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SA Corporate fixes property mix

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It seems the worst is behind SA Corporate Real Estate Fund, as the group has finally managed to dispose of the assets that were holding it back. It has become an attractive buy under strong management, according to some market commentators.

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CEO Rory Mackey has managed to realign the diversified property group's portfolio, and to dispose of weak assets. The group has a market capitalisation of R12.4bn, making it a sizable mid cap company in the listed property sector.

Impressive turnaround

"After some struggles with nonperforming assets… the company has turned around. The share price has improved a lot over the past couple of years," Stanlib listed property analyst Lawrence Koikoi said on Thursday. "SA Corporate has invested carefully in residential assets, and those assets have provided a strong boost to the group's overall performance."

Evan Robins, the listed property manager of Old Mutual Investment Group's MacroSolutions boutique, said: "Sentiment towards SA Corporate has become positive. At one stage the company was one of the unloved shares in the sector. The share has become more expensive."

SA Corporate's turnaround began in about 2013, when it internalised its management function. Old Mutual used to be the fund's external manager, but shareholders felt the company needed more focused management, which is what Mackey has brought to the group. The 2013 financial results proved to be some of the strongest in SA Corporate's history. For the first time, it exceeded the 32c per share dividend that it had achieved in 2007. For the year to December 2014, the company's full dividend grew 11.6% to 35.70c. It grew a further 10.8% to 39.57c for the 2015 financial year.

Under Mackey, SA Corporate sold off some of its weaker industrial properties and improved its retail assets. The group made acquisitions worth R2.7bn in 2014 and 2015. Among the fund's larger assets are the World Trade Centre office building in Sandton and various industrial properties in Jet Park on the East Rand. It made a foray into residential property by purchasing Affordable Housing Company for R1.1bn.

Residential portfolio

Mackey said he was passionate about investing in Johannesburg's inner city on a meaningful scale. "It's taking time, but we are building a strong residential portfolio in the city of Johannesburg," he said. "We foresee pedestrian (economic) growth in SA. However, an area of growth for SA Corporate, despite these challenging times, is our residential portfolio," Mackey said.

About 15% of the company's total property portfolio is now in Johannesburg's inner city. Mackey said the fund might list its residential property portfolio separately in the future. "The plan is to list the residential portion separately eventually. We used to talk about it needing to grow to R3bn before we considered a listing, but we would probably need more than that. Right now, we are working on managing the residential assets we own as well as we can," he said.

"I would say that there is not that much institutional-quality residential property stock which would work in our fund at the moment. This is why we have not grown the portfolio more quickly."

In SA Corporate's most recent financial results, for the year to December 2015, Mackey said the fund was on track to achieve 9% distribution growth for the 2016 financial year. Net property income growth was about 15%, with an impressive tenant retention rate of about 90%. The fund's share price has grown nearly 19% so far in 2016. Over the past three years, it is up more than 30%.

Grindrod Asset Management's chief investment officer, Ian Anderson, said it was important that the company had not tried to be "creative" to deliver strong growth in distributions. "It's down to the portfolio performing well, as evidenced by the good like-for-like growth. The residential portfolio appears to be making a meaningful contribution to the growth in distributions," Anderson said.

Source: Business Day