

Ryman Healthcare

1H21 Preview — Debt, Development & Demand

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NEUTRAL

After two years of flat annuity earnings, we expect decent growth from Ryman Healthcare (RYM) when it reports its 1H21 result on Friday, 20 November. The result itself will have more moving parts than usual given it encapsulates the impacts of the COVID-19 lockdowns in both New Zealand and Australia, the latter of which has been more disruptive than we initially anticipated. We look for three key points; (1) an update on sales activity; recent anecdotes and competitor commentary continues to be supportive of healthy demand, (2) debt levels; RYM's gearing has risen rapidly in recent years as cash recovery of capex has declined to <60%, we forecast debt to rise again at the 1H21 result, and (3) an uptick in annuity earnings; RYM's annuity earnings have plateaued over the last two years, however, we forecast a gradual uplift beginning at the 1H21 result.

NZX Code	RYM	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$15.82	NPAT* (NZ\$m)	335.4	279.8	334.0	368.3	PE	23.6	28.3	23.7	21.5
Target price	NZ\$14.00	EPS* (NZc)	67.1	56.0	66.8	73.7	EV/EBIT	36.2	31.8	27.0	24.5
Risk rating	Medium	EPS growth* (%)	50.0	-16.6	19.4	10.3	EV/EBITDA	32.6	29.1	24.9	22.5
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\$7,910m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.5	1.5	1.7	2.1
Avg daily turnover	528.1k (NZ\$6,970k)	*Based on normalised profits					Gross div yld (%)	2.1	2.1	2.4	2.9

Key points of interest

- **Update on recent trading:** Recent anecdotes and competitor commentary suggests trading has remained strong post lockdowns. We look for updated insights into both sales and development activity. The latter is particularly relevant for Victoria where we are looking for an update on RYM's expectations of delivering five villages by the end of CY20.
- **Net debt:** Gearing is high across the sector but particularly high and rising fast in the case of RYM, currently at c.10x ND/Annuity EBITDA. We forecast a continued rise in debt levels and expect net debt to rise ~NZ\$70m in 1H21. We will be looking for signs that cash is being recovered from new sales in Victoria to help alleviate some pressure.
- **Annuity earnings uplift:** We forecast an uplift in annuity earnings of +7% following 2 years of subdued performance driven by a continued strong contribution from resale gains.

Investor briefing — 10am NZ time on 20 November

Conference call requires pre-registration at: <https://s1.c-conf.com/diamondpass/10010415-sk1pqe.html>

Figure 1. 1H21 result expectations (NZ\$m)

	1H20	1H21E	% change
Total revenue	294.8	344.4	17%
Total costs	168.7	185.6	10%
EBITDA	126.0	158.8	26%
New sale gains	(31.8)	(57.7)	81%
Annuity EBITDA	94.2	101.1	7%
Underlying profit	102.9	131.7	28%
DPS (cents)	11.5	12.0	4%
Cash recovery	56%	64%	+8%

Source: Forsyth Barr analysis, Company reports

Figure 2. 1H21 earnings drivers

	1H20	1H21E
Sales — new units	229	340
New sales margin (%)	20%	22%
Sales — resold units	454	475
Resales margin (%)	24%	22%
Average unit price — new sales (NZ\$000's)	702	772
Average unit price — resales (NZ\$000's)	517	535

Source: Forsyth Barr analysis, Company reports

Ryman Healthcare Limited (RYM)

Priced as at 18 Nov 2020 (NZ\$)

15.82

12-month target price (NZ\$)*	14.00
Expected share price return	-11.5%
Net dividend yield	1.6%
Estimated 12-month return	-9.9%

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

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.78
WACC	5.7%
Terminal growth	1.5%

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

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	572.3	638.5	716.0	829.3	929.0
Normalised EBITDA	268.5	289.2	334.0	394.7	436.7
Depreciation and amortisation	(23.1)	(28.6)	(28.0)	(31.6)	(36.6)
Normalised EBIT	245.4	260.6	305.9	363.1	400.1
Net interest	(18.4)	(18.8)	(26.1)	(29.1)	(31.7)
Associate income	0	0	0	0	0
Tax	(3.4)	93.6	0	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	223.5	335.4	279.8	334.0	368.3
Abnormals/other	102.4	(70.7)	(92.0)	74.3	76.1
Reported NPAT	326.0	264.7	187.8	408.3	444.4
Normalised EPS (cps)	44.7	67.1	56.0	66.8	73.7
DPS (cps)	22.7	24.2	24.3	27.0	33.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	33.9	32.6	29.1	24.9	22.5
EV/EBIT (x)	37.1	36.2	31.8	27.0	24.5
PE (x)	35.4	23.6	28.3	23.7	21.5
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	-3.7	-4.2	-4.4	-5.1	-5.7
Net dividend yield (%)	1.4	1.5	1.5	1.7	2.1
Gross dividend yield (%)	2.0	2.1	2.1	2.4	2.9

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	12.6	11.6	12.1	15.8	12.0
EBITDA (%)	11.8	7.7	15.5	18.2	10.6
EBIT (%)	11.7	6.2	17.4	18.7	10.2
Normalised NPAT (%)	10.2	50.0	-16.6	19.4	10.3
Normalised EPS (%)	10.2	50.0	-16.6	19.4	10.3
Ordinary DPS (%)	11.3	6.6	0.4	11.1	22.2

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	13.3	13.9	11.7	12.5	12.6
Interest cover EBITDA (x)	14.6	15.4	12.8	13.6	13.8
Net debt/ND+E (%)	-35.1	-37.0	-35.5	-32.2	-30.1
Net debt/EBITDA (x)	4.9	5.9	5.7	5.1	5.0

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	268.5	289.2	334.0	394.7	436.7
Working capital change	(20.9)	(48.3)	(41.7)	(30.0)	(19.1)
Interest & tax paid	(21.9)	74.8	(26.1)	(29.1)	(31.7)
Other	(118.1)	(199.5)	(147.9)	(212.2)	(257.2)
Operating cash flow	107.7	116.2	118.3	123.4	128.6
Capital expenditure	(460.4)	(565.8)	(559.0)	(648.7)	(714.9)
(Acquisitions)/divestments	239.7	232.6	411.1	554.5	597.5
Other	(40.2)	(48.6)	(40.0)	(41.0)	(42.0)
Funding available/(required)	(153.3)	(265.6)	(69.6)	(11.7)	(30.8)
Dividends paid	(108.5)	(117.0)	(121.5)	(135.0)	(165.0)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(261.8)	(382.6)	(191.1)	(146.7)	(195.8)

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	62.0	47.6	48.5	47.3	46.9
Return on equity (%)	-4.4	-5.3	-3.9	-4.1	-3.9
Return on funds employed (%)	-5.9	-7.3	-5.3	-5.5	-5.2
EBITDA margin (%)	46.9	45.3	46.6	47.6	47.0
EBIT margin (%)	42.9	40.8	42.7	43.8	43.1
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

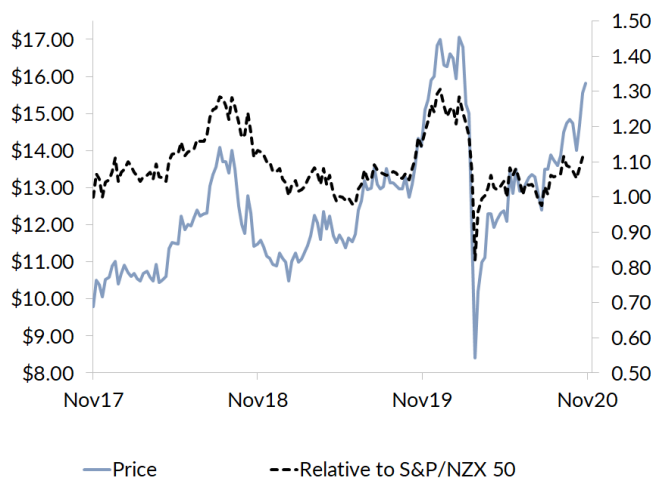
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	207.9	256.2	297.9	327.9	347.0
Fixed assets	14.6	16.8	15.6	22.4	35.6
Intangibles	28.0	38.1	48.1	59.1	71.1
Right of use asset	0	0	0	0	0
Other assets	8.2	32.7	31.5	32.8	34.1
Total funds employed	258.6	343.75	393.1	442.2	487.8
Net debt/(cash)	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
Total funding sources	258.6	344	393.1	442.2	487.8

Operating Performance	2019A	2020A	2021E	2022E	2023E
Revenue (NZ\$m)*					
Care fees	302.0	333.4	370.6	414.4	461.3
Management fees	78.9	88.7	102.4	120.9	142.0
Other	0.9	1.2	1.0	1.0	1.0
Gain on resales	102.6	109.6	113.8	132.7	151.4
Gain on new sales	87.9	105.6	128.2	160.3	173.2
Total revenue	572.3	638.5	716.0	829.3	929.0

Key Drivers					
Sales - new units	414	513	700	850	900
Sales - resold units	824	923	969	1,059	1,162
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

Total portfolio					
Apartments/units	6,878	7,423	8,073	8,873	9,723
Beds	3,660	3,911	4,181	4,561	4,981
Total	10,538	11,334	12,254	13,434	14,704

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

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

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

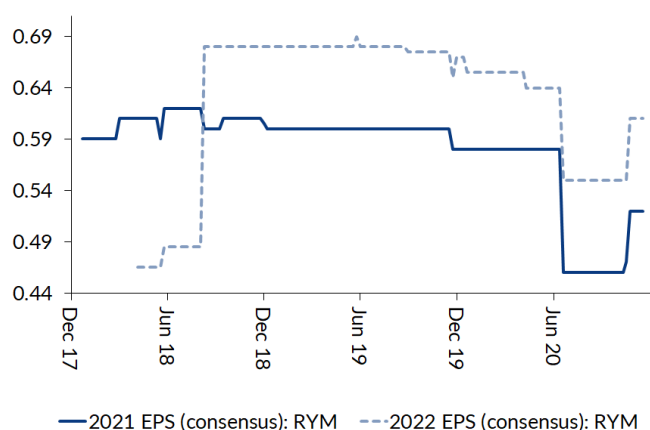
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

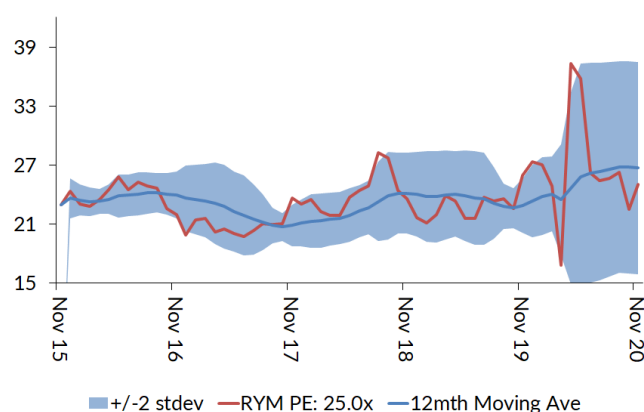
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect RYM's balance date - March)										
Ryman Healthcare	RYM NZ	NZ\$15.82	NZ\$7,910	28.3x	23.7x	28.8x	24.4x	31.4x	26.5x	1.7%
METLIFECARE *	MET NZ	NZ\$5.98	NZ\$1,272	18.1x	15.7x	19.6x	17.2x	21.2x	18.6x	1.3%
SUMMERSET GROUP LIMITED *	SUM NZ	NZ\$10.70	NZ\$2,448	23.1x	18.2x	21.6x	17.4x	23.3x	18.6x	1.6%
OCEANIA HEALTHCARE *	OCA NZ	NZ\$1.37	NZ\$854	17.5x	14.6x	16.3x	14.0x	20.9x	17.5x	3.2%
ARVIDA GROUP LIMITED *	ARV NZ	NZ\$1.81	NZ\$982	17.6x	13.8x	19.1x	15.5x	21.7x	17.3x	3.4%
Compco Average:				19.1x	15.6x	19.2x	16.0x	21.8x	18.0x	2.4%
RYM Relative:				48%	52%	50%	52%	44%	47%	-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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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