

S Immo

Real estate

14 October 2020

Successfully exploiting property market cycles

S Immo has a track record of cleverly anticipating regional/sectoral real estate cycles in Europe. This includes the expansion into CEE in the early 2000s, later investments in the German residential and office markets and subsequent diversification outside of Berlin. Its active approach has allowed the company to post five- and 10-year EPRA NAV total returns (TR) to end-2019 of c 23% and 14% pa, respectively. Its current focus is on secondary German residential and office markets (eg Erfurt) and selective CEE investments. In the longer term, it plans to pursue development projects using its extensive landbank in the Berlin commuter belt.

EPRA NAV down c 10% in H120 due to listed holdings

S Immo reported an EPRA NAV of €23.78 per share at end June 2020 vs €26.45 at end 2019, with the decline largely attributable to the lower share prices of its minority stakes in IMMOFINANZ and CA Immo (down 36% and 21% in H120, respectively, despite broadly stable EPRA NAV). S Immo's portfolio saw a varying degree of impact from the COVID-19 crisis in H120, with hotel operations (including also its two owner-operated Marriott hotels) facing the greatest headwinds alongside retail properties. Conversely, residential and office properties remained largely unaffected and were even subject to positive revaluations of €19.5m and €12.0m in H120, respectively (driven by yield compression).

Retaining a strong balance sheet

S Immo's rental income in Q220 reached €29.4m (down by only c 1% y-o-y). Rent collection in the office and residential segments remained strong (c 95% for offices), while retail (including in particular its Sun Plaza shopping centre in Bucharest) saw a greater impact of lockdown. The company's balance sheet remains robust with a moderate net LTV of 44.6% and a cash position of c €224m at end June 2020. Part of the cash has already been spent post the balance sheet date on the acquisition of the Zagrebtower office complex in Croatia, share buyback and equity/convertible investments in IMMOFINANZ. S Immo will also pay a dividend of €0.70 per share out of FY19 earnings (implying a yield of 4.6%).

Valuation: Discount to FY20e NAV of c 17%

S Immo shares are currently trading at an FY20e P/NAV of 0.8x (based on Refinitiv consensus), which sits on par with its peer group. Furthermore, S Immo trades broadly in line with peers on FY21e and FY22e multiples (up to 10% premium based on FY22e figures). The shares offer funds from operations yields of 4.2% and 5.2% based on FY20e and FY21e numbers, respectively.

Consensus estimates

Year end	Revenue (€m)	EPRA NAV/share (€)	FFO1 (€m)	DPS (€)	P/NAV (x)	Yield (%)
12/19	210.4	26.45	64.7	0.70	0.6	4.6
12/20e	184.1	20.37	47.2	0.52	0.8	3.4
12/21e	204.3	20.41	58.6	0.64	0.8	4.2
12/22e	212.9	20.66	66.0	0.69	0.8	4.5

Source: S Immo data, Refinitiv consensus at 12 October 2020

Price €15.2
Market cap €1,117m

Share price graph



Share details

Code	SPI
Shares in issue	73.6m
Net debt at 30 June 2020	€1.29bn

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 2020, it held properties with a book value of around €2.4bn, including office (42%), residential (30%), retail (19%) and hotel properties (9%).

Bull

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

Bear

- Impact from COVID-19, in particular on hotel and retail properties.
- Risk of decline in property valuations and rental income amid a recession.
- Rental cap in Berlin from 2020 and possibly also in other German cities in the future.

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