

Fever-Tree plc (FEVR LN)

Cover

Core UK shopping centres trading at a large discount to NAV

Long – May 2019



Rank	Centre	Location
1	Westfield London	London - Shepherds Bush
2	Westfield Stratford City	London - Stratford
3	Bluewater	Greenhithe
4	Intu Trafford Centre	Manchester
5	Intu Lakeside	Thurrock
6	Intu Metrocentre	Gateshead
7	Meadowhall	Sheffield
8	Intu Merry Hill	Brierley Hill
9	the centre: mk ¹	Milton Keynes
10	Bullring	Birmingham

Rank	Centre	Location
11	St David's	Cardiff
12	Brent Cross	London
13	Canary Wharf Shopping Centre	London - Canary Wharf
14	Intu Braehead	Glasgow
15	Liverpool One	Liverpool
16	Manchester Arndale	Manchester
17	Festival Place	Basingstoke
18	Cribbs Causeway	Bristol
19	East Kilbride Shopping Centre	East Kilbride
20	The Centre	Livingston

Scheme name ¹	City, Town	Total GLA ² (sqm)	Year opened	Units
Diagonal Mar	Barcelona	87,085	2001	197
Gran Plaza 2	Madrid	57,500	2012	200
Intu Asturias	Oviedo	120,000	2001	156
La Cañada	Marbella	120,000	1997	210
La Maquinista	Barcelona	76,200	2000	227
La Vaguada	Madrid	85,500	1983	252
L'illa Diagonal	Barcelona	35,000	1993	172
Intu Xanadú	Madrid	152,887	2003	220
Parquesur	Madrid	151,200	1989	216
Intu Puerto Venecia	Zaragoza	200,000	2012	206



Intu Properties plc (INTU LN)

Executive Summary

Investment Thesis

- Intu Properties plc (INTU LN) trades at 94p/sh which reflects a £1,263m market cap and a £6,691m market-implied property value. At this price, the market assumes an unjustifiably large decline in the value of UK retail and/or a large fall in earnings (sustainable EPRA earnings are 14p/sh giving an earnings yield of 15%, but board has stopped paying a dividend in order to repay debt – LTV increased to 53% due to a fall in valuations per Dec 2018 year-end).
- Our valuation with fairly negative assumptions arrives at 157p (£2,106m), at NAV level, which is a 67% upside. At the more relevant EPRA NAV level, the **valuation is 171p (£2,302m)** implying a **82% upside**.
- Assuming a flat valuation at EPRA NAV level, no dividend for 2019-2020 and a dividend of 9p thereafter and a holding period of 5 years, the investment generates an IRRs of 16% (or 14% and 12% assuming the share price settles at a 10% and 20% discount to the valuation respectively).

Company Description

- Intu is a UK REIT holding some of the largest and best known shopping centres in the UK like the Trafford Centre, Lakeside, Merry Hill, and Metrocentre. It has re-branded all centres with “intu” and pursues a strategy of increasing dwell time and actively working with retailers to provide a positive shopping experience to its customers.
- Intu owns and operates 6 super-regional centres (66% of Dec 2018 portfolio valuation), 6 major city centres (27%), and 3 shopping centres in Spain (7%). Total area is c. 20,839,000 sf.
- The centres seem to be well run with an occupancy of 97%, 7.2 year WAULT and 5% under-rent.
- Intu has a development pipeline of centre expansions and new projects but these are not valued.

Valuation

- Our valuation assumes a slight decline in occupancy to 95%, a 10% fall in ERV, and no growth of in-place rents and ERV.
- Rents fall from £528m in 2018 to £516m in 2033 (-2% cumulative nominal; -27% real) and as costs increase with inflation the gross to net percentage falls from 85% to 75%. Net rental income (NRI) falls from £451m in 2018 to £387m in 2033 (-14% cumulative nominal; -36% real).
- Assuming an exit at 5.1% NIY in 2033 and a required 5.0% holding period IRR, the **property valuation is £7,534m**.

Intu Properties plc (INTU LN)

Executive Summary (cont.)

Valuation (cont.)

- While we believe that the third party valuations on the balance sheet are on the high end, especially with respect to yields, it is noteworthy that Intu trades at a 67% discount or 202% upside to Dec 2018 NAV (=common equity) of 284p/sh (£3,812m) which already reflects a reduction in valuation compared to 2017 NAV of 378p (£5,075m).
- EPRA NAV adjusts common equity for fair value of financial instruments and corresponds to a “going concern” net asset value. Dec 2018 EPRA NAV was 298p/sh (£4,007m) while Dec 2017 EPRA NAV was 378p/sh (£5,075m).
- EPRA NNNAV is assumes all financial instruments are closed out at fair value and all assets are sold at valuation. Although not a “liquidation” valuation, it is a valuation of the business if sold today. Dec 2018 EPRA NNNAV was 271p/sh (£3,641) and Dec 2017 EPRA NNNAV was 349p/sh (£4,696m).

Risks

- UK retail – large format shopping centres become largely obsolete as online shopping replaces “going to the mall”.
- UK consumer – Inflation above wage growth, low productivity gains and an overindebted consumer is shopping less.
- Brexit – the investment market for big ticket shopping centres loses attractiveness and liquidity is further reduced.
- Take over – major shareholders (27% Peel Holdings, 22% Coronation, and 6% Gordon family) decide to sell below valuation. They approved Hammerson’s Q1 2018 share bid of 253p/sh (£3,400m) which Hammerson subsequently withdrew. In Q4 2018 a consortium of Peel Holdings, the Olayan Group and Brookfield Property Group bid 210p/sh (£2,822m) in cash – Intu’s board supported the bid, but the consortium abandoned its bid amid “uncertainty around current macroeconomic conditions and the potential near-term volatility across markets”.

Intu Properties plc (INTU LN)

Valuation, NAV, EPRA NAV, etc.

EV to Equity Value

- Intu's balance sheet is simple, but its JV interests can cloud the comparison. Properties in JVs are shown on the balance sheet as one line at the value of their net assets ("BS view"). However, it is more insightful to show the proportionate assets and liabilities ("Group+JV").
- NAV is not impacted whether JVs are shown as net assets or gross assets and liabilities, but sensitivities and scenarios are impacted.
- "BS view" vs. "Group+JV" for Dec 2018:
 - Properties: £8,022m vs. £9,130m
 - JV: £824m vs. £0m
 - Borrowings: £5,035m vs. £5,331m
 - NAV (=common equity): £3,812m vs. £3,812m

	Group+JV	BS view	BS view	Group+JV	Group+JV
		FY2017 BS	FY2018 BS	FY2017	FY2018
Market cap	1,263	5,075	3,812	5,075	3,812
Borrowings	5,331	4,998	5,035	5,298	5,331
Derivative financial instruments	289	348	285	350	289
Liabilities associated with assets classif	-	6	-	6	-
Other liabilities	374	314	298	390	374
Non-controlling interests	16	54	13	57	16
Debt (incl derivatives, other liabilities & c)	6,010 A	5,720	5,631	6,102	6,010
Cash and cash equivalents	(274) B	(228)	(240)	(278)	(274)
Joint ventures	-	(736)	(824)	-	-
Derivative financial instruments	-	(0)	(4)	(1)	(4)
Assets classified as held for sale	-	(309)	-	(309)	-
Other assets	(307)	(342)	(353)	(397)	(413)
Other assets (incl AFS)	(307) C	(1,387)	(1,181)	(706)	(417)
EV (mkt implied)	6,691				

	OpModel	FY2017 BS	FY2018 BS	FY2017	FY2018
GAV	7,534	9,179	8,022	10,193	9,130
EV to Equity	(5,428) A+B+C	(4,104)	(4,210)	(5,118)	(5,318)
NAV	2,106	5,075	3,812	5,075	3,812
NAV/sh	1.57	3.78	2.84	3.78	2.84

Valuation (Operating Model)

GAV	<i>Property</i>	100%	7,534
GAV/sh			5.61
EV to Equity			(5,428)
NAV			2,106
NAV/sh			1.57
EPRA NAV			
Fair value of derivative financial instrum			97
Deferred tax on investment and develop			18
Share of joint ventures' items			9
Non-controlling interest recoverable bal			71
Adjustments (diluted NAV to EPRA NA			196
EPRA NAV			2,302
EPRA NAV/sh			1.71

EPRA NNNAV		
EPRA NAV		2,302
Fair value of derivative financial instrum		(97)
Excess of fair value of borrowings over		(207)
Deferred tax on investment and develop		(18)
Share of joint ventures' items		(52)
Non-controlling interests in respect of tl		7
Adjustments (EPRA NAV to EPRA NN		(367)
EPRA NNNAV		1,935
EPRA NNNAV/sh		1.44

EV/GAV		89%
Mkt cap/NAV		60%
Mkt cap/EPRA NAV		55%
Mkt cap/EPRA NNNAV		65%

Upside to		
GAV	<i>property basi</i>	13%
NAV	<i>equity basi</i>	67%
EPRA NAV	<i>equity basi</i>	82%
EPRA NNNAV	<i>equity basi</i>	53%

Intu Properties plc (INTU LN)

Operating Model

- In-place rent of existing leases expires in line with 7.5yr WAULT (i.e. all leases expire over next 15 years).
- Occupancy falls to a target of 95% in 2023 (since 2009 occupancy avg. c. 96%+; low of 95% in 2013 & 2014).
- Assumed a 10% fall in ERV so that current 3%* under-rent in 2018 turns into a 8% over-rent.
- As in-place rents expire, new leases are entered at ERV (after 15 year i.e. in 2033 leased-up is at ERV).
- No growth of in-place rents and ERV.
- Rent falls from £528m in 2018 to £516m in 2033 (nominal fall of 2%; at 2% inflation the real fall is 27%).
- Rent payable (ground rent), net SC leakage, and other non-recoverable costs grow by inflation resulting in the gross to net percentage falling from 85% to 75%.
- Net rental income (NRI) falls from £451m in 2018 to £387m in 2033 (-14% nominal; -36% real).
- In 2033 the portfolio is sold at the highest net initial yield (EPRA) each asset experienced since 2008 less 50bps. On a portfolio level the highest NIY was 5.6% and thus assumed NIY at exit is 5.1%.
- Valuation today is set to achieve a 5% IRR over the holding period. This results in a valuation of £7,534m in 2018.

Financial Year	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2033E
Occupancy	95.7%	95.6%	95.9%	96.5%	96.2%	95.9%	95.6%	95.3%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Lease-up %	-	-	-	-	7%	13%	20%	26%	33%	39%	45%	52%	58%	64%	70%	76%	82%	94%
ERV (assuming Full Occupancy)	531	543	544	566	509	509	509	509	509	509	509	509	509	509	509	509	509	509
Potential Rent (assuming Full Occupancy)	537	557	570	547	549	551	554	556	558	560	562	565	567	569	571	573	576	544
Rent vs. ERV	1%	3%	5%	(3%)	8%	8%	9%	9%	10%	10%	10%	11%	11%	12%	12%	13%	13%	7%
In-place Rent	-	-	-	528	495	462	429	396	363	330	297	264	231	198	165	132	99	33
Occupancy Impact	-	-	-	-	(2)	(3)	(4)	(5)	(6)	(5)	(5)	(4)	(4)	(3)	(3)	(2)	(2)	(1)
Lease-up Rent	-	-	-	-	35	70	104	139	173	207	242	277	311	346	380	415	449	484
Rent Receivable	514	533	546	528	528	529	529	530	530	532	534	536	538	541	543	545	547	516
Rent Payable	(22)	(25)	(21)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(14)
SC costs and facility mgmt, net	(14)	(16)	(19)	(19)	(17)	(19)	(21)	(23)	(25)	(26)	(26)	(27)	(27)	(28)	(29)	(29)	(30)	(31)
Other non-recoverable costs	(50)	(44)	(47)	(44)	(54)	(58)	(61)	(65)	(69)	(71)	(72)	(74)	(75)	(77)	(78)	(80)	(81)	(85)
Net Rental Income (NRI)	428	447	460	451	443	438	432	427	421	421	421	421	421	421	421	421	421	387
Rent Payable %	4%	5%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
SC costs and facility mgmt, net %	3%	3%	3%	4%	3%	4%	4%	4%	5%	5%	5%	5%	5%	5%	5%	5%	5%	6%
Other non-recoverable costs %	10%	8%	9%	8%	10%	11%	12%	12%	13%	13%	14%	14%	14%	14%	14%	15%	15%	16%
Net Rental Income (NRI) %	83%	84%	84%	85%	84%	83%	82%	81%	79%	79%	79%	79%	78%	78%	78%	77%	77%	75%
Purchase Price (NIY)				7,534	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Rental Income (NRI)				-	443	438	432	427	421	421	421	421	421	421	421	421	421	387
Gross Disposal Price				-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,553
Cash Flow (CF)				(7,981)	443	438	432	427	421	421	421	421	421	421	421	421	421	7,826

* Intu does not publish ERVs per property so the model compares rents grossed-up by occupancy vs. ERV which is different to the portfolio level rent vs. ERV by Intu which results in a 5% underrent for 2018.

Intu Properties plc (INTU LN)

Valuation based on Operating Model & Sensitivities

Valuation

- Property is worth £7,534m GAV (= gross asset value).
- NAV shows the balance sheet value of common equity of £2,106m (157p/sh).
- EPRA NAV is the continuing value which adjusts BS NAV.
- EPRA NNNAV includes adjustments for the fair value of derivatives, borrowings, and deferred taxes. While EPRA does not refer to NNNAV as “liquidation value”, the deduction reflect liabilities which need to be repaid at disposal.

GAV	7,534
EV to Equity	(5,428)
NAV	2,106
NAV/sh	1.57
Adjustments (diluted NAV to EPRA N)	196
EPRA NAV	2,302
EPRA NAV/sh	1.71
Adjustments (EPRA NAV to EPRA N)	(367)
EPRA NNNAV	1,935
EPRA NNNAV/sh	1.44

		Property Valuation								
ERV gross		ERV Growth								
		(2.0%)	(1.5%)	(1.0%)	(0.5%)	-	0.5%	1.0%	1.5%	2.0%
623	110%	6,827	7,311	7,826	8,373	8,955	9,574	10,232	10,931	11,674
594	105%	6,553	7,019	7,514	8,041	8,600	9,195	9,827	10,499	11,213
566	100%	6,279	6,727	7,202	7,708	8,245	8,816	9,422	10,067	10,752
538	95%	6,006	6,435	6,891	7,375	7,890	8,437	9,018	9,635	10,291
509	90%	5,732	6,143	6,579	7,042	7,534	8,057	8,613	9,203	9,830
481	85%	5,459	5,851	6,267	6,709	7,179	7,678	8,208	8,771	9,369
453	80%	5,185	5,559	5,955	6,377	6,824	7,299	7,803	8,339	8,908
425	75%	4,911	5,267	5,644	6,044	6,469	6,920	7,399	7,907	8,447
396	70%	4,638	4,974	5,332	5,711	6,114	6,541	6,994	7,475	7,986

vs. FY18 ERV

		EPRA NAV								
ERV gross		ERV Growth								
		(2.0%)	(1.5%)	(1.0%)	(0.5%)	-	0.5%	1.0%	1.5%	2.0%
623	110%	1,594	2,078	2,593	3,141	3,723	4,341	4,999	5,698	6,441
594	105%	1,320	1,786	2,282	2,808	3,367	3,962	4,594	5,266	5,980
566	100%	1,047	1,494	1,970	2,475	3,012	3,583	4,190	4,834	5,519
538	95%	773	1,202	1,658	2,142	2,657	3,204	3,785	4,402	5,058
509	90%	500	910	1,346	1,810	2,302	2,825	3,380	3,970	4,597
481	85%	226	618	1,034	1,477	1,947	2,446	2,975	3,538	4,136
453	80%	(48)	326	723	1,144	1,591	2,066	2,571	3,106	3,675
425	75%	(321)	34	411	811	1,236	1,687	2,166	2,674	3,214
396	70%	(595)	(258)	99	478	881	1,308	1,761	2,243	2,753

vs. FY18 ERV

		EPRA NAV/sh								
ERV gross		ERV Growth								
		(2.0%)	(1.5%)	(1.0%)	(0.5%)	-	0.5%	1.0%	1.5%	2.0%
623	110%	1.19	1.55	1.93	2.34	2.77	3.23	3.72	4.24	4.79
594	105%	0.98	1.33	1.70	2.09	2.51	2.95	3.42	3.92	4.45
566	100%	0.78	1.11	1.47	1.84	2.24	2.67	3.12	3.60	4.11
538	95%	0.58	0.89	1.23	1.59	1.98	2.38	2.82	3.28	3.76
509	90%	0.37	0.68	1.00	1.35	1.71	2.10	2.52	2.95	3.42
481	85%	0.17	0.46	0.77	1.10	1.45	1.82	2.21	2.63	3.08
453	80%	(0.04)	0.24	0.54	0.85	1.18	1.54	1.91	2.31	2.73
425	75%	(0.24)	0.03	0.31	0.60	0.92	1.26	1.61	1.99	2.39
396	70%	(0.44)	(0.19)	0.07	0.36	0.66	0.97	1.31	1.67	2.05

vs. FY18 ERV

Intu Properties plc (INTU LN)

Simplistic Holding Return

Assumptions

- Value assumed flat at EPRA NAV as per Operating Model.
- Share price moving to 80% of value by 2021; i.e. share price slowly rises.
- No dividend for 2019-2020 and 9p (2/3 of avg. of last 9 yrs. EPRA earnings) thereafter.

		12/2018	12/2019	12/2020	12/2021	12/2022	12/2023
Value - EPRA NAV/sh	2	1.71	1.71	1.71	1.71	1.71	1.71
<i>Value growth</i>			-	-	-	-	-
Share price		0.94	1.05	1.16	1.37	1.37	1.37
<i>Share price / value</i>		55%	61%	67%	80%	80%	80%
Value target	80%	12/2021					
Purchase / Sale	12/2023	(0.94)	-	-	-	-	1.37
Dividends			-	-	0.09	0.09	0.09
<i>Dividend yield (DY)</i>			-	-	6.3%	6.3%	6.3%
<i>Dividend change</i>			(100%)	-	(33%)	-	-
CF		(0.94)	-	-	0.09	0.09	1.46

Return

- Sale after a 5 year hold in 2023 at 137p (=80% of 171p).
- 69p profit and 12% IRR.

Investment	0.94
Profit	0.69
Multiple	1.7x
IRR	12%

IRR

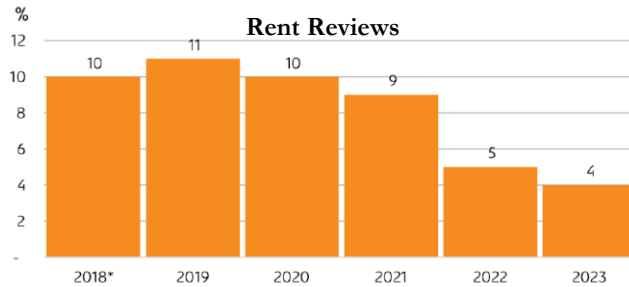
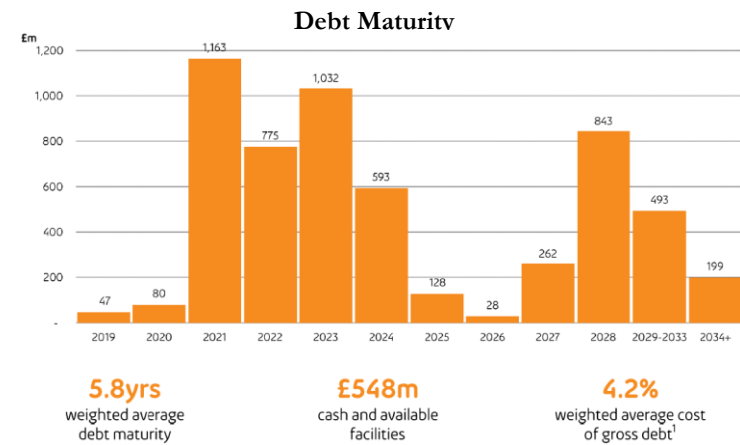
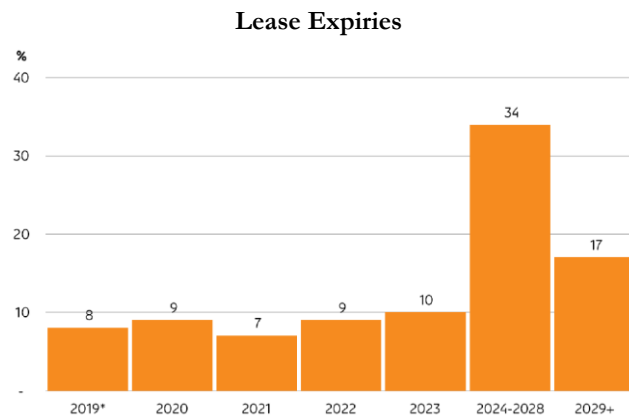
Exit	Value Target (Share Price/Value*)						
	70%	75%	80%	85%	90%	95%	100%
2019	7%	9%	11%	14%	16%	18%	21%
2020	7%	9%	11%	13%	15%	17%	19%
2021	11%	13%	16%	18%	20%	22%	24%
2022	10%	12%	13%	15%	16%	18%	19%
2023	10%	11%	12%	13%	14%	15%	16%
2024	9%	10%	11%	12%	13%	14%	15%
2025	9%	10%	11%	11%	12%	13%	13%
2026	9%	10%	10%	11%	11%	12%	13%
2027	9%	9%	10%	10%	11%	11%	12%
2028	9%	9%	10%	10%	10%	11%	11%

* Value assumed to be EPRA NAV/sh

Intu Properties plc (INTU LN)

Other Potential Issues

- Over-rented? No, 8% under-rented. Rent reviews and expiries spread out over time.
- Over levered? 53%+ LTV is on the higher end for REITs, but based on the quality of the assets should not be an issue. No immediate debt maturities.



LTV Covenant Headroom

Centre	Debt £m	LTV at 31 Dec 2018	LTV covenant	Covenant shortfall (£m)			
				-10%	-15%	-20%	-25%
Total capital reduction from 31 December 2017->				-22%	-26%	-31%	-35%
intu Uxbridge	26.0	65%	70%	0.8	2.2	3.6	5.0
Sprucefield	25.2	57%	65%		0.9	2.3	3.8
St David's, Cardiff	163.2	55%	65%		0.5	10.0	19.6
intu Chapelfield	74.0	55%	65%		0.3	4.6	8.9
intu Merry Hill	478.1	62%	75%			12.3	41.4
intu Milton Keynes	140.5	55%	65%			7.1	15.5
intu Deventure ¹	231.4	186%	150%			3.3	24.8
intu Trafford Centre	250.0	49%	65%				3.3
intu Xanadu	131.5	49%	65%				0.2
SGS ²	1,501.8	57%	80%				
Total				0.8	3.9	43.2	122.5

Intu Properties plc (INTU LN)

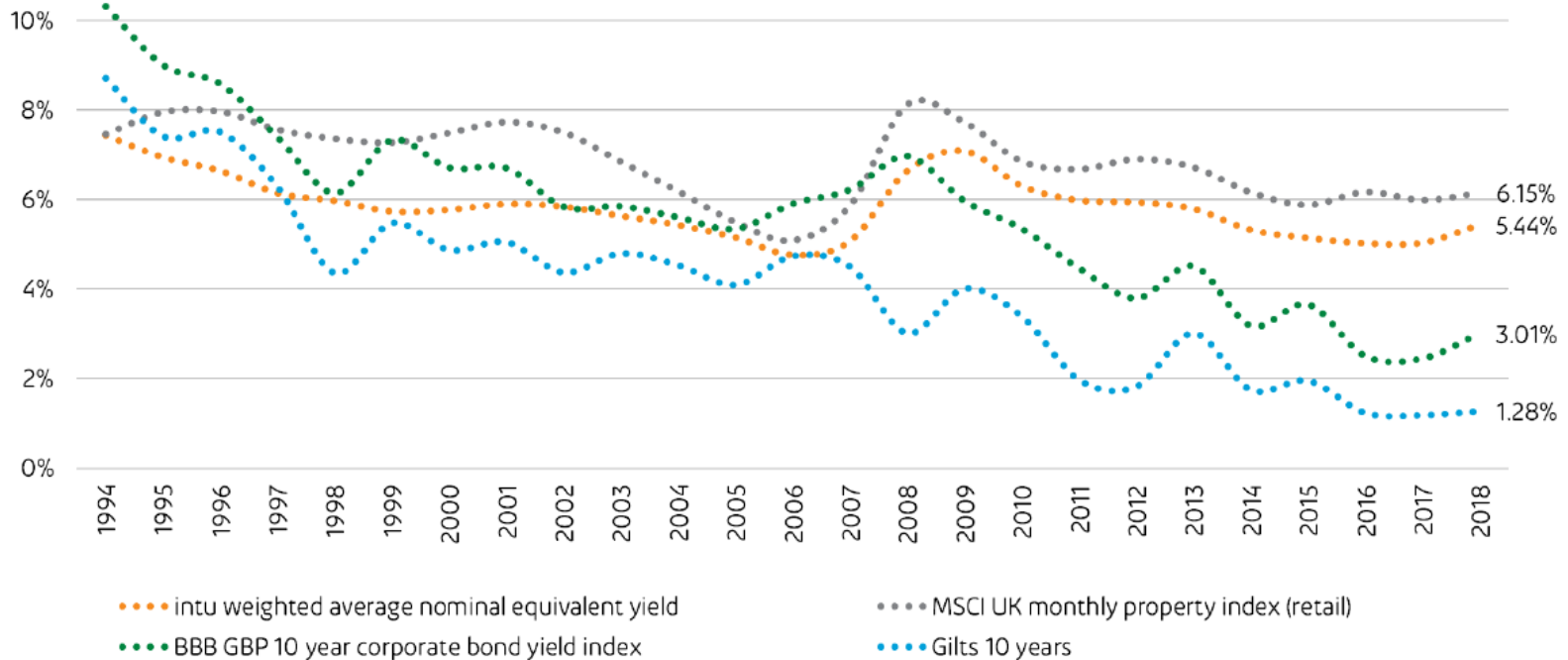
Appendix

- Yields & Transaction Volume
- Shopping Centre Pipeline
- UK Retail in Administration
- Struggling UK Consumer
- Intu Outperformance

Intu Properties plc (INTU LN)

Appendix – Yields & Transaction Volume

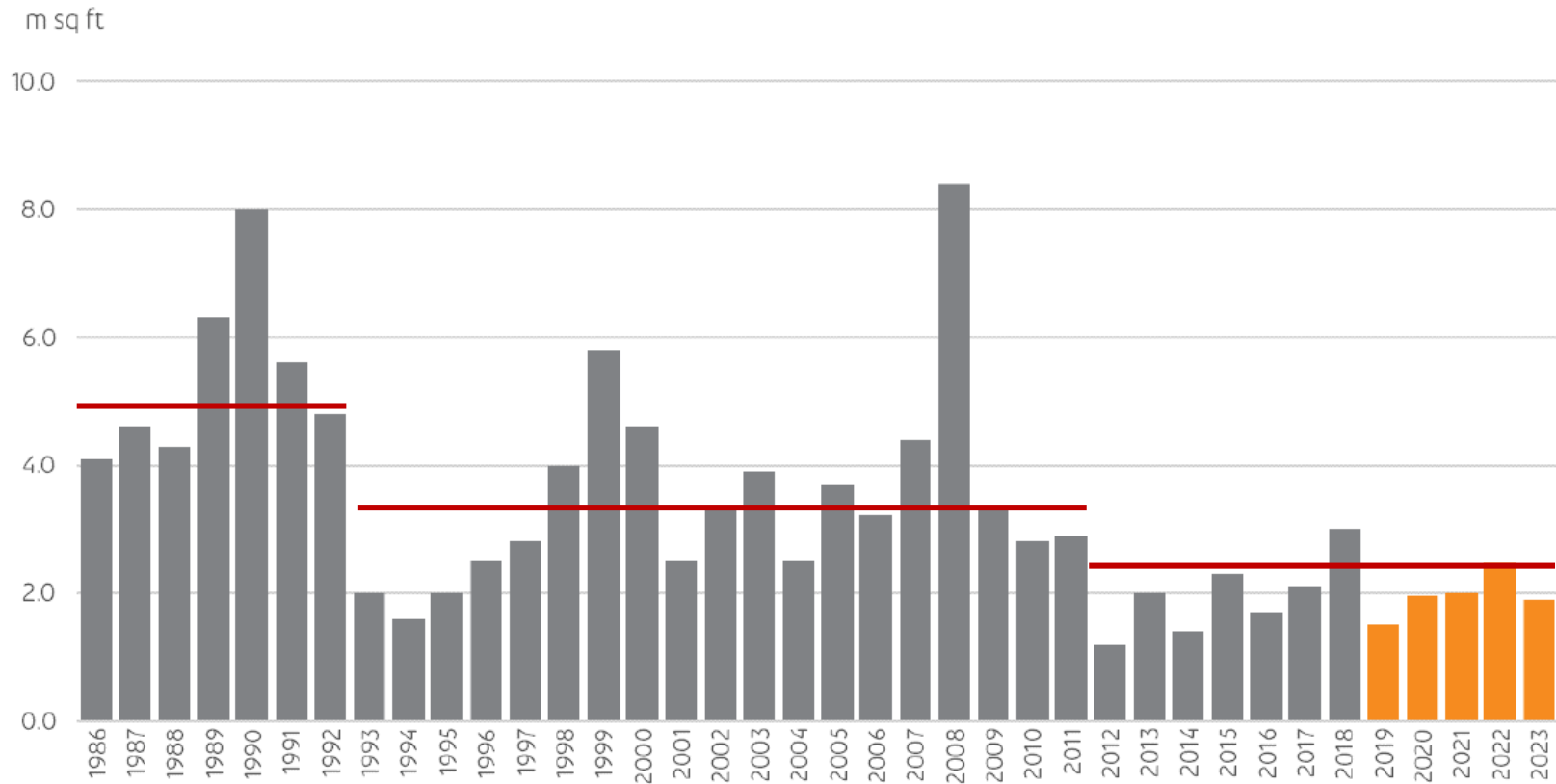
- Intu yields low compared to own history.
- IPD retail shows similar trend.
- Property showing a large spread to government and corporate bonds.
- Shopping centre transactions have reached new low (fewer than in 2008).



Intu Properties plc (INTU LN)

Appendix – Shopping Centre Pipeline

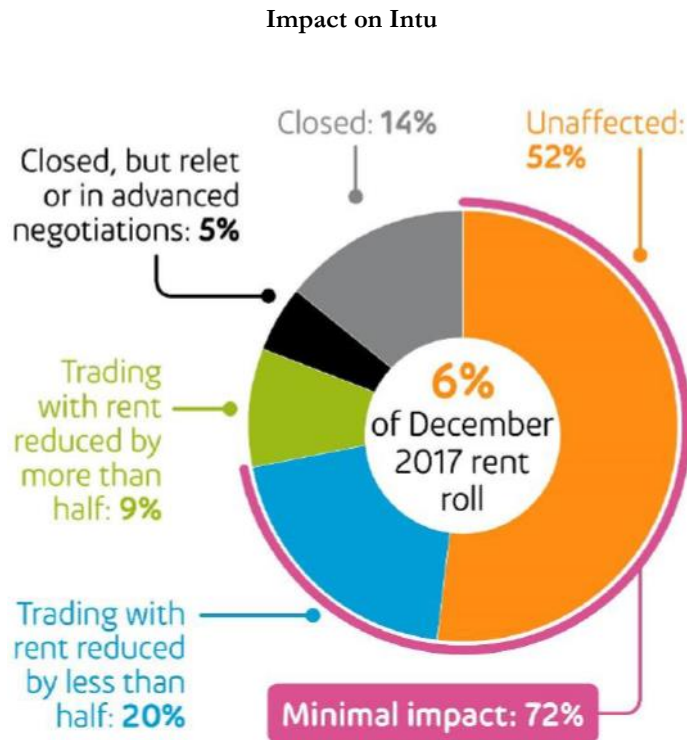
- Few new shopping centres are being built.



Intu Properties plc (INTU LN)

Appendix – UK Retail in Administration

- 6% of rent roll (every 17th tenant) impacted by administration or CVA (company voluntary arrangement).
- But Intu managed to maintain the same rent for half of those tenants.
- The other half received rent reductions or was closed down.
- The overall impact of every 17th tenants experiencing serious difficulties only reduced rent by 2%.
- Retail failures nationwide impacted 2,500 stores in 2018.

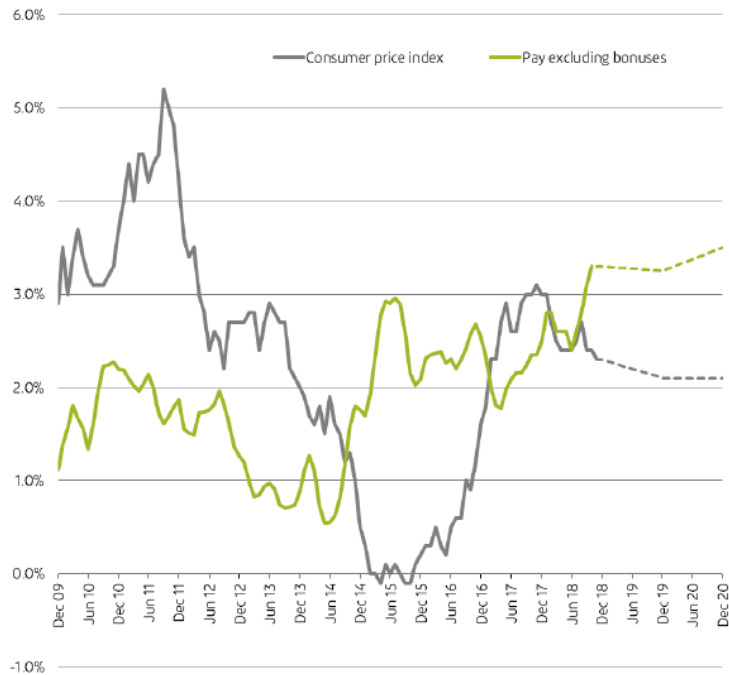


Intu Properties plc (INTU LN)

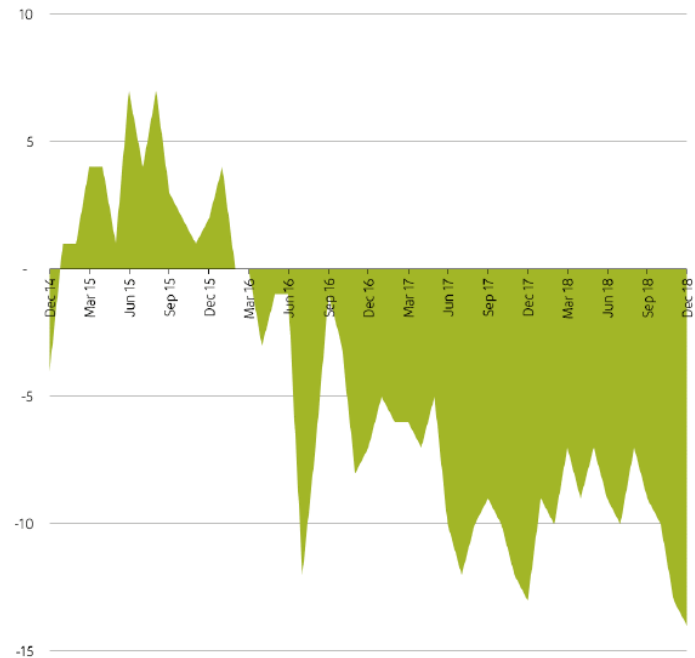
Appendix – Struggling UK Consumer

- After lagging consumer prices since the financial crisis, pay growth briefly increased.
- Increasing levels of inflation have eaten up consumers' purchasing power again more recently.
- Consumer sentiment is low.

Pay Growth Against Inflation



Consumer Confidence



Intu Properties plc (INTU LN)

Appendix – Intu Outperformance

- Intu outperformed the retail market in terms footfall and occupancy.

