Real Estate Reflections — 177th Ed

September 2019 — Spring has Sprung

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Despite August being a month which traditionally sees the least sun, the LPV sector was as luminous as ever, mirroring the performance that has preceded it in 2019. The sector ticked up +3.1% in August, with an historic 50bps OCR cut fuelling the continued success. August saw three LPVs announce results, all of which were largely inline with our forecasts. Our preferred LPVs are VHP (OUTPERFORM), KPG (OUTPERFORM), and IPL (OUTPERFORM). Target prices upgraded with new WACCs — little change to relative investment ratings

We have adopted our new risk free rate of 2% (down from 2.75%) and market risk premium of 7.5% (down from 7.75%) which is being rolled out across our research coverage universe. Given the relatively low asset betas in the listed property sector this has had a material positive impact on our DCF valuations. The level of impact on our target prices is less significant, but still material, given our target price is a 50% blend of our DCF valuations and our unchanged NAV valuations. While our target prices have lifted by +7% to +17% it has had little impact on our investment ratings. This is because our investment ratings are relative to the sector, not the wider equity market. We have downgraded AUG to NEUTRAL and upgraded KPG to OUTPERFORM reflecting relative valuation appeal after recent share price moves.

Property: the gift that keeps on giving

Other than the three steady results, activity in the sector was relatively subdued and yet the S&P/NZX50 gross property benchmark was still up +3%, bringing the YTD return to an impressive +30%. Low interest rates continue to be the key driver of this return; however, property fundamentals remain very robust in terms of vacancy, rental growth, and supply and demand dynamics.

Revaluations a continued feature

The fears of a progressively weakening macro backdrop are yet to eventuate in reduced demand for prime industrial or office space. Rental growth and cap rate compression assisted the +6.2% revaluation gain for PCT, whilst VHP's NTA lifted +2% to NZ$2.31 on the back of revaluation gains which were negatively affected by unfavourable financial derivative movements. PFI's NTA per share of NZ$1.83 per share was up +3% on the back of a pleasing +8.8% interim revaluation gain to 13 properties in its portfolio.

Figure 1. NZ Listed property sector summary

LPV	Code	Rating	Price 4-Sep	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	NEUTRAL	$0.64	$0.65	8.1%	5.1%	97%
Argosy Property	ARG	NEUTRAL	$1.48	$1.35	6.1%	4.2%	114%
Augusta Capital	AUG	NEUTRAL	$1.51	$1.38	6.0%	4.8%	108%
Goodman Property	GMT	UNDERPERFORM	$2.18	$1.79	4.4%	2.9%	130%
Investore	IPL	OUTPERFORM	$1.94	$1.85	5.6%	3.9%	116%
Kiwi Property Group	KPG	OUTPERFORM	$1.64	$1.62	6.1%	4.0%	106%
Precinct Properties	PCT	NEUTRAL	$1.87	$1.60	4.8%	3.2%	120%
Property for Industry	PFI	NEUTRAL	$2.40	$2.00	4.5%	3.2%	122%
Stride Property	SPG	NEUTRAL	$2.35	$2.18	6.1%	3.9%	114%
Vital Healthcare	VHP	OUTPERFORM	$2.67	$2.69	4.9%	3.0%	115%
Core simple average					**5.3%**	**3.5%**	**117%**

Source: Forsyth Barr analysis, Company Reports

No surprises in August results

Three LPVs reported in August — Precinct Properties (PCT), Property for Industry (PFI) and Vital Healthcare (VHP)

Figure 2. August results summary

	Growth per share (versus pcp)				Reported v Expectations			Forbarr FY20E revisions		
	Period	Revenue	EBITDA	Earnings	Revenue	EBITDA	Earnings	Revenue	EBITDA	Earnings
PCT	FY19	-0.6%	-7.3%	0.7%	-3.2%	-4.9%	-0.5%	0.0%	1.4%	7.4%
PFI	1H19	4.0%	4.2%	-0.2%	0.5%	0.6%	-1.8%	0.9%	1%	0.6%
VHP	FY19	5.5%	4.8%	-10.1%	0.4%	-0.4%	-0.7%	0.0%	0.0%	-2.3%

Source: Forsyth Barr analysis, Company Reports

VHP — Healthy and Strong

VHP announced its FY19 results which were very positive and largely aligned with expectations. Net property income of NZ$97.7m was up +7.7%, producing like-for-like same currency rental growth of +2.3% and met forecasts. NTA lifted +2% to NZ$2.31 on the back of revaluation gains but was negatively effected by disadvantageous interest rate derivative and exchange rate movements.

The FY19 dividend came in as per guidance, whilst management guided to a flat FY20 dividend of "at least" 8.75cpu. The defensive position of the portfolio continues to hold strong with a WALT of 18.1 years, occupancy levels of 99.4% and an average 1.7%pa of the portfolio scheduled to come up for expiry over the next 10 years. With gearing at 35.3%, the firm is well positioned to execute on its extensive development pipeline and is likely to continue to look to divest of non-core assets whilst focussing on the acquisition of new, potentially aged-care centred sites.

PFI — Industrious

PFI released its 1H19 result which aligned very closely with expectations. Distributable profit per share was 4.35cps with net income up +4%, driven largely by strong underlying market rental growth of ~5%. AFFO of 4.11cps was +7% ahead of our forecasts and up +17% due to significantly lower maintenance capex in the 1H. The 2Q19 dividend was 1.8cps, bringing the 1H19 dividend to 3.60cps, and management guiding to a 7.60cps dividend in FY19. PFI indicated that FY19 FFO will be in the middle of its target range, likely ~8.95cps.

NTA of NZ$1.83 per share was up +3% on the back of a pleasing +8.8% revaluation gain to 13 properties in its portfolio, bringing PFI's average cap rate to 6.09%. Industrial properties continued stellar demand was emphasised given PFI's occupancy at a 99.7%, and WALT of 5.7 years. Management also addressed its strategy to reposition its portfolio toward entirely high quality industrial property, highlighting that with gearing at ~31.1% there is strong flexibility to invest in new prime industrial, possibly ahead of divesting of non-core assets.

PCT — Prime Precincts

PCT reported a pleasing FY19 result with its high quality portfolio of prime office assets well positioned to benefit from favourable supply-demand dynamics. FY19 normalised NPAT was ~NZ$79m, whilst EPS of 6.37cps was up +1% yoy. The firm guided to an FY20 dividend of 6.30cps representing +5% growth, leading the listed sector and pleasing given its policy to continue to grow the dividend into its AFFO.

NTA lifted +6.4% on the back of revaluation gains to NZ$1.49 and committed gearing is ~30% if the post balance date NZ$77m sale of Pastoral House is included. The portfolio remains in very good shape with a 9 year WALT and with 99% occupancy. Like-for-like portfolio rental growth was a solid +3.9% and was driven by the Auckland assets. We lifted forecast FY20 earnings on the back of lower interest costs.

WACC Valuation Adjustments

Figure 3. Changes to WACC , target prices and investment ratings

LPV	Share price	Equity Beta	Old WACC	OLD DCF	New WACC	New DCF	NAV	Old Target Price	New Target price	Target Price Change	OLD Rating	New Rating
APL	0.635	0.78	6.4	0.53	5.8	0.63	0.66	0.61	0.65	6.6%	NEUTRAL	NEUTRAL
ARG	1.47	0.77	6.2	1.04	5.5	1.344	1.29	1.2	1.35	12.5%	NEUTRAL	NEUTRAL
AUG	1.5	0.81	7.3	1.21	6.6	1.39	1.29	1.29	1.38	7.0%	OUTPERFORM	NEUTRAL
GMT	2.18	0.62	5.7	1.41	5.1	1.8	1.67	1.58	1.79	13.3%	UNDERPERFORM	UNDERPERFORM
IPL	1.94	0.7	5.6	1.48	4.9	1.952	1.66	1.61	1.85	14.9%	OUTPERFORM	OUTPERFORM
KPG	1.63	0.67	5.8	1.27	5.1	1.67	1.54	1.44	1.62	12.5%	NEUTRAL	OUTPERFORM
PCT	1.87	0.69	5.8	1.19	5.2	1.55	1.56	1.5	1.6	6.7%	NEUTRAL	NEUTRAL
PFI	2.375	0.7	6	1.55	5.33	1.99	1.96	1.81	2	10.5%	NEUTRAL	NEUTRAL
SPG	2.34	0.8	6.2	1.79	5.6	2.196	2.05	1.98	2.18	10.1%	NEUTRAL	NEUTRAL
VHP	2.63	0.68	5.8	2.16	5.1	2.92	2.3	2.3	2.69	17.0%	OUTPERFORM	OUTPERFORM

Source: Forsyth Barr analysis, Company Reports

Lower risk free rate and market risk premium

In this report we have adopted our new risk free rate of 2% (down from 2.75%) and market risk premium of 7.5% (down from 7.75%) which is being rolled out across our research coverage universe. Given the relatively low asset betas in the listed property sector this has had a material positive impact on our DCF valuations. The level of impact on our target prices is less significant, but still material given our target price is a 50% blend of our DCF valuations and our unchanged NAV valuations.

Figure 3 highlights the changes across the 10 LPVs we cover. While the lower WACC has lifted our target prices by +7% to +17% it has had little impact on our investment ratings. This is because our investment ratings are relative to the listed property sector, not the wider equity market.

Rating changes — KPG from HOLD to OUTPERFORM and AUG from OUTPERFORM to NEUTRAL

KPG had a relatively large lift in its target price and has for some time been our preferred large cap exposure given the premium pricing attached to GMT and PCT. Concern regarding KPG's retail exposure is the key reason for the discount which we think provides an opportunity for investors given the quality of KPG's assets.

AUG has had a strong share price run since we updated our rating to OUTPERFORM (in our research note *'Growth Under Management'* dated 14 June 2019) and we have pulled this back to NEUTRAL.

Figure 4. Peer Multiples

Company	P / NTA	P / NAV	PE	P / AFFO	Cash yield	AFFO yield	Gross yield	AFFO Pay-out
APL	-8.50%	-3.10%	16.9x	19.7x	5.70%	5.10%	8.10%	111%
ARG	20.10%	13.60%	21.8x	24.1x	4.30%	4.20%	6.10%	103%
AUG	108.00%	29.30%	21.8x	21.8x	4.20%	4.60%	5.80%	91%
GMT	38.90%	30.20%	31.6x	34.8x	3.10%	2.90%	4.40%	106%
IPL	14.10%	16.80%	23.6x	25.9x	3.90%	3.90%	5.60%	101%
KPG	13.60%	5.20%	22.4x	24.9x	4.30%	4.00%	6.20%	108%
PCT	34.00%	19.90%	28.0x	31.6x	3.40%	3.20%	4.80%	107%
PFI	33.90%	21.40%	27.5x	30.8x	3.20%	3.30%	4.60%	99%
SPG	21.40%	13.80%	21.7x	25.6x	4.30%	3.90%	6.10%	109%
VHP	17.40%	14.60%	26.6x	33.4x	3.40%	3.00%	4.90%	114%
Average	**29.30%**	**16.20%**	**24.2x**	**27.2x**	**4.00%**	**3.80%**	**5.70%**	**105%**
Core average[1]	**24.20%**	**16.90%**	**25.4x**	**28.9x**	**3.70%**	**3.50%**	**5.30%**	**106%**

Source: Forsyth Barr analysis, Company Reports

Property News for July 2019

NZ listed property portfolio activity

AUG has announced plans to set up its first residential land development project, along with an associated fund. The firm is conducting due diligence on a 40 hectare plot of land just outside of Warkworth. There is potential for up to 800 homes to be developed on the land accompanied with other amenities including a neighbourhood centre. Sale of units in the new fund are likely to be reserved for high net worth, wholesale investors who are more interested in capital gain over defensive stabilised return which appeals more to retail investors. [3 August 2019]

PFI announced the off market acquisition of an industrial property at Tidal Road in Mangere, Auckland for NZ$34.2m. The property, which currently plays host to 10,410 sqm of warehouse, 2,640 sqm of breezeway canopies and 740 sqm of offices, will be developed by Aintree Group for Auckland Logistics provider, Supply Chain Solutions. The acquisition is expected to provide PFI with a 5.35% return, with the completed development expected in February 2021. Upon completion a 12-year lease will commence providing fixed rental growth of 2.5%pa. PFI has highlighted that the purchase of this site aligns with its strategy to divest of non-core assets, replacing them with quality industrial properties located in highly demanded areas. [14 August 2019]

Other NZ listed property news

VHP has reported a steady FY19 result with like-for-like same currency rental growth up a solid +2.3%. Net property income was in line with forecasts at NZ$97.7m, up +7.7%, driven by a full year of rent from acquisitions in FY18 and recent development activity. Distributable profit was back -8% and impacted by increased tax and corporate costs. VHP has presented a normalised profit of NZ$51m, up +3.8% on a comparable pcp number that adds back some non-recurring costs and the impact of higher current tax this period. [8 August 2019]

PCT reported FY19 net operating income of NZ$79.4m that was in line with our forecasts, helped by lower interest and tax which offset higher corporate costs and performance fees. EPS was 6.37cps, up +1% and up +4.7% excluding performance fees. The 2H19 dividend was 3cps as expected and in line with guidance. The total dividend of 6cps was in line with AFFO (adjusted funds from operations). [18 August]

PFI reported 1H19 distributable profit per share of 4.35cps, slightly ahead of our forecast of 4.30cps, driven by underlying market rental growth of ~5%. The 2Q19 dividend was 1.8cps and in line with expectations. The 1H19 dividend is an 88% pay-out of PFI's calculated AFFO, providing some slight upside risk to the 7.60cps FY19 dividend. [18 August]

APL announced that it will pay its dividend declared for the quarter ended 30 June 2019, to shareholders on 4 September 2019, with a record date of 28 August 2019. The gross dividend for the quarter is NZ$1.024cps, consisting of NZ$0.90cps of cash and NZ$0.12cps of imputation credits. [20 August 2019]

IPL announced a cash dividend for the 1Q20 of 1.90cps to be paid on 13 September 2019. The record date for the dividend is 6 September 2019. The Board confirmed FY20 dividend guidance for an annual cash dividend of 7.60cps. [22 August 2019]

SPG held its 2019 AGM on 29 August 2019, reiterating its flat dividend guidance of 9.91cps, equating to 95–100% of distributable profit. Management also further discussed its intentions to establish a wholesale industrial fund of which SPG will be the cornerstone investor. Such a fund will likely be seeded in FY20 and is expected to consist of circa NZ$360m of industrial assets. [29 August 2019]

AUG declared that its gross dividend for the 1Q20 will be NZ$2.26cps fully imputed, and to be paid Friday, 13 September 2019. The record date will be 6 September 2019. [29 August 2019]

VHP announced the appointment of Michael Groth as the new Vital and NorthWest Regional CFO. Groth has over thirteen years of experience in a variety of senior property and funds management roles and will take over the role at VHP from the retiring and longstanding CFO, Stuart Harrison, in February 2020. [30 August 2019]

Other commercial property news

The General Building on the corner of Shortland and O'Connell Streets has sold for NZ$42 million to domestic acquirer, Southbourne Holdings. With NLA of ~5469 sqm the new owners are expected to restore the historic property in order to capture the robust tenant demand for such properties, currently in slim supply. The sale price provides an implied cap rate of approximately 5.2%. [nzherald.co.nz 2 August 2019]

Auckland Council has approved high level plans for up to 34,500 new houses around Drury and Pukekohe over the next 30 years. The new developments will be expected to accommodate circa 95,000 people upon completion, a population which will equate to NZ's 8th largest city. [nzherald.co.nz 6 August 2019]

Pacific Property Fund (PPE) has agreed to purchase a collection of industrial Wellington properties for NZ$56.17m, representing the most expensive industrial transaction in Wellington for the year. The properties are located in the suburb of Seaview at 43 Seaview road and 120 Hutt Park Road and combined have ~28,500 sqm of NLA, with annualised rents of NZ$4.35m. PPE purchased the properties off a group of Wellington based investors and will offer NZ$21,000 share lots to investors to fund the acquisition. [6 August 2019]

A European investor syndicate has purchased the Ministry of Education Building on 33 Bowen Street, Wellington, from Talavera Property, for NZ$82m. [8 August 2019]

Orams Group, a collective 30% owned by Sir Ron Brierley, has been granted consent to extend its leasehold interests by 3.5ha at Beaumont St in the Wynyard quarter by the Overseas Investment Office for NZ$51.5m. The leasehold is set to run the next 125 years, and Orams has plans to develop the site for use in the 2021 America's Cup. [8 August 2019]

Real estate financier, MaxCap Group, who currently has ~NZ$4.3bn under management, is introducing it's services to the NZ market in a 50% joint venture with Bayleys Corporation and Forysth Barr. The consortium will be known as MaxCap NZ and will look to provide financing for property transactions NZ$3m+. [24 August 2019]

Property Index Summary — August 2019

Figure 5. Sector total returns (as at 31 August 2019)

Company	Code	Price 31-Jul	Market Cap	Gr. Div wImp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	$0.635	$103m	$0.02	+2.4%	6	+5.7%	10	+15.4%	10	+18.1%	10
Argosy Property	ARG	$1.465	$1,212m	-	+3.2%	4	+12.5%	6	+43.4%	3	+25.8%	7
Augusta	AUG	$1.480	$133m	-	+0.0%	10	+24.4%	1	+43.5%	2	+46.0%	1
CDL Investments	CDI	$0.710	$201m	-	-2.7%	n/a	+0.0%	n/a	-17.2%	n/a	-8.7%	n/a
Goodman Prop Trust	GMT	$2.180	$2,839m	-	+6.3%	1	+18.7%	2	+53.4%	1	+45.6%	2
Investore	IPL	$1.920	$499m	-	+1.6%	7	+8.7%	8	+33.2%	6	+29.1%	4
Kiwi Property Group	KPG	$1.630	$2,354m	-	+0.6%	8	+6.4%	9	+25.9%	9	+22.8%	9
Precinct Properties NZ	PCT	$1.865	$2,450m	-	+4.5%	2	+16.2%	3	+35.5%	5	+28.7%	5
Property for Industry	PFI	$2.355	$1,192m	$0.02	+4.3%	3	+16.1%	4	+40.4%	4	+34.7%	3
Stride Property Group	SPG	$2.330	$855m	-	+2.6%	5	+10.9%	7	+29.4%	8	+24.2%	8
Vital Healthcare Property Trust	VHP	$2.625	$1,187m	-	+0.4%	9	+13.8%	5	+32.0%	7	+28.4%	6
S&P/NZX All Real Estate Cap		1,478.4			+3.1%		+11.5%		+29.5%		+26.7%	
S&P/NZX All Real Estate Gr.		**1,789.9**			**+3.2%**		**+12.9%**		**+35.3%**		**+29.6%**	
S&P/NZX All Real Estate Gr. wImp		1,863.8			+3.2%		+13.2%		+36.6%		+30.3%	
S&P/NZX 50 Gross		**10,757.2**			**-0.9%**		**+6.3%**		**+15.5%**		**+22.1%**	
S&P/NZX 50 Gross wImp		13,036.0			-0.8%		+6.5%		+16.7%		+22.8%	

Source: Forsyth Barr analysis, IRESS

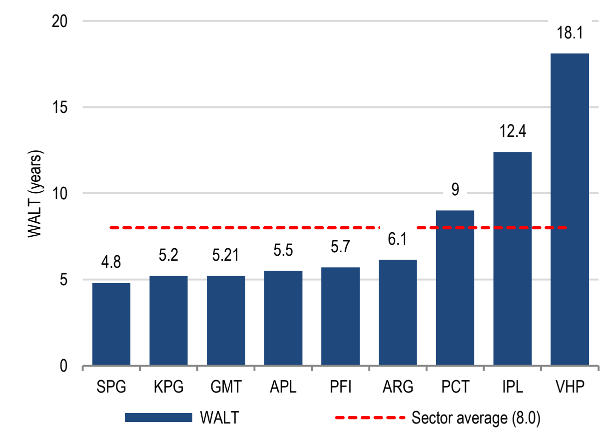
Portfolio summary

Figure 6. Portfolio Metrics Summary

Company	Value (NZ$m)	NLA (000sqm)	No. assets	No. tenants	Market cap rate (%)	Contract / passing yield (%)	Average asset size (NZ$m)	WALT (years)	Occupancy (%)	Vacancy	FY1 expiry	FY2 expiry	Vacancy + FY1-FY2 expiry
APL	123	96	3	nd	7.40%	6.82%	41	5.5	97.2%	2.8%	14.0%	8.0%	24.8%
ARG	1,668	587	60	171	6.41%	6.65%	28	6.1	97.8%	2.2%	8.5%	10.3%	21.0%
GMT	2,633	961	10	264	6.20%	nd	263	5.2	98.2%	1.8%	2.0%	15.0%	18.8%
IPL	761	210	40	78	6.05%	6.05%	19	12.4	99.9%	0.1%	1.1%	2.1%	3.3%
KPG	3,207	437	12	913	5.99%	nd	267	5.2	99.3%	0.7%	10.0%	9.0%	19.7%
PCT	2,517	232	13	nd	5.70%	nd	194	9.0	99.0%	1.0%	8.5%	5.0%	14.5%
PFI	1,368	647	94	147	6.10%	6.09%	15	5.7	99.7%	0.3%	2.0%	12.7%	15.0%
SPG	966	252	26	381	6.35%	6.43%	37	4.8	97.6%	2.4%	7.1%	13.8%	23.3%
VHP	1,836	nd	42	nd	5.61%	nd	44	18.1	99.4%	0.6%	3.9%	3.8%	8.3%
Total	**15,081**	**3,422**	**300**	**1,954**									
Average	**1,676**	**428**	**33**	**326**	**6.20%**	**6.37%**	**101**	**8.0**	**98.7%**	**1.3%**	**6.3%**	**8.9%**	**16.5%**

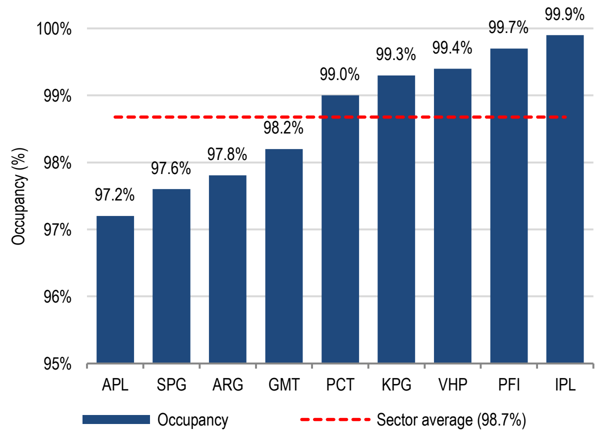
All metrics are last reported. Source: Forsyth Barr analysis, Company reports

Figure 7. Sector WALT (weighted average lease term)



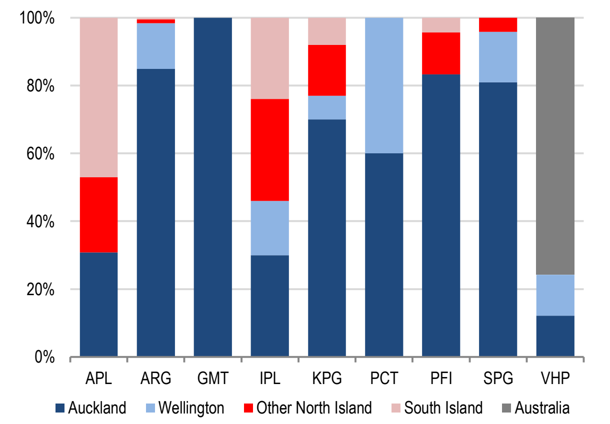
Source: Forsyth Barr analysis, Company reports

Figure 8. Sector occupancy



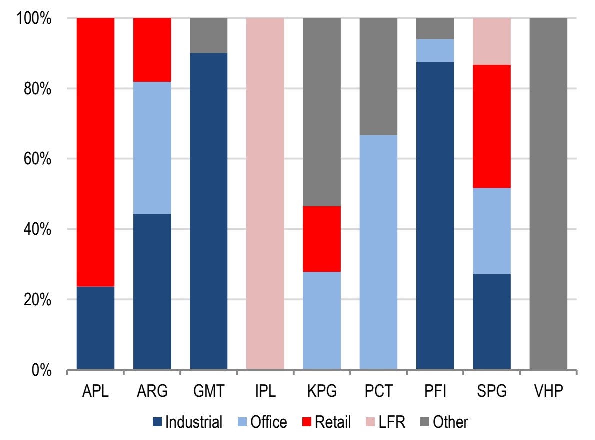
Source: Forsyth Barr analysis, Company reports

Figure 9. Geographical diversification



Source: Forsyth Barr analysis, Company reports

Figure 10. Sector diversification



Source: Forsyth Barr analysis, Company reports

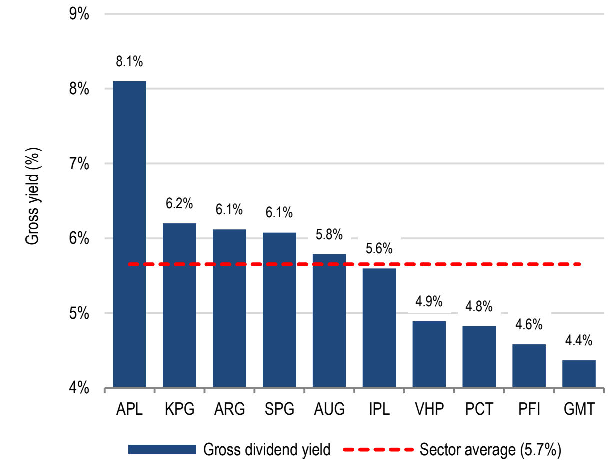
Relative value summary

Figure 11. Relative Valuation Metrics — 4 September 2019

Company	Rating	Value 4-Sep	Cash yield	Gross yield	P / NTA[1]	PE	EV/ EBITDA
Asset Plus	NEUTRAL	0.64	5.7%	8.1%	0.91x	16.9x	15.9x
Argosy Property	NEUTRAL	1.48	4.3%	6.1%	1.20x	21.9x	20.5x
Augusta Capital	NEUTRAL	1.51	4.3%	6.0%	2.01x	21.0x	15.0x
Goodman Property	UNDERPERFORM	2.18	3.1%	4.4%	1.39x	31.5x	26.6x
Investore	OUTPERFORM	1.94	3.9%	5.6%	1.14x	23.5x	19.6x
Kiwi Property Group	OUTPERFORM	1.64	4.3%	6.1%	1.15x	22.6x	19.2x
Precinct Properties	NEUTRAL	1.87	3.4%	4.8%	1.34x	28.0x	24.3x
Property for Industry	NEUTRAL	2.40	3.2%	4.5%	1.35x	27.7x	19.9x
Stride Property	NEUTRAL	2.35	4.3%	6.1%	1.21x	21.7x	20.9x
Vital Healthcare	OUTPERFORM	2.67	3.4%	4.9%	1.18x	26.7x	22.0x
S&P/NZX Real Estate Gross		**1,795**	**3.7%**	**5.2%**	**1.28x**	**26.3x**	**22.4x**
S&P/NZX50 Gross		**10,982**	**3.3%**	**4.3%**	**2.75x**	**23.9x**	**13.7x**

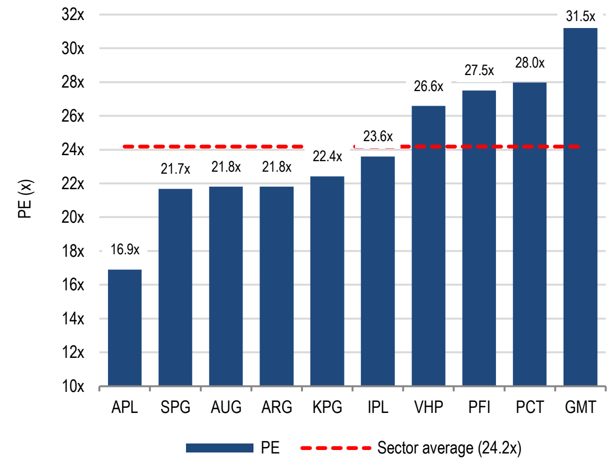
Source: Forsyth Barr analysis, Company Reports

Figure 12. Gross yield



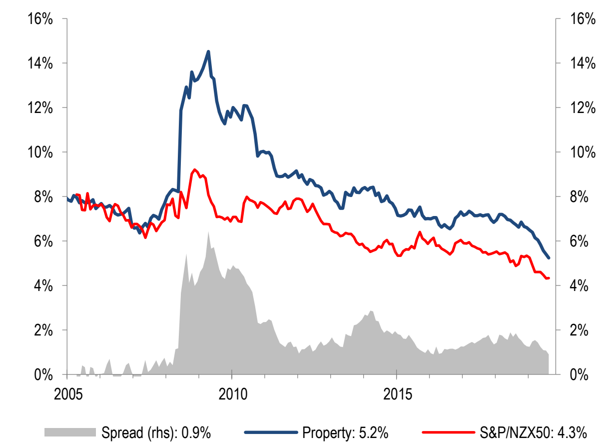
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 13. PE ratio



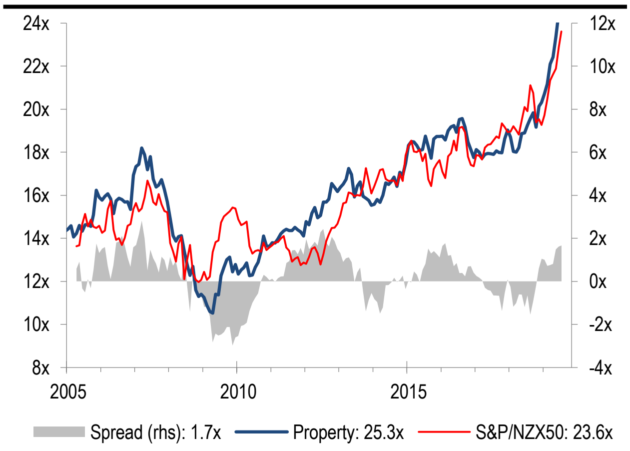
Source: Company reports, Forsyth Barr analysis , Thompson Reuters

Figure 14. Sector gross yield versus S&P/NZX50 gross yield



Source: Company reports, Forsyth Barry analysis, IRESS

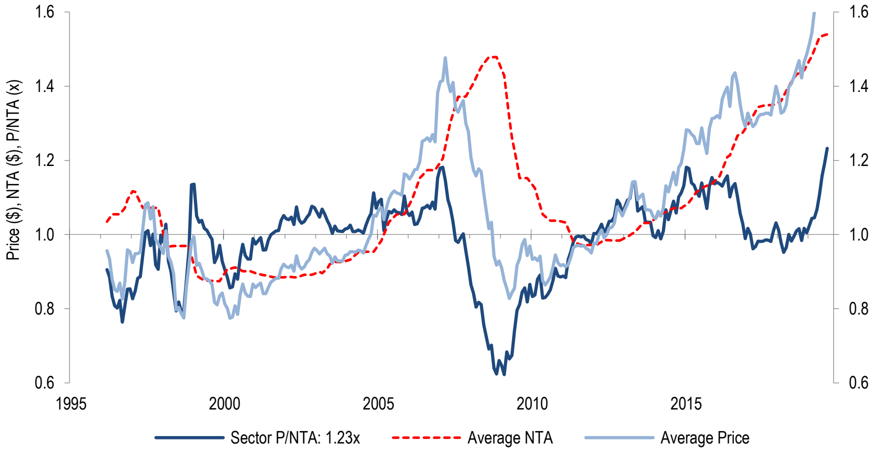
Figure 15. Sector PE versus S&P/NZX50 PE



Source: Forsyth Barr analysis, Company reports, IRESS

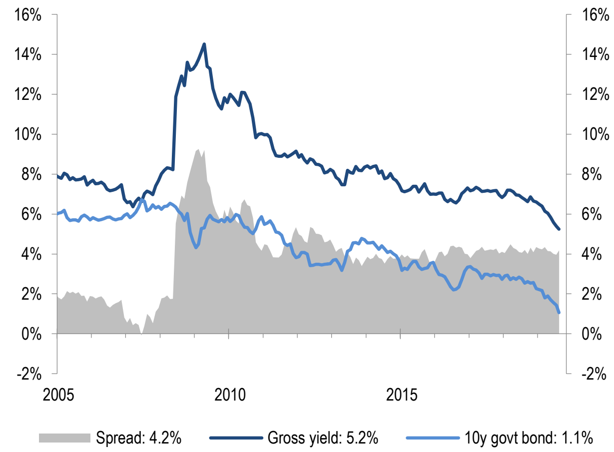
Key monthly charts and tables

Figure 16. Sector P/NTA, NTA and price



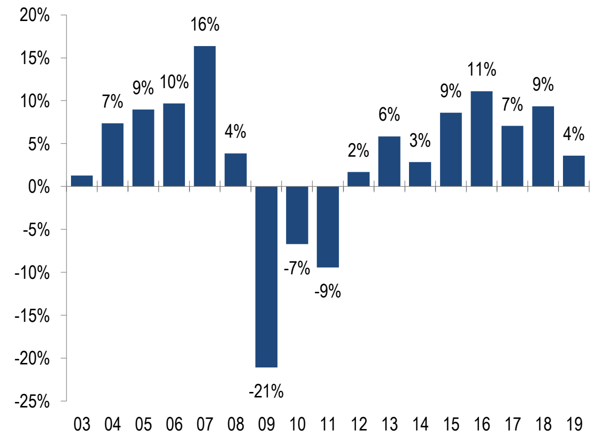
Note: Series represents simple average of price to reported NTA for core LPV's (ARG, GMT,IPL, KPG, PCT, PFI). Source: Company reports, IRESS, Forsyth Barr analysis.

Figure 17.Yield Spread- gross dividend yields vs. 10 year bond



Source: Gross div yield is the PIE yield from Sep-07. Source: Company reports, Forsyth Barr analysis.

Figure 18. Sector NTA growth



Source: Forsyth Barr analysis. Note: Sector average is weighted by market capitalisation, as at August, 2019

Figure 19. Dividend Summary

Company	FY17 DPS	FY18 DPS	FY19 DPS	FY20 DPS	12-mth DPS	Price 3-Sep	Cash yield	Gross yield[1] 17.5% MTR	Gross yield[2] 30.0% MTR	Gross yield[3] 33.0% MTR
APL	3.60	3.60	3.60	3.60	3.60	$0.64	5.7%	7.4%	8.1%	8.5%
ARG	6.10	6.20	6.28	6.28	6.28	$1.47	4.3%	5.6%	6.1%	6.4%
AUG	5.50	5.63	6.13	6.50	6.50	$1.56	4.2%	5.8%	5.8%	5.8%
GMT	6.65	6.65	6.65	6.65	6.65	$2.18	3.1%	4.0%	4.4%	4.6%
IPL	0.00	7.46	7.60	7.60	7.60	$1.94	3.9%	5.1%	5.6%	5.8%
KPG	6.72	6.85	6.95	7.05	7.05	$1.63	4.3%	5.6%	6.2%	6.5%
PCT	5.60	5.80	6.00	6.30	6.32	$1.87	3.4%	4.4%	4.8%	5.0%
PFI	7.45	7.55	7.60	7.65	7.63	$2.38	3.2%	4.2%	4.6%	4.8%
SPG	9.96	9.91	9.91	9.91	9.91	$2.33	4.3%	5.5%	6.1%	6.3%
VHP	8.50	8.56	8.75	9.00	9.00	$2.64	3.4%	4.3%	4.9%	5.1%
Avg							**4.0%**	**5.2%**	**5.7%**	**5.9%**
Weighted avg							**3.7%**	**4.8%**	**5.2%**	**5.5%**

Source: Forsyth Barr analysis, Company Reports

Figure 20. EPS and AFFO summary (Forsyth Barr estimates)

Company	FY18 EPS	FY19 EPS	FY20 EPS	12-mth fwd EPS	PE	FY18 AFFO	FY19 AFFO	FY20 AFFO	12-mth fwd AFFO	AFFO yield
APL	3.88	3.19	3.87	3.76	16.9x	3.80	2.69	3.29	3.23	+5.08%
ARG	6.62	6.94	6.60	6.72	21.8x	6.04	6.25	5.99	6.09	+4.16%
AUG	6.60	8.85	7.18	7.15	21.8x	6.60	8.85	7.18	7.15	+4.59%
GMT	7.24	7.02	6.80	6.90	31.6x	6.35	6.32	6.14	6.27	+2.88%
IPL	7.85	8.02	8.15	8.22	23.6x	7.07	7.54	7.43	7.50	+3.86%
KPG	7.46	6.99	7.10	7.25	22.4x	6.82	6.41	6.39	6.53	+4.02%
PCT	6.32	6.37	6.61	6.69	28.0x	5.80	6.02	5.86	5.92	+3.17%
PFI	8.38	8.61	8.67	8.65	27.5x	7.46	7.80	7.71	7.74	+3.25%
SPG	10.63	10.62	10.49	10.75	21.7x	9.12	8.87	8.82	9.10	+3.91%
VHP	10.60	9.51	9.80	9.89	26.6x	7.45	5.86	7.60	7.89	+3.00%
Avg					**24.2x**					**+3.79%**
Weighted avg					**26.3x**					**+3.45%**

Source: Forsyth Barr analysis, Company Reports

Argosy Property

NEUTRAL

Small Wins Adding Up

Argosy Property (ARG) continues to recycle non-core assets and actively work through incremental development opportunities to improve portfolio quality. Fundamentals are improving following leasing success which is reflected in strong portfolio metrics. The outlook for the earthquake-impacted 7 Waterloo Quay is clearer with reinstatement works tracking for completion in late 2019, and leasing demand looking robust. In our sector report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the ARG target price by +13%. NEUTRAL.

Earnings and cash flow outlook

- **Rental growth:** ARG achieved robust rental growth of +2.8% (annualised) across rent reviews in FY19 with the industrial portfolio particularly strong.
- **Development activity:** ARG has completed a number of refurbishment projects where it has focussed on improving energy efficiency and 'greening' its buildings. Developments include office at 107 Carlton Gore Road and 8–14 Willis Street (leased to Statistics NZ for 15 years), and retail at Stewart Dawson's corner in Wellington.

Business quality

- **Revaluation gains:** ARG reported an FY19 revaluation gain of NZ$70.5m (+4.3%), lifting NTA per share +10cps to NZ$1.22.
- **Industrial assets underpin portfolio:** ARG's portfolio WALT was steady in FY19 at 6.1 yrs. ARG's WALT is underpinned by its NZ$700m+ industrial portfolio (7.2 yrs), which is sector-leading versus industrial peers, Property for Industry and Goodman Property. ARG has the highest exposure to industrial assets in the sector (44%) after GMT (100%) and PFI (86%).

Financial structure

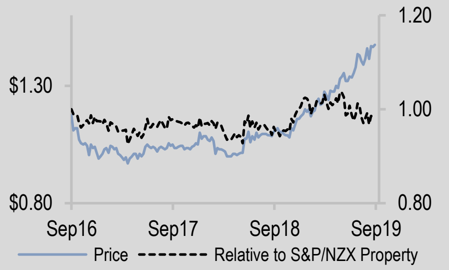
- **Balance sheet:** Gearing is around sector average levels at ~35% and it pays out around AFFO, providing an attractive dividend yield.
- **Dividends:** ARG has guided to a flat dividend in FY20 as it looks to move close to covering its dividend by AFFO on a sustainable basis.

Risks factors

- **Auckland office conditions:** Auckland office is vulnerable from increasing supply and the drive for space efficiency, however, recently this has been offset by assets leaving the market and increased government space.
- **Lease expiry:** ~19% of leases (by rent) are expiring in FY20 and FY21 including 8,100m to MBIE at 147 Lambton Quay in the near-term.

NZX code	ARG
Share price (as at 4 Sep 2019)	NZ$1.48
Target Price	NZ$1.35
Risk Rating	Low
Issued shares	827.0m
Market cap	NZ$1,220m
Average daily turnover	583.4k (NZ$728k)

Share Price Performance



Company Description

Property | Diversified property

Argosy (ARG) owns a portfolio of 60 investment properties valued at NZ$1.7bn. Its portfolio is diversified across office, retail and industrial assets and regionally weighted to Auckland (71%). ARG has been active selling non-core assets in recent years, and we expect this to continue. ARG was listed in 2002 (previously named ING Property Trust) with a portfolio of two Auckland office buildings and in June 2005 completed the takeover of Urbus Properties. ARG's management structure was internalised in 2011 and in 2012 it converted its corporate structure from a trust to a company.

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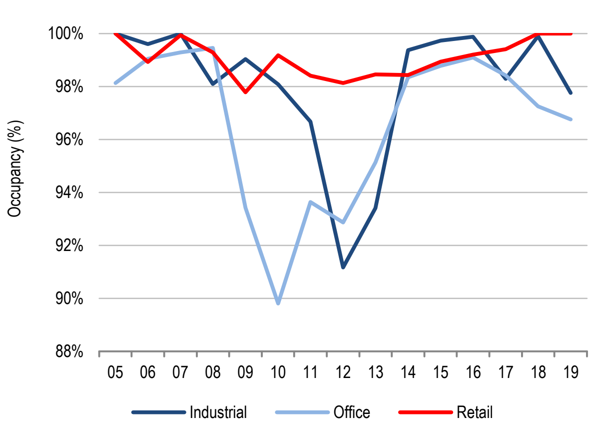
Figure 21. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	32%	8%	1%	41%
Office	20%	17%	-	37%
Retail	20%	2%	-	22%
Total	71%	28%	1%	100%

Source: Company reports, Forsyth Barr analysis. Note: Data is based on reported portfolio as at 31/03/19

Figure 22. ARG occupancy by sector



Source: Forsyth Barr analysis, company reports

Argosy Property Limited (ARG) Priced as at 04 Sep 2019: NZ$1.48 March year end

Forsyth Barr valuation			
Valuation methodology		Blended DCF (50%) and NAV (50%)	
12-month target price (NZ$)*	**1.35**	**Spot valuations (NZ$)**	
Expected share price return	-8.5%	1. DCF	1.34
Net dividend yield	4.3%	2. NAV	1.29
Estimated 12-month return	-4.2%	n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	1,770
Equity beta	0.77	(Net debt)/cash	(591)
WACC	5.5%	Value of equity	1,138
Terminal growth	1.5%	Shares (m)	827

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	101	102	100	107	113
Normalised EBITDA	**91**	**92**	**89**	**95**	**101**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**91**	**92**	**89**	**95**	**101**
Net interest	(25)	(24)	(25)	(26)	(31)
Associate income	-	-	-	-	-
Tax	(11)	(10)	(10)	(12)	(14)
Minority interests	-	-	-	-	-
Normalised NPAT	**55**	**57**	**55**	**57**	**57**
Abnormals/other	44	76	41	42	27
Reported NPAT	**98**	**134**	**95**	**99**	**84**
Normalised EPS (cps)	6.6	6.9	6.6	6.9	6.9
DPS (cps)	6.2	6.3	6.3	6.3	6.3

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	0.2	1.5	-2.4	6.7	6.1
EBITDA (%)	-0.4	0.5	-2.7	7.0	6.4
EBIT (%)	-0.4	0.5	-2.7	7.0	6.4
Normalised NPAT (%)	2.0	5.0	-4.9	4.3	0.0
Normalised EPS (%)	1.0	4.8	-4.9	4.3	0.0
DPS (%)	1.6	1.2	0.0	0.0	0.0

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**91**	**92**	**89**	**95**	**101**
Working capital change	7	9	-	0	-
Interest & tax paid	(35)	(34)	(34)	(38)	(44)
Other	-	-	-	-	-
Operating cash flow	**62**	**67**	**55**	**57**	**57**
Capital expenditure	(63)	(95)	(88)	(37)	(6)
(Acquisitions)/divestments	25	41	-	-	-
Other	(1)	(2)	16	16	-
Funding available/(required)	**23**	**11**	**(17)**	**36**	**51**
Dividends paid	(47)	(52)	(52)	(52)	(52)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	**24**	**41**	**69**	**16**	**1**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(11)	(14)	(14)	(14)	(14)
Fixed assets	1,513	1,667	1,779	1,842	1,875
Intangibles	-	-	-	-	-
Other assets	29	4	4	4	4
Total funds employed	**1,531**	**1,657**	**1,770**	**1,833**	**1,865**
Net debt/(cash)	552	591	660	677	677
Other non current liabilities	53	57	57	57	57
Shareholder's funds	927	1,009	1,052	1,099	1,131
Minority interests	-	-	-	-	-
Total funding sources	**1,531**	**1,657**	**1,770**	**1,833**	**1,865**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	19.1	19.4	20.7	19.7	18.6
EV/EBIT (x)	19.1	19.4	20.7	19.7	18.6
PE (x)	22.3	21.3	22.4	21.5	21.5
Price/NTA (x)	1.32	1.21	1.16	1.11	1.08
Free cash flow yield (%)	-0.1	-2.3	-2.8	1.6	4.2
Net dividend yield (%)	4.2	4.3	4.3	4.3	4.3
Gross dividend yield (%)	6.0	6.1	6.1	6.1	6.1
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	94	90	95	91	91

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.6	3.8	3.6	3.6	3.3
Net debt/ tangible assets (%)	36.0	35.7	37.3	36.9	36.3
Net debt/ND+E (%)	37.3	37.0	38.6	38.1	37.5
Net debt/EBITDA (x)	6.1	6.5	7.4	7.1	6.7

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	5.9	5.5	5.0	5.1	5.4
Return on equity (%)	5.9	5.7	5.2	5.2	5.0
Return on funds employed (%)	5.1	4.9	4.4	4.4	4.4
EBITDA margin (%)	90.2	89.3	89.1	89.3	89.5
EBIT margin (%)	90.2	89.3	89.1	89.3	89.5
Capex to sales (%)	62.5	92.5	88.1	35.1	4.9
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Total					
Value (NZ$m)	1,306	1,368	1,442	1,513	1,667
No. buildings	68	66	64	61	60
WALT (years)	5.54	5.24	5.59	6.08	6.14
Occupancy	99.2%	99.4%	98.6%	98.8%	97.7%
Contract yield	7.6%	7.6%	7.2%	6.9%	6.4%
Market yield	7.6%	7.5%	7.3%	7.0%	6.7%
Industrial					
Value (NZ$m)	510	507	583	638	738
No. buildings	40	39	38	36	37
WALT (years)	5.72	5.99	6.40	7.35	7.22
Occupancy	99.7%	99.9%	98.3%	99.9%	97.8%
Contract yield	7.6%	7.7%	6.9%	6.7%	6.2%
Market yield	7.6%	7.7%	7.1%	6.7%	6.5%
Office					
Value (NZ$m)	484	549	548	577	627
No. buildings	17	17	17	17	16
WALT (years)	5.60	4.82	4.87	4.99	4.94
Occupancy	98.8%	99.1%	98.4%	97.3%	96.8%
Contract yield	7.6%	7.6%	7.3%	7.0%	6.9%
Market yield	7.6%	7.6%	7.6%	7.4%	7.1%
Retail					
Value (NZ$m)	312	312	311	298	303
No. buildings	11	10	9	8	7
WALT (years)	5.15	4.78	5.46	5.69	5.96
Occupancy	98.9%	99.2%	99.4%	100.0%	100.0%
Contract yield	7.5%	7.4%	7.4%	7.1%	6.2%
Market yield	7.4%	7.1%	7.3%	6.8%	6.3%

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

Asset Plus

NEUTRAL

External Opportunities

In 2018 Asset Plus Limited (APL) 1) externalising its management to Augusta Capital [AUG], 2) did significant asset sales, and 3) launched a new brand identity. While APL lacks scale versus peers, its management agreement with AUG provides access to significant expertise. We still see medium-term upside for APL if it can generate scale over time; in the short-term APL doesn't trade at a sufficient discount to warrant a positive recommendation in light of portfolio risks. In our property sector report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the APL target price by +7%. NEUTRAL.

Earnings and cash flow outlook

- **Acquisition activity:** APL announced on 30 April a conditional purchase of 35 Graham St in Auckland for NZ$58m, a medium term redevelopment opportunity with a strong near-term holding yield..
- **Development activity:** APL is working on a potential major redevelopment at Eastgate which would add an additional major to the centre and repurpose some of the existing space.

Business quality

- **Augusta management deal:** In March 2018, APL sold its management rights to AUG for NZ$4.5m. Key terms are: 1) a minimum term of five years, 2) base management fees of 0.50% of AUM, falling to 0.40% of AUM <NZ$500m, and 3) performance fees of 10% of relative outperformance vs NZX property benchmark.
- **Property fundamentals:** At FY19 year-end APL had a three asset portfolio of around NZ$123m. FY19 occupancy was 97%, the WALT 5.5 years.

Financial structure

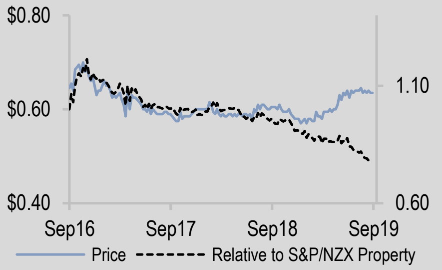
- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.
- **Dividends:** There is no dividend guidance and the dividend remains subject to the quarterly review and possible future acquisitions.

Risks factors

- **E-commerce growth:** APL's retail assets are smaller sub-regional and neighbourhood centres, which could be susceptible to e-commerce risks.
- **Sourcing new assets:** APL will need to source new 'value-add' properties to replace asset sales and utilise its balance sheet. A sustained period of low gearing would put pressure on APL's dividend.

NZX code	**APL**
Share price (as at 4 Sep 2019)	NZ$0.64
Target Price	NZ$0.65
Risk Rating	Medium
Issued shares	161.9m
Market cap	NZ$103m
Average daily turnover	93.3k (NZ$57k)

Share Price Performance



Company Description

Property | Diversified property

Asset Plus Limited (previously NPT Limited) is a diversified property vehicle with a 'yield plus growth' investment strategy. APL owns three assets valued at ~NZ$150m once the sale of Heinz Wattie's Distribution Centre settles in December 2019. APT was established in 1994 and listed in 1996. In 2011, APL internalised its management and changed its structure from a trust to a company. In 2018 NZX-listed Augusta Capital (AUG) purchased APL's management rights for NZ$4.5m and the company launched its new brand as 'Asset Plus' and is acquiring value-add opportunities and divesting non-core assets.

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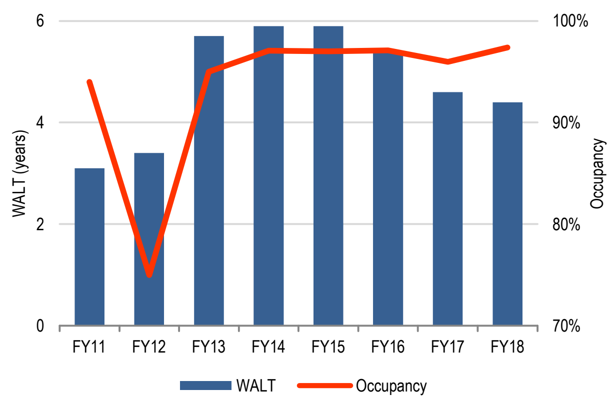
Figure 23. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	-	23%	-	23%
Office	-	-	-	-
Retail	30%	-	48%	77%
Total	30%	23%	48%	100%

Source: Company reports, Forsyth Barr analysis. Note: Data is based on reported portfolio as at 31/03/18, adjusted for the sale of AA Centre.

Figure 24. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company reports

Asset Plus Limited (APL) Priced as at 04 Sep 2019: NZ$0.64 March year end

Forsyth Barr valuation			
Valuation methodology		Blended DCF (50%) and NAV (50%)	
12-month target price (NZ$)*	**0.65**	**Spot valuations (NZ$)**	
Expected share price return	1.6%	1. DCF	0.63
Net dividend yield	5.6%	2. NAV	0.66
Estimated 12-month return	7.2%	n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	114
Equity beta	0.78	(Net debt)/cash	(10)
WACC	5.8%	Value of equity	105
Terminal growth	1.5%	Shares (m)	162

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	12.3	9.3	11.0	10.4	10.5
Normalised EBITDA	**10.1**	**7.6**	**9.2**	**8.6**	**8.7**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**10.1**	**7.6**	**9.2**	**8.6**	**8.7**
Net interest	(2.8)	(1.1)	(1.8)	(1.5)	(1.9)
Associate income	-	-	-	-	-
Tax	(1.0)	(1.3)	(1.2)	(1.2)	(1.2)
Minority interests	-	-	-	-	-
Normalised NPAT	**6.3**	**5.2**	**6.3**	**5.8**	**5.6**
Abnormals/other	(3.2)	(1.4)	0.2	0.8	0.8
Reported NPAT	**3.1**	**3.8**	**6.5**	**6.6**	**6.4**
Normalised EPS (cps)	3.9	3.2	3.9	3.6	3.5
DPS (cps)	3.6	3.6	3.6	3.6	3.6

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	0.5	-24.3	18.2	-6.2	1.3
EBITDA (%)	1.6	-25.1	21.9	-7.4	1.3
EBIT (%)	1.6	-25.1	21.9	-7.4	1.3
Normalised NPAT (%)	1.9	-17.7	21.1	-6.7	-3.6
Normalised EPS (%)	1.9	-17.7	21.1	-6.7	-3.6
DPS (%)	0.0	0.0	0.0	0.0	0.0

Cash Flow (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	**10.1**	**7.6**	**9.2**	**8.6**	**8.7**
Working capital change	0.3	(1.6)	(0.0)	(0.0)	(0.0)
Interest & tax paid	(3.9)	(2.2)	(3.0)	(2.7)	(3.0)
Other	-	-	-	-	-
Operating cash flow	**6.5**	**3.8**	**6.2**	**5.8**	**5.6**
Capital expenditure	(4.7)	(0.4)	(0.9)	(0.8)	(0.8)
(Acquisitions)/divestments	12.7	37.5	(29.0)	-	-
Other	3.8	(0.8)	-	-	-
Funding available/(required)	**18.3**	**40.1**	**(23.7)**	**5.1**	**4.9**
Dividends paid	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	**(12.4)**	**(34.3)**	**29.5**	**0.8**	**1.0**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(1.5)	0.5	0.5	0.5	0.5
Fixed assets	168.4	123.0	153.1	154.7	156.3
Intangibles	-	-	-	-	-
Other assets	0.1	0.5	0.5	0.5	0.5
Total funds employed	**166.9**	**123.9**	**154.1**	**155.6**	**157.2**
Net debt/(cash)	44.0	9.7	39.2	40.0	41.0
Other non current liabilities	8.5	1.9	1.9	1.9	1.9
Shareholder's funds	114.3	112.3	113.0	113.8	114.4
Minority interests	-	-	-	-	-
Total funding sources	**166.9**	**123.9**	**154.1**	**155.6**	**157.2**

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	15.2	17.2	13.9	16.7	16.5
EV/EBIT (x)	15.2	17.2	13.9	16.7	16.5
PE (x)	16.5	20.0	16.6	17.7	18.4
Price/NTA (x)	0.91	0.92	0.92	0.91	0.91
Free cash flow yield (%)	1.7	3.3	5.1	4.9	4.7
Net dividend yield (%)	5.6	5.6	5.6	5.6	5.6
Gross dividend yield (%)	8.0	8.0	8.0	8.0	8.0
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	93	113	93	100	104

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	3.6	7.0	5.2	5.6	4.6
Net debt/ tangible assets (%)	26.4	7.8	25.5	25.7	26.1
Net debt/ND+E (%)	27.8	8.0	25.8	26.0	26.4
Net debt/EBITDA (x)	4.4	1.3	4.2	4.7	4.7

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	6.0	6.0	5.9	5.4	5.4
Return on equity (%)	5.5	4.6	5.5	5.1	4.9
Return on funds employed (%)	5.0	4.2	5.5	4.5	4.5
EBITDA margin (%)	81.9	81.2	83.7	82.6	82.6
EBIT margin (%)	81.9	81.2	83.7	82.6	82.6
Capex to sales (%)	38.4	3.8	8.4	7.2	7.2
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	2015A	2016A	2017A	2018A	2019A
Key metrics					
No. properties	5	5	5	4	3
Average lease term (years)	5.9	5.4	4.6	4.4	5.5
Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
Cap rate (%)	8.21	7.91	7.74	7.43	7.40
Portfolio value (NZ$m)	158.2	169.4	174.4	167.1	123.1
NTA per share (NZ$)	0.725	0.740	0.723	0.706	0.694
Portfolis values (NZ$m)					
AA centre	33.8	36.2	40.9	43.8	
Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
Print Place	13.3	13.0	11.0	-	-
Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
Roskill Centre	33.6	35.0	36.0	38.0	39.5
Portfolio value (NZ$m)	158.2	169.4	174.4	167.1	123.1

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

Augusta Capital

NEUTRAL

Growth Under Management

Augusta Capital (AUG) is making good progress transitioning its business model from property investment to funds management. The key focus for AUG is getting its balance sheet utilised so it can replace the rental income lost from property sales. Recent periods have shown record activity levels, and growing earnings off this high base is challenging. AUG's funds management business makes it very different from the other listed property vehicles and gives it less capital intensive growth prospects, albeit at higher risk. In our property sector report *'Real Estate Reflections'* dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the AUG target price by +7%. NEUTRAL.

Earnings and cash flow outlook

- **Funds management growth:** AUG is building its track record for executing on larger deals. Following the Industrial Fund and St George's Bay road deals, we expect AUG's FUM to grow to above NZ$2bn in FY20E. AUG is also looking to launch a tourism related fund in 3Q20E.
- **Asset Plus (APL) externalisation:** AUG purchased APL's management rights for NZ$4.5m, which has lifted its FUM +NZ$180m (NZ$125m after asset sales) and generated NZ$0.9m in recurring management fees. AUG is implementing a 'yield plus growth' strategy for APL.
- **Syndication pipeline:** While AUG has been successful in growing its recurring management fees it is still reliant on up-front deal fees.

Business quality

- **Focus solely on funds management:** AUG's last directly held asset has been sold. The sale has settled and provides substantial balance sheet capacity for warehousing, co-investment in new funds, and underwriting.

Financial structure

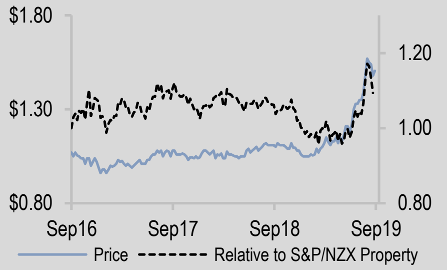
- **Balance sheet becoming more fluid:** AUG's funds management activities have resulted in a more unpredictable balance sheet. We assume gearing of ~15–20% over the medium-term, which is ~35–40% on a look-through basis incorporating the underlying gearing in AUG's co-investments.

Risks factors

- **Acquiring new stock for investment products:** This is the largest challenge for AUG's funds management business given a highly competitive property market.
- **In syndication demand:** An economic slowdown, rising interest rates, or a decrease in investor sentiment are catalysts for this.

NZX code	AUG
Share price (as at 4 Sep 2019)	NZ$1.51
Target Price	NZ$1.38
Risk Rating	High
Issued shares	87.5m
Market cap	NZ$132m
Average daily turnover	43.3k (NZ$53k)

Share Price Performance



Company Description

Property | Property investment management

Augusta Capital Limited (AUG) was listed on the NZX in December 2006, as Kermadec Property Fund. In March 2012, it acquired the funds management businesses from Augusta Funds Management and internalised its management structure. In April 2014, AUG acquired KCL Property for $15m, which increased total property under management by ~$750m to ~$1.6bn. AUG has transitioned its business to focus solely on funds management.

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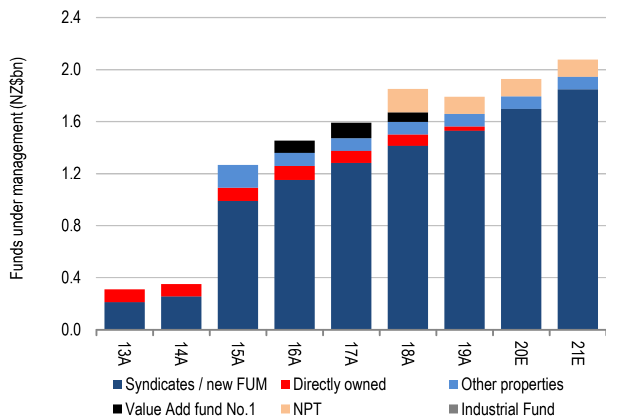
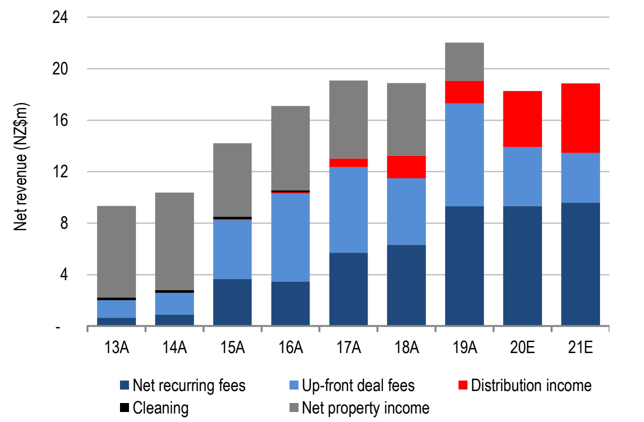
Figure 25. Funds under management (NZ$bn)



Source: Company reports, Forsyth Barr analysis

Figure 26. Net revenue by segment (NZ$m)



Source: Company reports, Forsyth Barr analysis

Augusta Capital Ltd (AUG) Priced as at 04 Sep 2019: NZ$1.50 March year end

Forsyth Barr valuation			
Valuation methodology		Blend of 50% DCF & 50% Adj NAV	
12-month target price (NZ$)*	**1.38**	**Spot valuations (NZ$)**	
Expected share price return	-8.3%	1. DCF	1.39
Net dividend yield	4.3%	2. Adj NAV	1.29
Estimated 12-month return	-4.0%	3. n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.00%	Total firm value	113.2
Equity beta	0.81	(Net debt)/cash	6.2
WACC	6.6%	Value of equity	107.0
Terminal growth	1.5%	Shares (m)	87.5

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	18.9	22.0	19.2	19.2	17.8
Normalised EBITDA	**10.3**	**11.7**	**8.7**	**8.6**	**7.4**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**10.3**	**11.7**	**8.7**	**8.6**	**7.4**
Net interest	(2.8)	(1.5)	(0.3)	(0.3)	(0.8)
Associate income	-	-	-	-	-
Tax	(1.8)	(2.4)	(2.0)	(2.0)	(1.5)
Minority interests	-	-	-	-	-
Normalised NPAT	**5.8**	**7.7**	**6.3**	**6.2**	**5.1**
Abnormals/other	(4.8)	(0.8)	(0.7)	(0.1)	(0.1)
Reported NPAT	**1.0**	**7.0**	**5.6**	**6.1**	**4.9**
Normalised EPS (cps)	6.6	8.8	7.2	7.1	5.8
DPS (cps)	5.6	6.1	6.5	6.5	5.5

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	-0.8	16.6	-12.8	-0.3	-7.1
EBITDA (%)	-5.3	13.1	-25.9	-1.1	-13.1
EBIT (%)	-5.3	13.1	-25.9	-1.1	-13.1
Normalised NPAT (%)	-14.4	34.1	-18.9	-0.8	-18.9
Normalised EPS (%)	-14.4	34.1	-18.9	-0.8	-18.9
DPS (%)	2.3	8.9	6.1	0.0	-15.6

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**10.3**	**11.7**	**8.7**	**8.6**	**7.4**
Working capital change	(4.3)	0.3	(0.2)	0.0	0.2
Interest & tax paid	(5.2)	(4.8)	(2.4)	(2.3)	(2.4)
Other	-	-	-	-	-
Operating cash flow	**0.8**	**7.2**	**6.0**	**6.2**	**5.2**
Capital expenditure	(0.2)	(0.3)	-	-	-
(Acquisitions)/divestments	(3.2)	31.0	14.8	(15.0)	(0.7)
Other	(5.3)	(1.6)	-	-	-
Funding available/(required)	**(7.9)**	**36.3**	**20.8**	**(8.8)**	**4.6**
Dividends paid	(4.8)	(5.3)	(5.7)	(5.7)	(5.0)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	**12.7**	**(31.0)**	**(15.1)**	**14.4**	**0.5**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	1.5	(0.2)	(0.5)	(0.5)	(0.7)
Fixed assets	85.3	31.5	0.7	0.6	0.5
Intangibles	21.7	20.2	20.2	20.2	20.2
Other assets	25.3	42.2	72.2	87.2	87.9
Total funds employed	**133.7**	**93.6**	**92.7**	**107.5**	**107.9**
Net debt/(cash)	37.5	6.2	(9.0)	5.4	5.9
Other non current liabilities	12.1	1.3	1.3	1.3	1.3
Shareholder's funds	84.2	86.1	100.3	100.7	100.6
Minority interests	-	-	-	-	-
Total funding sources	**133.7**	**93.6**	**92.7**	**107.5**	**107.9**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	14.2	10.4	8.5	5.9	6.8
EV/EBIT (x)	14.2	10.4	8.5	5.9	6.8
PE (x)	22.8	17.0	21.0	21.1	26.1
Price/NTA (x)	2.1	2.0	1.6	1.6	1.6
Free cash flow yield (%)	0.4	5.2	4.6	4.7	4.0
Net dividend yield (%)	3.7	4.1	4.3	4.3	3.6
Gross dividend yield (%)	5.2	4.1	6.0	6.0	5.1
Imputation (%)	98	0	100	100	100
Pay-out ratio (%)	85	69	91	91	95

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.7	7.8	25.4	26.6	8.9
Interest cover EBITDA (x)	3.7	7.8	25.4	26.6	8.9
Net debt/ND+E (%)	30.8	6.7	-9.9	5.1	5.5
Net debt/EBITDA (x)	3.6	0.5	n/a	0.6	0.8

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	7.3	11.4	8.6	7.4	6.4
Return on equity (%)	6.9	9.0	6.3	6.2	5.0
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	54.7	53.0	45.0	44.7	41.8
EBIT margin (%)	54.7	53.0	45.0	44.7	41.8
Capex to sales (%)	1.3	1.4	0.0	0.0	0.0
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net revenue by segment:					
Net rental income	5.7	3.0	-	-	-
Distribution income	1.8	1.8	4.4	5.4	5.5
Total yield income	**7.4**	**4.7**	**4.4**	**5.4**	**5.5**
Offeror Fees	3.7	5.9	4.0	2.5	1.5
Underwriting fees	1.5	2.1	1.4	1.4	0.8
Total up-front deal fees	**5.2**	**8.0**	**5.4**	**3.9**	**2.3**
Base management fees	4.2	5.2	6.4	7.1	7.7
Transactional income	2.1	4.1	3.1	2.7	2.3
Total recurring fees	**6.3**	**9.3**	**9.4**	**9.9**	**10.0**
Total net rental income	**18.9**	**22.0**	**19.2**	**19.2**	**17.8**
New deal operating metrics					
New deals completed (assets)	351	180	272	170	100
New deals completed (equity raisec	126	255	129	102	60
Equity underwritten by AUG	47%	36%	36%	45%	45%
Syndicates wound-up (assets)	125	232	75	50	25
Funds under management					
Directly held properties	84	31	-	-	-
Syndications	1,416	1,532	1,699	1,849	1,956
Other properties	96	96	96	96	96
Value Add fund no.1	74	-	-	-	-
Asset Plus	180	133	190	190	190
Industrial Fund	-	-	-	-	-
Total FUM	**1,851**	**1,792**	**1,985**	**2,135**	**2,242**

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

Goodman Property Trust

UNDERPERFORM

Asset Sales Funding Development

Although Goodman Property Trust (GMT) is struggling to achieve earnings growth, it continues to execute well on its recycling strategy and is significantly improving portfolio quality. Though holding a high quality portfolio, we believe investors are paying for this with GMT trading at a material premium to peers on book and yield multiples. GMT is currently paying out above AFFO, which is reflected in a flat dividend outlook. In our sector report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the GMT target price by +13%. UNDERPERFORM.

Earnings and cash flow outlook

- **Unlocking its brownfield land bank:** GMT is becoming increasingly focussed on developing its substantial land bank within its existing portfolio, with the greenfield land bank becoming smaller and high prevailing land prices for greenfield sites.
- **Developments:** GMT is working through its land bank with new committed/uncommitted developments. Incorporating GMT's current development pipeline, Highbrook Business Park would be ~90% complete.

Business quality

- **Strong property fundamentals:** The Auckland industrial market continues to perform strongly with record low vacancies. GMT has solid portfolio metrics with WALT and occupancy of 5.2 years and 98.7% respectively.
- **Recycling non-core assets:** GMT has successfully recycled its suburban office and Christchurch assets into new industrial developments in Auckland. GMT has divested NZ$570m of non-core assets over FY18 and FY19 and committed to NZ$195m of development.

Financial structure

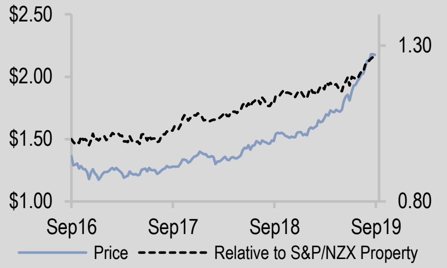
- **Balance sheet capacity:** Gearing remains at the low end of the sector range at ~20%, providing GMT with significant balance sheet capacity or the ability to maintain a conservative balance sheet late in the cycle.
- **Revaluation gains:** GMT achieved a revaluation gain of +8% in FY19.

Risks factors

- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.
- **Spec development leasing:** ~50% of development commitments in FY18 were for speculative developments which carry leasing risk for GMT.

NZX code	GMT
Share price (as at 4 Sep 2019)	NZ$2.18
Target Price	NZ$1.79
Risk Rating	Low
Issued shares	1294.9m
Market cap	NZ$2,816m
Average daily turnover	771.6k (NZ$1,354k)

Share Price Performance



Company Description

Property | Industrial property

Goodman Property Trust (GMT) owns NZ$2.2bn of investment property located primarily in Auckland. GMT's portfolio is 99% weighted to industrial-focussed assets, with these mainly comprising prime industrial and business parks. Its largest asset is Highbrook Business Park (~50% of portfolio) where it has a substantial land holding for future development. GMT is managed by ASX-listed Goodman Group (GMG), a global leader in industrial property management and development. GMT has been very active with asset recycling and has recently sold its 'VXV' CBD office portfolio, which was held in a JV with Singaporean Sovereign Wealth Fund GIC since 2014.

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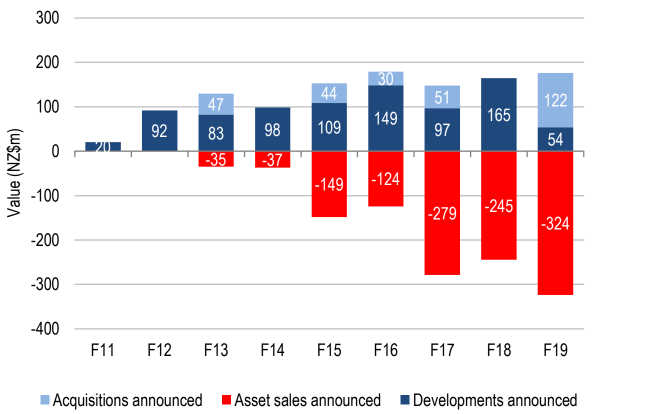
Figure 27. Portfolio exposures

	Auckland	Other North Island	South Island	Total
Business park	64%	-	-	64%
Industrial estate	36%	-	-	36%
Office park	-	-	-	-
Total	100%	-	-	100%

Source: Forsyth Barr analysis, company reports

Figure 28. Asset recycling



Note: JV assets included at 51% of total value. Source: Forsyth Barr analysis, company reports

Goodman Property Trust (GMT)	Priced as at 04 Sep 2019: NZ$2.17	March year end

Forsyth Barr valuation			
Valuation methodology		Blended DCF (50%) and NAV (50%)	
12-month target price (NZ$)*	**1.79**	**Spot valuations (NZ$)**	
Expected share price return	-17.7%	1. DCF	1.80
Net dividend yield	3.1%	2. NAV	1.67
Estimated 12-month return	-14.6%	n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	2,910
Equity beta	0.62	(Net debt)/cash	(582)
WACC	5.1%	Value of equity	2,328
Terminal growth	1.5%	Shares (m)	1,295

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	149	141	140	151	160
Normalised EBITDA	**138**	**130**	**126**	**138**	**145**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**138**	**130**	**126**	**138**	**145**
Net interest	(27)	(21)	(19)	(24)	(25)
Associate income	-	-	-	-	-
Tax	(18)	(18)	(19)	(22)	(25)
Minority interests	-	-	-	-	-
Normalised NPAT	**93**	**91**	**88**	**91**	**95**
Abnormals/other	(101)	(229)	(93)	(58)	(60)
Reported NPAT	**194**	**320**	**181**	**149**	**155**
Normalised EPS (cps)	7.2	7.0	6.8	7.0	7.3
DPS (cps)	6.7	6.7	6.7	6.7	6.7

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	0.9	-5.0	-1.0	8.3	5.8
EBITDA (%)	0.7	-5.6	-2.6	8.8	5.7
EBIT (%)	0.7	-5.6	-2.6	8.8	5.7
Normalised NPAT (%)	-5.1	-2.6	-3.1	3.4	4.2
Normalised EPS (%)	-5.6	-3.1	-3.1	3.4	4.2
DPS (%)	0.0	0.0	0.0	0.0	0.0

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**138**	**130**	**126**	**138**	**145**
Working capital change	(22)	(18)	-	-	-
Interest & tax paid	(26)	(33)	(38)	(46)	(51)
Other	-	-	-	-	-
Operating cash flow	**90**	**79**	**88**	**91**	**95**
Capital expenditure	(102)	(144)	(120)	(65)	(54)
(Acquisitions)/divestments	(5)	134	5	-	-
Other	(28)	255	-	-	-
Funding available/(required)	**(45)**	**324**	**(27)**	**26**	**41**
Dividends paid	(86)	(86)	(86)	(86)	(86)
Equity raised/(returned)	10	10	11	11	12
Increase/(decrease) in net debt	**120**	**(248)**	**101**	**49**	**33**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(40)	(34)	(34)	(34)	(34)
Fixed assets	2,231	2,633	2,846	2,968	3,082
Intangibles	-	-	-	-	-
Other assets	475	70	27	27	27
Total funds employed	**2,666**	**2,670**	**2,839**	**2,961**	**3,075**
Net debt/(cash)	819	582	683	732	765
Other non current liabilities	53	42	42	42	42
Shareholder's funds	1,794	2,046	2,114	2,188	2,269
Minority interests	-	-	-	-	-
Total funding sources	**2,666**	**2,670**	**2,839**	**2,961**	**3,075**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	26.0	27.1	27.3	25.4	24.1
EV/EBIT (x)	26.0	27.1	27.3	25.4	24.1
PE (x)	30.0	31.0	32.0	30.9	29.7
Price/NTA (x)	1.56	1.38	1.33	1.29	1.24
Free cash flow yield (%)	-0.4	-2.3	-1.1	0.9	1.5
Net dividend yield (%)	3.1	3.1	3.1	3.1	3.1
Gross dividend yield (%)	4.4	4.4	4.4	4.4	4.4
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	95	98	95	91

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	5.1	6.1	6.6	5.7	5.7
Net debt/ tangible assets (%)	30.7	21.8	24.1	24.7	24.9
Net debt/ND+E (%)	31.3	22.1	24.4	25.1	25.2
Net debt/EBITDA (x)	6.0	4.5	5.4	5.3	5.3

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	5.1	4.8	4.4	4.6	4.7
Return on equity (%)	5.2	4.4	4.2	4.2	4.2
Return on funds employed (%)	4.4	3.9	3.6	3.7	3.8
EBITDA margin (%)	92.6	92.0	90.4	90.8	90.8
EBIT margin (%)	92.6	92.0	90.4	90.8	90.8
Capex to sales (%)	68.7	102.2	85.8	42.9	33.7
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net rental movement (consolidated)					
Acquisitons - GMT	1.5	0.7	2.6	3.4	0.2
Acquisitons - JV (51%)	3.5	5.2	1.0	-	-
Developments	5.6	6.8	7.0	10.0	9.1
Underlying portfolio	3.3	3.9	3.7	4.9	2.8
Additional income	(3.8)	0.7	-	-	-
Disposals - GMT	(6.1)	(16.1)	(13.7)	(5.4)	(0.4)
Disposals - JV (51%)	-	-	(5.7)	(13.7)	-
Net change	**4.0**	**1.2**	**(5.1)**	**(0.8)**	**11.7**
Net rental income	148.5	141.1	139.7	151.4	160.2
Property portfolio (consolidated)					
Stabalised assets	2,026	2,044	2,465	2,695	2,861
Developments	49	68	78	79	59
Land	175	120	96	72	48
Held for sale	8	239	-	-	-
JV assets (51%)	165	277	-	-	-
Total	**2,422**	**2,747**	**2,639**	**2,846**	**2,968**
Property portfolio (movement)					
Opening value	2,481	2,422	2,747	2,639	2,846
Acquisitions / tranfers in	(3)	74	93	29	(0)
Net expenditure	139	120	129	120	65
Disposals / transfers out	(297)	(10)	(516)	(34)	-
Fair value movement	102	141	185	93	58
Total	**2,422**	**2,747**	**2,639**	**2,846**	**2,968**

Property Statistics	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Walt (years)	5.1	5.7	5.8	6.1	5.2
Occupancy (%)	96%	97%	98%	98%	98%
Cap rate (%)	7.50%	6.95%	6.50%	6.20%	5.80%
NLA (000sqm)	983	1,041	989	1,111	1,000
Portfio leasing (000sqm)	100	159	154	202	97
Development commitments (000sqr	51	65	33	64	58
Customers (no)	251	281	240	264	264

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

Investore

OUTPERFORM

Unique Bulk Retail Exposure

Investore Property Limited (IPL) offers a stable dividend yield backed by a defensive portfolio of large format retail property. It has impressive metrics with a WALT of ~13 years and occupancy of ~100%. With 73% of its rental income backed by Woolworths (Countdown) its tenant exposure is concentrated but has strong covenants. We are cautious on the medium-term outlook for rental growth with the majority of IPL's rent reviews linked to turnover, but include hard-ratchets and defensive. In our report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the IPL target price by +15%. OUTPERFORM.

Earnings and cash flow outlook

- **Bunnings acquisition:** IPL has recently acquired three Bunnings properties for NZ$78.5m which was ~4% accretive to EPS.
- **Externally managed:** IPL is managed by Stride Investment Management Limited (SIML), the management arm of Stride Property (SPG). Given IPL's relative smaller scale its management expense ratio (MER) is above peers, which is a drag on earnings and our relative NAV valuation.

Business quality

- **Long lease terms and high occupancy:** IPL's WALT of 12.4 years is significantly higher than the sector average of 6.6 years (ex VHP) and its occupancy of 99.9% is sector leading. FY20 expiries total 1.1% of rental income and only 5% of rental income expires over the next three years.

Financial structure

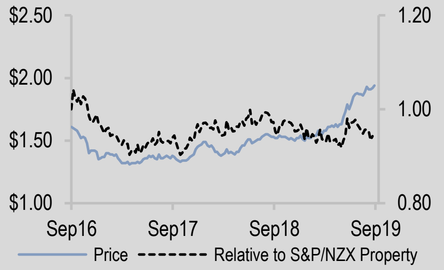
- **Balance sheet:** IPL has a target maximum gearing ratio of 48% and is currently geared at 42% (FY19).

Risks factors

- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets. The nature of the grocery market makes it exposed to e-commerce disruption; however, the location of many supermarkets make them ideal for the fulfilment of online business.
- **Interest rates / credit spreads:** IPL's relatively high gearing means it is more sensitive to interest rate or margin movements versus its listed peers but is appropriate given the low risk nature of its portfolio.
- **Portfolio concentration:** IPL's revenue is concentrated with General Distributors Limited (GDL), the operator of Countdown Supermarkets, tenanting the bulk of its properties and contributing 72% of rental revenue.

NZX code	IPL
Share price (as at 4 Sep 2019)	NZ$1.94
Target Price	NZ$1.85
Risk Rating	Low
Issued shares	260.1m
Market cap	NZ$505m
Average daily turnover	176.2k (NZ$290k)

Share Price Performance



Company Description

Property | Bulk retail property

Investore (IPL) is a listed property company which owns NZ$740m of large format retail properties throughout New Zealand. Its 40-asset portfolio comprises mostly of supermarkets with its key tenant General Distributors (operator of Countdown) accounting for 72% of contracted rent. IPL was formed from its demerger with NZX-listed Stride Property (SPG) in July 2016 and the associated transfer of 25 assets from SPG. IPL was listed on the NZX following its demerger and also purchased an additional portfolio of 14 assets from ASX-listed Shopping Centres Australasia (SCA) using proceeds from its IPO capital raising. IPL is externally managed by SIML, the property management arm of SPG.

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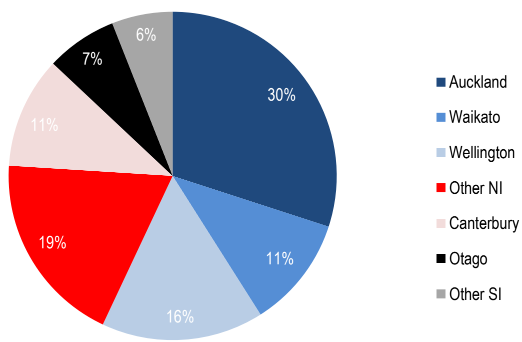
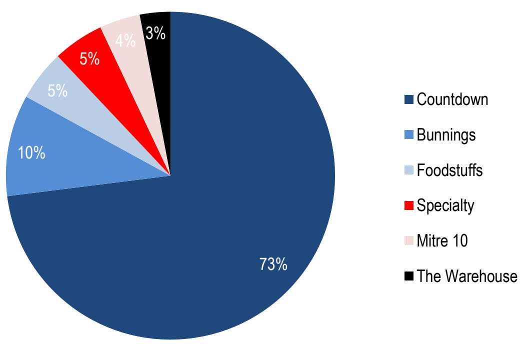
Figure 29. FY19 Geographical diversification



Source: Forsyth Barr analysis, company reports

Figure 30. FY19 Tenant diversification



Source: Forsyth Barr analysis, company reports

Investore (IPL) Priced as at 04 Sep 2019: NZ$1.94 March year end

Forsyth Barr valuation			
Valuation methodology		Blended DCF (50%) and NAV (50%)	
12-month target price (NZ$)*	**1.85**	**Spot valuations (NZ$)**	
Expected share price return	-4.6%	1. DCF	1.95
Net dividend yield	3.9%	2. NAV	1.66
Estimated 12-month return	-0.7%	n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	833
Equity beta	0.70	(Net debt)/cash	(312)
WACC	4.9%	Value of equity	518
Terminal growth	1.5%	Shares (m)	260

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	43.1	46.1	46.4	47.0	47.4
Normalised EBITDA	**37.7**	**40.1**	**40.5**	**41.1**	**41.4**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**37.7**	**40.1**	**40.5**	**41.1**	**41.4**
Net interest	(11.7)	(13.8)	(13.6)	(13.3)	(13.1)
Associate income	-	-	-	-	-
Tax	(5.5)	(5.3)	(5.7)	(6.1)	(6.4)
Minority interests	-	-	-	-	-
Normalised NPAT	**20.5**	**20.9**	**21.2**	**21.6**	**22.0**
Abnormals/other	(25.6)	(17.7)	(10.4)	(9.3)	(6.0)
Reported NPAT	**46.2**	**38.6**	**31.6**	**31.0**	**28.0**
Normalised EPS (cps)	7.9	8.0	8.2	8.3	8.5
DPS (cps)	7.5	7.6	7.6	7.6	7.6

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	n/a	n/a	0.6	1.4	0.9
EBITDA (%)	n/a	n/a	1.1	1.3	0.9
EBIT (%)	n/a	n/a	1.1	1.3	0.9
Normalised NPAT (%)	n/a	n/a	1.3	2.0	1.7
Normalised EPS (%)	n/a	n/a	1.6	2.0	1.7
DPS (%)	n/a	n/a	0.0	0.0	0.0

Cash Flow (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	**37.7**	**40.1**	**40.5**	**41.1**	**41.4**
Working capital change	1.0	0.1	(0.0)	-	(0.0)
Interest & tax paid	(17.2)	(19.0)	(19.3)	(19.4)	(19.5)
Other	-	-	-	-	-
Operating cash flow	**21.4**	**21.2**	**21.2**	**21.6**	**22.0**
Capital expenditure	(2.2)	(5.5)	(1.9)	(1.9)	(1.9)
(Acquisitions)/divestments	(47.8)	-	18.3	-	-
Other	-	98.5	-	-	-
Funding available/(required)	**(28.6)**	**114.1**	**37.6**	**19.7**	**20.1**
Dividends paid	(20.0)	(19.7)	(19.8)	(19.8)	(19.8)
Equity raised/(returned)	-	(2.6)	-	-	-
Increase/(decrease) in net debt	**48.6**	**(91.8)**	**(17.9)**	**0.0**	**(0.3)**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)
Fixed assets	738.3	742.1	755.2	766.4	774.4
Intangibles	-	-	-	-	-
Other assets	2.1	22.2	3.2	3.2	3.2
Total funds employed	**735.9**	**760.6**	**754.6**	**765.8**	**773.8**
Net debt/(cash)	304.7	311.5	293.7	293.7	293.4
Other non current liabilities	2.1	5.8	5.8	5.8	5.8
Shareholder's funds	429.1	443.2	455.1	466.3	474.5
Minority interests	-	-	-	-	-
Total funding sources	**735.9**	**760.6**	**754.6**	**765.8**	**773.8**

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	20.8	20.3	19.9	19.4	19.3
EV/EBIT (x)	20.8	20.3	19.9	19.4	19.3
PE (x)	24.7	24.2	23.8	23.3	22.9
Price/NTA (x)	1.18	1.14	1.11	1.08	1.06
Free cash flow yield (%)	3.8	3.1	3.8	3.9	4.0
Net dividend yield (%)	3.8	3.9	3.9	3.9	3.9
Gross dividend yield (%)	5.5	5.6	5.6	5.6	5.6
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	95	95	93	91	90

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	3.2	2.9	3.0	3.1	3.2
Net debt/ tangible assets (%)	41.4	41.0	38.9	38.4	37.9
Net debt/ND+E (%)	41.5	41.3	39.2	38.6	38.2
Net debt/EBITDA (x)	8.1	7.8	7.2	7.2	7.1

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.1	5.2	5.3	5.3	5.3
Return on equity (%)	4.8	4.7	4.7	4.6	4.6
Return on funds employed (%)	4.2	4.1	4.1	4.1	4.1
EBITDA margin (%)	87.4	86.9	87.4	87.4	87.4
EBIT margin (%)	87.4	86.9	87.4	87.4	87.4
Capex to sales (%)	5.1	12.0	4.0	4.0	4.1
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Portfolio Summary	*2016A	2017A	2018A	2019A
Investment properties (NZ$m)	641.4	660.4	738.3	761.2
Weighted average lease term (yrs)	14.8	14.3	13.1	12.4
Occupancy rate (%)	99.7	99.8	99.9	99.9
M'ment/Admin cost % of assets (%)	n/a	0.6	0.8	0.8
NTA per share (NZ$)	1.46	1.55	1.64	1.70
Portfolio cap rate (%)	6.44	6.36	6.19	6.05
Portfolio initial yield (%)	6.68	6.57	6.36	

*metrics shown on a pro-forma basis as at March 2016

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

Kiwi Property Group

OUTPERFORM

Changing the Retail Mix

Kiwi Property Group (KPG) owns a portfolio of large prime mixed-use, retail and office assets, with rental income diversified across a substantial tenant base. Recent sales of non-core assets have improved portfolio quality and made KPG more defensive to softening property market fundamentals. KPG is not immune to the structural headwinds for retail property, with e-commerce growth impacting; however, we expect KPG's catchment-dominant malls to outperform. In our report *'Real Estate Reflections'* dated 5 September, we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the KPG target price by +12.5%. Our rating is OUTPERFORM.

Earnings and cash flow outlook

- **Rental growth:** KPG achieved solid +4% FY19 rental growth driven by strong rent reviews and new leases in the Office and Mixed-use portfolio.
- **Revaluation gains:** KPG announced an FY19 revaluation gain of +1.5% with a solid office portfolio gain (+6.3%) offset by a weak retail portfolio gain (-4.5%) and no gain for its mixed-use portfolio. The portfolio cap rate firmed -11bps to 5.99%.
- **Sylvia Park Galleria expansion:** KPG has committed to an NZ$223m expansion of Sylvia Park with an additional 18,000sqm of retail space, a new café court, and 900 additional car parks. KPG has also announced an additional NZ$35m for "design enhancements and additional space to accommodate key retailers". The total cost of the project is NZ$258m with a development margin of ~NZ$30m.

Business quality

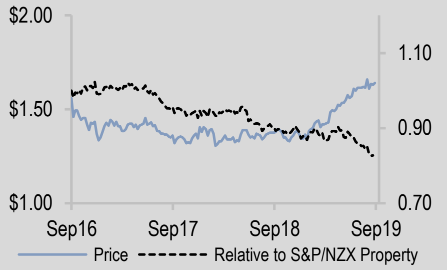
- **Property fundamentals strong reflecting strength of assets:** Portfolio metrics remain strong with WALT and occupancy at 5.2 years and 99.3% respectively. The office portfolio has an impressive WALT of 9.3 years.

Risks factors

- **Retail exposure:** Competitive pressures from e-commerce growth are a structural headwind. Repositioning malls and increased remixing of specialty tenants results in higher capex. There is also a significant amount of Auckland retail development coming online at Commercial Bay and Westfield, Newmarket which may impact KPG's Auckland based malls.
- **CBD office asset volatility:** Rental growth expectations have improved recently with tight supply but remain volatile through the cycle.
- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.

NZX code	KPG
Share price (as at 4 Sep 2019)	NZ$1.64
Target Price	NZ$1.62
Risk Rating	Low
Issued shares	1432.8m
Market cap	NZ$2,350m
Average daily turnover	1,367k (NZ$2,031k)

Share Price Performance



Company Description

Property | Diversified property

Kiwi Property Group (KPG) is the largest listed property vehicle in the NZ market. Its diversified asset base of NZ$3.1bn comprises of 68% retail assets and 32% office assets. KPG owns NZ's largest shopping centre Sylvia Park, as well as prime office assets in Auckland and Wellington. It is geographically weighted 61% to Auckland. KPG listed in 1994 (as Kiwi Income Property Trust). In December 2013 KPG internalised its management structure, and in December 2014 it changed its legal structure from a trust to a company.

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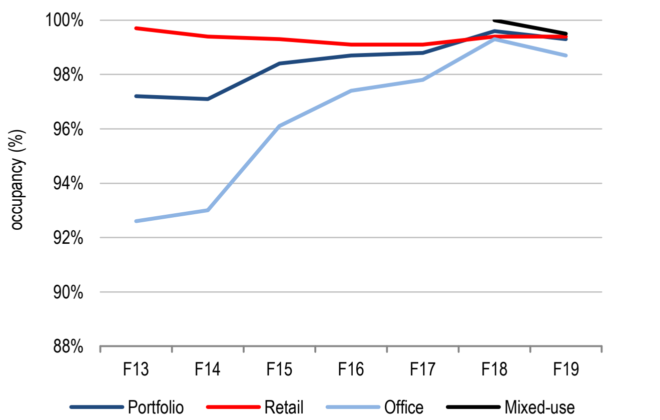
Figure 31. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	-	-	-	-
Office	22%	7%	-	30%
Retail	46%	16%	8%	70%
Total	69%	23%	8%	100%

Source: Company reports, Forsyth Barr analysis

Figure 32. Occupancy by sector



Source: Forsyth Barr analysis, Company reports Note: retail is back-stated for FY18 and FY19 to reflect the change in classification

Kiwi Property Group Limited (KPG) Priced as at 04 Sep 2019: NZ$1.64 March year end

Forsyth Barr valuation	
Valuation methodology	Blended DCF (50%) and NAV (50%)

12-month target price (NZ$)*	**1.62**	**Spot valuations (NZ$)**	
Expected share price return	-1.2%	1. DCF	1.67
Net dividend yield	4.3%	2. NAV	1.54
Estimated 12-month return	3.1%	n/a	n/a

Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	3,405
Equity beta	0.67	(Net debt)/cash	(992)
WACC	5.1%	Value of equity	2,388
Terminal growth	1.5%	Shares (m)	1,433

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	192	181	186	198	205
Normalised EBITDA	**171**	**160**	**165**	**176**	**183**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**171**	**160**	**165**	**176**	**183**
Net interest	(42)	(37)	(39)	(41)	(44)
Associate income	-	-	-	-	-
Tax	(25)	(23)	(24)	(26)	(29)
Minority interests	-	-	-	-	-
Normalised NPAT	**103**	**100**	**102**	**109**	**110**
Abnormals/other	(17)	(38)	(46)	(46)	(49)
Reported NPAT	**120**	**138**	**148**	**155**	**159**
Normalised EPS (cps)	7.5	7.0	7.1	7.5	7.5
DPS (cps)	6.9	7.0	7.1	7.1	7.1

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	5.4	-5.7	2.6	6.6	3.7
EBITDA (%)	4.4	-6.5	3.0	7.1	4.0
EBIT (%)	4.4	-6.5	3.0	7.1	4.0
Normalised NPAT (%)	7.6	-3.4	2.3	6.3	1.1
Normalised EPS (%)	0.4	-6.2	1.5	5.0	0.4
DPS (%)	1.9	1.5	1.4	0.0	0.0

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**171**	**160**	**165**	**176**	**183**
Working capital change	2	3	3	5	3
Interest & tax paid	(65)	(63)	(62)	(68)	(73)
Other	-	-	-	-	-
Operating cash flow	**108**	**100**	**105**	**113**	**113**
Capital expenditure	(113)	(170)	(165)	(53)	(17)
(Acquisitions)/divestments	62	67	-	-	-
Other	(6)	(3)	-	-	-
Funding available/(required)	**51**	**(5)**	**(59)**	**60**	**96**
Dividends paid	(89)	(81)	(76)	(77)	(104)
Equity raised/(returned)	157	-	-	-	-
Increase/(decrease) in net debt	**(120)**	**87**	**135**	**17**	**8**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(43)	(47)	(48)	(52)	(53)
Fixed assets	3,052	3,207	3,416	3,514	3,579
Intangibles	-	-	-	-	-
Other assets	4	6	6	6	6
Total funds employed	**3,013**	**3,166**	**3,374**	**3,468**	**3,531**
Net debt/(cash)	903	992	1,127	1,144	1,151
Other non current liabilities	116	124	124	124	124
Shareholder's funds	1,994	2,051	2,124	2,201	2,256
Minority interests	-	-	-	-	-
Total funding sources	**3,013**	**3,166**	**3,374**	**3,468**	**3,531**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	19.3	20.6	20.7	19.7	19.0
EV/EBIT (x)	19.3	20.6	20.7	19.7	19.0
PE (x)	22.0	23.5	23.1	22.0	21.9
Price/NTA (x)	1.18	1.15	1.12	1.09	1.07
Free cash flow yield (%)	-0.2	-3.0	-2.5	2.6	4.1
Net dividend yield (%)	4.2	4.2	4.3	4.3	4.3
Gross dividend yield (%)	6.0	6.1	6.1	6.1	6.1
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	99	99	95	94

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	4.0	4.3	4.3	4.3	4.1
Net debt/ tangible assets (%)	30.0	31.3	33.4	33.0	32.6
Net debt/ND+E (%)	31.2	32.6	34.7	34.2	33.8
Net debt/EBITDA (x)	5.3	6.2	6.8	6.5	6.3

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	5.6	4.9	4.8	5.0	5.1
Return on equity (%)	5.2	4.9	4.8	4.9	4.9
Return on funds employed (%)	4.7	4.3	4.1	4.2	4.2
EBITDA margin (%)	89.3	88.5	88.7	89.2	89.4
EBIT margin (%)	89.3	88.5	88.7	89.2	89.4
Capex to sales (%)	58.7	93.9	88.7	26.9	8.4
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Retail portfolio					
No. properties	7	9	9	4	4
WALT (years)	3.4	3.9	3.8	3.6	3.3
Occupancy rate (%)	99.3%	99.1%	99.1%	99.4%	99.4%
Cap rate (%)	6.97%	6.69%	6.52%	6.25%	7.53%
Office portfolio					
No. properties	5	5	5	4	4
WALT (years)	7.6	8.2	10.1	10.1	9.3
Occupancy rate (%)	96.1%	97.4%	97.8%	99.3%	98.7%
Cap rate (%)	6.80%	6.44%	6.13%	5.76%	5.45%
Mixed-use portfolio					
No. properties				4	4
WALT (years)				4.0	4.1
Occupancy rate (%)				100.0%	99.5%
Cap rate (%)				5.72%	5.71%
Total portfolio					
WALT (years)	4.5	5.1	5.6	5.3	5.2
Occupancy rate (%)	98.4%	98.7%	98.8%	99.6%	99.3%
Cap rate (%)	6.92%	6.61%	6.40%	6.11%	5.99%
NTA per share (NZ$)	1.214	1.345	1.390	1.392	1.431
Portfolios values (NZ$m)					
Sylvia Park	601	704	755	835	955
Sylvia Park Lifestyle	64	70	71	74	77
Lynn Mall	226	269	271	274	284
Westgate Lifestyle	-	70	87	90	90
The Base	-	-	195	203	218
The Plaza	206	211	216	207	207
Northlands	220	243	249	240	247
Vero Centre	323	358	381	420	450
ASB North Wharf	175	188	196	209	230
The Aurora Centre	71	126	141	152	160
Other properties	390	431	409	348	290
Total portfolio	**2,276**	**2,670**	**2,969**	**3,052**	**3,207**

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

Precinct Properties NZ

NEUTRAL

Late Cycle Gains

Precinct Properties (PCT) NZ$1.5bn development pipeline is both improving the quality of its portfolio and growing EPS. We are positive on the value PCT is creating through its developments. Its portfolio is also in very good shape with occupancy of 99%. Conditions for the Auckland CBD office market are firm which is helpful for dealing with increasing supply and the drive for space efficiency by corporate occupiers. Recent record-low transaction yields for CBD office assets have provided a material boost to PCT's asset values. In our report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the PCT target price by +7%. NEUTRAL.

Earnings and cash flow outlook

- **Development milestones:** Commercial Bay is tracking on budget, albeit timing for the retail component has been delayed. Pre-leasing sits at 82% for office (by rent) and 95% for retail (by NLA). PCT has announced it has committed to a new build at 10 Madden St in Wynyard quarter.
- **Development margins:** Commercial Bay and Bowen Campus are expected to generate a yield on cost of 7.5% and ~7.0% respectively, as well as substantial development margins.
- **Revaluation gains:** PCT posted a revaluation gain of NZ$162m for FY19 which boosted NTA per share +11cps from NZ$1.38 to NZ$1.49.

Business quality

- **Portfolio fundamentals:** PCT has 99% occupancy and a high portfolio WALT of 9 years including developments as at 30 June 2019.
- **Prime location:** PCT is well positioned given its key precincts in Auckland and Wellington. We are positive about rental upside in Auckland and rental diversification from its retail, hotel, and Generator business plus stable cash flow from its Wellington government leases. PCT is well placed to leverage Auckland's growth and is in a stronger position than last cycle.

Financial structure

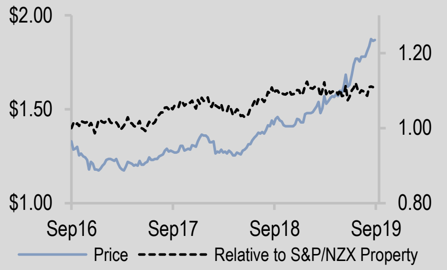
- **Balance sheet:** FY19 gearing is 22% and committed gearing is ~30% when the sale of Pastoral House in Wellington for NZ$77m, settles in 2H20.

Risks factors

- **CBD office supply:** Auckland and Wellington have office supply planned in coming years, which could impact vacancy and rents. The outlook remains manageable and low vacancy is underpinning rental growth.

NZX code	PCT
Share price (as at 4 Sep 2019)	NZ$1.87
Target Price	NZ$1.60
Risk Rating	Low
Issued shares	1313.8m
Market cap	NZ$2,457m
Average daily turnover	851.4k (NZ$1,345k)

Share Price Performance



Company Description

Property | Office property

Precinct Properties (PCT) is a major owner of prime CBD office buildings in New Zealand with a current portfolio valued at NZ$2.8bn as at 30 June 2019. PCT's portfolio is over 70% weighted to Auckland. The company is currently undertaking two major development projects with a combined cost of ~NZ$900m, including Commercial Bay, its flagship office, retail and hotel precinct in Auckland's CBD. PCT was listed in 1997 and in November 2010 it changed its legal structure from a trust to a company. PCT is externally managed by AMP Haumi Management.

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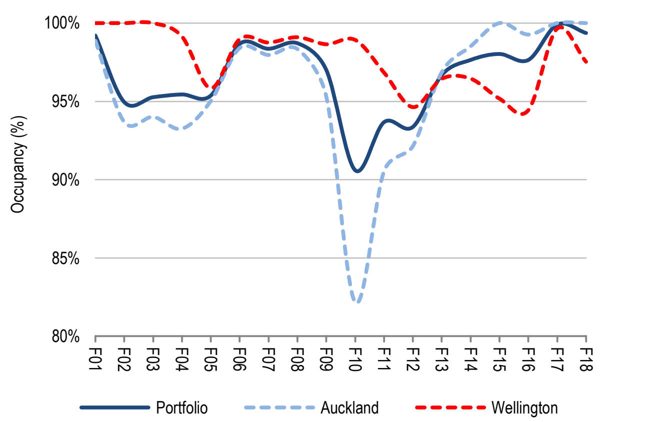
Figure 1. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	-	-	-	-
Office	74%	26%	-	100%
Mixed use	-	-	-	-
Total	74%	26%	-	100%

Source: Company reports, Forsyth Barr analysis. Note: Data is based on reported portfolio as at 30/06/2018.

Figure 2. Portfolio occupancy



Source: Forsyth Barr analysis, Company reports

Precinct Properties NZ Limited (PCT) Priced as at 04 Sep 2019: NZ$1.87 June year end

Forsyth Barr valuation			
Valuation methodology		Blended DCF (50%) and NAV (50%)	
12-month target price (NZ$)*	**1.60**	**Spot valuations (NZ$)**	
Expected share price return	-14.4%	1. DCF	1.55
Net dividend yield	3.4%	2. NAV	1.56
Estimated 12-month return	-11.1%	3. n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	2,450
Equity beta	0.69	(Net debt)/cash	(752)
WACC	5.2%	Value of equity	1,675
Terminal growth	1.5%	Shares (m)	1,314

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	95	98	142	155	169
Normalised EBITDA	**85**	**81**	**129**	**139**	**152**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**85**	**81**	**129**	**139**	**152**
Net interest	(2)	(2)	(35)	(38)	(42)
Associate income	-	-	-	-	-
Tax	(6)	-	(7)	(9)	(10)
Minority interests	-	-	-	-	-
Normalised NPAT	**77**	**79**	**87**	**92**	**100**
Abnormals/other	178	117	83	52	78
Reported NPAT	**255**	**197**	**170**	**145**	**178**
Normalised EPS (cps)	6.3	6.4	6.6	7.0	6.9
DPS (cps)	5.8	6.0	6.3	6.4	6.6

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	5.4	2.3	45.5	9.4	8.7
EBITDA (%)	5.6	-4.6	58.9	7.9	9.2
EBIT (%)	5.6	-4.6	58.9	7.9	9.2
Normalised NPAT (%)	2.5	3.7	9.4	6.3	7.9
Normalised EPS (%)	2.5	0.7	3.8	6.3	-1.8
DPS (%)	3.6	3.4	5.0	1.6	3.1

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**85**	**81**	**129**	**139**	**152**
Working capital change	(3)	(10)	15	5	5
Interest & tax paid	(8)	(7)	(42)	(47)	(52)
Other	-	-	-	-	-
Operating cash flow	**75**	**64**	**102**	**97**	**104**
Capital expenditure	(294)	(269)	(162)	(128)	(63)
(Acquisitions)/divestments	-	181	-	-	-
Other	(12)	(2)	-	-	-
Funding available/(required)	**(231)**	**(26)**	**(60)**	**(31)**	**42**
Dividends paid	(70)	(75)	(82)	(84)	(94)
Equity raised/(returned)	-	149	-	-	-
Increase/(decrease) in net debt	**301**	**(48)**	**142**	**115**	**53**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(6)	(33)	(48)	(53)	(57)
Fixed assets	2,326	2,794	2,970	3,151	3,292
Intangibles	-	-	-	-	-
Other assets	226	75	75	75	75
Total funds employed	**2,545**	**2,836**	**2,997**	**3,173**	**3,309**
Net debt/(cash)	759	752	893	1,008	908
Other non current liabilities	96	129	129	129	129
Shareholder's funds	1,691	1,955	1,975	2,035	2,272
Minority interests	-	-	-	-	-
Total funding sources	**2,545**	**2,836**	**2,997**	**3,173**	**3,309**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	35.9	39.5	25.4	24.1	22.0
EV/EBIT (x)	35.9	39.5	25.4	24.1	22.0
PE (x)	29.6	29.4	28.3	26.6	27.1
Price/NTA (x)	1.34	1.26	1.24	1.21	1.22
Free cash flow yield (%)	-8.9	-8.3	-2.4	-1.3	1.7
Net dividend yield (%)	3.1	3.2	3.4	3.4	3.5
Gross dividend yield (%)	4.4	4.6	4.8	4.9	5.0
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	94	95	91	96

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	38.7	45.1	3.7	3.7	3.6
Net debt/ tangible assets (%)	29.8	26.5	29.8	31.8	27.4
Net debt/ND+E (%)	31.0	27.8	31.1	33.1	28.6
Net debt/EBITDA (x)	8.9	9.3	6.9	7.2	6.0

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	3.3	2.8	4.2	4.3	4.5
Return on equity (%)	4.5	4.1	4.4	4.5	4.4
Return on funds employed (%)	3.1	2.7	3.9	4.0	4.1
EBITDA margin (%)	89.3	83.3	91.0	89.6	90.1
EBIT margin (%)	89.3	83.3	91.0	89.6	90.1
Capex to sales (%)	308.9	275.9	114.1	82.6	37.2
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Key metrics					
No. properties	15	13	12	12	13
Net lettable area (000sqm)	304	226	224	225	245
Average lease term (years)	5.0	6.3	8.7	6.9	8.4
Occupancy rate (%)	98	98	100	99	99
Cap rate (%)	7.0	6.5	6.2	5.8	5.4
Initial yield (%)	7.0	6.7	6.5	5.8	5.8
Over / (under) renting (%)	(1.8)	(3.6)	(4.7)	(6.4)	(6.4)
Auckland values (NZ$m)					
AMP Centre	136	148	163	179	205
ANZ Centre	271	305	324	362	188
HSBC House	120	122	94	91	106
PwC Tower	293	313	329	376	400
Zurich House	101	111	96	106	114
Mason Brothers	-	-	37	42	46
12 Madden St	-	-	68	77	82
Commercial Bay	-	147	370	648	890
Wellington values (NZ$m)					
Dimension Data House	106	109	114	118	123
Deloitte House	49	45	20	10	
Mayfair House	38	39	41	44	47
No.1 and 3 The Terrace	70	72	71	67	87
Pastoral House	47	41	43	45	60
State Insurance Tower	136	141	145	150	162
Bowen Campus	49	58	119	179	240
Total portfolio (NZ$m)					
Investment properties	1,612	1,514	1,535	1,488	1,871
Properties held for sale	76	-	-	191	-
Development properties	-	190	509	838	923
Total	1,688	1,704	2,045	2,517	2,794
NTA per share (NZ$)	1.11	1.17	1.24	1.40	1.49

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

Property For Industry

NEUTRAL

Industrial Standard

Property for Industry (PFI) has continued its track record of reliable and steady performance underpinned by a clear, low risk strategy. PFI's large industrial portfolio is centred on the key precincts in Auckland, and it is well positioned to continue to deliver its defensive attributes. Revaluation gains have been strong driven by significant cap rate firming. Rental growth is starting to appear. PFI trades at a premium to its peers on dividend yield and price-to-book multiples. In our view this is justified given its large industrial exposure, a best-in-class management expense ratio, and a pay-out ratio below peers. In our report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the PFI target price by +11%. NEUTRAL.

Earnings and cash flow outlook

- **Transactional activity:** PFI has ~NZ$80m of uncommitted debt capacity. We expect PFI will continue to be opportunistic with respect to acquisitions.
- **Development activity:** PFI's NZ$7m spec development on surplus land at 212 Cavendish Drive has now been leased to Kiwi Steel on a 15-year term.

Business quality

- **Property fundamentals:** PFI has occupancy of 99.7% and a WALT of 5.7 years. A deep occupier market and change of use optionality over the medium term provides defensive attributes for the industrial market.
- **Defensive qualities:** Industrial property has a very stable earnings profile and has been resilient through the cycle. Over 80% of PFI's portfolio is weighted to Auckland with record low vacancy and strong tenant demand.

Financial structure

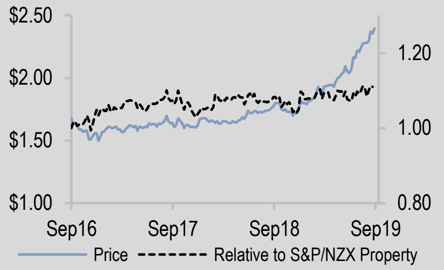
- **Balance sheet capacity plus an intention to recycle more assets:** Balance sheet is solid at 31% geared, well below the 50% banking covenant limit and its self-imposed 40% maximum. PFI has a well-diversified debt book with four banks in its syndicate and two issued bonds.
- **FY18 revaluation gain:** This was lifted NTA to NZ$1.78 (up +9%). An interim 1H19 reval on 13 properties has further lifted NTA to NZ$1.83.

Risks factors

- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.
- **Maintenance capex:** Industrial property requires a lower level of maintenance than other property sectors, albeit this is still a risk.

NZX code	PFI
Share price (as at 4 Sep 2019)	NZ$2.40
Target Price	NZ$2.00
Risk Rating	Low
Issued shares	498.7m
Market cap	NZ$1,194m
Average daily turnover	254.7k (NZ$493k)

Share Price Performance



Company Description

Property | Industrial property

PFI is NZ's largest specialist industrial property landlord. Its portfolio has 94 mostly industrial properties with 148 tenants and a total value of NZ$1,368m as at June 2019. PFI's portfolio is ~84% weighted to Auckland and it has properties in most major Auckland industrial precincts. On 1 July 2013 PFI merged with Direct Property Fund, an unlisted property entity, substantially lifting the scale of the portfolio. PFI has recently completed internalising its management after being externally managed by McDougall Reidy & Co and AMP Capital prior to that.

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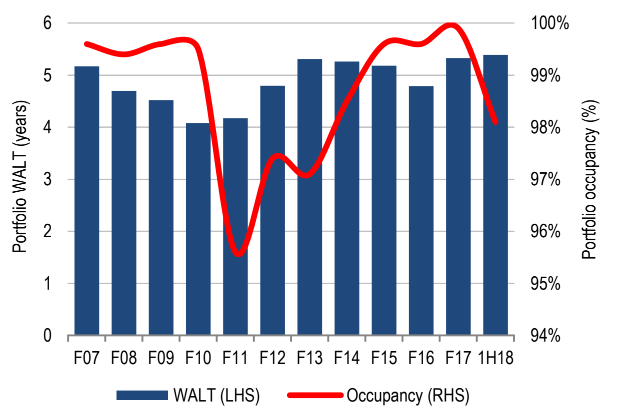
Figure 33. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	70%	12%	5%	86%
Office	7%	0%	-	7%
Mixed use	5%	1%	-	6%
Total	82%	13%	5%	100%

ırce: Company reports, Forsyth Barr analysis. Note: Data is based on reported portfolio as at 31/12/17.

Figure 34. Portfolio metrics



ırce: Forsyth Barr analysis, Company reports

Property for Industry Ltd (PFI)	Priced as at 04 Sep 2019: NZ$2.39			December year end

Forsyth Barr valuation			
Valuation methodology	Blended DCF (50%) and NAV (50%)		
12-month target price (NZ$)*	**2.00**	**Spot valuations (NZ$)**	
Expected share price return	-16.5%	1. DCF	1.99
Net dividend yield	3.2%	2. NAV	1.96
Estimated 12-month return	-13.3%	3. n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	1,397
Equity beta	0.70	(Net debt)/cash	(397)
WACC	5.3%	Value of equity	991
Terminal growth	1.5%	Shares (m)	499

Profit and Loss Account (NZ$m)	2017A	2018A	2019E	2020E	2021E
Sales revenue	70.6	76.1	79.1	80.3	81.5
Normalised EBITDA	**64.8**	**71.4**	**74.3**	**75.3**	**76.1**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**64.8**	**71.4**	**74.3**	**75.3**	**76.1**
Net interest	(17.7)	(18.8)	(19.7)	(19.9)	(19.7)
Associate income	-	-	-	-	-
Tax	(10.0)	(10.9)	(11.7)	(12.1)	(12.6)
Minority interests	-	-	-	-	-
Normalised NPAT	**37.1**	**41.8**	**43.0**	**43.2**	**43.8**
Abnormals/other	14.6	68.3	18.9	18.8	17.1
Reported NPAT	**51.7**	**110.1**	**61.9**	**62.1**	**60.8**
Normalised EPS (cps)	8.1	8.4	8.6	8.7	8.8
DPS (cps)	7.5	7.6	7.6	7.7	7.7

Growth Rates	2017A	2018A	2019E	2020E	2021E
Revenue (%)	2.6	7.7	3.9	1.5	1.5
EBITDA (%)	7.5	10.1	4.1	1.3	1.0
EBIT (%)	7.5	10.1	4.1	1.3	1.0
Normalised NPAT (%)	8.8	12.5	2.8	0.7	1.2
Normalised EPS (%)	7.3	3.7	2.8	0.7	1.2
DPS (%)	2.1	1.3	0.7	0.7	0.0

Cash Flow (NZ$m)	2017A	2018A	2019E	2020E	2021E
EBITDA	**64.8**	**71.4**	**74.3**	**75.3**	**76.1**
Working capital change	(41.0)	1.6	0.7	0.3	0.3
Interest & tax paid	(21.9)	(19.2)	(31.4)	(32.1)	(32.3)
Other	-	-	-	-	-
Operating cash flow	**2.0**	**53.7**	**43.7**	**43.5**	**44.0**
Capital expenditure	(12.8)	(14.8)	(4.1)	(4.8)	(4.9)
(Acquisitions)/divestments	(62.5)	(28.3)	(13.8)	-	-
Other	(0.1)	(0.1)	-	-	-
Funding available/(required)	**(73.4)**	**10.6**	**25.8**	**38.7**	**39.2**
Dividends paid	(32.6)	(37.9)	(37.7)	(37.7)	(38.2)
Equity raised/(returned)	67.7	-	-	-	-
Increase/(decrease) in net debt	**38.3**	**27.3**	**11.8**	**(1.1)**	**(1.0)**

Balance Sheet (NZ$m)	2017A	2018A	2019E	2020E	2021E
Working capital	(7.0)	(9.2)	(9.6)	(9.7)	(9.9)
Fixed assets	1,210.8	1,318.7	1,350.0	1,373.6	1,395.6
Intangibles	29.1	29.1	29.1	29.1	29.1
Other assets	0.4	5.0	5.0	5.0	5.0
Total funds employed	**1,233.3**	**1,343.5**	**1,374.5**	**1,397.9**	**1,419.8**
Net debt/(cash)	370.0	396.6	408.4	407.3	406.3
Other non current liabilities	20.4	35.1	35.4	35.6	35.7
Shareholder's funds	842.9	911.8	930.6	955.0	977.7
Minority interests	-	-	-	-	-
Total funding sources	**1,233.3**	**1,343.5**	**1,374.5**	**1,397.9**	**1,419.8**

Valuation Ratios	2017A	2018A	2019E	2020E	2021E
EV/EBITDA (x)	23.8	22.1	21.5	21.3	21.1
EV/EBIT (x)	23.8	22.1	21.5	21.3	21.1
PE (x)	29.7	28.6	27.8	27.6	27.3
Price/NTA (x)	1.47	1.35	1.32	1.29	1.26
Free cash flow yield (%)	-0.9	3.3	3.3	3.2	3.3
Net dividend yield (%)	3.1	3.2	3.2	3.2	3.2
Gross dividend yield (%)	4.4	4.5	4.5	4.6	4.6
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	90	88	88	87

Capital Structure	2017A	2018A	2019E	2020E	2021E
Interest cover EBIT (x)	3.7	3.8	3.8	3.8	3.9
Net debt/ tangible assets (%)	30.7	30.2	30.4	29.8	29.2
Net debt/ND+E (%)	30.5	30.3	30.5	29.9	29.4
Net debt/EBITDA (x)	5.7	5.6	5.5	5.4	5.3

Key Ratios	2017A	2018A	2019E	2020E	2021E
Return on assets (%)	5.2	5.3	5.4	5.3	5.3
Return on equity (%)	4.4	4.6	4.6	4.5	4.5
Return on funds employed (%)	4.3	4.4	4.3	4.3	4.2
EBITDA margin (%)	91.8	93.9	94.0	93.8	93.3
EBIT margin (%)	91.8	93.9	94.0	93.8	93.3
Capex to sales (%)	18.1	19.5	5.1	6.0	6.0
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	2014A	2015A	2016A	2017A	2018A
Major Prop. Values - PFI (NZ$m)					
7-9 Niall Burgess Rd, Mt Wellingtor	24.7	27.3	28.9	31.0	32.0
54 Carbine Rd, Mt Wellington	19.9	22.4	25.8	26.4	28.6
6 Donner Place, Mt Wellington	17.4	14.5	15.0	15.1	15.1
686 Rosebank Rd, Avondale	31.1	32.2	33.4	35.0	40.0
212 Cavendish Drive, Manukau	14.7	17.1	19.1	22.4	29.7
3-5 Niall Burgess Rd, Mt Wellingtor	14.5	15.7	17.3	17.7	20.0
30-32 Bowden Rd, Mt Wellington	18.3	20.7	21.4	25.4	27.0
Major Prop. Values - DPF (NZ$m)					
Carlaw Commerical, Parnell	59.6	60.8	61.8	62.1	63.8
Carlaw Gateway, Parnell	33.7	33.8	35.0	35.0	35.5
78 Springs Road, East Tamaki	67.5	72.0	78.5	82.8	83.0
229 Dairy Flat Highway, Albany	22.0	22.9	24.7	27.0	28.0
15 Jomac Place, Avondale	19.9	21.0	23.6	24.0	24.5
Portfolio Summary					
Investment properties (NZ$m)	876.0	986.6	1,083.3	1,210.8	1,318.7
Weighted average lease term (yrs)	5.3	5.2	4.8	5.3	5.4
Occupancy rate (%)	98.5	99.6	99.6	99.9	99.3
Number of properties	79	84	83	92	94
NTA per share (NZ$)	1.30	1.41	1.61	1.63	1.78

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

Stride Property

NEUTRAL

Steady Cadence

Stride Property Group (SPG) continues to execute well on portfolio initiatives and repositioning assets. However, we remain bearish on the growth outlook for shopping centres with structural and cyclical headwinds increasing for the retail sector. SPG's largest asset, NorthWest Shopping Centre has taken time to trade-up post opening, and despite sales productivity lifting recently, we still expect near-term growth to be soft while vacancy risk remains. SPG's funds management platform is scalable, but near-term cost pressures are impacting margins. In our report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the SPG target price by +10%. NEUTRAL.

Earnings and cash flow outlook

- **Funds management income:** SPG has grown its external funds under management to NZ$1.3bn, reflecting growth from Investore (NZX: IPL) and Diversified NZ (wholesale fund). SPG intends to grow both funds over time.
- **Brownfield development:** SPG is looking at opportunities to unlock value across its older assets. A recent example is the NZ$43m planned redevelopment at 11 Springs Road for Waste Management.

Business quality

- **Improving portfolio metrics:** SPG continues to deliver good leasing outcomes with 97.6% occupancy and near-term lease expiry manageable.
- **Restructure:** In 2016 SPG separating its funds management business, Stride Investment Management Limited (SIML), and Stride Group, its direct portfolio. The 'stapled' entities trade as one security.
- **Position in IPL:** SPG owns 19.9% of Investore, which will represent all of SPG's large format retail (LFR) after planned asset sales.

Financial structure

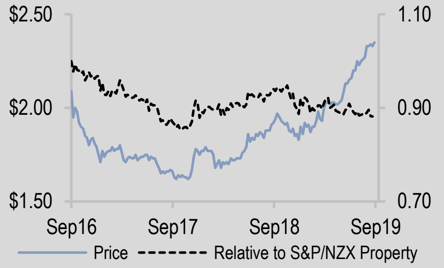
- **Balance sheet:** SPG's gearing is around average sector levels at ~30%.
- **FY19 +4% revaluation:** A gain of NZ$36.5m was driven by industrial assets and cap rates firmed to 6.35%. NTA lifted +10cps to NZ$1.92.

Risks factors

- **E-commerce growth:** SPG has a 60% weighting to retail assets (including its position in IPL), making it exposed to growing risks from e-commerce.
- **Capital expenditure:** SPG owns a number of secondary-grade properties which can require capex over time for maintenance and refurbishment.

NZX code	SPG
Share price (as at 4 Sep 2019)	NZ$2.35
Target Price	NZ$2.18
Risk Rating	Low
Issued shares	365.2m
Market cap	NZ$858m
Average daily turnover	272.1k (NZ$558k)

Share Price Performance



Company Description

Property | Diversified property

Stride Stapled Group (SPG) is a listed property company which owns NZ$895m of direct property across 28 individual assets. 71% of SPG's portfolio is located in Auckland including its key asset NorthWest Shopping Centre. SPG also has significant funds management operations and manages NZ$1.2bn of external property for Investore (IPL) and Diversified, a wholesale unlisted fund. Stride was established in 1996 and listed on the NZX in August 2010. Stride has recently undergone a significant corporate restructure including the divestment of its subsidiary Investore, and implementing a new stapled shareholder structure.

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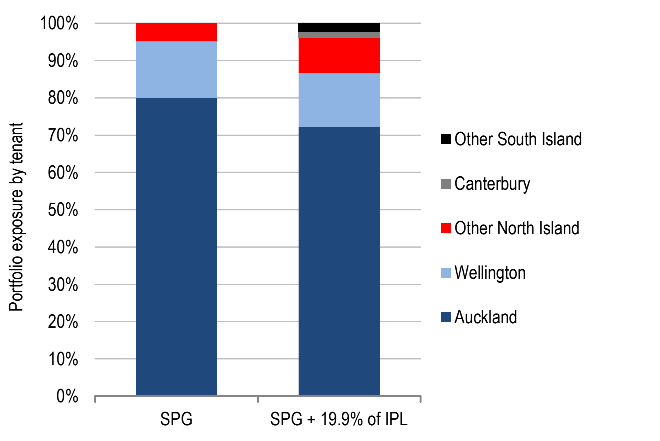
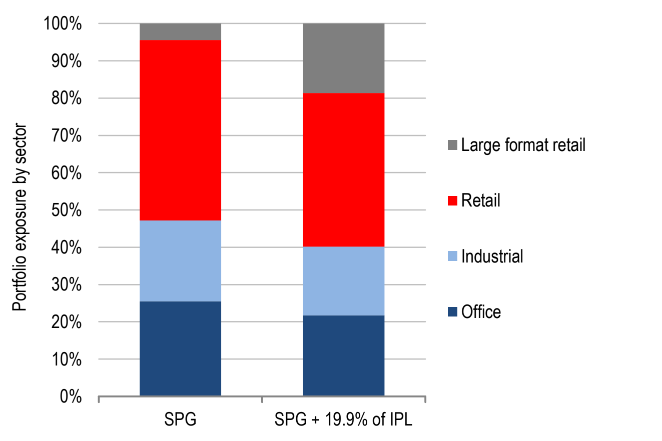
Figure 35. Geographical exposure



Source: Company reports, Forsyth Barr analysis

Figure 36. Sector diversification



Source: Company reports, Forsyth Barr analysis

Stride Property Group (SPG) Priced as at 04 Sep 2019: NZ$2.35 March year end

Forsyth Barr valuation			
Valuation methodology	Blended SOTP (50%) and NAV (50%)		
12-month target price (NZ$)*	**2.18**	**Spot valuations (NZ$)**	
Expected share price return	-7.2%	1. SOTP	2.20
Net dividend yield	4.2%	2. NAV	2.05
Estimated 12-month return	-3.0%	n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.00%	Total firm value	1,062
Equity beta	0.80	(Net debt)/cash	(327)
WACC	5.6%	Value of equity	735
Terminal growth	1.5%	Shares (m)	365

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	77.1	74.0	75.1	81.1	82.9
Normalised EBITDA	**60.2**	**55.7**	**56.3**	**61.8**	**63.2**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**60.2**	**55.7**	**56.3**	**61.8**	**63.2**
Net interest	(16.2)	(14.1)	(14.7)	(16.4)	(16.3)
Associate income	4.3	4.2	4.2	4.2	4.2
Tax	(9.6)	(7.0)	(7.5)	(9.1)	(9.8)
Minority interests	-	-	-	-	-
Normalised NPAT	**38.8**	**38.8**	**38.3**	**40.6**	**41.3**
Abnormals/other	56.5	34.0	8.7	9.0	9.2
Reported NPAT	**95.3**	**72.8**	**47.0**	**49.6**	**50.5**
Normalised EPS (cps)	10.6	10.6	10.5	11.1	11.3
DPS (cps)	9.9	9.9	9.9	9.9	10.7

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	14.0	-4.0	1.4	8.0	2.3
EBITDA (%)	6.8	-7.5	1.1	9.8	2.2
EBIT (%)	6.8	-7.5	1.1	9.8	2.2
Normalised NPAT (%)	10.9	0.0	-1.3	5.9	1.7
Normalised EPS (%)	10.8	-0.1	-1.3	5.9	1.7
DPS (%)	-0.5	0.0	0.0	0.0	8.3

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**60.2**	**55.7**	**56.3**	**61.8**	**63.2**
Working capital change	(0.9)	(2.5)	2.1	(0.1)	(0.0)
Interest & tax paid	(23.7)	(20.7)	(20.0)	(22.8)	(23.2)
Other	2.1	0.6	-	-	-
Operating cash flow	**37.8**	**33.2**	**38.4**	**39.0**	**40.0**
Capital expenditure	(41.5)	(24.5)	(52.3)	(13.9)	(5.8)
(Acquisitions)/divestments	78.0	-	7.4	(7.5)	-
Other	4.3	2.1	-	-	-
Funding available/(required)	**78.6**	**10.7**	**(6.5)**	**17.6**	**34.1**
Dividends paid	(36.0)	(36.2)	(36.2)	(36.2)	(39.2)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	**(42.6)**	**25.4**	**42.7**	**18.6**	**5.1**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(12.6)	(14.9)	(17.0)	(16.9)	(16.9)
Fixed assets	867.9	882.8	936.4	966.8	981.8
Intangibles	-	-	-	-	-
Other assets	132.0	135.1	135.1	135.1	135.1
Total funds employed	**987.3**	**1,003.0**	**1,054.5**	**1,085.0**	**1,100.1**
Net debt/(cash)	297.4	327.0	369.7	388.3	393.4
Other non current liabilities	22.8	21.9	21.9	21.9	21.9
Shareholder's funds	667.1	704.2	713.0	724.9	734.9
Minority interests	-	-	-	-	-
Total funding sources	**987.3**	**1,053.1**	**1,104.6**	**1,135.1**	**1,150.2**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	18.1	19.4	19.8	18.4	18.0
EV/EBIT (x)	18.1	19.4	19.8	18.4	18.0
PE (x)	22.1	22.1	22.4	21.2	20.8
Price/NTA (x)	1.3	1.2	1.2	1.2	1.2
Free cash flow yield (%)	3.8	3.1	3.8	3.9	4.0
Net dividend yield (%)	4.2	4.2	4.2	4.2	4.6
Gross dividend yield (%)	6.0	6.0	6.0	6.0	6.5
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	93	93	95	89	95

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.7	3.9	3.8	3.8	3.9
Net debt/total assets (%)	29.4	30.4	32.8	33.5	33.5
Net debt/ND+E (%)	30.8	31.7	34.1	34.9	34.9
Net debt/EBITDA (x)	4.9	5.9	6.6	6.3	6.2

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	6.0	5.2	5.0	5.3	5.4
Return on equity (%)	5.8	5.5	5.4	5.6	5.6
Return on funds employed (%)	n/a	4.5	4.2	4.4	4.4
EBITDA margin (%)	78.1	75.3	75.0	76.3	76.2
EBIT margin (%)	78.1	75.3	75.0	76.3	76.2
Capex to sales (%)	53.8	33.1	69.7	17.1	7.1
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Major Property Values (NZ$m)					
1 Grey Street, WLG	48.8	49.8	49.8	52.8	57.2
J.ville Shopping Centre, WLG (50%	34.1	32.9	30.5	30.7	30.1
25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6
33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-
Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8
65 Chapel St, Tauranga	35.2	38.7	40.5	41.5	45.1
Mt Wellington Shopping Ctr, AKL	36.3	37.2	35.1	36.3	36.5
Silverdale Centre	82.5	85.5	90.0	98.4	100.5
2 Carr Road, Mt Roskill	29.7	31.5	36.9	42.8	47.3
Portfolio Summary					
Investment properties (NZ$m)	872.4	1,274.8	895.3	902.2	966.3
Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8
Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6
NTA per share (NZ$)	1.81	1.97	1.67	1.82	1.92
Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4

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

Vital Healthcare

OUTPERFORM

Major Work in Progress

Vital Healthcare's (VHP) portfolio of medical properties has strong defensive characteristics such as long lease terms, inflation-linked rental growth, and exposure to the structural growth in demand for healthcare services. While there is some evidence that the Australian operating environment for tenants is slowing, VHP's lease structures mean this will have little impact on rents in the near-to-medium term. VHP has underperformed a number of peers over the past 12 months and offers attractive risk/reward on relative basis. In our report 'Real Estate Reflections' dated 5 September we adopted our new Research team risk free rate of 2% and market risk premium of 7.5% which increased the VHP target price by +17%. Our rating is OUTPERFORM, which reflects our view on VHP relative to other NZX-listed property vehicles.

Earnings and cash flow outlook

- **Increasing healthcare demand:** A growing and ageing population in Australia and New Zealand is driving demand for healthcare services.
- **Healthscope deal off the table**: VHP's manager NorthWest Healthcare (TSX.NWH) has entered into an A$1.2bn sale-and-lease back agreement with Brookfield in a proposed takeover offer for Healthscope. However, following extensive consideration, VHP declined to participate in the deal.
- **Development activity:** VHP currently has over NZ$200m of committed brownfield developments underway. Key developments include major redevelopments for Wakefield, Bowen and Royston Hospitals' which have recently been purchased as well as the large Epworth Eastern expansion in Melbourne'.
- **Acquisitions:** VHP's portfolio has expanded dramatically in recent periods with acquisitions totalling ~NZ$350m over FY17 and FY18; albeit, we note acquisition activity has slowed over the past six months.

Business quality

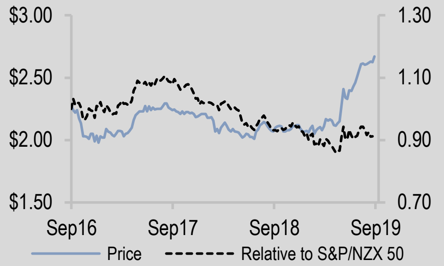
- **Property fundamentals:** VHP has sector leading portfolio metrics which continue to underpin the defensive qualities of the stock. VHP has a very long WALT of 18.1 years and strong portfolio occupancy of 99.4%.

Risk Factors

- **Rising interest rates:** Interest is VHP's largest expense. Changes to wholesale rates or margins can have a material impact on earnings.
- **Currency:** ~75% of VHP's assets are located in Australia thus currency movements can impact VHP's earnings and the value of its AUD assets. This is mitigated by hedging policies.

NZX code	VHP
Share price (as at 4 Sep 2019)	NZ$2.67
Target Price	NZ$2.69
Risk Rating	Low
Issued shares	446.3m
Market cap	NZ$1,192m
Average daily turnover	261.0k (NZ$584k)

Share Price Performance



Company Description

Property | Healthcare property

Vital Healthcare Property Trust (VHP) is a major owner of healthcare focussed commercial property in Australasia. VHP's NZ$1.67bn portfolio comprises private hospitals, medical office buildings and aged care facilities, and has a ~75% weighting to Australia. The portfolio expanded significantly in December 2010 when VHP acquired a large Australian portfolio. It continues to undertake strategic acquisitions. VHP has significant brownfield development opportunities across its portfolio and currently has a number of developments underway. VHP is externally managed by NorthWest Healthcare Properties, which also owns 25% of the units in VHP.

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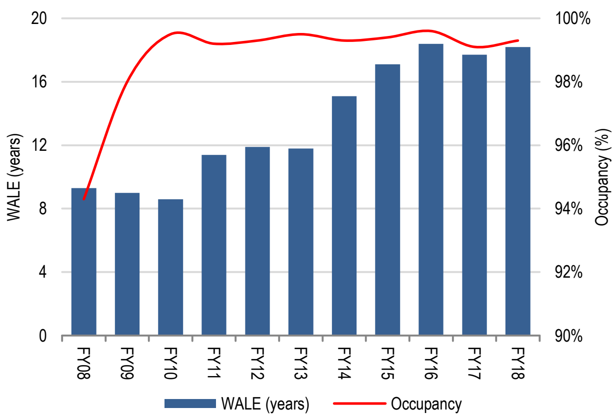
Figure 37. Sector and regional portfolio exposure

	Hospitals	MOBs	Aged care	Total
NSW	28%	2%	3%	33%
NZ	17%	5%	0%	22%
QLD	13%	1%	0%	14%
VIC	15%	4%	0%	20%
Other AU	8%	3%	1%	12%
Total	82%	15%	4%	100%

Source: Company reports, Forsyth Barr analysis

Figure 38. Portfolio occupancy and WALE (years)



Source: Company reports, Forsyth Barr analysis

Vital Healthcare Property Trust (VHP)	Priced as at 04 Sep 2019: NZ$2.67			

June year end

Forsyth Barr valuation				
Valuation methodology	Blended DCF (50%) and NAV (50%)			
12-month target price (NZ$)*	**2.69**	**Spot valuations (NZ$)**		
Expected share price return	0.7%	1. DCF	2.92	
Net dividend yield	3.4%	2. NAV	2.30	
Estimated 12-month return	4.1%	3. n/a	n/a	
Key WACC assumptions		**DCF valuation summary (NZ$m)**		
Risk free rate	2.0%	Total firm value	2,083	
Equity beta	0.68	(Net debt)/cash	(728)	
WACC	5.1%	Value of equity	1,305	
Terminal growth	1.5%	Shares (m)	446	

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	90.7	97.7	99.8	106.5	115.1
Normalised EBITDA	**76.0**	**81.3**	**83.2**	**89.0**	**96.9**
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	**76.0**	**81.3**	**83.2**	**89.0**	**96.9**
Net interest	(22.8)	(29.9)	(30.3)	(31.7)	(37.6)
Associate income	-	-	-	-	-
Tax	(7.2)	(9.3)	(8.6)	(9.5)	(10.0)
Minority interests	-	-	-	-	-
Normalised NPAT	**46.0**	**42.2**	**44.3**	**47.8**	**49.3**
Abnormals/other	54.0	51.3	22.2	29.6	31.2
Reported NPAT	**100.1**	**93.4**	**66.4**	**77.3**	**80.5**
Normalised EPS (cps)	10.6	9.5	9.8	10.4	10.5
DPS (cps)	8.6	8.8	9.0	9.0	9.0

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	19.5	7.7	2.2	6.7	8.2
EBITDA (%)	15.1	6.9	2.3	6.9	8.9
EBIT (%)	15.1	6.9	2.3	6.9	8.9
Normalised NPAT (%)	3.3	-8.4	5.0	7.9	3.2
Normalised EPS (%)	0.2	-10.3	3.0	5.8	1.6
DPS (%)	0.7	2.2	2.9	0.0	0.0

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**76.0**	**81.3**	**83.2**	**89.0**	**96.9**
Working capital change	(2.0)	(2.9)	(3.4)	0.4	0.4
Interest & tax paid	(28.4)	(37.8)	(37.3)	(41.6)	(47.9)
Other	-	-	-	-	-
Operating cash flow	**45.7**	**40.6**	**42.5**	**47.8**	**49.3**
Capital expenditure	(26.1)	(35.5)	(85.7)	(76.9)	(77.7)
(Acquisitions)/divestments	(187.7)	(23.5)	-	-	-
Other	(46.8)	(37.3)	86.4	-	-
Funding available/(required)	**(214.9)**	**(55.7)**	**43.2**	**(29.1)**	**(28.4)**
Dividends paid	(31.1)	(32.7)	(28.3)	(34.3)	(42.2)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	**246.0**	**88.3**	**(14.9)**	**63.4**	**70.6**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(15.8)	(12.5)	(12.5)	(12.5)	(12.5)
Fixed assets	1,731.2	1,836.4	1,947.0	2,053.5	2,162.4
Intangibles	-	-	-	-	-
Other assets	49.0	87.7	4.7	4.7	4.7
Total funds employed	**1,764.5**	**1,911.7**	**1,939.2**	**2,045.7**	**2,154.6**
Net debt/(cash)	663.3	728.1	713.3	776.7	847.2
Other non current liabilities	113.2	153.8	153.8	153.8	153.8
Shareholder's funds	988.0	1,029.7	1,072.2	1,115.2	1,153.6
Minority interests	-	-	-	-	-
Total funding sources	**1,764.5**	**1,911.7**	**1,939.2**	**2,045.7**	**2,154.6**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	22.7	23.2	23.0	21.4	19.7
EV/EBIT (x)	22.7	23.2	23.0	21.4	19.7
PE (x)	25.2	28.1	27.3	25.8	25.4
Price/NTA (x)	1.18	1.16	1.13	1.11	1.09
Free cash flow yield (%)	1.6	0.4	-3.6	-2.4	-2.4
Net dividend yield (%)	3.2	3.3	3.4	3.4	3.4
Gross dividend yield (%)	4.6	4.7	4.8	4.8	4.8
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	81	92	92	87	86

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.3	2.7	2.7	2.8	2.6
Net debt/ tangible assets (%)	37.6	38.1	36.8	38.0	39.3
Net debt/ND+E (%)	40.2	41.4	39.9	41.1	42.3
Net debt/EBITDA (x)	8.7	9.0	8.6	8.7	8.7

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	4.3	4.2	4.2	4.3	4.5
Return on equity (%)	4.7	4.1	4.1	4.3	4.3
Return on funds employed (%)	4.4	3.9	3.9	4.0	4.1
EBITDA margin (%)	83.9	83.2	83.3	83.6	84.1
EBIT margin (%)	83.9	83.2	83.3	83.6	84.1
Capex to sales (%)	28.8	36.3	85.8	72.2	67.5
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a

Property Statistics	**2014A**	**2015A**	**2016A**	**2017A**	**2018A**
Major Property Values (NZ$m)					
Ascot Hospital & Clinics	85.0	81.5	90.0	102.5	106.0
Ascot Central	23.9	25.6	26.6	29.0	35.0
Epworth Eastern	68.2	91.3	103.8	150.1	167.3
Southport Private Hospital	47.4	46.6	45.1	42.6	47.6
Lingard Private Hospital	54.2	79.8	87.7	107.3	136.9
Maitland Private Hospital	35.2	50.0	63.3	82.9	98.1
SportsMed Hospital and Clinic	33.4	36.8	40.0	52.1	58.1
Hurstville Private Hospital	25.2	65.9	73.1	86.1	80.5
Total portfolio	613.0	781.9	951.9	1,376.2	1,731.2
Portfolio Summary					
Investment properties (NZ$m)	613.0	781.9	951.9	1,376.2	1,731.2
Number of properties - yielding only	25	25	30	37	42
Weighted average lease term (yrs)	15.1	17.1	18.4	17.7	18.2
Occupancy rate (%)	99.3	99.4	99.6	99.1	99.3
M'ment/Admin cost % of assets (%	1.29	1.69	1.76	2.05	1.76
NTA per share (NZ$)	1.03	1.26	1.51	2.05	2.26
Average portfolio cap rate (%)	8.95	7.99	7.24	6.12	5.76

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