

# Asset Plus

## Kicking the Can

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### UNDERPERFORM

Asset Plus (APL) has provided an update relating to its properties at Graham St and Munroe Lane. The funding and shareholder approval satisfaction date for Munroe Lane has been pushed three months to 30 October 2020, and Auckland Council has agreed to a six month lease extension for two levels of 35 Graham Street. Although these actions are helpful, they don't resolve the capital shortage which continues to hamstring APL's strategic progress. The capital dilemma could be resolved through capital partnering, asset sales, and/or a heavily discounted capital raise. As such we prefer to watch from the sidelines. We retain our UNDERPERFORM rating and lower our target price to NZ\$0.38 due to lower FY22/23 earnings.

NZX Code	APL	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$0.36	NPAT* (NZ\$m)	5.0	4.8	3.9	4.6	EV/EBITDA	10.7	16.2	19.0	16.2
Target price	NZ\$0.38	EPS* (NZc)	3.1	2.9	2.4	2.8	EV/EBIT	10.7	16.2	19.0	16.2
Risk rating	High	EPS growth* (%)	-17.7	-5.1	-17.2	15.7	PE	11.6	12.2	14.8	12.8
Issued shares	161.9m	DPS (NZc)	2.7	1.2	1.9	2.3	Price / NTA	0.6	0.6	0.6	0.6
Market cap	NZ\$58.3m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.5	3.2	5.4	6.3
Avg daily turnover	104.7k (NZ\$57k)	*Based on normalised profits					Gross div yld (%)	10.7	4.6	7.7	9.0

### Munroe Lane conditions pushed

In December 2019, APL announced that it had entered into an Agreement to Develop and Lease a 15.1k sqm office building for Auckland Council at 6-8 Munroe Lane, Albany. The agreement is conditional on (1) resource consent (satisfied on 25 May 2020), (2) shareholder approval, and (3) funding. APL had plans to raise NZ\$100m of equity in March to fund the NZ\$115m development, however, this was withdrawn due to the economic impacts of COVID-19. Today, APL announced an extension to the satisfaction date for the funding and shareholder approval condition from 31 July 2020 to 30 October 2020, with a further right to extend to 23 December 2020 (with such agreement at each party's absolute discretion). While this relieves the immediate urgency for capital, it is unclear how APL will satisfy these conditions in three or six months time.

### Council extends stay at Graham St

APL also announced that Auckland Council has agreed to lease the basement and ground floor at 35 Graham St for six months upon expiry of its existing lease in June 2021. The lease will provide NZ\$1m of rent plus a proportionate share of outgoings. During the six month lease APL will have the ability to undertake soft strip-out, investigative works, and internal refurbishment across the balance of the property; however, it will be unable to carry out certain works if it wishes to progress with its preferred (full scale ~NZ\$144m redevelopment) option in this time. We model an NZ\$20m refurbishment taking place over the 12 months from June 2021, six months downtime, and no uplift in passing rents.

### Funding still an issue

The high capital requirements of APL's development pipeline of NZ\$125-131m (assuming a light refurbishment of Graham St) remains an issue given it has NZ\$26m of bank facility headroom and saleable assets (Stoddard Rd) of NZ\$38m. As such, we expect the risk of a discounted capital raise will continue to weigh on APL in the near term. Other options could include (1) a capital partner, (2) sale of the development to a 3rd party, and/or (3) asset sales. If Munroe Lane development does not eventuate APL portfolio will be highly concentrated in the Eastgate Shopping Centre (35% of FY20 rent) and Graham St (40%). We prefer to watch from the sidelines, and thus retain our UNDERPERFORM rating.

**Asset Plus Limited (APL)**

Priced as at 22 Jul 2020 (NZ\$)						0.36									
<b>12-month target price (NZ\$)*</b>						<b>0.38</b>	<b>Spot valuations (NZ\$)</b>								
Expected share price return						5.6%	1. DCF					0.34			
Net dividend yield						3.9%	2. NAV					0.45			
Estimated 12-month return						9.5%	n/a					n/a			
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>									
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			
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>									
Sales revenue	2019A	2020A	2021E	2022E	2023E	EV/EBITDA (x)	2019A	2020A	2021E	2022E	2023E				
Normalised EBITDA	9.3	10.8	8.3	7.4	8.4	EV/EBIT (x)	11.3	10.7	16.2	19.0	16.2				
Depreciation and amortisation	7.6	8.2	6.6	5.7	6.6	PE (x)	11.3	10.7	16.2	19.0	16.2				
Normalised EBIT	0	0	0	0	0	Price/NTA (x)	9.6	11.6	12.2	14.8	12.8				
Net interest	7.6	8.2	6.6	5.7	6.6	Free cash flow yield (%)	0.5	0.6	0.6	0.6	0.6				
Associate income	(1.1)	(1.7)	(1.2)	(1.2)	(1.4)	Net dividend yield (%)	5.9	5.6	3.4	-18.7	-1.6				
Tax	0	0	0	0	0	Gross dividend yield (%)	10.0	7.5	3.2	5.4	6.3				
Minority interests	(0.4)	(1.5)	(0.7)	(0.6)	(0.7)	<b>Capital Structure</b>									
Normalised NPAT	0	0	0	0	0	Interest cover EBIT (x)	2019A	2020A	2021E	2022E	2023E				
Abnormals/other	6.1	5.0	4.8	3.9	4.6	Interest cover EBITDA (x)	7.0	4.9	5.6	4.9	4.7				
Reported NPAT	(2.3)	(19.7)	(0.6)	(0.6)	0.0	Net debt/ND+E (%)	7.0	4.9	5.6	4.9	4.7				
Normalised EPS (cps)	3.8	(14.7)	4.2	3.3	4.6	Net debt/EBITDA (x)	8.0	34.9	34.3	40.1	41.5				
DPS (cps)	3.6	2.7	1.2	1.9	2.3	<b>Key Ratios</b>									
<b>Growth Rates</b>						2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-24.4	15.8	-23.0	-11.3	13.8	Return on assets (%)	6.0	5.6	4.5	3.5	4.0				
EBITDA (%)	-25.3	8.2	-19.1	-14.5	17.3	Return on equity (%)	5.4	5.5	5.1	4.2	4.8				
EBIT (%)	-25.3	8.2	-19.1	-14.5	17.3	Return on funds employed (%)	4.9	4.7	4.0	3.2	3.5				
Normalised NPAT (%)	-2.9	-17.7	-5.1	-17.2	15.7	EBITDA margin (%)	81.1	75.7	79.5	76.6	79.0				
Normalised EPS (%)	-2.9	-17.7	-5.1	-17.2	15.7	EBIT margin (%)	81.1	75.7	79.5	76.6	79.0				
Ordinary DPS (%)	0.0	-25.0	-57.4	67.7	17.6	Capex to sales (%)	3.8	24.5	33.1	201.0	65.5				
<b>Cash Flow (NZ\$m)</b>						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a				
EBITDA	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100				
Working capital change	7.6	8.2	6.6	5.7	6.6	Pay-out ratio (%)	96	87	39	79	80				
Interest & tax paid	(1.5)	0.3	(0.0)	(0.0)	0	<b>Property Statistics</b>									
Other	(2.2)	(2.5)	(1.8)	(1.7)	(2.1)	2016A	2017A	2018A	2019A	2020A					
Operating cash flow	0	0	0	0	0	<b>Key metrics</b>									
Capital expenditure	3.8	5.9	4.7	3.9	4.6	No. properties	5	5	4	3	4				
(Acquisitions)/divestments	(0.4)	(2.6)	(2.8)	(14.8)	(5.5)	Average lease term (years)	5.4	4.6	4.4	5.5	3.2				
Other	37.5	(36.6)	0	0	0	Occupancy rate (%)	97.1	96.0	97.4	96.7	98.3				
Funding available/(required)	(0.8)	(0.3)	0	0	0	Cap rate (%)	7.91	7.74	7.43	7.40	7.10				
Dividends paid	40.1	(33.6)	2.0	(10.9)	(0.9)	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1				
Equity raised/(returned)	(5.8)	(5.8)	(1.9)	(3.1)	(3.7)	NTA per share (NZ\$)	0.740	0.723	0.706	0.694	0.567				
(Increase)/decrease in net debt	0	0	0	0	0	<b>Portfolio values (NZ\$m)</b>									
<b>Balance Sheet (NZ\$m)</b>						AA centre	36.2	40.9	0	0	0				
Working capital	2019A	2020A	2021E	2022E	2023E	Print Place	13.0	11.0	0	0	0				
Fixed assets	0.5	(0.6)	(0.6)	(0.6)	(0.6)	Heinz Wattie Warehouse	27.2	27.0	27.3	29.1	0				
Intangibles	123.0	143.6	145.8	160.0	165.5	Eastgate Shopping Centre	58.0	59.5	58.0	54.5	47.0				
Right of use asset	0	0	0	0	0	Roskill Centre	35.0	36.0	38.0	39.5	37.5				
Other assets	0	0	0	0	0	Graham St	0	0	0	0	50.1				
Total funds employed	0.5	0	0	0	0	Munroe Lane	0	0	0	0	7.5				
Net debt/(cash)	123.9	143.0	145.2	159.5	165.0	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1				
Lease liability	9.7	49.2	49.0	63.1	67.7										
Other liabilities	0	0	0	0	0										
Shareholder's funds	1.9	2.1	2.1	2.1	2.1										
Minority interests	112.3	91.8	94.1	94.3	95.2										
Total funding sources	0	0	0	0	0										

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

## Earnings changes

Figure 1. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	8.3	8.3	0.3%	8.1	7.4	-8.9%	9.3	8.4	-9.8%
Corporate costs	(1.7)	(1.7)	-	(1.7)	(1.7)	-	(1.8)	(1.8)	-
<b>EBITDA</b>	<b>6.6</b>	<b>6.6</b>	<b>0.3%</b>	<b>6.4</b>	<b>5.7</b>	<b>-11.3%</b>	<b>7.5</b>	<b>6.6</b>	<b>-12.1%</b>
Net interest	(1.2)	(1.2)	-0.0%	(1.2)	(1.2)	-0.0%	(1.4)	(1.4)	-0.0%
Current tax	(0.7)	(0.7)	0.5%	(0.7)	(0.6)	-16.8%	(0.8)	(0.7)	-18.1%
<b>NPAT (underlying)</b>	<b>4.7</b>	<b>4.8</b>	<b>0.4%</b>	<b>4.6</b>	<b>3.9</b>	<b>-13.3%</b>	<b>5.3</b>	<b>4.6</b>	<b>-14.4%</b>
Maintenance capex	(0.8)	(0.8)	-	(0.8)	(0.8)	-	(0.9)	(0.9)	-
<b>AFFO</b>	<b>4.0</b>	<b>4.0</b>	<b>0.4%</b>	<b>3.7</b>	<b>3.1</b>	<b>-16.3%</b>	<b>4.4</b>	<b>3.7</b>	<b>-17.3%</b>
EPS (cps)	2.93	2.94	0.4%	2.81	2.44	-13.3%	3.30	2.82	-14.4%
AFFO (cps)	2.47	2.48	0.4%	2.30	1.93	-16.3%	2.74	2.27	-17.3%
DPS (cps)	1.15	1.15	-	2.30	1.93	-16.3%	2.74	2.27	-17.3%
Payout - EPS	39%	39%	-0.4%	82%	79%	-3.4%	83%	80%	-3.4%
Payout - AFFO	47%	46%	-0.4%	100%	100%	-	100%	100%	-

Source: Forsyth Barr analysis

## Investment Summary

Since 2018 Asset Plus Limited (APL) has 1) externalised its management to Augusta Capital (AUG), 2) made significant asset sales, and 3) acquired a considerable development pipeline. While APL lacks scale versus peers, its management agreement with AUG provides access to relevant expertise. APL continues to trade at a sizable discount to the sector with a challenging path ahead 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 particularly given capital intensity and limited time to gain shareholder approval and funding under development/lease conditions.

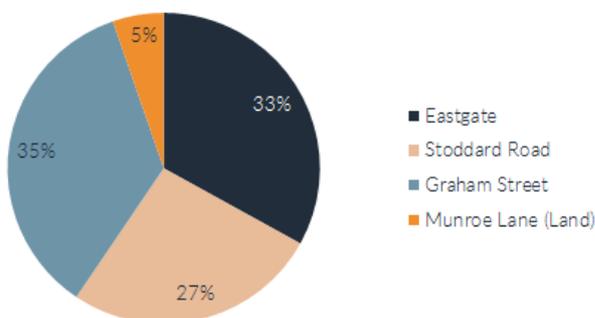
### Financial structure

- **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

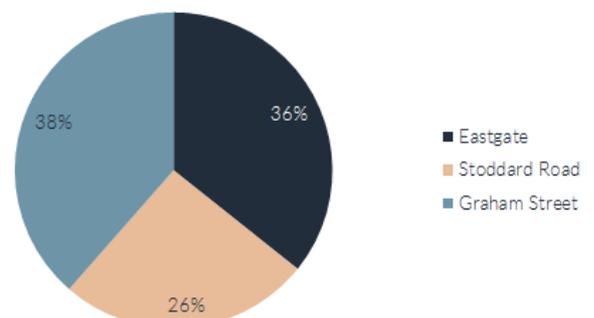
- **Economic uncertainty:** In periods of economic uncertainty tenants are more likely to default and new leasing becomes more competitive. This could result in increased vacancy, downward pressure on rents, and negative asset revaluations.
- **Asset revaluations:** Further negative revaluations would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

Figure 2. Property value concentration (FY20)



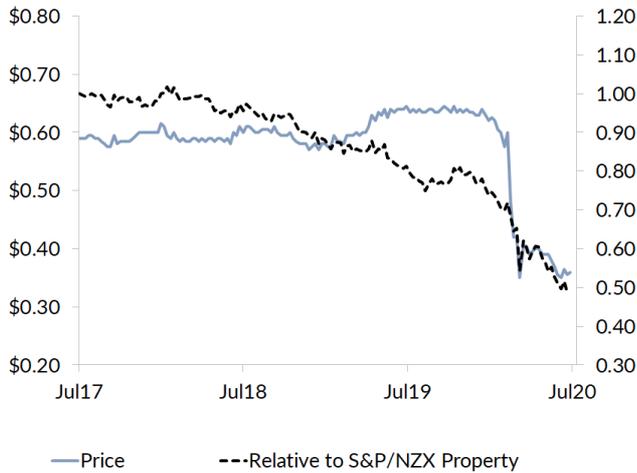
Source: Forsyth Barr analysis

Figure 3. Net rental income concentration (FY20)



Source: Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

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 SPH notices only

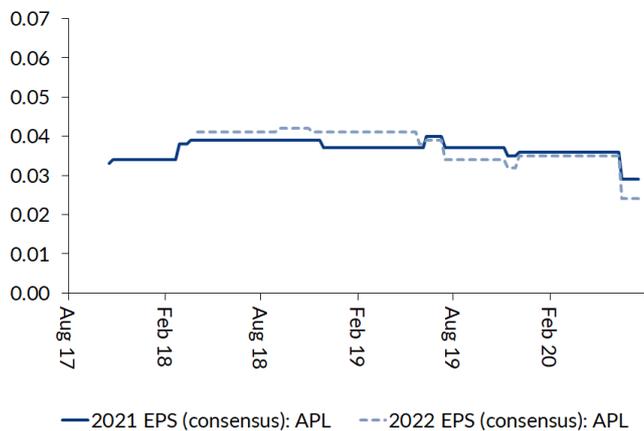
Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Asset Plus	APL NZ	NZ\$0.36	NZ\$58	12.2x	14.8x	16.2x	19.0x	16.2x	19.0x	5.4%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.26	NZ\$1,047	18.0x	18.0x	19.6x	19.0x	19.6x	19.0x	5.0%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.17	NZ\$3,019	33.1x	32.3x	28.0x	26.7x	28.0x	26.7x	2.5%
INVESTORE *	IPL NZ	NZ\$1.94	NZ\$714	25.7x	24.0x	20.9x	19.9x	20.9x	19.9x	3.9%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.08	NZ\$1,687	17.2x	15.7x	18.2x	15.8x	18.2x	15.8x	5.7%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.73	NZ\$2,266	25.3x	25.7x	22.7x	20.9x	22.7x	20.9x	3.0%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.50	NZ\$1,250	29.6x	28.8x	24.1x	24.1x	24.1x	24.1x	2.8%
STRIDE PROPERTY *	SPG NZ	NZ\$1.94	NZ\$709	18.6x	20.1x	27.8x	33.0x	27.8x	33.0x	5.1%
VITAL HEALTHCARE *	VHP NZ	NZ\$2.58	NZ\$1,171	25.9x	25.2x	23.4x	22.0x	23.4x	22.0x	3.3%
<b>Compcop Average:</b>				<b>24.2x</b>	<b>23.7x</b>	<b>23.1x</b>	<b>22.7x</b>	<b>23.1x</b>	<b>22.7x</b>	<b>3.9%</b>
<b>APL Relative:</b>				<b>-49%</b>	<b>-38%</b>	<b>-30%</b>	<b>-16%</b>	<b>-30%</b>	<b>-16%</b>	<b>37%</b>

EV = Current Market Cap + Actual Net Debt

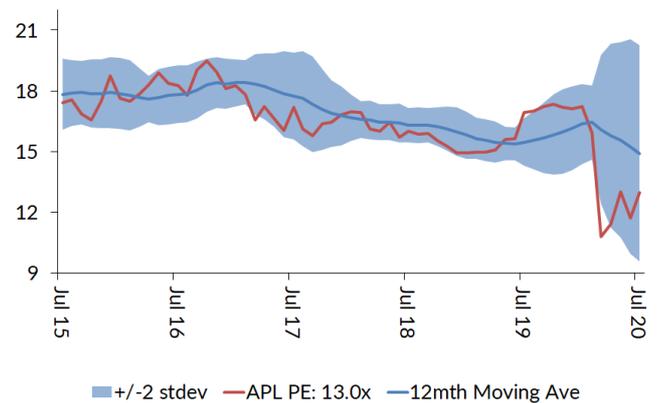
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (APL) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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