

Augusta Capital

NEUTRAL

Nothing to Worry About

Augusta Capital (AUG) has advised that FY20 earnings are expected to be in line with FY19; however, earnings in 1H20 to 30 September will be below 1H19 due to lower transactional fee income and development expenditure associated with two hotel projects targeted for AUG's soon to be launched Augusta Tourism Fund. It is the nature of AUG's business that its earnings can be volatile period to period. We expect this volatility to decrease over time as its business has an increased focus on ongoing management fee income rather than higher front loaded transaction fees. We have not changed our forecasts with AUG well placed to grow funds under management over the near to medium term, and remain with a NEUTRAL investment rating.

Upside to our numbers — we will review following interim result on 27 November

We have had an expectation that earnings can be volatile given the nature of AUG's business. AUG's guidance of flat earnings for FY19 indicates there is some upside to our forecasts. The timing of transaction income is hard to predict and we will review it once we get more information at the 1H20 result and detailed outlook comments regarding the timing of near-term funds management activities.

The interim quarter dividend payment of 1.625 cents per share is expected to be maintained when the interim results are announced, which is in line with our forecasts.

Recent funds management activity

AUG has noted that it has been busy developing its hotel properties in Auckland and Queenstown, ahead of including those properties in its soon to be launched Augusta Tourism Fund. AUG is targeting this fund to be launched before financial year-end, 31 March 2020. AUG also hopes to have its diversified Fund established by then.

The Augusta Industrial Fund has unconditionally purchased 27–29 Neales Road, East Tamaki, Auckland for \$25.2m with settlement on 11 November 2019 and a 1% acquisition fee for AUG. AUG also continues to look for acquisitions for Asset Plus (APL). APL is expected to report its 1H20 result on 29 November.

AUG is planning its first residential land development project and 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.

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\$1.57
Target price	NZ\$1.38
Risk rating	High
Issued shares	87.5m
Market cap	NZ\$137m
Average daily turnover	42.0k (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	10.9	9.1	6.6	7.6
EV/EBIT	10.9	9.1	6.6	7.6
PE	17.7	21.9	22.1	27.2
Price / NTA	2.1	1.7	1.7	n/a
Cash dividend yield (%)	3.9	4.1	4.1	3.5
Gross dividend yield (%)	3.9	5.8	5.8	4.9

*Historic and forecast numbers based on underlying profits

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Augusta Capital Ltd (AUG)		Priced as at 23 Oct 2019: NZ\$1.57					March year end				
Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						Blend of 50% DCF & 50% Adj NAV					
12-month target price (NZ\$)*						1.38					
Expected share price return						-12.1%					
Net dividend yield						4.1%					
Estimated 12-month return						-8.0%					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						2.00%					
Equity beta						0.81					
WACC						6.6%					
Terminal growth						1.5%					
						Total firm value					
						(Net debt)/cash					
						Value of equity					
						Shares (m)					
						EV/EBITDA (x)					
						EV/EBIT (x)					
						PE (x)					
						Price/NTA (x)					
						Free cash flow yield (%)					
						Net dividend yield (%)					
						Gross dividend yield (%)					
						Imputation (%)					
						Pay-out ratio (%)					
						Capital Structure					
						Interest cover EBIT (x)					
						Interest cover EBITDA (x)					
						Net debt/ND+E (%)					
						Net debt/EBITDA (x)					
Profit and Loss Account (NZ\$m)						Key Ratios					
Sales revenue						2018A 2019A 2020E 2021E 2022E					
Normalised EBITDA						2018A 2019A 2020E 2021E 2022E					
Depreciation and amortisation						2018A 2019A 2020E 2021E 2022E					
Normalised EBIT						2018A 2019A 2020E 2021E 2022E					
Net interest						2018A 2019A 2020E 2021E 2022E					
Associate income						2018A 2019A 2020E 2021E 2022E					
Tax						2018A 2019A 2020E 2021E 2022E					
Minority interests						2018A 2019A 2020E 2021E 2022E					
Normalised NPAT						2018A 2019A 2020E 2021E 2022E					
Abnormals/other						2018A 2019A 2020E 2021E 2022E					
Reported NPAT						2018A 2019A 2020E 2021E 2022E					
Normalised EPS (cps)						2018A 2019A 2020E 2021E 2022E					
DPS (cps)						2018A 2019A 2020E 2021E 2022E					
Growth Rates						Operating Performance					
Revenue (%)						2018A 2019A 2020E 2021E 2022E					
EBITDA (%)						2018A 2019A 2020E 2021E 2022E					
EBIT (%)						2018A 2019A 2020E 2021E 2022E					
Normalised NPAT (%)						2018A 2019A 2020E 2021E 2022E					
Normalised EPS (%)						2018A 2019A 2020E 2021E 2022E					
DPS (%)						2018A 2019A 2020E 2021E 2022E					
Cash Flow (NZ\$m)						Net revenue by segment:					
EBITDA						2018A 2019A 2020E 2021E 2022E					
Working capital change						2018A 2019A 2020E 2021E 2022E					
Interest & tax paid						2018A 2019A 2020E 2021E 2022E					
Other						2018A 2019A 2020E 2021E 2022E					
Operating cash flow						2018A 2019A 2020E 2021E 2022E					
Capital expenditure						2018A 2019A 2020E 2021E 2022E					
(Acquisitions)/divestments						2018A 2019A 2020E 2021E 2022E					
Other						2018A 2019A 2020E 2021E 2022E					
Funding available/(required)						2018A 2019A 2020E 2021E 2022E					
Dividends paid						2018A 2019A 2020E 2021E 2022E					
Equity raised/(returned)						2018A 2019A 2020E 2021E 2022E					
Increase/(decrease) in net debt						2018A 2019A 2020E 2021E 2022E					
Balance Sheet (NZ\$m)						New deal operating metrics					
Working capital						2018A 2019A 2020E 2021E 2022E					
Fixed assets						2018A 2019A 2020E 2021E 2022E					
Intangibles						2018A 2019A 2020E 2021E 2022E					
Other assets						2018A 2019A 2020E 2021E 2022E					
Total funds employed						2018A 2019A 2020E 2021E 2022E					
Net debt/(cash)						2018A 2019A 2020E 2021E 2022E					
Other non current liabilities						2018A 2019A 2020E 2021E 2022E					
Shareholder's funds						2018A 2019A 2020E 2021E 2022E					
Minority interests						2018A 2019A 2020E 2021E 2022E					
Total funding sources						2018A 2019A 2020E 2021E 2022E					
						Net rental income					
						Distribution income					
						Total yield income					
						Offeror Fees					
						Underwriting fees					
						Total up-front deal fees					
						Base management fees					
						Transactional income					
						Total recurring fees					
						Total net rental income					
						New deals completed (assets)					
						New deals completed (equity raiser)					
						Equity underwritten by AUG					
						Syndicates wound-up (assets)					
						Funds under management					
						Directly held properties					
						Syndications					
						Other properties					
						Value Add fund no.1					
						Asset Plus					
						Industrial Fund					
						Total FUM					

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

Investment summary

Augusta Capital (AUG) has transitioned its business from property 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 Diversified Fund in CY19 and Tourism Fund in early CY20.
- **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.

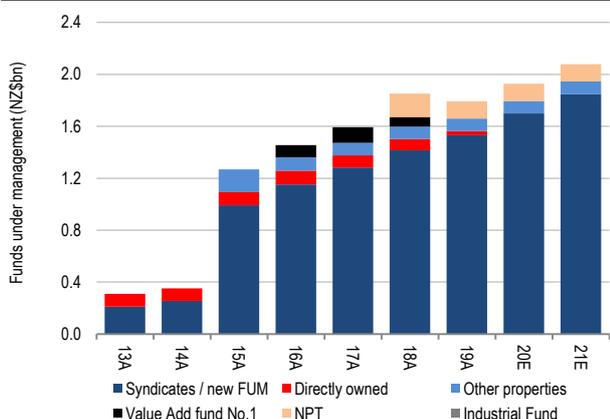
Risks factors

- **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

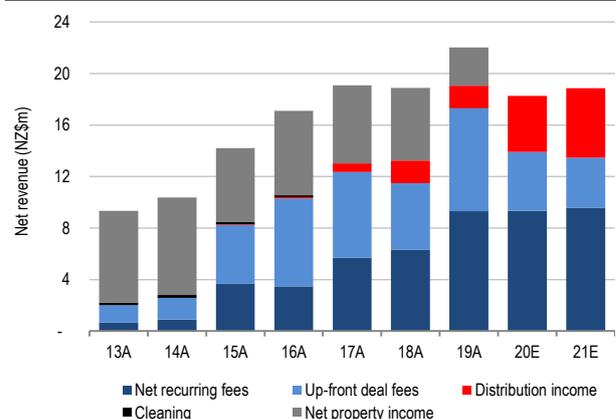
Augusta Capital Limited (AUG) was listed on the NZX in December 2006, as Kermadec Property Fund. In March 2012, it acquired the funds management businesses from Augusta Funds Management and internalised its management structure. In April 2014, AUG acquired KCL Property for \$15m, which increased total 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%
Kawarua Trustees	5.7%
ACC	5.4%

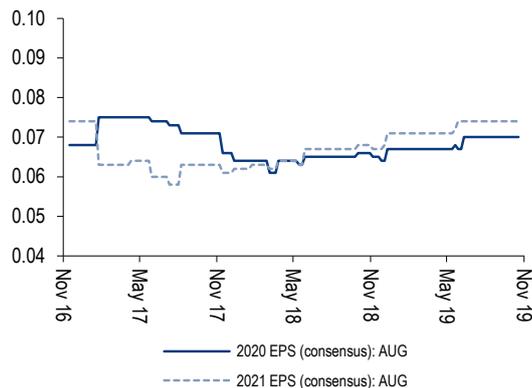
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 4. International Compcos

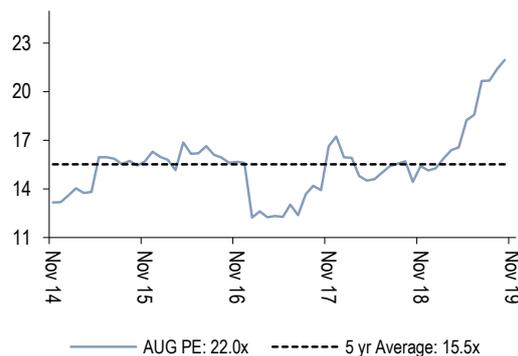
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
<i>(metrics re-weighted to reflect AUG's balance date - March)</i>										
Augusta Capital	AUG NZ	NZ\$1.57	NZ\$137	21.9x	22.1x	16.6x	16.8x	16.6x	16.8x	4.1%
Pendal Group	PDL AT	A\$7.24	A\$2,337	13.7x	12.7x	10.8x	9.8x	11.2x	10.3x	6.8%
Charter Hall Group	CHC AT	A\$11.77	A\$5,482	20.3x	21.8x	20.2x	18.3x	21.0x	18.3x	3.3%
Cromwell Property Group	CMW AT	A\$1.33	A\$3,439	16.8x	16.6x	22.6x	19.4x	22.4x	18.9x	5.9%
Centuria Capital Group	CNI AT	A\$2.14	A\$939	17.1x	17.2x	20.3x	16.0x	20.4x	16.0x	4.6%
Goodman Group	GMG AT	A\$14.34	A\$26,219	22.8x	23.6x	31.2x	21.9x	31.4x	21.6x	2.2%
Magellan Financial Group	MFG AT	A\$49.28	A\$8,977	22.8x	21.0x	17.4x	16.0x	17.1x	15.8x	4.4%
Platinum Asset Management	PTM AT	A\$4.16	A\$2,441	15.7x	15.8x	10.7x	11.0x	10.7x	10.9x	6.3%
Stride Property *	SPG NZ	NZ\$2.39	NZ\$873	22.8x	21.5x	21.3x	19.4x	21.3x	19.4x	4.1%
360 Capital Group	TGP AT	A\$1.14	A\$263	>50x	n/a	34.7x	n/a	38.8x	n/a	n/a
Compco Average:				19.0x	18.8x	21.0x	16.5x	21.6x	16.4x	4.7%
AUG Relative:				+15%	+17%	-21%	+2%	-23%	+2%	-12%

EV = Current Market Cap + Actual Net Debt

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

Figure 5. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 6. 12 Month Forward PE


Source: Forsyth Barr analysis

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