

# Ryman Healthcare

## Fully Valued; Downgrade to NEUTRAL

**AARON IBBOTSON CFA**

aaron.ibbotson@forsythbarr.co.nz  
+64 9 368 0024

**MATT MONTGOMERIE**

matt.montgomerie@forsythbarr.co.nz  
+64 9 368 0124

### NEUTRAL

Ryman Healthcare's (RYM) focus on continuum of care, low and stable fees and a well oiled development strategy has delivered 20% p.a. Total Shareholder Returns (TSR) for 20 years. We believe the combination of low fees, strong brand and high quality care offering makes RYM the most resilient of the four listed aged care operators to oversupply or adverse economic conditions in NZ. Over the last few years RYM has focussed on building out its capabilities in Australia as well as building more complex high rise villages in NZ, particularly in Auckland. This has resulted in a slowdown in annuity earnings growth and a reduction in recovery of capex. While we believe this is likely a necessary strategy to keep up with historical growth rates, we believe investors will find a better relative entry point into RYM when we are closer to seeing the long term investment in Australia pay off. We downgrade our rating to NEUTRAL with a price target of NZ\$14.00.

NZX Code	RYM	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$15.11	NPAT* (NZ\$m)	335.4	279.8	334.0	368.3	PE	22.5	27.0	22.6	20.5
Target price	NZ\$14.00	EPS* (NZc)	67.1	56.0	66.8	73.7	EV/EBIT	34.8	30.6	26.0	23.6
Risk rating	Medium	EPS growth* (%)	50.0	-16.6	19.4	10.3	EV/EBITDA	31.4	28.0	23.9	21.6
Issued shares	500.0m	DPS (NZc)	24.2	24.3	27.0	33.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$7,555m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.6	1.6	1.8	2.2
Avg daily turnover	548.9k (NZ\$7,191k)	*Based on normalised profits					Gross div yld (%)	2.2	2.2	2.5	3.0

### Building out Australia comes with long term gain but medium term pain

We believe that RYM's expansion into Australia makes strategic sense long term and believe there to be a high probability that it will be successful. However, over the last six years we estimate that RYM has only recovered ~50% of its total capex from sale of new units and over the last three years growth in Independent Living Units (ILUs) has slowed to 7-8% p.a. This slowdown has been accentuated by increased care costs and over the last two years annuity earnings have been flat while net debt has increased. Going forward we expect growth to re-accelerate as unit delivery in Australia picks up. However, we believe that RYM's defensive characteristics with the lowest charges and high proportion of care suggest that we will not see a full catch up of two "lost years".

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

	FY20A		FY21E		FY22E			FY23E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
<b>Total Revenue</b>	638.5	675.7	716.0	6%	793.5	829.3	5%	922.6	929.0	1%
Total Costs	349.2	373.4	382.0	2%	413.6	434.6	5%	450.3	492.3	9%
<b>EBITDA</b>	289.2	302.3	334.0	10%	379.9	394.7	4%	472.4	436.7	-8%
Depreciation & Amortisation	28.6	29.0	28.0	-3%	31.7	31.6	0%	34.9	36.6	5%
<b>EBIT</b>	260.6	273.4	305.9	12%	348.2	363.1	4%	437.5	400.1	-9%
Net interest	18.8	24.2	26.1	8%	24.7	29.1	18%	25.0	31.7	27%
<b>Underlying profit</b>	241.8	231.4	279.8	21%	304.7	334.0	10%	390.4	368.3	-6%
EPS (cents)	67.1	46.3	56.0	21%	60.9	66.8	10%	78.1	73.7	-6%
DPS (cents)	24.2	23.1	24.3	5%	30.5	27.0	-11%	39.0	33.0	-15%
Sales - new units	513	600	700	17%	800	850	6%	900	900	0%
New sales margin (%)	27%	20.5%	24%	3.5%	21%	24%	3%	21%	24%	4%
Sales - resold units	923	834	969	16%	1032	1059	3%	1232	1162	-6%
Resales margin (%)	23%	22%	22%	0%	22%	23%	1%	23%	23%	0%

Source: Forsyth Barr analysis, Company reports

## Ryman Healthcare Limited (RYM)

Priced as at 14 Oct 2020 (NZ\$) **15.11**

<b>12-month target price (NZ\$)*</b>	<b>14.00</b>
Expected share price return	-7.3%
Net dividend yield	1.7%
Estimated 12-month return	-5.6%

<b>Key WACC assumptions</b>	
Risk free rate	1.30%
Equity beta	0.78
WACC	5.8%
Terminal growth	1.5%

<b>Spot valuations (NZ\$)</b>	
1. EV/Annuity EBITDA	12.75
2. DDM	15.20
3. n/a	n/a

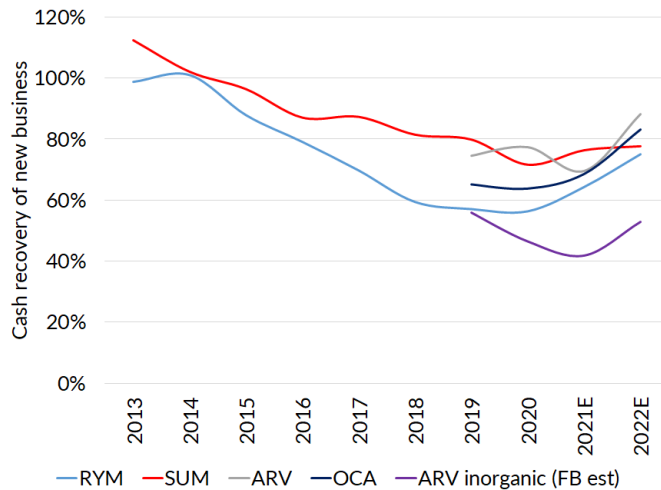
<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	n/a
(Net debt)/cash	n/a
Less: Capitalised operating leases	n/a
Value of equity	n/a

<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	572.3	638.5	716.0	829.3	929.0	EV/EBITDA (x)	32.6	31.4	28.0	23.9	21.6
<b>Normalised EBITDA</b>	<b>268.5</b>	<b>289.2</b>	<b>334.0</b>	<b>394.7</b>	<b>436.7</b>	EV/EBIT (x)	35.6	34.8	30.6	26.0	23.6
Depreciation and amortisation	(23.1)	(28.6)	(28.0)	(31.6)	(36.6)	PE (x)	33.8	22.5	27.0	22.6	20.5
<b>Normalised EBIT</b>	<b>245.4</b>	<b>260.6</b>	<b>305.9</b>	<b>363.1</b>	<b>400.1</b>	Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Net interest	(18.4)	(18.8)	(26.1)	(29.1)	(31.7)	Free cash flow yield (%)	-3.9	-4.4	-4.6	-5.4	-6.0
Associate income	0	0	0	0	0	Net dividend yield (%)	1.5	1.6	1.6	1.8	2.2
Tax	(3.4)	93.6	0	0	0	Gross dividend yield (%)	2.1	2.2	2.2	2.5	3.0
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>223.5</b>	<b>335.4</b>	<b>279.8</b>	<b>334.0</b>	<b>368.3</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	102.4	(70.7)	(92.0)	74.3	76.1	Interest cover EBIT (x)	13.3	13.9	11.7	12.5	12.6
<b>Reported NPAT</b>	<b>326.0</b>	<b>264.7</b>	<b>187.8</b>	<b>408.3</b>	<b>444.4</b>	Interest cover EBITDA (x)	14.6	15.4	12.8	13.6	13.8
Normalised EPS (cps)	44.7	67.1	56.0	66.8	73.7	Net debt/ND+E (%)	-35.1	-37.0	-35.5	-32.2	-30.1
DPS (cps)	22.7	24.2	24.3	27.0	33.0	Net debt/EBITDA (x)	4.9	5.9	5.7	5.1	5.0
<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	12.6	11.6	12.1	15.8	12.0	Return on assets (%)	62.0	47.6	48.5	47.3	46.9
EBITDA (%)	11.8	7.7	15.5	18.2	10.6	Return on equity (%)	-4.4	-5.3	-3.9	-4.1	-3.9
EBIT (%)	11.7	6.2	17.4	18.7	10.2	Return on funds employed (%)	-5.9	-7.3	-5.3	-5.5	-5.2
Normalised NPAT (%)	10.2	50.0	-16.6	19.4	10.3	EBITDA margin (%)	46.9	45.3	46.6	47.6	47.0
Normalised EPS (%)	10.2	50.0	-16.6	19.4	10.3	EBIT margin (%)	42.9	40.8	42.7	43.8	43.1
Ordinary DPS (%)	11.3	6.6	0.4	11.1	22.2	Capex to sales (%)	80.5	88.6	78.1	78.2	77.0
						Capex to depreciation (%)	1,991	1,977	1,993	2,053	1,954
						Imputation (%)	100	100	100	100	100
						Pay-out ratio (%)	51	36	43	40	45
<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>268.5</b>	<b>289.2</b>	<b>334.0</b>	<b>394.7</b>	<b>436.7</b>	<b>Revenue (NZ\$m)*</b>					
Working capital change	(20.9)	(48.3)	(41.7)	(30.0)	(19.1)	Care fees	302.0	333.4	370.6	414.4	461.3
Interest & tax paid	(21.9)	74.8	(26.1)	(29.1)	(31.7)	Management fees	78.9	88.7	102.4	120.9	142.0
Other	(118.1)	(199.5)	(147.9)	(212.2)	(257.2)	Other	0.9	1.2	1.0	1.0	1.0
<b>Operating cash flow</b>	<b>107.7</b>	<b>116.2</b>	<b>118.3</b>	<b>123.4</b>	<b>128.6</b>	Gain on resales	102.6	109.6	113.8	132.7	151.4
Capital expenditure	(460.4)	(565.8)	(559.0)	(648.7)	(714.9)	Gain on new sales	87.9	105.6	128.2	160.3	173.2
(Acquisitions)/divestments	239.7	232.6	411.1	554.5	597.5	<b>Total revenue</b>	<b>572.3</b>	<b>638.5</b>	<b>716.0</b>	<b>829.3</b>	<b>929.0</b>
Other	(40.2)	(48.6)	(40.0)	(41.0)	(42.0)						
<b>Funding available/(required)</b>	<b>(153.3)</b>	<b>(265.6)</b>	<b>(69.6)</b>	<b>(11.7)</b>	<b>(30.8)</b>	<b>Key Drivers</b>					
Dividends paid	(108.5)	(117.0)	(121.5)	(135.0)	(165.0)	Sales - new units	414	513	700	850	900
Equity raised/(returned)	0	0	0	0	0	Sales - resold units	824	923	969	1,059	1,162
<b>(Increase)/decrease in net debt</b>	<b>(261.8)</b>	<b>(382.6)</b>	<b>(191.1)</b>	<b>(146.7)</b>	<b>(195.8)</b>	Gross development margin	30.2%	27.2%	24.0%	24.0%	24.0%
						Gross resales margin	24.6%	22.7%	22.0%	23.0%	23.0%
						Average new sales price (NZ\$000)	702	756	763	786	802
						Average resles price (NZ\$000)	507	524	534	545	566
<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Total portfolio</b>					
Working capital	207.9	256.2	297.9	327.9	347.0	Apartments/units	6,878	7,423	8,073	8,873	9,723
Fixed assets	14.6	16.8	15.6	22.4	35.6	Beds	3,660	3,911	4,181	4,561	4,981
Intangibles	28.0	38.1	48.1	59.1	71.1	<b>Total</b>	<b>10,538</b>	<b>11,334</b>	<b>12,254</b>	<b>13,434</b>	<b>14,704</b>
Right of use asset	0	0	0	0	0						
Other assets	8.2	32.7	31.5	32.8	34.1						
<b>Total funds employed</b>	<b>258.6</b>	<b>343.75</b>	<b>393.1</b>	<b>442.2</b>	<b>487.8</b>						
Net debt/(cash)	1,324.0	1,707.2	1,893.8	2,006.6	2,168.4						
Lease liability	0	15.1	15.1	15.1	15.1						
Other liabilities	4,032.9	4,943.5	5,719.0	6,651.9	7,670.1						
Shareholder's funds	(5,098.3)	(6,322.2)	(7,234.8)	(8,231.4)	(9,365.9)						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>258.6</b>	<b>344</b>	<b>393.1</b>	<b>442.2</b>	<b>487.8</b>						

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

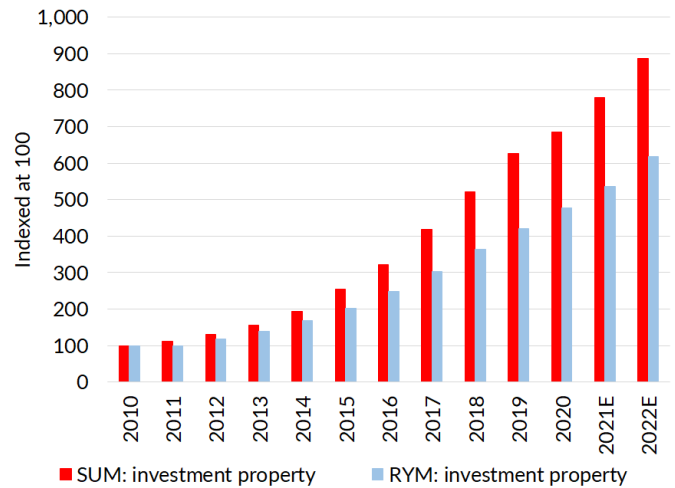
## Our thesis in pictures

**Figure 2. Recovery of capex has waned in recent years...**



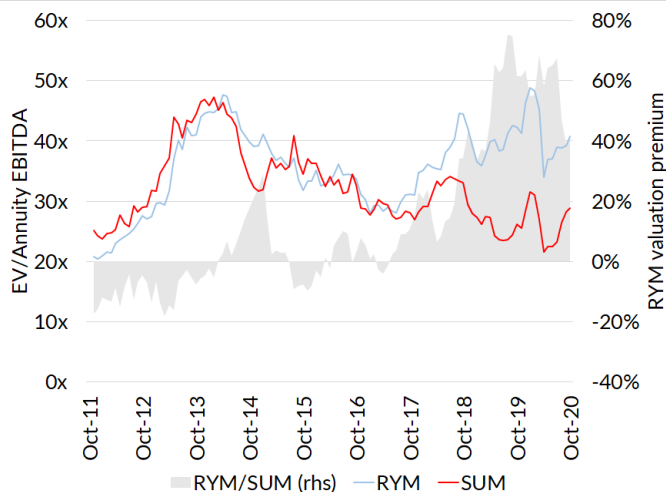
Source: Forsyth Barr analysis

**Figure 3. ...as investment property growth has slowed**



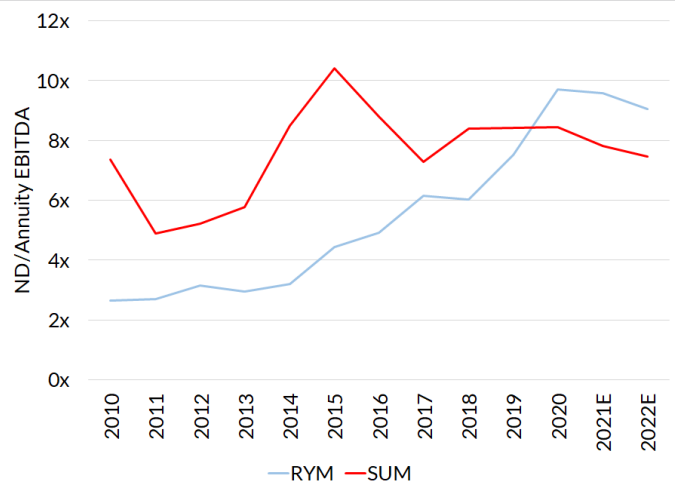
Source: Forsyth Barr analysis

**Figure 4. Hard to justify the RYM valuation premium**

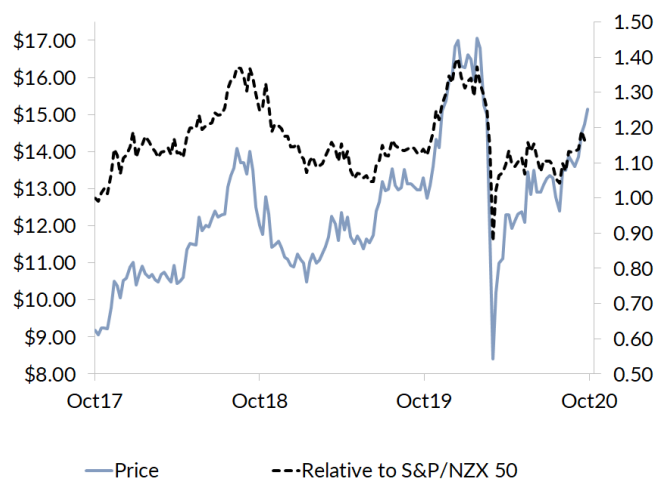


Source: Forsyth Barr analysis

**Figure 5. A marked increase in gearing**



Source: Forsyth Barr analysis

**Figure 6. Price performance**


Source: Forsyth Barr analysis

**Figure 7. Substantial shareholders**

Shareholder	Latest Holding
Geoffrey A Cumming	10.2%
Hickman Family	6.6%

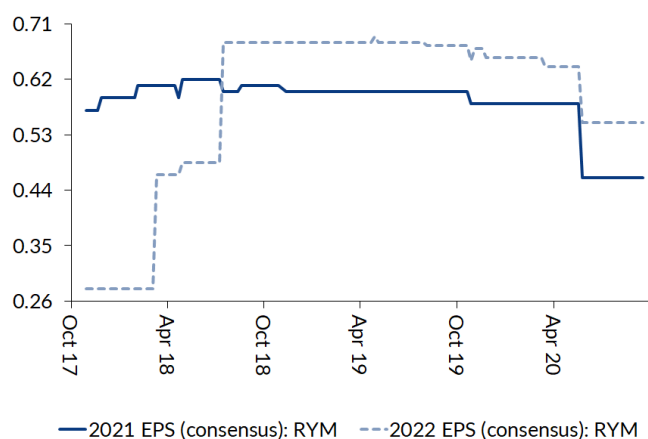
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 8. International valuation comparisons**

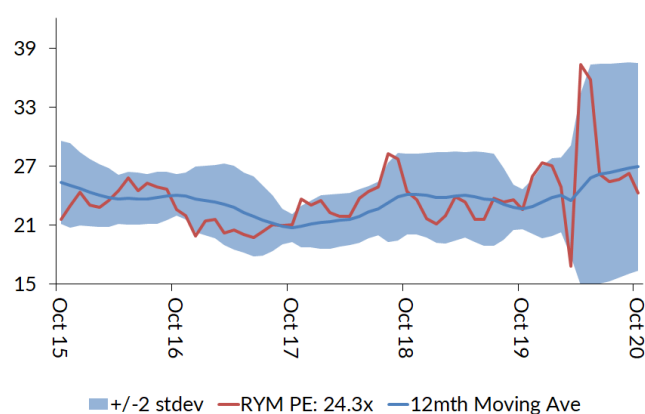
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect RYM's balance date - March)										
Ryman Healthcare	RYM NZ	NZ\$15.11	NZ\$7,555	27.0x	22.6x	27.7x	23.5x	30.3x	25.5x	1.8%
METLIFECARE *	MET NZ	NZ\$5.95	NZ\$1,269	18.0x	15.7x	19.5x	17.2x	21.2x	18.5x	1.3%
SUMMERSET GROUP LIMITED *	SUM NZ	NZ\$9.98	NZ\$2,283	21.5x	17.0x	20.4x	16.4x	21.9x	17.5x	1.7%
OCEANIA HEALTHCARE *	OCA NZ	NZ\$1.30	NZ\$810	16.7x	13.9x	15.7x	13.5x	20.1x	16.9x	3.4%
ARVIDA GROUP LIMITED *	ARV NZ	NZ\$1.78	NZ\$966	17.3x	13.6x	18.9x	15.3x	21.5x	17.1x	3.5%
Compco Average:				18.4x	15.0x	18.6x	15.6x	21.2x	17.5x	2.5%
RYM Relative:				47%	51%	49%	50%	43%	46%	-28%

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 9. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 10. One year forward PE (x)**


Source: Forsyth Barr analysis

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