

Why private equity reckons petrol stations are still the best bet

News

12/05/20 | [Nick Sundich](#)



While the global push to go green and switch to electric vehicles continues to ramp up, private equity is still backing petrol stations.

Avenue Capital Managers, along with CoBrand Group and Guildford Funds Management, earlier this week announced the launch of its Retail Petroleum Fund. It has kicked off a digital roadshow and is seeking to raise \$7.65m initially.

Norm Coyle, the founder of CoBrand and chairman of the fund's investment committee, admits it is a legitimate question to ask about what the rise of electric vehicles will mean.

EVs rise will happen but slowly

Coyle thinks the rise is occurring gradually enough for fuel outlets to evolve. In the meantime, what's more important are that the tenants — supermarket giants — are as low-risk as you can get.

"These tenants go into 10-15 year leases so you have the security that they'll see out their lease," he told *Stockhead*.

"They're not fully reliant on fuel sales, they'll evolve their shops over the next few years with electric vehicles. They [electric vehicles] will happen, and there's no one disputing that. It's just the time it'll take to evolve cars and bring them into the industry.

“On average we have our cars for seven years, and they typically go in two cycles before being [scrapped]. Now electric vehicles are under 1 per cent of sales and the new cars being purchased have a cycle, so it’s not going to have an impact for 15-20 years.

“But the sites themselves will evolve to bring electric cars onto the sites. So it is not a risk – just part of how these sites will evolve.”

Last year Bloomberg found that electric vehicles only were 0.2 per cent of total vehicles sales. **In fact, Australia had fewer on the road than New Zealand despite having seven times more cars.**

Reliable rent payers are most important

Stockhead also asked Coyle about the impact of low oil prices. He said there was no impact and reiterated what was most important was that they were reliable rent payers

“It doesn’t have an impact, [tenants] still pay their rent. Coles Express for example have a set margin they have based on what volume they sell. So the oil price doesn’t factor,” he said.

The fund is only open to sophisticated investors but it is aiming to achieve a 10 per cent return on equity per annum.

“The security investors get is they actually own the sites,” Coyle said.

“The model has got a bit of fat, in it that it allows them to get a better return for what they’re paying. It comes to investors asking ‘what’s my security and how long does it take to make a return?’”

The company is aiming to acquire around 30 sites over the next four to five years.

“The funds coming in will be comfortable to achieve that. If we have success we will embrace that and look bigger,” Coyle said.

“We know how these sites work and how to value add to them.”

Petrol station ownership a shifting paradigm

According to the fund, 50 per cent of freehold sites are owned by high net worth individuals or small syndicated ownership structures.

In the UK however, private equity funds have been buying retail fuel sites en-masse. For example, US private equity firm Lone Star bought the MRH network of 450 fuel sites, as did Patron Capital.

This is a trend Avenue Capital Partners thinks will be replicated in Australia.

“Two years ago when our group was commissioned, as part of our research we went around the world to see the best trends,” Coyle explained.

“We went to Singapore, America and the UK and saw what was happening in the ownership of these sites. The big institutional and super funds were partnering up and we saw [fuel sites] were a great asset to own.

“When you come to Australia the ownership is fragmented. It comes from 20-30 years ago when the big oil companies sold out of their assets then a lot of fuel syndicates purchased the sites.

“Australia’s the next region. That [trend] allows us to be on the forefront.”

Another sign that disruption to the Australian market is occurring is EG Group’s attempts to enter the Australian market. It tried to snap up **Caltex (ASX:CTX)** and also **made a bid** for **Olivers’ Real Foods (ASX:OLI)**.

EG Group is a British retailer that operates petrol stations and fast food outlets in Europe, the US and Australia.

<https://stockhead.com.au/news/why-private-equity-reckons-petrol-stations-are-still-the-best-bet/>

Syndicated on:

- **MSN News** - <https://www.msn.com/en-au/money/markets/why-private-equity-reckons-petrol-stations-are-still-the-best-bet/ar-BB13Y4u4>