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The Blenheim Report

Numbers

Property

November 2014

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PROPERTY														
Company	**INCOME FY 2014**	**INCOME FY 2013**	**EBITDA FY 2014**	**EBITDA FY 2013**	**EBIT FY 2014**	**EBIT FY 2013**	**NPAT FY 2014**	**NPAT FY 2013**	**ROA FY14[1]**	**ROA FY13[1]**	**Funds under Management FY2014**	**Funds under Management FY2013**	**Gearing FY2014 %**	**Gearing FY2013 %**
Abacus Property Group	424,700	305,900	153,700	131,800	122,077	74,319	107,367	67,480	5.1	3.2	158,300	135,900	23.4	28.4
Aveo Group	77,500	74,800	66,300	59,500	64,400	56,800	42,100	39,200	1.3	1.1	n/a	n/a	16.4	34.5
Charter Hall Group	183,678	158,738					82,116	54,391	9.0	6.4	11,500,000	10,300,000	0.0	1.9
Federation Centres	341,516	371,516					441,319	212,665	8.2	4.0	6,900,000	6,500,000	24.1	25.5
Goodman Group	1,679,000	1,114,900			786,000	502,900	678,700	183,300	7.4	2.1	26,800,000	23,400,000	19.5	18.5
- Investment	446,300	442,800			386,200	383,100								
- Development	856,300	519,200			214,500	165,800								
- Management	205,900	181,500			117,100	108,600					22,400,000	19,500,000		
GPT Group[2]	948,200	993,400	675,200	693,100			571,500	594,500	6.1	6.4	15,200,000	8,710,000	22.3	21.7
Investa Office Fund	317,800	250,000					183,600	158,700	6.2	6.0	3,300,000	2,800,000	31.5	26.3
Lend Lease	14,125,800	13,384,800	1,192,800	741,400	1,105,100	654,100	822,900	549,000	5.5	4.0	16,300,000	15,000,000	5.7	5.4
- Development	988,500	1,142,600	862,500	354,300										
- Infrastruture	57,200	87,400	22,600	141,900										

PROPERTY														
Company	INCOME FY 2014	INCOME FY 2013	EBITDA FY 2014	EBITDA FY 2013	EBIT FY 2014	EBIT FY 2013	NPAT FY 2014	NPAT FY 2013	ROA FY14[1]	ROA FY13[1]	Funds under Management FY2014	Funds under Management FY2013	Gearing FY2014 %	Gearing FY2013 %
- Construction	6,459,200	7,359,800	271,500	312,000										
- Investment Management	130,300	98,600	247,800	101,100										
Mirvac Group	1,981,900	1,569,200			483,500	430,700	447,300	139,900	4.7	1.6	n/a	n/a	27.8	23.6
- Investment	682,700	625,000												
- Investment Management	41,300	35,800												
- Development	1,300,300	862,200												
SCA Property Group	158,400	71,500			140,100	8,200	111,600	-4,400	7.0	n/a	n/a	n/a	32.6	28.7
Stockland	1,924,000	1,725,000			820,000	709,000	555,000	495,000	3.8	3.5	n/a	n/a	25.0	22.7
- Residential	1,040,000	912,000			244,000	181,000								
- Retirement Living	59,000	51,000			45,000	41,000								
- Commercial Property	696,000	691,000			497,000	482,000								

[1] ROA recalculated by Blenheim, based on annual report figures, to make numbers relatively comparable across segments.
[2]GPT Group financial information is for calendar 2014/2013.

PROFIT GUIDANCE

Mirvac's John Mulcahy says RBA won't take macroprudential steps
Australian Financial Review
21 NOV 2014

Mirvac Group chairman John Mulcahy says it is clear the governor of the Reserve Bank supports the current housing boom and is confident that no macroprudential regulation is on the way. Speaking after the Mirvac Group's annual general meeting on Thursday, Mr Mulcahy expressed his confidence in the Reserve Bank's position and said Mirvac would continue to wage a war on the red tape that constricts supply in the residential construction sector.

"We saw Glenn Stevens speak again yesterday and he was very clear he is supporting investment in construction and property, he doesn't want to see that stop. He wants to really, elongate if anything, the cycle," Mr Mulcahy said. "He doesn't want a rapid bubble, but don't think that's occurring. I don't see any macroprudential actions.

The company also confirmed a lease deal with PWC for 72,000 square metres of A-grade office space at -2 Riverside Quay in Melbourne to the accounting firm for an initial term of 12 years. The AGM passed -uneventfully, with all the -resolutions being passed by more than 99 per cent, although there were a few gripes from the floor over executive pay.

The group reported a 16 per cent increase in operating profit to $437.8 million for 2014 and continue to perform within guidance. Earning per share were reported as 11.9 per cent a stapled share.

A year after replacing James -MacKenzie as chairman, John Mulcahy was happy with the progress made under his tenure, saying he will not change anything in his second year.

"I think it's a bit more of the same, we continue to feel that the residential market is positive but we focus on each of the asset classes and we -monitor carefully all the statistics of what is occurring but no there is -nothing we will do differently," Mr Mulcahy said.

Mirvac has been the worst -performer among the top A-REITs with a total return of zero, compared to a sector rise of 7.4 per cent. Its stock price closed slightly down at $1.745 on Thursday.

http://www.afr.com/p/business/property/mirvac_john_mulcahy_says_rba_won_zVA5oDRFZat0QQiTsavGPK

Goodman re-affirms earnings guidance and strong start to FY2015
Australian Financial Review
20 NOV 2014

Goodman Group chief executive Greg Goodman is likely to earn $8.5 million in 2015, according to one security holder at the Goodman annual general meeting in Sydney on Thursday. Mr Goodman's total remuneration in 2013-14 was $6,469,298.

Mr Goodman said the group had made a "strong start to the new financial year" and confirmed that earnings per security would rise 6 per cent.

He acknowledged that most analysts expected around 7 per cent growth. "Let's see how it pans out," he said.

He stressed the importance of urban renewal, foreshadowing a -substantial valuation uplift at the half year and about $500 million of sales in the year.

The group has estimated long-term capacity for 35,000 homes. Mr Goodman said the figure could be 50,000.

http://www.afr.com/p/business/property/goodman_re_affirms_earnings_guidance_FWSU8PKYUe3q7EOrF5UF8M

Lend Lease's transition humming along but risks lurk
Australian Financial Review
15 NOV 2014

Lend Lease Group has had a huge run this year and the good news kept coming at Friday's annual meeting.

For some analysts the upside has run too far. Some think the stock has overshot. Others think the pricing underestimates the risks inherent in a complex business which has a myriad of projects to be delivered around the world.

Lend Lease chief executive Steve McCann reminded investors of the group's evolution over the past five years, during which it moved from a phase of restoring the business, to one of building the business, to what he now calls "leading".

"Successful delivery of our strategy has seen us produce outstanding results for our security holders and at the same time position the group for further growth," he said.

Although hesitant at first, investors have come on board. The stock has surged in the past year. Earlier this month the group's shares hit a post-GFC high of $16.31 – and $15.94 on Friday – to deliver a 12-month total return over 50 per cent.

McCann says the company now has the largest development pipeline in its history, with $37.7 billion of projects of which $2.5 billion is pre-sold.

Deutsche Bank analyst Ian Randall has long predicted that the Lend Lease work book will deliver a "step change" up in earnings in 2016. "After Lend Lease's 25 per cent outperformance in the past three months, we believe this is now priced in," he said.

Most investors know that earnings were boosted in 2014 by the sale of the Bluewater stake in Britain. Lend Lease does not give guidance but the numbers will be lower this year.

Earnings per share will drop from $1.42 in 2014 to a consensus of about $1.05 and climb back to about $1.20 in 2016. The numbers assume excellence in execution, which is a big call in a tough industry. McCann and his team have done a top job in managing the risks – but they cannot eliminate them.

http://www.afr.com/p/business/property/lend_lease_transition_humming_along_vQs7UVSK9E1CCj6okY4k3O

Abacus Property declares era of caution
Australian Financial Review
15 NOV 2014

Abacus Property Group managing director Frank Wolf has introduced a note of caution into an upbeat season of property annual meetings.

“While the demand for physical assets in Australia is high – driven by low interest rates, the attractiveness of -Australia as an investment destination and the relatively low dollar – it is a time for caution,” Dr Wolf told investors at the group’s AGM in Sydney on Friday.

Dr Wolf pointed to the Sotheby’s share price to stress the impact of easy money on physical assets.

Abacus has bought assets in the past year but only if they met the group’s need for “cash flow over the cycle”. “You have to be very careful because people are paying enormous prices for assets,” he said.

Abacus, now capitalised at $1.4 billion and one of the best real estate investment trust performers of the year, does not give guidance but Dr Wolf stressed that distribution to -shareholders was sacrosanct.

http://www.afr.com/p/business/property/abacus_property_declares_era_of_tZ9bjkIsfsuZClkHptLCTI

Charter Hall earnings upgrade fails to impress investors
Australian Financial Review
14 NOV 2014

Property group Charter Hall upgraded full-year earnings guidance for 2015 following a strong first quarter, but shareholders and investors are yet to respond to the better than expected news. The group upgraded earnings guidance to 7 per cent to 9 per cent, from 5 per cent to 7 per cent, after funds un-der management reached $12.1 billion during the first quarter of fiscal 2015. This was a $600 million uplift on the $11.5 billion it had under management at the end of June, and compares with a $1.5 billion increase for the whole of -fiscal 2015.

Despite the good news, the group's share price ended Wednesday flat at $4.58 following the group's annual general meeting, where investors were told low bond rates and cheap debt would continue to support gains in industrial property. On Thursday, the stock fell more than 0.5 per cent to $4.55, with some analysts reporting they had already factored in a rise in earnings.

"This is not a surprise, in our view," UBS analyst Grant McCasker said in a note released on Wednesday.

According to the analyst, the property group posted only conservative growth estimates following its $603 million purchase of a slab of pubs from Woolworths' ALH pubs group.

UBS is now estimating full-year earnings growth will come in around 9.5 per cent, with some potential for minor upgrades in consensus earnings. And while continued earnings growth is expected into 2018, the analyst believes the stock is fully priced. It is trading 10 per cent to 20 per cent above net asset value, and sits on a price-earnings multiple of 15 to 17 times EBIT.

Charter Hall co-managing director David Harrison told investors that property would continue to deliver an income distribution of 7 per cent to 8 per cent "because yields are still at high relative levels compared to bond yields and low cost of debt".

The fund, which has a market -cap of more than $1.6 billion, delivered a full-year dividend of 22.3¢ to shareholders for the year ended in June.

http://www.afr.com/p/markets/market_wrap/charter_hall_earnings_upgrade_fails_cEyF9u1WmyWEgccA4v8sMK

Aveo's retirement play vindicated
Australian Financial Review
12 NOV 2014

Two years after an ambitious repositioning as a retirement player, Aveo Group is growing profits and its retirement development pipeline, and -ramping up its care offering.

"We were criticised heavily for -taking this retirement strategy, but now I find that we are seeing the benefits," Aveo chairman Lee Seng Huang told The Australian Financial Review.

Formerly known as FKP Property Group, Aveo in 2013 rebranded in the midst of a two-year bid to become a pure-play retirement provider, which involved offloading a substantial retail, residential and commercial assets.

In fiscal 2014, the group grew underlying profit after tax during fiscal 2014 by 7 per cent, generating $42.1 million, driven largely by a record number of retirement sales. "We feel these results validate the strategy," Mr Lee said. "We've gone through a difficult period but the assets on the books are all now much more valuable, both on the retirement and non-retirement front."

Aveo rode the back of stronger property prices to offload non-retirement assets at prices above book value and to grow margins in the sale of its retirement units.

Profit from the group's established retirement villages almost doubled to $43.1 million during the year, while a continued stream of long-fore-shadowed non-retirement asset sales helped the group trim gearing to 16.4 per cent.

"We're well ahead of schedule in my view of achieving our 20 per cent non-retirement asset target by fiscal 2018," chief executive Geoff Grady said, adding that apart from land bank assets, all of the group's non-retirement assets are either for sale, under contract or being prepared for sale.

http://www.afr.com/p/business/property/aveo_retirement_play_vindicated_qlJ8m0xphrsvSkNo53RCkN

GPT upgrades guidance
Australian Financial Review
29 OCT 2014

GPT Group has lifted its earnings guidance to at least 4 per cent for 2014 after strong leasing across its office buildings and a series of major acquisitions during the September quarter.

Chief executive and managing director Michael Cameron said he was pleased with the group's performance over the September quarter.

"I think we have surprised the market with the speed of delivery," Mr Cameron said of GPT's campaign to lift revenue from funds management. "I am determined to make sure we acquire the right assets for the right price."

GPT has now upgraded its earnings per share growth to at least 4 per cent, compared with 3 per cent previously. Last year the group delivered EPS growth of 6.1 per cent. Mr Cameron said the large vacancy at GPT's landmark MLC Centre and other vacancies had affected earnings this year as flagged previously.

http://www.afr.com/p/business/property/gpt_upgrades_guidance_iNZnjBsZRm6KEg5C6ye9uK

Federation ahead of game with development pipeline
Australian Financial Review
23 OCT 2014

Shopping mall owner Federation -Centres has been busy trading assets as it builds relationships with major -institutional investors while rolling out its own development pipeline.

Chief executive Steven Sewell said the $39 million redevelopment of the Warnbro shopping centre in Perth opened last month ahead of schedule and budget. The $112 million redevelopment at Cranbourne in Melbourne was also ahead of schedule.

“Board approval has been received for our next two projects, Warriewood in NSW and Colonnades in South Australia, that have a combined value of $136 million,” Mr Sewell said in the trust’s September quarter update.

“Plans for the remaining assets -earmarked in the $1.3 billion redevelopment pipeline are progressing well.”

Meanwhile, Federation booked a modest 1 per cent in annual sales growth across its portfolio to the -September quarter, compared with 0.7 per cent by June. Specialty sales growth was 1.6 per cent.

“All categories recorded an improvement, with the increase in growth in the mini majors and specialties cate-gories reflecting our active remixing initiatives,” Mr Sewell said.

http://www.afr.com/p/business/property/federation_ahead_of_game_with_development_Ozo63CfFYU40Nm2VzxiDYN

Investa Office Fund’s new CEO faces challenges
Australian Financial Review
21 OCT 2014

Investa Office Fund’s new chief executive, Ming Long, was one of the standout chief finance officers of 2014. With the backing of the Investa executive, she chose not to lock in rates on much of Investa’s funding, correctly picking the bond market, and delivering lower costs to Investa. Now she is poised to become a standout chief executive.

Long comes with a strong reputation. She is articulate, forceful but inclusive. And despite the lack of a formal property background, is well able to make the best of the real estate depth at the wider Investa Group. Long acknowledges the challenges.

Number one is to exit the last European property, a pre-financial crisis investment inherited with the takeover of the ING Office Fund. Number two is to meet the leasing challenge, this year in Brisbane with the reworked 140 Creek Street, and in 2016 when leases on 8 per cent of the portfolio expire.

“You have to make sure you know what the tenants are doing and what the competition is doing,” she said, adding any assumptions about the Brisbane leasing were not “baked into the numbers”.

Which comes to her third challenge: meeting the guidance of 3 per cent growth in funds from operations and a 3 per cent rise in distribution. In reality, Long faces a deeper and tougher assignment. She has to give the fund, IOF, an independent identity.

But IOF struggles to separate itself from its manager, the broader Investa Group, controlled by Morgan Stanley. So it is perennially subject to two contradictory rumours. One is of takeover; the other is that Morgan Stanley could engineer its exit by selling $2 billion of assets to IOF.

http://www.afr.com/p/business/property/investa_office_fund_new_ceo_faces_TPRnzOAGBLdofLGyTyFOQO

Woolworths or its spinoff, which to buy?
Australian Financial Review
12 SEP 2014

SCA PROPERTY GROUP
When SCP was spun off, the portfolio consisted of 56 completed and operating assets and 13 properties under construction or redevelopment to be completed by Woolworths and the latter formed the group's development portfolio. The assets were independently valued at $1.4 billion in December 2012.

Analysts generally acknowledged the group's defensive qualities in the lead up to it listing, but there was a degree of scepticism regarding its ability to generate growth. UBS forecast the vehicle to achieve below-sector earnings growth with a compound annual growth rate over a three-year period of 1 per cent compared with the sector average of 3.5 per cent.

Based on those metrics, distribution growth was bound to be stifled. There were also concerns regarding specialty stores, which were part of the big shopping centres that made up the portfolio. There was already evidence at that stage bricks and mortar retailers were feeling the pinch from depressed consumer spending and the trend to online buying.

However, the group's management team found ways to harness growth, driven by acquisitions, effective management of emerging projects and taking advantage of new developments in growth corridors.

Chief executive Anthony Mellowes commented when delivering SCP's annual result: "A key focus has been to reduce our specialty vacancy level and during the last 12 months we have reduced our specialty vacancy as a percentage of gross leasable area from 14 per cent in June 2013 to 8.6 per cent."

Mellowes highlighted sales growth across the supermarkets in SCP's Australian and New Zealand portfolio was well above Woolworths and Coles group averages and better than that being achieved by other retail REITs. It has been an excellent 12 months for the group and its investment metrics are just as impressive, having outperformed earnings and distribution guidance in the product disclosure statement.

Distributable earnings of 12.4¢ a unit in 2013-14 represented a 5.1 per cent increase compared with guidance. The distribution of 11¢ a unit also compared favourably with the 10.4¢ a unit forecast. The value of total completed assets is about $1.6 billion, and refurbishments and developments in progress will raise this to $1.65 billion. It is also worth noting the group's net tangible asset backing per unit at June 30 was $1.64, up from $1.57 a year earlier. Before last month, the company's shares were trading broadly in line with the NTA backing. It is mainly on the back of its quality result that they are now trading at a premium of about 15 per cent.

Before determining whether it is time to buy, this recent run needs to be put into perspective. The company was probably recovering from an oversold position, as its shares had fallen from about $1.80 in May last year to less than $1.50 in December and January. This was largely driven by sentiment about the sector as the REIT index experienced a sharp decline during that period.

Moreover, there is substantial evidence to suggest management can continue to extract further growth from the existing portfolio, complemented by earnings accretion from development properties. The group expects to deliver a cash distribution of 11.3¢ a unit in 2014-15. This is in keeping with Citi analyst Adrian Dark's estimates and he has a 12-month price target of $1.74 on the stock, implying a yield of 6.5 per cent.

Investors pondering the question as to whether they would be better off holding Woolworths shares rather than investing in supermarket property assets would at this stage probably opt for the property assets. Based on consensus dividend forecasts for 2014-15, Woolworths' share price implies a yield of 4.1 per cent. In terms of capital gain over the past 12 months, SCP's share price has outperformed Woolworths' by about 15 percentage points and SCP is tracking in line with where it was last September.

http://www.afr.com/p/business/companies/woolworths_or_its_spinoff_which_pe2RcloCigidN4XNbPq4rI

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ABN 21 160 009 236

Level 5, 17-19 Bridge Street, Sydney NSW Australia

p +61 2 9253 0950

w blenheimpartners.com