

Westfield tests the waters with float

- Florence Chong
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A \$2 BILLION public offer by the Westfield Retail Trust will be a litmus test of small investors' appetite for the listed property sector.

Now under way, it is Australia's largest property float since 2003, when the late John Roberts listed his funds management and development group, Multiplex, and raised \$2bn.

Despite the fabled Westfield brand, it is still a test of whether trust has returned to the sector, which has lost close to \$60bn of its market value from the peak in 2007.

Although the offer has met with a somewhat lukewarm reception from professional investors (fund managers and institutional investors) it is a quintessential property investment.

WRT, spun off from the Westfield Group in a demerger, will have all the features that have become key touchstones for risk-averse investors.

It will be a rent-collector, have little borrowing, no risky operations or funds management, and it owns assets in Australia and New Zealand.

Westfield Group boss Frank Lowy has tapped into the mood of the market and come up with a plain vanilla vehicle, which will own household names in shopping centres, including Westfield Bondi Junction (in Sydney), Westfield Doncaster (Melbourne) and Westfield Mt Gravatt (Brisbane).

The trust's incomes will come from rents -- indexed to the CPI -- from its 50 per cent share in 54 centres currently owned by the Westfield Group and valued at \$12.2bn.

Over the past decade, this portfolio has delivered compound annual investment returns of 14.6 per cent including compound annual income growth of 5 per cent.

"It is precisely the type of vehicles that we have been advocating," says Ken Atchison, from Melbourne-based Atchison Consultants.

"The issue is to move away from development or funds management to staple, secured rental incomes," Atchison says, adding that the global financial crisis has reinforced the risks of development and other non-property operations.

Lowy launched of the trust earlier this month.

He says that, in simple terms: "The value to shareholders is that this structure will enable us to make more money for our shareholders than before."

Joint managing director Peter Lowy says: "By having Westfield Retail Trust trading separately to Westfield Group we think the value of two securities, when added together, will create value for shareholders."

Frank Lowy says the market wants a pure Australian vehicle, generating incomes in Australian dollars, without currency risks and offshore exposure.

WRT is forecast to deliver an earnings yield of 6.7 per cent and distribution yield of about 6 per cent.

The trust, due to list on the Australian Securities Exchange on December 13, is forecast to earn 18.3c and 18.5c per security in 2011, and to distribute about 16.5c per unit.

The trust is raising \$3.5 billion, of which \$1.75bn has been underwritten.

Its \$2bn general offer is open to everyone including existing Westfield unitholders.

The new units are priced at \$2.87 each, representing an 11 per cent discount to WRT's net tangible assets.

Independent brokerage firm CLSA says that if the \$3.5bn offering is fully subscribed, NTA would be \$3.03 per unit.

A leading fund manager says obviously the management does not expect the full \$2bn offer to be taken up, pointing to the competition from the huge \$6bn QR National sharemarket float.

"This is the reason for having a gearing range of 9.4 per cent to 23.8 per cent, post raising, for WRT," a property security manager says.

If fully subscribed, WRT will have 9.4 per cent gearing.

All proceeds will be used to pay down debt.

One leading fund manager says investors are fully invested in the sector.

Therefore, for every dollar invested in WRT, they will have to take another dollar from somewhere else.

"For my part, I will certainly not be selling other stocks, like Dexus Property Group, which is trading at a 16 per cent discount, to buy WRT units," he says. "I can't see the value in WRT."

Small unitholders in Westfield Group are offered WRT units on a one-for-one basis in a \$400 million entitlement offer, which closes on December 6.

Australian Independently Owned Financial Planners executive director Peter Johnston says: "Retirees need predictable dividend yields and incomes."

"We see investment in core retail and commercial properties as being a hedge against inflation as well as providing long-term, secure income and capital growth."

But those seeking growth will be better off with Westfield Group, which will receive the development profits from projects that it will develop for itself and WRT, says Winston Sammut, managing director of Maxim Asset Management.

Westfield has a \$10bn development plan.

But in return for growth, Westfield Group investors will have to wear the risks of currency fluctuations from offshore investments in the US and Britain and be exposed to development risks.

Post-demerger, Westfield will set dividends from year to year, but WRT says it will pay out 90 per cent of earnings.

Many large fund managers have queried the purpose of splitting the group's assets into the new trust, at a cost of some \$200m, in what some describe as a back-to-the-future exercise. "It had already cost investors another \$200m plus to merge the original three trusts, and now they are being asked to pay again for demerger," says one leading analyst.

Some see this as the first move to be followed eventually by separating its US businesses from its British operations, which together own assets totalling \$18.1bn.

The rationale is to reduce the size of the group, now the largest shopping centre owner in the world by market capitalisation, so that it will grow again.

Industry sources told Wealth that the Lowys are, in fact, frustrated by the lack of growth in the group since the merger in 2004.

Frank Lowy says the transaction is important for the group's future growth strategy, and that it may buy more assets or form joint ventures in the US and Britain, while exploring new markets.

CLSA property analyst John Kim has three theories on the split.

First, Westfield will become more like Westfield Holdings after additional joint ventures and asset sales.

Second, Westfield will announce a significant development transaction.

And third, Westfield believes Australian asset values are near their peak, due to lower sales growth and rising interest rates.

In his research note, Goldman Sachs and Partners executive director Simon Wheatley says it is likely that the passive WRT will trade at parity or a slight discount to NTA.

(Westfield shares have traded lower since the announcement from \$12.81 to \$11.94 at the time of writing.)

Wheatley says the 2011 earnings guidance for WRT and Westfield is a "mild 3 per cent higher than 2010 guidance, which suggests only very minor immediate benefit for [unit] holders".

Westfield unitholders will have the last say on the deal in the meeting on December 9.

When listed, WRT will be the second largest real estate investment trust after Westfield Group, accounting for about 13 per cent of the benchmark index, while Westfield's concentration will dilute to about 27 per cent.

But most significantly, it will offer investors another trust from which to choose.