

Be bold and buy Nepi Rockcastle

The East European mall owner has been sold off, but its Covid rebound means property investors should take a closer look

BL PREMIUM

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Still safe: Promenada Sibiu in Romania. Picture: Supplied

SA investors are clearly jittery about Russia's invasion of Ukraine, judging by last week's sell-off of East European-focused Nepi Rockcastle.

The JSE's largest real estate counter, with a market cap of R60bn, has dropped 5.4% since releasing a solid set of results last week for the year to December. Trading patterns in Nepi Rockcastle's shopping centres have largely recovered to close to pre-Covid levels. More encouraging is that retailers have seemingly started to resume expansion plans in the region, which were put on hold when the pandemic hit in 2020.

The problem is that the bulk of Nepi Rockcastle's 56 shopping centres are located in countries that border Ukraine — Romania, Poland, Hungary and Slovakia. Though Nepi Rockcastle's new CEO, Rüdiger Dany, assured

investors at last week's results presentation that none of the company's malls is in or near Ukrainian borders, he conceded that it's currently unforeseeable what economic impact the turmoil in Ukraine will have on the rest of Eastern Europe.



Rüdiger Dany. Picture: Supplied

Nevertheless, it seems risk-averse investors are opting to steer clear of the region for now. That's creating a buying opportunity for investors with a longer-term horizon, says Garreth Elston, chief investment officer at Reitway Global. He believes Nepi Rockcastle is "meaningfully undervalued" at current levels of below R100.

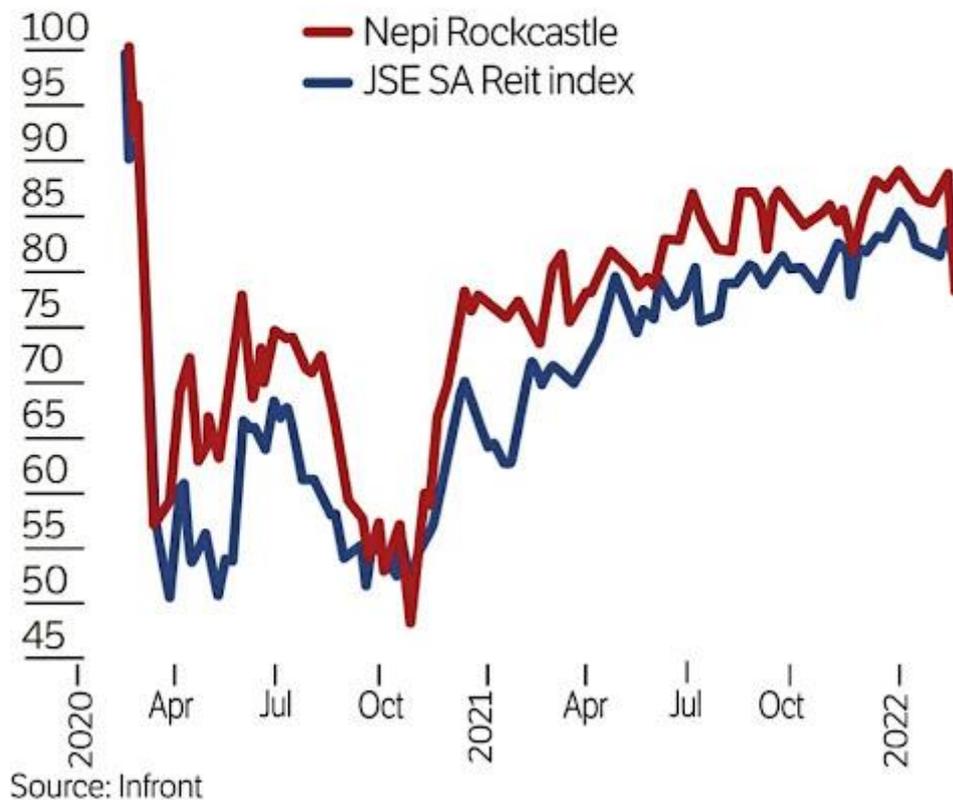
Though the retail recovery is now firmly on track in the nine countries in which the company operates, Elston says noise from Russia's actions could hamper market sentiment for some time. He adds: "On a long-term investment basis Nepi Rockcastle remains attractive. The current price offers a good entry point and will most likely reward the patient investor."

Though it's still early days into the tenure of Nepi Rockcastle's new management team helmed by Dany and CFO Eliza Predoiu, Elston doubts whether that's of concern to investors. "They appear on track to continue the good work of their predecessors," he says. "Though Dany joined only last year, the new CFO has been with the company for more than seven years and they are supported by several long-tenured senior members of the Nepi Rockcastle team."

Kelly Ward, head of research and portfolio manager at Metope Investment Managers, says Nepi Rockcastle remains one of their top picks, though they remain cautious of the geopolitical activity in the region.

OUT OF THE SLUMP

Nepi Rockcastle vs JSE SA Reit index – weekly
Based to 100



Describing last week's results as "really positive", she expects net operating income, which was up 12% last year (albeit still 9% below 2019 levels), to recover further this year. That will be supported by lower rental concessions granted to struggling retailers and higher earnings from turnover rental clauses, given that more tenants are able to trade as various countries lift pandemic-related restrictions.

Ward cites a strong balance sheet as another plus. The company has €499m in cash on hand and a relatively low loan-to-value of 30.9%. "So Nepi Rockcastle is well poised to take advantage of development and acquisition opportunities that may crop up in the markets it serves," she says.

Apart from Russia/Ukraine tensions, Ward says pressure on Nepi Rockcastle's share price could also be due to the 10.4% drop in dividend payouts for the year to December, which may have come as a surprise to some.

However, this was solely as a result of a one-off cost of €37.3m relating to a litigation claim against Nepi Rockcastle for cancelling a deal that it had signed to buy two Polish malls.

If these costs were excluded, the dividend would have actually increased by 5.5%.

KEY MALL METRICS

	2021	2020	2019
Trading density (turnover/m ²) (€)	2,089	1,648	2,464
Foot count	244m	221m	325m
Net operating income (€)	347m	323m	401m
Occupancy	96%	95.7%	97.9%

Source: Nepi Rockcastle Annual Results 2021

Ward says the upside is that for the year to December 2022, dividend growth is forecast to clock in at 24% (from the lower base), which equates to a 5.25% increase year on year if the nonrecurring litigation costs are stripped out.

Speaking at last week's results presentation, Nepi Rockcastle executive director Marek Noetzel said there were no tenant failures across the company's 56 shopping centres last year, not even among cinemas, restaurants and other leisure tenants that weren't allowed to trade for parts of 2021.

In fact, he said, retailers are now back in expansion mode in a bid to cash in on expectations that consumption growth in Eastern and Central Europe will continue to outpace that of Western Europe.



Nepi Rockcastle

BUY

Target price: **R112.46**

Potential upside: **15%**

* Based on analysts' consensus forecast

Nepi Rockcastle signed 447 new leases for 90,000m² last year, of which no less than 40% are with new tenants who haven't yet opened a store in its malls. "International tenants are ready to expand their footprint in the region and we are their one-stop partner of choice," said Noetzel. "There is no other company in this region that can offer retailers access to more than 50 locations across nine countries."

Earlier this week, Nepi Rockcastle's share price had recovered somewhat and it was trading at a forward dividend yield of 7% (in euros) and a 12% discount to NAV.