

Arvida Group Limited

March Market Update – ARValuable as Gold

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OUTPERFORM

ARV has released its March update and the business is on track for strong EPS growth in FY20 as it continues to advance all parts of its business. It 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 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. Our rating remains OUTPERFORM and no change to our NZ\$2.03 target price.

NZX Code	ARV	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.73	NPAT* (NZ\$m)	38.6	54.5	66.6	75.3	EV/EBITDA	22.0	17.1	14.4	12.7
Target price	NZ\$2.03	EPS* (NZc)	9.3	10.8	12.3	13.9	EV/EBIT	24.5	18.8	15.9	14.0
Risk rating	Medium	EPS growth* (%)	4.8	16.1	13.5	13.1	PE	18.5	16.0	14.1	12.5
Issued shares	541.9m	DPS (NZc)	5.4	6.2	6.8	7.6	Price / NTA	1.3	1.4	1.4	1.4
Market cap	NZ\$937m	Imputation (%)	80	80	80	80	Cash div yld (%)	3.1	3.6	3.9	4.4
Avg daily turnover	473.7k (NZ\$703k)	*Based on normalised profits					Gross div yld (%)	4.1	4.7	5.1	5.8

On track for a strong FY20

New sales for the first 11 months of FY20 were 101 units and resales were 244 units, both are on track with our FY20 forecasts of 125 new sales and 288 resales. Average resales pricing is up +11%, also in line with our forecasts, as are margin gains that are up +56%. Total 3Q sales were up +46% on the pcp. We have not changed our forecasts and continue to expect 16% EPS growth in FY20 and 14% in FY21.

Operating well

Resales vacancy remains low at only 49 units which is <2% of its stock, and aged care occupancy sits at a high 95%. ARV confirmed it now has 80% of its care facilities graded to the 4 year highest DHB certification level. Resident satisfaction levels are very high with a net promoter score (NPS) above 50. ARV has reached an agreement with an Australian home care company to use its technology in NZ and believes this fits with its outwardly facing community strategy.

Developing outcomes

Development activity is on track for 200 units/care suites to be built in FY20 and for 250+ in FY21, which is in line with forecasts. Greenfield development progress continues with digging in the ground in Kerikeri, 25 villas and the resident clubhouse underway at Richmond and the next stage of 20 villas and advanced planning stages for the resident clubhouse and the care facility in Queenstown. Late in CY20 ARV will complete new care suite facilities at Aria Bay in Auckland and Copper Crest in Tauranga which will represent the first of its next generation care suite product, with ARV looking to start selling down via occupation right agreements.

Arvida Group Limited (ARV)

Priced as at 05 Mar 2020 (NZ\$)						1.73						
12-month target price (NZ\$)*						2.03	Spot valuations (NZ\$)					
Expected share price return						17.2%	1. DCF					1.92
Net dividend yield						3.9%	2. n/a					n/a
Estimated 12-month return						21.1%	3. n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						2.00%	Total firm value					1,253.9
Equity beta						0.85	(Net debt)/cash					(185.5)
WACC						7.2%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					1,068.4
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E		
Normalised EBITDA	152.1	179.4	209.1	241.8	261.5	EV/EBITDA (x)	23.6	22.0	17.1	14.4	12.7	
Depreciation and amortisation	43.9	49.6	68.7	84.8	96.2	EV/EBIT (x)	26.1	24.5	18.8	15.9	14.0	
Normalised EBIT	(4.3)	(5.0)	(6.1)	(7.6)	(8.6)	PE (x)	19.4	18.5	16.0	14.1	12.5	
Net interest	39.6	44.6	62.5	77.1	87.5	Price/NTA (x)	1.4	1.3	1.4	1.4	1.4	
Associate income	(2.2)	(3.6)	(4.3)	(5.1)	(5.7)	Free cash flow yield (%)	5.7	6.8	10.9	16.9	18.8	
Tax	0	0	0	0	0	Net dividend yield (%)	2.9	3.1	3.6	3.9	4.4	
Minority interests	(4.3)	(2.3)	(3.8)	(5.4)	(6.5)	Gross dividend yield (%)	3.8	4.1	4.7	5.1	5.8	
Normalised NPAT	0	0	0	0	0	Capital Structure						
Reported NPAT	33.1	38.6	54.5	66.6	75.3	2018A	2019A	2020E	2021E	2022E		
Normalised EPS (cps)	24.6	20.5	0	0	0	Interest cover EBIT (x)	18.0	12.3	14.7	15.0	15.4	
DPS (cps)	57.7	59.1	54.5	66.6	75.3	Interest cover EBITDA (x)	19.9	13.7	16.1	16.5	16.9	
	8.9	9.3	10.8	12.3	13.9	Net debt/ND+E (%)	18.9	25.2	30.1	32.1	34.1	
	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						Key Ratios						
Revenue (%)	2018A	2019A	2020A	2021A	2022A	2018A	2019A	2020E	2021E	2022E		
EBITDA (%)	35.0	17.9	16.5	15.6	8.2	Return on assets (%)	3.5	3.4	3.8	4.1	4.2	
EBIT (%)	38.0	13.1	38.4	23.5	13.4	Return on equity (%)	6.5	7.0	8.1	9.9	11.1	
Normalised NPAT (%)	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 EPS (%)	43.0	16.9	41.0	22.3	13.1	EBITDA margin (%)	28.8	27.6	32.8	35.1	36.8	
Ordinary DPS (%)	17.4	4.8	16.1	13.5	13.1	EBIT margin (%)	26.0	24.8	29.9	31.9	33.5	
	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	
Cash Flow (NZ\$m)						Operating Performance						
EBITDA	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E		
Working capital change	43.9	49.6	68.7	84.8	96.2	Revenue (NZ\$m)*	109.9	125.6	132.7	141.8	149.6	
Interest & tax paid	16.5	26.6	47.5	91.6	100.8	Care fees	18.1	21.4	29.1	35.5	39.9	
Other	(6.5)	(7.1)	(8.0)	(10.5)	(12.2)	Management fees	4.3	5.4	6.0	6.5	6.9	
Operating cash flow	53.9	69.1	108.1	165.9	184.7	Other	19.8	27.0	41.4	58.0	65.1	
Capital expenditure	0	(5.0)	(6.1)	(7.6)	(8.6)	Invest. property (total gains)	152.1	179.4	209.1	241.8	261.5	
(Acquisitions)/divestments	(135.9)	(113.0)	(318.4)	(152.4)	(167.7)	Total revenue						
Other	(3.3)	0	(4.0)	0	0							
Funding available/(required)	(85.3)	(48.9)	(220.4)	5.9	8.4							
Dividends paid	(17.2)	(22.7)	(33.5)	(36.6)	(41.4)							
Equity raised/(returned)	76.9	0	152.0	0	0							
(Increase)/decrease in net debt	(25.6)	(71.6)	(101.9)	(30.8)	(33.0)							
Balance Sheet (NZ\$m)						Key Drivers						
Working capital	2018A	2019A	2020E	2021E	2022E	Sales - new units	79	70	125	169	183	
Fixed assets	(8.5)	(13.8)	(2.3)	(2.5)	(2.7)	Ave unit price - new sales (NZ\$m)	0.53	0.63	0.74	0.87	0.90	
Intangibles	1,052.9	1,214.6	1,574.3	1,784.7	2,017.5	Sales - resold units	216	258	288	313	345	
Right of use asset	55.7	54.0	54.0	54.0	54.0	Ave unit price - resales (NZ\$m)	0.31	0.34	0.37	0.40	0.42	
Other assets	0	0	0	0	0	Ave resold unit price inflation (%)	13.2	8.8	5.0	8.0	4.0	
Total funds employed	13.3	18.6	18.6	18.6	18.6	Gross development margin (%)	19.0	18.0	19.7	21.0	20.5	
Net debt/(cash)	1,113.5	1,273.3	1,644.5	1,854.7	2,087.3	Gross resales margin (%)	19.9	23.0	21.4	21.5	21.5	
Lease liability	119.0	185.5	287.4	318.1	351.1	Development and acquisitions:						
Other liabilities	0	0	0	0	0	New units/care suites built	101	113	200	258	250	
Shareholder's funds	483.7	538.1	688.7	862.6	1,059.0	New beds built	0	0	0	0	0	
Minority interests	510.8	549.7	668.5	674.0	677.2	Acquisitions - beds	351			0	0	
	0	0	0	0	0	Acquisitions - units	479	0	326	0	0	
						Apartments/units	1,850	1,955	2,481	2,739	2,989	
						Beds	1,743	1,722	1,722	1,722	1,722	

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

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.

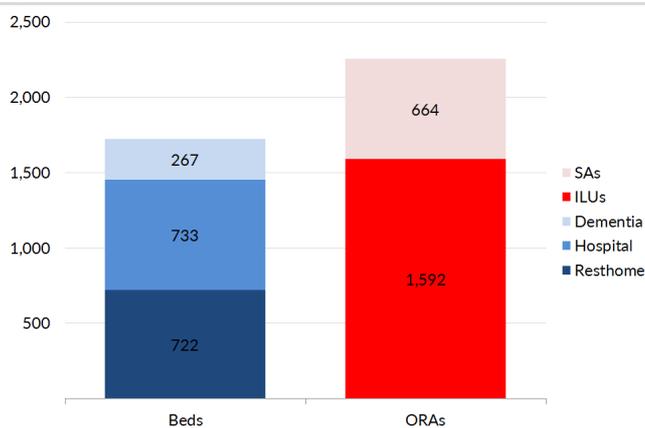
Financial structure

- **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

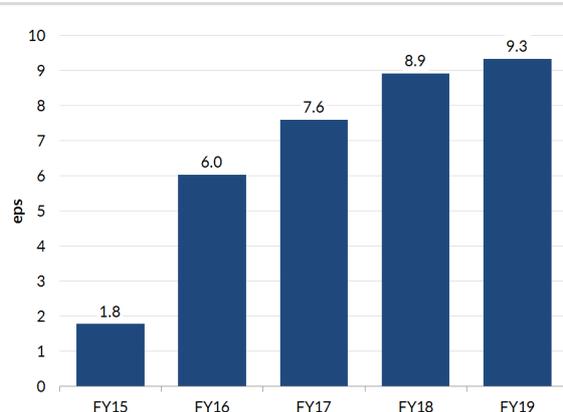
- **Care occupancy:** Competition with quality beds and a focus on home-based support are providing headwinds for near-term occupancy, while cost pressures are building. ARV's 95% occupancy is strong compared to the sectors ~89%.
- **Retirement unit oversupply:** The significant industry pipeline poses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

Figure 1. ARV portfolio as at 31 March 2019



Source: Forsyth Barr analysis

Figure 2. ARV eps trajectory



Source: Forsyth Barr analysis

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

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

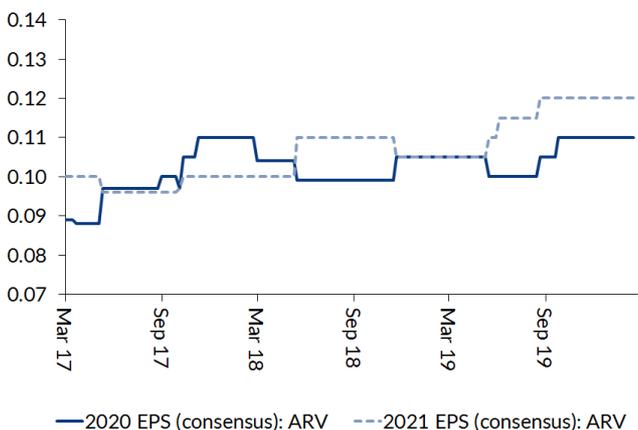
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International valuation comparisons

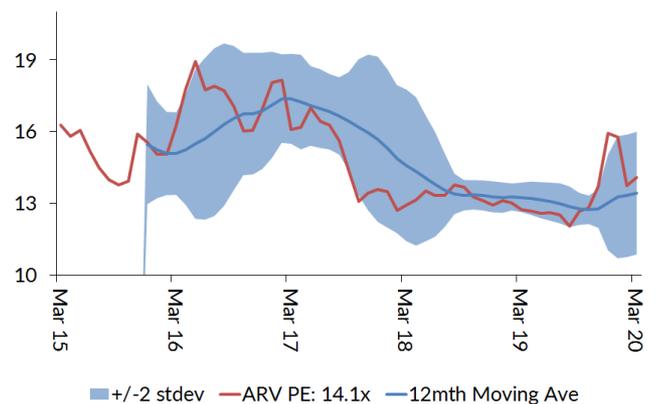
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Arvida Group Limited	ARV NZ	NZ\$1.73	NZ\$937	16.0x	14.1x	16.4x	13.2x	18.0x	14.6x	3.9%
Ryman Healthcare *	RYM NZ	NZ\$14.91	NZ\$7,455	28.6x	24.4x	28.2x	24.4x	31.1x	26.5x	2.1%
Summerset Group *	SUM NZ	NZ\$7.71	NZ\$1,749	16.4x	15.6x	17.9x	17.0x	19.0x	18.1x	1.9%
Metlifecare *	MET NZ	NZ\$6.88	NZ\$1,468	16.2x	15.3x	17.6x	16.7x	18.8x	17.7x	1.3%
Oceania Healthcare *	OCA NZ	NZ\$1.09	NZ\$670	11.8x	10.8x	12.9x	12.0x	15.2x	14.0x	5.1%
REGIS HEALTHCARE	REG AT	A\$1.62	A\$487	16.0x	17.2x	7.2x	6.8x	10.2x	10.2x	5.9%
JAPARA HEALTHCARE	JHC AT	A\$0.86	A\$230	25.0x	25.6x	10.0x	9.7x	22.2x	22.0x	4.2%
ESTIA HEALTH	EHE AT	A\$1.74	A\$454	15.3x	16.5x	7.6x	7.7x	12.5x	13.0x	6.1%
Compcpo Average:				18.5x	17.9x	14.5x	13.5x	18.4x	17.3x	3.8%
ARV Relative:				-14%	-21%	13%	-2%	-3%	-16%	3%

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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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