

# 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](mailto: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				
<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)	37.0	34.0	30.0	26.1	22.5
						EV/EBIT (x)	40.5	37.3	33.0	28.3	24.4
<b>12-month target price (NZ\$)*</b>	<b>15.70</b>	<b>Spot valuations (NZ\$)</b>				PE (x)	39.1	35.0	30.5	26.0	22.3
Expected share price return	-1.3%	1. DCF		14.50		Price/NTA (x)	4.1	3.7	3.5	3.3	3.1
Net dividend yield	1.9%	2. n/a		n/a		Free cash flow yield (%)	-1.6	-1.9	0.3	1.4	2.5
Estimated 12-month return	0.6%	3. n/a		n/a		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
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					
Risk free rate	2.75%	Total firm value			8,631	<b>Capital Structure</b>					
Equity beta	0.81	(Net debt)/cash			(1,324)	2018A	2019A	2020E	2021E	2022E	
WACC	8.0%	Value of equity			7,307	Interest cover EBIT (x)	14.1	13.8	15.4	16.9	19.2
Terminal growth	1.5%	Shares (m)			500	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
<b>Profit and Loss Account (NZ\$m)</b>						<b>Key Ratios</b>					
Sales revenue	508	572	651	725	809	Return on assets (%)	3.9	3.8	4.0	4.2	4.3
<b>Normalised EBITDA</b>	<b>240</b>	<b>269</b>	<b>311</b>	<b>360</b>	<b>417</b>	Return on equity (%)	10.5	10.5	11.5	12.7	13.9
Depreciation and amortisation	(21)	(23)	(28)	(29)	(32)	Return on funds employed (%)	7.8	7.3	7.6	8.4	9.3
<b>Normalised EBIT</b>	<b>220</b>	<b>245</b>	<b>282</b>	<b>332</b>	<b>385</b>	EBITDA margin (%)	47.3	46.9	47.8	49.7	51.5
Net interest	(16)	(18)	(19)	(21)	(21)	EBIT margin (%)	43.2	42.9	43.4	45.7	47.6
Associate income	-	-	-	-	-	Capex to sales (%)	94.0	96.5	82.3	85.5	79.1
Tax	(1)	(3)	(2)	(5)	(8)	Capex to depreciation (%)	2,322	2,389	1,888	2,161	1,999
Minority interests	-	-	-	-	-	<b>Operating Performance</b>					
<b>Normalised NPAT</b>	<b>204</b>	<b>227</b>	<b>261</b>	<b>306</b>	<b>357</b>	2018A	2019A	2020E	2021E	2022E	
Abnormals/other	185	99	-	-	-	<b>Revenue (NZ\$m)</b>					
<b>Reported NPAT</b>	<b>388</b>	<b>326</b>	<b>261</b>	<b>306</b>	<b>357</b>	Care fees	270	302	332	357	384
Normalised EPS (cps)	40.7	45.4	52.2	61.2	71.3	Management fees	70	79	90	112	138
DPS (cps)	20.4	22.7	26.1	30.6	35.7	Other	2	1	1	1	1
						<b>Fair value m'tment in Investment Property (NZ\$m)</b>					
						Realised	166	190	227	256	287
						Unrealised	-	-	-	-	-
						<b>Total revenue</b>	<b>508</b>	<b>572</b>	<b>651</b>	<b>725</b>	<b>809</b>
						<b>Key Drivers</b>					
						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
						<b>New units</b>					
						NZ	404	299	550	550	550
						Australia	42	165	150	300	400
						Total	446	464	700	850	950
						<b>New beds</b>					
						NZ	86	154	200	120	120
						Australia	-	139	-	120	120
						Total	86	293	200	192	240
						<b>Total portfolio</b>					
						Apartments/units	6,414	6,878	7,578	8,428	9,378
						Beds	3,367	3,660	3,860	4,052	4,292
						<b>Cash Flow (NZ\$m)</b>					
						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	-	-	-	-	-
						<b>Operating cash flow</b>	<b>349</b>	<b>398</b>	<b>560</b>	<b>728</b>	<b>840</b>
						Capital expenditure	(478)	(552)	(536)	(620)	(640)
						(Acquisitions)/divestments	-	-	-	-	-
						Other	(1)	(2)	-	-	-
						<b>Funding available/(required)</b>	<b>(130)</b>	<b>(157)</b>	<b>24</b>	<b>108</b>	<b>200</b>
						Dividends paid	(95)	(109)	(138)	(161)	(185)
						Equity raised/(returned)	-	-	-	-	-
						<b>Increase/(decrease) in net debt</b>	<b>227</b>	<b>270</b>	<b>114</b>	<b>53</b>	<b>(15)</b>
						<b>Balance Sheet (NZ\$m)</b>					
						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	-	-	-	-	-
						<b>Total funds employed</b>	<b>5,699</b>	<b>6,525</b>	<b>7,289</b>	<b>8,164</b>	<b>9,091</b>
						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	-	-	-	-	-
						<b>Total funding sources</b>	<b>5,699</b>	<b>6,525</b>	<b>7,289</b>	<b>8,164</b>	<b>9,091</b>

\* 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.

### 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.

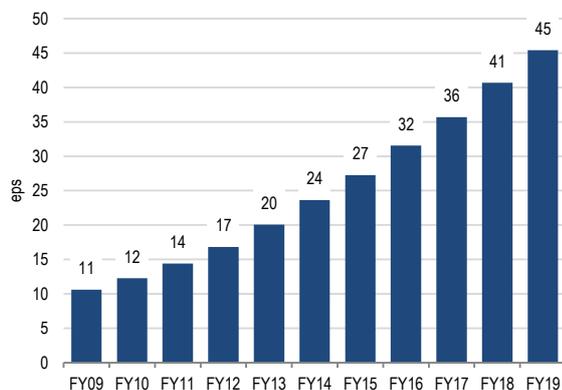
### Financial structure

- **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

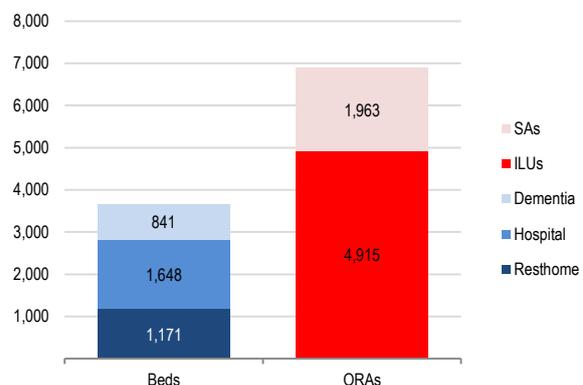
- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** Any sizable downturn in the current buoyant housing market conditions poses a threat to sales volumes and pricing.

Figure 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

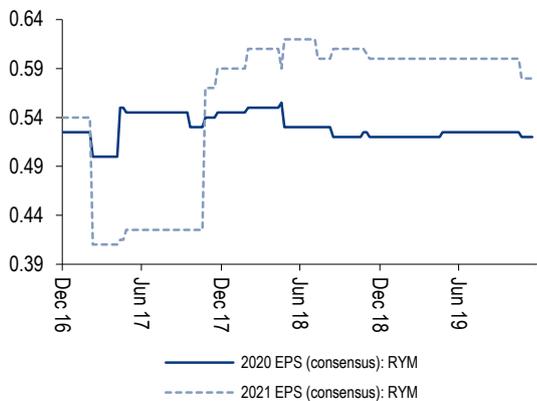
Figure 6. International Compco's

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
<i>(metrics re-weighted to reflect RYM's balance date - March)</i>										
			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
<b>Ryman Healthcare</b>	<b>RYM NZ</b>	<b>NZ\$15.90</b>	<b>NZ\$7,950</b>	<b>30.5x</b>	<b>26.0x</b>	<b>29.8x</b>	<b>25.7x</b>	<b>32.8x</b>	<b>28.0x</b>	<b>1.9%</b>
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%
<b>Compco Average:</b>				<b>14.6x</b>	<b>13.2x</b>	<b>15.6x</b>	<b>13.8x</b>	<b>17.1x</b>	<b>15.1x</b>	<b>3.2%</b>
<b>RYM Relative:</b>				<b>+108%</b>	<b>+97%</b>	<b>+91%</b>	<b>+86%</b>	<b>+92%</b>	<b>+85%</b>	<b>-40%</b>

EV = Current Market Cap + Actual Net Debt

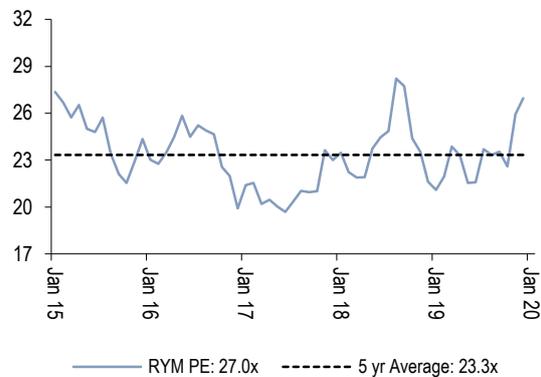
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RYM) companies fiscal year end

Figure 7. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge. **Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Forsyth Barr confirms no inducement has been accepted from the researched entity, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. **Analyst Disclosure Statement:** In preparing this publication the analyst(s) may or may not have a threshold interest in the financial products referred to in this publication. For these purposes a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the entity being researched. **Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction. **Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.