Resilient Property trading at a premium

By Joan Muller

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Resilient's drive to become a dominant retail player in previously underserviced country areas instead of the big cities has delivered above-sector returns for investors over the past five years.

The question is whether the fund will continue its outperformance and what the growth opportunities are in non-metropolitan areas. In the past year alone, Resilient has added three new malls to its stable, bringing its portfolio of retail centres to 25. The new malls are I'langa Mall in Nelspruit, Brits Mall and most recently Mall of the North in Polokwane.

The fund has a 60% stake in the latter and, at 75000m², Mall of the North is now Resilient's biggest shopping centre. There are no vacancies, which is unusual for a regional mall of this size. And since it opened in mid-April, trading densities of more than R2000/m²/month on average have exceeded expectations.

"We are earning an income yield north of 10% on our investment, which is better than we expected," says Resilient MD Des de Beer.

The fact that 25 retail brands which previously had no presence in the Polokwane area have opened shop in Mall of the North is testament to the expansion potential that non-metropolitan areas offer retailers.

De Beers says malls in towns and rural areas are generally achieving stronger sales growth and higher trading densities than those in the big cities.

Consumer spending in these areas is driven by large populations dependent on social grants. De Beer says non-metropolitan communities tend to have lower debt levels than city dwellers, leaving them with higher disposable incomes.

But De Beer concedes opportunities to build new malls in rural areas are becoming scarcer. It's also becoming more difficult to obtain planning approval for new retail developments. The lead time on the Mall of the North, for instance, was more than five years.

There's probably room for only three more metropolitan regional shopping centres in SA, typically sized between 40000m² and 80000m², says De Beer. He has plans to build two of those, one in Mpumalanga's Burgersfort, the other in Secunda. He says the focus will shift to extending and sweating Resilient's existing retail assets, with various extensions collectively exceeding 50000m² in the pipeline.

Analysts welcome Resilient's continued focus on non-metropolitan retail but some have downgraded the stock in recent weeks, saying it is looking expensive.

Macquarie First South Securities property analyst Leon Allison says though growth in income distributions of 9.1% for 2010 is still robust, the growth gap between Resilient and the sector is narrowing. "Resilient's growth has been slowing more sharply than the sector, admittedly off a higher base. In the past two years distribution growth has halved, from 18% to 9%, with a further marginal slowing expected near term."

Allison says management's forecast growth of 8% for 2011 is lower than his original forecast of 9.2% and only slightly ahead of the sector's forecast of around 7%. "Yet Resilient continues to trade at a premium, with a current forward yield of 7,7% versus 8.6% for the sector, which we believe is too wide."

However, Grindrod Asset Management chief investment officer Ian Anderson believes the premium is justified. "Resilient always looks a bit expensive. But it always delivers superior performance."

Source: Financial Mail