tissue manufacturing – conceding that the implementation of the acquisition strategy was less than optimal. Management is determined to minimise trading losses in tissue "with the view of exiting the business with an optimum capital recovery".

A recent trading update, covering the interim period to end-September, pencilled in a drop in basic earnings of around 26c a share (35%) compared with corresponding earnings of 73c a share in 2017. Headline earnings would be short 22c a share (30% down) on last year's 72c a share.

More instructive are early divisional forecasts that reflected full-year revenue to range between R3.9bn and R4.4bn, with the group margin coming in between 22% and 24%.

Management predicts that the print segment – which accounts for more than 75% of revenue – will hold a margin of 25%-27%. The labels segment is expected to maintain a reassuring margin of 23%-25%.

There's plenty life left in this old dog. The business niches are tight, but cash flows are decent and the balance sheet is stout. Investors keen to back a management team determined to wring out the best returns possible could be rewarded with steady and sustainable growth in profits and dividends. ●

Marc Hasenfuss

Spear Reit

W Cape focus has been a help in tough times

SPEAR REAL ESTATE INVESTMENT TRUST

It owns 33 industrial, office, retail and hospitality properties worth R3.37bn, most of which is located in and around Cape Town. The company was listed on the JSE in November 2016

Financial year-end: **February**
Final results: **April 2019**

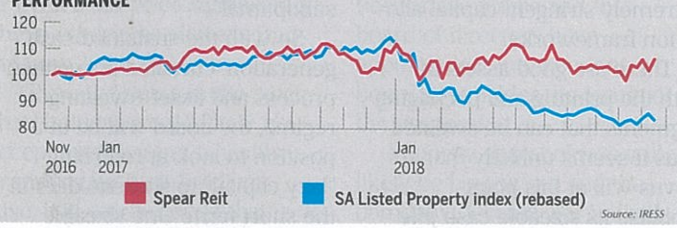
RECOMMENDATION
Sell — Hold — Buy

RISK
Low — Medium — High

Market cap	R1.8bn
Dividend yield	8.63%
Current price	**R9.61**
1-year high	R11.50
1-year low	R9.03
Key indicators (12-mth)	
Heps	44.25c
Div/share	41.73c
Div yield	8.63%
Total revenue	R213m
Attributable revenue	R101m
Total assets	R3.37bn
Equity	R2.21bn

Target price: R10.50 **Upside: 9.5%**

PERFORMANCE



Source: IRESS

Finding a property stock that is still able to deliver dividend growth north of 10% is near-impossible.

Most real estate counters have seen distribution growth slow to around 5%-6% as a depressed economy and dwindling consumer spending eat into earnings. In fact, shareholders of quite a few property stocks will have to be satisfied with zero or negative growth in dividend payouts this year.

Spear Reit, the Cape-focused property play listed on the JSE two years ago by industry veteran Mike Flax, is an exception. The small-cap company delivered distribution growth of 12.9% for the six months ended August year on year. More impressive is that Spear expects to maintain growth of 9%-11% for the full year to February.

Spear hasn't fared too badly on the share price performance front either, considering the huge sell-down of the sector as a whole year to date. The stock is down around 5% between January 2 and November 13, against a 25% decline in the SA listed property index over the same time.

Analysts say the company's outperformance has been supported by its focus on the Western Cape, where it owns office, retail, industrial, residential and hospitality properties worth R3.37bn. Flagships include luxury Cape Town hotel 15 on Orange; DoubleTree by Hilton in Woodstock; Sable Square shopping centre in Milnerton; 2 Long Street, an office block in the Cape Town city centre; and Mega Park, a Bellville industrial park.

Kelly Ward, investment analyst at Metope Investment Managers, says the Western Cape property market appears to be faring somewhat better than the rest of SA. That's despite Cape Town's hospitality sector struggling due to the drop in tourism on the back of the water crisis. "Spear has tried to mitigate this risk as much as possible, as only 64% of the income from its hospitality properties is variable, meaning subject to the fluctuating tourist trade."

Ward says management has done an admirable job by recycling capital from mature or low-growth assets into those which offer better opportunities. However, given that SA is possibly heading into a rising interest rate environment, Ward says a key risk to the business is the relatively low proportion of debt that is secured at fixed rates – only 42.13% compared to the sector average of around 82%.

"This could put some pressure on distribution growth, depending on the timing and severity of interest rates rises," she says.

Speaking after the release of the company's interim results, Spear CEO Quintin Rossi told IM that he expects some recovery in Cape Town's hospitality sector over the next six months, which will boost company earnings "We are already seeing green shoots. However, meaningful recoveries will most likely only start to emerge towards the start of 2019."

He estimated that overall demand for hotel rooms was down about 30% year to date. "Now that the Western Cape drought has broken, the focus is on rebuilding hospitality occupancies and room rates."

However, he said the pace at which the recovery of the hospitality sector will take place remains uncertain due to the shift in interest by dominant markets to other destinations this year.

Though occupancies might initially return, the biggest challenge is to recover the lost strength in room rates experienced during the downturn.

At a forward yield of close to 9%, Spear is worth a second glance, especially if you are looking for a pure SA-focused property play with a simple, uncomplicated structure and a hands-on management team that knows the Western Cape property market like the back of its hand. ●

Joan Muller