

Investore

OUTPERFORM

1H20 — Everyday Essentials

Investore (IPL) has reported a steady 1H20 result with distributable profit of NZ\$8.9m, down NZ\$1.1m as a result of an NZ\$0.9m performance fee. Excluding performance fees, 1H20 was close to expectations of a flat underlying result. Adjusted funds from operations (AFFO) is 3.45cps, slightly below our forecast, and below the pcp of 3.99cps driven by the performance fees and higher maintenance capex. We continue to like IPL given its strongly defensive characteristics. **OUTPERFORM.**

What's changed?

- **Earnings:** No changes
- **Target Price:** Remains NZ\$1.85
- **Rating:** Remains OUTPERFORM

Key points of interest from 1H20:

- **Flat FY20 dividend guidance maintained** — This is unchanged from the FY19 result and flat on the pcp. The 1Q20 dividend is 1.9cps (record date 20 November / payment date 27 November), providing a 1H20 dividend of 3.8cps, in line with forecast.
- **Sector-leading portfolio metrics retained** — FY20 WALT and occupancy is 11.9 years and 99.7% (FY19: 12.1 years / 99.9%). IPL indicated that 80% of its portfolio is in the 'Everyday Needs' category, highlighting the defensive nature of the retail tenancy mix. The Countdown refurbishment and value add programme remains a key ongoing strategy.
- **Benign lease expiry profile highlights defensive qualities** — All FY20 lease expiries have been renewed and only 4.7% of the portfolio expires over FY21–FY23. A lease to The Warehouse Group in Dunedin city expires in July 2021 and will likely not be renewed. There is some development and value-add opportunity with the site.
- **Balance sheet solid** — Gearing at 40.6% is down slightly following the sale of Countdown Dunedin South early in 1H20 and well within the target of <48%. NTA per share is flat at NZ\$1.70 versus FY19. There was a minor revaluation gain on three properties that were revalued.
- **Modest acquisition activity but remains a key strategic plank** — Countdown New Brighton was purchased for NZ\$5.75m with a strongly accretive initial 7.2% yield plus future development potential. IPL noted that it has a pipeline of acquisitions under consideration. IPL has a niche as a specialist large format retail landlord/developer and this will lead to further opportunities. The portfolio has a large land holding and substantial car parks, allowing expansion and adding mixed-use opportunities.

Investment View

IPL offers a stable medium-term dividend yield backed by a defensive portfolio of large format retail properties. Long lease terms and structured reviews mean near-term risks are low. However, we remain conservative on the medium-term outlook for rental growth with the majority of IPL's rent reviews linked to turnover over the medium term (albeit these include hard ratchets and are very defensive). IPL looks attractively priced relative to its peers in terms of yield and P/NTA. **OUTPERFORM.**

NZX Code	IPL
Share price	NZ\$1.87
Target price	NZ\$1.85
Risk rating	Low
Issued shares	260.1m
Market cap	NZ\$486m
Average daily turnover	154.8k (NZ\$269k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	20.9	21.2	21.6	22.0
EPS* (NZc)	8.0	8.2	8.3	8.5
EPS growth* (%)	2.1	1.6	2.0	1.7
DPS (NZc)	7.6	7.6	7.6	7.6
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	19.8	19.5	19.0	18.8
EV/EBIT	19.8	19.5	19.0	18.8
PE	23.3	22.9	22.5	22.1
Price / NTA	1.1	1.1	1.0	n/a
Cash dividend yield (%)	4.1	4.1	4.1	4.1
Gross dividend yield (%)	5.8	5.8	5.8	5.8

*Historic and forecast numbers based on underlying profits

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Investore (IPL)		Priced as at 13 Nov 2019: NZ\$1.87					March year end					
Forsyth Barr valuation							Valuation Ratios					
Valuation methodology		Blended DCF (50%) and NAV (50%)					2018A	2019A	2020E	2021E	2022E	
							EV/EBITDA (x)	20.3	19.8	19.5	19.0	18.8
							EV/EBIT (x)	20.3	19.8	19.5	19.0	18.8
12-month target price (NZ\$)*	1.85	Spot valuations (NZ\$)					PE (x)	23.8	23.3	22.9	22.5	22.1
Expected share price return	-1.1%	1. DCF		1.95		Price/NTA (x)	1.14	1.10	1.07	1.04	1.02	
Net dividend yield	4.1%	2. NAV		1.66		Free cash flow yield (%)	4.0	3.2	4.0	4.1	4.1	
Estimated 12-month return	3.0%	n/a		n/a		Net dividend yield (%)	4.0	4.1	4.1	4.1	4.1	
							Gross dividend yield (%)	5.7	5.8	5.8	5.8	5.8
Key WACC assumptions		DCF valuation summary (NZ\$m)					Imputation (%)	100	100	100	100	100
Risk free rate	2.0%	Total firm value		840		Pay-out ratio (%)	95	95	93	91	90	
Equity beta	0.70	(Net debt)/cash		(312)								
WACC	4.9%	Value of equity		525		Capital Structure						
Terminal growth	1.5%	Shares (m)		260		2018A	2019A	2020E	2021E	2022E		
							Interest cover EBIT (x)	3.2	2.9	3.0	3.1	3.2
							Net debt/ tangible assets (%)	41.4	41.0	38.9	38.4	37.9
							Net debt/ND+E (%)	41.5	41.3	39.2	38.6	38.2
							Net debt/EBITDA (x)	8.1	7.8	7.2	7.2	7.1
Profit and Loss Account (NZ\$m)		2018A	2019A	2020E	2021E	2022E	Key Ratios					
Sales revenue	43.1	46.1	46.4	47.0	47.4	Return on assets (%)	5.1	5.2	5.3	5.3	5.3	
Normalised EBITDA	37.7	40.1	40.5	41.1	41.4	Return on equity (%)	4.8	4.7	4.7	4.6	4.6	
Depreciation and amortisation	-	-	-	-	-	Return on funds employed (%)	4.2	4.1	4.1	4.1	4.1	
Normalised EBIT	37.7	40.1	40.5	41.1	41.4	EBITDA margin (%)	87.4	86.9	87.4	87.4	87.4	
Net interest	(11.7)	(13.8)	(13.6)	(13.3)	(13.1)	EBIT margin (%)	87.4	86.9	87.4	87.4	87.4	
Associate income	-	-	-	-	-	Capex to sales (%)	5.1	12.0	4.0	4.0	4.1	
Tax	(5.5)	(5.3)	(5.7)	(6.1)	(6.4)	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
Minority interests	-	-	-	-	-							
Normalised NPAT	20.5	20.9	21.2	21.6	22.0	Portfolio Summary						
Abnormals/other	(25.6)	(17.7)	(10.4)	(9.3)	(6.0)	*2016A	2017A	2018A	2019A			
Reported NPAT	46.2	38.6	31.6	31.0	28.0	Investment properties (NZ\$m)	641.4	660.4	738.3	761.2		
Normalised EPS (cps)	7.9	8.0	8.2	8.3	8.5	Weighted average lease term (yrs)	14.8	14.3	13.1	12.4		
DPS (cps)	7.5	7.6	7.6	7.6	7.6	Occupancy rate (%)	99.7	99.8	99.9	99.9		
							M'ment/Admin cost % of assets (%)	n/a	0.6	0.8	0.8	
							NTA per share (NZ\$)	1.46	1.55	1.64	1.70	
							Portfolio cap rate (%)	6.44	6.36	6.19	6.05	
							Portfolio initial yield (%)	6.68	6.57	6.36		
							*metrics shown on a pro-forma basis as at March 2016					
Growth Rates		2018A	2019A	2020E	2021E	2022E						
Revenue (%)	n/a	n/a	0.6	1.4	0.9							
EBITDA (%)	n/a	n/a	1.1	1.3	0.9							
EBIT (%)	n/a	n/a	1.1	1.3	0.9							
Normalised NPAT (%)	n/a	n/a	1.3	2.0	1.7							
Normalised EPS (%)	n/a	n/a	1.6	2.0	1.7							
DPS (%)	n/a	n/a	0.0	0.0	0.0							
Cash Flow (NZ\$m)		2018A	2019A	2020E	2021E	2022E						
EBITDA	37.7	40.1	40.5	41.1	41.4							
Working capital change	1.0	0.1	(0.0)	-	(0.0)							
Interest & tax paid	(17.2)	(19.0)	(19.3)	(19.4)	(19.5)							
Other	-	-	-	-	-							
Operating cash flow	21.4	21.2	21.2	21.6	22.0							
Capital expenditure	(2.2)	(5.5)	(1.9)	(1.9)	(1.9)							
(Acquisitions)/divestments	(47.8)	-	18.3	-	-							
Other	-	98.5	-	-	-							
Funding available/(required)	(28.6)	114.1	37.6	19.7	20.1							
Dividends paid	(20.0)	(19.7)	(19.8)	(19.8)	(19.8)							
Equity raised/(returned)	-	(2.6)	-	-	-							
Increase/(decrease) in net debt	48.6	(91.8)	(17.9)	0.0	(0.3)							
Balance Sheet (NZ\$m)		2018A	2019A	2020E	2021E	2022E						
Working capital	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)							
Fixed assets	738.3	742.1	755.2	766.4	774.4							
Intangibles	-	-	-	-	-							
Other assets	2.1	22.2	3.2	3.2	3.2							
Total funds employed	735.9	760.6	754.6	765.8	773.8							
Net debt/(cash)	304.7	311.5	293.7	293.7	293.4							
Other non current liabilities	2.1	5.8	5.8	5.8	5.8							
Shareholder's funds	429.1	443.2	455.1	466.3	474.5							
Minority interests	-	-	-	-	-							
Total funding sources	735.9	760.6	754.6	765.8	773.8							

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

Financial Summary

Figure 1. 1H20 Operating Summary

Financial period	1H18	1H19	1H20	Change	Forecast
Six months ending:	09/17	09/18	09/19		
Underlying profit & loss (NZ\$000s)					
Net rental income	21,410	23,341	23,489	0.6%	23,412
Base corporate costs	(2,545)	(2,812)	(3,026)	7.6%	(2,865)
Performance fees	-	-	(1,008)	-	-
EBITDA	18,865	20,529	19,455	-5.2%	20,547
Net interest	(5,726)	(6,914)	(6,944)	0.4%	(6,876)
PBT	13,139	13,615	12,511	-8.1%	13,671
Current tax	(2,746)	(2,817)	(2,660)	-5.6%	(2,825)
NPAT (underlying)	10,393	10,798	9,851	-8.8%	10,846
Adjustments:					
Investment property revaluations	1,157	(923)	886		-
Other non-operating adjustments	70	93	254		-
NPAT (reported)	11,620	9,968	10,991	10.3%	10,846
Adjusted funds from operations					
NPAT - underlying profit	10,393	10,798	9,851	-8.8%	10,846
Maintenance capex	(79)	(360)	(879)	144.2%	(939)
Other AFFO adjustments	-	-	-	-	-
AFFO	10,314	10,438	8,972	-14.0%	9,907
Financials per share (cps)					
Period weighted shares on issue	261,722	261,571	260,076	-0.6%	260,076
Net income per share	8.18	8.92	9.03	1.2%	9.00
EBITDA per share	7.21	7.85	7.48	-4.7%	7.90
PBT per share	5.02	5.21	4.81	-7.6%	5.26
NPAT per share (underlying)	3.97	4.13	3.79	-8.2%	4.17
AFFO per share	3.94	3.99	3.45	-13.6%	3.81
Dividends					
1Q cash dividend (cps)	1.86	1.86	1.85	-0.5%	1.85
2Q cash dividend (cps)	1.86	1.87	1.90	1.9%	1.90
3Q cash dividend (cps)	-	-	-	-	-
4Q cash dividend (cps)	-	-	-	-	-
FY cash dividend (cps)	3.72	3.73	3.75	0.7%	3.75
Payout - NPAT (underlying)		90.2%	99.0%	8.8pp	92.4%
Payout - AFFO		93.3%	108.7%	15.4pp	105.1%
Balance sheet					
Operating cash flow		12.47	8.54	-31.5%	10.0
NTA		1.6	1.7	3.7%	n/a
Gearing (NZ / total assets)		41.0%	40.5%	-1.3%	n/a

Source: Forsyth Barr analysis, Company Reports

Investment summary

Investore Property Limited (IPL) offers a stable dividend yield backed by a defensive portfolio of large format retail property. It has impressive metrics with a WALT of ~12 years and occupancy of ~100%. With 73% of its rental income backed by Woolworths (Countdown) its tenant exposure is concentrated but has strong covenants. We are cautious on the medium-term outlook for rental growth with the majority of IPL's rent reviews linked to turnover, but include hard-ratchets and defensive. In our 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 the IPL target price by +15%. **OUTPERFORM.**

Earnings and cash flow outlook

- **Bunnings acquisition:** IPL has recently acquired three Bunnings properties for NZ\$78.5m which was ~4% accretive to EPS.
- **Externally managed:** IPL is managed by Stride Investment Management Limited (SIML), the management arm of Stride Property (SPG). Given IPL's relative smaller scale its management expense ratio (MER) is above peers, which is a drag on earnings and our relative NAV valuation.

Business quality

- **Long lease terms and high occupancy:** IPL's WALT of 11.9 years is significantly higher than the sector average of 6.8 years (ex VHP) and its occupancy of 99.7% is also sector leading. FY20 expiries have all been renewed and only 4.7% of rental income expires over the next three years.

Company description

Investore (IPL) is a listed property company which owns NZ\$740m of large format retail properties throughout New Zealand. Its 40-asset portfolio comprises mostly of supermarkets with its key tenant General Distributors (operator of Countdown) accounting for 72% of contracted rent. IPL was formed from its demerger with NZX-listed Stride Property (SPG) in July 2016 and the associated transfer of 25 assets from SPG. IPL was listed on the NZX following its demerger and also purchased an additional portfolio of 14 assets from ASX-listed Shopping Centres Australasia (SCA) using proceeds from its IPO capital raising. IPL is externally managed by SIML, the property management arm of SPG.

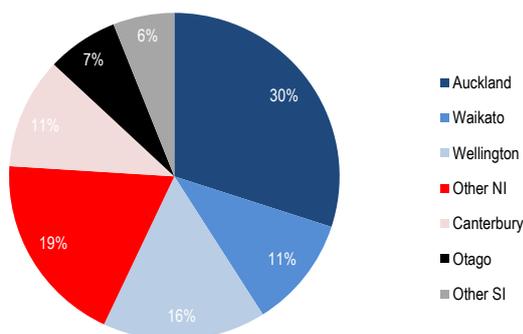
Financial structure

- **Balance sheet:** IPL has a target maximum gearing ratio of 48% and is currently geared at 41% (1H20).

Risks factors

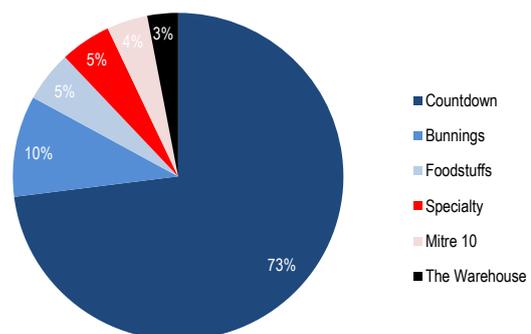
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets. The nature of the grocery market makes it exposed to e-commerce disruption; however, the location of many supermarkets make them ideal for the fulfilment of online business.
- **Interest rates / credit spreads:** IPL's relatively high gearing means it is more sensitive to interest rate or margin movements versus its listed peers but is appropriate given the low risk nature of its portfolio.
- **Portfolio concentration:** IPL's revenue is concentrated with General Distributors Limited (GDL), the operator of Countdown Supermarkets, tenanting the bulk of its properties and contributing 72% of rental revenue.

Figure 2. FY19 Geographical diversification



Source: Forsyth Barr analysis, Company Reports

Figure 3. FY19 Tenant diversification



Source: Forsyth Barr analysis, Company Reports

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
Stride Property	19.9%
ANZ NZ Investments	12.3%
Salt Funds Management	9.2%
ACC	6.1%

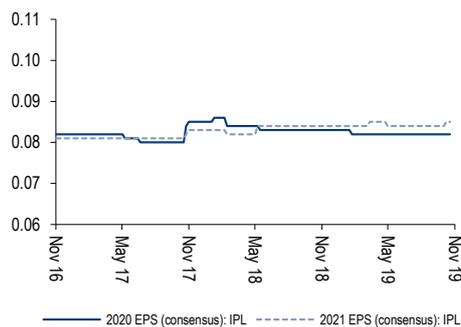
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International Compcos

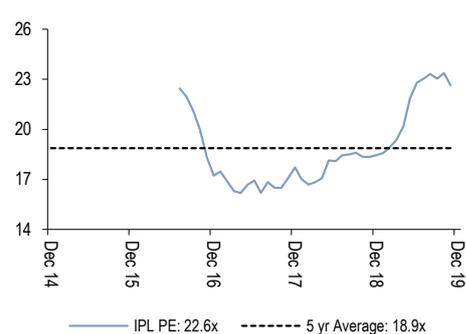
Company <i>(metrics re-weighted to reflect IPL's balance date - March)</i>	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
Investore	IPL NZ	NZ\$1.87	NZ\$486	22.9x	22.5x	19.7x	19.4x	19.7x	19.4x	4.1%
Argosy Property *	ARG NZ	NZ\$1.42	NZ\$1,170	21.5x	20.6x	19.8x	18.5x	19.8x	18.5x	4.4%
Goodman Property Trust *	GMT NZ	NZ\$2.10	NZ\$2,910	31.1x	30.5x	27.3x	24.9x	27.3x	24.9x	3.2%
Kiwi Property Group *	KPG NZ	NZ\$1.57	NZ\$2,439	22.0x	21.0x	20.8x	19.4x	20.8x	19.4x	4.5%
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\$2.37	NZ\$1,179	27.4x	27.2x	21.1x	20.9x	21.1x	20.9x	3.2%
Stride Property *	SPG NZ	NZ\$2.24	NZ\$818	21.4x	20.2x	20.3x	18.5x	20.3x	18.5x	4.4%
BWP Trust	BWP AT	A\$4.13	A\$2,653	20.7x	22.1x	n/a	22.8x	22.9x	22.8x	4.5%
Charter Hall Long Wale REIT	CLW AT	A\$5.34	A\$2,129	19.0x	18.2x	n/a	17.7x	28.5x	17.7x	5.4%
Charter Hall Retail REIT	CQR AT	A\$4.46	A\$1,974	19.3x	14.1x	n/a	17.4x	19.3x	17.8x	6.6%
Shopping Centres Australasia Property Gro	SCP AT	A\$2.70	A\$2,516	17.3x	15.8x	n/a	18.5x	19.4x	18.5x	5.7%
	Compcio Average:			22.7x	21.5x	22.8x	20.1x	22.7x	20.2x	4.6%
	IPL Relative:			+1%	+4%	-14%	-4%	-13%	-4%	-11%

EV = Current Market Cap + Actual Net Debt

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

Figure 6. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 7. 12 Month Forward PE


Source: Forsyth Barr analysis

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