

# Goodman Property Trust

## FY20 Result – Great Expectations

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### UNDERPERFORM

Goodman Property Trust (GMT) reported a steady FY20 result, in-line with expectations. The key driver of yesterday's -4.4% downward share price movement was GMT's revised distribution policy, which reduced FY21 DPS guidance to 5.30cps or down -20% from 6.65cps in FY20. While we believe high quality industrial assets will navigate the uncertain economic environment ahead relatively well, this is more than factored into GMT's share price with the stock trading on lofty valuation metrics especially when compared to the NZ LPV sector. GMT is currently trading on a cash yield of 2.4%, a forward Adjusted Funds From Operations (AFFO) multiple of 35.3x, and a 27% premium to its net tangible assets (NTA) backing vs. peers on a 4.2% average cash yield, a forward AFFO multiple of 23.9x, and slightly below NTA. This valuation disparity leaves little room for relative upside and we downgrade our rating to UNDERPERFORM.

NZX Code	GMT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.20	NPAT* (NZ\$m)	90.5	90.9	93.3	95.1	EV/EBITDA	27.7	28.3	27.2	26.3
Target price	NZ\$1.90	EPS* (NZc)	6.7	6.5	6.7	6.9	EV/EBIT	27.7	28.3	27.2	26.3
Risk rating	Low	EPS growth* (%)	-4.1	-2.7	2.7	2.0	PE	32.7	33.6	32.7	32.1
Issued shares	1385.0m	DPS (NZc)	6.7	5.3	5.4	5.6	Price / NTA	1.3	1.3	1.3	1.2
Market cap	NZ\$3,047m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.0	2.4	2.5	2.5
Avg daily turnover	1,359k (NZ\$2,920k)	*Based on normalised profits					Gross div yld (%)	4.3	3.4	3.5	3.6

### What's changed?

- **Distributions:** FY21/22/23 DPS +2%/-9%/-12%
- **Target price:** Down 2cps to NZ\$1.90
- **Rating:** Downgrade to UNDERPERFORM

### Flat cash earnings guidance and revised payout reduces FY21 DPS 20% yoy

GMT guided to flat cash earnings of 6.2cps and updated their dividend policy to better cover cash distributions. FY21 DPS guidance is for 5.3cps (down -20% yoy) based on the midpoint of GMT's revised 80–90% cash earnings payout range. Including all capex on GMT's stabilised portfolio, this equates to a c.100% cash payout. Furthermore, GMT's version of cash earnings does not adjust for performance fees which are paid in units and totalled NZ\$11.2m in FY20. Continuation of large performance fees are likely over the medium term given GMT's significant FY20 outperformance vs. the NZ LPV sector, which has resulted in an accrued carry forward performance fee balance of NZ\$89.5m (or 6.4cps).

### Portfolio well positioned but not immune to COVID-19 aftermath

GMT's portfolio proved resilient over lockdown (90% rent collection over April/May). While we expect high quality industrial assets to fare better than retail and office sub-sectors it will still be impacted by the broader economic slowdown. Lower tenant demand will increase vacancy, pressure rents, and reduce development lead earnings growth. GMT has already put some developments on hold until a tenant commitment can be secured. We have lowered our FY21/22/23 NPAT by -1.6%/-5.0%/-7.1% largely driven by lower development activity impacting top-line growth and GMT's ability to capitalise interest. GMT does have some shock absorbers with its portfolio 7–8% underrented vs. pre COVID-19 market rents and gearing of 18.9% below its medium term target of 25–35%, providing some headroom for inorganic growth.

## Goodman Property Trust (GMT)

Priced as at 28 May 2020 (NZ\$)

2.20

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

1.90

Expected share price return

-13.6%

Net dividend yield

2.4%

Estimated 12-month return

-11.2%

### Spot valuations (NZ\$)

1. DCF

1.75

2. NAV

1.94

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

2,839

(Net debt)/cash

(615)

Less: Capitalised operating leases

0

Value of equity

2,290

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	141.1	145.3	144.5	151.2	156.4
<b>Normalised EBITDA</b>	<b>129.8</b>	<b>131.6</b>	<b>130.0</b>	<b>136.1</b>	<b>140.8</b>
Depreciation and amortisation	0	0	0	0	0
<b>Normalised EBIT</b>	<b>129.8</b>	<b>131.6</b>	<b>130.0</b>	<b>136.1</b>	<b>140.8</b>
Net interest	(21.4)	(21.9)	(22.0)	(23.6)	(24.4)
Associate income	0	0	0	0	0
Tax	(17.5)	(19.2)	(17.1)	(19.3)	(21.2)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>90.9</b>	<b>90.5</b>	<b>90.9</b>	<b>93.3</b>	<b>95.1</b>
Abnormals/other	(228.6)	(171.4)	7.2	10.1	(49.7)
<b>Reported NPAT</b>	<b>319.5</b>	<b>261.9</b>	<b>83.7</b>	<b>83.2</b>	<b>144.9</b>
Normalised EPS (cps)	7.0	6.7	6.5	6.7	6.9
DPS (cps)	6.7	6.7	5.3	5.4	5.6

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-5.0	3.0	-0.5	4.7	3.4
EBITDA (%)	-5.6	1.4	-1.2	4.8	3.4
EBIT (%)	-5.6	1.4	-1.2	4.8	3.4
Normalised NPAT (%)	-2.6	-0.4	0.4	2.7	2.0
Normalised EPS (%)	-3.1	-4.1	-2.7	2.7	2.0
Ordinary DPS (%)	0.0	0.0	-20.3	2.8	2.7

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
<b>EBITDA</b>	<b>129.8</b>	<b>131.6</b>	<b>130.0</b>	<b>136.1</b>	<b>140.8</b>
Working capital change	(18.1)	(17.8)	(0.0)	0	0
Interest & tax paid	(32.5)	(38.2)	(39.1)	(42.9)	(45.7)
Other	0	0	0	0	0
<b>Operating cash flow</b>	<b>79.2</b>	<b>75.6</b>	<b>90.9</b>	<b>93.3</b>	<b>95.1</b>
Capital expenditure	(144.2)	(125.2)	(62.2)	(41.5)	(21.3)
(Acquisitions)/divestments	134.2	(50.9)	0	0	0
Other	254.8	(3.1)	0	0	0
<b>Funding available/(required)</b>	<b>324.0</b>	<b>(103.6)</b>	<b>28.6</b>	<b>51.8</b>	<b>73.8</b>
Dividends paid	(86.0)	(89.4)	(78.2)	(75.2)	(77.3)
Equity raised/(returned)	10.4	185.9	12.5	12.8	13.0
<b>(Increase)/decrease in net debt</b>	<b>248.4</b>	<b>(7.1)</b>	<b>(37.1)</b>	<b>(10.6)</b>	<b>9.6</b>

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	(34.0)	(24.8)	(24.8)	(24.8)	(24.8)
Fixed assets	2,633.4	3,074.0	3,129.0	3,160.4	3,231.5
Intangibles	0	0	0	0	0
Right of use asset	0	0	0	0	0
Other assets	70.4	77.4	77.4	77.4	77.4
<b>Total funds employed</b>	<b>2,669.8</b>	<b>3,126.6</b>	<b>3,181.6</b>	<b>3,213.0</b>	<b>3,284.1</b>
Net debt/(cash)	582.0	614.5	651.6	662.2	652.6
Lease liability	0	0	0	0	0
Other liabilities	41.6	110.0	110.0	110.0	110.0
Shareholder's funds	2,046.2	2,402.1	2,420.0	2,440.8	2,521.5
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>2,669.8</b>	<b>3,126.6</b>	<b>3,181.6</b>	<b>3,213.0</b>	<b>3,284.1</b>

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	28.9	27.7	28.3	27.2	26.3
EV/EBIT (x)	28.9	27.7	28.3	27.2	26.3
PE (x)	31.3	32.7	33.6	32.7	32.1
Price/NTA (x)	1.4	1.3	1.3	1.3	1.2
Free cash flow yield (%)	-2.1	-1.6	0.9	1.7	2.4
Net dividend yield (%)	3.0	3.0	2.4	2.5	2.5
Gross dividend yield (%)	4.3	4.3	3.4	3.5	3.6

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	6.1	6.0	5.9	5.8	5.8
Interest cover EBITDA (x)	6.1	6.0	5.9	5.8	5.8
Net debt/ND+E (%)	22.1	20.4	21.2	21.3	20.6
Net debt/EBITDA (x)	4.5	4.7	5.0	4.9	4.6

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	4.8	4.2	4.0	4.2	4.2
Return on equity (%)	4.4	3.8	3.8	3.8	3.8
Return on funds employed (%)	3.9	3.7	3.5	3.5	3.6
EBITDA margin (%)	92.0	90.6	89.9	90.0	90.0
EBIT margin (%)	92.0	90.6	89.9	90.0	90.0
Capex to sales (%)	102.2	86.2	43.1	27.4	13.6
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	95	99	81	81	82

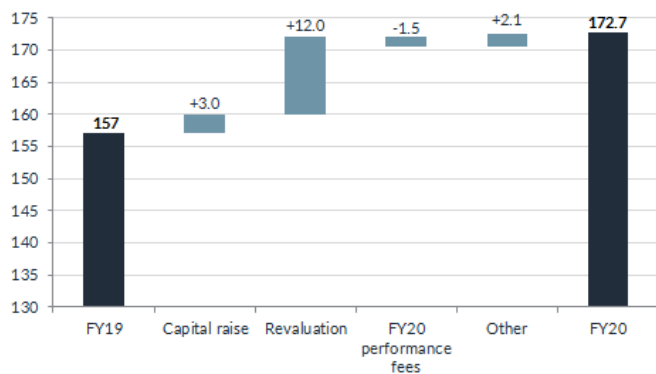
Operating Performance	2019A	2020A	2021E	2022E	2023E
Cash EPS - GMT definition	6.2	6.2	6.2	6.4	6.6
Payout ratio	107%	107%	86%	85%	85%
Cash EPS - Forbar definition	4.6	4.6	5.3	5.5	5.7
Payout ratio	145%	144%	99%	99%	99%

Property portfolio (consolidated)	2019A	2020A	2021E	2022E	2023E
Stabalised assets	2,026	2,044	2,479	2,952	3,047
Developments	49	68	85	75	50
Land	175	120	70	47	32
Held for sale	8	239	44	0	0
JV assets (51%)	165	277	0	0	0
<b>Total</b>	<b>2,422</b>	<b>2,747</b>	<b>2,677</b>	<b>3,074</b>	<b>3,129</b>

Property Statistics	2016A	2017A	2018A	2019A	2020A
Walt (years)	5.7	5.8	6.1	5.2	5.5
Occupancy (%)	97%	98%	98%	98%	99%
Cap rate (%)	6.95%	6.50%	6.20%	5.80%	5.40%
NLA (000sqm)	1,041	989	1,111	962	1,059
Portfolio leasing (000sqm)	159	154	202	97	140
Development commitments (000sqm)	65	33	64	58	34

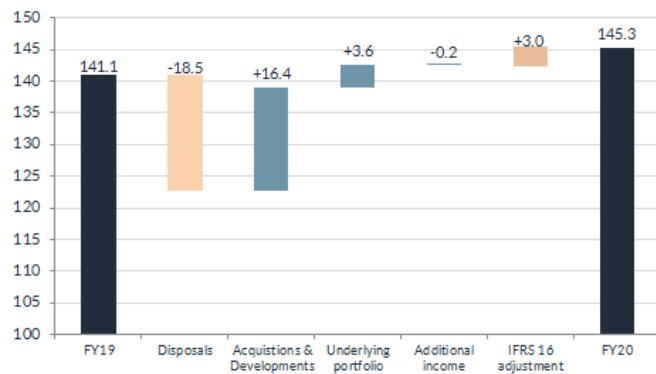
## Result summary

Figure 1. NTA bridge (CPS)



Source: Forsyth Barr analysis

Figure 2. Net property income



Source: Forsyth Barr analysis

Figure 3. FY20 result summary

Financial period	FY19	FY20	chg %	Forbar	% Var
Net rental income	141.1	145.3	3.0%	141.4	2.7%
Administration expenses	(11.4)	(13.7)	20.7%	(13.5)	1.4%
EBITDA	129.8	131.6	1.4%	127.9	2.9%
Net interest	(21.4)	(21.9)	2.6%	(17.9)	22.1%
PBT	108.4	109.7	1.2%	110.0	-0.3%
Current tax	(17.5)	(19.2)	9.7%	(19.7)	-2.5%
NPAT (underlying)	90.9	90.5	-0.4%	90.3	0.2%
Adjustments:					
Investment property revaluations	201.9	165.8	-17.9%	181.6	-8.7%
Other non-operating adjustments	26.7	5.6	-79.0%	-	-
NPAT (reported)	319.5	261.9	-18.0%	271.9	-3.7%
EPU (underlying) - cps	7.02	6.73	-4.1%	6.75	-0.3%
AFFO (Forbar estimate) - cps	5.65	4.87	-13.8%	6.08	-19.9%
DPU - cps	6.65	6.65	-	6.65	-

Source: Forsyth Barr analysis, Company reports

Figure 4. Forecast changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	143.0	144.5	1.1%	152.1	151.2	-0.6%	159.1	156.4	-1.7%
Corporate costs	(14.4)	(14.6)	1.0%	(15.1)	(15.1)	0.3%	(15.7)	(15.6)	-0.5%
EBITDA	128.6	130.0	1.1%	137.0	136.1	-0.7%	143.4	140.8	-1.8%
Net interest	(19.9)	(22.0)	10.6%	(18.6)	(23.6)	26.7%	(17.8)	(24.4)	37.0%
Current tax	(16.3)	(17.1)	4.5%	(20.2)	(19.3)	-4.7%	(23.2)	(21.2)	-8.5%
NPAT (underlying)	92.3	90.9	-1.6%	98.2	93.3	-5.0%	102.4	95.1	-7.1%
Maintenance capex	(6.1)	(3.1)	-48.9%	(6.2)	(3.1)	-49.2%	(5.7)	(3.2)	-43.8%
AFFO	84.4	86.0	1.9%	91.6	89.1	-2.8%	97.2	91.5	-5.9%
EPS (cps)	6.69	6.55	-2.1%	7.11	6.72	-5.5%	7.41	6.86	-7.5%
AFFO (cps)	6.11	6.20	1.4%	6.63	6.42	-3.2%	7.04	6.59	-6.3%
DPS (cps)	5.20	5.30	2.0%	5.97	5.45	-8.7%	6.33	5.60	-11.6%

Source: Forsyth Barr analysis

## 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 GMT has struggled to achieve earnings growth, it has executed well on its recycling strategy and maintained a very prudent balance sheet which is well positioned to capitalised on opportunities in a slower economy. We believe the positive aspects of GMT's portfolio are more than factored into its current share price. **UNDERPERFORM.**

### 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% 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.

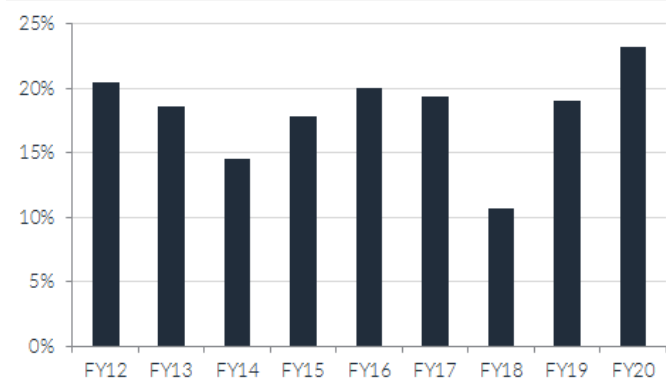
### Financial structure

- **Balance sheet capacity:** GMT is one of the least geared LPVs in the sector at 18.9%. Including committed acquisitions and developments, GMT's committed LVR is 20.6%. GMT's medium-term target remains 25–35%.

### Risk factors

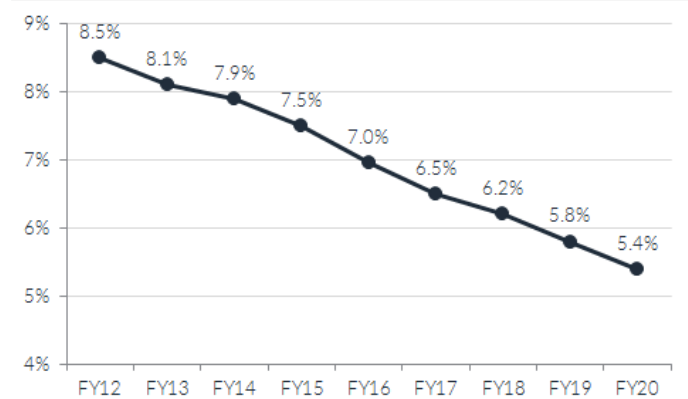
- **Tenant default:** With COVID-19 leading to widespread financial distress across many business sectors, all LPVs face a higher than usual risk of tenant default.

**Figure 5. Vacancy plus two years lease expiry**

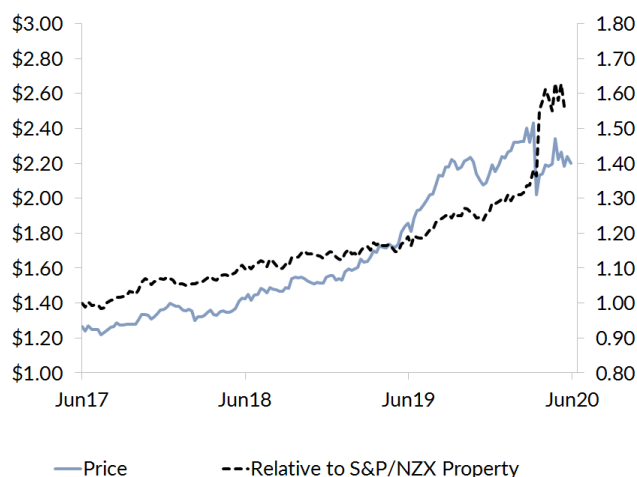


Source: Forsyth Barr analysis, Company reports

**Figure 6. Weighted average cap rate**



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%

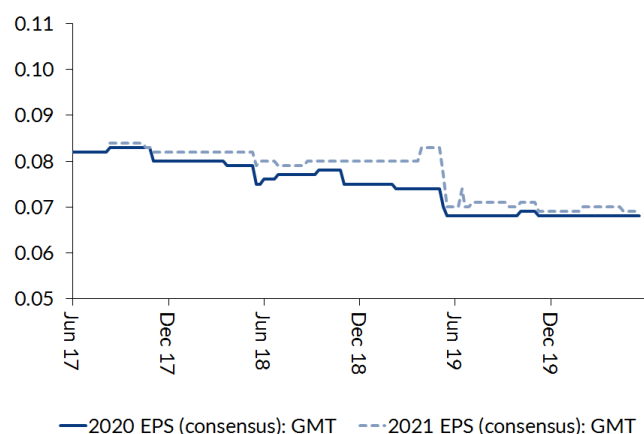
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 9. International valuation comparisons**

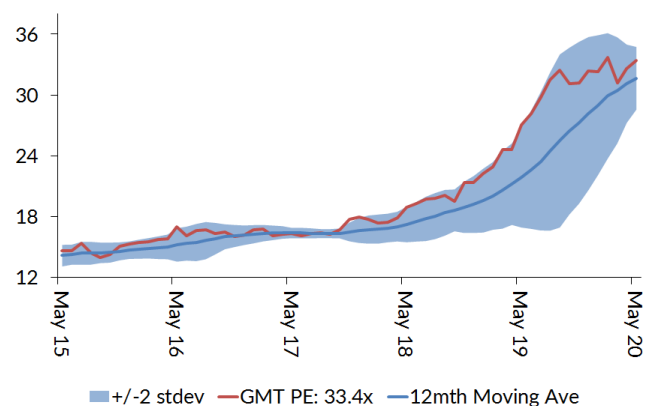
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect GMT's balance date - March)										
			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Goodman Property Trust	GMT NZ	NZ\$2.20	NZ\$3,047	33.6x	32.7x	28.2x	26.9x	28.2x	26.9x	2.5%
Argosy Property *	ARG NZ	NZ\$1.13	NZ\$931	16.1x	16.1x	18.3x	17.8x	18.3x	17.8x	5.6%
Investore *	IPL NZ	NZ\$1.72	NZ\$633	22.7x	21.7x	24.0x	20.0x	24.0x	20.0x	4.4%
Kiwi Property Group *	KPG NZ	NZ\$0.95	NZ\$1,483	16.4x	13.8x	18.1x	14.6x	18.1x	14.6x	6.5%
Asset Plus *	APL NZ	NZ\$0.39	NZ\$62	10.0x	10.6x	8.0x	8.4x	8.0x	8.4x	5.2%
Precinct Properties NZ *	PCT NZ	NZ\$1.54	NZ\$2,023	22.6x	22.9x	20.9x	19.2x	20.9x	19.2x	3.3%
Property For Industry *	PFI NZ	NZ\$2.43	NZ\$1,212	27.6x	27.4x	21.7x	21.5x	21.7x	21.5x	2.9%
Stride Property *	SPG NZ	NZ\$1.49	NZ\$544	14.2x	15.3x	15.5x	17.4x	15.5x	17.4x	4.6%
Vital Healthcare *	VHP NZ	NZ\$2.46	NZ\$1,113	24.0x	23.3x	21.1x	19.4x	21.1x	19.4x	3.4%
Compco Average:				19.2x	18.9x	18.4x	17.3x	18.4x	17.3x	4.5%
GMT Relative:				75%	73%	53%	56%	53%	56%	-45%
EV = Current Market Cap + Actual Net Debt										

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


Source: Forsyth Barr analysis

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


Source: Forsyth Barr analysis

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