Hammerson, 'a solid bet for future returns'

Hammerson, which is the largest property stock on the JSE, is considered by analysts as one of the most undervalued stocks with significant upside potential.

Highcross, Leicester © Hammerson website

The European shopping centre group listed on the JSE in September 2016 in a bid to extend its shareholder base.

In doing so, it gave South African investors direct exposure to the company without the need for an offshore allowance.

However, various forces have weakened Hammerson's returns since it listed.

The group listed at R112.11 on September 2 and closed at R101.15 on Tuesday. This represented a near 10% drop in the share price since listing.

"As a result of the uncertainty surrounding Brexit and the rand gradually strengthening against the pound, Hammerson's stock price has not done as well as expected in local currency since its listing," says Keillen Ndlovu, head of listed property funds at Stanlib.

However, he says, strong fundamentals will drive Hammerson's returns over the long term. The group has strong management and high-quality, diverse underlying properties, says Ndlovu.

"We, however, believe the long-term fundamentals for the Reit (real estate investment trust) are firmly in place and provide diversification benefits for South African-based investors," he says.

"Its best-performing segment is the premium outlets segment, which has been achieving 7% to 8% rental growth per annum compared with 2% from the rest of the portfolio," Ndlovu says.

Hammerson's debt is being refinanced at lower rates than before and its maturity profile is being extended.

Vacancies have been declining. Part of the reason is that Hammerson has created online shopping pickup points and click-and-collect facilities.

Cratos Capital money manager Ron Klipin agrees that Hammerson benefits from owning assets across western Europe in countries such as France, the UK and Ireland.

"Hammerson is a quality operation with a good track record and a proven management record," he says.

"It has a diversified property portfolio covering well established shopping centres and retail parks and has been expanding in Europe. This enables it to spread risk in different jurisdictions.

"The Resilient group is also a large shareholder giving strategic input, which is beneficial to both parties," Klipin says.

Ndlovu prefers Hammerson to its rival, Intu Properties, saying it offers better value and has exciting earnings potential.

Hammerson trades at a discount to net asset value of about 20% and offers a one-year forward dividend yield of just more than 4%.

Its earnings are projected to grow between 7% and 8% during 2017, according to Ndlovu.

Intu trades at a discount of 29% and offers a one-year forward dividend yield of 5%. Its earnings per share growth outlook for 2017 is 0%-2%.

As at the end of December 2016, Hammerson and Intu's portfolios were each worth about 10bn. Hammerson's market capitalisation is R78.5bn while Intu Properties' is R62bn.

"Hammerson recently received superior value growth as well as earnings growth," says Ndlovu.

Hammerson's pound earnings per share growth for 2016 was 8.60% compared with Intu's 6%.

Last year, Hammerson's total share price return was minus 0.70% and Intu's was 3.40%.

Hammerson CEO David Atkins says the group's new investments are being focused on markets that show higher growth than traditional ones such as London.

These include Birmingham and Dublin. The Irish capital stands out because Ireland is one of the European Union's fastest-growing economies.

Source: Business Day