

# Goodman Property Trust

## Upgraded to NEUTRAL

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### NEUTRAL

In our sector report *Real Estate Reflections*, dated 26 March 2020, we looked at sector gearing and provided an update on our preferred LPVs. We also provided some thoughts on how investors should be positioned as uncertainty persists, and a reminder of what happened during the global financial crisis (GFC) and how things may be 'different this cycle' and upgraded our GMT investment rating to NEUTRAL. GMT remains well positioned given the quality of its portfolio and sector low gearing levels.

NZX Code	GMT	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.14	NPAT* (NZ\$m)	90.9	90.3	95.1	98.7	EV/EBITDA	26.8	26.2	23.9	22.6
Target price	NZ\$1.92	EPS* (NZc)	7.0	6.7	6.9	7.1	EV/EBIT	26.8	26.2	23.9	22.6
Risk rating	Low	EPS growth* (%)	-3.1	-3.9	2.0	3.8	PE	30.5	31.7	31.1	29.9
Issued shares	1294.9m	DPS (NZc)	6.7	6.7	6.7	6.7	Price / NTA	1.4	1.2	1.2	1.2
Market cap	NZ\$2,771m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.1	3.1	3.1	3.1
Avg daily turnover	1,301k (NZ\$2,708k)	*Based on normalised profits					Gross div yld (%)	4.4	4.4	4.4	4.4

### Industrial well positioned

Good, well located, industrial property has proven to be fairly resilient through the cycle, typically with a lower level of vacancy than office, but it has had a massive re-rating in terms of asset values over the last eight years. The industrial space in the NZ LPV market is GMT at 100% (although that includes some office space in industrial parks), PFI ~90%, ARG ~50% and SPG ~30%. Most are typically Auckland based and/or good quality

GMT has a focus on large prime industrial property and is very well located in some of NZ's leading industrial estates. Recently it has been pursuing a strategy of acquiring well-located brownfield redevelopment sites and is well positioned financially to continue to acquire good sites, should these become available as a result of a slower economic environment. Quality listed industrial occupancy only dropped to around the ~95% level last cycle.

### Upgraded from UNDERPERFORM to NEUTRAL

The GMT unit price has continued to outperform and hence remains at a large premium to the sector. However, it has a strong portfolio with prime industrial assets and is well managed, and well placed with the lowest gearing in the sector at just 17.9% (see Figure 1) and has the largest headroom to gearing levels with asset values having to fall by over -60% to get close to covenants (Figure 2). Committed gearing is a low 20.6%. GMT can also continue to leverage the global expertise of its manager and it has done a good job divesting non-core assets through the cycle, including Auckland leasehold office assets.

**Goodman Property Trust (GMT)**

Priced as at 27 Mar 2020 (NZ\$)

**2.14**
**12-month target price (NZ\$)\***
**1.92**

Expected share price return	-10.3%
Net dividend yield	3.1%
Estimated 12-month return	-7.2%

**Spot valuations (NZ\$)**

1. DCF	1.87
2. NAV	1.90
n/a	n/a

**Key WACC assumptions**

Risk free rate	2.00%
Equity beta	0.62
WACC	5.1%
Terminal growth	1.5%

**DCF valuation summary (NZ\$m)**

Total firm value	3,052
(Net debt)/cash	(582)
Less: Capitalised operating leases	0
Value of equity	2,470

<b>Profit and Loss Account (NZ\$m)</b>	2018A	2019A	2020E	2021E	2022E	<b>Valuation Ratios</b>	2018A	2019A	2020E	2021E	2022E
Sales revenue	148.5	141.1	141.4	154.7	163.6	EV/EBITDA (x)	25.7	26.8	26.2	23.9	22.6
<b>Normalised EBITDA</b>	<b>137.5</b>	<b>129.8</b>	<b>127.9</b>	<b>140.3</b>	<b>148.2</b>	EV/EBIT (x)	25.7	26.8	26.2	23.9	22.6
Depreciation and amortisation	0	0	0	0	0	PE (x)	29.5	30.5	31.7	31.1	29.9
<b>Normalised EBIT</b>	<b>137.5</b>	<b>129.8</b>	<b>127.9</b>	<b>140.3</b>	<b>148.2</b>	Price/NTA (x)	1.5	1.4	1.2	1.2	1.2
Net interest	(26.7)	(21.4)	(17.9)	(22.1)	(23.5)	Free cash flow yield (%)	-0.4	-2.3	-1.1	1.1	1.6
Associate income	0	0	0	0	0	Net dividend yield (%)	3.1	3.1	3.1	3.1	3.1
Tax	(17.5)	(17.5)	(19.7)	(23.1)	(26.0)	Gross dividend yield (%)	4.4	4.4	4.4	4.4	4.4
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>93.3</b>	<b>90.9</b>	<b>90.3</b>	<b>95.1</b>	<b>98.7</b>	<b>Capital Structure</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Abnormals/other	(100.7)	(228.6)	(181.6)	(60.3)	(62.7)	Interest cover EBIT (x)	5.1	6.1	7.1	6.3	6.3
<b>Reported NPAT</b>	<b>194.0</b>	<b>319.5</b>	<b>271.9</b>	<b>155.3</b>	<b>161.4</b>	Interest cover EBITDA (x)	5.1	6.1	7.1	6.3	6.3
Normalised EPS (cps)	7.2	7.0	6.7	6.9	7.1	Net debt/ND+E (%)	31.3	22.1	19.8	20.6	20.9
DPS (cps)	6.7	6.7	6.7	6.7	6.7	Net debt/EBITDA (x)	6.0	4.5	4.6	4.5	4.5
<b>Growth Rates</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021A</b>	<b>2022A</b>	<b>Key Ratios</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Revenue (%)	0.9	-5.0	0.2	9.4	5.7	Return on assets (%)	5.1	4.8	4.2	4.4	4.5
EBITDA (%)	0.7	-5.6	-1.4	9.6	5.7	Return on equity (%)	5.2	4.4	3.8	3.9	3.9
EBIT (%)	0.7	-5.6	-1.4	9.6	5.7	Return on funds employed (%)	4.4	3.9	3.6	3.6	3.7
Normalised NPAT (%)	-5.1	-2.6	-0.7	5.3	3.8	EBITDA margin (%)	92.6	92.0	90.4	90.6	90.6
Normalised EPS (%)	-5.6	-3.1	-3.9	2.0	3.8	EBIT margin (%)	92.6	92.0	90.4	90.6	90.6
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0	Capex to sales (%)	68.7	102.2	85.1	42.3	33.2
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
<b>Cash Flow (NZ\$m)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	Imputation (%)	100	100	100	100	100
<b>EBITDA</b>	<b>137.5</b>	<b>129.8</b>	<b>127.9</b>	<b>140.3</b>	<b>148.2</b>	Pay-out ratio (%)	92	95	99	97	93
Working capital change	(21.9)	(18.1)	(0.0)	0.0	(0.0)						
Interest & tax paid	(25.9)	(32.5)	(37.6)	(45.2)	(49.5)	<b>Operating Performance</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Other	0	0	0	0	0	<b>Property portfolio (consolidated)</b>					
<b>Operating cash flow</b>	<b>89.7</b>	<b>79.2</b>	<b>90.3</b>	<b>95.1</b>	<b>98.7</b>	Stabalised assets	2,026	2,044	2,465	2,849	3,019
Capital expenditure	(102.0)	(144.2)	(120.3)	(65.4)	(54.4)	Developments	49	68	78	79	59
(Acquisitions)/divestments	(4.8)	134.2	(59.7)	0	0	Land	175	120	96	72	48
Other	(27.6)	254.8	0	0	0	Held for sale	8	239	0	0	0
<b>Funding available/(required)</b>	<b>(44.7)</b>	<b>324.0</b>	<b>(89.7)</b>	<b>29.6</b>	<b>44.3</b>	JV assets (51%)	165	277	0	0	0
Dividends paid	(85.5)	(86.0)	(89.0)	(91.8)	(91.8)	<b>Total</b>	<b>2,422</b>	<b>2,747</b>	<b>2,639</b>	<b>3,000</b>	<b>3,126</b>
Equity raised/(returned)	10.0	10.4	176.4	12.1	12.8	<b>Property portfolio (movement)</b>					
<b>(Increase)/decrease in net debt</b>	<b>(120.2)</b>	<b>248.4</b>	<b>(2.2)</b>	<b>(50.1)</b>	<b>(34.8)</b>	Opening value	2,481	2,422	2,747	2,639	3,000
						Acquisitions / transfers in	(3)	74	93	94	(0)
<b>Balance Sheet (NZ\$m)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	Net expenditure	139	120	129	120	65
Working capital	(39.9)	(34.0)	(34.0)	(34.0)	(34.0)	Disposals / transfers out	(297)	(10)	(516)	(34)	0
Fixed assets	2,231.0	2,633.4	3,000.2	3,125.9	3,243.0	Fair value movement	102	141	185	182	60
Intangibles	0	0	0	0	0	<b>Total</b>	<b>2,422</b>	<b>2,747</b>	<b>2,639</b>	<b>3,000</b>	<b>3,126</b>
Right of use asset	0	0	0	0	0						
Other assets	474.5	70.4	26.9	26.9	26.9	<b>Property Statistics</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>
<b>Total funds employed</b>	<b>2,665.6</b>	<b>2,669.8</b>	<b>2,993.1</b>	<b>3,118.8</b>	<b>3,235.9</b>	Walt (years)	5.1	5.7	5.8	6.1	5.2
Net debt/(cash)	818.9	582.0	584.2	634.3	669.1	Occupancy (%)	96%	97%	98%	98%	98%
Lease liability	0	0	0	0	0	Cap rate (%)	7.50%	6.95%	6.50%	6.20%	5.80%
Other liabilities	53.0	41.6	41.6	41.6	41.6	NLA (000sqm)	983	1,041	989	1,111	1,000
Shareholder's funds	1,793.7	2,046.2	2,367.2	2,442.8	2,525.1	Portfo leasing (000sqm)	100	159	154	202	97
Minority interests	0	0	0	0	0	Development commitments (000sqm)	51	65	33	64	58
<b>Total funding sources</b>	<b>2,665.6</b>	<b>2,669.8</b>	<b>2,993.1</b>	<b>3,118.8</b>	<b>3,235.9</b>	Customers (no)	251	281	240	264	264

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

**Figure 1. Balance Sheet summary**

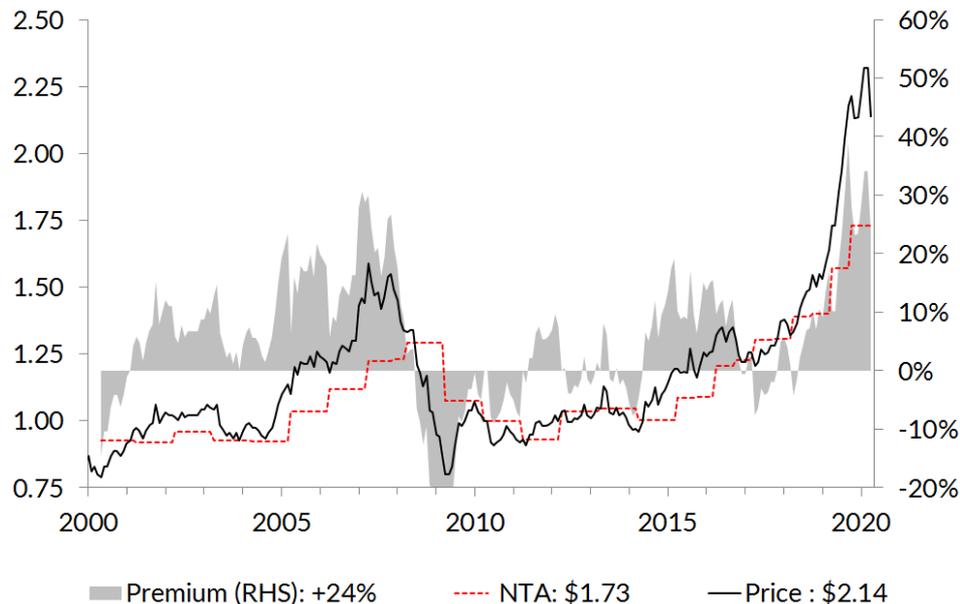
	As at	Reported gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	30.2%	35-40%	50%	75	-	27	2.2	-	2.2
ARG	Sep-19	36.2%	30-40%	50%	535	200	85	2.7	6.3	3.7
GMT	Sep-19	17.9%	25-35%	50%	400	556	400	2.6	4.6	3.8
IPL	Sep-19	40.6%	<48%	65%	270	100	65	1.5	4.1	2.2
KPG	Sep-19	27.4%	25-35%	45%	825	475	303	3.5	3.7	3.6
PCT	Dec-19	25.4%	<37.5%	50%	610	586	322	3.3	5.1	4.2
PFI	Dec-19	28.2%	<40%	50%	300	200	84	3.1	5.1	3.9
SPG	Sep-19	34.4%	38-42%	50%	400	-	67	1.8	-	1.8
VHP	Dec-19	35.1%	na	50%	870	-	225	2.0	-	2.0
<b>Average/total</b>		<b>30.6%</b>		<b>51.1%</b>	<b>4,285</b>	<b>2,117</b>	<b>1,479</b>	<b>2.5</b>	<b>3.2</b>	<b>3.0</b>

Source: Forsyth Barr analysis, company reports

**Figure 2. Hypothetical asset value declines required to breach banking covenant**

	Reported Gearing	Bank Covenant	Approx Debt Drawn	Approx Asset Value	Minimum Asset Value	Asset Value Decline
APL	30.2%	50%	50.0	160.0	100.0	-40%
ARG	36.2%	50%	650.0	1,790.0	1,300.0	-28%
GMT	17.9%	50%	530.0	2,960.0	1,060.0	-64%
IPL	40.6%	65%	300.0	750.0	470.0	-38%
KPG	27.4%	45%	930.0	3,400.0	2,070.0	-39%
PCT	25.4%	50%	870.0	3,440.0	1,750.0	-49%
PFI	28.2%	50%	430.0	1,520.0	860.0	-44%
SPG	34.4%	50%	300.0	880.0	610.0	-31%
VHP	35.1%	50%	680.0	1,940.0	1,360.0	-30%

Source: Forsyth Barr analysis, Company reports

**Figure 3. GMT long-run P/NTA**


Source: Forsyth Barr analysis

**Figure 4. LPV compco**

LPV	Code	Rating	Price 27-Mar	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	UNDERPERFORM	\$0.42	\$0.65	12.2%	7.5%	64%
Argosy Property	ARG	NEUTRAL	\$0.85	\$1.38	10.5%	7.3%	64%
Augusta Capital	AUG	NEUTRAL	\$0.92	\$1.38	9.9%	7.8%	66%
Goodman Property	GMT	NEUTRAL	\$2.14	\$1.92	4.4%	2.9%	113%
Investore	IPL	OUTPERFORM	\$1.64	\$1.85	6.6%	4.6%	99%
Kiwi Property Group	KPG	NEUTRAL	\$0.90	\$1.29	11.3%	7.3%	79%
Precinct Properties	PCT	NEUTRAL	\$1.70	\$1.52	5.3%	3.6%	106%
Property for Industry	PFI	OUTPERFORM	\$2.07	\$2.15	5.3%	3.7%	100%
Stride Property	SPG	NEUTRAL	\$1.39	\$2.18	10.2%	6.8%	68%
Vital Healthcare	VHP	OUTPERFORM	\$2.35	\$2.76	5.5%	3.8%	100%
<b>Core simple average</b>					<b>7.4%</b>	<b>5.0%</b>	<b>91%</b>

Source: Forsyth Barr analysis, company reports, Eikon

AUG's and SPG's NTA per share is adjusted to include an estimated value for funds management operations.

## Investment Summary

Goodman Property Trust (GMT) owns NZ\$3bn 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. Although Goodman Property Trust (GMT) has struggled to achieve earnings growth, it has executed well on its recycling strategy and maintained a very prudent balance sheet which has well positioned to capitalised on opportunities in a slower economy and is a core LPV holding. NEUTRAL.

### 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.

### Earnings and cashflow 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.
- **Developments:** GMT is working through its land bank with new committed/uncommitted developments.

### 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%.

### Risk factors

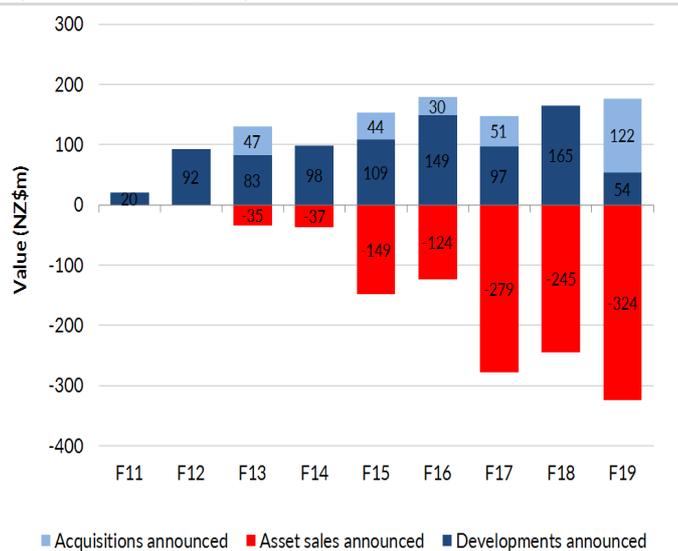
- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.

Figure 5. Portfolio exposures

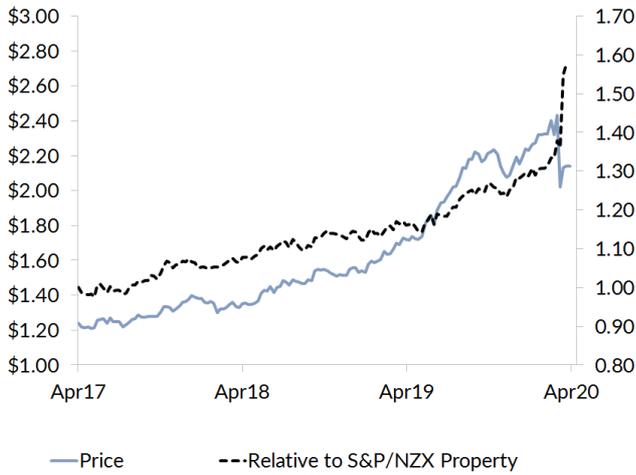
	Auckland	Other North Island	South Island	Total
Business park	66%	-	-	<b>66%</b>
Industrial estate	32%	-	-	<b>32%</b>
Office park	-	-	1%	<b>1%</b>
<b>Total</b>	<b>99%</b>	<b>-</b>	<b>1%</b>	<b>100%</b>

Source: Forsyth Barr analysis, Company Reports

Figure 6. Asset recycling



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

**Figure 7. Price performance**


Source: Forsyth Barr analysis

**Figure 8. Substantial shareholders**

Shareholder	Latest Holding
Goodman Funds Management	20.6%
ACC	5.5%

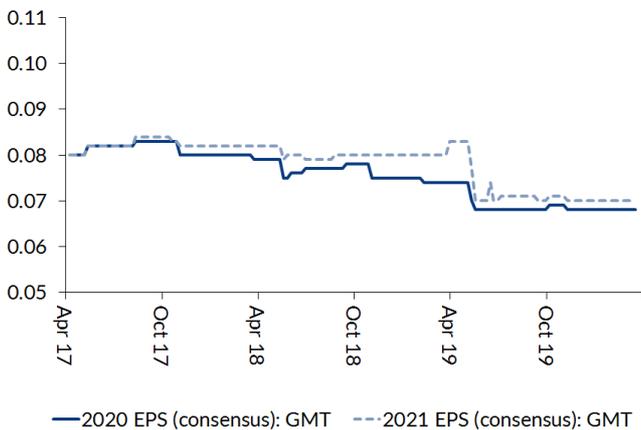
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 9. International valuation comparisons**

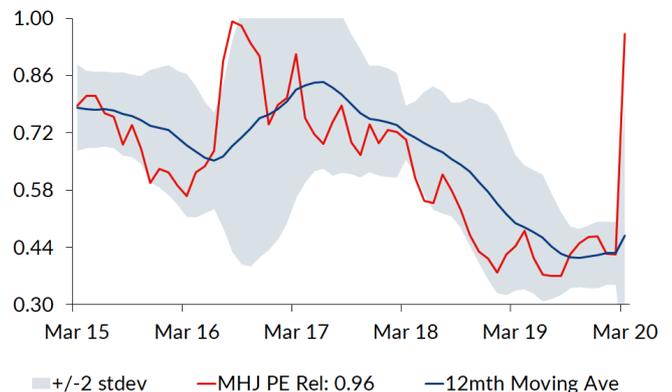
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Goodman Property Trust	GMT NZ	NZ\$2.14	NZ\$2,771	31.7x	31.1x	26.2x	23.9x	26.2x	23.9x	3.1%
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	12.7x	12.2x	14.4x	13.5x	14.4x	13.5x	7.5%
Investore *	IPL NZ	NZ\$1.41	NZ\$429	17.4x	17.1x	18.3x	18.1x	18.3x	18.1x	5.4%
Kiwi Property Group *	KPG NZ	NZ\$0.84	NZ\$1,318	11.8x	11.7x	14.0x	13.1x	14.0x	13.1x	8.5%
Asset Plus *	APL NZ	NZ\$0.42	NZ\$68	10.9x	11.6x	8.4x	9.1x	8.4x	9.1x	8.6%
Precinct Properties NZ *	PCT NZ	NZ\$1.47	NZ\$1,931	22.6x	21.6x	24.4x	20.2x	24.4x	20.2x	4.3%
Property For Industry *	PFI NZ	NZ\$1.76	NZ\$878	20.5x	20.1x	17.3x	17.2x	17.3x	17.2x	4.4%
Stride Property *	SPG NZ	NZ\$1.30	NZ\$475	12.4x	11.7x	14.2x	13.0x	14.2x	13.0x	7.6%
Vital Healthcare *	VHP NZ	NZ\$2.05	NZ\$928	21.1x	20.1x	20.0x	18.9x	20.0x	18.9x	4.4%
<b>Compcpo Average:</b>				<b>16.2x</b>	<b>15.8x</b>	<b>16.4x</b>	<b>15.4x</b>	<b>16.4x</b>	<b>15.4x</b>	<b>6.3%</b>
<b>GMT Relative:</b>				<b>96%</b>	<b>97%</b>	<b>60%</b>	<b>55%</b>	<b>60%</b>	<b>55%</b>	<b>-51%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 10. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 11. One year forward PE (x)**


Source: Forsyth Barr analysis

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