

No signs of slowdown at listed property favourite

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Fortress Income Fund continues to be one of the darlings of the listed property sector and is expected to once more deliver double-digit, sector-beating returns for owners of its B shares.



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The top 40 stock has soared after its takeover of Capital Property Fund about a year-and-a-half ago. It was now well positioned to handle local and offshore shocks, said Fayyaz Mottiar, fund manager at Absa Asset Management.

Fortress is an internally managed, South African-based real estate investment trust (Reit) listed in October 2009. Its B shares listed at R1 and now trade at about R35.

The company's B shares rose 0.34% in the past week.

Fortress is a hybrid fund, which initially offered investors exposure to SA's commuter-orientated retail market. It attained offshore exposure through holdings in Rockcastle Global Real Estate, New Europe Property Investments (Nepi) and Hammerson. Through its acquisition of Capital, it became the largest owner of logistic space in the country.

"This is my favourite Reit on the JSE. It's set to provide double-digit dividend growth for at least three years. They have many kickers which can boost their performance. Their cost of equity is very low, as is their gearing," Mottiar said.

The expected merger of Nepi and Rockcastle will also benefit Fortress's shareholders.

Nepi and Rockcastle are set to merge into a property company worth more than R80bn by market capitalisation. The merged group will join various global indices, which will prompt index trackers to buy its shares, lifting its price. This will increase the value of Fortress's investments in Nepi and Rockcastle. One such index is the Euronext index.

There could be operational performance enhancements, such as a reduction in cost of debt, and greater bargaining power in the central and eastern European retail space.

CEO and portfolio manager at Metope Investment Managers Liliane Barnard said Fortress had hedged its dividend income carefully. However, dividend payouts might moderate.

"Fortress has progressively hedged their dividend income from offshore investments, taking a lot of uncertainty out of their future earnings and currency volatility. Due to the bigger asset base, as a result of the Capital and Lodestone mergers, driving exponential returns becomes more difficult going forward. We are therefore likely to see more moderate growth in distributions in the short to medium term," she said.

Fortress was positioning itself to increase its focus on the logistics and retail sectors, with 70% of its physical property portfolio exposed to these sectors, Barnard said.

"The portfolio of well-located commuter shopping centres continues to show strong growth in trading densities and the development of high-quality logistics space should ensure sustainability of longer-term investment returns," she said.

Source: Business Day

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