

# UK-focused property stocks looking attractive

Though the share prices of some UK-focused property stocks have recovered somewhat in recent months, most are still down 10-20% over 12 months as uncertainty lingers about how Brexit will play out.



Image source: [www.pexels.com](http://www.pexels.com)

This raises the question of whether it is a good time for value-chasers to re-enter the UK property market via rand-hedge stocks.

SA investors who don't want to take money physically offshore have at least nine UK-focused counters to choose from on the JSE. These include Covent Garden-owner Capital & Counties Properties, SA retail tycoon Christo Wiese's property arm Tradehold, Stenprop, Redefine International and Atlantic Leaf Properties, as well as pure retail players such as Hammerson, Intu Properties, New Frontier and Capital & Regional.

Most are now trading at a discount to net asset value (NAV), which is in sharp contrast to a number of other rand-hedge and even SA-focused property stocks.

Peter Clark, who runs the listed property division of Investec Asset Management from London, says the company remains cautious about the outlook for UK-property stocks given the uncertain political and economic backdrop.

Though there is still good demand for prime office and logistics space in the UK, retail property is no longer the flavour of

the month, he says.

"Structural shifts in the retail sector brought about by online shopping, coupled to weak consumer confidence, have placed enormous pressure on retail sales. As a result, some of the big UK retailers are busy reducing their footprints in traditional shopping centres by up to 50%."

Clark says mall owners with secondary shopping centres in secondary locations are feeling most of the pain.

However, he believes there is nevertheless value to be had in UK property stocks. The current strong rand also makes it a good time to buy for SA investors willing to take a three- to five-year view, he says.

Keillen Ndlovu, Stanlib's head of listed property, agrees that UK property stocks offer good value at current levels.

"The overall UK listed property market is trading at an average 4% dividend yield and a discount to NAV of about 21%, with the star performers being industrial and logistic-focused stocks that are benefiting from the rise in ecommerce, such as Segro, LondonMetric and Shaftesbury."

However, if one only considers JSE-listed UK-focused property stocks, Clark and Ndlovu both place mall owner Hammerson as their top value pick.

Hammerson is the third largest property company on the London Stock Exchange and the second largest on the JSE, with a market cap of R78bn.

The company differentiates itself from other UK-focused mall owners through a diversified earnings base, with a sizeable presence in European countries besides the UK.

It also owns a combination of three different types of retail centres: 23 traditional shopping malls that dominate their catchment areas, 18 retail parks (similar to value centres in SA) and stakes in 19 premium outlet villages across Europe. The latter typically focus on top-end international fashion and luxury brands, and attract long-haul tourists and wealthy domestic shoppers.

The company's £10.5bn portfolio has a 53% exposure to the UK, 21% to France, 9% to Ireland and 17% to the rest of Europe, including the Netherlands, Spain and Portugal. Flagship assets include the UK's oldest shopping centre, Bullring in Birmingham, as well as Bicester Village in Oxfordshire, Dundrum Town Centre in Dublin, Ireland, and Les Terrasses du Port in Marseille, France. The company also has a strong pipeline of new developments and extensions in, among others, London, Paris, Amsterdam and Lisbon.

Ndlovu says Hammerson posted strong results for the six months to end-June, which should provide comfort to investors who are concerned about deteriorating consumer spending in the UK. Basic EPS were up 74.9% and dividend payouts rose by 5.9%.

"The quality of Hammerson's portfolio is reflected by record leasing activity across all sectors in the first half of 2017," says Ndlovu. "Management has also been proactive with repositioning the portfolio through disposals, refurbishments and extensions and/or redevelopments."

Positive results were underpinned by a strong performance from Hammerson's Irish malls, as well as the premium-outlets segment. Ndlovu says the latter makes up 19% of the portfolio and achieved an impressive 18% growth in sales and 8% increase in footfall year on year.

"Vacancies have been stable at 2.7%. The balance sheet is well managed with a loan-to-value of a reasonable 37%, of which 76% is fixed. Debt is being refinanced at 3% compared to 3.1% last year."

Clark says the robust results reported for the first half of 2017 confirm that Hammerson is well positioned to weather the changing retail environment.

"The company has quality assets and a strong management team that has been proactive in adapting its business model towards multichannel retailing," he says. This aims to integrate elements of online shopping, such as click-and-collect and digital apps that help management stay abreast of consumer preferences, into traditional malls.

By 24 March, Hammerson's share price was down more than 20% from its 1 September listing price of R115.75. But the stock has since recovered to about R98.

Hammerson still appears attractively priced at these levels, given that the stock is trading at a discount to NAV of about 24% and a forward dividend yield of 4.5% (in sterling). Management expects dividend growth of a decent 6-8% year for the next two to three years.

*Source: Financial Mail*

For more, visit: <https://www.bizcommunity.com>