

Ryman Healthcare

FY20 Result Preview

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OUTPERFORM

Ryman Healthcare (RYM) will report its FY20 result on 12 June and we are forecasting steady EPS growth of +6.4%. Of interest will be the trading outlook and development rates in NZ/Victoria. We are confident about RYM's business model given its 'needs-based' focus. OUTPERFORM.

Figure 1. Summary of FY20E forecast (NZ\$m)

12 months ending 31 March	FY19	FY20	Chg
Underlying revenue	572.3	630.6	10.2%
Underlying profit	227.0	241.5	6.4%
Underlying EPS (cents)	45.4	48.3	6.4%
Underlying DPS (cents)	22.7	24.1	6.4%

Source: Forsyth Barr analysis

NZX Code	RYM	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$13.80	NPAT* (NZ\$m)	227.0	241.5	155.6	236.3	EV/EBITDA	30.1	28.4	40.5	28.6
Target price	NZ\$13.80	EPS* (NZc)	45.4	48.3	31.1	47.3	EV/EBIT	33.0	31.5	46.7	31.8
Risk rating	Medium	EPS growth* (%)	11.5	6.4	-35.6	51.9	PE	30.4	28.6	44.4	29.2
Issued shares	500.0m	DPS (NZc)	22.7	24.1	15.6	23.6	Price / NTA	3.2	3.1	3.0	2.9
Market cap	NZ\$6,900m	Imputation (%)	0	0	0	0	Cash div yld (%)	1.6	1.7	1.1	1.7
Avg daily turnover	558.0k (NZ\$7,214k)	*Based on normalised profits					Gross div yld (%)	1.6	1.7	1.1	1.7

Conservative expectations in place – development outlook is of particular interest

Prior to COVID-19, RYM had underlying FY20 EPS guidance of +10% to +17%, with a strong 4Q expected after only +6% EPS growth in 1H. On 7 April we downgraded our FY20 forecast by -7.5% (underlying profit of NZ\$241.5m, up +6.4% on pcp) given the abrupt end to buoyant trading in March and a conservative view on the impact of the virus. While significant uncertainties remain, given what has transpired since then there is upside risk to our FY20 and FY21 forecasts. Comments on current trading, near-term outlook and development rates in NZ/Victoria are of interest.

Steady numbers – dividend intact

We are expecting underlying EBITDA growth of +8.3% driven by solid gains in both aged care revenues (increased bed numbers and higher funding and premiums) and management fees (portfolio expansion), as well as a sharp lift in new sales volumes offset by higher operating costs and lower development margins. We expect RYM to maintain its 50% dividend payout ratio and get a modest lift in NTA.

Investor briefing for 12 June

Webcast: 10am (NZ time) viewing at <https://edge.media-server.com/mmc/p/et2o6dsr>; or pre-register at: <https://s1.c-conf.com/DiamondPass/10006630-invite.html>

Ryman Healthcare Ltd (RYM)

Priced as at 09 Jun 2020 (NZ\$)

13.80
12-month target price (NZ\$)*
13.80

Expected share price return

0.0%

Net dividend yield

1.3%

Estimated 12-month return

1.3%

Spot valuations (NZ\$)

1. DCF

12.80

2. n/a

n/a

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.75%

Equity beta

0.81

WACC

8.0%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

7,933

(Net debt)/cash

(1,324)

Less: Capitalised operating leases

-

Value of equity

6,609

Profit and Loss Account (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Sales revenue	508.3	572.3	630.6	570.3	683.4
Normalised EBITDA	240.3	268.6	290.8	205.6	291.1
Depreciation and amortisation	(20.6)	(23.1)	(28.2)	(27.6)	(29.7)
Normalised EBIT	219.7	245.4	262.6	178.0	261.4
Net interest	(16.1)	(18.4)	(19.2)	(19.9)	(20.1)
Associate income	0	0	0	0	0
Tax	(0.6)	(3.4)	(1.9)	(2.6)	(5.1)
Minority interests	0	0	0	0	0
Normalised NPAT	203.5	227.0	241.5	155.6	236.3
Abnormals/other	0	0	0	0	0
Reported NPAT	202.9	223.6	241.5	155.6	236.3
Normalised EPS (cps)	40.7	45.4	48.3	31.1	47.3
DPS (cps)	20.4	22.7	24.1	15.6	23.6

Growth Rates

	2018A	2019A	2020A	2021A	2022A
Revenue (%)	18.5	12.6	10.2	-9.6	19.8
EBITDA (%)	18.1	11.8	8.3	-29.3	41.6
EBIT (%)	16.5	11.7	7.0	-32.2	46.9
Normalised NPAT (%)	14.1	11.5	6.4	-35.6	51.9
Normalised EPS (%)	14.1	11.5	6.4	-35.6	51.9
Ordinary DPS (%)	14.4	11.3	6.4	-35.6	51.9

Cash Flow (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
EBITDA	240.3	268.6	290.8	205.6	291.1
Working capital change	123.0	151.0	243.7	266.3	300.3
Interest & tax paid	(14.0)	(21.5)	(21.1)	(22.4)	(25.1)
Other	0	0	0	0	0
Operating cash flow	349.3	398.0	513.3	449.4	566.3
Capital expenditure	(477.9)	(552.4)	(478.5)	(367.1)	(466.9)
(Acquisitions)/divestments	0	0	0	0	0
Other	(2.9)	(7.3)	0	0	0
Funding available/(required)	(131.6)	(161.6)	34.8	82.3	99.4
Dividends paid	(95.0)	(108.5)	(128.4)	(84.8)	(124.1)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(226.6)	(270.1)	(93.6)	(2.4)	(24.6)

Balance Sheet (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Working capital	265.0	226.1	248.3	225.3	268.4
Fixed assets	5,412.8	6,270.5	6,929.1	7,376.5	7,990.8
Intangibles	20.7	28.0	28.0	28.0	28.0
Right of use asset	0	0	0	0	0
Other assets	0	0	0	0	0
Total funds employed	5,698.5	6,524.6	7,205.3	7,629.8	8,287.2
Net debt/(cash)	1,060.5	1,324.0	1,417.6	1,420.1	1,444.7
Lease liability	0	0	0	0	0
Other liabilities	2,697.5	3,030.4	3,531.5	3,860.2	4,395.7
Shareholder's funds	1,940.5	2,170.1	2,256.2	2,349.5	2,446.8
Minority interests	0	0	0	0	0
Total funding sources	5,698.5	6,524.6	7,205.3	7,629.8	8,287.2

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

Valuation Ratios

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	32.7	30.1	28.4	40.5	28.6
EV/EBIT (x)	35.7	33.0	31.5	46.7	31.8
PE (x)	33.9	30.4	28.6	44.4	29.2
Price/NTA (x)	3.6	3.2	3.1	3.0	2.9
Free cash flow yield (%)	-1.9	-2.2	0.5	1.2	1.4
Net dividend yield (%)	1.5	1.6	1.7	1.1	1.7
Gross dividend yield (%)	1.5	1.6	1.7	1.1	1.7

Capital Structure

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	14.1	13.8	14.5	9.7	13.6
Interest cover EBITDA (x)	15.4	15.0	16.0	11.1	15.1
Net debt/ND+E (%)	35.3	37.9	38.6	37.7	37.1
Net debt/EBITDA (x)	4.4	4.9	4.9	6.9	5.0

Key Ratios

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	3.9	3.8	3.8	2.5	3.2
Return on equity (%)	10.5	10.5	10.7	6.6	9.7
Return on funds employed (%)	7.8	7.3	7.1	4.6	6.5
EBITDA margin (%)	47.3	46.9	46.1	36.1	42.6
EBIT margin (%)	43.2	42.9	41.6	31.2	38.3
Capex to sales (%)	94.0	96.5	75.9	64.4	68.3
Capex to depreciation (%)	2,322	2,389	1,697	1,329	1,574
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	50	50	50	50	50

Operating Performance

	2018A	2019A	2020E	2021E	2022E
Revenue (NZ\$m)*					
Care fees	270.5	302.0	332.3	356.6	383.6
Management fees	79.7	92.2	104.7	118.8	133.5
Other	1.5	0.9	0.9	0.9	1.0

Fair value movement (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Realised	166.2	190.5	208.2	108.0	177.1
Unrealised	0.0	0.0	0.0	0.0	0.0
Total revenue	508.3	572.3	630.6	570.3	683.4

Key Drivers

	2018A	2019A	2020E	2021E	2022E
Sales - new NZ units	458	414	600	425	670
Sales - resold units	825	824	847	497	825
Gross development margin (%)	19.2	29.9	25.0	21.0	21.0
Gross resales margin (%)	25.9	24.9	25.0	20.0	20.0
Average new sales price (NZ\$000)	671.0	702.2	723.2	730.5	752.4
Average resales price (NZ\$000)	502.5	506.6	521.8	495.7	495.7
Total portfolio					
Apartments/units	6,414	6,878	7,478	7,903	8,573
Beds	3,367	3,660	3,860	4,052	4,292

FY20E result summary

Below is a summary of our FY20 forecasts.

Figure 2. FY20E result summary (NZ\$m)

12 months ending 31 March	FY19	FY20	Chg
Revenue			
Care fees	302.0	332.3	10.0%
Management fees	79.8	90.2	13.0%
Movement of investment property			
New sales gains	86.8	97.6	12.5%
Resales gains	103.7	110.5	6.6%
Realised value movement	190.5	208.2	9.3%
Underlying revenue	572.3	630.6	10.2%
Total costs	303.7	339.8	11.9%
Underlying EBITDA	268.6	290.8	8.3%
Depreciation	23.1	28.2	22.0%
EBIT	245.4	262.6	7.0%
Net interest	(18.4)	(19.2)	4.1%
EBT	227.0	243.4	7.2%
Tax current	0.0	(1.9)	
Normalised or underlying profit	227.0	241.5	6.4%
Underlying EPS (cents)	45.4	48.3	6.4%
Underlying DPS (cents)	22.7	24.1	6.4%

Source: Forsyth Barr analysis

Figure 3. FY20E key drivers (NZ\$m)

12 months ending 31 March	FY19	FY20	Chg
Sales - new units	414	600	45%
Ave unit price - new sales (NZ\$000s)	702	723	3%
Gross development margin (%)	29.9%	25.0%	-16%
Sales - resold units	824	847	3%
Ave unit price - resales (NZ\$000s)	507	522	3%
Gross resales margin (%)	24.9%	25.0%	1%
New sales gains (NZ\$m)	86.8	97.6	13%
Resales gains (NZ\$m)	103.7	110.5	7%

Source: Forsyth Barr analysis

Investment Summary

Ryman Healthcare (RYM) is leveraged to the rapidly ageing 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 cashflow outlook

- **Underlying EPS growth target of around +15%:** We expect RYM to continue to generate strong EPS growth (post the near-term COVID-19 impact) 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.

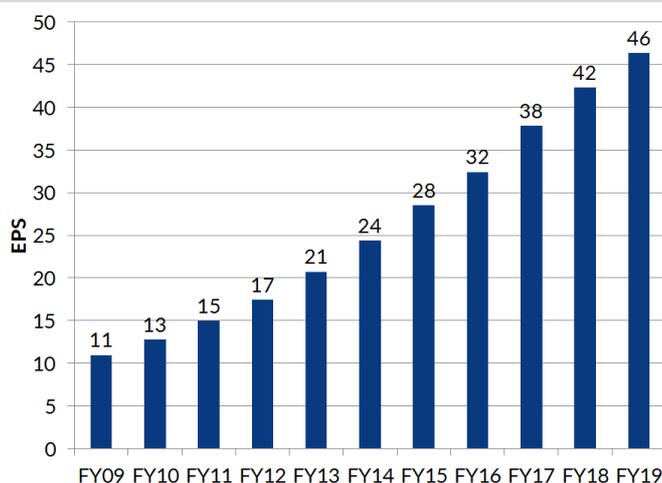
Financial structure

- **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.

Risk factors

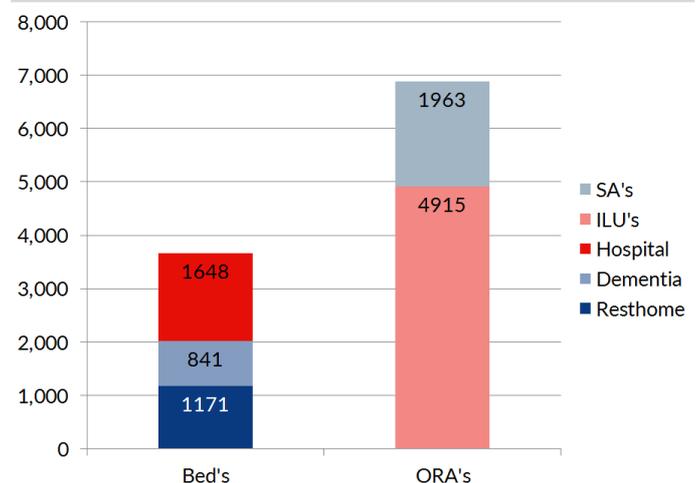
- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** Any sizable downturn in the current buoyant housing market conditions poses a threat to sales volumes and pricing.

Figure 4. RYM underlying EPS trajectory

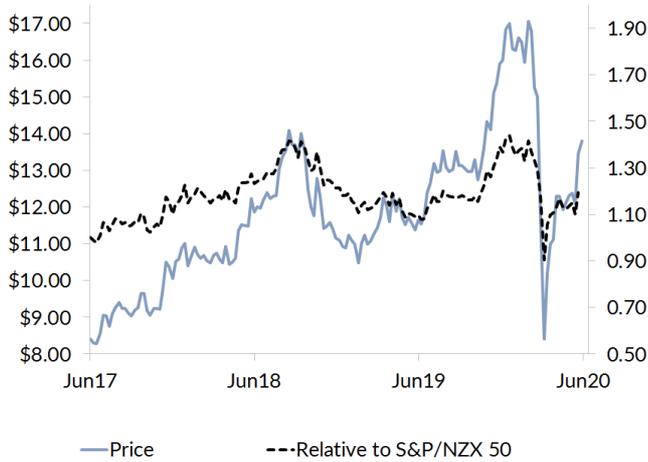


Source: Forsyth Barr analysis, Company reports

Figure 5. RYM portfolio as at 31 March 2019



Source: Forsyth Barr analysis, Company reports

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

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

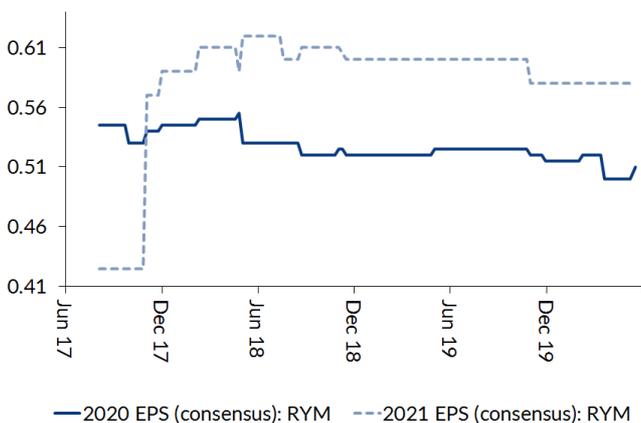
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 8. International valuation comparisons

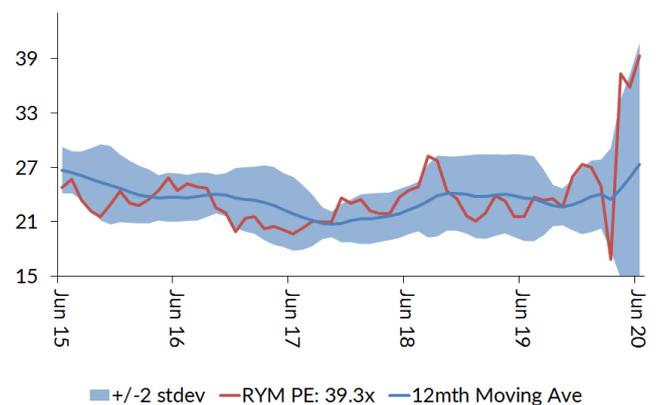
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Ryman Healthcare	RYM NZ	NZ\$13.80	NZ\$6,900	28.6x	44.4x	28.3x	40.0x	31.3x	46.2x	1.1%
Metlifecare *	MET NZ	NZ\$4.62	NZ\$985	12.9x	14.0x	14.9x	16.0x	16.0x	17.3x	1.1%
Summerset Group *	SUM NZ	NZ\$6.75	NZ\$1,539	20.2x	34.6x	20.3x	30.3x	22.2x	34.2x	0.9%
Oceania Healthcare *	OCA NZ	NZ\$1.03	NZ\$633	13.3x	15.7x	14.2x	15.9x	17.2x	19.9x	3.5%
Arvida Group Limited *	ARV NZ	NZ\$1.45	NZ\$787	14.2x	20.1x	17.3x	20.0x	19.0x	23.8x	2.7%
Compcop Average:				15.1x	21.1x	16.7x	20.6x	18.6x	23.8x	2.1%
RYM Relative:				89%	110%	70%	95%	68%	94%	-46%

EV = Current Market Cap + Actual Net Debt

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

Figure 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)


Source: Forsyth Barr analysis

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