

Aged Care Sector Lockdown Blues

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The return of COVID-19 community transmission in New Zealand will cause more short term disruption for the five listed Aged Care operators. The Aged Care sector was one of the worst performing sectors as NZ moved to Alert Level 4 on March 23. What have we learnt since then and how should we think about the aged care sector as we are moving up the Alert Levels again? (1) consistent feedback from the aged care operators, supported by reported sales numbers is that overall demand is unencumbered. If anything, the experience from lockdowns has reinforced the value proposition that the aged care operators are offering, (2) that said, the direct, short term impact is meaningful. The aged care sector as a whole is effectively in full lockdown as of noon Wednesday and we expect minimal sales in the near term, and (3) short term we believe focus will increase on the recent increase in leverage across the sector. With no meaningful sales, cash-flow will deteriorate meaningfully.

What will the impacts be?

As of 12pm yesterday, all aged care facilities across New Zealand will be shut for everyone except staff. We have minimal insight into the implications for those sites who have a needs based offering (a blend of ILUs and Aged Care) but assume that ILU sales and construction activity will continue to operate at sites outside of Auckland, although we do foresee the very real likelihood of increased restrictions over the coming days/weeks outside of Auckland.

The government's announcement, therefore, implies that sales activity may again be impacted for a prolonged period of time given Auckland's, and potentially New Zealand's, Alert Level 3 is essentially the Aged Care sectors Alert Level 4. As New Zealand previously moved down the Alert Levels construction activity was permitted to commence under Alert Level 3 (albeit materially restricted given social distancing protocols) and sales activity under Alert Level 2 (although some visitor restrictions were still in place), however, the transition up Alert Levels (rather than down) may bring about increased challenges but at this point we can only use the previous transition down the levels as a guide.

What we know about sales activity

Recent commentary from Summerset (SUM), Oceania (OCA) and Arvida (ARV) is positive and supportive of anecdotes that demand has been strong post lockdown, we expect demand to return as we exit further lockdowns emphasising the value of Aged Care.

- **SUM:** The July sales update provided our first COVID-19 read through for the sector which suggested little demand destruction implying a full return to normality in June (22 days in Alert Level 1 and 8 days in Alert Level 2) and strong activity in May (18 days in Alert Level 2 and 13 days in Alert Level 3).
- **OCA:** FY20 result commentary was very positive with a significant increase in enquires once prospective residents were able to visit sites from the commencement of Alert Level 2. June applications were up +39% on pcp reflecting a combination of pent up demand and improved sentiment towards the product.
- **ARV:** Quarterly sales to 30 June was less positive but additionally implied May and June activity levels were improving, albeit at lower levels than SUM and OCA, however, commentary supported sector anecdotes with "good levels of demand and increasing enquiry since the easing of COVID-19 restrictions".

Figure 1. Portfolio summaries (last reported)

	RYM	OCA	ARV	MET	SUM
Auckland	31%	38%	9%	62%	29%
Rest of New Zealand	61%	62%	91%	38%	71%
Victoria	8%	n/a	n/a	n/a	n/a

Source: Forsyth Barr analysis, Company reports

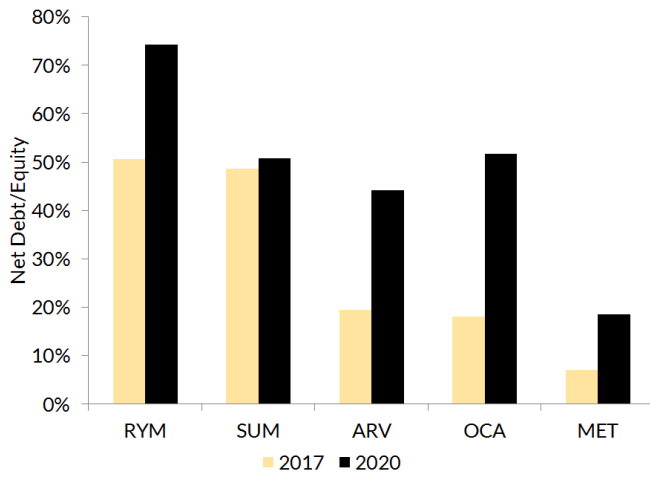
Figure 2. Total development pipeline

	RYM	OCA	ARV	MET	SUM
Auckland	16%	~44%	13%	91%	18%
Rest of New Zealand	42%	~56%	87%	9%	73%
Victoria	41%	n/a	n/a	n/a	9%

Source: Forsyth Barr analysis, Company reports

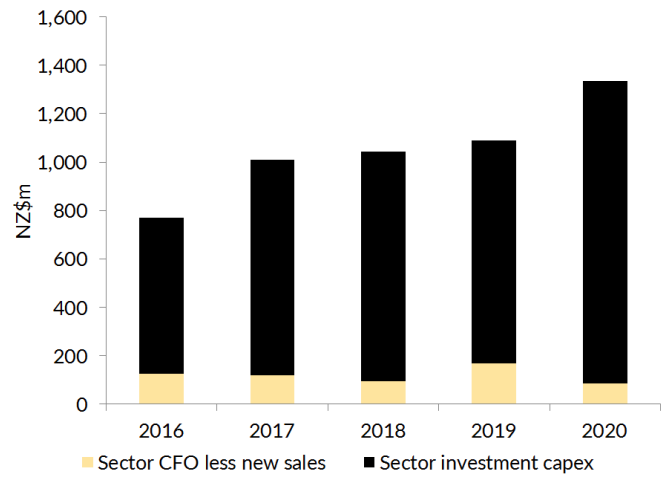
Charts of interest

Figure 3. Net debt has been increasing.....



Source: Forsyth Barr analysis, Company reports

Figure 4. Without new sales net debt will increase faster



Source: Forsyth Barr analysis, Company reports

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