

Real Estate Reflections: The 181st Ed

February 2020 — Playing with a Straight Bat

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

The property sector was up a solid +2.4% in January, adding to its impressive innings over the last 12 months, up +32% and continuing to slightly outperform the broader equity market. Given the record P/NTA of 1.3x, our outlook is steady from here and centred on a solid relative dividend yield of +5%, helped by a modest expansion in asset values. Our preferred LPVs are VHP, IPL and KPG.

Favourable batting conditions

The outlook from here is steady and helped by what we expect to be the eighth year in a row of NTA expansion (Figures 19 and 22) in 2020, but with record P/NTA levels (Figure 19) 2020 is looking to be more of a year centred on dividend returns rather than share price gains. The gross dividend yield continues to be relatively attractive at 5.1% and the sector average yield continues to trade around its post GFC historic spread to 10 year bonds at ~400 basis points (Figure 20). Our preferred exposures are based on favourable relative valuation metrics (KPG and IPL) and strong defensive qualities (VHP and IPL). Auckland industrial property continues to track very well as evidenced by PFI's recent +10% FY19 portfolio revaluation gain, however, both PFI (NEUTRAL) and GMT (UNDERPERFORM) continue to trade at significant premiums to the balance of the sector (see Figures 14–16).

Positive Start to 2020

The LPV sector delivered a +2.4% return in January, slightly ahead of the broader equity market, helped by a strong lift in GMT and takeover activity surrounding AUG. In terms of the last 12 months, the sector continues to trade slightly ahead of the S&P/NZX gross with a return of +32%.

Reporting Season not expected to trouble the scorer

We expect a steady reporting season for the three LPVs announcing results. Positive underlying rental and valuation trends are expected to be maintained as well as strong portfolio metrics associated with occupancy and WALT. PFI (an FY19 result) has already reported a +10% revaluation gain given the strength of the Auckland industrial market and there could be interim revaluations from PCT and VHP. The steady dividend outlook for PFI and VHP is expected to be maintained while PCT will be the growth highlight with its FY20 +5% dividend growth guidance. Updates of interest will be PCT's major projects and Northwest's plans around a capital restructure of VHP. See Figure 2 for a summary of our expectations.

Figure 1. NZ listed property sector summary

LPV	Code	Rating	Price 10-Feb	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	NEUTRAL	\$0.62	\$0.65	8.3%	5.1%	95%
Argosy Property	ARG	NEUTRAL	\$1.42	\$1.38	6.3%	4.4%	108%
Augusta Capital	AUG	NEUTRAL	\$2.00	\$1.38	4.5%	3.6%	144%
Goodman Property	GMT	UNDERPERFORM	\$2.31	\$1.92	4.1%	2.7%	122%
Investore	IPL	OUTPERFORM	\$1.84	\$1.85	5.9%	4.1%	111%
Kiwi Property Group	KPG	OUTPERFORM	\$1.56	\$1.62	6.6%	4.2%	101%
Precinct Properties	PCT	NEUTRAL	\$1.87	\$1.48	4.8%	3.2%	121%
Property for Industry	PFI	NEUTRAL	\$2.51	\$2.00	4.4%	3.1%	128%
Stride Property	SPG	NEUTRAL	\$2.35	\$2.18	6.0%	4.0%	115%
Vital Healthcare	VHP	OUTPERFORM	\$2.88	\$2.69	4.5%	3.0%	125%
Core simple average					5.3%	3.6%	116%

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

Reporting season preview

Figure 2. February Reporting Season Preview (NZ\$'000's)

	Period	Revenue	EBITDA	EBIT	NPAT	EPS (cps)	DPS (cps)	Comments
PCT	1H19	47.3	39.6	39.6	37.7	3.1	3.0	Project updates on Commercial Bay, Wynyard and Bowen Campus will be of interest and we
20-Feb	1H20	64.0	57.7	57.7	39.8	3.0	3.2	expect PCT to reaffirm its +5% FY20 dividend growth guidance while maintaining the strong
	%chg	35.3%	45.7%	45.7%	5.6%	-3.2%	6.7%	portfolio metrics that were in place at 1Q20, being 99% occupancy and an 8.6 year WALT. An interim portfolio reval is possible.
Conference call details		Time: 10am NZST. Webcast Only.						
PFI	FY18	76.1	71.4	71.4	41.8	8.4	4.0	PFI has already announced a +10% portfolio reval gain, highlighting the strong market for
17-Feb	FY19	79.1	74.3	74.3	43.0	8.6	4.0	Auckland industrial assets. Positive underlying rent trends are expected along with robust
	%chg	3.9%	4.1%	4.1%	2.9%	2.4%	0.0%	portfolio metrics around occupancy and lease expiry. Comments on transactional activity will also be of interest.
Conference call details		Time: 10:30am NZST. Webcast Only.						
VHP	1H19	48.8	40.4	40.4	19	4.3	4.4	The 1H20 result is the first chance to hear from VHP's new management team. We expect strong
19-Feb	1H20	50.4	42.3	42.3	20.2	4.6	4.4	portfolio metrics to be maintained and that solid development progress is achieved in the period.
	%chg	3.3%	4.7%	4.7%	6.3%	7.0%	0.0%	Confirmation of its flat dividend guidance is expected.
Conference call details		Time: 11:30am 20 February. Ph: 0800 122 360. Conf ID: 10003795						
Average		10.6%	13.6%	13.6%	3.7%	1.5%	1.7%	
Median		3.6%	4.4%	4.4%	4.2%	1.2%	0.0%	

Source: Forsyth Barr analysis, Company Reports

NZ listed property research

Property Sector – Quarterly S&P/NZX All Real Estate Index Review December 2019 [14 January 2020]

The listed property vehicle (LPV) sector's performance in the final quarter of 2019 was subdued, down -0.6%, underperforming the S&P/NZX50 which climbed +5.2%. Vital Healthcare Property Trust (VHP) achieved top return honours during the quarter, up +4.6%, underpinned by an encouraging management fee structure renegotiation and a quarterly update presenting confirmatory evidence of its robust portfolio fundamentals.

Augusta Capital (AUG) – Takeover Offer – Entrepreneurial [30 January 2020]

Augusta Capital (AUG) has entered into a Bid Implementation Agreement (BIA) at NZ\$2.00/share, which if successful, will grant Centuria Capital Group Limited (CNI: ASX) 100% of AUG's shares. CNI's scale and capacity will allow AUG to achieve the financial and operating leverage necessary to successfully navigate its way through its current transitory phase to expand and develop its funds management business model. We recommend shareholders await further information from the issuance of the Target Company Statement and associated Independent Advisors Report (IAR) expected to be released before the end of April 2020.

Property News for December 2019 & January 2020

NZ listed property portfolio activity

PFI announced a positive revaluation of its portfolio by c.NZ\$126m or +9.6%, bringing the aggregate value of its portfolio, postacquisitions, divestments and capital expenditure to NZ\$1.445bn. [3 December 2019]

PFI has agreed to acquire a 15,300 sqm industrial site located at 25 Langley Road, Wiri for NZ\$36m. It is expected the deal will close on 19 December 2019, at which time Grayson Engineering has agreed to enter into a 12 year lease. The transaction represents a yield of 5.65%. [5 December 2019]

PFI settled on the divestment of its mixed use property at 229 Dairy Flat Highway in Albany, Auckland. [6 December 2019]

ARG announced the unconditional acquisition of a 43,000sqm industrial site at 224 Nielson Street, Onehunga Auckland, for NZ\$32m. [13 December 2019]

IPL announced that it will hold a special meeting of shareholders to vote on the NZ\$140.75m acquisition of three large format retail properties located in Tauranga and Auckland, on 16 January at 11am, Pullman Hotel, Auckland. [13 December 2019]

PFI has agreed to purchase another industrial property to be developed at Tidal Road, Mangere, Auckland. The ~9,000 sqm property is to be developed at a total project cost of NZ\$20.2m with an expected yield on cost of ~6%. Settlement is expected to take place in mid-2020, and the project is expected to be completed in Q321. Additionally, PFI entered into an agreement to divest a non-core asset at 2 Pacific Rise for NZ\$7m. [17 December 2019]

APL has confirmed that its divestment of the Heinz Watties Distribution Centre in Hastings has successfully settled. The net sales proceeds of NZ\$27.5m has been applied directly to debt repayment. [18 December 2019]

APL has announced the acquisition of a ~15,000sqm office building in 6-8 Munroe Lane, Albany for NZ\$7.25 million. APL has subsequently agreed to develop and lease 63% of the property to Auckland council on a 15 year lease. The development costs are expected to reach NZ\$120m, with works expected to be completed by December 2022 at an expected yield on cost of ~5.8%. The property is well located, situated close to key transport links, amenities and is proof of strategy execution to acquire value-add, high quality office assets. [20 December 2019]

Shareholders have unanimously voted in favour of **IPL's** proposed NZ\$140.75m transaction to purchase three large format properties across Auckland and Tauranga at a special meeting of shareholders. [16 January 2020]

Other NZ listed property news

PCT delivered its 1Q20 update, highlighting encouraging progress at its Commercial Bay development which is now 98% pre-leased across its retail space and scheduled for opening in March 2020, meanwhile the office tower due for completion in April is 82% committed, with the balance of the vacant space largely under negotiation. Management also provided FY20 earnings guidance of 6.80 cps and an expected 5% yoy increase in the dividend payment to 6.30 cps. [12 December 2019]

ARG will add a new NZ\$35m tranche (Tranche G) of bank facilities to provide further funding diversification and liquidity headroom. The facility is expected to expire on 1 November 2021. [19 December 2019]

PCT has confirmed that it will release its 1H20 interim results to the market on Thursday 20 February 2020. [21 January 2020]

VHP will announce its 1H20 result after market close on Wednesday the 19th February; meanwhile it expects it will host its conference call on Thursday 20th February at 11:30am. [22 January 2020]

AUG has entered into a Bid Implementation Agreement (BIA), which if successful, will grant ASX listed Centuria Capital Group Limited (CNI) 100% of AUG's shares. The agreement stipulates that shareholders who chose to accept the offer will be invited to take either a full cash payment of NZ\$2.00/share, or, shares in CNI equal to the value equivalent to the volume-weighted average price of CNI's shares in the 5 trading days prior to 29 January 2020, being AU\$2.40/share (scrip ratio of 0.807). The offer implies an enterprise value of NZ\$204m (equity value NZ\$180m and balance net debt). The BIA is subject to receiving Overseas Investment Office approval and that 90% of shareholders decide to accept the offer. The offer has unanimous board support, in the absence of a superior proposal and provided the price is within the Independent Advisor valuation range expected to be received in mid-April. [29 January 2020]

Other commercial property news

The American Based Hilton Group has announced that it will open its second Christchurch based hotel, to be named 'The Modern'. The Hotel will be located on Hereford St and will be operated by the local Sarin Group as a Hilton franchise. [11 December 2019]

Auckland's Wynyard Quarter is set to receive another dose of new development, with the NZ\$140m Orams Marine Village project planned for the precinct. The ~6,500 sqm project will comprise of two mixed use buildings incorporating office, retail and marine trade, providing new supply to an area starved for vacant space. [12 December 2019]

Property Syndicator, Oyster Property, is looking to raise NZ\$108m to fund the 60% acquisition of the new Tauranga Crossing retail development. Tauranga Crossing hosts ~46,000sqm of NLA, generating NZ\$17.73m of net rental income, with final completion of the phased development expected in late 2022. The minimum investor contribution on offer is NZ\$1m with extra amounts available in NZ \$250,000 increments. Oyster expects to return 6% pa in pre tax cash distributions to investors and is aiming for a 12% pa total shareholder return over the first three years. [12 December 2019]

In a move, which adds to the NZ Superfunds portfolio of hotel investments in Auckland and Christchurch, the government run investment vehicle has agreed to purchase Rotorua's 203 room Holiday Inn. The acquisition will be held in partnership with The Russell Group and Lockwood Property Group. [19 December 2019]

The American private equity firm Oaktree Capital management and ASX listed QMS who together own Mediaworks, have agreed to part ways with the Auckland based properties where Mediaworks HQ is currently located. The property was sold to a consortium of Auckland based businessmen for NZ\$26m on sale and lease back terms, whereby Mediaworks have agreed to stay on as the sole tenant for an undisclosed period. [15 January 2020]

A new NZ\$65m apartment development is to be established at 5-9 Clobern Rd, Remuera, Auckland. The developers, NZ Fountain Centre Development, plan to build 52 units which will range from one bedroom units valued at NZ\$900,000 to three bedroom units with an NZ\$2m price tag. The plans also include 90 underground car parks which are to be spread over 2 basement levels. [23 January 2020]

The Hotel Grand Chancellor has lodged plans for a new 12 level, 191 room hotel at 78-80 Wellesley St, in Auckland's CBD. The hotel development will join the Ramada Hotel, Sudima Hotel, SkyCity's Horizon Hotel and a planned Intercontinental Hotel for One Queen Street by adding supply to Auckland's CBD hotel market. The plans for the Grand Chancellor also adds to the ~NZ\$2bn of construction and ~1000 new hotel rooms currently being built nationwide. [23 January 2020]

Property funds manager, Oyster Property, is offering a new syndication opportunity to take an ownership interest in Wellington CBD office asset, Pastoral House. The property, which Oyster will acquire for NZ\$77m, is an 18 level office building located at 25 The Terrace and 92 Lambton Quay in Wellington, and will be leased to MBIE on a 15 year lease. The minimum investment in the scheme is NZ\$50,000, and is expected to make pre-tax cash distributions of 6% pa. [30 January 2020]

Figure 3. Sector total returns (as at 31 January 2020)

Company	Code	Price 31-Jan	Market Cap	Gr. Div wImp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.625	\$101m	-	+0.0%	9	-0.8%	9	+18.1%	9	+0.0%	9
Argosy Property	ARG	\$1.430	\$1,197m	-	+3.6%	3	+2.8%	7	+26.5%	8	+3.6%	3
Augusta	AUG	\$1.970	\$183m	-	+31.3%	1	+33.4%	1	+98.5%	1	+31.3%	1
CDL Investments	CDI	\$0.920	\$259m	-	-1.1%	n/a	+9.5%	n/a	+21.2%	n/a	-1.1%	n/a
Goodman Prop Trust	GMT	\$2.320	\$3,250m	-	+4.5%	2	+9.9%	2	+51.3%	2	+4.5%	2
Investore	IPL	\$1.870	\$557m	-	+2.7%	4	-1.8%	10	+28.2%	7	+2.7%	4
Kiwi Property Group	KPG	\$1.565	\$2,469m	-	+0.3%	8	+1.2%	8	+16.5%	10	+0.3%	8
Precinct Properties NZ	PCT	\$1.880	\$2,485m	-	+2.5%	5	+4.2%	6	+30.6%	6	+2.5%	5
Property for Industry	PFI	\$2.495	\$1,270m	-	+2.3%	6	+5.7%	3	+42.3%	3	+2.3%	6
Stride Property Group	SPG	\$2.400	\$877m	-	+1.7%	7	+5.4%	5	+34.4%	5	+1.7%	7
Vital Healthcare Property Trust	VHP	\$2.780	\$1,303m	-	-1.4%	10	+5.5%	4	+37.9%	4	-1.4%	10
S&P/NZX All Real Estate Cap		1,506.3			+2.4%		+3.5%		+26.8%		+2.4%	
S&P/NZX All Real Estate Gr.		1,856.4			+2.4%		+4.7%		+32.0%		+2.4%	
S&P/NZX All Real Estate Gr. wImp		1,939.5			+2.4%		+5.0%		+33.1%		+2.4%	
S&P/NZX 50 Gross		11,717.4			+2.0%		+8.6%		+30.4%		+2.0%	
S&P/NZX 50 Gross wImp		14,252.9			+2.0%		+8.7%		+31.6%		+2.0%	

Source, Company Reports, Forsyth Barr analysis

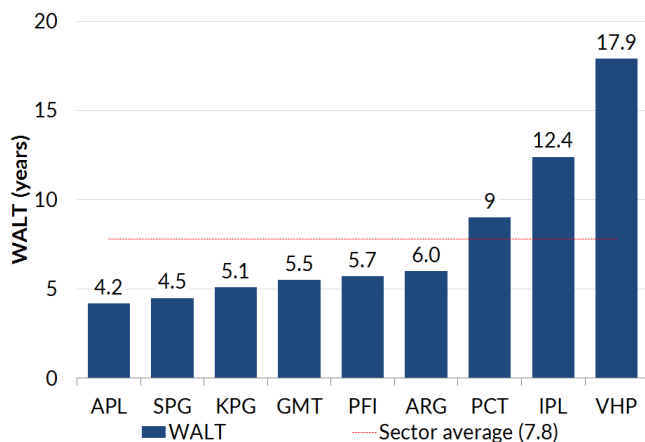
Portfolio Summary

Figure 4. 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	182	96	4	48	6.77%	6.77%	45	4.2	97.2%	2.8%	8.0%	7.0%	17.8%
ARG	1,690	558	59	nd	6.13%	6.13%	29	6.0	97.6%	2.4%	5.2%	9.7%	17.3%
GMT	2,878	1,040	10	171	5.30%	5.30%	288	5.5	99.5%	0.5%	2.0%	11.0%	13.5%
IPL	751	208	40	78	6.24%	nd	19	12.4	99.7%	0.3%	2.1%	2.1%	4.5%
KPG	3,111	440	12	892	5.99%	nd	259	5.1	99.4%	0.6%	9.0%	9.0%	18.6%
PCT	2,794	232	14	nd	5.70%	6.20%	200	9.0	99.0%	1.0%	7.0%	4.0%	12.0%
PFI	1,445	647	93	147	6.10%	6.09%	16	5.7	99.7%	0.3%	2.0%	12.7%	15.0%
SPG	999	254	26	391	5.76%	6.43%	38	4.5	98.2%	1.8%	3.8%	13.4%	19.0%
VHP	1,930	nd	42	nd	5.61%	nd	46	17.9	99.9%	0.1%	3.9%	3.8%	7.8%
Total	15,779	3,476	300	1,727									
Average	1,753	434	33	288	5.96%	6.15%	104	7.8	98.9%	1.1%	4.8%	8.1%	13.9%

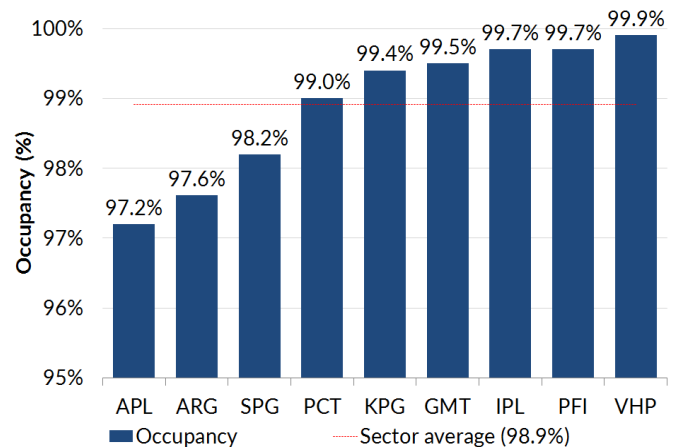
Source: Forsyth Barr analysis, Company Reports

Figure 5. Sector WALT (weighted average lease term)



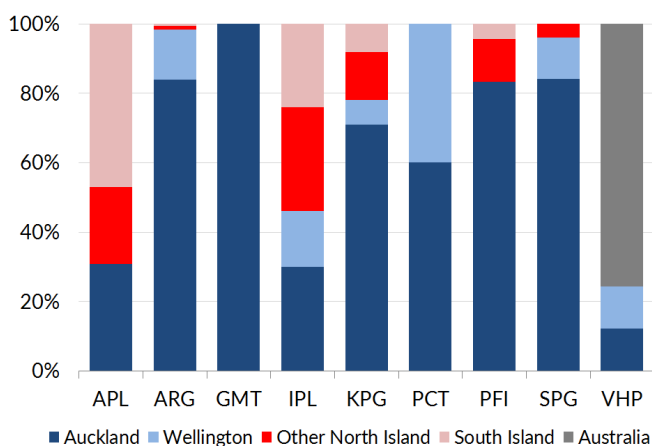
Source: Forsyth Barr analysis, Company Reports

Figure 6. Sector occupancy



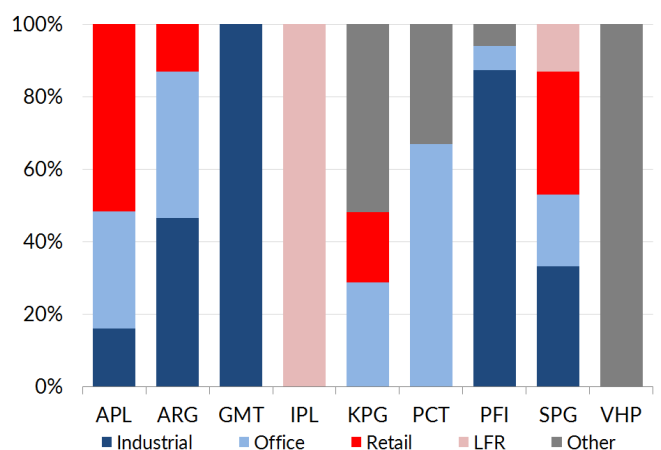
Source: Forsyth Barr analysis, Company Reports

Figure 7. Geographical diversification



Source: Forsyth Barr analysis, Company Reports

Figure 8. Sector diversification



Source: Forsyth Barr analysis, Company Reports

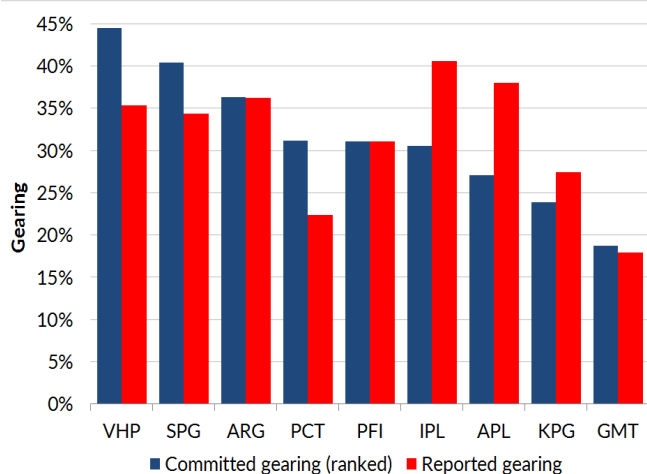
Balance Sheet summary

Figure 9. Balance Sheet summary

	As at	Reported gearing	Committed gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Sep-19	38.0%	27.1%	35-38%	50%	70	-		2.7	-	2.7
ARG	Sep-19	36.2%	36.3%	30-40%	50%	635	100	86	3.0	6.5	3.5
GMT	Sep-19	17.9%	18.7%	30-35%	50%	400	556	400	3.1	5.1	4.3
IPL	Sep-19	40.6%	30.5%	<48%	65%	270	100	65	2.0	4.6	2.7
KPG	Sep-19	27.4%	23.8%	25-35%	45%	825	475	200	3.3	4.2	3.6
PCT	Jun-19	22.4%	31.1%	<37.5%	50%	610	586	(100)	2.7	5.2	3.9
PFI	Jun-19	31.1%	31.1%	<40%	50%	275	200	50	1.5	5.7	3.3
SPG	Sep-19	34.4%	40.4%	38-42%	50%	400	-	67	2.3	-	2.3
VHP	Jun-19	35.3%	44.5%	na	50%	913	-	243	2.0	-	2.0
Average/total		31.5%	31.5%		51.1%	4,398	2,017	1,011	2.5	3.5	3.1

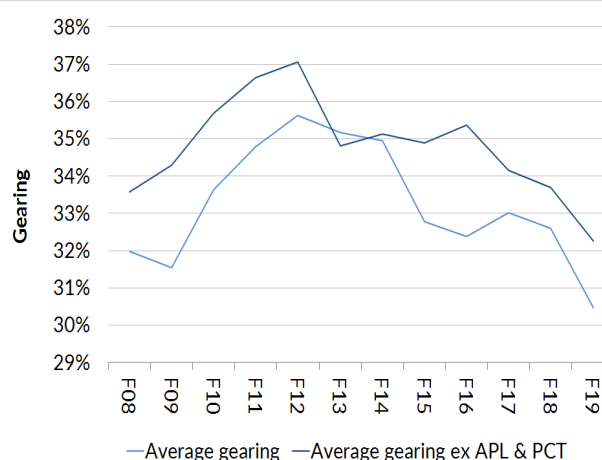
Source: Forsyth Barr analysis, Company Reports

Figure 10. Committed gearing



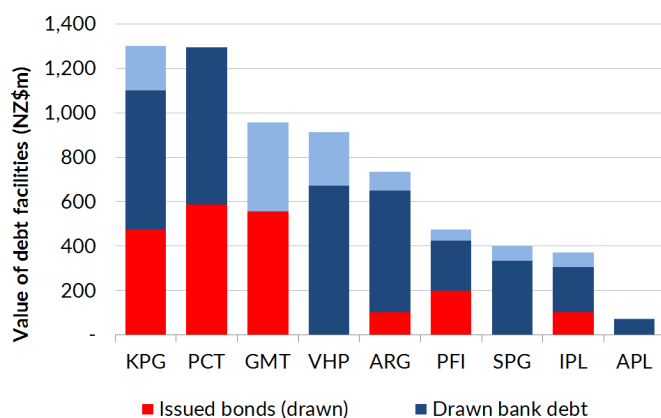
Source: Forsyth Barr analysis, Company Reports

Figure 11. Sector gearing



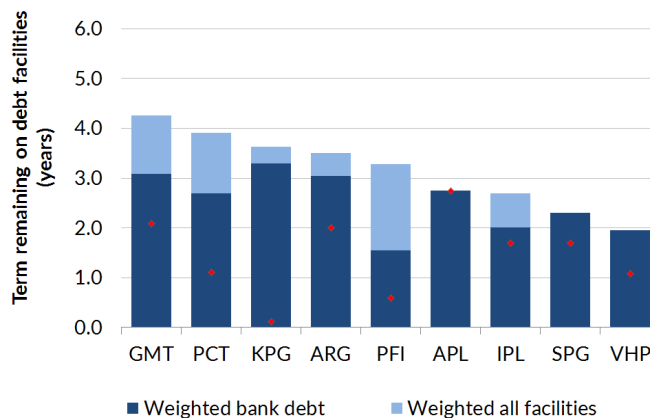
Source: Forsyth Barr analysis, Company Reports

Figure 12. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 13. Funding tenor at 4 February 2020



Source: Forsyth Barr analysis, Company Reports

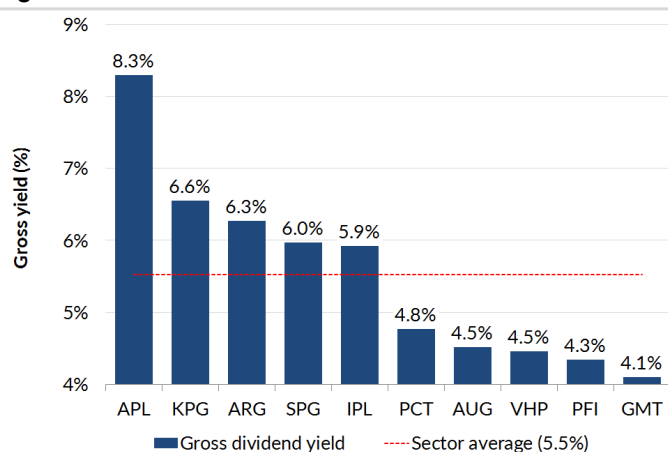
Relative value summary

Figure 14. Relative valuation metrics - 10 February 2020

Company	Rating	Value 10-Feb	Cash yield	Gross yield	P / NTA ¹	PE	EV/ EBITDA
Asset Plus	NEUTRAL	0.62	5.8%	8.3%	0.87x	17.0x	16.2x
Argosy Property	NEUTRAL	1.43	4.4%	6.3%	1.11x	20.8x	19.6x
Augusta Capital	NEUTRAL	2.01	3.2%	4.5%	2.72x	28.2x	21.5x
Goodman Property	UNDERPERFORM	2.31	2.9%	4.1%	1.34x	33.6x	27.6x
Investore	OUTPERFORM	1.84	4.1%	5.9%	1.08x	22.4x	21.0x
Kiwi Property Group	OUTPERFORM	1.56	4.6%	6.6%	1.10x	21.6x	19.5x
Precinct Properties	NEUTRAL	1.88	3.3%	4.8%	1.28x	27.7x	26.0x
Property for Industry	NEUTRAL	2.515	3.0%	4.3%	1.26x	29.0x	22.0x
Stride Property	NEUTRAL	2.37	4.2%	6.0%	1.20x	21.5x	20.5x
Vital Healthcare	OUTPERFORM	2.89	3.1%	4.4%	1.25x	28.5x	23.8x
S&P/NZX Real Estate Gross		1,861	3.6%	5.1%	1.24x	26.9x	23.4x
S&P/NZX50 Gross		11,664	3.2%	4.1%	2.39x	25.5x	14.2x

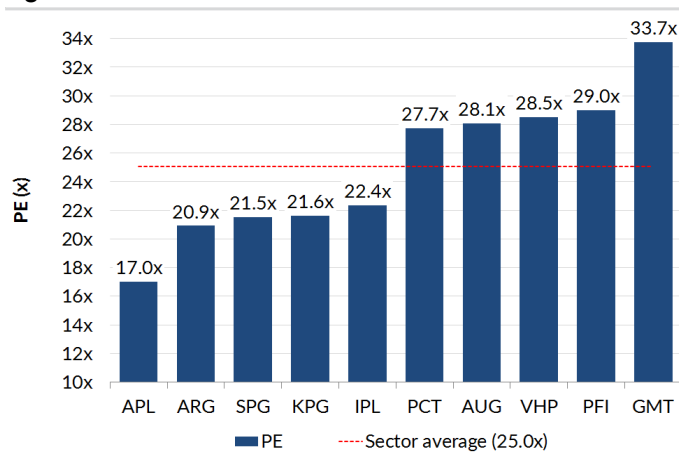
1: NTA is adjusted. 2: Index metrics reflect average constituent metrics weighted by market capitalisation. Source: Forsyth Barr analysis, Company Reports

Figure 15. Gross Yield



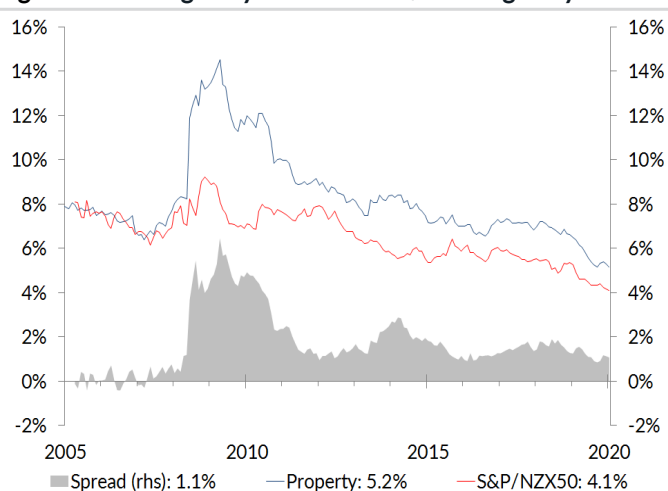
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 16. PE Ratio



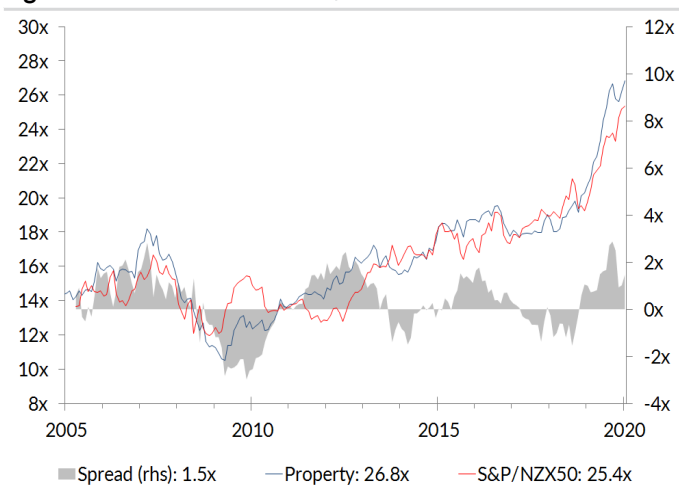
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 17. Sector gross yield versus S&P/NZX50 gross yield



Source: Company reports, Forsyth Barr analysis, IRESS

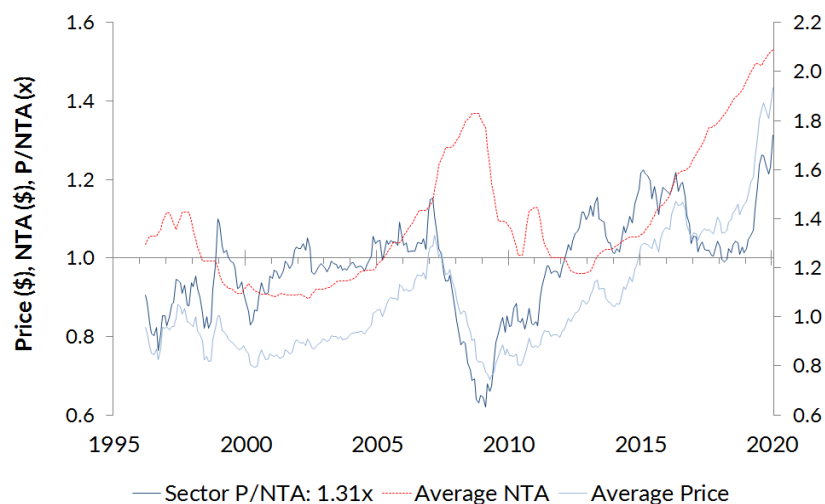
Figure 18. Sector PE versus S&P/NZX50 PE



Source: Forsyth Barr analysis, Company reports, IRESS

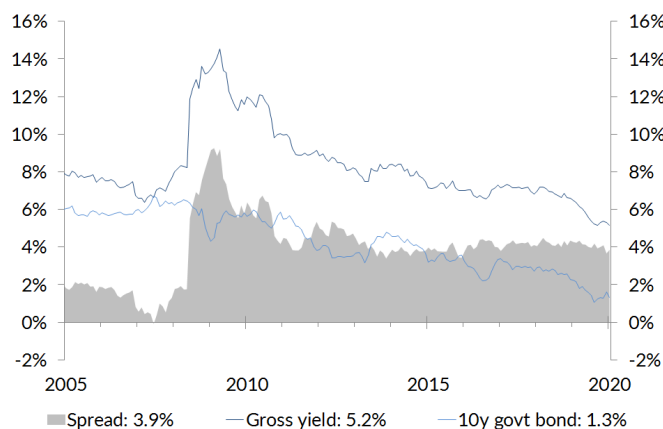
Key monthly charts and tables

Figure 19. Sector P/NTA, NTA and price



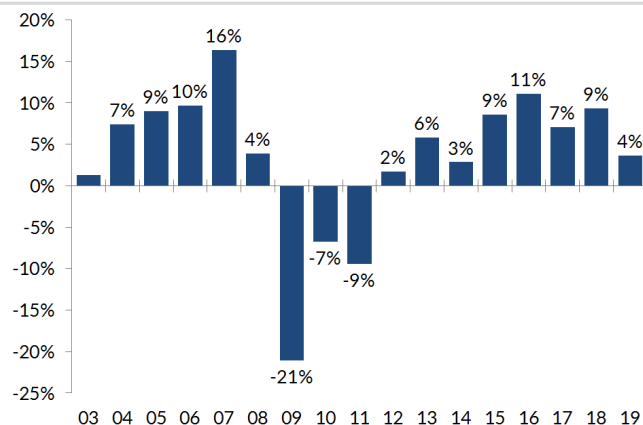
Note: Series represents simple average of price to reported NTA for core LPVs (ARG, GMT, IPL, KPG, PCT, PFI). Source: Forsyth Barr analysis, IRESS, Forsyth Barr analysis.

Figure 20. Yield spread - gross dividend yields vs 10 year bond



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

Figure 21. Sector NTA growth



Note: Sector average is weighted by market capitalisation. Source: Forsyth Barr analysis

Figure 22. Dividend summary

Company	FY17	FY18	FY19	FY20	12-mth	Price	Cash	Gross yield ¹	Gross yield ¹	Gross yield ²	Gross yield ³
	DPS	DPS	DPS	DPS	DPS	10-Feb	yield	10.5% MTR	17.5% MTR	30.0% MTR	33.0% MTR
APL	3.60	3.60	3.60	3.60	3.60	\$0.62	5.8%	7.3%	7.6%	8.3%	8.7%
ARG	6.10	6.20	6.28	6.28	6.28	\$1.42	4.4%	5.5%	5.7%	6.3%	6.6%
AUG	5.50	5.63	6.13	6.50	6.50	\$2.00	3.3%	4.5%	4.5%	4.5%	4.5%
GMT	6.65	6.65	6.65	6.65	6.65	\$2.31	2.9%	3.6%	3.8%	4.1%	4.3%
IPL	0.00	7.46	7.60	7.63	7.63	\$1.83	4.2%	5.2%	5.4%	6.0%	6.2%
KPG	6.72	6.85	6.95	7.05	7.14	\$1.56	4.6%	5.7%	6.0%	6.6%	6.8%
PCT	5.60	5.80	6.00	6.20	6.26	\$1.88	3.3%	4.2%	4.3%	4.8%	5.0%
PFI	7.45	7.55	7.60	7.65	7.65	\$2.53	3.0%	3.8%	3.9%	4.3%	4.5%
SPG	9.96	9.91	9.91	9.91	9.91	\$2.37	4.2%	5.2%	5.4%	6.0%	6.2%
VHP	8.50	8.56	8.75	9.00	9.00	\$2.89	3.1%	3.7%	3.9%	4.4%	4.6%
Avg							3.9%	4.9%	5.1%	5.5%	5.8%
Weighted avg							3.6%	4.5%	4.7%	5.1%	5.4%

Note: AUG is no longer a listed portfolio investment entity (PIE) (as at 1 July 2016). 1: Assumes a 17.5% personal tax rate, 2: Assumes a 30.0% personal tax rate, 3: Assumes a 33.0% personal tax rate. Source: Company reports, Forsyth Barr analysis

Figure 23. 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	3.64	17.0x	3.80	2.69	3.29	3.16	+5.10%
ARG	6.62	6.94	6.59	6.84	20.8x	6.04	6.25	5.99	6.19	+4.36%
AUG	6.60	8.85	7.18	7.13	28.1x	6.60	8.85	7.18	7.13	+3.56%
GMT	7.24	7.02	6.75	6.87	33.5x	6.35	6.32	6.08	6.28	+2.73%
IPL	7.85	8.02	8.11	8.23	22.2x	7.07	7.54	7.38	7.49	+4.10%
KPG	7.46	6.99	7.11	7.19	21.5x	6.82	6.41	6.41	6.52	+4.21%
PCT	6.32	6.21	6.60	6.77	27.6x	5.80	6.02	5.95	6.01	+3.21%
PFI	8.38	8.61	8.67	8.68	29.1x	7.46	7.80	7.71	7.72	+3.06%
SPG	10.63	10.62	10.49	11.02	21.5x	9.12	8.87	8.82	9.40	+3.97%
VHP	10.60	9.51	9.80	10.14	28.5x	7.45	5.86	7.60	8.63	+2.99%
Avg					25.0x					+3.73%
Weighted avg					26.9x					+3.44%

Source: Forsyth Barr analysis, Company Reports

Figure 24. Peer Multiples

Company	P / NTA	P / NAV	PE	P / AFFO	Cash yield	AFFO yield	Gross yield	AFFO Pay-out
APL	-12.7%	-5.3%	17.0x	19.6x	5.8%	5.1%	8.3%	114%
ARG	+11.2%	+8.0%	20.8x	23.0x	4.4%	4.3%	6.3%	101%
AUG	+170.3%	+43.9%	28.1x	28.1x	3.3%	3.6%	4.5%	91%
GMT	+32.9%	+21.1%	33.5x	36.6x	2.9%	2.7%	4.1%	106%
IPL	+7.6%	+10.2%	22.2x	24.4x	4.2%	4.1%	6.0%	102%
KPG	+9.5%	+0.7%	21.6x	23.9x	4.6%	4.2%	6.6%	109%
PCT	+27.2%	+21.6%	27.6x	31.1x	3.3%	3.2%	4.8%	104%
PFI	+26.9%	+28.8%	29.1x	32.7x	3.0%	3.1%	4.3%	99%
SPG	+20.3%	+15.8%	21.5x	25.2x	4.2%	4.0%	6.0%	105%
VHP	+24.6%	+25.7%	28.5x	33.5x	3.1%	3.0%	4.4%	104%
Average	+31.8%	+17.0%	25.0x	27.8x	3.9%	3.7%	5.5%	104%
Core average¹	+20.0%	+16.5%	25.6x	28.8x	3.7%	3.6%	5.3%	104%

Source: Forsyth Barr analysis, company reports, Eikon 1: Core LPVs are ARG, GMT, IPL, KPG, PCT, and PFI.

Asset Plus

External Opportunities

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

NEUTRAL 

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. NEUTRAL.

Business quality

- **Property fundamentals:** At its 1H20 result APL had a three asset portfolio of around NZ\$150m. 1H20 occupancy was 98%, the WALT 4.2 years.
- **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.

Earnings and cashflow outlook

- **Acquisition activity:** APL's purchase of 35 Graham St in Auckland for NZ\$58m is an attractive medium term redevelopment opportunity with a robust 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.

Financial structure

- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.

Risk factors

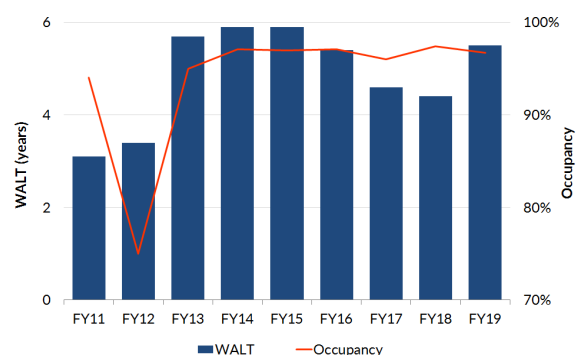
- **E-commerce growth:** APL's retail assets are smaller sub-regional and neighbourhood centres, susceptible to e-commerce risks.
- **Sourcing new assets:** APL will need to source new 'value-add' properties to replace asset sales and utilise its balance sheet.

Figure 1. Sector and regional portfolio exposure

	Auckland	Other North Island	South	Island	Total
Industrial	-	15%	6%	-	22%
Office	23%	-	-	-	23%
Retail	21%	-	34%	-	55%
Total	44%	15%	40%	-	100%

Source: Forsyth Barr analysis, Company Reports

Figure 2. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company Reports

Asset Plus Limited (APL)

Priced as at 11 Feb 2020 (NZ\$)

0.62

12-month target price (NZ\$)*

0.65

Expected share price return

4.8%

Net dividend yield

5.8%

Estimated 12-month return

10.6%

Spot valuations (NZ\$)

1. DCF

0.63

2. NAV

0.66

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.78

WACC

5.8%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

117

(Net debt)/cash

(10)

Less: Capitalised operating leases

Value of equity

108

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	12.3	9.3	11.0	10.4	10.5	EV/EBITDA (x)	14.9	16.8	13.5	16.3	16.1
Normalised EBITDA	10.1	7.6	9.2	8.6	8.7	EV/EBIT (x)	14.9	16.8	13.5	16.3	16.1
Depreciation and amortisation	-	-	-	-	-	PE (x)	16.0	19.4	16.0	17.2	17.8
Normalised EBIT	10.1	7.6	9.2	8.6	8.7	Price/NTA (x)	0.9	0.9	0.9	0.9	0.9
Net interest	(2.8)	(1.1)	(1.8)	(1.5)	(1.9)	Free cash flow yield (%)	1.7	3.4	5.3	5.1	4.8
Associate income	-	-	-	-	-	Net dividend yield (%)	5.8	5.8	5.8	5.8	5.8
Tax	(1.0)	(1.3)	(1.2)	(1.2)	(1.2)	Gross dividend yield (%)	8.3	8.3	8.3	8.3	8.3
Minority interests	-	-	-	-	-						
Normalised NPAT	6.3	5.2	6.3	5.8	5.6	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(3.2)	(1.4)	0.2	0.8	0.8	Interest cover EBIT (x)	3.6	7.0	5.2	5.6	4.6
Reported NPAT	3.1	3.8	6.5	6.6	6.4	Interest cover EBITDA (x)	3.6	7.0	5.2	5.6	4.6
Normalised EPS (cps)	3.9	3.2	3.9	3.6	3.5	Net debt/ND+E (%)	27.8	8.0	25.8	26.0	26.4
DPS (cps)	3.6	3.6	3.6	3.6	3.6	Net debt/EBITDA (x)	4.4	1.3	4.2	4.7	4.7
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	0.5	-24.3	18.2	-6.2	1.3	Return on assets (%)	6.0	6.0	5.9	5.4	5.4
EBITDA (%)	1.6	-25.1	21.9	-7.4	1.3	Return on equity (%)	5.5	4.6	5.5	5.1	4.9
EBIT (%)	1.6	-25.1	21.9	-7.4	1.3	Return on funds employed (%)	5.0	4.2	5.5	4.5	4.5
Normalised NPAT (%)	1.9	-17.7	21.1	-6.7	-3.6	EBITDA margin (%)	81.9	81.2	83.7	82.6	82.6
Normalised EPS (%)	1.9	-17.7	21.1	-6.7	-3.6	EBIT margin (%)	81.9	81.2	83.7	82.6	82.6
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0	Capex to sales (%)	38.4	3.8	8.4	7.2	7.2
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	10.1	7.6	9.2	8.6	8.7	Pay-out ratio (%)	93	113	93	100	104
Working capital change	0.3	(1.6)	(0.0)	(0.0)	(0.0)						
Interest & tax paid	(3.9)	(2.2)	(3.0)	(2.7)	(3.0)	Property Statistics	2015A	2016A	2017A	2018A	2019A
Other	-	-	-	-	-	Key metrics					
Operating cash flow	6.5	3.8	6.2	5.8	5.6	No. properties	5	5	5	4	3
Capital expenditure	(4.7)	(0.4)	(0.9)	(0.8)	(0.8)	Average lease term (years)	5.9	5.4	4.6	4.4	5.5
(Acquisitions)/divestments	12.7	37.5	(29.0)	-	-	Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
Other	3.8	(0.8)	-	-	-	Cap rate (%)	8.21	7.91	7.74	7.43	7.40
Funding available/(required)	18.3	40.1	(23.7)	5.1	4.9	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
Dividends paid	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	NTA per share (NZ\$)	0.725	0.740	0.723	0.706	0.694
Equity raised/(returned)	-	-	-	-	-						
(Increase)/decrease in net debt	12.4	34.3	(29.5)	(0.8)	(1.0)						
						Portfolios values (NZ\$m)					
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	AA centre	33.8	36.2	40.9	43.8	-
Working capital	(1.5)	0.5	0.5	0.5	0.5	Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
Fixed assets	168.4	123.0	153.1	154.7	156.3	Print Place	13.3	13.0	11.0	-	-
Intangibles	-	-	-	-	-	Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
Right of use asset	-	-	-	-	-	Roskill Centre	33.6	35.0	36.0	38.0	39.5
Other assets	0.1	0.5	0.5	0.5	0.5	Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
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						
Lease liability	-	-	-	-	-						
Other liabilities	8.5	1.9	1.9	1.9	1.9						
Shareholder's funds	114.3	112.3	113.0	113.8	114.4						
Minority interests	-	-	-	-	-						
Total funding sources	166.9	123.9	154.1	155.6	157.2						

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

Argosy Property

Underpinned by Industrial

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

NEUTRAL 

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. NEUTRAL.

Earnings and cashflow outlook

- **Industrial assets underpin portfolio:** ARG's portfolio WALT was steady in 1H20 at 6 yrs. ARG's WALT is underpinned by its NZ \$750m+ industrial portfolio (7.2 yrs), which is sector-leading versus industrial peers.

Business quality

- **Rental growth:** ARG achieved robust rental growth of +3.2% (annualised) across rent reviews in 1H20 with the industrial portfolio particularly strong.
- **Development activity:** Developments include office at 107 Carlton Gore Road (12 year lease to Housing NZ) and 8-14 Willis Street (leased to Statistics NZ for 15 years), and retail at Stewart Dawson's corner in Wellington.

Financial structure

- **Balance sheet:** Gearing is around sector average levels at ~36% 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 sustainably covering its dividend by AFFO.

Risk factors

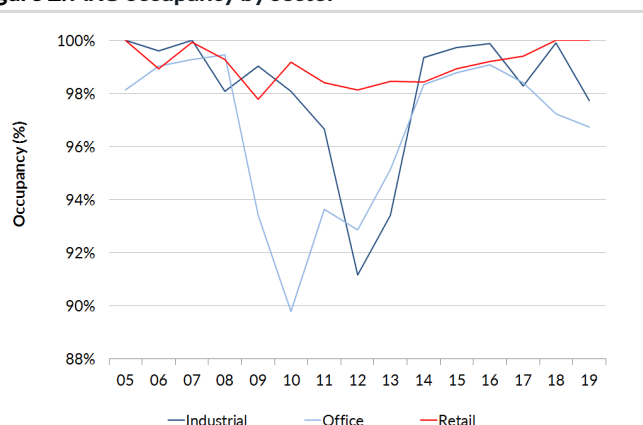
- **Auckland office conditions:** Auckland office is vulnerable from increasing supply and the drive for space efficiency, however, recently this has been offset by assets leaving the market and increased government space.
- **Lease expiry:** ~18% of leases (by rent) are expiring in FY20 and FY21 including 8,100m to MBIE at 147 Lambton Quay.

Figure 1. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	33%	9%	1%	42%
Office	21%	17%	-	38%
Retail	18%	2%	-	20%
Total	72%	27%	1%	100%

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

Figure 2. ARG occupancy by sector



Source: Forsyth Barr analysis, Company Reports

Argosy Property Limited (ARG)

Priced as at 11 Feb 2020 (NZ\$)

1.44

12-month target price (NZ\$)*

1.38

Expected share price return

-4.2%

Net dividend yield

4.4%

Estimated 12-month return

0.2%

Spot valuations (NZ\$)

1. DCF

1.37

2. NAV

1.32

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.77

WACC

5.5%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,812

(Net debt)/cash

(632)

Less: Capitalised operating leases

Value of equity

1,180

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	101.0	102.5	100.0	106.7	113.2
Normalised EBITDA	91.1	91.5	89.0	95.3	101.3
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	91.1	91.5	89.0	95.3	101.3
Net interest	(25.5)	(24.2)	(24.8)	(26.4)	(30.5)
Associate income	-	-	-	-	-
Tax	(11.0)	(10.0)	(9.7)	(12.0)	(14.0)
Minority interests	-	-	-	-	-
Normalised NPAT	54.6	57.4	54.5	56.9	56.9
Abnormals/other	(43.6)	(76.3)	(40.5)	(42.0)	(26.7)
Reported NPAT	98.2	133.7	95.1	98.9	83.5
Normalised EPS (cps)	6.6	6.9	6.6	6.9	6.9
DPS (cps)	6.2	6.3	6.3	6.3	6.3

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

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	91.1	91.5	89.0	95.3	101.3
Working capital change	6.6	9.2	-	0.0	-
Interest & tax paid	(35.4)	(33.8)	(34.5)	(38.4)	(44.5)
Other	-	-	-	-	-
Operating cash flow	62.3	66.9	54.5	56.9	56.9
Capital expenditure	(63.1)	(94.8)	(88.1)	(37.4)	(5.6)
(Acquisitions)/divestments	24.8	40.7	-	-	-
Other	(0.7)	(1.6)	16.3	16.3	-
Funding available/(required)	23.3	11.3	(17.2)	35.8	51.3
Dividends paid	(47.3)	(52.4)	(51.9)	(51.9)	(51.9)
Equity raised/(returned)	-	-	-	-	-
(Increase)/decrease in net debt	(24.0)	(41.1)	(69.1)	(16.1)	(0.6)

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(10.6)	(13.9)	(13.9)	(13.9)	(13.9)
Fixed assets	1,513.1	1,667.0	1,779.3	1,842.4	1,874.7
Intangibles	-	-	-	-	-
Right of use asset	-	-	-	-	-
Other assets	28.8	4.4	4.4	4.4	4.4
Total funds employed	1,531.3	1,657.5	1,769.7	1,832.9	1,865.1
Net debt/(cash)	551.5	591.3	660.5	676.6	677.2
Lease liability	-	-	-	-	-
Other liabilities	52.9	57.1	57.1	57.1	57.1
Shareholder's funds	926.9	1,009.0	1,052.1	1,099.1	1,130.8
Minority interests	-	-	-	-	-
Total funding sources	1,531.3	1,657.5	1,769.7	1,832.9	1,865.1

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	18.8	19.1	20.4	19.4	18.3
EV/EBIT (x)	18.8	19.1	20.4	19.4	18.3
PE (x)	21.8	20.8	21.8	20.9	21.0
Price/NTA (x)	1.3	1.2	1.1	1.1	1.1
Free cash flow yield (%)	-0.1	-2.3	-2.8	1.6	4.3
Net dividend yield (%)	4.3	4.4	4.4	4.4	4.4
Gross dividend yield (%)	6.0	6.1	6.1	6.1	6.1

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

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.9	5.5	5.0	5.1	5.4
Return on equity (%)	5.9	5.7	5.2	5.2	5.0
Return on funds employed (%)	5.1	4.9	4.4	4.4	4.4
EBITDA margin (%)	90.2	89.3	89.1	89.3	89.5
EBIT margin (%)	90.2	89.3	89.1	89.3	89.5
Capex to sales (%)	62.5	92.5	88.1	35.1	4.9
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	94	90	95	91	91

Property Statistics	2015A	2016A	2017A	2018A	2019A
Industrial					
Value (NZ\$m)	510	507	583	638	738
No. buildings	40	39	38	36	37
WALT (years)	5.72	5.99	6.40	7.35	7.22
Occupancy	99.7%	99.9%	98.3%	99.9%	97.8%
Contract yield	7.6%	7.7%	6.9%	6.7%	6.2%
Market yield	7.6%	7.7%	7.1%	6.7%	6.5%

Office					
Value (NZ\$m)	484	549	548	577	627
No. buildings	17	17	17	17	16
WALT (years)	5.60	4.82	4.87	4.99	4.94
Occupancy	98.8%	99.1%	98.4%	97.2%	96.8%
Contract yield	7.6%	7.6%	7.3%	7.0%	6.9%
Market yield	7.6%	7.6%	7.6%	7.4%	7.1%

Retail					
Value (NZ\$m)	312	312	311	298	303
No. buildings	11	10	9	8	7
WALT (years)	5.15	4.78	5.46	5.69	5.96
Occupancy	98.9%	99.2%	99.4%	100.0%	100.0%
Contract yield	7.5%	7.4%	7.4%	7.1%	6.2%
Market yield	7.4%	7.1%	7.3%	6.8%	6.3%

Augusta Capital

New Fund Momentum

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

NEUTRAL 

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. 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. NEUTRAL.

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.

Earnings and cashflow 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.
- **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.

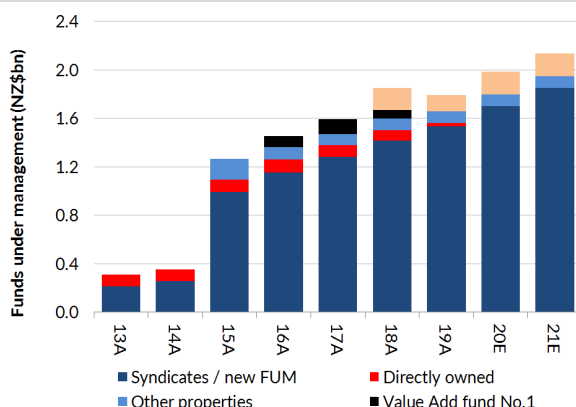
Financial structure

- **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.

Risk factors

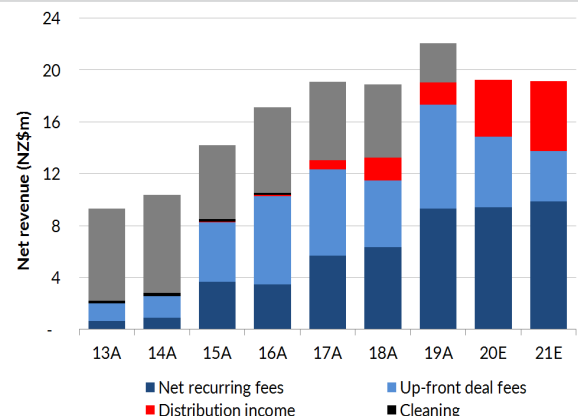
- **Acquiring new stock for investment products:** This is the largest challenge for AUG's funds management business given a highly competitive property market.

Figure 1. Funds under management (NZ\$bn)



Source: Forsyth Barr analysis, Company Reports

Figure 2. Net Revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Augusta Capital Ltd (AUG)

Priced as at 11 Feb 2020 (NZ\$)

1.99

12-month target price (NZ\$)*

1.38

Expected share price return

-30.7%

Net dividend yield

3.3%

Estimated 12-month return

-27.4%

Spot valuations (NZ\$)

1. DCF

1.39

2. Adj NAV

1.29

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.81

WACC

6.6%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

113.2

(Net debt)/cash

6.2

Less: Capitalised operating leases

0.0

Value of equity

107.0

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	18.9	22.0	19.2	19.2	17.8	EV/EBITDA (x)	18.3	14.0	13.4	10.9	12.5
Normalised EBITDA	10.3	11.7	8.7	8.6	7.4	EV/EBIT (x)	18.3	14.0	13.4	10.9	12.5
Depreciation and amortisation	-	-	-	-	-	PE (x)	30.2	22.5	27.7	27.9	34.5
Normalised EBIT	10.3	11.7	8.7	8.6	7.4	Price/NTA (x)	2.8	2.6	2.2	2.2	2.2
Net interest	(2.8)	(1.5)	(0.3)	(0.3)	(0.8)	Free cash flow yield (%)	0.3	4.0	3.5	3.6	3.0
Associate income	-	-	-	-	-	Net dividend yield (%)	2.8	3.1	3.3	3.3	2.8
Tax	(1.8)	(2.4)	(2.0)	(2.0)	(1.5)	Gross dividend yield (%)	3.9	3.1	4.5	4.5	3.8
Minority interests	-	-	-	-	-						
Normalised NPAT	5.8	7.7	6.3	6.2	5.1	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(4.8)	(0.8)	(0.7)	(0.1)	(0.1)	Interest cover EBIT (x)	3.7	7.8	25.4	26.6	8.9
Reported NPAT	1.0	7.0	5.6	6.1	4.9	Interest cover EBITDA (x)	3.7	7.8	25.4	26.6	8.9
Normalised EPS (cps)	6.6	8.8	7.2	7.1	5.8	Net debt/ND+E (%)	30.8	6.7	-9.9	5.1	5.5
DPS (cps)	5.6	6.1	6.5	6.5	5.5	Net debt/EBITDA (x)	3.6	0.5	n/a	0.6	0.8
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-0.8	16.6	-12.8	-0.3	-7.1	Return on assets (%)	7.3	11.4	8.6	7.4	6.4
EBITDA (%)	-5.3	13.1	-25.9	-1.1	-13.1	Return on equity (%)	6.9	9.0	6.3	6.2	5.0
EBIT (%)	-5.3	13.1	-25.9	-1.1	-13.1	Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
Normalised NPAT (%)	-14.4	34.1	-18.9	-0.8	-18.9	EBITDA margin (%)	54.7	53.0	45.0	44.7	41.8
Normalised EPS (%)	-14.4	34.1	-18.9	-0.8	-18.9	EBIT margin (%)	54.7	53.0	45.0	44.7	41.8
Ordinary DPS (%)	2.3	8.9	6.1	0.0	-15.6	Capex to sales (%)	1.3	1.4	0.0	0.0	0.0
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	98	0	100	100	100
EBITDA	10.3	11.7	8.7	8.6	7.4	Pay-out ratio (%)	85	69	91	91	95
Working capital change	(4.3)	0.3	(0.2)	0.0	0.2						
Interest & tax paid	(5.2)	(4.8)	(2.4)	(2.3)	(2.4)	Operating Performance	2018A	2019A	2020E	2021E	2022E
Other	-	-	-	-	-	Net revenue by segment:	-	-	-	-	-
Operating cash flow	0.8	7.2	6.0	6.2	5.2	Net rental income	5.7	3.0	-	-	-
Capital expenditure	(0.2)	(0.3)	-	-	-	Distribution income	1.8	1.8	4.4	5.4	5.5
(Acquisitions)/divestments	(3.2)	31.0	14.8	(15.0)	(0.7)	Total yield income	7.4	4.7	4.4	5.4	5.5
Other	(5.3)	(1.6)	-	-	-		-	-	-	-	-
Funding available/(required)	(7.9)	36.3	20.8	(8.8)	4.6	Offeror Fees	3.7	5.9	4.0	2.5	1.5
Dividends paid	(4.8)	(5.3)	(5.7)	(5.7)	(5.0)	Underwriting fees	1.5	2.1	1.4	1.4	0.8
Equity raised/(returned)	-	-	-	-	-	Total up-front deal fees	5.2	8.0	5.4	3.9	2.3
(Increase)/decrease in net debt	(12.7)	31.0	15.1	(14.4)	(0.5)		-	-	-	-	-
						Base management fees	4.2	5.2	6.4	7.1	7.7
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Transactional income	2.1	4.1	3.1	2.7	2.3
Working capital	1.5	(0.2)	(0.5)	(0.5)	(0.7)	Total recurring fees	6.3	9.3	9.4	9.9	10.0
Fixed assets	85.3	31.5	0.7	0.6	0.5						
Intangibles	21.7	20.2	20.2	20.2	20.2	Total net rental income	18.9	22.0	19.2	19.2	17.8
Right of use asset	-	-	-	-	-						
Other assets	25.3	42.2	72.2	87.2	87.9	Funds under management	-	-	-	-	-
Total funds employed	133.7	93.6	92.7	107.5	107.9	Directly held properties	84	31			
Net debt/(cash)	37.5	6.2	(9.0)	5.4	5.9	Syndications	1,416	1,532	1,699	1,849	1,956
Lease liability	-	-	-	-	-	Other properties	96	96	96	96	96
Other 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

Goodman Property Trust

Raising the Stakes

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

UNDERPERFORM

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. Although Goodman Property Trust (GMT) is struggling to achieve earnings growth, it continues to execute well on its recycling strategy. GMT is currently paying out above AFFO, which is reflected in a flat dividend outlook. UNDERPERFORM.

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 5.5 years and 99.5% respectively.
- **Recycling non-core assets:** GMT has successfully recycled its suburban office and Christchurch assets into new industrial developments in Auckland.

Earnings and cashflow 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.
- **Developments:** GMT is working through its land bank with new committed/uncommitted developments.

Financial structure

- **Balance sheet capacity:** Gearing remains at the low end of the sector range at ~18% and with recent acquisitions and equity issue committed gearing is a low 21%.

Risk factors

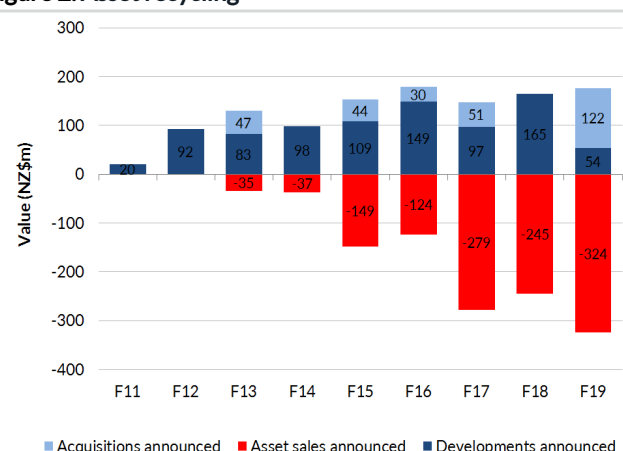
- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.

Figure 1. Portfolio exposures

	Auckland	Other North Island	South Island	Total
Business park	66%	-	-	66%
Industrial estate	32%	-	-	32%
Office park	-	-	1%	1%
Total	99%	-	1%	100%

Source: Forsyth Barr analysis, Company Reports

Figure 2. Asset recycling



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

Goodman Property Trust (GMT)

Priced as at 11 Feb 2020 (NZ\$)

2.30

12-month target price (NZ\$)*

1.92

Expected share price return

-16.5%

Net dividend yield

2.9%

Estimated 12-month return

-13.6%

Spot valuations (NZ\$)

1. DCF

1.87

2. NAV

1.90

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.62

WACC

5.1%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

3,034

(Net debt)/cash

(582)

Less: Capitalised operating leases

Value of equity

2,452

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	148.5	141.1	141.4	154.7	163.6	EV/EBITDA (x)	27.2	28.4	27.8	25.4	24.0
Normalised EBITDA	137.5	129.8	127.9	140.3	148.2	EV/EBIT (x)	27.2	28.4	27.8	25.4	24.0
Depreciation and amortisation	-	-	-	-	-	PE (x)	31.7	32.8	34.1	33.4	32.2
Normalised EBIT	137.5	129.8	127.9	140.3	148.2	Price/NTA (x)	1.7	1.5	1.3	1.3	1.3
Net interest	(26.7)	(21.4)	(17.9)	(22.1)	(23.5)	Free cash flow yield (%)	-0.4	-2.2	-1.0	1.0	1.5
Associate income	-	-	-	-	-	Net dividend yield (%)	2.9	2.9	2.9	2.9	2.9
Tax	(17.5)	(17.5)	(19.7)	(23.1)	(26.0)	Gross dividend yield (%)	4.1	4.1	4.1	4.1	4.1
Minority interests	-	-	-	-	-						
Normalised NPAT	93.3	90.9	90.3	95.1	98.7	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(100.7)	(228.6)	(181.6)	(60.3)	(62.7)	Interest cover EBIT (x)	5.1	6.1	7.1	6.3	6.3
Reported NPAT	194.0	319.5	271.9	155.3	161.4	Interest cover EBITDA (x)	5.1	6.1	7.1	6.3	6.3
Normalised EPS (cps)	7.2	7.0	6.7	6.9	7.1	Net debt/ND+E (%)	31.3	22.1	19.8	20.6	20.9
DPS (cps)	6.7	6.7	6.7	6.7	6.7	Net debt/EBITDA (x)	6.0	4.5	4.6	4.5	4.5
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	0.9	-5.0	0.2	9.4	5.7	Return on assets (%)	5.1	4.8	4.2	4.4	4.5
EBITDA (%)	0.7	-5.6	-1.4	9.6	5.7	Return on equity (%)	5.2	4.4	3.8	3.9	3.9
EBIT (%)	0.7	-5.6	-1.4	9.6	5.7	Return on funds employed (%)	4.4	3.9	3.6	3.6	3.7
Normalised NPAT (%)	-5.1	-2.6	-0.7	5.3	3.8	EBITDA margin (%)	92.6	92.0	90.4	90.6	90.6
Normalised EPS (%)	-5.6	-3.1	-3.9	2.0	3.8	EBIT margin (%)	92.6	92.0	90.4	90.6	90.6
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0	Capex to sales (%)	68.7	102.2	85.1	42.3	33.2
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	137.5	129.8	127.9	140.3	148.2	Pay-out ratio (%)	92	95	99	97	93
Working capital change	(21.9)	(18.1)	(0.0)	0.0	(0.0)						
Interest & tax paid	(25.9)	(32.5)	(37.6)	(45.2)	(49.5)	Operating Performance	2018A	2019A	2020E	2021E	2022E
Other	-	-	-	-	-	Property portfolio (consolidated)	-	-	-	-	-
Operating cash flow	89.7	79.2	90.3	95.1	98.7	Stabilised assets	2,026	2,044	2,465	2,849	3,019
Capital expenditure	(102.0)	(144.2)	(120.3)	(65.4)	(54.4)	Developments	49	68	78	79	59
(Acquisitions)/divestments	(4.8)	134.2	(59.7)	-	-	Land	175	120	96	72	48
Other	(27.6)	254.8	-	-	-	Held for sale	8	239	-	-	-
Funding available/(required)	(44.7)	324.0	(89.7)	29.6	44.3	JV assets (51%)	165	277	-	-	-
Dividends paid	(85.5)	(86.0)	(89.0)	(91.8)	(91.8)	Total	2,422	2,747	2,639	3,000	3,126
Equity raised/(returned)	10.0	10.4	176.4	12.1	12.8	Property portfolio (movement)					
(Increase)/decrease in net debt	(120.2)	248.4	(2.2)	(50.1)	(34.8)	Opening value	2,481	2,422	2,747	2,639	3,000
						Acquisitions / transfers in	(3)	74	93	94	(0)
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Net expenditure	139	120	129	120	65
Working capital	(39.9)	(34.0)	(34.0)	(34.0)	(34.0)	Disposals / transfers out	(297)	(10)	(516)	(34)	-
Fixed assets	2,231.0	2,633.4	3,000.2	3,125.9	3,243.0	Fair value movement	102	141	185	182	60
Intangibles	-	-	-	-	-	Total	2,422	2,747	2,639	3,000	3,126
Right of use asset	-	-	-	-	-						
Other assets	474.5	70.4	26.9	26.9	26.9	Property Statistics	2015A	2016A	2017A	2018A	2019A
Total funds employed	2,665.6	2,669.8	2,993.1	3,118.8	3,235.9	Walt (years)	5.1	5.7	5.8	6.1	5.2
Net debt/(cash)	818.9	582.0	584.2	634.3	669.1	Occupancy (%)	96%	97%	98%	98%	98%
Lease liability	-	-	-	-	-	Cap rate (%)	7.50%	6.95%	6.50%	6.20%	5.80%
Other liabilities	53.0	41.6	41.6	41.6	41.6	NLA (000sqm)	983	1,041	989	1,111	1,000
Shareholder's funds	1,793.7	2,046.2	2,367.2	2,442.8	2,525.1	Portfo leasing (000sqm)	100	159	154	202	97
Minority interests	-	-	-	-	-	Development commitments (000sqm)	51	65	33	64	58
Total funding sources	2,665.6	2,669.8	2,993.1	3,118.8	3,235.9	Customers (no)	251	281	240	264	264

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

Investore

Unique Defensive Bulk Retail Exposure

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

OUTPERFORM

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. 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. OUTPERFORM.

Business quality

- **Long lease terms and high occupancy:** IPL's WALT of 11.9 years is significantly higher than the sector average of 6.8 years (ex VHP) and its occupancy of 99.7% is also sector leading. FY20 expiries have all been renewed and only 4.7% of rental income expires over the next three years.

Earnings and cashflow 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).

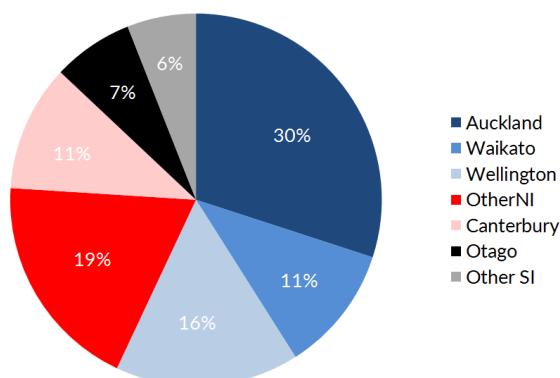
Financial structure

- **Balance sheet:** IPL has a target maximum gearing ratio of 48% and is currently geared at 41% (1H20).

Risk factors

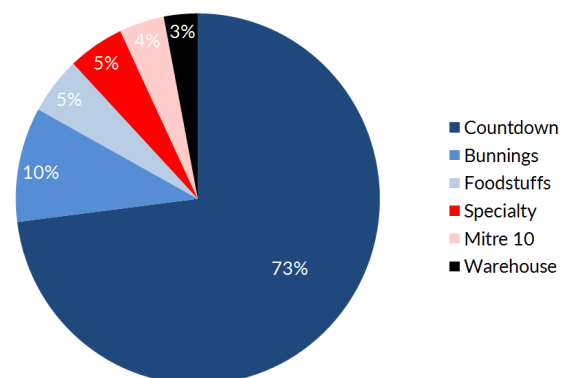
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets.
- **Interest rates:** IPL's relatively high gearing means it is more sensitive to interest rate movements versus its listed peers but is appropriate given the low risk nature of its portfolio.

Figure 1. Funds under management (NZ\$bn)



Source: Forsyth Barr analysis, Company Reports

Figure 2. Net Revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Investore (IPL)

Priced as at 11 Feb 2020 (NZ\$)

1.84

12-month target price (NZ\$)*

1.85

Spot valuations (NZ\$)

Expected share price return	0.5%	1. DCF	1.95
Net dividend yield	4.1%	2. NAV	1.66
Estimated 12-month return	4.7%	n/a	n/a

Key WACC assumptions

Risk free rate	2.00%
Equity beta	0.70
WACC	4.9%
Terminal growth	1.5%

DCF valuation summary (NZ\$m)

Total firm value	844
(Net debt)/cash	(312)
Less: Capitalised operating leases	
Value of equity	529

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	43.1	46.1	46.3	46.9	47.4	EV/EBITDA (x)	20.1	19.6	19.4	19.0	18.8
Normalised EBITDA	37.7	40.1	40.5	41.0	41.4	EV/EBIT (x)	20.1	19.6	19.4	19.0	18.8
Depreciation and amortisation	-	-	-	-	-	PE (x)	23.4	22.9	22.7	22.3	22.0
Normalised EBIT	37.7	40.1	40.5	41.0	41.4	Price/NTA (x)	1.1	1.1	1.1	1.0	1.0
Net interest	(11.7)	(13.8)	(13.7)	(13.5)	(13.3)	Free cash flow yield (%)	4.0	3.3	4.0	4.1	4.1
Associate income	-	-	-	-	-	Net dividend yield (%)	4.1	4.1	4.1	4.1	4.1
Tax	(5.5)	(5.3)	(5.6)	(6.0)	(6.3)	Gross dividend yield (%)	5.8	5.9	5.9	5.9	5.9
Minority interests	-	-	-	-	-						
Normalised NPAT	20.5	20.9	21.1	21.4	21.8	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(25.6)	(17.7)	(10.4)	(9.4)	(6.1)	Interest cover EBIT (x)	3.2	2.9	2.9	3.0	3.1
Reported NPAT	46.2	38.6	31.5	30.8	27.9	Interest cover EBITDA (x)	3.2	2.9	2.9	3.0	3.1
Normalised EPS (cps)	7.9	8.0	8.1	8.2	8.4	Net debt/ND+E (%)	41.5	41.3	39.6	39.1	38.7
DPS (cps)	7.5	7.6	7.6	7.6	7.6	Net debt/EBITDA (x)	8.1	7.8	7.4	7.3	7.2

Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	27.4	6.9	0.4	1.4	0.9	Return on assets (%)	5.1	5.2	5.3	5.3	5.2
EBITDA (%)	24.1	6.3	0.9	1.3	0.9	Return on equity (%)	4.8	4.7	4.6	4.6	4.6
EBIT (%)	24.1	6.3	0.9	1.3	0.9	Return on funds employed (%)	4.2	4.1	4.1	4.1	4.1
Normalised NPAT (%)	16.5	1.8	0.8	1.8	1.6	EBITDA margin (%)	87.4	86.9	87.4	87.4	87.3
Normalised EPS (%)	n/a	2.1	1.1	1.8	1.6	EBIT margin (%)	87.4	86.9	87.4	87.4	87.3
Ordinary DPS (%)	n/a	1.9	0.3	0.0	0.0	Capex to sales (%)	5.1	12.0	4.1	4.1	4.1
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	37.7	40.1	40.5	41.0	41.4	Pay-out ratio (%)	95	95	94	92	91

Working capital change	(1.2)	(0.1)	(0.5)	(0.5)	(0.5)						
Interest & tax paid	(17.2)	(19.0)	(19.4)	(19.5)	(19.6)	Portfolio Summary	*2016A	2017A	2018A	2019A	
Other	-	-	-	-	-	Investment properties (NZ\$m)	-	641.4	660.4	738.3	761.2
Operating cash flow	21.4	21.2	21.1	21.4	21.8	Weighted average lease term (yrs)	-	14.8	14.3	13.1	12.4
Capital expenditure	(2.2)	(5.5)	(1.9)	(1.9)	(1.9)	Occupancy rate (%)		99.7	99.8	99.9	99.9
Acquisitions)/divestments	(47.8)	-	13.6	-	-	M'ment/Admin cost % of assets (%)		n/a	0.6	0.8	0.8
Other	-	98.5	-	-	-	NTA per share (NZ\$)		1.46	1.55	1.64	1.70
Funding available/(required)	(28.6)	114.1	32.8	19.5	19.9	Portfolio cap rate (%)		6.44	6.36	6.19	6.05
Dividends paid	(20.0)	(19.7)	(19.8)	(19.8)	(19.8)	Portfolio initial yield (%)		6.68	6.57	6.36	
Equity raised/(returned)	-	(2.6)	-	-	-	*metrics shown on a pro-forma basis as at March 2016		-	-	-	-
(Increase)/decrease in net debt	(48.6)	91.8	12.9	(0.3)	0.0						

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	759.9	771.2	779.2
Intangibles	-	-	-	-	-
Right of use asset	-	-	-	-	-
Other assets	2.1	22.2	3.2	3.2	3.2
Total funds employed	735.9	760.6	759.3	770.6	778.6
Net debt/(cash)	304.7	311.5	298.6	298.9	298.8
Lease liability	-	-	-	-	-
Other liabilities	2.1	5.8	5.8	5.8	5.8
Shareholder's funds	429.1	443.2	454.9	465.9	473.9
Minority interests	-	-	-	-	-
Total funding sources	735.9	760.6	759.3	770.6	778.6

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

Precinct Properties NZ

Development Milestones

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

NEUTRAL 

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. NEUTRAL.

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.

Earnings and cashflow 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).
- **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.

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.

Risk factors

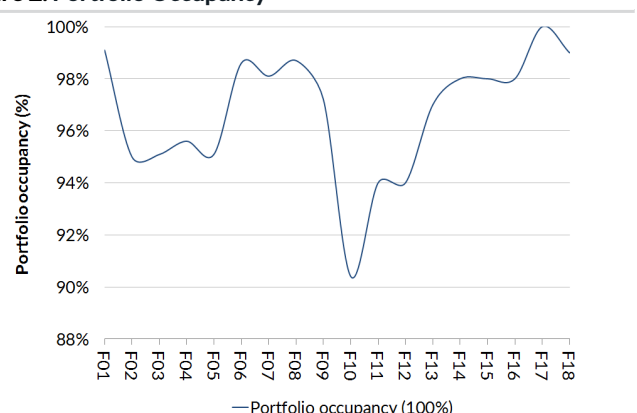
- **CBD office supply:** Auckland and Wellington have office supply planned in coming years, which could impact vacancy and rents.

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

Figure 2. Portfolio Occupancy



Source: Forsyth Barr analysis, Company Reports

Precinct Properties NZ Limited (PCT)

Priced as at 11 Feb 2020 (NZ\$)

1.88

12-month target price (NZ\$)*

1.48

Expected share price return

-21.2%

Net dividend yield

3.3%

Estimated 12-month return

-17.9%

Spot valuations (NZ\$)

1. DCF

1.34

2. NAV

1.54

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.75%

Equity beta

0.69

WACC

5.8%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

2,397

(Net debt)/cash

(752)

Less: Capitalised operating leases

Value of equity

1,623

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	95.3	95.0	139.1	151.7	164.9	EV/EBITDA (x)	33.8	38.2	24.5	23.4	21.4
Normalised EBITDA	85.1	79.2	126.3	135.5	148.0	EV/EBIT (x)	33.8	38.2	24.5	23.4	21.4
Depreciation and amortisation	-	-	-	-	-	PE (x)	29.7	30.3	28.5	27.4	28.5
Normalised EBIT	85.1	79.2	126.3	135.5	148.0	Price/NTA (x)	1.3	1.3	1.2	1.2	1.2
Net interest	(2.2)	(1.8)	(32.8)	(35.0)	(37.9)	Free cash flow yield (%)	-9.6	-9.1	-2.6	-1.5	1.6
Associate income	-	-	-	-	-	Net dividend yield (%)	3.1	3.2	3.3	3.4	3.4
Tax	(6.3)	-	(6.7)	(10.2)	(14.9)	Gross dividend yield (%)	4.4	4.6	4.7	4.8	4.8
Minority interests	-	-	-	-	-						
Normalised NPAT	76.6	77.4	86.8	90.3	95.2	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	178.3	110.5	86.0	53.0	78.9	Interest cover EBIT (x)	38.7	44.0	3.8	3.9	3.9
Reported NPAT	254.9	187.9	172.8	143.3	174.1	Interest cover EBITDA (x)	38.7	44.0	3.8	3.9	3.9
Normalised EPS (cps)	6.3	6.2	6.6	6.9	6.6	Net debt/ND+E (%)	31.0	28.1	30.6	32.7	28.2
DPS (cps)	5.8	6.0	6.2	6.3	6.3	Net debt/EBITDA (x)	8.9	9.5	7.1	7.4	6.1
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	5.4	-0.3	46.4	9.1	8.7	Return on assets (%)	3.3	2.8	4.1	4.1	4.3
EBITDA (%)	5.6	-6.9	59.5	7.3	9.3	Return on equity (%)	4.5	4.0	4.3	4.3	4.1
EBIT (%)	5.6	-6.9	59.5	7.3	9.3	Return on funds employed (%)	3.1	2.7	3.9	3.8	3.8
Normalised NPAT (%)	2.5	1.0	12.1	4.0	5.5	EBITDA margin (%)	89.3	83.4	90.8	89.3	89.7
Normalised EPS (%)	2.5	-1.8	6.4	4.0	-3.9	EBIT margin (%)	89.3	83.4	90.8	89.3	89.7
Ordinary DPS (%)	3.6	3.4	3.3	1.6	0.0	Capex to sales (%)	308.9	286.2	115.5	84.7	38.2
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	85.1	79.2	126.3	135.5	148.0	Pay-out ratio (%)	92	97	94	92	95
Working capital change	(2.6)	(7.8)	15.4	4.4	4.6						
Interest & tax paid	(7.6)	(7.3)	(39.5)	(45.2)	(52.8)	Property Statistics	2014A	2015A	2016A	2017A	2018A
Other	-	-	-	-	-						
Operating cash flow	74.9	64.1	102.2	94.7	99.9	Key metrics					
Capital expenditure	(294.4)	(271.9)	(160.6)	(128.5)	(62.9)	No. properties	17	15	13	12	12
(Acquisitions)/divestments	-	180.8	-	-	-	Net lettable area (000sqm)	322	304	226	224	225
Other	(11.5)	(2.4)	-	-	-	Average lease term (years)	5.4	5.0	6.3	8.7	6.9
Funding available/(required)	(231.0)	(29.4)	(58.5)	(33.9)	36.9	Occupancy rate (%)	98	98	98	100	99
Dividends paid	(69.6)	(75.1)	(80.8)	(82.4)	(90.9)	Cap rate (%)	7.3	7.0	6.5	6.2	5.8
Equity raised/(returned)	-	149.3	-	-	-	Initial yield (%)	7.5	7.0	6.7	6.5	5.8
(Increase)/decrease in net debt	(300.6)	44.8	(139.2)	(116.3)	(53.9)	Over / (under) renting (%)	-	(1.8)	(3.6)	(4.7)	(6.4)
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Total portfolio (NZ\$m)					
Working capital	(6.0)	(33.2)	(48.6)	(53.0)	(57.6)	Investment properties	1,633	1,612	1,514	1,535	1,488
Fixed assets	2,325.7	2,793.7	3,040.3	3,221.9	3,363.7	Properties held for sale	96	76			191
Intangibles	-	-	-	-	-	Development properties			190	509	838
Right of use asset	-	-	-	-	-	Total	1,728	1,688	1,704	2,045	2,517
Other assets	225.7	44.2	44.2	44.2	44.2	NTA per share (NZ\$)	1.04	1.11	1.17	1.24	1.40
Total funds employed	2,545.4	2,804.7	3,035.9	3,213.1	3,350.3						
Net debt/(cash)	758.8	751.5	890.7	1,007.1	908.0						
Lease liability	-	-	-	-	-						
Other liabilities	95.9	129.4	129.4	129.4	129.4						
Shareholder's funds	1,690.7	1,923.8	2,015.8	2,076.6	2,312.9						
Minority interests	-	-	-	-	-						
Total funding sources	2,545.4	2,804.7	3,035.9	3,213.1	3,350.3						

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

Property For Industry

Industrious

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

NEUTRAL 

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. NEUTRAL.

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.

Earnings and cashflow 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.

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.

Risk factors

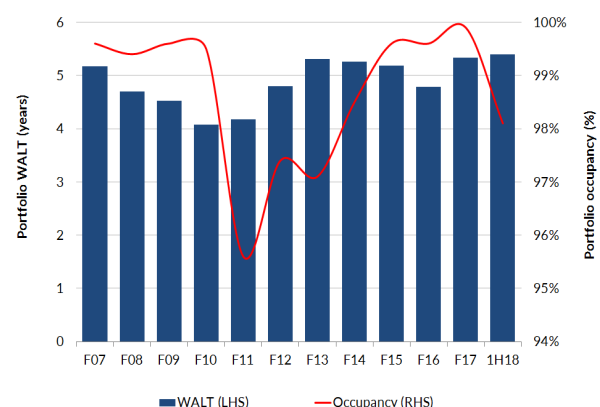
- **Rising interest rates:** Higher interest rates make other yield investments more attractive relative to listed property dividend yields.

Figure 1. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	70%	12%	5%	87%
Office	7%	0%	0%	7%
Mixed use	5%	1%	0%	6%
Total	83%	13%	5%	100%

Source: Forsyth Barr analysis, Company Reports

Figure 2. Portfolio metrics



Source: Forsyth Barr analysis, Company Reports

Property for Industry Ltd (PFI)

Priced as at 11 Feb 2020 (NZ\$)

2.52

12-month target price (NZ\$)*

2.00

Expected share price return

-20.6%

Net dividend yield

3.0%

Estimated 12-month return

-17.6%

Spot valuations (NZ\$)

1. DCF

1.99

2. NAV

1.96

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.70

WACC

5.3%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,429

(Net debt)/cash

(397)

Less: Capitalised operating leases

Value of equity

1,023

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

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

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

Balance Sheet (NZ\$m)	2017A	2018A	2019E	2020E	2021E
Working capital	(7.0)	(9.2)	(9.6)	(9.7)	(9.9)
Fixed assets	1,210.8	1,318.7	1,350.0	1,373.6	1,395.6
Intangibles	29.1	29.1	29.1	29.1	29.1
Right of use asset	-	-	-	-	-
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
Lease liability	-	-	-	-	-
Other 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

Valuation Ratios	2017A	2018A	2019E	2020E	2021E
EV/EBITDA (x)	24.8	23.0	22.3	22.1	21.9
EV/EBIT (x)	24.8	23.0	22.3	22.1	21.9
PE (x)	31.2	30.1	29.3	29.1	28.7
Price/NTA (x)	1.5	1.4	1.4	1.4	1.3
Free cash flow yield (%)	-0.9	3.1	3.2	3.1	3.1
Net dividend yield (%)	3.0	3.0	3.0	3.0	3.0
Gross dividend yield (%)	4.2	4.3	4.3	4.3	4.3

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

Key Ratios	2017A	2018A	2019E	2020E	2021E
Return on assets (%)	5.2	5.3	5.4	5.3	5.3
Return on equity (%)	4.4	4.6	4.6	4.5	4.5
Return on funds employed (%)	4.3	4.4	4.3	4.3	4.2
EBITDA margin (%)	91.8	93.9	94.0	93.8	93.3
EBIT margin (%)	91.8	93.9	94.0	93.8	93.3
Capex to sales (%)	18.1	19.5	5.1	6.0	6.0
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	90	88	88	87

Property Statistics	2014A	2015A	2016A	2017A	2018A
Major Prop. Values - PFI (NZ\$m)					
7-9 Niall Burgess Rd, Mt Wellington	24.7	27.3	28.9	31.0	32.0
54 Carbine Rd, Mt Wellington	19.9	22.4	25.8	26.4	28.6
6 Donner Place, Mt Wellington	17.4	14.5	15.0	15.1	15.1
686 Rosebank Rd, Avondale	31.1	32.2	33.4	35.0	40.0
212 Cavendish Drive, Manukau	14.7	17.1	19.1	22.4	29.7
3-5 Niall Burgess Rd, Mt Wellington	14.5	15.7	17.3	17.7	20.0
30-32 Bowden Rd, Mt Wellington	18.3	20.7	21.4	25.4	27.0

Major Prop. Values - DPF (NZ\$m)					
Carlaw Commercial, Parnell	59.6	60.8	61.8	62.1	63.8
Carlaw Gateway, Parnell	33.7	33.8	35.0	35.0	35.5
78 Springs Road, East Tamaki	67.5	72.0	78.5	82.8	83.0
229 Dairy Flat Highway, Albany	22.0	22.9	24.7	27.0	28.0
15 Jomac Place, Avondale	19.9	21.0	23.6	24.0	24.5

Portfolio Summary					
Investment properties (NZ\$m)	876.0	986.6	1,083.3	1,210.8	1,318.7
Weighted average lease term (yrs)	5.3	5.2	4.8	5.3	5.4
Occupancy rate (%)	98.5	99.6	99.6	99.9	99.3
Number of properties	79	84	83	92	94
NTA per share (NZ\$)	1.30	1.41	1.61	1.63	1.78

Stride Property Group

Striding out Industrial Legs

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

NEUTRAL 

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. Additionally, SPG's funds management platform is scalable but near-term cost pressures are impacting margins. NEUTRAL.

Business quality

- **Improving portfolio metrics:** SPG continues to deliver good leasing outcomes with 98.2% occupancy and near-term lease expiry manageable.
- **Restructure:** In 2016 SPG separated 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.

Earnings and cashflow outlook

- **Funds management income:** SPG has grown its external funds under management to NZ\$1.24bn, reflecting growth from Investore and Diversified. SPG intends to grow both funds over time and announced the establishment of industrial fund, Industre.
- **Brownfield development:** SPG is looking at opportunities to unlock value across its older assets.

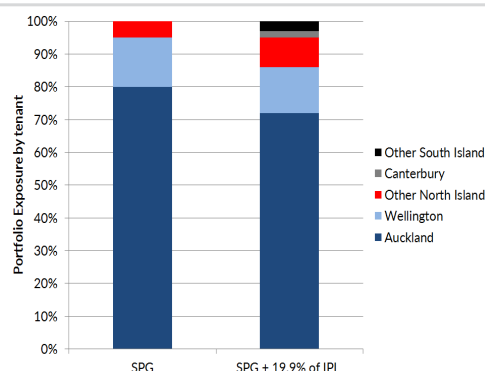
Financial structure

- **Balance sheet:** SPG's gearing is around average sector levels at ~35% but drops significantly to ~15% post the sale of its remains large format retail properties to IPL.

Risk factors

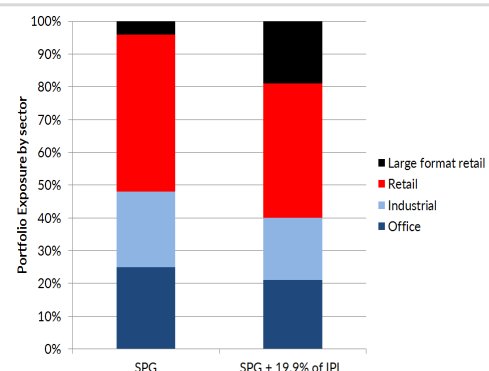
- **E-commerce growth:** SPG has a 47% weighting to retail assets (including its position in IPL), making it exposed to growing risks from e-commerce.

Figure 1. Geographical exposure



Source: Forsyth Barr analysis, Company Reports

Figure 2. Sector diversification



Source: Forsyth Barr analysis, Company Reports

Stride Property Group (SPG)

Priced as at 11 Feb 2020 (NZ\$)

2.37

12-month target price (NZ\$)*

2.18

Expected share price return

-8.0%

Net dividend yield

4.2%

Estimated 12-month return

-3.8%

Spot valuations (NZ\$)

1. SOTP

2.20

2. NAV

2.05

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.80

WACC

5.6%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,088

(Net debt)/cash

(327)

Less: Capitalised operating leases

0

Value of equity

761

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	77.1	74.0	75.1	81.1	82.9	EV/EBITDA (x)	18.2	19.5	19.9	18.5	18.1
Normalised EBITDA	60.2	55.7	56.3	61.8	63.2	EV/EBIT (x)	18.2	19.5	19.9	18.5	18.1
Depreciation and amortisation	-	-	-	-	-	PE (x)	22.3	22.3	22.6	21.3	21.0
Normalised EBIT	60.2	55.7	56.3	61.8	63.2	Price/NTA (x)	1.3	1.2	1.2	1.2	1.2
Net interest	(16.2)	(14.1)	(14.7)	(16.4)	(16.3)	Free cash flow yield (%)	-0.4	1.0	-6.5	2.0	3.9
Associate income	4.3	4.2	4.2	4.2	4.2	Net dividend yield (%)	4.2	4.2	4.2	4.2	4.5
Tax	(9.6)	(7.0)	(7.5)	(9.1)	(9.8)	Gross dividend yield (%)	6.0	6.0	6.0	6.0	6.5
Minority interests	-	-	-	-	-						
Normalised NPAT	38.8	38.8	38.3	40.6	41.3	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(8.1)	2.5	-	-	-	Interest cover EBIT (x)	3.7	3.9	3.8	3.8	3.9
Reported NPAT	95.3	72.8	47.0	49.6	50.5	Interest cover EBITDA (x)	3.7	3.9	3.8	3.8	3.9
Normalised EPS (cps)	10.6	10.6	10.5	11.1	11.3	Net debt/ND+E (%)	30.8	31.7	34.1	34.9	34.9
DPS (cps)	9.9	9.9	9.9	9.9	10.7	Net debt/EBITDA (x)	4.9	5.9	6.6	6.3	6.2
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	14.0	-4.0	1.4	8.0	2.3	Return on assets (%)	6.0	5.2	5.0	5.3	5.4
EBITDA (%)	6.8	-7.5	1.1	9.8	2.2	Return on equity (%)	5.8	5.5	5.4	5.6	5.6
EBIT (%)	6.8	-7.5	1.1	9.8	2.2	Return on funds employed (%)	n/a	4.5	4.2	4.4	4.4
Normalised NPAT (%)	10.9	0.0	-1.3	5.9	1.7	EBITDA margin (%)	78.1	75.3	75.0	76.3	76.2
Normalised EPS (%)	10.8	-0.1	-1.3	5.9	1.7	EBIT margin (%)	78.1	75.3	75.0	76.3	76.2
Ordinary DPS (%)	-0.5	0.0	0.0	0.0	8.3	Capex to sales (%)	53.8	33.1	69.7	17.1	7.1
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	60.2	55.7	56.3	61.8	63.2	Pay-out ratio (%)	93	93	95	89	95
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)	Operating Performance	2015A	2016A	2017A	2018A	2019A
Other	2.1	0.6	-	-	-						
Operating cash flow	37.8	33.2	38.4	39.0	40.0	Major Property Values (NZ\$m)					
Capital expenditure	(41.5)	(24.5)	(52.3)	(13.9)	(5.8)	1 Grey Street, WLG	48.8	49.8	49.8	52.8	57.2
(Acquisitions)/divestments	78.0	-	7.4	(7.5)	-	Jville Shopping Centre, WLG (50%)	34.1	32.9	30.5	30.7	30.1
Other	4.3	2.1	-	-	-	25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6
Funding available/(required)	78.6	10.7	(6.5)	17.6	34.1	33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-
Dividends paid	(36.0)	(36.2)	(36.2)	(36.2)	(39.2)	Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8
Equity raised/(returned)	-	-	-	-	-	65 Chapel St, Tauranga	35.2	38.7	40.5	41.5	45.1
(Increase)/decrease in net debt	42.6	(25.4)	(42.7)	(18.6)	(5.1)	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
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	2 Carr Road, Mt Roskill	29.7	31.5	36.9	42.8	47.3
Working capital	(12.6)	(14.9)	(17.0)	(16.9)	(16.9)						
Fixed assets	867.9	882.8	936.4	966.8	981.8	Portfolio Summary					
Intangibles	-	-	-	-	-	Investment properties (NZ\$m)	872.4	1,274.8	895.3	902.2	966.3
Right of use asset	-	-	-	-	-	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8
Other assets	132.0	135.1	135.1	135.1	135.1	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6
Total funds employed	987.3	1,003.0	1,054.5	1,085.0	1,100.1	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92
Net debt/(cash)	297.4	327.0	369.7	388.3	393.4	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4
Lease liability	-	-	-	-	-						
Other 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

Kiwi Property Group

Changing the Retail Mix

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

OUTPERFORM

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. 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. OUTPERFORM.

Business quality

- **Property fundamentals strong, reflecting strength of assets:** Portfolio metrics remain strong with WALT and occupancy at 5.1 years and 99.4% respectively. The office portfolio has an impressive WALT of 9.1 years.

Earnings and cashflow outlook

- **Rental growth:** KPG achieved solid +4.6% 1H20 rental growth driven by strong rent reviews and new leases in the Office and Mixed-use portfolio.
- **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.

Risk factors

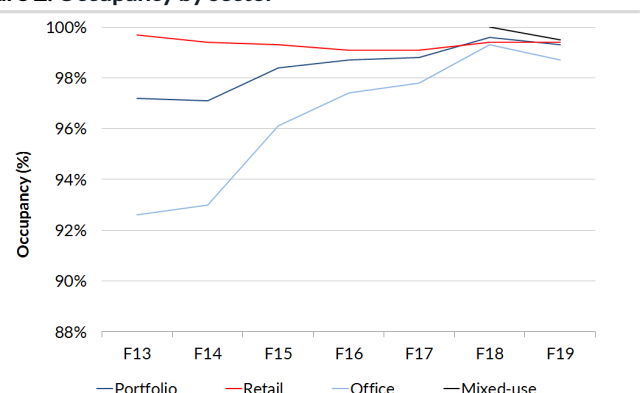
- **Retail exposure:** Competitive pressures from e-commerce growth coupled with the significant amount of Auckland retail development coming online at Commercial Bay and Westfield, Newmarket, are likely to impact KPG's Auckland based malls.
- **CBD office asset volatility:** Rental growth expectations 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.

Figure 1. Sector and regional portfolio exposure

	Auckland	Other North Island	South Island	Total
Industrial	-	-	-	-
Office	22%	7%	-	30%
Retail	45%	17%	9%	70%
Total	68%	24%	9%	100%

Source: Forsyth Barr analysis, Company Reports

Figure 2. Occupancy by sector



Source: Forsyth Barr analysis, Company Reports

Kiwi Property Group Limited (KPG)

Priced as at 11 Feb 2020 (NZ\$)

1.56

12-month target price (NZ\$)*

1.62

Expected share price return

3.8%

Net dividend yield

4.6%

Estimated 12-month return

8.4%

Spot valuations (NZ\$)

1. DCF

1.67

2. NAV

1.54

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.67

WACC

5.1%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

3,479

(Net debt)/cash

(992)

Less: Capitalised operating leases

Value of equity

2,462

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	191.7	180.8	185.6	197.8	205.2
Normalised EBITDA	171.2	160.0	164.7	176.4	183.4
Depreciation and amortisation	-	-	-	-	-
Normalised EBIT	171.2	160.0	164.7	176.4	183.4
Net interest	(42.4)	(37.5)	(36.3)	(35.7)	(38.2)
Associate income	-	-	-	-	-
Tax	(25.4)	(22.6)	(24.4)	(27.8)	(30.8)
Minority interests	-	-	-	-	-
Normalised NPAT	103.4	99.9	104.0	112.9	114.3
Abnormals/other	(16.7)	(38.2)	(46.0)	(46.1)	(48.9)
Reported NPAT	120.1	138.1	150.0	159.0	163.2
Normalised EPS (cps)	7.5	7.0	7.1	7.2	7.2
DPS (cps)	6.9	7.0	7.1	7.1	7.2

Growth Rates	2018A	2019A	2020A	2021A	2022A
Revenue (%)	5.4	-5.7	2.6	6.6	3.7
EBITDA (%)	4.4	-6.5	3.0	7.1	4.0
EBIT (%)	4.4	-6.5	3.0	7.1	4.0
Normalised NPAT (%)	7.6	-3.4	4.2	8.5	1.2
Normalised EPS (%)	0.4	-6.2	1.6	1.5	0.5
Ordinary DPS (%)	1.9	1.5	1.4	1.4	1.4

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	171.2	160.0	164.7	176.4	183.4
Working capital change	2.1	3.4	3.0	4.7	3.1
Interest & tax paid	(65.1)	(63.4)	(60.7)	(63.5)	(69.1)
Other	-	-	-	-	-
Operating cash flow	108.2	100.0	107.0	117.6	117.4
Capital expenditure	(112.6)	(169.8)	(164.6)	(53.3)	(17.3)
(Acquisitions)/divestments	62.3	67.3	-	-	-
Other	(6.4)	(2.6)	-	-	-
Funding available/(required)	51.4	(5.1)	(57.7)	64.2	100.1
Dividends paid	(88.5)	(81.5)	(76.9)	(83.4)	(113.6)
Equity raised/(returned)	157.0	-	180.0	-	-
(Increase)/decrease in net debt	119.9	(86.6)	45.5	(19.2)	(13.5)

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(43.2)	(47.1)	(48.4)	(51.6)	(53.5)
Fixed assets	3,052.0	3,207.4	3,416.3	3,514.3	3,579.3
Intangibles	-	-	-	-	-
Right of use asset	-	-	-	-	-
Other assets	4.4	5.9	5.9	5.9	5.9
Total funds employed	3,013.2	3,166.2	3,373.9	3,468.6	3,531.8
Net debt/(cash)	902.8	991.8	946.3	965.4	978.9
Lease liability	-	-	-	-	-
Other liabilities	116.3	123.5	123.5	123.5	123.5
Shareholder's funds	1,994.1	2,050.9	2,304.0	2,379.7	2,429.3
Minority interests	-	-	-	-	-
Total funding sources	3,013.2	3,166.2	3,373.9	3,468.6	3,531.8

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	18.7	19.9	19.5	18.0	17.3
EV/EBIT (x)	18.7	19.9	19.5	18.0	17.3
PE (x)	20.9	22.3	22.0	21.6	21.5
Price/NTA (x)	1.1	1.1	1.1	1.0	1.0
Free cash flow yield (%)	-0.2	-3.1	-2.6	2.9	4.5
Net dividend yield (%)	4.4	4.5	4.5	4.6	4.6
Gross dividend yield (%)	6.3	6.4	6.5	6.5	6.6

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	4.0	4.3	4.5	4.9	4.8
Interest cover EBITDA (x)	4.0	4.3	4.5	4.9	4.8
Net debt/ND+E (%)	31.2	32.6	29.1	28.9	28.7
Net debt/EBITDA (x)	5.3	6.2	5.7	5.5	5.3

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.6	4.9	4.8	5.0	5.1
Return on equity (%)	5.2	4.9	4.5	4.7	4.7
Return on funds employed (%)	4.7	4.3	4.1	4.2	4.2
EBITDA margin (%)	89.3	88.5	88.7	89.2	89.4
EBIT margin (%)	89.3	88.5	88.7	89.2	89.4
Capex to sales (%)	58.7	93.9	88.7	27.0	8.4
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	92	99	99	99	100

Property Statistics	2015A	2016A	2017A	2018A	2019A
---------------------	-------	-------	-------	-------	-------

Retail portfolio					
No. properties	7	9	9	4	4
WALT (years)	3.4	3.9	3.8	3.6	3.3
Occupancy rate (%)	99.3%	99.1%	99.1%	99.4%	99.4%
Cap rate (%)	6.97%	6.69%	6.52%	6.25%	7.53%

Office portfolio					
No. properties	5	5	5	4	4
WALT (years)	7.6	8.2	10.1	10.1	9.3
Occupancy rate (%)	96.1%	97.4%	97.8%	99.3%	98.7%
Cap rate (%)	6.80%	6.44%	6.13%	5.76%	5.45%

Mixed-use portfolio					
No. properties				4	4
WALT (years)				4.0	4.1
Occupancy rate (%)				100.0%	99.5%
Cap rate (%)				5.72%	5.71%

Total portfolio					
WALT (years)	4.5	5.1	5.6	5.3	5.2
Occupancy rate (%)	98.4%	98.7%	98.8%	99.6%	99.3%
Cap rate (%)	6.92%	6.61%	6.40%	6.11%	5.99%
NTA per share (NZ\$)	1.214	1.345	1.390	1.392	1.431

Vital Healthcare

Major Work in Progress

JEREMY SIMPSON CFA

jeremy.simpson@forsythbarr.co.nz
+64 9 368 0022

OUTPERFORM

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. OUTPERFORM.

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 17.9 years and strong portfolio occupancy of 99.4%.

Earnings and cashflow outlook

- **Increasing healthcare demand:** A growing and ageing population in Australia and New Zealand is driving demand for healthcare services.
- **Development activity:** VHP currently has over NZ\$200m of committed brownfield developments underway. Key developments include Wakefield, Bowen and Royston Hospitals', as well as the 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.

Risk factors

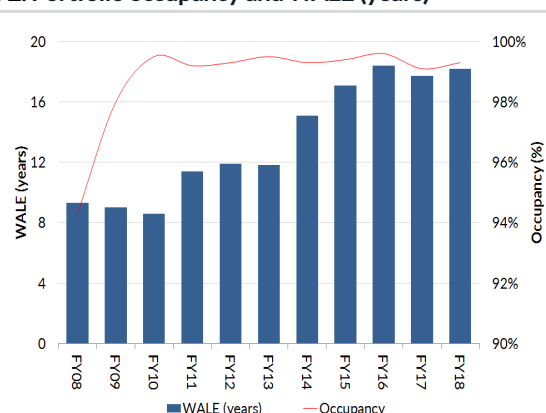
- **Rising interest rates:** Interest is VHP's largest expense. Changes to wholesale rates or margins can have a material impact on earnings.
- **Currency:** ~75% of VHP's assets are located in Australia, thus, currency movements can impact VHP's earnings and the value of its AUD assets. This is mitigated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

Figure 1. 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: Forsyth Barr analysis, Company Reports

Figure 2. Portfolio occupancy and WALE (years)



Source: Forsyth Barr analysis, Company Reports

Vital Healthcare Property Trust (VHP)

Priced as at 11 Feb 2020 (NZ\$)

2.91

12-month target price (NZ\$)*

2.69

Expected share price return

-7.6%

Net dividend yield

3.1%

Estimated 12-month return

-4.5%

Spot valuations (NZ\$)

1. DCF

2.92

2. NAV

2.30

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.68

WACC

5.1%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

2,128

(Net debt)/cash

(728)

Less: Capitalised operating leases

Value of equity

1,350

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	90.7	97.7	99.8	106.5	115.1	EV/EBITDA (x)	24.1	24.5	24.3	22.6	20.8
Normalised EBITDA	76.0	81.3	83.2	89.0	96.9	EV/EBIT (x)	24.1	24.5	24.3	22.6	20.8
Depreciation and amortisation	-	-	-	-	-	PE (x)	27.4	30.6	29.7	28.1	27.6
Normalised EBIT	76.0	81.3	83.2	89.0	96.9	Price/NTA (x)	1.3	1.3	1.2	1.2	1.2
Net interest	(22.8)	(29.9)	(30.3)	(31.7)	(37.6)	Free cash flow yield (%)	1.5	0.4	-3.3	-2.2	-2.2
Associate income	-	-	-	-	-	Net dividend yield (%)	2.9	3.0	3.1	3.1	3.1
Tax	(7.2)	(9.3)	(8.6)	(9.5)	(10.0)	Gross dividend yield (%)	4.2	4.3	4.4	4.4	4.4
Minority interests	-	-	-	-	-						
Normalised NPAT	46.0	42.2	44.3	47.8	49.3	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	54.0	51.3	22.2	29.6	31.2	Interest cover EBIT (x)	3.3	2.7	2.7	2.8	2.6
Reported NPAT	100.1	93.4	66.4	77.3	80.5	Interest cover EBITDA (x)	3.3	2.7	2.7	2.8	2.6
Normalised EPS (cps)	10.6	9.5	9.8	10.4	10.5	Net debt/ND+E (%)	40.2	41.4	39.9	41.1	42.3
DPS (cps)	8.6	8.8	9.0	9.0	9.0	Net debt/EBITDA (x)	8.7	9.0	8.6	8.7	8.7
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	19.5	7.7	2.2	6.7	8.2	Return on assets (%)	4.3	4.2	4.2	4.3	4.5
EBITDA (%)	15.1	6.9	2.3	6.9	8.9	Return on equity (%)	4.7	4.1	4.1	4.3	4.3
EBIT (%)	15.1	6.9	2.3	6.9	8.9	Return on funds employed (%)	4.4	3.9	3.9	4.0	4.1
Normalised NPAT (%)	3.3	-8.4	5.0	7.9	3.2	EBITDA margin (%)	83.9	83.2	83.3	83.6	84.1
Normalised EPS (%)	0.2	-10.3	3.0	5.8	1.6	EBIT margin (%)	83.9	83.2	83.3	83.6	84.1
Ordinary DPS (%)	0.7	2.2	2.9	0.0	0.0	Capex to sales (%)	28.8	36.3	85.8	72.2	67.5
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	76.0	81.3	83.2	89.0	96.9	Pay-out ratio (%)	81	92	92	87	86
Working capital change	(2.0)	(2.9)	(3.4)	0.4	0.4						
Interest & tax paid	(28.4)	(37.8)	(37.3)	(41.6)	(47.9)	Property Statistics	2014A	2015A	2016A	2017A	2018A
Other	-	-	-	-	-	Major Property Values (NZ\$m)					
Operating cash flow	45.7	40.6	42.5	47.8	49.3	Ascot Hospital & Clinics	-	-	-	-	-
Capital expenditure	(26.1)	(35.5)	(85.7)	(76.9)	(77.7)	Ascot Central	608.2	769.0	929.6	1,372.6	1,729.7
(Acquisitions)/divestments	(187.7)	(23.5)	-	-	-	Epworth Eastern	-	-	-	33.9	35.5
Other	(46.8)	(37.3)	86.4	-	-	Southport Private Hospital	15.5	18.3	19.8	30.5	38.2
Funding available/(required)	(214.9)	(55.7)	43.2	(29.1)	(28.4)	Lingard Private Hospital	47.4	46.6	45.1	42.6	47.6
Dividends paid	(31.1)	(32.7)	(28.3)	(34.3)	(42.2)	Maitland Private Hospital	15.5	18.3	19.8	30.5	38.2
Equity raised/(returned)	-	-	-	-	-	SportsMed Hospital and Clinic	-	-	-	33.0	35.3
(Increase)/decrease in net debt	(246.0)	(88.3)	14.9	(63.4)	(70.6)	Hurstville Private Hospital	-	-	3.6	3.8	4.3
						Total portfolio	613.0	-	-	-	-
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Portfolio Summary					
Working capital	(15.8)	(12.5)	(12.5)	(12.5)	(12.5)	Investment properties (NZ\$m)	613.0	-	-	-	-
Fixed assets	1,731.2	1,836.4	1,947.0	2,053.5	2,162.4	Number of properties - yielding only	(5)	(0)	2	12	-
Intangibles	-	-	-	-	-	Weighted average lease term (yrs)	59.5	60.8	70.3	94.8	-
Right of use asset	-	-	-	-	-	Occupancy rate (%)	-	-	-	-	-
Other assets	49.0	87.7	4.7	4.7	4.7	M'ment/Admin cost % of assets (%)	-	-	-	-	-
Total funds employed	1,764.5	1,911.7	1,939.2	2,045.7	2,154.6	NTA per share (NZ\$)	-	-	-	-	-
Net debt/(cash)	663.3	728.1	713.3	776.7	847.2	Average portfolio cap rate (%)	-	-	-	-	-
Lease liability	-	-	-	-	-						
Other liabilities	113.2	153.8	153.8	153.8	153.8						
Shareholder's funds	988.0	1,029.7	1,072.2	1,115.2	1,153.6						
Minority interests	-	-	-	-	-						
Total funding sources	1,764.5	1,911.7	1,939.2	2,045.7	2,154.6						

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

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: For information about analyst holdings in a particular financial product referred to in this publication, please refer to the most recent research report for that financial product.

Ratings distributions: As at undefined, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
29.4%	52.9%	17.6%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to an issuer that is the subject of this publication, please refer to the most recent research report for that issuer's financial products.

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.