May 2024

Retail Estates

Equity Research report

BOCCONI STUDENTS for REAL ESTATE

Contents

Executive summary

Retail Estates NV is a RREC specializing in out-of-town retail properties. The company focuses on assembling, managing, and expanding a portfolio of suburban assets through acquisitions and construction.

The retail real estate industry in Belgium is evolving towards mixed-use developments, emphasizing sustainability and technology. Despite challenges like reduced demand for out-of-town retail spaces and the growth of e-commerce, the sector shows resilience with stable rents and high occupancy rates.

The valuation of Retail Estates was conducted considering the company's financial stability, market conditions, and growth prospects. Key valuation metrics included a stable revenue growth rate of 5.39%, a WACC of 6.50%, and robust operational performance. The target price for Retail Estates is set at 77.62 euros, reflecting an implied premium of 10.82 euros or 16.2%, indicating a positive outlook for the company's ability to navigate market challenges and capitalize on growth opportunities.

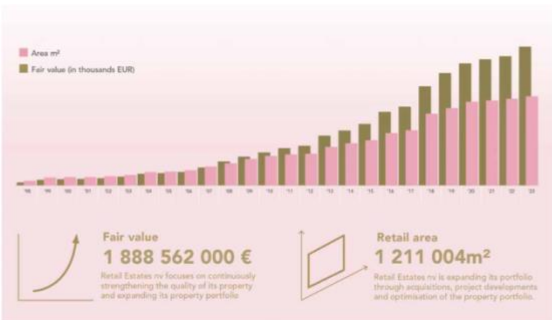
Stock Price

Name	Retail Estates NV (XBRU:RET)	
Date		30/04/24
Current Price	**€**	**65,60**
Premium	**€**	**12,02**
Price Target	**€**	**77,62**
Up/Down-Side		18,32%

1 - Company Overview

Retail Estates NV is a niche Belgian Public Regulated Real Estate Company ("RREC") specialized in investing in out-of-town retail properties. The goal of this Corporation is to assemble, manage and extend a portfolio of suburban assets that ensure growth and prosperity through the acquisition of properties from third parties or the construction of various retail properties on its own account.

The history of Retail Estates NV started in Belgium on the 27th of March 1998 when the Company reached the status of real estate investment company with fixed capital granted, and a few days later, it listed for the first time on the Belgian Stock Exchange. Since then, it grew exponentially from an initial valuation of 39.02 million euros to a staggering 117.23 million which allowed Retail Estates to immerse itself in the world of real estate development. As of 31st December 2023, the Corporation has 1,025 rental units in its portfolio with a total retail area of 1,234,904 m^2, spread over Belgium and Netherlands, with an occupancy rate of 97.92% and a fair value of the consolidated real estate briefcase estimated at 2,010.63 million.



Portfolio Growth (1998-2023)

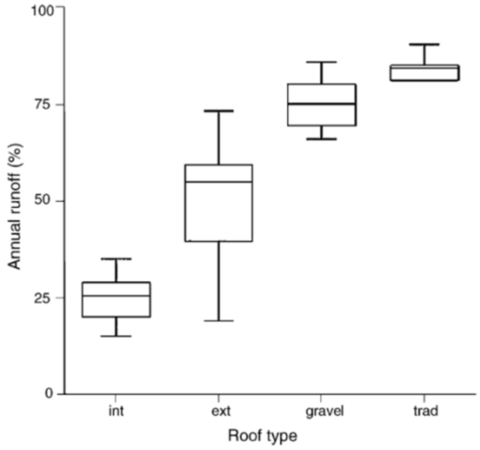
2 - Industry Growth

The growth of the retail estates industry can vary depending on multiple factors, such as economic conditions, consumer behavior, and technological advancements; to better understand this sector it is necessary to analyze the environment and trends that are now influencing the Belgian retail business.

Belgium is not just a country rich in history and culture, it's also a hub of diverse and vibrant retail real estate. Shopping environments are not merely a function of varied consumer tastes but also a reflection of the country's strategic approach to retail real estate progress. Therefore, Belgian cities aspire to create mixed-use developments where spaces are both aesthetically pleasing and functionally modern offering an experience of Belgian life and not a monotone acquisition of goods.

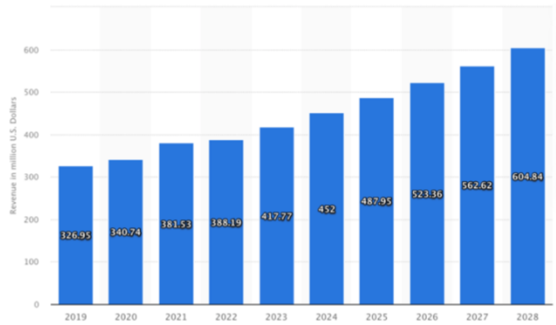
This desire for an immersion into the beauty of Belgian shopping is the reason for the shifting in consumer habits that are now bringing about a significant transformation in the Belgian goods market where the expensive shopping centers are now combining retail with dining, entertainment, and even cultural activities.

Another relevant issue of this new era of retail is sustainability: more and more are now the project incorporating green technologies and sustainable designs to minimize their environmental footprint generating eco-friendly shopping districts with, for example, green roofs. The area of impermeable surfaces has increased substantially in our urbanized world, creating rapid run-of and high peak flows in the case of heavy rainfall. These floods can damage infrastructure or contaminate terrestrial and aquatic ecosystems but EGRs can help mitigate these issues by retaining a large portion, more than 75 percent, of the rainfall. On a yearly basis, an extensive roof can provide around 50% reduction of runoff, on a regional scale, greening 10% of urban roofs can reduce regional roof runoff by 2.7%. Furthermore, The Belgian Scientific and Technical Centre for Construction (WTCB) also reported that runoff is also spread out over time during peak rainfalls, with runoff being delayed ca. 15 minutes.



Annual runoff for intensive (int), extensive (ext), gravel and traditional (trad) roofs. Runoff is mainly determined by (green) roof type

Immersive experiences and sustainability can be effective only if they are combined with the proper technology. As a matter of fact, the use of applications and interactive kiosks make the buying process extremely personalized and unparalleled. Indeed, mobile commerce has opened up new opportunities for retailers to engage with customers through location-based marketing. The revenue in the Customer Relationship Management Software ("CRM") segment of the software market in Belgium was forecast to continuously increase between 2024 and 2028 by in total 152.8 million U.S. dollars (+33.81 percent). After the ninth consecutive increasing year, the indicator is estimated to reach 604.84 million U.S. dollars and therefore a new peak in 2028. Notably, the revenue of the CRM system segment of the software market has continuously increased over the past years.

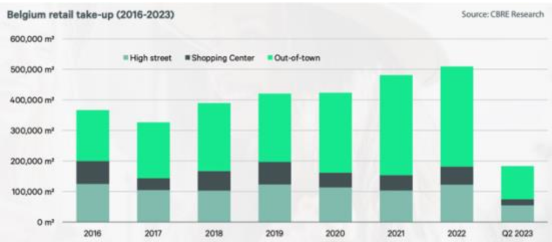


Belgium revenue forecast of CRM (2019-2028)

Belgium offers a diverse retail experience that caters to a wide range of preferences and needs. As we move forward, the sector is set to become even more customer-focused, sustainable, and technologically advanced, promising an exciting future for retailers, consumers, and communities alike.

Despite all those aspects, out-of-town retail in Belgium has suffered the most during 2023: retail take-up in 2023 so far is marked at just over 183,000m^2, this is lower than the first half of last year, when 223,000 m^2 of retail take-up was recorded. Retailers are more looking to optimize their retail space, and smaller units gain importance this way. Additionally, retailers that traditionally prefer out-of-town locations continue to explore the high street and shopping center spaces.

Nevertheless, high streets and shopping centers remain consistent with performances in line with their historical levels. Out-of-town continues to be the retail take-up driver, with 109,000m^2 or 60% of total take-up in H1 2023. But with a limited pipeline foreseen, take-up volume might be more limited in the coming years as newly commercialized space decreases.



Belgium retail take-up (2016-2023)

3 - Industry Related Risks and Safety

Risks

Reduction of demand from investors for out-of-town retail real estate → Portfolio value

The value of out-of-town retail properties is mainly determined by the commercial value of the property's location; these values are not generally inflation-proof because of indexation of rent, but they are interest rate sensitive due to the high debt ratio of many investors.

The reduced demand from investors for out-of-town retail real estate heavily affects the value of the portfolio: indeed, a decrease in valuation leads to a decrease in shareholder's equity (NAV) and, consequently, an increase in the debt ratio of the company.

Indexation → Inflation/deflation risk

The retail contracts contain clauses based on the health index thus, the annual rental income evolves with the indexed inflation/deflation rate.

If we're experiencing a inflation, we will notice that the costs will increase more rapidly than the rent levels.

On the other hand, deflation leads to a reduction in economic activity, causing a general fall in prices, therefore, the health index will be negative and then rentals' income will fall.

Growth of E-commerce

The increase of online shopping on existing sales channels causes a reduction in the demand for physical shops, and therefore a decline in the shops' stock and an increase in the demand for smaller shops.

Changing economic climate

The impact of falling consumption and a declining economy can cause a reduction in demand for retail properties, leading to a decrease in the fair value of real estate and consequently also in Net Asset Value (NAV). A problem that might be controlled with the quality of the tenants, and with sectoral diversification.

Macroeconomics factors

Macroeconomics factors can cause extreme volatility and uncertainty in the international markets, therefore understanding and effectively navigating these factors is essential for developers, investors and retailers operating in the market. For example, inflationary pressures impact operating costs for retail property owners, including maintenance, utilities, and property taxes; as well as,

consumer purchasing power, influencing retail sales and rental income.
Into the bargain, employment and income levels must be taken into consideration: rising unemployment or stagnant wage growth leads to reduced consumer spending and weaker demand for retail space.

Safety

Stable Income Streams
Long-term leases with establishment retail tenants can provide a steady stream of rental income and a subsequent financial stability, ultimately protecting against economic downturns and opening the doors to different opportunities that may increase earnings potential.

Location Value
Prime locations with high foot traffic and strong demographics can maintain demand for retail spaces and support property values: over recent years, out-of-town retail destinations have gained an advantage over the high-density shopping centers, as them provide stability, resilience and potential for growth in the retail real estate market in Belgium. Indeed, popular out-of-town areas tend to maintain their value over time due to stable demand from retailers and consumers; moreover, prime locations often remain resilient to economic downturns because they continue to attract consumers and businesses seeking established, reliable retail destinations.

Adaptably
Retail properties can often be repurposed for alternative uses, mitigating risks associated with changes in consumer behavior. Nowadays markets are constantly in flux due to factors such as technological advancements, economic shifts, and changes in consumer preferences, therefore businesses that fail to adapt to these changes risk becoming obsolete while those who stay nimble and adjust their strategies can seize new opportunities and maintain their competitive edge.

Experiential Retail Trends
The experiential retail trend creates immersive and personalized experiences, prioritizes customer engagement, strives for memorable and multi-sensory interactions that are captivating. By doing so, retail properties that offer unique experiences or services may be less susceptible to e-commerce competition and attract a steady flow of customers.

4 - Business Model

Due to the niche nature of Retail Estates, at first glance might seem like a closing of point from potential clients, however developing a specialization allows the fund to deliver better results, build thriving relationships with shareholders, and create a competitive edge.

The out-of-town choice allows the Company to focus on:

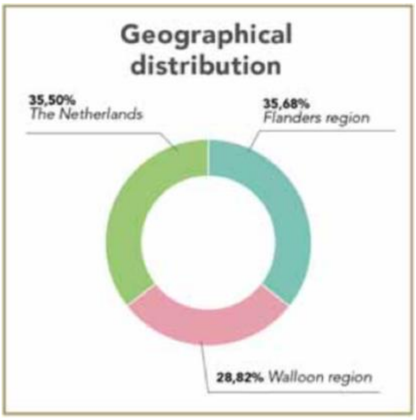
- **Lower costs**: land and rental costs are typically lower outside of city centers, allowing the potentially higher profit margins;
- **Space for Development**: outskirts areas often have more available land for development, enabling the Corporation to build larger retail spaces or even entire shopping complexes;
- **Accessibility and Parking**: periphery locations offer easier access by car and ample parking, which attract more consumers, especially those who want to avoid congested places.

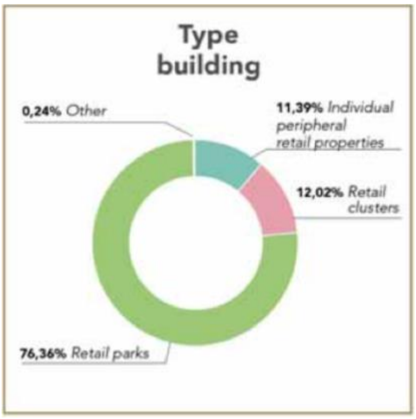
Once clarified those aspects, it could be interest to analyze how the Belgian enterprise diversify its investments in:

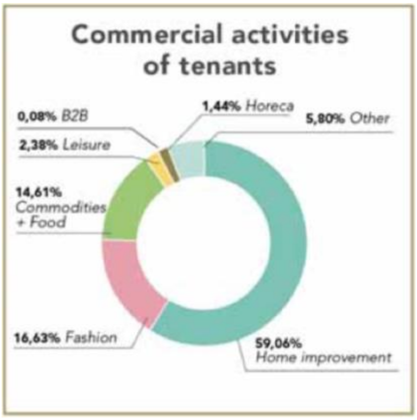
- Properties or real rights on properties;
- Shares of real estate investment companies;
- Option rights on real estate, exclusive or jointly controlled by the Belgian REIT;
- Shares of public or institutional Belgian REITs provided that control is shared or

esclusive;

- Real estate certificates;
- Rights arising from contracts resulting from property leasing.







The graphics underline how the investments are well balanced across the geographic area, but it cannot be said the same for the type building: it's clear that the retail parks take up a bigger percentage due to the industry's trends. The graphic on the right shows how the commercial activities of tenants are allocated on the market, the biggest slice is taken by "Home improvement" (59.06%), followed by "Fashion" (16.63%), "Commodities + Food" (14.61%) and then other minor businesses.

Real Estate Portfolio	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Total retail properties	1013	987	992	969	906
Total lettable area in m²	1.211.004	1.177.577	1.153.448	1.136.492	1.049.101
Estimated fair value in EUR	1.888.562.000	1.759.879.000	1.717.245.000	1.661.753.000	1.529.629.000
Estimated investment value in EUR	1.983.204.000	1.833.757.000	1.789.397.000	1.719.120.000	1.579.292.000
Average rent price per m²	114,89	104,14	102,24	102,28	99,96
Occupancy rate	98,08%	97,83%	97,07%	97,92%	98,28%

Results	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Net rental income	125.401.000	115.579.000	100.402.000	107.614.000	94.981.000
Property result	123.482.000	113.504.000	98.738.000	106.204.000	93.539.000
Property charges	-15.332.000	-10.524.000	-6.877.000	-9.052.000	-7.586.000
General costs and other operating costs and income	-7.097.000	-6.050.000	-6.123.000	-5.593.000	-5.147.000
Operating result before result on the portfolio	101.053.000	96.930.000	85.737.000	91.559.000	80.807.000
Result on portfolio	51.460.000	22.096.000	-4.146.000	-4.884.000	6.958.000
Operating result	152.513.000	119.026.000	81.592.000	86.675.000	87.765.000
Financial result	22.723.000	16.158.000	-17.757.000	-25.533.000	-31.826.000
Net result	180.621.000	131.837.000	61.436.000	58.098.000	54.480.000
EPRA earnings	88.203.000	75.265.000	62.908.000	69.199.000	60.896.000

Looking at the EPRA earnings allows us to provide a clearer picture of Retail Estate NV's operating performance over the years as this figure tends to exclude non-operating items that might distort other earnings figures. In this case, we can observe how EPRA earnings have been growing consistently over the years except for the 2020-2021 year on year earnings that dropped due to the COVID pandemic.

5 - Market Overview

Belgium

In recent years, the out-of-town retail real estate market has reached full maturity, establishing itself alongside city center retail spaces, offices, and semi-industrial properties. Integrated shopping parks, known as 'retail parks,' have become increasingly prevalent near urban areas.

The COVID-19 pandemic exerted pressure on city center retail property rents, but out-of-town retail properties generally maintained their lower rents: despite the crisis, this segment bolstered its position due to its resilience and stability.

The occupancy rate remains robust at 98.08%, with lease renewals proceeding smoothly without any disruptions. Numerous retailers have effectively managed the impact of escalating energy costs and wage and rent indexation by adjusting prices upwards and/or trimming margins. The market has remained balanced as strict permit policies in both Flanders and Wallonia have limited the supply of new retail properties and parks. However, demand from existing and new tenants persists, fueled by high occupancy rates and stable property values. The globalization of the retail property market, coupled with the transition from urban hubs to suburban destinations, has significantly bolstered the demand for out-of-town retail real estate; this trend not only results in higher rental rates but also signifies a long-term uptick in the fair market value of such properties. Tenants from the city center are interested in offering out-of-town retail properties to complement their existing retail units as well; their location makes these retail units perfectly suited to serve as pick-up points for online purchases with these retailers: the so-called “last mile”. Institutional investors are also increasingly involved.

As the demand and supply of high-quality out-of-town retail properties are in balance, rent levels on this market are very stable. The vacancy rate of the Retail Estates portfolio, which has always been, and still is, very low, is the best proof thereof.
Out-of-town retail property tenants tend to remain loyal due to location quality and the difficulty in obtaining environmental permits, which are tied to the property. Additionally, tenants must invest significantly in interior decoration, making relocation costly.

Nowadays, a growing trend of clusters and integrated “retail parks” are growing close to every conurbation. In Belgium these parks nevertheless tend to be rather small and are mostly situated in Wallonia whereas new retail parks tend to be built near small urban areas in Flanders.
The selection of suitable opportunities and the planning and management of any alterations that may be necessary are a highly labor-intensive process requiring specialized skills. With yields ranging from 5.5% to 6% for prime locations, the Belgian market is highly competitive internationally, with rents exceeding €172/m2 annually for the best locations.

The Netherlands

Consumer spending in the Netherlands has seen steady growth over the past three years. This trend is supported by a low unemployment rate and robust economic expansion, which in turn bolster the residential real estate market and related investments.

Last year, the DIY and home improvement sector in the Netherlands experienced strong sales, driven by consumers' heightened focus on home comfort during the COVID-19 period, marked by restrictions on movement.

Despite a population of 17 million people, the Netherlands only permits around 200 out-of-town locations for large-scale retail activities. Strict urban planning regulations limit the establishment of retail parks and dictate the types of retail activities allowed. International institutional investors are increasingly interested in acquiring such real estate.

Retail Estates, operating in the Netherlands since June 2017, has invested in 15 retail parks, 1 home decoration mall, and 3 individual properties across 16 locations. These retail parks primarily are destined to large-scale retail activities and are predominantly leased to retail chains. Benefiting from a consolidation trend over the past 6 years, Retail Estates has secured a leading position in the Netherlands, with a total fair value of €579.05 million as of March 31, 2023.

Macroeconomic uncertainties

Due to macroeconomic uncertainties, it's challenging to predict the future fair value of real estate and the fluctuations in interest rate hedging instruments. Consequently, the intrinsic value of shares, which is affected by these factors, remains uncertain.

Regarding Retail Estates specifically, a thorough assessment needs to be conducted in collaboration with tenants upon the expiration of current lease agreements every three years in Belgium or every five years in the Netherlands. This assessment aims to determine whether rental prices will remain competitive after indexation and whether they might impact tenant profitability significantly. Existing interest hedging agreements allow for the absorption of interest rate increases for approximately three years within the current credit portfolio. However, future trends are difficult to anticipate due to the prevailing volatility in financial markets.

It's important to note that forward-looking statements are subject to various risks and uncertainties. Factors such as changes in economic conditions, commercial dynamics, tax regulations, and environmental considerations can significantly influence the outcomes mentioned.

6 - SWOT Analysis

Strengths

Niche company - Some of Retail Estates NV advantages came from its choice to operate in a niche sector: niche markets are defined by their specialized focus and often underserved demand.

Diverse Portfolio - Retail Estates NV likely has a diverse portfolio of retail properties, which can spread risk across different sectors and locations. Indeed, by investing in multiple types of securities it can be mitigated some of the risks associated with each type of asset.

Weaknesses

Vulnerability to Economic Downturns – Economic downturns are often driven by exogenous unforeseen events, often called external shocks: the Belgian Company may face challenges during economic downturns as consumer spending tends to decrease, subsequently impacting rental income.

Dependence on Retail Sector – As a REIT, Retail Estates NV is susceptible to market-linked fluctuations: a decrease in demand in shops or in the out-of-town properties might deeply influence the company performance and then, the portfolio value. The damage might be even worse if the sector experiences long-term decline or disruption, causing significant complications to consumers, tenants, and the company itself.

Competition from E-commerce – Intense competition form online shopping platforms might affect foot traffic and tenant retention in keeping properties; indeed, in the world of property management, retaining tenants is often more cost-effective and efficient than constantly finding new ones. This practice not only ensures steady cash flow of rental income but also reduces expenses associated with vacancies, marketing, and new tenant screenings.

Opportunities

Expansion Opportunities – Retail Estates NV may have the opportunity to expand its portfolio through acquisitions or development projects, especially in the emerging markets or underserved areas. With the growing of the sustainability relevance, the Belgian REIT could focus its attention to renewable energy buildings, creating an eco-division capable of satisfying other segments of the demand.
The Corporation could also expand its business into crowded cities where the rentals are higher, generating a larger margin, and then growing the portfolio value.
Doing that the Company could evolve consumer preferences by exploring mixed-use developments that combine retail with environmental, residential, offices, or entertainment spaces.

Technology Integration – Embracing technology solutions such as only sale platforms, smart property management or adding a click-end-collect facilities can enhance operational efficiency and tenants' satisfaction.

Threats

Economic Uncertainty – Fluctuations in the economy, such as recession or inflation, can impact consumer spending habits and affect the retailers' performance through the decrease in rental rates and property demand.

Competition – Increased competition from other real estate investors or alternative investment options can pressure rental rates and occupancy levels.
Competition can also affect the team's work, putting more pressure on employees to perform in a certain way, focusing only on results overlooking the quality of the services offered.

Regulatory Changes – Changes in zoning laws, tax regulations, or environmental guidelines could impose additional costs or limitations on property development and management. Regulatory changes in the real estate sector are diverse and multifaceted, encompassing local, state, and federal levels. From fair housing laws to data protection regulations, each modification introduces a new layer of complexity that can significantly influence business operations and shape industry practices.

Interest Rates Changes – Rising interest rates can increase borrowing costs, affecting profitability and investments returns: when interest rates are elevated, people are generally less likely to borrow large sums of money because of the higher cost of loans. This means the properties' demand decreases and, as a result, properties prices might fall.

7 – Peers: Competitors Analysis

Wereldhave

Wereldhave is the proprietor and manager of commercial centers situated throughout the Netherlands, Belgium, and France. Presently, the company is in the process of transitioning these centers into Full-Service Centers, where essential shopping conveniences intersect with leisure activities, relaxation, sports facilities, healthcare services, workspaces, and other daily necessities. By the conclusion of 2023, nine of Wereldhave's commercial centers will meet the criteria for Full-Service Centers.
In selecting investment locations, Wereldhave targets prime sites within major regional cities. These locations boast strong ties to the local community and government, offer excellent connectivity through public transportation, and provide visitors with complimentary parking options.

vastned

Vastned Belgium places its primary emphasis on versatile retail properties located in Antwerp, Brussels, Ghent, and Bruges.
With a dedication to quality to ensure consistent and reliable outcomes, the company pursues an investment strategy tailored towards premium commercial real estate. These properties ideally necessitate minimal immediate repairs and boast prime commercial positions. Vastned Belgium's strategic focus aligns with current retail market trends, aiming particularly at "core city assets" – cities renowned for their vibrant shopping scenes, positive demographic trends, robust purchasing power, and historically rich city centers. This focus ensures long-term investment security.
The overarching objective is to allocate 75% of the portfolio towards core city

assets, with the remaining 25% earmarked for high-quality retail warehouse locations and inner-city sites in other urban centers.
As of December 31, 2023, the fair value of its investment properties stood at €309.6 million.

EUROCOMMERCIAL

Eurocommercial Properties N.V. boasts ownership and management of a diverse portfolio comprising 24 premier assets across Belgium, France, Italy, and Sweden, collectively valued at nearly €3.8 billion. These countries present ongoing opportunities for expansion, where Eurocommercial's seasoned country teams can capitalize on the company's established market presence, expertise, networks, and professional standing among various stakeholders.
Employing a meticulous, research-driven strategy, Eurocommercial focuses its acquisitions on retail properties that are easily accessible and strategically positioned to dominate their respective catchment areas. With over three decades of experience, the company specializes in investing in, developing, and directly managing shopping centers. These centers serve as vibrant hubs within their communities, offering comprehensive retail options alongside diverse food and beverage establishments, leisure activities, essential services, and healthcare facilities. Emphasizing safety and comfort, Eurocommercial ensures that its properties remain appealing to both current and prospective tenants.

8 - Valuation

	Average	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues		€ 95.411.003,00	€ 107.910.004,00	€ 102.603.996,00	€ 115.773.003,00	€ 125.856.003,00	€ 134.616.886,66	€ 143.987.618,72	€ 154.010.650,95	€ 164.731.390,23	€ 176.198.404,20
CAGR Revenues	6,96%		13%	-5%	13%	9%	7%	7%	7%	7%	7%
COGS		€ 430.000,00	€ 296.000,00	€ 2.202.000,00	€ 194.000,00	€ 455.000,00	€ 461.473,89	€ 468.039,89	€ 474.699,31	€ 481.453,49	€ 488.303,77
		0,45%	0,27%	2,15%	0,17%	0,36%	0,34%	0,33%	0,31%	0,29%	0,28%
Free Cash Flows to the Firm											
EBIT		€ 87.765.003,00	€ 86.677.004,00	€ 81.590.996,00	€ 119.024.003,00	€ 152.641.003,00	€ 128.133.817,70	€ 137.053.260,89	€ 146.593.589,87	€ 156.798.024,74	€ 167.712.794,16
EBIT Margin:	95,18%	91,99%	80,32%	79,52%	102,81%	121,28%	95,18%	95,18%	95,18%	95,18%	95,18%
Tax		-€ 1.458.000,00	-€ 3.044.000,00	-€ 2.399.000,00	-€ 3.337.000,00	€ 6.199.000,00	-€ 1.756.943,18	-€ 1.879.244,65	-€ 2.010.059,58	-€ 2.149.980,58	-€ 2.299.641,53
Tax as % of Ebit:	-1,4%	-1,7%	-3,5%	-2,9%	-2,8%	4,1%	-1,4%	-1,4%	-1,4%	-1,4%	-1,4%
D&A		€ 505.000,00	€ 611.000,00	€ 2.556.000,00	€ 851.000,00	€ 1.224.000,00	€ 712.693,00	€ 1.524.607,66	€ 1.630.736,17	€ 1.744.252,33	€ 1.865.670,39
D&A as % of Revenues:	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%
Capex (lorde)		-€ 85.588.000,00	-€ 65.838.998,00	-€ 107.439.997,00	-€ 28.178.000,00	-€ 81.547.999,00	-€ 92.768.366,70	-€ 99.226.007,56	-€ 106.133.167,23	-€ 113.521.136,88	-€ 121.423.385,87
Capex as % of Revenues:	-69%	-90%	-61%	-105%	-24%	-65%	-69%	-69%	-69%	-69%	-69%
Change in NWC		-€ 58.363.004,00	€ 65.424.009,00	-€ 97.266.004,00	€ 16.350.994,00	€ 55.335.003,00	-€ 10.028.697,97	-€ 10.726.799,40	-€ 11.473.495,94	-€ 12.272.170,30	-€ 13.126.440,69
Change in NWC as % of Revenue	-7,45%	-61,17%	60,63%	-94,80%	14,12%	43,97%	-7,45%	-7,45%	-7,45%	-7,45%	-7,45%
FCFF		-€ 57.139.001,00	€ 83.829.015,00	-€ 122.958.005,00	€ 104.710.997,00	€ 133.851.007,00	€ 24.292.502,85	€ 26.745.816,93	€ 28.607.603,30	€ 30.598.989,31	€ 32.728.996,45

Revenues: We considered the sum of Rental and other services and Fee income and other from all the financial statements of the FY taken into account. Revenues show a constant increase YoY except for 2021 (-5%) due to the pandemic. This singular figure will heavily impact our results, however, including it will be useful to assess the stability of the firm against such a market condition.

COGS: We considered both Rental property operating and maintenance and property tax and insurance. The forecasted values of 2024 are obtained by multiplying the value of 2022 by (1 + CAGR of COGS between 2019 and 2023) computed at 1.42%; then proceeding with the same method for 2025 and so on.

D&A: We considered the Depreciation and amortization from all tangible and intangible assets from the financial statements of the FY considered.

Tax: We estimated the corporate tax to stay constant over time and equal to the last 5-year average that was computed to be 1.37%.

CapEx: The Capex is considered as a % of Revenues. From past data, we can observe how CAPEX generally kept very high values from 2019 to 2023. Given the company prospects to continue to invest, we assume a moderate constant CAPEX/revenue ratio over time that is the average of the 2019-2023 period, that is 69%.

Change In NWC: The Change in NWC is considered as a % of Revenues. In the 2019-2023 period this figure showed high volatility, even before the pandemic. For this reason, we took into account the negative that was balanced out because of the 2022 and 2023 positive figures. The change in NWC indeed is projected to be constant over time and equal to -7.45%.

CAGR: To compute the CAGR we used a modified formula in order to neutralize the effect of 2021 decrease given to the pandemic. We added a 15% premium to the 2023 Revenue accounting for the 15% decline of revenue growth rate from 2020 to 2021 /from +13% to -5%). The obtained CAGR of 5.39% seems to be in line with the average expected growth rate of the market of 4.66%.

WACC: For the WACC calculation we applied the classic formula, which involved both the cost of equity and the cost of debt (net of the fiscal effect) weighted for the equity (0.567) and the debt (0.432) portion over the total asset, obtaining a WACC of 6.50%.

Cost of Equity: From the unlevered beta (0.39) taken from Factset, we retrieved the levered beta of 0.68. For the levered beta formula, we considered a Corporate Tax rate equal to the 5- year average of the company, 1.47% (Source: Ycharts). Taking into account the current yield of USA 5-year government bond as Risk-free rate (4.54%), and the Average Market Risk Premium of USA that is 5.46%, we got a 8.29% cost of equity, that is in line with the industry.

Cost of Debt: To compute the Cost of Debt we considered an Interest Coverage Ratio of 5.3 (taken from Factset), and a Spread on Debt equal to 1% that is taken from Damodaran Equity Risk Free. Since the Spread on Debt is equal to 0.65%, the Cost of Debt is equivalent to the Risk-Free Rate + 0.65% that is 5.19%, for which we consider the current yield on the 5-year USA bond (Source: Ycharts).

Target price

The target price of 77.62 euros for Retail Estates, with an implied premium of 10.82 euros or 16.2%, indicates a strong positive outlook. This target price suggests confidence in the company’s ability to navigate the retail real estate market effectively even in adverse market conditions. Despite the challenges faced, the company aligns with broader industry trends where certain retail-focused real estate investments continue to perform well, particularly those with tenants less susceptible to e-commerce competition. The premium reflects expectations of robust operational performance and possibly strategic acquisitions that could enhance the company's asset base and revenue streams.

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