo this year (as highlighted above), IMMOFINANZ will hold its AGM on 19 October 2021. Its executive and supervisory boards have recently passed a resolution to increase the dividend recommendation from €0.55 to €0.75 per share (the company did not pay a dividend last year and it paid €0.85 per share in FY19). The new FY21 dividend recommendation would translate into a c €12.4m distribution to S Immo, assuming the company does not sell its IMMOFINANZ stake before the ex-dividend date (see below).

The company refrained from repurchasing any shares during the IMMOFINANZ public takeover offer period. The latter announced its intention to acquire S Immo on 14 March 2021 and published the offer document on 19 May 2021 (see our [outlook note](#) for details), but eventually cancelled the

bid in late June 2021. As a result, no S Immo shares were repurchased in Q221 as part of S Immo's buyback programme, which was completed on 30 June 2021. Together with the Q221 results, S Immo has announced the start of a new buyback programme with a total volume of up to 1m shares (in line with the previous programme), which represents c 1.36% of S Immo's share capital. It will be conducted between 2 September 2021 and 31 December 2021 and the maximum repurchase price will not be more than 15% above the average volume-weighted daily closing price on the Vienna Stock Exchange over the 10 trading days preceding the relevant repurchase and must not exceed €22.50.

Exhibit 2: S Immo's Q221 EPRA NTA growth decomposition (€/share)



Source: S Immo data, Edison Investment Research. Note: *Includes revaluation of owner-operated hotels. **Includes predominantly S Immo's stakes in IMMOFINANZ and CA Immobilien Anlagen, as well as some minor group interests. ***Includes the dividend from CA Immobilien Anlagen.

Sale of minority stakes in CA Immo and IMMOFINANZ

S Immo's CEO Bruno Ettenauer had declared earlier that if IMMOFINANZ fails to acquire the company, S Immo would sell its 5.96% and 13.42% stakes in CA Immo and IMMOFINANZ, respectively. On 12 July 2021 (ie soon after IMMOFINANZ cancelled its takeover bid), S Immo announced that it intends to tender the CA Immo shares into the takeover offer of SOF-11 Klimt, a company controlled by Starwood Capital Group. The latter held a c 28% stake in CA Immo at end-2020 and launched a takeover bid for the remaining shares earlier this year, with an acceptance rate during the main acceptance period of only 3.71% of the tendered shares and 40.55% of the tendered convertibles. At that time, a number of shareholders considered the offer price of €36.00 too low given that it was at a c 11% discount to the diluted EPRA net asset value (NAV) per share at end-2020. Consequently, on 2 July 2021 (before the end of the additional acceptance period), Starwood increased the offer price to €37.00 per share (ie by €2.00 per share after adjusting for the dividend pay-out), which S Immo decided to accept.

The price represents a c 10% discount to the last reported EPRA NTA at that time (ie as at end-March 2021) and an 11% discount to the EPRA NTA at end-June 2021 (published in August). This discount is somewhat lower than the median discount to last reported EPRA NTA of 15% at which comparable companies are currently traded (see below) and we also note that CA Immo traded at around €35.00 per share before the increase in Starwood's offer price. S Immo generated a pre-tax disposal gain of almost €100m throughout the investment period (ie from 2016). We estimate that the sale also resulted in a minor uplift to S Immo's EPRA NTA as at end-June 2021 of c 0.6%.

Above-average investments needed to redeploy the proceeds

S Immo's management expects to receive pre-tax cash proceeds from the sale of its stake in CA Immo of around €234.6m (and expects cash taxes of c €4–10m). Together with the €127.8m cash and cash equivalents at end-June 2021, this represents considerable firepower for new investments. Assuming a 50% LTV ratio, the CA Immo sale proceeds alone are the equivalent of

c €450m property investments, which compares to S Immo's average 2016–20 annual cash outflow for investments in its property portfolio of c €113.2m. As highlighted in our [outlook note](#), a persistent low-interest rate environment and continued macroeconomic recovery would be expected to keep investor demand for real estate high and could slow down the redeployment of the proceeds (due to a more limited number of attractive investment opportunities), resulting in a certain cash drag on S Immo's near- to medium-term NAV total return. Management highlighted that it is actively exploring new investment opportunities, most notably in Budapest and Bucharest. In the Hungarian capital city, it has investments in the higher double-digit euro million range under review (with exclusivity on current options until end of September 2021) and management is optimistic that it will close first deals before the end of 2021. In Bucharest, it has signed letters of intent covering c 50k sqm of lettable space, but here management does not expect to close the first deals in Bucharest before early 2022.

Eyeing the disposal of IMMOFINANZ stake until end 2021

S Immo's management highlighted that it sees great appetite for its minority stake in IMMOFINANZ. Based on the current share price, the stake is valued at around €355.4m, while the company's last reported EPRA NTA per share as at end-June 2021 implies a valuation at €496.4m (the shares currently trade at a c 28% discount to EPRA NTA). A successful disposal this year at the current market price would add a further c €700m property investment capacity (at a 50% LTV). We also note that on 26 August 2021, IMMOFINANZ announced that it will exercise its right to an early mandatory conversion on 26 September 2021 of its 4.00% mandatory convertible notes issued in July 2020, in which S Immo invested €18m. The conversion price stands at €17.1472 versus IMMOFINANZ's last closing price at €21.48.

Valuation

For valuation purposes we have prepared a peer group of real estate investment companies active in S Immo's end markets. These include its two closest domestic competitors: CA Immobilien Anlagen and IMMOFINANZ. Both companies invest in commercial properties, with the former specialising in office buildings in the capital cities across Central European countries, while the latter has a broader focus comprising retail properties in the seven core markets in CEE: Austria, Germany, Poland, Czech Republic, Slovakia, Hungary and Romania. Given a significant part of S Immo's portfolio is located in Germany, we have added local comparators including LEG Immobilien and Grand City Properties, focused on residential units located around the largest and up-and-coming cities. We have also added TLG Immobilien and Demire, which manage portfolios of commercial properties (mainly office and retail), with the former also holding hotel properties in Germany.

Exhibit 3: Peer group valuation

Company name	Market cap (€m)	P/EPRA NTA (x) at end-June 2021	FFO1 yield (%)			Dividend yield (%)	
			2021e	2022e	2023e	2021e	2022e
CA Immobilien Anlagen	3,689	0.88	3.5	3.8	4.2	2.9	3.0
IMMOFINANZ	2,498	0.72	4.8	5.3	5.5	3.7	4.1
LEG Immobilien	9,746	0.94	4.6	5.0	5.2	3.0	3.2
TLG Immobilien	2,872	0.80	N/A	N/A	N/A	2.9	2.8
Grand City Properties	3,872	0.85	5.0	5.3	5.6	3.6	3.8
Demire	453	0.83	9.9	10.9	11.9	4.5	5.0
Peer median	-	0.85	4.6	5.0	5.2	3.3	3.5
S Immo	1,538	0.77	3.6	4.5	5.0	2.7	3.5
Premium/(Discount) to peers	-	(9%)	(98bp)	(51bp)	(22bp)	(66bp)	0bp

Source: Company accounts, Refinitiv. Note: Priced at 2 September 2021.

It is instructive to review the key market multiples at which S Immo and its peers are trading. As we have not prepared our own forecasts for S Immo, we have examined the P/EPRA NTA ratio based on last reported figures (as EPRA NTA consensus estimates are not available on Refinitiv at

present), as well as the FFO1 yield and dividend yield, calculated on Refinitiv consensus data for 2021 to 2023.

All peers currently trade at a discount to their last reported EPRA NTA, though to a different extent, which is likely at least partially a function of their varying levels of sector exposure. The discount ranges from just 6% for the pure-play residential company LEG Immobilien, to 28% for IMMOFINANZ, which has the highest exposure to retail properties in the group (34.6% at end June 2021). S Immo is trading at a P/EPRA NTA ratio of 0.77x, which represents a 9% discount to the peer group. In this context, we note S Immo's limited exposure to retail, but more significant exposure to hotel properties. At the same time, S Immo's FFO1 yield (calculated as FFO1 divided by the current share price) is somewhat below the peer median. We believe that S Immo's Refinitiv consensus may not fully factor in the re-deployment of proceeds from the announced disposal of S Immo's minority stake in CA Immo and the planned sale of its stake in IMMOFINANZ. Historically, S Immo's minority holdings influenced its FFO1 yield, as the performance of both CA Immo and IMMOFINANZ attributable to S Immo's stake was only reflected through dividend income.

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