

Real Estate Reflections — 179th Ed

November 2019 — The 11th month & the seven LPVs

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The listed property vehicle (LPV) sector's return for October was -2.8%, a result not seen for twelve months and below the -1.2% return from the S&P/NZX 50. Whilst there were no noticeable shifts in fundamentals, the lacklustre return was not helped by a significant capital raise from KPG announced late in the month. Our preferred LPVs remain the very defensive VHP (OUTPERFORM) and IPL (OUTPERFORM), coupled by KPG (OUTPERFORM), the cheapest large cap. The sector is up +35.5% versus the broader equity market return of +24.4% over the last twelve months.

November always one to remember

November illustrates a month which features seven LPVs reporting results; hence, generating a robust level of news-flow which we believe is likely to only reinforce the sector's defensive attributes with limited surprises. We anticipate:

- Record occupancy levels underpinning solid like-for-like rental growth.
- Steady development and portfolio updates highlighting improving portfolios.
- Flat earnings with forecast median EPS -1%/DPS +1% and a reiteration of flat guidance is expected.
- Though interim revaluations rarely feature, we may see some given the ongoing rental growth and cap rate compression in industrial and office.
- With the sector at record P/NTA multiples and the strong investor interest, further capital raises could not be ruled out.

If they can, they will, and they should

In a market with plenty of capital but very few return accretive investment channels, some LPVs have taken the opportunity to raise funds through the equity and debt capital markets. KPG announced an equity raise of ~NZ\$200m whilst ARG announced to the market an offer of ~NZ\$100m senior secured fixed rate 7 year green bonds. The rationale for both was very similar: stabilise the balance sheet whilst generating ample capacity to execute on current development projects and retain optionality in a supply constrained market. We anticipate this is a trend that will continue as the LPVs look to take advantage of the defensive yield thematic still at the forefront of investors' minds.



Figure 1. NZ listed property sector

LPV	Code	Rating	Price 1-Nov	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	NEUTRAL	\$0.64	\$0.65	8.1%	5.0%	97%
Argosy Property	ARG	NEUTRAL	\$1.42	\$1.35	6.3%	4.3%	110%
Augusta Capital	AUG	NEUTRAL	\$1.51	\$1.38	6.0%	4.7%	109%
Goodman Property	GMT	UNDERPERFORM	\$2.14	\$1.83	4.4%	2.9%	122%
Investore	IPL	OUTPERFORM	\$1.92	\$1.85	5.7%	3.9%	116%
Kiwi Property Group	KPG	OUTPERFORM	\$1.59	\$1.62	6.3%	4.1%	103%
Precinct Properties	PCT	NEUTRAL	\$1.84	\$1.60	4.9%	3.3%	118%
Property for Industry	PFI	NEUTRAL	\$2.39	\$2.00	4.6%	3.2%	122%
Stride Property	SPG	NEUTRAL	\$2.31	\$2.18	6.1%	4.0%	113%
Vital Healthcare	VHP	OUTPERFORM	\$2.70	\$2.69	4.8%	3.0%	117%
Core simple average					5.4%	3.6%	115%

Source: Forsyth Barr analysis, Company Reports

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Reporting Season Preview

In the business of meeting 'flat' expectations

In line with the essentially flat full year dividend guidance across the sector, we expect this flatness to be reflected in 1H20 EPS and interim dividends. As with recent reporting periods, asset sales and robust tenant demand will ensure portfolio fundamentals such as vacancy, lease expiry outlook and WALTs remain largely strong across the sector, but with limited growth, if any, being delivered.

While growth is challenged, cash flows remain robust and defensive. Though interim revaluations rarely feature we may see some during this period, given the strong rental growth and ongoing cap rate compression being delivered, in particular in the industrial and office markets. Development updates will be of key interest for a number of LPVs, KPG and GMT in particular, while an update on funds management initiatives from SPG and AUG will also be of interest. With the sector trading at record P/NTA multiples and strong investor interest, further capital raises could not be ruled out, the challenge being sourcing the acquisition opportunities at attractive pricing.

Figure 1. November reporting season preview (NZ\$000s)

	Period	Revenue	EBIT	EBT	NPAT	EPS (cps)	DPS (cps)	Comments
APL 29-Nov	1H19	4,940	4,067	3,269	2,831	1.75	1.80	We are expecting a modest lift in 1H earnings and a flat dividend. Of key interest will be plans with its Graham St asset and Eastgate Shopping Centre.
	1H20	5,189	4,307	3,509	2,942	1.82	1.80	
	% chg	5%	6%	7%	4%	4%	0%	
AUG 27-Nov	1H19	11,837	6,957	6,066	4,512	5.15	3.00	AUG has advised that 1H20 earnings will be well down on the pcp due to the timing of transactions. We expect AUG to be making good progress with major funds management initiatives that are expected to be launched over the next 12 months.
	1H20	9,606	4,327	4,157	3,143	3.59	3.25	
	% chg	-19%	-38%	-31%	-30%	-30%	8%	
ARG 20-Nov	1H19	50,769	45,646	33,428	28,737	3.47	3.13	1H20 is expected to be flat in terms of underlying earnings and dividends with underlying rental gains offset by asset sales impact. Strong portfolio metrics are expected to be maintained. An update on redevelopment progress and insurance negotiations at 7 Waterloo Quay will be of interest.
	1H20	50,982	45,622	33,211	28,383	3.43	3.15	
	% chg	0%	0%	-1%	-1%	-1%	1%	
GMT 14-Nov	1H19	74,125	68,574	55,900	47,500	3.67	3.33	Similar themes to recent periods are expected, such as; ongoing portfolio improvements, underlying robust rental growth for industrial property and strong portfolio metrics offset by the dilutionary impact of asset sales leading to a relatively flat result and dividend. A development update is always of interest.
	1H20	72,133	65,781	55,918	46,076	3.56	3.33	
	% chg	-3%	-4%	0%	-3%	-3%	0%	
IPL 13-Nov	1H19	23,341	20,529	13,615	10,798	4.13	3.73	A steady result with flat EPS and DPS is expected. Sector leading portfolio metrics and a very benign lease expiry profile are expected to have been maintained. Any acquisition and development outlook comments will be of interest.
	1H20	23,412	20,555	13,731	10,889	4.19	3.75	
	% chg	0%	0%	1%	1%	1%	1%	
KPG 18-Nov	1H19	89,523	78,426	60,125	48,964	3.43	3.48	Retail sales in the shopping centres will be of interest in KPG's largely catchment dominant malls, as will be a development update at Sylvia Park and any update on mixed-use plans at its large properties. Relatively flat EPS and DPS expected.
	1H20	90,933	80,494	61,190	49,496	3.44	3.50	
	% chg	2%	3%	2%	1%	0%	1%	
SPG 25-Nov	1H19	35,748	26,790	19,729	19,607	5.37	4.96	The key area of interest for SPG will be an update on its funds management initiatives. Key portfolio metrics for its directly owned assets are expected to remain robust and we expect a flat EPS and DPS result inline with its FY20 guidance.
	1H20	36,786	27,778	20,477	19,130	5.24	4.95	
	% chg	3%	4%	4%	-2%	-2%	0%	
Average		-2%	-4%	-3%	-4%	-5%	2%	
Median		0%	0%	1%	-1%	-1%	1%	

Source: Forsyth Barr analysis, Company Reports

NZ listed property research

Augusta Capital (AUG) — Nothing to Worry About [24 October 2019]

Augusta Capital (AUG) has advised that FY20 earnings are expected to be in-line with FY19; however, earnings in 1H20 to 30 September will be below 1H19 due to lower transactional fee income and development expenditure associated with two hotel projects targeted for AUG's soon to be launched Augusta Tourism Fund. It is the nature of AUG's business that its earnings can be volatile period to period. We expect this volatility to decrease over time as its business has an increased focus on ongoing management fee income rather than higher front loaded transaction fees. We have not changed our forecasts, with AUG well placed to grow funds under management over the near to medium term, and remain with a NEUTRAL investment rating.

Property News for October 2019

NZ listed property portfolio activity

AUG in tandem with Melbourne based developer Ninety Four Feet, has entered into an agreement with Queenstown Lakes District Council (QLDC) to develop a residential, office, hospitality and retail precinct on Queenstown's largest remaining development site: Lakeview. Construction on the three hectare property is expected to commence in May 2023, with the entire build out anticipated to take more than 10 years and phased over seven stages. Ninety Four Feet will manage the development process, whilst Britomart Hospitality Group has been engaged to manage Lakeview's future retail and hospitality offerings. AUG's initial investment in the partnership will represent a maximum of NZD\$14m or 25% of the total capital commitment required to develop the first two stages. [10 October 2019]

ARG provided a leasing update on its 7 Waterloo Quay building in Wellington. New Zealand Post has confirmed it will lease a total of 4,430sqm across the ground floor and level 1 whilst the Department of Internal affairs will lease 4,130sqm across levels 2 & 10 for a 9 year lease term commencing 1 February 2020. Lastly, Kaianga Ora (Housing New Zealand) has also signed a 9.25 year agreement to lease 7,000sqm across levels 3, 4 and 5 as of 1 March 2020. Additionally, negotiations with another Crown entity are well advanced to lease levels 6, 7 and 8 from 1 March 2020, which if successfully executed will bring the building to 82% leased. [11 October 2019]

ARG announced to the market an offer of NZ\$75m senior secured fixed rate 7 year green bonds with the capacity to accept NZ\$25m in over subscriptions. The interest rate of the bonds will be at a minimum of 2.85% p.a. at an indicative margin of between 1.75% to 1.95% p.a. to the seven year swap rate. The bookbuild process will commence on the 18th October 2019, with the green bonds expected to be issued on 29th October 2019. [11 October 2019]

AUG provided an earnings update to investors, forewarning that it expects 1H20 comprehensive income and adjusted funds from operation will be materially lower than the pcp. This development is a derivative of less fund raising initiatives reducing transactional fee income, whilst also having deployed capital into two hotel properties which will only provide revenue when divested into AUG's new Tourism Fund, which is to be launched in the New Year. AUG does, however, expect full year earnings for the period ended 31 March 2020, to largely mirror that of the pcp. AUG also announced that the Augusta Industrial Fund has acquired 27–29 Neales Road, East Tamaki, Auckland for NZ\$25.223m with settlement to occur on 11 November 2019. Quarterly Dividend guidance of NZ\$1.625 cps was kept flat. [23 October 2019]

PFI announced the sale of its mixed use property located at 229 Dairy Flat Highway in Albany, Auckland for NZ\$33m, \$5m above its book value as of December 2018. Management expects the divestment to be settled in early December 2019. [23 October 2019]

ARG announced the settlement of the acquisition of an Industrial property at 244 Puhinui Road, Papatoetoe, at a passing yield of 5.5%, for NZ\$12.4m. [31 October 2019]

Property Index Summary — October 2019

Figure 2. Sector Total returns (as at 1 November 2019)

Company	Code	Price 30-Sep	Market Cap	Gr. Div wmp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.640	\$103m	-	+0.0%	2	+3.2%	4	+17.3%	10	+19.0%	10
Argosy Property	ARG	\$1.410	\$1,175m	-	-3.8%	8	+0.6%	9	+39.8%	4	+22.6%	8
Augusta	AUG	\$1.500	\$132m	-	-2.0%	5	+2.9%	6	+50.3%	1	+50.2%	1
CDL Investments	CDI	\$0.840	\$234m	-	+5.0%	n/a	+15.1%	n/a	+6.8%	n/a	+8.0%	n/a
Goodman Prop Trust	GMT	\$2.130	\$2,966m	-	-3.8%	9	+4.8%	2	+48.4%	2	+43.5%	2
Investore	IPL	\$1.930	\$498m	-	+1.6%	1	+3.4%	3	+34.4%	6	+31.4%	5
Kiwi Property Group	KPG	\$1.590	\$2,296m	-	-4.8%	10	-1.9%	10	+28.4%	9	+19.8%	9
Precinct Properties NZ	PCT	\$1.820	\$2,412m	-	-2.4%	7	+2.8%	7	+34.6%	5	+26.6%	6
Property for Industry	PFI	\$2.385	\$1,189m	-	-0.6%	4	+5.7%	1	+45.5%	3	+36.5%	3
Stride Property Group	SPG	\$2.310	\$844m	-	-0.4%	3	+3.2%	5	+30.2%	8	+24.9%	7
Vital Healthcare Property Trust	VHP	\$2.660	\$1,217m	-	-2.2%	6	+2.8%	8	+33.8%	7	+31.4%	4
S&P/NZX All Real Estate Cap		1,455.7			-2.8%		+1.5%		+29.9%		+24.8%	
S&P/NZX All Real Estate Gr.		1,772.8			-2.8%		+2.2%		+35.5%		+28.3%	
S&P/NZX All Real Estate Gr. wmp		1,847.9			-2.8%		+2.3%		+36.8%		+29.1%	
S&P/NZX 50 Gross		10,787.8			-1.3%		-0.6%		+23.3%		+22.4%	
S&P/NZX 50 Gross wmp		13,108.9			-1.2%		-0.3%		+24.4%		+23.5%	

Source: Forsyth Barr analysis, IRESS

Other NZ listed property news

VHP indicated that it will hold its Annual General Meeting on 31 October 2019, at Eden Park, commencing at 10:30am. [3 October 2019]

ARG provided indication of the magnitude of insurance claims made subsequent to damages and business interruptions caused by the Kaikoura Earthquake on 14 November 2016. Claims for material damages total NZ\$45.3m and NZ\$15m for business interruptions. From inception of the claims on 31 March 2019, ARG has received progress payments from insurers of NZ\$20.9m and in September received a further NZ\$2.5m on an unallocated basis. [11 October 2019]

AUG confirms appointment of two new independent directors to its Board: Fiona Oliver and Jonathan Ross. Fiona Oliver currently holds directorships with TILT renewables, Gentrack and BNZ life insurance, and has a strong breadth of experience in regulatory frameworks in commercial law. Jonathan Ross is a director of the RBNZ, Marlborough Lines, Oceania Health and Rhodes Scholarships. [17 October 2019]

KPG has appointed a new Non-Executive Director, Simon Shakesoff, to its Board as a Non-Executive director commencing 1 November 2019. Simon has extensive experience in the Australian Property finance space, having being the leader of many of the country's biggest Investment Banking property teams including BoA Merrill Lynch and UBS Australia. [18 Oct 2019]

PCT provided notice of its AGM which is to be held on Wednesday, 20 November 2019, at 11:30am. The meeting will be located at the Maritime Room, Princes Wharf, Auckland. [21 October 2019]

GMT advised investors that the retail equity raise of NZ\$15m has now closed. On the back of robust demand, the offering was significantly oversubscribed by NZ\$35m or 140%, and hence applications will be scaled according to the rules of the offer. The new units will be allotted on 25 October 2019. [22 October 2019]

VHP's manager, Northwest Healthcare Properties Management Limited, announced it has appointed Aaron Hockly as its new Fund Manager. Mr Hockly has served in a variety of senior management roles over the last 17 years in Australia across the property funds management and legal sectors. [24 October 2019]

ARG has announced that as a result of the successful launch of its 7 year NZ\$100m

green bond issue, it has consequently cancelled NZ\$100m in banking facilities which were due to expire in October 2021. [30 October 2019]

KPG announced that it is undertaking an equity raise worth ~NZ\$200m, encompassing an NZ\$180m fully underwritten placement and an NZ\$20m retail offer with the ability to accept over subscriptions of up to NZ\$10m. KPG will use the proceeds of the raise to reduce gearing and execute on a number of ongoing developments, including Sylvia Park, The Base, and Drury, albeit on a longer term horizon. The price of the shares for both the placement and the retail offer will be NZ\$1.58, representing a ~5.7% discount to its last closing price of NZ\$1.67. Guidance of NZ\$.705 cents per share for KPG's full year dividend ending 31 March 2020, was also maintained. [30 October 2019]

VHP held its annual meeting, where resolutions to 1) Approve amendments to the trust deed; which includes the altering of Management fee structure, and 2) To appoint Andrew Evans as new Independent director, were both unanimously voted in favour of by shareholders. Management reaffirmed dividend guidance of 8.75 cpa and made mention of a potential dual listing on the ASX in future. [31 October 2019]

Other commercial property news

South Island construction and development company Calder Stewart will bring a new NZ\$170m industrial investment product, The Forthill Property Fund, to the market. The fund hopes to provide investors with returns of between 6.5%–7% p.a. and will have a loan to value ratio of ~45%. [1 October 2019]

Todd Property Group announced the sale of a collection of greenfield and brownfield properties across New Zealand to NZPropCo Ltd, a NZ based property investment consortium comprised of NZ owned Templeton Group and Tailorspace Ltd, alongside UK based Alvarium Investments. Some of the properties included in the sale are a 75% ownership in Kapiti airport, Pegasus Township — north of Christchurch, Auckland's Stonefield's and undeveloped land in Hawkes Bay and Whangarei. [2 October 2019]

Construction Company Fletcher Building has opened a highly anticipated new factory focussed exclusively on pre-fabricated house building. The subsidiary, to be named Clever Core, has leased a 5,000sqm industrial property in Wiri from NZX listed PF1, and aims to be able to cut the lead time on residential builds from 22 to six weeks. [16 October 2019]

Lendlease Real Estate Partners New Zealand is looking to offload a three property portfolio consisting of Dress Smart outlet malls in Onehunga (Auckland) and Hornby (Christchurch) as well as Meridian Mall, a prime retail asset in Dunedin's CBD. The three portfolios represent ~36,362sqm of NLA and Lendlease is hoping to achieve a sales price north of NZ\$350m. The portfolio was purchased by Lendlease in 2011 for NZ\$197m. [18 October 2019]

In the aftermath of the recent announcement that Media Company, Mediaworks has put its television business up for sale, Channel Three's headquarters, located on the corner of Flower Street and New North Road, Eden Terrace, Auckland has subsequently also been put on the market. The property, which covers 6 titles and 4,358sqm in land area, was last valued by the Auckland Council in 2017 at NZ\$25.3m. Each title could be sold individually or as a group on three year sale and lease back terms, with expressions of interest due to close on November 21, 2019. [26 October 2019]

Manson's TCLM, NZ's largest private developer has confirmed that it has leased ~3600sqm of the NZ\$247m office block located at 155 Fanshawe St, to Genesis Energy who will relocate 300 staff from its current premises in Penrose. [29 October 2019]

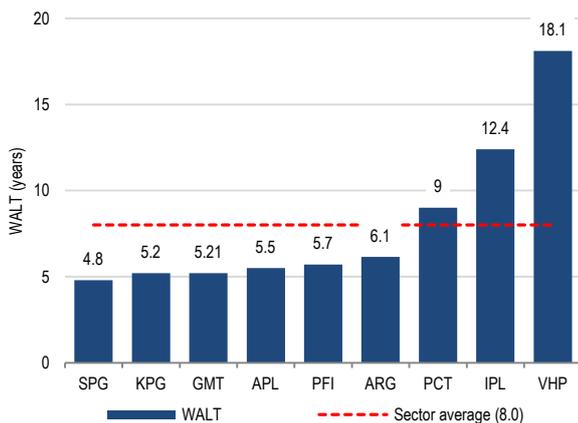
Portfolio summary

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%

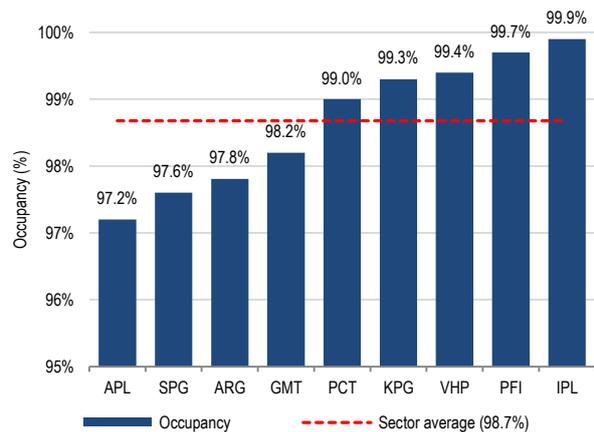
Source: Forsyth Barr analysis, Company Reports

Figure 4. Sector WALT (weighted average lease term)



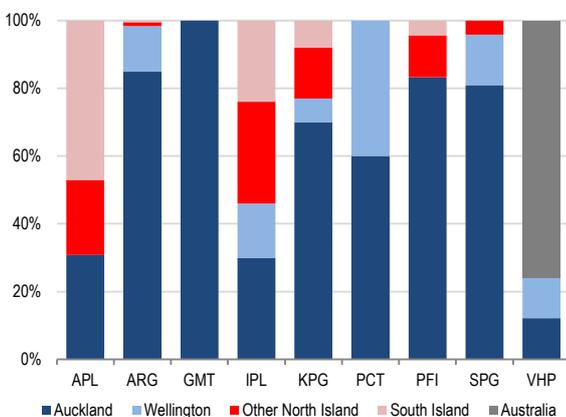
Source: Forsyth Barr analysis, Company reports

Figure 5. Sector occupancy



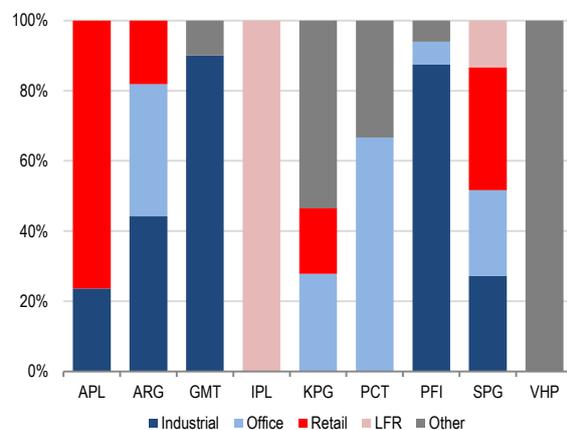
Source: Forsyth Barr analysis, Company reports

Figure 6. Geographical diversification



Source: Forsyth Barr analysis, Company reports

Figure 7. Sector diversification



Source: Forsyth Barr analysis, Company reports

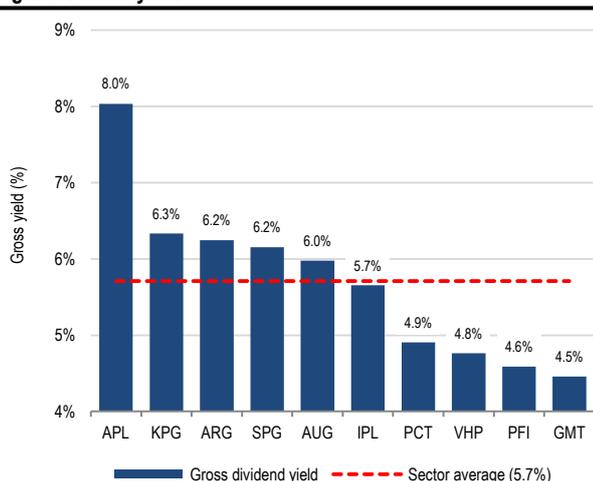
Relative value summary

Figure 8. Relative Valuation Metrics — 1st November 2019

Company	Rating	Value 4-Nov	Cash yield	Gross yield	P / NTA ¹	PE	EV/ EBITDA
Asset Plus	NEUTRAL	0.64	5.7%	8.1%	0.91x	17.1x	16.1x
Argosy Property	NEUTRAL	1.42	4.4%	6.3%	1.16x	21.0x	19.9x
Augusta Capital	NEUTRAL	1.51	4.3%	6.0%	2.01x	21.1x	15.4x
Goodman Property	UNDERPERFORM	2.14	3.1%	4.4%	1.36x	31.3x	26.5x
Investore	OUTPERFORM	1.92	4.0%	5.7%	1.13x	23.3x	19.4x
Kiwi Property Group	OUTPERFORM	1.59	4.4%	6.3%	1.11x	21.8x	20.0x
Precinct Properties	NEUTRAL	1.84	3.4%	4.9%	1.32x	27.2x	25.3x
Property for Industry	NEUTRAL	2.39	3.2%	4.6%	1.34x	27.6x	21.3x
Stride Property	NEUTRAL	2.31	4.3%	6.1%	1.20x	21.3x	20.6x
Vital Healthcare	OUTPERFORM	2.70	3.3%	4.8%	1.20x	27.0x	23.0x
S&P/NZX Real Estate Gross		1,781	3.7%	5.3%	1.26x	26.0x	22.8x
S&P/NZX50 Gross		10,762	3.4%	4.4%	2.19x	23.3x	13.4x

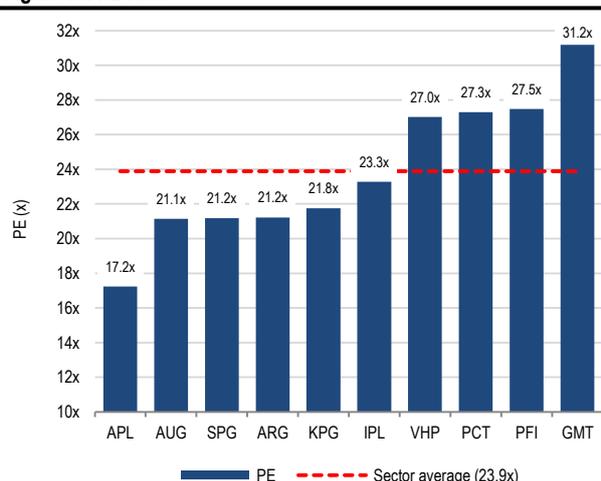
1: NTA is adjusted. 2: Index metrics reflect average constituent metrics weighted by market capitalisation. Source: Forsyth Barr analysis

Figure 9. Gross yield



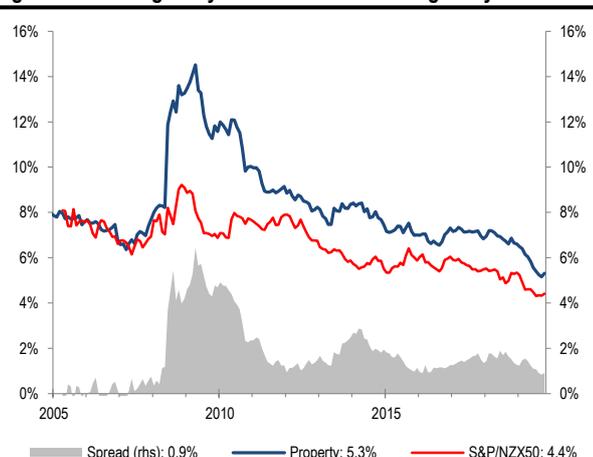
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 10. PE ratio



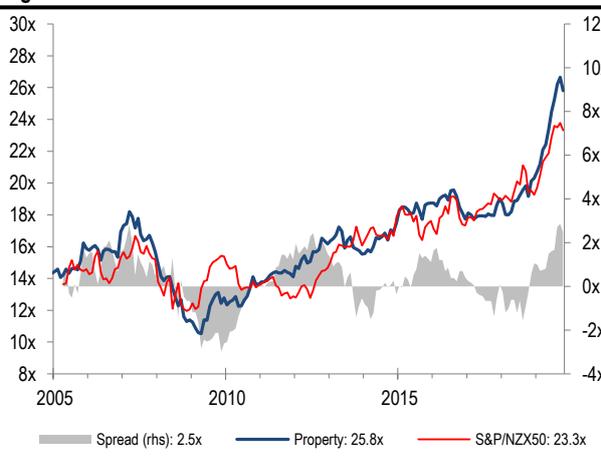
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

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



Source: Company reports, Forsyth Barr analysis, IRESS

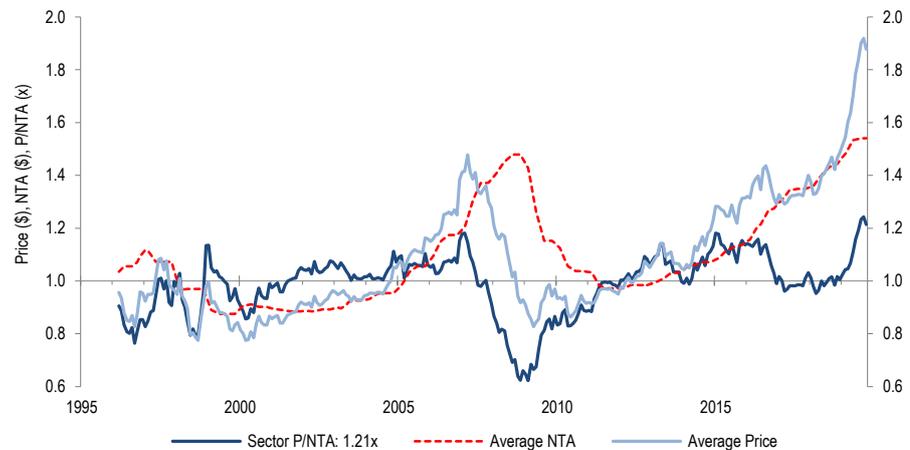
Figure 12. Sector PE versus S&P/NZX50 PE



Source: Forsyth Barr analysis, Company reports, IRESS

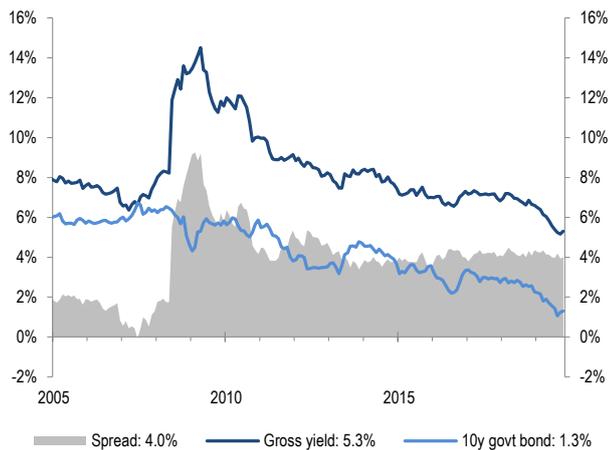
Key monthly charts and tables

Figure 13. Sector P/NTA, NTA and price



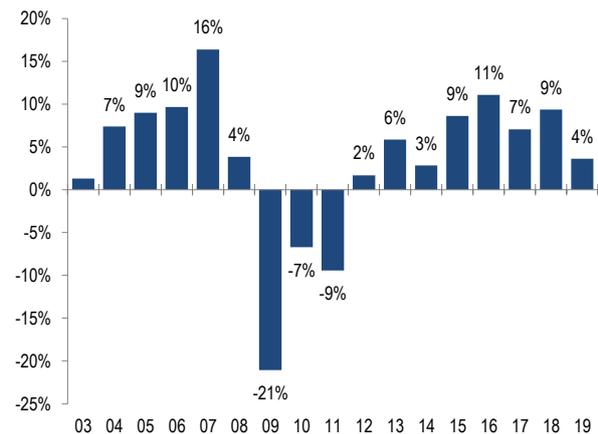
Note: Series represents simple average of price to reported NTA for core LPVs (ARG, GMT, IPL, KPG, PCT, PFI). Source: Company reports, IRESS, Forsyth Barr analysis.

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	5.7%	7.4%	8.1%	8.5%
ARG	6.10	6.20	6.28	6.28	6.28	\$1.42	4.4%	5.7%	6.3%	6.6%
AUG	5.50	5.63	6.13	6.50	6.50	\$1.51	4.3%	6.0%	6.0%	6.0%
GMT	6.65	6.65	6.65	6.65	6.65	\$2.14	3.1%	4.0%	4.4%	4.6%
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	\$1.59	4.4%	5.8%	6.3%	6.6%
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	\$2.39	3.2%	4.2%	4.6%	4.8%
SPG	9.96	9.91	9.91	9.91	9.91	\$2.31	4.3%	5.6%	6.1%	6.4%
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%	5.7%	5.9%
Weighted avg							3.7%	4.8%	5.3%	5.5%

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	-8.5%	-3.1%	17.1x	19.8x	5.7%	5.0%	8.1%	112%
ARG	+16.4%	+10.1%	21.0x	23.2x	4.4%	4.3%	6.3%	102%
AUG	+101.3%	+8.6%	21.1x	21.1x	4.3%	4.7%	6.0%	91%
GMT	+36.3%	+22.3%	31.3x	34.4x	3.1%	2.9%	4.4%	107%
IPL	+12.9%	+15.6%	23.3x	25.5x	4.0%	3.9%	5.7%	101%
KPG	+11.2%	+3.0%	21.8x	24.1x	4.4%	4.1%	6.3%	107%
PCT	+31.8%	+17.9%	27.2x	30.7x	3.4%	3.3%	4.9%	106%
PFI	+34.5%	+21.9%	27.6x	31.0x	3.2%	3.2%	4.6%	99%
SPG	+20.3%	+12.8%	21.3x	25.1x	4.3%	4.0%	6.1%	107%
VHP	+20.3%	+17.4%	27.0x	33.0x	3.3%	3.0%	4.8%	110%
Average	+27.7%	+12.7%	23.9x	26.8x	4.0%	3.9%	5.7%	104%
Core average¹	+23.0%	+15.1%	25.1x	28.4x	3.8%	3.6%	5.4%	105%

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	3.71	17.1x	3.80	2.69	3.29	3.20	+5.05%
ARG	6.62	6.94	6.59	6.76	21.0x	6.04	6.25	5.99	6.13	+4.31%
AUG	6.60	8.85	7.18	7.14	21.1x	6.60	8.85	7.18	7.14	+4.73%
GMT	7.24	7.02	6.75	6.83	31.3x	6.35	6.32	6.08	6.22	+2.90%
IPL	7.85	8.02	8.15	8.25	23.3x	7.07	7.54	7.43	7.52	+3.92%
KPG	7.46	6.99	7.10	7.31	21.8x	6.82	6.41	6.39	6.59	+4.15%
PCT	6.32	6.37	6.61	6.76	27.2x	5.80	6.02	5.86	5.99	+3.25%
PFI	8.38	8.61	8.67	8.66	27.6x	7.46	7.80	7.71	7.72	+3.23%
SPG	10.63	10.62	10.49	10.86	21.3x	9.12	8.87	8.82	9.22	+3.99%
VHP	10.60	9.51	9.80	9.99	27.0x	7.45	5.86	7.60	8.18	+3.03%
Avg					23.9x					+3.86%
Weighted avg					26.0x					+3.51%

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 8 Nov 2019)	NZ\$0.65
Target Price	NZ\$0.65
Risk Rating	Medium
Issued shares	161.9m
Market cap	NZ\$104m
Average daily turnover	99.6k (NZ\$62k)

Share Price Performance



Company Description

Property | Diversified property

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

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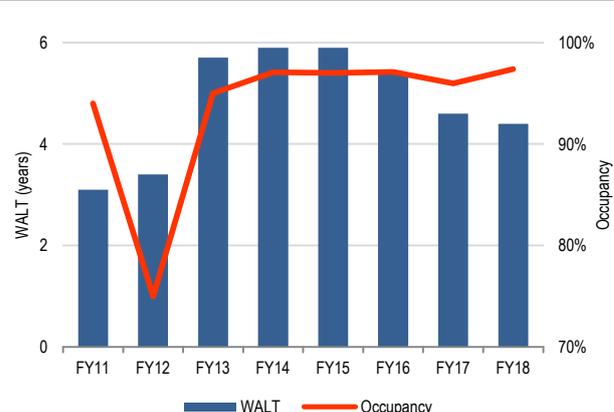
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Figure 16. Sector and regional portfolio exposure

	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					
Valuation methodology						2018A 2019A 2020E 2021E 2022E					
Blended DCF (50%) and NAV (50%)						EV/EBITDA (x)	15.3	17.3	14.0	16.8	16.6
						EV/EBIT (x)	15.3	17.3	14.0	16.8	16.6
12-month target price (NZ\$)*	0.65	Spot valuations (NZ\$)				PE (x)	16.6	20.2	16.7	17.9	18.6
Expected share price return	0.8%	1. DCF		0.63	Price/NTA (x)	0.91	0.93	0.92	0.92	0.91	
Net dividend yield	5.6%	2. NAV		0.66	Free cash flow yield (%)	1.7	3.3	5.1	4.9	4.7	
Estimated 12-month return	6.4%	n/a		n/a	Net dividend yield (%)	5.6	5.6	5.6	5.6	5.6	
						Gross dividend yield (%)	8.0	8.0	8.0	8.0	
Key WACC assumptions						Imputation (%)	100	100	100	100	100
DCF valuation summary (NZ\$m)						Pay-out ratio (%)	93	113	93	100	104
Risk free rate	2.0%	Total firm value		116	Capital Structure						
Equity beta	0.78	(Net debt)/cash		(10)	2018A	2019A	2020E	2021E	2022E		
WACC	5.8%	Value of equity		106	Interest cover EBIT (x)	3.6	7.0	5.2	5.6	4.6	
Terminal growth	1.5%	Shares (m)		162	Net debt/ tangible assets (%)	26.4	7.8	25.5	25.7	26.1	
Profit and Loss Account (NZ\$m)						2018A	2019A	2020E	2021E	2022E	
Sales revenue	12.3	9.3	11.0	10.4	10.5	Net debt/ND+E (%)	27.8	8.0	25.8	26.0	26.4
Normalised EBITDA	10.1	7.6	9.2	8.6	8.7	Net debt/EBITDA (x)	4.4	1.3	4.2	4.7	4.7
Depreciation and amortisation	-	-	-	-	-	Key Ratios					
Normalised EBIT	10.1	7.6	9.2	8.6	8.7	2018A	2019A	2020E	2021E	2022E	
Net interest	(2.8)	(1.1)	(1.8)	(1.5)	(1.9)	Return on assets (%)	6.0	6.0	5.9	5.4	5.4
Associate income	-	-	-	-	-	Return on equity (%)	5.5	4.6	5.5	5.1	4.9
Tax	(1.0)	(1.3)	(1.2)	(1.2)	(1.2)	Return on funds employed (%)	5.0	4.2	5.5	4.5	4.5
Minority interests	-	-	-	-	-	EBITDA margin (%)	81.9	81.2	83.7	82.6	82.6
Normalised NPAT	6.3	5.2	6.3	5.8	5.6	EBIT margin (%)	81.9	81.2	83.7	82.6	82.6
Abnormals/other	(3.2)	(1.4)	0.2	0.8	0.8	Capex to sales (%)	38.4	3.8	8.4	7.2	7.2
Reported NPAT	3.1	3.8	6.5	6.6	6.4	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	3.9	3.2	3.9	3.6	3.5	Property Statistics					
DPS (cps)	3.6	3.6	3.6	3.6	3.6	2015A	2016A	2017A	2018A	2019A	
Growth Rates						Key metrics					
2018A	2019A	2020E	2021E	2022E	No. properties	5	5	5	4	3	
Revenue (%)	0.5	-24.3	18.2	-6.2	1.3	Average lease term (years)	5.9	5.4	4.6	4.4	5.5
EBITDA (%)	1.6	-25.1	21.9	-7.4	1.3	Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
EBIT (%)	1.6	-25.1	21.9	-7.4	1.3	Cap rate (%)	8.21	7.91	7.74	7.43	7.40
Normalised NPAT (%)	1.9	-17.7	21.1	-6.7	-3.6	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
Normalised EPS (%)	1.9	-17.7	21.1	-6.7	-3.6	NTA per share (NZ\$)	0.725	0.740	0.723	0.706	0.694
DPS (%)	0.0	0.0	0.0	0.0	0.0	Portfolios values (NZ\$m)					
Cash Flow (NZ\$m)						2018A	2019A	2020E	2021E	2022E	
EBITDA	10.1	7.6	9.2	8.6	8.7	AA centre	33.8	36.2	40.9	43.8	
Working capital change	0.3	(1.6)	(0.0)	(0.0)	(0.0)	Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
Interest & tax paid	(3.9)	(2.2)	(3.0)	(2.7)	(3.0)	Print Place	13.3	13.0	11.0	-	-
Other	-	-	-	-	-	Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
Operating cash flow	6.5	3.8	6.2	5.8	5.6	Roskill Centre	33.6	35.0	36.0	38.0	39.5
Capital expenditure	(4.7)	(0.4)	(0.9)	(0.8)	(0.8)	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
(Acquisitions)/divestments	12.7	37.5	(29.0)	-	-	Balance Sheet (NZ\$m)					
Other	3.8	(0.8)	-	-	-	2018A	2019A	2020E	2021E	2022E	
Funding available/(required)	18.3	40.1	(23.7)	5.1	4.9	Working capital	(1.5)	0.5	0.5	0.5	0.5
Dividends paid	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	Fixed assets	168.4	123.0	153.1	154.7	156.3
Equity raised/(returned)	-	-	-	-	-	Intangibles	-	-	-	-	-
Increase/(decrease) in net debt	(12.4)	(34.3)	29.5	0.8	1.0	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	Real Estate Reflections — 179th Ed					
Other non current liabilities	8.5	1.9	1.9	1.9	1.9	November 2019 — The 11th month & the seven LPVs					
Shareholder's funds	114.3	112.3	113.0	113.8	114.4	New Zealand Equity Research					
Minority interests	-	-	-	-	-	11 November 2019					
Total funding sources	166.9	123.9	154.1	155.6	157.2						

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

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.

NZX code	ARG
Share price (as at 8 Nov 2019)	NZ\$1.42
Target Price	NZ\$1.35
Risk Rating	Low
Issued shares	827.0m
Market cap	NZ\$1,174m
Average daily turnover	514.0k (NZ\$679k)

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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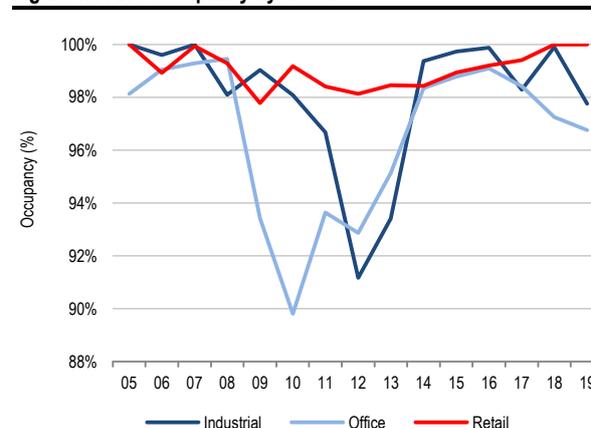
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Figure 18. Sector and regional portfolio exposure

	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

Forsyth Barr valuation					Valuation Ratios										
Valuation methodology					2018A 2019A 2020E 2021E 2022E										
Blended DCF (50%) and NAV (50%)					EV/EBITDA (x)	18.6	18.9	20.2	19.3	18.1					
					EV/EBIT (x)	18.6	18.9	20.2	19.3	18.1					
12-month target price (NZ\$)*	1.35	Spot valuations (NZ\$)			PE (x)	21.5	20.5	21.5	20.7	20.7					
Expected share price return	-4.9%	1. DCF	1.34		Price/NTA (x)	1.27	1.16	1.12	1.07	1.04					
Net dividend yield	4.4%	2. NAV	1.29		Free cash flow yield (%)	-0.1	-2.4	-2.9	1.7	4.4					
Estimated 12-month return	-0.5%	n/a	n/a		Net dividend yield (%)	4.4	4.4	4.4	4.4	4.4					
					Gross dividend yield (%)	6.2	6.3	6.3	6.3	6.3					
Key WACC assumptions					Imputation (%)	100	100	100	100	100					
DCF valuation summary (NZ\$m)					Pay-out ratio (x)	94	90	95	91	91					
Risk free rate	2.0%	Total firm value	1,787		Capital Structure										
Equity beta	0.77	(Net debt)/cash	(591)		2018A	2019A	2020E	2021E	2022E						
WACC	5.5%	Value of equity	1,155		Interest cover EBIT (x)	3.6	3.8	3.6	3.6	3.3					
Terminal growth	1.5%	Shares (m)	827		Net debt/ tangible assets (%)	36.0	35.7	37.3	36.9	36.3					
Profit and Loss Account (NZ\$m)					Net debt/ND+E (%)	37.3	37.0	38.6	38.1	37.5					
Sales revenue	101	102	100	107	113	Net debt/EBITDA (x)	6.1	6.5	7.4	7.1	6.7				
Normalised EBITDA	91	92	89	95	101	Key Ratios									
Depreciation and amortisation	-	-	-	-	-	2018A	2019A	2020E	2021E	2022E					
Normalised EBIT	91	92	89	95	101	Return on assets (%)	5.9	5.5	5.0	5.1	5.4				
Net interest	(25)	(24)	(25)	(26)	(31)	Return on equity (%)	5.9	5.7	5.2	5.2	5.0				
Associate income	-	-	-	-	-	Return on funds employed (%)	5.1	4.9	4.4	4.4	4.4				
Tax	(11)	(10)	(10)	(12)	(14)	EBITDA margin (%)	90.2	89.3	89.1	89.3	89.5				
Minority interests	-	-	-	-	-	EBIT margin (%)	90.2	89.3	89.1	89.3	89.5				
Normalised NPAT	55	57	55	57	57	Capex to sales (%)	62.5	92.5	88.1	35.1	4.9				
Abnormals/other	44	76	41	42	27	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a				
Reported NPAT	98	134	95	99	84	Property Statistics									
Normalised EPS (cps)	6.6	6.9	6.6	6.9	6.9	2015A	2016A	2017A	2018A	2019A					
DPS (cps)	6.2	6.3	6.3	6.3	6.3	Total									
Growth Rates					2018A	2019A	2020E	2021E	2022E	Value (NZ\$m)	1,306	1,368	1,442	1,513	1,667
Revenue (%)	0.2	1.5	-2.4	6.7	6.1	No. buildings	68	66	64	61	60				
EBITDA (%)	-0.4	0.5	-2.7	7.0	6.4	WALT (years)	5.54	5.24	5.59	6.08	6.14				
EBIT (%)	-0.4	0.5	-2.7	7.0	6.4	Occupancy	99.2%	99.4%	98.6%	98.8%	97.7%				
Normalised NPAT (%)	2.0	5.0	-4.9	4.3	0.0	Contract yield	7.6%	7.6%	7.2%	6.9%	6.4%				
Normalised EPS (%)	1.0	4.8	-4.9	4.3	0.0	Market yield	7.6%	7.5%	7.3%	7.0%	6.7%				
DPS (%)	1.6	1.2	0.0	0.0	0.0	Industrial									
Cash Flow (NZ\$m)					2018A	2019A	2020E	2021E	2022E	Value (NZ\$m)	510	507	583	638	738
EBITDA	91	92	89	95	101	No. buildings	40	39	38	36	37				
Working capital change	7	9	-	0	-	WALT (years)	5.72	5.99	6.40	7.35	7.22				
Interest & tax paid	(35)	(34)	(34)	(38)	(44)	Occupancy	99.7%	99.9%	98.3%	99.9%	97.8%				
Other	-	-	-	-	-	Contract yield	7.6%	7.7%	6.9%	6.7%	6.2%				
Operating cash flow	62	67	55	57	57	Market yield	7.6%	7.7%	7.1%	6.7%	6.5%				
Capital expenditure	(63)	(95)	(88)	(37)	(6)	Office									
(Acquisitions)/divestments	25	41	-	-	-	Value (NZ\$m)	484	549	548	577	627				
Other	(1)	(2)	16	16	-	No. buildings	17	17	17	17	16				
Funding available/(required)	23	11	(17)	36	51	WALT (years)	5.60	4.82	4.87	4.99	4.94				
Dividends paid	(47)	(52)	(52)	(52)	(52)	Occupancy	98.8%	99.1%	98.4%	97.3%	96.8%				
Equity raised/(returned)	-	-	-	-	-	Contract yield	7.6%	7.6%	7.3%	7.0%	6.9%				
Increase/(decrease) in net debt	24	41	69	16	1	Market yield	7.6%	7.6%	7.6%	7.4%	7.1%				
Balance Sheet (NZ\$m)					2018A	2019A	2020E	2021E	2022E	Retail					
Working capital	(11)	(14)	(14)	(14)	(14)	Value (NZ\$m)	312	312	311	298	303				
Fixed assets	1,513	1,667	1,779	1,842	1,875	No. buildings	11	10	9	8	7				
Intangibles	-	-	-	-	-	WALT (years)	5.15	4.78	5.46	5.69	5.96				
Other assets	29	4	4	4	4	Occupancy	98.9%	99.2%	99.4%	100.0%	100.0%				
Total funds employed	1,531	1,657	1,770	1,833	1,865	Contract yield	7.5%	7.4%	7.4%	7.1%	6.2%				
Net debt/(cash)	552	591	660	677	677	Market yield	7.4%	7.1%	7.3%	6.8%	6.3%				
Other non current liabilities	53	57	57	57	57										
Shareholder's funds	927	1,009	1,052	1,099	1,131										
Minority interests	-	-	-	-	-										
Total funding sources	1,531	1,657	1,770	1,833	1,865										

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

New Fund Momentum

Augusta Capital (AUG) has transitioned its business from property 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 Diversified Fund in CY19 and Tourism Fund in early CY20.
- **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 8 Nov 2019)	NZ\$1.47
Target Price	NZ\$1.38
Risk Rating	High
Issued shares	87.5m
Market cap	NZ\$129m
Average daily turnover	41.1k (NZ\$52k)

Share Price Performance



Company Description

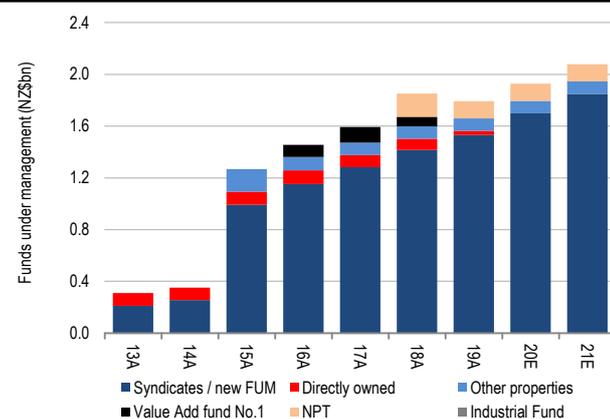
Property | Property investment management

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

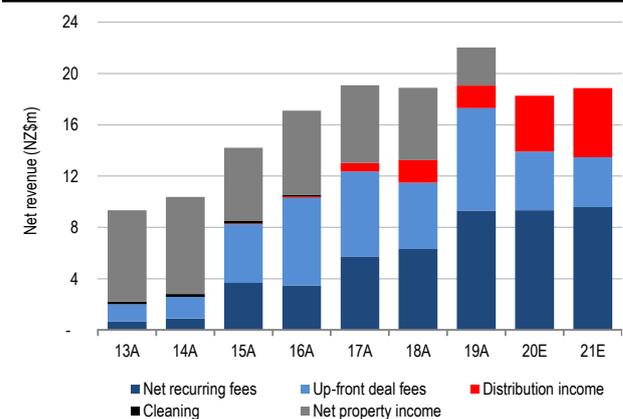
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Figure 20. Funds under management (NZ\$bn)



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										
Valuation methodology					2018A 2019A 2020E 2021E 2022E										
Blend of 50% DCF & 50% Adj NAV					EV/EBITDA (x)	13.9	10.2	8.1	5.6	6.4					
					EV/EBIT (x)	13.9	10.2	8.1	5.6	6.4					
12-month target price (NZ\$)*	1.38	Spot valuations (NZ\$)			PE (x)	22.3	16.6	20.5	20.6	25.5					
Expected share price return	-6.1%	1. DCF	1.39		Price/NTA (x)	2.1	2.0	1.6	1.6	1.6					
Net dividend yield	4.4%	2. Adj NAV	1.29		Free cash flow yield (%)	0.4	5.4	4.7	4.9	4.1					
Estimated 12-month return	-1.7%	3. n/a	n/a		Net dividend yield (%)	3.8	4.2	4.4	4.4	3.7					
					Gross dividend yield (%)	5.3	4.2	6.1	6.1	5.2					
Key WACC assumptions					Imputation (%)	98	0	100	100	100					
DCF valuation summary (NZ\$m)					Pay-out ratio (%)	85	69	91	91	95					
Risk free rate	2.00%	Total firm value	113.2		Capital Structure										
Equity beta	0.81	(Net debt)/cash	6.2		2018A	2019A	2020E	2021E	2022E						
WACC	6.6%	Value of equity	107.0		Interest cover EBIT (x)	3.7	7.8	25.4	26.6	8.9					
Terminal growth	1.5%	Shares (m)	87.5		Interest cover EBITDA (x)	3.7	7.8	25.4	26.6	8.9					
Profit and Loss Account (NZ\$m)					Net debt/ND+E (%)	30.8	6.7	-9.9	5.1	5.5					
Sales revenue	18.9	22.0	19.2	19.2	17.8	Net debt/EBITDA (x)	3.6	0.5	n/a	0.6	0.8				
Normalised EBITDA	10.3	11.7	8.7	8.6	7.4	Key Ratios									
Depreciation and amortisation	-	-	-	-	-	2018A	2019A	2020E	2021E	2022E					
Normalised EBIT	10.3	11.7	8.7	8.6	7.4	Return on assets (%)	7.3	11.4	8.6	7.4	6.4				
Net interest	(2.8)	(1.5)	(0.3)	(0.3)	(0.8)	Return on equity (%)	6.9	9.0	6.3	6.2	5.0				
Associate income	-	-	-	-	-	Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0				
Tax	(1.8)	(2.4)	(2.0)	(2.0)	(1.5)	EBITDA margin (%)	54.7	53.0	45.0	44.7	41.8				
Minority interests	-	-	-	-	-	EBIT margin (%)	54.7	53.0	45.0	44.7	41.8				
Normalised NPAT	5.8	7.7	6.3	6.2	5.1	Capex to sales (%)	1.3	1.4	0.0	0.0	0.0				
Abnormals/other	(4.8)	(0.8)	(0.7)	(0.1)	(0.1)	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a				
Reported NPAT	1.0	7.0	5.6	6.1	4.9	Operating Performance									
Normalised EPS (cps)	6.6	8.8	7.2	7.1	5.8	2018A	2019A	2020E	2021E	2022E					
DPS (cps)	5.6	6.1	6.5	6.5	5.5	Net revenue by segment:									
Growth Rates					2018A	2019A	2020E	2021E	2022E	Net rental income	5.7	3.0	-	-	-
Revenue (%)	-0.8	16.6	-12.8	-0.3	-7.1	Distribution income	1.8	1.8	4.4	5.4	5.5				
EBITDA (%)	-5.3	13.1	-25.9	-1.1	-13.1	Total yield income	7.4	4.7	4.4	5.4	5.5				
EBIT (%)	-5.3	13.1	-25.9	-1.1	-13.1	Offeror Fees	3.7	5.9	4.0	2.5	1.5				
Normalised NPAT (%)	-14.4	34.1	-18.9	-0.8	-18.9	Underwriting fees	1.5	2.1	1.4	1.4	0.8				
Normalised EPS (%)	-14.4	34.1	-18.9	-0.8	-18.9	Total up-front deal fees	5.2	8.0	5.4	3.9	2.3				
DPS (%)	2.3	8.9	6.1	0.0	-15.6	Base management fees	4.2	5.2	6.4	7.1	7.7				
Cash Flow (NZ\$m)					2018A	2019A	2020E	2021E	2022E	Transactional income	2.1	4.1	3.1	2.7	2.3
EBITDA	10.3	11.7	8.7	8.6	7.4	Total recurring fees	6.3	9.3	9.4	9.9	10.0				
Working capital change	(4.3)	0.3	(0.2)	0.0	0.2	Total net rental income	18.9	22.0	19.2	19.2	17.8				
Interest & tax paid	(5.2)	(4.8)	(2.4)	(2.3)	(2.4)	New deal operating metrics									
Other	-	-	-	-	-	New deals completed (assets)	351	180	272	170	100				
Operating cash flow	0.8	7.2	6.0	6.2	5.2	New deals completed (equity raised)	126	255	129	102	60				
Capital expenditure	(0.2)	(0.3)	-	-	-	Equity underwritten by AUG	47%	36%	36%	45%	45%				
(Acquisitions)/divestments	(3.2)	31.0	14.8	(15.0)	(0.7)	Syndicates wound-up (assets)	125	232	75	50	25				
Other	(5.3)	(1.6)	-	-	-	Funds under management									
Funding available/(required)	(7.9)	36.3	20.8	(8.8)	4.6	Directly held properties	84	31	-	-	-				
Dividends paid	(4.8)	(5.3)	(5.7)	(5.7)	(5.0)	Syndications	1,416	1,532	1,699	1,849	1,956				
Equity raised/(returned)	-	-	-	-	-	Other properties	96	96	96	96	96				
Increase/(decrease) in net debt	12.7	(31.0)	(15.1)	14.4	0.5	Value Add fund no.1	74	-	-	-	-				
Balance Sheet (NZ\$m)					2018A	2019A	2020E	2021E	2022E	Asset Plus	180	133	190	190	190
Working capital	1.5	(0.2)	(0.5)	(0.5)	(0.7)	Industrial Fund	-	-	-	-	-				
Fixed assets	85.3	31.5	0.7	0.6	0.5	Total FUM	1,851	1,792	1,985	2,135	2,242				
Intangibles	21.7	20.2	20.2	20.2	20.2	Funds under management									
Other assets	25.3	42.2	72.2	87.2	87.9	Directly held properties	84	31	-	-	-				
Total funds employed	133.7	93.6	92.7	107.5	107.9	Syndications	1,416	1,532	1,699	1,849	1,956				
Net debt/(cash)	37.5	6.2	(9.0)	5.4	5.9	Other properties	96	96	96	96	96				
Other non current liabilities	12.1	1.3	1.3	1.3	1.3	Value Add fund no.1	74	-	-	-	-				
Shareholder's funds	84.2	86.1	100.3	100.7	100.6	Asset Plus	180	133	190	190	190				
Minority interests	-	-	-	-	-	Industrial Fund	-	-	-	-	-				
Total funding sources	133.7	93.6	92.7	107.5	107.9	Total FUM	1,851	1,792	1,985	2,135	2,242				

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

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.

NZX code	GMT
Share price (as at 8 Nov 2019)	NZ\$2.10
Target Price	NZ\$1.83
Risk Rating	Low
Issued shares	1294.9m
Market cap	NZ\$2,719m
Average daily turnover	852.2k (NZ\$1,616k)

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.

Jeremy Simpson, CFA

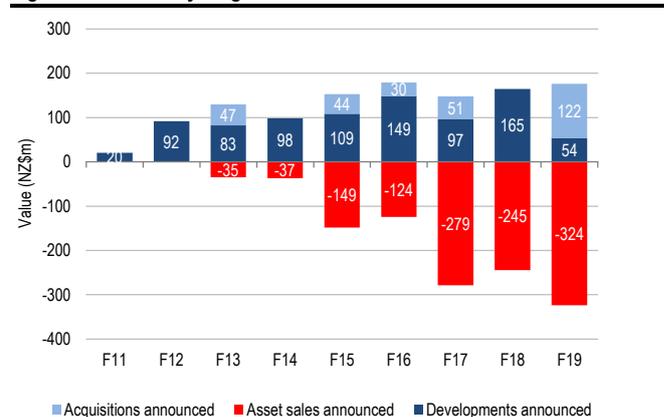
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Figure 22. Portfolio exposures

	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

Figure 23. Asset recycling



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

Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						2018A	2019A	2020E	2021E	2022E	
Blended DCF (50%) and NAV (50%)						EV/EBITDA (x)	25.3	26.4	25.8	23.6	22.3
						EV/EBIT (x)	25.3	26.4	25.8	23.6	22.3
12-month target price (NZ\$)*	1.83	Spot valuations (NZ\$)				PE (x)	29.0	29.9	31.1	30.5	29.4
Expected share price return	-12.9%	1. DCF		1.82	Price/NTA (x)	1.51	1.33	1.23	1.19	1.15	
Net dividend yield	3.2%	2. NAV		1.75	Free cash flow yield (%)	-0.5	-2.4	-1.1	1.1	1.6	
Estimated 12-month return	-9.7%	n/a		n/a	Net dividend yield (%)	3.2	3.2	3.2	3.2	3.2	
						Gross dividend yield (%)	4.5	4.5	4.5	4.5	
Key WACC assumptions	DCF valuation summary (NZ\$m)					Imputation (%)	100	100	100	100	100
Risk free rate	2.0%	Total firm value		2,996	Pay-out ratio (%)	92	95	99	97	93	
Equity beta	0.62	(Net debt)/cash		(582)							
WACC	5.1%	Value of equity		2,414	Capital Structure	2018A	2019A	2020E	2021E	2022E	
Terminal growth	1.5%	Shares (m)		1,295	Interest cover EBIT (x)	5.1	6.1	7.1	6.3	6.3	
						Net debt/ tangible assets (%)	30.7	21.8	19.5	20.3	20.7
Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Net debt/ND+E (%)	31.3	22.1	19.8	20.6	20.9
Sales revenue	149	141	141	155	164	Net debt/EBITDA (x)	6.0	4.5	4.6	4.5	4.5
Normalised EBITDA	138	130	128	140	148						
Depreciation and amortisation	-	-	-	-	-	Key Ratios	2018A	2019A	2020E	2021E	2022E
Normalised EBIT	138	130	128	140	148	Return on assets (%)	5.1	4.8	4.2	4.4	4.5
Net interest	(27)	(21)	(18)	(22)	(24)	Return on equity (%)	5.2	4.4	3.8	3.9	3.9
Associate income	-	-	-	-	-	Return on funds employed (%)	4.4	3.9	3.6	3.6	3.7
Tax	(18)	(18)	(20)	(23)	(26)	EBITDA margin (%)	92.6	92.0	90.4	90.6	90.6
Minority interests	-	-	-	-	-	EBIT margin (%)	92.6	92.0	90.4	90.6	90.6
Normalised NPAT	93	91	90	95	99	Capex to sales (%)	68.7	102.2	85.1	42.3	33.2
Abnormals/other	(101)	(229)	(182)	(60)	(63)	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	194	320	272	155	161						
Normalised EPS (cps)	7.2	7.0	6.7	6.9	7.1	Key Ratios	2018A	2019A	2020E	2021E	2022E
DPS (cps)	6.7	6.7	6.7	6.7	6.7	Net rental movement (consolidated)					
						Acquisitions - GMT	1.5	0.7	2.6	5.1	1.8
Growth Rates	2018A	2019A	2020E	2021E	2022E	Acquisitions - JV (51%)	3.5	5.2	1.0	-	-
Revenue (%)	0.9	-5.0	0.2	9.4	5.7	Developments	5.6	6.8	7.0	10.0	9.1
EBITDA (%)	0.7	-5.6	-1.4	9.6	5.7	Underlying portfolio	3.3	3.9	3.7	4.9	2.8
EBIT (%)	0.7	-5.6	-1.4	9.6	5.7	Additional income	(3.8)	0.7	-	-	-
Normalised NPAT (%)	-5.1	-2.6	-0.7	5.3	3.8	Disposals - GMT	(6.1)	(16.1)	(13.7)	(5.4)	(0.4)
Normalised EPS (%)	-5.6	-3.1	-3.9	2.0	3.8	Disposals - JV (51%)	-	-	(5.7)	(13.7)	-
DPS (%)	0.0	0.0	0.0	0.0	0.0	Net change	4.0	1.2	(5.1)	0.9	13.3
						Net rental income	148.5	141.1	141.4	154.7	163.6
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Property portfolio (consolidated)					
EBITDA	138	130	128	140	148	Stabalised assets	2,026	2,044	2,465	2,849	3,019
Working capital change	(22)	(18)	(0)	0	(0)	Developments	49	68	78	79	59
Interest & tax paid	(26)	(33)	(38)	(45)	(50)	Land	175	120	96	72	48
Other	-	-	-	-	-	Held for sale	8	239	-	-	-
Operating cash flow	90	79	90	95	99	JV assets (51%)	165	277	-	-	-
Capital expenditure	(102)	(144)	(120)	(65)	(54)	Total	2,422	2,747	2,639	3,000	3,126
(Acquisitions)/divestments	(5)	134	(60)	-	-	Property portfolio (movement)					
Other	(28)	255	-	-	-	Opening value	2,481	2,422	2,747	2,639	3,000
Funding available/(required)	(45)	324	(90)	30	44	Acquisitions / transfers in	(3)	74	93	94	(0)
Dividends paid	(86)	(86)	(89)	(92)	(92)	Net expenditure	139	120	129	120	65
Equity raised/(returned)	10	10	176	12	13	Disposals / transfers out	(297)	(10)	(516)	(34)	-
Increase/(decrease) in net debt	120	(248)	2	50	35	Fair value movement	102	141	185	182	60
						Total	2,422	2,747	2,639	3,000	3,126
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Property Statistics	2015A	2016A	2017A	2018A	2019A
Working capital	(40)	(34)	(34)	(34)	(34)	Walt (years)	5.1	5.7	5.8	6.1	5.2
Fixed assets	2,231	2,633	3,000	3,126	3,243	Occupancy (%)	96%	97%	98%	98%	98%
Intangibles	-	-	-	-	-	Cap rate (%)	7.50%	6.95%	6.50%	6.20%	5.80%
Other assets	475	70	27	27	27	NLA (000sqm)	983	1,041	989	1,111	1,000
Total funds employed	2,666	2,670	2,993	3,119	3,236	Portfo leasing (000sqm)	100	159	154	202	97
Net debt/(cash)	819	582	584	634	669	Development commitments (000sqm)	51	65	33	64	58
Other non current liabilities	53	42	42	42	42	Customers (no)	251	281	240	264	264
Shareholder's funds	1,794	2,046	2,367	2,443	2,525						
Minority interests	-	-	-	-	-						
Total funding sources	2,666	2,670	2,993	3,119	3,236						

* 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.

NZX code	IPL
Share price (as at 8 Nov 2019)	NZ\$1.87
Target Price	NZ\$1.85
Risk Rating	Low
Issued shares	260.1m
Market cap	NZ\$486m
Average daily turnover	153.4k (NZ\$266k)

Share Price Performance



Company Description

Property | Bulk retail property

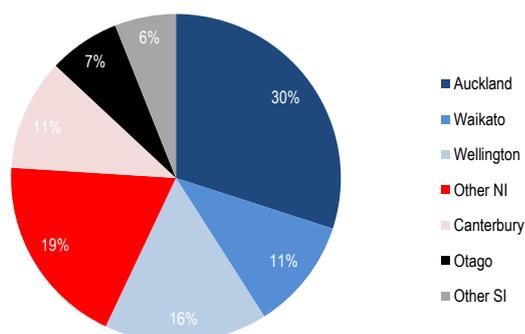
Investore (IPL) is a listed property company which owns NZ\$740m of large format retail properties throughout New Zealand. Its 40-asset portfolio comprises mostly of supermarkets with its key tenant General Distributors (operator of Countdown) accounting for 72% of contracted rent. IPL was formed from 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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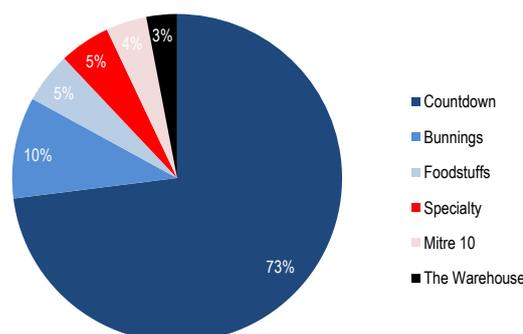
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Figure 24. FY19 Geographical diversification



Source: Forsyth Barr analysis, company reports

Figure 25. FY19 Tenant diversification



Source: Forsyth Barr analysis, company reports

Investore (IPL)		Priced as at 08 Nov 2019: NZ\$1.87					March year end									
Forsyth Barr valuation						Valuation Ratios										
Valuation methodology						Blended DCF (50%) and NAV (50%)										
						EV/EBITDA (x)	20.3	19.8	19.5	19.0	18.8					
						EV/EBIT (x)	20.3	19.8	19.5	19.0	18.8					
12-month target price (NZ\$)*						1.85	Spot valuations (NZ\$)									
Expected share price return						-1.1%	1. DCF	1.95	Price/NTA (x)	1.14	1.10	1.07	1.04	1.02		
Net dividend yield						4.1%	2. NAV	1.66	Free cash flow yield (%)	4.0	3.2	4.0	4.1	4.1		
Estimated 12-month return						3.0%	n/a	n/a	Net dividend yield (%)	4.0	4.1	4.1	4.1	4.1		
									Gross dividend yield (%)	5.7	5.8	5.8	5.8	5.8		
Key WACC assumptions						DCF valuation summary (NZ\$m)										
Risk free rate						2.0%	Total firm value	840	Imputation (%)	100	100	100	100	100		
Equity beta						0.70	(Net debt)/cash	(312)	Pay-out ratio (%)	95	95	93	91	90		
WACC						4.9%	Value of equity	525	Capital Structure							
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 (%)					
Sales revenue						43.1	46.1	46.4	47.0	47.4	41.5					
Normalised EBITDA						37.7	40.1	40.5	41.1	41.4	Net debt/EBITDA (x)					
Depreciation and amortisation						-	-	-	-	-	8.1					
Normalised EBIT						37.7	40.1	40.5	41.1	41.4	Key Ratios					
Net interest						(11.7)	(13.8)	(13.6)	(13.3)	(13.1)	Return on assets (%)	5.1	5.2	5.3	5.3	5.3
Associate income						-	-	-	-	-	Return on equity (%)	4.8	4.7	4.7	4.6	4.6
Tax						(5.5)	(5.3)	(5.7)	(6.1)	(6.4)	Return on funds employed (%)	4.2	4.1	4.1	4.1	4.1
Minority interests						-	-	-	-	-	EBITDA margin (%)	87.4	86.9	87.4	87.4	87.4
Normalised NPAT						20.5	20.9	21.2	21.6	22.0	EBIT margin (%)	87.4	86.9	87.4	87.4	87.4
Abnormals/other						(25.6)	(17.7)	(10.4)	(9.3)	(6.0)	Capex to sales (%)	5.1	12.0	4.0	4.0	4.1
Reported NPAT						46.2	38.6	31.6	31.0	28.0	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)						7.9	8.0	8.2	8.3	8.5	Portfolio Summary					
DPS (cps)						7.5	7.6	7.6	7.6	7.6	Investment properties (NZ\$m)	*2016A	2017A	2018A	2019A	
											641.4	660.4	738.3	761.2		
Growth Rates						2018A	2019A	2020E	2021E	2022E	Weighted average lease term (yrs)	14.8	14.3	13.1	12.4	
Revenue (%)						n/a	n/a	0.6	1.4	0.9	Occupancy rate (%)	99.7	99.8	99.9	99.9	
EBITDA (%)						n/a	n/a	1.1	1.3	0.9	M'tment/Admin cost % of assets (%)	n/a	0.6	0.8	0.8	
EBIT (%)						n/a	n/a	1.1	1.3	0.9	NTA per share (NZ\$)	1.46	1.55	1.64	1.70	
Normalised NPAT (%)						n/a	n/a	1.3	2.0	1.7	Portfolio cap rate (%)	6.44	6.36	6.19	6.05	
Normalised EPS (%)						n/a	n/a	1.6	2.0	1.7	Portfolio initial yield (%)	6.68	6.57	6.36		
DPS (%)						n/a	n/a	0.0	0.0	0.0	*metrics shown on a pro-forma basis as at March 2016					
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 8 Nov 2019)	NZ\$1.57
Target Price	NZ\$1.62
Risk Rating	Low
Issued shares	1432.8m
Market cap	NZ\$2,242m
Average daily turnover	1,421k (NZ\$2,178k)

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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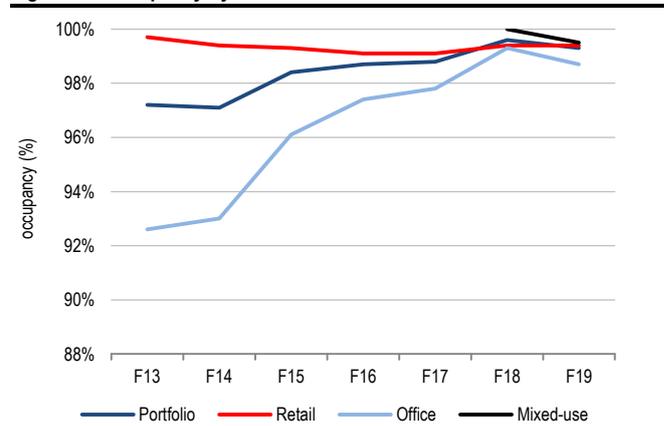
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Figure 26. Sector and regional portfolio exposure

	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					
Valuation methodology						2018A	2019A	2020E	2021E	2022E	
Blended DCF (50%) and NAV (50%)						EV/EBITDA (x)	18.7	19.9	20.0	19.1	18.4
						EV/EBIT (x)	18.7	19.9	20.0	19.1	18.4
12-month target price (NZ\$)*	1.62	Spot valuations (NZ\$)				PE (x)	21.0	22.4	22.0	21.0	20.9
Expected share price return	3.5%	1. DCF		1.67	Price/NTA (x)	1.12	1.09	1.07	1.04	1.02	
Net dividend yield	4.5%	2. NAV		1.54	Free cash flow yield (%)	-0.2	-3.1	-2.6	2.7	4.3	
Estimated 12-month return	8.0%	n/a		n/a	Net dividend yield (%)	4.4	4.4	4.5	4.5	4.5	
Key WACC assumptions						Gross dividend yield (%)	6.3	6.3	6.4	6.4	6.4
DCF valuation summary (NZ\$m)						Imputation (%)	100	100	100	100	100
Risk free rate	2.0%	Total firm value		3,435	Pay-out ratio (%)	92	99	99	95	94	
Equity beta	0.67	(Net debt)/cash		(992)	Capital Structure						
WACC	5.1%	Value of equity		2,418	2018A	2019A	2020E	2021E	2022E		
Terminal growth	1.5%	Shares (m)		1,433	Interest cover EBIT (x)	4.0	4.3	4.3	4.3	4.1	
Profit and Loss Account (NZ\$m)						Net debt/ tangible assets (%)	30.0	31.3	33.4	33.0	32.6
2018A	2019A	2020E	2021E	2022E	Net debt/ND+E (%)	31.2	32.6	34.7	34.2	33.8	
Sales revenue	192	181	186	198	205	Net debt/EBITDA (x)	5.3	6.2	6.8	6.5	6.3
Normalised EBITDA	171	160	165	176	183	Key Ratios					
Depreciation and amortisation	-	-	-	-	-	2018A	2019A	2020E	2021E	2022E	
Normalised EBIT	171	160	165	176	183	Return on assets (%)	5.6	4.9	4.8	5.0	5.1
Net interest	(42)	(37)	(39)	(41)	(44)	Return on equity (%)	5.2	4.9	4.8	4.9	4.9
Associate income	-	-	-	-	-	Return on funds employed (%)	4.7	4.3	4.1	4.2	4.2
Tax	(25)	(23)	(24)	(26)	(29)	EBITDA margin (%)	89.3	88.5	88.7	89.2	89.4
Minority interests	-	-	-	-	-	EBIT margin (%)	89.3	88.5	88.7	89.2	89.4
Normalised NPAT	103	100	102	109	110	Capex to sales (%)	58.7	93.9	88.7	26.9	8.4
Abnormals/other	(17)	(38)	(46)	(46)	(49)	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	120	138	148	155	159	Property Statistics					
Normalised EPS (cps)	7.5	7.0	7.1	7.5	7.5	2015A	2016A	2017A	2018A	2019A	
DPS (cps)	6.9	7.0	7.1	7.1	7.1	Retail portfolio					
Growth Rates						No. properties	7	9	9	4	4
2018A	2019A	2020E	2021E	2022E	WALT (years)	3.4	3.9	3.8	3.6	3.3	
Revenue (%)	5.4	-5.7	2.6	6.6	3.7	Occupancy rate (%)	99.3%	99.1%	99.1%	99.4%	99.4%
EBITDA (%)	4.4	-6.5	3.0	7.1	4.0	Cap rate (%)	6.97%	6.69%	6.52%	6.25%	7.53%
EBIT (%)	4.4	-6.5	3.0	7.1	4.0	Office portfolio					
Normalised NPAT (%)	7.6	-3.4	2.3	6.3	1.1	No. properties	5	5	5	4	4
Normalised EPS (%)	0.4	-6.2	1.5	5.0	0.4	WALT (years)	7.6	8.2	10.1	10.1	9.3
DPS (%)	1.9	1.5	1.4	0.0	0.0	Occupancy rate (%)	96.1%	97.4%	97.8%	99.3%	98.7%
Cash Flow (NZ\$m)						Cap rate (%)	6.80%	6.44%	6.13%	5.76%	5.45%
2018A	2019A	2020E	2021E	2022E	Mixed-use portfolio						
EBITDA	171	160	165	176	183	No. properties				4	4
Working capital change	2	3	3	5	3	WALT (years)				4.0	4.1
Interest & tax paid	(65)	(63)	(62)	(68)	(73)	Occupancy rate (%)				100.0%	99.5%
Other	-	-	-	-	-	Cap rate (%)				5.72%	5.71%
Operating cash flow	108	100	105	113	113	Total portfolio					
Capital expenditure	(113)	(170)	(165)	(53)	(17)	WALT (years)	4.5	5.1	5.6	5.3	5.2
(Acquisitions)/divestments	62	67	-	-	-	Occupancy rate (%)	98.4%	98.7%	98.8%	99.6%	99.3%
Other	(6)	(3)	-	-	-	Cap rate (%)	6.92%	6.61%	6.40%	6.11%	5.99%
Funding available/(required)	51	(5)	(59)	60	96	NTA per share (NZ\$)	1.214	1.345	1.390	1.392	1.431
Dividends paid	(89)	(81)	(76)	(77)	(104)	Portfolios values (NZ\$m)					
Equity raised/(returned)	157	-	-	-	-	Sylvia Park	601	704	755	835	955
Increase/(decrease) in net debt	(120)	87	135	17	8	Sylvia Park Lifestyle	64	70	71	74	77
Balance Sheet (NZ\$m)						Lynn Mall	226	269	271	274	284
2018A	2019A	2020E	2021E	2022E	Westgate Lifestyle	-	70	87	90	90	
Working capital	(43)	(47)	(48)	(52)	(53)	The Base	-	-	195	203	218
Fixed assets	3,052	3,207	3,416	3,514	3,579	The Plaza	206	211	216	207	207
Intangibles	-	-	-	-	-	Northlands	220	243	249	240	247
Other assets	4	6	6	6	6	Vero Centre	323	358	381	420	450
Total funds employed	3,013	3,166	3,374	3,468	3,531	ASB North Wharf	175	188	196	209	230
Net debt/(cash)	903	992	1,127	1,144	1,151	The Aurora Centre	71	126	141	152	160
Other non current liabilities	116	124	124	124	124	Other properties	390	431	409	348	290
Shareholder's funds	1,994	2,051	2,124	2,201	2,256	Total portfolio	2,276	2,670	2,969	3,052	3,207
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 8 Nov 2019)	NZ\$1.80
Target Price	NZ\$1.60
Risk Rating	Low
Issued shares	1313.8m
Market cap	NZ\$2,365m
Average daily turnover	851.6k (NZ\$1,400k)

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

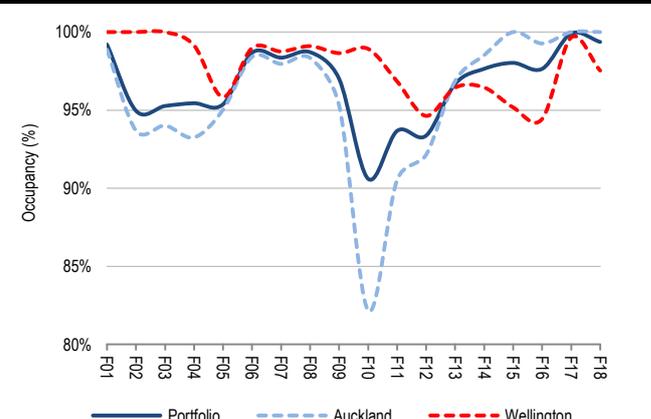
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Figure 1. Sector and regional portfolio exposure

	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					
Valuation methodology						2018A	2019A	2020E	2021E	2022E	
Blended DCF (50%) and NAV (50%)						EV/EBITDA (x)	34.8	38.4	24.7	23.4	21.4
						EV/EBIT (x)	34.8	38.4	24.7	23.4	21.4
12-month target price (NZ\$)*						PE (x)	28.5	28.3	27.2	25.6	26.1
Expected share price return	-11.1%	Spot valuations (NZ\$)		1.55	Price/NTA (x)	1.29	1.21	1.20	1.16	1.18	
Net dividend yield	3.5%	1. DCF		1.56	Free cash flow yield (%)	-9.3	-8.7	-2.5	-1.3	1.8	
Estimated 12-month return	-7.6%	2. NAV		n/a	Net dividend yield (%)	3.2	3.3	3.5	3.6	3.7	
						Gross dividend yield (%)	4.6	4.8	5.0	5.1	5.2
Key WACC assumptions						Imputation (%)	100	100	100	100	100
DCF valuation summary (NZ\$m)						Pay-out ratio (%)	92	94	95	91	96
Risk free rate	2.0%	Total firm value		2,450	Capital Structure						
Equity beta	0.69	(Net debt)/cash		(752)	2018A	2019A	2020E	2021E	2022E		
WACC	5.2%	Value of equity		1,675	Interest cover EBIT (x)	38.7	45.1	3.7	3.7	3.6	
Terminal growth	1.5%	Shares (m)		1,314	Net debt/ tangible assets (%)	29.8	26.5	29.8	31.8	27.4	
Profit and Loss Account (NZ\$m)						Net debt/ND+E (%)	31.0	27.8	31.1	33.1	28.6
Sales revenue	95	98	142	155	169	Net debt/EBITDA (x)	8.9	9.3	6.9	7.2	6.0
Normalised EBITDA	85	81	129	139	152	Key Ratios					
Depreciation and amortisation	-	-	-	-	-	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	Property Statistics					
Normalised EPS (cps)	6.3	6.4	6.6	7.0	6.9	2015A	2016A	2017A	2018A	2019A	
DPS (cps)	5.8	6.0	6.3	6.4	6.6	Key metrics					
Growth Rates						No. properties	15	13	12	12	13
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	
EBITDA	85	81	129	139	152	AMP Centre	136	148	163	179	205
Working capital change	(3)	(10)	15	5	5	ANZ Centre	271	305	324	362	188
Interest & tax paid	(8)	(7)	(42)	(47)	(52)	HSBC House	120	122	94	91	106
Other	-	-	-	-	-	PwC Tower	293	313	329	376	400
Operating cash flow	75	64	102	97	104	Zurich House	101	111	96	106	114
Capital expenditure	(294)	(269)	(162)	(128)	(63)	Mason Brothers	-	-	37	42	46
(Acquisitions)/divestments	-	181	-	-	-	12 Madden St	-	-	68	77	82
Other	(12)	(2)	-	-	-	Commercial Bay	-	147	370	648	890
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
Balance Sheet (NZ\$m)						No.1 and 3 The Terrace	70	72	71	67	87
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						

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

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 8 Nov 2019)	NZ\$2.34
Target Price	NZ\$2.00
Risk Rating	Low
Issued shares	498.7m
Market cap	NZ\$1,165m
Average daily turnover	253.5k (NZ\$542k)

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.

Jeremy Simpson, CFA

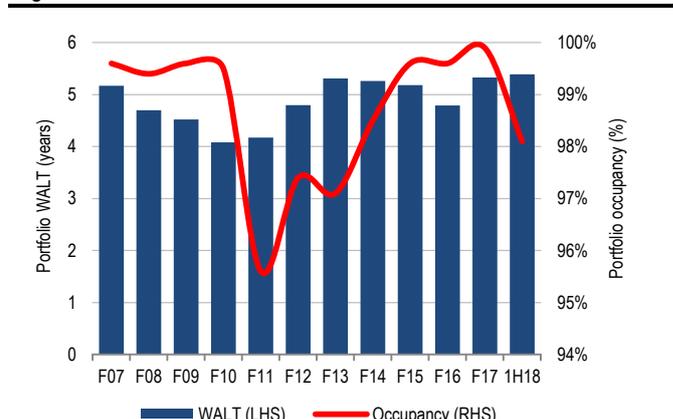
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Figure 28. Sector and regional portfolio exposure

	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										
Valuation methodology					2017A 2018A 2019E 2020E 2021E										
Blended DCF (50%) and NAV (50%)					EV/EBITDA (x)	23.4	21.7	21.1	20.9	20.7					
					EV/EBIT (x)	23.4	21.7	21.1	20.9	20.7					
12-month target price (NZ\$)*	2.00	Spot valuations (NZ\$)			PE (x)	28.9	27.9	27.1	26.9	26.6					
Expected share price return	-14.3%	1. DCF	1.99		Price/NTA (x)	1.43	1.32	1.29	1.26	1.23					
Net dividend yield	3.3%	2. NAV	1.96		Free cash flow yield (%)	-0.9	3.3	3.4	3.3	3.4					
Estimated 12-month return	-11.1%	3. n/a	n/a		Net dividend yield (%)	3.2	3.2	3.3	3.3	3.3					
					Gross dividend yield (%)	4.6	4.6	4.6	4.7	4.7					
Key WACC assumptions					Imputation (%)	100	100	100	100	100					
DCF valuation summary (NZ\$m)					Pay-out ratio (%)	92	90	88	88	87					
Risk free rate	2.0%	Total firm value	1,410		Capital Structure										
Equity beta	0.70	(Net debt)/cash	(397)		2017A	2018A	2019E	2020E	2021E						
WACC	5.3%	Value of equity	1,004		Interest cover EBIT (x)	3.7	3.8	3.8	3.8	3.9					
Terminal growth	1.5%	Shares (m)	499		Net debt/ tangible assets (%)	30.7	30.2	30.4	29.8	29.2					
Profit and Loss Account (NZ\$m)					Net debt/ND+E (%)	30.5	30.3	30.5	29.9	29.4					
Sales revenue	70.6	76.1	79.1	80.3	81.5	Net debt/EBITDA (x)	5.7	5.6	5.5	5.4	5.3				
Normalised EBITDA	64.8	71.4	74.3	75.3	76.1	Key Ratios									
Depreciation and amortisation	-	-	-	-	-	2017A	2018A	2019E	2020E	2021E					
Normalised EBIT	64.8	71.4	74.3	75.3	76.1	Return on assets (%)	5.2	5.3	5.4	5.3	5.3				
Net interest	(17.7)	(18.8)	(19.7)	(19.9)	(19.7)	Return on equity (%)	4.4	4.6	4.6	4.5	4.5				
Associate income	-	-	-	-	-	Return on funds employed (%)	4.3	4.4	4.3	4.3	4.2				
Tax	(10.0)	(10.9)	(11.7)	(12.1)	(12.6)	EBITDA margin (%)	91.8	93.9	94.0	93.8	93.3				
Minority interests	-	-	-	-	-	EBIT margin (%)	91.8	93.9	94.0	93.8	93.3				
Normalised NPAT	37.1	41.8	43.0	43.2	43.8	Capex to sales (%)	18.1	19.5	5.1	6.0	6.0				
Abnormals/other	14.6	68.3	18.9	18.8	17.1	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a				
Reported NPAT	51.7	110.1	61.9	62.1	60.8	Property Statistics									
Normalised EPS (cps)	8.1	8.4	8.6	8.7	8.8	2014A	2015A	2016A	2017A	2018A					
DPS (cps)	7.5	7.6	7.6	7.7	7.7	Major Prop. Values - PFI (NZ\$m)									
Growth Rates					2017A	2018A	2019E	2020E	2021E	7-9 Niall Burgess Rd, Mt Wellington	24.7	27.3	28.9	31.0	32.0
Revenue (%)	2.6	7.7	3.9	1.5	1.5	54 Carbine Rd, Mt Wellington	19.9	22.4	25.8	26.4	28.6				
EBITDA (%)	7.5	10.1	4.1	1.3	1.0	6 Donner Place, Mt Wellington	17.4	14.5	15.0	15.1	15.1				
EBIT (%)	7.5	10.1	4.1	1.3	1.0	686 Rosebank Rd, Avondale	31.1	32.2	33.4	35.0	40.0				
Normalised NPAT (%)	8.8	12.5	2.8	0.7	1.2	212 Cavendish Drive, Manukau	14.7	17.1	19.1	22.4	29.7				
Normalised EPS (%)	7.3	3.7	2.8	0.7	1.2	3-5 Niall Burgess Rd, Mt Wellington	14.5	15.7	17.3	17.7	20.0				
DPS (%)	2.1	1.3	0.7	0.7	0.0	30-32 Bowden Rd, Mt Wellington	18.3	20.7	21.4	25.4	27.0				
Cash Flow (NZ\$m)					2017A	2018A	2019E	2020E	2021E	Major Prop. Values - DPF (NZ\$m)					
EBITDA	64.8	71.4	74.3	75.3	76.1	Carlaw Commerical, Parnell	59.6	60.8	61.8	62.1	63.8				
Working capital change	(41.0)	1.6	0.7	0.3	0.3	Carlaw Gateway, Parnell	33.7	33.8	35.0	35.0	35.5				
Interest & tax paid	(21.9)	(19.2)	(31.4)	(32.1)	(32.3)	78 Springs Road, East Tamaki	67.5	72.0	78.5	82.8	83.0				
Other	-	-	-	-	-	229 Dairy Flat Highway, Albany	22.0	22.9	24.7	27.0	28.0				
Operating cash flow	2.0	53.7	43.7	43.5	44.0	15 Jomac Place, Avondale	19.9	21.0	23.6	24.0	24.5				
Capital expenditure	(12.8)	(14.8)	(4.1)	(4.8)	(4.9)	Portfolio Summary									
(Acquisitions)/divestments	(62.5)	(28.3)	(13.8)	-	-	Investment properties (NZ\$m)	876.0	986.6	1,083.3	1,210.8	1,318.7				
Other	(0.1)	(0.1)	-	-	-	Weighted average lease term (yrs)	5.3	5.2	4.8	5.3	5.4				
Funding available/(required)	(73.4)	10.6	25.8	38.7	39.2	Occupancy rate (%)	98.5	99.6	99.6	99.9	99.3				
Dividends paid	(32.6)	(37.9)	(37.7)	(37.7)	(38.2)	Number of properties	79	84	83	92	94				
Equity raised/(returned)	67.7	-	-	-	-	NTA per share (NZ\$)	1.30	1.41	1.61	1.63	1.78				
Increase/(decrease) in net debt	38.3	27.3	11.8	(1.1)	(1.0)										
Balance Sheet (NZ\$m)					2017A	2018A	2019E	2020E	2021E						
Working capital	(7.0)	(9.2)	(9.6)	(9.7)	(9.9)										
Fixed assets	1,210.8	1,318.7	1,350.0	1,373.6	1,395.6										
Intangibles	29.1	29.1	29.1	29.1	29.1										
Other assets	0.4	5.0	5.0	5.0	5.0										
Total funds employed	1,233.3	1,343.5	1,374.5	1,397.9	1,419.8										
Net debt/(cash)	370.0	396.6	408.4	407.3	406.3										
Other non current liabilities	20.4	35.1	35.4	35.6	35.7										
Shareholder's funds	842.9	911.8	930.6	955.0	977.7										
Minority interests	-	-	-	-	-										
Total funding sources	1,233.3	1,343.5	1,374.5	1,397.9	1,419.8										

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

Striding 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

NZX code	SPG
Share price (as at 8 Nov 2019)	NZ\$2.25
Target Price	NZ\$2.18
Risk Rating	Low
Issued shares	365.2m
Market cap	NZ\$822m
Average daily turnover	282.6k (NZ\$603k)

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.

Jeremy Simpson, CFA

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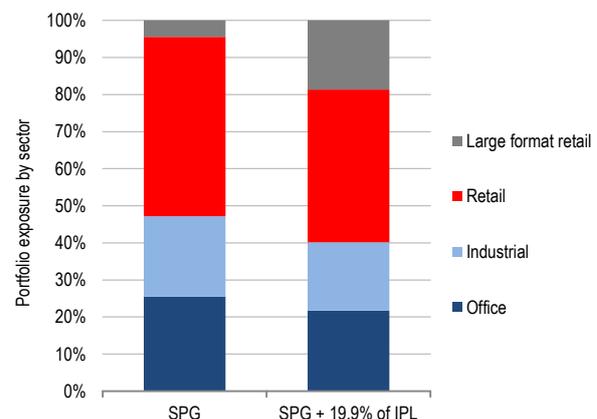
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Figure 30. Geographical exposure



Source: Company reports, Forsyth Barr analysis

Figure 31. Sector diversification



Source: Company reports, Forsyth Barr analysis

Stride Property Group (SPG)

Priced as at 08 Nov 2019: NZ\$2.25

March year end

Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						2018A	2019A	2020E	2021E	2022E	
Blended SOTP (50%) and NAV (50%)						EV/EBITDA (x)	17.5	18.7	19.2	17.8	17.4
						EV/EBIT (x)	17.5	18.7	19.2	17.8	17.4
12-month target price (NZ\$)*	2.18	Spot valuations (NZ\$)				PE (x)	21.2	21.2	21.5	20.3	19.9
Expected share price return	-3.1%	1. SOTP	2.20			Price/NTA (x)	1.2	1.2	1.2	1.1	1.1
Net dividend yield	4.4%	2. NAV	2.05			Free cash flow yield (%)	3.9	3.3	3.9	4.0	4.2
Estimated 12-month return	1.3%	n/a	n/a			Net dividend yield (%)	4.4	4.4	4.4	4.4	4.8
						Gross dividend yield (%)	6.3	6.3	6.3	6.3	6.8
Key WACC assumptions						Imputation (%)	100	100	100	100	100
Risk free rate	2.00%	DCF valuation summary (NZ\$m)				Pay-out ratio (%)	93	93	95	89	95
Equity beta	0.80	Total firm value	1,073			Capital Structure					
WACC	5.6%	(Net debt)/cash	(327)			2018A	2019A	2020E	2021E	2022E	
Terminal growth	1.5%	Value of equity	746			Interest cover EBIT (x)	3.7	3.9	3.8	3.8	3.9
						Net debt/total assets (%)	29.4	30.4	32.8	33.5	33.5
						Net debt/ND+E (%)	30.8	31.7	34.1	34.9	34.9
						Net debt/EBITDA (x)	4.9	5.9	6.6	6.3	6.2
Profit and Loss Account (NZ\$m)						Key Ratios					
2018A	2019A	2020E	2021E	2022E		2018A	2019A	2020E	2021E	2022E	
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						Portfolio Summary					
2018A	2019A	2020E	2021E	2022E		Investment properties (NZ\$m)	872.4	1,274.8	895.3	902.2	966.3
Revenue (%)	14.0	-4.0	1.4	8.0	2.3	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8
EBITDA (%)	6.8	-7.5	1.1	9.8	2.2	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6
EBIT (%)	6.8	-7.5	1.1	9.8	2.2	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92
Normalised NPAT (%)	10.9	0.0	-1.3	5.9	1.7	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4
Normalised EPS (%)	10.8	-0.1	-1.3	5.9	1.7						
DPS (%)	-0.5	0.0	0.0	0.0	8.3						
Cash Flow (NZ\$m)											
2018A	2019A	2020E	2021E	2022E							
EBITDA	60.2	55.7	56.3	61.8	63.2						
Working capital change	(0.9)	(2.5)	2.1	(0.1)	(0.0)						
Interest & tax paid	(23.7)	(20.7)	(20.0)	(22.8)	(23.2)						
Other	2.1	0.6	-	-	-						
Operating cash flow	37.8	33.2	38.4	39.0	40.0						
Capital expenditure	(41.5)	(24.5)	(52.3)	(13.9)	(5.8)						
(Acquisitions)/divestments	78.0	-	7.4	(7.5)	-						
Other	4.3	2.1	-	-	-						
Funding available/(required)	78.6	10.7	(6.5)	17.6	34.1						
Dividends paid	(36.0)	(36.2)	(36.2)	(36.2)	(39.2)						
Equity raised/(returned)	-	-	-	-	-						
Increase/(decrease) in net debt	(42.6)	25.4	42.7	18.6	5.1						
Balance Sheet (NZ\$m)											
2018A	2019A	2020E	2021E	2022E							
Working capital	(12.6)	(14.9)	(17.0)	(16.9)	(16.9)						
Fixed assets	867.9	882.8	936.4	966.8	981.8						
Intangibles	-	-	-	-	-						
Other assets	132.0	135.1	135.1	135.1	135.1						
Total funds employed	987.3	1,003.0	1,054.5	1,085.0	1,100.1						
Net debt/(cash)	297.4	327.0	369.7	388.3	393.4						
Other non current liabilities	22.8	21.9	21.9	21.9	21.9						
Shareholder's funds	667.1	704.2	713.0	724.9	734.9						
Minority interests	-	-	-	-	-						
Total funding sources	987.3	1,053.1	1,104.6	1,135.1	1,150.2						

* 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 8 Nov 2019)	NZ\$2.60
Target Price	NZ\$2.69
Risk Rating	Low
Issued shares	446.3m
Market cap	NZ\$1,160m
Average daily turnover	246.2k (NZ\$576k)

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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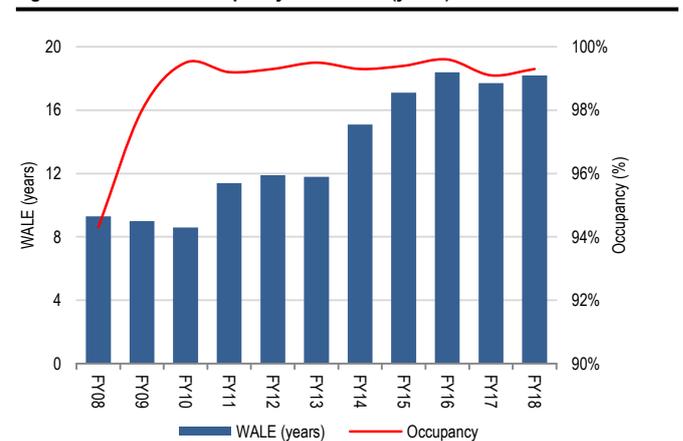
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Figure 32. Sector and regional portfolio exposure

	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

Vital Healthcare Property Trust (VHP)

Priced as at 08 Nov 2019: NZ\$2.60

June year end

Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						2018A	2019A	2020E	2021E	2022E	
Blended DCF (50%) and NAV (50%)						EV/EBITDA (x)	22.2	22.8	22.6	21.1	19.3
						EV/EBIT (x)	22.2	22.8	22.6	21.1	19.3
12-month target price (NZ\$)*	2.69	Spot valuations (NZ\$)				PE (x)	24.5	27.3	26.5	25.1	24.7
Expected share price return	3.5%	1. DCF		2.92	Price/NTA (x)	1.15	1.13	1.11	1.08	1.06	
Net dividend yield	3.5%	2. NAV		2.30	Free cash flow yield (%)	1.7	0.4	-3.7	-2.5	-2.4	
Estimated 12-month return	6.9%	3. n/a		n/a	Net dividend yield (%)	3.3	3.4	3.5	3.5	3.5	
Key WACC assumptions						Gross dividend yield (%)	4.7	4.8	4.9	4.9	4.9
DCF valuation summary (NZ\$m)						Imputation (%)	100	100	100	100	100
Risk free rate	2.0%	Total firm value		2,101	Pay-out ratio (%)	81	92	92	87	86	
Equity beta	0.68	(Net debt)/cash		(728)	Capital Structure						
WACC	5.1%	Value of equity		1,323	2018A	2019A	2020E	2021E	2022E		
Terminal growth	1.5%	Shares (m)		446	Interest cover EBIT (x)	3.3	2.7	2.7	2.8	2.6	
Profit and Loss Account (NZ\$m)						Net debt/ tangible assets (%)	37.6	38.1	36.8	38.0	39.3
2018A	2019A	2020E	2021E	2022E	Net debt/ND+E (%)	40.2	41.4	39.9	41.1	42.3	
Sales revenue	90.7	97.7	99.8	106.5	115.1	Net debt/EBITDA (x)	8.7	9.0	8.6	8.7	8.7
Normalised EBITDA	76.0	81.3	83.2	89.0	96.9	Key Ratios					
Depreciation and amortisation	-	-	-	-	-	2018A	2019A	2020E	2021E	2022E	
Normalised EBIT	76.0	81.3	83.2	89.0	96.9	Return on assets (%)	4.3	4.2	4.2	4.3	4.5
Net interest	(22.8)	(29.9)	(30.3)	(31.7)	(37.6)	Return on equity (%)	4.7	4.1	4.1	4.3	4.3
Associate income	-	-	-	-	-	Return on funds employed (%)	4.4	3.9	3.9	4.0	4.1
Tax	(7.2)	(9.3)	(8.6)	(9.5)	(10.0)	EBITDA margin (%)	83.9	83.2	83.3	83.6	84.1
Minority interests	-	-	-	-	-	EBIT margin (%)	83.9	83.2	83.3	83.6	84.1
Normalised NPAT	46.0	42.2	44.3	47.8	49.3	Capex to sales (%)	28.8	36.3	85.8	72.2	67.5
Abnormals/other	54.0	51.3	22.2	29.6	31.2	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	100.1	93.4	66.4	77.3	80.5	Property Statistics					
Normalised EPS (cps)	10.6	9.5	9.8	10.4	10.5	2014A	2015A	2016A	2017A	2018A	
DPS (cps)	8.6	8.8	9.0	9.0	9.0	Major Property Values (NZ\$m)					
Growth Rates						Ascot Hospital & Clinics	85.0	81.5	90.0	102.5	106.0
2018A	2019A	2020E	2021E	2022E	Ascot Central	23.9	25.6	26.6	29.0	35.0	
Revenue (%)	19.5	7.7	2.2	6.7	8.2	Epworth Eastern	68.2	91.3	103.8	150.1	167.3
EBITDA (%)	15.1	6.9	2.3	6.9	8.9	Southport Private Hospital	47.4	46.6	45.1	42.6	47.6
EBIT (%)	15.1	6.9	2.3	6.9	8.9	Lingard Private Hospital	54.2	79.8	87.7	107.3	136.9
Normalised NPAT (%)	3.3	-8.4	5.0	7.9	3.2	Maitland Private Hospital	35.2	50.0	63.3	82.9	98.1
Normalised EPS (%)	0.2	-10.3	3.0	5.8	1.6	SportsMed Hospital and Clinic	33.4	36.8	40.0	52.1	58.1
DPS (%)	0.7	2.2	2.9	0.0	0.0	Hurstville Private Hospital	25.2	65.9	73.1	86.1	80.5
Cash Flow (NZ\$m)						Total portfolio	613.0	781.9	951.9	1,376.2	1,731.2
2018A	2019A	2020E	2021E	2022E	Portfolio Summary						
EBITDA	76.0	81.3	83.2	89.0	96.9	Investment properties (NZ\$m)	613.0	781.9	951.9	1,376.2	1,731.2
Working capital change	(2.0)	(2.9)	(3.4)	0.4	0.4	Number of properties - yielding only	25	25	30	37	42
Interest & tax paid	(28.4)	(37.8)	(37.3)	(41.6)	(47.9)	Weighted average lease term (yrs)	15.1	17.1	18.4	17.7	18.2
Other	-	-	-	-	-	Occupancy rate (%)	99.3	99.4	99.6	99.1	99.3
Operating cash flow	45.7	40.6	42.5	47.8	49.3	M'tment/Admin cost % of assets (%)	1.29	1.69	1.76	2.05	1.76
Capital expenditure	(26.1)	(35.5)	(85.7)	(76.9)	(77.7)	NTA per share (NZ\$)	1.03	1.26	1.51	2.05	2.26
(Acquisitions)/divestments	(187.7)	(23.5)	-	-	-	Average portfolio cap rate (%)	8.95	7.99	7.24	6.12	5.76
Other	(46.8)	(37.3)	86.4	-	-	Balance Sheet (NZ\$m)					
Funding available/(required)	(214.9)	(55.7)	43.2	(29.1)	(28.4)	2018A	2019A	2020E	2021E	2022E	
Dividends paid	(31.1)	(32.7)	(28.3)	(34.3)	(42.2)	Working capital	(15.8)	(12.5)	(12.5)	(12.5)	(12.5)
Equity raised/(returned)	-	-	-	-	-	Fixed assets	1,731.2	1,836.4	1,947.0	2,053.5	2,162.4
Increase/(decrease) in net debt	246.0	88.3	(14.9)	63.4	70.6	Intangibles	-	-	-	-	-
Balance Sheet (NZ\$m)						Other assets	49.0	87.7	4.7	4.7	4.7
2018A	2019A	2020E	2021E	2022E	Total funds employed	1,764.5	1,911.7	1,939.2	2,045.7	2,154.6	
Working capital	(15.8)	(12.5)	(12.5)	(12.5)	Net debt/(cash)	663.3	728.1	713.3	776.7	847.2	
Fixed assets	1,731.2	1,836.4	1,947.0	2,053.5	Other non current liabilities	113.2	153.8	153.8	153.8	153.8	
Intangibles	-	-	-	-	Shareholder's funds	988.0	1,029.7	1,072.2	1,115.2	1,153.6	
Other assets	49.0	87.7	4.7	4.7	Minority interests	-	-	-	-	-	
Total funds employed	1,764.5	1,911.7	1,939.2	2,045.7	Total funding sources	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							
Other non current liabilities	113.2	153.8	153.8	153.8							
Shareholder's funds	988.0	1,029.7	1,072.2	1,115.2							
Minority interests	-	-	-	-							
Total funding sources	1,764.5	1,911.7	1,939.2	2,045.7							

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

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