

Oceania Healthcare Bond Offer

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Oceania Healthcare Limited (OCA) is undertaking an offer of up to NZ\$75m (plus the ability to accept up to NZ\$50m of oversubscriptions) of secured, unsubordinated fixed rate bonds. This is OCA's first foray into the listed New Zealand bond market, joining peers Metlifecare and Summerset.

Figure 1. Issue details

Issuer	Oceania Healthcare Limited	Maturity date	19-Oct-2027	Key dates	
Security	Secured, unsubordinated	Credit rating	n/r	Open	5-Oct-2020
NZDX code	OCA010	Credit rating outlook	n/a	Rate set	9-Oct-2020
Coupon (min)	2.30%	Min holdings	NZ\$5k, 1k	Close	9-Oct-2020
Amount on issue	NZ\$75m (plus NZ\$50m)	ISIN	NZOCADT001C3	Issue	19-Oct-2020
Interest payments	Quarterly	Registry	Computershare Investor Services	Expected quotation	20-Oct-2020
Indicative margin	2.00% to 2.20%	Supervisor	NZ Permanent Trustees	First interest pymt	19-Jan-2021

Source: Forsyth Barr analysis

Positive post COVID-19 signs

Oceania Healthcare (OCA) reported a flat FY20 (COVID-19 impacted) result although OCA still achieved EBITDA of NZ\$63.4m. OCA's debt levels are increasing, which is a similar theme across the sector. OCA sold around NZ\$100m of new sales versus capex of NZ\$136m demonstrating the capital intensive nature of the current aged care model.

Property development funding

OCA uses debt to purchase, develop and build its villages with NZ\$361.3m worth of development assets backing NZ\$309.1m of net debt. Bondholders (and other debt holders) do have the support of the earnings from the existing business including aged care earnings and resales of existing units and care suites.

Before COVID-19 appeared OCA were well ahead of the prior corresponding period in respect of delivery of care suites. OCA sold 175 (new and resale) care suites in FY20 compared to 93 in FY19. Development margins were also healthy at 33.1%. As at 31 May 2020, occupancy sat at 93.7% with 1,851 units in the development pipeline.

A point of difference – A call option

While the majority of the bond features are very similar to Summerset and Metlifecare bonds, OCA's bonds contain an early redemption feature. OCA may elect to redeem all, but not some, of the bonds on any interest payment date after the third anniversary of the issue date (19 October 2023). If OCA was to redeem the bond prior to maturity, it will repay the bonds at the higher of the principal amount and the market value. A call option is not common and usually the issuer would pay a premium for such an option.

Loan to Value covenant

The standard loan-to-value (LVR) covenant is in place with similar or identical terms and conditions as other Aged Care and property bonds. OCA's limit is 50% of which it is well within at 33.8%

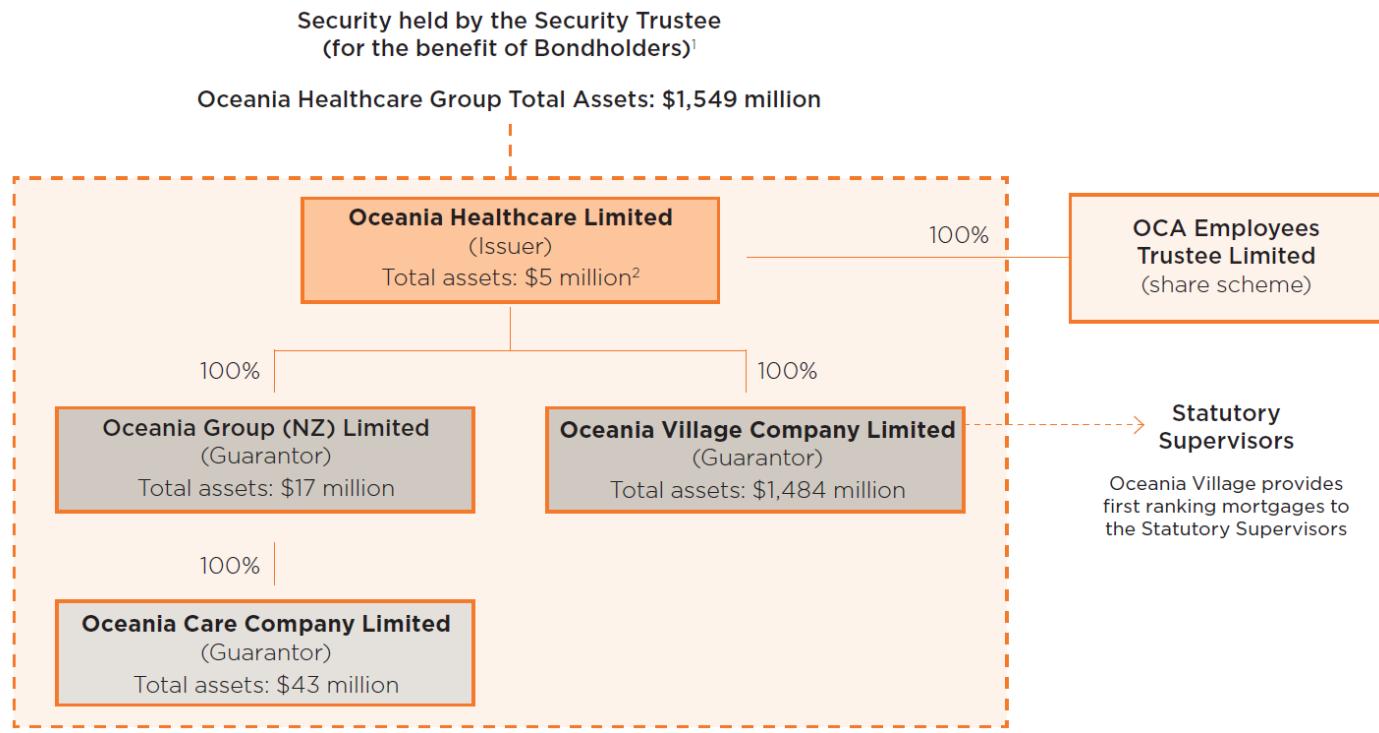
Dividend Stopper

If an 'Event of default' occurs such as failing to make an interest payment on the bonds, then OCA is not permitted to make any distribution such as ordinary dividend payments.

Security

Similar to previous bond offerings from Summerset and Metlifecare, the bonds rank below those amounts owing to Registered Retirement Village residents (NZ\$535m). The bonds do rank equally with OCA's bank debt.

Security structure



Source: Forsyth Barr analysis, OCA bond presentation, solid orange indicates ownership, dotted orange lines indicate security

Net debt

Net debt is expected to peak in 2021 at around NZ\$346m and is all development related. Bondholders do have the benefit of core earnings generation from the operating business in addition to development asset backing as highlighted in Figure 3.

The structure and ranking is not new to investors with Summerset and Metlifecare bonds presenting similar bond offerings. As of 31 May 2020, OCA had ~1,600 units and beds consented/under construction in its pipeline.

Figure 2. Ranking of bonds

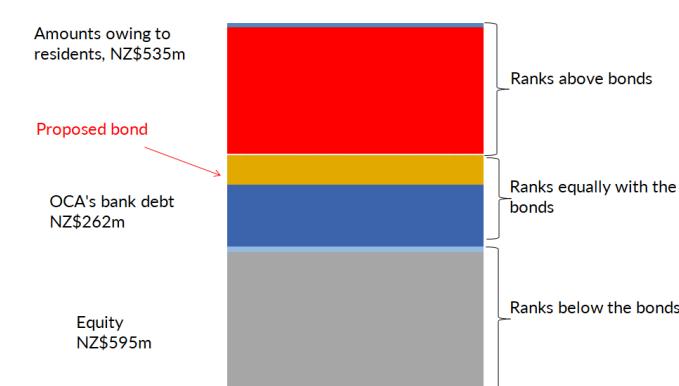
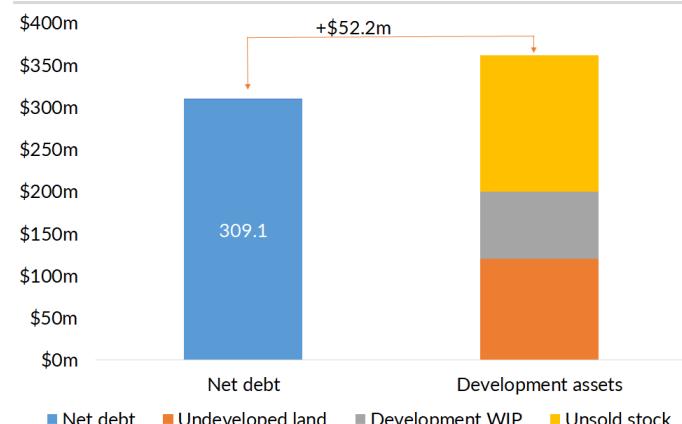


Figure 3. Property development asset backed for bonds



Source: Forsyth Barr analysis

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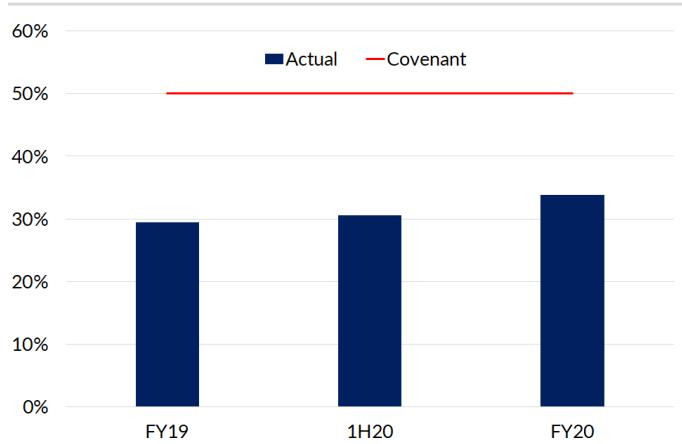
Covenant(s)

OCA is both a greenfield (acquiring land) and brownfield (redevelopment of existing sites) developer, using funds (debt) to acquire and develop land into future villages. Bondholders have one covenant in their favour, being a loan-to-value (LVR) ratio with a limit of 50%. OCA's bankers have additional covenants including an interest cover ratio. If OCA was to breach its LVR covenant, OCA has around 12 months to remedy the breach. As at 31 May 2020, OCA's LVR covenant was 33.8%.

Under its banking arrangements, a minimum interest cover ratio of 2.0x exists. As at 31 May 2020, OCA's interest cover ratio was 7.7x.

OCA states, as do other aged care providers, that in difficult financial times it will be able to reduce debt levels by slowing development whilst relying on the core earnings of the business. OCA also believes it could sell underdeveloped land and/or villages. The value of such divestments in difficult financial times is of course very uncertain.

Figure 4. LVR covenant



Source: Forsyth Barr analysis

Figure 5. Debt facilities

Debt facilities	Facility limit	Drawn amount (31/05/20)	Headroom
General / corporate	\$135.0m	\$118.6m	\$16.4m
Development facility	\$215.0m	\$208.1m	\$6.9m
Facility C	\$70.0m	-	\$70.0m
Cash	n/a	(\$17.6m)	\$17.6m
Total limits / net bank debt¹	\$420.0m	\$309.1m	\$110.9m
Finance leases ²	n/a	13.0	n/a
Total net debt		\$322.1m	

Source: Forsyth Barr analysis, excludes derivatives and financial instruments

Debt facilities

OCA currently funds its operations via an NZ\$420m bank facility from ANZ and Westpac. These facilities are split in the form of a NZ\$350m facility expiring in July 2023 and an NZ\$70m facility which will be cancelled post the issue of the bonds.

As at 31 May 2020, OCA had net debt of NZ\$309.1m (excluding finance leases).

The Sector

The Aged Care sector in terms of the listed market is dominated by Ryman, Summerset, Oceania, Arvida and Metlifecare, however, smaller players make up a much larger portion of the market. Net debt levels have been increasing over the last few years and the lockdown(s) have impacted new sales.

Overall, the Aged Care sector has reported strong performances despite the COVID-19 impacts throughout the last six months, with sales and resales rebounding strongly post the March/April lockdown.

Figure 6. Portfolio mix

	Oceania	Arvida	Summerset	Ryman
Care beds	1,882	1,688	901	3,911
Serviced Apartments	679	687	691	2,159
Independent units	1,285	1,788	3,534	5,264

Source: Forsyth Barr analysis

Figure 7. Geographical spread

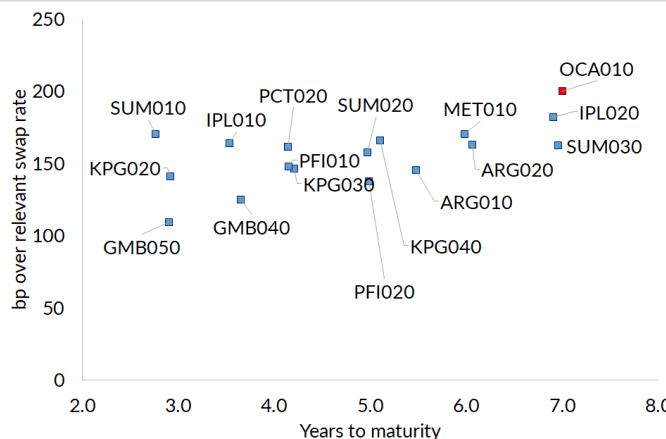
	Oceania	Arvida	Summerset	Ryman	Metlifecare
Auckland	38%	9%	29%	31%	62%
Rest of New Zealand	62%	91%	71%	61%	38%
Victoria	n/a	n/a	n/a	8%	n/a

Source: Forsyth Barr analysis

Comparative securities

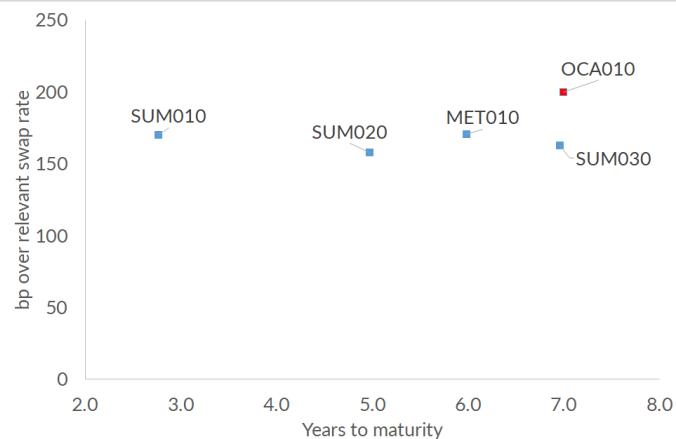
This offer from OCA will be the sector's fifth with Summerset being the most recent issuer in early September. The SUM030 bond was issued with a minimum coupon of 2.30%. The seven year swap rate is only around -2bp lower from when SUM030's pricing was set. OCA has announced an indicative marge range of 200bp to 220bp over the seven year swap rate.

Figure 8. Aged care and property secondary market margins



Source: Forsyth Barr analysis, Refinitiv

Figure 9. Aged care secondary market margins



Source: Forsyth Barr analysis, Refinitiv

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