IMMOFINANZ

Press Release | Corporate News

Vienna, 25 November 2020

IMMOFINANZ: Rental income increases 5.7% in Q1-3 2020, FFO 1 10.1% over previous year

- FFO 1 before tax totals EUR 89.2 million, or EUR 92.4 million (+10.1% year-on-year) when the January bond coupon payment is straight-lined over the entire year
- Rental income rises by 5.7% to EUR 215.1 million and results of asset management by 3.3% to EUR 158.9 million
- Net loss of EUR -98.4 million due to crisis-related impairment losses
- Available liquid funds (incl. credit line and bond issue in October) reach EUR 1.2 billion
- Stronger capital structure and financing profile: equity ratio increases to 48.6%, net LTV falls to 38.4%

KEY FIGURES (IN MEUR)	Q1-3 2020	Δ IN %	Q1-3 2019
Rental income	215.1	5.7%	203.4
Results of asset management	158.9	3.3%	153.8
Results of property sales	9.5	≥+100%	3.7
Results of property development	-21.0	n/a	9.1
Results of operations	113.1	-19.1%	139.7
EBIT	-31.7	n/a	237.1
Financial results	-60.5	≤-100.0%	-25.3
Net profit/loss	-98.3	n/a	202.6
FFO 1 (before tax)	89.2	-3.9%	92.8
FFO 1 (before tax) / share in EUR	0.83	-4.1%	0.86
FFO 1 (before tax) with straight-lined coupon payment*	92.4	10.1%	84.0

*The first full year's coupon payment for the corporate bond 2023 in Q1 2020 (EUR 13.1 million) was straight-lined over a 12-month period for this calculation.

IMMOFINANZ recorded an increase in rental income and in the results of asset management and property sales during the first three quarters of 2020 despite the Covid-19 crisis. FFO 1 (before tax) was only slightly lower than the previous year at EUR 89.2 million. After an adjustment for the straight-lining of a bond coupon payment in Q1 2020 over 12 months, FFO 1 improved by 10.1% to EUR 92.4 million. The capital measures carried out in Q3 2020 strengthened the equity ratio and reduced the net LTV to 38.4%. The strong cash position of EUR 601.9 million at the end of September was increased to approximately EUR 1.2 billion by the benchmark bond issued in October and an undrawn credit line. IMMOFINANZ is therefore very well positioned to manage the current crisis and to utilise future growth opportunities.

Rental income rose by 5.7% to EUR 215.1 million due to the expansion of the portfolio through acquisitions and completions, but a crisis-related increase in the write-off of receivables in the asset management area, primarily in the second quarter, led to substantially higher property expenses. The results of asset management still improved by 3.3% to EUR 158.9 million despite these write-offs. The pandemic had a negative influence on the valuation of investment property: revaluations totalled EUR -153.7 million, compared with clearly positive results in the first three quarters of the previous year (Q1–3 2019: EUR 116.8 million). This reduction represents roughly 3.0% of the total property portfolio. Net loss for the first three quarters of 2020 amounted to EUR -98.3 million (Q1–3 2019: EUR 202.6 million).

"IMMOFINANZ has also been faced with challenges due to the Covid-19 pandemic. We implemented a wide range of measures in recent months – on both the operating and capital sides – to minimise the negative effects and make the company even more robust. We are a strong and reliable partner for our tenants and can also conclude successful transactions in uncertain times, as we proved with the very profitable sale of a property in Germany. With a solid balance sheet and more than EUR 1 billion of liquid funds, we are optimally positioned for further growth and the opportunities that arise from the crisis," commented Ronny Pecik, CEO of IMMOFINANZ, on the company's development.

FFO 1 from the standing investment business (before tax) equalled EUR 89.2 million (Q1–3 2019: EUR 92.8 million) and represents FFO 1 per share of EUR 0.83 (Q1–3 2019: EUR 0.86). This FFO 1 includes, for the first time, the full year's coupon payment of EUR 13.1 million for the corporate bond 2023, made in January 2020, as an expense. The straight-lining of this coupon payment results in FFO 1 of EUR 92.4 million for the first three quarters, which is 10.1% higher than the adjusted comparative amount of EUR 84.0 million.

Occupancy rate stable at high level

The real estate portfolio included 208 properties with a combined carrying amount of approximately EUR 4.9 billion at the end of September 2020. Of this total, approximately 65% are attributable to the office business and 34% to the retail business. The occupancy rate is nearly unchanged at a high 95.5% (31 December 2019: 96.8%) and equalled 93.4% in the office properties and 97.6% in the retail properties. The gross return equalled 5.9% based on IFRS rental income and 6.1% based on invoiced rents.

Robust balance sheet further strengthened by capital measures

The balance sheet structure was further strengthened by the capital measures carried out in July (placement of shares and a mandatory convertible bond with gross issue proceeds of EUR 356.1 million): The equity ratio rose to 48.6% (31 December 2019: 46.0%) and the net loan-to-value ratio (net LTV) improved to 38.4% (31 December 2019: 43.0%). Cash and cash equivalents rose to EUR 601.9 million (31 December 2019: EUR 345.1 million), and a revolving credit line of EUR 100.0 million which was concluded in March is also available. With a EUR 500.0 million benchmark bond issued in October 2020, IMMOFINANZ took another step to increase its financial flexibility and optimise its capital structure. The average remaining term of the financial liabilities rose to 4.75 years together with the issue of this bond.

Average financing costs equalled 1.88% per year including derivatives at the end of September (31 December 2019: 1.91%). The hedging quota is stable at a high 90.3% (31 December 2019: 90.7%), and the unencumbered asset pool (investment property and S IMMO shares at the EPRA NAV) totals EUR 1.9 billion or 34.5% (31 December 2019: EUR 1.9 billion or 33.8%).

EPRA NAV per share equalled EUR 27.96 as of 30 September 2020 (31 December 2019: diluted EUR 31.05). The calculation of EPRA NAV – in contrast to 31 December 2019 – does not include any potential diluting effects from the conversion of the IMMOFINANZ convertible bond 2024 because the bond was "not in the money" as of 30 September 2020. The absence of the dilution from the convertible bond 2024 had a positive effect of EUR 0.62 per share. The number of shares which formed the basis for the calculations was increased by the placement of 15.4 million shares (11.2 million from authorised capital and 4.2 million shares from the sale of treasury shares) in July 2020. In addition, the calculation of EPRA NAV includes the mandatory convertible bond 2023 issued in July 2020 with a total of 7.0 million shares because this bond must be converted into IMMOFINANZ shares and is classified as equity under IFRS. The book value per share equalled EUR 25.61 as of 30 September 2020 (31 December 2019: EUR 29.34).

Covid-19 update

Immediately at the start of the crisis, numerous measures were introduced to minimise the negative effects on IMMOFINANZ and strengthen liquidity.

Individual solutions were developed with the retail tenants to help them overcome the crisis. IMMOFINANZ has since signed agreements with all major retailers for the first lockdown and reopening period. In exchange for temporary rent reductions and deferrals, contract extensions, among others, totalling roughly 300,000 sqm were agreed during Q1-3 2020. Temporary support was also provided to individual office tenants in branches particularly hard hit by the crisis. Roughly 96% of the rents invoiced in the retail and office businesses (after rent reductions) during the first nine months of 2020 had been paid by mid-November (retail: 96%, office: 96%). This high payment rate speaks for the quality of the tenants and the appropriateness of the temporary support agreements. The temporary rent reductions granted during this period represent 11% of contract rents (retail: 18%, office: 5%), and a further 4% (retail: 4%, office: 5%) are not yet due or still outstanding.

All countries in which IMMOFINANZ holds commercial properties have recorded an increase in new infections since the beginning of October. This development has led to the renewed implementation of restrictions by governments that again include temporary shutdowns in the retail sector. As of mid-November 2020, roughly 35% of the rented retail space was temporarily closed, but a reopening is expected in the coming weeks.

Outlook

The Covid-19 pandemic and its effects continue to have a negative influence on the capital markets. From the current point of view, the recognition of an impairment loss to the investment in S IMMO may be required at the end of the fourth quarter of 2020. The amount of this potential impairment loss is dependent, among others, on the closing price of the S IMMO share at the end of December and would be reflected in net profit or loss for 2020. IMMOFINANZ holds 19,499,437 S IMMO shares. This material investment is included in the consolidated IFRS financial statements at equity. Accounting rules require an assessment as of the closing date each quarter to determine whether there are objective indications of impairment to the investment. This decision is based on several pre-defined impairment triggers. An impairment test is carried out as soon as there are indications of impairment and – if necessary – the carrying amount of the investment is adjusted to reflect the fair value less selling costs. If the S IMMO share does not recover from the current level of roughly EUR 15.78 (closing price on 23 November 2020) by year-end, at least one impairment trigger will take effect as of 31 December and result in a write-down that would presumably amount to approximately EUR -100.0 million.

Despite the first positive reports of possible approvals for Covid-19 vaccines, uncertainty remains high over the further development and duration of the pandemic and over potential future containment measures and their impact on the economy and financing environment. IMMOFINANZ has therefore decided not to issue any guidance at the present time on the development of FFO 1 in the current year or the amount of a dividend for the 2020 financial year.

IMMOFINANZ is very well positioned with its real estate solutions – myhive for high-quality offices with a comfortable atmosphere and lively community as well as the cost-efficient STOP SHOP and VIVO! retail brands – and with its robust financial base and intends to return to a profitable growth course as soon as possible. In the office sector, plans include further growth with the myhive brand in the capital cities of IMMOFINANZ's core countries. The goals for the STOP SHOP retail parks include an increase from the current level of 90 to roughly 140 locations over the coming years.

Results Q1-3 2020 in detail

Rental income increased by 5.7%, or EUR 11.7 million, to EUR 215.1 million, above all due to acquisitions and property completions in the previous year. The Covid-19 pandemic led to a substantial rise in the write-off of receivables from asset management to EUR -19.2 million (Q1–3 2019: EUR -0.8 million). Of this total, EUR -16.9 million are attributable to Covid-19 and were recorded primarily in the second quarter. In contrast, maintenance and real estate marketing costs declined to EUR -10.2 million (Q1–3 2019: EUR -12.6 million), respectively EUR -3.0 million (Q1–3 2019: EUR -5.3 million) based on the liquidity protection measures that were implemented immediately at the start of the crisis. Property expenses were 28.2% higher year-on-year at EUR -49.1 million (Q1–3 2019: EUR -38.3 million). An adjustment for the Covid-19 effects on write-off of receivables results in a year-on-year reduction of 15.9%.

The results of asset management improved by 3.3% to EUR 158.9 million (Q1–3 2019: EUR 153.8 million). The results of property sales rose to EUR 9.5 million (Q1–3 2019: EUR 3.7 million), supported above all by the profitable sale of an office property in Düsseldorf and the related revaluation in the third quarter. The closing for this transaction is expected to take place at the end of 2020. Properties with a volume of EUR 51.9 million were sold during the first three quarters (asset and share deals), whereby the largest transactions involved an office property in Warsaw and land in Romania.

The results of property development turned negative at EUR -21.0 million (Q1–3 2019: EUR 9.1 million). This decline resulted from the foreign exchange-adjusted revaluation of properties under construction, which amounted to EUR -20.5 million (Q1–3 2019: EUR 15.0 million) and also reflected a Covid-19-related increase in market yields as well as cost increases on individual projects.

Other operating expenses rose by 11.1% to EUR -35.8 million (Q1–3 2019: EUR -32.2 million). The increase in personnel expenses included under this position is primarily attributable to a non-recurring payment related to the resignation of Oliver Schumy from the Executive Board. The results of operations equalled EUR 113.1 million and were 19.1% lower than in the previous year (Q1–3 2019: EUR 139.7 million).

Results from the revaluation of standing investments and goodwill totalled EUR -144.8 million (Q1–3 2019: EUR 97.4 million), chiefly due to the negative effects of the Covid-19 pandemic. This decline in value represents roughly 3.2% of the carrying amount of the standing investments as of 30 September 2020. Retail properties were written down by EUR -68.4 million (4.2% of the carrying amount) and office properties by EUR -75.5 million (2.7% of the carrying amount). The external appraisals carried out by CBRE at the half-year show a slight increase in market yields (increase of up to 0.5% in the retail segment) as well as changed assumptions concerning re-letting in the portfolio properties. Operating profit (EBIT) declined from EUR 237.1 million in the previous year to EUR -31.7 million.

Financing costs totalled EUR -55.7 million (Q1–3 2019: EUR -51.5 million). After an adjustment for non-recurring effects (non-cash adjustments of effective interest method), financing costs fell by MEUR 2.0. Average financing costs, including hedging, equalled 1.88% per year (31 December 2019: 1.91%). Other financial results amounted to EUR -13.4 million (Q1–3 2019: EUR -21.1 million) and resulted chiefly from the valuation of interest rate derivatives in the current low-interest environment. The share of profit or loss from equity-accounted investments amounted to EUR 9.4 million (Q1–3 2019: EUR 47.1 million), whereby EUR 6.3 million are attributable to the share of earnings from S IMMO. Financial results totalled EUR -60.5 million (Q1–3 2019: EUR -25.3 million).

Earnings before tax equalled EUR -92.2 million (Q1–3 2019: EUR 211.8 million). After the deduction of EUR -6.0 million (Q1-3 2019: EUR -13.5 million) in income taxes, the net loss amounted to EUR -98.3 million (Q1–3 2019: EUR 202.6 million). This represents earnings per share (basic) of EUR -0.91 (Q1–3 2019: EUR 1.90).

The interim report by IMMOFINANZ AG for the first three quarters 2020 as of 30 September 2020 will be available on the company's website under http://www.immofinanz.com/en/investor-relations/financial-reports starting on 26 November 2020.

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On IMMOFINANZ

IMMOFINANZ is a commercial real estate group whose activities are focused on the office and retail segments of seven core markets in Europe: Austria, Germany, Poland, Czech Republic, Slovakia, Hungary and Romania. The core business covers the management and development of properties, whereby the STOP SHOP (retail), VIVO! (retail) and myhive (office) brands represent strong focal points that stand for quality and service. The real estate portfolio has a value of approx. EUR 4.9 billion and covers roughly 210 properties. IMMOFINANZ is listed on the stock exchanges in Vienna (leading ATX index) and Warsaw. Further information under: http://www.immofinanz.com

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