

Metlifecare

OUTPERFORM

FY19 Result — Care Full Progress

Metlifecare (MET) has delivered an FY19 result close to expectations, but dialled back recent and near-term development activity considerably to be prudent during a challenging time for its Auckland centric development pipeline. We have reduced near-term forecasts on the back of lower new sales and margins, and adopted a more conservative longer term outlook. Given the subdued environment and MET's slower build rate, we don't expect significant momentum until 2H21. However, the share price continues to price in more negativity than is warranted. **OUTPERFORM.**

What's changed?

- **Earnings:** FY20 -7%, FY21 -8% and FY22 -7%
- **Target Price:** Down from NZ\$5.88 to NZ\$5.40
- **Rating:** OUTPERFORM

Steady operating performance — demand remains intact

FY19 underlying profit was up +4% to NZ\$90.5m compared with our forecast of NZ\$91.5m. The 2H dividend was 7.25cps, up +7%. The result was driven by steady progress in most areas with resales gains the standout, with attractive pricing and margins. Underlying EBITDA of NZ\$98m was in line with our forecast and up +7%. Demand indicators remain robust with village occupancy at 97% and an improving care business 96% full. Resales vacancy of uncontracted stock is around 3% and is consistent with prior periods.

Softer near-term development activity flagged

The FY19 unit build rate was well below expectations and guidance at 112 units versus our forecast of 148 units. MET has signalled a more cautious and prudent approach to its near-term development activity as it navigates a slower residential property market and elevated construction pricing for its Auckland centric pipeline. A build rate of only 80 units is expected now for FY20 (back from ~200) and it is guiding to deliver around 280 units and beds in FY21, in line with our forecast. It is also signalling a goal of a sustainable medium-term build rate of around 200 units and beds rather than the 300 units and beds it had been targeting.

Forecasts downgraded on lower sales & margins

MET has signalled, in addition to its lower build rate, sharply lower development margins again. However, it indicated that new sales and resales volumes and resales margins are all tracking similar to the pcp, which is encouraging. We have taken a more cautious approach across most key drivers given the combination of MET missing its build targets for FY19 and FY20, and our more conservative outlook. A partial offset has been a lift in resales margins which remain very high given MET's sector leading embedded value in its portfolio.

Investment View

There is medium-term upside as the market gains confidence in MET's ability to execute on developments, and if it can demonstrate its ability to capitalise on the growth potential in the sector and hold up investment property value in a slower market. With MET trading at 0.5x P/NTA ratio, the market is already factoring in significant negativity. We expect the NTA to continue to hold steady or lift slightly in the current environment with new stock delivery helping. Our rating is **OUTPERFORM.**

NZX Code	MET
Share price	NZ\$4.36
Target price	NZ\$5.60
Risk rating	High
Issued shares	213.3m
Market cap	NZ\$930m
Average daily turnover	186.8k (NZ\$964k)

Share Price Performance



Financials: June	19A	20E	21E	22E
NPAT* (NZ\$m)	90.5	90.6	97.6	107.6
EPS* (NZc)	42.4	42.5	45.7	50.4
EPS growth* (%)	3.8	0.0	7.7	10.3
DPS (NZc)	11.0	11.3	11.5	11.8
Imputation (%)	0	0	0	0

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	11.5	11.9	10.9	9.9
EV/EBIT	12.2	12.6	11.6	10.5
PE	10.3	10.3	9.5	8.6
Price / NTA	0.6	0.6	0.5	n/a
Cash dividend yield (%)	2.5	2.6	2.6	2.7
Gross dividend yield (%)	2.5	2.6	2.6	2.7

*Historic and forecast numbers based on underlying profits

Jeremy Simpson, CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

Metlifecare Limited (MET)		Priced as at 26 Aug 2019: NZ\$4.36				June year end						
Forsyth Barr valuation						Valuation Ratios	2018A	2019A	2020E	2021E	2022E	
Valuation methodology		DCF				EV/EBITDA (x)	11.2	11.5	11.9	10.9	9.9	
12-month target price (NZ\$)*		5.60		Spot valuations (NZ\$)		EV/EBIT (x)	11.7	12.2	12.6	11.6	10.5	
Expected share price return	28.4%	1. DCF	5.20			PE (x)	10.7	10.3	10.3	9.5	8.6	
Net dividend yield	2.6%	2. n/a	n/a			Price/NTA (x)	0.6	0.6	0.6	0.5	0.5	
Estimated 12-month return	31.0%	3. n/a	n/a			Free cash flow yield (%)	-6.8	-12.2	6.2	1.1	3.7	
						Net dividend yield (%)	2.3	2.5	2.6	2.6	2.7	
						Gross dividend yield (%)	2.3	2.5	2.6	2.6	2.7	
Key WACC assumptions		DCF valuation summary (NZ\$m)				Imputation (%)	0	0	0	0	0	
Risk free rate	2.00%	Total firm value		1,391			Pay-out ratio (%)	24	26	26	25	23
Equity beta	0.91	(Net debt)/cash				(276)						
WACC	8.1%	Value of equity		1,115			Capital Structure					
Terminal growth	1.5%	Shares (m)		213			Interest cover EBIT (x)	>100x	56.7	36.0	40.1	43.7
							Interest cover EBITDA (x)	82.2	31.5	38.3	42.7	46.4
							Net debt/ND+E (%)	8.7	15.7	12.9	12.8	11.7
							Net debt/EBITDA (x)	1.5	2.8	2.4	2.4	2.1
Profit and Loss Account (NZ\$m)		2018A	2019A	2020E	2021E	2022E						
Sales revenue		195	213	218	232	251						
Normalised EBITDA		91	98	99	106	117						
Depreciation and amortisation		(4)	(6)	(6)	(6)	(7)						
Normalised EBIT		87	92	93	100	110						
Net interest		(0)	(2)	(3)	(2)	(3)						
Associate income		-	-	-	-	-						
Tax		-	-	-	-	-						
Minority interests		-	-	-	-	-						
Normalised NPAT		87	91	91	98	108						
Abnormals/other		35	(51)	-	-	-						
Reported NPAT		123	39	91	98	108						
Normalised EPS (cps)		40.9	42.4	42.5	45.7	50.4						
DPS (cps)		10.0	11.0	11.3	11.5	11.8						
Growth Rates		2018A	2019A	2020E	2021E	2022E						
Revenue (%)		5.3	8.9	2.5	6.3	8.1						
EBITDA (%)		6.1	7.1	1.2	7.4	9.9						
EBIT (%)		13.3	5.6	1.1	7.4	10.0						
Normalised NPAT (%)		6.1	3.9	0.0	7.7	10.3						
Normalised EPS (%)		6.1	3.8	0.0	7.7	10.3						
DPS (%)		24.2	10.0	2.3	2.2	2.2						
Cash Flow (NZ\$m)		2018A	2019A	2020E	2021E	2022E						
EBITDA		91	98	99	106	117						
Working capital change		19	23	53	125	110						
Interest & tax paid		1	(1)	(3)	(2)	(3)						
Other		-	-	-	-	-						
Operating cash flow		111	120	149	228	224						
Capital expenditure		(174)	(233)	(92)	(218)	(190)						
(Acquisitions)/divestments		-	-	-	-	-						
Other		1	(0)	-	-	-						
Funding available/(required)		(62)	(113)	58	10	34						
Dividends paid		(19)	(22)	(24)	(25)	(25)						
Equity raised/(returned)		-	-	-	-	-						
Increase/(decrease) in net debt		81	135	(34)	14	(9)						
Balance Sheet (NZ\$m)		2018A	2019A	2020E	2021E	2022E						
Working capital		(51)	(18)	(17)	(18)	(20)						
Fixed assets		3,237	3,477	3,649	3,950	4,228						
Intangibles		1	1	1	1	1						
Other assets		11	11	11	11	11						
Total funds employed		3,198	3,471	3,643	3,943	4,219						
Net debt/(cash)		140	276	242	257	247						
Other non current liabilities		1,590	1,710	1,762	1,936	2,113						
Shareholder's funds		1,468	1,485	1,639	1,750	1,859						
Minority interests		-	-	-	-	-						
Total funding sources		3,198	3,471	3,643	3,943	4,219						
							Key Ratios					
							2018A	2019A	2020E	2021E	2022E	
							Return on assets (%)	2.7	2.6	2.5	2.5	2.6
							Return on equity (%)	5.9	6.1	5.5	5.6	5.8
							Return on funds employed (%)	5.7	5.4	5.1	5.1	5.3
							EBITDA margin (%)	46.8	46.0	45.4	45.9	46.6
							EBIT margin (%)	44.6	43.3	42.7	43.1	43.9
							Capex to sales (%)	89.0	109.4	42.1	94.1	75.7
							Capex to depreciation (%)	4,139	4,016	1,541	3,437	2,776
							Operating Performance					
							2018A	2019A	2020E	2021E	2022E	
							Revenue (NZ\$m)					
							Village/care fees	60	65	67	69	73
							Management fees	55	59	65	73	82
							Fair value m'ment in Investment Property (NZ\$m)					
							Realised	79	88	86	89	95
							Unrealised	-	-	-	-	-
							Total revenue	195	213	218	232	251
							Key Drivers					
							Sales - new units	98	116	126	142	138
							Ave unit price - new sales (NZ\$000)	655	690	717	739	754
							Sales - resold units	343	354	356	373	397
							Ave unit price - resales (NZ\$000)	542	572	589	601	613
							Gross development margin (%)	25.5	21.1	16.0	19.0	21.0
							Gross resales margin (%)	33.5	35.3	34.0	31.0	30.0
							New apartments/units	185	112	80	220	180
							New beds	69	70	-	60	40
							Divestments					
							Units sold					
							Beds sold					
							Portfolio					
							Apartments/units	4,391	4,478	4,558	4,778	4,958
							Beds	388	440	440	500	540

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

FY19 result — key points of interest

Steady result with most key drivers up

The FY19 result was in line with expectations, with underlying profit up +4% to NZ\$90.5m compared with our forecast of NZ\$91.5m. The 2H dividend was 7.25cps (+7%), also ahead of expectations bringing the FY19 dividend to 11cps (up +10%). The record date is 13 September and payment is on 20 September.

The result was driven by steady gains in all areas with resales gains in particular the standout. Underlying operating revenue was up +7%, slightly below expectations but was offset by lower than forecast operating costs. Realised gains on resales and new sales were also close to forecast, leading to underlying EBITDA of NZ\$98m up +7%, in line with our forecast.

Figure 1. FY19 result summary (NZ\$m)

FY19 result					
12 months ending 30 June	FY18	FY19	Chg	Forbar	Comments
Revenue					
Care fees & village fees	59.9	65.4	9%	67.4	Portfolio expansion
Management fees/other	56.8	65.6	15%	62.2	Boosted by \$6.5m one off
Operating revenue	116.7	131.0	12%	129.6	
Fair value movement of investment property					
Realised value movement					
Resales	62.3	71.5	15%	70.3	Vol, margin and pricing up
New Sales	16.4	16.9	3%	17.2	Volume up, margin down
Total realised value movement	78.7	88.4	12%	87.5	
Unrealised value movement	54.0	(34.5)		0.0	
Total fair value movement	132.7	53.9		87.5	Lower reval gain
Total revenue	249.4	184.8	-26%		
Total Costs	104.0	114.9	10%	119.1	
Total EBITDA	145.4	69.9	-52%		
Depreciation & impairment	8.0	22.1	176%	4.2	Includes NZ\$16.3m impairment
EBIT	137.4	47.8	-65%		
Net interest	(0.1)	(1.6)		(2.4)	
EBT	137.3	46.2	-66%		
Tax/other	14.8	6.9		0.0	Deferred tax
Reported profit	122.6	39.2	-68%	91.5	
Adjustments for underlying profit:					
Unrealised value movement	(54.0)	34.5		0.0	
Deferred Tax/Other/Impairment	18.6	16.8		0.0	
Underlying profit	87.2	90.5	4%	91.5	In line
Underlying revenue	195.4	212.9	9%	217.1	
Underlying EBITDA	91.4	98.0	7%	98.1	In line
EPS - Underlying profit (cps)	40.9	42.4	4%	42.9	In line
2H Dividend	6.75	7.25	7%	6.75	Ahead
FY Dividend (cps)	10.00	11.00	10%	10.50	Ahead
Operating cash flow	111.0	119.9	8%	139.4	
Total Assets	3,198	3,471	9%	3,478	Portfolio rev & expansion
Working Capital	(51.2)	(17.8)	-65%	(16.2)	
Net Debt	140	276	96%	178	Portfolio expansion and WIP
Shareholders Equity	1,468	1,485	1%	1,678	
Net Debt/Net Debt + Equity (%)	9%	16%		10%	
NTA (per share)	6.88	6.96	1%		Modest reval offset by impairment

Source: Forsyth Barr analysis, Company reports

Resales gains the standout

Resales gains were a key driver and well above the pcp at \$71.5m (+15%) driven by:

- Higher pricing (up +6% at NZ\$572k per unit)
- A lift in already high margins to 35.3% and helped by the high embedded value per unit in the portfolio of NZ\$281k per units (NZ\$180k resale gain and NZ\$101k accrued DMF)
- Increased volumes (up +3%). Resales margins were a very strong 37.4% in 2H19.

Figure 2. Resales activity (NZ\$M)

12 months ending 30 June	FY18	FY19	% chg pcp	Forbar		1H19	2H19	pcp chg	seq chg
Realised gains	\$62.3m	\$71.5m	14.8%	\$70.3m	Lift in vol and pricing	\$32.1m	\$39.4m	9.9%	22.7%
Resale margin	33.5%	35.3%	5.4%	33.5%	High margins maintained	33.0%	37.4%	10.1%	13.3%
Gross proceeds	\$185.9m	\$202.5m	8.9%	\$209.9m		\$97.2m	\$105.3m	-0.2%	8.3%
Value per unit	\$541,983	\$572,034	5.5%	\$578,096		\$571,765	\$572,283	4.7%	0.1%
Total units	343	354	3.2%	363	In line	170	184	-4.7%	8.2%

Source: Forsyth Barr analysis, company reports

Demand indicators hold fast

Resales vacancy of uncontracted stock is around 3% and consistent with prior periods. Demand indicators remain robust with village occupancy 97% and care occupancy 96%.

New sales volumes ahead of expectations at 116 units

New sales gains at NZ\$16.9m were in line with our forecasts with stronger volumes (116 units) and pricing gains (+5%) offset by weaker margins (25.5% to 21.1%) as higher construction costs bite in Auckland. The 2H new sales gain was well down on 2H18 and 1H19, but was driven by the sharp fall in margin rather than a volume issue. Development margins slipped to 19.2% in 2H19 and MET is guiding to near-term margins of ~15%, below its long term target range of 20% to 30%.

Disappointing 2H build rate well below guidance

Given MET was largely selling historically vacant new stock at the start of the period, the disappointing new build rate had little impact on FY19 sales, but will have a timing impact on FY20 and FY21. MET guided to around 145 new units in FY19 or 136 in 2H19, but delivered just 101 units in 2H. There were 70 new care beds built, in line with guidance, 30 at the Avenues in Tauranga and 40 at Papamoa Beach.

Figure 3. New sales activity (NZ\$m)

12 months ending 30 June	FY18	FY19	% chg pcp	Forbar		1H19	2H19	pcp chg	seq chg
Gross proceeds	\$64.2m	\$80.0m	24.6%	\$73.2m	Vol and pricing up	\$40.5m	\$39.5m	-7.3%	-2.5%
Value per unit	\$655,102	\$689,655	5.3%	\$706,700		\$723,214	\$658,333	0.4%	-9.0%
Development (new sales) gain	\$16.4m	\$16.9m	3.0%	\$17.2m		\$9.3m	\$7.6m	-23.6%	-18.3%
Development (new sales) margin	25.5%	21.1%		23.5%	Below expectations	23.0%	19.2%	-17.6%	
Total units	98	116	18.4%	104	Lift in sales vol	56	60	-7.7%	7.1%
New units built	185	112	-39.5%	148	Well below guidance	9	103		

Source: Forsyth Barr analysis, Company reports

Greater care offering still desired

MET is continuing to strive for a greater care offering with a 19% increase in care capacity during FY19, delivering 40 care beds at Papamoa which includes its first specialist dementia care unit. Demand for MET's care facilities is strong, with occupancy levels climbing higher to an average of 96% for the period, assisting in a ~9% lift in Village and care fees. Another encouraging additive for MET's care offering is that 67% of its care homes now have the gold-standard four-year Ministry of Health certification.

Elevation of debt not an issue — Diversification likely

The NTA increased +1% versus 12 months ago to NZ\$6.96, largely attributable to the greater delivery of stock in the 2H plus a lift in unit pricing which were the drivers of an NZ\$53.9m portfolio revaluation gain.

Gearing has increased but remains modest at 15% and is all project related. MET has completed all initial due diligence on a retail bond issue, with now only timing of the issue being evaluated. Proceeds from the raise will be used to pay down bank debt and provide greater diversification of borrowing.

Development pause and reset

After 1H19 provided little activity, MET delivered 173 units and care beds during 2H to bring the total build for FY19 to 182 units and beds. Papamoa beach, Tauranga (29 villas and 40 care beds), Greenwich Gardens, Auckland (48 Apartments) and Gulf Rise, Auckland (35 Villas) were the largest contributors to FY19 deliveries.

MET presented subdued guidance for its FY20 build rate, citing a considered adjustment to its programme and processes in the light of elevated industry wide construction costs coupled with constrained house price inflation. Such a strategy has been implemented to ensure that appropriate development margins can be sustained in future. Consequently, MET highlighted a build rate of only 80 units for FY20, well down on the 200+ expected with the entirety of that figure front loaded to 1H.

Management put additional emphasis on an increased build rate in FY21 to 280 units, broadly in line with what we were forecasting.

MET's landbank is currently sitting at ~1,320 units/beds, representing ~5 years at its FY21 target build rate of 280 units/beds. To satisfy such a build rate in FY21, management highlighted that the acquisition of circa two sites per annum would be necessary to fuel its landbank. MET is currently engaged in active due diligence on three sites across the upper north island.

Figure 4 below highlights MET's expectations for new stock delivery in FY20 and our estimate of the breakdown of MET's FY21 targeted delivery of 280 units and beds.

Figure 4. MET landbank at 30 June 2019 and an indicative near-term pipeline

Village	Region	ILUS	Beds	Total	FY20E		FY21E		
					ILUS	Beds	ILUS	Beds	
Crestwood	Auckland	13		13	13				Under construction- 13 villas completed in 1HFY20
Edgewater Village	Auckland	46	24	70			46	24	Under construction- 70 units and beds due FY21
Greenwich Gardens	Auckland	100		100	48		52		48 Apartments at Stage 10 under construction- opening 1HFY20
Gulf Rise	Auckland	199	43	242	20		50		20 Apts (stage 1) opening 1HFY20
Orion Point	Auckland	247	40	287			40		Under construction
Botany	Auckland	215	40	255			28		Design and planning- 255 units & beds FY21-FY24
Beachlands (Pohutukawa landing)	Auckland	195	36	231					Under construction- 231 units & beds FY21-FY24
Auckland Total		1015	183	1198	81	0	216	24	
Oakridge Villas	Kerikeri	38	40	78				40	Design and planning
Somervale	Tauranga	12		12					
Palmerston North Village		39		39					
Total		1104	223	1327	81	0	216	64	Greater than ~4.7 years at 280 units & beds pa

Source: Forsyth Barr analysis, Company reports

Forecasts, target price and investment rating

We have taken a more cautious approach across most key drivers given the combination of MET missing its build targets for FY19 and FY20 and our more conservative outlook. MET has signalled a sharply lower development margin in the near-term of ~15% from a combination of higher construction costs (mostly the sub trades) and low house price inflation. We have dropped near-term development margins to 16% in FY20 and 19% in FY21, down from 22.5% and 22% respectively. We have also dropped longer term development margins to 20%, the low end of MET's target range.

Our forecast sales volumes have pulled back due to the significantly lower build activity over the next 18 months. We have also pulled back new sales pricing in the expectation of a steady market remaining in place. We assume that MET builds 800 units and beds over the next four years which is around 60% of its pipeline.

While resales volumes were up on the pcp, these were slightly below our forecast and we have lowered our near-term turnover rate assumptions which has lowered resales volumes by around -6% pa over FY20–FY22. This has been partially offset by an increase in forecast margins given how strong these were in FY19 and MET's positive outlook comments regarding margins. Our forecasts assume margins dial back only slightly over the near-term.

Figure 5. Forecast key drivers (NZ\$m)

Year ending 30 June	Old	New	Chg %
Gross devel margin % FY20	22.5	16.0	-28.9%
Gross devel margin % FY21	22.0	19.0	-13.6%
Gross devel margin % FY22	22.0	21.0	-4.5%
Sales - new units FY20	157	126	-19.7%
Sales - new units FY21	184	142	-22.8%
Sales - new units FY22	202	138	-31.7%
Ave price - new sales FY20 (NZ\$000's)	749	717	-4.3%
Ave price - new sales FY21 (NZ\$000's)	787	739	-6.1%
Ave price - new sales FY22 (NZ\$000's)	802	754	-6.1%
Sales - resold units FY20	380	356	-6.4%
Sales - resold units FY21	398	373	-6.2%
Sales - resold units FY22	427	397	-7.1%
Ave price - resold sales FY20 (NZ\$000's)	601	589	-2.0%
Ave price - resold sales FY21 (NZ\$000's)	619	601	-3.0%
Ave price - resold sales FY22 (NZ\$000's)	632	613	-3.0%
Gross resales margin % FY20	27.5	34.0	23.6%
Gross resales margin % FY21	25.0	31.0	24.0%
Gross resales margin % FY22	23.0	30.0	30.4%

Source: Forsyth Barr analysis, Company reports

These changes have driven a drop in EPS over FY20 to FY22 of -7%pa as detailed in Figure 6.

The near term downgrade combined by a more conservative view around longer term growth and margins has resulted in our DCF falling -4% to NZ\$5.20 and our target price falling -5% to NZ\$5.60. The impact of our more conservative forecast was partially offset by changes to our WACC. In line with our research coverage universe we have dropped our risk free rate from 2.75% to 2% and dropped our market risk premium from 7.75% to 7.5%.

We remain with an OUTPERFORM rating, with MET oversold on housing market and development execution concerns. However, given the subdued environment and MET's slower build rate, we don't expect significant momentum to return to the business until 2H21. The share price continues to price in more negativity than is the reality in our view.

Figure 6.Changes to forecasts (NZ\$m)

Year ending 30 June \$m	Old	New	Chg %
Revenue FY20	233.5	218.2	-6.5%
Revenue FY21	253.1	232.0	-8.3%
Revenue FY22	274.5	250.8	-8.6%
EBITDA FY20	104.1	99.1	-4.8%
EBITDA FY21	113.5	106.4	-6.3%
EBITDA FY22	124.3	116.9	-5.9%
Normalised profit FY20	96.8	90.6	-6.4%
Normalised profit FY21	105.7	97.6	-7.7%
Normalised profit FY22	116.1	107.6	-7.3%
EPS cents FY20	45.4	42.5	-6.5%
EPS cents FY21	49.6	45.7	-7.8%
EPS cents FY22	54.5	50.4	-7.4%
DPS cents FY20	11.0	11.3	2.3%
DPS cents FY21	11.5	11.5	0.0%
DPS cents FY22	11.5	11.8	2.2%
Price Target	\$5.88	\$5.60	-4.8%

Source: Forsyth Barr analysis, Company reports

Investment summary

Metlifecare (MET) is lifting its development activity and is delivering strong resale gains. There is medium-term upside as the market gains confidence in MET's ability to execute on developments more effectively, capitalising on the growth potential in the sector. A risk factor for MET is that its villages without care operations are exposed to a softening in the housing market, but with MET trading at the lowest P/NTA in the sector at around 0.5x significant negativity is already priced in. OUTPERFORM.

Earnings and cash flow outlook

- **Lifting the build rate:** MET is focussed on developing new integrated villages and has a goal of 200+ units and beds. This has dialled back from a goal of 300+ units and beds per annum from FY20 and has a significantly lower build rate in FY20 as it resets its programme.
- **Leveraged to Auckland market:** With 15 villages in Auckland, MET can capitalise on high house prices and significant levels of embedded value.
- **Recycling capital:** The occupational right agreement (ORA) structure provides MET with the ability to recycle capital into new development and capture capital gains when units are resold.
- **Positive demographic trends:** There are currently 280,000 people in NZ aged 75 and over, a figure expected to more than double by 2035.

Business quality

- **Development expertise growing:** Development activity underway, including large greenfield projects, provides MET with an opportunity to demonstrate its capability, allowing further upside to our expectations.
- **Care expertise:** The expertise required to successfully operate in the aged care sector is a barrier to entry and a key focus for MET going forward.

Balance sheet

- **Balance sheet robust:** Contrasted with last cycle, MET has a low level of gearing at around 15%, providing ample capacity to work through its development pipeline or to provide cover should market conditions slow.

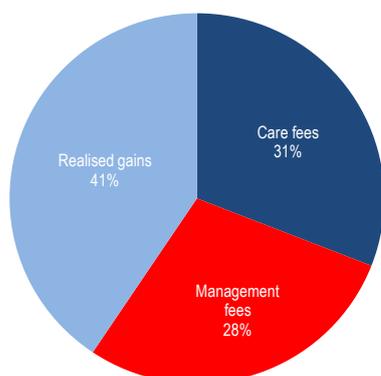
Key risks

- **Housing market downturn:** Any significant downturn in the slowing Auckland housing market poses a threat to resales and new sales pricing. MET's existing portfolio remains weighted to independent living (lifestyle villages) with a relatively small number of care beds and serviced apartments.
- **Oversupply:** The significant development pipeline in Auckland poses the threat of a short-term oversupply for retirement units.

Company description

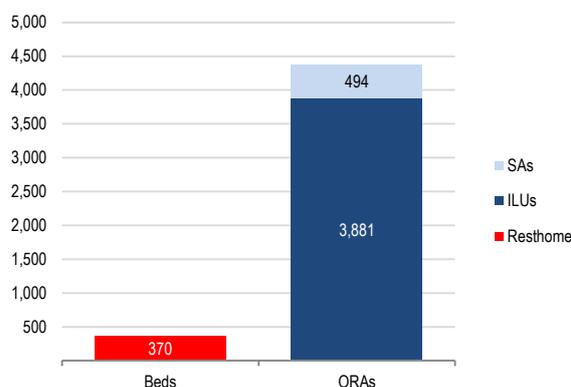
MET is the second largest retirement village operator in New Zealand with a portfolio of 4,478 retirement units across 25 villages. MET's aged care operations are smaller, with 11 villages being integrated and a total of 440 beds; albeit this is continuously growing as the majority of MET's new villages are incorporating care facilities. MET's portfolio is leveraged to the Auckland region with 15 villages and a further three greenfield sites and four brownfield sites underway. MET was established in 1984 and listed in 1994 with eight villages. In 2012 MET expanded with the merger with Private Life Care and Vision Senior Living.

Figure 7. FY18 revenue mix



Source: Forsyth Barr analysis, Company Reports

Figure 8. Portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

Figure 9. Substantial Shareholders

Shareholder	Latest Holding
New Zealand Superannuation Fund	19.9%
ANZ NZ Investments	11.8%
Investment Services Group	6.4%
ACC	5.0%

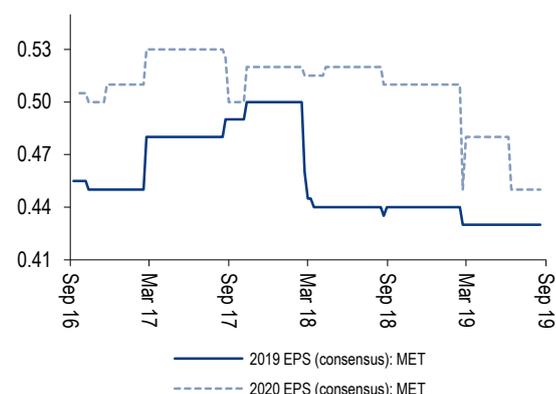
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 10. International Compcos

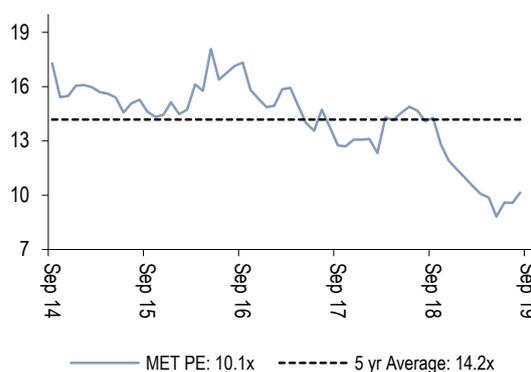
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld	
<i>(metrics re-weighted to reflect MET's balance date - June)</i>											
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Metlifecare	MET NZ	NZ\$4.36	NZ\$930	10.3x	9.5x	12.2x	11.3x	12.9x	12.1x	2.6%	
Ryman Healthcare *	RYM NZ	NZ\$12.96	NZ\$6,480	24.2x	21.0x	24.2x	21.2x	26.4x	23.0x	2.4%	
Summerset Group *	SUM NZ	NZ\$5.94	NZ\$1,342	12.6x	10.8x	14.0x	12.1x	14.8x	12.8x	2.8%	
Oceania Healthcare *	OCA NZ	NZ\$1.01	NZ\$616	12.5x	10.1x	12.3x	10.2x	14.5x	11.6x	5.5%	
Arvida Group Limited *	ARV NZ	NZ\$1.38	NZ\$748	12.7x	11.6x	15.7x	14.0x	17.5x	15.5x	4.7%	
Compcpo Average:				15.5x	13.4x	16.6x	14.3x	18.3x	15.7x	3.8%	
MET Relative:				-34%	-29%	-27%	-21%	-29%	-23%	-31%	

EV = Current Market Cap + Actual Net Debt

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

Figure 11. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 12. 12 Month Forward PE


Source: Forsyth Barr analysis

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