

Goodman Property Trust

UNDERPERFORM

1H20 result — In Their Prime

Goodman Property Trust (GMT) delivered an operating result close to expectations and announced a +6% interim revaluation gain which lifted NTA to NZ\$1.73. Also as expected, GMT confirmed its flat earnings and dividend outlook for FY20 and we have not changed our forecasts. GMT is trading materially ahead of the sector with a ~31x PE, 3.2% cash yield, 3.0% AFFO yield and 1.21x P/NTA. Our rating remains UNDERPERFORM.

What's changed?

- **Target Price:** Our NAV has lifted slightly on the back of the revaluation and our DCF has drifted up given time value of money change. This has resulted in our target price lifting from NZ\$1.83 to NZ\$1.92.

Broadly in line numbers and flat guidance reiterated

The underlying GMT numbers were slightly below our expectations of a small decline in distributable profit per unit as a result of the dilutionary effect from asset sales. Cash earnings (AFFO) per unit was 3.1cpu, down -4% and in line with our 3.21cpu forecast. GMT's flat EPU and DPU guidance has been maintained (DPU has been flat since FY16). The 1H20 dividend of 3.33cpu is 106% pay-out of cash earnings. The 2Q20 dividend is 1.66cpu with a record date of 28 November, and payment on 12 December. Following the revaluation and recent equity issue, committed gearing is a low 20.6% and current gearing is 17.9%.

Large interim revaluation lifting NTA +10%

Of most interest in the result was the full interim revaluation which is rare for the LPV sector, but not totally unexpected this round given strength in industrial/office assets. The revaluation highlights the strength in the Auckland prime industrial market (to which GMT is 100% weighted) both in terms of market rental growth (one third of the uplift) and cap rate compression (two thirds of the uplift). The portfolio valuation was up +6% with the average cap rate 5.3%. Recent acquisitions and developments now have sub 5% cap rates. The NTA is up +10% to NZ\$1.73.

Portfolio strength

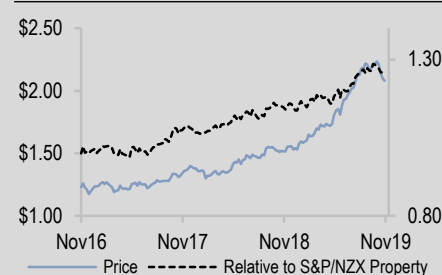
The portfolio remains full at 99.5% occupancy, with a 5.5 year WALT and lease expiry outlook that is well under control. GMT has a very well positioned and unique portfolio centred on the prime Auckland industrial market. Tenants remain with few options and rental growth is as strong as it has ever been. GMT indicated underlying like-for-like net rental growth was a strong +3.4%, and this, combined with new income from completed developments, largely offset the dilution from asset disposals. GMT has nine new industrial projects under development. Additionally, 15 build to lease warehouses were completed over the last 12 months and all are fully leased.

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\$2.08
Target price	NZ\$1.92
Risk rating	Low
Issued shares	1294.9m
Market cap	NZ\$2,693m
Average daily turnover	854.6k (NZ\$1,626k)

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	26.2	25.6	23.4	22.1
EV/EBIT	26.2	25.6	23.4	22.1
PE	29.6	30.8	30.2	29.1
Price / NTA	1.3	1.2	1.2	n/a
Cash dividend yield (%)	3.2	3.2	3.2	3.2
Gross dividend yield (%)	4.6	4.6	4.6	4.6

*Historic and forecast numbers based on underlying profits

Jeremy Simpson, CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

Goodman Property Trust (GMT)

Priced as at 14 Nov 2019: NZ\$2.08

March year end

Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						Blended DCF (50%) and NAV (50%)					
12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. DCF					
Net dividend yield						2. NAV					
Estimated 12-month return						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						Net debt/ tangible assets (%)					
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)						Key Ratios					
Growth Rates						Net rental movement (consolidated)					
Revenue (%)						Acquisitions - GMT					
EBITDA (%)						Acquisitions - JV (51%)					
EBIT (%)						Developments					
Normalised NPAT (%)						Underlying portfolio					
Normalised EPS (%)						Additional income					
DPS (%)						Disposals - GMT					
Cash Flow (NZ\$m)						Disposals - JV (51%)					
EBITDA						Net change					
Working capital change						Net rental income					
Interest & tax paid						Property portfolio (consolidated)					
Other						Stabilised assets					
Operating cash flow						Developments					
Capital expenditure						Land					
(Acquisitions)/divestments						Held for sale					
Other						JV assets (51%)					
Funding available/(required)						Total					
Dividends paid						Property portfolio (movement)					
Equity raised/(returned)						Opening value					
Increase/(decrease) in net debt						Acquisitions / transfers in					
Balance Sheet (NZ\$m)						Net expenditure					
Working capital						Disposals / transfers out					
Fixed assets						Fair value movement					
Intangibles						Total					
Other assets						Property Statistics					
Total funds employed						Walt (years)					
Net debt/(cash)						Occupancy (%)					
Other non current liabilities						Cap rate (%)					
Shareholder's funds						NLA (000sqm)					
Minority interests						Portfolio leasing (000sqm)					
Total funding sources						Development commitments (000sqm)					
						Customers (no)					

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

1H20 result summary

Figure 1. 1H20 result summary

Financial period	1H18	1H19	1H20	Chg	Forecast	Var
Six months ending:	09/17	09/18	09/19			
Underlying profit & loss (NZ\$000s)						
Net rental income	73,372	74,125	71,300	-3.8%	72,133	-1.2%
Administration expenses	(5,251)	(5,551)	(6,400)	15.3%	(6,352)	0.8%
EBITDA	68,121	68,574	64,900	-5.4%	65,781	-1.3%
Net interest	(12,221)	(12,674)	(11,200)	-11.6%	(9,863)	13.6%
PBT	55,900	55,900	53,700	-3.9%	55,918	-4.0%
Current tax	(8,400)	(8,400)	(9,000)	7.1%	(9,842)	-8.6%
NPAT (underlying)	47,500	47,500	44,700	-5.9%	46,076	-3.0%
Adjustments:						
Investment property revaluations	(8,400)	16,800	172,400		-	
Other non-operating adjustments	400	(800)	7,200		-	
NPAT (reported)	39,500	63,500	224,300	253.2%	46,076	386.8%
GMT operating earnings after tax						
NPAT (underlying)	47,500	47,500	44,700	-5.9%	46,076	-3.0%
Fees paid in units	3,900	4,200	-	-100.0%	-	-
GMT operating earnings	51,400	51,700	44,700	-13.5%	46,076	-3.0%
Adjusted funds from operations						
NPAT (underlying)	47,500	47,500	44,700	-5.9%	46,076	-3.0%
Capitalised borrowing costs on land	(4,700)	(3,400)	(2,200)	-35.3%	(1,695)	29.8%
Maintenance capex	(1,300)	(1,600)	(1,400)	-12.5%	(2,876)	-51.3%
AFFO	41,500	42,500	41,100	-3.3%	41,506	-1.0%
Financials per unit (cps)						
Period weighted units on issue	1,286,100	1,293,100	1,305,000	0.9%	1,295,000	0.8%
Net income per unit	5.70	5.73	5.46	-4.7%	5.57	-1.9%
EBITDA per unit	5.30	5.30	4.97	-6.2%	5.08	-2.1%
PBT per unit	4.35	4.32	4.11	-4.8%	4.32	-4.7%
GMT operating earnings per unit	4.00	4.00	3.43	-14.3%	3.56	-3.7%
NPAT per unit (underlying)	3.69	3.67	3.43	-6.8%	3.56	-3.7%
AFFO per unit	3.23	3.29	3.15	-4.2%	3.21	-1.7%
Operating cash flow	43,800	34,100	24,800	-27.3%		
NTA (\$)	1.31	1.41	1.73	23.0%		
Gearing (ND / Total assets) - GMT excl. JV	33.1%	24.4%	17.9%	-6.4pp		
Dividends						
1Q cash dividend (cps)	1.66	1.66	1.66	-	1.66	-
2Q cash dividend (cps)	1.66	1.66	1.66	-	1.66	-
3Q cash dividend (cps)	-	-	-	-	1.66	(1.00)
4Q cash dividend (cps)	-	-	-	-	1.66	(1.00)
FY cash dividend (cps)	3.33	3.33	3.33	-	6.65	(0.50)
Payout - NPAT (underlying)	90%	91%	97%	6.6pp	94%	3.2pp
Payout - AFFO	103%	101%	106%	4.4pp	109%	-3.8pp

Source: Forsyth Barr analysis, Company Reports

Investment summary

Although Goodman Property Trust (GMT) is struggling to achieve earnings growth, it continues to execute well on its recycling strategy and has also raised new equity. 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 newly acquired brownfield sites and 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 5.5 years and 99.5% 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 over NZ\$200m of development.

Financial structure

- **Balance sheet capacity:** Gearing remains at the low end of the sector range at ~18% and with recent acquisitions and equity issue committed gearing is a low 21%.
- **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.

Company description

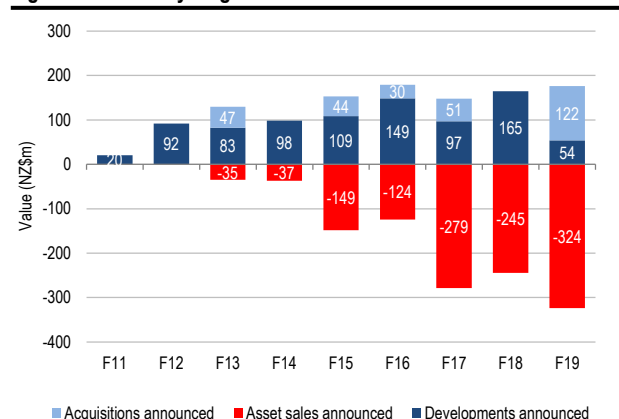
Goodman Property Trust (GMT) owns NZ\$2.2bn of investment property located primarily in Auckland. GMT's portfolio is 99% weighted to industrial-focussed assets, with these mainly comprising prime industrial and business parks. Its largest asset is Highbrook Business Park (~50% of portfolio) where it 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.

Figure 2. Portfolio exposures

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

Source: Forsyth Barr analysis, Company Reports

Figure 3. Asset recycling



Source: Forsyth Barr analysis, Company Reports

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
Goodman Funds Management	20.6%
ACC	5.5%

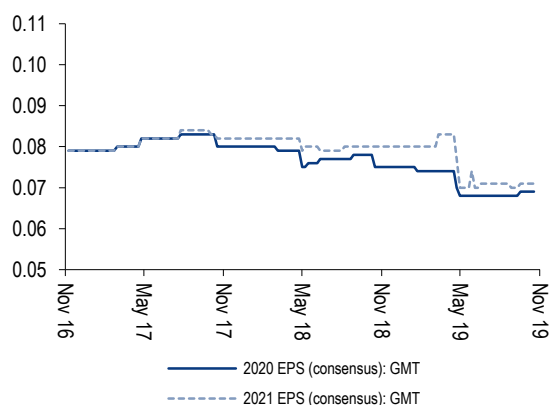
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International Compco's

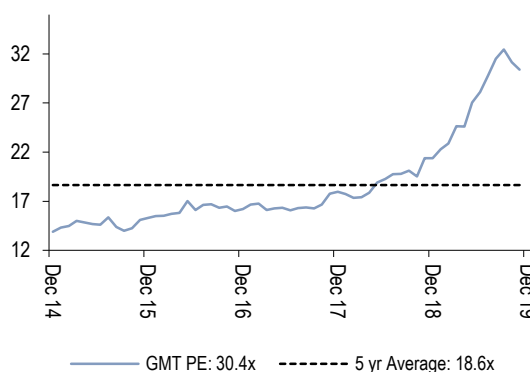
Company	Code	Price	Mkt Cap	PE	EV/EBITDA	EV/EBIT	Cash D/Yld
<i>(metrics re-weighted to reflect GMT's balance date - March)</i>							
			(m)	2020E	2021E	2020E	2021E
Goodman Property Trust	GMT NZ	NZ\$2.08	NZ\$2,693	30.8x	30.2x	25.6x	23.4x
Argosy Property *	ARG NZ	NZ\$1.41	NZ\$1,162	21.3x	20.4x	19.7x	18.4x
Investore *	IPL NZ	NZ\$1.85	NZ\$481	22.7x	22.2x	19.6x	19.3x
Kiwi Property Group *	KPG NZ	NZ\$1.54	NZ\$2,400	21.7x	20.7x	20.6x	19.2x
Asset Plus *	APL NZ	NZ\$0.63	NZ\$102	16.3x	17.5x	12.1x	13.1x
Precinct Properties NZ *	PCT NZ	NZ\$1.78	NZ\$2,332	27.1x	25.6x	27.4x	22.6x
Property For Industry *	PFI NZ	NZ\$2.30	NZ\$1,147	26.7x	26.4x	20.7x	20.4x
Stride Property *	SPG NZ	NZ\$2.18	NZ\$796	20.8x	19.6x	20.0x	18.2x
Vital Healthcare *	VHP NZ	NZ\$2.62	NZ\$1,184	26.9x	25.7x	23.1x	21.9x
Compco Average:				22.9x	22.3x	20.4x	19.1x
GMT Relative:				+34%	+36%	+26%	+22%

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 6. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 7. 12 Month Forward PE


Source: Forsyth Barr analysis

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge. **Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Forsyth Barr confirms no inducement has been accepted from the researched entity, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. **Analyst Disclosure Statement:** In preparing this publication the analyst(s) may or may not have a threshold interest in the financial products referred to in this publication. For these purposes a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the entity being researched. **Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction. **Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.