

# Goodman Property Trust

UNDERPERFORM

## Lifting the Stakes With Well Timed Raise

**Goodman Property Trust (GMT) has announced an NZ\$165m capital raise, indicated a +6% portfolio revaluation, confirmed further acquisition and development activity, and reaffirmed its flat earnings and distribution guidance for FY20. The portfolio remains in robust shape with 99.4% occupancy and strong underlying rental growth. UNDERPERFORM.**

### What's changed?

- **Earnings:** FY20E +2.6%, FY21E +4.4% and FY22E up +4%, but EPU down slightly from issuance of new units
- **Target Price:** Lifted slightly from NZ\$1.79 to NZ\$1.83

### NZ\$165m capital raise plus sizeable interim revaluation

GMT is undertaking an NZ\$150m placement and NZ\$15m via a Unit Purchase Plan which reduces GMT's committed gearing to a conservative 21%. Proceeds are to be used to pay down debt initially and fund acquisition and development activity. There is an interim reval gain to September 2019 of ~NZ\$170m (+6%), highlighting the strength of the Auckland industrial market. The cap rate firmed 30bps to 5.4% lifting the NTA by 13cpu to ~NZ\$1.71.

Given the significant premium to NTA, GMT is being opportunistic raising equity; however, it has had a strategy of maintaining conservative gearing, recycling non-core assets and executing well in terms of acquiring well located in-fill brownfield sites and building out its existing industrial estates.

### Executing to strategy

GMT has announced NZ\$169m of new investments including a new infill location in line with other recent activity (i.e a relatively short lease period providing a modest holding return but with significant development opportunity). There are five new projects on existing GMT industrial estates of NZ\$75m with a 6.1% initial yield total cost, although limited details have been provided.

### Minor forecast and valuation changes

We have added in GMT's most recent acquisition in Mt Wellington, and adjusted our forecasts for the capital raise. EPU is slightly dilutionary as we have not yet fully factored in the planned development activity. Our target price has lifted slightly from NZ\$1.79 to NZ\$1.83 and this was boosted by a higher NAV (NZ\$1.67 to NZ\$1.75) following the interim reval. Note: in our 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 at the time increased the GMT target price by +13%.

### Investment View

GMT is executing well on its recycling and brownfield development strategy, with its portfolio now weighted ~100% to Auckland industrial. Auckland industrial remains the top performing property sector, with strong occupier demand and record low vacancy. However, these positive drivers are reflected in GMT's share price which has materially outperformed peers. We maintain our UNDERPERFORM rating which reflects our view on GMT's valuation relative to other listed property vehicles.

NZX Code	GMT
Share price	NZ\$2.20
Target price	NZ\$1.83
Risk rating	Low
Issued shares	1294.9m
Market cap	NZ\$2,842m
Average daily turnover	789.1k (NZ\$1,411k)

### Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	90.9	90.3	95.1	98.7
EPS* (NZc)	7.0	6.7	6.9	7.1
EPS growth* (%)	-3.1	-3.9	2.0	3.8
DPS (NZc)	6.7	6.7	6.7	6.7
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	27.3	26.8	24.4	23.1
EV/EBIT	27.3	26.8	24.4	23.1
PE	31.3	32.5	31.9	30.7
Price / NTA	1.4	1.3	1.2	n/a
Cash dividend yield (%)	3.0	3.0	3.0	3.0
Gross dividend yield (%)	4.3	4.3	4.3	4.3

\*Historic and forecast numbers based on underlying profits

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## Raising the stakes

### NZ\$165m capital raise

GMT has announced an NZ\$165m capital raise via an NZ\$150m underwritten placement with the intention of raising an additional NZ\$15m of equity via a retail offering (a unit purchase plan with a 17 September record date) with the ability to accept over subscriptions of up to NZ\$10m. The raise will be priced at NZ\$2.10 per unit, representing a ~4.54% discount to its NZ\$2.19 unit price as of 18 September 2019. The placement will reduce committed gearing to 21.2%, with the potential to fall further to 20.7% if the additional NZ\$15m unit purchase plan is successful. This appropriately positions GMT to execute on its development pipeline, whilst staying below management's desired gearing range of 25%–35%, which has been its approach in recent years.

**Figure 1. Capital Raise Key Dates**

Key dates	Date
<b>Placement</b>	
Trading Halt commences and bookbuild undertaken	18 Sep 2019
Trading Halt lifted	19 Sep 2019
Placement settlement	24 Sep 2019
<b>Unit Purchase Plan Offer</b>	
Record Date	17 Sep 2019
Release of Offer document	26 Sep 2019
Offer Opens	26 Sep 2019
Offer Closes	18 Oct 2019
Settlement of allotment	24 Oct 2019

Source: Forsyth Barr analysis, Company Reports

### Pipeline deep, and acquisitions a plenty

GMT's extensive development programme was added to with the announcement of a NZ\$74.9m development package. These additions to the current NZ\$140.7m pipeline consist of five new Auckland based industrial developments being constructed on a build-to-lease basis and will add NZ\$4.6m in annual rental income once occupied, representing a yield on cost of ~6.1%. GMT has also executed on recent acquisitions of additional industrial sites in Mt Roskill, Mangere, and Mt Wellington adding 201,081 sqm of land area at a yield of ~5%.

### Revals following the broader sector

GMT has indicated that its 1H20 result, for the six months ending 30 September 2019, will include a +6% revaluation gain, elevating its NTA 13 cents, to ~NZ\$1.70cpu. Since its FY19 result in March 2019 GMT's cap rate has firmed 30bps to 5.4%, which is largely a derivative of robust demand for prime industrial assets driving historically low vacancy rates, and a subdued interest rate environment spurring investor enthusiasm in defensive assets like industrial property, resulting in upward valuation evidence.

## Minor forecast changes

**Figure 2. Forecast changes**

	2020E			2021E			2022E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
<b>Net rental income</b>	<b>139.7</b>	<b>141.4</b>	<b>1.2%</b>	<b>151.4</b>	<b>154.7</b>	<b>2.2%</b>	<b>160.2</b>	<b>163.6</b>	<b>2.1%</b>
Corporate costs	(13.4)	(13.5)	1.2%	(13.9)	(14.5)	4.5%	(14.8)	(15.4)	4.3%
<b>EBITDA</b>	<b>126.4</b>	<b>127.9</b>	<b>1.2%</b>	<b>137.5</b>	<b>140.3</b>	<b>2.0%</b>	<b>145.4</b>	<b>148.2</b>	<b>1.9%</b>
Net interest	(19.0)	(17.9)	-5.7%	(24.3)	(22.1)	-9.0%	(25.5)	(23.5)	-7.7%
Current tax	(19.3)	(19.7)	1.8%	(22.2)	(23.1)	4.1%	(25.0)	(26.0)	3.9%
<b>Underlying NPAT (Forbar)</b>	<b>88.0</b>	<b>90.3</b>	<b>2.6%</b>	<b>91.1</b>	<b>95.1</b>	<b>4.4%</b>	<b>94.9</b>	<b>98.7</b>	<b>4.0%</b>
EPU (cps)	6.80	6.75	-0.7%	7.03	6.88	-2.1%	7.33	7.15	-2.5%
DPU (cps)	6.65	6.65	-	6.65	6.65	-	6.65	6.65	-

Source: Forsyth Barr analysis

## Investment summary

Although Goodman Property Trust (GMT) is struggling to achieve earnings growth, it continues to execute well on its recycling strategy and is significantly improving portfolio quality. Though holding a high quality portfolio, we believe investors are paying for this with GMT trading at a material premium to peers on book and yield multiples. GMT is currently paying out above AFFO, which is reflected in a flat dividend outlook. In our 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 GMT's target price by +13%. **UNDERPERFORM.**

### Earnings and cash flow outlook

- **Unlocking its brownfield land bank:** GMT is becoming increasingly focussed on developing its substantial land bank within its existing portfolio, with the greenfield land bank becoming smaller and high prevailing land prices for greenfield sites.
- **Developments:** GMT is working through its land bank with new committed/uncommitted developments. Incorporating GMT's current development pipeline, Highbrook Business Park would be largely complete.

### Business quality

- **Strong property fundamentals:** The Auckland industrial market continues to perform strongly with record low vacancies. GMT has solid portfolio metrics with WALT and occupancy of 5.2 years and 99.4% respectively.
- **Recycling non-core assets:** GMT has successfully recycled its suburban office and Christchurch assets into new industrial developments in Auckland. GMT has divested NZ\$570m of non-core assets over FY18 and FY19 and committed to NZ\$195m of development.

### Company description

Goodman Property Trust (GMT) owns NZ\$2.2bn of investment property located primarily in Auckland. GMT's portfolio is 99% weighted to industrial-focussed assets, with these mainly comprising prime industrial and business parks. Its largest asset is Highbrook Business Park (~50% of portfolio) where it has a substantial land holding for future development. GMT is managed by ASX-listed Goodman Group (GMG), a global leader in industrial property management and development. GMT has been very active with asset recycling and has recently sold its 'VXV' CBD office portfolio, which was held in a JV with Singaporean Sovereign Wealth Fund GIC since 2014.

### Financial structure

- **Balance sheet capacity:** Gearing remains at the low end of the sector range at ~20%, providing GMT with significant balance sheet capacity or the ability to maintain a conservative balance sheet late in the cycle.
- **Revaluation gains:** GMT achieved a revaluation gain of +8% in FY19 and +6% in 1H20.

### Risks factors

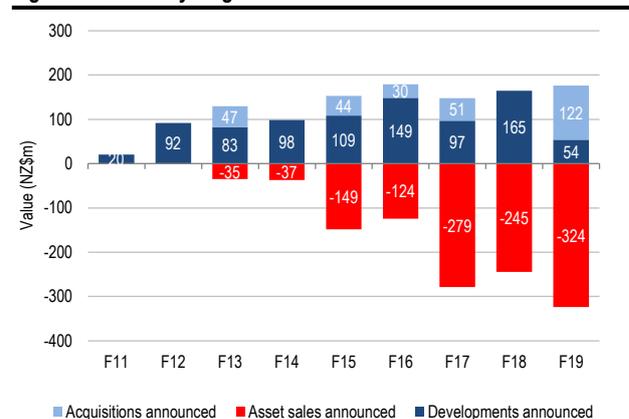
- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.
- **Spec development leasing:** ~50% of development commitments in FY18 were for speculative developments which carry leasing risk for GMT.

Figure 3. Portfolio exposures

	Auckland	Other North Island	South Island	Total
Business park	64%	-	-	64%
Industrial estate	36%	-	-	36%
Office park	-	-	-	-
<b>Total</b>	<b>100%</b>	<b>-</b>	<b>-</b>	<b>100%</b>

Source: Forsyth Barr analysis, company reports

Figure 4. Asset recycling



Note: JV assets included at 51% of total value. Source: Forsyth Barr analysis, company reports

**Figure 5. Substantial Shareholders**

Shareholder	Latest Holding
Goodman Funds Management	20.6%
ACC	5.5%

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

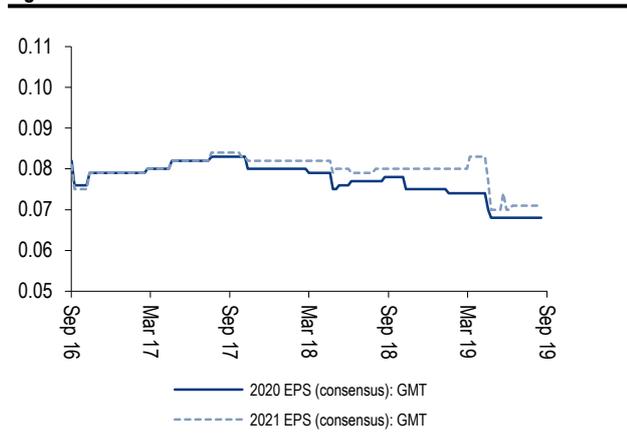
**Figure 6. International Compco's**

Company <i>(metrics re-weighted to reflect GMT's balance date - March)</i>	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	
<b>Goodman Property Trust</b>	<b>GMT NZ</b>	<b>NZ\$2.20</b>	<b>NZ\$2,842</b>	<b>32.5x</b>	<b>31.9x</b>	<b>26.8x</b>	<b>24.4x</b>	<b>26.8x</b>	<b>24.4x</b>	<b>3.0%</b>
Argosy Property *	ARG NZ	NZ\$1.44	NZ\$1,191	21.8x	20.9x	20.0x	18.7x	20.0x	18.7x	4.4%
Investore *	IPL NZ	NZ\$1.94	NZ\$505	23.8x	23.3x	20.1x	19.9x	20.1x	19.9x	3.9%
Kiwi Property Group *	KPG NZ	NZ\$1.65	NZ\$2,383	23.2x	22.1x	20.5x	19.1x	20.5x	19.1x	4.3%
Asset Plus *	APL NZ	NZ\$0.64	NZ\$104	16.6x	17.7x	12.3x	13.2x	12.3x	13.2x	5.6%
Precinct Properties NZ *	PCT NZ	NZ\$1.79	NZ\$2,352	27.3x	25.9x	27.6x	22.7x	27.6x	22.7x	3.6%
Property For Industry *	PFI NZ	NZ\$2.40	NZ\$1,194	27.8x	27.5x	21.3x	21.1x	21.3x	21.1x	3.2%
Stride Property *	SPG NZ	NZ\$2.30	NZ\$840	21.9x	20.7x	20.7x	18.9x	20.7x	18.9x	4.3%
Vital Healthcare *	VHP NZ	NZ\$2.64	NZ\$1,191	27.2x	25.8x	23.2x	22.0x	23.2x	22.0x	3.4%
<b>Compco Average:</b>				<b>23.7x</b>	<b>23.0x</b>	<b>20.7x</b>	<b>19.4x</b>	<b>20.7x</b>	<b>19.4x</b>	<b>4.1%</b>
<b>GMT Relative:</b>				<b>+37%</b>	<b>+39%</b>	<b>+29%</b>	<b>+26%</b>	<b>+29%</b>	<b>+26%</b>	<b>-26%</b>

EV = Current Market Cap + Actual Net Debt

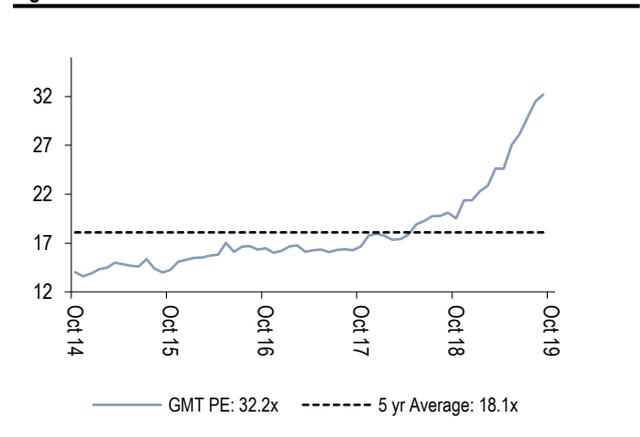
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GMT) companies fiscal year end

**Figure 7. Consensus EPS Momentum**



Source: Forsyth Barr analysis, Bloomberg

**Figure 8. 12 Month Forward PE**



Source: Forsyth Barr analysis

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