

Asset Plus

Downgrade to UNDERPERFORM

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UNDERPERFORM

In our sector report *Real Estate Reflections*, dated 26 March 2020, we looked at sector gearing and provided an update on our preferred LPVs. We also provided some thoughts on how investors should be positioned as uncertainty persists, and a reminder of what happened during the global financial crisis (GFC) and how things may be 'different this cycle'. We downgraded our APL investment rating from NEUTRAL to UNDERPERFORM.

NZX Code	APL	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$0.42	NPAT* (NZ\$m)	5.2	6.3	5.8	5.6	EV/EBITDA	12.5	10.0	12.5	12.4
Target price	NZ\$0.65	EPS* (NZc)	3.2	3.9	3.6	3.5	EV/EBIT	12.5	10.0	12.5	12.4
Risk rating	High	EPS growth* (%)	-17.7	21.1	-6.7	-3.6	PE	13.2	10.9	11.6	12.1
Issued shares	161.9m	DPS (NZc)	3.6	3.6	3.6	3.6	Price / NTA	0.6	0.6	0.6	0.6
Market cap	NZ\$68.m	Imputation (%)	100	100	100	100	Cash div yld (%)	8.6	8.6	8.6	8.6
Avg daily turnover	109.6k (NZ\$68k)	*Based on normalised profits					Gross div yld (%)	12.2	12.2	12.2	12.2

Retail uncertainties

NZ listed retail exposure is mostly KPG, although its last stated position was only 20% pure retail with the balance comprising its new classification of mixed use for its three major shopping centres and its office assets. IPL is 100% retail but all large format and mostly supermarkets. Others are APL 50%+ retail via Eastgate Shopping Centre in Christchurch, SPG ~40%, and ARG ~10% mostly large format retail. Large format should be relatively resilient given the typically large corporate nature of the tenants. Shopping centres with specialty tenants are more problematic, in particular, those that are not dominant centres in their wider catchment area. The near term risks are rent relief to keep tenants going for when centres fully re-open, rental levels and occupancy over the next 12 months, and what valuers say near term.

Development in Limbo

APL announced a \$100m capital raise on 10 March 2020, which was subsequently cancelled eight days later due to the extreme volatility seen in capital markets arising from the outbreak of COVID-19. The proceeds from the capital raise were intended to fund the development of Munroe Lane, and provide some capacity for the redevelopment of APL's Graham Street asset.

The Munroe Lane development, which is 63% pre-leased to Auckland Council, is subject to a funding and shareholder approval condition with the Council. Given current circumstances, APL is in talks with Auckland Council to extend the condition satisfaction date. The uncertainty in capital markets is unlikely to wane in the near term, meaning APL's development schedule is likely on pause.

Downgraded to UNDERPERFORM

The current environment makes APL's growth strategies and efforts to diversify and expand its asset base problematic. Eastgate Shopping Centre remains a key concern, and while this may be priced in given APL's discount to NTA (as detailed in Figure 3 and Figure 4), the outlook is challenging relative to the broader sector. APL was looking at divesting this asset and this will be even more difficult now. APL also has a moderately high dividend payout ratio relative to the sector. Our target price has dropped from NZ\$0.65 to NZ\$0.52 on the back of our NAV falling from NZ\$0.66 to NZ\$0.50. Our earnings are unchanged at this time.

Asset Plus Limited (APL)

Priced as at 27 Mar 2020 (NZ\$)

0.42
12-month target price (NZ\$)*
0.65

Expected share price return	54.8%
Net dividend yield	8.6%
Estimated 12-month return	63.3%

Spot valuations (NZ\$)

1. DCF	0.63
2. NAV	0.66
n/a	n/a

Key WACC assumptions

Risk free rate	2.00%
Equity beta	0.78
WACC	5.8%
Terminal growth	1.5%

DCF valuation summary (NZ\$m)

Total firm value	118
(Net debt)/cash	(10)
Less: Capitalised operating leases	0
Value of equity	108

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	12.3	9.3	11.0	10.4	10.5	EV/EBITDA (x)	11.7	12.5	10.0	12.5	12.4
Normalised EBITDA	10.1	7.6	9.2	8.6	8.7	EV/EBIT (x)	11.7	12.5	10.0	12.5	12.4
Depreciation and amortisation	0	0	0	0	0	PE (x)	10.8	13.2	10.9	11.6	12.1
Normalised EBIT	10.1	7.6	9.2	8.6	8.7	Price/NTA (x)	0.6	0.6	0.6	0.6	0.6
Net interest	(2.8)	(1.1)	(1.8)	(1.5)	(1.9)	Free cash flow yield (%)	2.5	5.0	7.8	7.5	7.1
Associate income	0	0	0	0	0	Net dividend yield (%)	8.6	8.6	8.6	8.6	8.6
Tax	(1.0)	(1.3)	(1.2)	(1.2)	(1.2)	Gross dividend yield (%)	12.2	12.2	12.2	12.2	12.2
Minority interests	0	0	0	0	0						
Normalised NPAT	6.3	5.2	6.3	5.8	5.6	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(3.2)	(1.4)	0.2	0.8	0.8	Interest cover EBIT (x)	3.6	7.0	5.2	5.6	4.6
Reported NPAT	3.1	3.8	6.5	6.6	6.4	Interest cover EBITDA (x)	3.6	7.0	5.2	5.6	4.6
Normalised EPS (cps)	3.9	3.2	3.9	3.6	3.5	Net debt/ND+E (%)	27.8	8.0	25.8	26.0	26.4
DPS (cps)	3.6	3.6	3.6	3.6	3.6	Net debt/EBITDA (x)	4.4	1.3	4.2	4.7	4.7
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	0.5	-24.3	18.2	-6.2	1.3	Return on assets (%)	6.0	6.0	5.9	5.4	5.4
EBITDA (%)	1.6	-25.1	21.9	-7.4	1.3	Return on equity (%)	5.5	4.6	5.5	5.1	4.9
EBIT (%)	1.6	-25.1	21.9	-7.4	1.3	Return on funds employed (%)	5.0	4.2	5.5	4.5	4.5
Normalised NPAT (%)	1.9	-17.7	21.1	-6.7	-3.6	EBITDA margin (%)	81.9	81.2	83.7	82.6	82.6
Normalised EPS (%)	1.9	-17.7	21.1	-6.7	-3.6	EBIT margin (%)	81.9	81.2	83.7	82.6	82.6
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0	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
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	10.1	7.6	9.2	8.6	8.7	Pay-out ratio (%)	93	113	93	100	104
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)	Property Statistics	2015A	2016A	2017A	2018A	2019A
Other	0	0	0	0	0	Key metrics					
Operating cash flow	6.5	3.8	6.2	5.8	5.6	No. properties	5	5	5	4	3
Capital expenditure	(4.7)	(0.4)	(0.9)	(0.8)	(0.8)	Average lease term (years)	5.9	5.4	4.6	4.4	5.5
(Acquisitions)/divestments	12.7	37.5	(29.0)	0	0	Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
Other	3.8	(0.8)	0	0	0	Cap rate (%)	8.21	7.91	7.74	7.43	7.40
Funding available/(required)	18.3	40.1	(23.7)	5.1	4.9	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
Dividends paid	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	NTA per share (NZ\$)	0.725	0.740	0.723	0.706	0.694
Equity raised/(returned)	0	0	0	0	0						
(Increase)/decrease in net debt	12.4	34.3	(29.5)	(0.8)	(1.0)	Portfolios values (NZ\$m)					
						AA centre	33.8	36.2	40.9	43.8	
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
Working capital	(1.5)	0.5	0.5	0.5	0.5	Print Place	13.3	13.0	11.0	0	0
Fixed assets	168.4	123.0	153.1	154.7	156.3	Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
Intangibles	0	0	0	0	0	Roskill Centre	33.6	35.0	36.0	38.0	39.5
Right of use asset	0	0	0	0	0	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
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						
Lease liability	0	0	0	0	0						
Other 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	0	0	0	0	0						
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

Figure 1. Balance Sheet summary

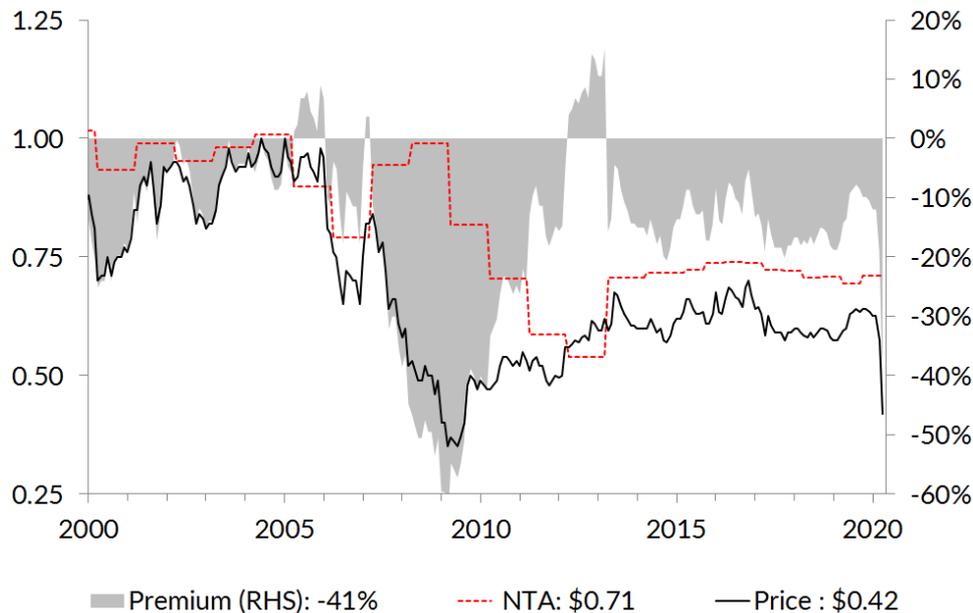
	As at	Reported gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	30.2%	35-40%	50%	75	-	27	2.2	-	2.2
ARG	Sep-19	36.2%	30-40%	50%	535	200	85	2.7	6.3	3.7
GMT	Sep-19	17.9%	25-35%	50%	400	556	400	2.6	4.6	3.8
IPL	Sep-19	40.6%	<48%	65%	270	100	65	1.5	4.1	2.2
KPG	Sep-19	27.4%	25-35%	45%	825	475	303	3.5	3.7	3.6
PCT	Dec-19	25.4%	<37.5%	50%	610	586	322	3.3	5.1	4.2
PFI	Dec-19	28.2%	<40%	50%	300	200	84	3.1	5.1	3.9
SPG	Sep-19	34.4%	38-42%	50%	400	-	67	1.8	-	1.8
VHP	Dec-19	35.1%	na	50%	870	-	225	2.0	-	2.0
Average/total		30.6%		51.1%	4,285	2,117	1,479	2.5	3.2	3.0

Source: Forsyth Barr analysis, company reports

Figure 2. Hypothetical asset value declines required to breach banking covenant

	Reported Gearing	Bank Covenant	Approx Debt Drawn	Approx Asset Value	Minimum Asset Value	Asset Value Decline
APL	30.2%	50%	50.0	160.0	100.0	-40%
ARG	36.2%	50%	650.0	1,790.0	1,300.0	-28%
GMT	17.9%	50%	530.0	2,960.0	1,060.0	-64%
IPL	40.6%	65%	300.0	750.0	470.0	-38%
KPG	27.4%	45%	930.0	3,400.0	2,070.0	-39%
PCT	25.4%	50%	870.0	3,440.0	1,750.0	-49%
PFI	28.2%	50%	430.0	1,520.0	860.0	-44%
SPG	34.4%	50%	300.0	880.0	610.0	-31%
VHP	35.1%	50%	680.0	1,940.0	1,360.0	-30%

Source: Forsyth Barr analysis, Company reports

Figure 3. APL long-run P/NTA


Source: Forsyth Barr analysis

Figure 4. LPV compco

LPV	Code	Rating	Price 27-Mar	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	UNDERPERFORM	\$0.42	\$0.65	12.2%	7.5%	64%
Argosy Property	ARG	NEUTRAL	\$0.85	\$1.38	10.5%	7.3%	64%
Augusta Capital	AUG	NEUTRAL	\$0.92	\$1.38	9.9%	7.8%	66%
Goodman Property	GMT	NEUTRAL	\$2.14	\$1.92	4.4%	2.9%	113%
Investore	IPL	OUTPERFORM	\$1.64	\$1.85	6.6%	4.6%	99%
Kiwi Property Group	KPG	NEUTRAL	\$0.90	\$1.29	11.3%	7.3%	79%
Precinct Properties	PCT	NEUTRAL	\$1.70	\$1.52	5.3%	3.6%	106%
Property for Industry	PFI	OUTPERFORM	\$2.07	\$2.15	5.3%	3.7%	100%
Stride Property	SPG	NEUTRAL	\$1.39	\$2.18	10.2%	6.8%	68%
Vital Healthcare	VHP	OUTPERFORM	\$2.35	\$2.76	5.5%	3.8%	100%
Core simple average					7.4%	5.0%	91%

Source: Forsyth Barr analysis, company reports, Eikon

AUG's and SPG's NTA per share is adjusted to include an estimated value for funds management operations.

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. While APL continues to trade at a sizable discount to the sector, it looks challenging for APL to generate scale and diversify its portfolio away from retail exposure. UNDERPERFORM.

Business quality

- **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.
- **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.

Earnings and cashflow 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.

Financial structure

- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.

Risk factors

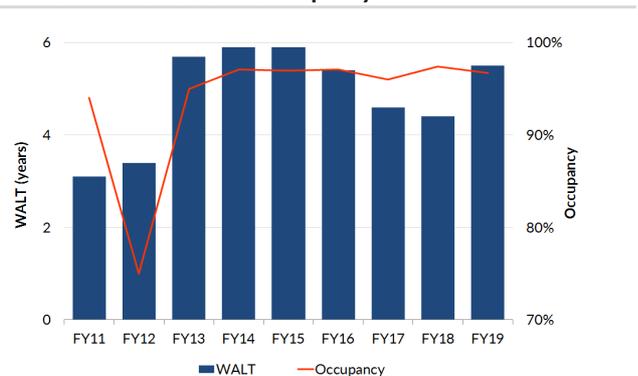
- **E-commerce growth:** APL's retail assets are smaller sub-regional and neighbourhood centres, susceptible to e-commerce risks.
- **Sourcing new assets:** APL will need to source new value-add properties to replace asset sales and utilise its balance sheet.

Figure 5. Sector and regional portfolio exposure

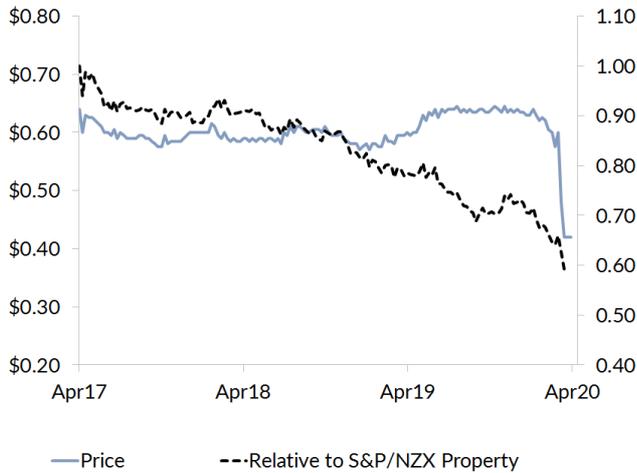
	Auckland	Other North Island	South	Island	Total
Industrial	-	15%	6%		22%
Office	23%	-	-		23%
Retail	21%	-	34%		55%
Total	44%	15%	40%		100%

Source: Forsyth Barr analysis, Company Reports

Figure 6. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company Reports

Figure 7. Price performance


Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

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

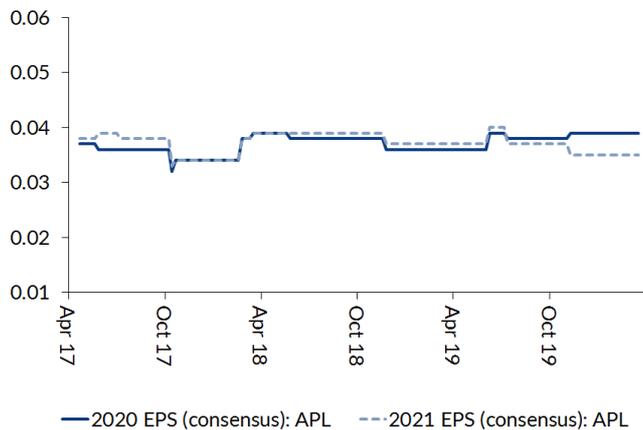
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 9. International valuation comparisons

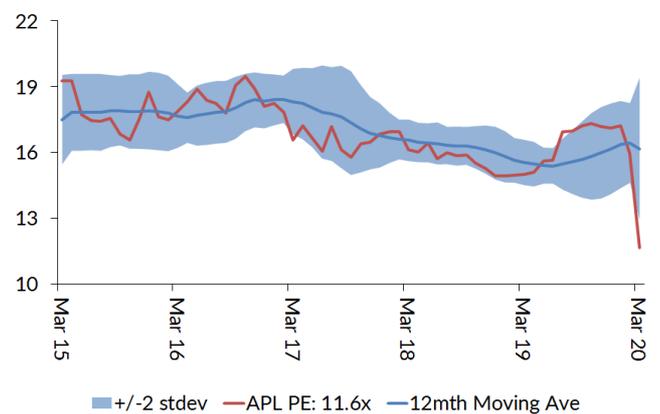
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Asset Plus	APL NZ	NZ\$0.42	NZ\$68	10.9x	11.6x	8.4x	9.1x	8.4x	9.1x	8.6%
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	12.7x	12.2x	14.4x	13.5x	14.4x	13.5x	7.5%
Goodman Property Trust *	GMT NZ	NZ\$2.05	NZ\$2,841	30.4x	29.8x	26.8x	24.4x	26.8x	24.4x	3.2%
Investore *	IPL NZ	NZ\$1.41	NZ\$429	17.4x	17.1x	18.3x	18.1x	18.3x	18.1x	5.4%
Kiwi Property Group *	KPG NZ	NZ\$0.84	NZ\$1,318	11.8x	11.7x	14.0x	13.1x	14.0x	13.1x	8.5%
Precinct Properties NZ *	PCT NZ	NZ\$1.47	NZ\$1,931	22.6x	21.6x	24.4x	20.2x	24.4x	20.2x	4.3%
Property For Industry *	PFI NZ	NZ\$1.76	NZ\$878	20.5x	20.1x	17.3x	17.2x	17.3x	17.2x	4.4%
Stride Property *	SPG NZ	NZ\$1.30	NZ\$475	12.4x	11.7x	14.2x	13.0x	14.2x	13.0x	7.6%
Vital Healthcare *	VHP NZ	NZ\$2.05	NZ\$928	21.1x	20.1x	20.0x	18.9x	20.0x	18.9x	4.4%
Compcpo Average:				18.6x	18.0x	18.7x	17.3x	18.7x	17.3x	5.7%
APL Relative:				-42%	-35%	-55%	-47%	-55%	-47%	51%

EV = Current Market Cap + Actual Net Debt

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

Figure 10. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 11. One year forward PE (x)


Source: Forsyth Barr analysis

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OUTPERFORM	NEUTRAL	UNDERPERFORM
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