

Metlifecare

NEUTRAL

Downgrade to NEUTRAL — Waiting for NBIO Info

MET's share price has risen around +40% recently following the announcement of a share buyback, a lift in sentiment towards the Auckland housing market, and possible corporate action with MET advising the market that it has received a non-binding indicative offer (NBIO). We have pulled our rating back to NEUTRAL from OUTPERFORM and investors should wait for more info.

What's changed?

- **Earnings:** No change
- **Target Price:** Lifted from NZ\$5.60 to NZ\$6.30 from a lift in our DCF valuation due to time value of money impact since our last review and slightly stronger longer term pricing assumptions
- **Rating:** Downgraded from OUTPERFORM to NEUTRAL

Company in play with a NBIO

MET noted on 20 November that it has received a highly conditional, non-binding preliminary expression of interest from a credible third party to acquire the company (NBIO). MET also noted that it has commenced discussions on the NBIO, although the price proposed is below the board's expectations on value. MET's share buyback programme was suspended. While the outlook remains very uncertain with regard to possible corporate activity, we recommend investors wait for more information.

Lift in target price to NZ\$6.30

Our target price has increased due to the time value of money impact on our DCF and we have taken a slightly more positive view on longer-term unit pricing. We have lifted long run new sales pricing growth from an average of +1.6% pa to +2% pa, and we have lifted long run resales price growth from +1.6% pa to +2.5% pa. This has lifted our DCF valuation from NZ\$5.20 to NZ\$5.80 and our target price from NZ\$5.60 to NZ\$6.30. We consider our valuation to be conservative, both in terms of unit pricing inflation and also because we assume only around half of MET's ~1,300 unit/bed pipeline is built.

Downgraded to NEUTRAL

MET had been oversold on housing market and development execution concerns and a significant portion of this discount has closed up in recent weeks. Operationally we don't expect significant momentum to return to the business until 2H21. MET is still trading at a significant discount to its NZ\$6.96 June 2019 NTA, and we expect the NTA to lift again in FY20.

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 0.8x P/NTA ratio the market continues to factor in a level of caution and gives no credit for its development pipeline. We expect the NTA to continue to hold steady or lift slightly in the current environment with new stock delivery helping. Our rating is NEUTRAL.

NZX Code	MET
Share price	NZ\$5.86
Target price	NZ\$6.30
Risk rating	High
Issued shares	213.3m
Market cap	NZ\$1,250m
Average daily turnover	208.8k (NZ\$1,004k)

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	14.8	15.1	13.9	12.7
EV/EBIT	15.7	16.1	14.8	13.5
PE	13.8	13.8	12.8	11.6
Price / NTA	0.8	0.8	0.7	n/a
Cash dividend yield (%)	1.9	1.9	2.0	2.0
Gross dividend yield (%)	1.9	1.9	2.0	2.0

*Historic and forecast numbers based on underlying profits

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Metlifecare Limited (MET)		Priced as at 27 Nov 2019: NZ\$5.86					June year end					
Forsyth Barr valuation						Valuation Ratios	2018A	2019A	2020E	2021E	2022E	
Valuation methodology						DCF	EV/EBITDA (x)	14.7	14.8	15.1	13.9	12.7
12-month target price (NZ\$)*						Spot valuations (NZ\$)	EV/EBIT (x)	15.4	15.7	16.1	14.8	13.5
Expected share price return	7.5%	1. DCF	5.80	PE (x)	14.3	13.8	13.8	12.8	11.6			
Net dividend yield	1.9%	2. n/a	n/a	Price/NTA (x)	0.9	0.8	0.8	0.7	0.7			
Estimated 12-month return	9.4%	3. n/a	n/a	Free cash flow yield (%)	-5.0	-9.0	4.6	0.8	2.8			
Key WACC assumptions						DCF valuation summary (NZ\$m)	Net dividend yield (%)	1.7	1.9	1.9	2.0	2.0
Risk free rate	2.00%	Total firm value	1,505	Imputation (%)	0	0	0	0	0			
Equity beta	0.91	(Net debt)/cash	(276)	Pay-out ratio (%)	24	26	26	25	23			
WACC	8.1%	Value of equity	1,229	Capital Structure								
Terminal growth	1.5%	Shares (m)	213	Interest cover EBIT (x)	>100x	56.7	36.0	40.1	43.7			
Profit and Loss Account (NZ\$m)						2018A	2019A	2020E	2021E	2022E		
Sales revenue	195	213	218	232	251	Interest cover EBITDA (x)	82.2	31.5	38.3	42.7	46.4	
Normalised EBITDA	91	98	99	106	117	Net debt/ND+E (%)	8.7	15.7	12.9	12.8	11.7	
Depreciation and amortisation	(4)	(6)	(6)	(6)	(7)	Net debt/EBITDA (x)	1.5	2.8	2.4	2.4	2.1	
Normalised EBIT	87	92	93	100	110	Key Ratios						
Net interest	(0)	(2)	(3)	(2)	(3)	Return on assets (%)	2.7	2.6	2.5	2.5	2.6	
Associate income	-	-	-	-	-	Return on equity (%)	5.9	6.1	5.5	5.6	5.8	
Tax	-	-	-	-	-	Return on funds employed (%)	5.7	5.4	5.1	5.1	5.3	
Minority interests	-	-	-	-	-	EBITDA margin (%)	46.8	46.0	45.4	45.9	46.6	
Normalised NPAT	87	91	91	98	108	EBIT margin (%)	44.6	43.3	42.7	43.1	43.9	
Abnormals/other	35	(51)	-	-	-	Capex to sales (%)	89.0	109.4	42.1	94.1	75.7	
Reported NPAT	123	39	91	98	108	Capex to depreciation (%)	4,139	4,016	1,541	3,437	2,776	
Normalised EPS (cps)	40.9	42.4	42.5	45.7	50.4	Operating Performance						
DPS (cps)	10.0	11.0	11.3	11.5	11.8	2018A	2019A	2020E	2021E	2022E		
Growth Rates						Revenue (NZ\$m)						
Revenue (%)	5.3	8.9	2.5	6.3	8.1	Village/care fees	60	65	67	69	73	
EBITDA (%)	6.1	7.1	1.2	7.4	9.9	Management fees	55	59	65	73	82	
EBIT (%)	13.3	5.6	1.1	7.4	10.0	Fair value m'tment in Investment Property (NZ\$m)						
Normalised NPAT (%)	6.1	3.9	0.0	7.7	10.3	Realised	79	88	86	89	95	
Normalised EPS (%)	6.1	3.8	0.0	7.7	10.3	Unrealised	-	-	-	-	-	
DPS (%)	24.2	10.0	2.3	2.2	2.2	Total revenue	195	213	218	232	251	
Cash Flow (NZ\$m)						2018A	2019A	2020E	2021E	2022E		
EBITDA	91	98	99	106	117	Key Drivers						
Working capital change	19	23	53	125	110	Sales - new units	98	116	126	142	138	
Interest & tax paid	1	(1)	(3)	(2)	(3)	Ave unit price - new sales (NZ\$000)	655	690	717	739	754	
Other	-	-	-	-	-	Sales - resold units	343	354	356	373	397	
Operating cash flow	111	120	149	228	224	Ave unit price - resales (NZ\$000)	542	572	589	601	613	
Capital expenditure	(174)	(233)	(92)	(218)	(190)	Gross development margin (%)	25.5	21.1	16.0	19.0	21.0	
(Acquisitions)/divestments	-	-	-	-	-	Gross resales margin (%)	33.5	35.3	34.0	31.0	30.0	
Other	1	(0)	-	-	-	New apartments/units	185	112	80	220	180	
Funding available/(required)	(62)	(113)	58	10	34	New beds	69	70	-	60	40	
Dividends paid	(19)	(22)	(24)	(25)	(25)	Divestments						
Equity raised/(returned)	-	-	-	-	-	Units sold						
Increase/(decrease) in net debt	81	135	(34)	14	(9)	Beds sold						
Balance Sheet (NZ\$m)						2018A	2019A	2020E	2021E	2022E		
Working capital	(51)	(18)	(17)	(18)	(20)	Portfolio						
Fixed assets	3,237	3,477	3,649	3,950	4,228	Apartments/units	4,391	4,478	4,558	4,778	4,958	
Intangibles	1	1	1	1	1	Beds	388	440	440	500	540	
Other assets	11	11	11	11	11	Key Drivers						
Total funds employed	3,198	3,471	3,643	3,943	4,219	Sales - new units	98	116	126	142	138	
Net debt/(cash)	140	276	242	257	247	Ave unit price - new sales (NZ\$000)	655	690	717	739	754	
Other non current liabilities	1,590	1,710	1,762	1,936	2,113	Sales - resold units	343	354	356	373	397	
Shareholder's funds	1,468	1,485	1,639	1,750	1,859	Ave unit price - resales (NZ\$000)	542	572	589	601	613	
Minority interests	-	-	-	-	-	Gross development margin (%)	25.5	21.1	16.0	19.0	21.0	
Total funding sources	3,198	3,471	3,643	3,943	4,219	Gross resales margin (%)	33.5	35.3	34.0	31.0	30.0	

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

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 0.8x significant negativity is already priced in. NEUTRAL.

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.

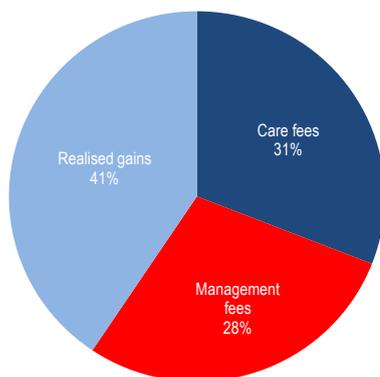
Key risks

- **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 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

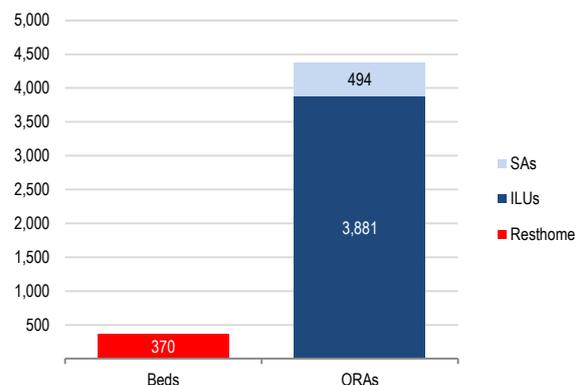
MET is the second largest retirement village operator in New Zealand with a portfolio of 4,478 retirement units across 25 villages. MET's aged care operations are smaller, with 11 villages being integrated and a total of 440 beds; albeit this is continuously growing as the majority of MET's new villages 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. 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 1. FY18 revenue mix



Source: Forsyth Barr analysis, Company Reports

Figure 2. Portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

Figure 3. Substantial Shareholders

Shareholder	Latest Holding
New Zealand Superannuation Fund	19.9%
ANZ NZ Investments	11.8%
Investment Services Group	7.7%
ACC	5.0%

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

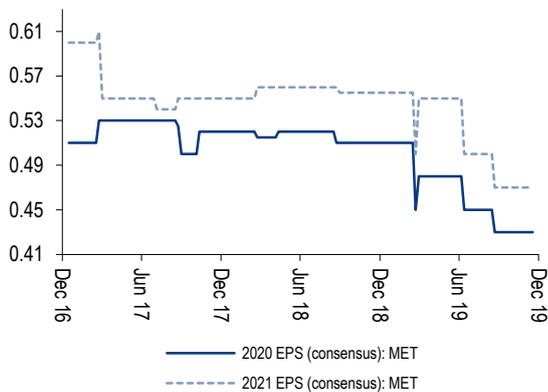
Figure 4. International Compcos

Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash D/Yld 2021E
<i>(metrics re-weighted to reflect MET's balance date - June)</i>										
Metlifecare	MET NZ	NZ\$5.86	NZ\$1,250	13.8x	12.8x	15.4x	14.3x	16.4x	15.2x	2.0%
Ryman Healthcare *	RYM NZ	NZ\$14.22	NZ\$7,110	26.2x	22.6x	26.2x	22.7x	28.8x	24.7x	2.2%
Summerset Group *	SUM NZ	NZ\$7.55	NZ\$1,713	15.6x	13.6x	16.6x	14.5x	17.5x	15.3x	2.2%
Oceania Healthcare *	OCA NZ	NZ\$1.08	NZ\$658	11.4x	10.7x	12.4x	11.7x	14.6x	13.7x	5.2%
Arvida Group Limited *	ARV NZ	NZ\$1.64	NZ\$889	14.7x	13.1x	14.9x	12.4x	16.4x	13.7x	4.2%
Compco Average:				17.0x	15.0x	17.5x	15.3x	19.3x	16.8x	3.4%
MET Relative:				-19%	-14%	-12%	-7%	-15%	-9%	-43%

EV = Current Market Cap + Actual Net Debt

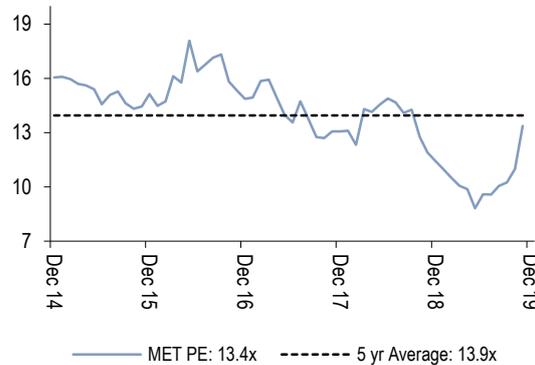
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MET) companies fiscal year end

Figure 5. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 6. 12 Month Forward PE



Source: Forsyth Barr analysis

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