Market positive over Intu's sale of Norwich shopping centre

By Alistair Anderson

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Intu Properties will sell half of its Chapelfield mall in the East Anglian city of Norwich, north-east of London, for a net consideration of £148m to LaSalle Investment Management.

Image source: www.intugroup.co.uk

The market has lauded the sale, with the share price of the owner of UK and Spanish shopping centres rising as much as 4.7% on Thursday, 2 November, before ending 0.57% up at R40.45.

Intu serves as a rand hedge for South African investors as it pays dividends in pounds, which have been significant for owners of its stock as the currency lost about 1.7% against the dollar in the first 10 months of 2017.

Despite this currency boost, Intu's share price is down about 14% year to date.

The sale of half of the interest in Chapelfield is part of Intu's strategy of introducing investment partners to its assets and recycling capital into its UK development pipeline.

Intu manages the assets but can use the capital to enhance its existing assets. "We will use the net proceeds of the transaction to repay debt on our revolving credit facility and to invest into our development pipeline," said CEO David Fischel.

Intu Chapelfield is located in the centre of Norwich and is a key retail destination in East Anglia with an annual footfall of 12-million people.

Peter Clark, a portfolio manager at Investec Asset Management, said the sale was positive as Intu had managed to sell half of Chapelfield at a fair price and managed to deleverage its balance sheet.

But he warned that when Intu sold more malls or interests in shopping centres in the near future, it might struggle to do so at the prices it desired.

This was because malls across the UK were being valued downward, as was indicated by the recent sale of a stake in Bluewater shopping centre in Dartford.

Hermes Asset Management agreed in September to sell 7.5% of the Bluewater centre to insurer Royal London for £155m, as much as 7% below its original asking price.

UK malls have had to adapt to a rise in online shopping and weaker consumer confidence, which have weakened their worth, according to investors.

Intu was set to achieve like-for-like net rental income in the financial year to 2018 at a level of 2% to 3%, Fischel said. The group was recovering from some negative sentiment after the Brexit referendum, he said.

Clark said there were no signs that Intu’s share price would recover soon. "Although the stock may look cheap at a 40% plus discount to net asset value, we don’t expect any meaningful rerating in the near term, given the highly leverage balance sheet and potential decrease in asset values."

Source: Business Day