Growthpoint delivers 7.5% distribution growth and takes assets over R100 billion

Growthpoint Properties Limited today posted distribution growth of 7.5% for its full year to 30 June 2015, delivering results at the upper end of its market guidance.

For the first time, Growthpoint's annual distributions to shareholders exceeded R4 billion for the year. This includes the R1 billion paid to investors five months early as part it's R18,6 billion acquisition of Acucap Properties Limited and Sycom Property Fund portfolios. Taking into account the early payment, Growthpoint's distribution growth would have been 8.4% for the financial year.

Growthpoint also boosted its asset value above the R100 billion mark, grew gross revenue by 20.7% and delivered a 14.0% total return to investors.

Norbert Sasse, CEO of Growthpoint Properties Limited, attributes the positive results to the solid performance from Growthpoint's investments as a whole, and rigorous cost containment which saw its South African property cost-to-income ratio tighten from 24.8% to 24.0% and its overall expense ratio improve from 28.6% to 27.8%.

He also notes growing distributions from Growthpoint's 65% holding in Growthpoint Properties Australia (GOZ), with its effective currency hedging strategy enhancing results.

"We are pleased to have achieved this performance against the backdrop of an extremely tough operating environment. We are dealing with a weak economy, the electricity crisis, a commodity crisis, job losses, labour unrest, consumer confidence at the lowest level it has been in nearly 15 years, international tourist numbers dropping and interest rates rising. It's a pretty difficult market," says Sasse.

The largest South African REIT, Growthpoint is a JSE ALSI Top 40 Index company and has been included in the JSE Socially Responsible Investment (SRI) Index for the fifth year running. It is the most liquid and tradable way to own commercial property in South Africa.

Growthpoint owns and manages a diversified portfolio of 471 properties in South Africa valued at R71,6 billion, 53 properties in Australia valued at R22,0 billion through its investment in GOZ and its 50% interest in the properties at V&A Waterfront, Cape Town, is valued at R6,8 billion. Its size and diversity make it strongly defensive.

Continuing its track record of exceptional growth, Growthpoint finalised the acquisition of Sycom and Acucap during the year. Both became subsidiaries of Growthpoint from 1 April 2015 adding 46 properties to its portfolio, and defensively growing its property portfolio with complementary and quality enhancing assets.

At year-end, Growthpoint's consolidated property assets and property related investments were valued at R100,4 billion. It had also secured a R4,2 billion acquisition and development pipeline in South Africa and Australia to drive its immediate growth. "In the current market, we are seeing more value in growth by developing than acquiring," notes Sasse.

Its balance sheet remains well capitalised and it kept gearing at conservative levels, moving from 27.4% to 32.1% after including Acucap and Sycom, which had slightly higher debt levels. Some 76% of Growthpoint's debt is hedged for 3.5 years on average.

Growthpoint's South African portfolio contributed 75.8% to its total distributable income, and achieved like-for-like net property income growth of 6.2%, notwithstanding the challenging economic pressures prevailing. Overall vacancies increased from 4.9% to 5.7% during the year. Increased vacancies in its industrial portfolio, which moved up from 3.0% to 5.3%, were largely a result of the Ellerines demise. However, retail vacancies improved from 4.5% to 3.3% and its office vacancies remained steady at 8.0%, outperforming the SAPOA national office vacancy benchmark of 10.6%.

The Acucap and Sycom properties were included in Growthpoint's portfolio for three months of its financial year. However, with only three months of performance to go on, Sasse says it is early days in assessing the merits and opportunities of each property. He notes there will be earnings pressure on the Acucap and Sycom portfolio linked to developments, extending debt maturities as well as interest rate hedges.

Delivering on its objective to grow and nurture a quality portfolio of properties, besides the Acucap and Sycom acquisition, Growthpoint acquired the remaining 50% interest of Inyanda 1, 2, 3 and 4 in Parktown, Johannesburg for R388 million. It also acquired two office properties for R95 million and the industrial property Monte Carlo in Pinetown, KwaZulu-Natal, for R21 million. Growthpoint invested R1,9 billion developing and improving its South African portfolio. It also disposed of 18 non-core properties for a R621 million, achieving a combined R205 million profit on cost.

Revenue from the V&A Waterfront contributed 8.7% to Growthpoint's total distributable income, and was up 10.8% from the prior year, despite a slowdown in tourism. Its performance was driven by continued good results from its retail. Year-on-year retail turnover at the V&A Waterfront is still in the double digits at 11.0%. Overall vacancies remain low at 2.6%. It continued its roll-out of an exciting pipeline of development opportunities, with new projects for H&M and Hamleys, which will open later this year. Development momentum continued in the Silo district with over 18,500sqm earmarked for PwC, Werksmans and Virgin Active. The 77 luxury residential apartments to be developed at Silo 3 will be launched for sale later this year and the first Radisson Red Hotel in South Africa confirmed it will also open in the Silo district in 2017. The development of a further 18,000sqm of office space has kicked off the development of the Gateway precinct.

GOZ had a spectacular year, delivering a 36.4% total return to shareholders on the Australian Stock Exchange. It was one of the best performing A-REITs in FY15. Dividend contributions from GOZ grew 28.3% in Rand compared with the prior year, with GOZ contributing 15.5% to Growthpoint's total distributable income. Growthpoint invested an additional R607 million into GOZ during the year by electing to reinvest its distributions. GOZ made AUD67,4 million of acquisitions during the year, it also achieved the major milestone of becoming a component of the S&P/ASX200 Index. This has resulted in a marked improvement in its liquidity and tradability and delivered additional shareholder value. It now has a market capitalisation of around R17,0 billion and gross assets valued at around R22,0 billion.

GOZ has forecast to grow its distributions per share in AUD at 4.0% for the year to June 2016 and, although the investment market in Australia remains fiercely competitive, good opportunities exist for GOZ to make accretive acquisitions. A weaker AUD and increased withholding tax on distributions payable by non-Australian shareholders is however likely to contain the growth in Rand that Growthpoint can expect from its Australian subsidiary in 2016.

Sasse says that in addition to the challenges it faces with its GOZ investment, the domestic market is exceptionally challenging and more competitive than ever. This is creating short-term earnings pressure but, despite this, Growthpoint expects to deliver positive distribution growth of between 5.0% and 6.0% for the coming financial year.

“In this difficult environment, Growthpoint needs to bed down its acquisitions and consolidate, unlock value in our larger portfolio, and be even more competitive by offering clients the most attractive buildings and the best service,” says Sasse. “We will remain driven by opportunity and demand as we grow, and will actively seek ways to outperform. Growthpoint will continue to create sustainable value for our shareholders.”

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