

Asset Plus

1H21 Result – Opportunities Ahead

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NEUTRAL

Asset Plus (APL) announced a solid interim result, with AFFO (adjusted funds from operations) ahead of expectations due to better rent relief outcomes than forecast. While the operational result was pleasing, it does little to change the investment case for APL. The current share price is cheap relative to peers and APL's underlying asset value, indicating investors excitement about possible catalysts, is tempered by vacancy and earnings risk within its concentrated portfolio. We believe that building scale, achieving good leasing outcomes, and executing on development plans will build investor confidence over time. With attractive valuation metrics tempered by scale constraints and execution risks, we remain NEUTRAL rated.

NZX Code	APL	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$0.33	NPAT* (NZ\$m)	5.0	6.2	5.2	6.5	PE	10.6	13.9	23.2	19.0
Target price	NZ\$0.38	EPS* (NZc)	3.1	2.4	1.4	1.7	EV/EBIT	18.2	18.8	20.2	16.2
Risk rating	High	EPS growth* (%)	-17.7	-23.6	-40.1	22.1	EV/EBITDA	18.2	18.8	20.2	16.2
Issued shares	362.7m	DPS (NZc)	2.7	1.8	1.8	1.8	Price / NTA	0.6	0.7	0.7	0.7
Market cap	NZ\$120m	Imputation (%)	100	100	100	100	Cash div yld (%)	8.2	5.5	5.5	5.5
Avg daily turnover	208.9k (NZ\$72k)	*Based on normalised profits					Gross div yld (%)	11.7	7.8	7.8	7.8

What's changed?

- **Earnings:** AFFO up +17.4%/+8.0%/+8.6% in FY21/FY22/FY23
- **Target price:** +2cps (+5.6%) to NZ\$0.38

Solid operating result

APL delivered a solid result, with AFFO of 1.55cps, +26% ahead of our forecast 1.23cps. The difference was attributable better net rental income with lower rental abatements than forecast. Positively, APL noted that rent relief deals related to both the national and subsequent Auckland lockdowns have been completed. APL also highlighted it completed a number of renewals at Stoddard Rd, which remains 100% occupied. NTA lifted marginally, with revaluation gains offsetting the dilution of its recent capital raise.

With Munroe underway, 35 Graham leasing is the key focus

Our attention turns to 35 Graham St and the upcoming Auckland Council lease expiry. The redevelopment pathway is dependent on tenant commitment, with Colliers currently in leasing discussions with large corporate and government tenants in hope of securing a deal before the building becomes completely vacant in January 2022. A full redevelopment remains the preferred option, with resource consent recently being lodged and expected to be received by year end. Management again signalled that Eastgate and Stoddard Road are not part of APL's long term plans and provide logical funding sources for its development pipeline.

Target price lifts, but investment case tempered

APL has medium-term plans to re-mix its portfolio away from retail, undertake large office developments, and build scale. Given its starting position, the path ahead will require time, capital, and execution. Investors are cautious given the risk involved in APL's plans, as implied by its sizable discount to NTA and listed peers. In the short-term, leasing at 35 Graham St would be a significant positive catalyst, but expectations are tempered by the looming Auckland Council vacancy. With uncertainty offsetting the attractive valuation, we retain a NEUTRAL rating. Our target price lifts +2cps, as we lower our FY21 rent relief provisions and lift rent growth assumptions at Stoddard Road.

Asset Plus Limited (APL)

Priced as at 25 Nov 2020 (NZ\$)						0.33						
12-month target price (NZ\$)*						0.38	Spot valuations (NZ\$)					
Expected share price return						15.2%	1. DCF					0.35
Net dividend yield						5.5%	2. NAV					0.40
Estimated 12-month return						20.6%	n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.3%	Total firm value					100
Equity beta						0.85	(Net debt)/cash					5
WACC						5.0%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					105
Profit and Loss Account (NZ\$m)						Valuation Ratios						
	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E	
Sales revenue	9.3	10.8	9.6	8.1	9.7	EV/EBITDA (x)	19.4	18.2	18.8	20.2	16.2	
Normalised EBITDA	7.6	8.2	7.9	6.4	8.0	EV/EBIT (x)	19.4	18.2	18.8	20.2	16.2	
Depreciation and amortisation	0	0	0	0	0	PE (x)	8.8	10.6	13.9	23.2	19.0	
Normalised EBIT	7.6	8.2	7.9	6.4	8.0	Price/NTA (x)	0.5	0.6	0.7	0.7	0.7	
Net interest	(1.1)	(1.7)	(0.7)	(0.2)	(0.3)	Free cash flow yield (%)	2.9	2.8	-11.3	-52.1	-32.3	
Associate income	0	0	0	0	0	Net dividend yield (%)	10.9	8.2	5.5	5.5	5.5	
Tax	(0.4)	(1.5)	(1.0)	(0.9)	(1.2)	Gross dividend yield (%)	15.6	11.7	7.8	7.8	7.8	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	6.1	5.0	6.2	5.2	6.5	Interest cover EBIT (x)	7.0	4.9	11.8	26.3	26.9	
Abnormals/other	(2.3)	(19.7)	9.1	0.1	0.0	Interest cover EBITDA (x)	7.0	4.9	11.8	26.3	26.9	
Reported NPAT	3.8	(14.7)	15.3	5.3	6.5	Net debt/ND+E (%)	8.0	34.9	5.0	31.6	42.3	
Normalised EPS (cps)	3.8	3.1	2.4	1.4	1.7	Net debt/EBITDA (x)	1.3	6.0	1.1	12.2	15.5	
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	-10.9	-16.1	20.4	Return on assets (%)	6.0	5.6	4.3	2.5	2.7	
EBITDA (%)	-25.3	8.2	-3.2	-19.4	24.7	Return on equity (%)	5.4	5.5	3.7	3.1	3.8	
EBIT (%)	-25.3	8.2	-3.2	-19.4	24.7	Return on funds employed (%)	4.9	4.7	4.2	2.5	2.5	
Normalised NPAT (%)	-2.9	-17.7	24.4	-16.5	24.2	EBITDA margin (%)	81.1	75.7	82.2	79.0	81.8	
Normalised EPS (%)	-2.9	-17.7	-23.6	-40.1	22.1	EBIT margin (%)	81.1	75.7	82.2	79.0	81.8	
Ordinary DPS (%)	0.0	-25.0	-33.3	0.0	0.0	Capex to sales (%)	3.8	24.5	299.1	837.2	463.9	
Cash Flow (NZ\$m)							2019A	2020A	2021E	2022E	2023E	
EBITDA	7.6	8.2	7.9	6.4	8.0	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	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(2.2)	(2.5)	(1.7)	(1.2)	(1.5)	Pay-out ratio (%)	96	87	76	127	104	
Other	0	0	0	0	0	Property Statistics						
Operating cash flow	3.8	5.9	15.3	5.2	6.5		2016A	2017A	2018A	2019A	2020A	
Capital expenditure	(0.4)	(2.6)	(28.8)	(67.6)	(45.1)	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)	44.9	(62.4)	(38.6)	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)	40.2	(69.0)	(45.3)	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	181.5	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	180.9	248.6	293.7	Graham St	0	0	0	0	50.1	
Net debt/(cash)	9.7	49.2	9.0	78.0	123.3	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	169.9	168.6	168.4							
Minority interests	0	0	0	0	0							
Total funding sources	123.9	143.0	180.9	248.6	293.7							

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

Result summary

Figure 1. 1H21 Result Summary

	1H20	1H21	Chg	Forbar	Variance
Net rental income	5.0	4.7	-7.2%	4.4	6.4%
Base corporate costs	(1.6)	(0.7)	-56.3%	(0.7)	-6.8%
Performance fees	-	-	-	-	-
EBITDA	3.5	4.0	15.4%	3.7	9.0%
Net interest	(0.7)	(0.7)	-4.3%	(0.7)	-1.5%
PBT	2.8	3.3	20.3%	3.0	11.4%
Current tax	(0.8)	(0.5)	-35.9%	(0.4)	42.9%
NPAT (underlying)	2.0	2.8	42.4%	2.6	7.2%
Adjustments:				-	
Investment property revaluations	-	8.9	-	9.2	-3.2%
Other non-operating adjustments	(0.0)	(0.2)	n/m	(0.1)	n/m
NPAT (reported)	2.0	11.5	>100.0%	11.7	-1.7%
Amortisation of lease incentives	0.2	(0.1)	n/m	0	n/m
Funds from operations (FFO)	2.2	2.7	24.1%	2.6	1.9%
Maintenance capex	-	-	-	-0.1	n/m
Incentives and leasing costs	(0.2)	(0.0)	-77.8%	-0.1	-60.0%
Adjusted funds from operations (AFFO)	2.0	2.6	33.3%	2.4	8.6%
AFFO (CPS)	1.25	1.55	24.0%	1.23	26.0%

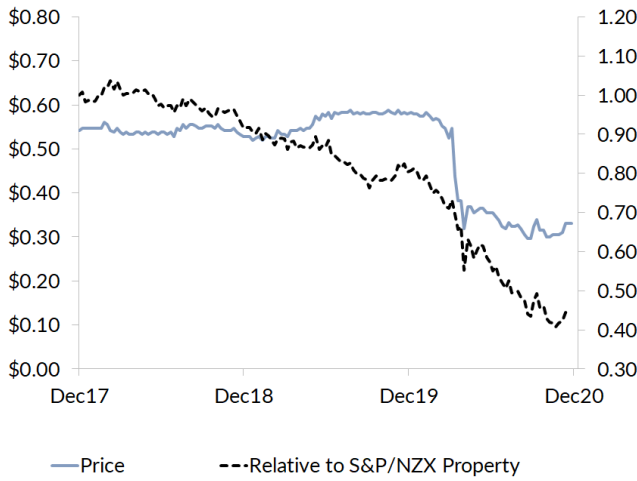
Source: Forsyth Barr analysis, Company reports

Earnings changes

Figure 2. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	9.0	9.6	7.3%	7.9	8.1	1.6%	9.6	9.7	1.4%
Corporate costs	(1.7)	(1.7)	0.6%	(1.7)	(1.7)	0.3%	(1.8)	(1.8)	0.3%
EBITDA	7.3	7.9	8.8%	6.3	6.4	2.0%	7.8	8.0	1.6%
Net interest	(0.7)	(0.7)	-	(0.1)	(0.2)	124.2%	(0.3)	(0.3)	-5.1%
Current tax	(0.9)	(1.0)	10.7%	(0.9)	(0.9)	-1.9%	(1.2)	(1.2)	2.1%
NPAT (underlying)	5.7	6.2	9.6%	5.2	5.2	0.2%	6.4	6.5	1.9%
Maintenance capex	(0.5)	(0.2)	-66.7%	(0.6)	(0.3)	-50.0%	(0.8)	(0.5)	-33.3%
AFFO	5.2	6.1	16.7%	4.6	4.9	7.3%	5.5	5.9	7.0%
EPS (cps)	2.16	2.37	9.6%	1.42	1.42	0.2%	1.70	1.73	1.9%
AFFO (cps)	1.90	2.23	17.4%	1.13	1.22	8.0%	1.22	1.32	8.6%
DPS (cps)	1.80	1.80	-	1.80	1.80	-	1.80	1.80	-
Payout – EPS	83%	76%	-8.7%	127%	127%	-0.2%	106%	104%	-1.8%
Payout – AFFO	95%	81%	-14.8%	159%	147%	-7.4%	148%	136%	-7.9%

Source: Forsyth Barr analysis

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Augusta Capital	20.0%
Salt Funds Management	14.4%
ACC	8.6%

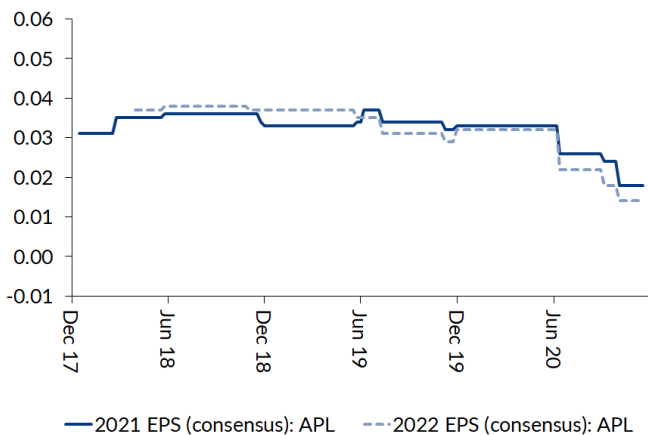
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

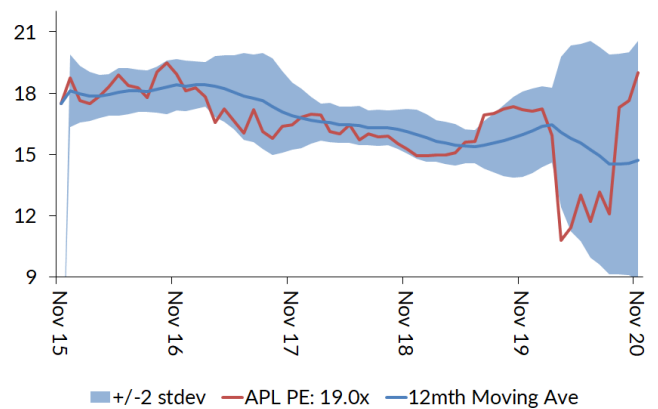
Company (metrics re-weighted to reflect APL's balance date - March)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Asset Plus	APL NZ	NZ\$0.33	NZ\$120	13.9x	23.2x	21.3x	26.5x	21.3x	26.5x	5.5%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.47	NZ\$1,226	21.0x	21.0x	21.6x	20.9x	21.6x	20.9x	4.3%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.42	NZ\$3,360	36.0x	35.2x	29.3x	27.5x	29.3x	27.5x	2.3%
INVESTORE *	IPL NZ	NZ\$2.25	NZ\$828	29.0x	26.4x	23.4x	21.1x	23.4x	21.1x	3.5%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.28	NZ\$2,001	22.8x	19.2x	21.5x	17.9x	21.5x	17.9x	4.6%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.78	NZ\$2,339	28.0x	27.7x	30.2x	27.4x	30.2x	27.4x	3.7%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.94	NZ\$1,471	33.3x	32.8x	26.3x	26.5x	26.3x	26.5x	2.7%
STRIDE PROPERTY *	SPG NZ	NZ\$2.31	NZ\$844	22.1x	24.0x	31.3x	37.1x	31.3x	37.1x	4.3%
VITAL HEALTHCARE *	VHP NZ	NZ\$2.96	NZ\$1,519	27.8x	26.4x	26.8x	24.9x	26.8x	24.9x	3.1%
			Compco Average:	27.5x	26.6x	26.3x	25.4x	26.3x	25.4x	3.5%
			APL Relative:	-49%	-13%	-19%	4%	-19%	4%	54%

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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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