

# Arvida Group Limited

**OUTPERFORM**

## 1H20 Preview — Track Record Traction

Arvida Group (ARV) will report its 1H20 result on 19 November and we expect solid underlying EPS growth of +5% with all areas of its business continuing to strengthen. A key driver is expected to be a lift in new sales and resales volumes, while its development progress will be of significant interest given the lift in build activity underway and the new brownfield sites acquired in early FY20. **OUTPERFORM.**

### Key things to look for in the result:

- **Steady EPS growth in a low growth world** — Robust underlying profit growth of +16% is forecast given development activity and accretive acquisitions, although EPS will be lower due to the issuance of new shares. We expect that ARV's track record of consistent operational performance across its retirement and aged care portfolios, successful integration of acquisitions and its improving development capability to again be highlighted in 1H20.
- **Realised fair value gains from new sales and resales a key driver** — We expect ARV to benefit from a lift in sales volumes and unit pricing combined with steady margins, leading to a strong uplift in realised gains.
- **Stable key metrics** — ARV is expected to maintain high occupancy in its aged care operation and to continue to be one of the highest rated in the sector in terms of DHB certification levels across its care facilities with 66% of its aged care facilities having the highest 4 year DHB certification as at June 2019. We also expect resales vacancy to remain under control given robust demand.
- **Development update as ARV ramps up activity** — We expect ARV to be on track for its FY21 build target of 200 units and beds and we forecast 170 units to be delivered in FY20. In FY20 ARV is building across nine brownfield sites and its first greenfield site at Waimea Plains in Richmond.

### Investor briefing for 19 November

Conference call: 10.30am (NZ time) NZ 0800 667 018, AU 1800 148 258.  
Passcode: 3777398

Figure 1. Summary of 1H20E forecast (NZ\$m)

Six months ending 30 September	1H19	1H20E	% chg
Total revenue	87.4	95.7	9.5%
Normalised or underlying profit	17.9	20.8	16.2%
Underlying EPS (cps)	4.3	4.5	5.4%
DPS (cps)	2.6	2.9	9.6%

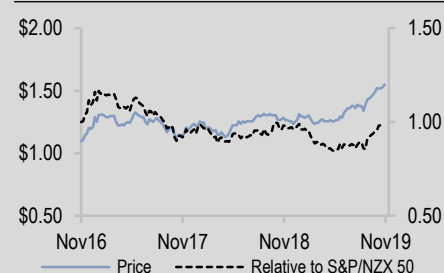
Source: Forsyth Barr analysis, company reports

### Investment View

ARV has future growth prospects centred on brownfield and greenfield expansion. It has a defensive earnings profile given its heavily needs-based portfolio, and has only a modest Auckland exposure. Relative to its listed peers, ARV has an attractive dividend and compares favourably on P/NAV and earnings multiples. Our rating is **OUTPERFORM**.

NZX Code	ARV
Share price	NZ\$1.55
Target price	NZ\$1.74
Risk rating	Medium
Issued shares	541.9m
Market cap	NZ\$840m
Average daily turnover	387.5k (NZ\$520k)

### Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	38.6	54.5	66.6	71.7
EPS* (NZc)	9.3	10.8	12.3	13.2
EPS growth* (%)	4.8	16.1	13.5	7.7
DPS (NZc)	5.4	6.2	6.8	7.3
Imputation (%)	80	80	80	80

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	20.0	15.7	13.3	12.2
EV/EBIT	22.3	17.2	14.6	13.5
PE	16.6	14.3	12.6	11.7
Price / NTA	1.2	1.3	1.2	n/a
Cash dividend yield (%)	3.5	4.0	4.4	4.7
Gross dividend yield (%)	4.5	5.2	5.7	6.2

\*Historic and forecast numbers based on underlying profits

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**Arvida Group Limited (ARV)**

Priced as at 12 Nov 2019: NZ\$1.55

March year end

<b>Forsyth Barr valuation</b>						<b>Valuation Ratios</b>					2018A	2019A	2020E	2021E	2022E
Valuation methodology						DCF	EV/EBITDA (x)	n/a	20.0	15.7	13.3	12.2			
							EV/EBIT (x)	n/a	22.3	17.2	14.6	13.5			
							PE (x)	n/a	16.6	14.3	12.6	11.7			
							Price/NTA (x)	n/a	1.2	1.3	1.2	1.2			
							Free cash flow yield (%)	n/a	7.6	12.1	18.8	20.5			
							Net dividend yield (%)	n/a	3.5	4.0	4.4	4.7			
							Gross dividend yield (%)	n/a	4.5	5.2	5.7	6.2			
							Imputation (%)	n/a	80	80	80	80			
							Pay-out ratio (%)	n/a	57	57	55	55			
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					<b>Capital Structure</b>				
Risk free rate	2.00%					Total firm value	1,108				Interest cover EBIT (x)	18.0	12.3	14.7	15.0
Equity beta	0.85					(Net debt)/cash	(185)				Interest cover EBITDA (x)	19.9	13.7	16.1	16.5
WACC	7.23%					Value of equity	922				Net debt/ND+E (%)	18.9	25.2	30.1	32.1
Terminal growth	1.50%					Shares (m)	542				Net debt/EBITDA (x)	2.7	3.7	4.2	3.8
<b>Profit and Loss Account (NZ\$m)</b>						2018A	2019A	2020E	2021E	2022E	<b>Key Ratios</b>				
Sales revenue	152	179	209	242	258						Return on assets (%)	3.5	3.4	3.8	4.1
<b>Normalised EBITDA</b>	<b>44</b>	<b>50</b>	<b>69</b>	<b>85</b>	<b>92</b>						Return on equity (%)	6.5	7.0	8.1	9.9
Depreciation and amortisation	(4)	(5)	(6)	(8)	(9)						Return on funds employed (%)	6.4	6.0	13.8	16.6
<b>Normalised EBIT</b>	<b>40</b>	<b>45</b>	<b>63</b>	<b>77</b>	<b>84</b>						EBITDA margin (%)	28.8	27.6	32.8	35.1
Net interest	(2)	(4)	(4)	(5)	(6)						EBIT margin (%)	26.0	24.8	29.9	31.9
Associate income	-	-	-	-	-						Capex to sales (%)	0.0	2.8	2.9	3.2
Tax	(4)	(2)	(4)	(5)	(6)						Capex to depreciation (%)	0	100	100	100
Minority interests	-	-	-	-	-										
<b>Normalised NPAT</b>	<b>33</b>	<b>39</b>	<b>54</b>	<b>67</b>	<b>72</b>										
Abnormals/other	25	21	-	-	-										
<b>Reported NPAT</b>	<b>58</b>	<b>59</b>	<b>54</b>	<b>67</b>	<b>72</b>										
Normalised EPS (cps)	8.9	9.3	10.8	12.3	13.2										
DPS (cps)	5.0	5.4	6.2	6.8	7.3										
<b>Growth Rates</b>						2018A	2019A	2020E	2021E	2022E	<b>Operating Performance</b>				
Revenue (%)	n/a	17.9	16.5	15.6	6.6						<b>Revenue (NZ\$m)*</b>				
EBITDA (%)	n/a	13.1	38.4	23.5	8.8						Care fees	109.9	125.6	132.7	141.8
EBIT (%)	n/a	12.6	40.3	23.4	8.4						Management fees	18.1	21.4	29.1	35.5
Normalised NPAT (%)	n/a	16.9	41.0	22.3	7.7						Other	4.3	5.4	6.0	6.5
Normalised EPS (%)	n/a	4.8	16.1	13.5	7.7						<b>Changes in fair value</b>				
DPS (%)	n/a	6.8	15.4	9.5	7.7						Operating rights	0.0	0.0	0.0	0.0
											Invest. property (total gains)	19.8	27.0	41.4	58.0
											<b>Total revenue</b>	152.1	179.4	209.1	241.8
											*Full year pro-forma for 2015A				
<b>Cash Flow (NZ\$m)</b>						2018A	2019A	2020E	2021E	2022E	<b>Key Drivers</b>				
<b>EBITDA</b>	<b>44</b>	<b>50</b>	<b>69</b>	<b>85</b>	<b>92</b>						Sales - new units	79	70	125	169
Working capital change	17	27	48	92	101						Ave unit price - new sales (NZ\$m)	0.53	0.63	0.74	0.87
Interest & tax paid	(7)	(7)	(8)	(11)	(12)						Sales - resold units	216	258	288	313
Other	-	-	-	-	-						Ave unit price - resales (NZ\$m)	0.31	0.34	0.37	0.40
<b>Operating cash flow</b>	<b>54</b>	<b>69</b>	<b>108</b>	<b>166</b>	<b>181</b>						Ave resold unit price inflation (%)	13.2	8.8	5.0	8.0
Capital expenditure	-	(5)	(6)	(8)	(9)						Gross development margin (%)	19.0	18.0	19.7	21.0
(Acquisitions)/divestments	(136)	(113)	(318)	(152)	(168)						Gross resales margin (%)	19.9	23.0	21.4	21.5
Other	-	-	-	-	-										
<b>Funding available/(required)</b>	<b>(82)</b>	<b>(49)</b>	<b>(216)</b>	<b>6</b>	<b>5</b>						<b>Development and acquisitions:</b>				
Dividends paid	(17)	(23)	(33)	(37)	(39)						New units/care suites built	101	113	200	258
Equity raised/(returned)	77	-	152	-	-						New beds built	-	-	-	-
<b>Increase/(decrease) in net debt</b>	<b>26</b>	<b>72</b>	<b>102</b>	<b>31</b>	<b>35</b>						Acquisitions - beds	351	-	326	-
											Acquisitions - units	479	-	-	-
											Total portfolio:				
											<b>Apartments/units</b>	1,850	1,955	2,481	2,739
											<b>Beds</b>	1,743	1,722	1,722	1,722
<b>Balance Sheet (NZ\$m)</b>						2018A	2019A	2020E	2021E	2022E					
Working capital	(8)	(14)	(2)	(3)	(3)										
Fixed assets	1,053	1,215	1,574	1,785	2,014										
Intangibles	56	54	54	54	54										
Other assets	13	19	19	19	19										
<b>Total funds employed</b>	<b>1,114</b>	<b>1,273</b>	<b>1,645</b>	<b>1,855</b>	<b>2,084</b>										
Net debt/(cash)	119	185	287	318	353										
Other non current liabilities	484	538	689	863	1,055										
Shareholder's funds	511	550	669	674	676										
Minority interests	-	-	-	-	-										
<b>Total funding sources</b>	<b>1,114</b>	<b>1,273</b>	<b>1,645</b>	<b>1,855</b>	<b>2,084</b>										

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

## 1H20E result summary

Below is a summary of our FY19 forecasts.

Figure 2. 1H20E result summary (NZ\$m)

Six months ending 30 September	1H19	1H20	% chg
<b>Revenue</b>			
Care fees	62.7	63.7	1.6%
Management fees + other	10.4	12.8	23.5%
Other	2.6	2.9	8.1%
Realised fair value movement of investment properties	11.7	16.3	39.9%
<b>Total revenue</b>	<b>87.4</b>	<b>95.7</b>	<b>9.5%</b>
Total costs	(63.9)	(68.8)	7.7%
<b>Total EBITDA</b>	<b>23.5</b>	<b>26.9</b>	<b>14.5%</b>
Depreciation	(2.4)	(2.9)	17.9%
<b>EBIT</b>	<b>21.0</b>	<b>24.0</b>	<b>14.1%</b>
Net interest	(1.7)	(1.7)	-0.7%
<b>EBT</b>	<b>19.3</b>	<b>22.3</b>	<b>15.4%</b>
Tax	(1.4)	(1.5)	5.0%
<b>Normalised or underlying profit</b>	<b>17.9</b>	<b>20.8</b>	<b>16.2%</b>
EPS (cps)	4.32	4.55	5.4%
DPS (cps)	2.60	2.85	9.6%

Source: Forsyth Barr analysis

Figure 3. 1H20E key drivers (NZ\$m)

Six months ending 30 September	1H19	1H20	% chg
Sales - new units	30	50	66.7%
Average unit price - new sales (NZ\$000s)	576.7	640.0	11.0%
Gross development margin (%)	16%	18%	17.3%
Sales - resold units	135	137	1.5%
Average unit price - resales (NZ\$000s)	311.9	355.0	13.8%
Gross resales margin (%)	22%	22%	-0.1%
New sales gains (NZ\$m)	2.7	5.8	117.5%
Resales gains (NZ\$m)	9.1	10.5	15.4%
Realised fair value movement of investment properties (NZ\$m)	11.7	16.3	38.7%

Source: Forsyth Barr analysis

## Investment summary

Arvida Group (ARV) provides exposure to the positive industry dynamics at play for retirement and aged care sector operators centred on a rapidly aging population. ARV has future growth prospects focussed on brownfield expansion and the acquisition of care-focussed retirement facilities. A strong needs-based portfolio gives ARV a defensive earnings profile.

### Earnings and cash flow outlook

- **Unique acquisition strategy:** With ARV now having a significant land bank we expect its focus will be more on the existing opportunities within its portfolio and additional greenfield developments, although further acquisition opportunities will be considered.
- **Brownfield development:** ARV has over 1,800 units, care suites and beds in its pipeline including over 300 underway.
- **Recycling capital:** The occupational right agreement (ORA) structure allows ARV to self-fund development and recycle capital into new developments.

### Business quality

- **A market leader:** ARV is a market leader in aged care with consistently high occupancy rates and the majority of its aged care facilities being four-year Ministry of Health certified — the highest rating achievable.
- **Defensive income streams:** ARV has a strong focus on continuum of care with over 60% of its portfolio needs-based. Care fees are supported by government subsidies and the growing demand for aged care services.

### Company description

Arvida Group is an aged care and retirement sector operator with a 'needs based' portfolio providing a full continuum of care. It has 30 villages with 1,722 aged care beds and 1,995 units, with the majority of these villages offering both independent living and aged care options. Although the portfolio is predominantly older villages, they are well established, well maintained and are generating solid cash flows. It has 16 facilities located in the South Island (including 8 in Christchurch), which provides regional diversification to its listed peers. ARV's strategy is focussed on brownfield developments and acquisitions which enhance and diversify its earnings.

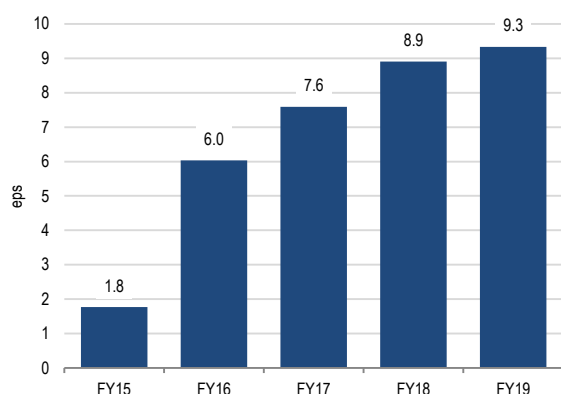
### Balance sheet

- **Attractive dividend yield:** ARV has an attractive yield at ~5%, amongst the highest in the sector, backed by a defensive care earnings stream.
- **Balance sheet robust:** ARV's gearing at ~20% remains at comfortable levels, providing ample room to work through its development pipeline.

### Risks factors

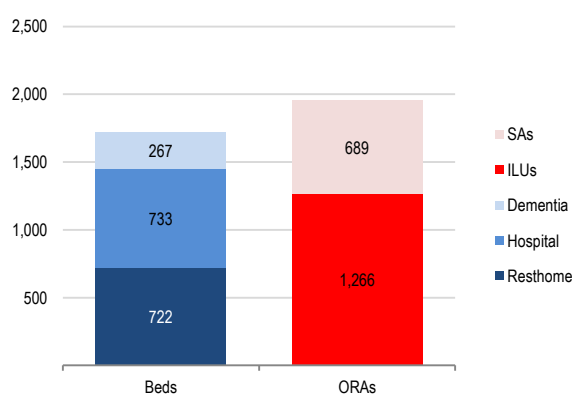
- **Care occupancy:** Competition with quality beds and a focus on home-based support are providing headwinds for near-term occupancy, while cost pressures are building. ARV's 96% occupancy is strong compared to the sector's ~89%.
- **Retirement unit oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.

Figure 4. ARV eps trajectory



Source: Forsyth Barr analysis, Company Reports

Figure 5. ARV portfolio as at 31 March 2019



Source: Forsyth Barr analysis, Company Reports

**Figure 6. Substantial Shareholders**

Shareholder	Latest Holding
Forsyth Barr Investment Management	9.4%
Generate Investment Management	5.1%

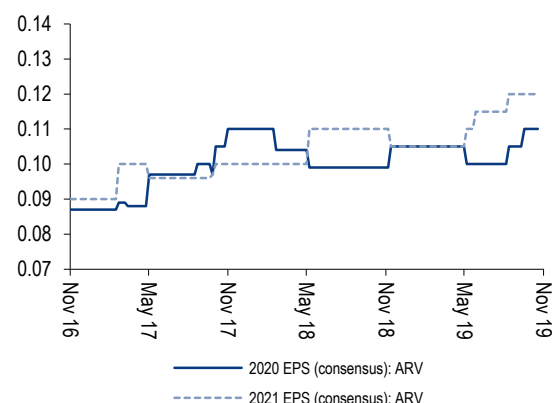
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 7. International Compcos**

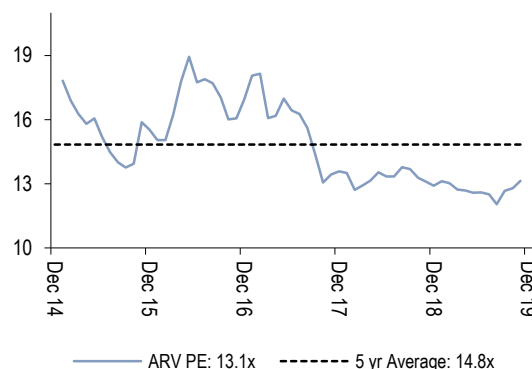
Company	Code	Price	Mkt Cap	PE	EV/EBITDA	EV/EBIT	Cash D/Yld
<i>(metrics re-weighted to reflect ARV's balance date - March)</i>							
Arvida Group Limited	ARV NZ	NZ\$1.55	NZ\$840	14.3x	12.6x	14.9x	12.1x
Ryman Healthcare *	RYM NZ	NZ\$14.02	NZ\$7,010	27.1x	23.4x	26.8x	23.3x
Summerset Group *	SUM NZ	NZ\$7.14	NZ\$1,620	15.3x	13.3x	16.4x	14.3x
Metlifecare *	MET NZ	NZ\$5.12	NZ\$1,092	12.1x	11.4x	13.8x	13.1x
Oceania Healthcare *	OCA NZ	NZ\$1.04	NZ\$634	11.3x	10.4x	12.4x	11.6x
Regis Healthcare	REG AT	A\$3.22	A\$968	23.8x	22.8x	11.9x	10.7x
Japara Healthcare	JHC AT	A\$1.13	A\$301	23.3x	21.6x	10.3x	9.6x
Estia Health	EHE AT	A\$2.85	A\$744	20.4x	20.6x	9.6x	9.3x
<b>Compcpo Average:</b>				<b>19.0x</b>	<b>17.6x</b>	<b>14.5x</b>	<b>13.1x</b>
<b>ARV Relative:</b>				<b>-25%</b>	<b>-29%</b>	<b>+3%</b>	<b>-8%</b>
						<b>18.0x</b>	<b>16.5x</b>
						<b>-9%</b>	<b>+19%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 8. Consensus EPS Momentum**


Source: Forsyth Barr analysis, Bloomberg

**Figure 9. 12 Month Forward PE**


Source: Forsyth Barr analysis

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