

Ryman Healthcare

1H21 Result – RADs to the Rescue?

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NEUTRAL

RYM reported a weak 1H21 result with underlying earnings and annuity EBITDA down significantly vs pcp as COVID-19 related restrictions weighed on activity. Cash recovery of capex was particularly weak, resulting in net debt increasing by NZ\$300m since the FY20 result. RYM remains positive and guided to a record cash inflow in 2H21, and is optimistic on its long term ability to recover near 100% of capex and grow underlying earnings at 15% p.a. RYM also announced a new pricing model for care beds in New Zealand, similar to in Australia, where residents can choose to pay a Refundable Accommodation Deposit (RAD) instead of a weekly fee. We consider the product attractively priced and see room for it to raise NZ\$500m + over time, but it will come at the cost of lower on-going care earnings.

NZX Code	RYM	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$15.13	NPAT* (NZ\$m)	241.8	240.3	304.4	337.2	PE	31.3	31.5	24.8	22.4
Target price	NZ\$13.75	EPS* (NZc)	48.4	48.1	60.9	67.4	EV/EBIT	34.9	36.2	29.2	26.4
Risk rating	Medium	EPS growth* (%)	8.2	-0.7	26.7	10.8	EV/EBITDA	31.4	32.2	26.2	23.6
Issued shares	500.0m	DPS (NZc)	24.2	24.2	30.5	34.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$7,565m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.6	1.6	2.0	2.2
Avg daily turnover	528.2k (NZ\$6,973k)	*Based on normalised profits					Gross div yld (%)	2.2	2.2	2.8	3.1

What's changed?

- **Annuity EBITDA:** FY21/22 reduced by -7%/-9% due to lower DMF and care fees partly offset by higher re-sale gains (FY22)
- **Target price:** Reduced by 25cps to NZ\$13.75 due to lower annuity EBITDA, partly offset by roll forward and higher future DPS
- **Rating:** Remains NEUTRAL. We expect the market to look through the weak result and focus on FY22.

RADs; Starting to address the debt issue

RYM has added ~NZ\$600m in net debt over the last year, ~3x annuity EBITDA, as build times extend and sales slow partly due to COVID-19 disruptions, particularly in Australia. At the result RYM's debt was discussed in significantly more detail than previously and we are left with the impression that reducing the pace at which debt increases is a key priority. We note in particular the introduction of RADs in NZ, available to all care residents, effectively offering the equivalent of ~5%, tax free "interest". We believe this product will be attractive to many residents and expect this to alleviate some pressure on the balance sheet. While it does come at a cost of lower care earnings and business cash flow, we believe RYM has prioritised wisely; focussing on reducing bank debt to avoid the risk of having to slow construction activity.

Annuity EBITDA set for a third straight year of no or limited growth; all eyes on FY22

RYM has reported largely stable annuity EBITDA (EBITDA less gross new sale gains) for three years and our reduced forecasts imply only modest growth (+4%) in annuity EBITDA in FY21. The recent growth stagnation after a decade of greater than double digit growth is partly due to the slow down of development, from growth of c.10-15% to 7-8% in recent years, but of equal importance, we believe, is reduced profitability within care as costs grow faster than revenues. While it is difficult to assess this COVID-19 half with any accuracy, the trends observed over the last few years continued. We estimate that care fees per occupied bed increased by c. 1% yoy while costs increased by ~4%. The introduction of RADs will make this equation even more difficult going forward. In FY22 we expect a return to double digit growth, with strong growth in Australia, reversal of some COVID-19 related costs and strong re-sale gains.

Ryman Healthcare Limited (RYM)

Priced as at 20 Nov 2020 (NZ\$)

15.13

12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. EV/Annuity EBITDA				12.10	
Net dividend yield						2. DDM				15.40	
Estimated 12-month return						3. n/a				n/a	
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					1.30%	Total firm value				n/a	
Equity beta					0.78	(Net debt)/cash				n/a	
WACC					5.7%	Less: Capitalised operating leases				n/a	
Terminal growth					1.5%	Value of equity				n/a	
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2019A	2020A	2021E	2022E	2023E	EV/EBITDA (x)	2019A	2020A	2021E	2022E	2023E
Normalised EBITDA	268.5	289.2	293.6	367.2	407.9	EV/EBIT (x)	32.6	31.4	32.2	26.2	23.6
Depreciation and amortisation	(23.1)	(28.6)	(32.4)	(37.6)	(43.5)	PE (x)	35.7	34.9	36.2	29.2	26.4
Normalised EBIT	245.4	260.6	261.2	329.5	364.4	Price/NTA (x)	33.8	31.3	31.5	24.8	22.4
Net interest	(18.4)	(18.8)	(20.9)	(25.1)	(27.2)	Free cash flow yield (%)	n/a	n/a	n/a	n/a	n/a
Associate income	0	0	0	0	0	Net dividend yield (%)	-3.9	-4.0	-4.6	-4.8	-4.5
Tax	(3.4)	0	0	0	0	Gross dividend yield (%)	1.5	1.6	1.6	2.0	2.2
Minority interests	0	0	0	0	0	Interest cover EBIT (x)	2.1	2.2	2.2	2.8	3.1
Normalised NPAT	223.5	241.8	240.3	304.4	337.2	Interest cover EBITDA (x)					
Abnormals/other	102.4	22.9	103.1	72.0	84.2	Net debt/ND+E (%)					
Reported NPAT	326.0	264.7	343.3	376.4	421.4	Net debt/EBITDA (x)					
Normalised EPS (cps)	44.7	48.4	48.1	60.9	67.4	Capital Structure	2019A	2020A	2021E	2022E	2023E
DPS (cps)	22.7	24.2	24.2	30.5	34.0	Interest cover EBITDA (x)	13.3	13.9	12.5	13.1	13.4
Growth Rates						Key Ratios					
Revenue (%)	2019A	2020A	2021E	2022E	2023E	Return on assets (%)	2019A	2020A	2021E	2022E	2023E
EBITDA (%)	12.6	11.6	5.2	19.0	11.0	Return on equity (%)	62.0	47.6	40.0	43.3	42.1
EBIT (%)	11.8	7.7	1.5	25.1	11.1	Return on funds employed (%)	-4.4	-3.8	-3.3	-3.7	-3.6
Normalised NPAT (%)	11.7	6.2	0.2	26.2	10.6	EBITDA margin (%)	-5.9	-5.3	-4.6	-5.1	-4.8
Normalised EPS (%)	10.2	8.2	-0.7	26.7	10.8	EBIT margin (%)	46.9	45.3	43.7	45.9	46.0
Ordinary DPS (%)	10.2	8.2	-0.7	26.7	10.8	Capex to sales (%)	42.9	40.8	38.9	41.2	41.1
Cash Flow (NZ\$m)						Operating Performance					
EBITDA	2019A	2020A	2021E	2022E	2023E	Capex to depreciation (%)	2019A	2020A	2021E	2022E	2023E
Working capital change	268.5	289.2	293.6	367.2	407.9	Imputation (%)	1,991	1,977	1,882	1,786	1,656
Interest & tax paid	(20.9)	(48.3)	(71.8)	(30.5)	(22.6)	Pay-out ratio (%)	100	100	100	100	100
Other	(21.9)	(18.8)	(20.9)	(25.1)	(27.2)	Revenue (NZ\$m)*	51	50	50	50	50
Operating cash flow	(124.7)	(77.9)	(37.2)	(131.4)	(112.7)	Care fees	2019A	2020A	2021E	2022E	2023E
Capital expenditure	101.1	144.3	163.7	180.2	245.5	Management fees	302.0	333.4	359.5	394.0	436.9
(Acquisitions)/divestments	(460.4)	(565.8)	(609.9)	(671.8)	(720.1)	Other	78.9	88.7	95.7	112.7	134.8
Other	246.4	204.5	272.2	553.2	594.8	Gain on resales	0.9	1.2	1.0	1.0	1.0
Funding available/(required)	(40.2)	(48.6)	(47.0)	(48.0)	(49.0)	Gain on new sales	102.6	109.6	113.2	138.1	156.1
Dividends paid	(153.3)	(265.6)	(221.0)	13.5	71.2	Total revenue	87.9	105.6	102.6	153.7	158.7
Equity raised/(returned)	(108.5)	(117.0)	(121.0)	(152.5)	(170.0)	Key Drivers	572.3	638.5	671.9	799.5	887.6
(Increase)/decrease in net debt	(261.8)	(382.6)	(342.0)	(139.0)	(98.8)	Sales - new units	2019A	2020A	2021E	2022E	2023E
Balance Sheet (NZ\$m)						Key Drivers					
Working capital	2019A	2020A	2021E	2022E	2023E	Sales - resold units	414	513	560	850	900
Fixed assets	207.9	256.2	327.9	358.4	381.0	Gross development margin	824	923	964	1,071	1,153
Intangibles	14.6	16.8	15.6	22.4	35.6	Gross resales margin	30.2%	27.2%	24.0%	23.0%	22.0%
Right of use asset	28.0	38.1	50.1	63.1	77.1	Average new sales price (NZ\$000)	24.6%	22.7%	22.0%	23.0%	23.0%
Other assets	0	0	0	0	0	Average resles price (NZ\$000)	702	756	763	786	802
Other assets	8.2	32.7	32.8	34.3	35.6	Total portfolio	507	524	534	561	589
Total funds employed	258.6	343.75	426.5	478.2	529.2	Apartments/units	2019A	2020A	2021E	2022E	2023E
Net debt/(cash)	1,324.0	1,707.2	2,049.3	2,188.3	2,287.1	Beds	6,878	7,423	7,998	8,798	9,648
Lease liability	0	15.1	15.1	15.1	15.1	Total	10,538	11,334	12,129	13,309	14,579
Other liabilities	4,032.9	4,943.5	5,625.7	6,565.5	7,601.4						
Shareholder's funds	(5,098.3)	(6,322.2)	(7,263.6)	(8,290.7)	(9,374.3)						
Minority interests	0	0	0	0	0						
Total funding sources	258.6	344	426.5	478.2	529.2						

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

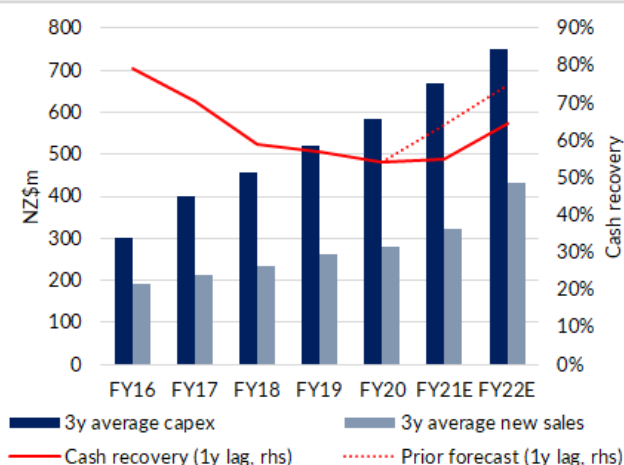
1H21 Result Summary

Figure 1. Earnings revisions (NZ\$m)

	FY20A		FY21E		FY22E			FY23E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Care fees	333.4	370.6	359.5	-3%	414.4	394.0	-5%	461.3	436.9	-5%
DMF	88.7	102.4	95.7	-7%	120.9	112.7	-7%	142.0	134.8	-5%
Resale gains	109.6	113.8	113.2	0%	132.7	138.1	4%	151.4	156.1	3%
Newsale gains	105.6	128.2	102.6	-20%	160.3	153.7	-4%	173.2	158.7	-8%
Other	1.2	1.0	1.0	0%	1.0	1.0	0%	1.0	1.0	0%
Total revenue	638.5	716.0	671.9	-6%	829.3	799.5	-4%	929.0	887.6	-4%
Total costs	349.2	382.0	378.3	-1%	434.6	432.3	-1%	492.3	479.7	-3%
EBITDA	289.2	334.0	293.6	-12%	394.7	367.1	-7%	436.7	407.8	-7%
Depreciation & amortisation	28.6	28.0	32.4	16%	31.6	37.7	19%	36.6	43.5	19%
Net interest	18.8	26.1	20.9	-20%	29.1	25.1	-14%	31.7	27.2	-14%
Underlying profit	241.8	279.8	240.3	-14%	334.0	304.4	-9%	368.3	337.1	-8%
Annuity EBITDA	183.7	205.8	191.0	-7%	234.4	213.5	-9%	263.5	249.1	-5%
DPS (cents)	24.2	24.3	24.2	0%	27.0	30.5	13%	33.0	34.0	3%

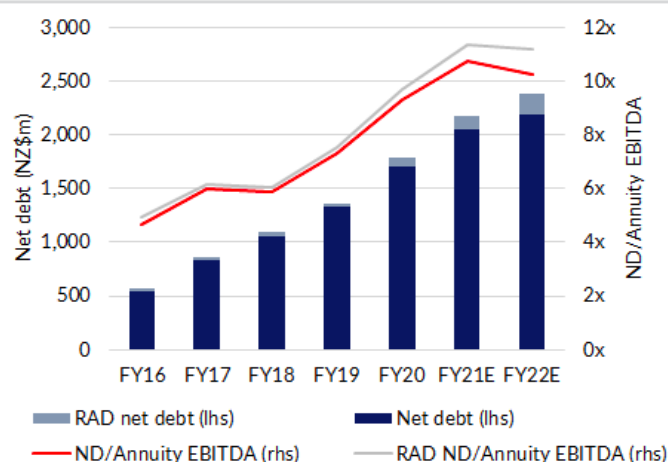
Source: Forsyth Barr analysis, Company reports

Figure 2. Cash recovery of capex



Source: Forsyth Barr analysis, Company reports

Figure 3. ND/Annuity EBITDA

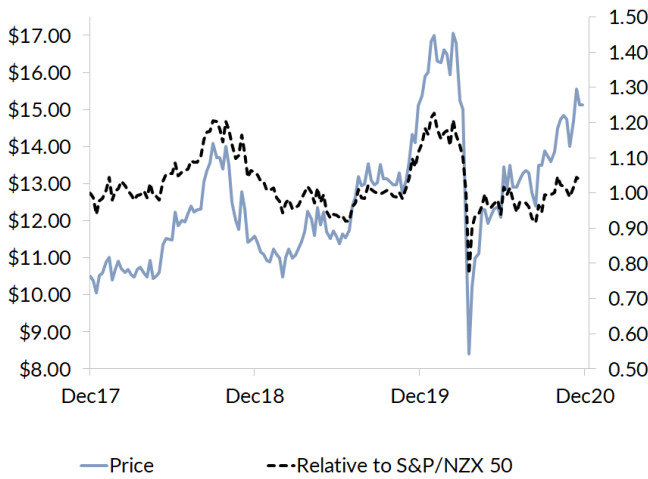


Source: Forsyth Barr analysis, Company reports

Figure 4. 1H21 result summary (NZ\$m)

	1H20	1H21	% change	1H21E FB	Actual vs estimate
Resale gains	55.4	50.8	-8%	55.9	-9%
Newsale gains	31.8	26.1	-18%	57.7	-55%
Care fees	163.1	175.8	8%	179.4	-2%
DMF	43.9	44.8	2%	50.8	-12%
Other	0.5	1.5	190%	0.5	198%
Total revenue	294.8	299.0	1%	344.4	-13%
Total costs	168.7	185.4	10%	185.6	0%
EBITDA	126.0	113.5	-10%	158.8	-29%
Depreciation & amortisation	13.8	15.7	14%	14.0	12%
Net interest	9.3	9.4	3%	13.1	-27%
Underlying profit	102.9	88.4	-14%	131.7	-33%
Annuity EBITDA	94.2	87.4	-7%	101.1	-14%
DPS (cents)	11.5	8.8	-23%	12.0	-27%

Source: Forsyth Barr analysis, Company reports

Figure 5. Price performance


Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

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

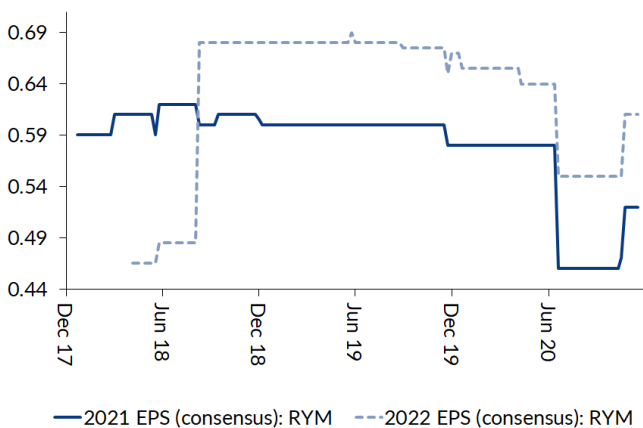
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 7. International valuation comparisons

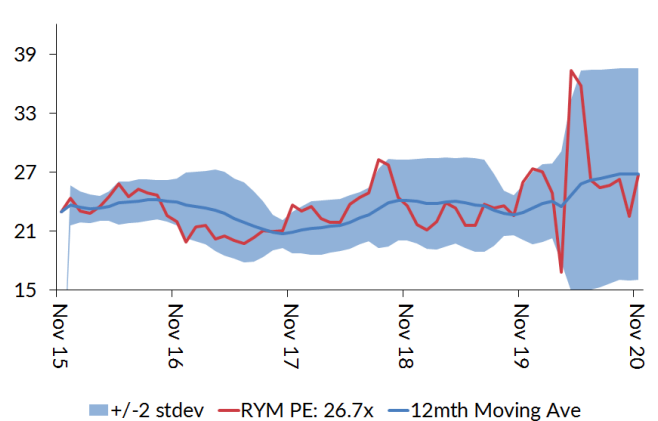
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
Ryman Healthcare	RYM NZ	NZ\$15.13	NZ\$7,565	31.5x	24.8x	31.6x	25.3x	35.5x	28.1x	2.0%
METLIFECARE *	MET NZ	NZ\$5.98	NZ\$1,272	18.1x	15.7x	19.6x	17.2x	21.2x	18.6x	1.3%
SUMMERSET GROUP LIMITED *	SUM NZ	NZ\$10.75	NZ\$2,459	23.2x	18.3x	21.7x	17.5x	23.4x	18.7x	1.6%
OCEANIA HEALTHCARE *	OCA NZ	NZ\$1.35	NZ\$841	17.3x	14.4x	16.2x	13.8x	20.7x	17.3x	3.3%
ARVIDA GROUP LIMITED *	ARV NZ	NZ\$1.80	NZ\$976	17.5x	13.7x	19.1x	15.5x	21.6x	17.2x	3.4%
Compco Average:				19.0x	15.5x	19.1x	16.0x	21.7x	18.0x	2.4%
RYM Relative:				66%	60%	65%	58%	63%	57%	-16%

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 8. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)


Source: Forsyth Barr analysis

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