

Investor Final Call

MGM shoots for the stars

If you could make only one call on the sharemarket, what would it be? For Rob Hopkins of Australian Small Company Investment Fund, it is MGM. He speaks to Tony Featherstone

Macquarie Goodman Management (MGM) derives its profits from being a manager of industrial property owned by the Macquarie Goodman Industrial Trust (MGI) and a joint venture in Singapore. MGM's revenue sources include management fees, leasing fees and development income.

"Since the involvement in the company of Greg Goodman and his management team just over three years ago, the performance of MGM has been nothing short of stellar, with the share price going from 30 cents to peak at \$1.64 earlier this year. MGI has grown its assets from \$104 million in 1996 to \$1.68 billion at June this year, which is average compound growth of 59 per cent per annum.

"MGM's objective is to be the leading

industrial service and space provider to its customers. In doing so, it aims to deliver superior returns to its shareholders. One of its key strengths is the integrated service model it has developed. MGM aims to be a one-stop shop for its industrial property customers. The company sources, plans, develops and manages properties to cater for clients' specific needs. It focuses on sourcing premium space close to major roads and amenities, to take advantage of growth and to attract blue-chip customers.

"Its development team has turned increasingly to packaging large-scale estates that better meet its customers' needs. MGM also aims to manage its properties to the highest standard with a view to attracting and retaining customers. Management aims to provide outstanding service to customers in each aspect of the business, and contends that providing better customer solutions results in better retention rates, more profitable, longer leases and superior returns to shareholders.

"The company's excellent historical growth in assets under management has come from MGI. The trust is now at \$2 billion and management feels that this

can reach \$4 billion over the next five years, which is solid growth of 15 per cent compound. To maintain a higher growth rate, the company has been looking overseas and has entered a joint venture with Singapore-based business space provider Ascendas to explore property market opportunities in Singapore and throughout Asia.

"Ascendas, effectively owned by the Singapore Government, is a leading developer, manager and marketer of science, business and industrial parks, with a \$1.35 billion property portfolio in Singapore, India, China and the Philippines. The joint-venture company, Ascendas-MGM Funds Management Limited, recently listed a real estate investment trust with about \$600 million in assets. Ascendas is part of JTC, which owns \$25 billion of industrial property, so the medium-term potential from this joint venture is significant.

"The current share price of about \$1.20 values the manager at 18 per cent of assets under management at June 2002. Based on the fiscal year 2003 market forecasts of about \$13 million after tax, MGM is on a prospective price earnings ratio of 23 times. Neither of these valuations could be called 'cheap'; however, the group has grown its assets under management by 59 per cent per annum for the past six years. While this growth is clearly unsustainable in the long term, with more than half the financial year to go, asset growth is already above 35 per cent. This indicates that FY03 is likely to be another year of strong profit performance and suggests that market forecasts of \$13 million will need to be upgraded again."

Rob Hopkins, Australian Small Company Investment Fund: MGM aims to deliver superior returns to its shareholders

