

# Ryman Healthcare

NEUTRAL

## 1H20 Preview — Melbourne Momentum

We expect Ryman Healthcare (RYM) to report a strong result in a low growth reporting season on 21 November, with EPS growth of +12%. We expect underlying demand metrics to remain solid and evidence of building momentum in Melbourne. An update on key near-term NZ projects such as William Sanders, Murray Halberg and Lincoln Road in Auckland, and Karori in Wellington will be of interest. NEUTRAL.

### Key things to look for in the result:

- **Business of retirement:** We expect RYM to deliver underlying 1H20 EPS growth of +11.6%, slightly below our full year forecast growth rate given the timing of new stock delivery being weighted to the 2H. The key driver will be solid growth in realised sales gains, both new sales and resales. We expect a lift in volumes and relatively stable margins/pricing. While debt is large and expected to grow, given the development activity underway, we remain confident in RYM's ability to recycle development capital.
- **Demand metrics intact:** We expect sector leading aged care occupancy and DHB certification levels to be maintained. In terms of the retirement operation, we also expect demand indicators such as waiting lists, presales activity and resales inventory to continue to indicate a robust demand profile.
- **Development progress:** RYM typically limits its development and site acquisition news to the market between its result briefings, so progress reports at its key Melbourne and NZ sites in terms of consenting, phasing and pre-sales is of particular interest, as well as any new sites acquired. Target build rate confirmation for FY20 will also be of interest given we expect a significant step up on the 500 units built in FY19.

### Investor briefing:

Conference call: 10am (NZ time) dial NZ 0800 667 018, AU 1 800 148 258, Direct Line +61 280 385 271 Passcode: 3543717.

Figure 1. Summary of 1H20 results (NZ\$m)

Year ending 31 March	1H19	1H20	Chg
Underlying profit	97.1	108.3	12%
Underlying EBITDA	117.0	132.7	13%
Underlying EPS (cps)	19.4	21.7	12%
DPS (cps)	10.8	12.0	11%

Source: Forsyth Barr analysis

### Investment View

With the rapidly aging population there is increasing demand for retirement village accommodation and aged care, in particular RYM's hospital and dementia facilities. RYM remains very well positioned given its fully integrated villages, strong brand and track record. RYM is a leading NZ growth story while also having defensive qualities due to the strength of its franchise and its 'needs based' focus. Victoria is gaining momentum and RYM expects to have five villages open by the end of 2020. NEUTRAL.

NZX Code	RYM
Share price	NZ\$14.05
Target price	NZ\$12.70
Risk rating	Medium
Issued shares	500.0m
Market cap	NZ\$7,025m
Average daily turnover	450.2k (NZ\$5,454k)

### Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	227.0	258.9	299.0	338.8
EPS* (NZc)	45.4	51.8	59.8	67.8
EPS growth* (%)	11.5	14.0	15.5	13.3
DPS (NZc)	22.7	25.9	29.9	33.9
Imputation (%)	0	0	0	0

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	30.6	27.0	23.6	20.9
EV/EBIT	33.5	29.4	25.6	22.7
PE	30.9	27.1	23.5	20.7
Price / NTA	3.3	3.1	2.9	n/a
Cash dividend yield (%)	1.6	1.8	2.1	2.4
Gross dividend yield (%)	1.6	1.8	2.1	2.4

\*Historic and forecast numbers based on underlying profits

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Ryman Healthcare Ltd (RYM)		Priced as at 14 Nov 2019: NZ\$14.05					March year end				
<b>Forsyth Barr valuation</b>						<b>Valuation Ratios</b>					
Valuation methodology	DCF 30% base case & 70% Aust expansion					2018A	2019A	2020E	2021E	2022E	
						EV/EBITDA (x)	33.2	30.6	27.0	23.6	20.9
						EV/EBIT (x)	36.3	33.5	29.4	25.6	22.7
<b>12-month target price (NZ\$)*</b>	<b>12.70</b>	<b>Spot valuations (NZ\$)</b>				PE (x)	34.5	30.9	27.1	23.5	20.7
Expected share price return	-9.6%	1. DCF		11.70		Price/NTA (x)	3.7	3.3	3.1	2.9	2.7
Net dividend yield	2.0%	2. n/a		n/a		Free cash flow yield (%)	-1.8	-2.2	0.6	1.5	2.7
Estimated 12-month return	-7.6%	3. n/a		n/a		Net dividend yield (%)	1.5	1.6	1.8	2.1	2.4
						Gross dividend yield (%)	1.5	1.6	1.8	2.1	2.4
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					
Risk free rate	2.75%	Total firm value			7,626	Imputation (%)	0	0	0	0	0
Equity beta	0.81	(Net debt)/cash			(1,324)	Pay-out ratio (%)	50	50	50	50	50
WACC	8.0%	Value of equity			6,302	<b>Capital Structure</b>					
Terminal growth	1.5%	Shares (m)			500	2018A	2019A	2020E	2021E	2022E	
						Interest cover EBIT (x)	14.1	13.8	12.2	13.2	14.6
						Interest cover EBITDA (x)	15.4	15.0	13.2	14.3	15.8
<b>Profit and Loss Account (NZ\$m)</b>						2018A	2019A	2020E	2021E	2022E	
Sales revenue	508	572	641	708	781	Net debt/ND+E (%)	35.3	37.9	38.2	37.7	36.1
<b>Normalised EBITDA</b>	<b>240</b>	<b>269</b>	<b>311</b>	<b>358</b>	<b>404</b>	Net debt/EBITDA (x)	4.4	4.9	4.6	4.1	3.6
Depreciation and amortisation	(21)	(23)	(26)	(29)	(32)	<b>Key Ratios</b>					
<b>Normalised EBIT</b>	<b>220</b>	<b>245</b>	<b>286</b>	<b>330</b>	<b>372</b>	2018A	2019A	2020E	2021E	2022E	
Net interest	(16)	(18)	(25)	(26)	(26)	Return on assets (%)	3.9	3.8	4.1	4.2	4.2
Associate income	-	-	-	-	-	Return on equity (%)	10.5	10.5	11.3	12.3	13.1
Tax	(1)	(3)	(2)	(5)	(7)	Return on funds employed (%)	7.8	7.3	7.7	8.3	9.0
Minority interests	-	-	-	-	-	EBITDA margin (%)	47.3	46.9	48.6	50.6	51.8
<b>Normalised NPAT</b>	<b>204</b>	<b>227</b>	<b>259</b>	<b>299</b>	<b>339</b>	EBIT margin (%)	43.2	42.9	44.6	46.6	47.7
Abnormals/other	185	99	-	-	-	Capex to sales (%)	94.0	96.5	80.9	87.5	82.0
<b>Reported NPAT</b>	<b>388</b>	<b>326</b>	<b>259</b>	<b>299</b>	<b>339</b>	Capex to depreciation (%)	2,322	2,389	2,024	2,165	2,004
Normalised EPS (cps)	40.7	45.4	51.8	59.8	67.8	<b>Operating Performance</b>					
DPS (cps)	20.4	22.7	25.9	29.9	33.9	2018A	2019A	2020E	2021E	2022E	
<b>Growth Rates</b>						<b>Revenue (NZ\$m)</b>					
2018A	2019A	2020E	2021E	2022E		Care fees	270	302	322	342	368
Revenue (%)	18.5	12.6	11.9	10.5	10.3	Management fees	70	79	90	111	137
EBITDA (%)	18.1	11.8	15.9	15.2	12.8	Other	2	1	1	1	1
EBIT (%)	16.5	11.7	16.4	15.5	12.9	<b>Fair value m'tment in Investment Property (NZ\$m)</b>					
Normalised NPAT (%)	14.1	11.5	14.0	15.5	13.3	Realised	166	190	228	255	275
Normalised EPS (%)	14.1	11.5	14.0	15.5	13.3	Unrealised	-	-	-	-	-
DPS (%)	14.4	11.3	14.0	15.5	13.3	<b>Total revenue</b>	<b>508</b>	<b>572</b>	<b>641</b>	<b>708</b>	<b>781</b>
<b>Cash Flow (NZ\$m)</b>						<b>Key Drivers</b>					
2018A	2019A	2020E	2021E	2022E		Sales - new NZ units	416	284	440	495	495
<b>EBITDA</b>	<b>240</b>	<b>269</b>	<b>311</b>	<b>358</b>	<b>404</b>	Sales - new Australian units	42	157	120	270	360
Working capital change	123	151	274	395	456	Sales - total new units	458	441	560	765	855
Interest & tax paid	(14)	(22)	(27)	(31)	(34)	Unit price - new sales (NZ\$000s)	671	702	723	730	745
Other	-	-	-	-	-	Ave new unit price inflation (%)	52.9	4.7	3.0	1.0	2.0
<b>Operating cash flow</b>	<b>349</b>	<b>398</b>	<b>559</b>	<b>723</b>	<b>826</b>	Sales - resold units	825	824	919	994	1,087
Capital expenditure	(478)	(552)	(519)	(620)	(640)	Unit price - resales (NZ\$000s)	503	507	517	527	538
(Acquisitions)/divestments	-	-	-	-	-	Ave resold unit price inflation (%)	15.9	0.8	2.0	2.0	2.0
Other	(1)	(2)	-	-	-	Gross development margin (%)	19.2	29.9	27.6	24.0	23.0
<b>Funding available/(required)</b>	<b>(130)</b>	<b>(157)</b>	<b>40</b>	<b>103</b>	<b>186</b>	Gross resales margin (%)	25.9	24.9	24.5	23.0	22.0
Dividends paid	(95)	(109)	(137)	(157)	(176)	<b>New units</b>					
Equity raised/(returned)	-	-	-	-	-	NZ	404	299	550	550	550
<b>Increase/(decrease) in net debt</b>	<b>227</b>	<b>270</b>	<b>97</b>	<b>54</b>	<b>(10)</b>	Australia	42	165	150	300	400
<b>Balance Sheet (NZ\$m)</b>						2018A	2019A	2020E	2021E	2022E	
Working capital	265	226	252	278	306	Total	446	464	700	850	950
Fixed assets	5,413	6,271	6,992	7,837	8,720	<b>New beds</b>					
Intangibles	21	28	28	28	28	NZ	86	154	112	120	120
Other assets	-	-	-	-	-	Australia	-	139	-	120	120
<b>Total funds employed</b>	<b>5,699</b>	<b>6,525</b>	<b>7,272</b>	<b>8,143</b>	<b>9,054</b>	Total	86	293	112	192	240
Net debt/(cash)	1,060	1,324	1,421	1,475	1,465	<b>Total portfolio</b>					
Other non current liabilities	2,698	3,030	3,552	4,231	4,997	2018A	2019A	2020E	2021E	2022E	
Shareholder's funds	1,941	2,170	2,299	2,437	2,593	Apartments/units	6,414	6,878	7,578	8,428	9,378
Minority interests	-	-	-	-	-	Beds	3,367	3,660	3,772	3,964	4,204
<b>Total funding sources</b>	<b>5,699</b>	<b>6,525</b>	<b>7,272</b>	<b>8,143</b>	<b>9,054</b>						

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

## Investment summary

**Ryman Healthcare (RYM) is leveraged to the rapidly aging population in NZ and Victoria with growing demand for retirement accommodation and aged care. RYM's strong brand, fully integrated villages and care expertise provide a needs-based defensive customer base. It maximises development returns through its in-house expertise and has a long-run market leading EPS growth track record since 1999.**

### Business quality

- **A market leader:** Barriers to entry for retirement village operators include care expertise, brand, scale, and access to capital. RYM has all of these.
- **An integrated model:** RYM is the only nationwide operator of integrated retirement villages with a full continuum of care that includes dementia services.
- **Opportunity in Australia:** Entry into the AU market provides significant long-term earnings upside.
- **Defensive qualities:** RYM maintained a strong balance sheet, continued to build new units, and grew earnings through the global financial crisis.

### Earnings and cash flow outlook

- **Underlying EPS growth target of around +15%:** RYM continues to generate strong EPS growth through the expansion of the business and growing recurring earnings streams via strong management execution.
- **Recycling capital:** The occupational right agreement (ORA) structure allows RYM to self-fund development and recycle capital.

### Company description

RYM was founded in 1984 and listed on the NZX in 1999. It is now the largest owner and developer of integrated retirement villages in NZ. It has a nationwide portfolio of 34 villages in NZ and two in Australia, with all villages offering a continuum of care. The company is an industry leader in aged residential care with a high occupancy rate of 97%. RYM has a significant development pipeline of over 7,000 units and beds (at March 2019) with 30% and 40% of this weighted to Auckland and Melbourne respectively. RYM is targeting to lift its build rate 1,600 units and beds by around FY23.

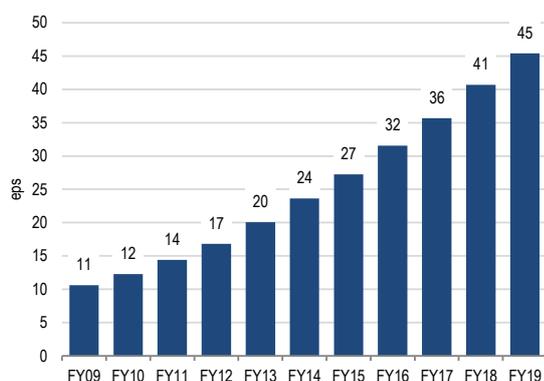
### Financial structure

- **Balance sheet:** Gearing has increased in recent years as RYM has lifted its build rate, expanded into Australia and invested in higher priced metropolitan land, however, gearing is essentially project related and manageable. RYM is looking at a potential corporate bond.
- **Dividends:** RYM has had a long-running 50% dividend pay-out rate and as a result dividend growth has tracked the earnings growth. RYM is a market leader in terms of consistently growing its dividends for 20 years.

### Risks factors

- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** Any sizable downturn in the current buoyant housing market conditions poses a threat to sales volumes and pricing.

Figure 2. RYM underlying eps trajectory



Source: Forsyth Barr analysis, Company Reports

Figure 3. RYM portfolio as at 31 March 2019



Source: Forsyth Barr analysis, Company Reports

**Figure 4. Substantial Shareholders**

Shareholder	Latest Holding
Geoffrey A Cumming	10.2%
Hickman Family	7.2%

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

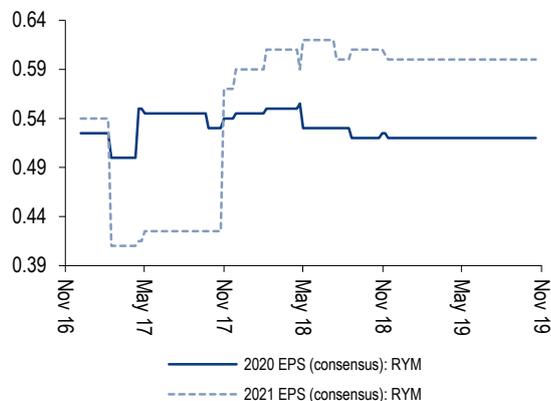
**Figure 5. International Compco's**

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
<b>Ryman Healthcare</b>	<b>RYM NZ</b>	<b>NZ\$14.05</b>	<b>NZ\$7,025</b>	<b>27.1x</b>	<b>23.5x</b>	<b>26.8x</b>	<b>23.3x</b>	<b>29.2x</b>	<b>25.3x</b>	<b>2.1%</b>
Metlifecare *	MET NZ	NZ\$5.14	NZ\$1,096	12.1x	11.5x	13.9x	13.1x	14.8x	14.0x	2.2%
Summerset Group *	SUM NZ	NZ\$7.21	NZ\$1,635	15.4x	13.4x	16.5x	14.4x	17.5x	15.3x	2.2%
Oceania Healthcare *	OCA NZ	NZ\$1.05	NZ\$640	11.4x	10.5x	12.5x	11.6x	14.7x	13.6x	5.2%
Arvida Group Limited *	ARV NZ	NZ\$1.56	NZ\$845	14.4x	12.7x	15.0x	12.2x	16.5x	13.4x	4.3%
<b>Compco Average:</b>				<b>13.3x</b>	<b>12.0x</b>	<b>14.5x</b>	<b>12.8x</b>	<b>15.9x</b>	<b>14.1x</b>	<b>3.5%</b>
<b>RYM Relative:</b>				<b>+104%</b>	<b>+95%</b>	<b>+85%</b>	<b>+81%</b>	<b>+84%</b>	<b>+80%</b>	<b>-39%</b>

EV = Current Market Cap + Actual Net Debt

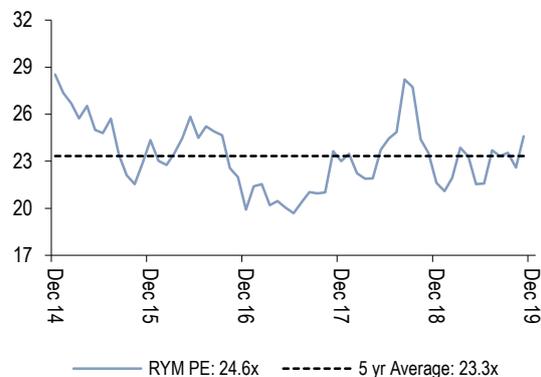
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RYM) companies fiscal year end

**Figure 6. Consensus EPS Momentum**



Source: Forsyth Barr analysis, Bloomberg

**Figure 7. 12 Month Forward PE**



Source: Forsyth Barr analysis

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