

Asset Plus

NEUTRAL

1H20 — Basic Arithmetic

Asset Plus Limited (APL) delivered a 1H20 result evident of a company still in the transitory phases of executing on its long term strategy. Underlying profit of NZ\$2.8m was broadly in line with our forecasts and flat on the prior year, with the dilutionary effect of asset sales offset by the acquisition of 35 Graham Street. APL's portfolio metrics remain steady, and its relatively defensive lease expiry profile provides complementary upside. APL declared a 2Q20 dividend of 0.90cps, in line with forecasts and the prior year. No changes to our forecasts have been made. **NEUTRAL.**

35 Graham Street remains the Crown Jewel

APL highlighted the increased attention shown toward its recently acquired 35 Graham Street property which presents an attractive redevelopment opportunity. At acquisition price, the property possesses an initial yield of 6.85% with 100% occupancy for the next 1.75 years, providing flexibility in the design process whilst underpinning cashflows and APL's dividend. Development feasibility work suggests that the redevelopment could create ~20,000 sqm of Net Lettable Area. We estimate an annual net rental contribution of NZ\$10.3–10.6m p.a. on completion (depending on construction duration). This represents an estimated yield on construction cost (guided as NZ\$90–100m) of ~11%. Initial works are anticipated to begin by FY22.

Portfolio performance improving holistically

1H20 portfolio occupancy and WALT are 98% and 4.2 years respectively. Although Eastgate (Christchurch), continues to be characterized as the "problem child" of the portfolio, in light of further work undertaken to develop a new masterplan for the centre alongside securing a significant lease renewal with key tenant, Countdown, we believe there is a strong probability the property will be able to reverse the drag on earnings it has historically created.

APL's 1H20 dividend of 1.8cps was in line with forecasts and guidance, whilst no FY20 guidance was provided, in line with its policy to review the dividend on a quarterly basis. The 2Q20 dividend of 0.9cps has a record date of 11 December 2019 and payment date of 18 December 2019.

Focus on building out the portfolio through strategic M&A

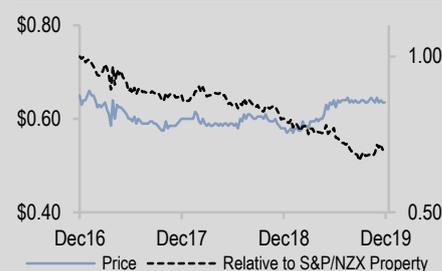
APL noted its continuous motivation to identify fairly priced, value add acquisition opportunities. In kind, NZ\$0.8m was spent on due diligence costs related to two substantial investment opportunities which did not eventuate. Although the quantum of such due diligence costs are not expected to be mirrored in future periods, management signalled that these expenditures will likely become a recurring feature of its financial results. Gearing is relatively full at ~26% on an adjusted basis, even when taking into account APL's recent divestment of its Heinz Watties distribution centre. Consequently, we expect any further acquisitions would likely be accompanied by a capital raising.

Investment View

APL has announced its first major acquisition and value add opportunity to follow its management externalisation. There is upside for APL over the medium-term if it can execute on its 'value-add' strategy, which AUG has done successfully on other funds. While APL trades at a discount to peers, this is justified in our view. Our rating is NEUTRAL.

NZX Code	APL
Share price	NZ\$0.64
Target price	NZ\$0.65
Risk rating	Medium
Issued shares	161.9m
Market cap	NZ\$103m
Average daily turnover	104.2k (NZ\$65k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	5.2	6.3	5.8	5.6
EPS* (NZc)	3.2	3.9	3.6	3.5
EPS growth* (%)	-17.7	21.1	-6.7	-3.6
DPS (NZc)	3.6	3.6	3.6	3.6
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	17.1	13.8	16.6	16.4
EV/EBIT	17.1	13.8	16.6	16.4
PE	19.9	16.4	17.6	18.3
Price / NTA	0.9	0.9	0.9	n/a
Cash dividend yield (%)	5.7	5.7	5.7	5.7
Gross dividend yield (%)	8.1	8.1	8.1	8.1

*Historic and forecast numbers based on underlying profits

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Asset Plus Limited (APL)		Priced as at 29 Nov 2019: NZ\$0.64					March year end					
Forsyth Barr valuation							Valuation Ratios					
Valuation methodology		Blended DCF (50%) and NAV (50%)					2018A	2019A	2020E	2021E	2022E	
12-month target price (NZ\$)*		0.65		Spot valuations (NZ\$)			EV/EBITDA (x)	15.2	17.2	13.9	16.7	16.5
Expected share price return	1.6%	1. DCF	0.63				EV/EBIT (x)	15.2	17.2	13.9	16.7	16.5
Net dividend yield	5.6%	2. NAV	0.66				PE (x)	16.5	20.0	16.6	17.7	18.4
Estimated 12-month return	7.2%	n/a	n/a				Price/NTA (x)	0.91	0.92	0.92	0.91	0.91
Key WACC assumptions		DCF valuation summary (NZ\$m)										
Risk free rate	2.0%	Total firm value	116				Free cash flow yield (%)	1.7	3.3	5.1	4.9	4.7
Equity beta	0.78	(Net debt)/cash	(10)				Net dividend yield (%)	5.6	5.6	5.6	5.6	5.6
WACC	5.8%	Value of equity	106				Gross dividend yield (%)	8.0	8.0	8.0	8.0	8.0
Terminal growth	1.5%	Shares (m)	162				Imputation (%)	100	100	100	100	100
							Capital Structure					
							2018A	2019A	2020E	2021E	2022E	
							Interest cover EBIT (x)	3.6	7.0	5.2	5.6	4.6
							Net debt/ tangible assets (%)	26.4	7.8	25.5	25.7	26.1
							Net debt/ND+E (%)	27.8	8.0	25.8	26.0	26.4
							Net debt/EBITDA (x)	4.4	1.3	4.2	4.7	4.7
							Key Ratios					
							2018A	2019A	2020E	2021E	2022E	
							Return on assets (%)	6.0	6.0	5.9	5.4	5.4
							Return on equity (%)	5.5	4.6	5.5	5.1	4.9
							Return on funds employed (%)	5.0	4.2	5.5	4.5	4.5
							EBITDA margin (%)	81.9	81.2	83.7	82.6	82.6
							EBIT margin (%)	81.9	81.2	83.7	82.6	82.6
							Capex to sales (%)	38.4	3.8	8.4	7.2	7.2
							Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
							Property Statistics					
							2015A	2016A	2017A	2018A	2019A	
							Key metrics					
							No. properties	5	5	5	4	3
							Average lease term (years)	5.9	5.4	4.6	4.4	5.5
							Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
							Cap rate (%)	8.21	7.91	7.74	7.43	7.40
							Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
							NTA per share (NZ\$)	0.725	0.740	0.723	0.706	0.694
							Portfolios values (NZ\$m)					
							AA centre	33.8	36.2	40.9	43.8	
							Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
							Print Place	13.3	13.0	11.0	-	-
							Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
							Roskill Centre	33.6	35.0	36.0	38.0	39.5
							Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
							Cash Flow (NZ\$m)					
							2018A	2019A	2020E	2021E	2022E	
							EBITDA	10.1	7.6	9.2	8.6	8.7
							Working capital change	0.3	(1.6)	(0.0)	(0.0)	(0.0)
							Interest & tax paid	(3.9)	(2.2)	(3.0)	(2.7)	(3.0)
							Other	-	-	-	-	-
							Operating cash flow	6.5	3.8	6.2	5.8	5.6
							Capital expenditure	(4.7)	(0.4)	(0.9)	(0.8)	(0.8)
							(Acquisitions)/divestments	12.7	37.5	(29.0)	-	-
							Other	3.8	(0.8)	-	-	-
							Funding available/(required)	18.3	40.1	(23.7)	5.1	4.9
							Dividends paid	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
							Equity raised/(returned)	-	-	-	-	-
							Increase/(decrease) in net debt	(12.4)	(34.3)	29.5	0.8	1.0
							Balance Sheet (NZ\$m)					
							2018A	2019A	2020E	2021E	2022E	
							Working capital	(1.5)	0.5	0.5	0.5	0.5
							Fixed assets	168.4	123.0	153.1	154.7	156.3
							Intangibles	-	-	-	-	-
							Other assets	0.1	0.5	0.5	0.5	0.5
							Total funds employed	166.9	123.9	154.1	155.6	157.2
							Net debt/(cash)	44.0	9.7	39.2	40.0	41.0
							Other non current liabilities	8.5	1.9	1.9	1.9	1.9
							Shareholder's funds	114.3	112.3	113.0	113.8	114.4
							Minority interests	-	-	-	-	-
							Total funding sources	166.9	123.9	154.1	155.6	157.2

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

1H20 Result Summary

Figure 1. 1H20 Financial Summary

Financial period	1H18	1H19	1H20	Chg	Forecast
Six months ending:	09/17	09/18	09/19		
Underlying profit & loss (NZ\$000s)					
Net rental income	6,244	4,940	5,033	1.9%	5,189
Base corporate costs	(1,105)	(873)	(778)	-10.9%	(882)
Performance fees	-	-	-	-	
EBITDA	5,139	4,067	4,255	4.6%	4,307
Net interest	(1,442)	(798)	(696)	-12.8%	(797)
PBT	3,697	3,269	3,559	8.9%	3,509
Current tax	(570)	(438)	(748)	70.8%	567
NPAT (underlying)	3,127	2,831	2,811	-0.7%	2,942
Adjustments:					
Investment property revaluations	-	-	-		
Other non-operating adjustments	(716)	371	(804)	n/a	
NPAT (reported)	2,411	3,202	2,007	-37.3%	2,942
Adjusted funds from operations					
NPAT - underlying profit	3,127	2,831	2,811	-0.7%	2,942
Maintenance capex	(48)	(55)	-	n/a	(465)
Other AFFO adjustments	-	-	-	-	
AFFO	3,079	2,776	2,811	1.3%	2,942
Financials per share (cps)					
Period weighted shares on issue	161,920	161,920	161,920	-	161,920
Net income per share	3.86	3.05	3.11	1.9%	3.20
EBITDA per share	3.17	2.51	2.63	4.6%	2.66
PBT per share	2.28	2.02	2.20	8.9%	2.17
NPAT per share (underlying)	1.93	1.75	1.74	-0.7%	1.82
AFFO per share	1.90	1.71	1.74	1.3%	1.82
Dividends					
1Q cash dividend (cps)	0.90	0.90	0.90	-	
2Q cash dividend (cps)	0.90	0.90	0.90	-	
3Q cash dividend (cps)	-	-	-	-	
4Q cash dividend (cps)	-	-	-	-	
FY cash dividend (cps)	1.80	1.80	1.80	-	1.80
Payout - NPAT (underlying)	93%	103%	104%	0.7pp	
Payout - AFFO	95%	105%	104%	(1.3pp)	

Source: Forsyth Barr analysis, Company Reports

Figure 2. Estimate of key financials for 35 Graham St post completion

FY property becomes tenable	Net Rentals (\$/sqm pa)			Average Annual Net rents (NZ\$m)	Construction cost (NZ\$m)			Est. yield on cost (NZ\$000)		
	Low	High	Average		Low	Mid	High	Low	Mid	High
Today	435	535	485							
FY24E	462	568	515	10,295	90,000	95,000	100,000	11.4%	10.8%	10.3%
FY25E	469	576	522	10,450	90,000	95,000	100,000	11.6%	11.0%	10.4%
FY26E	476	585	530	10,606	90,000	95,000	100,000	11.8%	11.2%	10.6%

Assumptions: Net rental growth of 1.5% pa, NLA upon development completion of 20,000 sqm, Assumes Construction begins in two years from 29 November 2019, Net rental Averages- Average A-Grade prime rentals (\$/sqm pa) - Victoria Quarter. Source: Forsyth Barr analysis, Colliers International

Investment summary

In 2018 Asset Plus Limited (APL) 1) externalised its management to Augusta Capital [AUG], 2) did significant asset sales, and 3) launched a new brand identity. While APL lacks scale versus peers, its management agreement with AUG provides access to significant expertise. We still see medium-term upside for APL if it can generate scale over time; in the short-term APL doesn't trade at a sufficient discount to warrant a positive recommendation in light of portfolio risks. **NEUTRAL.**

Earnings and cash flow outlook

- **Acquisition activity:** APL's purchase of 35 Graham St in Auckland for NZ\$58m is an attractive medium term redevelopment opportunity with a robust near-term holding yield.
- **Development activity:** APL is working on a potential major redevelopment at Eastgate which would add an additional major to the centre and repurpose some of the existing space.

Business quality

- **Augusta management deal:** In March 2018, APL sold its management rights to AUG for NZ\$4.5m. Key terms are: 1) a minimum term of five years, 2) base management fees of 0.50% of AUM, falling to 0.40% of AUM <NZ\$500m, and 3) performance fees of 10% of relative outperformance vs NZX property benchmark.
- **Property fundamentals:** At its 1H20 result APL had a three asset portfolio of around NZ\$150m. 1H20 occupancy was 98%, the WALT 4.2 years.

Company description

Asset Plus Limited (previously NPT Limited) is a diversified property vehicle with a 'yield plus growth' investment strategy. APL owns three assets valued at ~NZ\$150m once the sale of Heinz Wattie's Distribution Centre settles in December 2019. APT was established in 1994 and listed in 1996. In 2011, APL internalised its management and changed its structure from a trust to a company. In 2018 NZX-listed Augusta Capital (AUG) purchased APL's management rights for NZ\$4.5m and the company launched its new brand as 'Asset Plus' and is acquiring value-add opportunities and divesting non-core assets.

Financial structure

- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.
- **Dividends:** There is no dividend guidance and the dividend remains subject to the quarterly review and possible future acquisitions.

Risks factors

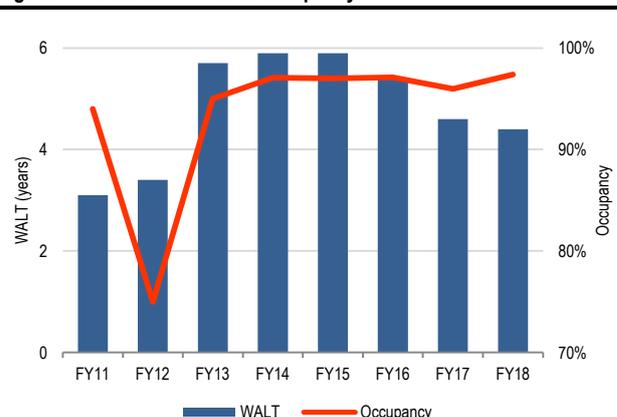
- **E-commerce growth:** APL's retail assets are smaller sub-regional and neighbourhood centres, which could be susceptible to e-commerce risks.
- **Sourcing new assets:** APL will need to source new 'value-add' properties to replace asset sales and utilise its balance sheet. A sustained period of low gearing would put pressure on APL's dividend.

Figure 3. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	-	23%	-	23%
Office	-	-	-	-
Retail	30%	-	48%	77%
Total	30%	23%	48%	100%

Source: Forsyth Barr analysis, Company Reports

Figure 4. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company Reports

Figure 5. Substantial Shareholders

Shareholder	Latest Holding
Augusta Capital	18.9%
Salt Funds Management	15.8%
ACC	9.6%

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

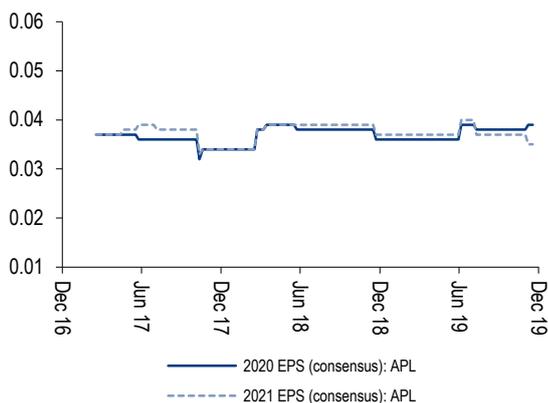
Figure 6. International Compco's

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
<i>(metrics re-weighted to reflect APL's balance date - March)</i>										
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Asset Plus	APL NZ	NZ\$0.64	NZ\$103	16.4x	17.6x	12.2x	13.2x	12.2x	13.2x	5.7%
Argosy Property *	ARG NZ	NZ\$1.37	NZ\$1,133	20.8x	19.9x	19.4x	18.1x	19.4x	18.1x	4.6%
Goodman Property Trust *	GMT NZ	NZ\$2.14	NZ\$2,959	31.6x	31.0x	27.7x	25.2x	27.7x	25.2x	3.1%
Investore *	IPL NZ	NZ\$1.78	NZ\$529	22.0x	21.6x	20.8x	20.5x	20.8x	20.5x	4.3%
Kiwi Property Group *	KPG NZ	NZ\$1.59	NZ\$2,487	22.3x	22.0x	21.1x	19.7x	21.1x	19.7x	4.5%
Precinct Properties NZ *	PCT NZ	NZ\$1.81	NZ\$2,378	27.6x	26.2x	27.8x	22.9x	27.8x	22.9x	3.5%
Property For Industry *	PFI NZ	NZ\$2.33	NZ\$1,162	27.0x	26.8x	20.9x	20.6x	20.9x	20.6x	3.3%
Stride Property *	SPG NZ	NZ\$2.21	NZ\$807	21.1x	19.9x	20.1x	18.3x	20.1x	18.3x	4.5%
Vital Healthcare *	VHP NZ	NZ\$2.68	NZ\$1,209	27.5x	26.2x	23.4x	22.2x	23.4x	22.2x	3.4%
Compco Average:				25.0x	24.2x	22.7x	21.0x	22.7x	21.0x	3.9%
APL Relative:				-34%	-27%	-46%	-37%	-46%	-37%	+46%

EV = Current Market Cap + Actual Net Debt

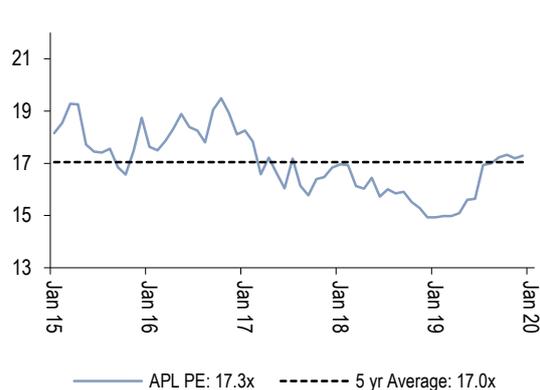
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (APL) companies fiscal year end

Figure 7. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis

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