

Investore

1H21 Result — Waiting for an LFR Restock

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OUTPERFORM

Investore (IPL) reported a solid 1H21 result, with AFFO ahead of our expectations largely due to lower than expected maintenance capex. Over the period strong demand for large format retail (LFR) properties led to tightening capitalisation rates and strong revaluations. While this has benefitted shareholders, competitive bidding and scarce supply has made IPL's growth-via-acquisition strategy more challenging in the near-term. We remain confident that acquisitions will drive better than peers earnings growth and believe this will prove attractive vs. a low growth sector. We make minor adjustments to our earnings estimates and retain our NZ\$2.35 12-month target price and OUTPERFORM rating.

NZX Code	IPL	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.25	NPAT* (NZ\$m)	21.1	28.2	31.6	33.2	PE	29.4	29.0	26.4	25.1
Target price	NZ\$2.35	EPS* (NZc)	7.7	7.8	8.5	9.0	EV/EBIT	28.2	24.8	23.2	22.6
Risk rating	Low	EPS growth* (%)	-4.4	1.2	10.0	5.0	EV/EBITDA	28.2	24.8	23.2	22.6
Issued shares	370.4m	DPS (NZc)	7.6	7.6	7.8	8.1	Price / NTA	1.3	1.1	1.1	1.0
Market cap	NZ\$833m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.4	3.4	3.5	3.6
Avg daily turnover	310.4k (NZ\$582k)	*Based on normalised profits					Gross div yld (%)	4.8	4.8	5.0	5.2

What's changed?

- **Earnings:** FY21-23 AFFO +3%/-0%/+2%
- **Target price:** NZ\$2.35 unchanged
- **Rating:** Retain OUTPERFORM

Tidy result, boosted by no maintenance capex

IPL reported a solid interim result with AFFO of NZ\$13.7m, up +55% yoy and ahead of our expectations, driven by acquisitions, lower interest and tax expenses, and no maintenance capex. Clarity around COVID-19 abatements was provided, with IPL lowering the FY21 rental impact to NZ\$1m from NZ\$1-2m. While no maintenance capex was spent in 1H21, likely due to lockdowns and delays, IPL suggested that the 2H21 will be at a similar level to 2H20.

Balance sheet primed for acquisitions

IPL has been active in capital management, raising NZ\$105m of equity in May, issuing NZ\$125m of bonds in August, and reshuffling its banking facilities. With gearing at 28% (vs. 48% policy max) and NZ\$196m of undrawn debt facilities, IPL is well positioned to deploy its balance sheet and acquire assets to grow earnings and dividends. Unfortunately the acquisition market is highly competitive, with the supply of suitable LFR properties being heavily outweighed by demand with long lease term assets being well bid. IPL had previously signalled it was considering NZ\$100m of asset purchases, however, this amount has since decreased with one asset no longer being assessed. Management remains optimistic around balance sheet deployment.

Remain OUTPERFORM rated on growth potential

We retain our OUTPERFORM on IPL. While its current gross yield of 4.9% is below the sector average of 5.1%, and its recent revaluations see it trading at 16% premium to NTA (vs. sector average of 22%), we expect it to deliver best in sector AFFO growth (CAGR of 6% from FY21-FY23) which makes it an attractive home for capital in a low growth sector. However, this earning path hinges on our assumption that management can execute on NZ\$100m of asset purchases over the next two years.

Investore (IPL)

Priced as at 17 Nov 2020 (NZ\$)

2.25

12-month target price (NZ\$)*

2.35

Expected share price return

4.4%

Net dividend yield

3.4%

Estimated 12-month return

7.9%

Spot valuations (NZ\$)

1. DCF

2.54

2. NAV

1.80

n/a

n/a

Key WACC assumptions

Risk free rate

1.30%

Equity beta

0.67

WACC

3.9%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,172

(Net debt)/cash

(233)

Less: Capitalised operating leases

0

Value of equity

936

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	46.1	46.9	54.1	59.1	60.9	EV/EBITDA (x)	28.5	27.9	24.5	23.0	22.4
Normalised EBITDA	40.1	39.6	45.3	50.2	51.7	EV/EBIT (x)	28.5	27.9	24.5	23.0	22.4
Depreciation and amortisation	0	0	0	0	0	PE (x)	28.1	29.4	29.0	26.4	25.1
Normalised EBIT	40.1	39.6	45.3	50.2	51.7	Price/NTA (x)	1.3	1.3	1.1	1.1	1.0
Net interest	(13.8)	(13.4)	(12.2)	(12.5)	(11.7)	Free cash flow yield (%)	1.9	2.2	2.4	3.3	3.6
Associate income	0	0	0	0	0	Net dividend yield (%)	3.4	3.4	3.4	3.5	3.6
Tax	(5.3)	(5.2)	(4.9)	(6.1)	(6.8)	Gross dividend yield (%)	4.8	4.8	4.8	5.0	5.2
Minority interests	0	0	0	0	0						
Normalised NPAT	20.9	21.1	28.2	31.6	33.2	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	(17.7)	(7.5)	(100.6)	(57.5)	(33.7)	Interest cover EBIT (x)	2.9	3.0	3.7	4.0	4.4
Reported NPAT	38.6	28.6	128.8	89.1	66.8	Interest cover EBITDA (x)	2.9	3.0	3.7	4.0	4.4
Normalised EPS (cps)	8.0	7.7	7.8	8.5	9.0	Net debt/ND+E (%)	41.3	30.6	30.8	32.2	31.3
DPS (cps)	7.6	7.6	7.6	7.8	8.1	Net debt/EBITDA (x)	7.8	5.9	7.1	7.4	7.2
Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	6.8	1.8	15.3	9.2	3.1	Return on assets (%)	5.2	5.0	4.2	4.2	4.2
EBITDA (%)	6.2	-1.0	14.3	10.9	2.8	Return on equity (%)	4.7	4.0	3.9	4.0	4.0
EBIT (%)	6.2	-1.0	14.3	10.9	2.8	Return on funds employed (%)	4.1	4.1	4.1	3.7	3.5
Normalised NPAT (%)	1.8	0.8	33.9	11.9	5.0	EBITDA margin (%)	86.9	84.5	83.7	85.0	84.8
Normalised EPS (%)	2.1	-4.4	1.2	10.0	5.0	EBIT margin (%)	86.9	84.5	83.7	85.0	84.8
Ordinary DPS (%)	1.9	0.0	0.0	2.7	4.5	Capex to sales (%)	12.0	3.1	14.9	6.4	4.9
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100
EBITDA	40.1	39.6	45.3	50.2	51.7	Pay-out ratio (%)	95	99	98	92	91
Working capital change	0.2	1.1	0.0	0.0	0						
Interest & tax paid	(19.0)	(20.8)	(17.1)	(18.7)	(18.5)	Portfolio Summary	2017A	2018A	2019A	2020A	
Other	0	0	0	0	0	Investment properties (NZ\$m)	660.4	738.3	761.2	761.4	
Operating cash flow	21.2	19.9	28.2	31.6	33.2	Weighted average lease term (yrs)	14.3	13.1	12.4	11.5	
Capital expenditure	(5.5)	(1.4)	(8.0)	(3.8)	(3.0)	Occupancy rate (%)	99.8	99.9	99.9	99.7	
(Acquisitions)/divestments	0	7.1	(180.4)	(50.0)	0	M'ment/Admin cost % of assets (%)	0.6	0.8	0.8	0.9	
Other	98.5	(1.6)	0	0	0	NTA per share (NZ\$)	1.55	1.64	1.70	1.73	
Funding available/(required)	114.1	24.0	(160.2)	(22.2)	30.2	Portfolio cap rate (%)	6.36	6.19	6.05	6.06	
Dividends paid	(19.7)	(20.7)	(27.7)	(28.9)	(30.2)	Portfolio initial yield (%)	6.57	6.36	6.26	6.29	
Equity raised/(returned)	(2.6)	76.0	97.7	0	0						
(Increase)/decrease in net debt	91.8	79.2	(90.1)	(51.1)	(0.0)						
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E						
Working capital	(3.8)	(5.4)	(5.4)	(5.4)	(5.4)						
Fixed assets	742.1	772.5	1,066.9	1,178.2	1,214.8						
Intangibles	0	0	0	0	0						
Right of use asset	0	0	0	0	0						
Other assets	22.2	9.3	3.9	3.9	3.9						
Total funds employed	760.6	776.5	1,065.4	1,176.8	1,213.4						
Net debt/(cash)	311.5	232.7	322.9	374.0	374.0						
Lease liability	0	11.1	11.1	11.1	11.1						
Other liabilities	5.8	6.0	6.0	6.0	6.0						
Shareholder's funds	443.2	526.7	725.5	785.7	822.3						
Minority interests	0	0	0	0	0						
Total funding sources	760.6	776.5	1,065.4	1,176.8	1,213.4						

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

Highlights from 1H21

- **COVID-19** – Gross rent relief reduced to NZ\$1m from NZ\$1–2m.
- **Portfolio performance remains solid** – 1H21 WALT and occupancy of 10.2 years and 99.7% (FY20: 10.4 years/99.7%). 28 rent reviews were completed over the year resulting in a +2.2% increase in rents. Turnover rent increased +NZ\$0.3m to NZ\$0.7m over the 12-months to September.
- **Some uptick in lease expiry** – Countdown exercised its 6-year renewal at Mt Wellington Centre (2.3% of contract rent). Expiries total 1.7%/2.8% of contract rent in FY21/22 vs. 4.3%/3.5% at March. The key FY21 expiry is Johnsonville Warehouse (1.0% of contract rent) and FY22 expiries include The Warehouse MacLaggan St, Dunedin (1.5%) and NZ Post at Bay Central (0.8%).
 - IPL noted that WHS has now vacated Johnsonville, and it is currently undertaking refurbishments. IPL is in negotiations with three parties, and it expects it to be tenanted in 2H21 – consistent with the 6mth downtime in our forecasts.
- **Balance sheet primed for acquisitions** – Interim asset revaluations lifted NTA +20cps NZ\$1.93. Gearing was 28.3% and remains low vs. the company's limit of 48%. With undrawn bank debt of NZ\$196m IPL has headroom to drive growth via acquisitions.
 - Management expects there is further compression to come with recent LFR sales surprising on pricing and market evidence yet to factor this in. Also, there wasn't much evidence for LFR anchored centres in the half, resulting in a relatively flat valuation outcome for the three assets acquired from SPG during the period.

Figure 1. 1H21 result summary

Underlying profit & loss (NZ\$m)	1H20	1H21	Change	Forecast	Var
Net rental income	23.5	26.5	12.8%	27.0	-1.8%
Base corporate costs	(3.0)	(3.6)	18.0%	(3.5)	3.2%
Performance fees	(1.0)	(1.4)	43.5%	(0.8)	92.8%
EBITDA	19.4	21.5	10.4%	22.8	-5.7%
Net interest	(6.9)	(6.3)	-8.8%	(7.0)	-10.1%
PBT	12.5	15.2	21.0%	15.8	-3.8%
Current tax	(2.7)	(1.1)	-59.5%	(2.7)	-60.0%
NPAT (underlying)	9.9	13.7	38.7%	13.1	4.8%
Adjustments:					
Investment property revaluations	0.9	83.7	nm		
Other non-operating adjustments	0.2	(6.4)	nm		
NPAT (reported)	11.0	91.0	nm		

Source: Forsyth Barr analysis, Company reports

Earning changes

Key changes to our forecasts are 1) NZ\$50m of asset purchases moved from 2H21 to FY22, 2) higher performance fees payable, 3) lower weighted debt costs, and 4) a slight reduction in maintenance capex. We still forecast IPL moving to an AFFO based payout ratio, in line with sector norms, which sees DPS growth below AFFO over the next 3-years.

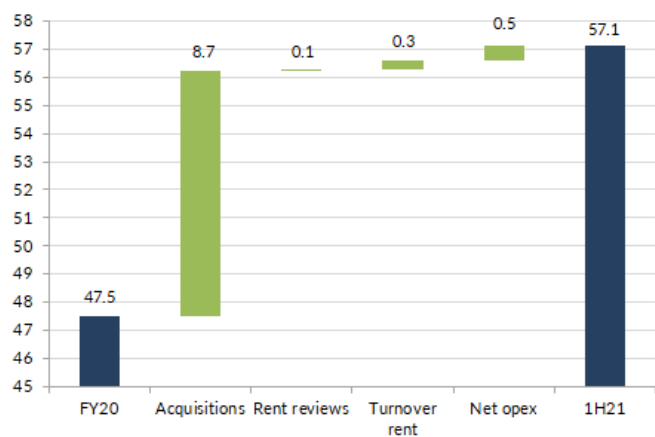
Figure 2. Earnings changes

	2021E			2020E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	56.1	54.1	-3.5%	60.1	59.1	-1.7%	60.8	60.9	0.2%
Corporate costs	(8.4)	(8.8)	4.6%	(8.1)	(8.9)	9.8%	(8.1)	(9.3)	13.9%
EBITDA	47.7	45.3	-4.9%	52.1	50.2	-3.5%	52.7	51.7	-1.9%
Net interest	(14.0)	(12.2)	-13.1%	(14.2)	(12.5)	-11.6%	(13.2)	(11.7)	-11.4%
Current tax	(5.4)	(4.9)	-8.8%	(6.0)	(6.1)	2.2%	(6.6)	(6.8)	2.3%
NPAT (underlying)	28.3	28.2	-0.1%	31.9	31.6	-0.9%	32.8	33.2	1.0%
Maintenance capex	(2.7)	(1.8)	-31.8%	(3.1)	(2.8)	-9.4%	(3.1)	(3.0)	-4.5%
AFFO	25.6	26.4	3.2%	28.8	28.8	-0.0%	29.7	30.2	1.6%
EPS (cps)	7.76	7.75	-0.1%	8.61	8.53	-0.9%	8.87	8.96	1.0%
AFFO (cps)	7.02	7.25	3.2%	7.77	7.77	-0.0%	8.02	8.15	1.6%
DPS (cps)	7.60	7.60	-	7.87	7.80	-0.9%	8.16	8.15	-0.1%
Payout - EPS	98%	98%	0.1%	92%	92%	-	92%	91%	-1.1%
Payout - AFFO	108%	105%	-3.1%	101%	100%	-0.9%	102%	100%	-1.7%

Source: Forsyth Barr analysis

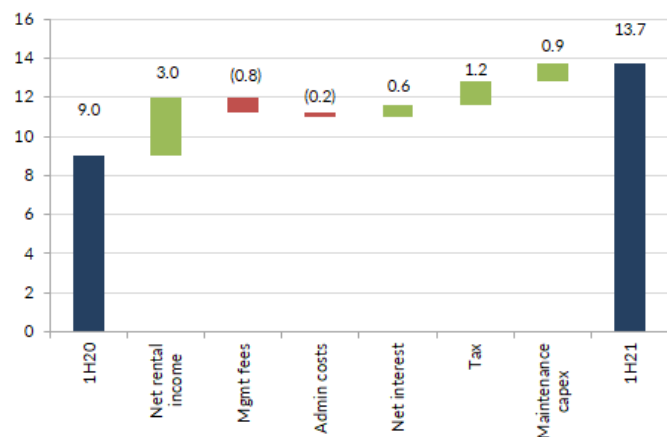
1H21 in charts

Figure 3. Net contract rental bridge



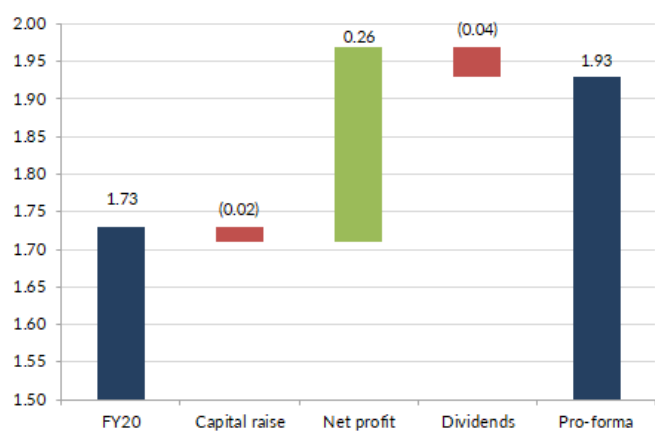
Source: Forsyth Barr analysis, Company reports

Figure 4. 1H21 AFFO bridge



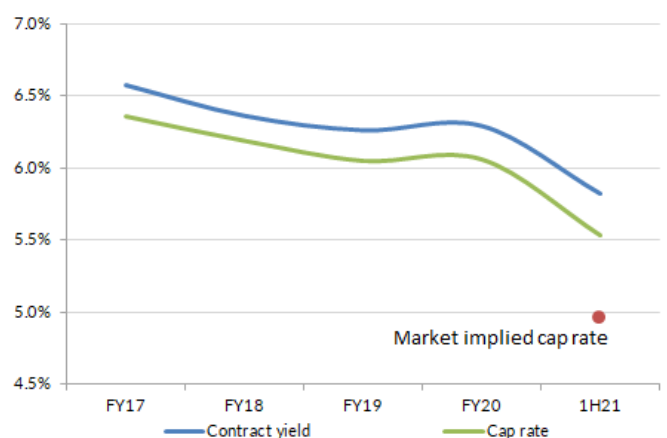
Source: Forsyth Barr analysis, Company reports

Figure 5. NTA bridge



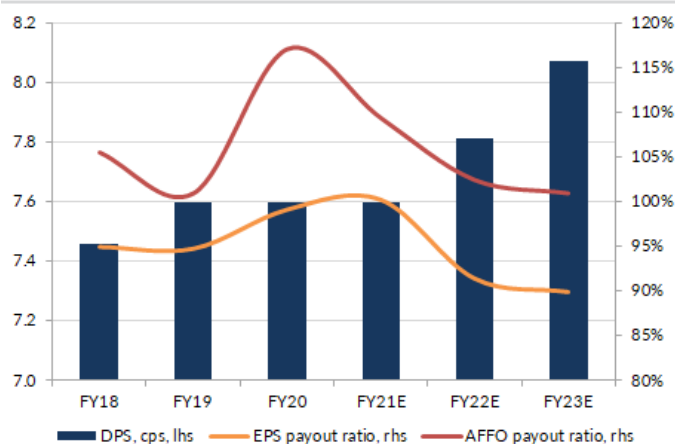
Source: Forsyth Barr analysis, Company reports

Figure 6. Portfolio cap rate and contact yield



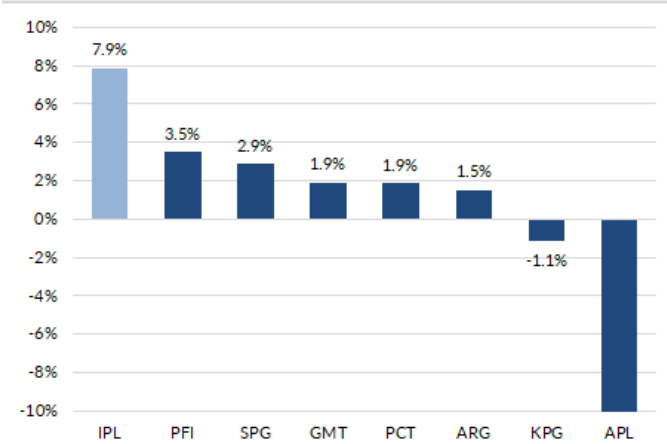
Source: Forsyth Barr analysis, Company reports

Figure 7. DPS forecasts



Source: Forsyth Barr analysis, Company reports

Figure 8. FY20-23 AFFO CAGR



Source: Forsyth Barr analysis, Company reports

Figure 9. Price performance


Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
Stride Property	18.8%
ACC	8.8%
ANZ NZ Investments	8.1%
Salt Funds Management	7.1%
Forsyth Barr Investment Management	5.0%

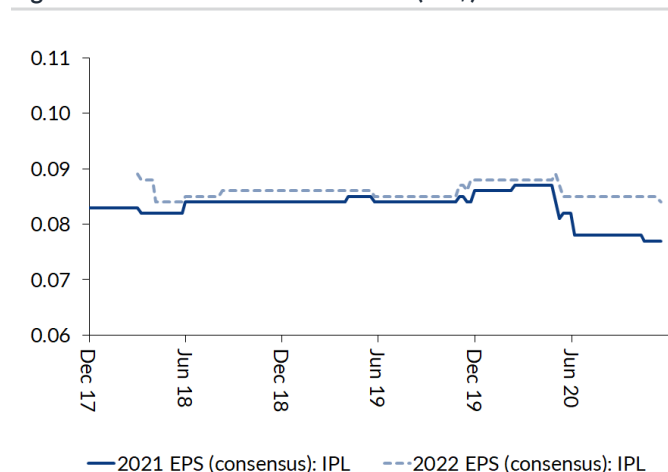
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. International valuation comparisons

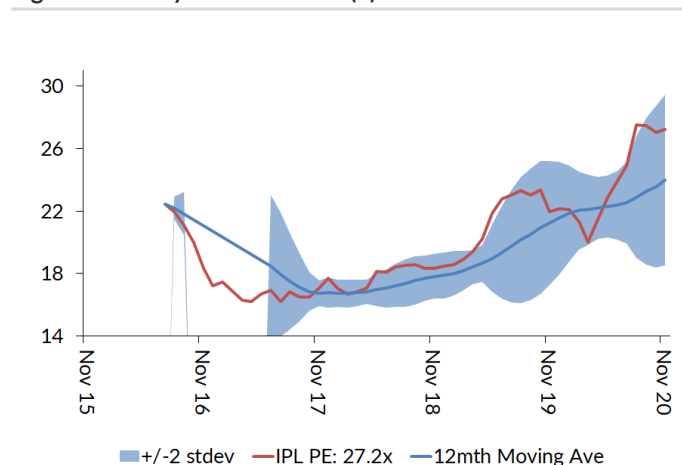
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect IPL's balance date - March)										
Investore	IPL NZ	NZ\$2.25	NZ\$833	29.0x	26.4x	23.5x	21.2x	23.5x	21.2x	3.5%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.44	NZ\$1,201	20.6x	20.5x	21.3x	20.7x	21.3x	20.7x	4.4%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.39	NZ\$3,325	36.5x	35.6x	30.3x	28.9x	30.3x	28.9x	2.3%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.30	NZ\$2,040	20.9x	18.9x	20.6x	17.9x	20.6x	17.9x	4.7%
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\$2.93	NZ\$1,464	33.2x	32.7x	26.2x	26.4x	26.2x	26.4x	2.7%
STRIDE PROPERTY *	SPG NZ	NZ\$2.28	NZ\$833	21.8x	23.7x	31.0x	36.7x	31.0x	36.7x	4.3%
BWP TRUST	BWP AT	A\$4.22	A\$2,711	20.8x	23.0x	n/a	23.6x	24.0x	23.6x	4.4%
CHARTER HALL LONG WALE REIT	CLW AT	A\$4.88	A\$2,526	16.7x	16.1x	n/a	17.7x	32.8x	17.7x	6.2%
CHARTER HALL RETAIL REIT	CQR AT	A\$3.81	A\$2,175	21.2x	14.6x	n/a	16.4x	18.8x	16.4x	6.3%
SHOPPING CENTRES AUSTRALASIA	SCP AT	A\$2.42	A\$2,605	19.8x	15.7x	n/a	18.2x	19.8x	18.3x	5.5%
Compco Average:				23.9x	22.8x	26.6x	23.4x	25.5x	23.4x	4.4%
IPL Relative:				21%	16%	-12%	-9%	-8%	-9%	-22%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (IPL) 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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