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NEW ZEALAND EQUITY RESEARCH | AGED CARE | RETIREMENT & CARE OPERATOR
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Metlifecare
1H20 Preview — Early Retirement from NZX

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NEUTRAL

We expect Metlifecare (MET) to report a steady 1H20 result on 26 February 2020, reflecting flat new sales and resales volumes and pressure on development margins. In addition to any update on the takeover proceedings, also of interest will be how core demand metrics are tracking and development progress. NEUTRAL.

NZX Code	MET
Share price	NZ$6.93
Target price	NZ$6.30
Risk rating	High
Issued shares	213.3m
Market cap	NZ$1,478m
Avg daily turnover	576.4k (NZ$3,562k)

Financials: Jun/	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
*Based on normalised profits				

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	17.1	17.4	16.1	14.6
EV/EBIT	18.2	18.5	17.1	15.5
PE	16.3	16.3	15.1	13.7
Price / NTA	1.0	0.9	0.8	0.8
Cash div yld (%)	1.6	1.6	1.7	1.7
Gross div yld (%)	1.6	1.6	1.7	1.7

Key issues to consider at MET's 1H20 result:

- **Non-binding indicative offer** — MET may provide an update on timing of key information being released for shareholders and the latest timetable of proceedings.
- **Demand markers to remain steady except development margins —** We expect MET has managed to keep new stock and resales stock stable and benefited from a more positive trading environment in 2Q. We expect high resales margins have been maintained given MET's large embedded value, while downside to development margins is expected.
- **Development progress** — MET significantly dialled back its activity six months ago given the slower residential market and elevated construction costs. While costs are still an issue, the residential market in Auckland has rebounded late in the 1H, so any updates from the coal face will be of interest.

Investor briefing

Conference call: 10.30am (NZ time) 09 950 5335, 0r 0800 122 360, AU 1 800 760 146. Code: 10003840

Figure 1. 1H20 result summary (NZ$m)

Six months ending 31 December	1H19	1H20E	Chg
Underlying revenue	102.8	106.4	3%
Underlying EBITDA	45.1	46.8	4%
Underlying profit	41.7	43.2	4%
EPS - undelrying profit (cps)	19.6	20.3	4%
1H Dividend (cps)	3.75	4.00	7%

Source: Forsyth Barr analysis

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Metlifecare Limited (MET)

Priced as at 17 Feb 2020 (NZ$)	6.93

12-month target price (NZ$)*	6.30
Expected share price return	-9.1%
Net dividend yield	1.6%
Estimated 12-month return	-7.4%

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	0.91
WACC	8.1%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	195.4	212.9	218.2	232.0	250.8
Normalised EBITDA	**91.4**	**98.0**	**99.1**	**106.4**	**116.9**
Depreciation and amortisation	(4.2)	(5.8)	(6.0)	(6.4)	(6.8)
Normalised EBIT	**87.2**	**92.2**	**93.2**	**100.1**	**110.1**
Net interest	(0.1)	(1.6)	(2.6)	(2.5)	(2.5)
Associate income	0	0	0	0	0
Tax	0	0	0	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	**87.2**	**90.5**	**90.6**	**97.6**	**107.6**
Abnormals/other	0	0	0	0	0
Reported NPAT	**87.2**	**90.5**	**90.6**	**97.6**	**107.6**
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	2020A	2021A	2022A
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
Ordinary DPS (%)	24.2	10.0	2.3	2.2	2.2

Cash Flow (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	**91.4**	**98.0**	**99.1**	**106.4**	**116.9**
Working capital change	18.8	22.6	52.8	124.5	109.8
Interest & tax paid	0.7	(0.6)	(2.6)	(2.5)	(2.5)
Other	0	0	0	0	0
Operating cash flow	**111.0**	**119.9**	**149.4**	**228.5**	**224.2**
Capital expenditure	(173.8)	(232.9)	(91.8)	(218.3)	(189.7)
(Acquisitions)/divestments	0	0	0	0	0
Other	1.1	(0.0)	0	0	0
Funding available/(required)	**(61.7)**	**(113.1)**	**57.6**	**10.2**	**34.5**
Dividends paid	(19.3)	(22.4)	(24.0)	(24.5)	(25.1)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(81.0)**	**(135.4)**	**33.6**	**(14.4)**	**9.4**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(51.2)	(17.8)	(16.9)	(18.5)	(20.4)
Fixed assets	3,237.4	3,477.0	3,648.5	3,949.8	4,227.5
Intangibles	1.2	1.0	1.0	1.0	1.0
Right of use asset	0	0	0	0	0
Other assets	10.8	10.8	10.8	10.8	10.8
Total funds employed	**3,198.3**	**3,471.0**	**3,643.4**	**3,943.2**	**4,218.9**
Net debt/(cash)	140.5	275.8	242.2	256.6	247.1
Lease liability	0	0	0	0	0
Other liabilities	1,589.7	1,710.2	1,761.8	1,936.2	2,113.1
Shareholder's funds	1,468.1	1,485.0	1,639.4	1,750.4	1,858.7
Minority interests	0	0	0	0	0
Total funding sources	**3,198.3**	**3,471.0**	**3,643.4**	**3,943.2**	**4,218.9**

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

Spot valuations (NZ$)	
1. DCF	5.80
2. n/a	n/a
3. n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	1,531
(Net debt)/cash	(276)
Less: Capitalised operating leases	0
Value of equity	1,255

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	17.2	17.1	17.4	16.1	14.6
EV/EBIT (x)	18.0	18.2	18.5	17.1	15.5
PE (x)	16.9	16.3	16.3	15.1	13.7
Price/NTA (x)	1.0	1.0	0.9	0.8	0.8
Free cash flow yield (%)	-4.2	-7.6	3.9	0.7	2.3
Net dividend yield (%)	1.4	1.6	1.6	1.7	1.7
Gross dividend yield (%)	1.4	1.6	1.6	1.7	1.7

Capital Structure	2018A	2019A	2020E	2021E	2022E
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

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
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	24	26	26	25	23

Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ$m)					
Village/care fees	59.9	65.4	67.4	69.1	73.4
Management fees	55.2	58.9	65.0	73.3	82.4
Fair value m'ment in Investment Property (NZ$m)					
Realised	78.7	88.4	85.7	89.4	94.8
Unrealised	0	0	0	0	0
Total revenue	**195.4**	**212.9**	**218.2**	**232.0**	**250.8**
Key Drivers					
Sales - new units	98.0	116.0	126.0	142.0	138.0
Ave unit price - new sales (NZ$000)	655.10	689.66	717.24	738.76	753.53
Sales - resold units	343.0	354.0	355.5	372.7	396.6
Ave unit price - resales (NZ$000)	542.0	572.0	589.2	601.0	613.0
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	185.0	112.0	80.0	220.0	180.0
New beds	69.0	70.0	0	60.0	40.0
Portfolio					
Apartments/units	4,391.0	4,478.0	4,558.0	4,778.0	4,958.0
Beds	388.0	440.0	440.0	500.0	540.0

1H20 forecasts

Below is a summary of our underlying forecasts that excludes unrealised revaluation gains, plus also a summary of our forecast key drivers for the period.

Figure 2. 1H20 forecasts (NZ$m)

Six months ending 31 December	1H19	1H20E	Chg
Revenue			
Care fees & village fees	32.9	33.0	0%
Management fees/other	28.5	32.2	13%
Fair value movement of investment property			
Realised value movement			
Resales margin	32.1	34.8	9%
Development margin	9.3	6.4	-31%
Total realised value movement	41.4	41.2	0%
Underlying revenue	102.8	106.4	3%
Total Costs	57.8	59.6	3%
Underlying EBITDA	45.1	46.8	4%
Depreciation & impairment	2.2	3.6	62%
EBIT	42.9	43.2	1%
Net interest	(1.2)	0.0	-100%
EBT	41.7	43.2	4%
Tax/other	0.0	0.0	
Underlying profit	41.7	43.2	4%
EPS - Underlying profit (cps)	19.6	20.3	4%
1H Dividend (cps)	3.75	4.00	7%

Source: Forsyth Barr analysis

Figure 3. 1H20 forecast key drivers (NZ$m)

6 months ending 31 December	1H19	1H20E	Chg
Sales - new units	56.0	56.7	1%
Ave unit price - new sales (NZ$000)	723.2	703.4	-3%
Sales - resold units	170.0	170.7	0%
Ave unit price - resales (NZ$000)	571.8	583.2	2%
Gross development margin (%)	23%	16%	-7.0ppts
Gross resales margin (%)	33%	35%	2.0ppts

Source: Forsyth Barr analysis

Investment Summary

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). Investors should wait for more info. NEUTRAL.

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.

Earnings and cashflow 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.

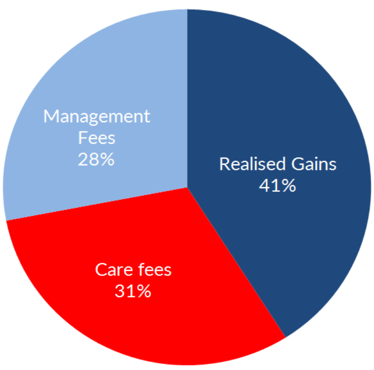
Financial structure

- **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.

Risk factors

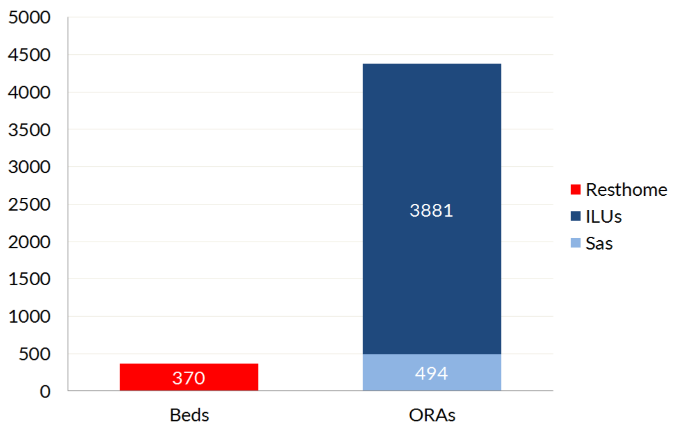
- **Housing market downturn:** Any significant downturn in the slowing Auckland housing market poses a threat to resales and new sales pricing. MET's existing portfolio remains weighted to independent living (lifestyle villages) with a small number of care beds and serviced apartments.
- **Oversupply:**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

Figure 4. FY18 Revenue mix



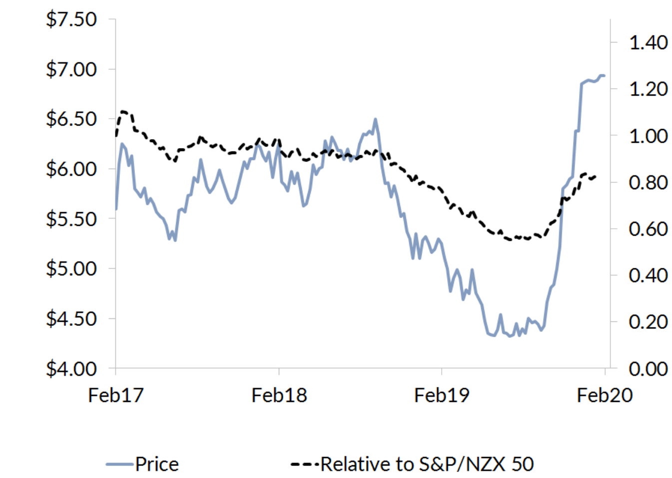
Source: Forsyth Barr analysis, Company reports

Figure 5. Portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

Figure 6. Price performance



Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
New Zealand Superannuation Fund	19.9%
UBS	10.2%

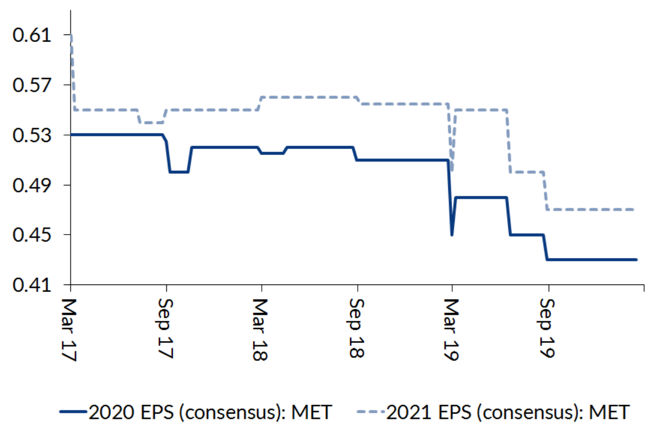
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 8. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect MET's balance date - June)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Metlifecare	**MET NZ**	**NZ$6.93**	**NZ$1,478**	**16.3x**	**15.1x**	**17.7x**	**16.5x**	**18.8x**	**17.5x**	**1.7%**
Ryman Healthcare *	RYM NZ	NZ$17.06	NZ$8,530	31.5x	26.9x	30.6x	26.4x	33.6x	28.7x	1.9%
Summerset Group *	SUM NZ	NZ$9.10	NZ$2,064	18.0x	15.5x	18.6x	16.2x	19.7x	17.1x	1.9%
Oceania Healthcare *	OCA NZ	NZ$1.23	NZ$750	12.9x	12.0x	13.6x	12.8x	16.1x	14.9x	4.6%
Arvida Group Limited *	ARV NZ	NZ$1.85	NZ$1,002	16.6x	14.6x	16.5x	13.6x	18.1x	14.9x	3.8%
			Compco Average:	**19.7x**	**17.2x**	**19.8x**	**17.2x**	**21.9x**	**18.9x**	**3.0%**
EV = Current Market Cap + Actual Net Debt			**MET Relative:**	**-17%**	**-12%**	**-11%**	**-4%**	**-14%**	**-7%**	**-45%**

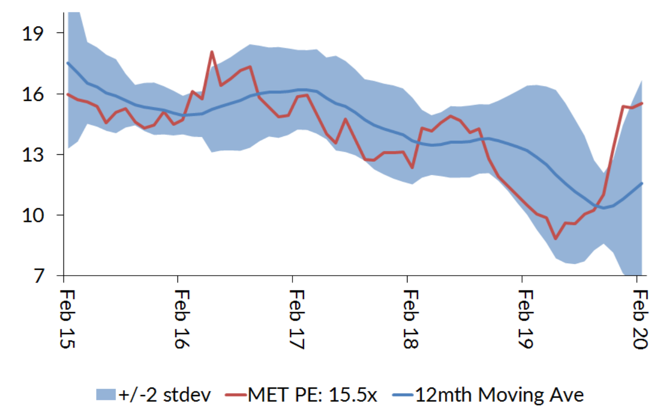
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MET) companies fiscal year end

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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