STOCKS DOWN UNDER

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ASX Property Stocks Down Under

> *Thinking is one thing no one has ever been able to tax.*

- Charles Kettering (1876-1958), Automotive engineer and inventor

CHARTER HALL LONG WALE REIT

A REIT that actually increased its portfolio in 2022

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Stocks Down Under rating: ★★★★

ASX: CLW
Market cap: A$6.4BN

52-week range: A$3.84 / A$5.44
Share price: A$4.60

Ever since its 2016 listing, Charter Hall Long WALE REIT (ASX: CLW) has one of the ASX's most diversified and largest REITs. However, it has not been able to escape the impact from the dour property market, suffering a 12 month share price decline of 11%. This is in spite of the fact that its portfolio grew in the past year, something that can't be said in respect of many other REITs on the ASX.

Share price chart

Source: Tradingview

Dancing until the music stops

Charter Hall Long WALE REIT owns 550 properties, worth $7.2bn. Long WALE retail properties account for 445 of the 550, but only $3bn of the $7.2bn book value. Industrial, logistics and office properties make up $1.4bn each, with the balance being $1bn of social infrastructure properties and $313.7m of agri-logistics properties.

Types of property CLW owns include corporate offices, supermarket distribution centres, depots for trucks and buses, food processing factories and even blood donation centres. The company focuses on defensive properties, in other words properties that are resilient to economic shocks. Some of these could also be considered growth opportunities, particularly industrial properties that have been in high demand amidst the growth in eCommerce during the pandemic.

You might have guessed that the company targets properties with a long WALE (Weighted Average Lease Expiry). This is indeed the case, it has an average WALE of 12 years, along with a healthy mix of lease expiries that range all the way out to FY44.

Overcoming inflation and interest rate increases

One of the biggest concerns shared by ASX REIT investors is rising inflation and the impact it will have on lease terms. This is not an issue CLW is experiencing, at least not yet, for two reasons. Firstly, the bulk of CLW's tenants are government, ASX-listed and multinational companies. CLW's top tenants by revenue include

Endeavour Group (accounting for 18%), federal and state government entities (18%), Telstra (13%) and BP (10%).

And secondly, 48% of leases are linked to CPI, meaning they will rise along with inflation. The company expects an average 6.3% weighted average rent increase in FY23. The other 51% of properties are fixed lease terms with an average annual increase of 3.1%. Although this is behind current inflation, it should nonetheless be encouraging to investors that tenants will not be demanding rent reductions – at least if they want to remain tenants.

Rent increases also help CLW overcome the other major concern – rising interest rates. At 29.9%, CLW's gearing is roughly the same as many of its peers, while its cash balance is $397m. Where CLW stands out from its peers, however, is that it has completed $1.7bn of debt initiatives. It has refinanced $1bn of its bank debt, established $355m of new facilities with a 6.1-year term and increased capacity within existing facilities by $357m. The REIT's weighted average debt maturity is 5.2 years, with staggered maturities over a nine-year period from FY24 to FY32.

CLW also has a solid ESG angle. Yes, many of its achievements are hardly unique among ASX REITs, such as targeting Net Zero by 2030 and rating high in various sustainability measurements. NABERS (National Australian Built Environment Rating System) is one such example in relation to water and energy use. But more importantly, CLW has achievements to boast of during the past year. In FY22, emissions from its portfolio fell by 50% and it installed 1.6MW of solar energy capacity.

FY23 will be a retreat, but not that bad

During FY22, the company achieved $207m (30.5cps) in operating earnings, up 4.5%, a statutory profit of $911.9m (including revaluations) and it paid out all of its earnings. CLW's Net Tangible Assets (NTA) amounted to $6.17, up 18.2% from 12 months earlier. For FY23 CLW has issued operating EPS guidance of 28c per share and anticipates paying out all of it. This would represent a 6% yield at yesterday's closing price of $4.60.

Consensus estimates for FY23 also expect 28c per share. EPS estimates for the following years are 29c in FY24 and 28c in FY25. The mean share price estimate among the 10 analysts covering CLW is $4.62. The company's P/E multiple for FY23 is 15.6x, behind the ASX 200 REIT average of 17.5x.

There are few better REITs to be invested in right now

We acknowledge that investors will be disappointed that CLW's share price has not been able to grow in the last 12 months and that EPS is going backwards. This being said, we take courage from the fact that the REIT's portfolio has proven remarkably resilient, actually growing in the last 6 months.

We cannot rule out a further share price decline in the short-term. But we think that the worst of the decline is over, so long as interest rates do not surpass economists' expectations – specifically cumulative increases of more than 1% from current levels. Even optimistic investors may wish to wait for the company's 1HY23 results, due on 9 February, in which we will see the impact of rising interest rates on the company's operating profit and balance sheet. Nonetheless, we think the resilience of Charter Hall Long WALE REIT's portfolio is enough for it to deserve four stars, even right now.

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