

Real Estate Reflections — 178th Ed

October 2019 — Scaling the Summit

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The listed property vehicle (LPV) sector's performance during the month was mildly subdued relative to recent months but still gained +1.9% and generated peak multiples for a number of key metrics. Our preferred LPVs remain the very defensive VHP (OUTPERFORM) and IPL (OUTPERFORM), and the cheapest large cap LPV being KPG (OUTPERFORM).

Peak performance

Over the 25 years we have looked at the sector, this month marks the pinnacle in terms of multiples with new peaks summited for P/NTA of 1.3x (Fig 13), the property sector P/E is at a record premium to the market P/E at 290 bpts (Fig 12) and the sector gross yield is at its smallest premium to the market yield at 80 bpts since pre-GFC (Fig 11). We are also into our eighth year of NTA expansion (Fig 15). What is holding steady and providing a degree of peace of mind is maintenance of the long running 400 bpts spread between gross dividend yields and 10 year bonds (Fig 14), portfolio fundamentals remain strong (Fig 3) and the supply/demand outlook is balanced.

Dividends carried, share prices up again

During September the sector was boosted by the payment of dividends by seven LPVs which drove another strong month of returns, up +1.9%. Standout performances were from VHP and AUG, both up +5% in the month. Year-to-date the sector is up +33% outpacing the broader equity market up +25%.

A capital raise and a new fund

Goodman Property Trust (GMT) undertook a NZ\$165m equity raise in an opportunistic move to provide further balance sheet capacity and fund an expanding brownfield development pipeline. GMT's announcement also featured an interim revaluation gain of ~NZ\$170m(+6%) providing further evidence of the favourable supply/demand dynamic at play for industrial property in the Auckland region. Another highlight in the month was Stride Property Group's (SPG) JV to develop an unlisted industrial property investment fund, Industrie Property. Industrie is designed to invest strictly in the industrial sector across the NZ property market and will absorb SPG's entire 11 property industrial portfolio coupled with two properties that will be acquired upon practical completion, presenting an aggregate expected initial value of NZ\$362.2m.



Figure 1. NZ listed property sector summary

| LPV | Code | Rating | Price 1-Oct | Target price | Gross yield | AFFO yield | P/NAV |
|----------------------------|------|--------------|----------------|-----------------|----------------|---------------|-------------|
| Asset Plus | APL | NEUTRAL | \$0.64 | \$0.65 | 8.0% | 5.0% | 98% |
| Argosy Property | ARG | NEUTRAL | \$1.47 | \$1.35 | 6.1% | 4.2% | 114% |
| Augusta Capital | AUG | NEUTRAL | \$1.53 | \$1.38 | 5.9% | 4.7% | 110% |
| Goodman Property | GMT | UNDERPERFORM | \$2.21 | \$1.83 | 4.3% | 2.8% | 126% |
| Investore | IPL | OUTPERFORM | \$1.92 | \$1.85 | 5.7% | 3.9% | 116% |
| Kiwi Property Group | KPG | OUTPERFORM | \$1.67 | \$1.62 | 6.0% | 3.9% | 108% |
| Precinct Properties | PCT | NEUTRAL | \$1.85 | \$1.60 | 4.9% | 3.2% | 119% |
| Property for Industry | PFI | NEUTRAL | \$2.39 | \$2.00 | 4.6% | 3.2% | 122% |
| Stride Property | SPG | NEUTRAL | \$2.32 | \$2.18 | 6.1% | 3.9% | 113% |
| Vital Healthcare | VHP | OUTPERFORM | \$2.72 | \$2.69 | 4.7% | 3.0% | 118% |
| Core simple average | | | | | 5.3% | 3.5% | 117% |

Source: Forsyth Barr analysis Note core average excludes APL and AUG

NZ listed property research

Augusta Capital (AUG) — Funds Management Momentum [5 September 2019]

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 our rating back to NEUTRAL. AUG has had the sector leading total return of +46% year-to-date. The business does remain with considerable momentum in terms of deal flow and the establishment of new funds.

Kiwi Property Group — Large mixed-use portfolio [5 September 2019]

We view Kiwi Property Group (KPG) as the best priced of the large cap stocks in the listed property sector and have upgraded our rating from NEUTRAL to OUTPERFORM. Despite concern regarding KPG's retail exposure, given the quality of its assets we think this provides investors with an attractive entry point in an expensive sector.

Stride Property — Striding out the Industrial Legs [16 September 2019]

Stride property group (SPG) and JP Morgan Asset Management (JPAM) have entered into a conditional joint venture to develop an industrial property investment management product, Industrie Property. SPG has re-iterated the existing flat dividend guidance of 9.91 cps for FY20 and we have not made any changes to our forecasts at this point. SPG's strategic intentions to create funds management vehicles have been well flagged. SPG continues to build its scale and expertise in funds management and this is a point of difference with NZ's largely vanilla REIT market.

The SPV intends to invest strictly in the industrial sector across the NZ property market, overweight to the Auckland region. Industrie will be managed by Stride Investment Management Limited (SIML). Industrie will absorb SPG's entire 11 property industrial portfolio, coupled with a further two properties that will be acquired upon practical completion, presenting an aggregate expected value of NZ\$362.2m.

Goodman Property Trust — Lifting the Stakes With Well Timed Raise [19 September 2019]

GMT is undertaking an NZ\$150m placement and NZ\$15m via a Unit Purchase Plan which reduces GMT's committed gearing to a conservative 21%. Proceeds are to be used to pay down debt initially and fund acquisition and development activity. There is an interim reval gain to September 2019 of ~NZ\$170m (+6%), highlighting the strength of the Auckland industrial market. The cap rate firmed -30bps to 5.4% lifting the NTA by +13cpc to ~NZ\$1.71.

Given the significant premium to NTA, GMT is being opportunistic raising equity; however, it has had a strategy of maintaining conservative gearing, recycling non-core assets and executing well in terms of acquiring well located in-fill brownfield sites and building out its existing industrial estates. GMT has announced NZ\$169m of new investments including a new infill location in line with other recent activity. There are five new projects on existing GMT industrial estates of NZ\$75m with a 6.1% initial yield total cost, although limited details have been provided.

Property News for July 2019

NZ listed property portfolio activity

SPG and JP Morgan Asset Management (JPAM) have entered into a conditional joint venture to develop an industrial property investment management product, Industrie Property. This Special Purpose Vehicle (SPV) intends to invest strictly in the Industrial sector across the NZ property market, overweight to the Auckland region. [5 September 2019].

Property Index Summary — September 2019

Figure 2. Sector Total returns (as at 2 October 2019)

| Company | Code | Price 30-Sep | Market Cap | Gr. Div w/imp | Month return | Rank | Quarter return | Rank | Year return | Rank | YTD return | Rank |
|--|------|-----------------|---------------|------------------|-----------------|------|-------------------|------|----------------|------|---------------|------|
| Asset Plus | APL | \$0.640 | \$104m | - | +0.8% | 9 | +4.1% | 9 | +16.3% | 10 | +19.0% | 10 |
| Argosy Property | ARG | \$1.465 | \$1,219m | \$0.02 | +1.3% | 6 | +7.5% | 5 | +41.3% | 3 | +27.4% | 7 |
| Augusta | AUG | \$1.530 | \$134m | \$0.02 | +4.9% | 1 | +16.8% | 1 | +47.8% | 2 | +53.2% | 1 |
| CDL Investments | CDI | \$0.800 | \$224m | - | +12.7% | n/a | +14.3% | n/a | -6.2% | n/a | +2.9% | n/a |
| Goodman Prop Trust | GMT | \$2.215 | \$3,058m | \$0.02 | +2.5% | 3 | +15.5% | 2 | +49.8% | 1 | +49.3% | 2 |
| Investore | IPL | \$1.900 | \$501m | \$0.02 | +0.2% | 10 | +2.9% | 10 | +30.6% | 7 | +29.4% | 6 |
| Kiwi Property Group | KPG | \$1.670 | \$2,412m | - | +2.5% | 4 | +4.4% | 8 | +27.6% | 8 | +25.8% | 8 |
| Precinct Properties NZ | PCT | \$1.865 | \$2,424m | \$0.02 | +0.8% | 8 | +6.3% | 7 | +35.0% | 5 | +29.8% | 5 |
| Property for Industry | PFI | \$2.400 | \$1,200m | - | +1.9% | 5 | +12.3% | 3 | +39.9% | 4 | +37.3% | 3 |
| Stride Property Group | SPG | \$2.320 | \$857m | \$0.03 | +1.0% | 7 | +6.9% | 6 | +26.1% | 9 | +25.4% | 9 |
| Vital Healthcare Property Trust | VHP | \$2.720 | \$1,224m | \$0.03 | +4.7% | 2 | +11.7% | 4 | +34.2% | 6 | +34.4% | 4 |
| | | | | | | | | | | | | |
| S&P/NZX All Real Estate Cap | | 1,497.9 | | | +1.3% | | +7.9% | | +29.1% | | +28.4% | |
| S&P/NZX All Real Estate Gr. | | 1,824.1 | | | +1.9% | | +8.6% | | +34.7% | | +32.1% | |
| S&P/NZX All Real Estate Gr. w/imp | | 1,901.4 | | | +2.0% | | +8.8% | | +36.0% | | +32.9% | |
| S&P/NZX 50 Gross | | 10,925.6 | | | +1.6% | | +4.0% | | +16.8% | | +24.0% | |
| S&P/NZX 50 Gross w/imp | | 13,269.0 | | | +1.8% | | +4.4% | | +18.0% | | +25.0% | |

Source: Forsyth Barr analysis, IRESS

GMT has purchased a 5.8 hectare industrial property from fresh produce exporter, T&G Global for NZ\$65m at a yield of 5.1%. The terms of the sale stipulate that T&G will continue to lease the property for up to four years, and with the site currently only ~30% utilized, this provides GMT with significant opportunity to further develop the property. Settlement is expected on September 26, 2019. [12 September 2019]

GMT is undertaking a NZ\$150m placement and NZ\$15m raise via a Unit Purchase Plan which reduces GMT's committed gearing to a conservative 21%. GMT also reaffirmed its flat earnings and distribution guidance for FY20. The portfolio remains in robust shape with 99.4% occupancy and strong underlying rental growth. [18 September 2019]

AUG has entered into an exclusive agreement with luxury international hotel group; Radisson Hotel Group to manage a planned 5-star boutique hotel in the heart of Queenstown at 17-19 Man Street. The four level hotel will accommodate 63 rooms and will be managed by the Raddison Group initially for a tenure of 15 years. The announcement of this agreement has paved the way for AUG to bring its new Augusta Tourism Fund to the market in the first quarter of 2020. The fund will include both this new Queenstown asset and the Jucy Snooze Hotel in Auckland as the cornerstone properties. AUG also announced the establishment of a new Diversified Fund planned for November of 2019, with the NZ\$89m Albany Lifestyle Centre, purchased in early 2019, earmarked as the seed asset for the fund. [26 September 2019]

Other NZ listed property news

ARG has received a 5 Green Star industrial built v3 rating from the Green Building Council for its NZ\$29.5m warehousing facility located in the Highgate Business Park, Silverdale. The premise is leased to online retailer Mighty Ape. [10 September 2019]

GMT has received Overseas Investment Office approval for the acquisition of 42, 60 and 70 Favona road, Mangere, which was announced to the market; 5 December 2018. [13 September 2019]

GMT has announced that the acquisition of the T&G Global facility at 2-6 Monahan Road, Mt Wellington has been completed. The acquisition was previously announced on 12 September 2019. [27 September 2019]

Other commercial property news

Developer Thames Pacific has acquired a 7500sqm parcel of land for NZ\$25m in Te Aro, Central Wellington. The site will play host to its planned NZ\$130m terraced housing development to be named; The Paddington, which is scheduled to start construction in early 2020. Thames Pacific has intentions to build 152 low-rise freehold terraces on the site, priced from NZ\$788,000-NZ\$1.48m of which 90% are already sold off the plans, exemplifying the intensity of demand for ideally located residential property; particularly low-rise properties which avoid the rising insurance premiums experienced post earthquake in the capital. [5 September 2019]

Kiwisaver provider Booster has listed its Private land and Property Fund (PLPF) on the NZX on September 18 2019, in an effort to give retail investors greater exposure to privately held businesses. PLPF will carry NZ\$50m in equity and NZ\$17m in debt upon the commencement of its listing, and has been actively investing for the past two years. The fund's primary holdings are centred around horticultural & viticultural land, but Booster plans to diversify the portfolio further into commercial, industrial and retail properties upon listing. The listing will comprise of 30,776,867 units coming to market. [13 September 2019]

Oyster property group has announced the inception of a new industrial focused investment opportunity; Oyster Industrial. The fund will be underpinned by two industrial properties located in Wiri's highly demanded industrial precinct. The two properties are currently tenanted by Plumbing World, and milk powder processor NBL (New Zealand), with a weighted average lease term of 9.12 years, combined valuation of NZ\$31.6m and generates c.NZ\$1.48m in net annual rent. Oyster will bring 358 parcels of shares to market, each representing 50,000 shares. Each parcel is valued at NZ\$50,000 and is expected to provide investors with an annual pre-tax return of 5.25%. Oyster Group have confirmed that 50% of the offer has been committed to by investors, with very strong interest expressed for the balance. [14 September 2019]

The Auckland CBD waterfront office and hospitality property which is currently tenanted by the likes of Danny Doolan's, Degree Bar and Dr Rudi's, has been placed on the market for sale. The asset which plays host to ~5500 sqm of NLA is located on 204 Quay Street and is currently 100% occupied with a WALT of 7.8 years, raking in ~NZ\$1.5m in net rental income. Arguably the best placed dining and entertainment precinct on Auckland's CBD, the site is ideally located to benefit from the Auckland Council and Government's ~NZ\$220m commitment to upgrade the waterfront ahead of the America's Cup in 2021. [27 September 2019]

To further its recently announced agreement to manage Augusta Capital's first hotel in Queenstown, Radisson Hotel Group has signed agreements with NZ Horizon Ltd and Remarkables Hotel Ltd to launch an additional two hotels in Queenstown and two hotels in Lake Tekapo. In aggregate these four new hotels will provide 777 new rooms and are scheduled for completion in 2021/2022. [30 September 2019]

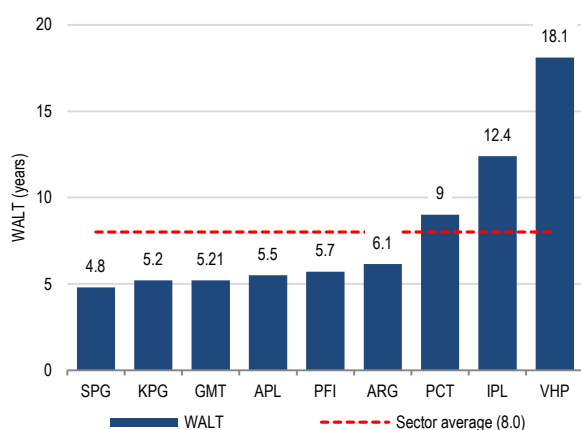
Portfolio summary

Figure 3. 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% | 6.20% | 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% |

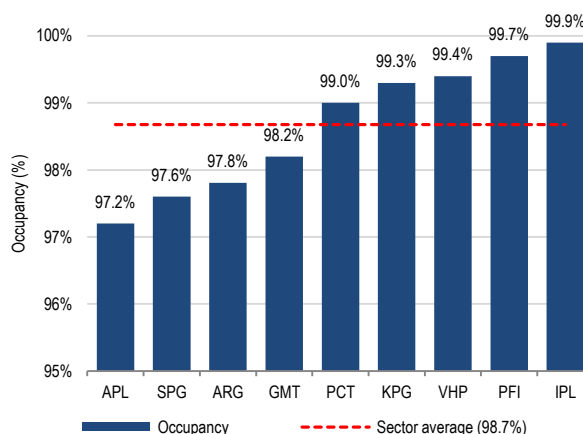
Source: Forsyth Barr analysis, Company Reports

Figure 4. Sector WALT (weighted average lease term)



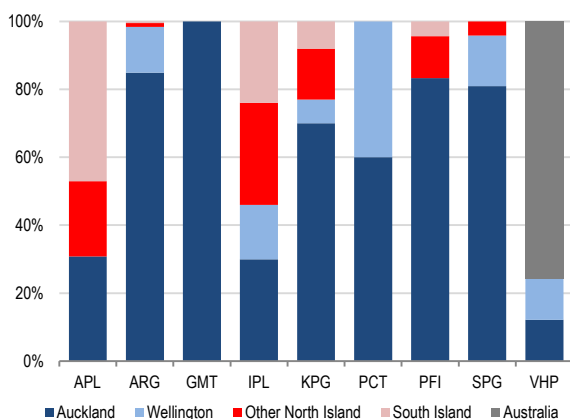
Source: Forsyth Barr analysis, Company reports

Figure 5. Sector occupancy



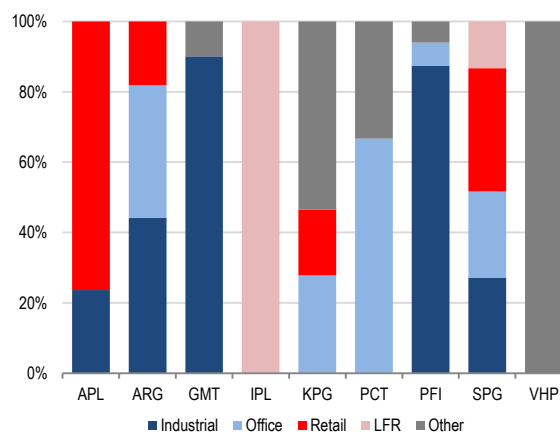
Source: Forsyth Barr analysis, Company reports

Figure 6. Geographical diversification



Source: Forsyth Barr analysis, Company reports

Figure 7. Sector diversification



Source: Forsyth Barr analysis, Company reports

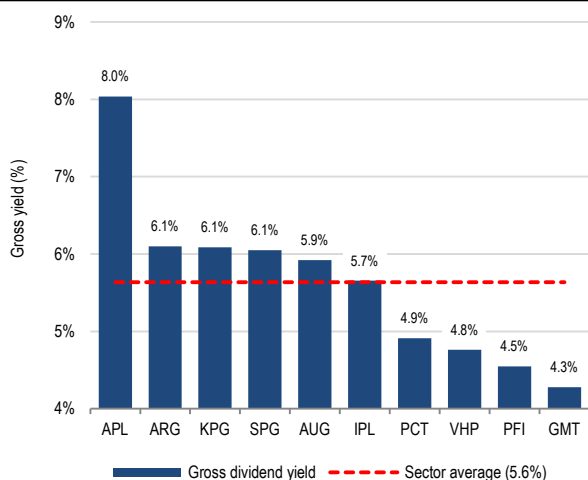
Relative value summary

Figure 8. Relative valuation metrics — 1st October 2019

| Company | Rating | Value 1-Oct | Cash yield | Gross yield | P / NTA ¹ | PE | EV/ EBITDA |
|---------------------------|--------------|----------------|---------------|----------------|----------------------|--------------|---------------|
| Asset Plus | NEUTRAL | 0.64 | 5.6% | 8.0% | 0.92x | 17.1x | 16.1x |
| Argosy Property | NEUTRAL | 1.47 | 4.3% | 6.1% | 1.20x | 21.7x | 20.4x |
| Augusta Capital | NEUTRAL | 1.53 | 4.2% | 5.9% | 2.04x | 21.4x | 15.4x |
| Goodman Property | UNDERPERFORM | 2.21 | 3.0% | 4.3% | 1.41x | 32.4x | 27.2x |
| Investore | OUTPERFORM | 1.92 | 4.0% | 5.7% | 1.13x | 23.3x | 19.4x |
| Kiwi Property Group | OUTPERFORM | 1.67 | 4.2% | 6.0% | 1.16x | 22.9x | 20.8x |
| Precinct Properties | NEUTRAL | 1.85 | 3.4% | 4.9% | 1.33x | 27.5x | 25.5x |
| Property for Industry | NEUTRAL | 2.39 | 3.2% | 4.6% | 1.34x | 27.6x | 21.3x |
| Stride Property | NEUTRAL | 2.32 | 4.3% | 6.1% | 1.21x | 21.5x | 20.8x |
| Vital Healthcare | OUTPERFORM | 2.72 | 3.3% | 4.7% | 1.21x | 27.3x | 23.1x |
| S&P/NZX Real Estate Gross | | 1,824 | 3.6% | 5.2% | 1.28x | 26.6x | 23.2x |
| S&P/NZX50 Gross | | 10,950 | 3.4% | 4.3% | 2.59x | 23.8x | 13.6x |

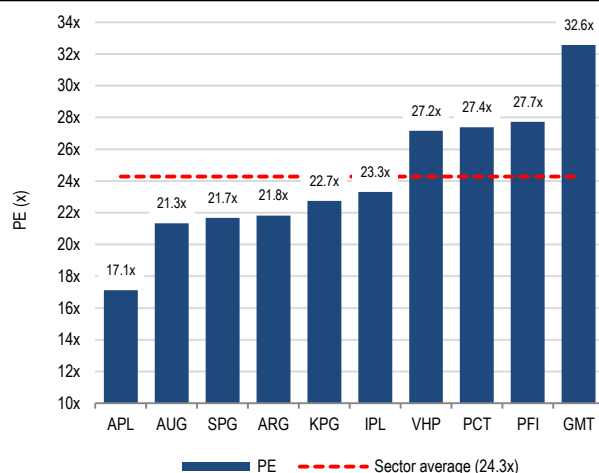
1: NTA is adjusted. 2: Index metrics reflect average constituent metrics weighted by market capitalisation. Source: Forsyth Barr analysis, Company Reports

Figure 9. Gross yield



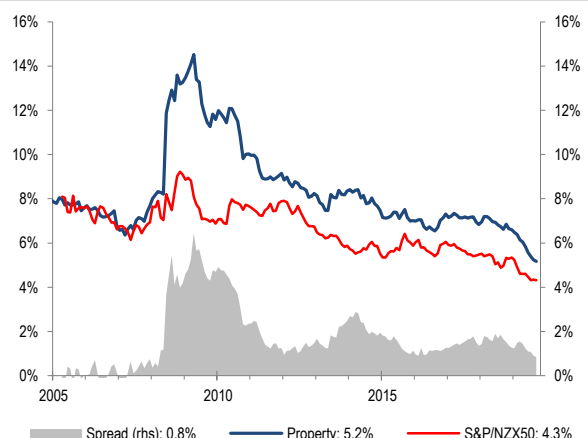
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 10. PE ratio



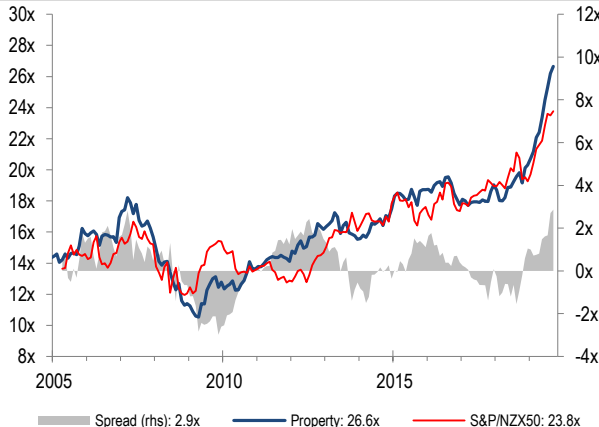
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 11. Sector gross yield versus S&P/NZX50 gross yield



Source: Company reports, Forsyth Barr analysis, IRESS

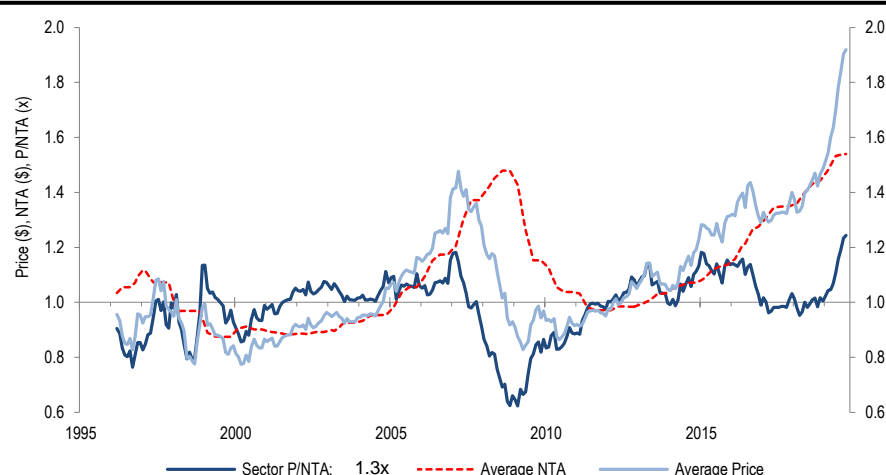
Figure 12. Sector PE versus S&P/NZX50 PE



Source: Forsyth Barr analysis, Company reports, IRESS

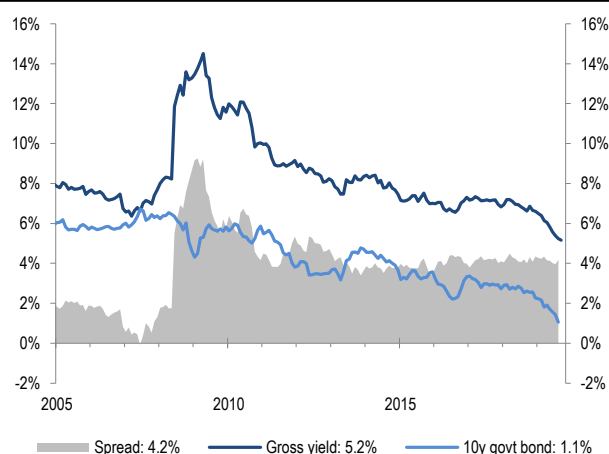
Key monthly charts and tables

Figure 13. Sector P/NTA, NTA and price



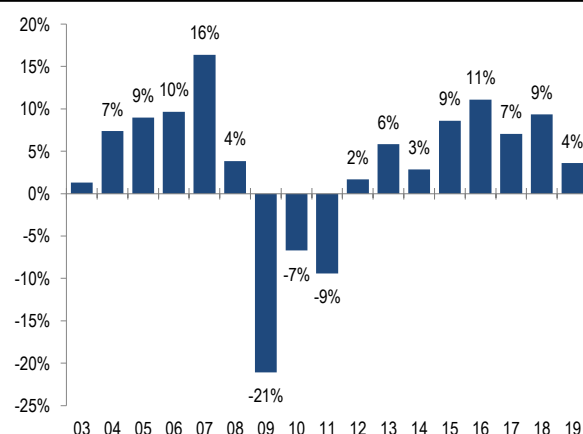
Note: Series represents simple average of price to reported NTA for core LPV's (ARG, GMT, IPL, KPG, PCT, PFI). Source: Company reports, IRESS, Forsyth Barr analysis.

Figure 14. 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 15. Sector NTA growth



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

Figure 16. Dividend Summary

| Company | FY17 | FY18 | FY19 | FY20 | 12-mth | Price | Cash | Gross yield ¹ | Gross yield ² | Gross yield ³ |
|---------------------|------|------|------|------|--------|--------|-------------|--------------------------|--------------------------|--------------------------|
| | DPS | DPS | DPS | DPS | DPS | 1-Oct | yield | 17.5% MTR | 30.0% MTR | 33.0% MTR |
| APL | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | \$0.64 | 5.6% | 7.3% | 8.0% | 8.4% |
| 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 | \$1.53 | 4.3% | 5.9% | 5.9% | 5.9% |
| GMT | 6.65 | 6.65 | 6.65 | 6.65 | 6.65 | \$2.22 | 3.0% | 3.9% | 4.3% | 4.5% |
| IPL | 0.00 | 7.46 | 7.60 | 7.60 | 7.60 | \$1.92 | 4.0% | 5.1% | 5.7% | 5.9% |
| KPG | 6.72 | 6.85 | 6.95 | 7.05 | 7.05 | \$1.66 | 4.3% | 5.5% | 6.1% | 6.4% |
| PCT | 5.60 | 5.80 | 6.00 | 6.30 | 6.33 | \$1.84 | 3.4% | 4.5% | 4.9% | 5.1% |
| PFI | 7.45 | 7.55 | 7.60 | 7.65 | 7.64 | \$2.40 | 3.2% | 4.1% | 4.5% | 4.7% |
| SPG | 9.96 | 9.91 | 9.91 | 9.91 | 9.91 | \$2.34 | 4.2% | 5.5% | 6.1% | 6.3% |
| VHP | 8.50 | 8.56 | 8.75 | 9.00 | 9.00 | \$2.70 | 3.3% | 4.2% | 4.8% | 5.0% |
| Avg | | | | | | | 4.0% | 5.2% | 5.6% | 5.9% |
| Weighted avg | | | | | | | 3.6% | 4.7% | 5.2% | 5.4% |

Source: Forsyth Barr analysis, Company Reports

Figure 17. Peer multiples

| Company | P / NTA | P / NAV | PE | P / AFFO | Cash yield | AFFO yield | Gross yield | AFFO Pay-out |
|---------------------------------|---------------|---------------|--------------|--------------|-------------|-------------|-------------|--------------|
| APL | -7.8% | -2.3% | 17.1x | 19.9x | 5.6% | 5.0% | 8.0% | 112% |
| ARG | +20.5% | +14.0% | 21.8x | 24.1x | 4.3% | 4.2% | 6.1% | 103% |
| AUG | +103.3% | +9.7% | 21.3x | 21.3x | 4.3% | 4.7% | 5.9% | 91% |
| GMT | +41.4% | +26.9% | 32.6x | 35.8x | 3.0% | 2.8% | 4.3% | 107% |
| IPL | +12.9% | +15.6% | 23.3x | 25.6x | 4.0% | 3.9% | 5.7% | 101% |
| KPG | +15.7% | +7.2% | 22.7x | 25.2x | 4.3% | 4.0% | 6.1% | 107% |
| PCT | +31.8% | +17.9% | 27.4x | 30.9x | 3.4% | 3.2% | 4.9% | 106% |
| PFI | +35.1% | +22.4% | 27.7x | 31.0x | 3.2% | 3.2% | 4.5% | 99% |
| SPG | +21.9% | +14.3% | 21.7x | 25.6x | 4.2% | 3.9% | 6.1% | 108% |
| VHP | +20.3% | +17.4% | 27.2x | 33.7x | 3.3% | 3.0% | 4.8% | 112% |
| Average | +29.5% | +14.3% | 24.3x | 27.3x | 4.0% | 3.8% | 5.6% | 105% |
| Core average¹ | +24.9% | +17.0% | 25.6x | 29.0x | 3.7% | 3.5% | 5.3% | 106% |

Note: Core average excludes APL and AUG. Source: Forsyth Barr analysis, Company Reports

Figure 18. 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 | 3.74 | 17.1x | 3.80 | 2.69 | 3.29 | 3.22 | +5.03% |
| ARG | 6.62 | 6.94 | 6.59 | 6.74 | 21.8x | 6.04 | 6.25 | 5.99 | 6.11 | +4.15% |
| AUG | 6.60 | 8.85 | 7.18 | 7.15 | 21.3x | 6.60 | 8.85 | 7.18 | 7.15 | +4.69% |
| GMT | 7.24 | 7.02 | 6.75 | 6.82 | 32.6x | 6.35 | 6.32 | 6.08 | 6.19 | +2.79% |
| IPL | 7.85 | 8.02 | 8.15 | 8.23 | 23.3x | 7.07 | 7.54 | 7.43 | 7.51 | +3.91% |
| KPG | 7.46 | 6.99 | 7.10 | 7.28 | 22.7x | 6.82 | 6.41 | 6.39 | 6.56 | +3.96% |
| PCT | 6.32 | 6.37 | 6.61 | 6.72 | 27.4x | 5.80 | 6.02 | 5.86 | 5.95 | +3.23% |
| PFI | 8.38 | 8.61 | 8.67 | 8.66 | 27.7x | 7.46 | 7.80 | 7.71 | 7.73 | +3.22% |
| SPG | 10.63 | 10.62 | 10.49 | 10.80 | 21.7x | 9.12 | 8.87 | 8.82 | 9.16 | +3.91% |
| VHP | 10.60 | 9.51 | 9.80 | 9.94 | 27.2x | 7.45 | 5.86 | 7.60 | 8.02 | +2.97% |
| Avg | | | | | 24.3x | | | | | +3.79% |
| Weighted avg | | | | | 26.6x | | | | | +3.42% |

Source: Forsyth Barr analysis, Company Reports

External Opportunities

In 2018 Asset Plus Limited (APL) 1) externalised 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

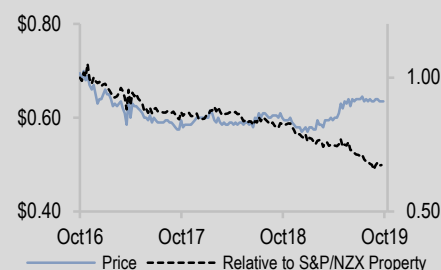
- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.
- **Dividends:** There is no dividend guidance and the dividend remains subject to the quarterly review and possible future acquisitions.

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 7 Oct 2019) | NZ\$0.64 |
| Target Price | NZ\$0.65 |
| Risk Rating | Medium |
| Issued shares | 161.9m |
| Market cap | NZ\$103m |
| Average daily turnover | 96.9k (NZ\$60k) |

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 Watties 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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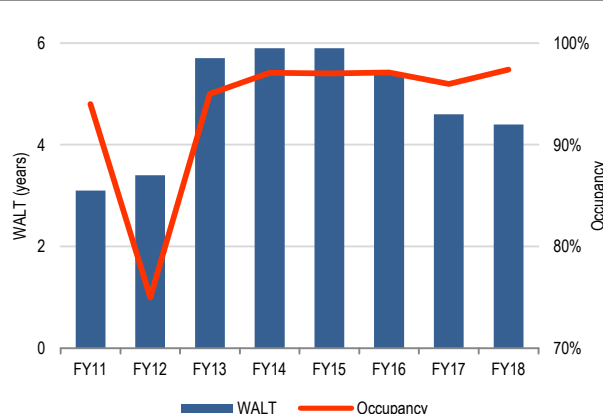
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Figure 16. Sector and regional portfolio exposure

| | 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 17. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company reports

| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|--------|---------------------------------|------------------------|-------|-------|-------------------------------|--|-------|-------|-------|-------|-------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 15.1 | 17.1 | 13.8 | 16.6 | 16.4 |
| | | | | | | EV/EBIT (x) | | 15.1 | 17.1 | 13.8 | 16.6 | 16.4 |
| 12-month target price (NZ\$)* | | 0.65 | Spot valuations (NZ\$) | | | PE (x) | | 16.4 | 19.9 | 16.4 | 17.6 | 18.3 |
| Expected share price return | | 2.4% | 1. DCF | | 0.63 | Price/NTA (x) | | 0.90 | 0.92 | 0.91 | 0.90 | 0.90 |
| Net dividend yield | | 5.7% | 2. NAV | | 0.66 | Free cash flow yield (%) | | 1.7 | 3.3 | 5.2 | 4.9 | 4.7 |
| Estimated 12-month return | | 8.0% | n/a | | n/a | Net dividend yield (%) | | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| | | | | | | Gross dividend yield (%) | | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 |
| Risk free rate | | 2.0% | Total firm value | | 115 | Pay-out ratio (%) | | 93 | 113 | 93 | 100 | 104 |
| Equity beta | | 0.78 | (Net debt)/cash (10) | | | | | | | | | |
| WACC | | 5.8% | Value of equity | | 105 | Capital Structure | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | | 162 | | | 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 |
| Profit and Loss Account (NZ\$m) | | | | | | Key Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
| 2018A | 2019A | 2020E | 2021E | 2022E | | Return on assets (%) | | 6.0 | 6.0 | 5.9 | 5.4 | 5.4 |
| Sales revenue | 12.3 | 9.3 | 11.0 | 10.4 | 10.5 | Return on equity (%) | | 5.5 | 4.6 | 5.5 | 5.1 | 4.9 |
| Normalised EBITDA | 10.1 | 7.6 | 9.2 | 8.6 | 8.7 | Return on funds employed (%) | | 5.0 | 4.2 | 5.5 | 4.5 | 4.5 |
| Depreciation and amortisation | - | - | - | - | - | EBITDA margin (%) | | 81.9 | 81.2 | 83.7 | 82.6 | 82.6 |
| Normalised EBIT | 10.1 | 7.6 | 9.2 | 8.6 | 8.7 | EBIT margin (%) | | 81.9 | 81.2 | 83.7 | 82.6 | 82.6 |
| Net interest | (2.8) | (1.1) | (1.8) | (1.5) | (1.9) | Capex to sales (%) | | 38.4 | 3.8 | 8.4 | 7.2 | 7.2 |
| Associate income | - | - | - | - | - | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a |
| Tax | (1.0) | (1.3) | (1.2) | (1.2) | (1.2) | Property Statistics | | | | | | |
| Minority interests | - | - | - | - | - | | | 2015A | 2016A | 2017A | 2018A | 2019A |
| Normalised NPAT | 6.3 | 5.2 | 6.3 | 5.8 | 5.6 | Key metrics | | | | | | |
| Abnormals/other | (3.2) | (1.4) | 0.2 | 0.8 | 0.8 | No. properties | | 5 | 5 | 5 | 4 | 3 |
| Reported NPAT | 3.1 | 3.8 | 6.5 | 6.6 | 6.4 | Average lease term (years) | | 5.9 | 5.4 | 4.6 | 4.4 | 5.5 |
| Normalised EPS (cps) | 3.9 | 3.2 | 3.9 | 3.6 | 3.5 | Occupancy rate (%) | | 97.0 | 97.1 | 96.0 | 97.4 | 96.7 |
| DPS (cps) | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | Cap rate (%) | | 8.21 | 7.91 | 7.74 | 7.43 | 7.40 |
| Growth Rates | | | | | | Portfolio value (NZ\$m) | | 158.2 | 169.4 | 174.4 | 167.1 | 123.1 |
| 2018A | 2019A | 2020E | 2021E | 2022E | | NTA per share (NZ\$) | | 0.725 | 0.740 | 0.723 | 0.706 | 0.694 |
| Revenue (%) | 0.5 | -24.3 | 18.2 | -6.2 | 1.3 | Portfolios values (NZ\$m) | | | | | | |
| EBITDA (%) | 1.6 | -25.1 | 21.9 | -7.4 | 1.3 | AA centre | | 33.8 | 36.2 | 40.9 | 43.8 | |
| EBIT (%) | 1.6 | -25.1 | 21.9 | -7.4 | 1.3 | Eastgate Shopping Centre | | 50.4 | 58.0 | 59.5 | 58.0 | 54.5 |
| Normalised NPAT (%) | 1.9 | -17.7 | 21.1 | -6.7 | -3.6 | Print Place | | 13.3 | 13.0 | 11.0 | - | - |
| Normalised EPS (%) | 1.9 | -17.7 | 21.1 | -6.7 | -3.6 | Heinz Wattie Warehouse | | 27.2 | 27.2 | 27.0 | 27.3 | 29.1 |
| DPS (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Roskill Centre | | 33.6 | 35.0 | 36.0 | 38.0 | 39.5 |
| Cash Flow (NZ\$m) | | | | | | Portfolio value (NZ\$m) | | 158.2 | 169.4 | 174.4 | 167.1 | 123.1 |
| 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 | | | | | | | |

Underpinned by Industrial

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

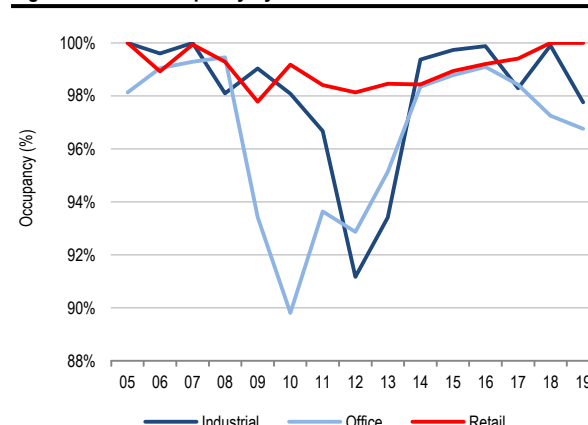
- **Auckland office conditions:** Auckland office is vulnerable from increasing supply and the drive for space efficiency, however, recently this has been offset by assets leaving the market and increased government space.
- **Lease expiry:** ~19% of leases (by rent) are expiring in FY20 and FY21 including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

Figure 18. 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

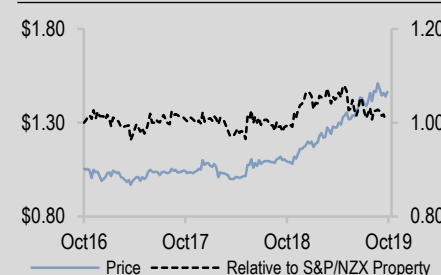
Figure 19. ARG occupancy by sector



Source: Forsyth Barr analysis, company reports

| NZX code | ARG |
|--------------------------------|-------------------|
| Share price (as at 7 Oct 2019) | NZ\$1.47 |
| Target Price | NZ\$1.35 |
| Risk Rating | Low |
| Issued shares | 827.0m |
| Market cap | NZ\$1,212m |
| Average daily turnover | 535.1k (NZ\$688k) |

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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| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|-------|---------------------------------|------------------------|-------|-------|-------------------------------|--|-------|-------|-------|-------|-------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 19.0 | 19.3 | 20.6 | 19.6 | 18.5 |
| | | | | | | EV/EBIT (x) | | 19.0 | 19.3 | 20.6 | 19.6 | 18.5 |
| 12-month target price (NZ\$)* | | 1.35 | Spot valuations (NZ\$) | | | PE (x) | | 22.1 | 21.1 | 22.2 | 21.3 | 21.3 |
| Expected share price return | | -7.8% | 1. DCF | | 1.34 | Price/NTA (x) | | 1.31 | 1.20 | 1.15 | 1.10 | 1.07 |
| Net dividend yield | | 4.3% | 2. NAV | | 1.29 | Free cash flow yield (%) | | -0.1 | -2.3 | -2.8 | 1.6 | 4.2 |
| Estimated 12-month return | | -3.6% | n/a | | n/a | 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 |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 |
| Risk free rate | | 2.0% | Total firm value | | 1,778 | Pay-out ratio (%) | | 94 | 90 | 95 | 91 | 91 |
| Equity beta | | 0.77 | (Net debt)/cash | | (591) | | | | | | | |
| WACC | | 5.5% | Value of equity | | 1,147 | | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | | 827 | | | | | | | |
| | | | | | | 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 |
| Profit and Loss Account (NZ\$m) | | | | | | Key Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
| 2018A | 2019A | 2020E | 2021E | 2022E | | Return on assets (%) | | 5.9 | 5.5 | 5.0 | 5.1 | 5.4 |
| Sales revenue | 101 | 102 | 100 | 107 | 113 | Return on equity (%) | | 5.9 | 5.7 | 5.2 | 5.2 | 5.0 |
| Normalised EBITDA | 91 | 92 | 89 | 95 | 101 | Return on funds employed (%) | | 5.1 | 4.9 | 4.4 | 4.4 | 4.4 |
| Depreciation and amortisation | - | - | - | - | - | EBITDA margin (%) | | 90.2 | 89.3 | 89.1 | 89.3 | 89.5 |
| Normalised EBIT | 91 | 92 | 89 | 95 | 101 | EBIT margin (%) | | 90.2 | 89.3 | 89.1 | 89.3 | 89.5 |
| Net interest | (25) | (24) | (25) | (26) | (31) | Capex to sales (%) | | 62.5 | 92.5 | 88.1 | 35.1 | 4.9 |
| Associate income | - | - | - | - | - | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a |
| 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 | | | | | | | |
| | | | | | | 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 | |

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

New Fund Momentum

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 Fund in early CY20 and Diversified Fund in CY19.
- **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

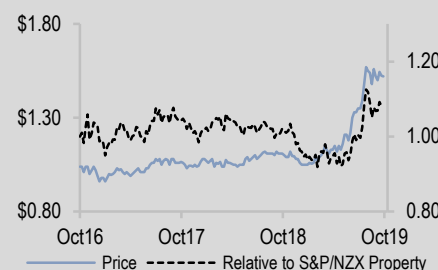
- **Balance sheet becoming more fluid:** AUG's funds management activities have resulted in a more unpredictable balance sheet. We assume gearing of ~15–20% over the medium-term, which is ~35–40% on a look-through basis incorporating the underlying gearing in AUG's co-investments.

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 7 Oct 2019) | NZ\$1.52 |
| Target Price | NZ\$1.38 |
| Risk Rating | High |
| Issued shares | 87.5m |
| Market cap | NZ\$133m |
| Average daily turnover | 41.9k (NZ\$52k) |

Share Price Performance



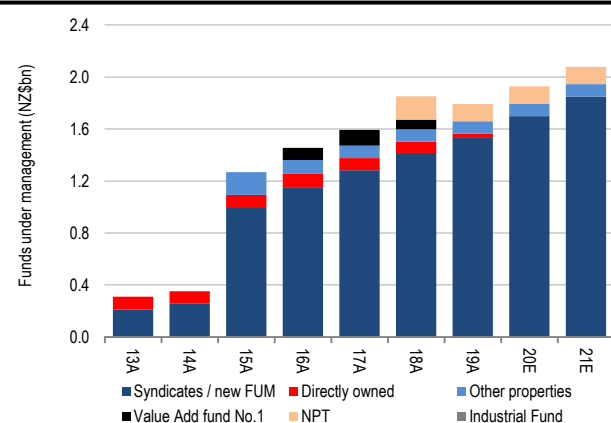
Company Description

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.

Jeremy Simpson, CFA

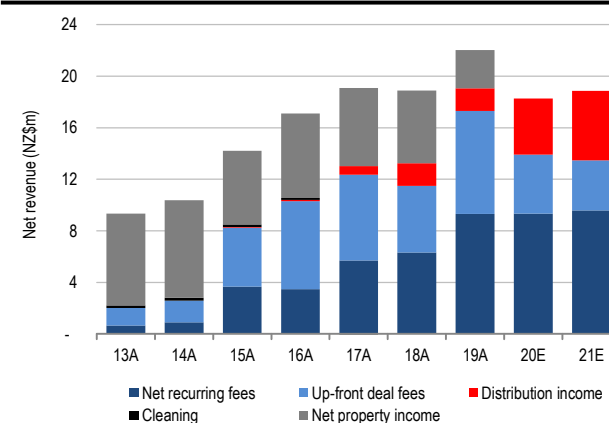
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Figure 20. Funds under management (NZ\$bn)



Source: Company reports, Forsyth Barr analysis

Figure 21. Net revenue by segment (NZ\$m)



Source: Company reports, Forsyth Barr analysis

| Forsyth Barr valuation | | | | | | Valuation Ratios | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|--|--|--|--|--|--------------------------------|-------|-------|-------|-------|----------------------------|-------|-------|-------|-------|
| Valuation methodology | | | | | | Blend of 50% DCF & 50% Adj NAV | | | | | 14.3 | 10.5 | 8.6 | 6.1 | 7.0 |
| 12-month target price (NZ\$)* | | | | | | Spot valuations (NZ\$) | | | | | 14.3 | 10.5 | 8.6 | 6.1 | 7.0 |
| Expected share price return | | | | | | 1. DCF | | | | | 23.0 | 17.2 | 21.2 | 21.3 | 26.3 |
| Net dividend yield | | | | | | 2. Adj NAV | | | | | 2.1 | 2.0 | 1.7 | 1.7 | 1.7 |
| Estimated 12-month return | | | | | | 3. n/a | | | | | 0.4 | 5.2 | 4.5 | 4.7 | 3.9 |
| | | | | | | n/a | | | | | 3.7 | 4.0 | 4.3 | 4.3 | 3.6 |
| | | | | | | | | | | | 5.1 | 4.0 | 5.9 | 5.9 | 5.0 |
| | | | | | | | | | | | 98 | 0 | 100 | 100 | 100 |
| | | | | | | | | | | | 85 | 69 | 91 | 91 | 95 |
| Key WACC assumptions | | | | | | DCF valuation summary (NZ\$m) | | | | | Capital Structure | | | | |
| Risk free rate | | | | | | Total firm value | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
| Equity beta | | | | | | (Net debt)/cash | | | | | 3.7 | 7.8 | 25.4 | 26.6 | 8.9 |
| WACC | | | | | | Value of equity | | | | | 3.7 | 7.8 | 25.4 | 26.6 | 8.9 |
| Terminal growth | | | | | | Shares (m) | | | | | 30.8 | 6.7 | -9.9 | 5.1 | 5.5 |
| | | | | | | | | | | | 3.6 | 0.5 | n/a | 0.6 | 0.8 |
| Profit and Loss Account (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Key Ratios | | | | |
| Sales revenue | | | | | | 18.9 | 22.0 | 19.2 | 19.2 | 17.8 | 2018A | 2019A | 2020E | 2021E | 2022E |
| Normalised EBITDA | | | | | | 10.3 | 11.7 | 8.7 | 8.6 | 7.4 | 7.3 | 11.4 | 8.6 | 7.4 | 6.4 |
| Depreciation and amortisation | | | | | | - | - | - | - | - | 6.9 | 9.0 | 6.3 | 6.2 | 5.0 |
| Normalised EBIT | | | | | | 10.3 | 11.7 | 8.7 | 8.6 | 7.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest | | | | | | (2.8) | (1.5) | (0.3) | (0.3) | (0.8) | 54.7 | 53.0 | 45.0 | 44.7 | 41.8 |
| Associate income | | | | | | - | - | - | - | - | 54.7 | 53.0 | 45.0 | 44.7 | 41.8 |
| Tax | | | | | | (1.8) | (2.4) | (2.0) | (2.0) | (1.5) | Capex to sales (%) | 1.3 | 1.4 | 0.0 | 0.0 |
| Minority interests | | | | | | - | - | - | - | - | Capex to depreciation (%) | n/a | n/a | n/a | n/a |
| Normalised NPAT | | | | | | 5.8 | 7.7 | 6.3 | 6.2 | 5.1 | Operating Performance | | | | |
| Abnormals/other | | | | | | (4.8) | (0.8) | (0.7) | (0.1) | (0.1) | 2018A | 2019A | 2020E | 2021E | 2022E |
| Reported NPAT | | | | | | 1.0 | 7.0 | 5.6 | 6.1 | 4.9 | 5.7 | 3.0 | - | - | - |
| Normalised EPS (cps) | | | | | | 6.6 | 8.8 | 7.2 | 7.1 | 5.8 | 1.8 | 1.8 | 4.4 | 5.4 | 5.5 |
| DPS (cps) | | | | | | 5.6 | 6.1 | 6.5 | 6.5 | 5.5 | Net revenue by segment: | | | | |
| | | | | | | | | | | | 5.7 | 3.0 | - | - | - |
| | | | | | | | | | | | 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 |
| | | | | | | | | | | | 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 |
| | | | | | | | | | | | 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 | | | | |
| | | | | | | | | | | | 351 | 180 | 272 | 170 | 100 |
| | | | | | | | | | | | 126 | 255 | 129 | 102 | 60 |
| | | | | | | | | | | | 47% | 36% | 36% | 45% | 45% |
| | | | | | | | | | | | 125 | 232 | 75 | 50 | 25 |
| | | | | | | | | | | | Funds under management | | | | |
| | | | | | | | | | | | 84 | 31 | - | - | - |
| | | | | | | | | | | | 1,416 | 1,532 | 1,699 | 1,849 | 1,956 |
| | | | | | | | | | | | 96 | 96 | 96 | 96 | 96 |
| | | | | | | | | | | | 74 | - | - | - | - |
| | | | | | | | | | | | 180 | 133 | 190 | 190 | 190 |
| | | | | | | | | | | | - | - | - | - | - |
| | | | | | | | | | | | 1,851 | 1,792 | 1,985 | 2,135 | 2,242 |
| | | | | | | | | | | | Balance Sheet (NZ\$m) | | | | |
| | | | | | | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
| | | | | | | | | | | | 1.5 | (0.2) | (0.5) | (0.5) | (0.7) |
| | | | | | | | | | | | 85.3 | 31.5 | 0.7 | 0.6 | 0.5 |
| | | | | | | | | | | | 21.7 | 20.2 | 20.2 | 20.2 | 20.2 |
| | | | | | | | | | | | 25.3 | 42.2 | 72.2 | 87.2 | 87.9 |
| | | | | | | | | | | | 133.7 | 93.6 | 92.7 | 107.5 | 107.9 |
| | | | | | | | | | | | 37.5 | 6.2 | (9.0) | 5.4 | 5.9 |
| | | | | | | | | | | | 12.1 | 1.3 | 1.3 | 1.3 | 1.3 |
| | | | | | | | | | | | 84.2 | 86.1 | 100.3 | 100.7 | 100.6 |
| | | | | | | | | | | | - | - | - | - | - |
| | | | | | | | | | | | 133.7 | 93.6 | 92.7 | 107.5 | 107.9 |

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

Raising The Stakes

Although Goodman Property Trust (GMT) is struggling to achieve earnings growth, it continues to execute well on its recycling strategy and has also raised new equity. 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 GMT's target price by +13%. **UNDERPERFORM.**

Earnings and cash flow outlook

- **Unlocking its brownfield land bank:** GMT is becoming increasingly focussed on newly acquired brownfield sites and 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 largely 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 99.4% 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 over NZ\$200m of development.

Financial structure

- **Balance sheet capacity:** Gearing remains at the low end of the sector range at ~20% and with recent acquisitions and equity issue committed gearing is a low 21%.
- **Revaluation gains:** GMT achieved a revaluation gain of +8% in FY19 and +6% in 1H20.

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.

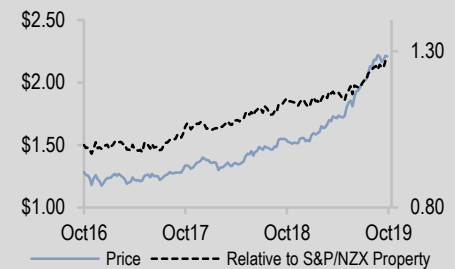
Figure 22. Portfolio exposures

| | 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

| NZX code | GMT |
|--------------------------------|---------------------|
| Share price (as at 7 Oct 2019) | NZ\$2.21 |
| Target Price | NZ\$1.83 |
| Risk Rating | Low |
| Issued shares | 1294.9m |
| Market cap | NZ\$2,862m |
| Average daily turnover | 834.5k (NZ\$1,537k) |

Share Price Performance



Company Description

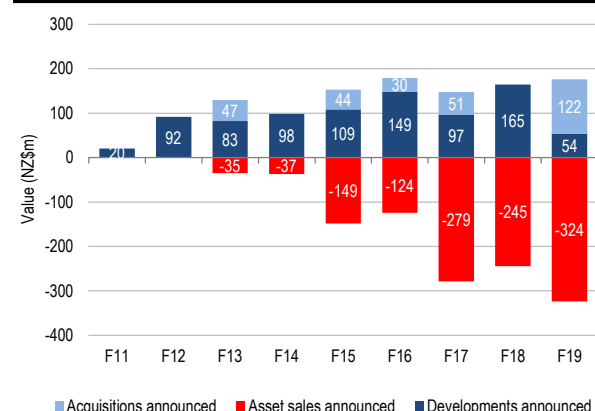
Property | Industrial property

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 23. Asset recycling



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

| Forsyth Barr valuation | | | | | | Valuation Ratios | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|--|--|--|--|--|---------------------------------|-------|-------|-------|-------|------------------------------------|-------|--------|--------|--------|
| Valuation methodology | | | | | | Blended DCF (50%) and NAV (50%) | | | | | 26.3 | 27.5 | 26.9 | 24.6 | 23.2 |
| 12-month target price (NZ\$)* | | | | | | Spot valuations (NZ\$) | | | | | 26.3 | 27.5 | 26.9 | 24.6 | 23.2 |
| Expected share price return | | | | | | 1. DCF | | | | | 30.5 | 31.5 | 32.7 | 32.1 | 30.9 |
| Net dividend yield | | | | | | 2. NAV | | | | | 1.59 | 1.40 | 1.29 | 1.25 | 1.21 |
| Estimated 12-month return | | | | | | n/a | | | | | -0.4 | -2.3 | -1.0 | 1.0 | 1.5 |
| Key WACC assumptions | | | | | | DCF valuation summary (NZ\$m) | | | | | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Risk free rate | | | | | | Total firm value | | | | | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Equity beta | | | | | | (Net debt)/cash | | | | | 100 | 100 | 100 | 100 | 100 |
| WACC | | | | | | Value of equity | | | | | 92 | 95 | 99 | 97 | 93 |
| Terminal growth | | | | | | Shares (m) | | | | | Capital Structure | | | | |
| | | | | | | 1,295 | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
| Profit and Loss Account (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | 5.1 | 6.1 | 7.1 | 6.3 | 6.3 |
| Sales revenue | | | | | | 149 | 141 | 141 | 155 | 164 | 30.7 | 21.8 | 19.5 | 20.3 | 20.7 |
| Normalised EBITDA | | | | | | 138 | 130 | 128 | 140 | 148 | 31.3 | 22.1 | 19.8 | 20.6 | 20.9 |
| Depreciation and amortisation | | | | | | - | - | - | - | - | 6.0 | 4.5 | 4.6 | 4.5 | 4.5 |
| Normalised EBIT | | | | | | 138 | 130 | 128 | 140 | 148 | Key Ratios | | | | |
| Net interest | | | | | | (27) | (21) | (18) | (22) | (24) | 2018A | 2019A | 2020E | 2021E | 2022E |
| Associate income | | | | | | - | - | - | - | - | 5.1 | 4.8 | 4.2 | 4.4 | 4.5 |
| Tax | | | | | | (18) | (18) | (20) | (23) | (26) | 5.2 | 4.4 | 3.8 | 3.9 | 3.9 |
| Minority interests | | | | | | - | - | - | - | - | 4.4 | 3.9 | 3.6 | 3.6 | 3.7 |
| Normalised NPAT | | | | | | 93 | 91 | 90 | 95 | 99 | 92.6 | 92.0 | 90.4 | 90.6 | 90.6 |
| Abnormals/other | | | | | | (101) | (229) | (182) | (60) | (63) | 92.6 | 92.0 | 90.4 | 90.6 | 90.6 |
| Reported NPAT | | | | | | 194 | 320 | 272 | 155 | 161 | 68.7 | 102.2 | 85.1 | 42.3 | 33.2 |
| Normalised EPS (cps) | | | | | | 7.2 | 7.0 | 6.7 | 6.9 | 7.1 | Capex to sales (%) | | | | |
| DPS (cps) | | | | | | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 | Capex to depreciation (%) | | | | |
| | | | | | | | | | | | n/a | n/a | n/a | n/a | n/a |
| Growth Rates | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Key Ratios | | | | |
| Revenue (%) | | | | | | 0.9 | -5.0 | 0.2 | 9.4 | 5.7 | 2018A | 2019A | 2020E | 2021E | 2022E |
| EBITDA (%) | | | | | | 0.7 | -5.6 | -1.4 | 9.6 | 5.7 | 5.1 | 4.8 | 4.2 | 4.4 | 4.5 |
| EBIT (%) | | | | | | 0.7 | -5.6 | -1.4 | 9.6 | 5.7 | 5.2 | 4.4 | 3.8 | 3.9 | 3.9 |
| Normalised NPAT (%) | | | | | | -5.1 | -2.6 | -0.7 | 5.3 | 3.8 | 4.4 | 3.9 | 3.6 | 3.6 | 3.7 |
| Normalised EPS (%) | | | | | | -5.6 | -3.1 | -3.9 | 2.0 | 3.8 | 92.6 | 92.0 | 90.4 | 90.6 | 90.6 |
| DPS (%) | | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 92.6 | 92.0 | 90.4 | 90.6 | 90.6 |
| | | | | | | | | | | | 68.7 | 102.2 | 85.1 | 42.3 | 33.2 |
| Cash Flow (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Capex to depreciation (%) | | | | |
| EBITDA | | | | | | 138 | 130 | 128 | 140 | 148 | n/a | n/a | n/a | n/a | n/a |
| Working capital change | | | | | | (22) | (18) | (0) | 0 | (0) | Net rental movement (consolidated) | | | | |
| Interest & tax paid | | | | | | (26) | (33) | (38) | (45) | (50) | Acquisitions - GMT | 1.5 | 0.7 | 2.6 | 5.1 |
| Other | | | | | | - | - | - | - | - | Acquisitions - JV (51%) | 3.5 | 5.2 | 1.0 | - |
| Operating cash flow | | | | | | 90 | 79 | 90 | 95 | 99 | Developments | 5.6 | 6.8 | 7.0 | 10.0 |
| Capital expenditure | | | | | | (102) | (144) | (120) | (65) | (54) | Underlying portfolio | 3.3 | 3.9 | 3.7 | 4.9 |
| (Acquisitions)/divestments | | | | | | (5) | 134 | (60) | - | - | Additional income | (3.8) | 0.7 | - | - |
| Other | | | | | | (28) | 255 | - | - | - | Disposals - GMT | (6.1) | (16.1) | (13.7) | (5.4) |
| Funding available/(required) | | | | | | (45) | 324 | (90) | 30 | 44 | Disposals - JV (51%) | - | - | (5.7) | (13.7) |
| Dividends paid | | | | | | (86) | (86) | (89) | (92) | (92) | Net change | 4.0 | 1.2 | (5.1) | 0.9 |
| Equity raised/(returned) | | | | | | 10 | 10 | 176 | 12 | 13 | Net rental income | 148.5 | 141.1 | 141.4 | 154.7 |
| Increase/(decrease) in net debt | | | | | | 120 | (248) | 2 | 50 | 35 | Property portfolio (consolidated) | 2,026 | 2,044 | 2,465 | 2,849 |
| | | | | | | | | | | | Stabalised assets | 49 | 68 | 78 | 79 |
| Balance Sheet (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Land | 175 | 120 | 96 | 72 |
| Working capital | | | | | | (40) | (34) | (34) | (34) | (34) | Held for sale | 8 | 239 | - | - |
| Fixed assets | | | | | | 2,231 | 2,633 | 3,000 | 3,126 | 3,243 | JV assets (51%) | 165 | 277 | - | - |
| Intangibles | | | | | | - | - | - | - | - | Total | 2,422 | 2,747 | 2,639 | 3,000 |
| Other assets | | | | | | 475 | 70 | 27 | 27 | 27 | Property portfolio (movement) | 2,481 | 2,422 | 2,747 | 2,639 |
| Total funds employed | | | | | | 2,666 | 2,670 | 2,993 | 3,119 | 3,236 | Opening value | 2,481 | 2,422 | 2,747 | 2,639 |
| Net debt/(cash) | | | | | | 819 | 582 | 584 | 634 | 669 | Acquisitions / transfers in | (3) | 74 | 93 | 94 |
| Other non current liabilities | | | | | | 53 | 42 | 42 | 42 | 42 | Net expenditure | 139 | 120 | 129 | 120 |
| Shareholder's funds | | | | | | 1,794 | 2,046 | 2,367 | 2,443 | 2,525 | Disposals / transfers out | (297) | (10) | (516) | (34) |
| Minority interests | | | | | | - | - | - | - | - | Fair value movement | 102 | 141 | 185 | 182 |
| Total funding sources | | | | | | 2,666 | 2,670 | 2,993 | 3,119 | 3,236 | Total | 2,422 | 2,747 | 2,639 | 3,000 |
| | | | | | | | | | | | 2015A | 2016A | 2017A | 2018A | 2019A |
| | | | | | | | | | | | 5.1 | 5.7 | 5.8 | 6.1 | 5.2 |
| | | | | | | | | | | | 96% | 97% | 98% | 98% | 98% |
| | | | | | | | | | | | 7.50% | 6.95% | 6.50% | 6.20% | 5.80% |
| | | | | | | | | | | | 983 | 1,041 | 989 | 1,111 | 1,000 |
| | | | | | | | | | | | 100 | 159 | 154 | 202 | 97 |
| | | | | | | | | | | | 51 | 65 | 33 | 64 | 58 |
| | | | | | | | | | | | 251 | 281 | 240 | 264 | 264 |

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

Unique Defensive 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.

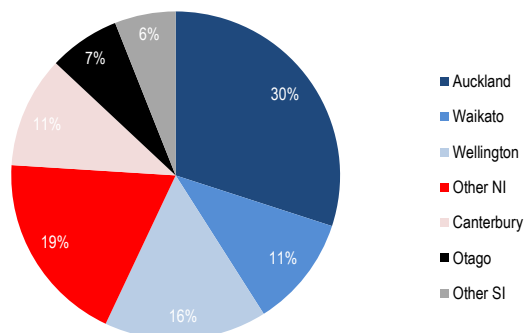
Financial structure

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

Risks factors

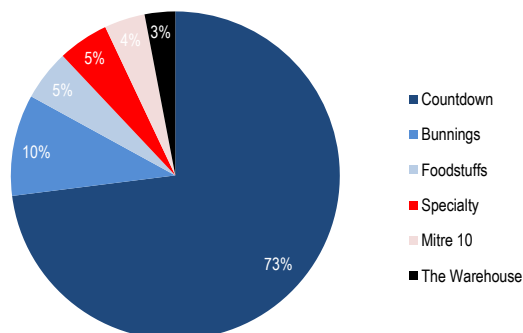
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets. The nature of the grocery market makes it exposed to e-commerce disruption; however, the location of many supermarkets make them ideal for the fulfilment of online business.
- **Interest rates / credit 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.

Figure 24. FY19 Geographical diversification



Source: Forsyth Barr analysis, company reports

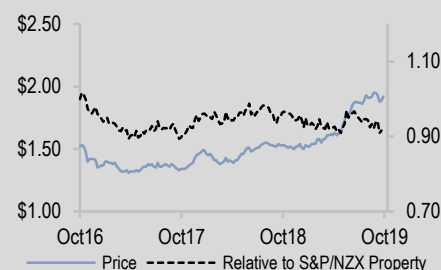
Figure 25. FY19 Tenant diversification



Source: Forsyth Barr analysis, company reports

| NZX code | IPL |
|--------------------------------|-------------------|
| Share price (as at 7 Oct 2019) | NZ\$1.92 |
| Target Price | NZ\$1.85 |
| Risk Rating | Low |
| Issued shares | 260.1m |
| Market cap | NZ\$499m |
| Average daily turnover | 152.0k (NZ\$258k) |

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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| Investore (IPL) | | Priced as at 07 Oct 2019: NZ\$1.92 | | | | | March year end | | | | | | |
|---------------------------------|--|------------------------------------|-------------------------------|--------|--------|--------------------------|--|-------|--------|-------|-------|-------|-------|
| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E | |
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 20.7 | 20.2 | 19.8 | 19.3 | 19.1 | |
| | | | | | | EV/EBIT (x) | | 20.7 | 20.2 | 19.8 | 19.3 | 19.1 | |
| 12-month target price (NZ\$)* | | 1.85 | Spot valuations (NZ\$) | | | PE (x) | | 24.5 | 23.9 | 23.6 | 23.1 | 22.7 | |
| Expected share price return | | -3.6% | 1. DCF | 1.95 | | Price/NTA (x) | | 1.17 | 1.13 | 1.10 | 1.07 | 1.05 | |
| Net dividend yield | | 4.0% | 2. NAV | 1.66 | | Free cash flow yield (%) | | 3.9 | 3.1 | 3.9 | 4.0 | 4.0 | |
| Estimated 12-month return | | 0.3% | n/a | n/a | | Net dividend yield (%) | | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | |
| | | | | | | Gross dividend yield (%) | | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | |
| Key WACC assumptions | | | DCF valuation summary (NZ\$m) | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 | |
| Risk free rate | | 2.0% | Total firm value | | 836 | Pay-out ratio (%) | | 95 | 95 | 93 | 91 | 90 | |
| Equity beta | | 0.70 | (Net debt)/cash | | | (312) | | | | | | | |
| WACC | | 4.9% | Value of equity | | | 521 | Capital Structure | | 2018A | 2019A | 2020E | 2021E | 2022E |
| Terminal growth | | 1.5% | Shares (m) | | | 260 | 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 |
| Profit and Loss Account (NZ\$m) | | 2018A | 2019A | 2020E | 2021E | 2022E | Net debt/ND+E (%) | | 41.5 | 41.3 | 39.2 | 38.6 | 38.2 |
| Sales revenue | | 43.1 | 46.1 | 46.4 | 47.0 | 47.4 | Net debt/EBITDA (x) | | 8.1 | 7.8 | 7.2 | 7.2 | 7.1 |
| Normalised EBITDA | | 37.7 | 40.1 | 40.5 | 41.1 | 41.4 | | | | | | | |
| Depreciation and amortisation | | - | - | - | - | - | Key Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
| Normalised EBIT | | 37.7 | 40.1 | 40.5 | 41.1 | 41.4 | Return on assets (%) | | 5.1 | 5.2 | 5.3 | 5.3 | 5.3 |
| Net interest | | (11.7) | (13.8) | (13.6) | (13.3) | (13.1) | Return on equity (%) | | 4.8 | 4.7 | 4.7 | 4.6 | 4.6 |
| Associate income | | - | - | - | - | - | Return on funds employed (%) | | 4.2 | 4.1 | 4.1 | 4.1 | 4.1 |
| Tax | | (5.5) | (5.3) | (5.7) | (6.1) | (6.4) | EBITDA margin (%) | | 87.4 | 86.9 | 87.4 | 87.4 | 87.4 |
| Minority interests | | - | - | - | - | - | EBIT margin (%) | | 87.4 | 86.9 | 87.4 | 87.4 | 87.4 |
| Normalised NPAT | | 20.5 | 20.9 | 21.2 | 21.6 | 22.0 | Capex to sales (%) | | 5.1 | 12.0 | 4.0 | 4.0 | 4.1 |
| Abnormals/other | | (25.6) | (17.7) | (10.4) | (9.3) | (6.0) | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a |
| 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 | Portfolio Summary | | *2016A | 2017A | 2018A | 2019A | |
| DPS (cps) | | 7.5 | 7.6 | 7.6 | 7.6 | 7.6 | 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 | |
| Growth Rates | | 2018A | 2019A | 2020E | 2021E | 2022E | Occupancy rate (%) | | 99.7 | 99.8 | 99.9 | 99.9 | |
| Revenue (%) | | n/a | n/a | 0.6 | 1.4 | 0.9 | M'ment/Admin cost % of assets (%) | | n/a | 0.6 | 0.8 | 0.8 | |
| EBITDA (%) | | n/a | n/a | 1.1 | 1.3 | 0.9 | NTA per share (NZ\$) | | 1.46 | 1.55 | 1.64 | 1.70 | |
| EBIT (%) | | n/a | n/a | 1.1 | 1.3 | 0.9 | Portfolio cap rate (%) | | 6.44 | 6.36 | 6.19 | 6.05 | |
| Normalised NPAT (%) | | n/a | n/a | 1.3 | 2.0 | 1.7 | Portfolio initial yield (%) | | 6.68 | 6.57 | 6.36 | | |
| Normalised EPS (%) | | n/a | n/a | 1.6 | 2.0 | 1.7 | *metrics shown on a pro-forma basis as at March 2016 | | | | | | |
| 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 | | | | | | | |

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

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

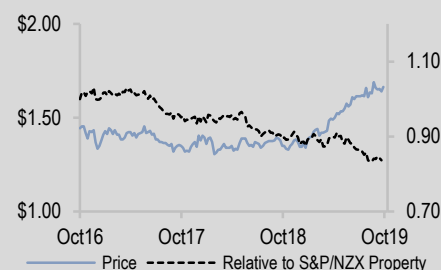
- **Property fundamentals strong reflecting strength of assets:** Portfolio metrics remain strong with WALT and occupancy at 5.2 years and 99.3% respectively. The office portfolio has an impressive WALT of 9.3 years.

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 7 Oct 2019) | NZ\$1.67 |
| Target Price | NZ\$1.62 |
| Risk Rating | Low |
| Issued shares | 1432.8m |
| Market cap | NZ\$2,386m |
| Average daily turnover | 1,377k (NZ\$2,079k) |

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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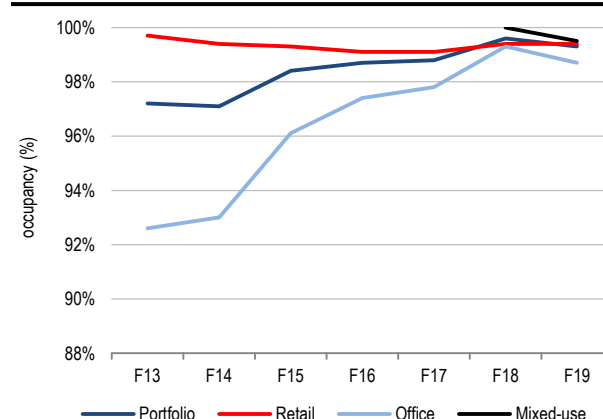
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Figure 26. Sector and regional portfolio exposure

| | 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 27. Occupancy by sector



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

| Forsyth Barr valuation | | | | | | Valuation Ratios | | | | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|--|---------------------------------|------------------------|-------|-------|-------------------------------|-------------------------------|------|-------|-------|-------|--------|-------|-------|-------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 19.6 | 20.8 | 20.9 | 19.9 | 19.2 | | | |
| | | | | | | EV/EBIT (x) | | 19.6 | 20.8 | 20.9 | 19.9 | 19.2 | | | |
| 12-month target price (NZ\$)* | | 1.62 | Spot valuations (NZ\$) | | | PE (x) | | 22.3 | 23.8 | 23.5 | 22.3 | 22.3 | | | |
| Expected share price return | | -2.7% | 1. DCF | 1.67 | | Price/NTA (x) | | 1.20 | 1.16 | 1.14 | 1.11 | 1.08 | | | |
| Net dividend yield | | 4.2% | 2. NAV | 1.54 | | Free cash flow yield (%) | | -0.2 | -2.9 | -2.5 | 2.5 | 4.0 | | | |
| Estimated 12-month return | | 1.5% | n/a | n/a | | Net dividend yield (%) | | 4.1 | 4.2 | 4.2 | 4.2 | 4.2 | | | |
| | | | | | | Gross dividend yield (%) | | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 | | | |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 | | | |
| Risk free rate | | 2.0% | Total firm value | 3,420 | | Pay-out ratio (%) | | 92 | 99 | 99 | 95 | 94 | | | |
| Equity beta | | 0.67 | (Net debt)/cash | (992) | | | | | | | | | | | |
| WACC | | 5.1% | Value of equity | 2,404 | | Capital Structure | | | | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | 1,433 | | 2018A 2019A 2020E 2021E 2022E | | | | | | | | | |
| Profit and Loss Account (NZ\$m) | | | | | | | | | | | | | | | |
| Sales revenue | | 192 | 181 | 186 | 198 | 205 | Interest cover EBIT (x) | | 4.0 | 4.3 | 4.3 | 4.3 | 4.1 | | |
| Normalised EBITDA | | 171 | 160 | 165 | 176 | 183 | Net debt/ tangible assets (%) | | 30.0 | 31.3 | 33.4 | 33.0 | 32.6 | | |
| Depreciation and amortisation | | - | - | - | - | - | Net debt/ND+E (%) | | 31.2 | 32.6 | 34.7 | 34.2 | 33.8 | | |
| Normalised EBIT | | 171 | 160 | 165 | 176 | 183 | Net debt/EBITDA (x) | | 5.3 | 6.2 | 6.8 | 6.5 | 6.3 | | |
| Net interest | | (42) | (37) | (39) | (41) | (44) | Key Ratios | | | | | | | | |
| Associate income | | - | - | - | - | - | Return on assets (%) | | 5.6 | 4.9 | 4.8 | 5.0 | 5.1 | | |
| Tax | | (25) | (23) | (24) | (26) | (29) | Return on equity (%) | | 5.2 | 4.9 | 4.8 | 4.9 | 4.9 | | |
| Minority interests | | - | - | - | - | - | Return on funds employed (%) | | 4.7 | 4.3 | 4.1 | 4.2 | 4.2 | | |
| Normalised NPAT | | 103 | 100 | 102 | 109 | 110 | EBITDA margin (%) | | 89.3 | 88.5 | 88.7 | 89.2 | 89.4 | | |
| Abnormals/other | | (17) | (38) | (46) | (46) | (49) | EBIT margin (%) | | 89.3 | 88.5 | 88.7 | 89.2 | 89.4 | | |
| Reported NPAT | | 120 | 138 | 148 | 155 | 159 | Capex to sales (%) | | 58.7 | 93.9 | 88.7 | 26.9 | 8.4 | | |
| Normalised EPS (cps) | | 7.5 | 7.0 | 7.1 | 7.5 | 7.5 | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a | | |
| DPS (cps) | | 6.9 | 7.0 | 7.1 | 7.1 | 7.1 | 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 | | |
| | | | | | | | | | | | | | | | |
| 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 | | | | | | | | | |

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

Development Milestones

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

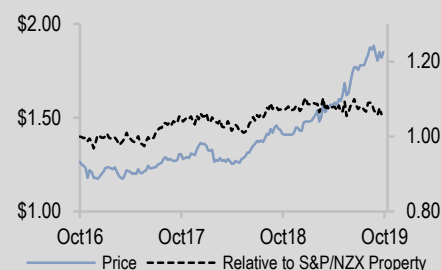
- **Balance sheet:** FY19 gearing is 22% and committed gearing is ~30% when the sale of Pastoral House in Wellington for NZ\$77m, settles in 2H20.

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 7 Oct 2019) | NZ\$1.85 |
| Target Price | NZ\$1.60 |
| Risk Rating | Low |
| Issued shares | 1313.8m |
| Market cap | NZ\$2,431m |
| Average daily turnover | 836.9k (NZ\$1,347k) |

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.

Jeremy Simpson, CFA

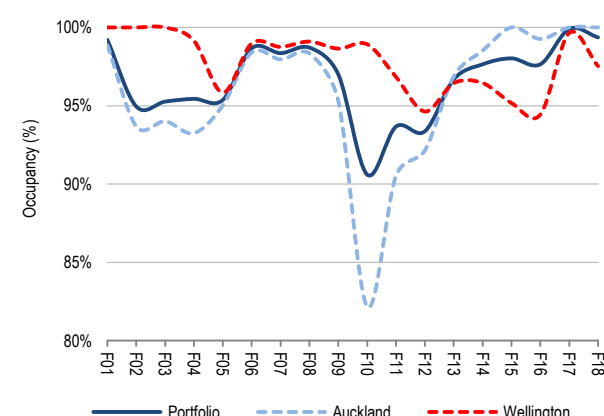
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Figure 1. Sector and regional portfolio exposure

| | 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

| Forsyth Barr valuation | | | | | | Valuation Ratios | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | | |
|---------------------------------|--|---------------------------------|------------------------|------|--------------------------|-------------------------------|-------|-------|-------|-------|------------------------------|-------|-------|-------|-------|-------|-------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 35.6 | 39.2 | 25.2 | 23.9 | 21.9 | | | | | |
| | | | | | | EV/EBIT (x) | | 35.6 | 39.2 | 25.2 | 23.9 | 21.9 | | | | | |
| 12-month target price (NZ\$)* | | 1.60 | Spot valuations (NZ\$) | | | PE (x) | | 29.3 | 29.0 | 28.0 | 26.3 | 26.8 | | | | | |
| Expected share price return | | -13.5% | 1. DCF | 1.55 | Price/NTA (x) | | 1.33 | 1.24 | 1.23 | 1.19 | 1.21 | | | | | | |
| Net dividend yield | | 3.4% | 2. NAV | 1.56 | Free cash flow yield (%) | | -9.0 | -8.4 | -2.5 | -1.3 | 1.7 | | | | | | |
| Estimated 12-month return | | -10.1% | 3. n/a | n/a | Net dividend yield (%) | | 3.1 | 3.2 | 3.4 | 3.5 | 3.6 | | | | | | |
| | | | | | Gross dividend yield (%) | | 4.5 | 4.6 | 4.9 | 4.9 | 5.1 | | | | | | |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 | | | | | | |
| Risk free rate | | 2.0% | Total firm value | | 2,450 | Pay-out ratio (%) | | 92 | 94 | 95 | 91 | 96 | | | | | |
| Equity beta | | 0.69 | (Net debt)/cash | | (752) | | | | | | | | | | | | |
| WACC | | 5.2% | Value of equity | | 1,675 | Capital Structure | | | | | | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | | 1,314 | Interest cover EBIT (x) | | | | | | | | | | | |
| | | | | | | Net debt/ tangible assets (%) | | | | | | | | | | | |
| | | | | | | Net debt/ND+E (%) | | | | | | | | | | | |
| | | | | | | Net debt/EBITDA (x) | | | | | | | | | | | |
| 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 | | | | | | - | - | - | - | - | Key Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
| Normalised EBIT | | | | | | 85 | 81 | 129 | 139 | 152 | Return on assets (%) | | 3.3 | 2.8 | 4.2 | 4.3 | 4.5 |
| Net interest | | | | | | (2) | (2) | (35) | (38) | (42) | Return on equity (%) | | 4.5 | 4.1 | 4.4 | 4.5 | 4.4 |
| Associate income | | | | | | - | - | - | - | - | Return on funds employed (%) | | 3.1 | 2.7 | 3.9 | 4.0 | 4.1 |
| Tax | | | | | | (6) | - | (7) | (9) | (10) | EBITDA margin (%) | | 89.3 | 83.3 | 91.0 | 89.6 | 90.1 |
| Minority interests | | | | | | - | - | - | - | - | EBIT margin (%) | | 89.3 | 83.3 | 91.0 | 89.6 | 90.1 |
| Normalised NPAT | | | | | | 77 | 79 | 87 | 92 | 100 | Capex to sales (%) | | 308.9 | 275.9 | 114.1 | 82.6 | 37.2 |
| Abnormals/other | | | | | | 178 | 117 | 83 | 52 | 78 | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a |
| Reported NPAT | | | | | | 255 | 197 | 170 | 145 | 178 | | | | | | | |
| Normalised EPS (cps) | | | | | | 6.3 | 6.4 | 6.6 | 7.0 | 6.9 | Property Statistics | | 2015A | 2016A | 2017A | 2018A | 2019A |
| DPS (cps) | | | | | | 5.8 | 6.0 | 6.3 | 6.4 | 6.6 | Key metrics | | | | | | |
| | | | | | | | | | | | No. properties | | 15 | 13 | 12 | 12 | 13 |
| Growth Rates | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Net lettable area (000sqm) | | 304 | 226 | 224 | 225 | 245 |
| Revenue (%) | | | | | | 5.4 | 2.3 | 45.5 | 9.4 | 8.7 | Average lease term (years) | | 5.0 | 6.3 | 8.7 | 6.9 | 8.4 |
| EBITDA (%) | | | | | | 5.6 | -4.6 | 58.9 | 7.9 | 9.2 | Occupancy rate (%) | | 98 | 98 | 100 | 99 | 99 |
| EBIT (%) | | | | | | 5.6 | -4.6 | 58.9 | 7.9 | 9.2 | Cap rate (%) | | 7.0 | 6.5 | 6.2 | 5.8 | 5.4 |
| Normalised NPAT (%) | | | | | | 2.5 | 3.7 | 9.4 | 6.3 | 7.9 | Initial yield (%) | | 7.0 | 6.7 | 6.5 | 5.8 | 5.8 |
| Normalised EPS (%) | | | | | | 2.5 | 0.7 | 3.8 | 6.3 | -1.8 | Over / (under) renting (%) | | (1.8) | (3.6) | (4.7) | (6.4) | (6.4) |
| DPS (%) | | | | | | 3.6 | 3.4 | 5.0 | 1.6 | 3.1 | | | | | | | |
| | | | | | | | | | | | Auckland values (NZ\$m) | | | | | | |
| Cash Flow (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | AMP Centre | | 136 | 148 | 163 | 179 | 205 |
| EBITDA | | | | | | 85 | 81 | 129 | 139 | 152 | ANZ Centre | | 271 | 305 | 324 | 362 | 188 |
| Working capital change | | | | | | (3) | (10) | 15 | 5 | 5 | HSBC House | | 120 | 122 | 94 | 91 | 106 |
| Interest & tax paid | | | | | | (8) | (7) | (42) | (47) | (52) | PwC Tower | | 293 | 313 | 329 | 376 | 400 |
| Other | | | | | | - | - | - | - | - | Zurich House | | 101 | 111 | 96 | 106 | 114 |
| Operating cash flow | | | | | | 75 | 64 | 102 | 97 | 104 | Mason Brothers | | - | - | 37 | 42 | 46 |
| Capital expenditure | | | | | | (294) | (269) | (162) | (128) | (63) | 12 Madden St | | - | - | 68 | 77 | 82 |
| (Acquisitions)/divestments | | | | | | - | 181 | - | - | - | Commercial Bay | | - | 147 | 370 | 648 | 890 |
| Other | | | | | | (12) | (2) | - | - | - | | | | | | | |
| Funding available/(required) | | | | | | (231) | (26) | (60) | (31) | 42 | Wellington values (NZ\$m) | | | | | | |
| Dividends paid | | | | | | (70) | (75) | (82) | (84) | (94) | Dimension Data House | | 106 | 109 | 114 | 118 | 123 |
| Equity raised/(returned) | | | | | | - | 149 | - | - | - | Deloitte House | | 49 | 45 | 20 | 10 | |
| Increase/(decrease) in net debt | | | | | | 301 | (48) | 142 | 115 | 53 | Mayfair House | | 38 | 39 | 41 | 44 | 47 |
| | | | | | | | | | | | No.1 and 3 The Terrace | | 70 | 72 | 71 | 67 | 87 |
| Balance Sheet (NZ\$m) | | | | | | 2018A | 2019A | 2020E | 2021E | 2022E | Pastoral House | | 47 | 41 | 43 | 45 | 60 |
| Working capital | | | | | | (6) | (33) | (48) | (53) | (57) | State Insurance Tower | | 136 | 141 | 145 | 150 | 162 |
| Fixed assets | | | | | | 2,326 | 2,794 | 2,970 | 3,151 | 3,292 | Bowen Campus | | 49 | 58 | 119 | 179 | 240 |
| Intangibles | | | | | | - | - | - | - | - | Total portfolio (NZ\$m) | | | | | | |
| Other assets | | | | | | 226 | 75 | 75 | 75 | 75 | Investment properties | | 1,612 | 1,514 | 1,535 | 1,488 | 1,871 |
| Total funds employed | | | | | | 2,545 | 2,836 | 2,997 | 3,173 | 3,309 | Properties held for sale | | 76 | - | - | 191 | - |
| Net debt/(cash) | | | | | | 759 | 752 | 893 | 1,008 | 908 | Development properties | | - | 190 | 509 | 838 | 923 |
| Other non current liabilities | | | | | | 96 | 129 | 129 | 129 | 129 | Total | | 1,688 | 1,704 | 2,045 | 2,517 | 2,794 |
| Shareholder's funds | | | | | | 1,691 | 1,955 | 1,975 | 2,035 | 2,272 | NTA per share (NZ\$) | | 1.11 | 1.17 | 1.24 | 1.40 | 1.49 |
| Minority interests | | | | | | - | - | - | - | - | | | | | | | |
| Total funding sources | | | | | | 2,545 | 2,836 | 2,997 | 3,173 | 3,309 | | | | | | | |

Property For Industry

NEUTRAL

Industrious

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

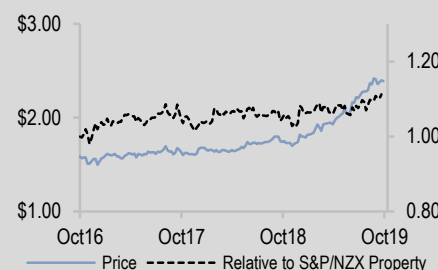
- **Balance sheet capacity plus an intention to recycle more assets:** Balance sheet is solid at 31% geared, well below the 50% banking covenant limit and its self-imposed 40% maximum. PFI has a well-diversified debt book with four banks in its syndicate and two issued bonds.
- **FY18 revaluation gain:** 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 7 Oct 2019) | NZ\$2.39 |
| Target Price | NZ\$2.00 |
| Risk Rating | Low |
| Issued shares | 498.7m |
| Market cap | NZ\$1,192m |
| Average daily turnover | 247.1k (NZ\$503k) |

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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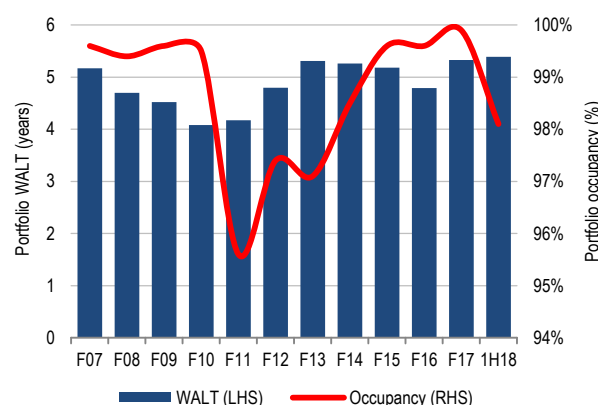
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Figure 28. Sector and regional portfolio exposure

| | 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% |

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

Figure 29. Portfolio metrics



Source: Forsyth Barr analysis, Company reports

| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2017A | 2018A | 2019E | 2020E | 2021E |
|---------------------------------|--|---------------------------------|------------------------|---------|---------|-------------------------------------|-------|-------|-------|---------|---------|---------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 23.8 | 22.1 | 21.4 | 21.3 | 21.0 |
| | | | | | | EV/EBIT (x) | | 23.8 | 22.1 | 21.4 | 21.3 | 21.0 |
| 12-month target price (NZ\$)* | | 2.00 | Spot valuations (NZ\$) | | | PE (x) | | 29.6 | 28.5 | 27.7 | 27.6 | 27.2 |
| Expected share price return | | -16.3% | 1. DCF | 1.99 | | Price/NTA (x) | | 1.46 | 1.35 | 1.32 | 1.29 | 1.26 |
| Net dividend yield | | 3.2% | 2. NAV | 1.96 | | Free cash flow yield (%) | | -0.9 | 3.3 | 3.3 | 3.2 | 3.3 |
| Estimated 12-month return | | -13.1% | 3. n/a | n/a | | Net dividend yield (%) | | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 |
| | | | | | | Gross dividend yield (%) | | 4.5 | 4.5 | 4.5 | 4.6 | 4.6 |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 |
| Risk free rate | | 2.0% | Total firm value | | 1,404 | Pay-out ratio (%) | | 92 | 90 | 88 | 88 | 87 |
| Equity beta | | 0.70 | (Net debt)/cash | | (397) | | | | | | | |
| WACC | | 5.3% | Value of equity | | 998 | | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | | 499 | | | | | | | |
| | | | | | | 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 |
| 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 | | | | | | |
| | | | | | | 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 Wellington | | 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 Wellington | | 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 |
| | | | | | | | | | | | | |
| 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 | | | | | | |

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

Stridin out Industrial Legs

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 and announced the establishment of Industrie, a wholesale industrial fund.
- **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.

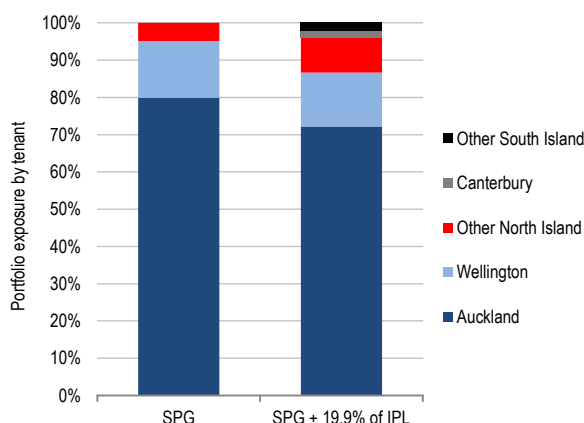
Financial structure

- **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

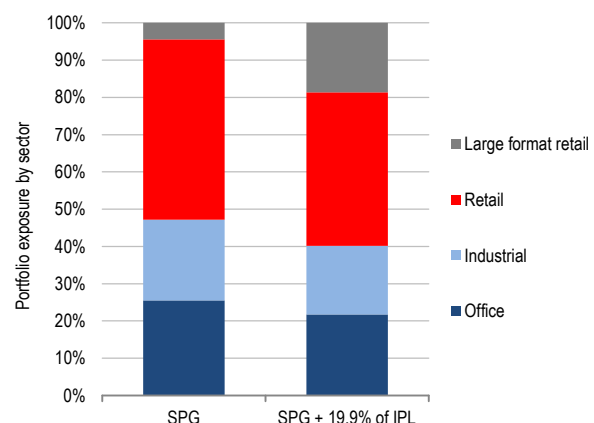
- **E-commerce growth:** SPG has a 60% weighting to retail assets (including its position in IPL), making it exposed to growing risks from e-commerce.
- **Capital expenditure:** SPG owns a number of secondary-grade properties which can require capex over time for maintenance and refurbishment

Figure 30. Geographical exposure



Source: Company reports, Forsyth Barr analysis

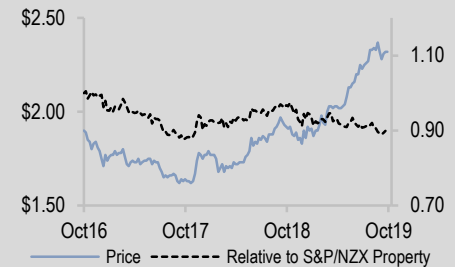
Figure 31. Sector diversification



Source: Company reports, Forsyth Barr analysis

| NZX code | SPG |
|--------------------------------|-------------------|
| Share price (as at 7 Oct 2019) | NZ\$2.32 |
| Target Price | NZ\$2.18 |
| Risk Rating | Low |
| Issued shares | 365.2m |
| Market cap | NZ\$847m |
| Average daily turnover | 295.7k (NZ\$619k) |

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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| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E | |
|---------------------------------|--|----------------------------------|-------------------------------|---------|---------|---------------------------|------------------------------------|-------|-------|---------|-------|-------|-------|
| Valuation methodology | | Blended SOTP (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 17.9 | 19.2 | 19.6 | 18.2 | 17.8 | |
| | | | | | | EV/EBIT (x) | | 17.9 | 19.2 | 19.6 | 18.2 | 17.8 | |
| 12-month target price (NZ\$)* | | 2.18 | Spot valuations (NZ\$) | | | PE (x) | | 21.8 | 21.8 | 22.1 | 20.9 | 20.5 | |
| Expected share price return | | -6.0% | 1. SOTP | 2.20 | | Price/NTA (x) | | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | |
| Net dividend yield | | 4.3% | 2. NAV | 2.05 | | Free cash flow yield (%) | | 3.8 | 3.2 | 3.8 | 3.9 | 4.0 | |
| Estimated 12-month return | | -1.8% | n/a | n/a | | Net dividend yield (%) | | 4.3 | 4.3 | 4.3 | 4.3 | 4.6 | |
| | | | | | | Gross dividend yield (%) | | 6.1 | 6.1 | 6.1 | 6.1 | 6.6 | |
| Key WACC assumptions | | | DCF valuation summary (NZ\$m) | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 | |
| Risk free rate | | 2.00% | Total firm value | 1,068 | | Pay-out ratio (%) | | 93 | 93 | 95 | 89 | 95 | |
| Equity beta | | 0.80 | (Net debt)/cash | (327) | | Capital Structure | | | | | | | |
| WACC | | 5.6% | Value of equity | 740 | | Interest cover EBIT (x) | | 3.7 | 3.9 | 3.8 | 3.8 | 3.9 | |
| Terminal growth | | 1.5% | Shares (m) | 365 | | 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 | |
| Profit and Loss Account (NZ\$m) | | 2018A | 2019A | 2020E | 2021E | 2022E | Key Ratios | | | | | | |
| Sales revenue | | 77.1 | 74.0 | 75.1 | 81.1 | 82.9 | Return on assets (%) | | 6.0 | 5.2 | 5.0 | 5.3 | 5.4 |
| Normalised EBITDA | | 60.2 | 55.7 | 56.3 | 61.8 | 63.2 | Return on equity (%) | | 5.8 | 5.5 | 5.4 | 5.6 | 5.6 |
| Depreciation and amortisation | | - | - | - | - | - | Return on funds employed (%) | | n/a | 4.5 | 4.2 | 4.4 | 4.4 |
| Normalised EBIT | | 60.2 | 55.7 | 56.3 | 61.8 | 63.2 | EBITDA margin (%) | | 78.1 | 75.3 | 75.0 | 76.3 | 76.2 |
| Net interest | | (16.2) | (14.1) | (14.7) | (16.4) | (16.3) | EBIT margin (%) | | 78.1 | 75.3 | 75.0 | 76.3 | 76.2 |
| Associate income | | 4.3 | 4.2 | 4.2 | 4.2 | 4.2 | Capex to sales (%) | | 53.8 | 33.1 | 69.7 | 17.1 | 7.1 |
| Tax | | (9.6) | (7.0) | (7.5) | (9.1) | (9.8) | Capex to depreciation (%) | | n/a | n/a | n/a | n/a | n/a |
| Minority interests | | - | - | - | - | - | Property Statistics | | | | | | |
| Normalised NPAT | | 38.8 | 38.8 | 38.3 | 40.6 | 41.3 | 2015A | | 2016A | 2017A | 2018A | 2019A | |
| Abnormals/other | | 56.5 | 34.0 | 8.7 | 9.0 | 9.2 | Major Property Values (NZ\$m) | | | | | | |
| Reported NPAT | | 95.3 | 72.8 | 47.0 | 49.6 | 50.5 | 1 Grey Street, WLG | | 48.8 | 49.8 | 49.8 | 52.8 | 57.2 |
| Normalised EPS (cps) | | 10.6 | 10.6 | 10.5 | 11.1 | 11.3 | J.ville Shopping Centre, WLG (50%) | | 34.1 | 32.9 | 30.5 | 30.7 | 30.1 |
| DPS (cps) | | 9.9 | 9.9 | 9.9 | 9.9 | 10.7 | 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 |
| Growth Rates | | 2018A | 2019A | 2020E | 2021E | 2022E | Portfolio Summary | | | | | | |
| Revenue (%) | | 14.0 | -4.0 | 1.4 | 8.0 | 2.3 | Investment properties (NZ\$m) | | 872.4 | 1,274.8 | 895.3 | 902.2 | 966.3 |
| EBITDA (%) | | 6.8 | -7.5 | 1.1 | 9.8 | 2.2 | Weighted average lease term (yrs) | | 5.1 | 7.9 | 4.9 | 5.1 | 4.8 |
| EBIT (%) | | 6.8 | -7.5 | 1.1 | 9.8 | 2.2 | Occupancy rate (%) | | 96.6 | 99.6 | 96.8 | 96.7 | 97.6 |
| Normalised NPAT (%) | | 10.9 | 0.0 | -1.3 | 5.9 | 1.7 | NTA per share (NZ\$) | | 1.81 | 1.97 | 1.67 | 1.82 | 1.92 |
| Normalised EPS (%) | | 10.8 | -0.1 | -1.3 | 5.9 | 1.7 | Average portfolio cap rate (%) | | 7.7 | 7.0 | 7.0 | 6.6 | 6.4 |
| 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 | | | | | | | |

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

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

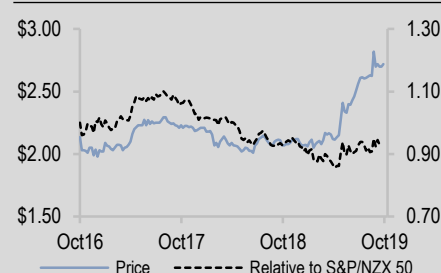
- **Property fundamentals:** VHP has sector leading portfolio metrics which continue to underpin the defensive qualities of the stock. VHP has a very long WALT of 18.1 years and strong portfolio occupancy of 99.4%.

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 7 Oct 2019) | NZ\$2.72 |
| Target Price | NZ\$2.69 |
| Risk Rating | Low |
| Issued shares | 446.3m |
| Market cap | NZ\$1,214m |
| Average daily turnover | 247.9k (NZ\$570k) |

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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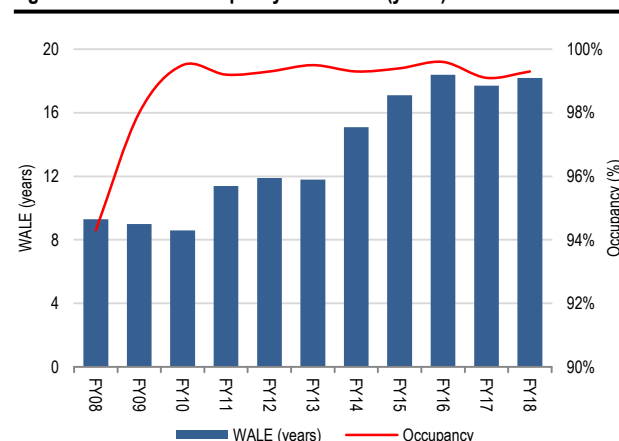
+64 9 368 0022

Figure 32. 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 33. Portfolio occupancy and WALE (years)



Source: Company reports, Forsyth Barr analysis

| Forsyth Barr valuation | | | | | | Valuation Ratios | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------------|---------|---------------------------------|------------------------|---------|---------|--------------------------------------|-------|-------|-------|---------|---------|-------|
| Valuation methodology | | Blended DCF (50%) and NAV (50%) | | | | EV/EBITDA (x) | | 22.9 | 23.5 | 23.3 | 21.7 | 19.9 |
| | | | | | | EV/EBIT (x) | | 22.9 | 23.5 | 23.3 | 21.7 | 19.9 |
| 12-month target price (NZ\$)* | | 2.69 | Spot valuations (NZ\$) | | | PE (x) | | 25.7 | 28.6 | 27.8 | 26.2 | 25.8 |
| Expected share price return | | -1.1% | 1. DCF | 2.92 | | Price/NTA (x) | | 1.20 | 1.18 | 1.16 | 1.13 | 1.11 |
| Net dividend yield | | 3.3% | 2. NAV | 2.30 | | Free cash flow yield (%) | | 1.6 | 0.4 | -3.6 | -2.4 | -2.3 |
| Estimated 12-month return | | 2.2% | 3. n/a | n/a | | Net dividend yield (%) | | 3.1 | 3.2 | 3.3 | 3.3 | 3.3 |
| | | | | | | Gross dividend yield (%) | | 4.5 | 4.6 | 4.7 | 4.7 | 4.7 |
| Key WACC assumptions | | DCF valuation summary (NZ\$m) | | | | Imputation (%) | | 100 | 100 | 100 | 100 | 100 |
| Risk free rate | | 2.0% | Total firm value | | 2,092 | Pay-out ratio (%) | | 81 | 92 | 92 | 87 | 86 |
| Equity beta | | 0.68 | (Net debt)/cash | | (728) | | | | | | | |
| WACC | | 5.1% | Value of equity | | 1,314 | Capital Structure | | | | | | |
| Terminal growth | | 1.5% | Shares (m) | | 446 | 2018A 2019A 2020E 2021E 2022E | | | | | | |
| Profit and Loss Account (NZ\$m) | | | | | | | | | | | | |
| Sales revenue | 90.7 | 97.7 | 99.8 | 106.5 | 115.1 | Interest cover EBIT (x) | 3.3 | 2.7 | 2.7 | 2.8 | 2.6 | |
| Normalised EBITDA | 76.0 | 81.3 | 83.2 | 89.0 | 96.9 | Net debt/ tangible assets (%) | 37.6 | 38.1 | 36.8 | 38.0 | 39.3 | |
| Depreciation and amortisation | - | - | - | - | - | Net debt/ND+E (%) | 40.2 | 41.4 | 39.9 | 41.1 | 42.3 | |
| Normalised EBIT | 76.0 | 81.3 | 83.2 | 89.0 | 96.9 | Net debt/EBITDA (x) | 8.7 | 9.0 | 8.6 | 8.7 | 8.7 | |
| Net interest | (22.8) | (29.9) | (30.3) | (31.7) | (37.6) | Key Ratios | | | | | | |
| Associate income | - | - | - | - | - | Return on assets (%) | 4.3 | 4.2 | 4.2 | 4.3 | 4.5 | |
| Tax | (7.2) | (9.3) | (8.6) | (9.5) | (10.0) | Return on equity (%) | 4.7 | 4.1 | 4.1 | 4.3 | 4.3 | |
| Minority interests | - | - | - | - | - | Return on funds employed (%) | 4.4 | 3.9 | 3.9 | 4.0 | 4.1 | |
| Normalised NPAT | 46.0 | 42.2 | 44.3 | 47.8 | 49.3 | EBITDA margin (%) | 83.9 | 83.2 | 83.3 | 83.6 | 84.1 | |
| Abnormals/other | 54.0 | 51.3 | 22.2 | 29.6 | 31.2 | EBIT margin (%) | 83.9 | 83.2 | 83.3 | 83.6 | 84.1 | |
| Reported NPAT | 100.1 | 93.4 | 66.4 | 77.3 | 80.5 | Capex to sales (%) | 28.8 | 36.3 | 85.8 | 72.2 | 67.5 | |
| Normalised EPS (cps) | 10.6 | 9.5 | 9.8 | 10.4 | 10.5 | Capex to depreciation (%) | n/a | n/a | n/a | n/a | n/a | |
| DPS (cps) | 8.6 | 8.8 | 9.0 | 9.0 | 9.0 | Property Statistics | | | | | | |
| Growth Rates | | | | | | 2014A 2015A 2016A 2017A 2018A | | | | | | |
| Revenue (%) | 19.5 | 7.7 | 2.2 | 6.7 | 8.2 | Major Property Values (NZ\$m) | | | | | | |
| EBITDA (%) | 15.1 | 6.9 | 2.3 | 6.9 | 8.9 | Ascot Hospital & Clinics | 85.0 | 81.5 | 90.0 | 102.5 | 106.0 | |
| EBIT (%) | 15.1 | 6.9 | 2.3 | 6.9 | 8.9 | Ascot Central | 23.9 | 25.6 | 26.6 | 29.0 | 35.0 | |
| Normalised NPAT (%) | 3.3 | -8.4 | 5.0 | 7.9 | 3.2 | Epworth Eastern | 68.2 | 91.3 | 103.8 | 150.1 | 167.3 | |
| Normalised EPS (%) | 0.2 | -10.3 | 3.0 | 5.8 | 1.6 | Southport Private Hospital | 47.4 | 46.6 | 45.1 | 42.6 | 47.6 | |
| DPS (%) | 0.7 | 2.2 | 2.9 | 0.0 | 0.0 | Lingard Private Hospital | 54.2 | 79.8 | 87.7 | 107.3 | 136.9 | |
| Cash Flow (NZ\$m) | | | | | | Maitland Private Hospital | 35.2 | 50.0 | 63.3 | 82.9 | 98.1 | |
| EBITDA | 76.0 | 81.3 | 83.2 | 89.0 | 96.9 | SportsMed Hospital and Clinic | 33.4 | 36.8 | 40.0 | 52.1 | 58.1 | |
| Working capital change | (2.0) | (2.9) | (3.4) | 0.4 | 0.4 | Hurstville Private Hospital | 25.2 | 65.9 | 73.1 | 86.1 | 80.5 | |
| Interest & tax paid | (28.4) | (37.8) | (37.3) | (41.6) | (47.9) | Total portfolio | 613.0 | 781.9 | 951.9 | 1,376.2 | 1,731.2 | |
| Other | - | - | - | - | - | Portfolio Summary | | | | | | |
| Operating cash flow | 45.7 | 40.6 | 42.5 | 47.8 | 49.3 | Investment properties (NZ\$m) | 613.0 | 781.9 | 951.9 | 1,376.2 | 1,731.2 | |
| Capital expenditure | (26.1) | (35.5) | (85.7) | (76.9) | (77.7) | Number of properties - yielding only | 25 | 25 | 30 | 37 | 42 | |
| (Acquisitions)/divestments | (187.7) | (23.5) | - | - | - | Weighted average lease term (yrs) | 15.1 | 17.1 | 18.4 | 17.7 | 18.2 | |
| Other | (46.8) | (37.3) | 86.4 | - | - | Occupancy rate (%) | 99.3 | 99.4 | 99.6 | 99.1 | 99.3 | |
| Funding available/(required) | (214.9) | (55.7) | 43.2 | (29.1) | (28.4) | M'ment/Admin cost % of assets (%) | 1.29 | 1.69 | 1.76 | 2.05 | 1.76 | |
| Dividends paid | (31.1) | (32.7) | (28.3) | (34.3) | (42.2) | NTA per share (NZ\$) | 1.03 | 1.26 | 1.51 | 2.05 | 2.26 | |
| Equity raised/(returned) | - | - | - | - | - | Average portfolio cap rate (%) | 8.95 | 7.99 | 7.24 | 6.12 | 5.76 | |
| Increase/(decrease) in net debt | 246.0 | 88.3 | (14.9) | 63.4 | 70.6 | | | | | | | |
| Balance Sheet (NZ\$m) | | | | | | | | | | | | |
| 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 | | | | | | | |

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

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