

Augusta Capital

NEUTRAL

1H20 — Pineapple Lumps

Augusta Capital (AUG) has reported a 1H20 result reflective of the unpredictable nature of its near term earnings. As previously signalled, AUG's 1H20 result was subdued considerably compared to the pcp, with EPS (0.48 cps) down c.-90%. This was a function of a -42% reduction in transactional income. The result was well below our forecasts, but performance is difficult to predict on a six monthly basis given the timing of transactional income. FY20 is all about the 2H as AUG crystallises recent funds management initiatives. Dividend guidance for FY20 of 6.50cps was re-iterated and we have not changed our forecasts which currently sit below the flat earnings guidance. NEUTRAL.

Funds management fees still appetising

Despite a lumpy result, AUG reaffirmed guidance for FY20 earnings which is expected to be broadly in line with FY19, providing some upside to our forecasts. Net management fees were up +16% on the pcp, driven by robust growth in AUM across the Industrial fund (AIF) and Asset Plus (APL). AUG now has c.\$2bn in AUM and a target of NZ\$3bn by March 2022. History has proven that AUG's earnings are volatile period to period, although we expect this volatility to smooth over time as its business has an increased focus on ongoing management fee income rather than higher front loaded transaction fees. Management indicated single-asset syndications will also remain a feature over time, albeit identifying appropriately priced inventory for such syndication is proving very challenging given elevated valuations across the board.

Funds Initiatives on track

AUG continues to make good progress with its key funds management initiatives over the next 12 months, being its Diversified Fund (late Jan 2020 launch) and the Tourism Fund (Feb 2020 launch). The Diversified Fund mandate continues to broaden, with the addition of a new significant asset acquisition currently under consideration, along with license variation being sought which will allow the fund to take underwriting positions in equity raises. The Tourism Fund is currently composed of two key seed assets (Raddison branded Luxury Hotel in Queenstown and Jucy Snooze Hotel in AKL), which are likely to be accompanied by a further two "real estate backed tourism" assets upon the fund's establishment. We expect these initiatives will present significant upside to 2H20 earnings, with AUG reliant on the successful launch of these funds in order to hit its FY20 earnings guidance.

Dividend Guidance maintained

There was material reduction in net finance costs (-83%) during 1H20, a derivative of reduced gearing and increased capitalised interest across its Tourism Fund related developments. AUG also announced its 1H dividend of 3.25cps, an 8% increase on the pcp, albeit in line with forecasts and also maintained its FY20 dividend guidance of 6.5cps. The 2Q20 dividend of 1.625cps has a record date of 6 December 2019, and payment date of 13 December 2019.

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\$1.49
Target price	NZ\$1.38
Risk rating	High
Issued shares	87.5m
Market cap	NZ\$130m
Average daily turnover	43.8k (NZ\$56k)

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	10.3	8.3	5.8	6.7
EV/EBIT	10.3	8.3	5.8	6.7
PE	16.8	20.8	20.9	25.8
Price / NTA	2.0	1.6	1.6	n/a
Cash dividend yield (%)	4.1	4.4	4.4	3.7
Gross dividend yield (%)	4.1	6.1	6.1	5.1

*Historic and forecast numbers based on underlying profits

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Augusta Capital Ltd (AUG)		Priced as at 27 Nov 2019: NZ\$1.49					March year end				
Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						Blend of 50% DCF & 50% Adj NAV					
12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. DCF					
Net dividend yield						2. Adj NAV					
Estimated 12-month return						3. n/a					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						Total firm value					
Equity beta						(Net debt)/cash					
WACC						Value of equity					
Terminal growth						Shares (m)					
Profit and Loss Account (NZ\$m)						Capital Structure					
Sales revenue						Interest cover EBIT (x)					
Normalised EBITDA						Interest cover EBITDA (x)					
Depreciation and amortisation						Net debt/ND+E (%)					
Normalised EBIT						Net debt/EBITDA (x)					
Net interest						Key Ratios					
Associate income						Return on assets (%)					
Tax						Return on equity (%)					
Minority interests						Return on funds employed (%)					
Normalised NPAT						EBITDA margin (%)					
Abnormals/other						EBIT margin (%)					
Reported NPAT						Capex to sales (%)					
Normalised EPS (cps)						Capex to depreciation (%)					
DPS (cps)						Operating Performance					
Growth Rates						Net revenue by segment:					
Revenue (%)						Net rental income					
EBITDA (%)						Distribution income					
EBIT (%)						Total yield income					
Normalised NPAT (%)						Offeror Fees					
Normalised EPS (%)						Underwriting fees					
DPS (%)						Total up-front deal fees					
Cash Flow (NZ\$m)						Base management fees					
EBITDA						Transactional income					
Working capital change						Total recurring fees					
Interest & tax paid						Total net rental income					
Other						New deal operating metrics					
Operating cash flow						New deals completed (assets)					
Capital expenditure						New deals completed (equity raised)					
(Acquisitions)/divestments						Equity underwritten by AUG					
Other						Syndicates wound-up (assets)					
Funding available/(required)						Funds under management					
Dividends paid						Directly held properties					
Equity raised/(returned)						Syndications					
Increase/(decrease) in net debt						Other properties					
Balance Sheet (NZ\$m)						Value Add fund no.1					
Working capital						Asset Plus					
Fixed assets						Industrial Fund					
Intangibles						Total FUM					
Other assets						Directly held properties					
Total funds employed						Syndications					
Net debt/(cash)						Other properties					
Other non current liabilities						Value Add fund no.1					
Shareholder's funds						Asset Plus					
Minority interests						Industrial Fund					
Total funding sources						Total FUM					

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

1H20 Results Summary

Figure 1. 1H20 Financial Summary (NZ\$m)

	1H18A	1H19A	1H20A	Chg.	Forbarr
Net revenue	11,051	11,837	5,737	-51.5%	9,606
Corporate costs	(4,404)	(4,880)	(5,478)	12.3%	(5,279)
EBIT	6,647	6,957	259	-96.3%	4,327
Net interest	(1,461)	(891)	(153)	-82.8%	(171)
PBT	5,186	6,066	106	-98.3%	4,157
Current tax	(1,269)	(1,554)	315	-120.3%	(1,014)
Underlying NPAT / AFFO	3,917	4,512	421	-90.7%	3,143
Operating one-offs	(320)	170	(225)	-232.4%	-
Fair value movements	1	641	1,450	126.2%	-
Deferred tax expense	225	(221)	(16)	-92.8%	-
Reported profit	3,823	5,102	1,630	-68.1%	3,143
Per share (cps)					
Weighted no. of shares	87,529	87,529	87,540	0.0%	87,529
NPAT - distributable profit	4.48	5.15	0.48	-90.7%	3.59
Dividends	2.75	3.00	3.25	8.3%	3.25
Pay-out ratio	61%	58%	n/a	618ppt	0%
Net revenue breakdown					
Property rental income	2,720	1,879	65	-96.5%	-
Distribution income	1,026	756	1,192	57.7%	-
Up-front deal fees	4,152	5,028	-	-	-
Base management fees	2,069	2,586	2,988	15.5%	-
Transactional income	1,082	1,588	915	-42.4%	-
Total net revenue	11,049	11,837	5,160	-56.4%	9,606

Source: Forsyth Barr analysis, Company Reports

Figure 2. 1H20 Divisional Summary (NZ\$m)

	1H18A	1H19A	1H20A	Chg.
Net rental income	2,720	1,879	65	-96.5%
Distribution income	1,026	756	1,192	57.7%
Total yield income	3,746	2,635	1,257	-52.3%
Offeror Fees	3,147	3,468	-	-
Underwriting fees	1,005	1,560	-	-
Total up-front deal fees	4,152	5,028	-	-
Base management fees	2,069	2,586	2,988	15.5%
Transactional income	1,082	1,588	915	-42.4%
Total recurring fees	3,151	4,174	3,903	-6.5%
Total net rental income	11,049	11,837	5,160	-56.4%

Source: Forsyth Barr analysis, Company Reports

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.

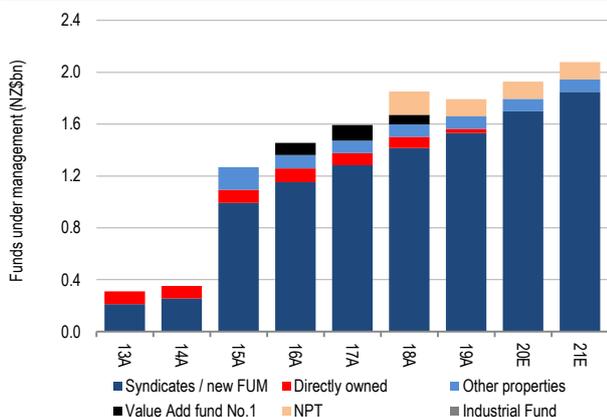
Risks factors

- **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

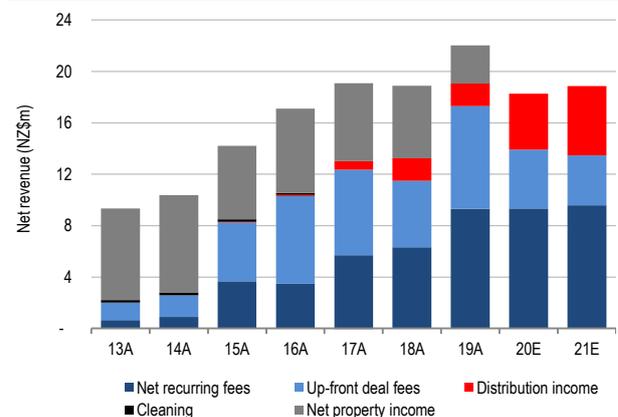
Augusta Capital Limited (AUG) was listed on the NZX in December 2006, as Kermadec Property Fund. In March 2012, it acquired the funds management businesses from Augusta Funds Management and internalised its management structure. In April 2014, AUG acquired KCL Property for \$15m, which increased total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

Figure 3. Funds under management (NZ\$bn)



Source: Forsyth Barr analysis, Company Reports

Figure 4. Net revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Figure 5. 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

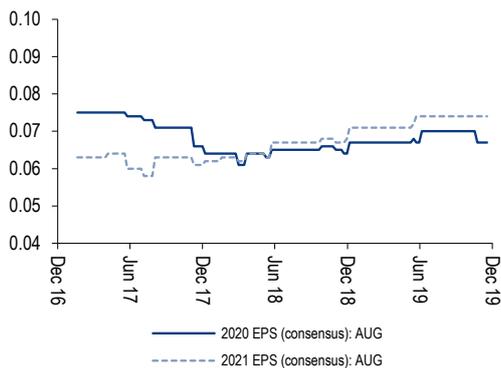
Figure 6. International Compcos

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
<i>(metrics re-weighted to reflect AUG's balance date - March)</i>										
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
Augusta Capital	AUG NZ	NZ\$1.49	NZ\$130	20.8x	20.9x	15.8x	16.0x	15.8x	16.0x	4.4%
Pendal Group	PDL AT	A\$8.44	A\$2,724	15.6x	15.1x	12.2x	11.5x	12.7x	12.0x	5.7%
Charter Hall Group	CHC AT	A\$10.81	A\$5,035	18.9x	20.1x	19.3x	16.9x	19.5x	16.9x	3.6%
Cromwell Property Group	CMW AT	A\$1.24	A\$3,213	15.8x	15.2x	21.3x	18.0x	21.1x	17.6x	6.3%
Centuria Capital Group	CNI AT	A\$2.08	A\$913	16.4x	16.4x	19.2x	14.5x	19.3x	14.5x	4.8%
Goodman Group	GMG AT	A\$14.45	A\$26,421	23.1x	23.8x	31.3x	21.5x	31.6x	21.7x	2.2%
Magellan Financial Group	MFG AT	A\$51.56	A\$9,398	23.8x	22.0x	18.2x	16.8x	18.0x	16.5x	4.2%
Platinum Asset Management	PTM AT	A\$4.24	A\$2,488	16.0x	16.2x	11.0x	11.2x	10.9x	11.1x	6.2%
Stride Property *	SPG NZ	NZ\$2.20	NZ\$804	21.0x	19.8x	20.1x	18.3x	20.1x	18.3x	4.5%
360 Capital Group	TGP AT	A\$1.14	A\$263	>50x	n/a	34.7x	n/a	38.8x	n/a	n/a
Compcro Average:				18.8x	18.6x	20.8x	16.1x	21.3x	16.1x	4.7%
AUG Relative:				+10%	+13%	-24%	-1%	-26%	-1%	-7%

EV = Current Market Cap + Actual Net Debt

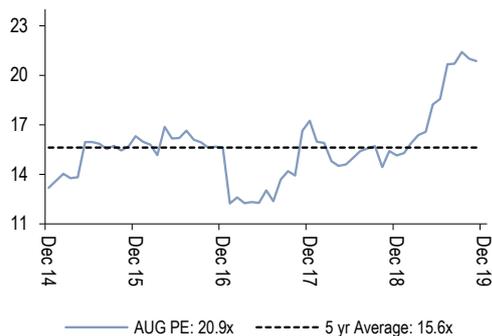
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcro metrics re-weighted to reflect headline (AUG) companies fiscal year end

Figure 7. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis

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