RNS Number : 6485T
Schroder Eur Real Est Inv Trust PLC
24 June 2024

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.

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