



**STOCKS
DOWN UNDER**

17 AUG 2022

ASX Property Stocks Down Under

📖 *Let us not look back in anger, nor forward in fear,
but around in awareness.* 📖

- James Thurber (1894-1961), journalist and playwright

CARINDALE PROPERTY TRUST

When investors' worst nightmare comes true

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Stocks Down Under rating: ★★

ASX: CDP

Market cap: A\$319.7M

52-week range: A\$4.21 / A\$4.86

Share price: A\$4.42

There aren't many pure-play shopping centre REITs, but they have been popular as re-opening plays. Vicinity Centres (ASX: VCX) is one example and it has jumped from \$1.83 to \$2.10 since we covered it in February. Carindale Property Trust (ASX: CDP) is a pure-play shopping centre REIT, but unlike Vicinity is located in Brisbane, so it wasn't hit by the pandemic as badly. However, its share price has lagged in recent years. Why is that?

Share price chart



Source: Tradingview

A one-property REIT

Carindale's scope is far limited than Vicinity's, or Scentre Group (ASX: SCG) for that matter, which is actually the managing entity for this trust. Carindale owns just two properties in southern Brisbane, i.e. Westfield Carindale (and it only owns 50%) and Sundry. But the buildings are managed together and the company considers the properties to be one. The combined property opened in 1979 and is Brisbane's largest shopping Centre. It is half owned by Scentre Group and the other half by Lend Lease. Scentre acquired its stake in 1999, taking it over from Suncorp.

Westfield Carindale is 12km south-east of the Brisbane CBD, serving a trade area population of over 700,000 and has a total accessible market of 1.4m residents. It is home to many of Australia's best known retailers, including Coles, Woolworths, David Jones, Myer, Big W, Target and K-Mart. It also hosts an Event Cinemas complex and has a bulky goods retailer Home & Leisure Centre on site. Prior to COVID-19, it had the second highest sales of all retail centres in the Brisbane market.

As noted above, you might think being based in Brisbane would have spared it the worst of the pandemic. And you may also think it faces significant upside in the years to come as Brisbane gets ready to host the 2032 Olympics. Investors haven't seen upside in Carindale, sending the stock down over 40% in the last five years. It has barely budged since March last year and is below its early 2020 level of over \$6 a share. One of the key reasons REITs sold off in the Corona Crash is because of fears they would cut or discontinue dividends entirely and that property valuations would be cut. Well, in the case of Carindale, the worst fears were realised.

Investors' worst nightmares came true

At its FY20 results, Carindale cut its assets by 14.5%, or by \$125m. On an NTA basis this meant a cut from \$8.01 per security to \$6.33. Brisbane was able to remain COVID-free for much of the first 18 months or so of the pandemic, so visitor numbers recovered relatively quickly after the lockdown. But even so, the board decided not to pay out a dividend at all for the second half of FY20. Nor did it give any guidance for FY21. To distribute dividends is the primary reason REITs are created and it is one thing to cut them, another to not pay them altogether. The results weren't pretty either with a \$107.7m statutory loss and although FFO came in at \$20.5m, this was down from the \$25.7m in FY19 – a drop of just over 20%.

Turning to FY21, most metrics improved, but only some were better than pre-COVID levels. Most notably, it made a statutory profit of \$39.4m, which was actually double the \$19m achieved in FY19. It also returned to distributions, paying 23c per share. But this was down from the 36c per share paid in FY19 and FFO was still below pre-COVID levels at \$23.6m.

Customer visits were 94% of June 2019 volumes and the centre was 98% leased. The property was valued at \$1.5bn, valuing Carindale's share \$750m and representing an NTA of \$6.66 per unit. It anticipated paying a distribution of 25c per unit, again below pre-COVID levels. In 1HY22, it reiterated this guidance and made FFO of \$12.9m, up 16.6% on 1HY21. If we assume it will achieve \$25.8m for the full FY22 (double the 1HY result), that equates to 3.6c per unit with just over 72m shares on issue. This gives it a whopping P/FFO ratio of 122.2x. One reason you might argue for an investment in Carindale is its ~33% discount to its NTA and assuming it can't stay that low forever. But when you look at its P/FFO ratio, it looks a lot more expensive.

Will Carindale really grow into the future?

No ASX REIT will tell you it is in an unappealing market without growth prospects. But any ASX REIT with exposure to Brisbane has potential for upside as the city prepares for the Olympics. One other REIT with exposure is Garda (ASX: GDF), which we only covered last month. Brisbane will grow by 19% each year for the next decade and by the time of the Olympics, will be home to 530,000 more people than it is today.

But there will be far more development in suburbs that host Olympic venues and the closest to Carindale is Tennyson, which lies 13km to the west. One development that may encourage more patronage to the centre is the Carindale busway station that will provide extra and more efficient public transport, but despite much talk, this has not happened.

Ultimately, while we think major shopping centre REITs have upside post-COVID, we are less sure about Carindale, which has far more limited exposure than other REITs such as Vicinity Centre (ASX: VCX). And even though it is trading at a discount, we believe its valuation actually looks expensive when you consider its P/FFO ratio. Two stars.

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