

Stride Property

1H21 Result – Funding the Flagship

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OUTPERFORM

Stride Property (SPG) reported a strong 1H21 result underpinned by better than expected rent abatements as well as recurring and one-off management fees. The announcement of an NZ\$220m capital raise to fund the acquisition of a prime Wellington office tower was the key piece of new information in yesterday's result, and propels SPG another step closer to its goal of establishing an office fund. SPG's post-offer pro-forma gearing of 30.4% provides it with capacity for further acquisitions, with management signalling its intention to remain active. We maintain our OUTPERFORM rating, given the attractive growth and operating leverage that we expect SPG's asset management vehicle to generate.

NZX Code	SPG	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.30	NPAT* (NZ\$m)	37.7	42.4	46.0	47.1	PE	22.3	21.0	21.8	21.3
Target price	NZ\$2.30	EPS* (NZc)	10.3	11.0	10.5	10.8	EV/EBIT	23.7	26.3	19.9	19.6
Risk rating	Medium	EPS growth* (%)	-2.8	6.3	-4.0	2.5	EV/EBITDA	23.7	26.3	19.9	19.6
Issued shares	470.0m	DPS (NZc)	9.9	9.9	9.9	10.0	Price / NTA	1.2	1.3	1.3	1.3
Market cap	NZ\$1,081m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.3	4.3	4.3	4.3
Avg daily turnover	342.4k (NZ\$636k)	*Based on normalised profits					Gross div yld (%)	6.2	6.2	6.2	6.2

What's changed?

- **Earnings:** AFFO up +1.0%/1.8%/2.5% in FY21/FY22/FY23
- **Target price:** Lifted +15cps to NZ\$2.30

Portfolio gains strength

SPG's operating result was tidy with better than expected rent relief outcomes resulting in an upgrade to guidance. SPG now expects FY21 distributable profit to be impacted by -NZ\$0.2m-1.9m (vs old guidance: -NZ\$2.9m-5.1m). Across the portfolio, 81% of COVID-19 related rent arrangements have been completed, with SPG negotiating lease extensions in most deferral/abatement deals. These extensions, alongside recent acquisitions, have resulted in an improvement in SPG's portfolio metrics with pro-forma WALT +1.5 years to 5.8, and occupancy +80bp to 96.7%.

Funds management platform takes shape

SPG's result was boosted by the inclusion of Industrie establishment fees and management fees, with management fee income up +43% to NZ\$13.1m in the half. Since establishment in July, Industrie has acquired four properties and will look to remain acquisitive with \$113m of available capital. The next fund slated for establishment is SPG's office fund which has taken form much faster than expected, with SPG announcing NZ\$312.5m of acquisitions in the past week. We view the NZ\$228m purchase of a prime Wellington office tower, 20 Customhouse Quay, as logical given it will serve as the cornerstone to SPG's office fund and improve portfolio metrics. Post the establishment of the office fund SPG will have c.NZ\$300m of retail assets on its balance sheet that will be the seed for a retail, town centre fund.

Target price up +15cps, OUTPERFORM retained

We revise earnings upwards, accounting for recent acquisitions, adjustments to our Industrie assumptions, and tax adjustments, partially offset by the dilution of the capital raise. Our target price lifts +15cps as we remove conservative asset devaluation assumptions across the portfolio from our NAV.

Stride Property Group (SPG)

Priced as at 25 Nov 2020 (NZ\$)						2.30						
12-month target price (NZ\$)*						2.30	Spot valuations (NZ\$)					
Expected share price return						0.0%	1. SOTP					2.45
Net dividend yield						4.3%	2. NAV					2.07
Estimated 12-month return						4.3%	n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.30%	Total firm value					1,079
Equity beta						0.88	(Net debt)/cash					(257)
WACC						4.8%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					821
Profit and Loss Account (NZ\$m)						Valuation Ratios						
	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E	
Sales revenue	74.0	77.9	64.4	73.3	74.8	EV/EBITDA (x)	23.4	23.7	26.3	19.9	19.6	
Normalised EBITDA	55.7	56.8	46.2	53.2	53.9	EV/EBIT (x)	23.4	23.7	26.3	19.9	19.6	
Depreciation and amortisation	0	0	0	0	0	PE (x)	21.7	22.3	21.0	21.8	21.3	
Normalised EBIT	55.7	56.8	46.2	53.2	53.9	Price/NTA (x)	1.2	1.2	1.3	1.3	1.3	
Net interest	(14.1)	(13.2)	(8.8)	(8.7)	(8.0)	Free cash flow yield (%)	0.8	-4.5	-35.1	1.6	3.3	
Associate income	4.2	4.1	7.0	9.7	9.7	Net dividend yield (%)	4.3	4.3	4.3	4.3	4.3	
Tax	(7.0)	(10.0)	(2.0)	(8.2)	(8.5)	Gross dividend yield (%)	6.2	6.2	6.2	6.2	6.2	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	38.8	37.7	42.4	46.0	47.1	Interest cover EBIT (x)	3.9	4.3	5.2	6.1	6.7	
Abnormals/other	2.5	4.0	0	0	0	Interest cover EBITDA (x)	3.9	4.3	5.2	6.1	6.7	
Reported NPAT	72.8	29.9	37.1	41.1	57.4	Net debt/ND+E (%)	31.7	34.9	24.6	26.0	25.7	
Normalised EPS (cps)	10.6	10.3	11.0	10.5	10.8	Net debt/EBITDA (x)	5.9	6.6	5.6	5.2	5.1	
DPS (cps)	9.9	9.9	9.9	9.9	10.0	Key Ratios						
Growth Rates							2019A	2020A	2021E	2022E	2023E	
Revenue (%)	-4.0	5.3	-17.4	13.8	2.1	Return on assets (%)	5.2	4.9	4.2	4.8	4.8	
EBITDA (%)	-7.5	2.0	-18.6	15.1	1.3	Return on equity (%)	5.5	5.4	5.4	5.8	5.9	
EBIT (%)	-7.5	2.0	-18.6	15.1	1.3	Return on funds employed (%)	4.5	4.1	3.9	4.0	4.0	
Normalised NPAT (%)	0.0	-2.8	12.3	8.5	2.5	EBITDA margin (%)	75.3	72.9	71.9	72.6	72.1	
Normalised EPS (%)	-0.1	-2.8	6.3	-4.0	2.5	EBIT margin (%)	75.3	72.9	71.9	72.6	72.1	
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.9	Capex to sales (%)	33.1	57.3	64.5	29.5	6.3	
Cash Flow (NZ\$m)							2019A	2020A	2021E	2022E	2023E	
EBITDA	55.7	56.8	46.2	53.2	53.9	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
Working capital change	(2.5)	(5.4)	2.4	(0.2)	(0.0)	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(20.7)	(22.5)	(10.3)	(14.5)	(13.9)	Pay-out ratio (%)	93	96	90	94	93	
Other	0.6	0.2	0	0	0	Operating Performance						
Operating cash flow	33.2	29.1	38.3	38.5	39.9		2016A	2017A	2018A	2019A	2020A	
Capital expenditure	(24.5)	(44.7)	(41.5)	(21.6)	(4.7)	Portfolio Summary						
(Acquisitions)/divestments	0	16.9	131.7	0	0	Investment properties (NZ\$m)	1,275	895	902	966	996	
Other	2.1	(11.7)	(181.3)	7.3	7.3	Weighted average lease term (yrs)	7.9	4.9	5.1	4.8	5.8	
Funding available/(required)	10.7	(10.3)	(52.7)	24.3	42.6	Occupancy rate (%)	99.6	96.8	96.7	97.6	98.1	
Dividends paid	(36.2)	(36.2)	(41.5)	(43.2)	(43.6)	NTA per share (NZ\$)	1.97	1.67	1.82	1.92	1.91	
Equity raised/(returned)	0	0	210.5	0	0	Average portfolio cap rate (%)	7.0	7.0	6.6	6.4	6.1	
(Increase)/decrease in net debt	(25.4)	(46.5)	116.3	(18.9)	(1.0)	Adjusted Fund From Operations						
Balance Sheet (NZ\$m)							2019A	2020A	2021E	2022E	2023E	
Working capital	(14.9)	(14.0)	(16.3)	(16.1)	(16.1)	AFFO (cps)	10.3	8.0	9.1	8.9	8.7	
Fixed assets	882.8	892.7	797.2	814.0	828.9	AFFO payout ratio (%)	96	124	109	112	115	
Intangibles	0	0	0	0	0							
Right of use asset	0	0	0	0	0							
Other assets	135.1	110.2	286.7	286.7	286.7							
Total funds employed	1,003.0	989.0	1,067.6	1,084.6	1,099.5							
Net debt/(cash)	327.0	373.8	257.4	276.4	277.4							
Lease liability	0	27.5	0	0	0							
Other liabilities	21.9	21.8	21.8	21.8	21.8							
Shareholder's funds	704.2	698.2	788.4	786.4	800.4							
Minority interests	0	0	0	0	0							
Total funding sources	1,053.1	1,121.2	1,067.6	1,084.6	1,099.5							

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

Result summary

SPG reported a strong 1H21 result with distributable income +9% to NZ\$21.1m due to higher management fees and lower tax offsetting lower rental income from the divestment of assets. The result was ahead of our expectations of NZ\$17.3m largely due to lower COVID-19 abatements being paid and stronger management fee income.

- **COVID-19** – SPG has provided updated impacts to earnings with less rent relief being provided (NZ\$3.7–4.2m was NZ\$5.8–8.0m) but lower corporate cost savings (NZ\$1.0–2.2m was NZ\$2.2m).
- **Portfolio performance remains solid** – Pro-forma 1H21 WALT and occupancy of 5.8 years and 96.7% (FY20: 4.4 years/95.9%). 96 rent reviews were completed over the half resulting in a +3.2% increase in rents. As expected trading at SPG’s retail assets has been COVID-19 impacted; excluding travel related retailers MAT (moving annual total) was -1.4% at NorthWest, and +5.0% at Silverdale despite having lost 18.5% of trading days.
- **Growth in funds under management** – Management fee income was +43% to NZ\$13.1m in the half. In the half Industrie was established, with NZ\$398m of assets having grown to NZ\$499m largely via acquisition.
- **Office fund taking shape** – SPG has made significant progress on its journey to establishing an office fund. In the period, SPG acquired three assets lifting the value of SPG’s office portfolio to NZ\$595m which we believe is sufficient for the potential listing of the vehicle (Investore had NZ\$640m of assets upon listing).
- **Balance sheet solid** – NTA lifted +8cps to NZ\$2.01. On a pro-forma basis gearing was 30.3% and SPG has undrawn bank debt of NZ\$139m.

Figure 1. 1H21 result summary

Financial period	1H20	1H21	Chg %	1H21E	Var %
Net rental income	28.7	18.6	-35.2%	15.6	19.2%
Management fee income	9.2	14.8	61.7%	11.9	24.6%
Total revenue	37.9	33.4	-11.8%	27.5	21.5%
Corporate overhead	(9.6)	(8.9)	-6.9%	(9.1)	-1.2%
EBITDA	28.8	24.5	-14.9%	18.4	32.7%
Net interest	(6.5)	(5.8)	-10.9%	(3.3)	74.9%
PBT	22.3	18.7	-16.1%	15.1	23.5%
Current tax	(5.0)	(0.2)	-96.2%	(2.7)	-93.0%
NPAT (distributable) – pre associates	17.3	18.5	7.0%	12.4	48.8%
Dividends from associates	2.0	2.6	32.4%	4.9	-46.3%
NPAT (distributable) – post associates	19.3	21.1	9.6%	17.3	21.9%
Maintenance capex	(3.8)	(1.0)	-72.6%	(2.0)	-47.9%
AFFO	15.5	20.1	29.8%	15.3	31.0%

Source: Forsyth Barr analysis, Company reports

Earnings changes

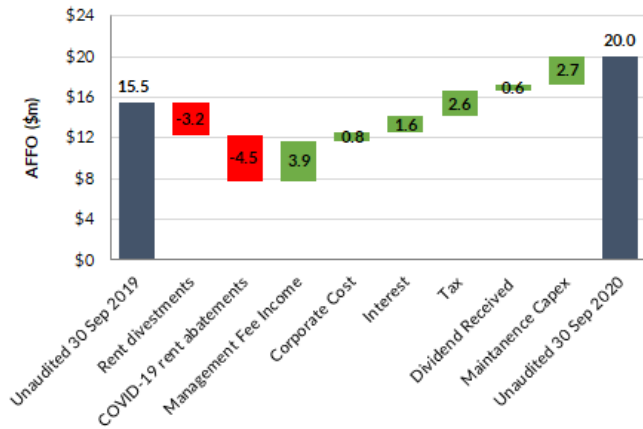
Figure 2. Earnings changes

	FY21			FY22			FY23		
	Old	New	Change	Old	New	Change	Old	New	Change
Net rental income	37.2	41.3	+11.0%	37.7	53.8	+42.5%	38.4	54.7	+42.5%
Management fees	22.2	23.1	+4.1%	19.1	19.5	+2.2%	19.7	20.2	+2.2%
Dividends from associates	9.8	7.0	-28.6%	11.7	9.7	-17.1%	11.7	9.7	-17.1%
Corporate expenses	(18.1)	(18.1)	0.0%	(20.1)	(20.1)	0.0%	(20.9)	(20.9)	0.0%
EBITDA	51.06	53.24	+4.3%	48.45	62.90	+29.8%	48.87	63.60	+30.1%
Net interest	(6.62)	(8.85)	+33.6%	(6.07)	(8.71)	+43.4%	(5.59)	(8.00)	+43.1%
Current tax	(5.40)	(2.03)	-62.4%	(5.68)	(8.23)	+45.0%	(5.84)	(8.49)	+45.3%
Distributable earnings	39.03	42.36	+8.5%	36.70	45.96	+25.2%	37.44	47.11	+25.8%
Maintenance capex	(4.25)	(5.24)	+23.1%	(2.88)	(4.83)	+67.6%	(2.79)	(4.68)	+68.0%
AFFO	34.78	37.12	+6.7%	33.82	41.13	+21.6%	34.65	42.43	+22.4%
Distributable EPS (cps)	10.68	10.97	+2.7%	10.05	10.53	+4.9%	10.25	10.80	+5.4%
AFFO (cps)	9.52	9.62	+1.0%	9.26	9.43	+1.8%	9.48	9.72	+2.5%
DPS (cps)	9.91	9.91	0.0%	9.91	9.91	0.0%	9.91	10.00	+0.9%

Source: Forsyth Barr analysis

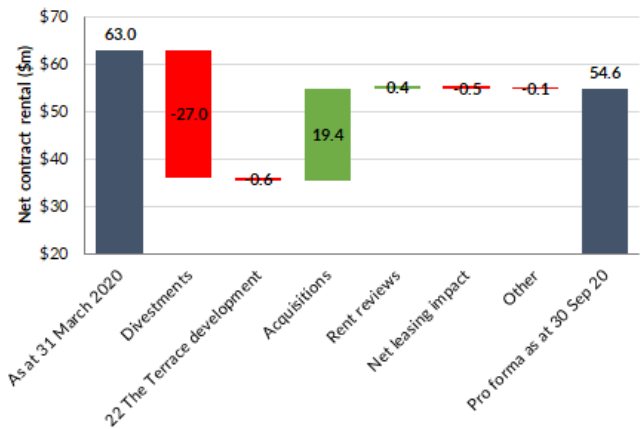
1H21 in charts

Figure 3. 1H20 to 1H21 AFFO bridge (\$m)



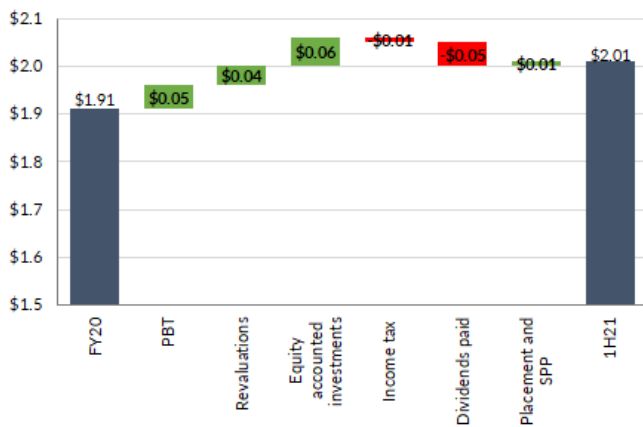
Source: Forsyth Barr analysis

Figure 4. Net contract rental (\$m)



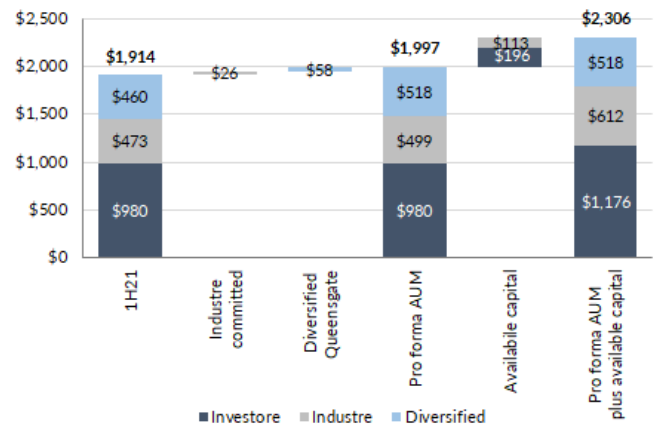
Source: Forsyth Barr analysis

Figure 5. NTA per share



Source: Forsyth Barr analysis, Company reports

Figure 6. Sources of external AUM



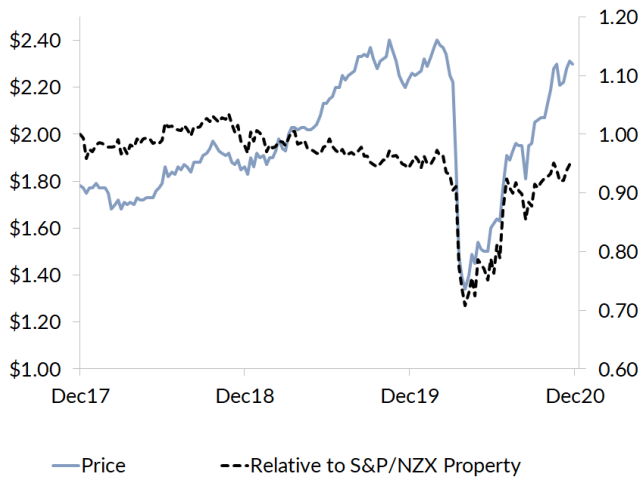
Source: Forsyth Barr analysis, Company reports

Figure 7. Pro-forma EPS post acquisitions and capital raise

	Pre cap raise	20 Customhouse	215 Lambton Quay	Equity raise	Pro-forma
FY21 Distributable income	39.0	5.8	3.2	2.7	50.6
Net income		10.2	5.0		
Interest		(3.4)	(1.3)	3.2	
Tax		(1.0)	(0.6)	(0.5)	
Shares on issue	365.4			104.8	470.1
EPS	10.7				10.8
Investment properties	726.0	228.0	85.0		1039.0
Bank debt drawn	164.0	228.0	85.0	(210.5)	266.5
Equity	733.0			210.5	943.5

Source: Forsyth Barr analysis, Company reports

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
ANZ NZ Investments	12.4%
ACC	11.2%

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

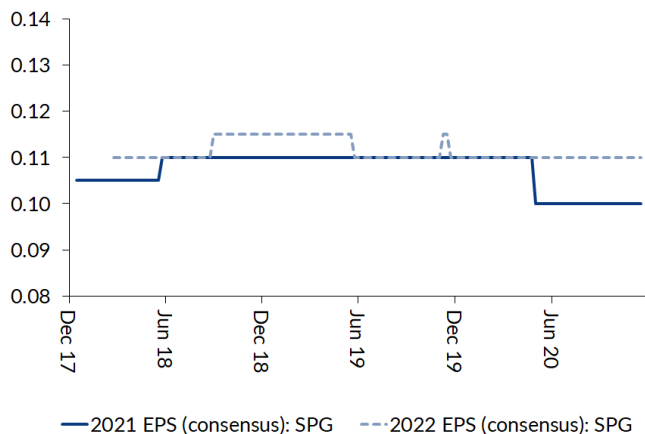
Figure 10. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Stride Property	SPG NZ	NZ\$2.30	NZ\$1,081	21.0x	21.8x	31.5x	27.3x	31.5x	27.3x	4.3%
ARGOSY PROPERTY *	ARG NZ	NZ\$1.47	NZ\$1,226	21.0x	21.0x	21.6x	20.9x	21.6x	20.9x	4.3%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.42	NZ\$3,360	36.0x	35.2x	29.3x	27.5x	29.3x	27.5x	2.3%
INVESTORE *	IPL NZ	NZ\$2.25	NZ\$828	29.0x	26.4x	23.4x	21.1x	23.4x	21.1x	3.5%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.28	NZ\$2,001	22.8x	19.2x	21.5x	17.9x	21.5x	17.9x	4.6%
ASSET PLUS *	APL NZ	NZ\$0.33	NZ\$123	13.9x	23.2x	21.7x	27.0x	21.7x	27.0x	5.5%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.78	NZ\$2,339	28.0x	27.7x	30.2x	27.4x	30.2x	27.4x	3.7%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.94	NZ\$1,471	33.3x	32.8x	26.3x	26.5x	26.3x	26.5x	2.7%
VITAL HEALTHCARE *	VHP NZ	NZ\$2.96	NZ\$1,519	27.8x	26.4x	26.8x	24.9x	26.8x	24.9x	3.1%
Compco Average:				26.5x	26.5x	25.1x	24.2x	25.1x	24.2x	3.7%
SPG Relative:				-21%	-18%	25%	13%	25%	13%	17%

EV = Current Market Cap + Actual Net Debt

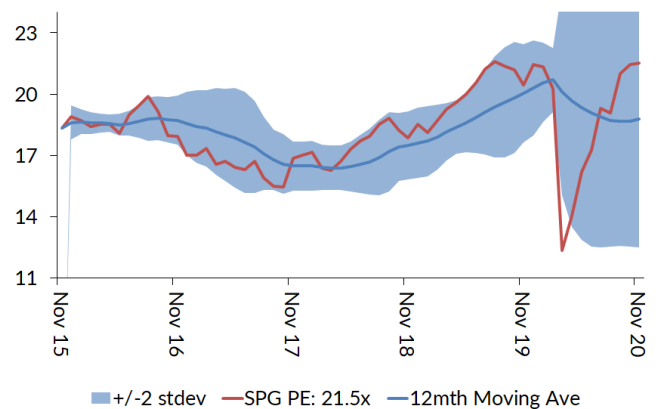
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SPG) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 12. One year forward PE (x)



Source: Forsyth Barr analysis

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