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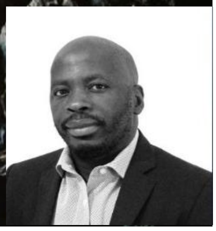
INWARD REITs LISTINGS ON THE JSE

SA and UK REITs

The JSE continues to attract UK REITs inward listings with Assura PLC next in line, listing on 21 November 2024, and Supermarket REIT PLC to follow. Assura is seeking to diversify its shareholder base and deepen its liquidity.



By Thobelani Maphumulo, REITs Analyst

Assura's secondary JSE listing

Assura PLC, the UK's leading diversified healthcare REIT, is set to complete its secondary listing on the JSE on 21 November 2024. It has a market cap of £1.3bn and a listing on the London Stock Exchange since 2003. It will be the second UK REIT to inward list on the JSE after Primary Health Properties (PHP) listed in October 2023. Supermarket REIT PLC (Supermarket) is also set to follow.

Assura is based in Altrincham, UK, serves six million patients annually and owns 600 healthcare buildings (up from 19 in 2003). It has demonstrated significant growth in property investments over the past 20 years.

For the six months to September 2024, Assura's rent roll was £179.1m, a noticeable improvement from £150m in the prior year. Net rental income increased by 8.3% to £76.7m, from £70.8m in 2023. The company expects rent escalations, development completions and acquisitions to drive further revenue growth. Pre-tax profit increased to £77.1m, a massive turnaround from a £17.8m loss in H123, with European Real Estate Association (EPRA) earnings up 4% to £52.7m. It posted an EPS of 2.5p, up from -0.6p in H123, with an interim dividend of 1.66p, up 3.7% on H123.

ALG Take

The sophistication and highly developed nature of the SA listed property sector and capital market makes it attractive for inwards listings, with more opportunities going forward.

In H124, management, led by Jonathan Murphy, delivered healthy results, adding to a longstanding track record of earnings and dividend growth. Assura has consistently paid dividends over 11 years, with a dividend yield of c 8% in recent years.

Strategic acquisition bodes well for Assura

Assura is adept in managing its investment portfolio by disposing of non-core assets and acquiring strategic assets. In August 2024, 12 assets were sold at a book value of £25m.

This year it acquired a portfolio of 14 private hospitals for £500m, run by leading UK operators. 64% of the assets are based in London and the Southeast and the balance is spread across prime UK locations. The assets were acquired at a 5.9% yield and have strong fundamentals: rental income of £29.4m, an weighted average unexpired lease term (WAULT) of 26 years and 100% of rentals are subject to annual index-linked rent reviews. Funding was via a term loan of £260m, a drawdown on a revolving credit facility and £100m of issued shares to the vendor.

The net effect was 8% growth in net rental income. Following the acquisition, 49% of the investment portfolio is subject to index-linked (fixed) uplifts and the remainder to market reviews.

Furthermore, Assura announced a £250m joint venture (JV) with Universities Superannuation Scheme (USS) Pension Scheme to underpin growth and secure a source of funding for social infrastructure with National Health Service (NHS) trusts. The company will generate additional management fees from the JV.

In H124, the diluted EPRA NTA per share increased by 0.2% to 49.4p. Assura's net debt to EBITDA is 9.7 times, with a weighted average debt maturity of 5.1 years. There is no pressure to refinance over the next three years given a maturity profile beyond 2030 for 40% of drawn debt. Assura has undrawn facilities and cash of £143m, which is adequate to meet short-term requirements.

Assura has a loan to value (LTV) of 49%, above the 38% average in SA. However, it expects to reduce this to 45% and net debt to EBITDA to below 9% over the next 18 to 24 months. These are believable targets, looking at recent transactions and debt profile structure. The debt book is well priced, with over £600m post-2030 at 1.7%. The current cost of debt is 3%, which is better than peers' cost of funding.

NHS opportunities

Assura's future is dependent on the NHS, which continues to face major challenges, including an ageing population (the number of people aged over 70 is projected to increase 37% by 2040, with those aged over 80 expected to rise by 60%).

Lord Darzi's report estimated that the UK has invested £37bn less in healthcare capital investment compared with the OECD average over the past 12 years. There is a £11.6bn backlog in maintenance, which affects patient care, with major disruptions at hospitals.

Assura's strategic direction is to benefit from both the primary healthcare and the private hospital market. In the UK GP market, Assura has a £2.3bn portfolio of medical centres. The JV with USS will provide investment support in social infrastructure with NHS trusts. The private market, underpinned by UK business, provides long-term indexed cash flows and great returns. Over the past 20 years, private healthcare grew by a 6% CAGR to a £6.8bn market.

Assura is trading at a discount to EPRA NTA

Assura is trading on a shareholder yield of 8.7%, completely underpinned by its dividend yield. It has issued limited shares (marginal dilution) because of the recent £100m share issuance. Assura trades at a 22% discount to its EPRA NTA.

SA REITs sector is an attractive listing destination

At its capital markets day in London last month, the JSE featured presentations by various strategic partners, including PHP and Supermarket, which point to growing interest by offshore REITs in the SA marketplace. Supermarket management has confirmed the company will proceed with its secondary listing on the JSE in the coming months. The REIT has a £1.8bn property portfolio and £1.5bn market cap.

We see the potential for further JSE inward listings, with the SA REIT sector an attractive destination. Developed market REITs want to diversify their shareholder base, improve liquidity and access SA capital markets.

The SA REIT sector is highly liquid and some of the large market cap REITs such as Growthpoint, Redefine, Hyprop and Vukile have significant investment footprints in offshore markets.

SA listed property sector is undemandingly valued

In addition to the developed SA-REITs ecosystem on the JSE, the highly developed research, coverage and investment universe, as well as the sophistication of SA-based investors, the local sector is trading at a 25% discount to NAV, an LTV ratio of 38% and an c 8% dividend yield. The interest rate easing cycle in SA augurs well for the listed property sector. Furthermore, bond yields have decreased precipitously over the past few months and this has underpinned the strong listed property sector performance.

The retail and industrial sectors' operational fundamentals have benefited from the economic recovery, with vacancy rates and rent reversions showing notable improvements. The retail sector is trading at a 4% vacancy rate and the industrial sector vacancy rate is around 2%.

The office sector, especially the B and C grades segments, has struggled to reduce vacancies, still hovering around the mid-teens. Increasingly companies want their staff to return to the office, and we think this will contribute to reducing the vacancy rates.

While offshore-REITs have fallen out of favour with investors in domestic markets, due to the once-in-a-generation inflationary and high-interest-rate environment, the SA listed property sector was up 32.3% year-to-end-October-2024.

Engage with ALG

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Edison and ALG are well positioned

Edison Investment Research, which is our international partner, has a prominent presence in the listed UK real estate sector, with a wide range of clients, including PHP, Regional REIT, Supermarket and Target Healthcare REIT.

ALG is building an increasing presence in SA financial, REITs, and resource research. We are well positioned through our experience, research and reach to introduce domestic investors to international REITs research and to provide bespoke and issuer-paid research to both local and emerging market issuers.

Reach out to us if you would like an introduction to Assura, PHP, Supermarket or other Edison REITs clients, if you are interested in our bespoke research offering or would like to engage around our issuer-paid research solutions.

For more information, please visit ALG's LinkedIn and website.