

Property play, corners covered

DIVIDEND DETECTIVE ADRIAN EZQUERRO

After a golden five years for listed Australian REITs (real estate investment trusts), the 2017 financial year has so far proved a more difficult environment for the commercial property sector.

This hasn't necessarily reflected stock-specific issues, rather the elevated valuations apparent in listed property groups as at June 30. What has changed in recent times is the contrast between REITs and 10-year government bond yields.

Specifically, bond yields have surged higher from artificially depressed levels, which has had a negative flow-on effect on almost all REITs and other so-called bond proxies, with the broader sector selling off by more than 12 per cent over the past few months.

This has brought some more value back into the sector.

Childcare-focused REIT Folkestone Education Trust

(FET) hasn't escaped the carnage, receding about 18 per cent since its recent peak.

Recent results have been strong, with the Folkestone group reporting a 16 per cent increase in distributable income in financial 2016 to \$34.5 million. Net tangible asset (NTA) backing also rose 17.6 per cent to \$2.14.

Given the more conservative capitalisation rate used to calculate NTA (when compared with recent transactional evidence), it is safe to say there is meaningful upside to the group's asset backing over the next 12-24 months.

FET is well positioned, with a portfolio of impressive metrics — portfolio occupancy is strong at 99.5 per cent. Also attractive are its so-called triple net leases, effectively meaning tenants cover all outgoings.

Another positive is the strong balance sheet with a relatively low level of gearing. FET's gearing ratio sits at just 26.6 per cent.

This allows considerable scope for value-adding development and targeted acquisitions should the right opportunities present themselves over the coming year.

FET pays out a healthy distribution on a quarterly basis. Management expects to deliver a distribution of 14.2c a security for 2017, equating to an attractive yield of about 6 per cent.

We see FET offering a sound mix of steady growth and regular income. Given the high-quality management team, sound prospects and solid yield, FET presents itself as a worthy research target for investors with a reasonable time horizon.

**FOLKESTONE
EDUCATION TRUST**
ASX code: FET
Share price: \$2.39
Industry: Real Estate
Forecast FY2017
Distribution: 14.2c

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