Merged stock of Rockcastle and Nepi flat

By Alistair Anderson

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New Europe Property Investments (Nepi) and Rockcastle Global Real Estate have merged to become the largest property stock on the JSE with a market capitalisation of R95bn, but new investors have not yet embraced the stock.

Promenada Mall, Bucharest, Romania. Image source: www.nepinvest.com

The combined Nepi Rockcastle has not yet attracted the array of investors, including index trackers, that it expected. Its share price has been flat since the merger, having risen 0.42% to R177.50 since 12 July.

The two companies have grown tremendously since the listing of Nepi in July 2009 and Rockcastle in July 2012 and much of the money may have already been made for their investors. The companies had shown strong dividend growth and attractive capital returns and provided exposure to a diverse global property offering, said Ahmed Motara, a listed property analyst at Stanlib.

The merger was announced in 2016.

Nepi has provided exposure to central and eastern Europe. In 2016 sites in Romania generated 73% of gross rentals, Slovakia 13% and the balance in Croatia, the Czech Republic and Serbia. At the end 2016, 59% of Rockcastle's assets were exposed to mainland Europe, with 21% in the US and 18% in the UK.

A key difference between Nepi and Rockcastle has been Nepi's 100% exposure to physical properties, while 48% of Rockcastle's assets were in listed securities in 2016.

Ron Klipin, a senior analyst at Cratos Wealth, said there was likely to be strong upside in Nepi Rockcastle's share price.

"I believe the upside still has strong potential. Once euro trackers become more active they will [put life into] Nepi Rockcastle's price.

"I believe we will see a spate of acquisitions in due course, which will result in greater interest in the share," he said.

Diversification into Europe was a "good sell" for South African investors.

"This is attractive from a currency perspective, and economic growth-wise, especially in emerging eastern and central Europe," Klipin said.

But Garreth Elston of Golden Section Capital Markets said his team viewed the share as overvalued. "The company is trading at a very high premium to its net asset value and its dividend yield is below 4%.

"We do not believe the price accurately reflects the increasingly competitive landscape in central and eastern Europe, where we have seen a significant increase in competition to acquire quality assets, with a commensurate increase in asset prices and yield compression." Elston foresaw a lot of new supply coming on to the market, which might result in an oversupply of developments in several central and eastern European markets, thus making it more challenging to grow.

"From a company structure perspective, we do not view the joint CEO structure as optimal and would prefer the company to have a single CEO," he said.

On the positive side, he said that merging Nepi and Rockcastle was a pragmatic transaction and he expected the company to realise continuing meaningful synergies from the merger. "We continue to view the combined entity's scale and geographic diversification favourably and the asset mix focus on retail 89%, office 10% is also propitious," he said.

Source: Business Day