

Kiwi Property Group

Shoppers Return, Dividends to Follow

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UNDERPERFORM

Kiwi Property Group (KPG) has provided an update on shopping centre visitation and dividends. Pedestrian counts across its portfolio are +1% yoy and KPG stated that it intends to pay a 1H21 dividend from underlying cash earnings given increased clarity around the post lockdown trading environment. We have adjusted our forecasts accordingly. Looking forward, KPG has logical plans to dilute its retail concentration via development of its existing assets; however, tight funding headroom and some challenged assets on the balance sheet increase execution risks in the current economic environment. Despite trading at a discount to its net tangible asset (NTA) value, we believe risks are skewed to the downside given KPG's leverage to the uncertain backdrop. We retain our UNDERPERFORM rating and NZ\$1.10 target price.

NZX Code	KPG	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.07	NPAT* (NZ\$m)	106.6	97.8	107.6	112.4	EV/EBITDA	16.1	18.3	16.0	15.6
Target price	NZ\$1.10	EPS* (NZc)	7.1	6.2	6.9	7.2	EV/EBIT	16.1	18.3	16.0	15.6
Risk rating	Medium	EPS growth* (%)	2.1	-12.7	10.1	4.4	PE	15.0	17.2	15.6	14.9
Issued shares	1569.1m	DPS (NZc)	3.5	5.2	6.1	6.3	Price / NTA	0.8	0.8	0.8	0.8
Market cap	NZ\$1,679m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.3	4.9	5.7	5.9
Avg daily turnover	1,864k (NZ\$2,485k)	*Based on normalised profits					Gross div yld (%)	4.7	6.9	8.2	8.4

Customers are back, but will spending follow?

KPG has reported that pedestrian counts for its portfolio are +1% vs. the pcp, since normal trading resumed on the 14 May. This is a solid improvement from -8% over the first 2 weeks of post-lockdown trading. Visitation hasn't been uniform, with Sylvia Park and Palmerston North seeing the best foot traffic. Our car park tracker suggests Sylvia Park (Figure 1) has seen increasing visitation over the last 5 weeks while Lynn Mall (Figure 2) has been flatter. No comment was provided on sales levels, however, credit card data from Paymark suggests that non-grocery spending is marginally down yoy. While KPG's visitation is encouraging, we believe an element of pent up demand remains and longer term retail sales trends are yet to be fully delineated.

Dividend returns in 1H21

KPG has stated the company intends to pay a 1H21 dividend based on 90-100% of adjusted funds from operations (AFFO). First half underlying earnings are impacted by rent abatements, partially offset by cost savings and tax benefits. While KPG is still in discussions with some tenants, KPG are confident rent abatements won't exceed prior guidance of NZ\$20m. We have lowered our rent relief and vacancy assumption from NZ\$35m to NZ\$25m and lifted our 1H21 dividend from 1.7cps to 2.1cps, which equates to a 90% payout of AFFO. Our medium term forecasts still include higher vacancy and lower top line growth due to softer underlying economic conditions.

Balance sheet remains a concern

KPG's ambitions to transform its portfolio will require patience. As the retail sub-sector has lost favour with investors, KPG has spent recent years transitioning into a diversified mixed-use portfolio. It has now signalled that the ongoing transition may see it acquire industrial assets and/or establish a funds management business alongside existing residential build-to-rent ambitions at Sylvia Park and development of the Drury town centre. With gearing of 32% nearing the top end of its targeted 25-35% range and retail assets likely under further revaluation pressure (and not easy to divest in the current environment), the funding pathway for this transition will not be straightforward.

Kiwi Property Group Limited (KPG)

Priced as at 22 Jun 2020 (NZ\$)

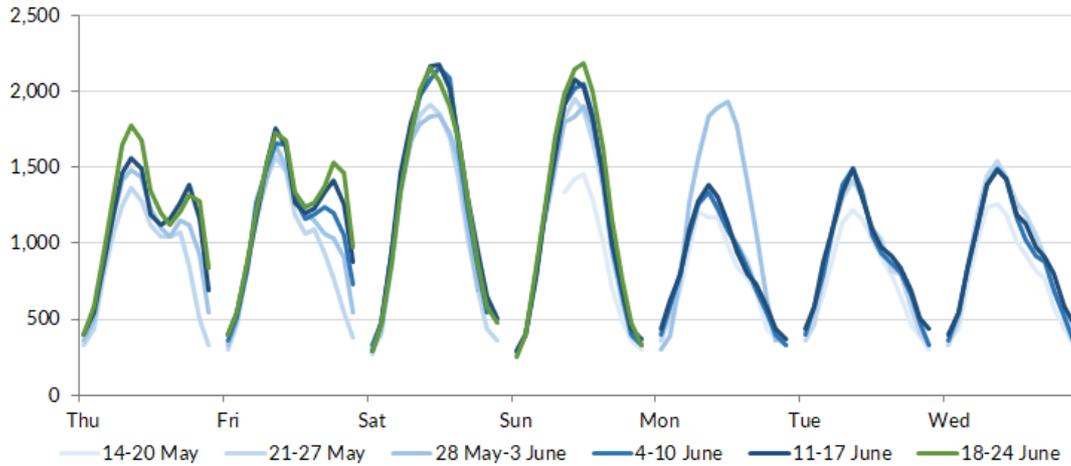
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12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. DCF				1.22	
Net dividend yield						2. NAV				1.06	
Estimated 12-month return						n/a				n/a	
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					2.00%	Total firm value				2,950	
Equity beta					0.67	(Net debt)/cash				(998)	
WACC					5.1%	Less: Capitalised operating leases				0	
Terminal growth					1.5%	Value of equity				1,929	
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2019A	2020A	2021E	2022E	2023E	EV/EBITDA (x)	2019A	2020A	2021E	2022E	2023E
Normalised EBITDA	180.8	187.9	168.3	190.5	195.0	EV/EBIT (x)	16.4	16.1	18.3	16.0	15.6
Depreciation and amortisation	160.0	165.3	146.9	168.9	173.1	PE (x)	16.4	16.1	18.3	16.0	15.6
Normalised EBIT	0	0	0	0	0	Price/NTA (x)	15.3	15.0	17.2	15.6	14.9
Net interest	160.0	165.3	146.9	168.9	173.1	Free cash flow yield (%)	0.7	0.8	0.8	0.8	0.8
Associate income	(37.5)	(36.8)	(32.6)	(37.0)	(33.7)	Net dividend yield (%)	-4.2	-3.8	-0.3	5.9	6.0
Tax	0	0	0	0	0	Gross dividend yield (%)	6.5	3.3	4.9	5.7	5.9
Minority interests	(22.6)	(21.9)	(16.5)	(24.3)	(26.9)		9.3	4.7	6.9	8.2	8.4
Normalised NPAT	0	0	0	0	0	Capital Structure					
Abnormals/other	99.9	106.6	97.8	107.6	112.4	Interest cover EBIT (x)	2019A	2020A	2021E	2022E	2023E
Reported NPAT	(38.2)	293.3	(0.9)	(1.0)	(46.2)	Interest cover EBITDA (x)	4.3	4.5	4.5	4.6	5.1
Normalised EPS (cps)	138.1	(186.7)	98.8	108.6	158.6	Net debt/ND+E (%)	4.3	4.5	4.5	4.6	5.1
DPS (cps)	7.0	7.1	6.2	6.9	7.2	Net debt/EBITDA (x)	32.6	33.3	33.1	32.9	32.2
	7.0	3.5	5.2	6.1	6.3		6.2	6.0	6.9	6.0	5.9
Growth Rates						Key Ratios					
Revenue (%)	2019A	2020A	2021E	2022E	2023E	Return on assets (%)	2019A	2020A	2021E	2022E	2023E
EBITDA (%)	-5.7	3.9	-10.4	13.2	2.4	Return on equity (%)	4.9	5.2	4.5	5.2	5.2
EBIT (%)	-6.5	3.4	-11.2	15.0	2.4	Return on funds employed (%)	4.9	5.4	4.8	5.2	5.3
Normalised NPAT (%)	-6.5	3.4	-11.2	15.0	2.4	EBITDA margin (%)	4.3	4.4	4.0	4.4	4.4
Normalised EPS (%)	-3.4	6.7	-8.3	10.1	4.4	EBIT margin (%)	88.5	88.0	87.3	88.7	88.7
Ordinary DPS (%)	-6.2	2.1	-12.7	10.1	4.4	Capex to sales (%)	88.5	88.0	87.3	88.7	88.7
	1.5	-49.3	47.5	17.4	3.2	Capex to depreciation (%)	93.9	90.7	58.9	7.4	7.3
						Imputation (%)	n/a	n/a	n/a	n/a	n/a
						Pay-out ratio (%)	100	100	100	100	100
							99	49	83	89	88
Cash Flow (NZ\$m)						Property Statistics					
EBITDA	2019A	2020A	2021E	2022E	2023E	Retail portfolio	2016A	2017A	2018A	2019A	2020A
Working capital change	160.0	165.3	146.9	168.9	173.1	No. properties	9	9	4	4	4
Interest & tax paid	3.4	7.1	(3.4)	5.9	1.7	WALT (years)	3.9	3.8	3.6	3.3	3.2
Other	(63.4)	(65.2)	(49.1)	(61.3)	(60.6)	Occupancy rate (%)	99.1%	99.1%	99.4%	99.4%	99.4%
Operating cash flow	100.0	107.3	94.4	113.6	114.1	Cap rate (%)	6.7%	6.5%	6.2%	7.5%	8.1%
Capital expenditure	(169.8)	(170.4)	(99.2)	(14.1)	(14.1)	Office portfolio					
(Acquisitions)/divestments	67.3	(25.8)	0	0	0	No. properties	5	5	4	4	4
Other	(2.6)	(13.0)	0	0	0	WALT (years)	8.2	10.1	10.1	9.3	8.7
Funding available/(required)	(5.1)	(101.9)	(4.7)	99.4	99.9	Occupancy rate (%)	97.4%	97.8%	99.3%	98.7%	99.0%
Dividends paid	(81.5)	(87.5)	(24.7)	(96.5)	(97.3)	Cap rate (%)	6.4%	6.1%	5.8%	5.5%	5.5%
Equity raised/(returned)	0	193.7	0	0	0	Mixed-use portfolio					
(Increase)/decrease in net debt	(86.6)	4.3	(29.5)	2.9	2.6	No. properties			4	4	0
						WALT (years)			4.0	4.1	3.7
						Occupancy rate (%)			100.0%	99.5%	99.9%
						Cap rate (%)			5.72%	5.71%	5.87%
Balance Sheet (NZ\$m)						Total portfolio					
Working capital	2019A	2020A	2021E	2022E	2023E	WALT (years)	5.1	5.6	5.3	5.2	4.9
Fixed assets	(47.1)	(41.6)	(37.3)	(42.2)	(43.2)	Occupancy rate (%)	98.7%	98.8%	99.6%	99.3%	99.5%
Intangibles	3,207.4	3,114.7	3,213.9	3,228.0	3,287.7	Cap rate (%)	6.6%	6.4%	6.1%	6.0%	6.1%
Right of use asset	0	0	0	0	0	NTA per share (NZ\$)	1.34	1.39	1.39	1.43	1.26
Other assets	5.9	8.5	8.5	8.5	8.5						
Total funds employed	3,166.2	3,081.6	3,185.1	3,194.3	3,253.0						
Net debt/(cash)	991.8	988.6	1,018.1	1,015.2	1,012.6						
Lease liability	0	0	0	0	0						
Other liabilities	123.5	111.6	111.6	111.6	111.6						
Shareholder's funds	2,050.9	1,981.4	2,055.4	2,067.5	2,128.8						
Minority interests	0	0	0	0	0						
Total funding sources	3,166.2	3,081.6	3,185.1	3,194.3	3,253.0						

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

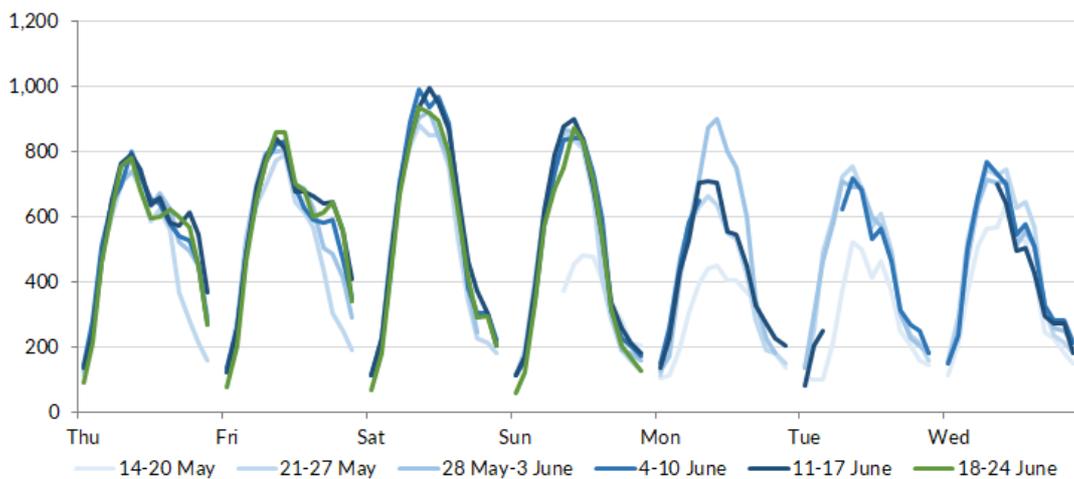
Car parks in use and earnings changes

Figure 1. Approximate Sylvia Park car parks in use (8am to 9pm)



Source: Forsyth Barr analysis, Kiwi Property

Figure 2. Approximate Lynn Mall car parks in use (8am to 9pm)



Source: Forsyth Barr analysis, Kiwi Property

Figure 3. Earnings changes

	2021E			2022E			2023E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Net income	158.2	168.3	6.4%	190.5	190.5	-	195.0	195.0	-
Corporate costs	(21.4)	(21.4)	-	(21.6)	(21.6)	-	(21.9)	(21.9)	-
EBITDA	136.8	146.9	7.4%	168.9	168.9	-	173.1	173.1	-
Net interest	(32.7)	(32.6)	-0.2%	(37.1)	(37.0)	-0.2%	(33.8)	(33.7)	-0.2%
Current tax	(13.6)	(16.5)	20.9%	(24.3)	(24.3)	0.1%	(26.9)	(26.9)	0.1%
NPAT (underlying)	90.5	97.8	8.1%	107.6	107.6	0.0%	112.4	112.4	0.0%
Maintenance capex	(8.0)	(8.0)	0.0%	(8.1)	(8.1)	0.0%	(8.2)	(8.2)	0.0%
AFFO	82.5	89.8	8.9%	99.5	99.6	0.1%	104.2	104.2	0.0%
EPS (cps)	5.77	6.23	8.1%	6.86	6.86	0.0%	7.16	7.17	0.0%
AFFO (cps)	5.25	5.72	8.9%	6.34	6.35	0.1%	6.64	6.64	0.0%
DPS (cps)	4.80	5.20	8.3%	6.10	6.11	0.1%	6.30	6.30	0.0%
Payout - EPS	83%	83%	0.2%	89%	89%	0.0%	88%	88%	0.0%
Payout - AFFO	91%	91%	-0.5%	96%	96%	-	95%	95%	-

Source: Forsyth Barr analysis

Investment Summary

Kiwi Property Group (KPG) is one of largest listed property vehicles in the NZ market. Its diversified asset base of NZ\$3.1bn comprises of 48% mixed-use, 29% office, 16% retail, and 7% other assets. KPG's portfolio is not immune to the structural headwinds for retail property and the now softer economic outlook. KPG has logical plans to dilute its retail concentration via development of its existing assets, but with little funding headroom, some challenged assets on the balance sheet, and investors awaiting a dividend, this transition features significant execution risks. **UNDERPERFORM.**

Business quality

- **Property fundamentals solid, reflecting strength of assets:** Portfolio metrics going into the current slowdown were strong with WALT and occupancy at 4.9 years and 99.5% respectively. The office portfolio has an impressive WALT of 8.7 years.

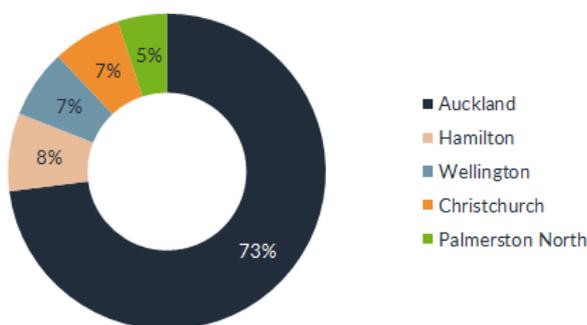
Earnings and cashflow outlook

- **Rental growth:** KPG achieved solid +4.0% rental growth in FY20 driven by strong rent reviews and new leases in the Office and Mixed-use portfolio. However, FY21 will be significantly impacted by tenant support as a result of the COVID-19 lockdown.
- **Sylvia Park Galleria expansion:** KPG has almost completed its NZ\$258m expansion of Sylvia Park with an additional 18,000sqm of retail space, a new cafe court, and 900 additional car parks. While COVID-19 delays have not impacted costs, completion of the Sylvia Park Galleria has been deferred with key tenant openings delayed until early CY21. Additionally, further development spend such as a second office Sylvia Park office tower has been on hold.
- **Distributions:** Dividends were put on hold until a stabilisation in operating conditions occurred. KPG is expecting to pay a 1H21 dividend based on 90–100% of AFFO.

Risk factors

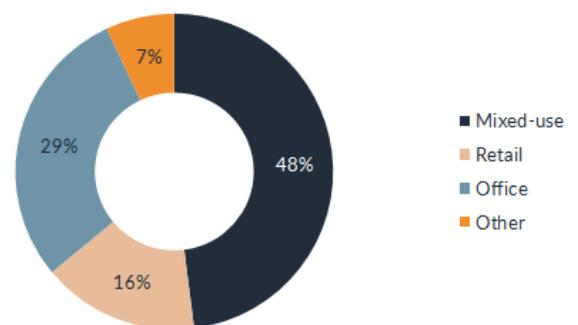
- **Retail exposure:** KPG is facing a soft economic environment and competitive pressures from e-commerce growth, coupled with the significant amount of Auckland retail development coming online at Commercial Bay and Westfield, Newmarket, which is impacting KPG's Auckland based malls.
- **CBD office asset volatility:** KPG's office portfolio is underpinned long lease terms and strong tenants, however, the market is likely to be volatile through the cycle.
- **Asset valuations and gearing:** Given uncertain economic outlook the risk of further downward asset revaluations is heightened. KPG's gearing is 32% and remains towards to the top end of management's target range of 25–35%.

Figure 4. KPG geographic exposure



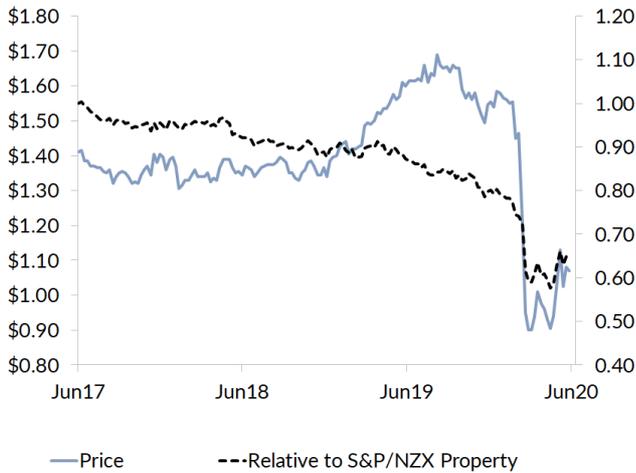
Source: Forsyth Barr analysis, Company reports

Figure 5. KPG sub-sector exposure



Source: Forsyth Barr analysis, Company reports

Figure 6. Price performance



Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
ACC	10.5%
ANZ NZ Investments	8.3%
The Vanguard Group	5.1%

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

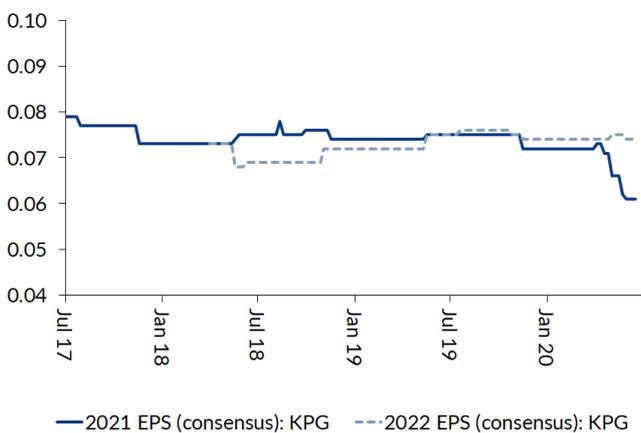
Figure 8. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
Kiwi Property Group	KPG NZ	NZ\$1.07	NZ\$1,679	17.2x	15.6x	18.2x	15.8x	18.2x	15.8x	5.7%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.17	NZ\$968	16.7x	16.7x	18.8x	18.2x	18.8x	18.2x	5.4%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.12	NZ\$2,938	32.4x	31.5x	27.3x	26.1x	27.3x	26.1x	2.6%
INVESTORE *	IPL NZ	NZ\$1.83	NZ\$674	24.2x	22.7x	20.0x	19.1x	20.0x	19.1x	4.2%
ASSET PLUS *	APL NZ	NZ\$0.37	NZ\$60	12.6x	13.2x	16.5x	17.1x	16.5x	17.1x	6.2%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.63	NZ\$2,135	23.8x	24.2x	21.7x	19.9x	21.7x	19.9x	3.1%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.37	NZ\$1,182	28.0x	27.3x	23.1x	23.1x	23.1x	23.1x	3.0%
STRIDE PROPERTY *	SPG NZ	NZ\$1.62	NZ\$592	15.5x	16.6x	16.3x	18.4x	16.3x	18.4x	4.3%
VITAL HEALTHCARE *	VHP NZ	NZ\$2.57	NZ\$1,165	25.8x	25.1x	23.4x	21.9x	23.4x	21.9x	3.3%
Compcop Average:				22.4x	22.2x	20.9x	20.5x	20.9x	20.5x	4.0%
KPG Relative:				-23%	-30%	-13%	-23%	-13%	-23%	43%

EV = Current Market Cap + Actual Net Debt

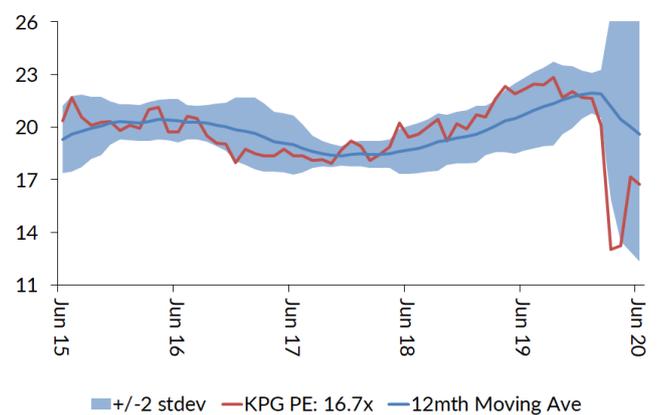
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (KPG) companies fiscal year end

Figure 9. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)



Source: Forsyth Barr analysis

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