Fountainhead delivers below-par growth in income payouts

By Joan Muller

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Long-suffering shareholders of perennial under-performer Fountainhead Property Trust will have to take more short-term pain, with the property stock still delivering below-par growth in income payouts.

Fountainhead, whose R11.1bn portfolio includes a number of large shopping centres such as Centurion Mall in Pretoria, Blue Route Mall in Cape Town and Benmore Gardens in Sandton, reported a 2% drop in distributions to 50c per unit for the 11 months to August. The 11-month reporting period is a result of Fountainhead changing its financial year-end from September to August.

The 2% slide in income payouts compares with an average 9.53% distribution growth for the listed property sector as a whole so far this year, according to Catalyst Fund Managers.

Fountainhead's earnings were hit by, among others, a R12m bill relating to the advisory costs incurred as a result of the protracted bidding war earlier this year between sector rivals Redefine Properties and Growthpoint Properties for its assets.

In the end, both offers were withdrawn but Redefine, which already owns Fountainhead's management company, acquired 49.6% of Fountainhead's units. Redefine last week made an offer to acquire another 21.5% of the units in issue, which could potentially take its holding in Fountainhead to 70%.

Buying some, selling more

Former managing director of SA Corporate Real Estate Fund Len van Niekerk, who was appointed chief executive of Fountainhead in June, said the R1bn acquisition of the remaining stake in Centurion Mall that it did not already own and the expensing of interest on the rebuild of the 55,500m² Blue Route Mall, also weighed on distribution growth.

But Van Niekerk said management has embarked on several development, disposal and acquisition initiatives, which should see Fountainhead return to market-related income growth of between 6.25% and 7.25% next year.

Subsequent to year-end results, the board has approved development expenditure totalling R616m at three key retail assets - Centurion Mall, Kenilworth Centre in Cape Town and Boulders Shopping Centre in Midrand. Management will also try address issues at Brightwater Commons (formerly Randburg Waterfront) in Johannesburg.

These projects may have some dilutionary effects on earnings but Van Niekerk said management was on track to improve the quality of the portfolio to support sustainable income growth over the longer term. He said the number of properties, currently totalling 63, will also be significantly reduced through disposals of non-core properties over the next two years.

"We have defined a bold new strategy to enhance our portfolio and to start a new phase of sustainable long-term growth in income for our investors," he said.

Sesfikile Capital director Kundayi Munzara said Fountainhead's drop in distributions was within management's forecast but it was slightly below expectations. He said although Fountainhead was poised for a recovery once the backlog of refurbishments and redevelopments was worked through, investors should not expect a significant turnaround overnight.