

Asset Plus

Solving the Funding Equation

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NEUTRAL

Asset Plus (APL) has announced a NZ\$60.2m capital raise and a restructuring of its banking facilities, which will allow it to undertake its development at Munroe Lane. The need for capital has weighed on APL's share price for the past six months after its NZ\$100m capital raise was withdrawn due to the outbreak of COVID-19. New shares will be offered at NZ\$0.30 per share representing a 32% discount to the post-raise pro-forma net tangible asset (NTA) of NZ\$0.44 per share. The capital raise doesn't solve all of APL's problems but it is a step in the right direction, removing development funding constraints and providing distribution certainty. We upgrade our rating to NEUTRAL with a high risk rating, reflecting APL's attractive yield and discount to NTA, balanced against a concentrated portfolio with high lease expiry. Our revised target price is NZ\$0.36.

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	5.7	5.2	6.4	PE	11.8	16.9	25.7	21.4
Target price	NZ\$0.36	EPS* (NZc)	3.1	2.2	1.4	1.7	EV/EBIT	19.8	22.3	22.7	18.2
Risk rating	High	EPS growth* (%)	-17.7	-30.3	-34.5	20.1	EV/EBITDA	19.8	22.3	22.7	18.2
Issued shares	362.6m	DPS (NZc)	2.7	1.8	1.8	1.8	Price / NTA	0.6	0.8	0.8	0.8
Market cap	NZ\$132m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.4	4.9	4.9	4.9
Avg daily turnover	106.9k (NZ\$51k)	*Based on normalised profits					Gross div yld (%)	10.6	7.0	7.0	7.0

Take two

APL has announced a capital raise to provide funding for the development of a 15.1sqm NLA office development at Munroe Lane, Albany. In late 2019, APL entered an Agreement to Develop and Lease Munroe Lane to Auckland Council. The agreement remains conditional on shareholder approval at a special meeting on 29 September 2020.

The development is a relatively attractive proposition given its 15 year lease to Auckland Council upon completion, 9.8% development margin, and 5.9% yield on cost. APL expects to continue paying dividends of 1.8cps (annualised) throughout the Munroe Lane development period, and up to 31 March 2023 (implying a 6% cash yield at the offer price), although this will be debt funded until the development is completed.

Focus turns to Graham Street

Assuming APL receives shareholder approval for Munroe Lane, attention will turn to 35 Graham Street. The building represents c. 40% of APL's current net rental and will become vacant at the beginning of 2022. If APL can secure a tenant it will look to proceed with its preferred ~NZ\$140m redevelopment option, which will require another capital raise and/or asset divestments. We currently assume that APL undertakes a NZ\$20m refurbishment with nine months downtime.

Upgrade to NEUTRAL

We upgrade our rating on APL to NEUTRAL with a high risk rating. APL's capital raise removes the funding dilemma which has weighed on its share price over the past six months, and provides distribution certainty and capacity to undertake development of a flagship asset. While APL still faces challenges at Graham Street and Eastgate, we believe this is broadly captured with the stock trading at a large discount to NTA. We view the capital raise as a necessary step in APL's strategy to increase scale and diversify its portfolio away from retail.

Asset Plus Limited (APL)

Priced as at 10 Sep 2020 (NZ\$)						0.37						
12-month target price (NZ\$)*						0.36	Spot valuations (NZ\$)					
Expected share price return						-2.7%	1. DCF					0.33
Net dividend yield						4.9%	2. NAV					0.40
Estimated 12-month return						2.2%	n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.3%	Total firm value					116
Equity beta						0.85	(Net debt)/cash					4
WACC						5.0%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					120
Profit and Loss Account (NZ\$m)						Valuation Ratios						
	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E	
Sales revenue	9.3	10.8	9.0	7.9	9.6	EV/EBITDA (x)	21.3	20.0	22.5	23.0	18.4	
Normalised EBITDA	7.6	8.2	7.3	6.3	7.8	EV/EBIT (x)	21.3	20.0	22.5	23.0	18.4	
Depreciation and amortisation	0	0	0	0	0	PE (x)	9.8	11.9	17.1	26.1	21.7	
Normalised EBIT	7.6	8.2	7.3	6.3	7.8	Price/NTA (x)	0.5	0.7	0.8	0.8	0.8	
Net interest	(1.1)	(1.7)	(0.7)	(0.1)	(0.3)	Free cash flow yield (%)	2.6	2.5	-10.7	-46.8	-29.1	
Associate income	0	0	0	0	0	Net dividend yield (%)	9.7	7.3	4.9	4.9	4.9	
Tax	(0.4)	(1.5)	(0.9)	(0.9)	(1.2)	Gross dividend yield (%)	13.9	10.4	6.9	6.9	6.9	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	6.1	5.0	5.7	5.2	6.4	Interest cover EBIT (x)	7.0	4.9	10.9	57.8	25.2	
Abnormals/other	(2.3)	(19.7)	9.1	(0.5)	(0.3)	Interest cover EBITDA (x)	7.0	4.9	10.9	57.8	25.2	
Reported NPAT	3.8	(14.7)	14.8	4.7	6.1	Net debt/ND+E (%)	8.0	34.9	5.5	32.1	42.8	
Normalised EPS (cps)	3.8	3.1	2.2	1.4	1.7	Net debt/EBITDA (x)	1.3	6.0	1.4	12.7	16.0	
DPS (cps)	3.6	2.7	1.8	1.8	1.8	Key Ratios						
Growth Rates							2019A	2020A	2021E	2022E	2023E	
Revenue (%)	-24.4	15.8	-17.0	-11.5	20.7	Return on assets (%)	6.0	5.6	4.0	2.5	2.6	
EBITDA (%)	-25.3	8.2	-11.1	-14.0	25.2	Return on equity (%)	5.4	5.5	3.4	3.1	3.8	
EBIT (%)	-25.3	8.2	-11.1	-14.0	25.2	Return on funds employed (%)	4.9	4.7	3.9	2.5	2.4	
Normalised NPAT (%)	-2.9	-17.7	13.5	-8.7	22.2	EBITDA margin (%)	81.1	75.7	81.1	78.7	81.6	
Normalised EPS (%)	-2.9	-17.7	-30.3	-34.5	20.1	EBIT margin (%)	81.1	75.7	81.1	78.7	81.6	
Ordinary DPS (%)	0.0	-25.0	-33.3	0.0	0.0	Capex to sales (%)	3.8	24.5	324.5	855.0	473.1	
Cash Flow (NZ\$m)							2019A	2020A	2021E	2022E	2023E	
EBITDA	7.6	8.2	7.3	6.3	7.8	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
Working capital change	(1.5)	0.3	9.1	(0.0)	(0.0)	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(2.2)	(2.5)	(1.6)	(1.0)	(1.5)	Pay-out ratio (%)	96	87	83	127	106	
Other	0	0	0	0	0	Property Statistics						
Operating cash flow	3.8	5.9	14.8	5.2	6.4		2016A	2017A	2018A	2019A	2020A	
Capital expenditure	(0.4)	(2.6)	(29.1)	(67.9)	(45.4)	Key metrics						
(Acquisitions)/divestments	37.5	(36.6)	0	0	0	No. properties	5	5	4	3	4	
Other	(0.8)	(0.3)	58.4	0	0	Average lease term (years)	5.4	4.6	4.4	5.5	3.2	
Funding available/(required)	40.1	(33.6)	44.1	(62.7)	(39.0)	Occupancy rate (%)	97.1	96.0	97.4	96.7	98.3	
Dividends paid	(5.8)	(5.8)	(4.7)	(6.6)	(6.7)	Cap rate (%)	7.91	7.74	7.43	7.40	7.10	
Equity raised/(returned)	0	0	0	0	0	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1	
(Increase)/decrease in net debt	34.3	(39.4)	39.3	(69.3)	(45.7)	NTA per share (NZ\$)	0.740	0.723	0.706	0.694	0.567	
Balance Sheet (NZ\$m)						Portfolio values (NZ\$m)						
Working capital	0.5	(0.6)	(0.6)	(0.6)	(0.6)	AA centre	36.2	40.9	0	0	0	
Fixed assets	123.0	143.6	181.8	249.2	294.3	Print Place	13.0	11.0	0	0	0	
Intangibles	0	0	0	0	0	Heinz Wattie Warehouse	27.2	27.0	27.3	29.1	0	
Right of use asset	0	0	0	0	0	Eastgate Shopping Centre	58.0	59.5	58.0	54.5	47.0	
Other assets	0.5	0	0	0	0	Roskill Centre	35.0	36.0	38.0	39.5	37.5	
Total funds employed	123.9	143.0	181.3	248.7	293.8	Graham St	0	0	0	0	50.1	
Net debt/(cash)	9.7	49.2	9.8	79.2	124.9	Munroe Lane	0	0	0	0	7.5	
Lease liability	0	0	0	0	0	Portfolio value (NZ\$m)	169.4	174.4	167.1	123.1	142.1	
Other liabilities	1.9	2.1	2.1	2.1	2.1							
Shareholder's funds	112.3	91.8	169.4	167.4	166.8							
Minority interests	0	0	0	0	0							
Total funding sources	123.9	143.0	181.3	248.7	293.8							

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

Earnings and Target Price changes

We have incorporated the capital raise into our estimates. We also lower our COVID-19 rental abatement assumptions with APL having provided NZ\$0.7m of support in 1H21. On our revised earnings track, and given APL's commitment to pay 1.8cps distributions over the Munroe Lane development period, our FY22/23 AFFO payout ratio is 159%/148%.

Our revised earnings and share count lowers our DCF to NZ\$0.33 (was NZ\$0.38). Our NAV, in which we conservatively adjust APL's asset values down -c.10% as well as deduct capitalised management expenses, is now NZ\$0.40 (was NZ\$0.45). Our 12-month target price which is based on a blend of these two valuations is now NZ\$0.36 (was NZ\$0.38).

Figure 1. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	8.3	9.0	7.8%	7.4	7.9	7.6%	8.4	9.6	14.2%
Corporate costs	(1.7)	(1.7)	-0.5%	(1.7)	(1.7)	-2.1%	(1.8)	(1.8)	-0.2%
EBITDA	6.6	7.3	10.0%	5.7	6.3	10.6%	6.6	7.8	18.0%
Net interest	(1.2)	(0.7)	-43.8%	(1.2)	(0.1)	-90.6%	(1.4)	(0.3)	-77.9%
Current tax	(0.7)	(0.9)	37.3%	(0.6)	(0.9)	70.3%	(0.7)	(1.2)	75.6%
NPAT (underlying)	4.8	5.7	19.6%	3.9	5.2	31.8%	4.6	6.4	39.2%
Maintenance capex	(0.8)	(0.5)	-35.1%	(0.8)	(0.6)	-21.7%	(0.9)	(0.8)	-8.9%
AFFO	4.0	5.2	29.9%	3.1	4.6	46.0%	3.7	5.5	50.9%
EPS (cps)	2.94	2.16	-26.5%	2.44	1.42	-41.8%	2.82	1.70	-39.6%
AFFO (cps)	2.48	1.90	-23.3%	1.93	1.13	-41.3%	2.27	1.22	-46.3%
DPS (cps)	1.15	1.80	56.5%	1.93	1.80	-6.6%	2.27	1.80	-20.6%
Payout - EPS	39%	83%	113.0%	79%	127%	60.5%	80%	106%	31.5%
Payout - AFFO	46%	95%	104.0%	100%	159%	58.9%	100%	148%	47.9%

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. NEUTRAL.

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 large scale development plans for the land it owns at 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 leasing requirements.

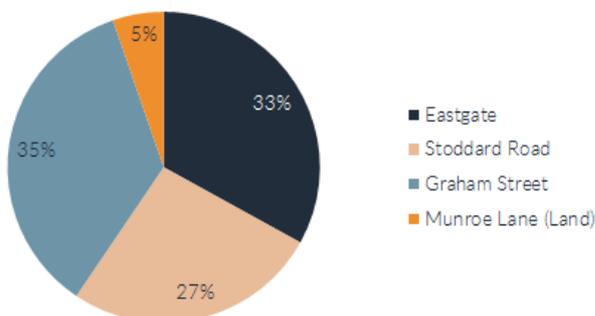
Financial structure

- **Balance sheet:** APL's gearing has lifted to 35.6% but following its capital raise it will be in a net cash position. Gearing will lift towards 43% as it progresses its development of Munroe Lane.
- **Debt funded dividends:** APL intends to pay a 1.8cps (annualised) dividend, despite it not being cash covered until the Munroe Lane development is complete in 2023.

Risk factors

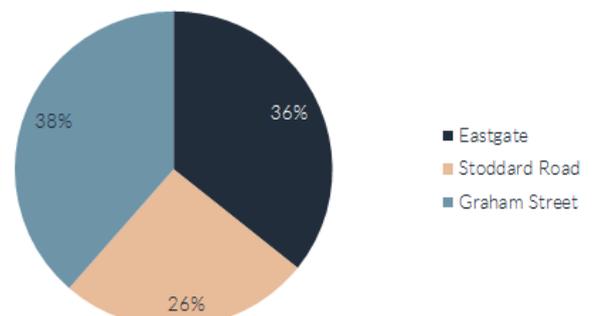
- **Economic uncertainty:** In periods of economic uncertainty tenants are more likely to default and new leasing becomes more competitive. This could result in increased vacancy, downward pressure on rents, and negative asset revaluations.
- **Asset revaluations:** Further negative revaluations would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

Figure 2. Property value concentration (FY20)



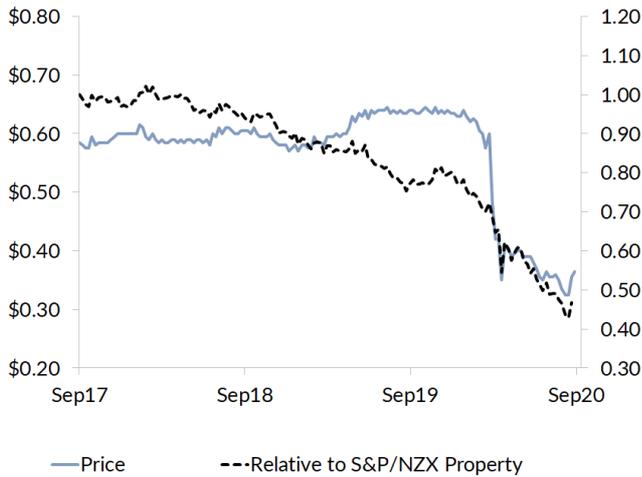
Source: Forsyth Barr analysis

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	14.7%
ACC	8.6%

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

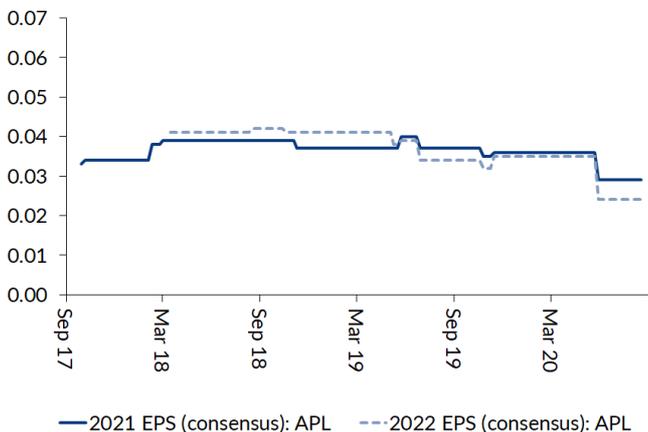
Figure 6. International valuation comparisons

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\$0.37	NZ\$132	16.9x	25.7x	25.0x	29.0x	25.0x	29.0x	4.9%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.36	NZ\$1,125	19.4x	19.3x	20.5x	19.9x	20.5x	19.9x	4.7%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.31	NZ\$3,207	35.2x	34.3x	29.4x	28.1x	29.4x	28.1x	2.4%
INVESTORE *	IPL NZ	NZ\$2.23	NZ\$821	29.0x	26.5x	22.5x	21.0x	22.5x	21.0x	3.5%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.04	NZ\$1,632	16.7x	15.2x	17.8x	15.5x	17.8x	15.5x	5.9%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.67	NZ\$2,187	26.2x	25.9x	28.9x	26.2x	28.9x	26.2x	3.9%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.74	NZ\$1,367	31.1x	30.6x	24.8x	25.0x	24.8x	25.0x	2.9%
STRIDE PROPERTY *	SPG NZ	NZ\$2.05	NZ\$749	19.6x	21.3x	28.9x	34.2x	28.9x	34.2x	4.8%
VITAL HEALTHCARE *	VHP NZ	NZ\$3.01	NZ\$1,374	27.9x	27.1x	25.2x	23.7x	25.2x	23.7x	3.0%
Compco Average:				25.6x	25.0x	24.8x	24.2x	24.8x	24.2x	3.9%
APL Relative:				-34%	3%	1%	20%	1%	20%	27%

EV = Current Market Cap + Actual Net Debt

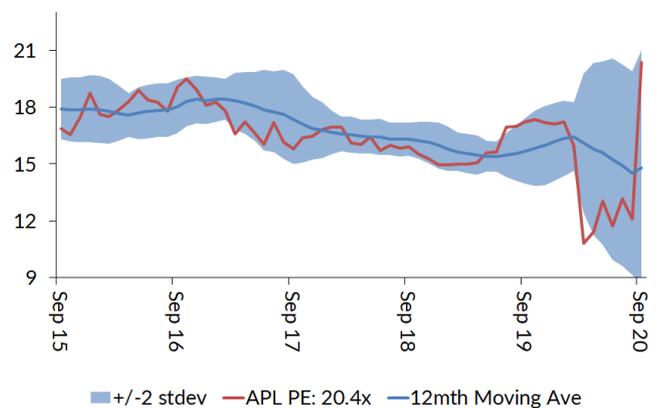
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (APL) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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