

Swiss convictions Bern

Recommended since 06.11.2020

25.05.2022



Country CH	Market capitalization (bn) CHF 7.6	Perf. since reco. (%)
Sector Real Estate	Free float 99.9%	Swiss Prime Site AG 24.9
Factset SPSN-CH	Closing price CHF 99.20	Market 8.8
ISIN CH0008038389	ESG Risk score* 17.6 Low risk	

Profile

Swiss Prime Site (SPS) AG is a real-estate investment company involved in acquiring, selling, managing, developing and leasing real-estate properties. It operates through two business divisions: Real Estate and Services. The Real Estate division exclusively covers core real-estate business, alongside central group functions. The Services division comprises real-estate services, assisted living, as well as retail and asset management businesses. The company was founded on 11 May 1999 and is headquartered in Olten (Switzerland).

Strengths/opportunities

- Outstanding real-estate portfolio and project pipeline, with 20 projects totalling investment volume of roughly CHF 2bn.
- Liquidity strengthened by sale of Tertium Group, enabling SPS to focus on new attractive projects.
- Operating on a stable and profitable basis with solid financial foundations.

Weaknesses/threats

- Reduced profitability due to increased vacancy rates and losses at Jelmoli luxury department store – 5% less rental income for 2020.
- More exposed to consequences of the coronavirus pandemic than the peer group: 26% of rental income from retailing and 7% from hotel, hospitality and catering sector.
- Further value adjustments possible due to revaluations.

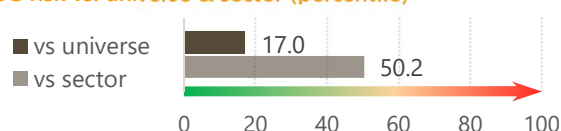
Investment case

- Swiss Prime Site has lost more than 30% in value since its February 2020 highs, but is showing potential to recover once the economy reverts to normal.
- The company is comfortably financed (LTV of 45%; proceeds from the sale of Tertium; CHF 1bn of undrawn credit lines) and will be able to develop its pipeline, with projects worth CHF 2bn.
- SPS intends to reduce the share of its rental income from retail to 20%, thereby diversifying and stabilising its income stream.
- The 2022 profit guidance has been confirmed and will be targeted. In the meantime, the attractive dividend yield will at least partly compensate investors for any share price weakness.

Valuation

SPS is trading at a 5% premium to NAV. Our 12-month target price of CHF 105 equates to a 10% premium to the forward NAV, based on the group's economic profit.

ESG risk vs. universe & sector (percentile)*



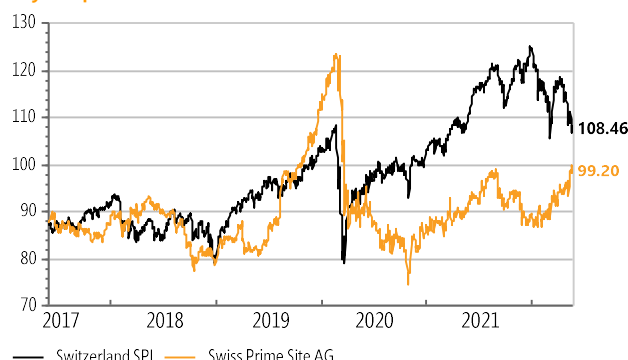
CHF	12/2021	2022e	2023e
Sales revenue (bn)	745	621	654
Sales growth	-6.1%	-16.6%	5.3%
EBIT adjusted (bn)	356	435	423
% of sales	47.8%	70.0%	64.7%
Net income (bn)	507	353	351
Net income growth	-16.9%	-30.4%	-0.6%
FCF/Sales	47.3%	1.1%	19.5%
Net debt/Ebitda	13.5x	11.2x	11.2x
Dividend yield	3.4%	3.4%	3.5%
PE	13.4x	24.0x	25.0x
P/BV	1.1x	1.1x	1.1x

Factset estimates

ESG - risks and key points

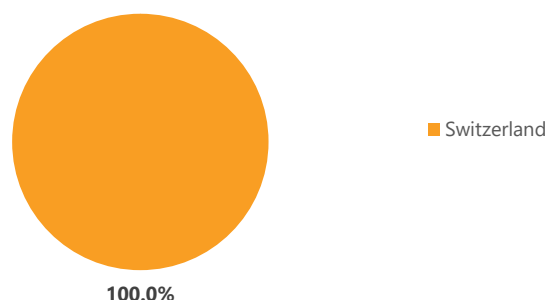
- SPS is at low risk of experiencing serious financial impact from ESG factors on account of its low exposure to ESG issues.
- Real-estate companies mostly exhibit no major potential for ESG-risk-induced conflicts, although it would appear SPS is below-average when it comes to managing its ESG factors.

5-year performance vs SPI



Source: FactSet

Sales breakdown - 12/2021



*: see overleaf

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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