FINANCIAL REVIEW

SE Property

HD **Goodman's vital signs 'very strong' as profit rises**

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Global logistics property heavyweight, the $8 billion Goodman Group has continued to grow profits with operating earnings per security up 6.2 per cent in the first half .

Managing director Greg Goodman confirmed that the group was on track to deliver a full 2014 operating profit per security of 34.3 ¢, up 7 per cent on 2013.

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"The vital signs for the business are very strong," he said.

The 6 per cent growth in earnings per security is at the top of the range for the Australian REITs, but even one of Goodman's strong supporters, Morgan Stanley analyst, Lou Pirenc questioned the strength of the first-half result.

He welcomed the momentum with development work rising 10 per cent to $2.6 billion; third party assets under management up 11 per cent to $21.6 billion and capitalisation rates showing the first signs of compression.

But he noted "an increasing disconnect" between the metrics and earnings per security with rising costs cutting into the rise in income and the 6 per cent figure only achieved with a cut in tax and interest rates.

Mr Goodman acknowledged the costs but noted the result was an interim. Some of the rise is due to an early provision for annual bonuses.

Goodman has $2.6 billion in development work under way around the world, in 63 projects in 10 countries.

Mr Goodman said structural changes in logistics, including the shift to e-commerce, were driving the work.

Goodman has $900 million of work in Australia and New Zealand but an increasing amount of development capital would be allocated to North America, Japan, China and Brazil.

Mr Goodman said construction costs were "a little more expensive" in Australia compared with Asia but comparable with the US and Europe.

Analysts asked why Goodman could achieve good returns out of Australasian operations, including 3 per cent rise in rents, when other developers seemed to be struggling.

"We have very good land holdings. A lot of them are historic," he said.

Some of those historic land holdings are also ripe for apartments.

"The inquiry on sites to take to **residential** is unprecedented, Mr Goodman said. "There will be large amounts of capital coming back."

In the US, Goodman has its foot on land for $US1.5-$1.7 billion ($1.9 billion) of projects.

"The US is too steamy for [developed] assets at the moment. We have looked at some but they are too pricey for us.

"We want margins for error because yields will not stay where they are once QE starts coming off."

Mr Goodman declined to comment further on negotiations to **buy** 34 Brazilian assets, except to say due diligence was under way.

Goodman has three sources of profit, from its own investments, from development and from fund and asset management.

Profit from investment dropped as properties, were **sold** and capital recycled. Development profit rose 23 per cent and management rose 2.6 per cent.

Mr Goodman said a strong balance sheet had been maintained.

Gearing is 19.5 per cent, or 32.9 per cent on a look-through basis. In the half, the **group** refinanced $1.1 billion of revolving back debt with reductions in margins and fees and at December 31 Goodman had $1.3 billion in available lines and another $566 million in cash.

CLSA analyst John Kim asked why, with the balance sheet in such good shape, Goodman needed a distribution reinvestment plan, which in the last round raised another $42 million.

Mr Goodman said it ensured the **group** was well funded long term.

At the bottom line, Goodman recorded a statutory profit of $160 million, up 3.8 per cent on last year.

With 53 per cent of earnings from offshore, Goodman has been impacted by the fall in the Australian dollar, negatively and positively.

Mr Goodman said a lower dollar would be good for the **group**, long-term.

He said the closure of car manufacturing in Australia would not materially affect the **group**.

And he forecast substantial yield compression in the Australian holdings over the next 12 months..

"Industrial is still behind office and retail and arguably has a better growth profile," he said.

Half year 2014 2013 Sales ($m) 788.8 507.9 Pretax ($m) 298.0 265.7 Net ($m) 160.4 154.6 EPS 17.2¢ 16.1¢ Int distrib* 10.35¢ 9.7¢ *Payable Feb 21 Close Change Shares (last) $4.76 +1¢

CO magmgp : Goodman Group

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