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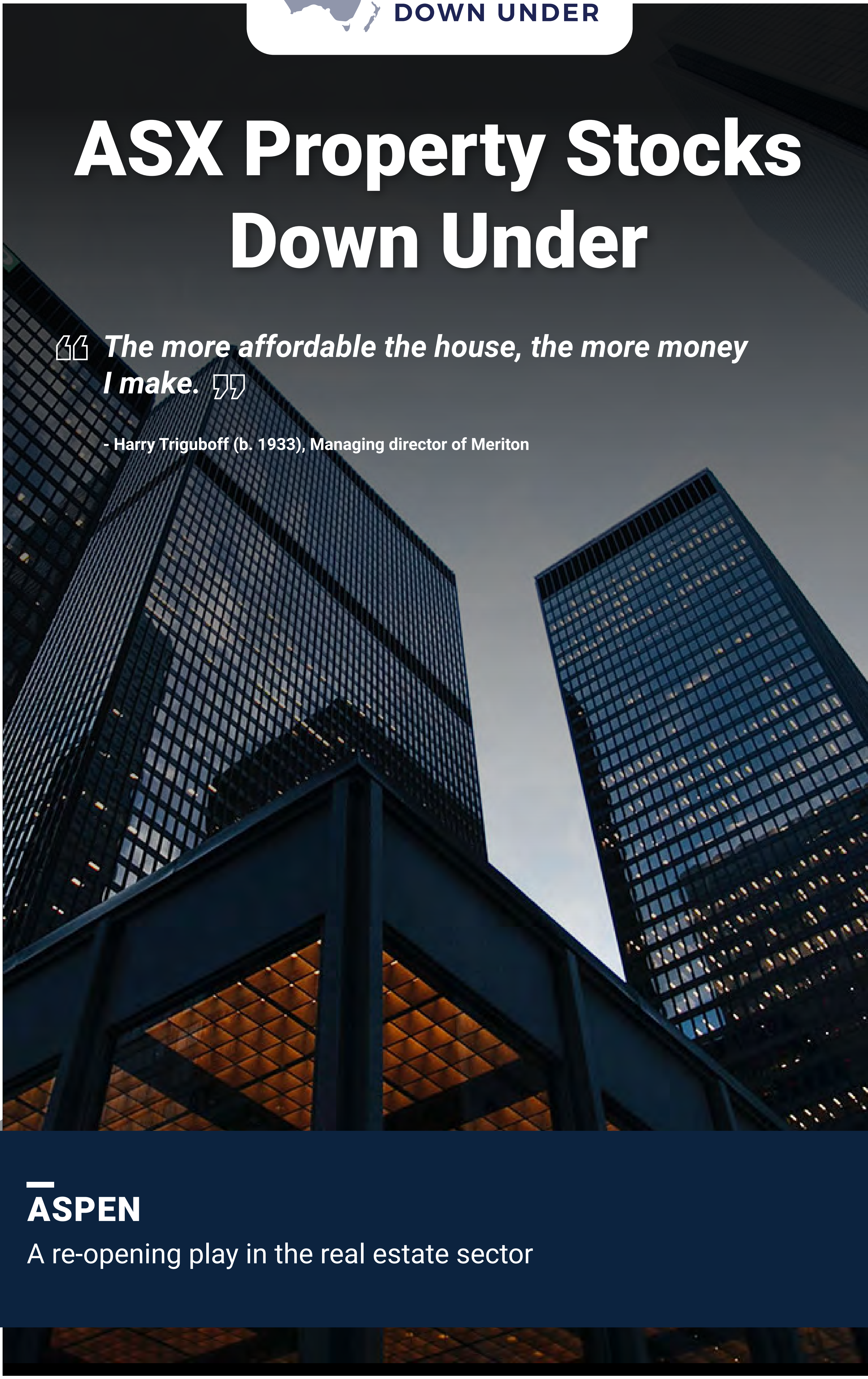

ASX Property Stocks Down Under

“The more affordable the house, the more money I make.”

- Harry Triguboff (b. 1933), Managing director of Meriton

ASPEN

A re-opening play in the real estate sector

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Stocks Down Under rating: ★★★★

ASX: APZ
Market cap: A$234.1M

52-week range: A$1.26 / A$1.80
Share price: A$1.53

Aspen Group is one of the longest-tenured diversified property stocks on the ASX. Aspen's specialty is affordable accommodation with retirement estates, built-to-rent apartments, student accommodation and holiday communities (or as Aspen calls them 'park communities'). The company services households that cannot afford rent over $400 per week or new houses over $400,000 – which it estimates is roughly 40% of Australian households. While the company has held up well throughout the pandemic, we think even better times are ahead of the company with hot demand for its holiday parks and its move into the built-to-rent apartment sector.

Share price chart

Source: Tradingview

A strong five years of growth

Aspen's portfolio comprises of 21 properties, collectively valued at $316m and comprising over 3,600 dwellings and sites. In acquiring properties, traits Aspen looks for include desirable locations, under-utilised land packages and competitive operating costs as well as potential and flexibility for different and higher value use. 41% of the portfolio's value is residential, 39% is park communities and 20% retirement communities. Two thirds of its value is metropolitan with the other third regional. Its biggest state is WA, accounting for 35% of its value with NSW accounting for a further 31%.

Five years ago, Aspen's portfolio was worth $108m, but this figure has nearly tripled since then thanks to acquisitions and completion of developments, which increased the portfolio's weighting to more properties with higher liquidity and more stable and year-round income. Its shares dipped during the Corona Crash but only by 22% - little over half what the All Ords did. And it is ~35% above its mid-February 2020 peak. Its cash flows remained stable throughout the pandemic.

In FY21, the company's revenue was $36m (up 18%), its cash flows from operating activities was $4.8m (up 2.1%) and its EPS was 7.7 cents (up 14%). Its results throughout COVID-19 are all the more impressive when you consider it dealt with the NSW Black Summer Bushfires, moratoriums by state governments on rent increases and the expiry of Woodside's long-term lease at its Karratha village. 1HY22 was another strong period, achieving EPS of 4.64c (up 2%) and paying out 3.10c. Aspen's NTA is $1.51, a figure that is up 26% in the last 12 months and means it is trading at a 4.6% premium.

Aspen has not given specific guidance for FY22 but aims to grow Underlying Earnings and/or Net Asset Value by at least 10% per annum. If you assume its EPS will reach these targets, its PE is 18.7x for FY22 and 17x for FY23. We think the company is reasonably valued, but you might be wondering how it will achieve its growth forecasts.

Will the next few be more of the same?

The company hopes to achieve its growth forecasts through refurbishments and development pipeline as well as through thematic underpinning its portfolio. Aspen hopes the return of international students and tourists will be a boost for its accommodation. We are excited about its exposure to Built to Rent (BTR) apartments. We won't go as in depth into the broader BTR industry as we did when we covered Mirvac (ASX: MGR) on 16 March 2022, but we will reiterate our views that it could be the biggest innovation in the apartment space since the creation of strata in the 1960s.

While apartments broadly have suffered due to the closure of international borders, we think the tide is turning now. Median advertised rents on realestate.com.au were 9.3% higher in April 2022 than in April 2021 and over 10% in Sydney and Brisbane. This will open up the opportunity for BTR apartments to become more well-established in the Australian market. We observe that Aspen is beginning its BTR dreams in Perth, an apartment market that hasn't been as hot. But unlike Finbar (ASX: FRI) - which we covered on 4 May 2022 and gave two stars purely for that reason - Aspen doesn't have all its eggs in one basket. We expect Aspen to continue to generate cash flow from its existing assets and potentially develop further BTR properties as states increase the attractiveness of BTR for developers. NSW and Victoria will halve the amount of land tax levied on build-to-rent projects.

Doing well on ESG overall

From an ESG perspective, there is a lot to like about Aspen. It boasts about improving society and reducing inequality by providing affordable accommodation. It boasts that its communal living facilities promote a more efficient sharing of resources, possess community gardens (that absorb CO2 and produce food locally, hereby reducing transport requirements) use less energy and more renewable forms of it.

But ESG investors may not like the impact it is having by pushing up prices in regional areas. Is it also worth noting some properties are located in past and present Indigenous communities and the company actively seeks to help these communities and conserve heritage items. For instance, to protect the Barlings Beach Aboriginal Place, Aspen completed an archaeological dig within the community with the assistance of the Local Aboriginal Land Council. Yet, some ESG investors would've preferred that Aspen had never set up shop there in the first place.

The challenge is also that compared to holiday parks, these units will have higher ongoing capital expenditure. We also think Aspen's development pipeline may pose challenges with supply chain and labour issues plaguing the sector. However, its development pipeline and refurbishment program only account for a quarter of its total dwellings and sites, so it is not as if any delays would threaten the viability of the business and its future cash flows. Ultimately, considering its pandemic performance, future outlook and consequently reasonable valuation, Aspen is four stars in our view.

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