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VICINITY'S $500M BUYBACK BETTER THAN 'ABOVE THE ODDS' BUYING - SAY ANALYSTS

Carolyn Cummins | **26-Jul-2017**

Retail landlord Vicinity Centres has joined its real estate investment trust peers with a share buyback of about 5 per cent of its register, valued at about $500 million.

The move comes as Vicinity has increased the value of its 74 centres by 2.3 per cent to $345 million for the six months ending June 30.

The plan is to offer support for the share price, which is currently trading under net tangible asset level.

Investors have reacted favourably, saying it shows the directors prefer to support the business instead of buying assets at inappropriate values.

The managing director of Folkestone Maxim Asset Management, Winston Sammut, said it was "good" capital management.

"Vicinity has been selling assets and while some of the proceeds have been going back to the large development program, the directors have seen more value in a buyback than paying over the odds for unnecessary assets," Mr Sammut said.

"It sends a signal to investors that the board sees a price of the shares which represents the best value for shareholders."

Other REITs undertaking buybacks are Cromwell, GPT Group and Charter Hall. Vicinity will commence post its full year results on August 17.

Macquarie Equities said they were "encouraged with this announcement from Vicinity".

Source: http://www.smh.com.au/business/property/vicinity-centres-kicks-off-500m-share-buy-back-20170725-gxi6os.html

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"It highlights prudent capital management and a very comfortable balance sheet. Whilst we remain cautious on tenant returns in retail, offering an attractive total shareholder return ... we recently upgraded Vicinity to an outperform recommendation," the analysts said.

"Our sector report also considered NTA downside from the potential Blackstone sale process and increased capital intensity in malls, both of which we believe are factored at the current share price. Outperform retained."

Citi analysts said they see the buyback as earnings and value accretive, and a positive catalyst, and "reiterate our Buy rating".

"Who could be next? We believe buying back shares also makes sense for Shopping Centres Australasia and Investa Office Property. Both groups have financial capacity and are trading at a discount, two key preconditions for a buyback," Citi analysts said

With the revaluation, the key contributors were Chatswood Chase, Sydney, up $91.8 million or 27 per cent of the revaluations and Bayside, Melbourne up $41.6 million or 12 per cent of the revaluations.

The chief executive of Vicinity, Angus McNaughton, attributed the valuation growth across the portfolio, to "solid income growth and strong demand for quality shopping centres, like those owned by Vicinity".

"Strong income growth continues to drive the value of our DFO portfolio. In particular, DFO South Wharf, up $22.5 million or 3.9 per cent, is well positioned for future growth with completion of the new multideck car park and Vicinity's acquisition of the remaining 25 per cent interest in the asset during the half," Mr McNaughton said.

"Chadstone, Melbourne, continues to trade strongly following completion of the $666 million, Vicinity share is $333 million, major development last month."

He said the asset recorded a 1.2 per cent increase in its internal valuation of Vicinity's share, with the capitalisation rate remaining unchanged at 4.25 per cent. Chadstone is scheduled to be independently valued next at 31 December 2017.

At June 30, 2017, net tangible assets per security is estimated to be $2.82 which is up 9¢, or 3.3 per cent, compared to $2.73 reported at December 31, 2016.

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