NEW ZEALAND EQUITY RESEARCH | AGED CARE | RETIREMENT & CARE OPERATOR

15 JUNE 2020

Ryman Healthcare
FY20 Result — Very Good For Mum

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OUTPERFORM

Ryman Healthcare (RYM) has reported a solid FY20 result that was close to expectations in most areas. RYM's long track record of looking after its elderly residents was tested under COVID and it again delivered. We have upgraded our near-term forecasts given a faster than expected recovery in the target build rate and the resales turnover rate. Our target price has lifted +6% to NZ$14.80 due to a lift in the near-term build rate and level of sales activity. We retain our OUTPERFORM rating.

NZX Code	RYM
Share price	NZ$12.85
Target price	NZ$14.80
Risk rating	Medium
Issued shares	500.0m
Market cap	NZ$6,425m
Avg daily turnover	561.2k (NZ$7,260k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	242.0	231.4	304.7	390.4
EPS* (NZc)	48.4	46.3	60.9	78.1
EPS growth* (%)	6.6	-4.4	31.7	28.1
DPS (NZc)	24.2	23.1	30.5	39.0
Imputation (%)	0	0	0	0

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
EV/EBITDA	35.9	28.3	22.2	17.7
EV/EBIT	41.3	31.4	24.3	19.1
PE	26.5	27.8	21.1	16.5
Price / NTA	2.8	2.7	2.6	2.4
Cash div yld (%)	1.9	1.8	2.4	3.0
Gross div yld (%)	1.9	1.8	2.4	3.0

Close to expectations in most areas with strong new sales gain offsetting higher opex

FY20 underlying profit was NZ$242m, up +7%, in line with forecasts. RYM indicated that it was tracking to the lower end of its guidance range in March before lockdown. Operating costs were up $10m more than forecast to NZ$349m and not helped by COVID-19; this offset an NZ$8m higher gain on new sales than forecast while most other metrics were in line. The NTA lifted +6% despite more conservative valuation assumptions and the final dividend was up +7% in line with underlying profit growth. No guidance was provided, but building activity looks to be coming back. RYM built 841 units/beds in FY20, up +11% and ahead of forecast. Development progress in Melbourne continues to be a key focus with the target remaining five villages open by the end of CY20, which is pleasing given COVID-19 constraints. RYM purchased an impressive looking new site in Takapuna on Auckland's North Shore. Demand metrics remain robust with care occupancy 98% and resales vacancy just 1.7%.

Upgraded earnings and target price

RYM's build guidance presents significant upside to our forecast changes we made in early April where we assumed essentially a six month level 4 to level 2 period. We have lifted our FY21 and FY22 unit build rate to 600 and 800 units respectively, still below our pre COVID-19 forecasts. Resales were strong with a higher turnover rate than forecast before the country went into lockdown. We have lifted our resales forecasts significantly near-term based on a higher turnover rate and a quicker recovery.

Well positioned to resume growth

We remain bullish on RYM's growth opportunity in NZ and Australia and its strong 'needs based' focus; a full continuum of care and sector low fees gives it defensive qualities in a slower and more discerning market.

Ryman Healthcare Ltd (RYM)

Priced as at 12 Jun 2020 (NZ$)	**12.85**

12-month target price (NZ$)*	**14.80**
Expected share price return	15.2%
Net dividend yield	1.9%
Estimated 12-month return	17.1%

Spot valuations (NZ$)	
1. DCF	13.70
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	8,527
(Net debt)/cash	(1,707)
Less: Capitalised operating leases	-
Value of equity	6,820

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	674.7	567.6	661.7	781.2	913.0
Normalised EBITDA	**371.0**	**221.0**	**288.3**	**367.6**	**462.7**
Depreciation and amortisation	(23.1)	(28.6)	(29.0)	(31.7)	(34.9)
Normalised EBIT	**347.8**	**192.3**	**259.4**	**335.9**	**427.8**
Net interest	(18.4)	(21.2)	(24.2)	(24.7)	(25.0)
Associate income	0	0	0	0	0
Tax	(3.4)	93.6	(3.7)	(6.5)	(12.4)
Minority interests	0	0	0	0	0
Normalised NPAT	**227.0**	**242.0**	**231.4**	**304.7**	**390.4**
Abnormals/other	0	0	0	0	0
Reported NPAT	**326.0**	**264.6**	**231.4**	**304.7**	**390.4**
Normalised EPS (cps)	45.4	48.4	46.3	60.9	78.1
DPS (cps)	22.7	24.2	23.1	30.5	39.0

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	20.5	35.9	28.3	22.2	17.7
EV/EBIT (x)	21.9	41.3	31.4	24.3	19.1
PE (x)	28.3	26.5	27.8	21.1	16.5
Price/NTA (x)	3.0	2.8	2.7	2.6	2.4
Free cash flow yield (%)	-2.4	-4.1	1.2	2.1	2.8
Net dividend yield (%)	1.8	1.9	1.8	2.4	3.0
Gross dividend yield (%)	1.8	1.9	1.8	2.4	3.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	13.8	13.4	11.3	14.1	17.5
Interest cover EBITDA (x)	15.0	14.8	12.5	15.4	18.9
Net debt/ND+E (%)	37.9	42.6	42.0	41.3	40.2
Net debt/EBITDA (x)	3.6	7.7	6.1	4.8	3.9

Growth Rates	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**
Revenue (%)	32.7	-15.9	16.6	18.1	16.9
EBITDA (%)	54.4	-40.4	30.5	27.5	25.9
EBIT (%)	58.3	-44.7	34.9	29.5	27.4
Normalised NPAT (%)	11.5	6.6	-4.4	31.7	28.1
Normalised EPS (%)	11.5	6.6	-4.4	31.7	28.1
Ordinary DPS (%)	11.3	6.6	-4.4	31.7	28.1

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	3.8	3.7	3.3	3.8	4.3
Return on equity (%)	10.5	10.5	9.6	12.1	14.6
Return on funds employed (%)	7.3	6.8	6.1	7.6	24.3
EBITDA margin (%)	55.0	38.9	43.6	47.1	50.7
EBIT margin (%)	51.6	33.9	39.2	43.0	46.9
Capex to sales (%)	81.9	125.3	72.9	70.3	70.6
Capex to depreciation (%)	2,389	2,486	1,666	1,735	1,848
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	50	50	50	50	50

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**371.0**	**221.0**	**288.3**	**367.6**	**462.7**
Working capital change	48.6	247.3	300.9	346.4	402.6
Interest & tax paid	(21.5)	(19.0)	(27.9)	(31.2)	(37.4)
Other	0	0	0	0	0
Operating cash flow	**398.0**	**449.2**	**561.2**	**682.8**	**828.0**
Capital expenditure	(552.4)	(711.4)	(482.5)	(549.5)	(644.8)
(Acquisitions)/divestments	0	0	0	0	0
Other	(7.3)	(8.9)	0	0	0
Funding available/(required)	**(161.6)**	**(271.1)**	**78.7**	**133.3**	**183.1**
Dividends paid	(108.5)	(117.0)	(122.7)	(158.5)	(200.1)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(270.1)**	**(388.1)**	**(44.0)**	**(25.2)**	**(16.9)**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)*					
Care fees	302.0	333.4	364.8	404.2	453.4
Management fees	78.9	88.7	105.0	127.0	154.8
Other	0.9	1.2	1.3	1.4	1.4
Fair value movement (NZ$m)					
Realised	190.5	215.3	190.6	248.7	303.3
Unrealised	102.4	-71.0	0.0	0.0	0.0
Total revenue	**674.7**	**567.6**	**661.7**	**781.2**	**913.0**
Key Drivers					
Sales - new NZ units	414	513	600	800	900
Sales - resold units	824	923	834	1,032	1,232
Gross development margin (%)	29.9	27.3	23.0	23.0	23.0
Gross resales margin (%)	24.9	22.7	22.0	22.0	23.0
Average new sales price (NZ$000)	702.2	753.8	761.3	784.2	799.9
Average resles price (NZ$000)	506.6	523.5	523.5	523.5	544.5
Total portfolio					
Apartments/units	6,878	7,468	8,068	8,868	9,768
Beds	3,660	3,911	4,211	4,611	5,091

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	226.1	252.2	262.2	307.7	357.9
Fixed assets	6,270.5	7,146.1	7,790.3	8,556.8	9,470.1
Intangibles	28.0	38.1	38.1	38.1	38.1
Right of use asset	0	0	0	0	0
Other assets	0	22.5	22.5	22.5	22.5
Total funds employed	**6,524.6**	**7,458.9**	**8,113.1**	**8,925.1**	**9,888.5**
Net debt/(cash)	1,324.0	1,707.2	1,751.2	1,776.4	1,793.4
Lease liability	0	0	0	0	0
Other liabilities	3,030.4	3,435.5	3,942.7	4,626.1	5,428.3
Shareholder's funds	2,170.1	2,301.0	2,419.2	2,522.5	2,666.8
Minority interests	0	0	0	0	0
Total funding sources	**6,524.6**	**7,443.8**	**8,113.1**	**8,925.1**	**9,888.5**

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

FY20 results — Key points of interest

Boosted by sales volume increases and pricing

RYM FY20 underlying profit was NZ$242m, up +7% and in line with our forecast of NZ$241.5m. Underlying EBITDA of NZ$290m was up +8%, also in line with our $290.8m forecast. Underlying revenue was up +11.6% with solid gains from care and management fees. The major miss versus our forecast was operating costs up $10m more than forecast which offset an NZ$8m higher gain on new sales than forecast (higher pricing and margins). Operating cash flow was up +12% to NZ$450m. The final dividend was 12.7cps (record date 26 June and payment date 10 July) up +6.7% in line with the underlying profit growth of +6.6% and the standard 50% pay-out ratio.

NTA up +6% despite COVID-19 valuation impact

The fair value gain for the investment portfolio was NZ$144.4m, with a pull back in 2H20 from more conservative growth and discount rate assumptions by CBRE. The NTA lifted +6% to NZ$4.53.

Figure 1. FY20 Result (NZ$m)

12 months ending 31 March	FY19	FY20	Chg	Forsyth Barr	Comment
Revenue					
Care fees	302.0	333.4	10.4%	332.3	Revenue per bed up
Management fees	79.8	89.9	12.7%	90.2	Portfolio expansion & higher selling prices
Fair value movement of investment property					
Realised value movement	190.5	215.3	13.0%	208.2	Volume and pricing gains
Unrealised value movement	102.4	(71.0)			2H pullback in values post COVID-19
Total fair value movement	292.9	144.3	-50.7%		
Total revenue	**674.7**	**567.6**	**-15.9%**		
Total costs	303.7	346.7	14.1%	339.8	Care, village & marketing cost increases
Total EBITDA	**371.0**	**221.0**	**-40.4%**		
Depreciation	23.1	28.7	24.3%	28.2	
EBIT	**347.8**	**192.3**	**-44.7%**		
Net interest	(18.4)	(21.2)	15.2%	(19.2)	
EBT	**329.4**	**171.0**	**-48.1%**		
Tax (deferred)	3.4	(93.6)			Change in tax depreciation laws
Reported profit (NZ IFRS)	**326.0**	**264.6**	**-18.8%**		Lower revaluation gainthan pcp
Unrealised value movement	(102.4)	71.0			
Tax (deferred) + other	3.4	(93.6)			
Normalised or underlying profit	**227.0**	**242.0**	**6.6%**	**241.5**	In line
Underlying earnings (excludes unrealised gains)					
Revenue	572.3	638.6	11.6%	630.6	
EBITDA	268.6	292.0	8.7%	290.8	
EBIT	245.4	263.3	7.3%	262.6	
Underlying profit	227.0	242.0	6.6%	241.5	In line
EPS (cents)	45.4	48.4	6.6%	48.3	
DPS (cents)	22.7	24.2	6.6%	24.1	50% pay-out maintained
Operating cash flow	401.4	449.8	12.1%		

Source: Forsyth Barr analysis

Figure 2. Balance sheet summary (NZ$m)

As at 31 March	FY19	FY20	Chg
Total Assets	6,524.6	7,458.9	14.3%
Working Capital	226.1	252.2	11.6%
Net Debt	1,324.0	1,707.2	28.9%
Shareholders Equity	2,170.1	2,301.0	6.0%
NTA	4.28	4.53	5.8%
Net Debt / (Net Debt + Equity)	37.9%	42.6%	12.4%
Net Debt / Total assets	20.3%	22.9%	12.8%

Source: Forsyth Barr analysis

Gearing ratios increased again 37.9% to 42.6% and is at 22% in terms of debt to total assets. Given the growth and momentum in the business, and that most of the debt is project related, our view remains that gearing is at manageable levels but needs to watched. Capex per new unit is expected to be lower in FY21 given the timing of projects and there is over NZ$300m of sales yet to settle and ~NZ$1.3 billion of unrealised embedded value and management fees.

Strong resales volumes and presales remain very robust

While new sales volumes were below expectations, this was offset by a much stronger than expected 2H20 development margin at 33% and new sales pricing up +28% in 2H. On an FY20 basis, new sales pricing and margins were ahead of forecast. Resales volume at 923 units were a strong positive feature despite not being able to trade over the last couple of weeks of the period. Vacant resales stock was only 1.7% of the portfolio. While slightly above recent periods, this is very strong given the impact of level 4 late in the period, and with the sales market already slowing earlier in the month due to COVID-19 concerns for the elderly.

RYM has a resale bank of NZ$856m, which is the aggregate amount of the current value of units versus the price paid by residents. The value of contracts not yet booked was relatively stable, around NZ$120m (this is presold units that are not yet practically complete), and sales that had been booked but not yet settled totalled almost NZ$350m, a record level for RYM. This number is indicative of very strong pre-selling RYM is achieving in Victoria and in NZ.

Figure 3. Sale of occupation rights

Year ending 31 March	1H19	2H19	1H20	2H20	Chg	Chg	Forbar	FY19	FY20	Chg	Forbar
					pcp	seq				pcp	
New Sales (Units)	168	273	229	284	4.1%	24.0%	371	414	513	23.9%	600
Resales (Units)	405	419	454	469	11.9%	3.3%	393	824	923	12.0%	847
Total	**573**	**692**	**683**	**753**	**8.8%**	**10.2%**	**764**	**1,238**	**1,436**	**16.0%**	**1447**
New Sales ($m)	120.4	170.3	160.7	226.0	32.7%	40.6%	229.8	290.7	386.7	33.0%	390.5
Resales ($m)	202.1	215.3	234.8	248.4	15.4%	5.8%	207.4	417.4	483.2	15.8%	442.2
Total	**322.5**	**385.6**	**395.5**	**474.4**	**23.0%**	**19.9%**	**437.2**	**708.1**	**869.9**	**22.8%**	**832.7**
Ave new sales price per unit $000	717	624	702	796	27.5%	13.4%	620	702	754	7.4%	723
Ave resales price per unit $000	499	514	517	530	3.1%	2.4%	527	507	524	3.3%	522
Operating margins											
New sales (development margins)	27%	32%	20%	33%	2.6%	65.2%	29%	30%	27%	-8.4%	25%
Resales margins	25%	25%	24%	22%	-11.7%	-7.6%	27%	25%	23%	-8.7%	25%
New sales margin ($m)	33	54	32	74	36.2%	132.3%	66	87	106	21.8%	98
Resales margin ($m)	51	53	55	54	1.8%	-2.2%	55	104	110	5.7%	111
Total realised gain ($m)	**83**	**107**	**87**	**128**	**19.2%**	**46.8%**	**121**	**190**	**215**	**13.0%**	**208**

Source: Forsyth Barr analysis

Care occupancy and dementia services a key point of difference

Demand is robust for RYM's modern and full continuum of care product with 98% occupancy at established facilities. Care revenue was up +10% and in line with expectations. RYM remains sector leading and the vast bulk of its aged care facilities now have the maximum four year DHB certification. It continues to progress its dementia services to keep at the leading edge of this market and this remains a key point of difference given its ability to offer the full continuum of care.

No earnings guidance yet but building and selling are back underway

RYM has not provided guidance yet for FY21 but has indicated that it is quickly returning to pre COVID-19 build rates with 900 to 1,000 units/beds likely to be delivered in FY21. This is not significantly different to our forecasts pre COVID-19. While resales volumes were impacted severely in April and May, RYM remains with ten months to catchup and shift resold vacant stock that appeared under lockdown. RYM indicated that it was on track for the high end of guidance and its long term +15% growth target in late February, after a record month. However, trading slowed in March and without moving to Level 4 RYM looked like it was going to hit the low end of the guidance range at around +10% EPS growth.

Development pipeline remains strong

A 13th Auckland site has been added with the purchase of an impressive looking site in Takapuna on Auckland's North Shore. The Takapuna site has an attractive catchment area with an existing resource consent assigned to the site. The acquisition brings RYM's land bank to 23 sites spanning 1,891 beds and 4,704 units. The existing developable landbank, across both Australia and New Zealand, provides approximately seven years worth of development at the current build rate. This is weighted ~41% Australia and ~59% to New Zealand.

Melbourne development progression continues to be a key focus with the target of five villages open in the area by the end of CY20 remaining in sight, the last of these five villages is Ocean Grove which has attracted significant interest totalling ~NZ$70m in pre-sales to date. Further acquisitions in Victoria/Australia are likely in order to help achieve the longer term goal of lifting the build rate in Victoria to match that of New Zealand's historical rate of two villages per annum. The group's continued focus on having a strong development pipeline is particularly pleasing given the COVID-19 uncertainties.

Figure 4. Land bank as at 31 March 2020

Development sites	Location	Independent	Serviced	Hospital	Dementia	Resthome	Total	Needs based
NZ existing sites								
Diana Isaac	Christchurch	30					30	
Grace Joel	Auckland	96					96	
Havelock North	Hawkes Bay	122	76	35	35	20	288	
Jean Sandel	New Plymouth	59					59	
Lincoln Road	Auckland	156	77	42	37	42	354	
Linda Jones	Hamilton	141	73		40		254	
Murray Halberg	Auckland	230					230	
William Sanders	Auckland	111					111	
Total NZ existing sites		**945**	**226**	**77**	**112**	**62**	**1,422**	**34%**
NZ new sites								
Hobsonville	Auckland	276	101	40	40	40	497	
Karori	Wellington	178	84	20	20	20	322	
Kohimarama	Auckland	125	78	20	40	20	283	
Takapuna	Auckland	67	31	15	15	15	143	
Newtown	Wellington	40	56	20	15	20	151	
Northwood	Christchurch	156	60	30	30	30	306	
Park Terrace / Bishopspark	Christchurch	130	79	36	40	40	325	
Riccarton Park	Christchurch	226	66	40	40	40	412	
Total NZ new sites		**1,198**	**555**	**221**	**240**	**225**	**2,439**	**51%**
Total NZ landbank		**2,143**	**781**	**298**	**352**	**287**	**3,861**	**44%**
Auckland landbank		**468**	**210**	**75**	**95**	**75**	**923**	
Auckland %		22%	27%	25%	27%	12%	24%	
Australia existing & new sites								
Nellie Melba	Melbourne	113					113	
John Flynn	Melbourne	121	96	38	38	38	331	
Aberfeldie	Melbourne	64	27	25	25	24	165	
Coburg	Melbourne	200	76	35	35	36	382	
Highton	Victoria	80	60	40	20	40	240	
Highett	Melbourne	94	37	30	30	20	211	
Mount Eliza	Victoria	217	55	40	44	40	396	
Mount Martha	Victoria	70	37	40	40	36	223	
Ocean Grove	Victoria	83	53	40	40	40	256	
Ringwood East	Melbourne	242	55	40	40	40	417	
Total Australia		**1,284**	**496**	**328**	**312**	**314**	**2,734**	**53%**
Australia %		37%	39%	52%	47%	52%	41%	
Total Landbank		**3,427**	**1,277**	**626**	**664**	**601**	**6,595**	**48%**

Source: Forsyth Barr analysis, Company reports

RYM has work underway on 12 sites (four in Melbourne/Victoria, four in Auckland and four across the rest of New Zealand), as targeted at the 1H20 result. In addition, RYM has 11 sites in the planning and design phase spread across Auckland, Melbourne/ Victoria and the rest of New Zealand. RYM now has its strongest ever land bank with 60% of units and beds consented.

RYM has provided FY21 delivery guidance of 900 units but does acknowledge upside risk to this number, however, it is contingent on a number of uncontrollable factors in both New Zealand and Australia. RYM also provided FY22 build guidance of 1,300 units which would see a return to pre COVID-19 medium term build rate levels.

Forecast and valuation changes

We have upgraded our forecasts in a number of areas.

RYM's build guidance presents significant upside to our forecast changes we made in early April where we assumed very soft conditions across the sector (essentially a six month level 4 to level 2 period) resulting in new units built forecasts in FY21 and FY22 of 425 and 670 units respectively, from 850 and 950 units formerly (refer to our note dated 7 April). We have lifted our FY21 and FY22 unit build rate to 600 and 800 units respectively, still below our pre COVID-19 forecasts that were last reviewed in December 2019. Resales were stronger than expected in FY20 with a higher turnover rate than forecast before the country went into lockdown.

We have lifted our resales forecasts significant to 834 and 1,032 in FY21 and FY22 based on a higher turnover rate and a quicker recovery in FY21. Pricing was better than expected in FY20 and we have lifted this slightly going forward, as well as margins that have been reset to closer to long term averages. Long term assumptions are essentially unchanged.

Our lift in earnings has driven a +7% lift in our DCF valuation to NZ$13.70 and a +6% lift in our target price to NZ$14.80. We retain our OUTPERFORM rating and remain with a positive view towards RYM's needs based offer and development/growth opportunities in NZ and Australia.

Figure 5. Changes to key drivers (NZ$m)

Year ending 31 March	New	Old	Chg %
Gross devel margin % FY21	23.0	21.0	9.5%
Gross devel margin % FY22	23.0	21.0	9.5%
Gross devel margin % FY23	23.0	23.0	0.0%
Sales - new units FY21	600	425	41.2%
Sales - new units FY22	800	670	19.4%
Sales - new units FY23	900	850	5.9%
Ave price - new sales FY21 (NZ$000's)	761	730	4.2%
Ave price - new sales FY22 (NZ$000's)	784	752	4.2%
Ave price - new sales FY23 (NZ$000's)	800	767	4.2%
Sales - resold units FY21	834	497	67.7%
Sales - resold units FY22	1032	825	25.0%
Sales - resold units FY23	1,232	1,234	-0.1%
Ave price - resold sales FY21 (NZ$000's)	524	496	5.6%
Ave price - resold sales FY22 (NZ$000's)	524	496	5.6%
Ave price - resold sales FY23 (NZ$000's)	544	515	5.6%
Gross resales margin % FY21	22.0	20.0	10.0%
Gross resales margin % FY22	22.0	20.0	10.0%
Gross resales margin % FY23	23.0	23.0	0.0%
New units built FY21	600	425	41.2%
New units built FY22	800	670	19.4%
New units built FY23	900	850	5.9%

Source: Forsyth Barr analysis

Figure 6. Forecast changes (NZ$m)

Year ending 31 March	New	Old	Chg %
Underlying Revenue FY21	661.7	570.3	16.0%
Underlying Revenue FY22	781.2	683.4	14.3%
Underlying Revenue FY23	913.0	853.3	7.0%
Realised new sales gains FY21	94.6	58.7	61.2%
Realised new sales gains FY22	129.9	95.3	36.3%
Realised new sales gains FY23	149.0	135.0	10.4%
Realised resales gains FY21	109.6	110.5	-0.9%
Realised resales gains FY22	96.0	49.3	94.9%
Realised resales gains FY23	118.8	81.8	45.2%
Underlying EBITDA FY21	288.3	205.6	40.2%
Underlying EBITDA FY22	367.6	291.1	26.3%
Underlying EBITDA FY23	462.7	431.5	7.2%
Normalised Profit FY21	231.4	155.6	48.8%
Normalised Profit FY22	304.7	236.3	28.9%
Normalised Profit FY23	390.4	366.8	6.4%
DPS cents FY21	23.1	15.6	48.8%
DPS cents FY22	30.5	23.6	28.9%
DPS cents FY23	39.0	36.7	6.4%
Price Target	$14.80	$13.80	7.2%

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% still the goal:** We expect RYM to continue to generate strong EPS growth (post COVID-19) 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.

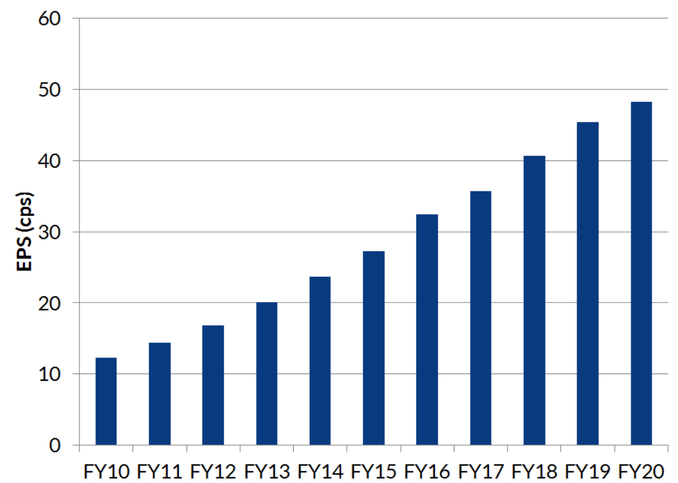
Financial structure

- **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% pay-out rate and as a result dividend growth has tracked earnings growth. RYM is a market leader in terms of consistently growing its dividends for 20 years.

Risk factors

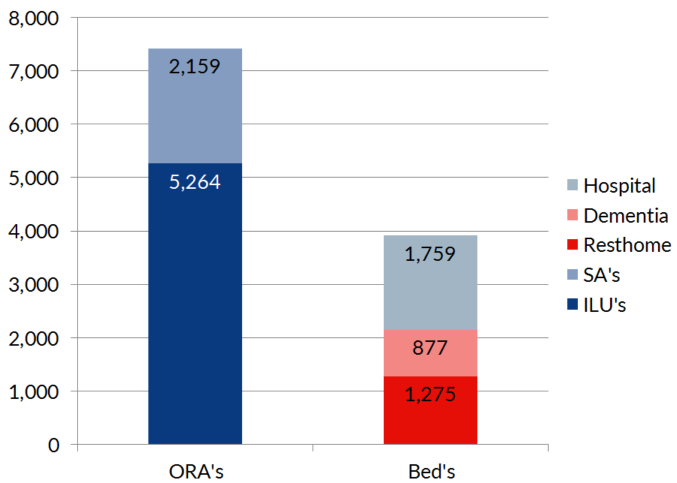
- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** Any sizable downturn in the current buoyant housing market conditions poses a threat to sales volumes and pricing.

Figure 7. RYM underlying EPS trajectory



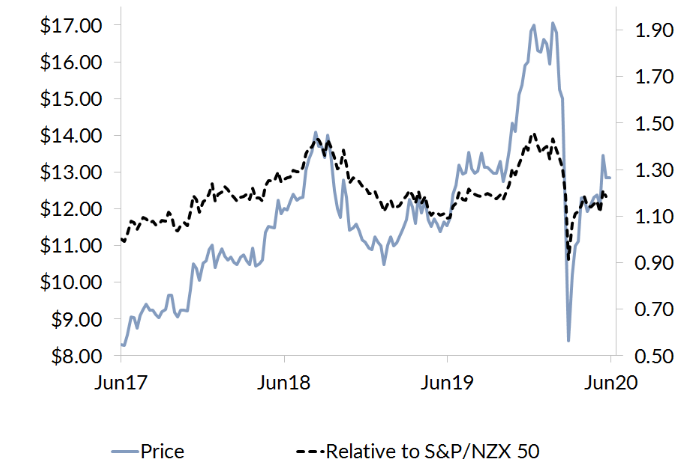
Source: Forsyth Barr analysis, Company reports

Figure 8. RYM portfolio as at 31 March 2020



Source: Forsyth Barr analysis, Company reports

Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

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

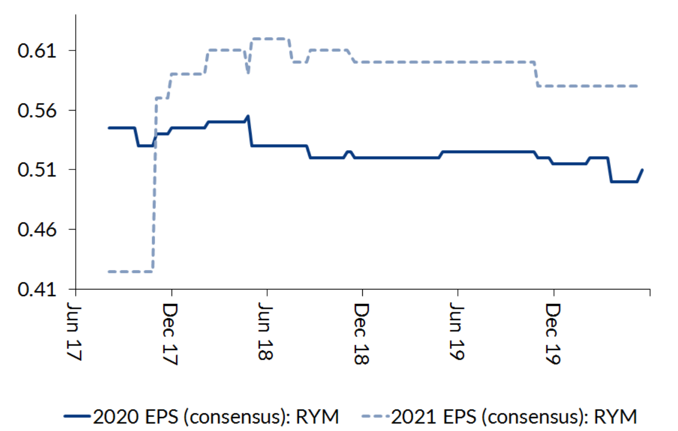
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 11. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect RYM's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Ryman Healthcare	**RYM NZ**	**NZ$12.85**	**NZ$6,425**	**27.8x**	**21.1x**	**28.2x**	**22.1x**	**31.4x**	**24.2x**	**2.4%**
Metlifecare *	MET NZ	NZ$4.54	NZ$968	13.7x	12.0x	15.7x	13.8x	17.1x	14.9x	1.7%
Summerset Group *	SUM NZ	NZ$6.13	NZ$1,398	31.5x	19.6x	28.3x	19.9x	32.0x	21.8x	1.7%
Oceania Healthcare *	OCA NZ	NZ$0.92	NZ$566	14.1x	11.3x	14.7x	12.3x	18.4x	14.8x	4.9%
Arvida Group Limited *	ARV NZ	NZ$1.38	NZ$749	19.1x	13.3x	19.3x	14.2x	23.0x	16.2x	4.1%
			Compco Average:	**19.6x**	**14.0x**	**19.5x**	**15.0x**	**22.6x**	**16.9x**	**3.1%**
EV = Current Market Cap + Actual Net Debt			**RYM Relative:**	**42%**	**50%**	**45%**	**47%**	**39%**	**43%**	**-24%**

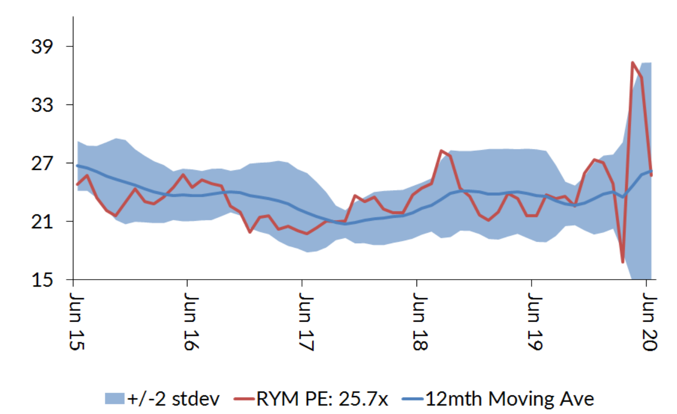
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RYM) companies fiscal year end

Figure 12. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)



Source: Forsyth Barr analysis

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