

Stride Property

NEUTRAL

Line and Length

Stride Property Group (SPG) has delivered a balanced 1H20 result with (1) encouraging uplift in EBITDA versus expectations (+3.5%) compelled by markedly increased management fee income, (2) a robust portfolio valuation uplift driving a +5cps lift in NTA per share to NZ\$1.97, (3) improving portfolio metrics with lower vacancy and strong net rental growth (+2.1%) across the portfolio, and (4) continued developments in its fund management business (SIML) starting to generate a robust tailwind of earnings. SPG has declared 2Q20 DPS of 2.4775cps and reiterated FY20E DPS guidance of 9.91cps, in-line with our expectations. Our rating remains NEUTRAL and we have made no changes to our forecasts

Robust metrics & resilient SIML

SPG has had a successful period for leasing activity, improving portfolio occupancy to 98.2% (+0.6% HoH). The portfolio WALT reduced slightly to 4.5 years vs the pcg, an immaterial reduction largely attributable to a reorganisation of assets amongst SPG's funds. It is worth noting that upon the settlement of Industrie and sale of its remaining three LFR assets to Investore (IPL), Stride's weighted look through WALT will sit at c. 7 years; characteristic of the longer lease terms industrial and LFR assets typically carry. SIML continues to gain momentum, with a +26.4% lift in management fee income; a result of a strong 1H20 Investore result. We are encouraged by the enduring and scalable nature of SPG's management business. As FUM continues to grow, we expect significant operating leverage will be achieved, a strong value proposition in an otherwise value trapped market for acquisitions.

Solid revaluation gain boosts NTA +5cps to NZ\$1.97

SPG reported an ~NZ\$25m (+2.6%) revaluation gain across the portfolio, with the industrial and office portfolios the highlights, generating +6% and +4.1% valuation gains respectively. Such revaluations are consistent with the thematic seen across the LPV sector, where particularly Auckland focussed industrial and office assets continue to see immense occupier demand and with interest rates at historic lows, investor interest also continues to mount, putting upward pressure on valuations. The gain has boosted NTA per share +5cps to NZ\$1.97.

Capital management healthy

SPG's LVR currently sits at 35%, only slightly up on FY19 (34.3%), and after the settlement of its two key strategic initiatives (Industrie and Retail portfolio rationalisation), gearing is expected to reduce further to ~15%. Such flexibility provides SPG with significant optionality to continue to build out its portfolio, and pursue alternative funds management opportunities such as a potential office-focussed fund. SPG also maintained its FY20 dividend guidance of 9.91cps, whilst the 2Q20 dividend of 2.4775cps has a record date of 3 December 2019 and payment date of 10 December 2019.

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\$2.19
Target price	NZ\$2.18
Risk rating	Low
Issued shares	365.2m
Market cap	NZ\$800m
Average daily turnover	280.9k (NZ\$602k)

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	18.3	18.8	17.4	17.1
EV/EBIT	18.3	18.8	17.4	17.1
PE	20.6	20.9	19.7	19.4
Price / NTA	1.1	1.1	1.1	n/a
Cash dividend yield (%)	4.5	4.5	4.5	4.9
Gross dividend yield (%)	6.5	6.5	6.5	7.0

*Historic and forecast numbers based on underlying profits

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1H20 Results Summary

Figure 1. 1H20 Financial Summary (NZ\$m)

Financial period	1H19 09/18	1H20 09/19	Chg %	Forbar	Var %
Underlying profit & loss					
Net rental income	28.1	28.7	2.1%	28.8	-0.4%
Management fee income	7.3	9.2	26.4%	7.4	24.8%
Total revenue	35.7	37.9	6.1%	36.8	3.1%
Corporate overhead	(9.0)	(9.6)	7.2%	(9.5)	1.2%
EBITDA	26.8	28.8	7.3%	27.8	3.5%
Net interest	(7.1)	(6.5)	-7.9%	(7.3)	-11.0%
PBT	19.7	22.3	12.8%	19.1	16.3%
Current tax	(2.3)	(5.0)	120.4%	(3.4)	45.3%
NPAT (distributable) - pre associates	17.5	17.3	-1.2%	17.0	1.3%
Dividends from associates	2.1	2.0	-6.8%	2.1	-4.5%
NPAT (distributable) - post associates	19.6	19.3	-1.8%	19.1	-0.8%
Maintenance capex	(3.1)	(3.8)	22.6%	(3.0)	24.7%
AFFO	16.5	15.5	-6.4%	16.1	-4.1%
NPAT (distributable) - post associates	19.6	19.3	-1.8%	19.1	-0.8%
Non distributable income	-	-	-	18.0	-
Reported profit	19.6	19.3	-1.8%	19.1	-0.8%
Financial per share (cps)					
Period weighted shares on issue	365	365	-	365	-
EPS	5.37	5.27	-1.8%	5.23	0.8%
AFFO	4.52	4.23	-6.4%	4.41	-4.1%
DPS (SPG + SIML)	4.96	4.96	-	4.95	0.1%
NTA	1.88	1.97	4.8%	1.90	3.7%
Payout - NPAT (underlying)	92%	94%	1.7ppt	95%	-
Payout - AFFO	110%	117%	7.5ppt	112%	-

Source: Forsyth Barr analysis, Company Reports

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\$1.24bn, 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\$68.7m redevelopment at 318 East Tamaki Road for Waste Management.

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 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 ~35% but drops significantly to ~15% post the sale of its remains large format retail properties to IPL.
- **1H20 +2.6% revaluation:** A gain of ~NZ\$25m was driven by industrial assets lifting NTA +5cps to NZ\$1.97.

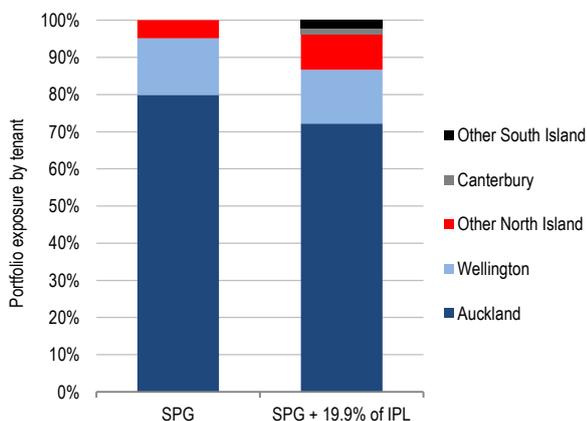
Risks factors

- **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.
- **Capital expenditure:** SPG owns a number of secondary-grade properties

Company description

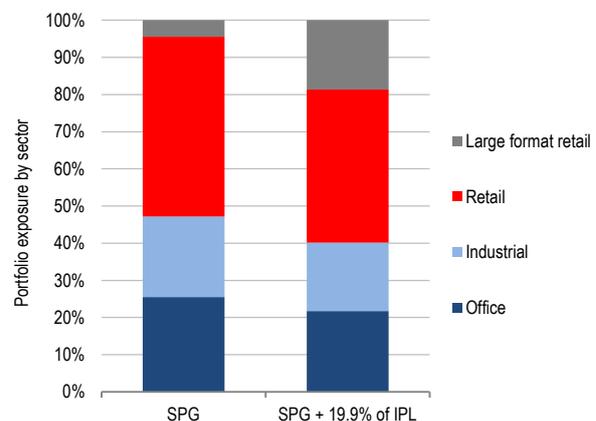
Stride Stapled Group (SPG) is a listed property company which owns NZ\$999m of direct property across 26 individual assets. 80% of SPG's portfolio is located in Auckland including its key asset NorthWest Shopping Centre. SPG also has significant funds management operations and manages NZ\$1.2bn of external 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 2. Geographical exposure



Source: Forsyth Barr analysis, Company Reports

Figure 3. Sector diversification



Source: Forsyth Barr analysis, Company Reports

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
ANZ NZ Investments	12.4%
ACC	9.1%

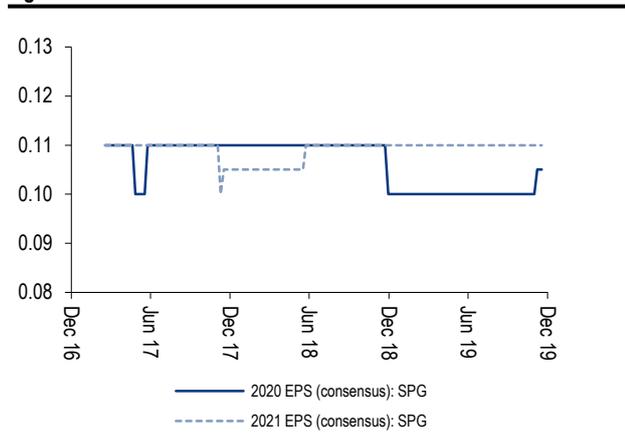
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International Compco's

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\$2.19	NZ\$800	20.9x	19.7x	20.0x	18.2x	20.0x	18.2x	4.5%	
Argosy Property *	ARG NZ	NZ\$1.37	NZ\$1,129	20.7x	19.9x	19.3x	18.1x	19.3x	18.1x	4.6%	
Goodman Property Trust *	GMT NZ	NZ\$2.09	NZ\$2,896	31.0x	30.4x	27.2x	24.8x	27.2x	24.8x	3.2%	
Investore *	IPL NZ	NZ\$1.79	NZ\$466	22.1x	21.7x	19.2x	19.0x	19.2x	19.0x	4.3%	
Kiwi Property Group *	KPG NZ	NZ\$1.55	NZ\$2,432	21.8x	21.5x	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\$1.78	NZ\$2,332	27.1x	25.6x	27.4x	22.6x	27.4x	22.6x	3.6%	
Property For Industry *	PFI NZ	NZ\$2.33	NZ\$1,162	27.0x	26.8x	20.9x	20.6x	20.9x	20.6x	3.3%	
Vital Healthcare *	VHP NZ	NZ\$2.66	NZ\$1,202	27.4x	26.0x	23.3x	22.1x	23.3x	22.1x	3.4%	
Compco Average:				24.2x	23.7x	21.3x	20.0x	21.3x	20.0x	4.1%	
EV = Current Market Cap + Actual Net Debt				SPG Relative:	-14%	-17%	-6%	-9%	-6%	-9%	+11%

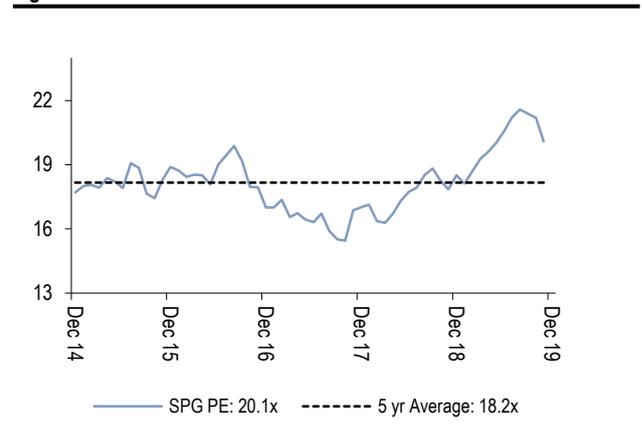
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SPG) companies fiscal year end

Figure 6. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 7. 12 Month Forward PE



Source: Forsyth Barr analysis

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