NEW ZEALAND EQUITY RESEARCH | AGED CARE | AGED CARE
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Oceania Healthcare
1H21 Preview — Inflection?

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OUTPERFORM

After a multi-year period of portfolio transformation (that is still ongoing) characterised by falling annuity earnings, we believe that FY21 will mark an inflection point for OCA's earnings. We expect to see the first signs of this when OCA reports its 1H21 result on Friday, 22 January. We will focus on three key points: (1) sales activity update; commentary from OCA has been quiet in recent months and competitor commentary mixed but we expect solid sales activity in 1H21 following a strong Q1, (2) an update on care suite demand; care suites are the core driver behind its portfolio transformation and we expect demand to remain strong, and (3) an annuity earnings uptick; OCA's annuity EBITDA has declined since FY18 given its portfolio mix shift — we forecast a +4% uplift in 1H21 as OCA begins to capitalise on recent portfolio changes.

NZX Code	OCA
Share price	NZ$1.46
Target price	NZ$1.65
Risk rating	Medium
Issued shares	618.1m
Market cap	NZ$902m
Avg daily turnover	2,624k (NZ$2,742k)

Financials: May/	20A	21E	22E	23E
NPAT* (NZ$m)	42.5	49.5	59.8	69.0
EPS* (NZc)	6.9	8.0	9.7	11.2
EPS growth* (%)	-15.8	15.9	20.7	15.4
DPS (NZc)	3.5	4.0	4.5	5.0
Imputation (%)	0	0	0	0

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
PE	21.1	18.2	15.1	13.1
EV/EBIT	24.4	21.7	18.5	16.2
EV/EBITDA	18.8	17.1	14.8	13.1
Price / NTA	1.7	1.6	1.5	1.4
Cash div yld (%)	2.4	2.7	3.1	3.4
Gross div yld (%)	2.4	2.7	3.1	3.4

Key points of interest

- **Update on recent trading:** Once sales restrictions eased in Alert Level two, OCA recorded strong sales levels in Q1 (total sales +26% vs. pcp) likely driven by new sales at both Meadowbank and The Sands. We assume Q2 has remained strong but forecast a slowdown from the pent up demand post lockdowns.
- **Uptake of care suites:** We view the product as a core driver of future annuity earnings growth given the ability to quickly recycle DMF (deferred management fee) and resales gains. Demand to date has been strong and we expect this to continue.
- **Annuity earnings growth:** Recent portfolio transformation has shifted OCA's earnings mix towards new sales gains driving down annuity EBITDA. We forecast a small annuity earnings uplift as OCA's premium care portfolio begins to slowly mature.

Investor briefing — 10:30am NZ time on Friday, 22 January

Access via webcast at; https://globalmeet.webcasts.com/starthere.jsp?ei=1413110&tp_key=335104b087

Figure 1. 1H21 result expectations (NZ$m)

	1H20	1H21E	% change
Total revenue	**124.7**	**126.7**	**2%**
Total costs	90.7	94.3	4%
EBITDA	**34.0**	**32.3**	**-5%**
Depreciation & amortisation	7.1	7.8	10%
EBIT	**26.9**	**24.5**	**-9%**
Net interest	2.8	3.9	37%
Underlying profit	**24.1**	**20.6**	**-14%**
Annuity EBITDA	**15.3**	**15.9**	**4%**
DPS (cents)	2.1	2.3	7%

Source: Forsyth Barr analysis, Company reports

Figure 2. 1H21 earnings drivers

	1H20	1H21E	% change
Sales - new units	84	110	31%
New sales margin (%)	36%	26%	-10%
Sales - resold units	102	110	8%
Resales margin (%)	23%	17%	-6%
Average unit price - new sales (NZ$000's)	604	573	-5%
Average unit price - resales (NZ$000's)	351	369	5%

Source: Forsyth Barr analysis, Company reports

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Oceania Healthcare Limited (OCA)

Priced as at 19 Jan 2021 (NZ$)	**1.46**

12-month target price (NZ$)*	**1.65**
Expected share price return	13.0%
Net dividend yield	3.0%
Estimated 12-month return	16.0%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.88
WACC	6.4%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	233.5	241.7	256.7	277.9	297.0
Normalised EBITDA	**63.1**	**63.1**	**72.9**	**85.4**	**96.3**
Depreciation and amortisation	(9.5)	(14.5)	(15.7)	(17.0)	(18.2)
Normalised EBIT	**53.6**	**48.6**	**57.2**	**68.4**	**78.0**
Net interest	(3.5)	(6.2)	(7.7)	(8.6)	(9.0)
Associate income	0	0	0	0	0
Tax	0	0	0	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	**50.1**	**42.5**	**49.5**	**59.8**	**69.0**
Abnormals/other	(4.7)	(56.1)	(7.7)	(1.4)	(5.1)
Reported NPAT	**45.4**	**(13.6)**	**41.8**	**58.4**	**63.9**
Normalised EPS (cps)	8.2	6.9	8.0	9.7	11.2
DPS (cps)	4.7	3.5	4.0	4.5	5.0

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	5.2	3.5	6.2	8.2	6.9
EBITDA (%)	-0.9	-0.1	15.6	17.1	12.8
EBIT (%)	-2.4	-9.3	17.8	19.5	14.0
Normalised NPAT (%)	-3.9	-15.2	16.7	20.7	15.4
Normalised EPS (%)	-3.9	-15.8	15.9	20.7	15.4
Ordinary DPS (%)	0.0	-25.5	14.3	12.5	11.1

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**63.1**	**63.1**	**72.9**	**85.4**	**96.3**
Working capital change	(1.8)	(2.4)	1.3	1.4	1.2
Interest & tax paid	(3.5)	(6.2)	(7.7)	(8.6)	(9.0)
Other	37.0	44.8	57.0	89.2	98.8
Operating cash flow	**94.8**	**99.4**	**123.5**	**167.4**	**187.2**
Capital expenditure	(153.8)	(136.0)	(140.0)	(140.0)	(140.0)
(Acquisitions)/divestments	0	0	0	0	0
Other	0.0	(3.2)	0	(0.0)	0
Funding available/(required)	**(59.0)**	**(39.8)**	**(16.5)**	**27.4**	**47.2**
Dividends paid	(28.4)	(22.2)	(24.7)	(27.8)	(30.9)
Equity raised/(returned)	1.3	0	0	0	0
(Increase)/decrease in net debt	**(86.1)**	**(62.0)**	**(41.2)**	**(0.4)**	**16.3**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	5.0	6.8	9.2	7.9	6.5
Fixed assets	1,324.4	1,437.8	1,607.1	1,780.2	1,951.9
Intangibles	8.7	10.8	10.8	10.8	10.8
Right of use asset	0	0	0	0	0
Other assets	0	0	0	0	0
Total funds employed	**1,338.0**	**1,455.4**	**1,627.1**	**1,798.9**	**1,969.2**
Net debt/(cash)	247.4	307.8	349.0	349.4	333.1
Lease liability	0	13.0	13.0	13.0	13.0
Other liabilities	480.8	580.2	693.6	834.4	988.0
Shareholder's funds	609.9	554.4	571.5	602.1	635.1
Minority interests	0	0	0	0	0
Total funding sources	**1,338.0**	**1,455.4**	**1,627.1**	**1,798.9**	**1,969.2**

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

Spot valuations (NZ$)	
1. EV/Annuity EBITDA	1.65
2. DDM	1.65
3. n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	n/a
(Net debt)/cash	n/a
Less: Capitalised operating leases	n/a
Value of equity	n/a

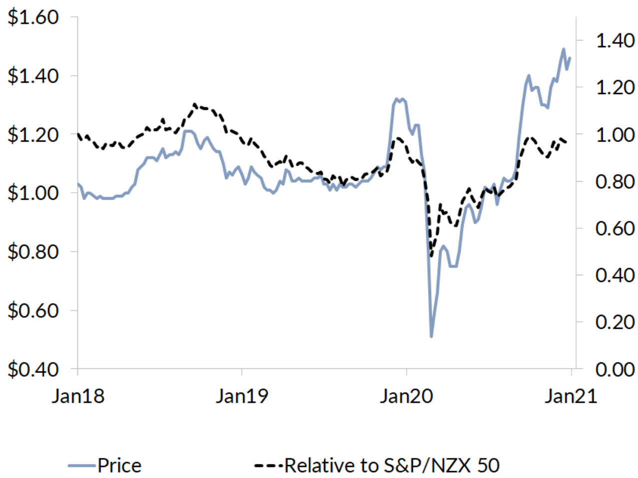
Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	17.4	18.8	17.1	14.8	13.1
EV/EBIT (x)	20.6	24.4	21.7	18.5	16.2
PE (x)	17.8	21.1	18.2	15.1	13.1
Price/NTA (x)	1.5	1.7	1.6	1.5	1.4
Free cash flow yield (%)	27.5	26.1	29.2	34.1	36.3
Net dividend yield (%)	3.2	2.4	2.7	3.1	3.4
Gross dividend yield (%)	3.2	2.4	2.7	3.1	3.4

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	15.3	7.9	7.4	7.9	8.7
Interest cover EBITDA (x)	18.1	10.2	9.5	9.9	10.7
Net debt/ND+E (%)	28.9	35.7	37.9	36.7	34.4
Net debt/EBITDA (x)	3.9	4.9	4.8	4.1	3.5

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	3.8	3.2	3.4	3.7	3.8
Return on equity (%)	8.2	7.7	8.7	9.9	10.9
Return on funds employed (%)	5.7	4.8	5.2	6.1	6.8
EBITDA margin (%)	27.0	26.1	28.4	30.7	32.4
EBIT margin (%)	23.0	20.1	22.3	24.6	26.3
Capex to sales (%)	65.9	56.3	54.5	50.4	47.1
Capex to depreciation (%)	1,611	941	893	825	768
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	57	51	50	47	45

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)*					
Care fees	156.6	156.4	162.2	169.0	173.4
Management fees	22.3	29.2	37.3	45.9	56.2
Other	10.4	10.6	11.0	11.6	12.2
Gain on resales	15.1	11.5	15.9	19.7	23.7
Gain on new sales	29.1	33.9	30.3	31.7	31.5
Total revenue	**233.5**	**241.7**	**256.7**	**277.9**	**297.0**
Key Drivers					
Sales - new units	133	189	235	255	270
Sales - resold units	177	166	234	286	348
Gross development margin	36%	33%	26%	22%	20%
Gross resales margin	25%	20%	18%	18%	17%
Average new sales price (NZ$000)	609	542	497	564	583
Average resales price (NZ$000)	348	354	377	390	400
Portfolio Overview					
ILU's	1,202	1,285	1,370	1,505	1,645
Care Suites (ORA)	326	440	580	700	830
Care Suites (PAC)	216	239	251	241	235
Care Beds	2,112	1,882	1,832	1,732	1,632
Total	**3,856**	**3,846**	**4,033**	**4,178**	**4,342**

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
ANZ NZ Investments	7.4%
Harbour Asset Management & Jarden Securities Limited	5.3%
ACC	5.1%

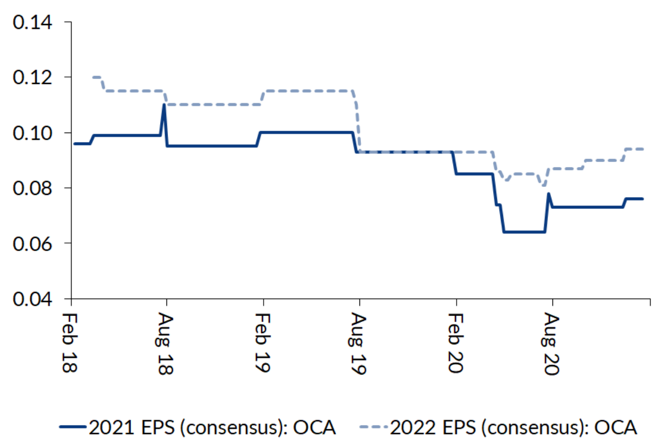
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect OCA's balance date - May)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Oceania Healthcare	**OCA NZ**	**NZ$1.46**	**NZ$902**	**18.2x**	**15.1x**	**16.6x**	**14.2x**	**21.1x**	**17.7x**	**3.1%**
RYMAN HEALTHCARE *	RYM NZ	NZ$14.75	NZ$7,375	29.6x	23.8x	29.9x	24.3x	33.6x	27.1x	2.1%
SUMMERSET GROUP LIMITED *	SUM NZ	NZ$12.04	NZ$2,755	25.1x	19.9x	23.1x	18.7x	24.9x	20.0x	1.5%
ARVIDA GROUP LIMITED *	ARV NZ	NZ$1.70	NZ$922	17.3x	13.6x	18.3x	14.9x	20.5x	16.6x	4.2%
			Compco Average:	**24.0x**	**19.1x**	**23.8x**	**19.3x**	**26.3x**	**21.2x**	**2.6%**
EV = Current Market Cap + Actual Net Debt			**OCA Relative:**	**-24%**	**-21%**	**-30%**	**-27%**	**-20%**	**-17%**	**19%**

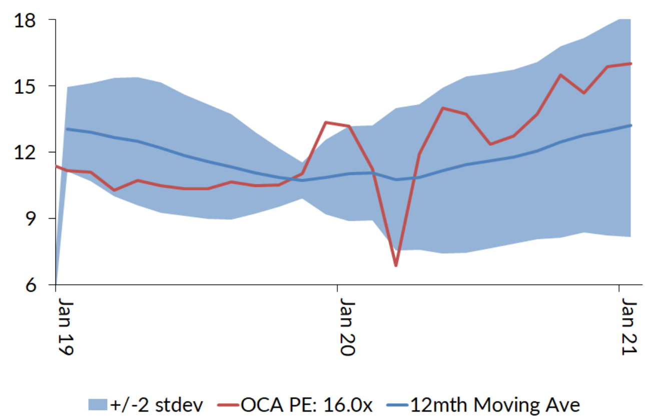
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (OCA) companies fiscal year end

Figure 6. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)



Source: Forsyth Barr analysis

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