STOCKS DOWN UNDER

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ASX Property Stocks Down Under

The ability to focus attention on important things is a defining characteristic of intelligence.

- Robert Shiller (b. 1946), Yale economics professor

ABACUS PROPERTY GROUP

The ASX's Storage King?

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Stocks Down Under rating: ★★★★

ASX: ABP
Market cap: A$2.7BN

52-week range: A$2.85 / A$3.92
Share price: A$3.28

Abacus Property Group (ASX: ABP) has historically had one of the more diverse portfolios among all ASX REITs. But after some years of being the jack of many trades, it is increasing its focus on self-storage facilities, particularly Storage King outlets. And although it still has significant exposure to office spaces – an area that has caused headaches for many ASX REITs given people working from home – this segment isn't a write off just yet.

Share price chart

Source: Tradingview

A simplified portfolio with exposure to ecommerce

Abacus was listed on the ASX in 2002 and has historically had one of the most diverse property portfolios among ASX REITs. But recently the group has focused on office spaces and self-storage. It has $5.1bn in assets, with self-storage accounting for roughly half of this and offices another $1.9bn. The company is headed by Steven Sewell who once led Vicinity Centres (ASX: VCX).

Self-Storage has been one of the fastest growing spaces during the pandemic for a variety of reasons, particularly the rise of working from home, moving to regional areas and home renovations. All of these have led to an uptick in people requiring temporary storage for household items that may be too large to keep at home.

Abacus has full ownership of private storage company Storage King and its 93 properties across Australia. Its portfolio has grown through acquisitions, but the rise in property values has helped as well. Ironically, it also has a minority stake in fellow ASX listee National Storage (ASX: NSR). Its most recent self-storage acquisitions are within tightly held catchments with a large portion of renters, increasing apartment development and above average household incomes – for instance Chatswood and St Leonards on Sydney's North Shore.

What about Abacus' commercial assets?

Abacus retains a significant stake in commercial spaces, particularly offices. Offices have not benefited from people working from home. It is natural that Abacus would be increasing its non-office exposure, but it is not throwing in the towel either. Just before Christmas last year, it paid $250m for 77 Castlereagh Street in Sydney. This 11-storey building is right above Westfield Sydney and near Martin Place station, which is being upgraded to a metro station. Abacus also has some exposure to retail, owning the Oasis Centre at Broadbeach in Queensland, and it acquired a 33.3% interest in Myer Melbourne in mid 2021.

You may remember we covered GPT Group (ASX: GPT) a fortnight ago, a REIT which has been focused on office spaces and was trying to make a similar shift to more ecommerce friendly real estate (in GPT's case logistics properties). We gave GPT two stars, noting it still had significant exposure to office spaces and it would take a while for its logistics portfolio to account for a larger share of its portfolio. The difference with Abacus is that it now has its self-storage portfolio accounting for a higher share of its portfolio than its office space. And Abacus has tried harder to differentiate its office portfolio compared to its peers. These have limited exposure to full floor or multi-floor tenants and have ample car parking spaces in addition to being close to public transport. Even with people working from home, Abacus still had a high rent collection of 96% in FY21 and provided barely $1m in rent waivers.

Does Abacus live up to the name of its self-storage franchise?

In FY21, Abacus generated $136.4m in FFO (Funds from Operations), up 9.5% from $124.6m in FY20 and equating to 18.4 cents per security. In 1HY22, it generated FFO of $81.1m, up 33.7% from $60.6m, equating to 9.8 cents per security. For the full year, it expects to pay a distribution of least 18 cents per security, which would be 85%-95% of FFO. Assuming the midway point, which would represent a 19.8 cent per security FFO, that would represent 7.6% growth.

Abacus is trading at P/FFO of 17.0x. It has NTA (Net Tangible Assets) of $3.73 but it trades at a ~10% discount. As for its peer National Storage (ASX: NSR), it trades at a ~28% premium to its NTA. Although NSR uses EPS instead of FFO, it is expecting 10 cents a share for FY22. NSR's EPS is up 18% from FY21 but is just over half of what Abacus is expecting to payout to its own shareholders.

On a P/E basis, Abacus trades at 17.3x for FY23 while NSR trades at 24.8x. This is despite consensus earnings for both REIT's suggesting the same earnings growth in FY23 of 9.5%, although Abacus' projected EBITDA is higher at $227.9m vs NSR's $157.1m. NSR is down 1% so far in 2022 while Abacus is down 13%. Both are up on a 12-month basis, though Abacus again trails NSR, growing by just 12% while NSR gained 32%. Clearly investors realise how earnings accretive and high growth properties with exposure to ecommerce, such as storage spaces, will be. But why the gap in these companies' valuations? We think it is because Abacus still has significant exposure to office space and has higher debt compared to NSR ($918.5m versus $1.5bn).

Nevertheless, Abacus' gearing is just over 30%, which is hardly excessive compared to its peers. Abacus also has scope to divest non-core properties and it has not been afraid to do so in the past. Furthermore, despite the impacts on offices generally we expect Abacus' office assets to outperform its peers in light of the differentiation of its assets. We are also encouraged by the high average rent increase since FY20, of ~11% across FY21. Finally, we note Abacus completed a $200m capital raising just a month ago, which, despite being dilutive to shareholders, will help it fund its acquisition pipeline worth $266m. So, Abacus gets four stars from us.

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