# Ryman Healthcare

**NEUTRAL**

## Investor Day — Victoria proving Victorious

**Ryman Healthcare (RYM) provided investors with an encouraging update on its building presence in the Victorian market and we have lifted our medium to longer term growth assumptions slightly in terms of sales pricing and margins. We continue to expect RYM will hit a sustainable build rate of two villages per annum in FY23. NEUTRAL.**

### What's changed?

- **Earnings:** FY22 up +3%
- **Target Price:** Lifted from NZ$14.00 to NZ$15.70 after a lift in our DCF valuation due to stronger Melbourne growth assumptions in FY22–FY26
- **Rating:** Remains NEUTRAL

### Presence and profile

RYM now has around 50 staff in Melbourne, with another 50 in Auckland and 300 in Christchurch (up from around 50 in six years). We expect that once RYM is building sustainably in Victoria, at two villages per annum (we estimate ~8 sites on the go at various stages), RYM will look to expand to a new state (our pick remains NSW) and/or lift the Melbourne build rate to three villages per year. RYM has six villages and two development sites in Christchurch, which has a population of less than 400,000 people; Melbourne has 5 million people, indicating the massive development upside for RYM.

RYM remains very well placed from a demand, regulatory and staff attraction/retention perspective with its unique, fully integrated offering, building profile and reputation, plus new facilities.

### Progress and presales

RYM remains on track to have five villages open by the end of 2020 and we expect a significant lift in the Victorian build rate over FY21–23. The next three villages we expect to open are Burwood East, Highton and Aberfeldie. RYM continues to get access to a wider mix of sites in terms of geographic location and style of development. As its market presence lifts, combined with a larger in-house team and valuable consenting experience, momentum is lifting.

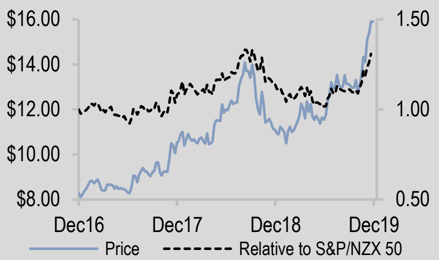
RYM noted that presales continue to be strong and at record levels, with 40 units pre-sold in a month at the first stage of Burwood East and 20 units at its Highton village in Geelong. This sort of preselling is not only record speed for RYM but is well ahead of what anyone else achieves in the sector in NZ and Australia.

### 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$15.90 |
| Target price | NZ$15.70 |
| Risk rating | Medium |
| Issued shares | 500.0m |
| Market cap | NZ$7,950m |
| Average daily turnover | 456.9k (NZ$5,710k) |

**Share Price Performance**




| Financials: March | 19A | 20E | 21E | 22E |
|---|---|---|---|---|
| NPAT* (NZ$m) | 227.0 | 261.0 | 306.1 | 356.6 |
| EPS* (NZc) | 45.4 | 52.2 | 61.2 | 71.3 |
| EPS growth* (%) | 11.5 | 15.0 | 17.3 | 16.5 |
| DPS (NZc) | 22.7 | 26.1 | 30.6 | 35.7 |
| Imputation (%) | 0 | 0 | 0 | 0 |

| Valuation (x) | 19A | 20E | 21E | 22E |
|---|---|---|---|---|
| EV/EBITDA | 34.0 | 30.0 | 26.1 | 22.5 |
| EV/EBIT | 37.3 | 33.0 | 28.3 | 24.4 |
| PE | 35.0 | 30.5 | 26.0 | 22.3 |
| Price / NTA | 3.7 | 3.5 | 3.3 | n/a |
| Cash dividend yield (%) | 1.4 | 1.6 | 1.9 | 2.2 |
| Gross dividend yield (%) | 1.4 | 1.6 | 1.9 | 2.2 |

*Historic and forecast numbers based on underlying profits

**Jeremy Simpson, CFA**
*jeremy.simpson@forsythbarr.co.nz*
+64 9 368 0022

| Ryman Healthcare Ltd (RYM) | Priced as at 17 Dec 2019: NZ$15.90 | | | March year end |
|---|---|---|---|---|

**Forsyth Barr valuation**

| | | | |
|---|---|---|---|
| Valuation methodology | DCF 30% base case & 70% Aust expansion | | |
| **12-month target price (NZ$)*** | **15.70** | **Spot valuations (NZ$)** | |
| Expected share price return | -1.3% | 1. DCF | 14.50 |
| Net dividend yield | 1.9% | 2. n/a | n/a |
| Estimated 12-month return | 0.6% | 3. n/a | n/a |
| **Key WACC assumptions** | | **DCF valuation summary (NZ$m)** | |
| Risk free rate | 2.75% | Total firm value | 8,631 |
| Equity beta | 0.81 | (Net debt)/cash | (1,324) |
| WACC | 8.0% | Value of equity | 7,307 |
| Terminal growth | 1.5% | Shares (m) | 500 |

| **Profit and Loss Account (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Sales revenue | 508 | 572 | 651 | 725 | 809 |
| **Normalised EBITDA** | **240** | **269** | **311** | **360** | **417** |
| Depreciation and amortisation | (21) | (23) | (28) | (29) | (32) |
| **Normalised EBIT** | **220** | **245** | **282** | **332** | **385** |
| Net interest | (16) | (18) | (19) | (21) | (21) |
| Associate income | - | - | - | - | - |
| Tax | (1) | (3) | (2) | (5) | (8) |
| Minority interests | - | - | - | - | - |
| **Normalised NPAT** | **204** | **227** | **261** | **306** | **357** |
| Abnormals/other | 185 | 99 | - | - | - |
| **Reported NPAT** | **388** | **326** | **261** | **306** | **357** |
| Normalised EPS (cps) | 40.7 | 45.4 | 52.2 | 61.2 | 71.3 |
| DPS (cps) | 20.4 | 22.7 | 26.1 | 30.6 | 35.7 |

| **Growth Rates** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Revenue (%) | 18.5 | 12.6 | 13.7 | 11.4 | 11.6 |
| EBITDA (%) | 18.1 | 11.8 | 15.7 | 15.9 | 15.8 |
| EBIT (%) | 16.5 | 11.7 | 15.1 | 17.4 | 16.1 |
| Normalised NPAT (%) | 14.1 | 11.5 | 15.0 | 17.3 | 16.5 |
| Normalised EPS (%) | 14.1 | 11.5 | 15.0 | 17.3 | 16.5 |
| DPS (%) | 14.4 | 11.3 | 15.0 | 17.3 | 16.5 |

| **Cash Flow (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| **EBITDA** | **240** | **269** | **311** | **360** | **417** |
| Working capital change | 123 | 151 | 270 | 393 | 451 |
| Interest & tax paid | (14) | (22) | (21) | (25) | (28) |
| Other | - | - | - | - | - |
| **Operating cash flow** | **349** | **398** | **560** | **728** | **840** |
| Capital expenditure | (478) | (552) | (536) | (620) | (640) |
| (Acquisitions)/divestments | - | - | - | - | - |
| Other | (1) | (2) | - | - | - |
| **Funding available/(required)** | **(130)** | **(157)** | **24** | **108** | **200** |
| Dividends paid | (95) | (109) | (138) | (161) | (185) |
| Equity raised/(returned) | - | - | - | - | - |
| **Increase/(decrease) in net debt** | **227** | **270** | **114** | **53** | **(15)** |

| **Balance Sheet (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Working capital | 265 | 226 | 256 | 284 | 316 |
| Fixed assets | 5,413 | 6,271 | 7,005 | 7,852 | 8,747 |
| Intangibles | 21 | 28 | 28 | 28 | 28 |
| Other assets | - | - | - | - | - |
| **Total funds employed** | **5,699** | **6,525** | **7,289** | **8,164** | **9,091** |
| Net debt/(cash) | 1,060 | 1,324 | 1,438 | 1,491 | 1,476 |
| Other non current liabilities | 2,698 | 3,030 | 3,581 | 4,261 | 5,043 |
| Shareholder's funds | 1,941 | 2,170 | 2,270 | 2,412 | 2,572 |
| Minority interests | - | - | - | - | - |
| **Total funding sources** | **5,699** | **6,525** | **7,289** | **8,164** | **9,091** |

| **Valuation Ratios** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| EV/EBITDA (x) | 37.0 | 34.0 | 30.0 | 26.1 | 22.5 |
| EV/EBIT (x) | 40.5 | 37.3 | 33.0 | 28.3 | 24.4 |
| PE (x) | 39.1 | 35.0 | 30.5 | 26.0 | 22.3 |
| Price/NTA (x) | 4.1 | 3.7 | 3.5 | 3.3 | 3.1 |
| Free cash flow yield (%) | -1.6 | -1.9 | 0.3 | 1.4 | 2.5 |
| Net dividend yield (%) | 1.3 | 1.4 | 1.6 | 1.9 | 2.2 |
| Gross dividend yield (%) | 1.3 | 1.4 | 1.6 | 1.9 | 2.2 |
| Imputation (%) | 0 | 0 | 0 | 0 | 0 |
| Pay-out ratio (%) | 50 | 50 | 50 | 50 | 50 |

| **Capital Structure** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Interest cover EBIT (x) | 14.1 | 13.8 | 15.4 | 16.9 | 19.2 |
| Interest cover EBITDA (x) | 15.4 | 15.0 | 16.9 | 18.3 | 20.7 |
| Net debt/ND+E (%) | 35.3 | 37.9 | 38.8 | 38.2 | 36.5 |
| Net debt/EBITDA (x) | 4.4 | 4.9 | 4.6 | 4.1 | 3.5 |

| **Key Ratios** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Return on assets (%) | 3.9 | 3.8 | 4.0 | 4.2 | 4.3 |
| Return on equity (%) | 10.5 | 10.5 | 11.5 | 12.7 | 13.9 |
| Return on funds employed (%) | 7.8 | 7.3 | 7.6 | 8.4 | 9.3 |
| EBITDA margin (%) | 47.3 | 46.9 | 47.8 | 49.7 | 51.5 |
| EBIT margin (%) | 43.2 | 42.9 | 43.4 | 45.7 | 47.6 |
| Capex to sales (%) | 94.0 | 96.5 | 82.3 | 85.5 | 79.1 |
| Capex to depreciation (%) | 2,322 | 2,389 | 1,888 | 2,161 | 1,999 |

| **Operating Performance** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| **Revenue (NZ$m)** | | | | | |
| Care fees | 270 | 302 | 332 | 357 | 384 |
| Management fees | 70 | 79 | 90 | 112 | 138 |
| Other | 2 | 1 | 1 | 1 | 1 |
| **Fair value m'ment in Investment Property (NZ$m)** | | | | | |
| Realised | 166 | 190 | 227 | 256 | 287 |
| Unrealised | - | - | - | - | - |
| **Total revenue** | **508** | **572** | **651** | **725** | **809** |
| **Key Drivers** | | | | | |
| Sales - new NZ units | 416 | 284 | 468 | 495 | 495 |
| Sales - new Australian units | 42 | 157 | 128 | 270 | 360 |
| Sales - total new units | 458 | 441 | 595 | 765 | 855 |
| Unit price - new sales (NZ$000s) | 671 | 702 | 723 | 730 | 752 |
| Ave new unit price inflation (%) | 52.9 | 4.7 | 3.0 | 1.0 | 3.0 |
| Sales - resold units | 825 | 824 | 919 | 994 | 1,100 |
| Unit price - resales (NZ$000s) | 503 | 507 | 522 | 532 | 548 |
| Ave resold unit price inflation (%) | 15.9 | 0.8 | 3.0 | 2.0 | 3.0 |
| Gross development margin (%) | 19.2 | 29.9 | 25.0 | 24.0 | 23.0 |
| Gross resales margin (%) | 25.9 | 24.9 | 25.0 | 23.0 | 23.0 |
| **New units** | | | | | |
| NZ | 404 | 299 | 550 | 550 | 550 |
| Australia | 42 | 165 | 150 | 300 | 400 |
| Total | 446 | 464 | 700 | 850 | 950 |
| **New beds** | | | | | |
| NZ | 86 | 154 | 200 | 120 | 120 |
| Australia | - | 139 | - | 120 | 120 |
| Total | 86 | 293 | 200 | 192 | 240 |
| **Total portfolio** | | | | | |
| Apartments/units | 6,414 | 6,878 | 7,578 | 8,428 | 9,378 |
| Beds | 3,367 | 3,660 | 3,860 | 4,052 | 4,292 |

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

## Forecast and target price changes

We have taken a more positive view on Melbourne and lifted medium-term (FY22–FY26) assumptions for resales and new sales pricing, however, long run average pricing increases remain below +3% pa. We have slightly lifted development and resales margins. We have not changed resales assumptions or the rate of new build. We continue to assume RYM hits a two villages pa build rate in FY23 and that it hits a total build rate of 1,500 units/beds from FY23, slightly below RYM's target of 1,600 pa.

Our DCF valuation has lifted from NZ$13 to NZ$14.50 and our target price from NZ$14 to NZ$15.70. With the strong recent share price move, we remain with a NEUTRAL rating.

**Figure 1. Forecast changes (NZ$m)**

| Year ending 31 March $m | Old | New | Chg % |
|---|---|---|---|
| Underlying Revenue FY20 | 650.6 | 650.6 | 0.0% |
| Underlying Revenue FY21 | 724.9 | 724.9 | 0.0% |
| Underlying Revenue FY22 | 798.6 | 809.2 | 1.3% |
| Underlying EBITDA FY20 | 310.8 | 310.8 | 0.0% |
| Underlying EBITDA FY21 | 360.2 | 360.2 | 0.0% |
| Underlying EBITDA FY22 | 406.3 | 417.0 | 2.6% |
| Normalised Profit FY20 | 261.0 | 261.0 | 0.0% |
| Normalised Profit FY21 | 306.1 | 306.1 | 0.0% |
| Normalised Profit FY22 | 346.2 | 356.6 | 3.0% |
| DPS cents FY20 | 26.1 | 26.1 | 0.0% |
| DPS cents FY21 | 30.6 | 30.6 | 0.0% |
| DPS cents FY22 | 34.6 | 35.7 | 3.0% |
| Price Target | $14.00 | $15.70 | 12.1% |

Source: Forsyth Barr analysis

**Figure 2. Changes to key drivers**

| Year ending 31 March | Old | New | Chg % |
|---|---|---|---|
| Gross devel margin % FY20 | 25.0 | 25.0 | 0.0% |
| Gross devel margin % FY21 | 24.0 | 24.0 | 0.0% |
| Gross devel margin % FY22 | 23.0 | 23.0 | 0.0% |
| New units built FY20 | 700 | 700.0 | 0.0% |
| New units built FY21 | 850 | 850.0 | 0.0% |
| New units built FY22 | 950 | 950.0 | 0.0% |
| Sales - new units FY20 | 595 | 595 | 0.0% |
| Sales - new units FY21 | 765 | 765 | 0.0% |
| Sales - new units FY22 | 855 | 855 | 0.0% |
| Ave price - new sales FY20 (NZ$000's) | 723 | 723 | 0.0% |
| Ave price - new sales FY21 (NZ$000's) | 730 | 730 | 0.0% |
| Ave price - new sales FY22 (NZ$000's) | 745 | 752 | 1.0% |
| Sales - resold units FY20 | 919 | 919 | 0.0% |
| Sales - resold units FY21 | 994 | 994 | 0.0% |
| Sales - resold units FY22 | 1087 | 1100 | 1.3% |
| Ave price - resold sales FY19 (NZ$000's) | 522 | 522 | 0.0% |
| Ave price - resold sales FY20 (NZ$000's) | 532 | 532 | 0.0% |
| Ave price - resold sales FY21 (NZ$000's) | 542.8 | 548 | 1.0% |
| Gross resales margin % FY20 | 25.0 | 25.0 | 0.0% |
| Gross resales margin % FY21 | 23.0 | 23.0 | 0.0% |
| Gross resales margin % FY22 | 22.0 | 23.0 | 4.5% |

Source: Forsyth Barr analysis

# 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.

## 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.

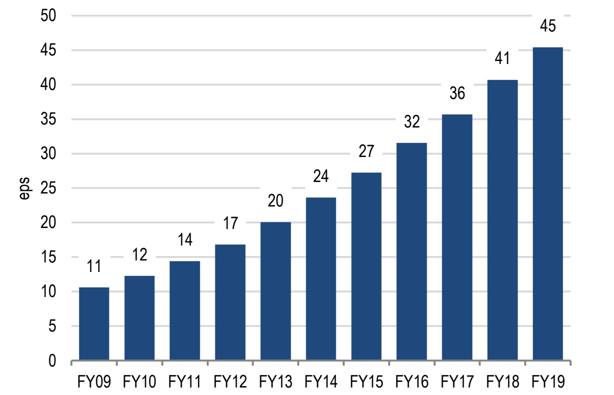
## Risks factors

- **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.

**Company description**

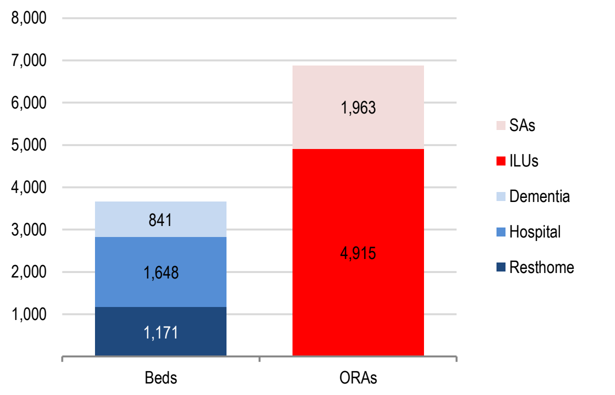
RYM was founded in 1984 and listed on the NZX in 1999. It is now the largest owner and developer of integrated retirement villages in NZ. It has a nationwide portfolio of 34 villages in NZ and two in Australia, with all villages offering a continuum of care. The company is an industry leader in aged residential care with a high occupancy rate of 97%. RYM has a significant development pipeline of over 7,000 units and beds (at September 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.

**Figure 3. RYM underlying eps trajectory**




Source: Forsyth Barr analysis, Company Reports

**Figure 4. RYM portfolio as at 31 March 2019**




Source: Forsyth Barr analysis, Company Reports

**Figure 5. Substantial Shareholders**

| Shareholder | Latest Holding |
|---|---|
| Geoffrey A Cumming | 10.2% |
| Hickman Family | 7.0% |

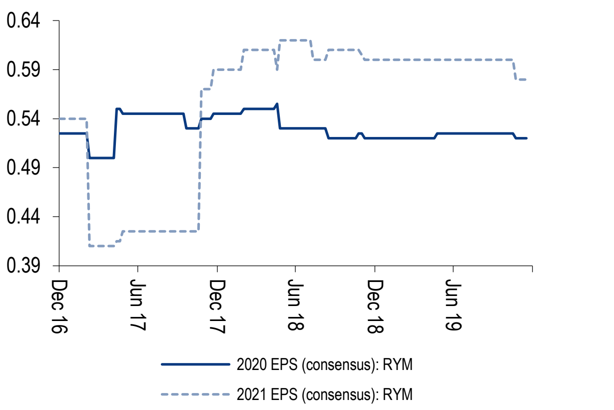
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 6. International Compcos**

| Company | Code | Price | Mkt Cap | PE | | EV/EBITDA | | EV/EBIT | | Cash D/Yld |
|---|---|---|---|---|---|---|---|---|---|---|
| *(metrics re-weighted to reflect RYM's balance date - March)* | | | (m) | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | 2021E |
| **Ryman Healthcare** | **RYM NZ** | **NZ$15.90** | **NZ$7,950** | **30.5x** | **26.0x** | **29.8x** | **25.7x** | **32.8x** | **28.0x** | **1.9%** |
| Metlifecare * | MET NZ | NZ$6.02 | NZ$1,284 | 14.2x | 13.4x | 15.8x | 14.9x | 16.8x | 15.9x | 1.9% |
| Summerset Group * | SUM NZ | NZ$7.70 | NZ$1,747 | 16.5x | 14.3x | 17.4x | 15.2x | 18.4x | 16.1x | 2.1% |
| Oceania Healthcare * | OCA NZ | NZ$1.11 | NZ$676 | 12.0x | 11.1x | 13.0x | 12.1x | 15.4x | 14.2x | 4.9% |
| Arvida Group Limited * | ARV NZ | NZ$1.71 | NZ$927 | 15.8x | 13.9x | 16.2x | 13.1x | 17.8x | 14.4x | 4.0% |
| | | | **Compco Average:** | **14.6x** | **13.2x** | **15.6x** | **13.8x** | **17.1x** | **15.1x** | **3.2%** |
| *EV = Current Market Cap + Actual Net Debt* | | | **RYM Relative:** | **+108%** | **+97%** | **+91%** | **+86%** | **+92%** | **+85%** | **-40%** |

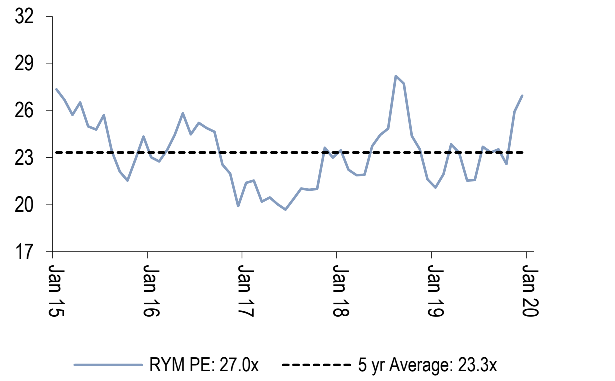
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RYM) companies fiscal year end

**Figure 7. Consensus EPS Momentum**




Source: Forsyth Barr analysis, Bloomberg

**Figure 8. 12 Month Forward PE**




Source: Forsyth Barr analysis