



14th Feb'2020

Blue Chip

SCG: Beating retail slowdown

Reading Time: 5 Mins

BY Team Investors

Stock Code	ASX:SCG
Shares O/S	
Closing Price	AUD 3.76
Market Cap	18.02
(In AUD Billion)	
52 High/Low	4.16/3.63
One Year Stock Performance	-4%
Avg volume (TTM)	1,27,63,371
EPS (TTM)	0.23
P/E	16.73
Annual Dividend Yield	6.06%
Franking	0%
Last Dividend Ex-Date	13-Feb-20
Last Dividend Pay Date	28-Feb-20
DPS (AUD)	0.19
ROE %	5.02

COMPANY OVERVIEW

Scentre Group ("**SCG**" or the "**Company**") is involved in ownership, development, design, construction, asset management, leasing and marketing activities concerning its Australian and New Zealand portfolio of retail properties.

The Company manages, develops and has an ownership interest in Westfield branded shopping centers in Australia and New Zealand. It manages every aspect of its portfolio, including from design, construction and development to leasing, management and marketing.

The Company boasts of platform with 41 Westlife Living Centres valued at over \$54 billion.

Its segments include

[1]Property investments segment, which includes net property income from shopping centers

[2] Property and project management segment, which includes external fee income from third parties, primarily property management and development fees, and associated business expenses.

KEY FINANCIAL FIGURES

	2015	2016	2017	2018	2019
Revenue (In AUD million)	2,868	2,521	2,470	2,635	2,616
Growth %	-	-12.10%	-2.03%	6.70%	-0.71%
EBITDA (In AUD million)	1,898	1,875	1,976	1,963	1,849
EBITDA Margin (%)	66.17%	74.39%	80.00%	74.50%	70.66%
PAT (In AUD million)	2,708	2,991	4,218	2,287	1,180
PAT Margin (%)	94.42%	118.64%	170.79%	86.80%	45.08%
EPS (In AUD)	0.51	0.56	0.79	0.43	0.22
BALANCE SHEET FIGURES					
Shareholders Fund (In AUD million)	17,640	19,487	22,534	23,638	23,339
Debt (In AUD million)	12,298	12,643	12,997	15,340	14,639
Cash (In AUD million)	143	159	174	206	253
D/E Ratio	0.70	0.65	0.58	0.65	0.63

INVESTMENT RATIONALE/CONCERNS

- On 6 December 2019, the Company announced that it has acquired a 50% interest in Garden City Booragoon, Perth for \$570 million, inclusive of long-term property management, brand and development rights. Booragoon was 100% owned by AMP Capital Diversified Property Fund, who will now become Scentre Group's 50% joint venture partner. We believe this to be one of the best investment opportunities the group was able to grab, allowing the group to add to the existing list of strategic and long-term value-creating assets such as Bondi, Miranda and Doncaster centers.
- SCG's management reconfirms its forecast Funds from Operations (FFO) growth per security, for the full year 2019, of 0.7% and distribution of 22.60c per security.



- The Group generates more than \$24 billion of annual retail in-store sales across Australia and New Zealand. Specialty in-store sales grew 2.9% for the three months and 1.8% for the year.
- As per the latest operating update for the 3rd quarter ended September 2019, SCG showed robust growth from retail services and cinemas, with comparable in-store sales growth of retail services up 8.2% and of cinemas up 13.6% for the September quarter. On the average total, in-store sales grew 2.4% for the three months and 1.6% for the year ended September 2019. We believe that downward pressure on rents will affect weaker segments of the portfolio such as Department Stores and Jewellery.
- The recent sale of Sydney office towers released \$2.1bn of capital providing additional financial capacity for future activities and the security buy-back program of up to \$800 million. The Group forecasts FFO (Funds from Operations) growth per security of approximately 0.7% including the impact of the transactions announced in the first half (3.0% excluding those transactions). The forecast does not take into account the expected positive earnings impact of the up to \$800 million security buy-back program.
- We believe that the high-quality shopping centers will remain an important part of Australia's retail mix. Supporting this, Scentre Group announced rising customer visits over the quarter ended September 2019, and occupancy at its centers is an impressive 99.3% of the portfolio.
- We believe the retail space segment to grow modestly over the next years as Australia remains well served in terms of retail space per person and opportunities won't be as lucrative as they were in the past.

STOCK RECOMMENDATION

The Group has a strong balance sheet with “A” grade credit ratings by S&P. The group will add earnings via new developments, such as the recently opened Newmarket Westfield in Auckland, New Zealand, and the yet to be developed Barangaroo Westfield in Sydney. Further, the Group has considerable land across the portfolio that can be redeveloped to higher and better use. We expect the densification of sites to involve the construction of apartments and office towers above conventional retail and car parks to offset diminishing growth in retail rentals and penetration.

Moreover, the growth of online retail and eCommerce will continue to affect sales of many brick-and-mortar retailers, dampening sales growth and hence tenant profitability. A continuation of recent trends will result in further downward pressure on retail rents.

*Based on the above given parameters, we believe the current price level to be a comfortable entry point. The stock is currently trading as \$A3.755 down 0.923% on day-to-day basis. We would like to recommend **BUY** rating on the stock at current price points.*

Disclaimer: Ace Investors Pty Ltd (ABN 70 637 702 188) authorized representative of Alpha Securities Pty Ltd (AFSL No.303575). Ace Investors has made all efforts to warrant the reliability and accuracy of the views and recommendations articulated in the reports published on its websites. Ace Investors research is based on the information known to us or which was obtained from various sources which we believed to be reliable and accurate to the best of its knowledge. Ace Investors provides only general financial information through its website, reports and newsletters without considering financial needs or investment objectives of any individual user. We strongly advocate that you seek advice, with your financial planner, advisor or stock broker, the merit of each recommendation before acting on any recommendation for their own specific financial circumstances and realize that not all investments will be suitable for all subscribers. To the scope permitted by law, Ace Investors Pty Ltd excludes all liability for any loss or damage arising from the use of this website and any information published (including any indirect or consequential loss, any data loss or data corruption). If the law prohibits this exclusion, Ace Investors Pty Ltd hereby limits its liability, to the scope permitted by law to resupply of the services. The securities and financial products we study and share information on, in our reports, may have a product disclosure statement or other offer document associated with them. You should obtain a copy of these before making any decision about acquiring any security or product. You can refer to our Financial Services Guide.