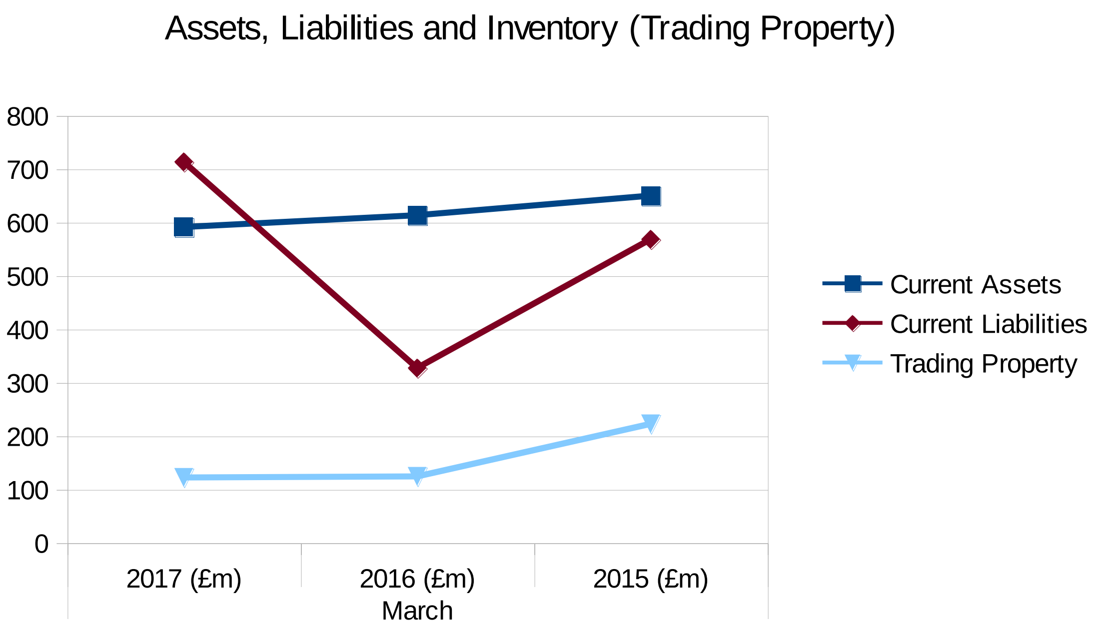
Introduction

The aim of this report is to evaluate the performance of Landsec between 2015-17, identify trends over the past few years, with a view to provide an analysis of their past performance and review their current status. I will look at and review the relevant ratios in turn, providing a brief analysis of each one. We will look at the capital structure of Landsec, and provide reccomendations on what can be done to resolve any problems moving into 2018.

Company overview

Established in 1944 by Harold Samuel with a handful of commercial and residential properties, Land Securities (re-branded as Landsec in 2017) are a United Kingdom based holding company. They are the largest commercial property company in the UK. The Company is a Real Estate Investment Trust (REIT). The company operates two core businesses; UK Retail Portfolio, and their London Portfolio. The UK Retail Portfolio includes all shopping centres, shops, hotels, leisure assets and retail sheds excluding London. As of 30th September 2017, the retail portfolio was worth £6.5bn, including 15 shopping centres, 13 retail parks and 20 leisure destinations. Office space in the London Portfolio as of 30th September 2017 was worth £7.8bn, with a total floorspace of 6.5m sq ft.

Liquidity



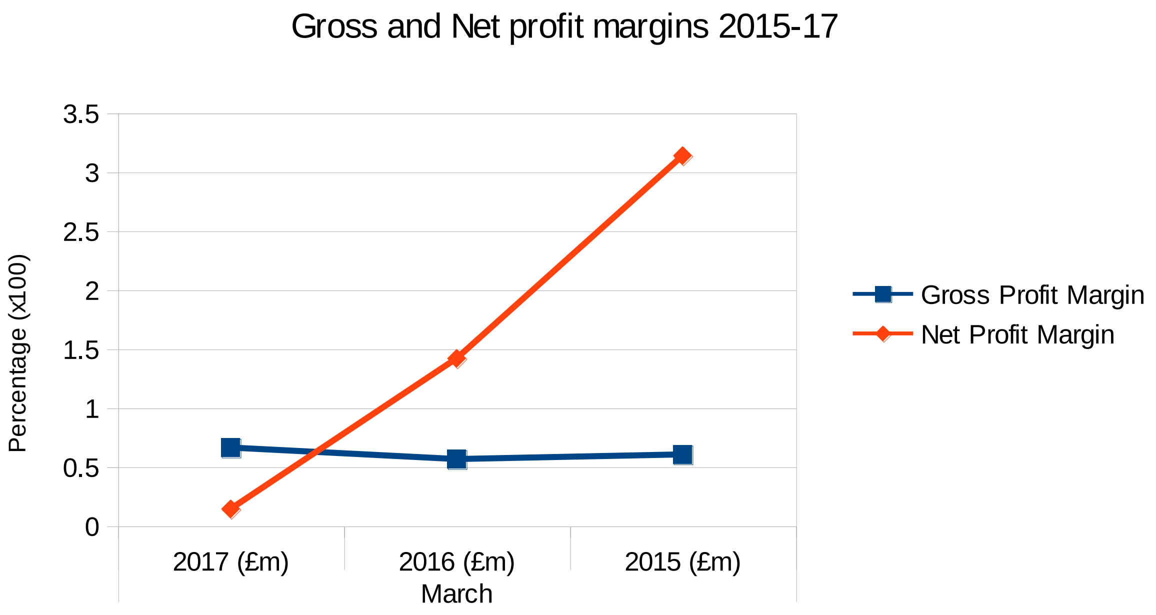
The graph above shows a sharp increase in current liabilities between 2016 and 2017, with current liabilities outstripping current assets.

Liquidity	March 2017 (£m)	March 2016 (£m)	March 2015 (£m)
Current Assets	591	613	649.7
Current Liabilities	713	327	568.1
Trading Property	122	124	222.3
Current Ratio	0.83	1.87	1.14
Quick Ratio	0.66	1.50	0.75

The current ratio is worked out as current assets divided by current liabilities. The quick ratio is the current assets minus inventory (in this case trading property) divided by current liabilities.

Landsec's current liabilities almost doubled from March 2016 to March 2017, current assets and trading property remained around the same as the previous year. At present Landsec would struggle to meet their short term commitments due to their current and quick ratios being 0.83:1 and 0.66:1 respectively. In 2016, they were more than capable of meeting any short term commitments, with quick and current ratios at 1.87:1 and 1.50:1 respectively. The reduction in their ability to meet their short term liabilities is due to an increase in their current liabilities of £386m between 2016 and 2017.

Profitability

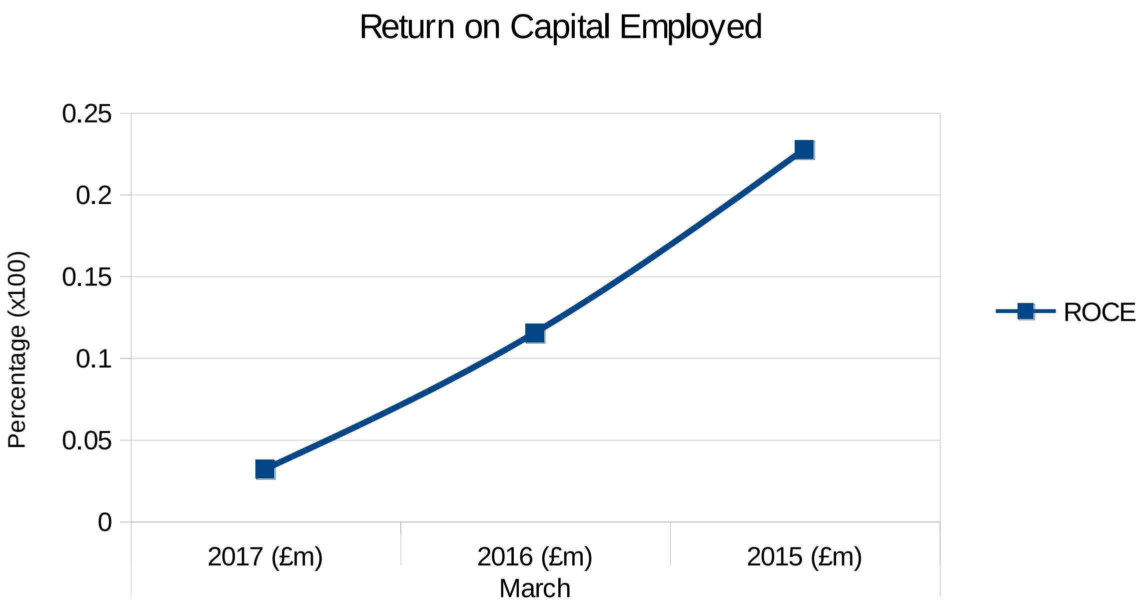


The graph above shows a severe decline in net profit margins, while gross profit margins have remained largely the same. Gross profit margin is calculated by taking gross profit divided by sales, x100.

Profitability	March 2017 (£m)	March 2016 (£m)	March 2015 (£m)
Revenue	787	942	770.4
Costs	266	410	304.7
Gross Profit	521	532	465.7
Net Profit	112	1336	2416.5
Gross Profit Margir	66.20%	56.48%	60.45%
Net Profit Margin	14.23%	141.83%	313.67%

In 2015 and 2016, gross profit does not take into account disposal of investments in joint ventures, which are taken into account in the operating profit and profit before tax. In 2017 the earnings from disposal of investment properties and joint ventures was significantly lower at £19m, compared to £75m in 2016 and £107.1m in 2015. In addition to this Landsec received a significant injection of capital owing to revaluation of their investment properties of £738.4m in 2016 and £1,770.6m in 2015. In 2017 they reported a deficit of £186m owing to revaluation of their investment properties, explaining the severe drop in net profit margin from 2015 to 2017.

Return on Capital Employed



Landsec have seen a reduction in return on capital employed in recent years, falling 19.56% between 2015 and 2017. This is due to EBIT falling but capital employed remaining around the same. For a REIT such as Landsec however the focus is on longer term investments, with earnings from revaluation or disposal of property as seen in the effects on gross and net profit margins between 2015 and 2017.

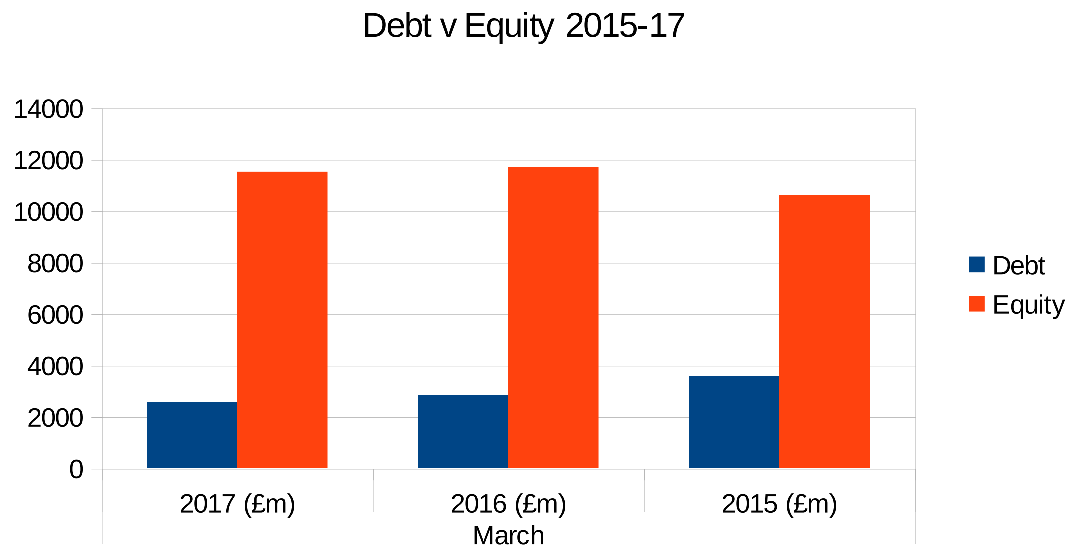
ROCE	March 2017 (£m)	March 2016 (£m)	March 2015 (£m)
eBit	365	1346	2346.7
Capital Employed	11516	11699	10322.9
ROCE	3.17%	11.51%	22.73%

With a return on capital employed sitting at 3.17%, Landsec are not currently utilising their capital to its fullest potential.

Gearing

Total equity has remained relatively constant from 2015 through to 2017. The level of overall debt has reduced from £3593m in 2015 to £2545m in 2017.

Gearing	March	March	March



Gearing is the overall amount of assets funded by debt. This is calculated by debt divided by debt and equity combined, x100. The level of gearing had fallen 7.2% from March 2015 to March 2017. This means that company debts have reduced, in turn allowing more revenue to be used to generate more capital rather than paying off debts. However this can largely be put down to an overall reduction in the amount of debt from £3593m in 2015 to £2545m in 2017. The level of equity in the company has largely stayed the same, leading to an overall reduction in the level of gearing.

Interest Cover

Interest Cover	March 2017 (£m)	March 2016 (£m)	March 2015 (£m)
eBit	365	1346	2346.7
Interest	359	244	249.4
Interest Cover	1.0	5.5	9.4

Interest cover is calculated as eBit divided by interest. Interest rose from 244 in 2016 to 359 in 2017. Due to the aforementioned disposals and revaluation of property in 2015 and 2016, ebit was significantly inflated compared to 2017, when the value of revaluation was negative. Landsec are no longer in a position to meet their short term interest payments with cover standing at 1.0. This means they only have enough revenue income to meet one interest payment before they will be forced to default on their loans. This will cause problems in the near future if payments are not met, especially given the low level of liquidity, as they will struggle to raise funds quickly to cover their loan repayments.

Earnings Per Share

	March 2017	March 2016	March 2015
Basic earnings per share	14.3p	169.4p	306.1p
Diluted earnings per share	14.3p	168.8p	306.4p

The poor performance in 2017 is reflected in the reduction in overall earnings per share. This halved between 2015 and 2016, and reduced drastically to 14.3p in 2017. The overall amount of income attributed to the owners of the parent company was down 90% from 2016 to 2017. This can be attributed to the revaluation and disposals of 2015-16 and the negative revaluation in 2017.

Conclusion

Landsec are presently in a poor position in the short term. They have a poor level of liquidity owing to an increase in current liabilities with no increase in current assets. Due to disposals and revaluations in 2015 and 2016 their position in 2017 looks poor compared to previous years, as their net profit has fallen drastically. Their net profit margin has dropped from a high in 2015 of 313% to a mere 14% in 2017. Their return on capital employed has fallen to 3.17%. The level of interest cover is dangerously low at only 1.0. Earnings per share have dropped to 14.3p, down from 306p in 2015. At present Landsec would be a very risky investment due to this combination of factors.

Year ending:	March 2017 £m	March 2016 £m	March 2015 £m
Non current assets	14253	14377	13944.2
Total current assets	591	613	649.7
Total current liabilities	713	327	568.1
total non current liabilities	2615	2964	3702.9
Net assets	11516	11699	10606.3

In its present state, Landsec are struggling as they are unable to meet their short term liabilities. However their business model revolves around the acquisition of property and its sale for capital gains. Although they are in a poor short term position they have net assets of £11516m, of which £14253m are non-current assets. In order to meet their short term liabilities they may want to consider disposing of some non-current assets to generate quick income. They must also ensure they maximise the rental value of their properties by securing good tenants at market rate or above, and ensuring they pursue 100% tenancy rate in all properties.

Given the cyclical nature of the property market and of REIT firms, as evidenced by the incomes for Landsec in 2015 and 2016 compared to 2017, future revaluation or disposals in 2018 should allow them to meet their current liabilities in the future. Of course future valuations may further devalue their estate. As noted in their 2017 statement, the valuation of property is incredibly subjective. It is quite possible that the revaluations in 2015 and 2016 were overvalued, resulting in a skewed value for the overall portfolio. Landsec will continue to control this risk by appointing external auditors utilising independent surveyors to ensure valuations are as objective as possible.

Between 2015 and 2017 Landsec have managed to reduce their long term debt by over £1000m. In order to meet their short term liabilities they could also consider re-gearing some of their portfolio in order to release funds to meet their short term liabilities.

Future developments may also improve Landsecs short term outlook. Developments in

Oxfords Westgate centre and elsewhere will provide additional rental income which can be used to meet short term liabilities.

Taking into account the current state of the market and expected impact of Brexit on the UK commercial property market, Landsec ought to review and reconsider their estate on a continuous basis. The uncertainty surrounding brexit could severely impact the requirement for office space in the UK; the longer term effects are difficult to predict and remain to be seen.

A migration in retail from the high street to online shopping will continue to affect the sectors requirement for retail space. Consumer uncertainty and rising costs continue to erode the high street's market share. Continuing to invest in prime retail locations such as newly developed shopping centres will cement future rental incomes, while disposing of outmoded properties will ensure minimal losses when such properties are devalued in years to come.

As per Landsec's 2017 report, they believe they can continue to operate as a going concern for the next 12 months. This ought to be the case provided their new developments provide stable income, revaluations are in their favour unlike 2017, and disposals are made to meet their short term liabilities.

Sources

Land Securities 2017 Annual Report, P103-104