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Press Cuttings

Texton set to keep returns vow

Share price was hit in the past by management upheavals, but new CEO is pleased with good results

Alistair Anderson
Property Writer

Texton Property Fund, which has been one of the weakest performers in listed property over the past two-and-a-half years, says a fresh executive team and patience will see it reach the returns that it originally promised investors.

The diversified property real estate investment trust (Reit), saw its dividend per share fall 0.8% in the year to June. But after rebasing, the dividend declared showed growth of 6% compared with the rebased dividend reported in the previous year. Net property income improved 10% from R400.7m to R440.8m.

Texton's share price hit a high of R12.14 on March 6 2015. It closed 3.42% higher at R7.55 on Monday. This means the price has lost nearly 38%.

Newly appointed CEO Nosiphiwo Balfour said Texton had released "good results despite 2017 proving to be a challenging year for the South African and the UK economies, with more uncertainty creeping into the global financial system".

The portfolio, split by value, is 61% South African and 39% UK, including a portion of Broad Street Mall in Reading.

"Our portfolio has performed well and vacancies improved significantly over the year as a result of the team's focus on our selected sectoral and geographic split as well as quality tenants."

The South African portfolio's total vacancy at the end of June 2016 was 10.6%. This improved to 5.4% at the end of June 2017, but the number of properties fell from 48 to 43.

Catalyst Fund Managers' July report had Texton's historic rolled yield at 13.8%.

Garreth Elston of Golden Section Capital said there were many reasons why the share price had struggled and why it was trading at a high yield. Texton had endured management upheavals, given that it had had four CEOs including Balfour in the past four years or so, strong investor pushback and an external management company, plus reversals of distributing one-off items. Texton's management had begun to work on these challenges, Elston said.

WE EXPECT TEXTON'S SA-BASED OFFICE ASSETS IN PARTICULAR TO COME UNDER INCREASING STRAIN IN 2018

Texton's management company looks set to be internalised soon with 51.7% of shareholders having given irrevocable undertakings that they would vote in favour of internalisation.

"On the plus side, Texton has made significant strides in lowering its vacancy level, but we assume this has largely been at the cost of rental levels and lease duration. We expect Texton's South African-based office assets in particular to come under increasing strain in 2018 when 33.9% of gross lettable area is up for renewal."

It was a concern that the firm's overall loan to value (LTV) ratio was trending higher. While the South African portfolio's LTV was 26.7%, the UK's stood at 64.7%. "We view this as being excessively high, especially as the UK's economy remains strained. It is hoped that the company will return to stability after the management disruptions of the past two years."

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HURDLES TO CLEAR

MONDAY's INFO

FTSE-JSE Real estate investment trust index

Close	R902 16
Move	▼ 0 15%
High	R904 65

Texton

Close	R7.75
Move	▲ 3.42%
High	R7.79
Dividend yield	13.26%
p:e	4.28
Market cap.	R2.839bn

SA PORTFOLIO

	Year-end June 2017	Year-end June 2016
Property portfolio value	R3.359bn	R3.534bn
Number of properties	43	48
Total gross lettable area	313,662m²	347,146m²
Vacancy	5.4%	10.6%

UK PORTFOLIO

	Year-end June 2017
Property portfolio value	R2.149bn
Number of properties	11
Total gross lettable area	94,141m²
Vacancy	3,5%

Graphic: DOROTHY KGOSI Source: IRESS and TEXTON