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IO&W

1H18 results: Harvesting its reorientation efforts

REAL ESTATE INVESTMENT & SERVICES
BELGIUM

CURRENT PRICE €22.10
TARGET PRICE €24.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg INTO BB
Reuters PRIF.BR
www.intest.be

Market Cap €370.9m
Shares outst. 16.8m
Volume (daily) €238,408
Free float 74.9%

Next corporate event

Results 3Q18: 24 October 2018

(€m)	2017E	2018E	2019E
Current Result	27.6	31.1	38.2
Portf. Result	-6.2	4.0	3.3
Net Profit	21.5	35.2	41.4
Adj. EPS (€)	1.58	1.64	1.97
NAV (€)	19.6	20.5	22.6
P/E (x)	14.0	13.4	11.2
DPS (€)	1.40	1.40	1.57
Dividend yield	6.3%	6.3%	7.1%

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Intest O&W released its 1H18 results. Other than a very active 1H18, both on the investment and letting market, no marked new items occurred over the first half of 2018

- NRI rose 9% y/y from €21.0m to €22.9m (KBCS est. €23m), primarily driven by external portfolio expansion in the logistics
- The op. result before result on portfolio rose 9% y/y to €18.2m (€17.9m), corresponding to an op. margin of 79.5%, a 50bps improvement y/y. Higher costs are mostly explained by team expansion and IFRIC21.
- The financial result (excl. IAS39) evolved from €-3.5m to €-3.8m (€-3.7m), due to a higher average amount of debt outstanding, tempered by a 10bps compression in the average cost of debt to 2.5%.
- All in all, EPRA earnings rose 10% y/y to €14.3m (KBCS est. €14.16m) or stable at €0.77 (€0.77) p.s. (9% increase if weighted average shares)
- EPRA NAV rose 3% y/y to €19.48 (13% premium)

Portfolio fundamentals:

The average lease duration of the office segment rose 0.5y since year-start to 3.6y and 0.1y to 4.5y for the logistics segment. The occupancy rate improved 5ppts y/y to 90% (up 3ppts excl. Greenhouse BXL to 93%). This increase can be attributed to a 7ppts improvement in the office segment. The gross yield attributed 30bps y/y to 7.4%, while the EPRA NIY remained stable at 6%.

Balance sheet: Diversification to logistics (57%) as planned (60% FY18E)

Since year-start, the portfolio FV rose 9.7% from €662.5m to €726.7m, driven by the acquisition of three logistics sites in NL (€52m), capex works (€3m) and a positive lfl evolution of ca. 1% (€9m). Since year-start, the debt ratio rose 3.8ppts to 48.4% (long-term target 50%), of portfolio expansion (€55m undrawn credit lines, €30m CP program commenced in July 2018). INTO's hedge ratio amounts to 75% with an average duration of 3.8y

Outlook:

Over 2H18, 7% (2% office, 5% logistics) of the lease agreements have a final expiry of which CEVA and Fiege are most important. 80% of the overall lease agreements have an expiry beyond 2020. Management confirms to grow its portfolio to ca. €800m by year-end18, a 10% increase over 2H18. Over the course of 2018, Management guides for an EPS (EPRA) hovering between €1.57 - €1.62, versus €1.58 in FY17, as well as a stable DPS of €1.40

Our View:

Intest delivered solid results driven by strong portfolio expansion, getting close to reaching a 60% portfolio diversified in logistics. Besides, we applaud efforts to improve the occupancy of its office segment 7ppts. During the analyst meeting, planned at 2PM CET, we look forward on receiving an update on Genk Green Logistics, Greenhouse BXL and potential short-term rental volatility of three key logistics assets (Fiege, CEVA and Medtronics). Nevertheless, we believe that Intest's €1.57 - €1.62 EPS guidance could be beat (KBCS est. €1.64) as Intest's target is to grow an additional ca. €70m by-end18. Intest currently trades with 9% upside and a very attractive earnings yield and dividend yield of 7.5% and 6.4%, respectively. Given its successful reorientation towards logistics and service-oriented office segment, we argue this is a very attractive valuation versus its peers. We reiterate our Accumulate rating and €24 Target Price.