

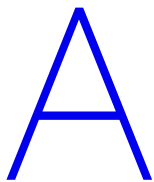
SMALL COMPANIES & AIM

# Solid growth and income with this high-yielding Reit

Simon Thompson: It is significantly outperforming rivals and the benchmark thanks to shrewd portfolio management



- First half NAV up 6.2 per cent to £173mn (109p)
- NAV total return of 10.1 per cent
- Portfolio valued on EPRA net initial yield of 8.1 per cent
- 8.3 per cent dividend yield



[EW UK Reit \(AEWU:96p\)](#) has significantly outperformed both its rivals and the MSCI benchmark, a reflection of income growth, active portfolio management and a weighting to growth sectors.

A strength of AEW's active asset management approach is that, despite subdued transactional activity which is symptomatic of wider commercial property conditions, it has produced strong capital and income growth by investing in the existing portfolio, rather than relying on disposals and acquisitions.

AEW's outperformance is striking. The benchmark delivered a 2.7 per cent six-month total return, almost all of which was income (2.4 per cent) and driven by retail warehousing and industrial sectors. The two sectors account for 25 per cent and 35 per cent portfolio weightings, respectively, hence AEW's amplified 4.5 per cent income return. The group also reported a 4.4 per cent valuation uplift, handsomely above the index average of 0.4 per cent. The portfolio total return of 9.1 per cent translated into a NAV total return of 10.1 per cent, which compares to a peer group average negative return of 1.3 per cent.

Several significant lettings underpinned this, most notably in retail warehousing, which reported quarterly valuation increases of 5.3 per cent (June) and 8.8 per cent (September). Three prominent lettings boosted annual contracted rent by £0.6mn: The Salvation Army at Central Six Retail Park, Coventry; Tenpin at The Railway Centre, Dewsbury; and Farmfoods at Barnstaple Retail Park.

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AEW's industrial portfolio is also benefiting from an ongoing rental growth trend and should continue doing so. Moreover, with the occupational market stable, the portfolio having a low average passing rent of £3.71 per square foot (sq ft), and a reversionary yield of 8.86 per cent well above the net initial yield of 7.56 per cent, it is well placed to deliver capital upside, too.

AEW's industrial holdings have a modest average book value of £45 per sq ft and look conservatively valued. The only disposal in the period, Oak Park Industrial Estate in Droitwich, achieved a 33 per cent premium to its March 2024 valuation.

Another point to note is that the two quarterly dividends per share of 2p were fully covered by European Public Real Estate Association (EPRA) earnings per share (EPS) of 4.43p, a measure which strips out unrealised portfolio gains and gains on disposals. AEW has a cash balance of £14.5mn to deploy and enhance earnings, too. The group also benefits from a fixed interest rate of 2.95 per cent on £60mn of borrowings until May 2027. Net debt of £45.5mn equates to 26 per cent of NAV and only 20 per cent of the EPRA portfolio valuation of £222mn, a comfortable level of leverage.

Offering an 8.3 per cent dividend yield and trading on a 12 per cent discount to NAV, I can see scope for further capital growth and a solid income stream to add to the 11 per cent total return on your holdings since my last buy call ([‘Not too late to lock in this 9% yield, 25 July 2024’](#)). Buy.

## **Read more from Simon Thompson**

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They include case studies of Simon's market beating Bargain Share Portfolio companies outlining the characteristics that made them successful investments. Simon also highlights many other investment approaches and stock screens he uses to identify small-cap companies with investment potential. Full details of the content of the books can be viewed on [www.yorkbookshop.com](http://www.yorkbookshop.com).

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