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Liberty Two-Degrees CEO confident Ster-Kinekor can weather storm

The part-owner of Sandton City and Eastgate says the largest cinemas can survive post-Covid-19

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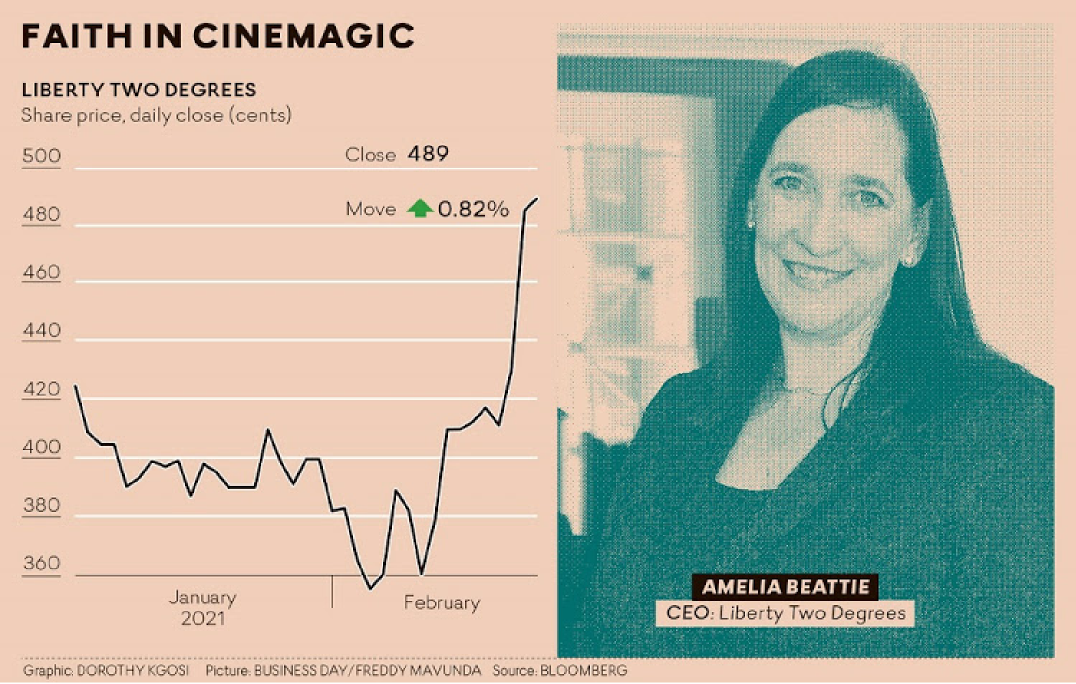
The head of real estate investment trust (Reit) Liberty Two Degrees (L2D) is optimistic about the prospects of Ster-Kinekor, which entered business rescue in January, as South Africans still practise a culture of watching blockbusters, with the movie industry likely to recover post-pandemic.

L2D owns portions of Sandton City, Eastgate and Liberty Promenade, which all have the cinema chain as a tenant, as well as sections of other popular malls.

Ster-Kinekor takes up 11,621m2 of L2D’s total gross lettable area, accounting for 1.2% of it.

“I don’t believe that movies are dead altogether. I think that sometimes operators use business rescue to restructure their businesses but that doesn't mean they close all together,” L2D CEO Amelia Beattie said, following the release of financial results for the year to end-December.



Sandton City's Ster-Kinekor cinema is one of the largest in the country. L2D owns a quarter of the iconic shopping centre. Eastgate, of which L2D owns a third, is about 141,000m2 and also has a large cinema in it and. Pre-Covid-19, it served more than 80,000 shoppers on weekends and more than two-million on a monthly basis.

Liberty Promenade, at 73,400m2, is a regional shopping centre located in Mitchells Plain.

Beattie said that while Liberty Promenade's space might be repurposed in the future, the Sandton City and Eastgate cinemas were likely to be the last of Ster-Kinekor's branches to close.

"South Africans won't suddenly stop going to the movies. The movie industry is going through a tough time but it will get through this after the pandemic. Yes, we have Netflix and other streaming services but I'm sure that people still want to watch next gen movies at the cinema," she said.

There was uncertainty around the future of Ster-Kinekor, Beattie said.

"We learned a lot from the Stuttafords and Edcon experiences," she said.

Ster-Kinekor, one of SA's two large cinema chains, announced on January 29 that had gone into voluntary business rescue, with plans to save the company, as customers stayed away from movie theatres due to the Covid-19 pandemic.

Until February 2020, Ster-Kinekor "was profitable and highly cash generative, with good prospects of future, ongoing profitability", the company said.

All Ster-Kinekor cinemas would remain open despite the business rescue proceedings.

In the year ended December 31, the group paid 100% of its distributable earnings as a dividend while some of its peers have changed their dividend payout policies, postponed dividends or committed to not paying dividends at all.

But L2D's full-year distribution of 32.33c per share marked a 46.5% decline, but represented an almost R300m payout.

Overall foot count fell 30.2% during the financial year.

Beattie said that, as at the end of December, L2D remained well capitalised, had sufficient liquidity and borrowing headroom with a loan-to-value (LTV) ratio of 20.5%. It had risen from 16.1% but remained one of the lowest in the R323bn listed property sector.

LTV measures the value of a company's debt relative to its assets. Fund managers prefer for LTVs to be between 35% and 40%, as a ratio higher than that could imply financial distress.

Beattie said that while many blue-chip shopping centres had come onto the market, L2D had many expansion opportunities for its existing property portfolio.

"Our commitment to maintain the quality of our assets predates the pandemic, and we have long maintained that quality is a key driver in fostering customer loyalty. We have complemented our experiential offerings with an appropriate and diverse tenant mix that addresses customer needs and captures recovering customer spend," said Beattie.

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