

Augusta Capital

NEUTRAL

Funds Management Momentum

Augusta Capital (AUG) has been the leading performer in the listed property sector year-to-date with a return of +46% and we have pulled our rating back from OUTPERFORM to NEUTRAL. The business remains with considerable momentum in terms of deal flow and the establishment of new funds. NEUTRAL.

What's changed?

- **Earnings:** No change
- **Target Price:** Lifted +7% to NZ\$1.38
- **Rating:** Downgraded to NEUTRAL

Downgraded to NEUTRAL after a stellar run

AUG has had a strong share price run since we updated our rating to OUTPERFORM (in our research note 'Growth Under Management' dated 14 June 2019) and we have pulled our rating back to NEUTRAL. AUG has had the sector leading total return of +46% year-to-date.

Upgraded target price

As detailed in our property sector report 'Real Estate reflections' dated 5 September, we have made changes to our weighted average cost of capital (WACC) assumptions and have adopted our new, firm wide, risk free rate and market risk premium across all of the 10 listed property vehicles that we cover. The new risk free rate is 2%, down from 2.75% and the market risk premium is now 7.5%, down from 7.75%. The net result is a lift in the AUG target price of +7% to NZ\$1.38. Given the relatively low asset betas in the listed property sector this has had a material positive impact on our DCF valuations. The level of impact on our target prices is less significant, given our target price is a 50% blend of our DCF valuations and our unchanged NAV valuations. While the lower WACC has lifted our target prices by +7% to +17% it has had little impact on our investment ratings. This is because our investment ratings are relative to the listed property sector, not the wider equity market.

Robust deal outlook continues

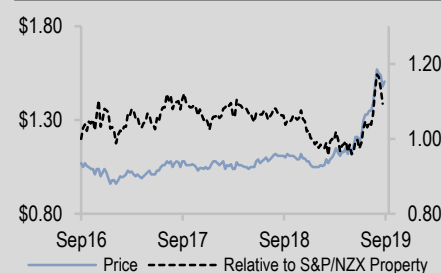
The Tourism Fund is a key focus and this is targeted for launch in late FY20. We also expect progress with a large format retail fund, the Value Add Fund No. 2 and Asset Plus in FY20. AUG has also just announced plans to set up its first residential land development project. AUG is conducting due diligence on a 40ha block just outside of Warkworth. There is potential for up to 800 homes to be developed on the land accompanied with other amenities including a neighbourhood centre. The new fund is likely to be targeted at wholesale investors who are more interested in capital gain over defensive stabilised return, which appeals more to retail investors.

Investment View

AUG remains well positioned to grow across a range of funds management vehicles and has transitioned to a fully funds management business. It remains with an attractive dividend yield, but earnings are potentially more volatile in the near-term as it moves to focus on base management fees versus transaction fees. AUG is an increasingly valuable, well performing and unique funds management vehicle. Our rating is NEUTRAL.

NZX Code	AUG
Share price	NZ\$1.51
Target price	NZ\$1.38
Risk rating	High
Issued shares	87.5m
Market cap	NZ\$132m
Average daily turnover	43.4k (NZ\$53k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	7.7	6.3	6.2	5.1
EPS* (NZc)	8.8	7.2	7.1	5.8
EPS growth* (%)	34.1	-18.9	-0.8	-18.9
DPS (NZc)	6.1	6.5	6.5	5.5
Imputation (%)	0	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	10.4	8.5	5.9	6.8
EV/EBIT	10.4	8.5	5.9	6.8
PE	17.0	21.0	21.1	26.1
Price / NTA	2.0	1.6	1.6	n/a
Cash dividend yield (%)	4.1	4.3	4.3	3.6
Gross dividend yield (%)	4.1	6.0	6.0	5.1

*Historic and forecast numbers based on underlying profits

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Augusta Capital Ltd (AUG)

Priced as at 04 Sep 2019: NZ\$1.50

March year end

Forsyth Barr valuation						Valuation Ratios		2018A	2019A	2020E	2021E	2022E
Valuation methodology		Blend of 50% DCF & 50% Adj NAV				EV/EBITDA (x)		14.2	10.4	8.5	5.9	6.8
						EV/EBIT (x)		14.2	10.4	8.5	5.9	6.8
12-month target price (NZ\$)*		1.38	Spot valuations (NZ\$)			PE (x)		22.8	17.0	21.0	21.1	26.1
Expected share price return		-8.3%	1. DCF	1.39		Price/NTA (x)		2.1	2.0	1.6	1.6	1.6
Net dividend yield		4.3%	2. Adj NAV	1.29		Free cash flow yield (%)		0.4	5.2	4.6	4.7	4.0
Estimated 12-month return		-4.0%	3. n/a	n/a		Net dividend yield (%)		3.7	4.1	4.3	4.3	3.6
						Gross dividend yield (%)		5.2	4.1	6.0	6.0	5.1
Key WACC assumptions		DCF valuation summary (NZ\$m)				Imputation (%)		98	0	100	100	100
Risk free rate		2.00%	Total firm value		113.2	Pay-out ratio (%)		85	69	91	91	95
Equity beta		0.81	(Net debt)/cash		6.2							
WACC		6.6%	Value of equity		107.0	Capital Structure						
Terminal growth		1.5%	Shares (m)		87.5	2018A 2019A 2020E 2021E 2022E						
						Interest cover EBIT (x)		3.7	7.8	25.4	26.6	8.9
						Interest cover EBITDA (x)		3.7	7.8	25.4	26.6	8.9
Profit and Loss Account (NZ\$m)						2018A	2019A	2020E	2021E	2022E	Net debt/ND+E (%)	
Sales revenue						18.9	22.0	19.2	19.2	17.8	30.8 6.7 -9.9 5.1 5.5	
Normalised EBITDA						10.3	11.7	8.7	8.6	7.4	Net debt/EBITDA (x)	
Depreciation and amortisation						-	-	-	-	-	3.6 0.5 n/a 0.6 0.8	
Normalised EBIT						10.3	11.7	8.7	8.6	7.4	Key Ratios	
Net interest						(2.8)	(1.5)	(0.3)	(0.3)	(0.8)	2018A 2019A 2020E 2021E 2022E	
Associate income						-	-	-	-	-	Return on assets (%)	
Tax						(1.8)	(2.4)	(2.0)	(2.0)	(1.5)	7.3 11.4 8.6 7.4 6.4	
Minority interests						-	-	-	-	-	Return on equity (%)	
Normalised NPAT						5.8	7.7	6.3	6.2	5.1	6.9 9.0 6.3 6.2 5.0	
Abnormals/other						(4.8)	(0.8)	(0.7)	(0.1)	(0.1)	Return on funds employed (%)	
Reported NPAT						1.0	7.0	5.6	6.1	4.9	0.0 0.0 0.0 0.0 0.0	
Normalised EPS (cps)						6.6	8.8	7.2	7.1	5.8	EBITDA margin (%)	
DPS (cps)						5.6	6.1	6.5	6.5	5.5	54.7 53.0 45.0 44.7 41.8	
											EBIT margin (%)	
											54.7 53.0 45.0 44.7 41.8	
											Capex to sales (%)	
											1.3 1.4 0.0 0.0 0.0	
											Capex to depreciation (%)	
											n/a n/a n/a n/a n/a	
						Operating Performance		2018A	2019A	2020E	2021E	2022E
						Net revenue by segment:						
Growth Rates						2018A	2019A	2020E	2021E	2022E	Net rental income	
Revenue (%)						-0.8	16.6	-12.8	-0.3	-7.1	5.7 3.0 - - -	
EBITDA (%)						-5.3	13.1	-25.9	-1.1	-13.1	Distribution income	
EBIT (%)						-5.3	13.1	-25.9	-1.1	-13.1	1.8 1.8 4.4 5.4 5.5	
Normalised NPAT (%)						-14.4	34.1	-18.9	-0.8	-18.9	Total yield income	
Normalised EPS (%)						-14.4	34.1	-18.9	-0.8	-18.9	7.4 4.7 4.4 5.4 5.5	
DPS (%)						2.3	8.9	6.1	0.0	-15.6	Offeror Fees	
											3.7 5.9 4.0 2.5 1.5	
											Underwriting fees	
											1.5 2.1 1.4 1.4 0.8	
											Total up-front deal fees	
											5.2 8.0 5.4 3.9 2.3	
Cash Flow (NZ\$m)						2018A	2019A	2020E	2021E	2022E	Base management fees	
EBITDA						10.3	11.7	8.7	8.6	7.4	4.2 5.2 6.4 7.1 7.7	
Working capital change						(4.3)	0.3	(0.2)	0.0	0.2	Transactional income	
Interest & tax paid						(5.2)	(4.8)	(2.4)	(2.3)	(2.4)	2.1 4.1 3.1 2.7 2.3	
Other						-	-	-	-	-	Total recurring fees	
Operating cash flow						0.8	7.2	6.0	6.2	5.2	6.3 9.3 9.4 9.9 10.0	
Capital expenditure						(0.2)	(0.3)	-	-	-	Total net rental income	
(Acquisitions)/divestments						(3.2)	31.0	14.8	(15.0)	(0.7)	18.9 22.0 19.2 19.2 17.8	
Other						(5.3)	(1.6)	-	-	-	New deal operating metrics	
Funding available/(required)						(7.9)	36.3	20.8	(8.8)	4.6	2018A 2019A 2020E 2021E 2022E	
Dividends paid						(4.8)	(5.3)	(5.7)	(5.7)	(5.0)	New deals completed (assets)	
Equity raised/(returned)						-	-	-	-	-	351 180 272 170 100	
Increase/(decrease) in net debt						12.7	(31.0)	(15.1)	14.4	0.5	New deals completed (equity raised)	
											126 255 129 102 60	
											Equity underwritten by AUG	
											47% 36% 36% 45% 45%	
											Syndicates wound-up (assets)	
											125 232 75 50 25	
						Funds under management						
Balance Sheet (NZ\$m)						2018A	2019A	2020E	2021E	2022E	Directly held properties	
Working capital						1.5	(0.2)	(0.5)	(0.5)	(0.7)	84 31 - - -	
Fixed assets						85.3	31.5	0.7	0.6	0.5	Syndications	
Intangibles						21.7	20.2	20.2	20.2	20.2	1,416 1,532 1,699 1,849 1,956	
Other assets						25.3	42.2	72.2	87.2	87.9	Other properties	
Total funds employed						133.7	93.6	92.7	107.5	107.9	96 96 96 96 96	
Net debt/(cash)						37.5	6.2	(9.0)	5.4	5.9	Value Add fund no.1	
Other non current liabilities						12.1	1.3	1.3	1.3	1.3	74 - - - -	
Shareholder's funds						84.2	86.1	100.3	100.7	100.6	Asset Plus	
Minority interests						-	-	-	-	-	180 133 190 190 190	
Total funding sources						133.7	93.6	92.7	107.5	107.9	Industrial Fund	
											- - - - -	
											Total FUM	
											1,851 1,792 1,985 2,135 2,242	

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

Investment summary

Augusta Capital (AUG) is making good progress transitioning its business model from property investment to funds management. The key focus for AUG is getting its balance sheet utilised so it can replace the rental income lost from property sales. Recent periods have shown record activity levels, and growing earnings off this high base is challenging. AUG's funds management business makes it very different from the other listed property vehicles and gives it less capital intensive growth prospects, albeit at higher risk. In our property sector report *'Real Estate Reflections'* dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the AUG target price by +7%. **NEUTRAL.**

Earnings and cash flow outlook

- **Funds management growth:** AUG is building its track record for executing on larger deals. Following the Industrial Fund and St George's Bay road deals, we expect AUG's FUM to grow to above NZ\$2bn in FY20E. AUG is also looking to launch a tourism related fund in 3Q20E.
- **Asset Plus (APL) externalisation:** AUG purchased APL's management rights for NZ\$4.5m, which has lifted its FUM +NZ\$180m (NZ\$125m after asset sales) and generated NZ\$0.9m in recurring management fees. AUG is implementing a 'yield plus growth' strategy for APL.
- **Syndication pipeline:** While AUG has been successful in growing its recurring management fees it is still reliant on up-front deal fees.

Business quality

- **Focus solely on funds management:** AUG's last directly held asset has been sold. The sale has settled and provides substantial balance sheet capacity for warehousing, co-investment in new funds, and underwriting.

Financial structure

- **Balance sheet becoming more fluid:** AUG's funds management activities have resulted in a more unpredictable balance sheet. We assume gearing of ~15–20% over the medium-term, which is ~35–40% on a look-through basis incorporating the underlying gearing in AUG's co-investments.

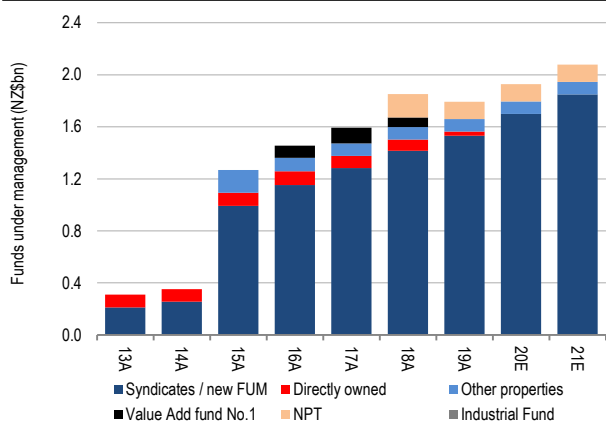
Risks factors

- **Acquiring new stock for investment products:** This is the largest challenge for AUG's funds management business given a highly competitive property market.
- **In syndication demand:** An economic slowdown, rising interest rates, or a decrease in investor sentiment are catalysts for this.

Company description

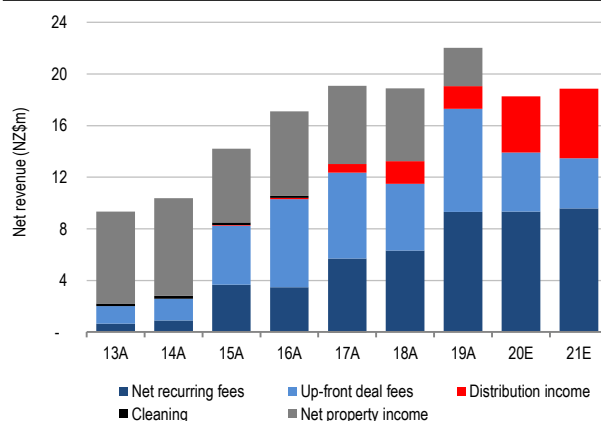
Augusta Capital Limited (AUG) was listed on the NZX in December 2006, as Kermadec Property Fund. In March 2012, it acquired the funds management businesses from Augusta Funds Management and internalised its management structure. In April 2014, AUG acquired KCL Property for \$15m, which increased total property under management by ~\$750m to ~\$1.6bn. AUG has transitioned its business to focus solely on funds management.

Figure 1. Funds under management (NZ\$bn)



Source: Forsyth Barr analysis, Company Reports

Figure 2. Net revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company reports

Figure 3. Substantial Shareholders

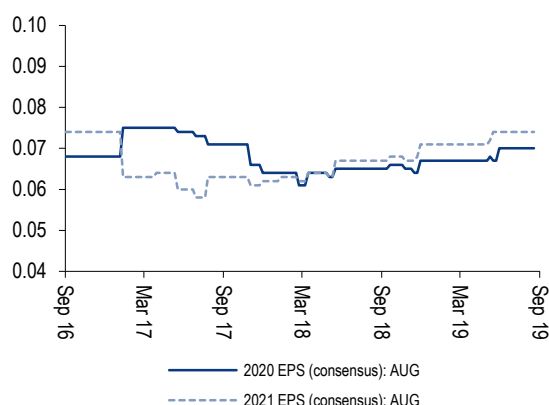
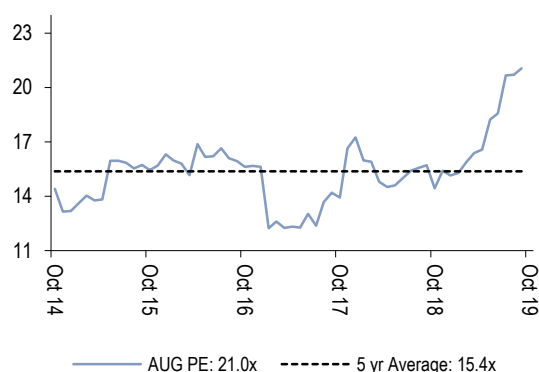
Shareholder	Latest Holding
Mark Edward Francis	16.7%
ANZ NZ Investments	13.0%
Kawaroa Trustees	5.7%
ACC	5.4%

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

Figure 4. International Compcos

Company	Code	Price	Mkt Cap	PE	EV/EBITDA	EV/EBIT	Cash D/Yld
<i>(metrics re-weighted to reflect AUG's balance date - March)</i>							
Augusta Capital	AUG NZ	NZ\$1.51	NZ\$132	21.0x	21.1x	15.9x	16.1x
Pendal Group	PDL AT	A\$6.71	A\$2,166	12.4x	11.2x	9.7x	8.7x
Charter Hall Group	CHC AT	A\$12.79	A\$5,957	22.1x	23.7x	23.7x	19.0x
Cromwell Property Group	CMW AT	A\$1.24	A\$3,206	15.7x	15.4x	n/a	n/a
Centuria Capital Group	CNI AT	A\$2.15	A\$825	17.2x	17.3x	18.3x	14.4x
Goodman Group	GMG AT	A\$14.18	A\$25,927	22.5x	23.3x	30.8x	21.7x
Magellan Financial Group	MFG AT	A\$50.56	A\$9,205	23.3x	21.7x	17.8x	16.6x
Platinum Asset Management	PTM AT	A\$3.80	A\$2,229	14.2x	14.2x	9.7x	9.7x
Stride Property *	SPG NZ	NZ\$2.34	NZ\$855	22.3x	21.1x	21.0x	19.1x
360 Capital Group	TGP AT	A\$1.11	A\$256	>50x	n/a	n/a	n/a
Compcos Average:				18.7x	18.5x	18.7x	15.6x
AUG Relative:				+12%	+14%	-15%	+3%
EV = Current Market Cap + Actual Net Debt				18.9x	15.5x	4.9%	-12%

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

Figure 5. Consensus EPS Momentum

Figure 6. 12 Month Forward PE


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