

Stride Property

NEUTRAL

Taking Steps in Every Direction

Stride Property Group (SPG) has announced the conditional sale of its last remaining three large format retail properties to IPL for NZ\$140.75m; this one move grows its assets under management via its management of IPL and significantly frees up its balance sheet capacity for further acquisitions. The next update from SPG is with its 1H20 result to be announced on 25 November and we will review our forecasts then. Our rating remains NEUTRAL.

Selling its remaining large format assets

The assets to be sold are:

- Bunnings, Mt Roskill, Auckland — cap rate 4.88%, WALT 7.4 years
- Mt Wellington Shopping Centre, Auckland — cap rate 6.63%, WALT 3.1 years and has 22 tenants
- Bay centre Shopping Centre, Tauranga — cap rate 6.75%, WALT 4.2 years and has 29 tenants

The purchase price is in line with 30 September 2019 valuations. These properties were not part of the initial sell down of retail assets by SPG to IPL and since then there has been leasing improvements across the properties. Of concern for IPL investors though is the relatively low WALT of the assets which will drop IPL's WALT from 11.9 years to ~10 years, but it does improve the tenant diversification within the IPL portfolio which is a key strategic plank of the business.

As part of the sales process SPG is undertaking some seismic improvements and has provided a two year rental underwrite across four specialty properties.

Conditional sale and SPG to invest more in IPL

The sale is conditional on IPL Board approval, IPL shareholder approval and OIO approval with settlement note expected on 1 April 2020. IPL is raising NZ\$80m of new equity capital and SPG has indicated it intends to maintain its existing 19.9% stake in IPL.

SPG 1H20 result on 25 November — Funds management activity and update of key interest

The key area of interest will be an update on SPG's strategies to grow its funds management business further. FUM grows to NZ\$1.7b following the latest sale of three large format retail properties to IPL. In terms of the actual 1H20 result, we expect a flat EPS and DPS performance i.e. in line with FY20 guidance, but key portfolio metrics for directly owned assets are expected to remain robust.

Investment View

We remain positive on the medium-term potential of SPG's funds management platform, which we view as scalable, that continues to grow rapidly. Management continues to execute well on portfolio initiatives, generating solid returns on redevelopment projects. Consistent with peers, SPG is paying out above adjusted funds from operations (AFFO), which is reflected in a flat DPS profile. In our view SPG is fairly valued versus property peers. NEUTRAL.

NZX Code	SPG
Share price	NZ\$2.20
Target price	NZ\$2.18
Risk rating	Low
Issued shares	365.2m
Market cap	NZ\$803m
Average daily turnover	282.0k (NZ\$603k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	38.8	38.3	40.6	41.3
EPS* (NZc)	10.6	10.5	11.1	11.3
EPS growth* (%)	-0.1	-1.3	5.9	1.7
DPS (NZc)	9.9	9.9	9.9	10.7
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	18.4	18.8	17.5	17.1
EV/EBIT	18.4	18.8	17.5	17.1
PE	20.7	21.0	19.8	19.5
Price / NTA	1.1	1.1	1.1	n/a
Cash dividend yield (%)	4.5	4.5	4.5	4.9
Gross dividend yield (%)	6.4	6.4	6.4	7.0

*Historic and forecast numbers based on underlying profits

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Investment summary

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

Earnings and cash flow outlook

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

Business quality

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

Financial structure

- **Balance sheet:** SPG's gearing is around average sector levels at ~30% but drops significantly to ~15% post the sale of its remains large format retail properties to IPL.
- **FY19 +4% revaluation:** A gain of NZ\$36.5m was driven by industrial assets and cap rates firmed to 6.35%. NTA lifted +10cps to NZ\$1.92.

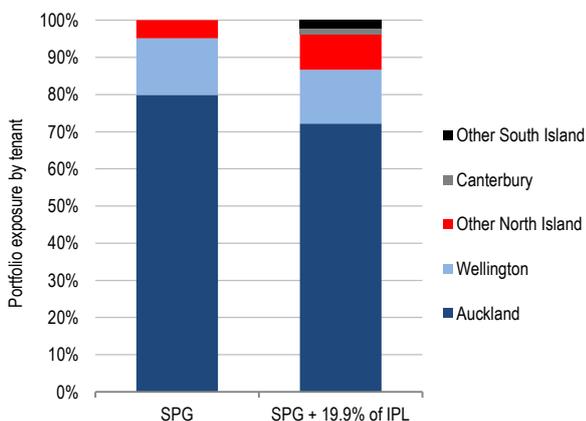
Risks factors

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

Company description

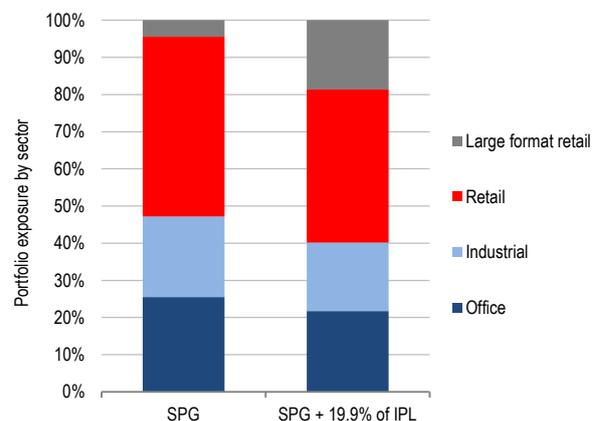
Stride Stapled Group (SPG) is a listed property company which owns NZ\$895m of direct property across 28 individual assets. 71% of SPG's portfolio is located in Auckland including its key asset NorthWest Shopping Centre. SPG also has significant funds management operations and manages NZ\$1.2bn of external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

Figure 1. Geographical exposure



Source: Forsyth Barr analysis, Company Reports

Figure 2. Sector diversification



Source: Forsyth Barr analysis, Company Reports

Figure 3. Substantial Shareholders

Shareholder	Latest Holding
ANZ NZ Investments	12.4%
ACC	9.1%

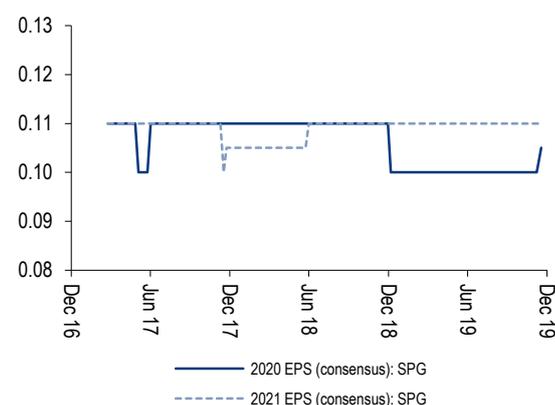
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 4. International Compcos

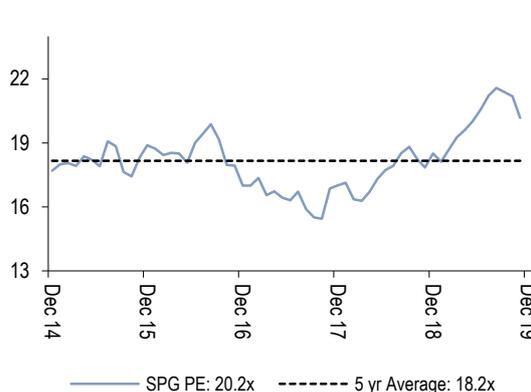
Company <i>(metrics re-weighted to reflect SPG's balance date - March)</i>	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	
Stride Property	SPG NZ	NZ\$2.20	NZ\$803	21.0x	19.8x	20.1x	18.3x	20.1x	18.3x	4.5%
Argosy Property *	ARG NZ	NZ\$1.41	NZ\$1,166	21.4x	20.5x	19.7x	18.4x	19.7x	18.4x	4.5%
Goodman Property Trust *	GMT NZ	NZ\$2.10	NZ\$2,910	31.1x	30.5x	27.3x	24.9x	27.3x	24.9x	3.2%
Inv estore *	IPL NZ	NZ\$1.91	NZ\$497	23.6x	23.2x	20.0x	19.7x	20.0x	19.7x	4.0%
Kiwi Property Group *	KPG NZ	NZ\$1.56	NZ\$2,431	22.0x	21.6x	20.8x	19.4x	20.8x	19.4x	4.6%
Asset Plus *	APL NZ	NZ\$0.64	NZ\$104	16.6x	17.7x	12.3x	13.2x	12.3x	13.2x	5.6%
Precinct Properties NZ *	PCT NZ	NZ\$1.77	NZ\$2,325	27.0x	25.6x	27.4x	22.5x	27.4x	22.5x	3.6%
Property For Industry *	PFI NZ	NZ\$2.34	NZ\$1,165	27.1x	26.8x	20.9x	20.7x	20.9x	20.7x	3.3%
Vital Healthcare *	VHP NZ	NZ\$2.67	NZ\$1,207	27.5x	26.1x	23.4x	22.1x	23.4x	22.1x	3.4%
Compco Average:				24.5x	24.0x	21.5x	20.1x	21.5x	20.1x	4.0%
SPG Relative:				-14%	-18%	-6%	-9%	-6%	-9%	+12%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SPG) companies fiscal year end

Figure 5. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 6. 12 Month Forward PE


Source: Forsyth Barr analysis

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