

Augusta Capital

Mark to Market – Reinstate at NEUTRAL

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NEUTRAL 

Augusta Capital (AUG) has announced that it has received a takeover notice from ASX listed Centuria Capital (CNI), outlining terms for a deal that would see 100% of AUG's shares acquired at an implied price of NZ\$1.00, a 46% premium to AUG's prior close price. We believe CNI's proposed offer is compelling given it implies a value for the funds management business of 5% of assets under management (AUM) or a >10x EBIT multiple, both of which compare favourably with recent transactions. We reinstate coverage on AUG with a NEUTRAL rating and an NZ\$0.95 12-month target price. Our target price suggests 6% upside to yesterday's close but is a 5% discount to CNI's implied offer price.

NZX Code	AUG	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$0.90	NPAT* (NZ\$m)	7.7	-0.1	3.1	5.5	EV/EBITDA	12.2	n/a	27.3	17.4
Target price	NZ\$0.95	EPS* (NZc)	8.8	-0.2	1.9	3.3	EV/EBIT	12.2	n/a	27.3	17.4
Risk rating	High	EPS growth* (%)	34.1	n/a	n/a	69.1	PE	10.2	n/a	46.6	27.6
Issued shares	169.5m	DPS (NZc)	6.1	3.3	1.8	3.2	Price / NTA	1.2	2.3	1.9	1.9
Market cap	NZ\$153m	Imputation (%)	45	100	100	100	Cash div yld (%)	6.8	3.6	2.0	3.5
Avg daily turnover	170.3k (NZ\$218k)	*Based on normalised profits					Gross div yld (%)	8.0	5.0	2.8	4.9

CNI takeover offer take two

Following CNI's terminated Bid Implementation Agreement (BIA), where it sought to acquire 100% of AUG's equity at an NZ\$2.00 per share purchase price, it has returned for another try. The takeover notice released yesterday outlined the intended offer, where CNI would acquire 100% of the outstanding shares for an implied price of NZ\$1.00 per share. The implied offer price of NZ\$1.00 per share is made up of two components; (1) NZ\$0.20 per AUG share, and (2) 0.392 CNI shares per AUG share at a CNI share price of A \$1.91. While we believe the likelihood of a formal takeover offer is high, given the fluid and uncertain economic backdrop, there is still a risk that no takeover is implemented.

What's next from here?

AUG will release a target company statement which will outline its directors recommendation and an independent adviser's report on the merits of the offer within 14 days. From there, if CNI decides to make a takeover offer, it must do so between 14 and 30 days from the date it issued the takeover notice (i.e. 29 June–15 July). CNI expects implementation of the takeover by the end of August.

Reinstate as NEUTRAL

We reinstate coverage of AUG with a NEUTRAL rating. We have reviewed our earnings forecasts as well as our discounted cash flow (DCF) and net asset value (NAV) valuation methods. AUG will report FY20 results on 29 June and we expect an AFFO loss of NZ \$(0.1)m. We expect AFFO to increase to NZ\$3.1m in FY21 largely due to reduced costs. We forecast FY22 AFFO of NZ\$5.3m driven by increased fee income. Our spot NAV suggests a value of NZ\$0.91 and our spot DCF is NZ\$0.94. Our NAV capitalises AUG's NZ \$1.8bn AUM at 4%, in line with the median price paid for recent property management acquisitions. Rolling these valuations forward 12-months we arrive at our target price of NZ\$0.95.

Augusta Capital Ltd (AUG)

Priced as at 15 Jun 2020 (NZ\$)						0.90						
12-month target price (NZ\$)*						0.95	Spot valuations (NZ\$)					
Expected share price return						5.6%	1. DCF					0.94
Net dividend yield						2.4%	2. Adj NAV					0.91
Estimated 12-month return						7.9%	3. CNI takeover notice offer					1.00
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						2.00%	Total firm value					113.2
Equity beta						0.81	(Net debt)/cash					6.2
WACC						6.6%	Less: Capitalised operating leases					0.0
Terminal growth						1.5%	Value of equity					107.0
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2018A	2019A	2020E	2021E	2022E	EV/EBITDA (x)	2018A	2019A	2020E	2021E	2022E	
Normalised EBITDA	18.9	22.0	12.6	13.5	18.0	EV/EBIT (x)	16.2	12.2	>100x	27.3	17.4	
Depreciation and amortisation	10.3	11.7	1.0	5.3	8.3	PE (x)	16.2	12.2	>100x	27.3	17.4	
Normalised EBIT	0	0	0	0	0	Price/NTA (x)	13.6	10.2	n/a	46.6	27.6	
Net interest	10.3	11.7	1.0	5.3	8.3	Free cash flow yield (%)	1.3	1.2	2.3	1.9	1.9	
Associate income	(2.8)	(1.5)	(1.2)	(1.2)	(0.9)	Net dividend yield (%)	0.4	4.5	-1.4	1.4	3.2	
Tax	0	0	0	0	0	Gross dividend yield (%)	6.3	6.8	3.6	2.0	3.5	
Minority interests	(1.8)	(2.4)	0.1	(1.0)	(1.9)	Interest cover EBIT (x)	8.6	8.0	5.0	2.8	4.9	
Normalised NPAT	0	0	0	0	0	Interest cover EBITDA (x)	3.7	7.8	0.8	4.5	9.7	
Abnormals/other	5.8	7.7	(0.1)	3.1	5.5	Net debt/ND+E (%)	30.8	6.7	27.8	7.9	9.4	
Reported NPAT	(4.8)	(0.8)	(26.6)	(0.2)	(0.2)	Net debt/EBITDA (x)	3.6	0.5	22.1	1.6	1.3	
Normalised EPS (cps)	1.0	7.0	(26.8)	2.9	5.3	Capital Structure						
DPS (cps)	6.6	8.8	(0.2)	1.9	3.3	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E	
	5.6	6.1	3.3	1.8	3.2	Interest cover EBITDA (x)	3.7	7.8	0.8	4.5	9.7	
						Net debt/ND+E (%)	30.8	6.7	27.8	7.9	9.4	
						Net debt/EBITDA (x)	3.6	0.5	22.1	1.6	1.3	
						Key Ratios						
						Return on assets (%)	2018A	2019A	2020E	2021E	2022E	
						Return on equity (%)	7.3	11.4	1.1	4.5	6.9	
						Return on funds employed (%)	6.9	9.0	-0.3	3.1	5.5	
						EBITDA margin (%)	0.0	0.0	0.0	0.0	0.0	
						EBIT margin (%)	54.7	53.0	7.8	38.8	45.8	
						Capex to sales (%)	54.7	53.0	7.8	38.8	45.8	
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
						Imputation (%)	98	45	100	100	100	
						Pay-out ratio (%)	85	69	-1,956	93	97	
						Operating Performance						
						Net revenue by segment:	2018A	2019A	2020E	2021E	2022E	
						Net rental income	5.7	3.0	0	0	0	
						Distribution income	1.8	1.8	2.0	2.7	3.4	
						Total yield income	7.4	4.7	2.0	2.7	3.4	
						Offeror Fees	3.7	5.9	0.6	1.5	3.0	
						Underwriting fees	1.5	2.1	0.3	0.8	1.6	
						Total up-front deal fees	5.2	8.0	0.9	2.3	4.6	
						Base management fees	4.2	5.2	6.2	6.6	7.3	
						Transactional income	2.1	4.1	3.4	2.0	2.7	
						Total recurring fees	6.3	9.3	9.6	8.5	10.0	
						Total income	18.9	22.0	12.6	13.5	18.0	
						Funds under management						
						Directly held properties	46	31	29	32	32	
						Syndications	1,673	1,314	1,307	1,384	1,588	
						Other properties	56	37	37	37	37	
						Value Add fund no.1	74	0	0	0	0	
						Asset Plus	170	123	136	136	136	
						Industrial Fund	0	301	347	347	347	
						Total FUM	2,019	1,804	1,855	1,936	2,140	
						Balance Sheet (NZ\$m)						
						Working capital	2018A	2019A	2020E	2021E	2022E	
						Fixed assets	1.5	(0.2)	(1.8)	(1.0)	(0.5)	
						Intangibles	85.3	31.5	29.7	32.7	32.7	
						Right of use asset	21.7	20.2	20.2	20.2	20.2	
						Other assets	0	0	0	0	0	
						Total funds employed	25.3	42.2	30.6	57.6	59.6	
						Net debt/(cash)	133.7	93.6	78.7	109.5	112.0	
						Lease liability	37.5	6.2	21.6	8.6	10.4	
						Other liabilities	0	0	0	0	0	
						Shareholder's funds	12.1	1.3	1.3	1.3	1.3	
						Minority interests	84.2	86.1	55.8	99.6	100.2	
						Total funding sources	0	0	0	0	0	
							133.7	93.6	78.7	109.5	112.0	

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

Reviewing transactional evidence, NAV, and the takeover notice

Comparable transactions

Below we highlight recent transactional evidence, which suggests that the offer price outlined in the takeover notice is fair. On a EV/FUM basis, 5.0% suggests that CNI is paying a slight premium vs. recent ANZ transactions where the target company managed < \$2.5bn of property assets. Our calculated trailing EV/EBIT multiple of 13.6 is higher than many previous transactions, we believe this reflects AUG's investment in its management platform ahead of growth in its AUM. The recent capital raise presentation showed that AUG has reduced overheads by -20%, and when adjusting for this the EV/EBIT multiple falls to ~10.4x which is in line with the top end of multiples outlined in Figure 1.

Figure 1. Transactional evidence

Date	Target company	Type	EV	FUM	EV/FUM	EV/EBIT
Jan-20	Augusta (Not completed)	Acquisition	111.2	1,954	5.7%	16.6
Sep-18	Folkestone	Acquisition	59.5	1,555	3.8%	8.0
Aug-18	Aventus Retail Property Fund	Internalisation	143.1	2,000	7.2%	8.6
Jun-17	Property for Industry	Internalisation	42.0	1,083	3.9%	10.6
May-17	Armada Funds Management	Acquisition	30.7	800	3.8%	6.5
Nov-16	360 Capital Investment Management	Acquisition	91.5	1,395	6.6%	10.1
Jun-16	Generation Healthcare	Acquisition	58.5	439	13.3%	5.1
Apr-16	GPT Metro Office Management Platform	Acquisition	9.0	439	2.0%	7.0
Nov-14	Arena	Internalisation	11.5	411	2.1%	10.5
Dec-13	Kiwi Property Group	Internalisation	72.5	2,188	3.3%	6.3
Oct-13	GDI Property Group	Internalisation	18.5	742	2.5%	3.7
	Median	Internalisation			3.3%	8.6
	Median	Acquisition			3.8%	7.0
	Median	Total			3.8%	7.5
Jun-20	Augusta (Takeover notice)	Acquisition	91.1	1,834	5.0%	13.6

Source: Forsyth Barr analysis, Company reports

Reviewing AUG's NAV

AUG is different to other listed property vehicles (LPVs) in that it derives its income from asset management and transactional fees. This fee income is not represented on AUG's balance sheet vs. other assets such as investment property. Therefore, comparisons vs. other LPVs based on premium/discount to net tangible assets (NTA) is difficult. Our NAV adds the value of income not represented on the balance sheet to AUG's NTA of NZ\$0.46/share. We have capitalised AUG's AUM at 4%, in line with transactional evidence as set out in Figure 1. We have also adjusted the value of AUG's investment in Asset Plus (APL) based on its current market price. Our NAV is NZ\$0.91/share as set out in Figure 2.

Figure 2. NAV calculation

		Comments
Cash	25.9	Pro forma book value post capital raise
Man St and Cook St	28.8	Pro forma book value post capital raise
Investment assets	35.5	APL at NZ\$0.385 + Industrial fund at book value
Assets held for sale	0.9	Pro forma book value post capital raise
BV of other assets	13.4	Pro forma book value post capital raise
Management business	73.4	NZ\$1.8bn AUM capitalised at 4%
Total assets (NZ\$m)	177.9	
Current liabilities	(8.7)	Pro forma book value post capital raise
Borrowings	(15.0)	Pro forma book value post capital raise
Total liabilities (NZ\$m)	(23.7)	
Net assets (NZ\$m)	154.2	
Shares on issue (m)	168.5	
NAV per share (NZ\$)	0.91	

Source: Forsyth Barr analysis

Takeover notice

CNI is proposing to acquire 100% of AUG for an implied offer price of NZ\$1.00 per share. The potential NZ\$1.00 offer price consists of NZ\$0.20 per AUG share and 0.392 CNI shares per AUG share. The NZ\$1.00 is derived from the five day VWAP for CNI (A\$1.914 per share). The implied offer price represents a 46% premium to AUG's closing share price of \$0.69 on Friday.

Takeover Notice is not a Takeover Offer. If CNI proceeds to make a takeover offer, it must do so within the period that begins 14 days and ends 30 days after today. CNI is not legally obliged to make an offer during that period. AUG's Board has formed a committee to oversee its response. AUG's independent directors recommend that shareholders do not take any action in respect of their shares until they receive a target company statement, including any recommendation from directors of AUG, and the independent advisers report.

Based on current pricing (CNI 15 June 2020 close of A\$1.770) we calculate the current value of the offer suggested in the takeover notice as NZD\$0.937 per share. This is likely to move around due to changes in the CNI share price, and changes in the NZD/AUD cross rate.

Figure 3. Calculation of live implied offer value

Current CNI share price (AUD)	A\$1.785
AUD/NZD	1.061
CNI share price (NZD)	NZ\$1.894
Scrip ratio	0.392
Value of CNI consideration	\$0.743
Plus NZ\$0.20 per AUG share	\$0.200
Current offer value (NZD)	\$0.943

Source: Forsyth Barr analysis, Company documents

Investment Summary

Augusta Capital (AUG) has transitioned its business from property to funds management. Although funds under management (FUM) continue to grow, volatile transactional activity fees still represent a reasonable portion of earnings. 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. NEUTRAL.

Business quality

- **Focus solely on funds management:** AUG transition from property funds management is largely complete. Its business is now underpinned by a high quality funds management platform which will provide it scale to grow. AUG has a strong network of retail and institutional investors which it can leverage to grow its FUM.

Earnings and cashflow outlook

- **Funds management growth:** AUG is focussed on growing the value of its property assets under management via new open ended funds (such as the Augusta Industrial Fund) and syndicates. Funds management income is based on the value of assets under management and is typically relatively stable and predictable.
- **Transactional income can be volatile:** AUG is cycling financial years which have had strong transactional activity. Transaction fees include offeror and underwriting fees which are more volatile than steady management fees.

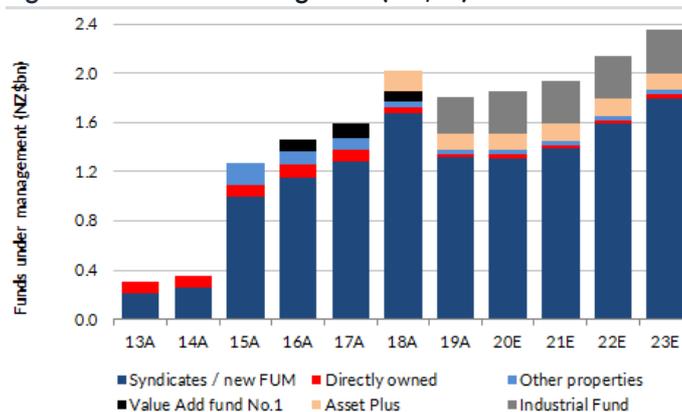
Financial structure

- **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.

Risk factors

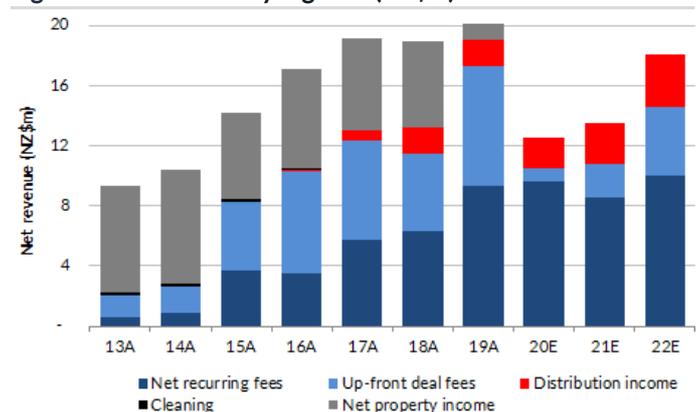
- **CNI deal:** Centuria (CNI) has announced that it intends to make an offer to acquire 100% of outstanding AUG shares for NZ\$1.00 per share. If this deal does not eventuate, AUG's share price may be impacted.
- **Acquiring new stock for investment products:** This is the largest challenge for AUG's funds management business given a highly competitive property market.
- **Growing FUM in a slow economy:** The environment will be tougher to establish new funds near-term, however it will lead to opportunities to source assets and investors will still be looking for yield.

Figure 4. Funds under management (NZ\$bn)

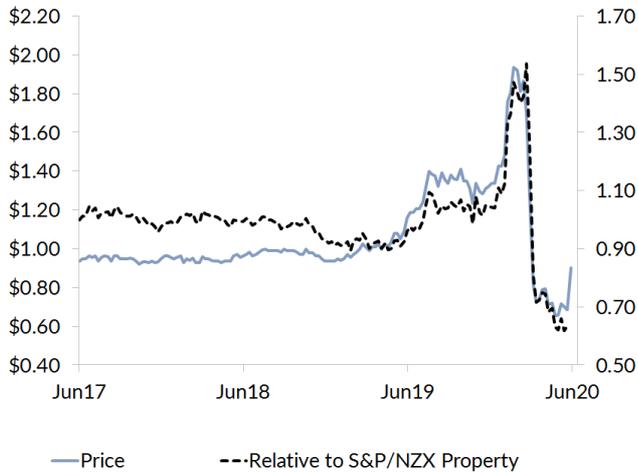


Source: Forsyth Barr analysis

Figure 5. Net Revenue by segment (NZ\$m)



Source: Forsyth Barr analysis

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Centuria New Zealand Holdings Limited	22.9%
ANZ NZ Investments	13.7%
Mark Edward Francis	11.9%
ACC	6.5%

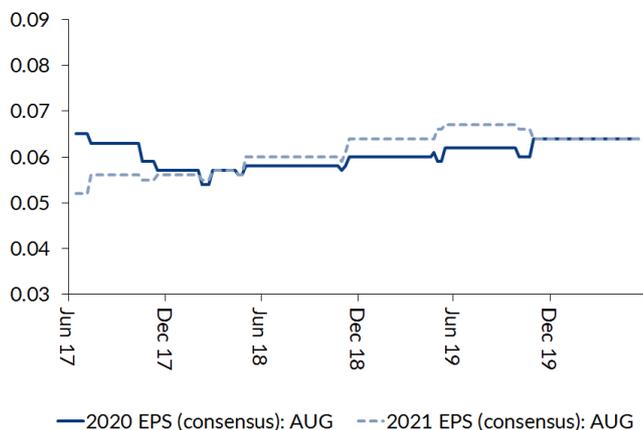
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 8. International valuation comparisons

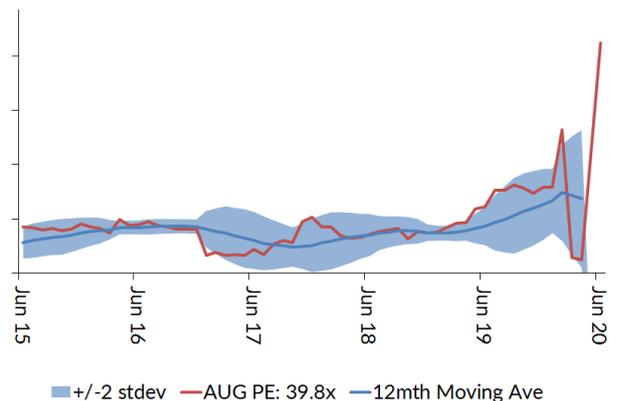
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Augusta Capital	AUG NZ	NZ\$0.90	NZ\$153	<0x	46.6x	>75x	30.2x	>75x	30.2x	2.0%
PENDAL GROUP	PDLAT	A\$5.97	A\$1,927	12.0x	13.6x	9.4x	10.3x	9.9x	11.0x	6.1%
CHARTER HALL GROUP	CHCAT	A\$9.63	A\$4,485	15.5x	18.3x	16.1x	15.3x	16.7x	15.9x	3.8%
CROMWELL PROPERTY GROUP	CMWAT	A\$0.85	A\$2,221	10.9x	11.5x	20.1x	18.2x	20.5x	18.3x	8.9%
CENTURIA CAPITAL GROUP	CNIAT	A\$1.82	A\$877	14.5x	14.3x	17.1x	12.5x	17.2x	12.5x	4.9%
GOODMAN GROUP	GMGAT	A\$14.76	A\$26,987	23.3x	24.5x	31.5x	21.8x	31.7x	21.8x	2.1%
MAGELLAN FINANCIAL GROUP	MFGAT	A\$55.72	A\$10,157	24.8x	24.4x	18.4x	17.9x	18.4x	17.9x	3.7%
PLATINUM ASSET MANAGEMENT	PTMAT	A\$3.52	A\$2,065	14.2x	16.7x	9.8x	11.5x	9.8x	11.6x	6.0%
Stride Property*	SPGNZ	NZ\$1.64	NZ\$599	15.7x	16.8x	16.4x	18.5x	16.4x	18.5x	4.2%
360 CAPITAL GROUP	TGPAT	A\$0.86	A\$199	46.8x	n/a	19.1x	n/a	19.3x	n/a	n/a
Compcop Average:				19.7x	17.5x	17.6x	15.7x	17.8x	16.0x	5.0%
AUG Relative:				n/a	166%	n/a	92%	n/a	89%	-60%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (AUG) 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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