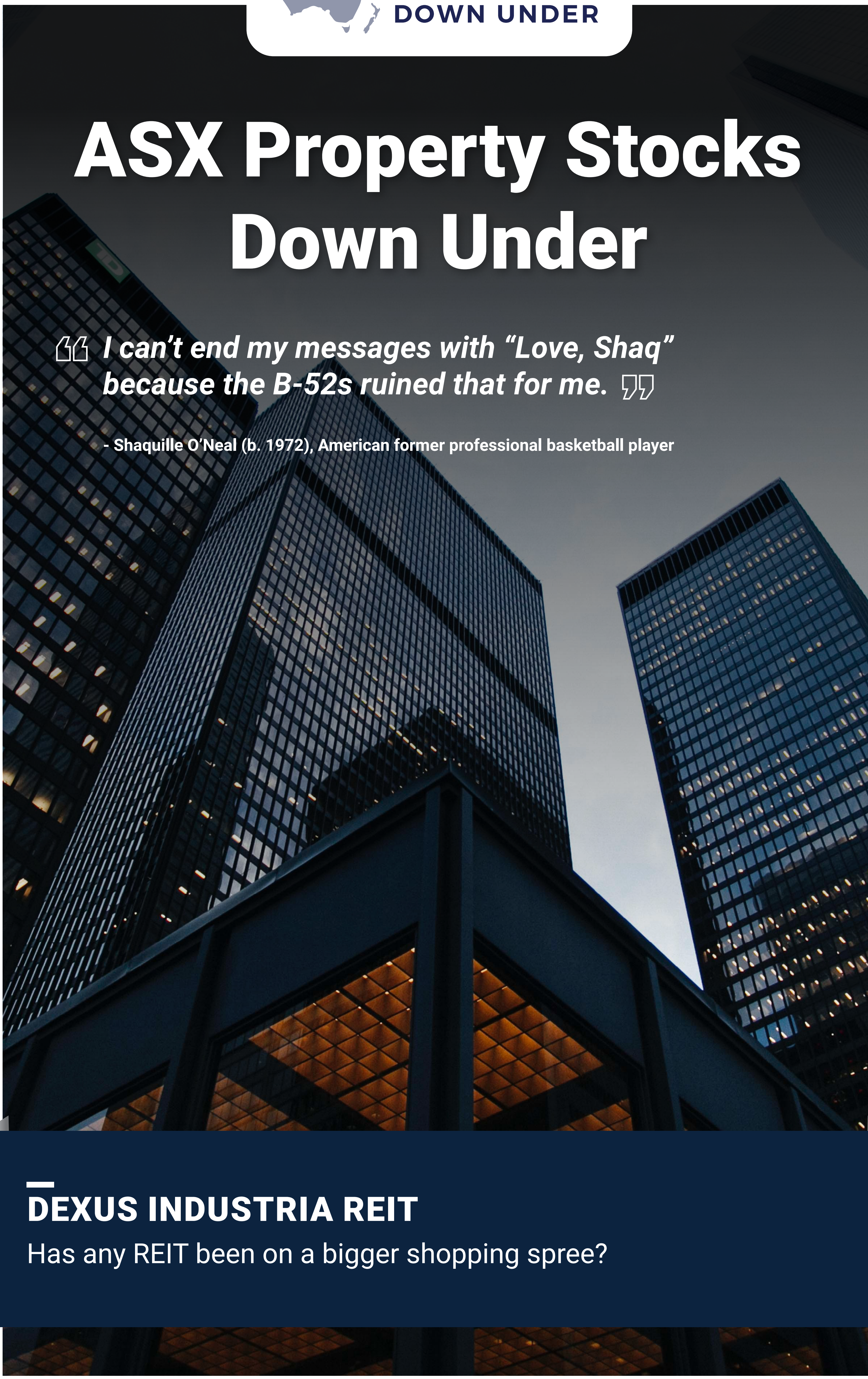
STOCKS DOWN UNDER

23 MARCH 2022



ASX Property Stocks Down Under

“I can’t end my messages with “Love, Shaq” because the B-52s ruined that for me.”

- Shaquille O’Neal (b. 1972), American former professional basketball player

DEXUS INDUSTRIA REIT

Has any REIT been on a bigger shopping spree?

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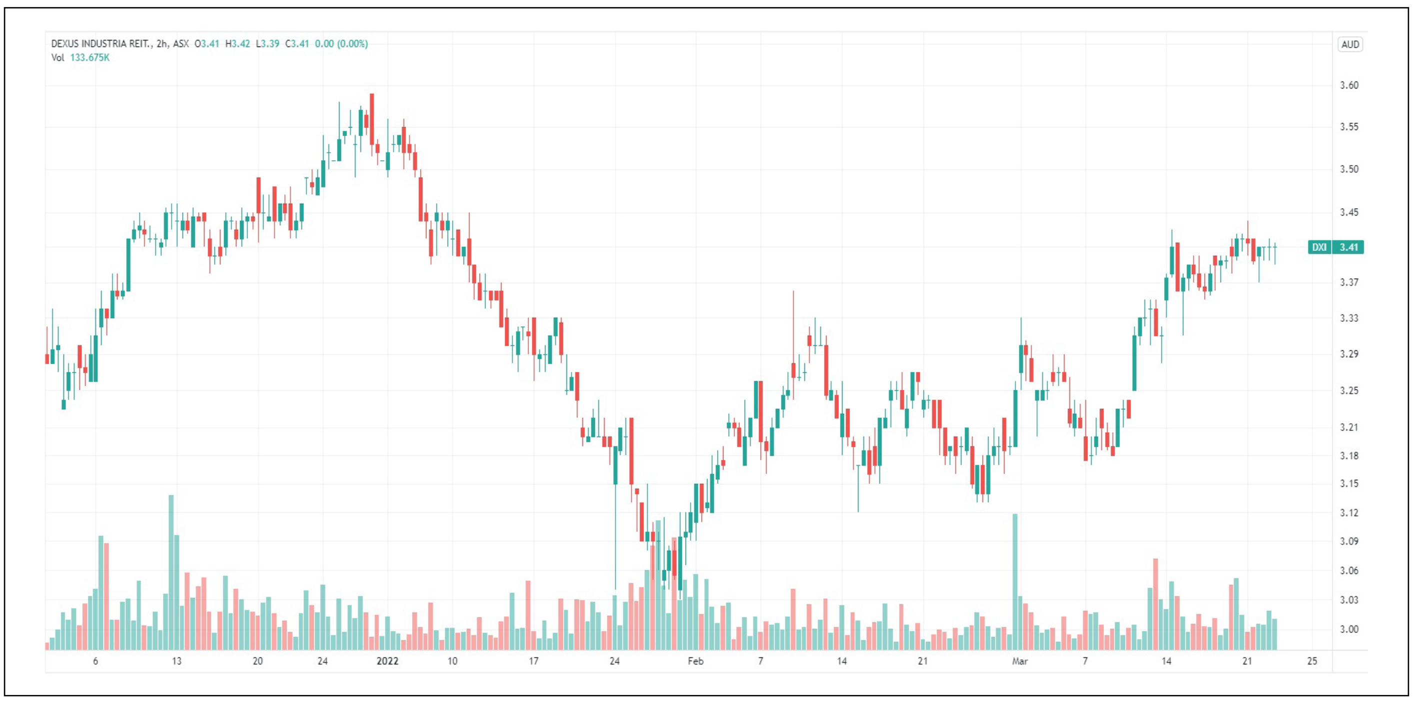
Stocks Down Under rating: ★★★★

ASX: DXI
Market cap: A$1.1BN

52-week range: A$2.84 / A$3.80
Share price: A$x.xx

eCommerce has been a hot sector among investors, but most companies in the space have suffered more than most during the recent market correction. Earlier this month, we looked at Goodman Group (ASX: GMG), which we judged as a more stable way to play the space, but thought was too overvalued. But Dexus Industria REIT (ASX: DXI) strikes a finer balance between being less expensive and still offering exposure to eCommerce without the risk involved with investing in high growth pureplay eCommerce companies.

Share price chart



Source: Tradingview

Dexus has its own REIT and it's been on a shopping spree

Dexus Industria REIT (ASX: DXI) is operated by real estate group Dexus (ASX: DXS), [which we covered in July 2020](). Founded in 1984 and listed in 2014, you'd probably know Dexus best on account of its office portfolio. But it has long invested in industrial properties and in mid-2021 Dexus acquired APN Industrial REIT, but kept it on the ASX, albeit replacing APN's name with its own. It is not unprecedented for property managers to list individual REITS while retaining their individual parent company's listing – Charter Hall and Centuria being two other examples that have multiple REITs listed in addition to the shares of the parent company. Dexus itself has another individual REIT – the Deus Convenience Retail REIT (ASX: DXC).

The DXI portfolio currently consists of 93 properties worth $1.8bn, up from 39 assets worth $1.1bn in the middle of last year. At the time it was exclusively industrial warehouses (67%) and business park offices (33%), but it went on a significant buying spree in September last year, buying 51 properties then worth $368 million. This included a 33.3% stake in Jandakot Airport in WA – a high quality industrial portfolio comprising the operating airport and 49 properties, plus a property leased to Australia Post at Truganina in Victoria and an interest in a development at Kemps Creek in Western Sydney.

The portfolio today has a 5.9-year Weighted Average Lease Expiry (WALE) and 74% of properties have contracted rent increases of over 3%. Rent collection rates are strong, at around 99%, and gearing is under 30%. Its assets are spread across the country and are strategically located to reach 80% of the population in each capital city within 60 minutes. DXI also owns the Brisbane Technology Park and Rhodes Corporate Park in Sydney. It has a fair mix of property tenants, with the largest tenant, WesTrac, only responsible for 16% of the portfolio's income and the only company accounting for over 10%. The company has a significant pipeline with notable projects, including a new property at Jandakot Airport, Kemps Creek and Moorebank in Western Sydney. DXI is also one of the first ASX REITs certified as carbon neutral. This designation is certified across both corporate activities and properties under its operational control. It has made significant investments in onsite solar, saving 2.4m kgs of carbon dioxide emissions from being released into the atmosphere.

Delivering valuation uplifts and cash flows

Beyond the boom in eCommerce, COVID-19 has been a strong period of growth for the property market, with record low-interest rates increasing the pool of buyers for property and the appeal of property as an investment class. These headwinds have been manifested in DXI's results. In FY21, DXI recorded $41.2m in Funds from Operations (FFO) - or 19.9 cents per share - up 12% from FY20.

1HY22 was another solid period for DXI, achieving record leasing activity and acquiring $584m of properties, increasing its portfolio by over 45% to $1.78bn. The valuation gains in already held properties and acquisitions drove a 10.9% uplift in Net Tangible Assets (NTA) and a 257% rise in statutory net profit to $113.7m. FFO came in at $24.8m, which was up 25.5% but down 5% on a per security basis because of the timing between a capital raising completed in September 2021 and subsequent capital employment. DXI has given guidance of 18.1-18.5 cents per security FFO and 17.3 cents distributions per share as long as the current market conditions hold. It noted that across the 2021 calendar year, 4.3 million square metres of space was taken up – double the 10-year average.

DXI deserves a premium

The company currently has Net Tangible Assets (NTA) of $3.55, meaning it is trading at a ~4% discount. At 17.1x trailing and 18.6x forward, it is also trading at reasonable P/FFO valuations. Its peer Centuria Industrial REIT (ASX: CIP) is at 22.3x trailing and 21.6x forward, although its forward guidance is roughly in line with DXI. We have expressed the view previously that Goodman (ASX: GMG) is too expensive right now, notwithstanding its positive momentum.

You could argue investors aren't valuing DXI because it has shared ownership with some of its projects. It only has a 33.3% stake in Jandakot and 50% in Kemps Creek and Moorebank (albeit with Dexus holding a hefty stake in its own right if not the balance). But even if a discount is consequently deserved, we think investors have taken things way too far – in placing little value on its acquisitions in the last 6 months. DXI is up just 17% in the last 12 months despite the substantial expansion of its portfolio.

We expect the company to continue to deliver solid cash flows and distributions - leasing industrial property is a great space to be in right now, given the growth in eCommerce and pressure on businesses to deliver for their customers. We also think DXI has significant scope for further acquisitions – and to make them without further diluting shareholders - given its gearing is below 30%. So, it's four stars from us.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!