

# Arvida Group

## Q1 Sales — Tracking Well Post Lockdown

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### OUTPERFORM

Arvida Group (ARV) has announced total sales of 44 retirement village units for the quarter to 30 June 2020 (32 re-sales and 12 new sales). We walk away with three main conclusions; (1) much like for SUM's June quarter sales, Arvida's June quarter sales point to normal activity levels in June but also to some degree show May being back to "high" normal; (2) re-sale margins are holding up well (25%, up from 22% pcp) with the early signs of strong housing data on the macro level also showing up in the aged care sector; and (3) while new sales margins were down (to 15% from 21%) this was offset by higher priced units being sold and a higher level of new sale activity vs pcp. Going forward we believe cost control and ability to execute on its build program will be in focus. We continue to reverse our COVID-19 related downgrades and increase our FY21 estimates by 8%. ARV is valued on 14x FY22 (March) earnings. OUTPERFORM.

NZX Code	ARV	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.48	NPAT* (NZ\$m)	51.7	42.5	55.9	74.0	EV/EBITDA	16.6	19.6	15.7	12.0
Target price	NZ\$1.82	EPS* (NZc)	10.2	7.8	10.3	13.7	EV/EBIT	18.2	23.0	18.0	13.4
Risk rating	Medium	EPS growth* (%)	9.9	-23.4	31.7	32.4	PE	14.5	18.9	14.3	10.8
Issued shares	541.9m	DPS (NZc)	5.8	4.3	5.7	7.5	Price / NTA	1.1	0.9	0.9	0.9
Market cap	NZ\$802m	Imputation (%)	80	80	80	80	Cash div yld (%)	3.9	2.9	3.8	5.1
Avg daily turnover	535.6k (NZ\$790k)	*Based on normalised profits					Gross div yld (%)	5.1	3.8	5.0	6.7

### 1Q21 showing COVID impacts

1Q21 was a quarter of significant disruption for ARV with new sales of 12 units and re-sales of 32 units, reflecting the impacts of no sales activity in April, given 4 weeks in Alert Level 4 lockdown, with prospective residents unable to visit villages and property settlements suspended. However, ARV note "this was a good result"; we concur, and early signs post lockdown are showing a resumption of sales activity with "good levels of demand and increasing enquiry since the easing of COVID-19 restrictions".

### No FY21 guidance provided

ARV provided no additional guidance from its FY20 result on 26 May of ~200 delivered units (below the medium term delivery target of 250 units). However, at its recent Annual Shareholders Meeting ARV reaffirmed this guidance. In addition, ARV noted that its intention is to maintain its dividend policy with a payout ratio of 50% to 70% of underlying profit but will seek further clarity on the future economic environment before making that decision.

### Strong pricing levels driven by new sales

Whilst sales activity for 1Q21 was negatively impacted by COVID-19 lockdowns, the impact of lockdowns placed no dampener on ARV's ability to sell high quality units across both new and re-sales. The strong pricing levels in the quarter is pleasing given the housing market uncertainty and a likely resultant of ARV's recent investment in high quality sites. "Pricing achieved for re-sales settled in the quarter was on average +3% ahead of unit values assumed by valuers as at 31 March 2020". In addition, ARV experienced a +5% uplift in total new and re-sale gains and a +7% uplift in total new and re-sales sales value on pcp. This was despite materially lower sales activity in the quarter and reflects the higher than average new and re-sales unit prices of NZ\$942,000 and NZ\$419,000, along with a material uplift in new sales settlements.

## Arvida Group Limited (ARV)

Prised as at 14 Jul 2020 (NZ\$) **1.48**

**12-month target price (NZ\$)\*** **1.82**

Expected share price return	23.0%
Net dividend yield	3.2%
Estimated 12-month return	26.2%

### Key WACC assumptions

Risk free rate	2.00%
Equity beta	0.85
WACC	7.2%
Terminal growth	1.5%

### Spot valuations (NZ\$)

1. DCF	1.73
2. n/a	n/a
3. n/a	n/a

### DCF valuation summary (NZ\$m)

Total firm value	1,262.2
(Net debt)/cash	(309.0)
Less: Capitalised operating leases	0
Value of equity	953.2

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	179.4	203.0	209.2	231.3	265.1	EV/EBITDA (x)	19.3	16.6	19.6	15.7	12.0
<b>Normalised EBITDA</b>	<b>49.5</b>	<b>63.3</b>	<b>58.1</b>	<b>74.2</b>	<b>97.3</b>	EV/EBIT (x)	21.5	18.2	23.0	18.0	13.4
Depreciation and amortisation	(5.0)	(5.8)	(8.7)	(9.5)	(10.4)	PE (x)	15.9	14.5	18.9	14.3	10.8
<b>Normalised EBIT</b>	<b>44.5</b>	<b>57.5</b>	<b>49.4</b>	<b>64.7</b>	<b>86.9</b>	Price/NTA (x)	1.1	1.1	0.9	0.9	0.9
Net interest	(3.6)	(4.1)	(4.7)	(5.2)	(6.5)	Free cash flow yield (%)	8.6	12.8	14.8	15.7	19.8
Associate income	0	0	0	0	0	Net dividend yield (%)	3.6	3.9	2.9	3.8	5.1
Tax	(2.3)	(1.8)	(2.2)	(3.6)	(6.4)	Gross dividend yield (%)	4.7	5.1	3.8	5.0	6.7
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>38.6</b>	<b>51.7</b>	<b>42.5</b>	<b>55.9</b>	<b>74.0</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	20.5	(9.1)	0	0	0	Interest cover EBIT (x)	12.3	14.1	10.5	12.4	13.5
<b>Reported NPAT</b>	<b>59.1</b>	<b>42.6</b>	<b>42.5</b>	<b>55.9</b>	<b>74.0</b>	Interest cover EBITDA (x)	13.7	15.6	12.4	14.2	15.1
Normalised EPS (cps)	9.3	10.2	7.8	10.3	13.7	Net debt/ND+E (%)	25.2	29.9	28.4	29.8	32.2
DPS (cps)	5.4	5.8	4.3	5.7	7.5	Net debt/EBITDA (x)	3.7	4.9	6.3	5.2	4.3
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	17.9	13.2	3.1	10.6	14.6	Return on assets (%)	3.4	3.0	2.4	2.9	3.5
EBITDA (%)	12.9	27.9	-8.3	27.7	31.1	Return on equity (%)	7.0	7.2	4.6	6.2	8.3
EBIT (%)	12.4	29.4	-14.2	31.0	34.3	Return on funds employed (%)	6.0	6.2	11.8	10.1	13.2
Normalised NPAT (%)	16.6	34.0	-17.9	31.7	32.4	EBITDA margin (%)	27.6	31.2	27.8	32.1	36.7
Normalised EPS (%)	4.6	9.9	-23.4	31.7	32.4	EBIT margin (%)	24.8	28.4	23.6	28.0	32.8
Ordinary DPS (%)	6.8	8.4	-25.7	31.7	32.4	Capex to sales (%)	0.0	0.0	4.2	4.1	7.2
						Capex to depreciation (%)	0	0	100	100	184
						Imputation (%)	80	80	80	80	80
						Pay-out ratio (%)	57	57	55	55	55
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Operating Performance	2019A	2020A	2021E	2022E	2023E
<b>EBITDA</b>	<b>49.5</b>	<b>63.3</b>	<b>58.1</b>	<b>74.2</b>	<b>97.3</b>	<b>Revenue (NZ\$m)*</b>					
Working capital change	26.7	45.0	75.9	69.8	93.5	Care fees	125.6	129.5	137.4	143.7	151.1
Interest & tax paid	(7.1)	(5.5)	(6.9)	(8.8)	(12.9)	Management fees	21.4	29.0	35.5	35.7	44.6
Other	0	0	0	0	0	Other	5.4	5.1	5.6	5.9	6.2
<b>Operating cash flow</b>	<b>69.1</b>	<b>102.9</b>	<b>127.1</b>	<b>135.3</b>	<b>177.9</b>	Invest. property (total gains)	27.0	39.3	30.7	46.0	63.2
Capital expenditure	0	0	(8.7)	(9.5)	(19.2)	<b>Total revenue</b>	<b>179.5</b>	<b>203.0</b>	<b>209.2</b>	<b>231.3</b>	<b>265.1</b>
(Acquisitions)/divestments	(113.0)	(334.4)	(150.0)	(116.3)	(155.4)						
Other	0.0	(3.5)	0	0	0						
<b>Funding available/(required)</b>	<b>(43.9)</b>	<b>(235.0)</b>	<b>(31.6)</b>	<b>9.5</b>	<b>3.3</b>	<b>Key Drivers</b>					
Dividends paid	(22.7)	(29.6)	(23.3)	(30.7)	(40.7)	Sales - new units	70	126	90	140	190
Equity raised/(returned)	0	141.7	0	0	0	Ave unit price - new sales (NZ\$m)	0.63	0.76	0.89	0.93	0.95
<b>(Increase)/decrease in net debt</b>	<b>(66.6)</b>	<b>(122.8)</b>	<b>(55.0)</b>	<b>(21.3)</b>	<b>(37.4)</b>	Sales - resold units	258	278	204	251	360
						Ave unit price - resales (NZ\$m)	0.34	0.38	0.39	0.40	0.40
						Ave resold unit price inflation (%)	8.8	11.7	3.0	3.0	1.0
						Gross development margin (%)	18.0	18.0	18.5	20.0	19.0
						Gross resales margin (%)	22.4	22.6	20.0	20.0	20.0
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	<b>Development and acquisitions:</b>					
Working capital	(14)	(17)	(2)	(3)	(3)	New units/care suites built	113	209	150	170	250
Fixed assets	1,215	1,830	2,011	2,173	2,401	New beds built	0	0	0	0	60
Intangibles	54	36	36	36	36	Acquisitions - beds			0	0	0
Right of use asset	0	0	0	0	0	Acquisitions - units	0	326	0	0	0
Other assets	19	26	26	26	26	<b>Apartments/units</b>	<b>1,955</b>	<b>2,490</b>	<b>2,640</b>	<b>2,810</b>	<b>3,060</b>
<b>Total funds employed</b>	<b>1,273</b>	<b>1,875</b>	<b>2,070</b>	<b>2,232</b>	<b>2,459</b>	<b>Beds</b>	<b>1,722</b>	<b>1,722</b>	<b>1,722</b>	<b>1,722</b>	<b>1,782</b>
Net debt/(cash)	185	308	363	385	422						
Lease liability	0	0	0	0	0						
Other liabilities	538	844	792	942	1,151						
Shareholder's funds	550	723	915	906	887						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>1,273</b>	<b>1,875</b>	<b>2,070</b>	<b>2,232</b>	<b>2,459</b>						

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

## Forecast changes

Reflecting ARV's positive 1Q sales activity and recent anecdotal feedback across the sector, we make small amendments to our FY21 estimates and no direct changes thereafter. The key drivers behind our FY21 changes are (1) incorporating the net cost of NZ\$3m ARV incurred as a result of COVID-19 measures through April to June (NZ\$5m in additional operating costs offset by NZ\$2m of government subsidies), (2) lifting our FY21 re-sales units from 157 to 204 (FY20 of 278) and re-sale average prices from -3% YoY to +3% YoY; and (3) increasing our build rate from 120 units to 150 units and new sales from 80 units to 90 units. Should the current positive trend continue throughout FY21 we see further upside to these estimates.

Our target price is unchanged at NZ\$1.82, implying 23% upside.

**Figure 1. Forecast summary changes (NZ\$m)**

	2021E			2022E			2023E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	203.0	209.2	3.0%	229.0	231.3	1.0%	262.1	265.1	1.1%
EBITDA	54.6	58.1	6.4%	74.7	74.2	-0.6%	97.1	97.3	0.2%
Underlying profit	39.2	42.5	8.4%	56.3	55.9	-0.8%	73.9	74.0	0.2%
EPS (cps)	7.2	7.8	8.4%	10.4	10.3	-0.8%	13.6	13.7	0.2%
DPS (cps)	4.0	4.3	8.4%	5.7	5.7	-0.8%	7.5	7.5	0.2%

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. **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.

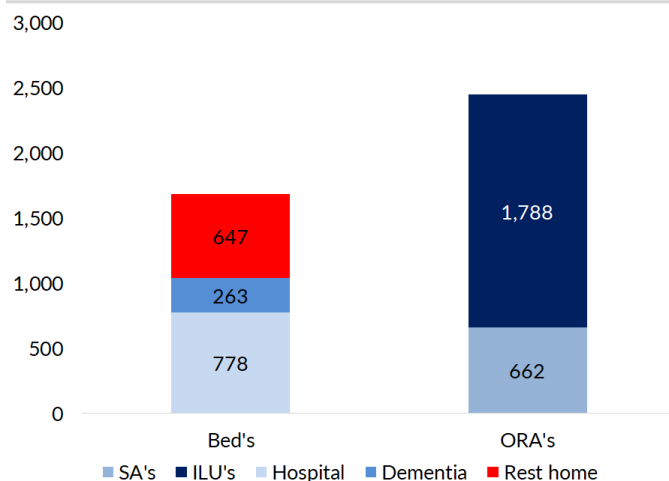
### Financial structure

- **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.
- **Balance sheet robust:** ARV's gearing at ~30% remains at comfortable levels, providing ample room to work through its development pipeline.

### Risk factors

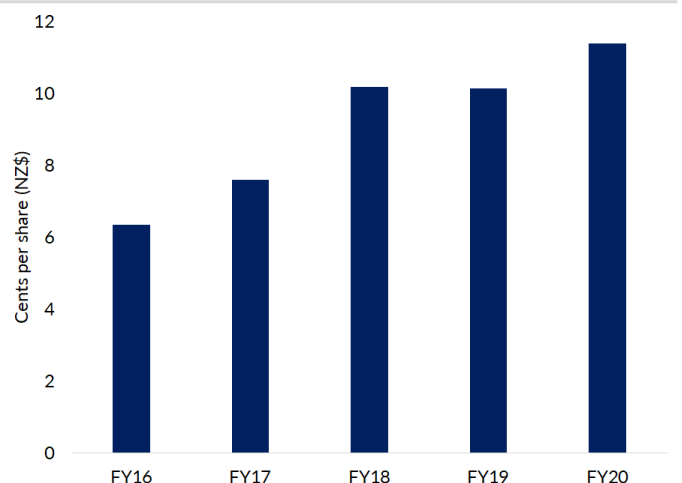
- **Care occupancy:** Competition with quality beds and a focus on home-based support are providing headwinds for near-term occupancy, while cost pressures are building. ARV's 95% occupancy is strong compared to the sectors of ~89%.
- **Retirement unit oversupply:** The significant industry pipeline 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 2. ARV portfolio as at 31 March 2020

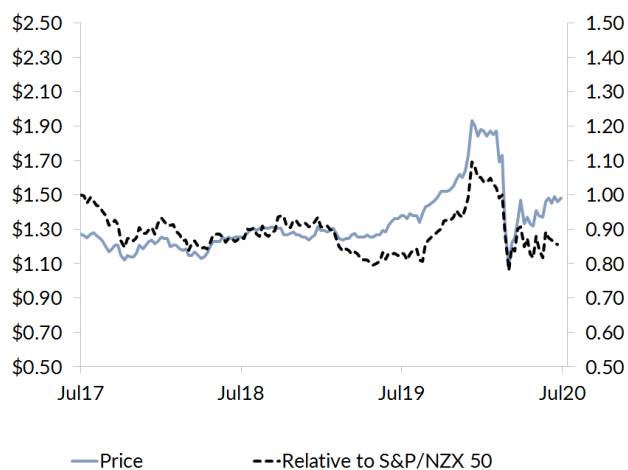


Source: Forsyth Barr analysis, Company reports

Figure 3. ARV eps trajectory



Source: Forsyth Barr analysis, Company reports

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

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

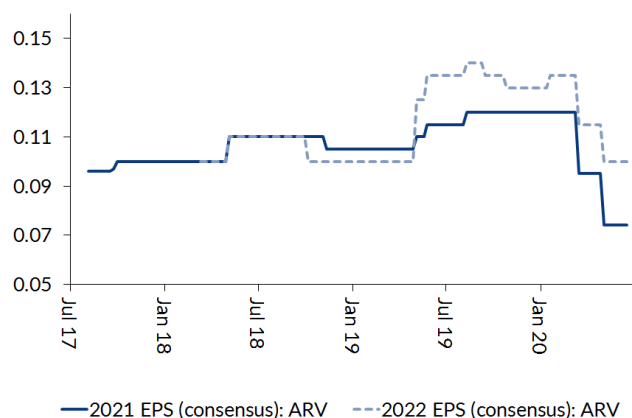
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 6. International valuation comparisons**

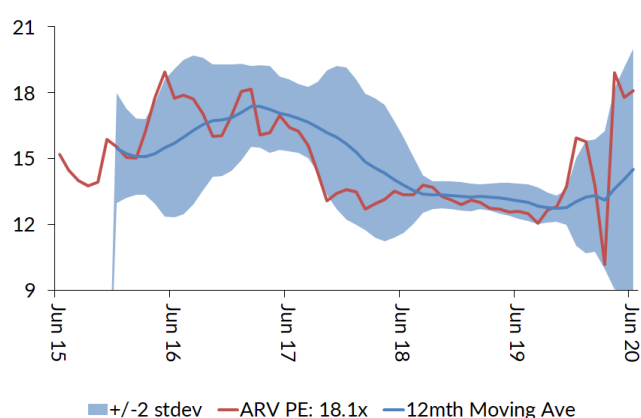
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect ARV's balance date - March)										
<b>Arvida Group Limited</b>	<b>ARV NZ</b>	<b>NZ\$1.48</b>	<b>NZ\$802</b>	<b>18.9x</b>	<b>14.3x</b>	<b>19.1x</b>	<b>15.0x</b>	<b>22.5x</b>	<b>17.2x</b>	<b>3.8%</b>
RYMAN HEALTHCARE *	RYM NZ	NZ\$12.89	NZ\$6,445	26.9x	21.1x	27.7x	22.3x	30.7x	24.4x	2.1%
SUMMERSET GROUP *	SUM NZ	NZ\$7.23	NZ\$1,648	37.1x	23.1x	31.9x	22.4x	36.0x	24.6x	1.5%
METLIFECARE *	MET NZ	NZ\$5.89	NZ\$1,256	17.8x	15.5x	19.4x	17.0x	21.0x	18.4x	1.3%
OCEANIA HEALTHCARE *	OCA NZ	NZ\$0.97	NZ\$596	14.8x	11.9x	15.3x	12.7x	19.1x	15.3x	4.7%
REGIS HEALTHCARE	REG AT	A\$1.36	A\$408	21.8x	18.4x	6.6x	6.3x	10.7x	10.0x	4.7%
JAPARA HEALTHCARE	JHC AT	A\$0.47	A\$126	22.5x	18.3x	8.4x	7.7x	23.1x	20.0x	5.6%
ESTIA HEALTH	EHE AT	A\$1.48	A\$385	16.0x	13.9x	7.3x	5.7x	13.8x	11.8x	7.2%
<b>Compcop Average:</b>				<b>22.4x</b>	<b>17.5x</b>	<b>16.6x</b>	<b>13.5x</b>	<b>22.1x</b>	<b>17.8x</b>	<b>3.9%</b>
<b>ARV Relative:</b>				<b>-16%</b>	<b>-18%</b>	<b>15%</b>	<b>11%</b>	<b>2%</b>	<b>-4%</b>	<b>-1%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One forward PE (x)**


Source: Forsyth Barr analysis

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