Going the Reit route could help Attacq

By Joan Muller

26 Sep 2017

Attacq, which owns the Waterfall development precinct, anchored by the 131,000m^2 Mall of Africa near Midrand, last week reported foreign exchange and impairment losses of R280m on its European and African interests.

Mall of Africa

In addition, Attacq took a R183m knock on the sale of its stake in German shopping centre Nova Eventis. A stronger rand also wiped out most of the gains made by the sale of Attacq's investments in Serbia and Cyprus.

Around 15% of Attacq's R27.2bn portfolio is made up of offshore property interests, including a R2.7bn stake in JSE-listed MAS Real Estate and a R1.2bn portfolio of seven malls in African cities including Accra (Ghana), Lagos (Nigeria), Lusaka (Zambia) and Windhoek (Namibia).

Speaking at the company's results presentation last week, Attacq CEO Morn Wilken said it operated in a challenging environment, which has prompted management to take a hard look at its strategy and simplify its business model.

The latter will include the conversion to a real estate investment trust (Reit) structure in 2019. Attacq will start paying its first dividend next year. Unlike income-paying JSE-listed property companies, Attacq has until now been a pure capital growth play.

Wilken said the disposal of R1.9bn worth of properties over the past year forms part of the restructuring process. It will allow Attacq to reduce debt in preparation for the Reit conversion as well as consolidate its offshore interests into one offshore entry point, MAS.

The latter recently shifted its focus from the UK and Germany to Eastern Europe following a joint venture with Prime Kapital, a development company founded by the highly regarded ex-directors of New Europe Property Investments.

Attacq's intention to become a Reit has been widely welcomed - the share price is up 10% since the June announcement. But it seems some investors are adopting a wait-and-see approach, judging by the sizeable 22% discount to adjusted net asset value (NAV) at which the share price is still trading.

Peter Clark, portfolio manager at Investec Asset Management, said while Investec supports Attacq's conversion into what will be a quality retail Reit in time to come, the market may take some time to digest the conversion.

In addition, the ramp-up in dividends may come at the expense of NAV growth, he said.

Meago Asset Managers director Anas Madhi has an equally cautious view, saying Attacq's slowdown in NAV to 3.2% for the 12 months ending June (against a three-year rolling growth rate of 11.95%) is not only due to foreign exchange losses and impairments of the company's offshore assets.

"It also relates to the general slowdown in the SA economy and its knock-on effects, which reflect in a significant slowdown in new office take-up within the Waterfall development and low single-digit trading density growth across Attacq's retail portfolio."

Madhi said large, regional malls were under pressure, particularly in highly competitive nodes such as Sandton, Midrand and Centurion.

"Mall of Africa will be significantly tested once the first rental reversionary cycle occurs in around two years' time."

Besides its 80% stake in Mall of Africa, Attacq owns a stake in Lynnwood Bridge, Brooklyn Mall and Glenfair Shopping Centre in Pretoria, Newtown Junction in the Johannesburg CBD, Garden Route Mall in George, MooiRivier Mall in Potchefstroom and Eikestad Mall in Stellenbosch.

Attacq is targeting a maiden dividend payment from its income-producing assets, including the existing SA portfolio and MAS investment, of 73c/share for the year ending June 2018, with dividends forecast to grow 20%/year for the next three years.

Madhi said based on these forecasts, Attacq was trading at a two-year forward yield of 4.9%, which he believed makes the stock look expensive relative to the rest of the sector.

The latter is trading at an average dividend yield of around 7%.

However, Wilken argued that Attacq was undervalued at a current share price of around R18.60. "If the sum of all its parts is considered, Attacq should be trading closer to R23." He believed analysts should be valuing Attacq on a total return basis instead of purely as an NAV play.

"We believe there is still a lot of value on the table, especially regarding the potential upside that will be unlocked at the Waterfall precinct over the next 10-15 years."

Wilken felt analysts were being too conservative in their Waterfall valuation projections. He said there was still around 1mm of developable bulk left at Waterfall.

"The weak economy and political instability is playing in our favour as it supports the consolidation trend among corporates, who are keen to cut costs by vacating a number of smaller offices in favour of one, centrally located head office between Pretoria and Johannesburg."

He referred to, among others, large auditing firms PwC and Deloitte, whose new regional head offices are under construction at Waterfall.

The advent of another Gautrain station on the doorstep of Waterfall City will encourage further bulking-up of the precinct, he said.

"Our projections show potential capital expenditure of R3.7bn at the node over the next few years, which will lead to a development profit of R440m. These numbers are not reflected in our current NAV."

Source: Financial Mail