FORSYTH BARR

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Asset Plus
Out of the Gate

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OUTPERFORM

Asset Plus (APL) is making good progress on its portfolio transformation, announcing the unconditional sale of the Eastgate Shopping Centre for NZ$43.45m. While the sale price is -8% below its 1H21 valuation of NZ$47.4m, APL finished yesterday up +4.3%, highlighting that the transaction satisfied investor expectations. We view the outcome as a favourable one for shareholders; Eastgate was a challenged asset in Christchurch's highly competitive retail market and APL is now net cash and can focus on its development projects. The next key catalyst for APL is tenant commitment at 35 Graham Street. We make substantial earnings changes given the relative size of Eastgate to APL's portfolio, and retain an OUTPERFORM rating.

NZX Code	APL
Share price	NZ$0.36
Target price	NZ$0.40
Risk rating	High
Issued shares	362.7m
Market cap	NZ$132m
Avg daily turnover	290.4k (NZ$97k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	5.0	6.2	5.0	4.0
EPS* (NZc)	3.1	2.4	1.4	1.1
EPS growth* (%)	-17.7	-23.6	-42.5	-22.2
DPS (NZc)	2.7	1.8	1.8	1.8
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	11.8	15.4	26.8	34.4
EV/EBIT	19.8	20.3	23.0	29.2
EV/EBITDA	19.8	20.3	23.0	29.2
Price / NTA	0.6	0.8	0.8	0.8
Cash div yld (%)	7.4	4.9	4.9	4.9
Gross div yld (%)	10.6	7.0	7.0	7.0

What's changed?

- **Earnings:** AFFO estimates changed +0.0%/-1.6%/-37.1% in FY21/FY22/FY23
- **Target price:** Lifted 2cps to NZ$0.40

A positive outcome, albeit with some risk

APL has announced the unconditional sale of Eastgate for NZ$43.45m (reflecting a c.8.3% yield) with a delayed settlement. APL will continue to fund the development of a Taco Bell at Eastgate, which has c.NZ$1m of cost remaining. The settlement date is the earlier of 22 February 2022, or a date nominated by the purchaser that is not before 22 August 2021 (with 20 working days' notice). While we view the delayed settlement as a positive outcome as it allows APL to maintain income from Eastgate (c. 40% of AFFO) as developments progress, it does introduce a level of settlement risk.

35 Graham St is the next positive catalyst

Next on the to-do list for APL is securing tenant commitment at 35 Graham Street before Auckland Council's lease ends in December 2021. APL has received resource consent for the preferred redevelopment option, which would see it spend NZ$144m to construct a campus style office building. Securing tenant commitment is becoming a more realistic proposition with office market sentiment improving. Colliers recently noted "while a number of mooted projects have been put on hold earlier in 2020, confidence is returning about the future. This is showcased by some project commencements we are aware of that are expected to be announced soon".

Investment thesis unchanged

APL has made decent progress on its medium-term plans to re-mix its portfolio away from retail, undertake large office developments, and build scale, however, the path ahead requires times, capital, and execution. While this transition carries a higher degree of risk compared to other LPVs, its undemanding valuation (17% discount to NTA, 7% gross yield) makes it an appealing risk/reward prospect. We anticipate that leasing progress at Graham Street will assist in closing the valuation gap further.

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Asset Plus Limited (APL)

Priced as at 22 Feb 2021 (NZ$)	**0.37**

12-month target price (NZ$)*	**0.40**
Expected share price return	8.1%
Net dividend yield	4.9%
Estimated 12-month return	13.0%

Key WACC assumptions	
Risk free rate	2.3%
Equity beta	0.85
WACC	5.4%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	9.3	10.8	9.6	7.8	6.2
Normalised EBITDA	**7.6**	**8.2**	**7.9**	**6.1**	**4.8**
Depreciation and amortisation	0	0	0	0	0
Normalised EBIT	**7.6**	**8.2**	**7.9**	**6.1**	**4.8**
Net interest	(1.1)	(1.7)	(0.7)	(0.2)	(0.1)
Associate income	0	0	0	0	0
Tax	(0.4)	(1.5)	(1.0)	(0.9)	(0.7)
Minority interests	0	0	0	0	0
Normalised NPAT	**6.1**	**5.0**	**6.2**	**5.0**	**4.0**
Abnormals/other	(2.3)	(19.7)	9.1	0.2	0.1
Reported NPAT	**3.8**	**(14.7)**	**15.3**	**5.2**	**4.1**
Normalised EPS (cps)	3.8	3.1	2.4	1.4	1.1
DPS (cps)	3.6	2.7	1.8	1.8	1.8

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	-24.4	15.8	-10.9	-19.2	-19.7
EBITDA (%)	-25.3	8.2	-3.2	-23.0	-21.3
EBIT (%)	-25.3	8.2	-3.2	-23.0	-21.3
Normalised NPAT (%)	-2.9	-17.7	24.4	-19.9	-20.9
Normalised EPS (%)	-2.9	-17.7	-23.6	-42.5	-22.2
Ordinary DPS (%)	0.0	-25.0	-33.3	0.0	0.0

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**7.6**	**8.2**	**7.9**	**6.1**	**4.8**
Working capital change	(1.5)	0.3	9.1	(0.0)	(0.0)
Interest & tax paid	(2.2)	(2.5)	(1.7)	(1.1)	(0.8)
Other	0	0	0	0	0
Operating cash flow	**3.8**	**5.9**	**15.3**	**5.0**	**4.0**
Capital expenditure	(0.4)	(2.6)	(29.0)	(68.4)	(44.8)
(Acquisitions)/divestments	37.5	(36.6)	1.5	42.0	0
Other	(0.8)	(0.3)	58.4	0	0
Funding available/(required)	**40.1**	**(33.6)**	**46.2**	**(21.5)**	**(40.8)**
Dividends paid	(5.8)	(5.8)	(4.7)	(6.6)	(6.7)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**34.3**	**(39.4)**	**41.5**	**(28.1)**	**(47.5)**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	0.5	(0.6)	(0.6)	(0.6)	(0.6)
Fixed assets	123.0	143.6	180.2	206.9	251.8
Intangibles	0	0	0	0	0
Right of use asset	0	0	0	0	0
Other assets	0.5	0	0	0	0
Total funds employed	**123.9**	**143.0**	**179.6**	**206.4**	**251.2**
Net debt/(cash)	9.7	49.2	7.7	35.8	83.3
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	169.9	168.5	165.9
Minority interests	0	0	0	0	0
Total funding sources	**123.9**	**143.0**	**179.6**	**206.4**	**251.2**

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

Spot valuations (NZ$)	
1. DCF	0.36
2. NAV	0.42
n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	98
(Net debt)/cash	5
Less: Capitalised operating leases	0
Value of equity	103

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	21.3	20.0	20.5	23.3	29.6
EV/EBIT (x)	21.3	20.0	20.5	23.3	29.6
PE (x)	9.8	11.9	15.6	27.1	34.9
Price/NTA (x)	0.5	0.7	0.8	0.8	0.8
Free cash flow yield (%)	2.5	2.5	-10.2	-47.3	-30.4
Net dividend yield (%)	9.7	7.3	4.9	4.9	4.9
Gross dividend yield (%)	13.9	10.4	6.9	6.9	6.9

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	7.0	4.9	11.8	27.3	36.2
Interest cover EBITDA (x)	7.0	4.9	11.8	27.3	36.2
Net debt/ND+E (%)	8.0	34.9	4.3	17.5	33.4
Net debt/EBITDA (x)	1.3	6.0	1.0	5.9	17.4

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	6.0	5.6	4.4	2.9	1.9
Return on equity (%)	5.4	5.5	3.7	3.0	2.4
Return on funds employed (%)	4.9	4.7	4.2	2.7	1.8
EBITDA margin (%)	81.1	75.7	82.2	78.3	76.7
EBIT margin (%)	81.1	75.7	82.2	78.3	76.7
Capex to sales (%)	3.8	24.5	301.2	879.8	716.4
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	96	87	76	132	170

Property Statistics	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**
Key metrics					
No. properties	5	5	4	3	4
Average lease term (years)	5.4	4.6	4.4	5.5	3.2
Occupancy rate (%)	97.1	96.0	97.4	96.7	98.3
Cap rate (%)	7.91	7.74	7.43	7.40	7.10
Portfolio value (NZ$m)	169.4	174.4	167.1	123.1	142.1
NTA per share (NZ$)	0.740	0.723	0.706	0.694	0.567
Portfolio values (NZ$m)					
AA centre	36.2	40.9	0	0	0
Print Place	13.0	11.0	0	0	0
Heinz Wattie Warehouse	27.2	27.0	27.3	29.1	0
Eastgate Shopping Centre	58.0	59.5	58.0	54.5	47.0
Roskill Centre	35.0	36.0	38.0	39.5	37.5
Graham St	0	0	0	0	50.1
Munroe Lane	0	0	0	0	7.5
Portfolio value (NZ$m)	169.4	174.4	167.1	123.1	142.1

Earnings changes

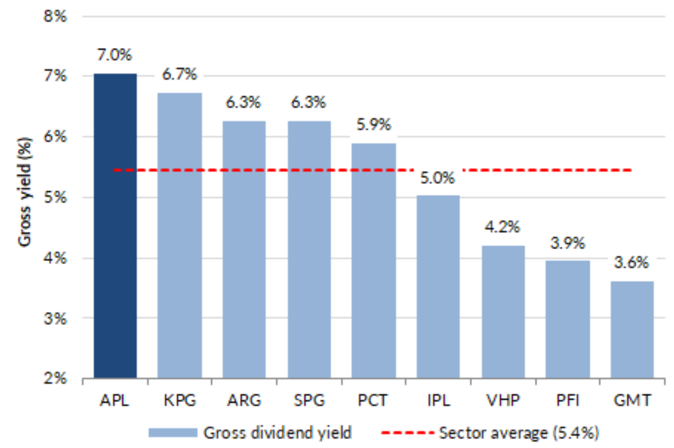
Figure 1. Forecast revisions

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	9.6	9.6	-	8.1	7.8	-3.6%	9.7	6.2	-35.7%
Corporate costs	(1.7)	(1.7)	-	(1.7)	(1.7)	-0.4%	(1.8)	(1.5)	-17.4%
EBITDA	**7.9**	**7.9**	**-**	**6.4**	**6.1**	**-4.5%**	**8.0**	**4.8**	**-39.8%**
Net interest	(0.7)	(0.7)	-	(0.2)	(0.2)	-8.0%	(0.3)	(0.1)	-55.1%
Current tax	(1.0)	(1.0)	-	(0.9)	(0.9)	-6.2%	(1.2)	(0.7)	-40.7%
NPAT (underlying)	**6.2**	**6.2**	**-**	**5.2**	**5.0**	**-4.0%**	**6.5**	**4.0**	**-38.9%**
Maintenance capex	(0.2)	(0.2)	-0.4%	(0.3)	(0.2)	-40.1%	(0.5)	(0.2)	-57.8%
AFFO	**6.1**	**6.1**	**0.0%**	**4.9**	**4.8**	**-1.6%**	**5.9**	**3.7**	**-37.1%**
EPS (cps)	2.37	2.37	-	1.42	1.36	-4.0%	1.73	1.06	-38.9%
AFFO (cps)	2.23	2.23	0.0%	1.22	1.20	-1.8%	1.32	0.78	-40.6%
DPS (cps)	1.80	1.80	-	1.80	1.80	-	1.80	1.80	-

Source: Forsyth Barr analysis

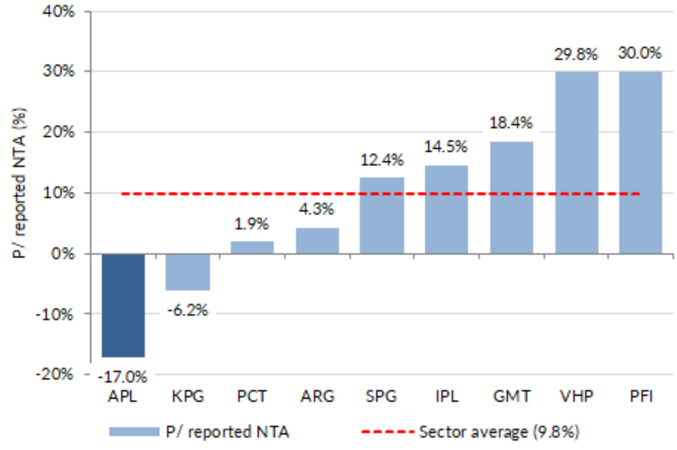
Charts of interest

Figure 2. LPV sector gross yields



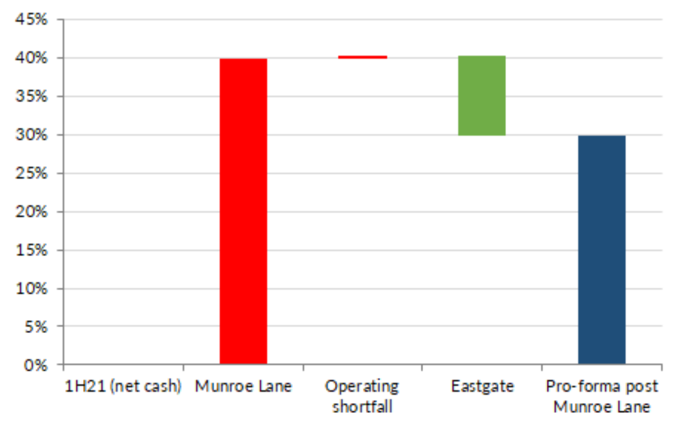
Source: Forsyth Barr analysis

Figure 3. LPV sector price-to-NTA



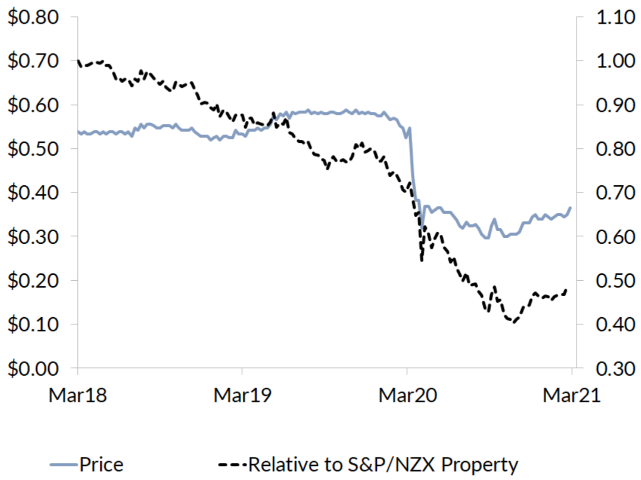
Source: Forsyth Barr analysis

Figure 4. Gearing bridge



Source: Forsyth Barr analysis

Figure 5. Price performance



Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
Augusta Capital	20.0%
Salt Funds Management	13.3%
ACC	8.6%

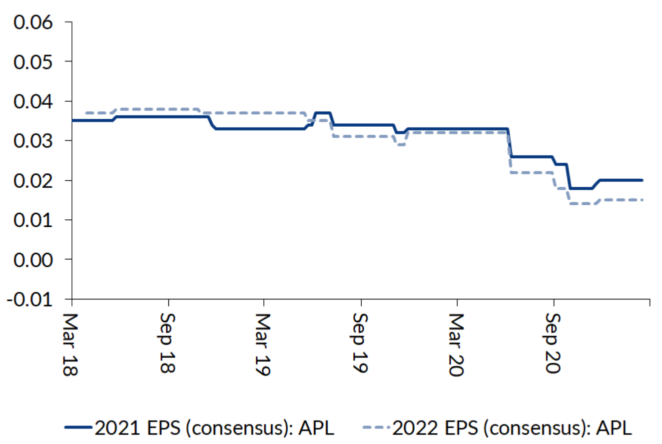
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 7. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect APL's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Asset Plus	**APL NZ**	**NZ$0.37**	**NZ$132**	**15.4x**	**26.8x**	**22.9x**	**29.8x**	**22.9x**	**29.8x**	**4.9%**
ARGOSY PROPERTY *	ARG NZ	NZ$1.52	NZ$1,272	20.1x	20.7x	21.9x	20.4x	21.9x	20.4x	4.2%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ$2.18	NZ$3,033	32.5x	31.8x	26.8x	25.3x	26.8x	25.3x	2.5%
INVESTORE *	IPL NZ	NZ$2.20	NZ$810	28.4x	25.8x	23.0x	20.8x	23.0x	20.8x	3.5%
KIWI PROPERTY GROUP *	KPG NZ	NZ$1.22	NZ$1,907	21.7x	18.3x	20.9x	17.4x	20.9x	17.4x	4.8%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ$1.61	NZ$2,109	25.2x	24.9x	28.2x	25.5x	28.2x	25.5x	4.1%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ$2.91	NZ$1,456	33.0x	32.5x	26.1x	26.3x	26.1x	26.3x	2.7%
STRIDE PROPERTY *	SPG NZ	NZ$2.35	NZ$1,111	21.4x	22.3x	32.1x	27.9x	32.1x	27.9x	4.2%
VITAL HEALTHCARE *	VHP NZ	NZ$3.09	NZ$1,593	29.1x	27.6x	27.7x	25.7x	27.7x	25.7x	3.0%
			Compco Average:	**26.4x**	**25.5x**	**25.8x**	**23.6x**	**25.8x**	**23.6x**	**3.6%**
EV = Current Market Cap + Actual Net Debt			**APL Relative:**	**-42%**	**5%**	**-11%**	**26%**	**-11%**	**26%**	**36%**

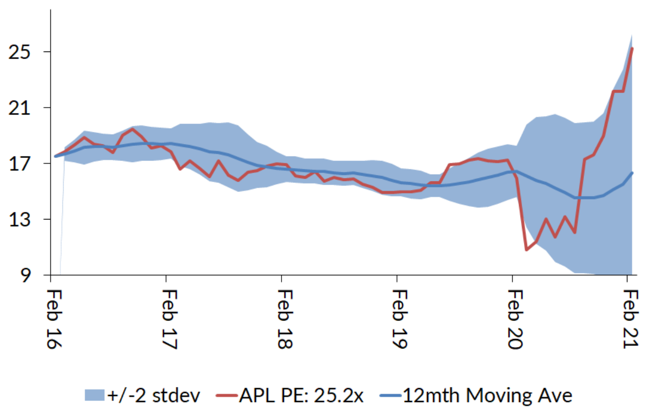
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (APL) companies fiscal year end

Figure 8. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)



Source: Forsyth Barr analysis

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