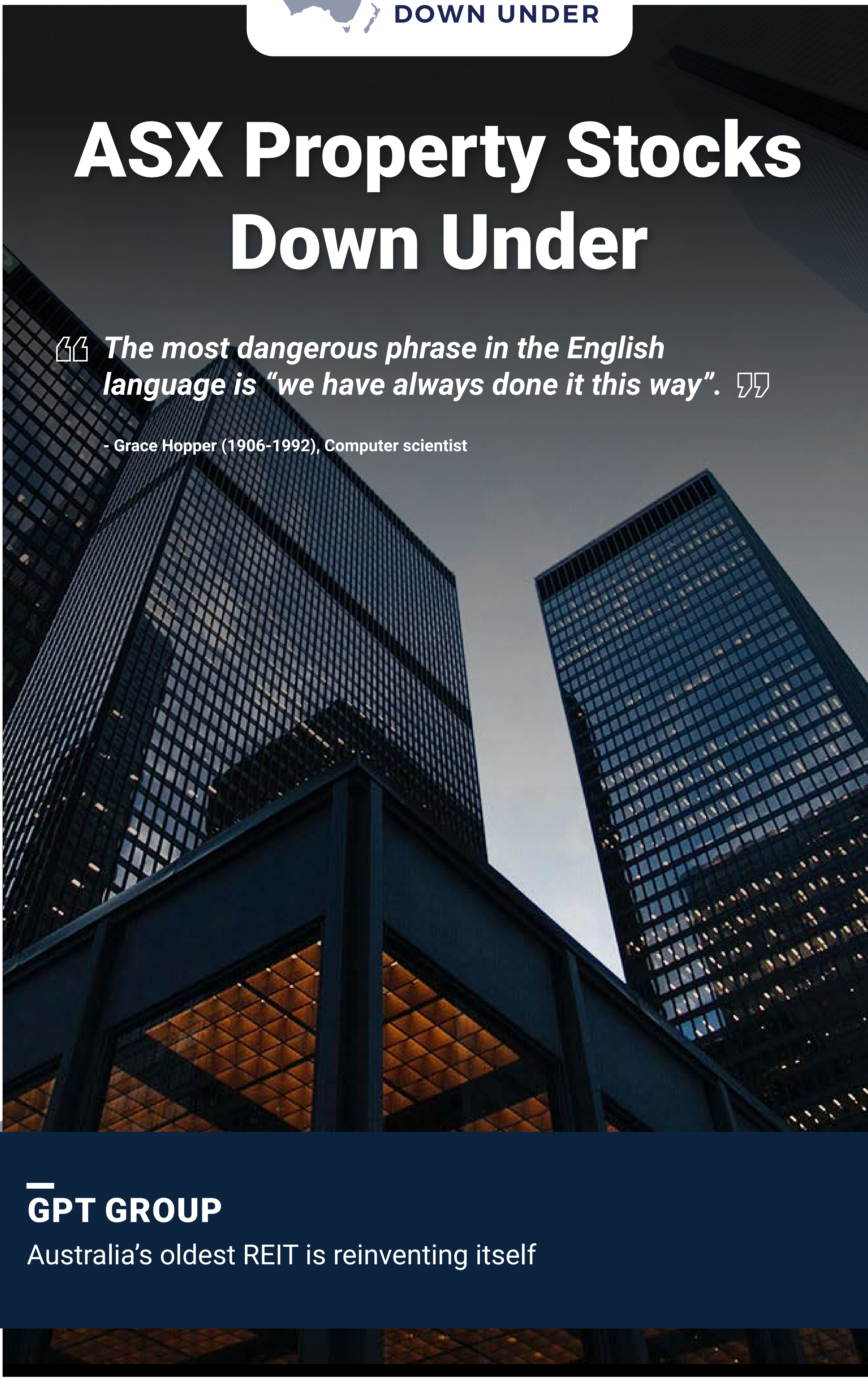
STOCKS DOWN UNDER

6 APRIL 2022



# ASX Property Stocks Down Under

> *The most dangerous phrase in the English language is "we have always done it this way".*
>
> - Grace Hopper (1906-1992), Computer scientist

## GPT GROUP

Australia's oldest REIT is reinventing itself

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## Australia's oldest REIT is reinventing itself

**Stocks Down Under rating:** ★★

**ASX: GPT**
**Market cap: A$9.8B**
**Dividend yield: 4.8%**

**52-week range: A$4.51 / A$5.59**
**Share price: A$5.14**

Over 50 years ago, GPT Group (ASX: GPT) became the ASX's first ever property trust and it is still public today. It has a diversified portfolio consisting of retail, office and logistics assets. Being a real estate all-rounder failed to save it from being hit by the Corona Crash and its share price still has not fully recovered, even though many of its peers have. Can GPT make up the remaining lost ground as it pivots its portfolio towards logistics?

### Share price chart


*Source: Tradingview*

### It's the Jack of all trades, but is it the master of any?

This is the second time we've covered GPT, with the first in August 2020 when the stock was trading at $3.88. We gave it four stars at the time. If you'd bought GPT shares back then, you'd have a 32% gain today.

GPT has a property portfolio worth $15.1bn and $26.9bn in assets under management. Its flagship assets include Australia Square and the Citigroup Building in Sydney, the Melbourne Central shopping centre, Charlestown Square in Newcastle and Sunshine Plaza in Queensland. The group also has $4.4bn in logistics properties across Australia's Eastern seaboard. It has gearing of 28.2% and weighted average debt term of 6.3 years. Its WALE is 4.8 years, which is lower compared to some of the other REITs we've covered in recent weeks.

GPT's heavy exposure to retail and office spaces, arguably explains its slower recovery compared to its peers that have now exceeded their pre-Corona Crash levels. It also didn't help that the company swung to a $213.1m net loss after tax in FY21. Because the company uses the calendar year as its financial year, it was reporting a loss at the same time other REITs (specifically those which use a July 1 to June 30 financial year) were already reporting a return to profitability. GPT was forced to downgrade the value of its retail and office portfolio and it divested its stake in 1 Farrer Place in Sydney – one of its most prestigious properties. Its Funds from Operations was $554.7m, equating to 28.48c per security and down 12.9% on FY19.

GPT was back in black in FY21, recording a $1.4bn profit with investment property valuation increases of $924.3m - more than 50% of which was from logistics. And although FFO was slightly down to $554.5m, it was up on a per share basis at 28.82c thanks to share buybacks conducted during FY21.

Looking to its FFO, $154.7m came from logistics, $269.2m came from offices and $233.9m came from retail properties – we note the sum of these three figures is higher than GPT's statutory FFO, this is because FFO was ultimately reduced by finance and corporate costs. FFO from office properties was 4.5% down from FY20, but retail grew by 3.6% and logistics grew by 11%. However, the overall results were positive when you consider it was achieved despite the Delta round of lockdowns, which initially led to the company withdrawing guidance. Its projected dividend of 25c per security would represent a 4.8% yield.

## GPT's planned acquisition and development activity

As we noted above, GPT is increasing its exposure to the logistics space. The rise of eCommerce amidst the pandemic has proven a boon for landlords with properties revaluing far higher than other sectors and no shortage of tenants requiring space. Vacancies in Sydney are just 0.4% and it is little better in Melbourne and Brisbane, which are 1.3% and 2.3% respectively. This means tenants will have to pay up and that there'll be plenty of them. Indeed, GPT has only one logistics tenant accounting for over 10% of rental income and just two accounting for over 5% (Coles and IVE Group). It bodes well for GPT so long as momentum in this space continues.

Nevertheless, the benefit GPT will reap will not be as much as it will when its full development pipeline is realised – it totals $1.6bn across the eastern seaboard, although only a small portion will be completed in 2022. At the same time, it has not completely given up on its retail and office assets. It told shareholders mixed-use masterplans had been approved at Highpoint and Rouse Hill, allowing both to transform into urban villages with residential and office space and further retail space in addition to that which already exists.

GPT is well placed to undertake further acquisitions and developments, possessing $934.7m in available liquidity held in cash and undrawn bank facilities. And the company has further scope to increase this – it has shown it is not afraid to part with assets having sold its stake in 1 Farrer Place in 2020 and Wollongong Central last year. GPT is also looking to increase its ESG credentials, most notably targeting carbon neutral certification by 2024 and making sustainability investments at its logistics spaces, including solar and batteries, water harvesting and low carbon concrete.

## So, is GPT still a buy this time around?

For 2022, GPT is guiding to FFO of 31.7-32.4c per share and a distribution of 25c per share, giving it a P/FFO of ~16.2x. Additionally, the group has an NTA of $6.09 - meaning it is trading at a discount of ~15% to its NTA. If you're investing for distributions, this company has proven itself a reliable one in good and bad times alike.

However, if you're investing for growth, we're less sure. This REIT has potential upside, but we'd prefer companies that are deeper entrenched in the space or will have faster exposure – one example being Dexus Industria REIT (ASX: DXI), which we wrote about last month.

We do like how GPT has been an active acquirer and that it is increasing its exposure to logistics, a great space to be in right now. But for the foreseeable future, office and retail will make up the bulk of its earnings – Logistics only made up ~27% of GPT's FFO in FY21. GPT reaching its guidance for FY22 will be contingent on a return of workers to CBD workspaces and a recovery of retail sales and foot traffic at shopping centres, both to pre-COVID levels. The company itself has admitted the latter point. So, although this stock could be one for the watchlist, GPT gets two stars from us – at least until either people return to offices and retail centres, or logistics becomes the bulk of its earnings.

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