

**Property Observer****SCA Property Group Buy-back**

*By Paul Easton – Atchison Consultants*

SCA Property Group (ASX code: SCP) announced on 14 February 2014 its intention to undertake an on-market buy-back of up to 5% of its shares at a price of up to its current net tangible asset value (NTA) which is currently \$1.59 per share. The buy-back will be funded from cash and drawing down on debt facilities. The current share price is \$1.555 which is up 3.5 cents from the price prior to the announcement.

Companies buy-back issued capital as part of a capital management strategy. This is appealing when the stock is trading at a discount to NTA as it is investing at a discount.

A buy-back of shares can increase earnings per share, NTA per share and return on equity. A buy-back will reduce the equity on issue and increase the gearing level. This can be positive when borrowing costs are low. SCA Property Group's earnings yield is 7.05% p.a. and its borrowing rate is 4.8% thereby creating a positive outcome from gearing for the company.

Table 1 shows how SCA Property Group's earnings per share (EPS), NTA per share and return on equity (ROE) following a buy-back of shares. It is assumed that the full 5% of shares are bought back at the close price on 17 February 2014.

**Table 1 – SCA Property Group buy-back**

	<b>Pre buy-back</b>	<b>Post buy-back</b>
Share price	\$ 1.520*	\$ 1.555**
Total net assets	\$ 1,031m	\$ 981m
Shares on issue	648m	616m
Reported earnings	\$ 43m	\$ 43m
ROE	4.2%	4.4%
NTA (per share)	\$1.590	\$1.592
EPS	6.7%	7.1%

Source: IRESS, Atchison Consultants

\* Close price on 13 February 2014

\*\* Close price on 17 February 2014

As shown in table 1 the return on equity would increase from 4.2% to 4.4%, NTA per share would increase from \$1.59 to \$1.592 and earnings per share would increase from 6.7% to 7.1% following the buy-back.

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