

Analysts' model set to break down international barriers

Goldman Sachs launches first valuation model which compares European property shares on like-for-like basis

By James Whitmore

GOLDMAN SACHS, ONE OF THE POWERHOUSES in investment banking, began coverage of the European property share sector this week for the first time in five years, using an innovative valuation model based on economic value added.

Research analyst Jeppe de Boer and marketing analyst Victor van Bommel, who joined Goldman Sachs from ABN Amro last May, have developed a uniform EVA[®]-based model which for the first time allows like-for-like comparisons of European property companies. They hope this will encourage investors into property, who in the past have shied away from the sector because of the confusingly different ways that shares are valued in each country. Shares are based on net asset value in the UK, and on earnings in other countries.

They say there are two factors that determine a company's share value: the value of its assets, measured by NAV, and the economic value which a company adds to its assets, measured by EVA[®]. The principle of their valuation method is simple: companies which generate positive EVA[®] deserve to be valued at a premium to their NAV, while companies which generate negative EVA[®] deserve to be valued at a discount.

Of the 20 European stocks that the two Dutchmen are covering, the favoured two are Canary Wharf Group and Unibail – the largest French property company.

'Superior development skills, in combination with a visionary outlook and significant tax benefits have been Canary Wharf Group's recipe for success,' they said. They estimate that Canary Wharf's 'fair value' or target share price is 600p – a 19% premium to the current price.

Unibail, which is 'clearly focused on cash returns over capital employed', is praised for its 'superior real estate and financial skills'. Its target share price is 15% higher than its current one.

Six other companies are rated 'market outperformers': Haslemere, Metrovacesa in Spain, Rodamco Europe, Castellum in Sweden, Klépierre in France and VIB in the Netherlands. The 12

companies that are not in favour are: Land Securities, Liberty International, British Land, Slough Estates, Cofinimmo in Belgium, Drott in Sweden, Gecina in Italy, IVG in Germany, Simco in France, and Uni-invest and VastNed Retail in the Netherlands. Their least favourite stock, however, is Hammerson. Its share price, they believe, should be 18% lower than the current level.

Recommendations for 20 leading European property companies

Company	Rating	Currency	Price	Fair value	NAV 2000 (estimate)	Current discount	Fair discount	Potential upside
British Land	MP	£(p)	499	533	730	-32%	-27%	7%
Canary Wharf	RL	£(p)	503	600	453	11%	32%	19%
Castellum	MO	SKr	103	117	155	-33%	-24%	14%
Cofinimmo	MP	EUR	95	95	106	-11%	-10%	1%
Drott	MP	SKr	119	114	150	-21%	-24%	-4%
Gecina	MP	EUR	101	98	156	-35%	-37%	-3%
Hammerson	MP	£(p)	490	400	643	-24%	-38%	-18%
Haslemere	MO	EUR	45	64	64	-28%	0%	40%
IVG	MP	EUR	13	13	16	-20%	-23%	-3%
Klepierre	MO	EUR	102	113	119	-15%	-5%	11%
Land Securities	MP	£(p)	912	843	1156	-21%	-27%	-8%
Liberty	MP	£(p)	528	538	808	-35%	-33%	2%
Metrovacesa	MO	EUR	17	21	24	-29%	-11%	25%
Rodamco Europe	MO	EUR	44	50	41	8%	23%	13%
Simco	MP	EUR	77	68	106	-28%	-36%	-11%
Slough	MP	£(p)	430	443	563	-24%	-21%	3%
Unibail	RL	EUR	179	210	194	-8%	9%	17%
Uni-Invest	MP	EUR	12	12	12	0%	0%	0%
VastNed Retail	MP	EUR	44	44	49	-9%	-10%	-1%
VIB	MO	EUR	28	32	26	9%	21%	11%

RL = recommended list MP = market performer MO = market outperformer

Source: Goldman Sachs

Demerged Kingfisher will keep Chartwell subsidiary

RETAILER KINGFISHER IS TO RETAIN its Chartwell Land property subsidiary when it demerges its general merchandise operations in the second quarter of the year.

The new Chartwell Land will continue to be run by Mark Creedy and will be focused on retail warehouses. It will have a £900m investment portfolio, comprising 15 retail parks and 16 B&Q stores. The £800m high street properties will be split in two: part will be imported into the general merchandising business and the rest will be sold.

Creedy said the timing and scale of sales had yet to be decided.

There will be no further shopping centre acquisitions, he said, although Chartwell was committed to extending the Haymarket Shopping Centre in Leicester.

With the new focus on out-of-town retail, Chartwell will be the third largest owner in the sector – behind Land Securities and Pillar Property – with 325,000 sq m (3.5m sq ft) under management. Chartwell currently has 93,000 sq m (1m sq ft) under construction and a further 46,450 sq m (500,000 sq ft) that is subject to planning consent and land assembly.

Major schemes include Imperial Park in Bristol, Town Wharf in

Walsall – both of which are under construction – and Temple Square in Manchester, which is awaiting the result of a compulsory purchase order inquiry.

Kingfisher wants to spin off its general merchandising operations, comprising Superdrug, Woolworths and MVC, to concentrate on its faster-growing electricals and DIY businesses, such as B&Q and Comet in the UK and Castorama in France.

Although a demerger in the second quarter is the most likely outcome, the company is looking at other options, which include a leveraged buyout of Woolworths and a trade sale of Superdrug.

Property returns start to improve

PROPERTY RETURNS HAVE STARTED 2001 with signs that the weakening performance of recent months may be levelling out.

All property capital values on the Insignia Richard Ellis Monthly Index rose in January for the first time since last August. The principal driver was the office sector with capital growth of 0.7% in January and monthly rental growth of 1.3%.

High street shops recorded their smallest fall in capital values for five months, while retail warehouses produced their worst rental performance in recent months.