

Augusta Capital

FY20 Result — Just a Formality

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NEUTRAL

Augusta Capital (AUG) reported FY20 adjusted funds from operations (AFFO) of NZ\$0.2m, down materially from the prior year, largely due to no new fund offerings being completed. This outcome was in line with guidance provided with AUG's recent capital raise. No FY21 guidance was provided; however, AUG has targeted 20% cost savings, a plan to launch a new fund in mid-July, and to progress development and acquisition opportunities within existing funds. The next key update for AUG is a potential takeover offer from Centuria Capital (CNI) which we expect sometime over the next two weeks given takeovers code requirements. We make minor adjustments to our earnings estimates and leave our NZ\$0.95 target price unchanged.

NZX Code	AUG	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$0.89	NPAT* (NZ\$m)	-0.1	2.9	5.4	6.0	EV/EBITDA	n/a	27.7	14.8	12.7
Target price	NZ\$0.95	EPS* (NZc)	-0.1	1.8	3.2	3.5	EV/EBIT	n/a	27.7	14.8	12.7
Risk rating	High	EPS growth* (%)	n/a	n/a	72.3	11.5	PE	n/a	48.4	28.1	25.2
Issued shares	169.5m	DPS (NZc)	3.3	1.8	3.1	3.4	Price / NTA	2.3	1.9	1.9	1.9
Market cap	NZ\$151m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.7	2.0	3.5	3.8
Avg daily turnover	172.1k (NZ\$219k)	*Based on normalised profits					Gross div yld (%)	5.1	2.8	4.8	5.2

Annus horribilis

FY20 was a year to forget for AUG with the company significantly impacted by COVID-19, resulting in AFFO reducing NZ\$7.5m to NZ\$0.2m. The planned Augusta Property Fund and Augusta Tourism Fund did not proceed which resulted in zero revenue (vs. NZ \$7.5m potential) to offset the costs incurred (NZ\$2.3m) as well as the forfeiture of its deposit on the Albany Lifestyle Centre (NZ \$4.5m). Post balance date AUG raised NZ\$45m of new equity to 1) repay bank debt largely related to tourism assets stranded on its balance sheet, and 2) provide funding flexibility for future growth opportunities.

A year of rebuilding ahead

AUG did not provide any explicit FY21 guidance but 1) is targeting overhead cost savings of 20%, 2) expects to relaunch Augusta Property Fund mid-July, 3) has postponed further development spend on balance sheet tourism assets for now, 4) continues to progress development opportunities (albeit with a somewhat uncertain outlook) within Asset Plus. At 31 May 2020 AUG had a cash balance of NZ\$14m and available bank debt of NZ\$9m which can be used to fund growth initiatives. We have made minor changes to our FY21–23 forecasts.

Waiting for an offer

The next key update for AUG is a potential takeover offer from Centuria Capital (CNI). Under the takeovers code, if CNI decides to make a takeover offer it must do so between 14 and 30 days (i.e. 29 June to 15 July) from the date it issued the takeover notice. The offer outlined in the takeover notice comprised .392 CNI shares and NZ\$0.20 per AUG share; based on the current CNI share price of A\$1.885 and an exchange rate of 1.069 this implies a potential takeover value of NZ\$0.99 per share.

Augusta Capital Ltd (AUG)

Priced as at 26 Jun 2020 (NZ\$)

0.89

12-month target price (NZ\$)* 0.95

Expected share price return	6.7%
Net dividend yield	2.4%
Estimated 12-month return	9.1%

Key WACC assumptions

Risk free rate	2.00%
Equity beta	0.81
WACC	6.6%
Terminal growth	1.5%

Spot valuations (NZ\$)

1. DCF	0.94
2. Adj NAV	0.91
3. CNI takeover notice offer	1.00

DCF valuation summary (NZ\$m)

Total firm value	113.2
(Net debt)/cash	6.2
Less: Capitalised operating leases	0.0
Value of equity	107.0

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	22.0	11.8	13.0	17.3	19.2	EV/EBITDA (x)	12.1	>100x	27.7	14.8	12.7
Normalised EBITDA	11.7	0.3	4.8	7.6	8.8	EV/EBIT (x)	12.1	>100x	27.7	14.8	12.7
Depreciation and amortisation	0	0	0	0	0	PE (x)	10.1	n/a	48.4	28.1	25.2
Normalised EBIT	11.7	0.3	4.8	7.6	8.8	Price/NTA (x)	1.2	2.3	1.9	1.9	1.9
Net interest	(1.5)	(0.4)	(0.9)	(0.4)	(0.8)	Free cash flow yield (%)	5.0	-10.7	-0.9	3.1	3.7
Associate income	0	0	0	0	0	Net dividend yield (%)	6.9	3.7	2.0	3.5	3.8
Tax	(2.4)	0.0	(0.9)	(1.8)	(2.1)	Gross dividend yield (%)	8.1	5.1	2.8	4.8	5.2
Minority interests	0	0	0	0	0						
Normalised NPAT	7.7	(0.1)	2.9	5.4	6.0	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	(0.8)	(27.3)	(0.3)	(0.3)	(0.3)	Interest cover EBIT (x)	7.8	0.7	5.4	17.6	11.3
Reported NPAT	7.0	(27.4)	2.7	5.1	5.7	Interest cover EBITDA (x)	7.8	0.7	5.4	17.6	11.3
Normalised EPS (cps)	8.8	(0.1)	1.8	3.2	3.5	Net debt/ND+E (%)	6.7	36.6	0.9	14.2	21.6
DPS (cps)	6.1	3.3	1.8	3.1	3.4	Net debt/EBITDA (x)	0.5	>100x	0.2	2.1	3.1
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	16.6	-46.3	9.5	33.6	10.6	Return on assets (%)	11.4	0.3	4.4	6.1	6.4
EBITDA (%)	13.1	-97.7	>100	59.8	15.8	Return on equity (%)	9.0	-0.2	3.0	5.4	6.0
EBIT (%)	13.1	-97.7	>100	59.8	15.8	Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
Normalised NPAT (%)	34.1	n/a	n/a	82.5	11.5	EBITDA margin (%)	53.0	2.2	36.8	44.0	46.1
Normalised EPS (%)	34.1	n/a	n/a	72.3	11.5	EBIT margin (%)	53.0	2.2	36.8	44.0	46.1
Ordinary DPS (%)	8.9	-46.9	-44.6	70.8	9.2	Capex to sales (%)	-1.7	112.2	25.2	1.6	1.4
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	45	100	100	100	100
EBITDA	11.7	0.3	4.8	7.6	8.8	Pay-out ratio (%)	69	-2,891	98	97	95
Working capital change	0.3	(2.7)	(1.1)	(0.4)	(0.2)						
Interest & tax paid	(4.8)	(0.4)	(1.8)	(2.2)	(2.8)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	0	0	0	0	0	Net revenue by segment:					
Operating cash flow	7.2	(2.8)	1.9	5.0	5.8	Net rental income	3.0	(0.0)	0	0	0
Capital expenditure	0.4	(13.3)	(3.3)	(0.3)	(0.3)	Distribution income	1.8	2.3	2.4	3.0	3.6
(Acquisitions)/divestments	30.3	(3.4)	(9.0)	(15.5)	(11.0)	Total yield income	4.7	2.3	2.4	3.0	3.6
Other	(1.6)	1.1	0	0	0						
Funding available/(required)	36.3	(18.3)	(10.4)	(10.8)	(5.5)	Offeror Fees	5.9	0	1.5	3.0	3.0
Dividends paid	(5.3)	(4.3)	(2.3)	(4.7)	(5.6)	Underwriting fees	2.1	0	0.8	1.6	1.6
Equity raised/(returned)	0	0	42.8	0	0	Total up-front deal fees	8.0	0	2.3	4.6	4.6
(Increase)/decrease in net debt	31.0	(22.6)	30.1	(15.5)	(11.0)						
						Base management fees	5.2	6.0	6.3	7.1	8.1
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Transactional income	4.1	3.5	2.0	2.7	3.0
Working capital	(0.2)	(0.5)	0.5	1.0	1.1	Total recurring fees	9.3	9.6	8.3	9.7	11.0
Fixed assets	31.5	31.0	34.0	34.0	34.0						
Intangibles	20.2	20.0	20.0	20.0	20.0	Total income	22.0	11.8	13.0	17.3	19.2
Right of use asset	0	0	0	0	0						
Other assets	42.2	40.2	48.3	63.8	74.8	Funds under management					
Total funds employed	93.6	90.7	102.9	118.8	130.0	Directly held properties	31	1	4	4	4
Net debt/(cash)	6.2	32.0	0.9	16.4	27.4	Syndications	1,314	1,307	1,384	1,588	1,795
Lease liability	0	0	0	0	0	Other properties	37	37	37	37	37
Other liabilities	1.3	3.3	3.3	3.3	3.3	Value Add fund no.1	0	0	0	0	0
Shareholder's funds	86.1	55.4	98.7	99.1	99.3	Asset Plus	123	136	136	136	136
Minority interests	0	0	0	0	0	Industrial Fund	301	347	347	347	347
Total funding sources	93.6	90.7	102.9	118.8	130.0	Total FUM	1,804	1,827	1,908	2,111	2,319

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

Result summary and earnings changes

Figure 1. Result summary

	FY19A	FY20A	Chg.	Forbarr	Var
Net revenue	22,031	12,173	-44.7%	12,575	-3.2%
Corporate costs	(10,356)	(11,579)	11.8%	(11,599)	-0.2%
EBIT	11,675	594	-94.9%	976	-39.2%
Net interest	(1,501)	(382)	-74.6%	(1,180)	n/m
PBT	10,174	212	-97.9%	(204)	n/m
Current tax	(2,434)	19	-100.8%	57	-66.7%
Underlying NPAT / AFFO	7,740	231	-97.0%	(147)	n/m
Operating one-offs	(1,044)	(3,101)	n/m	(3,500)	-11.4%
Fair value movements	(951)	(28,485)	n/m	(27,525)	3.5%
Deferred tax expense	1,200	4,305	n/m	4,400	-2.2%
Reported profit	6,945	(27,050)	n/m	(26,772)	1.0%

Source: Forsyth Barr analysis

Figure 2. Earnings changes

	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Net revenue	13,542	12,965	-4.3%	18,027	17,325	-3.9%	19,307	19,160	-0.8%
Corporate costs	(8,282)	(8,198)	-1.0%	(9,769)	(9,706)	-0.6%	(10,222)	(10,334)	1.1%
EBIT	5,261	4,767	-9.4%	8,258	7,619	-7.7%	9,085	8,826	-2.9%
Net interest	(1,179)	(886)	-24.9%	(855)	(432)	-49.5%	(960)	(780)	-18.7%
PBT	4,081	3,881	-4.9%	7,403	7,187	-2.9%	8,126	8,046	-1.0%
Current tax	(993)	(937)	-5.6%	(1,874)	(1,813)	-3.2%	(2,076)	(2,053)	-1.1%
Underlying NPAT / AFFO	3,088	2,944	-4.7%	5,530	5,374	-2.8%	6,050	5,992	-1.0%

Source: Forsyth Barr analysis

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's 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.

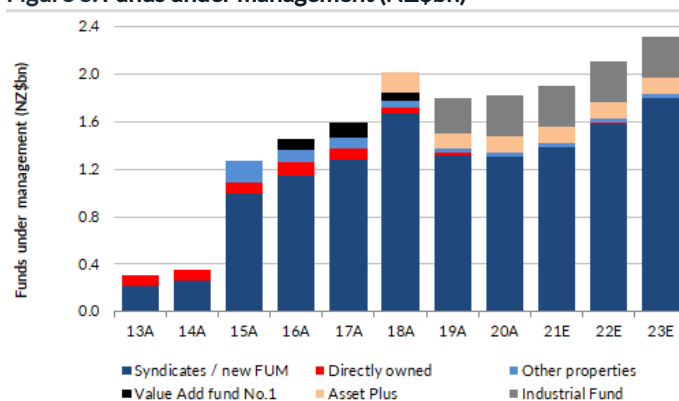
Financial structure

- **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

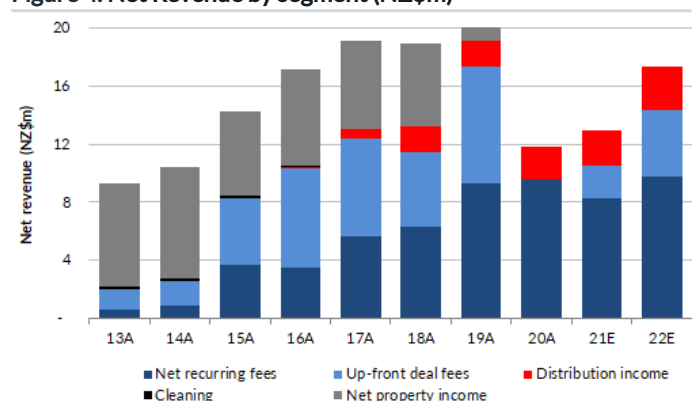
- **CNI deal:** Centuria (CNI) has announced that it intends to make an offer to acquire 100% of outstanding AUG shares for an indicative price of NZ\$1.00 per share. If this deal does not eventuate, AUG's share price may be impacted.
- **Acquiring new stock for investment products:** This is the largest 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 3. Funds under management (NZ\$bn)

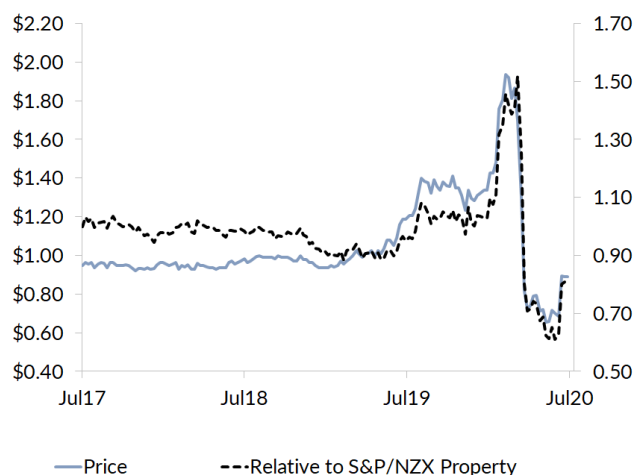


Source: Forsyth Barr analysis

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



Source: Forsyth Barr analysis

Figure 5. Price performance


Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
Centuria New Zealand Holdings Limited	42.2%
ANZ NZ Investments	13.7%
Mark Edward Francis	11.9%
ACC	6.5%

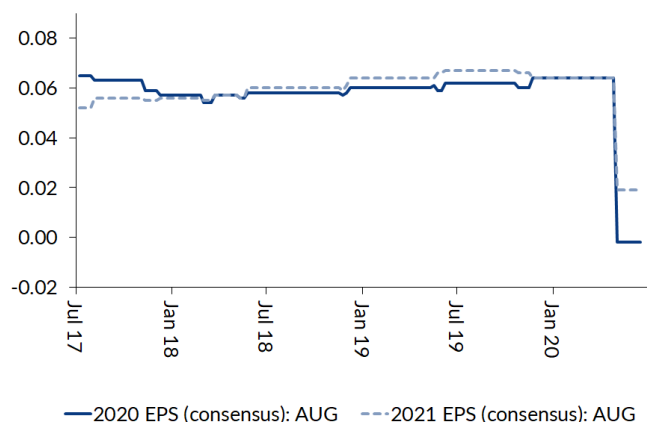
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 7. International valuation comparisons

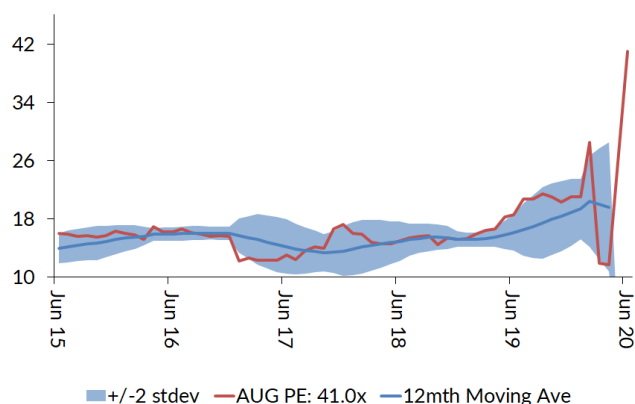
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect AUG's balance date - March)										
Augusta Capital	AUG NZ	NZ\$0.89	NZ\$151	48.4x	28.1x	38.4x	24.0x	38.4x	24.0x	3.5%
PENDAL GROUP	PDL AT	A\$5.75	A\$1,856	13.0x	12.6x	9.7x	9.1x	10.5x	10.0x	6.8%
CHARTER HALL GROUP	CHC AT	A\$9.75	A\$4,541	18.5x	18.2x	15.5x	15.4x	16.1x	15.7x	4.0%
CROMWELL PROPERTY GROUP	CMW AT	A\$0.93	A\$2,430	12.6x	12.2x	19.1x	18.1x	19.2x	18.1x	8.2%
CENTURIA CAPITAL GROUP	CNI AT	A\$1.85	A\$891	14.5x	15.5x	12.7x	13.5x	12.7x	13.5x	5.1%
GOODMAN GROUP	GMG AT	A\$14.90	A\$27,243	24.7x	23.1x	22.2x	22.5x	22.0x	20.5x	2.2%
MAGELLAN FINANCIAL GROUP	MFG AT	A\$55.05	A\$10,035	24.1x	22.5x	17.6x	16.5x	17.7x	16.4x	4.1%
PLATINUM ASSET MANAGEMENT	PTM AT	A\$3.72	A\$2,182	17.7x	18.4x	12.2x	12.8x	12.3x	12.9x	5.4%
STRIDE PROPERTY *	SPG NZ	NZ\$1.81	NZ\$661	17.3x	18.8x	26.6x	31.5x	26.6x	31.5x	5.5%
360 CAPITAL GROUP	TGP AT	A\$0.84	A\$194	21.0x	n/a	4.3x	n/a	4.3x	n/a	n/a
Compco Average:				18.2x	17.6x	15.6x	17.4x	15.7x	17.3x	5.1%
AUG Relative:				166%	59%	147%	38%	144%	39%	-33%

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 8. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)


Source: Forsyth Barr analysis

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