

Investore

OUTPERFORM

Stocking the Shelves

Investore (IPL) has announced the conditional purchase (and associated capital raise of NZ\$80m) of the three remaining large format retail properties owned by Stride Property Group (SPG), the owner of the management contract for IPL. The deal is in line with IPL's strategy and provides earnings accretion, greater tenant and geographic diversification; although it will reduce the WALT from 11.9 years to ~10 years while still maintaining very high occupancy at 99.7%. Settlement is not expected until 1 April 2020. FY20 dividend guidance is unchanged at 7.60cps and we have not changed our forecasts at this stage. Our rating remains OUTPERFORM.

Acquisition and capital raise

The three properties are being purchased at recent (30 September 2019) valuations totalling NZ\$140.8m with an associated capital raise of up to NZ\$80m: being an NZ\$65m underwritten placement and an NZ\$15m retail offer. The underwritten floor price for the book build is NZ\$1.75, slightly above IPL's NZ\$1.70 NTA. IPL has indicated the transaction will be around +2.5% EPS accretive in FY21 in terms of distributable profit. The capital raise will drop gearing to ~30%, with gearing then increasing to ~41%, the same gearing as at 30 September and pre the capital raise.

Not just a grocer

IPL at its recent 1H20 result indicated its intention to continue to look to broaden and diversify its tenant base and asset mix. The properties add an additional 48 tenants and 23 new major retailers to the mix with the properties well located in Auckland and Tauranga. The transaction, while maintaining very high occupancy (and there is a two year rental underwrite from the vendor on four leases), drops the WALT considerably from 11.9 years to ~10 years but is still sector leading for commercial property LPVs, excluding the very high Vital Healthcare WALT. Two of the properties, Mt Wellington Shopping Centre, Auckland and Bay Centre Shopping Centre, Tauranga, in addition to large format tenants have a range of specialty tenants. This naturally shortens the WALT and makes the property more management intensive and less defensive. However, overtime the specialty retailer tenants have moved towards more defensive categories such as everyday needs and general merchandise.

More from Stride

These are the only remaining large format retail assets currently owned by SPG. We expect that SPG could in future still sell down these types of assets to IPL as it could purchase them as part of a diversified portfolio acquisition. The transaction is conditional on signoff from the Board of IPL, shareholder approval (given it is a material transaction) and OIO approval, with settlement likely on 1 April 2020.

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\$1.91
Target price	NZ\$1.85
Risk rating	Low
Issued shares	260.1m
Market cap	NZ\$497m
Average daily turnover	154.9k (NZ\$270k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	20.9	21.1	21.4	21.8
EPS* (NZc)	8.0	8.1	8.2	8.4
EPS growth* (%)	2.1	1.1	1.8	1.6
DPS (NZc)	7.6	7.6	7.6	7.6
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	20.1	19.8	19.4	19.2
EV/EBIT	20.1	19.8	19.4	19.2
PE	23.8	23.6	23.2	22.8
Price / NTA	1.1	1.1	1.1	n/a
Cash dividend yield (%)	4.0	4.0	4.0	4.0
Gross dividend yield (%)	5.7	5.7	5.7	5.7

*Historic and forecast numbers based on underlying profits

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Investore (IPL)		Priced as at 19 Nov 2019: NZ\$1.91					March year end				
Forsyth Barr valuation							Valuation Ratios				
Valuation methodology		Blended DCF (50%) and NAV (50%)					2018A	2019A	2020E	2021E	2022E
12-month target price (NZ\$)*		1.85	Spot valuations (NZ\$)			EV/EBITDA (x)	20.6	20.1	19.8	19.4	19.2
Expected share price return	-3.1%	1. DCF	1.95			EV/EBIT (x)	20.6	20.1	19.8	19.4	19.2
Net dividend yield	4.0%	2. NAV	1.66			PE (x)	24.3	23.8	23.6	23.2	22.8
Estimated 12-month return	0.9%	n/a	n/a			Price/NTA (x)	1.17	1.12	1.09	1.07	1.05
Key WACC assumptions		DCF valuation summary (NZ\$m)					Capital Structure				
Risk free rate	2.0%	Total firm value			834	Interest cover EBIT (x)	3.2	2.9	2.9	3.0	3.1
Equity beta	0.70	(Net debt)/cash			(312)	Net debt/ tangible assets (%)	41.4	41.0	39.3	38.8	38.4
WACC	4.9%	Value of equity			519	Net debt/ND+E (%)	41.5	41.3	39.6	39.1	38.7
Terminal growth	1.5%	Shares (m)			260	Net debt/EBITDA (x)	8.1	7.8	7.4	7.3	7.2
Profit and Loss Account (NZ\$m)							2018A	2019A	2020E	2021E	2022E
Sales revenue	43.1	46.1	46.3	46.9	47.4	Key Ratios					
Normalised EBITDA	37.7	40.1	40.5	41.0	41.4	Return on assets (%)	5.1	5.2	5.3	5.3	5.2
Depreciation and amortisation	-	-	-	-	-	Return on equity (%)	4.8	4.7	4.6	4.6	4.6
Normalised EBIT	37.7	40.1	40.5	41.0	41.4	Return on funds employed (%)	4.2	4.1	4.1	4.1	4.1
Net interest	(11.7)	(13.8)	(13.7)	(13.5)	(13.3)	EBITDA margin (%)	87.4	86.9	87.4	87.4	87.3
Associate income	-	-	-	-	-	EBIT margin (%)	87.4	86.9	87.4	87.4	87.3
Tax	(5.5)	(5.3)	(5.6)	(6.0)	(6.3)	Capex to sales (%)	5.1	12.0	4.1	4.1	4.1
Minority interests	-	-	-	-	-	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT	20.5	20.9	21.1	21.4	21.8	Portfolio Summary					
Abnormals/other	(25.6)	(17.7)	(10.4)	(9.4)	(6.1)	Investment properties (NZ\$m)	*2016A	2017A	2018A	2019A	
Reported NPAT	46.2	38.6	31.5	30.8	27.9	Weighted average lease term (yrs)	641.4	660.4	738.3	761.2	
Normalised EPS (cps)	7.9	8.0	8.1	8.2	8.4	Occupancy rate (%)	14.8	14.3	13.1	12.4	
DPS (cps)	7.5	7.6	7.6	7.6	7.6	M'tment/Admin cost % of assets (%)	99.7	99.8	99.9	99.9	
Growth Rates							NTA per share (NZ\$)	n/a	0.6	0.8	0.8
Revenue (%)	n/a	n/a	0.4	1.4	0.9	Portfolio cap rate (%)	1.46	1.55	1.64	1.70	
EBITDA (%)	n/a	n/a	0.9	1.3	0.9	Portfolio initial yield (%)	6.44	6.36	6.19	6.05	
EBIT (%)	n/a	n/a	0.9	1.3	0.9	*metrics shown on a pro-forma basis as at March 2016					
Normalised NPAT (%)	n/a	n/a	0.8	1.8	1.6						
Normalised EPS (%)	n/a	n/a	1.1	1.8	1.6						
DPS (%)	n/a	n/a	0.3	0.0	0.0						
Cash Flow (NZ\$m)							2018A	2019A	2020E	2021E	2022E
EBITDA	37.7	40.1	40.5	41.0	41.4	Working capital change	1.0	0.1	(0.0)	0.0	0.0
Working capital change	1.0	0.1	(0.0)	0.0	0.0	Interest & tax paid	(17.2)	(19.0)	(19.4)	(19.5)	(19.6)
Interest & tax paid	(17.2)	(19.0)	(19.4)	(19.5)	(19.6)	Other	-	-	-	-	-
Other	-	-	-	-	-	Operating cash flow	21.4	21.2	21.1	21.4	21.8
Operating cash flow	21.4	21.2	21.1	21.4	21.8	Capital expenditure	(2.2)	(5.5)	(1.9)	(1.9)	(1.9)
Capital expenditure	(2.2)	(5.5)	(1.9)	(1.9)	(1.9)	(Acquisitions)/divestments	(47.8)	-	13.6	-	-
(Acquisitions)/divestments	(47.8)	-	13.6	-	-	Other	-	98.5	-	-	-
Other	-	98.5	-	-	-	Funding available/(required)	(28.6)	114.1	32.8	19.5	19.9
Funding available/(required)	(28.6)	114.1	32.8	19.5	19.9	Dividends paid	(20.0)	(19.7)	(19.8)	(19.8)	(19.8)
Dividends paid	(20.0)	(19.7)	(19.8)	(19.8)	(19.8)	Equity raised/(returned)	-	(2.6)	-	-	-
Equity raised/(returned)	-	(2.6)	-	-	-	Increase/(decrease) in net debt	48.6	(91.8)	(12.9)	0.3	(0.0)
Increase/(decrease) in net debt	48.6	(91.8)	(12.9)	0.3	(0.0)						
Balance Sheet (NZ\$m)							2018A	2019A	2020E	2021E	2022E
Working capital	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)	Working capital	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)
Fixed assets	738.3	742.1	759.9	771.2	779.2	Fixed assets	738.3	742.1	759.9	771.2	779.2
Intangibles	-	-	-	-	-	Intangibles	-	-	-	-	-
Other assets	2.1	22.2	3.2	3.2	3.2	Other assets	2.1	22.2	3.2	3.2	3.2
Total funds employed	735.9	760.6	759.3	770.6	778.6	Total funds employed	735.9	760.6	759.3	770.6	778.6
Net debt/(cash)	304.7	311.5	298.6	298.9	298.8	Net debt/(cash)	304.7	311.5	298.6	298.9	298.8
Other non current liabilities	2.1	5.8	5.8	5.8	5.8	Other non current liabilities	2.1	5.8	5.8	5.8	5.8
Shareholder's funds	429.1	443.2	454.9	465.9	473.9	Shareholder's funds	429.1	443.2	454.9	465.9	473.9
Minority interests	-	-	-	-	-	Minority interests	-	-	-	-	-
Total funding sources	735.9	760.6	759.3	770.6	778.6	Total funding sources	735.9	760.6	759.3	770.6	778.6

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

Deal Details

Figure 1. Acquired Property key metrics

Property	NLA(sqm)	Tenants	Net Income	WALT	Market Cap rate	Occupancy
Mt Roskill (Bunnings)	11,601	1	\$2.34m	7.4	4.88%	100%
Mt Wellington (Anchored by Countdown)	9,011	22	\$2.62m	3.1	6.63%	100%
Tauranga (Bay Central)	17,097	29	\$3.54m	4.2	6.75%	100%

Source: Forsyth Barr analysis, Company Reports

Figure 2. Offer Timetable

Date	Event
19-Nov-19	Announcement of acquisition and capital raise
19-Nov-19	IPL enters trading halt and bookbuild undertaken
20-Nov-19	Trading halt lifted
25-Nov-19	Placement settled and new shares allotted
25-Nov-19	Retail Offer opens
4-Dec-19	Retail Offer closing date (5PM NZT)
10-Dec-19	Retail offer closes and new shares allotted to retail investors
1-Apr-20	Proposed settlement date

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.

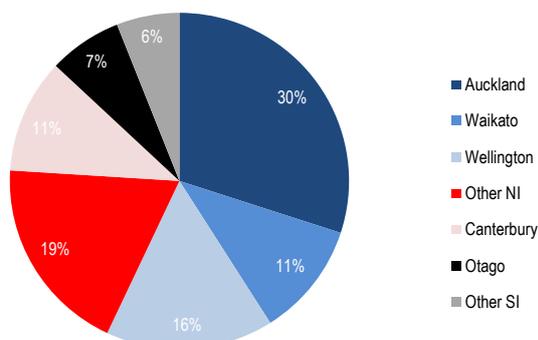
Financial structure

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

Risks factors

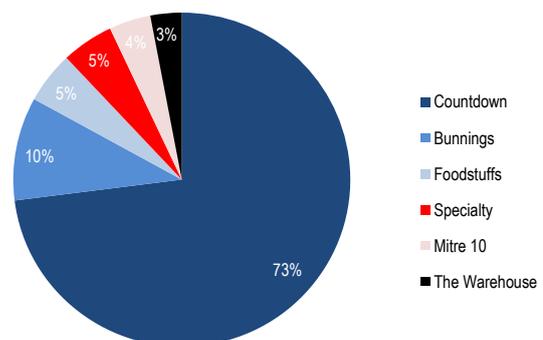
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets. The nature of the grocery market makes it exposed to e-commerce disruption; however, the location of many supermarkets make them ideal for the fulfilment of online business.
- **Interest rates / credit 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 the properties and contributing 72% of rental revenue.

Figure 3. FY19 Geographical diversification



Source: Forsyth Barr analysis, Company Reports

Figure 4. FY19 Tenant diversification



Source: Forsyth Barr analysis, Company Reports

Figure 5. Substantial Shareholders

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

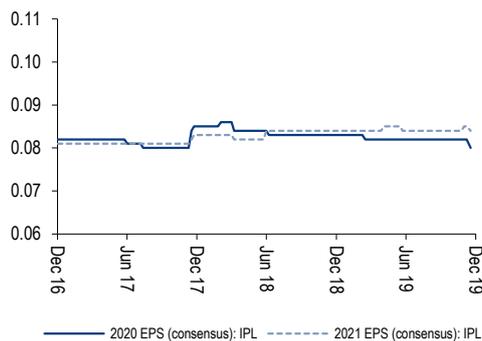
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 6. International Compcos

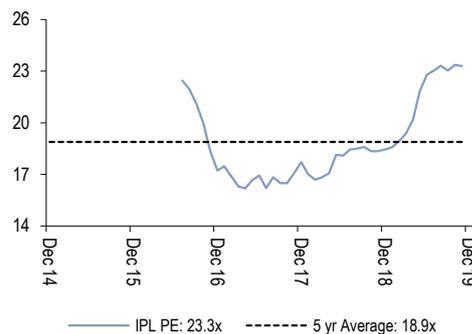
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
<i>(metrics re-weighted to reflect IPL's balance date - March)</i>										
Investore	IPL NZ	NZ\$1.91	NZ\$497	23.6x	23.2x	20.0x	19.7x	20.0x	19.7x	4.0%
Argosy Property *	ARG NZ	NZ\$1.41	NZ\$1,166	21.4x	20.5x	19.7x	18.4x	19.7x	18.4x	4.5%
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\$1.56	NZ\$2,431	22.0x	21.6x	20.8x	19.4x	20.8x	19.4x	4.6%
Precinct Properties NZ *	PCT NZ	NZ\$1.77	NZ\$2,325	27.0x	25.6x	27.4x	22.5x	27.4x	22.5x	3.6%
Property For Industry *	PFI NZ	NZ\$2.34	NZ\$1,165	27.1x	26.8x	20.9x	20.7x	20.9x	20.7x	3.3%
Stride Property *	SPG NZ	NZ\$2.23	NZ\$815	21.3x	20.1x	20.3x	18.5x	20.3x	18.5x	4.4%
BWP Trust	BWP AT	A\$4.18	A\$2,685	21.0x	22.4x	n/a	23.0x	23.1x	23.0x	4.4%
Charter Hall Long Wale REIT	CLW AT	A\$5.37	A\$2,264	19.1x	18.2x	n/a	18.6x	30.0x	18.6x	5.4%
Charter Hall Retail REIT	CQR AT	A\$4.44	A\$1,965	19.2x	14.0x	n/a	17.3x	19.2x	17.7x	6.6%
Shopping Centres Australasia Property	SCP AT	A\$2.71	A\$2,525	17.4x	15.9x	n/a	18.5x	19.4x	18.6x	5.7%
Compc Average:				22.7x	21.6x	22.7x	20.2x	22.8x	20.2x	4.6%
IPL Relative:				+4%	+7%	-12%	-2%	-12%	-3%	-13%

EV = Current Market Cap + Actual Net Debt

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

Figure 7. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 8. 12 Month Forward PE


Source: Forsyth Barr analysis

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