

SFL – 2020 Annual Results

Rental income: €182.4m
EPRA earnings: €100.8m
Attributable net profit: €286.9m
Portfolio value: €7,458m
EPRA NDV: €98.8/share

The financial statements for the year ended 31 December 2020 were approved by the Board of Directors of Société Foncière Lyonnaise on 11 February 2021 at a meeting chaired by Juan José Brugera.

In a market thrown into turmoil by the Covid-19 crisis, although rental income and EPRA earnings declined, they remained robust and the portfolio's appraisal value continued to rise along with the Company's NAV, attesting to the Group's strategic resilience.

The auditors have completed their audit of the annual financial information and are in the process of issuing their report.

Consolidated data (€ millions)

	2020	2019	Change
Rental income	182.4	198.7	-8.2%
Adjusted operating profit*	152.6	172.8	-11.7%
EPRA earnings	100.8	119.2	-15.5%
Attributable net profit	286.9	589.8	-51.4%

* Operating profit before disposal gains and losses and fair value adjustments

	31/12/2020	31/12/2019	Change
Attributable equity	4,647	4,485	+3.6%
Consolidated portfolio value excluding transfer costs	7,458	7,158	+4.2%
Consolidated portfolio value including transfer costs	7,946	7,632	+4.1%
EPRA NNNNAV	4,598	4,461	+3.1%
EPRA NDV	4,596	4,459	
EPRA NDV per share	€98.8	€95.8	

Results

Rental income

Rental income amounted to €182.4 million in 2020 versus €198.7 million the previous year, a decline of €16.3 million (8.2%):

- On a like-for-like basis (excluding changes in consolidation scope affecting period-on-period comparisons), rental income contracted by €7.0 million (3.8%). The decline was due to the effects of the Covid-19 crisis, which led to rent holidays or reductions being granted to certain tenants and to the closure of the Edouard VII and #cloud.paris conference centres as well as the Indigo hotel. Excluding these effects, the like-for-like change was an increase of €1.3 million (0.7%), reflecting higher rental income from the Washington Plaza, 103 Grenelle and Cézanne Saint-Honoré buildings.
- Rental income from units being redeveloped or renovated in the periods concerned was down by €6.2 million, due to the renovation of several floors that were vacated in late 2019 and early 2020, mainly in the 103 Grenelle and Edouard VII buildings.
- Lastly, income from various penalties was down by €3.2 million compared with 2019.

Operating profit before disposal gains and losses and fair value adjustments to investment property came to €152.6 million in 2020 versus €172.8 million the year before.

Portfolio appraisal value

The portfolio's appraisal value at 31 December 2020 was 4.2% higher on a like-for-like basis than at 31 December 2019. The increase led to the recognition of positive fair value adjustments to investment property of €176.5 million in 2020 compared with positive adjustments of €526.9 million in 2019.

Net profit

Net finance costs stood at €34.3 million in 2020, versus €28.1 million in 2019. The year-on-year increase of €6.2 million included €3.3 million in net non-recurring costs, primarily reflecting the €4.3 million payment made on the €160.7 million worth of bonds bought back in September 2020. Recurring finance costs were €2.9 million higher, due to increases in both average debt and the average cost of debt.

After taking into account these core items, EPRA earnings came to €100.8 million in 2020. This represented a 15.5% decline compared with the previous year's record high of €119.2 million, but was in line with the Group's performance over the period 2016 to 2018. Attributable net profit for the year amounted to €286.9 million, versus €589.8 million in 2019.

Business review

Rental operations

The Covid-19 crisis caused the Paris region rental market to contract by 45% compared with 2019. SFL bucked the trend, however, signing leases on some 23,000 sq.m. The main leases concerned:

- 83 Marceau: entire building pre-let to Goldman Sachs and Bryan Garnier;
- Cézanne Saint-Honoré: lease on 2,600 sq.m. signed with Quartus;
- Edouard VII: new lease with Olympia, representing 6,000 sq.m.;
- 112 Wagram: lease on 975 sq.m. signed with Sony Interactive.

Nominal office rents for leases signed in 2020 averaged €846 per sq.m., with effective rents averaging €717 per sq.m. for an average non-cancellable term of 7.2 years, reflecting the very high quality of SFL's buildings.

In addition to these new leases, existing leases on around 24,000 sq.m. were renegotiated or adjusted by means of addenda, in line with SFL's policy of pro-actively managing tenant relations during the Covid-19 crisis. This focused approach helped to keep rent defaults and collection proceedings to a minimum, by talking to tenants experiencing temporary difficulties (particularly tenants of retail units) in order to find a mutually satisfactory solution.

The physical occupancy rate was 93.7% at 31 December 2020 and the EPRA vacancy rate was 6.0%. Although less favourable than the excellent end-2019 rates of 97.4% and 1.6% respectively, these rates nevertheless attest to the Group's success in limiting the number of vacant units in revenue-generating properties.

Development operations

Properties undergoing development at 31 December 2020 represented roughly 17% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- 83 avenue Marceau (approximately 9,000 sq.m.). This building is in the process of being redeveloped, with delivery scheduled for the third quarter of 2021, and has been fully pre-let.
- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.). Redevelopment work continued at a brisk pace in 2020 and will be delivered in mid-2022.
- The retail space in the Louvre Saint-Honoré building (approximately 20,000 sq.m.). Work to clear the space to be redeveloped began in September 2020 and delivery is scheduled for 2024 under the turnkey lease signed with the Cartier Foundation.

These three development programmes were pursued in 2020 with only limited disruption during the first lockdown from March to May.

Similarly, refurbishment work on vacant units in other buildings (including Washington Plaza, 103 Grenelle and Edouard VII) also continued and the units were delivered under favourable conditions after minimal disruption during lockdown.

Capitalised work carried out in 2020 amounted to €111 million.

Portfolio operations

No properties were purchased or sold during 2020.

As part of its asset rotation policy, in the fourth quarter of 2020 the Group began seeking buyers for the 112 Wagram and 9 Percier properties.

The fair values of these two assets at 31 December 2020, corresponding to the price at which the property was sold (112 Wagram) or the sale was agreed (9 Percier) in January 2021, reflected a 16% average gain versus their appraisal values at 31 December 2019. This outstanding performance confirms the quality of SFL's assets and strategic positioning.

Financing

In May 2020, SFL issued €500 million worth of 1.50% seven-year bonds due on 5 June 2027.

In addition, a new five-year €150 million revolving line of credit was obtained from BNP Paribas. This new facility cancelled and replaced a previous €150 million revolving line of credit that was reduced to €100 million in 2019 and was due to expire in May 2021.

In September 2020, an offer was launched to buy back two bond issues due in November 2021 and November 2022 respectively. At the close of the offer period, on 8 September 2020, bonds with an aggregate face value of €160.7 million had been tendered to the offer, including €100.3 million worth of bonds due in 2021 and €60.4 million due in 2022.

These operations have extended the average maturity of the Group's debt and reduced its future average borrowing costs, as part of its proactive balance sheet management strategy. The funds will be used for general corporate purposes.

Net debt at 31 December 2020 amounted to €1,890 million compared with €1,732 million at the previous year-end, representing a loan-to-value ratio of 23.8%. The average cost of debt after hedging was 1.5% at 31 December 2020 and the average maturity was 4.4 years. The interest coverage ratio at the same date stood at 5.2x.

Lastly, at 31 December 2020, SFL had €1,040 million in undrawn lines of credit.

Net asset value

The consolidated market value of the portfolio at 31 December 2020 was €7,458 million excluding transfer costs, a like-for-like increase of 4.2% from €7,158 million at 31 December 2019 that was mainly due to:

- the value created by work on the Group's redevelopment projects: the entire 83 Marceau property was pre-let during the year, work continued on the Biome project with only limited disruption, and work began on clearing the retail space in the Louvre Saint-Honoré property;
- the focused narrowing of investment yields on the highest quality assets observed in 2020.

The value of retail units declined, however, reflecting the less favourable outlook for market rents on these units.

The average EPRA topped-up net investment yield (NIY) stood at 2.9% at 31 December 2020, compared with 3.0% at 31 December 2019.

EPRA NDV stood at €4,596 million or €98.8 per share at 31 December 2020, an increase of 3.1% (5.8% including the dividend of €2.65 per share paid in April 2020) versus €95.8 per share at 31 December 2019.

Effective from 31 December 2020, the EPRA NAV and NNNAV ratios have been replaced by new indicators: EPRA NRV (Net Reinstatement Value), NTA (Net Tangible Assets) and NDV (Net Disposal Value). These new indicators are presented in the EPRA tables below. It is interesting to note that, in the case of SFL, EPRA NDV is not materially different from EPRA NNNAV.

Management of the Covid-19 health crisis

From the onset of the crisis and throughout the year, SFL took all necessary measures to limit the pandemic's effects on its business and results:

- All the office buildings remained open and available for use by tenants and the necessary health protection measures deployed in the buildings' common areas were regularly updated to comply with successive government directives.
- Management of the conference centres and the Indigo hotel focused on limiting as far as possible the effects of government-mandated closures.
- Government measures concerning very small businesses and small retail outlets were applied and tenant requests for help were managed on a case-by-case basis in order to provide them with the necessary support as far as possible.
- Property leasing activities continued in a very slow rental market.
- Agreements were signed with the general contractors working on the main redevelopment projects currently in progress.
- The Group's financial liquidity was strengthened.

All told, the Covid-19 crisis had an €8.2 million negative impact on rental income for the year (including €6.8 million in income lost due to the closure of the Edouard VII and #cloud.paris conference centres, the Indigo hotel and the Edouard VII public car park) and a €5.4 million negative impact on net property rentals.

A citizen-based approach

To ensure business continuity while also protecting employees, all of SFL's teams worked from home during the lockdowns and gradually returned to the office when this was possible. The home-working option meant that no employees had to be furloughed.

SFL also contributed to the collective effort to fight the pandemic by donating €550,000 to the Fondation de France's programmes in support of hospitals and health workers, medical research and assistance for vulnerable people.

Recommended dividend

At the Annual General Meeting to be held on 15 April 2021, the Board of Directors will recommend paying a dividend of €2.10 per share.

EPRA indicators

	2020	2019
EPRA Earnings (€m)	100.8	119.2
<i>/share</i>	€2.17	€2.56
EPRA Cost Ratio (including vacancy costs)	15.8%	13.3%
EPRA Cost Ratio (excluding vacancy costs)	14.0%	12.4%

	31/12/2020	31/12/2019
EPRA NAV (€m)	4,783	4,623
<i>/share</i>	€102.8	€99.4
EPRA NNAV (€m)	4,598	4,461
<i>/share</i>	€98.8	€95.9
EPRA NRV (€m)	5,210	5,036
<i>/share</i>	€112.0	€108.2
EPRA NTA (€m)	5,206	5,033
<i>/share</i>	€111.9	€108.2
EPRA NDV (€m)	4,596	4,459
<i>/share</i>	€98.8	€95.8
EPRA Net Initial Yield (NIY)	2.7%	2.7%
EPRA topped-up NIY	2.9%	3.0%
EPRA Vacancy Rate	6.0%	1.6%

Alternative Performance Indicators (APIs)

API EPRA Earnings

€ millions	2020	2019
Attributable net profit	286.9	589.8
Less:		
Profit (loss) on asset disposals	-	-
Fair value adjustments to investment property	(176.5)	(526.9)
Fair value adjustments to financial instruments, discounting	5.0	1.7
adjustments to debt and related costs		
Tax on the above items	(7.9)	14.0
Non-controlling interests in the above items	(6.7)	40.6
EPRA earnings	100.8	119.2

API EPRA NDV

€ millions	31/12/2020	31/12/2019
Attributable equity	4,647	4,485
Treasury shares	3	8
Fair value adjustments to owner-occupied property	22	20
Fair value adjustments to fixed rate debt	(76)	(54)
EPRA Net Disposal Value (NDV)	4,596	4,459
Fair value adjustments to intangible assets	2	2
EPRA NNAV	4,598	4,461

API net debt

€ millions	31/12/2020	31/12/2019
Long-term borrowings and derivative instruments	1,476	1,441
Short-term borrowings and other interest-bearing debt	481	393
Debt in the consolidated statement of financial position	1,957	1,834
Less:		
Current account advances (liabilities)	(52)	(50)
Accrued interest, deferred recognition of debt arranging fees, negative fair value adjustments to financial instruments	0	1
Cash and cash equivalents	(15)	(54)
Net debt	1,890	1,732

More information is available at www.fonciere-lyonnaise.com/en/publications/results

About SFL

Leader in the prime segment of the Parisian commercial real estate market, Société Foncière Lyonnaise stands out for the quality of its property portfolio, which is valued at €7.5 billion and is focused on the Central Business District of Paris (#cloud.paris, Edouard VII, Washington Plaza, etc.) and for the quality of its client portfolio, which is composed of prestigious companies in the consulting, media, digital, luxury, finance and insurance sectors. As France's oldest property company, SFL demonstrates year after year an unwavering commitment to its strategy focused on creating a high value in use for users and, ultimately, substantial appraisal values for its properties.

Stock market: Euronext Paris Compartment A – Euronext Paris ISIN FR0000033409 – Bloomberg: FLY FP – Reuters: FLYP PA

S&P rating: BBB+ stable outlook