

Schroder European Real Estate (SERE)

24/06/2024

Results analysis from Kepler Trust Intelligence

Over the six months to 31/03/2024, Schroder European Real Estate (SERE) produced an NAV total return of -1.3%. The main contributors to this were a 4.6cps reduction in property valuations, and 3.2cps of rental income. After paying dividends, the closing NAV per share was 123.6cps, and overall NAV was €165.3m. The trust paid two quarterly dividends of 1.48cps, for a total of 2.96cps. Dividends were 109% covered by EPRA earnings. SERE currently yields c. 9% (as at 20/06/2024). SERE's EPRA earnings increased 3% to €4.3 million compared to the previous six months, primarily due to rental growth offsetting the impact of higher interest costs.

Post results the ECB cut interest rates for the first time in five years, so it's fair to ask how Schroder European Real Estate's (SERE) yield stacks up against relevant bond yields. SERE's dividend yield is hovering around its lifetime high in absolute terms, c. 8%, and the spread over 10-year German government bonds, yielding c. 2.5%, is therefore c. 5.5 percentage points, above the five-year average. This covers the pandemic period and so arguably the average is skewed higher than it might otherwise be. Either way, SERE's dividend yield, which is fully covered, is in the territory where, in our view, a discount recovery looks plausible with further rate cuts.

In our view the final piece in the puzzle for investors will be a stabilisation of capital values. SERE saw a 3% drop in the portfolio valuation over the six months, with the positive total return made up by the income return. With the market currently pricing further rate cuts this year, this point may not be too far away, which puts the spotlight firmly on SERE's discount to net asset value of c. 40%, a level that is as wide as it has ever been aside from some brief one-day volatility during the pandemic. SERE's net gearing, 24% LTV, (32% of net assets), is about average for listed REITs and there are no further refinancings until 2026. There is also enough cash for the team to consider either earnings-enhancing initiatives within the existing portfolio, or to acquire further assets, which could further enhance earnings. Thus, we think the recovery potential is strong and the macro factors that could drive that are starting to fall into place.

[CLICK HERE TO READ THE FULL REPORT](#)

Visit [Kepler Trust Intelligence](#) for more high quality independent investment trust research.

Important information

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

[PLEASE SEE ALSO OUR TERMS AND CONDITIONS](#)

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

This information is provided by Reach, the non-regulatory press release distribution service of RNS, part of the London Stock Exchange. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@lse.com or visit www.ms.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

NRAZZLFLZQLLBBBD