

Ryman Healthcare

Bond Offer

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Ryman Healthcare (RYM) is undertaking an offer of up to NZ\$100m (with the ability to accept up to NZ\$50m of oversubscriptions) of secured, unsubordinated bonds. The bonds will be quoted on the NZDX and represents RYM's first foray into the listed debt market.

Figure 1. Issue details

Issuer	Ryman Healthcare Limited	Maturity date	18-Dec-2026	Key dates	
Security	Secured, unsubordinated	Credit rating	n/r	Open	7-Dec-20
NZDX code	RYM010	Credit rating outlook	n/a	Rate set	10-Dec-20
Coupon	TBA	Min holdings	NZ\$5k, 1k	Close	10-Dec-20
Amount on issue	NZ\$100m (plus NZ\$50m)	ISIN	NZRYMD0010L2	Issue	18-Dec-20
Interest Payments	Quarterly	Registry	Link Market Services	Expected quotation	21-Dec-20
Indicative margin	TBA	Supervisor	NZ Permanent Trustees	First Interest pymt	18-Mar-21

Source: Forsyth Barr analysis

Costly but successful health response

RYM recently reported its results for the six months to 30 September 2020 with COVID-19 playing a significant role in its results. While New Zealand was only locked-down for a relatively short period of time (five weeks), Victoria in Australia, where RYM has a number of villages both operating and under construction, has had nearly six months of restrictions.

RYM's EBITDA fell -10% to NZ\$113.5m on the pcp as costs increased substantially as RYM successfully kept its 12,000 residents and 6,100 staff free from COVID-19. The impact of the lockdowns was evident in RYM's resale and new sale gains that fell -7% and -18% respectively on the pcp. RYM is, however, confident of a strong second half of the year.

Shuffling the debt chairs

To date, RYM has been debt funded via its banking syndicate, however, funding diversification is underway with this bond issue and a possible United States Private Placement (USPP) transaction. RYM will repay a portion of its bank debt with the proceeds of the bond offer. As at 30 September 2020, RYM had NZ\$2,109m of net drawn bank debt. Debt is primarily used for the development of its villages and the acquisition of land.

RYM is addressing its high debt levels by introducing a Refundable Accommodation Deposit (RAD) option. Residents can choose to pay an up-front lump sum for their care accommodation instead of a weekly fee. This has the potential to begin to reduce RYM's bank debt and is also an attractive option for residents.

RYM joins SUM, MET and OCA

The structure/features of the bonds is similar to those we have seen from RYM's competitors in the Aged Care sector, Summerset (SUM), Metlifecare (MET) and Oceania Healthcare (OCA). Using longer-term bonds suits the sector given it requires funding to build villages, which is capital intensive with positive cashflow not flowing until year six or seven in most cases.

Forsyth Barr Limited has been appointed as a Joint Lead Manager to the offer and will receive fees for undertaking this role including a fee based on the amount of bonds subscribed for by its clients. The offer is only being offered to investors who are resident in New Zealand. Full details of the offer are contained in the Product Disclosure Statement. Potential investors should read the Product Disclosure Statement thoroughly.

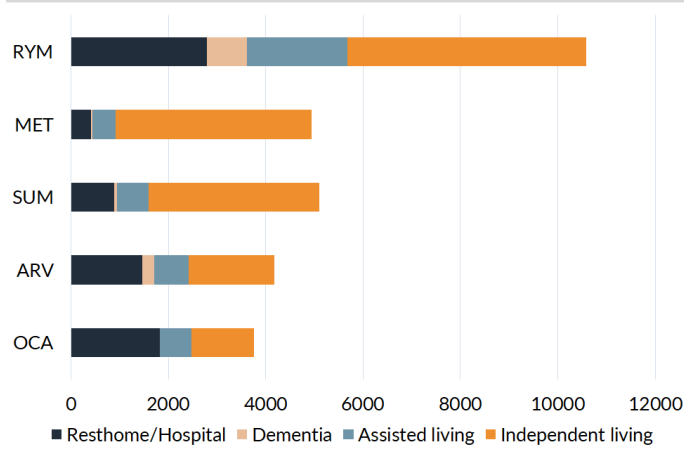
Ryman

The biggest there is

Founded in 1984, RYM has grown to be the largest retirement operator in New Zealand. Through care fees (weekly fees), new sales (development margins which are typically 25–30%), resales (capital gains) via beneficial Occupation Agreements and management fees, RYM receives its income from a variety of different sources.

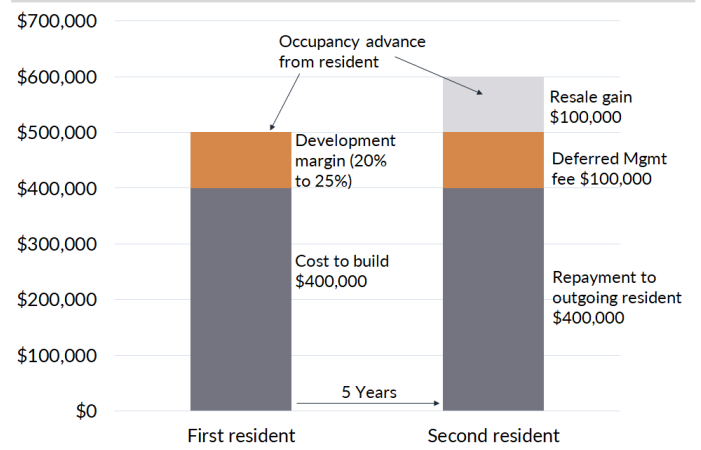
RYM has 39 villages (36 in New Zealand and 3 in Victoria, Australia) providing a full continuum of care, which includes dementia care. RYM has 12 sites under construction and a land bank of 23 sites, or 6,171 beds. Around 50% of RYM's portfolio is needs based.

Figure 2. Portfolio mix



Source: Forsyth Barr analysis, RYM

Figure 3. How an Occupation Agreement works



Source: Forsyth Barr analysis, example only

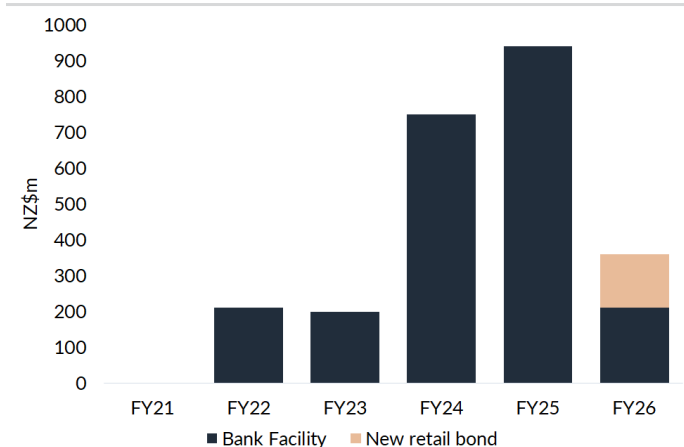
Occupation Agreement / Interest free loan

A key aspect of the Aged Care sector is the resident loan. Residents' loans have no set term and are generally repayable on resale of an Occupation Agreement (OA) by using the proceeds from the new resident. The OA's are non-interest bearing and because they are deemed a 'loan', there are positive tax implications for RYM. The residents' rights are protected by the Statutory Supervisor in New Zealand. In Victoria the rights of the residents' are protected by a statutory charge over the land of the relevant Australian Village company.

Debt diversification underway

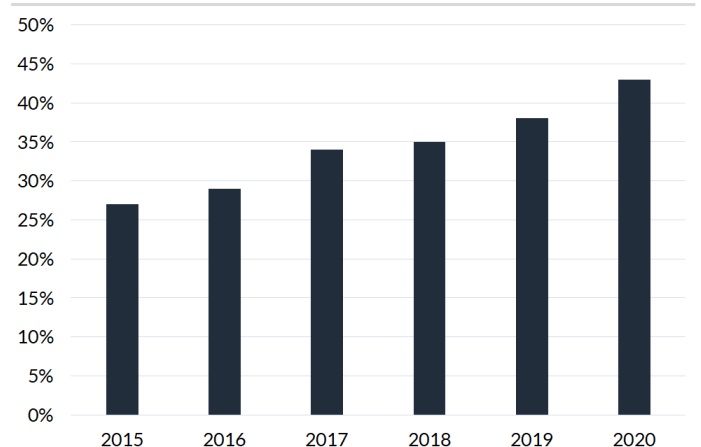
RYM has a banking facility totalling NZ\$2,395m from ANZ, BNZ, CBA, WBC, Bank of China, ICBCNZ and MUFG. RYM is investigating a number of additional debt funding options, including an issue of USPP notes and other arrangements with institutional lenders, which may provide longer tenor.

Figure 4. Maturity profile



Source: Forsyth Barr analysis, assumes NZ\$150m raised

Figure 5. Interest bearing debt to interest bearing debt + equity



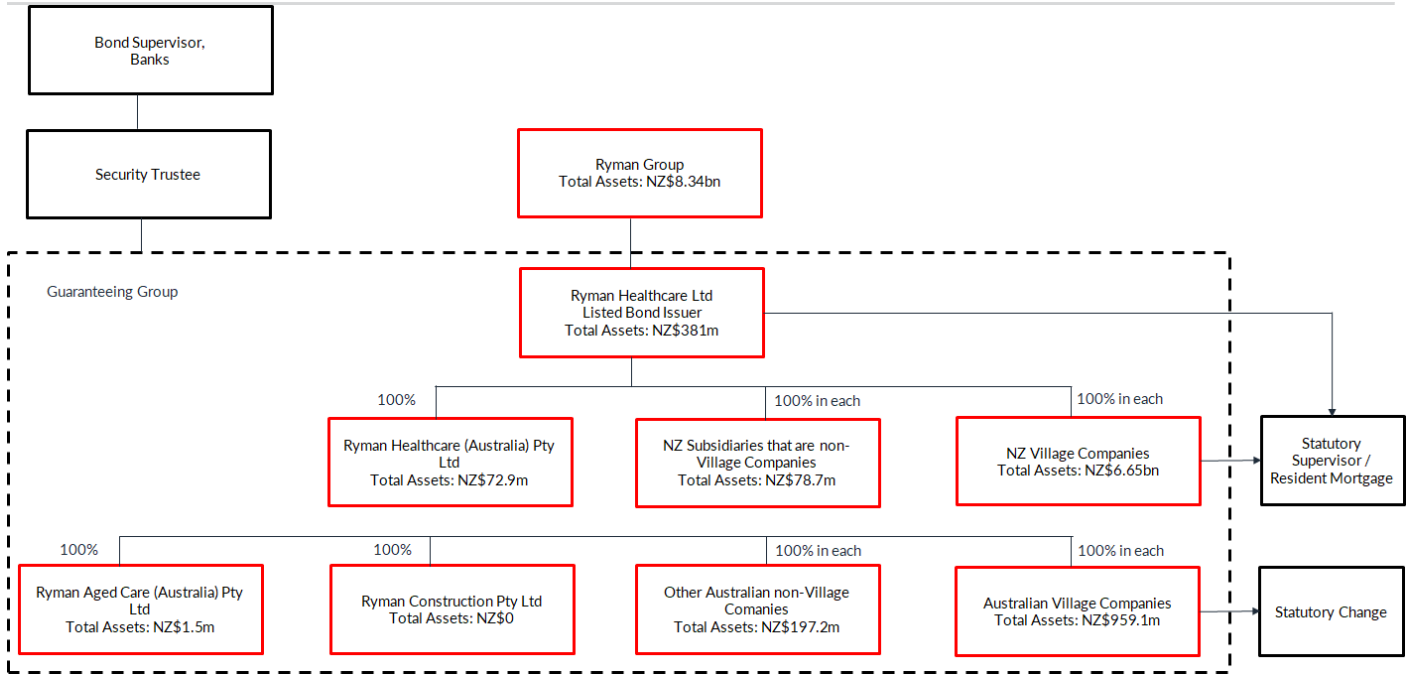
Source: Forsyth Barr analysis

Security structure

One of the covenants in the Trust Deed states that the Total Tangible Assets and Adjusted EBIT of the Guaranteeing Group (below) must represent not less than 90% of the Total Tangible Assets and Adjusted EBIT of the Ryman Group as a whole.

RYM owns (either directly or indirectly) all of the companies within the RYM Group, including each Village Company.

Figure 6. Ryman security structure (30 September 2020)

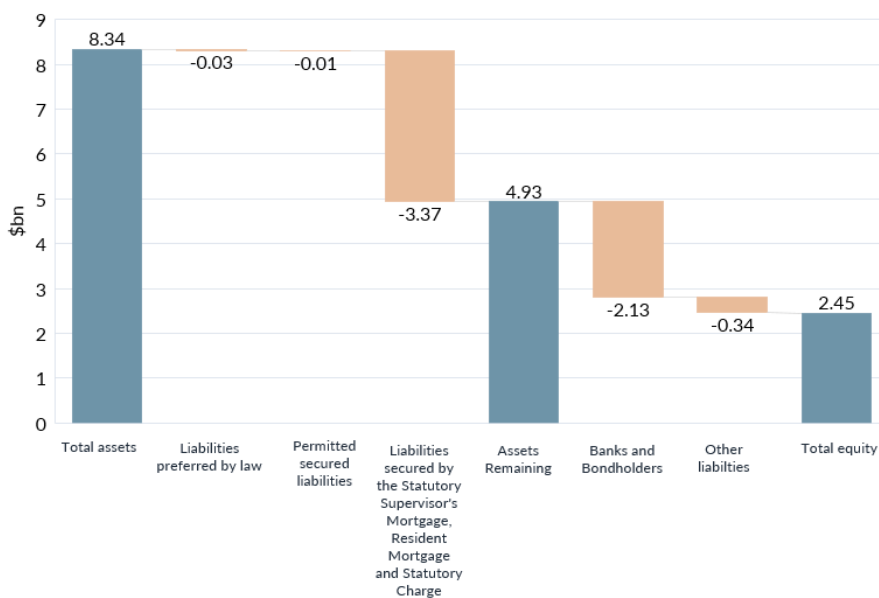


Source: Forsyth Barr analysis, Ryman PDS

Security

As at 30 September 2020, RYM had NZ\$8.34bn of assets and after deducting residents' loans, there is NZ\$4.93bn supporting RYM's debt.

Figure 7. Available as security (30 September 2020)



Source: Forsyth Barr analysis, assumes NZ\$150m of bonds issued

Covenant(s)

A feature of the bonds (and different from other bonds in the Aged Care sector) is its Debt to Equity covenant. RYM must ensure that the ratio of total liabilities to net tangible assets (NTA) is no greater than 1:1. As at 30 September 2020, this ratio was 0.81:1, which we estimate provides RYM with ~NZ\$450m of covenant headroom.

RYM is also subject to a number of financial covenants under its banking facility agreement, most notably an interest cover ratio of greater than 2.25x and an identical debt to equity ratio as bondholders. Financial covenants (if any) under any potential USPP transaction are unknown.

If there is a breach

If RYM breaches the debt to equity covenant then it must fix the issue within ~13 months of the breach, if this is not achieved then an Event of Default will occur.

Distribution stopper

Bondholders do not have the direct benefit of the distribution stopper if the debt to equity covenant is breached, however, RYM is not permitted to make a distribution under its Banking Facility if an Event of Default occurs from a breach of the debt to equity covenant.

Senior but subordinated

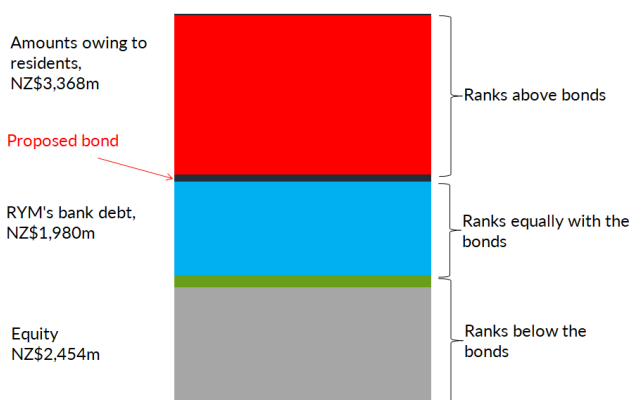
As previously stated the structure is similar to bonds offered from SUM, MET and OCA. Whilst the bonds are unsubordinated (i.e. Senior), both banks, bondholders and USPP debt all rank behind the amounts owing to the residents. As at 30 September 2020, the total amount ranking in priority of the bonds, including resident loans, was NZ\$3,411m.

RYM's outstanding debt continues to rise, increasing by +29% in the 12 months to 31 March 2020 to NZ\$1,741m and by another NZ\$388m in the six months to 30 September 2020. RYM does have a small amount of debt in AUD to support its Australian expansion operations.

Overall, RYM's New Zealand debt has an average interest rate of 3.13% (3.95% in FY19).

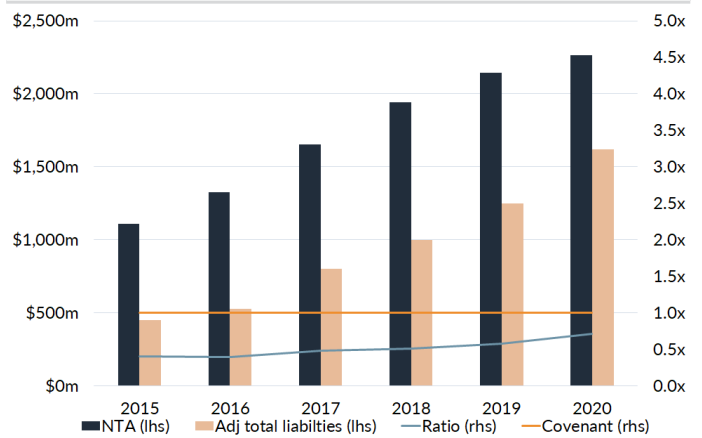
The bonds rank equally with RYM's bank debt.

Figure 8. Ranking of the bonds



Source: Forsyth Barr analysis

Figure 9. Debt to equity covenant



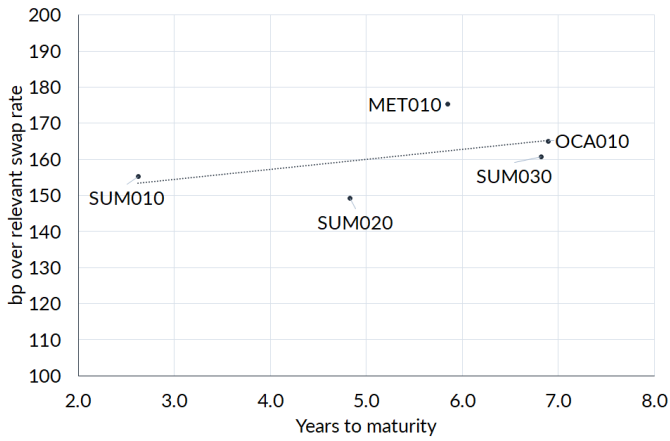
Source: Forsyth Barr analysis

Pricing

Aged Care curve forming

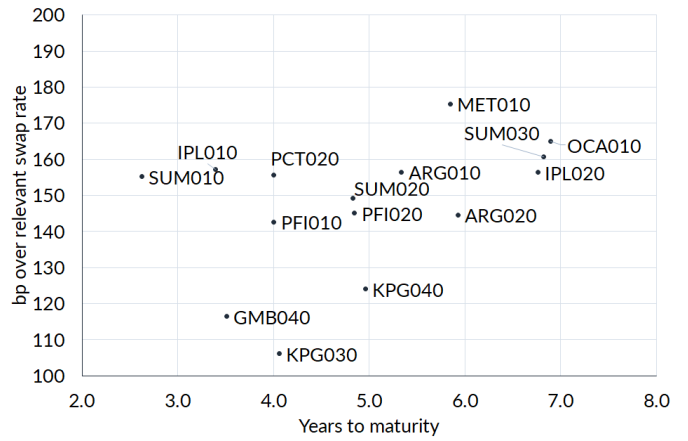
There have been two bonds issued in the Aged Care sector recently with SUM issuing NZ\$150m of seven year bonds in September at an issue spread of 2.00%. This transaction was followed by an NZ\$125m issue from OCA at a similar credit spread.

Figure 10. Aged Care secondary market credit spreads



Source: Forsyth Barr analysis, Refinitiv

Figure 11. Aged care/Property secondary market credit spreads



Source: Forsyth Barr analysis, Refinitiv

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