

Company Note

IGD

FY20: A Tough Year

In view of the prolonged impact from Covid-19, we took a more conservative approach in our earnings model. While 2021 is still characterised by uncertainty related to the pandemic evolution, with management flagging a progressive recovery later in 2H, we highlight that the stock continues to offer upside on fundamentals, trading at an avg. 49% discount vs. EU peers in terms of 2021-22 P/NAV.

FY20A results and 2021 outlook

FY20A results reflected the negative impact of the pandemic albeit with some signs of resilience thanks to IGD's portfolio mix, properties' geographical positioning and the strategic initiatives taken. In 2021, management expects the headwinds from Covid-19 to continue to weigh on operations and tenants, with a rebound later in 2H21 supported by the vaccine's progressive roll-out and restrictions' easing. FY21 FFO guidance is set at +3-4% yoy (EUR 61-62M).

Estimates

After the release of FY20 results, we revised downwards our estimates assuming: 1) a further impact on 2021E operating performance and marginal negative fair value changes in 2021-23E, amid the pandemic; 2) no dividend distribution in 2020A; and 3) the disposal of the hypermarkets' portfolio starting from 2H21. As a result, we lowered our 2021-22E EBITDA and adj. net income, respectively, by 12% and 11% on average, whilst our 2021E adj. FFO is broadly in line yoy at EUR 58M (vs. IGD's guidance of 2021 FFO growing by 3-4% yoy). Our net debt and LTV ratio figures as of end-2021 look for an improvement to EUR 969M and 45.9% (vs. EUR 1,156M and 49.9% in 2020A). We continue to see a return to dividend payment in 2021E (to be distributed in 2022E), although we lowered our 2021-22E DPS forecasts by roughly 9-10%, reflecting our estimates' revision.

Valuation

By averaging our three valuation methodologies (DCF, DDM and P/NAV Multiples), we derived a new rounded target price of EUR 4.3/share (from EUR 4.2/share) and, given the more limited upside, we change our rating to ADD (from BUY). Our slight valuation increase reflects: 1) our 1-year valuation roll forward; 2) our estimates' revision; 3) our WACC update, currently at 5.2% (from 5.6%); 4) the reduction of the growth rate (g) from 0.5% to 0%; and 5) the multiples' re-rating.

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Date and time of production

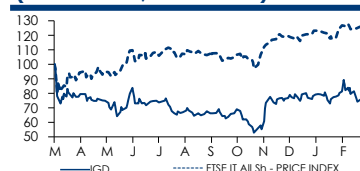
**ADD**  
(from BUY)

**Target Price: EUR 4.3**  
(from EUR 4.2)

Italy/Real Estate  
Update

MTA-STAR

Price Performance  
(RIC: IGD.MI, BB: IGD IM)



IGD - Key Data

Price date (market close)	08/03/2021
Target price (EUR)	4.3
Target upside (%)	18.78
Market price (EUR)	3.62
Market cap (EUR M)	399.45
52Wk range (EUR)	4.68/2.48

Price performance %	1M	3M	12M
Absolute	-4.9	2.0	-31.4
Rel. to FTSE IT All Sh	-5.6	-4.9	-39.9

Y/E Dec (EUR M)	FY20A	FY21E	FY22E
Revenues	152.7	142.5	146.8
EBITDA	98.70	99.81	104.5
EBIT	-52.32	36.99	63.02
Net income	-74.26	1.76	27.64
EPRA EPS (EUR)	0.57	0.49	0.54
Net debt/-cash	1,155.5	968.9	948.5
Adj P/E (x)	6.7	7.3	6.8
EV/EBITDA (x)	16.0	13.7	12.9
EV/EBIT (x)	Neg.	37.0	21.4
Div ord yield (%)	0	4.3	6.2

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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# Contents

<b>FY20 Results</b>	<b>3</b>
FY20A results: a sizeable covid-19 impact	3
Management 2021 outlook and future highlights	4
Portfolio and financial structure overview	5
Retail Real Estate prospects: IGD's positioning	6
<b>Estimates Revision</b>	<b>8</b>
<b>Valuation</b>	<b>11</b>
DCF	11
DDM	12
Multiples' approach	12
<b>Company Snapshot</b>	<b>14</b>

## FY20 Results

### FY20A results: a sizeable covid-19 impact

The key points of FY20 results were:

- **Net rental income lowered to EUR 109.5M, down by 19.8% yoy**, due to non-recurring emerging costs (discounts to tenants and credit losses) amid the pandemic equal to EUR 18.5M, or rather 1.7 months in rent abatements, and marginally due to lower variable and temporary revenues in both Italy and Romania. The financial occupancy rate reduced in Italy to 94.3% (vs. 96.9% reported in 2019A) and in Romania to 93.6% (vs. 97.6% in 2019A);
- **EBITDA stood at EUR 98.7M, down by 20.8% yoy**, as a result of the lower net rental revenues and despite some G&A and personnel costs' savings. The EBITDA margin stood at 64.7% vs. approximately 77% reported last year;
- **Net loss of EUR 74.3M (vs. EUR 12.6M net income reported in 2019A)** was attributable to the drop in the operating performance and in the portfolio fair value, the latter as per change in DCF rates' assumptions and future cash flows, and marginally due to higher provisions and non-recurring write-downs. The amount of total financial charges slightly improved yoy to EUR 36.2M (from EUR 36.8M as of 31 December 2019), including EUR 3.8M of negative carry related to the EUR 400M bond issued in November 2019 and to the EUR 36M loan guaranteed by SACE: on an ordinary basis (excluding IFRS16 charges), the financial management improved by EUR 1.4M yoy (down by 4.7% yoy);
- **FFO equal to EUR 59.3M (EUR 0.54/sh.), down by -28.8% yoy**, at the bottom of the guidance range provided by the company during 1H20A results (EUR 0.54/sh. – EUR 0.57/sh.), although including the one-off Covid-19 provisions accounted for in the year;
- **Net debt at end-2020 slightly improved yoy to EUR 1,156M (from EUR 1,163M as of 31 December 2019)**, thanks to the positive FFO contribution and EUR 40M investments' postponement/cancellation in the year, despite the FY19 dividends paid in July for EUR 25M.

## IGD – FY20A results

EUR M	4Q19A	FY19A	4Q20A	4Q20E	4Q A/E %	4Q yoy %	FY20A	FY20E	FY A/E %	FY yoy %
Total rental income	39.3	155.3	36.6	36.2	1.2	-6.9	145.6	145.2	0.3	-6.2
Services	1.6	6.4	1.5	1.5	-2.1	-6.3	6.3	6.3	-0.5	-1.6
Trading	0.0	0.4	0.0	0.0	NM	NM	0.7	0.7	0.0	75.0
<b>Total revenues</b>	<b>40.9</b>	<b>162.1</b>	<b>38.1</b>	<b>37.7</b>	<b>1.1</b>	<b>-6.8</b>	<b>152.6</b>	<b>152.2</b>	<b>0.3</b>	<b>-5.9</b>
Operating cost	-6.5	-25.2	-18.3	-17.4	5.2	NM	-42.7	-41.8	2.2	69.4
Non-operating cost	-3.8	-12.3	-3.3	-4.0	-16.7	-12.0	-11.2	-11.9	-5.6	-8.9
<b>EBITDA total</b>	<b>30.7</b>	<b>124.6</b>	<b>16.5</b>	<b>16.3</b>	<b>1.0</b>	<b>-46.2</b>	<b>98.7</b>	<b>98.5</b>	<b>0.2</b>	<b>-20.8</b>
EBITDA margin %	74.9	76.9	43.3	43.3	-0.1	-42.2	64.7	64.7	-0.1	-15.9
D&A, FV changes and provisions	-27.2	-74.3	-72.7	-57.7	25.9	NM	-151.0	-136.0	11.0	NM
<b>EBIT</b>	<b>3.5</b>	<b>50.3</b>	<b>-56.2</b>	<b>-41.4</b>	<b>35.8</b>	<b>NM</b>	<b>-52.3</b>	<b>-37.5</b>	<b>39.5</b>	<b>NM</b>
NCF	-12.1	-36.8	-9.2	-9.0	2.2	-23.6	-36.2	-36.0	0.6	-1.6
Extraordinary items	0.0	0.0	0.0	0.0	NM	NM	-0.1	-0.1	0.0	NM
EBT	-8.6	13.6	-65.4	-50.4	NM	NM	-88.6	-73.6	20.4	NM
Taxes	-1.2	-1.0	12.4	2.1	NM	NM	14.2	3.9	NM	NM
Minorities	0.0	0.0	0.0	0.0	NM	NM	0.0	0	NM	NM
<b>Net income</b>	<b>-9.8</b>	<b>12.6</b>	<b>-53.1</b>	<b>-48.3</b>	<b>9.8</b>	<b>NM</b>	<b>-74.3</b>	<b>-69.7</b>	<b>6.7</b>	<b>NM</b>
<b>Net income adj.</b>	<b>15.4</b>	<b>76.4</b>	<b>7.0</b>	<b>9.1</b>	<b>-22.8</b>	<b>-54.3</b>	<b>63.3</b>	<b>65.3</b>	<b>-3.0</b>	<b>-17.1</b>
FFO adj.	20.4	83.3	9.0	8.2	9.8	-55.9	59.3	58.5	1.4	-28.8
Net debt	1162.6	1162.6	1155.5	1158.3	-0.2	-0.6	1155.5	1158.3	-0.2	-0.6
NAV-NRV / share (EUR)	11.40	11.40	10.38	10.32	0.6	-9.0	10.38	10.32	0.6	-9.0
LTV %	47.6	47.6	49.9	49.9	0.0	4.8	49.9	49.9	0.0	4.8

NA: not available; NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

### Management 2021 outlook and future highlights

Given the ongoing Covid-19 pandemic, IGD has now assumed some direct and indirect impacts on FY21 financial figures, in the region of EUR 10-11M, with a progressive recovery starting in 2H21. As a result, management set a guidance for 2021 FFO at +3/4% yoy, implying an FFO at approximately EUR 61-62M (EUR 0.55-56/share), which does not take into account the potential disposal of a standalone hypermarket/supermarket portfolio so as to safeguard IGD's financial stability and investment profile. The main aim is to lower the LTV ratio from the 49.9% recorded in 2020A, below or close to 45%, which is a more comfortable rate.

On this front, management provided some details during the FY20 results' conference call stating that the potential asset sale could be carried out more or less at the end-1H21 at a targeted value of roughly EUR 185M, which is broadly in line with the assets' book value. The assets have been selected based on the following strategic rationale: attractive retail properties, located in third parties' malls or in separated places from IGD's galleries/malls (the least strategic among IGD's total hypermarket/supermarket portfolio, according to management), with long-lasting contracts.

The potential disposal should allow IGD to collect the financial resources in 2021-22 as to: 1) strengthen business' resilience; 2) support the development projects in pipeline, as capex in 2021 has been forecast at around EUR 43M, of which EUR 29M mandatory (non-deferrable activities, extraordinary maintenance, update of systems as well as fit out adaptations in order to steadily attract tenants and visitors); and 3) debt maturities, in case of no-refinancing of the EUR 154M outstanding Notes expiring in April 2022.

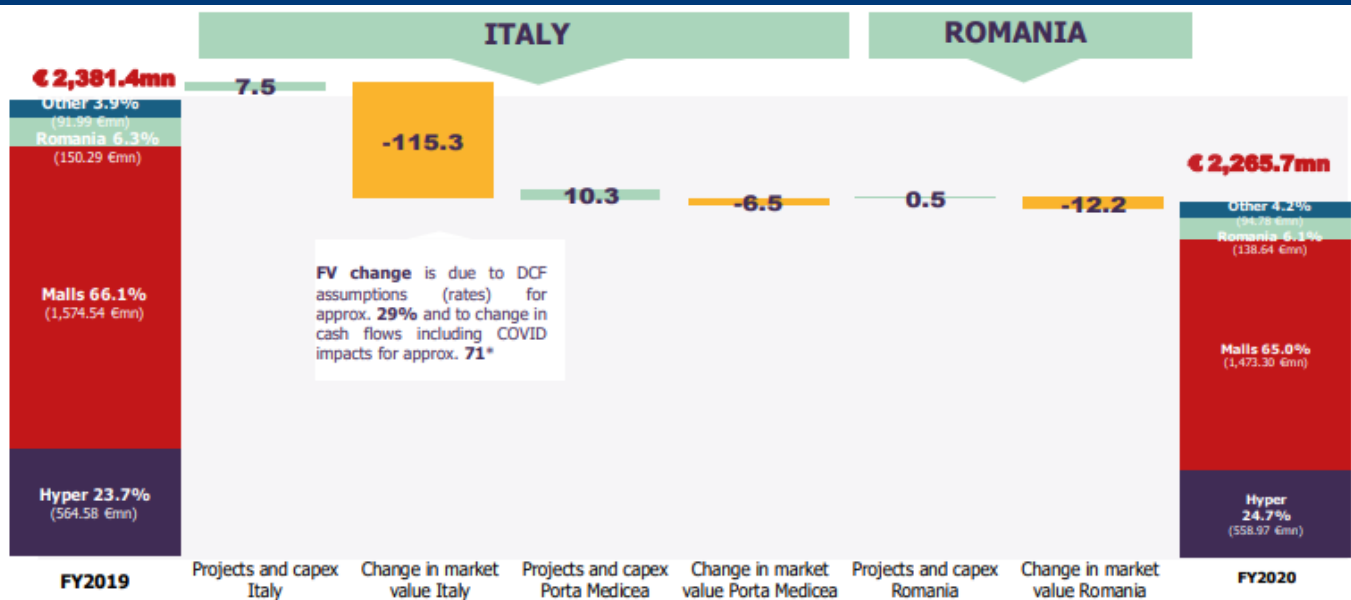
Lastly, as far as dividends are concerned, due to the loss recorded by the parent company (IGD SIIQ S.p.A.), the mandatory SIIQ dividends' distribution has been waived, thus management has decided to propose no dividends for FY20, preserving some liquidity. In 2021, management expects IGD to return to dividends (to be paid in 2022), though the uncertainties regarding Covid-19 and the potential negative impacts on the current year need to be monitored.

**Portfolio and financial structure overview**

As of end 2020, IGD's portfolio reached a market value of EUR 2,265.69M, excluding leasehold properties, down by 4.9% vs. December 2019A. The portfolio has been impacted by the pandemic, mainly as a result of the lower variable revenues and emerging costs amid the restrictions and the safety measures imposed by the Italian government in the country, specifically on shopping centers, that altered downwards the properties' future cash flows.

In this context, hypermarkets proved to be resilient, mainly thanks to the essential nature of the services/goods provided and long WALT (Weighted Average Lease Term), with a 1% drop vis-à-vis last year's market value and a gross initial yield of 6.02% at end-2020. By contrast, IGD's galleries and malls located both in Italy and Romania have been devalued, respectively, by 6.4% and 7.8% as several merchandise categories have been widely penalised by the Covid-19 outbreak (restaurants, entertainment, clothing, footwear, services, etc.), affecting footfalls, vacancy rates, tenants' financial solidity and, marginally, new rents after contract renewals.

**IGD – Portfolio market value evolution (EUR M)**



Source: Company data

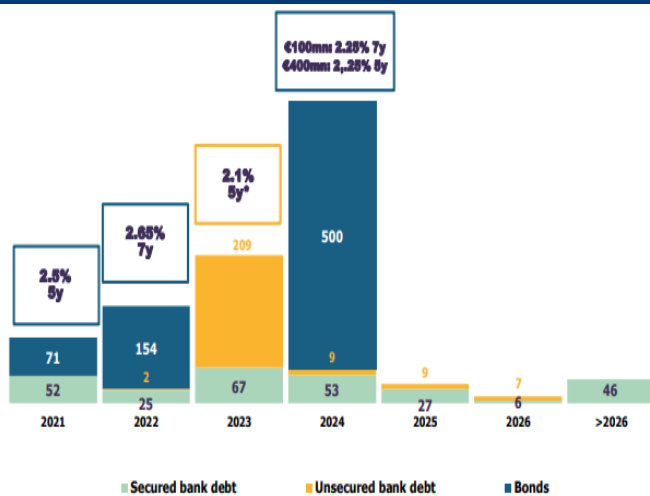
Looking at IGD's financial structure, despite the impact on 2020A FFO, the net debt at year-end remained broadly stable yoy (EUR 1,156M vs. EUR 1,162M reported in 2019A), thanks to capex remodulation/cancellation (reduction of EUR 40M investments vs. the ones planned) and lower dividends. As a result, IGD's liquidity position remained solid

with cash on hand at 31 December 2020 of approximately EUR 117M, which should be sufficient to cover all the financial needs for 2021 and early-2022, including the EUR 71M Notes already redeemed by the company last week (see our daily of 2 March 2020), in addition to EUR 60M and EUR 151M committed and uncommitted credit lines available.

On the negative side, due to the portfolio's fair value drop, the LTV ratio worsened to 49.9% in 2020A (from 47.6% recorded last year). In this respect, the decision to sell a portfolio of standalone hypermarkets/supermarkets is mainly directed at strengthening IGD's financial structure and reducing the LTV ratio by roughly 4%, according to management, also providing the company with the necessary resources to repay the EUR 154M outstanding Notes expiring on April 2022.

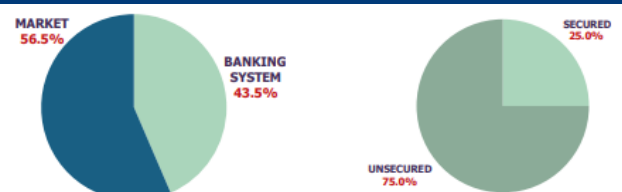
In any case, today, IGD still has room with respect to the thresholds contemplated in the regulations for each single issue, as the more stringent covenants, which were related to the EUR 300M Eurobond just completely redeemed, were: 1) Ratio of Total Asset – Intangible Asset to Total Debt (excluding derivatives liabilities) below 60%; 2) Interest Cover Ratio (recurring items on cash basis) above 1.7; 3) ratio of secured debt to Total Asset – Intangible Asset below 45%; and 4) ratio of Unencumbered Asset to unsecured debt above 1.25.

#### IGD – Debt maturity (EUR M)



Source: Company data

#### IGD – Debt structure (calculated excluding the IFRS16 effect)



	31/12/2019	31/12/2020
LTV	47.6% (adj. IFRS16 c. 46.4%)	49.9% (adj. IFRS16 c. 47.8%)
ICR	3.8x	3.2x
Average cost of debt	2.35%	2.30%

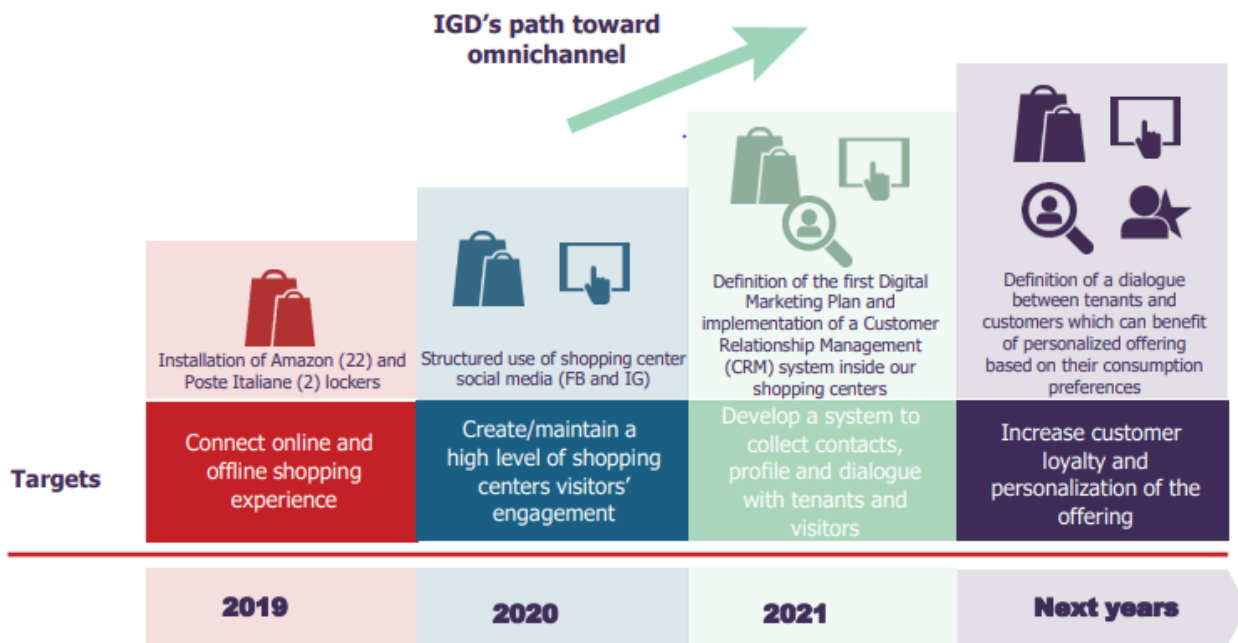
Source: Company data

#### Retail Real Estate prospects: IGD's positioning

With a full operations' recovery that is heavily dependent on the easing of the restrictions taken in view of the health emergency and on a widespread deployment of the vaccine, in our view, some transformational trends, such as digitalisation and evolving consumption habits, have accelerated due to the pandemic. The physical channel has left more space to the online one, although it has not been fully replaced as confirmed by the double-digit increase in the average ticket at IGD's shopping centers in 2020, despite the drop-in footfalls. In this context, we believe that properties' owners, and tenants as well, should invest in digital transformation, product/services mix change and shopping experience in order to retain customers' physical presence in the short-to-medium term, while developing the online channel for a longer-term horizon.

In this respect, IGD has been strongly committed since the beginning of 2019 in defining a strategy and taking initiatives moving towards an omnichannel shopping experience, such as: 1) the installation of Amazon and Poste Italiane dark stores; 2) the creation of shopping centers visitors' engagement for a more tailor-made purchasing experience; 3) differentiation of the merchandising mix (introduction of pharmacies and diagnostic clinics); or, 4) the introduction of apps and touch screens so as to improve malls, galleries and tenants' digital communication.

**IGD – Company's path towards an omnichannel shopping experience**



Source: Company data

## Estimates Revision

After the release of FY20A financials, we revised downwards our estimates as we factored into our assumptions: 1) a further negative impact on 2021E, both at the operating and portfolio market value levels, in view of the prolonged disruption from coronavirus' disease; 2) the non-distribution of FY20 dividends; and 3) the planned disposal of the standalone hypermarket/supermarket portfolio for EUR 185M by the end of 1H21.

As a result, our 2021E-22E EBITDA decreased by approximately 12%/year mainly due to higher vacancy rates assumed both in Italy and Romania, further discounts and costs in 2021E and the deconsolidation of the hypermarkets properties on sale starting from 1H21, the rents of which amount to roughly EUR 10M per year. Below the EBITDA line, we forecast negative fair value changes in 2021-22E, corresponding to roughly 2.3% and 1.5% of the 2020A and 2021E portfolio value, while we reduced our financial charges assumptions as we excluded the activation of the step-up clauses on the EUR 500M Notes expiring in 2024, following the hypermarkets disposal. Consequently, we see 2021E net income at breakeven (from EUR 53M previously expected) and at EUR 28M in 2022E, down by 60% vs. our previous estimate. On an adjusted basis, our net income (EPRA earnings) declined by 10% and 12% respectively in 2021E-22E.

### IGD – 2020A-23E P&L (New vs. old estimates)

EUR M	2020A	2021E New	2022E New	2023E New	2021E old	2022E old
Rental from domestic malls	98.6	92.8	95.2	98.9	93.8	96.9
Rental from hyper/supermarket	38.2	33.4	33.7	34.1	40.0	40.6
Rental revenues from Romania	8.2	8.7	9.0	9.4	9.4	9.5
City centre & other	0.6	0.6	0.6	0.6	0.9	0.9
Total gross rental incomes	145.6	135.6	139.8	144.2	145.3	148.0
Service revenues	6.4	6.4	6.5	6.5	6.4	6.5
Non-operating income (trading)	0.7	0.5	0.5	0.0	1.5	2.0
<b>Total revenues</b>	<b>152.7</b>	<b>142.5</b>	<b>146.8</b>	<b>150.7</b>	<b>153.2</b>	<b>156.5</b>
Cost of sold	-1.4	-1.5	-1.5	0.0	-1.5	-2.0
Direct cost	-47.6	-36.3	-35.7	-33.6	-32.9	-30.5
G&A expenses	-4.9	-4.9	-5.0	-5.0	-5.6	-5.7
Total costs	-53.9	-42.7	-42.2	-38.6	-40.0	-38.1
<b>EBITDA</b>	<b>98.7</b>	<b>99.8</b>	<b>104.5</b>	<b>112.1</b>	<b>113.2</b>	<b>118.4</b>
EBITDA margin (%)	64.6	70.0	71.2	74.4	73.9	75.6
Provisions	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1
D&A	-4.4	-1.4	-1.4	-1.4	-1.6	-1.6
Write downs and FV	-146.0	-61.3	-40.0	-19.0	-16.5	-6.1
<b>EBIT</b>	<b>-52.3</b>	<b>37.0</b>	<b>63.0</b>	<b>91.7</b>	<b>95.0</b>	<b>110.6</b>
NFC	-36.2	-35.1	-34.7	-34.3	-41.2	-39.3
Other operations/equity stakes)	-0.1	0.0	0.0	0.0	0.0	0.0
EBT	-88.6	1.9	28.4	57.3	53.8	71.3
Taxes	14.2	-0.1	-0.7	-1.1	-1.1	-1.4
Net income	-74.3	1.8	27.6	56.2	52.8	69.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Group net income</b>	<b>-74.3</b>	<b>1.8</b>	<b>27.6</b>	<b>56.2</b>	<b>52.8</b>	<b>69.8</b>
<b>Group adj. Net income</b>	<b>63.3</b>	<b>54.6</b>	<b>59.2</b>	<b>66.6</b>	<b>60.8</b>	<b>67.5</b>

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research



Looking at the FFO dynamic, we set our adjusted FFO in 2021E at EUR 58M, down by 2% yoy, which compares to a company's guidance for an FFO adj. growing by 3-4% yoy, or rather at approximately EUR 61-62M (EUR 0.55-56/share), while our 2022E assumptions point to an FFO adjusted at around EUR 63M. We reduced our 2020 DPS to zero, in line with management's proposal to shareholders to not approve the distribution of a dividend for 2020, and we lowered our 2021E-22E DPS by 9% and 10% respectively, according to our downwards estimates' revision.

Reflecting our new FFO forecasts and assuming the disposal of the hypermarkets' portfolio at EUR 185M, with no capital gains, our 2021E net debt would decline to EUR 969M vs. EUR 1,156M as of 31 December 2020, and we see 2021E LTV improving as well at 45.9% compared to 49.9% as of end-2020. In 2022E, in line with the gradual operations' recovery, we see IGD's capital structure progressively strengthening for a net debt of EUR 949M and an LTV of 45.1%.

Lastly, we introduce our 2023E estimates, which envisage: 1) an EBITDA at EUR 112M; 2) a net income adjusted at EUR 67M; 3) a FFO adjusted of EUR 70M; 4) net debt of EUR 912M, with the LTV ratio improving to 43.6%; and, 5) an EPRA NAV of EUR 10.83/sh.

#### IGD – 2020A-23E main KPIs (New vs. old estimates)

EUR M - EUR/share	2020A	2021E	2022E	2023E	2021E	2022E
		New	New	New	old	old
EPS adj.	0.574	0.495	0.536	0.604	0.551	0.611
DPS	0.00	0.155	0.225	0.317	0.170	0.251
FFO recurring	54.8	57.0	62.2	70.1	62.5	69.1
FFO rec./share	0.496	0.516	0.563	0.635	0.566	0.627
FFO rec. ch. yoy		4.0%	9.1%	12.7%	14.0%	10.7%
FFO adjusted	59.3	58.2	62.7	70.1	62.5	69.1
FFO adj./share	0.537	0.527	0.568	0.635	0.566	0.627
FFO adj. ch. yoy		-1.9%	7.7%	11.9%	5.3%	10.7%
EPRA NAV	1145.8	1155.1	1165.1	1195.6	1256.5	1307.6
EPRA NAV/share	10.38	10.47	10.56	10.83	11.39	11.85
Net debt	1,155	969	949	912	1,110	1,059
LTV	49.9%	45.9%	45.1%	43.6%	46.8%	44.6%

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

#### IGD – 2021E-22E change % new vs. old estimates

	2021E	2022E
	New/Old %	New/Old %
Revenues	-6.7	-5.6
EBITDA	-11.8	-11.7
Net income	-96.7	-60.4
Adj. net income	-10.2	-12.3
FFO recurring	-8.8	-10.1
FFO adjusted	-6.9	-9.4
DPS	-8.8	-10.1
Net debt/-cash	-12.7	-10.5
LTV	-1.9	1.1
EPRA NAV	-8.1	-10.9

E: estimates; Source: Intesa Sanpaolo Research

**IGD – Balance sheet (2020A-23E)**

EUR M	2020A	2021E	2022E	2023E
Total noncurrent assets	2,261.0	2,073.1	2,065.0	2,062.6
Net working capital	30.4	35.2	32.8	30.7
Risk and provisions	-7.1	-7.2	-7.3	-7.4
<b>Net employed capital</b>	<b>2,284.4</b>	<b>2,101.1</b>	<b>2,090.5</b>	<b>2,085.9</b>
Shareholders' equities	1,114.5	1,116.3	1,126.8	1,158.1
Minorities	0.0	0.0	0.0	0.0
Total equity	1,114.5	1,116.3	1,126.8	1,158.1
Net liabilities for derivatives	14.4	15.9	15.1	15.5
Net debt	1,155.5	968.9	948.5	912.2
<b>Total coverage</b>	<b>2,284.4</b>	<b>2,101.1</b>	<b>2,090.5</b>	<b>2,085.9</b>

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

**IGD – Cash flow statement (2020A-23E)**

EUR M	2020A	2021E	2022E	2023E
Net debt start of year	1162.6	1155.5	968.9	948.5
EBT	-88.6	1.9	28.4	57.3
Non/cash items	142.6	54.3	33.0	11.9
Other adjustments	0.8	0.8	0.8	0.8
<b>FFO</b>	<b>54.8</b>	<b>57.0</b>	<b>62.2</b>	<b>70.1</b>
Taxes	14.2	-0.1	-0.7	-1.1
Change in working capital	-12.0	-4.8	2.4	2.1
Cash change in fund	0.1	-0.1	-0.1	-0.1
Capex	-18.3	-36.8	-25.5	-11.0
<b>Free cash flow</b>	<b>38.8</b>	<b>15.2</b>	<b>38.2</b>	<b>59.9</b>
Dividends	-25.2	0.0	-17.1	-24.9
Capital increase & disposal	0.0	185.0	0.0	0.0
Other	-6.4	-13.6	-0.7	1.2
Cash flow for the year	7.2	186.6	20.4	36.3
Net debt end year	1155.5	968.9	948.5	912.2

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Valuation

We value IGD by averaging our usual DCF-based, DDM and Multiples approaches, which returned **a new rounded target price of EUR 4.3/share (from EUR 4.2/share)**. Given the more limited upside (19%) upside vs. Monday's closing price, **we lower our rating to ADD (from BUY)**.

**Target price of EUR 4.3/share; ADD rating**

Our target price increases marginally reflecting: 1) our 1-year valuation roll-forward; 2) our estimates' revision; 3) our periodical revision of the WACC (now equal to 5.2% vs. 5.6% calculated before) parameters, which currently assume an equity risk premium at 6.5% (vs. 7.5% previously estimated), a risk-free rate equal to 0.75% (vs. 1.5% previously used) and a higher beta of 1.1x (from 1.0x); 4) our downwards change of the compound growth rate (g) from 0.5% to 0%; and 5) the multiples' re-rating.

### IGD - Target price calculation

EUR/share	TP	Prem./Disc.NAV 2021E (%)
IGD DCF model	5.4	-47
IGD DDM model	2.6	-75
IGD average peers' multiple	5.1	-50
<b>Average TP</b>	<b>4.3</b>	<b>-57</b>
Mkt price discount to NAV		-64
<b>2021E NAV (EUR/share)</b>		<b>10.12</b>

Source: Intesa Sanpaolo Research

## DCF

### IGD - DCF valuation (2021E-25E)

EUR M	2020A	2021E	2022E	2023E	2024E	2025E	Beyond
EBIT	-52.3	37.0	63.0	91.7	101.7	119.1	
Taxes	14.2	-0.1	-0.7	-1.1	-1.4	-1.6	
NOPAT	-38.1	36.9	62.3	90.5	100.4	117.5	117.5
D&A and other non-cash items	151.0	62.8	41.5	20.4	15.2	4.8	1.5
Total capex	-18.3	-36.8	-25.5	-11	-11	-11	-26.9
Working capital	-12.0	-4.8	2.4	2.1	1.9	1.7	0.0
Operating FCF	82.7	58.2	80.7	102.1	106.5	112.9	92.1
NPV FCF	83	55	73	88	87	88	
SUM DCF (2021E-25E)	391						
TV	1,775						
NPV TV	1,378						
SUM TV+DCF	1,769						
Net debt 2020A/Sever. & other funds	-1,173						
Equity	596						
<b>Equity value (EUR/share)</b>	<b>5.4</b>						

A: actual; E: estimates; Source: Intesa Sanpaolo Research

**DDM****IGD - DDM valuation (2021E-25E)**

EUR M	2020A	2021E	2022E	2023E	2024E	2025E	Beyond
FCFE	25.2	0.0	17.1	24.9	35.0	41.4	41.4
COE (%)	8.23						
NPV FCFE	25.2	0.0	14.6	19.6	25.5	27.9	
SUM FCFE 2021E-25E	88						
Terminal Value (net of funds)	292						
NPV Terminal value	197						
Total FCFE	284						
<b>FCFE/Share (EUR)</b>	<b>2.6</b>						

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

**Multiples' approach****IGD – Peers P/NAV multiples (2020-22)**

(x)	P/NAV 2020	P/NAV 2021	P/NAV 2022
IGD	-	0.35	0.34
Coima Res	0.54	0.53	0.52
Eurocommercial Properties NV	0.42	0.64	0.66
Unibail-Rodamco-Westfield SE Stapled	0.55	0.71	0.77
Klepierre SA	0.72	0.84	0.90
Mercialys SA	-	0.63	0.65
Wereldhave N.V.	0.53	0.67	0.80
MERLIN Properties SOCIMI, S.A.	0.71	0.76	0.79
Covivio SA	0.82	0.78	0.77
Gecina SA	0.71	0.72	0.72
Icade SA	0.69	0.72	0.74
<b>AVERAGE</b>	<b>0.63</b>	<b>0.67</b>	<b>0.70</b>

Priced at market close on 8/3/2021; Source: FactSet

**IGD – Peers' multiples valuation**

Multiple P/NAV	P/NAV 2021 (x)	2021E NAV (EUR M)	NAV (EUR/sh.)
Peers' P/NAV average 2021 (Factset)	0.67	1,116	6.8
Holding cost/sh.			-1.7
<b>Implied TP</b>			<b>5.1</b>

E: estimates; Source: Intesa Sanpaolo Research

## IGD – Key Data

Rating ADD	Target price (EUR/sh) Ord 4.3	Mkt price (EUR/sh) Ord 3.62			Sector Real Estate
<b>Values per share (EUR)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
No. ordinary shares (M)	110.3	110.3	110.3	110.3	110.3
Market cap (EUR M)	665.94	424.60	399.45	399.45	399.45
Adj. EPS	0.692	0.574	0.495	0.536	0.604
CFPS	-0.56	-2.04	-0.55	-0.13	0.32
BVPS	11.13	10.23	10.26	10.35	10.64
NAVPS	10.97	10.10	10.12	10.21	10.50
Dividend ord	0.228	0	0.155	0.225	0.317
Average Price	6.0	3.8	3.6	3.6	3.6
<b>Income statement (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenues	162.1	152.7	142.5	146.8	150.7
EBITDA	124.6	98.70	99.81	104.5	112.1
EBIT	50.30	-52.32	36.99	63.02	91.65
Pre-tax income	13.60	-88.59	1.85	28.35	57.32
Net income	12.60	-74.26	1.76	27.64	56.17
EPRA earnings	76.40	63.33	54.58	59.16	66.63
<b>Cash flow (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Net income before minorities	12.6	-74.3	1.8	27.6	56.2
Depreciation and provisions	74.3	151.0	62.8	41.5	20.4
Others/Uses of funds	-1.5	0.1	-0.1	-0.1	-0.1
Change in working capital	7.6	-12.0	-4.8	2.4	2.1
Operating cash flow	93.9	50.5	59.8	72.1	79.8
Capital expenditure	-59.9	-18.3	-36.8	-25.5	-11.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	34.0	32.2	23.0	46.6	68.8
Dividends	-55.2	-25.2	0	-17.1	-24.9
Equity changes & other nn op item	-6.5	6.6	-7.8	-8.4	-8.8
Net cash flow	-54.3	7.2	186.6	20.4	36.3
<b>Balance sheet (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Total fixed assets	2,422.3	2,308.4	2,112.8	2,101.4	2,092.1
Net working capital	18.4	30.4	35.2	32.8	30.7
Other items	-49.7	-54.4	-46.9	-43.7	-36.9
Net capital employed	2,391.0	2,284.4	2,101.1	2,090.5	2,085.9
Net debt/-cash	1,162.6	1,155.5	968.9	948.5	912.2
Minorities	0	0	0	0	0
Net equity	1,228.4	1,128.9	1,132.2	1,142.0	1,173.6
<b>Stock market ratios (x)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Adj. P/E	8.7	6.7	7.3	6.8	6.0
P/CFPS	-10.8	-1.9	-6.5	-28.8	11.2
P/BVPS	0.54	0.38	0.35	0.35	0.34
P/NAVPS	0.33	0.36	0.35	0.35	0.34
Payout (%)	200	0	971	90	62
Dividend yield (% ord)	3.8	0	4.3	6.2	8.8
FCF yield (%)	5.1	7.6	5.8	11.7	17.2
LTV (%)	47.6	49.9	45.9	45.1	43.6
D/EBIT	23.1	Neg.	26.2	15.1	10.0
<b>Profitability &amp; financial ratios (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EBITDA margin	76.9	64.6	70.0	71.2	74.4
EBIT margin	31.0	-34.3	26.0	42.9	60.8
Tax rate	NM	NM	NM	NM	NM
Net income margin	7.8	-48.6	1.2	18.8	37.3
ROCE	2.1	-2.3	1.8	3.0	4.4
ROE	1.0	-6.3	0.2	2.4	4.9
Interest cover	-1.4	1.4	-1.1	-1.8	-2.7
Debt/equity ratio	94.6	102.4	85.6	83.1	77.7
<b>Growth (%)</b>		<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales		-5.8	-6.7	3.0	2.7
EBITDA		-20.8	1.1	4.7	7.2
EBIT		NM	NM	70.4	45.4
Pre-tax income		NM	NM	NM	NM
EPRA earnings		63.3	54.6	59.2	66.6
<b>NAV data</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Properties and other assets MV	2,422.3	2,308.4	2,112.8	2,101.4	2,092.1
NAV	1,211.0	1,114.5	1,116.3	1,126.8	1,158.1

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Company Snapshot

### Company Description

IGD SIIQ Spa listed on the star segment of the Italian Stock Exchange, the first SIIQ (Società di investimento immobiliare quotata or Real Estate Investment Trust) in Italy. Igd SIIQ is one of the main players in Italy's retail real estate market focusing on medium/large shopping centres made up of hypermarkets/superstores (with a surface area averaging 4,500-10,000 sm and 3,000-4,500 respectively) and shopping malls (60/70 shops each on average). The Italian retail real estate sector is probably one of the most attractive in Europe and shows further upside potential compared to the other European countries. Igd's core business is to hold and manage shopping centres (Property Management activity), but it also provides real estate services (Facility Management and Agency activity) to both owned and third parties centres. Igd's portfolio, as at 31 December 2018, includes 27 shopping malls and retail parks, 25 hypermarkets and supermarkets, 1 plot of land for development, 1 property held for trading and 5 additional real estate properties. From april 2008 Igd adds to its portfolio 14 malls and a building with offices in Romania.

### Key data

Mkt price (EUR)	3.62	Free float (%)	48.7
No. of shares	110.3	Major shr	Coop Alleanza 3.0
52Wk range (EUR)	4.68/2.48	(%)	40.9
Reuters	IGD.MI	Bloomberg	IGD.IM
<b>Performance (%)</b>	<b>Absolute</b>		<b>Rel. FTSE IT All Sh</b>
-1M	-4.9	-1M	-5.6
-3M	2.0	-3M	-4.9
-12M	-31.4	-12M	-39.9

### Key Risks

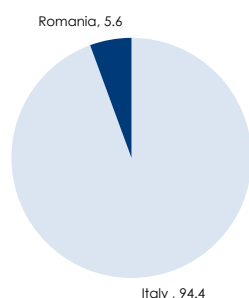
#### Company specific risks:

- The company's high domestic exposure, with a strong correlation to Italian country risk;
- The rising interest rates to affect cost of debt on new financing;
- The exposure to the retail business to affect top line in a slowdown of GDP
- Ongoing Covid-19 health emergency

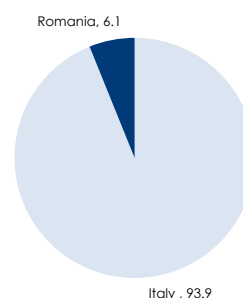
### Estimates vs. consensus

EUR M (Y/E Dec)	2020A	2021E	2021C	2022E	2022C	2023E	2023C
Sales	152.7	142.5	153.2	146.8	160.0	150.7	NA
EBITDA	98.70	99.81	113.2	104.5	118.6	112.1	NA
EBIT	-52.32	36.99	100.0	63.02	114.0	91.65	NA
Pre-tax income	-88.59	1.85	43.40	28.35	80.91	57.32	NA
EPRA Earnings	63.33	54.58	31.92	59.16	70.47	66.63	NA
EPRA EPS (€)	0.57	0.49	0.58	0.54	0.66	0.60	NA

### Sales breakdown by asset (%)



### GAV breakdown by asset (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 08/03/2021)

## Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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The list of all recommendations on any financial instrument or issuer produced by Intesa Sanpaolo Research Department and distributed during the preceding 12-month period is available on the Intesa Sanpaolo website at the following address:

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### Equity rating key: (long-term horizon: 12M)

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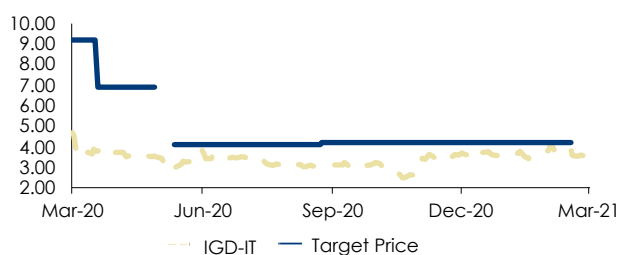


**Equity Rating Key (long-term horizon: 12M)**

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

**Historical recommendations and target price trends (long-term horizon: 12M)**

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->

**Target price and market price trend (-1Y)****Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
26-Feb-21	Under Review	Under Review	3.5
01-Sep-20	BUY	4.2	3.1
20-May-20	ADD	4.1	3.1
08-May-20	Under Review	Under Review	3.5
27-Mar-20	BUY	6.9	3.8

**Equity rating allocations (long-term horizon: 12M)****Intesa Sanpaolo Research Rating Distribution (at January 2021)**

Number of companies considered: 109	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%) (*)	50	24	26	0	0
of which Intesa Sanpaolo's Clients (%) (**)	89	70	61	0	0

(\*) Last rating refers to rating as at end of the previous quarter; (\*\*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

**Valuation methodology (short-term horizon: 3M)**

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

**Equity rating key (short-term horizon: 3M)**

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

### Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from IGD in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group have granted significant financing to IGD and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by IGD
- One or more of the companies of the Intesa Sanpaolo Banking Group provide/have provided investment banking services to and/or concerning IGD in the last twelve months

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