

FACE OFF: **LIBERTY INTERNATIONAL**

# Taking Liberties?



**Yes**

**Anton de Goede,**  
Coronation Fund Managers  
property analyst

*Too much negative sentiment has been priced into Liberty International, with very few investors looking through the current down cycle.*

**"THE KEY** attraction of an investment in Liberty International remains the quality and scarcity value of its retail assets. Some 75% of its property portfolio consists of prime shopping centres, with nine of these ranked among Britain's top 30 biggest centres. Due to strict planning codes and environmental requirements, it's difficult to replicate such a portfolio. The beauty of Britain's strict planning restrictions is that prime shopping centres have a captive tenant base, specifically from national retailers. To capture 50% of Britain's discretionary spend, a retailer needs to be in 65 locations, illustrating the importance of dominant prime shopping destinations.

**"HOWEVER,** it appears the market continues to price in the same risks, driving the recent sell-off of the stock despite the diminishing likelihood of most of those risks actually materialising. Those relate mainly to broader credit issues, the potential for further property value write-downs and weaker tenant trading conditions. The risk of breaching loan covenants was recently minimised when Liberty International successfully raised £620m (around R8,24bn) in a rights issue.

**"THERE MAY** well still be some risk in terms of debt refinancing, probably at higher funding costs further down the line. But Liberty International's first major debt expiry is only in 2011, leaving the company sufficient time to investigate various funding options.

**"CURRENT** trading levels of around 390p/share on the London Stock Exchange (around R52 on JSE) are only marginally higher than Liberty International's trough net asset value estimates, suggesting the long-term value unlock potential is substantial. There's also comfort in the fact the current portfolio yield of just above 7% is already approaching levels where yields peaked during Britain's previous commercial property slump in the early Nineties.



**No**

**Paul Duncan,**  
Catalyst Fund Managers  
property analyst

*Just because Liberty International's share price has already come off 60% over the past year, doesn't necessarily mean it's undervalued.*

**"ALTHOUGH** the cycle of property value write-downs in Britain appears to be slowing, its commercial real estate sector isn't out of the woods yet. The exposure of listed property companies, such as Liberty International, to commercial mortgage-backed securities (CMBSs) debt remains a key risk.

**"LIBERTY** International's recent rights issue – in which it raised £620m – may well help the company survive the current downturn. But there remains risk about how management will refinance large parcels of CMBS debt coming up for renewal in 2011 and 2015 respectively. The capital-raising exercise may also not be enough to place management in a position to take advantage of good acquisition opportunities over the next few years.

**"THE 200m** new shares issued end-May represent an increase of around 55% in Liberty International's existing share capital, which has significantly diluted the dividend/share for SA shareholders chasing hard currency income streams. Dividend payouts for 2008 were already restricted to the 16,5p paid in first-half of 2008, while short-term growth prospects remain muted. Investors shouldn't expect any income growth for the next two years.

**"TRUE,** the quality of Liberty International's retail portfolio is exceptional, with assets that will not be easily replaced. However, we see better-priced opportunities elsewhere. At current levels the stock is fairly valued but we need to see the share price come off another 10% to 20% before we will accumulate it in our global real estate fund. At current levels the stock is fairly valued but we need to see the share price come off another 15% to 20% before we'll accumulate. Besides, SA investors who feel they're getting global property exposure through Liberty International are wrong. They're merely getting exposure to a British retail property portfolio.

**JOAN MULLER**

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