THE AUSTRALIAN

Aventus finds profitable ‘big box’ niche in market

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Aventus Retail Property Fund

ASX code: AVN

Security price: $2.25

FY18 value: $2.50

Industry: REITs

FY18 forecast distribution:

16.4c a share

Aventus Retail Property Fund (AVN) was listed in October 2015, backed by a consortium led by retail mogul Brett Blundy and at the time was a novel concept in the Australian market. It was a retail REIT comprised of ‘‘big box’’ format household and bulky goods retailers, primarily in suburban areas.

The group took advantage of the relatively fragmented nature of this segment, using management’s strong retail background to create one of the highest-yielding REITs on the market. Most of AVN’s tenants are well-established with national reach and significant staying power. National retailers like JB Hi-Fi, Coles, Woolworths, Bunnings, Harvey Norman and Super Cheap Auto made up 84 per cent of the portfolio in FY17.

A 7.2 per cent yield in FY18 is grounds enough for interest but on top of that, there is scope for income growth from rental increases, as well as valuation upside through further rent increases. The latter will likely require improvements to the underlying property, such as that being undertaken at its Carringbah, NSW, centre.

The healthy yield does come at the expense of only a moderate weighted average lease expiry (WALE) of 4.2 years but this should keep rentals nearer to prevailing rates. Occupancy at 98 per cent is very high, and has been achieved consistently with low incentives and positive leasing spreads. Gearing of 39 per cent (net debt/net tangible assets) is about average for a retail REIT, and interest cover at five times is relatively strong.

Aventus is also differentiated by its growth optionality as it estimates that about 80 per cent of its current portfolio has expansion opportunities. Further long-term optionality may come from about 40 per cent of its portfolio zoned other uses. AVN’s value exceeds its net tangible asset base yet it currently trades in line with NTA, though this may be tempered by its relatively high portfolio concentration. As it stands, FY18 value is estimated at $2.50 a share (now $2.25) but property increases will depend on rising rents rather than capitalisation rate decline.

Damen Kloeckner is an analyst for the Clime Australian Income Fund. AVN is held across a number of CBG Asset Management’s portfolios. CBG is part of the Clime Group.