ASX Property Stocks Down Under

> *Land monopoly is not the only monopoly. But it is by far the greatest of monopolies.*
>
> **- Winston Churchill (1874-1965), Prime Minister of the United Kingdom**

VICINITY CENTRES

Is now the time to be in the vicinity?

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Stocks Down Under rating: ★★★★

ASX: VCX
Market cap: A$8.6BN

52-week range: A$1.46 / A$1.93
Share price: A$1.835

Many ASX companies have recovered fully from the Corona Crash, but Vicinity Centres is still 25% lower than its pre-pandemic peak. This company is one of the largest shopping centre owners on the ASX and was substantially hit by pandemic-driven store closures. But with the worst of the pandemic behind us, there is a fresh sense of optimism about the company as evidenced by its half yearly results and its subsequent share price spike.

Share price chart

Source: Tradingview

Tough times

Vicinity was created in 2015 from the merger of Federation Centres and Novion Property Group. It has over 60 shopping centres under management, consisting of ~7,100 individual retailers. Vicinity's $22bn portfolio includes several flagship stores including Chadstone shopping centre in Melbourne, Queens Plaza in Brisbane and Chatswood Chase in Sydney as well as corporate offices at certain sites. The company owns and leases out these centres, and it adds to the pipeline through developments.

COVID-19 forced the shutters down on non-essential retail and sent Vicinity swinging from a $346.1m profit in FY19 to a $1.8bn loss. Although essential retailers in suburban malls mitigated the damage, its CBD assets were hit by people working from home and the elimination of tourism through border closures. The company undertook a $1.2bn capital raising in the early months of the pandemic and wrote down $1.8bn from its portfolio.

In FY21, Vicinity still made a statutory net loss, but only $258.0m. Snap lockdowns impacted store trading and visitor numbers, but visitation numbers quickly returned whenever restrictions were lifted. In every quarter of FY21, visitor numbers at stores, excluding Victoria, and CBD assets in all states were above 90%, while retail sales were above 2019 levels.

Vicinity's Victorian assets suffered more time in lockdown than any other Australian state and even without lockdowns, CBD flagship stores were impacted by an absence of tourists and office workers. Nevertheless, by the second half of FY21, retail sales across the entire portfolio were just under 4% below pre-COVID levels and visitation numbers at over 75%.

A new dawn?

Earlier in February 2022, Vicinity released its results for the first half of FY22 and shareholders approved – sending shares up over 10%. The company made a net profit of $650.2m, of which $320.1m was a net property valuation gain, and $287.7m was from Funds from Operations (FFO). This result was achieved despite Delta lockdowns in New South Wales and Victoria. The company again maintained over 98% occupancy and consumers quickly returned when restrictions were eased, and retailers that had received rent relief or waivers began paying again. The company's portfolio increased thanks to runaway property prices - driven by record low interest rates - as well as the acquisitions of 50% stakes in two Gold Coast properties.

Arguably shareholders would have been most happy about the uplift in its NTA after a long period of decline. Between 30 June 2017 and 30 June 2020, the NTA fell 19% as it reduced its portfolio from 88 centres to 62. After a further 16% decline in FY21, it rose in the first half of FY22. Although it has only risen to mid-2020, levels, a change in momentum is a good sign. And the company has a large pipeline of development work, headlined by a new headquarters for Officeworks at the office tower at Chadstone, taking up 8,000sqm, and Hub Australia committing to over 4,000sqm at Box Hill.

And after not providing forward looking guidance the past couple of reporting seasons, Vicinity did this time. It expects FY22 FFO per security to be 11.8-12.6 cents and its AFFO 9.5-10.3 cents (Adjusted FFO, adjusted for amortisations). It is targeting a full-year distribution payout range of 95-100%. While Omicron impacted visitation, no stores were forced to close, and the company reported an upward trend in the first couple of weeks of February. It has a strong liquidity position of $1.8bn.

Still priced at a discount

Despite the share price rally in recent days, Vicinity remains 25% below its pre-pandemic peak and had flatlined for a few years prior to COVID-19 as the firm consolidated its portfolio. It is currently trading at a 24% discount to its Net Tangible Assets (NTA), but we expect it to rise again as people return to brick and mortar shopping. Although its FY22 results will still show the effect of the Delta outbreaks, consensus forecasts for FY23 predict a 14% rise in revenue – to $862.59m.

This gives Vicinity an EV/EBITDA ratio of 14.9x and a P/E ratio of 12.7x, which puts it below fellow pureplay shopping centre manager Scentre Group (ASX:SCG), which is at 17x and 13.9x respectively. On a P/FFO basis, Vicinity trades at 15x while SCG trades at 68x. Admittedly SCG has a larger portfolio, and it wasn't hit by COVID-19 as Vicinity because it doesn't have properties in CBD locations reliant on international tourism for foot-traffic to the extent of Vicinity. But we think that the re-opening of Australia's border and a return to offices will ease the pain, even if it takes some time for tourists to return in their pre-COVID numbers.

When we last covered Vicinity Centres in September 2020, we titled the report 'Í don't want to be anywhere in this vicinity'. With the worst of the pandemic behind Victoria and the rest of Australia, we are changing our tune on this REIT. Four stars.

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