

Asset Plus

FY20 Result – A Difficult Equation

ROHAN KOREMAN-SMIT CFA

 rohan.koreman-smit@forsythbarr.co.nz
 +64 9 368 0085

ASHTON OLDS

 ashton.olds@forsythbarr.co.nz
 +64 9 368 0127

UNDERPERFORM

Asset Plus (APL) reported a soft FY20 result due to higher costs. APL is in the midst of two major and time critical developments at Graham St and Munroe Lane, which if completed would significantly reposition its portfolio. However, funding constraints and a weakening economic backdrop have significantly increased execution risks. As such while APL's valuation looks appealing, trading at a -33% discount to its net tangible assets (NTA), we believe risks are elevated given 1) capital constraints limit its ability to execute on strategic initiatives, and 2) upcoming Graham St vacancy is 40% of net rental income. Our target price is NZ\$0.41cps and we retain our UNDERPERFORM rating.

NZX Code	APL	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$0.38	NPAT* (NZ\$m)	5.0	4.7	4.6	5.3	EV/EBITDA	11.0	16.7	17.2	14.5
Target price	NZ\$0.41	EPS* (NZc)	3.1	2.9	2.8	3.3	EV/EBIT	11.0	16.7	17.2	14.5
Risk rating	High	EPS growth* (%)	-17.7	-5.5	-4.1	17.2	PE	12.1	12.8	13.3	11.4
Issued shares	161.9m	DPS (NZc)	2.7	1.2	2.3	2.7	Price / NTA	0.7	0.6	0.6	0.6
Market cap	NZ\$60.7m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.2	3.1	6.1	7.3
Avg daily turnover	110.0k (NZ\$63k)	*Based on normalised profits					Gross div yld (%)	10.3	4.4	8.8	10.5

Operationally in line

APL reported funds from operations (FFO)/underlying NPAT down -18% yoy to NZ\$5.0m; below our expectations largely due to higher transaction costs relating to two acquisitions that did not proceed. AFFO, however, was flat due to lower other adjustments. At the individual property level, 1) Stoddard Road continues to trade well and is 100% occupied but there are 4 renewals (16% of rent) in CY21, 2) Eastgate remains challenging with c.10% of rental income now on holdover but negotiations are advanced for an additional pad site fast food development (NZ\$2-3m cost), 3) Graham St will become vacant in c.1 year's time and work on the preferred redevelopment option has progressed (NZ\$90-100m cost), however, this is likely to be reduced in scale given current market conditions, and 4) APL remains committed to its development at Munroe Lane (NZ\$108m cost). APL has provided NZ\$0.4m of COVID-19 rent support to tenants in 1Q21.

Development potential but capital constrained

APL is in the midst of a strategic transformation to increase the scale and quality of its portfolio via asset recycling and development. This transformation is capital hungry and unfortunately, relatively time critical given funding conditions in the Munroe Lane lease and short WALT at Graham St. We estimate near-term development capital requirements to be NZ\$125-131m (even with a scaled back Graham St refurbishment) compared to bank facility headroom of NZ\$26m and saleable assets (Stoddard Rd) of NZ\$38m. As such, APL will need to either find a capital partner for the Munroe Lane development, and/or raise equity. Furthermore, the upcoming vacancy at Graham St presents significant risks to earnings given 1) its 40% contribution to net rental income, and 2) the uncertain office leasing environment.

Graham St downtime lower earnings forecasts

We adjust our FY21-23E AFFO by +0.1%/-20.1%/-5.2% to include 6 months downtime at Graham St, post expiry of the Auckland Council lease being partially offset by lower management fees and interest costs with APL being 100% exposed to floating debt costs. We assume APL spends NZ\$20m refurbishing Graham St and achieves a flat rent outcome. We lower our 12 month target price to NZ\$0.41cps with our DCF and NAV impacted by non-productive capital spend on Graham St.

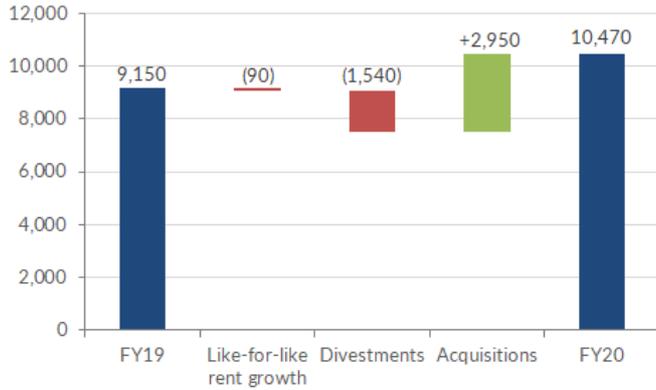
Asset Plus Limited (APL)

Priced as at 16 Jun 2020 (NZ\$)						0.38					
12-month target price (NZ\$)*						0.41	Spot valuations (NZ\$)				
Expected share price return						7.9%	1. DCF	0.34			
Net dividend yield						3.8%	2. NAV	0.50			
Estimated 12-month return						11.7%	n/a	n/a			
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						2.0%	Total firm value	102			
Equity beta						0.78	(Net debt)/cash	(49)			
WACC						5.8%	Less: Capitalised operating leases	0			
Terminal growth						1.5%	Value of equity	53			
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
Normalised EBITDA	9.3	10.8	8.3	8.1	9.3	EV/EBITDA (x)	11.7	11.1	16.8	17.4	14.7
Depreciation and amortisation	7.6	8.2	6.6	6.4	7.5	EV/EBIT (x)	11.7	11.1	16.8	17.4	14.7
Normalised EBIT	0	0	0	0	0	PE (x)	10.1	12.2	13.0	13.5	11.5
Net interest	7.6	8.2	6.6	6.4	7.5	Price/NTA (x)	0.5	0.7	0.7	0.7	0.6
Associate income	(1.1)	(1.7)	(1.2)	(1.2)	(1.4)	Free cash flow yield (%)	5.6	5.4	3.2	-16.8	-0.3
Tax	0	0	0	0	0	Net dividend yield (%)	9.5	7.1	3.0	6.1	7.2
Minority interests	(0.4)	(1.5)	(0.7)	(0.7)	(0.8)	Gross dividend yield (%)	13.5	10.2	4.3	8.7	10.3
Normalised NPAT	0	0	0	0	0	Capital Structure					
Abnormals/other	6.1	5.0	4.7	4.6	5.3	Interest cover EBIT (x)	2019A	2020A	2021E	2022E	2023E
Reported NPAT	(2.3)	(19.7)	(0.6)	(0.6)	0.0	Interest cover EBITDA (x)	7.0	4.9	5.5	5.5	5.4
Normalised EPS (cps)	3.8	(14.7)	4.2	3.9	5.4	Net debt/ND+E (%)	7.0	4.9	5.5	5.5	5.4
DPS (cps)	3.8	3.1	2.9	2.8	3.3	Net debt/EBITDA (x)	8.0	34.9	34.3	40.1	41.6
	3.6	2.7	1.2	2.3	2.7		1.3	6.0	7.4	9.9	9.0
Growth Rates						Key Ratios					
Revenue (%)	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
EBITDA (%)	-24.4	15.8	-23.2	-2.5	15.0	Return on assets (%)	6.0	5.6	4.5	3.9	4.5
EBIT (%)	-25.3	8.2	-19.4	-3.4	18.5	Return on equity (%)	5.4	5.5	5.0	4.8	5.6
Normalised NPAT (%)	-25.3	8.2	-19.4	-3.4	18.5	Return on funds employed (%)	4.9	4.7	3.9	3.6	4.0
Normalised EPS (%)	-2.9	-17.7	-5.5	-4.1	17.2	EBITDA margin (%)	81.1	75.7	79.4	78.7	81.1
Ordinary DPS (%)	-2.9	-17.7	-5.5	-4.1	17.2	EBIT margin (%)	81.1	75.7	79.4	78.7	81.1
	0.0	-25.0	-57.4	>100	19.1	Capex to sales (%)	3.8	24.5	33.2	183.2	59.1
Cash Flow (NZ\$m)						Property Statistics					
EBITDA	2019A	2020A	2021E	2022E	2023E	2016A	2017A	2018A	2019A	2020A	
Working capital change	7.6	8.2	6.6	6.4	7.5	Key metrics					
Interest & tax paid	(1.5)	0.3	(0.0)	(0.0)	0	No. properties	5	5	4	3	4
Other	(2.2)	(2.5)	(1.8)	(1.8)	(2.2)	Average lease term (years)	5.4	4.6	4.4	5.5	3.2
Operating cash flow	0	0	0	0	0	Occupancy rate (%)	97.1	96.0	97.4	96.7	98.3
Capital expenditure	3.8	5.9	4.7	4.5	5.3	Cap rate (%)	7.91	7.74	7.43	7.40	7.10
(Acquisitions)/divestments	(0.4)	(2.6)	(2.8)	(14.8)	(5.5)	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1
Other	0.8	(0.3)	0	0	0	NTA per share (NZ\$)	0.740	0.723	0.706	0.694	0.567
Funding available/(required)	40.1	(33.6)	1.9	(10.3)	(0.2)	Portfolio values (NZ\$m)					
Dividends paid	(5.8)	(5.8)	(1.9)	(3.7)	(4.4)	AA centre	36.2	40.9	0	0	0
Equity raised/(returned)	0	0	0	0	0	Print Place	13.0	11.0	0	0	0
(Increase)/decrease in net debt	34.3	(39.4)	0.1	(14.0)	(4.6)	Heinz Wattie Warehouse	27.2	27.0	27.3	29.1	0
Balance Sheet (NZ\$m)											
Working capital	2019A	2020A	2021E	2022E	2023E	Eastgate Shopping Centre	58.0	59.5	58.0	54.5	47.0
Fixed assets	123.0	143.6	145.8	160.0	165.5	Roskill Centre	35.0	36.0	38.0	39.5	37.5
Intangibles	0	0	0	0	0	Graham St	0	0	0	0	50.1
Right of use asset	0	0	0	0	0	Munroe Lane	0	0	0	0	7.5
Other assets	0.5	0	0	0	0	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1
Total funds employed	123.9	143.0	145.2	159.5	165.0						
Net debt/(cash)	9.7	49.2	49.1	63.1	67.7						
Lease liability	0	0	0	0	0						
Other liabilities	1.9	2.1	2.1	2.1	2.1						
Shareholder's funds	112.3	91.8	94.1	94.3	95.2						
Minority interests	0	0	0	0	0						
Total funding sources	123.9	143.0	145.2	159.5	165.0						

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

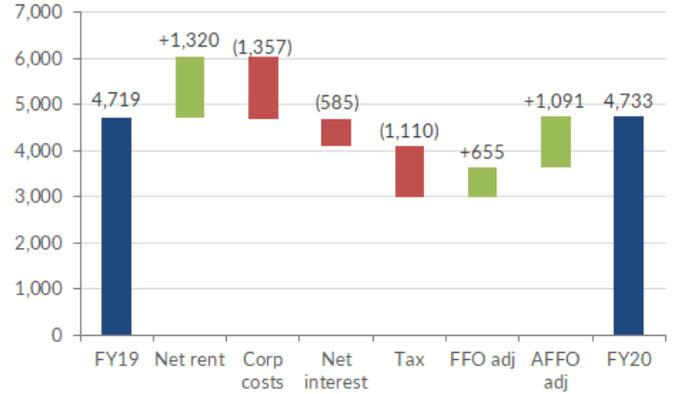
FY20 result in charts

Figure 1. Net rental income bridge (NZ\$'000)



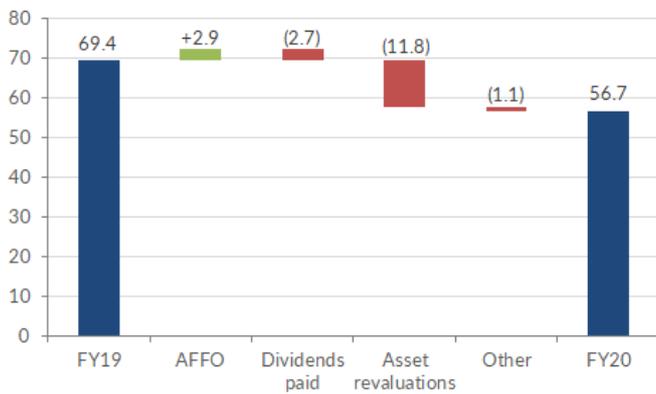
Source: Company reports, Forsyth Barr analysis

Figure 2. AFFO bridge (NZ\$'000)



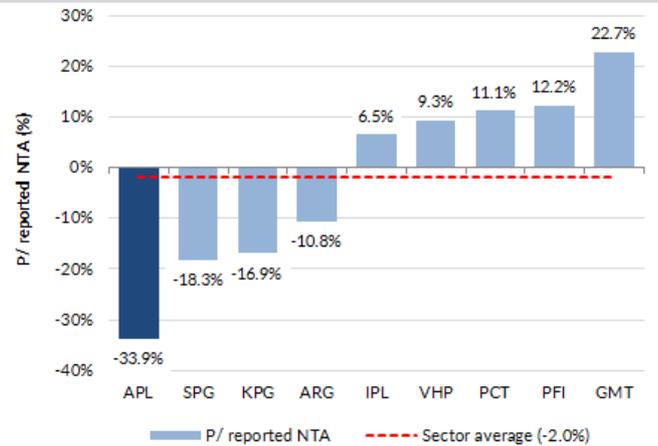
Source: Company reports, Forsyth Barr analysis

Figure 3. NTA bridge (NZcps)



Source: Company reports, Forsyth Barr analysis

Figure 4. Premium/discount to NTA



Source: Company reports, Forsyth Barr analysis

Figure 5. Potential development expenditure and sources of funds (NZ\$m)

Potential developments		Sources of capital	
Eastgate fast food	2-3	Available bank debt	26
Graham Rd refurbishment	15-20	Stoddard Rd	38
Munroe Lane development	108		
Total	125-131		63

Source: Forsyth Barr analysis

Figure 6. FY20 result analysis

Financial period	FY19	FY20	Chg	Forecast	Var
Net rental income	9,326	10,801	15.8%	11,040	-2.2%
Base corporate costs	(1,766)	(2,623)	48.5%	(1,800)	45.7%
Performance fees	-	-	-	-	-
EBITDA	7,560	8,178	8.2%	9,240	-11.5%
Net interest	(1,079)	(1,664)	54.2%	(1,760)	-5.5%
PBT	6,481	6,514	0.5%	7,480	-12.9%
Current tax	(381)	(1,491)	n.m.	(1,211)	23.2%
Underlying NPAT/FFO	6,100	5,023	-17.7%	6,269	-19.9%
Adjustments:					
Investment property revaluations	(1,767)	(19,115)		249	
Other non-operating adjustments	(530)	(596)		(16)	
NPAT (reported)	3,803	(14,688)	n.m.	6,502	n.m.
FFO to AFFO adjustments					
Lease incentives paid	(280)	(210)	-25.0%	-	-
Maintenance capex	(151)	(80)	-47.0%	(931)	-91.4%
Other AFFO adjustments	(950)	-	n.m.	-	-
AFFO	4,719	4,733	0.3%	5,338	-11.3%

Source: Company reports, Forsyth Barr analysis

Figure 7. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	8.5	8.3	-2.2%	9.3	8.1	-13.2%	9.5	9.3	-1.5%
Corporate costs	(1.7)	(1.7)	-2.3%	(1.8)	(1.7)	-2.2%	(1.8)	(1.8)	-0.6%
EBITDA	6.7	6.6	-2.1%	7.6	6.4	-15.8%	7.7	7.5	-1.7%
Net interest	(1.4)	(1.2)	-14.4%	(1.3)	(1.2)	-14.4%	(1.4)	(1.4)	0.5%
Current tax	(0.6)	(0.7)	6.2%	(0.8)	(0.7)	-16.0%	(0.8)	(0.8)	-2.4%
FFO (Underlying NPAT)	4.7	4.7	0.4%	5.4	4.6	-16.1%	5.5	5.3	-2.2%
Maintenance capex	(0.7)	(0.8)	1.9%	(0.8)	(0.8)	8.5%	(0.8)	(0.9)	15.7%
AFFO	4.0	4.0	0.1%	4.7	3.7	-20.1%	4.7	4.4	-5.2%
FFO (cps)	2.92	2.93	0.4%	3.35	2.81	-16.1%	3.37	3.30	-2.2%
AFFO (cps)	2.47	2.47	0.1%	2.88	2.30	-20.1%	2.89	2.74	-5.2%
DPS (cps)	1.80	1.15	-36.1%	2.71	2.30	-15.1%	2.69	2.74	2.1%
Payout - EPS	62%	39%	-36.3%	81%	82%	1.2%	80%	83%	4.4%
Payout - AFFO	73%	47%	-36.2%	94%	100%	6.3%	93%	100%	7.7%

Source: Forsyth Barr analysis

Investment Summary

In 2018 Asset Plus Limited (APL) 1) externalised its management to Augusta Capital (AUG), 2) made 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. APL continues to trade at a sizable discount to the sector as it appears challenging for APL to generate scale and diversify its portfolio away from retail exposure. UNDERPERFORM.

Business quality

- **Property fundamentals:** At its FY20 result APL had a four asset portfolio valued at NZ\$142m. FY20 occupancy was 98.3% and its WALT 3.2 years. Over the next two years, 51% of APL's net rental income expires.
- **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

- **Graham Street downtime:** Graham St is a B-grade Auckland office asset with a 1.2 year WALT. We assume 6 months downtime upon expiry of the Auckland Council lease and NZ\$20m of refurbishment costs for no uplift in rents. With Graham St being c.40% of net rental income there is earnings risk to the downside given the uncertain outlook for office leasing.
- **Development activity:** APL is considering the direction of Graham Street and Eastgate, and also has development plans for land it owns on Munroe Lane in Albany. These developments would help to increase the scale of APL's portfolio but carry some execution risk.

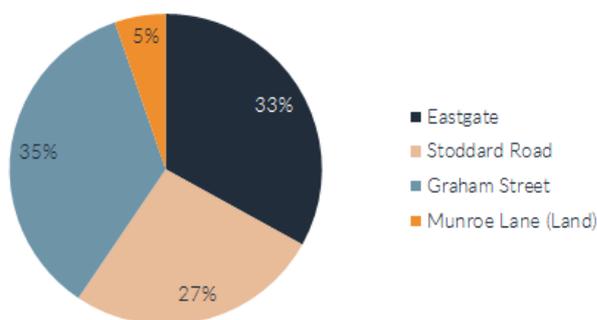
Financial structure

- **Balance sheet:** APL's gearing has lifted to 34.3% following the severe revaluation losses reported at 31 March 2020. APL's access to capital constrains its development pipeline; however, this could be relieved by the sale of assets, a development/capital partner, and/or raising equity.

Risk factors

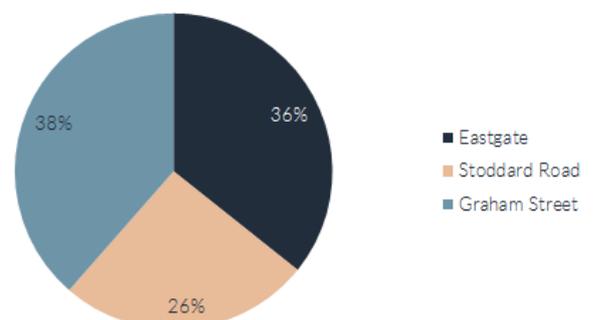
- **Economic uncertainty:** In periods of economic uncertainty tenants are more likely to default and new leasing becomes more competitive. This could result in increased vacancy, downward pressure on rents, and negative asset revaluations.
- **Asset revaluations:** Further negative revaluations would increase the pressure on APL's balance sheet.

Figure 8. Property value concentration (FY20)

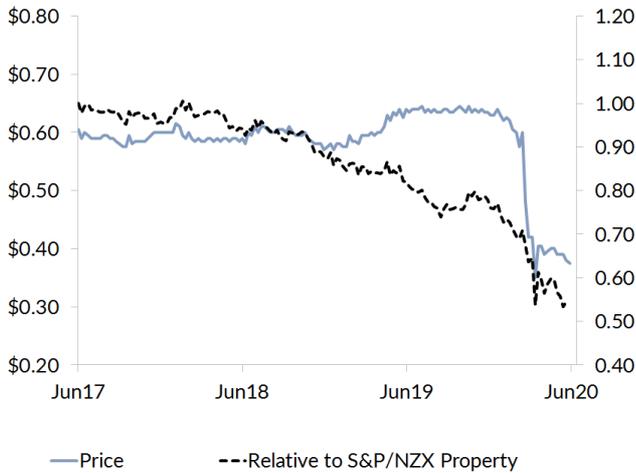


Source: Forsyth Barr analysis

Figure 9. Net rental income concentration (FY20)



Source: Forsyth Barr analysis

Figure 10. Price performance


Source: Forsyth Barr analysis

Figure 11. Substantial shareholders

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

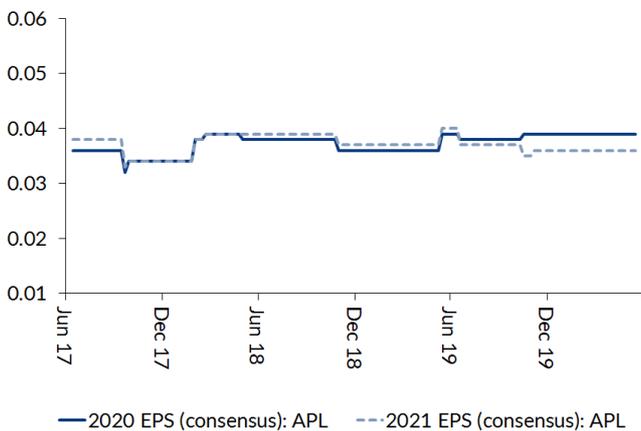
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 12. International valuation comparisons

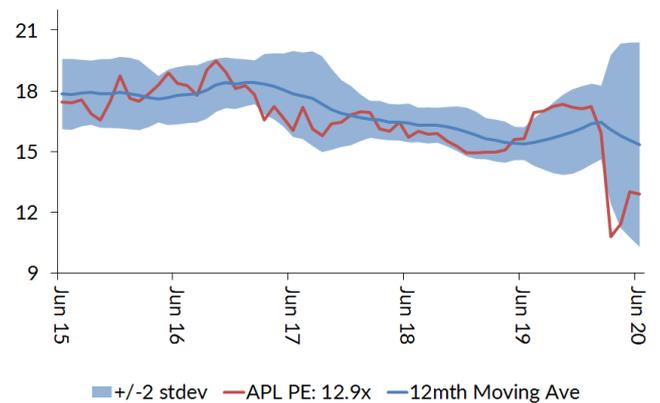
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
Asset Plus	APL NZ	NZ\$0.38	NZ\$61	12.8x	13.3x	16.7x	17.3x	16.7x	17.3x	6.1%
Argosy Property *	ARG NZ	NZ\$1.17	NZ\$968	16.7x	16.7x	18.8x	18.2x	18.8x	18.2x	5.4%
Goodman Property Trust *	GMT NZ	NZ\$2.10	NZ\$2,910	32.1x	31.2x	27.1x	25.9x	27.1x	25.9x	2.6%
Investore *	IPL NZ	NZ\$1.80	NZ\$663	23.8x	22.3x	19.8x	18.9x	19.8x	18.9x	4.2%
Kiwi Property Group *	KPG NZ	NZ\$1.03	NZ\$1,609	17.8x	14.9x	19.0x	15.4x	19.0x	15.4x	6.0%
Precinct Properties NZ *	PCT NZ	NZ\$1.63	NZ\$2,135	23.8x	24.2x	21.7x	19.9x	21.7x	19.9x	3.1%
Property For Industry *	PFI NZ	NZ\$2.27	NZ\$1,135	26.9x	26.2x	22.4x	22.4x	22.4x	22.4x	3.1%
Stride Property *	SPG NZ	NZ\$1.63	NZ\$596	15.6x	16.7x	16.4x	18.4x	16.4x	18.4x	4.2%
Vital Healthcare *	VHP NZ	NZ\$2.50	NZ\$1,133	25.1x	24.4x	23.0x	21.6x	23.0x	21.6x	3.4%
Compcop Average:				22.7x	22.1x	21.0x	20.1x	21.0x	20.1x	4.0%
APL Relative:				-44%	-40%	-21%	-14%	-21%	-14%	53%

EV = Current Market Cap + Actual Net Debt

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

Figure 13. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 14. One year forward PE (x)


Source: Forsyth Barr analysis

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Ratings distributions: As at 15 Jun 2020, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
46.0%	38.0%	16.0%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: ARG AUG

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.