

Metlifecare

1H20 Result – Holding Pattern

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NEUTRAL 

Metlifecare (MET) has reported a 1H20 result slightly below expectations but is on track for its revised FY21 build rate of 220 units. MET delivered strong gains in resales volumes, unit pricing and operating cash flow. We have not changed our forecasts and investors should wait for more information regarding the proposed Scheme Implementation Agreement to acquire 100% of MET's shares for NZ\$7.00 with a Scheme booklet sent to shareholders prior to the special shareholders meeting on 29 April 2020. We have lifted our target price to the NZ\$7.00 Scheme offer price.

NZX Code	MET	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$6.90	NPAT* (NZ\$m)	90.5	90.7	97.8	107.8	EV/EBITDA	17.0	17.2	15.8	14.4
Target price	NZ\$7.00	EPS* (NZc)	42.4	42.5	45.9	50.6	EV/EBIT	18.1	18.3	16.8	15.3
Risk rating	High	EPS growth* (%)	3.8	0.2	7.8	10.3	PE	16.3	16.2	15.0	13.6
Issued shares	213.3m	DPS (NZc)	11.0	0.0	11.5	11.8	Price / NTA	1.0	0.9	0.8	0.8
Market cap	NZ\$1,472m	Imputation (%)	0	0	0	0	Cash div yld (%)	1.6	0.0	1.7	1.7
Avg daily turnover	601.8k (NZ\$3,744k)	*Based on normalised profits					Gross div yld (%)	1.6	0.0	1.7	1.7

Steady operating performance but slightly weaker than expectations in most areas

The 1H20 result was slightly below expectations in most areas with underlying profit down -6% to NZ\$39.3m compared with our forecast of NZ\$43.2m. There was no interim dividend given the corporate activity. The result was driven by steady gains in most areas with the expected major softness being the lower development margin that was flagged by the company previously. Cash flow was strong (+34%) which reflects MET's resales of units with high embedded value and MET has noted a recent improvement in operating conditions. Operating revenue was up +7%, in line with expectations, but was offset by a similar increase in operating costs. Realised gains on resales and new sales were also very close to forecast leading to underlying EBITDA of NZ\$44m, slightly below forecast. Gearing has increased but remains modest at 17% and is all project related. NTA was up slightly at NZ\$7.00.

Resales volumes a highlight, while development margins were low as signalled previously

Resales volumes were a highlight at 188 units, up +11% and ahead of forecasts, while resales margins remained healthy at 31%. New sales pricing was also pleasing with an +8% lift in average new sales price to NZ\$778k per unit and ahead of forecasts. As expected, development margins dialled back significantly and were slightly weaker than forecast at just 13%.

Limited outlook statements

There is no FY20 earnings guidance, however, MET noted that it is on track for its recently revised build rate of 220 units in FY21. Demand indicators remain robust with village occupancy at 97% and care occupancy at 96%. The 1H20 build rate was in line with expectations at 81 units. We have not changed our forecasts.

Metlifecare Limited (MET)

 Priced as at 26 Feb 2020 (NZ\$) **6.90**

12-month target price (NZ\$)*	7.00
Expected share price return	1.4%
Net dividend yield	1.1%
Estimated 12-month return	2.6%

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

Spot valuations (NZ\$)		
1. DCF		6.00
2. n/a		n/a
3. n/a		n/a

DCF valuation summary (NZ\$m)		
Total firm value		1,535
(Net debt)/cash		(276)
Less: Capitalised operating leases		0
Value of equity		1,259

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)	(2.5)	(2.3)	(2.3)
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	90.7	97.8	107.8
Abnormals/other	0	0	0	0	0
Reported NPAT	87.2	90.5	90.7	97.8	107.8
Normalised EPS (cps)	40.9	42.4	42.5	45.9	50.6
DPS (cps)	10.0	11.0	0	11.5	11.8

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	17.1	17.0	17.2	15.8	14.4
EV/EBIT (x)	18.0	18.1	18.3	16.8	15.3
PE (x)	16.9	16.3	16.2	15.0	13.6
Price/NTA (x)	1.0	1.0	0.9	0.8	0.8
Free cash flow yield (%)	-4.3	-7.7	3.9	0.7	2.4
Net dividend yield (%)	1.4	1.6	0.0	1.7	1.7
Gross dividend yield (%)	1.4	1.6	0.0	1.7	1.7

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	>100x	56.7	37.7	44.4	48.4
Interest cover EBITDA (x)	82.2	31.5	40.1	47.3	51.4
Net debt/ND+E (%)	8.7	15.7	11.6	11.6	10.6
Net debt/EBITDA (x)	1.5	2.8	2.2	2.2	1.9

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	0.2	7.8	10.3
Normalised EPS (%)	6.1	3.8	0.2	7.8	10.3
Ordinary DPS (%)	24.2	10.0	-100.0	n/a	2.2

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	5.5	5.7
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	0	25	23

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)	(2.5)	(2.3)	(2.3)
Other	0	0	0	0	0
Operating cash flow	111.0	119.9	149.5	228.7	224.5
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)	57.7	10.4	34.7
Dividends paid	(19.3)	(22.4)	0	(24.5)	(25.1)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(81.0)	(135.4)	57.7	(14.1)	9.7

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'tment 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

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	218.1	232.2	222.5
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	1,663.5	1,774.8	1,883.3
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

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

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

1H20 result summary

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

Six months ending 31 December	1H19	1H20	Chg	Forbar	Comments
Revenue					
Care fees & village fees	32.9	34.9	6%	33.0	Portfolio expansion
Management fees/other	28.5	30.6	7%	32.2	Portfolio expansion
Operating revenue	61.4	65.5	7%	65.2	In line
Fair value movement of investment property					
Realised value movement					
Resales margin	32.1	34.1	6%	34.8	Volume and pricing up
Development margin	9.3	5.6	(40%)	6.4	Large margin fall
Total realised value movement	41.4	39.7	(4%)	41.2	
Unrealised value movement	(11.8)	(8.4)			
Total fair value movement	29.6	31.3			Modest reval gain
Total revenue	91.0	96.8	6%		
Total Costs	57.8	61.2	6%	59.6	
Total EBITDA	33.3	35.6	7%		
Depreciation & impairment	2.2	2.7	23%	2.6	
EBIT	31.1	32.9	6%		
Net interest	(1.2)	(2.0)	67%	(1.0)	
EBT	29.9	30.9	3%		
Tax/other	3.9	6.3		0.0	
Reported profit	24.5	24.6	0%		
Adjustments for underlying profit:					
Unrealised value movement	11.8	8.4		0.0	
Deferred Tax/Other/Impairment	5.4	6.3		0.0	
Underlying profit	41.7	39.3	(6%)	43.2	Slightly weaker
Underlying revenue	102.8	105.2	2%	106.4	Slightly weaker
Underlying EBITDA	45.1	44.0	(2%)	46.8	Slightly weaker
EPS - Underlying profit (cps)	19.6	18.4	(6%)	20.3	
1H Dividend (cps)	3.75	0.00	(100%)	4.00	No interim dividend due to takeover
Operating cash flow	20.0	26.8	34%		
Total Assets	3,515.7	3,615	3%		Portfolio revaluation and expansion
Net Debt/Net Debt + Equity (%)	14.6%	17.0%			Portfolio expansion and WIP
NTA (per share)	\$6.90	\$7.00	1%		Portfolio revaluation
NTA (per share) at 30 June 19	\$6.96				

Source: Forsyth Barr analysis

Figure 2. New sales activity

Six months ending 31 December	1H19	1H20	% chg pcp	Forsyth Barr	2H19	seq chg
Gross proceeds	\$40.5m	\$42.0m	3.7%	\$39.9m	\$39.5m	6.4%
Value per unit	\$723,214	\$778,000	7.6%	\$703,448	\$658,333	18.2%
Development (new sales) gain	\$9.3m	\$5.6m	-39.9%	\$6.4m	\$7.6m	-26.5%
Development (new sales) margin	23.0%	13.3%		16.0%	19.2%	
Total units	56	54	-3.6%	57	60	-10.0%

Source: Forsyth Barr analysis

Figure 3. Resales activity

Six months ending 31 December	1H19	1H20	% chg pcp	Forsyth Barr	2H19	seq chg
Realised gains	\$32.1m	\$34.1m	6.2%	\$34.8m	\$39.4m	-13.5%
Resale margin	33.0%	31.2%	-5.5%	35.0%	37.4%	-16.6%
Gross proceeds	\$97.2m	\$109.2m	12.4%	\$99.5m	\$105.3m	3.7%
Value per unit	\$571,765	\$581,000	1.6%	\$583,200	\$572,283	1.5%
Total units	170	188	10.6%	171	184	2.2%

Source: Forsyth Barr analysis

Development / Pipeline activity

In a relatively tumultuous 1H20 period, MET managed to deliver 81 new ILUs and apartments across the portfolio. Stage one of its Gulf Rise village (Auckland) and Stage 10 at Greenwich Gardens (North Shore) delivered 20 and 48 apartments respectively whilst Crestwood Village in West Auckland accounted for the balance (13 villas). MET's care capacity also expanded to the order of +19%, attributable to the opening of two new care homes at The Avenues (Tauranga) and Papamoa Beach Village (Papamoa). Additionally, 12 care apartments and 16 serviced apartments were delivered as result of conversion work completed at MET's Palmerston North and Pinesong Villages.

Figure 4. Landbank and development pipeline

Village	Region	ILUS	Beds	Total	2H20E		FY21E		
					ILUS	Beds	ILUS	Beds	
Edgewater Village	Auckland	47	24	71			47	24	Under construction – 71 Homes and beds due FY21
Greenwich Gardens	Auckland	50		50					
Gulf Rise	Auckland	180	41	221			50		
Orion Point	Auckland	241	40	281			40		Design and planning – 281 homes &beds FY21-FY26
Fairway gardens	Auckland	215	40	255			28		Design and planning – 255 homes &beds FY21-FY24
Beachlands (Pohutukawa landing)	Auckland	185	36	221			21		Under construction – 221 homes & beds FY21-FY24
Albany	Auckland	320	84	404					
Auckland Total		1238	265	1503			186	24	
Oakridge Villas	Kerikeri	39	44	83				10	Design and planning
Somervale	Tauranga	20		20					
Palmerston North Village	Palmerston North	39		39					
Total		1336	309	1645			186	34	Expected FY21 Build Rate ~220 units and beds

Source: Forsyth Barr analysis, Company Reports, FY21E deliveries at Oakridge and Beachlands are Forsyth Barr estimates

As result of delaying its development programme in mid 2019 to ensure construction quality and retain development margin sustainability, the company signalled no further product will be delivered in FY20. Such a tempering in construction momentum now aside, management expects to cut the tape on 220 new units and beds in FY21. These deliveries are expected to come from a mix of completions at five key Auckland developments at Gulf Rise, Orion Point, Edgewater, Pohutukawa Landing and Fairway Gardens. With a landbank consisting of 1645 units and beds, across 8 greenfield and 2 brownfield sites, Metlife has some quality sites to leverage off and elevate capacity, albeit its ~70% weighting to Auckland and 100% to the North Island reduces potential geographical diversification benefits.

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.

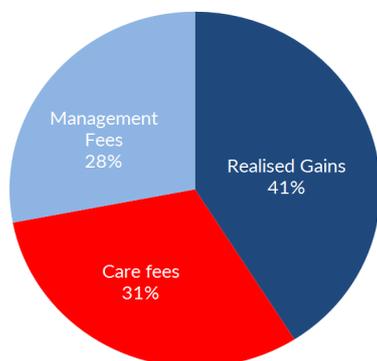
Financial structure

- **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

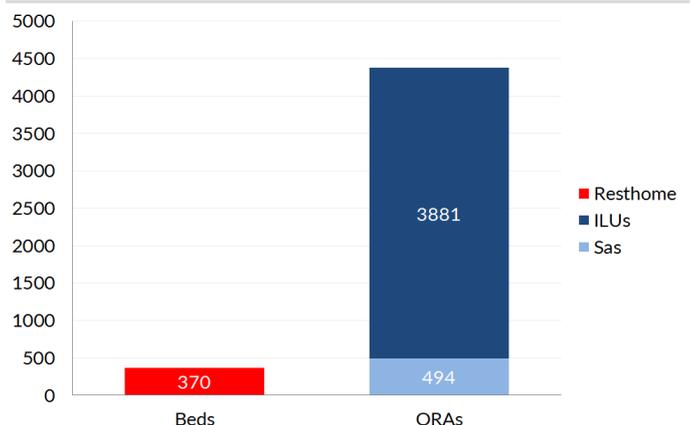
- **Housing market downturn:** Any significant downturn in the slowing Auckland housing market poses a threat to resales and new sales pricing. MET's existing portfolio remains weighted to independent living (lifestyle villages) with a small number of care beds and serviced apartments.
- **Oversupply:**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

Figure 5. FY18 Revenue mix



Source: Forsyth Barr analysis, Company Reports

Figure 6. Portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

Figure 7. Price performance


Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
New Zealand Superannuation Fund	19.9%
UBS	10.2%
JPMorgan Chase & Co. and its affiliates	5.0%

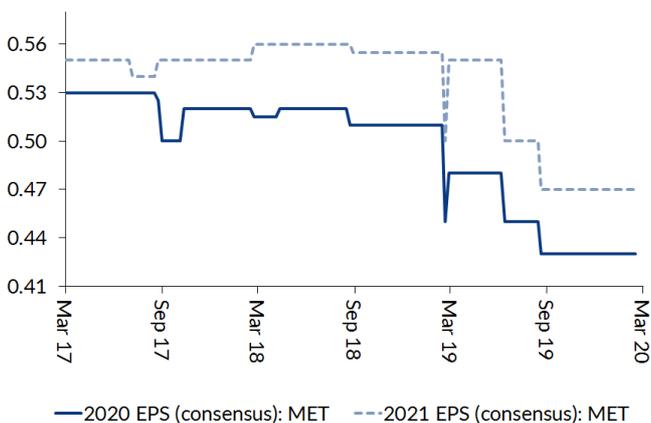
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 9. International valuation comparisons

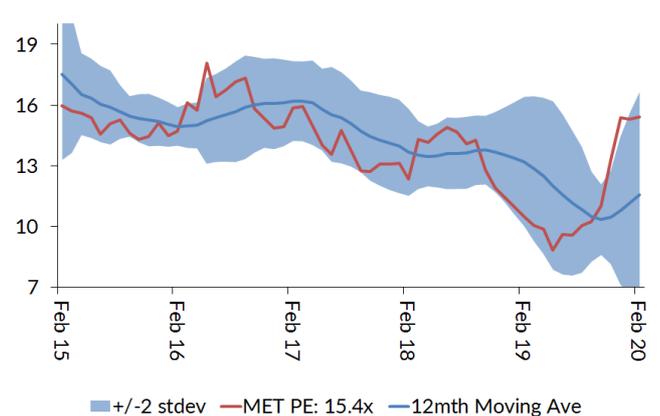
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Metlifecare	MET NZ	NZ\$6.90	NZ\$1,472	16.2x	15.0x	17.6x	16.4x	18.8x	17.5x	1.7%
Ryman Healthcare *	RYM NZ	NZ\$16.08	NZ\$8,040	29.7x	25.3x	29.1x	25.1x	31.9x	27.3x	2.0%
Summerset Group *	SUM NZ	NZ\$8.32	NZ\$1,887	17.6x	16.1x	18.9x	17.2x	20.1x	18.3x	1.9%
Oceania Healthcare *	OCA NZ	NZ\$1.20	NZ\$737	12.6x	11.7x	13.5x	12.6x	15.9x	14.7x	4.7%
Arvida Group Limited *	ARV NZ	NZ\$1.83	NZ\$992	16.4x	14.5x	16.3x	13.5x	17.9x	14.8x	3.8%
Compco Average:				19.1x	16.9x	19.4x	17.1x	21.5x	18.8x	3.1%
MET Relative:				-15%	-11%	-9%	-4%	-13%	-7%	-46%

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 10. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 11. One year forward PE (x)


Source: Forsyth Barr analysis

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