MP GROUP INTERNATIONAL

ASSET VALUATIONS BOOST CHILD CARE A-REIT PROFITS

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Asset re-valuations have boosted strong profit growth at childcare centre owners Folkestone Education Trust and Arena REIT.

FET reported a 64 per cent increase in profit to $88.6 million following its merger with the Folkestone Social Infrastructure Fund at the start of the year. Operating profit was up 21.7 per cent to to $29.7 million for the 12 months since June 2014 and revenues rose 22 per cent to $54.7 million.

Revaluations of 131 of FET's 539 childcare centres added $59.2 million to the bottom line. Driven by rent increases and yield compression, the valuations windfall was strongest in New South Wales and Canberra..

FET chief executive Nick Anagnostou said the result, which included increased distributions, had met expectations.

Distributions had risen to 12.8 cents a share compared with 12 cents in June 2014 and net tangible assets per unit had increased 21 per cent to $1.82 in the past 12 months, Mr Anagnostou said. The full year distribution is expected to be 13.4 cents a share.

"That's what our investors are calling for," he said.

Meanwhile, Arena REIT, which rejected a proposed merger with FET in 2014, also reported its full year results, including a 37 per cent increase in net profit to $61 million and an operating profit of $22.1 million - up 15 per cent since June 2014.

Arena's revaluations program added $42.1 million to the bottom line. It controls 179 centres, seven medical centres and 11 development sites and plans to pay out 10 cents per share in dividends for the year.

FET has 26 tenants, including not-for-profit group Goodstart Early Learning Limited which leases 63 per cent of the centres, G8 Education which rents a further 9 per cent and Best Start Educare which leases the 51 New Zealand properties.

It acquired 47 new centres and one medical centre as part of the merger with the sister trust but the focus is on childcare.

"What we want to do is focus on child care. Our investors say they don't want us to diversify the product for them," he said. "Investors are also looking for a pipeline and we've got a pipeline worth $90 million.

FET owned only five development sites at the end of June 2014 but has purchased another 12 in the past year. It has also sold 18 properties worth $22 million on an average yield of 7.1 per cent, and had signed contracts on a further three since the start of the new financial year.

"Capital recycling is really important. We can sell at around 6.75-7 per cent and then build a new centre with a yield of 8 per cent. Investors see that that's a good use of capital and we're not going back asking them for more money," he said.

The merger, quickly bedded down, was mostly an accounting transaction that helped make the trust bigger in a competitive market.

"It provided us with a bit more scale as well as more liquidity in the market place."