

Arvida Group Limited

Getting Better with Age

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OUTPERFORM

ARV continues to steadily lift the quality of its retirement village product, aged care operation and has future growth prospects centred on brownfield and greenfield expansion. ARV has a defensive earnings profile given its heavily needs-based portfolio, highly rated care facilities and wide geographic spread of operations. ARV has established a strong track record of delivery since listing on the NZX in 2014. Relative to its listed peers, ARV has an attractive dividend yield and compares favourably on P/NAV and earnings multiples. We have upgraded our medium term earnings outlook and lifted our target price to NZ\$2.03. Our rating remains OUTPERFORM.

NZX Code	ARV	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.87	NPAT* (NZ\$m)	38.6	54.5	66.6	75.3	EV/EBITDA	23.5	18.2	15.3	13.5
Target price	NZ\$1.78	EPS* (NZc)	9.3	10.8	12.3	13.9	EV/EBIT	26.2	20.0	16.9	14.9
Risk rating	Medium	EPS growth* (%)	4.8	16.1	13.5	13.1	PE	20.0	17.3	15.2	13.5
Issued shares	541.9m	DPS (NZc)	5.3	6.2	6.8	7.6	Price / NTA	1.4	1.5	1.5	1.5
Market cap	NZ\$1,013m	Imputation (%)	80	80	80	80	Cash div yld (%)	2.9	3.3	3.6	4.1
Avg daily turnover	465.3k (NZ\$678k)	*Based on normalised profits					Gross div yld (%)	3.8	4.3	4.7	5.4

Developments and core business on track

ARV remains on track to deliver a build rate of ~200 units in FY20 and lift this to a sustainable build rate of 250–300 independent units and cares suites from FY21. ARV has a pipeline of over 1,700 units and care suites (see Figure 2) and continues to look for additional greenfield sites. ARV has successfully integrated a large number of villages since listing and is now focussed on leveraging its large pipeline of brown field expansion and greenfield opportunities. In terms of its aged care operation, ARV continues to maintain occupancy well above sector averages and now has ~80% of its aged care facilities at the maximum DHB rating with 4 year certifications. A key feature over the next 18 months will be ARV unveiling its care suite product.

Key projects ARV has advanced in 2H20

- The 49 independent and serviced apartments (SAs) at its Park Lane expansion in Christchurch
- The last tranche of SAs at Village on the Park in Wellington
- The initial stage of 38 villas and terrace houses at Waimea Plains in Richmond
- Ongoing solid progress at its recently acquired Queenstown Country Club

Lift in valuation and target price

We have taken a slightly more positive medium term view on unit price appreciation and margins. This has lifted our FY22 forecasts by +5% (see Figures 3 and 4) and medium to longer term earnings which has lifted our DCF from NZ\$1.69 to NZ\$1.92 and our target price from NZ\$1.78 to NZ\$2.03. We have assumed ARV builds at 250 units and care suites per annum through to FY25 (versus to FY23 previously), which is around 85% of ARV's existing development pipeline, and is at a lower build rate than ARV's 250–300 annual target.

Arvida Group Limited (ARV)

Priced as at 12 Feb 2020 (NZ\$)

1.87

12-month target price (NZ\$)*

1.78

Expected share price return

-4.8%

Net dividend yield

3.6%

Estimated 12-month return

-1.2%

Spot valuations (NZ\$)

1. DCF

1.69

2. n/a

n/a

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.85

WACC

7.2%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,249.1

(Net debt)/cash

(185.5)

Less: Capitalised operating leases

-

Value of equity

1,063.6

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	152.1	179.4	209.1	241.8	261.5	EV/EBITDA (x)	25.3	23.5	18.2	15.3	13.5
Normalised EBITDA	43.9	49.6	68.7	84.8	96.2	EV/EBIT (x)	28.0	26.2	20.0	16.9	14.9
Depreciation and amortisation	(4.3)	(5.0)	(6.1)	(7.6)	(8.6)	PE (x)	21.0	20.0	17.3	15.2	13.5
Normalised EBIT	39.6	44.6	62.5	77.1	87.5	Price/NTA (x)	1.5	1.4	1.5	1.5	1.5
Net interest	(2.2)	(3.6)	(4.3)	(5.1)	(5.7)	Free cash flow yield (%)	5.3	6.3	10.1	15.6	17.4
Associate income	-	-	-	-	-	Net dividend yield (%)	2.7	2.9	3.3	3.6	4.1
Tax	(4.3)	(2.3)	(3.8)	(5.4)	(6.5)	Gross dividend yield (%)	3.5	3.8	4.3	4.7	5.4
Minority interests	-	-	-	-	-						
Normalised NPAT	33.1	38.6	54.5	66.6	75.3	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	24.6	20.5	-	-	-	Interest cover EBIT (x)	18.0	12.3	14.7	15.0	15.4
Reported NPAT	57.7	59.1	54.5	66.6	75.3	Interest cover EBITDA (x)	19.9	13.7	16.1	16.5	16.9
Normalised EPS (cps)	8.9	9.3	10.8	12.3	13.9	Net debt/ND+E (%)	18.9	25.2	30.1	32.1	34.1
DPS (cps)	5.0	5.4	6.2	6.8	7.6	Net debt/EBITDA (x)	2.7	3.7	4.2	3.8	3.7
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	35.0	17.9	16.5	15.6	8.2	Return on assets (%)	3.5	3.4	3.8	4.1	4.2
EBITDA (%)	38.0	13.1	38.4	23.5	13.4	Return on equity (%)	6.5	7.0	8.1	9.9	11.1
EBIT (%)	39.5	12.6	40.3	23.4	13.5	Return on funds employed (%)	6.4	6.0	13.8	16.6	17.8
Normalised NPAT (%)	43.0	16.9	41.0	22.3	13.1	EBITDA margin (%)	28.8	27.6	32.8	35.1	36.8
Normalised EPS (%)	17.4	4.8	16.1	13.5	13.1	EBIT margin (%)	26.0	24.8	29.9	31.9	33.5
Ordinary DPS (%)	12.6	6.8	15.4	9.5	13.1	Capex to sales (%)	0.0	2.8	2.9	3.2	3.3
						Capex to depreciation (%)	0	100	100	100	100
						Imputation (%)	80	80	80	80	80
						Pay-out ratio (%)	56	57	57	55	55
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Operating Performance	2018A	2019A	2020E	2021E	2022E
EBITDA	43.9	49.6	68.7	84.8	96.2	Revenue (NZ\$m)*					
Working capital change	16.5	26.6	47.5	91.6	100.8	Care fees	109.9	125.6	132.7	141.8	149.6
Interest & tax paid	(6.5)	(7.1)	(8.0)	(10.5)	(12.2)	Management fees	18.1	21.4	29.1	35.5	39.9
Other	-	-	-	-	-	Other	4.3	5.4	6.0	6.5	6.9
Operating cash flow	53.9	69.1	108.1	165.9	184.7	Invest. property (total gains)	19.8	27.0	41.4	58.0	65.1
Capital expenditure	-	(5.0)	(6.1)	(7.6)	(8.6)	Total revenue	152.1	179.4	209.1	241.8	261.5
(Acquisitions)/divestments	(135.9)	(113.0)	(318.4)	(152.4)	(167.7)						
Other	(3.3)	-	(4.0)	-	-	Key Drivers					
Funding available/(required)	(85.3)	(48.9)	(220.4)	5.9	8.4	Sales - new units	79	70	125	169	183
Dividends paid	(17.2)	(22.7)	(33.5)	(36.6)	(41.4)	Ave unit price - new sales (NZ\$m)	0.53	0.63	0.74	0.87	0.90
Equity raised/(returned)	76.9	-	152.0	-	-	Sales - resold units	216	258	288	313	345
(Increase)/decrease in net debt	(25.6)	(71.6)	(101.9)	(30.8)	(33.0)	Ave unit price - resales (NZ\$m)	0.31	0.34	0.37	0.40	0.42
						Ave resold unit price inflation (%)	13.2	8.8	5.0	8.0	4.0
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Gross development margin (%)	19.0	18.0	19.7	21.0	20.5
Working capital	(8.5)	(13.8)	(2.3)	(2.5)	(2.7)	Gross resales margin (%)	19.9	23.0	21.4	21.5	21.5
Fixed assets	1,052.9	1,214.6	1,574.3	1,784.7	2,017.5						
Intangibles	55.7	54.0	54.0	54.0	54.0	Development and acquisitions:					
Right of use asset	-	-	-	-	-	New units/care suites built	101	113	200	258	250
Other assets	13.3	18.6	18.6	18.6	18.6	New beds built					
Total funds employed	1,113.5	1,273.3	1,644.5	1,854.7	2,087.3	Acquisitions - beds	351				
Net debt/(cash)	119.0	185.5	287.4	318.1	351.1	Acquisitions - units	479		326		
Lease liability	-	-	-	-	-	Apartments/units	1,850	1,955	2,481	2,739	2,989
Other liabilities	483.7	538.1	688.7	862.6	1,059.0	Beds	1,743	1,722	1,722	1,722	1,722
Shareholder's funds	510.8	549.7	668.5	674.0	677.2						
Minority interests	-	-	-	-	-						
Total funding sources	1,113.5	1,273.3	1,644.5	1,854.7	2,087.3						

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

Figure 1. Changes to key drivers (NZ\$m)

Year ending 31 March	Old	New	Chg %
Gross devel margin % FY20	19.7	19.7	0.0%
Gross devel margin % FY21	21.0	21.0	0.0%
Gross devel margin % FY22	19.0	20.5	7.9%
Sales - new units FY20	125	125	0.0%
Sales - new units FY21	169	169	0.0%
Sales - new units FY22	183	183	0.0%
Ave price - new sales FY20 (NZ\$000's)	742	742	0.0%
Ave price - new sales FY21 (NZ\$000's)	868	868	0.0%
Ave price - new sales FY22 (NZ\$000's)	885	903	2.0%
Sales - resold units FY20	288	288	0.0%
Sales - resold units FY21	313	313	0.0%
Sales - resold units FY22	345	345	0.0%
Ave price - resold sales FY20 (NZ\$000's)	375	375	0.0%
Ave price - resold sales FY21 (NZ\$000's)	405	405	0.0%
Ave price - resold sales FY22 (NZ\$000's)	421	421	0.0%
Gross resales margin % FY20	21.4	21.4	0.0%
Gross resales margin % FY21	21.5	21.5	0.0%
Gross resales margin % FY22	21.0	21.5	2.4%
New units and beds built FY20	200	200	0.0%
New units and beds built FY21	258	258	0.0%
New units and beds built FY22	250	250	0.0%

Source: Forsyth Barr analysis

Figure 2. Forecast Changes (NZ\$m)

	2020E			2021E			2022E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	209.1	209.1	0.0%	241.8	241.8	0.0%	257.7	261.5	1.5%
EBITDA	68.7	68.7	0.0%	84.8	84.8	0.0%	92.3	96.2	4.2%
Underlying profit	54.5	54.5	0.0%	66.6	66.6	0.0%	71.7	75.3	5.0%
EPS (cps)	10.8	10.8	0.0%	12.3	12.3	0.0%	13.2	13.9	5.0%
DPS (cps)	6.2	6.2	0.0%	6.8	6.8	0.0%	7.3	7.6	5.0%

Source: Forsyth Barr analysis

Figure 3. 1H20 developments and near-term pipeline

	FY19A	1H20A	2H20E	FY20E	FY21E	FY22+E
Independent Units and Serviced Apartments						
Kerikeri- villas					15	265
Copper Crest - villas	27				29	2
Bethlehem country club - villas		2	4	6	10	6
Bethlehem Shores - villas		4	5	9	15	173
Queenstown Country Club - villas		7	8	15	20	250
Glenbrae - villas			10	10	8	4
Oakwoods						30
Aria Park						95
Aria Bay	25					58
Cascades						90
Park Lane - SA's	29		49	49		
Rhodes on Cashmere	18					
St Albans - SA's		4	21	25		
Lauriston - villas		12		12		90
Mary Doyle - villas	14	3	9	12	9	
Village at the Park - SA's		24		24		
Village at the Park - villas					10	6
Waimea Plains, Richmond - villas		38		38	25	212
Total units	113	94	106	200	141	1281
Care suites						
Aria Bay					59	
Rhodes on Cashmere					10	21
St Albans					20	
Copper Crest					55	
Total Care Suites	0	0	0	0	144	21
Total units and beds	113	94	106	200	285	1302

Source: Forsyth Barr analysis, Company Reports

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 ageing 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. **OUTPERFORM.**

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.

Earnings and cashflow 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 1,700 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.

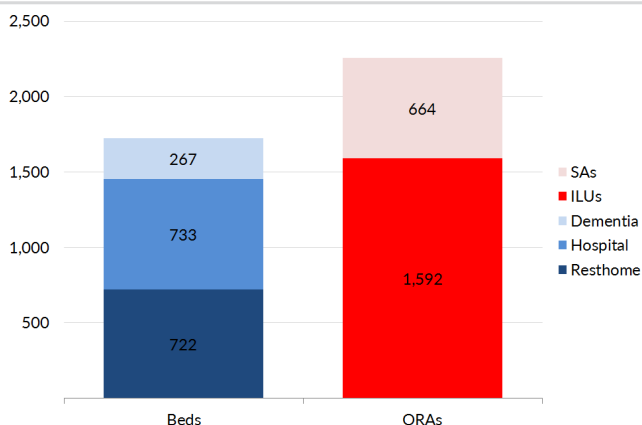
Financial structure

- **Attractive dividend yield:** ARV has an attractive yield at ~4.5%, amongst the highest in the sector, backed by a defensive care earnings stream.
- **Balance sheet robust:** ARV's gearing at ~27% remains at comfortable levels, providing ample room to work through its development pipeline.

Risk factors

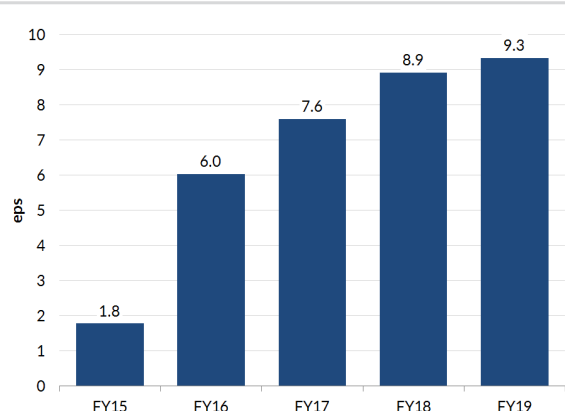
- **Care occupancy:** Competition with quality beds and a focus on home-based support are providing headwinds for near-term occupancy, while cost pressures are building. ARV's 95% occupancy is strong compared to the sector's ~89%.
- **Retirement unit oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.

Figure 4. ARV portfolio as at 31 March 2019



Source: Forsyth Barr analysis, Company Reports

Figure 5. ARV eps trajectory



Source: Forsyth Barr analysis, Company Reports

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

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

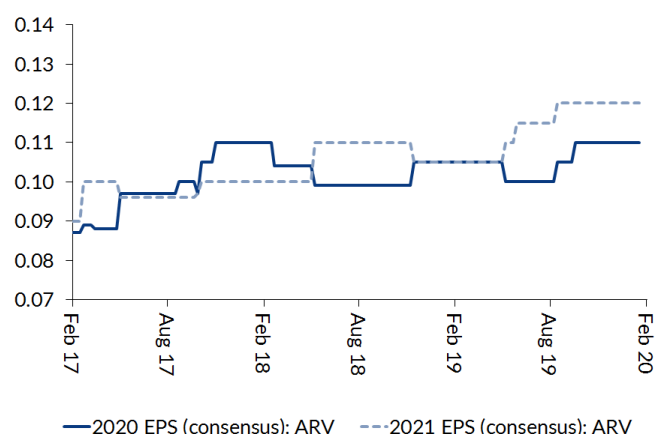
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 8. International valuation comparisons

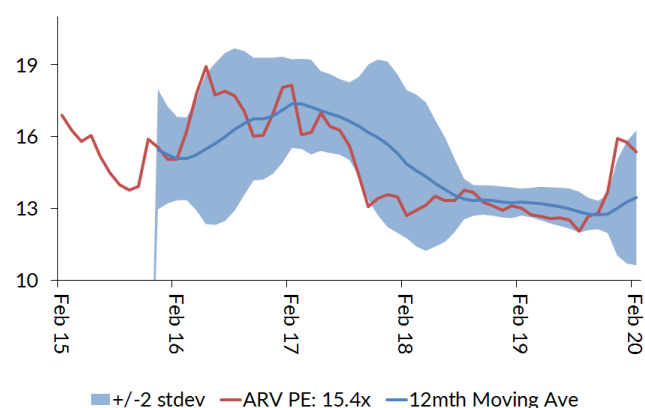
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect ARV's balance date - March)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E	
Arvida Group Limited	ARV NZ	NZ\$1.87	NZ\$1,013	17.3x	15.2x	17.5x	14.1x	19.2x	15.5x	3.6%	
Ryman Healthcare *	RYM NZ	NZ\$16.87	NZ\$8,435	32.3x	27.6x	31.4x	27.1x	34.6x	29.4x	1.8%	
Summerset Group *	SUM NZ	NZ\$9.05	NZ\$2,053	18.6x	16.0x	19.2x	16.6x	20.3x	17.6x	1.9%	
Metlifecare *	MET NZ	NZ\$6.92	NZ\$1,476	16.3x	15.4x	17.7x	16.8x	18.9x	17.8x	1.7%	
Oceania Healthcare *	OCA NZ	NZ\$1.22	NZ\$743	13.2x	12.1x	14.0x	12.9x	16.5x	15.1x	4.5%	
Regis Healthcare	REG AT	A\$2.35	A\$707	22.4x	22.8x	9.7x	9.1x	13.9x	13.6x	4.4%	
Japara Healthcare	JHC AT	A\$0.91	A\$243	20.3x	18.7x	9.1x	8.6x	17.5x	16.2x	5.7%	
Estia Health	EHE AT	A\$2.32	A\$606	18.7x	19.7x	8.7x	8.6x	13.6x	13.9x	4.8%	
Compco Average:				20.3x	18.9x	15.7x	14.2x	19.3x	17.7x	3.5%	
EV = Current Market Cap + Actual Net Debt				ARV Relative:	-15%	-19%	11%	-1%	-1%	-12%	2%

EV = Current Market Cap + Actual Net Debt

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

Figure 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)


Source: Forsyth Barr analysis

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