FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | PROPERTY | INDUSTRIAL PROPERTY
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Goodman Property Trust
1H21 Result — Asymptomatic AFFO

ROHAN KOREMAN-SMIT CFA
rohan.koreman-smit@forsythbarr.co.nz
+64 9 368 0085

ASHTON OLDS
ashton.olds@forsythbarr.co.nz
+64 9 368 0127

UNDERPERFORM

The defensive nature of Goodman Property Trust's (GMT) portfolio underpinned a solid interim result with cash earnings on a per unit basis down just -1% yoy, largely due to an increased share count. Given an improving outlook, GMT lifted guidance marginally and announced the recommencement of a speculative project it had paused, highlighting confidence in demand for industrial space. Management also signalled that the timing of larger-scale redevelopments may be accelerated, with continued capitalisation rate compression improving project economics. We lift FY22/23 DPS +2% but retain our UNDERPERFORM rating, with GMT's lofty valuation metrics leaving little room for relative upside vs. peers.

NZX Code	GMT
Share price	NZ$2.40
Target price	NZ$2.30
Risk rating	Low
Issued shares	1390.1m
Market cap	NZ$3,336m
Avg daily turnover	1,345k (NZ$2,983k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	90.5	93.1	95.3	97.7
EPS* (NZc)	6.7	6.7	6.9	7.0
EPS growth* (%)	-4.1	-0.4	2.3	2.5
DPS (NZc)	6.7	5.3	5.5	5.7
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	35.7	35.8	35.0	34.1
EV/EBIT	29.9	29.5	28.1	27.0
EV/EBITDA	29.9	29.5	28.1	27.0
Price / NTA	1.4	1.3	1.3	1.2
Cash div yld (%)	2.8	2.2	2.3	2.4
Gross div yld (%)	4.0	3.2	3.3	3.4

What's changed?

- **Earnings:** FY21–23 DPS +0%/+2%/+2%
- **Target price:** +10cps (+2%) to NZ$2.30

An uneventful result in an eventful half

GMT delivered a solid 1H21 result. AFFO was up +5.1% in dollar terms, but down -1.2% on a per unit basis due to the increased share count from GMT's September 2019 capital raise. During the Level 3 lockdown, 90% of GMT's occupants accessed their premises, highlighting the essential and defensive nature of industrial property. With activity bouncing back better than expected, tenant demand not faltering, and no uplift in incentives, GMT provided a slight upgrade to earnings guidance from 6.2cpu to at least 6.3cpu.

Balance sheet to be deployed into redevelopments?

The one surprise in the result was management signalling that redevelopments at value-add sites may come sooner than originally anticipated. While strong tenant demand is yet to lead to the higher rent levels these projects had previously required, development economics have become increasingly favourable as capitalisation rates have compressed in the low interest rate environment. The prime candidate for a large scale redevelopment would be Roma Road, given the current tenants (Foodstuffs) lease expires in early FY22.

A well oiled, but expensive machine

GMT's slightly lower rental abatements (NZ$2.2m) and solid underlying rent growth (+3.7% like-for-like) in 1H21 has seen us revise up rental forecasts, resulting in bottom line AFFO upgrades of +2.1%/1.5%/+2.1% in FY21/FY22/FY23. While dynamics in the industrial sub-sector are attractive, we believe this is more than factored into GMT which is trading at a 32% premium to its net tangible assets, on a sector low gross yield of 3.2%, and on an implied capitalisation rate of 4.2% (vs. 1H20 of 5.2%). We retain our UNDERPERFORM rating.

Goodman Property Trust (GMT)

Priced as at 23 Nov 2020 (NZ$)	**2.40**

12-month target price (NZ$)*	**2.30**
Expected share price return	-4.2%
Net dividend yield	2.3%
Estimated 12-month return	-1.9%

Spot valuations (NZ$)	
1. DCF	2.31
2. NAV	2.27
n/a	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.66
WACC	4.2%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	3,746
(Net debt)/cash	(615)
Less: Capitalised operating leases	0
Value of equity	3,132

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	141.1	145.3	150.6	160.2	167.1
Normalised EBITDA	**129.8**	**131.6**	**135.9**	**144.3**	**150.4**
Depreciation and amortisation	0	0	0	0	0
Normalised EBIT	**129.8**	**131.6**	**135.9**	**144.3**	**150.4**
Net interest	(21.4)	(21.9)	(25.2)	(29.5)	(30.9)
Associate income	0	0	0	0	0
Tax	(17.5)	(19.2)	(17.5)	(19.4)	(21.7)
Minority interests	0	0	0	0	0
Normalised NPAT	**90.9**	**90.5**	**93.1**	**95.3**	**97.7**
Abnormals/other	(228.6)	(171.4)	(107.2)	(53.5)	(53.6)
Reported NPAT	**319.5**	**261.9**	**200.3**	**148.8**	**151.3**
Normalised EPS (cps)	7.0	6.7	6.7	6.9	7.0
DPS (cps)	6.7	6.7	5.3	5.5	5.7

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	31.1	29.9	29.5	28.1	27.0
EV/EBIT (x)	31.1	29.9	29.5	28.1	27.0
PE (x)	34.2	35.7	35.8	35.0	34.1
Price/NTA (x)	1.5	1.4	1.3	1.3	1.2
Free cash flow yield (%)	-1.9	-1.5	1.0	1.6	2.2
Net dividend yield (%)	2.8	2.8	2.2	2.3	2.4
Gross dividend yield (%)	4.0	4.0	3.2	3.3	3.4

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	6.1	6.0	5.4	4.9	4.9
Interest cover EBITDA (x)	6.1	6.0	5.4	4.9	4.9
Net debt/ND+E (%)	22.1	20.4	22.0	21.6	21.2
Net debt/EBITDA (x)	4.5	4.7	5.3	5.0	4.9

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	-5.0	3.0	3.6	6.4	4.3
EBITDA (%)	-5.6	1.4	3.2	6.2	4.2
EBIT (%)	-5.6	1.4	3.2	6.2	4.2
Normalised NPAT (%)	-2.6	-0.4	2.9	2.3	2.5
Normalised EPS (%)	-3.1	-4.1	-0.4	2.3	2.5
Ordinary DPS (%)	0.0	0.0	-20.3	3.3	4.5

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	4.8	4.2	4.0	4.1	4.2
Return on equity (%)	4.4	3.8	3.7	3.6	3.6
Return on funds employed (%)	3.9	3.7	3.5	3.5	3.5
EBITDA margin (%)	92.0	90.6	90.2	90.0	90.0
EBIT margin (%)	92.0	90.6	90.2	90.0	90.0
Capex to sales (%)	102.2	86.2	41.8	26.7	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	79	80	81

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**129.8**	**131.6**	**135.9**	**144.3**	**150.4**
Working capital change	(18.1)	(17.8)	3.1	0.0	0
Interest & tax paid	(32.5)	(38.2)	(42.7)	(48.9)	(52.6)
Other	0	0	0	0	0
Operating cash flow	**79.2**	**75.6**	**96.2**	**95.3**	**97.7**
Capital expenditure	(144.2)	(125.2)	(62.9)	(42.8)	(22.7)
(Acquisitions)/divestments	134.2	(50.9)	(70.0)	0	0
Other	254.8	(3.1)	0	0	0
Funding available/(required)	**324.0**	**(103.6)**	**(36.6)**	**52.5**	**75.0**
Dividends paid	(86.0)	(89.4)	(78.4)	(75.6)	(78.9)
Equity raised/(returned)	10.4	185.9	11.4	14.5	0
(Increase)/decrease in net debt	**248.4**	**(7.1)**	**(103.6)**	**(8.6)**	**(3.9)**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash EPS - GMT definition	6.2	6.2	6.3	6.5	6.7
Payout ratio	107%	107%	84%	84%	85%
Cash EPS - Forbar definition	4.6	4.6	5.4	5.6	5.7
Payout ratio	145%	144%	97%	98%	100%

Property portfolio (consolidated)					
Stabalised assets	2,026	2,044	2,479	2,952	3,247
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
Total	**2,422**	**2,747**	**2,677**	**3,074**	**3,329**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	(34.0)	(24.8)	(27.9)	(27.9)	(27.9)
Fixed assets	2,633.4	3,074.0	3,328.5	3,424.9	3,501.2
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
Total funds employed	**2,669.8**	**3,126.6**	**3,378.0**	**3,474.4**	**3,550.7**
Net debt/(cash)	582.0	614.5	718.1	726.7	730.6
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	2,550.0	2,637.7	2,710.1
Minority interests	0	0	0	0	0
Total funding sources	**2,669.8**	**3,126.6**	**3,378.0**	**3,474.4**	**3,550.7**

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

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

Highlights from the result

- **COVID-19 impact:** Industrial property was one of the less impacted property sub-sectors during COVID-19 restrictions given the essential nature of many tenants. 90% of GMT's tenants (by income) utilised their premises during Alert Level 3. The 1H21 P&L impact of tenant support was NZ$2.2m, or 3% of net property income.
- **Developments back on the menu:** GMT has signalled it will recommence the previously paused 9,000sqm build-to-lease (i.e. spec build) development at M20. The NZ$37.9m development is expected to be completed in 2H22. Compared to details provided at FY20, one other previously paused development (Savill Expansion) has been removed, with development plans likely changing with the recent acquisition of contiguous land, while the NZ$26.1m El Kobar project at Highbrook remains paused.
- **Revaluations lift portfolio value:** -20bps of capitalisation rate compression lifted GMT's portfolio valuation by +4.4% or NZ$140.2m, which in addition to acquisitions and developments lifted GMT's total portfolio value by +8.7% or NZ$268.3m. GMT's NTA lifted by +9.7cpu (+5.6%) to 182.4cpu.
- **Gearing lifts to 24.9%:** Acquisitions and development spend was only partially offset by asset revaluations, resulting in a lift in gearing from 24.9% (FY20: 20.3%). Gearing does remain (marginally) below GMT's medium term target of 25–35%.
- **Lift in FY21 guidance:** GMT has guided to cash earnings of 6.3cps in FY21 (previously 6.2cps). In line with GMT's distribution policy of 80–90% of cash earnings, GMT has reaffirmed DPS guidance of not less than 5.3cps.

Figure 1. Result summary

	1H20	1H21	chg %	Forbar	% Var
Net rental income	71.3	74.3	4.2%	69.8	6.4%
Administration expenses	(6.4)	(7.3)	14.1%	(7.3)	-0.7%
EBITDA	**64.9**	**67.0**	**3.2%**	**62.5**	**7.3%**
Net interest	(11.2)	(11.0)	-1.8%	(11.5)	-4.0%
PBT	**53.7**	**56.0**	**4.3%**	**51.0**	**9.8%**
Current tax	(9.0)	(9.6)	6.7%	(7.9)	21.1%
NPAT (underlying)	**44.7**	**46.4**	**3.8%**	**43.1**	**7.7%**
Capitalised borrowing costs on land	(2.2)	(1.3)	-40.9%	(0.8)	53.8%
Maintenance capex	(1.4)	(1.9)	35.7%	(1.6)	21.2%
AFFO	**41.1**	**43.2**	**5.1%**	**40.7**	**6.2%**
EPU (underlying) — cps	3.43	3.34	-2.6%	3.10	7.4%
AFFO — cps	**3.15**	**3.11**	**-1.2%**	**2.93**	**6.2%**
DPU — cps	**3.33**	**2.65**	**-20.3%**	**2.65**	**-0.1%**

Source: Forsyth Barr analysis, Company reports

Earnings changes

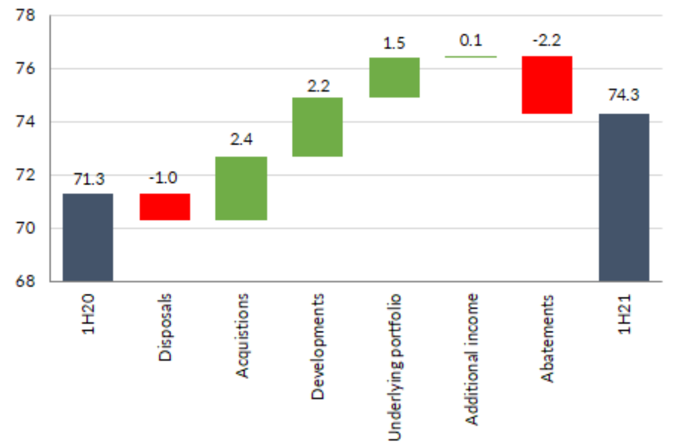
Figure 2. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	145.4	150.6	3.5%	153.1	160.2	4.6%	158.3	167.1	5.5%
Corporate costs	(14.7)	(14.7)	0.3%	(15.4)	(16.0)	3.7%	(15.9)	(16.7)	5.2%
EBITDA	**130.7**	**135.9**	**3.9%**	**137.8**	**144.3**	**4.7%**	**142.5**	**150.4**	**5.5%**
Net interest	(22.9)	(25.2)	9.9%	(25.4)	(29.5)	16.2%	(26.2)	(30.9)	18.0%
Current tax	(16.9)	(17.5)	3.9%	(18.9)	(19.4)	2.7%	(20.9)	(21.7)	3.8%
NPAT (underlying)	**90.9**	**93.1**	**2.4%**	**93.4**	**95.3**	**2.0%**	**95.4**	**97.7**	**2.5%**
Maintenance capex	(3.1)	(3.2)	2.1%	(3.2)	(3.4)	5.0%	(3.3)	(3.5)	6.0%
AFFO	**86.1**	**88.1**	**2.3%**	**89.2**	**90.7**	**1.7%**	**91.6**	**93.7**	**2.3%**
EPS (cps)	6.55	6.70	2.2%	6.73	6.86	1.8%	6.87	7.03	2.3%
AFFO (GMT definition, cps)	**6.21**	**6.34**	**2.1%**	**6.43**	**6.53**	**1.5%**	**6.60**	**6.74**	**2.1%**
DPS (cps)	**5.31**	**5.30**	**-0.1%**	**5.46**	**5.47**	**0.3%**	**5.61**	**5.72**	**2.1%**

Source: Forsyth Barr analysis

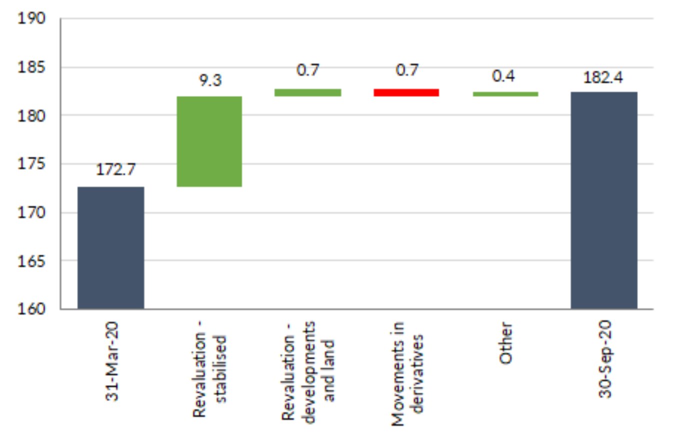
1H21 in charts

Figure 3. Net rental income bridge (NZ$m)



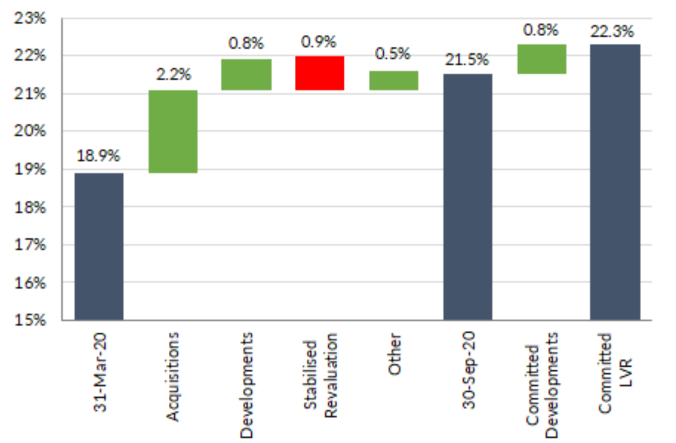
Source: Company reports, Forsyth Barr analysis

Figure 4. NTA bridge (cps)



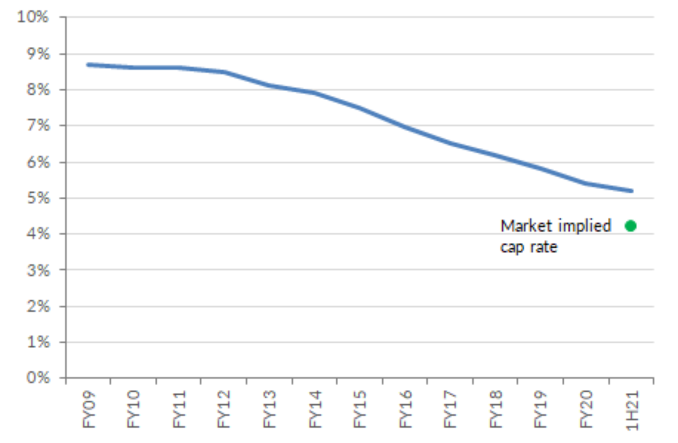
Source: Company reports, Forsyth Barr analysis

Figure 5. Gearing bridge



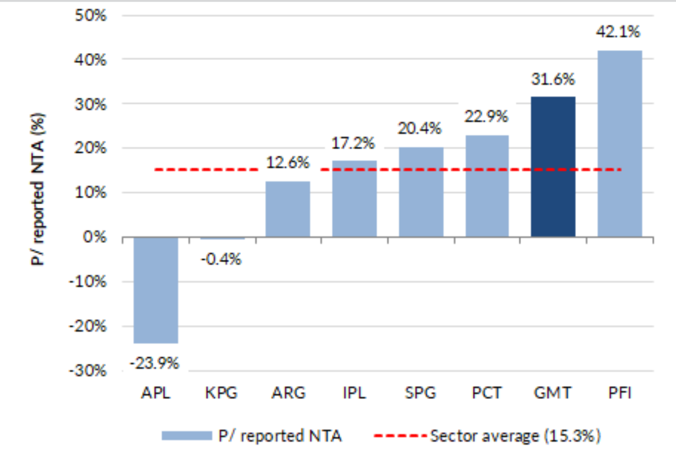
Source: Company reports, Forsyth Barr analysis

Figure 6. Portfolio cap rate



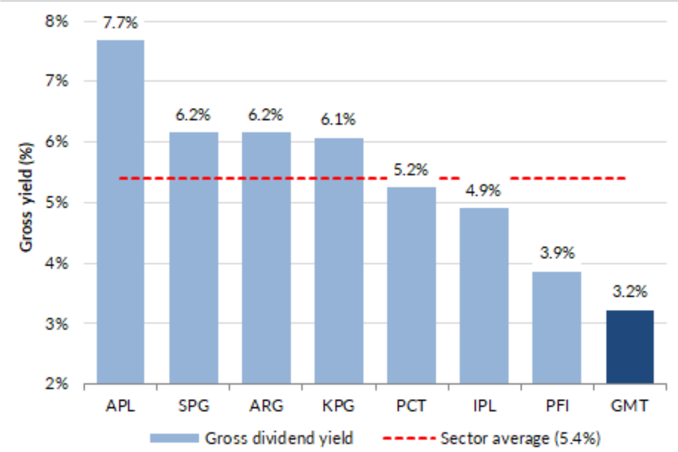
Source: Company reports, Forsyth Barr analysis

Figure 7. Premium/discount to NTA



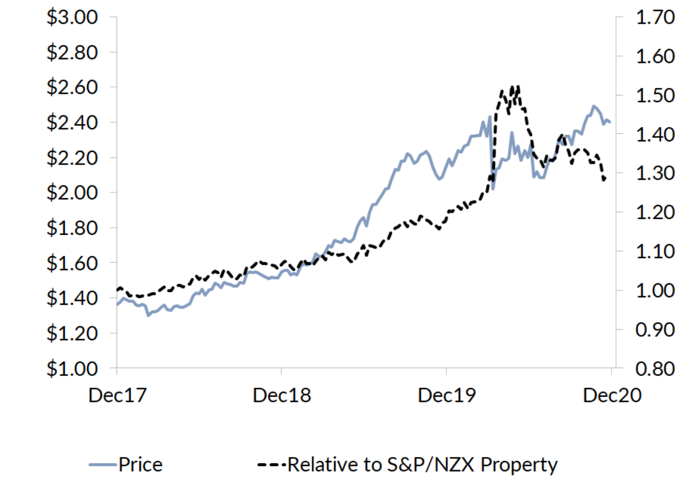
Source: Company reports, Forsyth Barr analysis

Figure 8. Gross yield



Source: Forsyth Barr analysis

Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
Goodman Funds Management	20.6%
ACC	5.0%

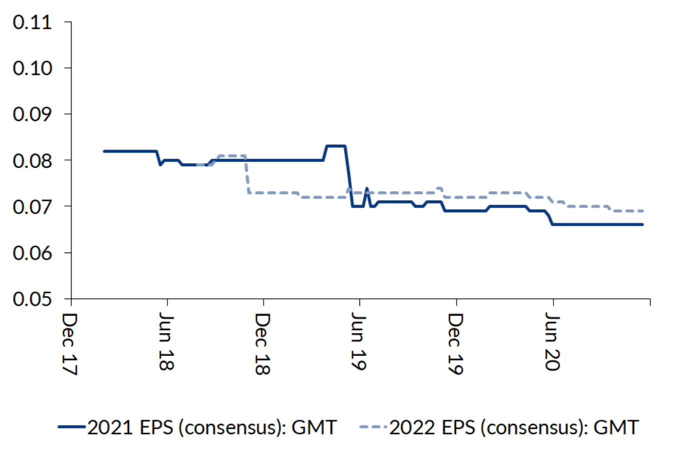
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. 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$2.40**	**NZ$3,336**	**35.8x**	**35.0x**	**29.1x**	**27.4x**	**29.1x**	**27.4x**	**2.3%**
ARGOSY PROPERTY *	ARG NZ	NZ$1.47	NZ$1,226	21.0x	21.0x	21.6x	20.9x	21.6x	20.9x	4.3%
INVESTORE *	IPL NZ	NZ$2.25	NZ$828	29.0x	26.4x	23.4x	21.1x	23.4x	21.1x	3.5%
KIWI PROPERTY GROUP *	KPG NZ	NZ$1.28	NZ$2,001	22.8x	19.2x	21.5x	17.9x	21.5x	17.9x	4.6%
ASSET PLUS *	APL NZ	NZ$0.33	NZ$123	15.3x	23.3x	23.7x	27.5x	23.7x	27.5x	5.5%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ$1.78	NZ$2,339	28.0x	27.7x	30.2x	27.4x	30.2x	27.4x	3.7%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ$2.94	NZ$1,471	33.3x	32.8x	26.3x	26.5x	26.3x	26.5x	2.7%
STRIDE PROPERTY *	SPG NZ	NZ$2.31	NZ$844	22.1x	24.0x	31.3x	37.1x	31.3x	37.1x	4.3%
VITAL HEALTHCARE *	VHP NZ	NZ$2.96	NZ$1,519	n/a	n/a	n/a	n/a	n/a	n/a	n/a
			Compco Average:	**24.5x**	**24.9x**	**25.4x**	**25.5x**	**25.4x**	**25.5x**	**4.1%**
EV = Current Market Cap + Actual Net Debt			**GMT Relative:**	**46%**	**41%**	**14%**	**7%**	**14%**	**7%**	**-44%**

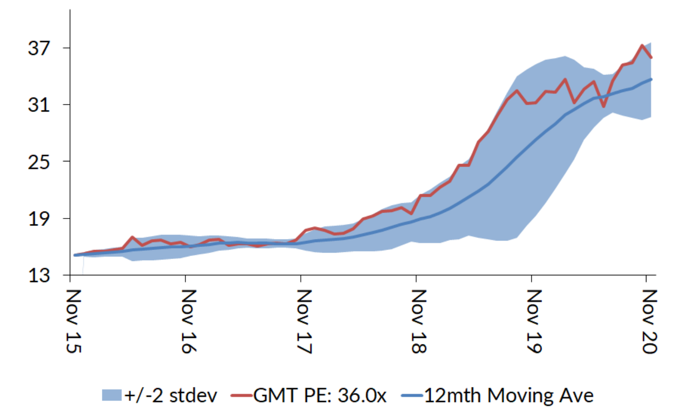
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GMT) companies fiscal year end

Figure 12. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)



Source: Forsyth Barr analysis

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