

Arvida Group Limited

FY20 Preview — Care-Full Times

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OUTPERFORM

Arvida Group (ARV) will report its FY20 result on 26 May and we are expecting robust EPS growth of +12.5%, with strong growth in resales and new sales gains given the development and acquisition activity. Of interest will be comments on how the business is tracking in Level 2 and the outlook for sales and developments given the weak economic backdrop. OUTPERFORM.

Figure 1. Summary of FY20E forecast (NZ\$m)

12 months ending 31 March	FY19	FY20	% chg
Total revenue	179.4	207.3	15.5%
Normalised or underlying profit	38.6	52.8	36.6%
EPS (cps)	9.3	10.5	12.5%
DPS (cps)	5.4	6.0	11.8%

Source: Forsyth Barr analysis, Company reports

NZX Code	ARV	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.34	NPAT* (NZ\$m)	38.6	52.8	37.9	54.3	EV/EBITDA	17.7	14.4	18.9	13.9
Target price	NZ\$1.72	EPS* (NZc)	9.3	10.5	7.0	10.0	EV/EBIT	19.7	15.9	22.0	15.6
Risk rating	Medium	EPS growth* (%)	4.8	12.5	-33.5	43.6	PE	14.4	12.8	19.2	13.4
Issued shares	541.9m	DPS (NZc)	5.4	6.0	3.8	5.5	Price / NTA	1.0	1.1	1.0	1.0
Market cap	NZ\$726m	Imputation (%)	80	80	80	80	Cash div yld (%)	4.0	4.5	2.9	4.1
Avg daily turnover	576.4k (NZ\$836k)	*Based on normalised profits					Gross div yld (%)	5.2	5.9	3.8	5.4

Strong FY20 with dividends intact

Robust underlying EPS growth of +12.5% is expected given the accretive acquisitions and successful developments undertaken, and is indicative of a business performing well. New sales gains in particular are expected to be a key driver. COVID-19 only had a limited impact on sales volumes late in FY20. ARV has confirmed that it developed 209 units compared with the 200 unit guidance and expects sales of just under 400 units, slightly below our pre COVID-19 forecast. We expect ARV to maintain its 55% dividend payout ratio in FY20, however, this could be lowered in FY21 given the uncertain outlook.

Near-term uncertainties — FY21 guidance not expected

We recently reduced near-term ARV earnings based on a scenario that assumes very soft conditions for sales of retirement units over the next six months and no development activity, followed by a recovery over the next 18–24 months. Forward looking statements are likely to centre around development timing and dividend policy but are unlikely to include the underlying profit outlook. While significant uncertainties remain with regard to the operating environment and economic recovery, we remain confident about ARV's business model given its heavily 'needs based' offer and solid balance sheet.

Investor briefing for 26 May

Conference call: 11am (NZ time) NZ 0800 667 018, AU 1800 148 258. Passcode: 6485346

Arvida Group Limited (ARV)

Priced as at 19 May 2020 (NZ\$)

1.34

12-month target price (NZ\$)*

1.72

Expected share price return

28.4%

Net dividend yield

3.1%

Estimated 12-month return

31.4%

Spot valuations (NZ\$)

1. DCF

1.64

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

1,106.5

(Net debt)/cash

(185.5)

Less: Capitalised operating leases

0

Value of equity

921.0

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	152.1	179.4	207.3	207.4	233.0	EV/EBITDA (x)	18.7	17.7	14.4	18.9	13.9
Normalised EBITDA	43.9	49.6	66.9	53.7	73.2	EV/EBIT (x)	20.8	19.7	15.9	22.0	15.6
Depreciation and amortisation	(4.3)	(5.0)	(6.1)	(7.5)	(8.3)	PE (x)	15.0	14.4	12.8	19.2	13.4
Normalised EBIT	39.6	44.6	60.7	46.2	64.9	Price/NTA (x)	1.1	1.0	1.1	1.0	1.0
Net interest	(2.2)	(3.6)	(4.3)	(5.3)	(5.8)	Free cash flow yield (%)	7.4	8.8	13.8	17.6	17.1
Associate income	0	0	0	0	0	Net dividend yield (%)	3.7	4.0	4.5	2.9	4.1
Tax	(4.3)	(2.3)	(3.7)	(3.1)	(4.7)	Gross dividend yield (%)	4.9	5.2	5.9	3.8	5.4
Minority interests	0	0	0	0	0						
Normalised NPAT	33.1	38.6	52.8	37.9	54.3	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	24.6	20.5	0	0	0	Interest cover EBIT (x)	18.0	12.3	14.2	8.8	11.2
Reported NPAT	57.7	59.1	52.8	37.9	54.3	Interest cover EBITDA (x)	19.9	13.7	15.7	10.2	12.6
Normalised EPS (cps)	8.9	9.3	10.5	7.0	10.0	Net debt/ND+E (%)	18.9	25.2	30.2	31.5	33.2
DPS (cps)	5.0	5.4	6.0	3.8	5.5	Net debt/EBITDA (x)	2.7	3.7	4.3	6.2	4.8
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	35.0	17.9	15.5	0.0	12.4	Return on assets (%)	3.5	3.4	3.7	2.5	3.3
EBITDA (%)	38.0	13.1	34.8	-19.6	36.2	Return on equity (%)	6.5	7.0	7.9	5.3	7.6
EBIT (%)	39.5	12.6	36.3	-23.9	40.5	Return on funds employed (%)	6.4	6.0	13.6	13.1	12.2
Normalised NPAT (%)	43.0	16.9	36.6	-28.3	43.6	EBITDA margin (%)	28.8	27.6	32.2	25.9	31.4
Normalised EPS (%)	17.4	4.8	12.5	-33.5	43.6	EBIT margin (%)	26.0	24.8	29.3	22.3	27.8
Ordinary DPS (%)	12.6	6.8	11.8	-35.8	43.6	Capex to sales (%)	0.0	2.8	3.0	3.6	3.6
						Capex to depreciation (%)	0	100	100	100	100
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	80	80	80	80	80
EBITDA	43.9	49.6	66.9	53.7	73.2	Pay-out ratio (%)	56	57	57	55	55
Working capital change	16.5	26.6	47.7	89.8	69.8						
Interest & tax paid	(6.5)	(7.1)	(7.9)	(8.3)	(10.5)	Operating Performance	2018A	2019A	2020A	2021E	2022E
Other	0	0	0	0	0	Revenue (NZ\$m)*					
Operating cash flow	53.9	69.1	106.6	135.2	132.5	Care fees	109.9	125.6	132.8	141.1	147.6
Capital expenditure	0	(5.0)	(6.1)	(7.5)	(8.3)	Management fees	18.1	21.4	29.1	35.5	34.7
(Acquisitions)/divestments	(135.9)	(113.0)	(318.6)	(149.3)	(116.3)	Other	4.3	5.4	6.0	6.5	6.9
Other	(3.3)	0	(4.0)	0	0	Invest. property (total gains)	19.8	27.0	39.5	24.3	43.8
Funding available/(required)	(85.3)	(48.9)	(222.2)	(21.7)	7.9	Total revenue	152.1	179.4	207.3	207.4	233.0
Dividends paid	(17.2)	(22.7)	(32.4)	(20.8)	(29.9)						
Equity raised/(returned)	76.9	0	152.0	0	0	Key Drivers					
(Increase)/decrease in net debt	(25.6)	(71.6)	(102.6)	(42.5)	(22.0)	Sales - new units	79	70	120	80	140
						Ave unit price - new sales (NZ\$m)	0.53	0.63	0.74	0.87	0.90
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Sales - resold units	216	258	273	157	248
Working capital	(8.5)	(13.8)	(2.3)	(2.5)	(2.6)	Ave unit price - resales (NZ\$m)	0.31	0.34	0.37	0.36	0.37
Fixed assets	1,052.9	1,214.6	1,572.7	1,746.3	1,906.4	Ave resold unit price inflation (%)	13.2	8.8	11.0	(3.0)	3.0
Intangibles	55.7	54.0	54.0	54.0	54.0	Gross development margin (%)	19.0	18.0	19.0	18.5	20.0
Right of use asset	0	0	0	0	0	Gross resales margin (%)	19.9	23.0	21.4	20.0	20.0
Other assets	13.3	18.6	18.6	18.6	18.6						
Total funds employed	1,113.5	1,273.3	1,642.9	1,816.3	1,976.3	Development and acquisitions:					
Net debt/(cash)	119.0	185.5	288.1	330.6	352.5	New units/care suites built	101	113	209	120	170
Lease liability	0	0	0	0	0	New beds built	0	0	0	0	0
Other liabilities	483.7	538.1	687.5	768.3	913.3	Acquisitions - beds	351			0	0
Shareholder's funds	510.8	549.7	667.3	717.4	710.5	Acquisitions - units	479	0	326	0	0
Minority interests	0	0	0	0	0	Apartments/units	1,850	1,955	2,490	2,610	2,780
Total funding sources	1,113.5	1,273.3	1,642.9	1,816.3	1,976.3	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

FY20E result summary

Below is a summary of our FY20 forecasts.

Figure 2. FY20E result summary (NZ\$m)

12 months ending 31 March	FY19	FY20	% chg
Revenue			
Care fees	125.6	132.8	5.7%
Management fees + other	21.4	29.1	35.6%
Other	5.4	6.0	10.0%
Realised fair value movement of investment properties	27.0	39.5	46.3%
Total revenue	179.4	207.3	15.5%
Total costs	(129.8)	(140.5)	8.2%
Total EBITDA	49.6	66.9	34.8%
Depreciation	(5.0)	(6.1)	21.5%
EBIT	44.6	60.7	36.3%
Net interest	(3.6)	(4.3)	17.7%
EBT	40.9	56.5	37.9%
Tax	(2.3)	(3.7)	59.5%
Normalised or underlying profit	38.6	52.8	36.6%
Unrealised value movement	22.1		
Tax (deferred) + other	(1.6)		
Reported profit (NZ IFRS)	59.1	52.8	-10.7%
Operating cash flow	69.1	106.6	54.1%
EPS (cps)	9.3	10.5	12.5%
DPS (cps)	5.4	6.0	11.8%

Source: Forsyth Barr analysis, Company reports

Figure 3. FY20 key drivers (NZ\$m)

12 months ending 31 March	FY19	FY20	% chg
Sales - new units	70	120	71.4%
Average unit price - new sales (NZ\$000s)	632.9	742.0	17.2%
Gross development margin (%)	18%	19%	5.6%
Sales - resold units	258	273	5.8%
Average unit price - resales (NZ\$000s)	337.6	374.7	11.0%
Gross resales margin (%)	23%	21%	-7.0%
New sales gains (NZ\$m)	7.5	17.6	135.0%
Resales gains (NZ\$m)	19.5	21.9	12.2%
Realised fair value movement of investment properties (NZ\$m)	27.0	39.5	46.3%

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 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. **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.

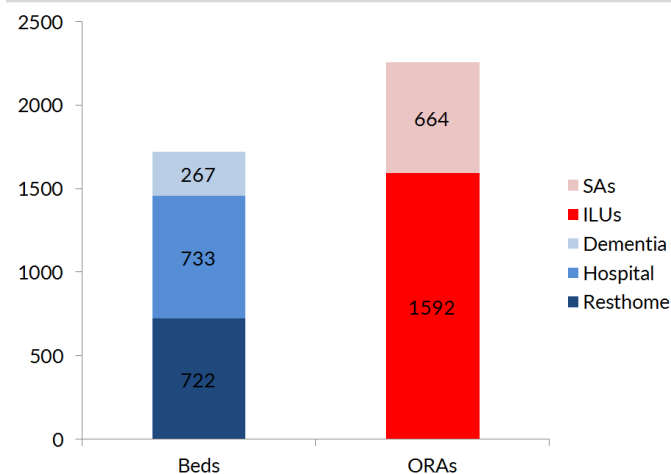
Financial structure

- **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

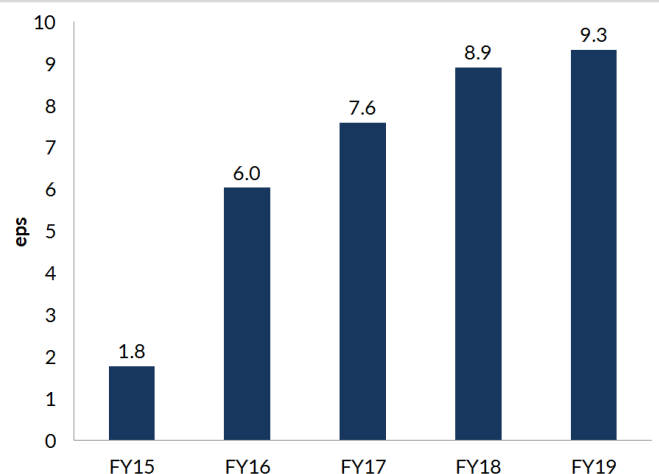
- **Care occupancy:** Competition with quality beds and a focus on home-based support are providing headwinds for near-term occupancy, while cost pressures are building. ARV's 95% occupancy is strong compared to the sectors ~89%.
- **Retirement unit oversupply:** The significant industry pipeline poses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

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%

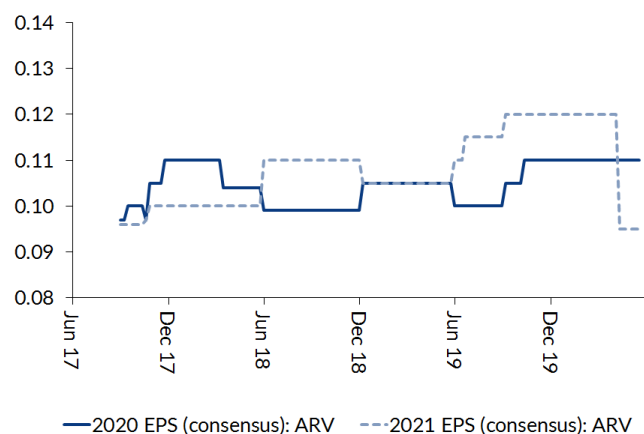
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 8. International valuation comparisons

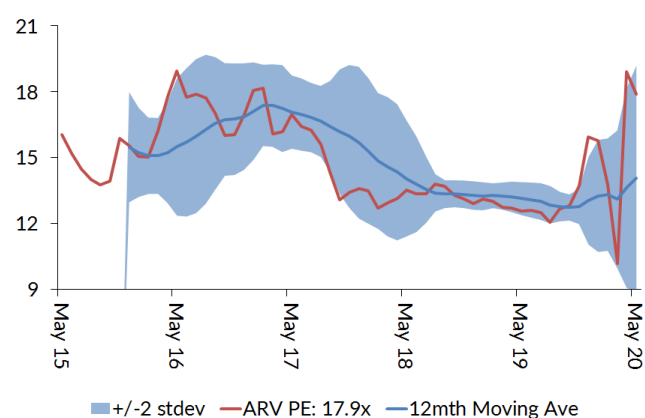
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect ARV's balance date - March)											
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E	
Arvida Group Limited	ARV NZ	NZ\$1.34	NZ\$726	12.8x	19.2x	13.6x	17.0x	15.0x	19.7x	2.9%	
Ryman Healthcare *	RYM NZ	NZ\$12.41	NZ\$6,205	25.7x	39.9x	25.9x	36.6x	28.7x	42.3x	1.3%	
Summerset Group *	SUM NZ	NZ\$5.90	NZ\$1,345	17.7x	30.3x	18.5x	27.5x	20.2x	31.1x	1.0%	
Metlifecare *	MET NZ	NZ\$4.30	NZ\$917	12.0x	13.0x	14.1x	15.1x	15.1x	16.4x	1.2%	
Oceania Healthcare *	OCA NZ	NZ\$0.75	NZ\$461	9.7x	11.5x	11.4x	12.8x	13.9x	16.0x	4.8%	
REGIS HEALTHCARE	REG AT	A\$1.48	A\$445	16.1x	22.5x	6.5x	6.9x	9.7x	11.0x	3.2%	
JAPARA HEALTHCARE	JHC AT	A\$0.55	A\$147	18.7x	20.2x	8.4x	8.4x	19.3x	19.9x	5.1%	
ESTIA HEALTH	EHE AT	A\$1.46	A\$382	13.9x	15.5x	6.7x	7.1x	11.2x	12.5x	6.3%	
Compco Average:				16.2x	21.8x	13.1x	16.3x	16.9x	21.3x	3.3%	
EV = Current Market Cap + Actual Net Debt				ARV Relative:	-21%	-12%	4%	4%	-11%	-7%	-13%

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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