STOCKS DOWN UNDER

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ASX Property Stocks Down Under

"Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full and managed with reasonable care, it is about the safest investment in the world"

- Franklin D. Roosevelt (1882-1945), 32nd President of the United States of America

CHARTER HALL LONG WALE REIT

Loyal tenants mean everything

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Stocks Down Under rating: ★★★★

ASX: CLW
Market cap: A$3.5B
Dividend yield: 5.69%

52-week range: A$4.54 / A$5.38
Share price: A$4.87

The last time we wrote about Charter Hall Long WALE REIT we gave it three stars. We liked its portfolio of properties and its Weighted Average Lease Expiry (WALE) of 14 years, but thought it was overvalued - trading at a hefty premium to its Net Tangible Assets (NTA). Since then, Charter Long WALE shareholders have had a rollercoaster ride with several waves of COVID-19 in its major markets and the acquisition of nearly 80 pubs from ALE Property Group. But it is currently sitting 4% lower than we last covered the trust and at a 19% discount to its NTA, so is it a buy now?

Share price chart

Source: Tradingview

What's the big deal about WALE?

We last covered Charter Hall Long WALE REIT (ASX: CLW) [in November 2020](). ASX REITs, such as Charter Long WALE, invest in properties, typically focusing on one or two sectors. REIT's make money through rent payments from tenants and growth in the value of their properties.

Charter Long WALE has a diverse portfolio of 549 properties worth ~$7 billion with a WALE of 12.2 years. 42% of its properties are in retail and hospitality with another 21% in logistics and industrial properties, 19% in offices, 13% in social infrastructure and 4% in agricultural logistics. Examples of Charter Hall Long WALE properties include corporate offices, supermarket distribution centres, depots for trucks and buses, food processing factories and even blood donation centres.

The bulk of the company's tenants are government, ASX-listed and multinational companies. 18% of tenants by revenue are state or federal governments or government entity clients, while Endeavour Group (ASX: EDV) accounts for another 18%. Other tenants include Telstra, BP, David Jones, Myer, BP and Westpac.

With WALE in its name, it's easy to tell Charter Long WALE has a big focus on properties with longer leases. These assets provide strong tenant covenants, landlord-favourable leases and attractive underlying land value. 47% of leases at Charter Hall Long WALE's properties expire after FY33 and a measly 5.8% expire before FY26.

Is this REIT for real?

Charter Hall Long WALE was listed in late 2016 at $4 per share and has returned 11.6% annually between NTA (net tangible assets) per security plus cumulative distributions, beating the S&P/ASX 200 Property Accumulation Index by 2.3%.

The Corona Crash hit many ASX REITs – and Charter Long WALE was no exemption – because many of their properties or tenants' industries were forced to shut down. Since then, REITs have recovered to varying degrees depending on their sector focus and how quickly distributions were reinstated. As appetising as regular income is while interest rates are near zero, investors preferred higher growth assets such as tech shares in 2020 and 2021.

While Charter Hall Long WALE hasn't reached pre-pandemic highs yet, the trust issued its results for the first half of FY22 on 8 February. It achieved operating earnings of $97.8m and paid a distribution of 15.24 cents per share, both up 5% from the prior corresponding period. It's NTA rose to $5.89, up 13% from 6 months ago.

Getting on the drink

The bulk of Charter Hall Long WALE's NTA growth in recent months came from the assets of ALE Property Group (ASX: LEP) - it bought 50% of ALE in September last year and superfund HostPlus snapped up the other half. This consisted of 78 pub properties, mostly on the East Coast and leased to Endeavour Group (ASX: EDV) via Dan Murphy's and BWS stores. Although the WALE is just 7.5 years, the deals are structured with multiple decade-long options and the bulk of pubs has been operating for over 60 years.

Charter Long WALE also acquired three industrial and logistics facilities, including a Cleanaway & ResourceCo Facility in western Sydney and two distribution centres in Brisbane – for Toyota Material Handling and educational resources provider Modern Star. It also acquired a 33.3% stake in Myer's flagship store in Melbourne's Bourke Street Mall.

From a premium to a discount

When we last covered Charter Hall Long WALE, the trust traded at a 13.4% premium to its NTA, higher than our valuation of between 5% and 7%. Now it trades at a 19% discount inclusive of the September acquisitions. Arguably, investors are placing minimal value on these acquisitions. We admit it has been a tough run for pubs in recent months, with many on the East Coast being closed due to lockdowns in September and being disrupted over Christmas-New Year due to the nationwide omicron wave. But there is a reason why FY21 was a record year for pub deals – and it has continued into FY22. It's because of the long-term leases and yields at high levels for a zero-interest rate environment. Endeavour paid rent right through all the COVID-19 associated lockdowns even while not being able to do business.

Another underrated aspect about this company is that a high percentage of its income (52%) comes from triple-net leases, which pass responsibility for property costs and upkeep to the tenant. This is very capital efficient and means the REIT can pay out 100% of its income.

We give Charter Long WALE four stars this time around. We like its promises of regular, healthy payouts and capital growth in the underlying assets over the longer term. But while we thought it was too expensive last time around, we believe Charter Hall Long WALE is now at a more reasonable entry point. We also believe the portfolio will continue to grow through acquisitions in the future, which will likely increase distributions further.

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