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Texton grows profit 7% in tough markets

UK and SA property owner's interim dividend falls after forex gain is not repeated

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Texton Property Fund reported pedestrian 7% growth in its core earnings in the first six months of its 2017 financial year and successfully reduced its loan-to-value ratio.

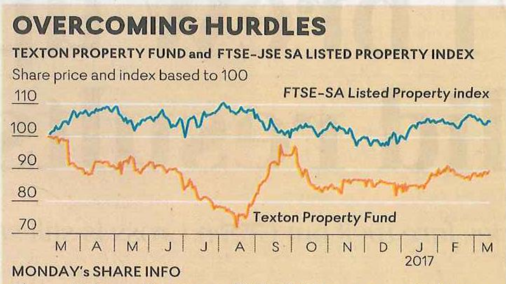
This sets it up for a better performance in the future, says Texton CEO Nic Morris.

The company, which owns properties in SA and the UK, has experienced great volatility in its share price partly because of its exposure to British property.

The share prices of many UK property owners fell after last year's Brexit referendum.

On Monday, Texton declared an interim dividend of 47.95c per share for the six months to December 2016. This represented growth of 7% on core earnings, excluding once-off items.

When compared with the dividend of 51.52c per share for the six months to December 2015, which included a once-off foreign exchange gain of R23.9m, or 6.69c per share, it represented a 6.9% decline.



MONDAY's SHARE INFO

Close	High	% move	Dividend yield	p:e	Market cap.
825	825	0.98%	12.57%	6.22	R3.102bn

Graphic: RUBY-GAY MARTIN Source: IRESS

"Adjusting the prior year dividend by the once-off item results in a rebased dividend of 44.83c per share, which has grown by 7%," said Morris.

"This growth was achieved from the solid performance of our core South African portfolio and accretive acquisitions in the UK. In addition, the gain made on the realisation of a cross-currency interest rate swap and proceeds from property disposals have been reinvested into the business, reducing our loan-to-value [ratio] to 34.5%.

"The group has taken the decision not to declare any further once-off distributions and is well positioned to continue to grow off the rebased number."

At the end of the period, Texton owned 54 properties worth R5.627bn, of which offices made up 58.6% by value, retail 25.8% and industrial 15.6%.

Morris said Texton would further diversify its investments across SA and the UK, adding: "Low economic growth associated with the current South African environment coupled with economic uncertainty in the UK will continue to create a challenging operating environment for Texton.

"While Texton is well positioned to grow off its rebased core earnings, continued pressure experienced by our tenants will need to be closely monitored and managed."

Evan Robins, the listed property manager of Old Mutual Investment Group's MacroSolutions boutique, said investors preferred real estate investment trusts (Reits) like Texton to pay out dividends at specified times and not in a piecemeal fashion.

"Distributing one-off items is a bad idea for Reits where investors want a sustainable dividend base. They have now, appropriately, decided to distribute less aggressively, hence the re-base," said Robins.

The group's vacancies had reduced to less than 5% by the end of February.

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34.5% was Texton's reduced loan-to-value ratio after proceeds of property disposals and one-off gains from swaps were reinvested in the business