

Summerset Group

OUTPERFORM

4Q Sales — Summer to Remember

Summerset Group (SUM) reported a strong 4Q19 with 116 new sales, the strongest new sales for a quarter in three years and the second highest ever in company history over such a period; whilst 78 resales has led to FY19 resales being up +7%. While SUM has had a strong share price rebound we do not view it as expensive on a 16x FY20 P/E. **OUTPERFORM.**

What's changed?

- **Earnings:** FY19 +4%, FY20 +5% and FY21 +6%
- **Target Price:** Increase from NZ\$7.20 to NZ\$8.90
- **Rating:** Remains **OUTPERFORM**

New villages opening well

The opening of three new villages in Avonhead (Christchurch), Richmond (Nelson/Tasman), and Kenepuru (Wellington) were the key drivers fuelling the positive new sales. Robust presales of serviced apartments in its Casebrook village (Christchurch) is also an area of interest, representing further evidence of robust demand for SUM's care based offering, which is likely to underpin a solid performance in 1Q20 sales numbers.

Upgraded earnings and target price

We have upgraded near-term earnings to reflect stronger resales volumes and increased new and resales pricing. Thanks to stronger pricing and resales volume, as well as the time value of money impact, our DCF valuation has lifted from NZ\$6.70 at our last update to NZ\$8.27. Our target price has lifted from NZ\$7.20 to NZ\$8.90.

SUM has had a recent strong rebound in its share price on the back of improved sentiment towards the Auckland housing market; however, its underlying business and NZ wide portfolio continued to track well through this period regardless. SUM is still not aggressively priced in terms of its historic P/NTA and P/E multiples (see Figures 4 and 5) and continues to trade at a sizable discount to the market P/E despite its robust growth outlook and track record. We remain with an **OUTPERFORM** rating. SUM is due to report its FY19 result on 25 February.

Figure 1. Quarterly Sales Track

	FY18	1H19	3Q19	4Q19	4Q19F	FY19	% chg pcp	FY19F
New Sales	339	136	77	116	120	329	-2.9%	333
Resales	301	142	88	93	78	323	7.3%	308
Total	640	278	165	209	198	652	1.9%	641

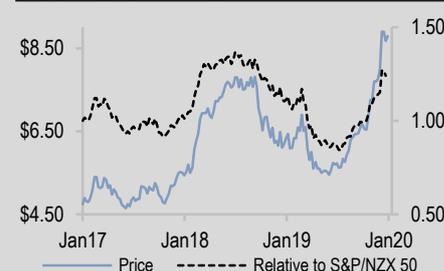
Source: Forsyth Barr analysis, Company Reports

Investment View

SUM continues to strengthen its development and operational track record and has a land bank of over six years. There remains significant long-term growth potential from demographic trends and SUM has the expertise to capitalise on these themes. Execution risk is increasing near-term as it tackles large and intensive Auckland developments late in the cycle but the business remains very well placed over the longer term. **OUTPERFORM.**

NZX Code	SUM
Share price	NZ\$8.79
Target price	NZ\$8.90
Risk rating	High
Issued shares	225.8m
Market cap	NZ\$1,984m
Avg daily turnover	334.9k (NZ\$2,069k)

Share Price Performance



Financials	18A	19E	20E	21E
NPAT* (NZ\$m)	98.8	106.0	123.7	142.9
EPS* (NZc)	43.9	46.9	54.8	63.3
EPS growth* (%)	19.7	6.9	16.7	15.5
DPS (NZc)	13.2	14.1	16.4	19.0
Imputation (%)	0	0	0	0

Valuation (x)	18A	19E	20E	21E
EV/EBITDA	10.1	19.3	16.8	14.6
EV/EBIT	10.4	20.4	17.7	15.4
PE	20.0	18.7	16.0	13.9
Price / NTA	2.0	1.9	1.8	1.7
Cash div yld (%)	1.5	1.6	1.9	2.2
Gross div yld (%)	1.5	1.6	1.9	2.2

*Historic/forecast numbers based on normalised profits

Jeremy Simpson, CFA

jeremy.simpson@forsythbarr.co.nz

+64 9 368 0022

What's Changed?

Figure 2. Forecast Changes

Year ending 31 December	Old	New	% Chg
Revenue FY19	247.4	251.1	1.5%
Revenue FY20	282.5	288.2	2.0%
Revenue FY21	320.6	328.0	2.3%
EBITDA FY19	122.0	125.8	3.1%
EBITDA FY20	139.7	145.3	4.0%
EBITDA FY21	159.2	166.6	4.6%
Normalised profit FY19	102.1	106.0	3.8%
Normalised profit FY20	117.5	123.7	5.2%
Normalised profit FY21	134.3	142.9	6.4%
Dividend FY19 (cps)	13.6	14.1	3.8%
Dividend FY20 (cps)	15.6	16.4	5.2%
Dividend FY21 (cps)	17.9	19.0	6.4%
Price Target	\$7.20	\$8.90	23.6%

Source: Forsyth Barr analysis, Company Reports

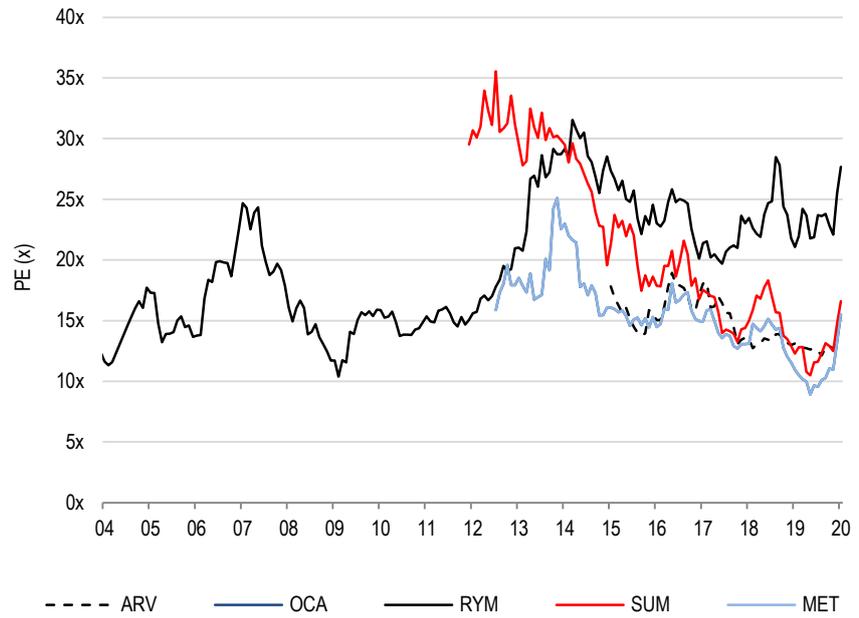
Figure 3. Changes to Key Drivers

Year ending 31 December	Old	New	% Chg
Gross devel margin % FY19	28.0	28.0	0.0%
Gross devel margin % FY20	25.0	25.0	0.0%
Gross devel margin % FY21	23.0	23.0	0.0%
Sales - new units FY19	333	329	-1.1%
Sales - new units FY20	400	400	0.0%
Sales - new units FY21	480	480	0.0%
Ave price - new sales FY19 (NZ\$m)	623.0	651.3	4.5%
Ave price - new sales FY20 (NZ\$m)	635.5	670.9	5.6%
Ave price - new sales FY21 (NZ\$m)	648.2	691.0	6.6%
Sales - resold units FY19	308	323	4.8%
Sales - resold units FY20	361	370	2.7%
Sales - resold units FY21	418	422	0.9%
Ave price - resold sales FY19 (NZ\$m)	438.5	438.5	0.0%
Ave price - resold sales FY20 (NZ\$m)	460.4	464.8	1.0%
Ave price - resold sales FY21 (NZ\$m)	483.4	492.7	1.9%
Gross resales margin % FY19	24.0	24.0	0.0%
Gross resales margin % FY20	23.0	23.0	0.0%
Gross resales margin % FY21	22.0	22.0	0.0%

Source: Forsyth Barr analysis, Company Reports

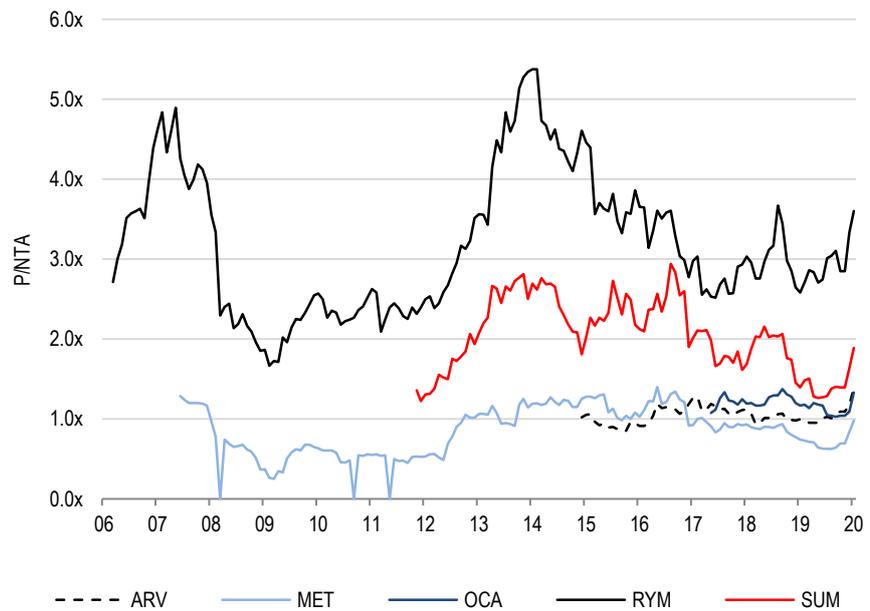
Sector Valuation History

Figure 4. Aged Care Sector P/E



Source: Forsyth Barr analysis, Company Reports

Figure 5. Aged Care Sector P/NTA



Source: Forsyth Barr analysis, Company Reports

Investment summary

With a strengthening development and sales track record, and a land bank of circa seven years, Summerset Group (SUM) has delivered to its 450 unit FY18 new build target. There remains significant growth potential from demographic trends, a further lift in its build rate and expansion into Australia with the acquisition of its first site in Victoria.

Business quality

- **Positive demographic trends:** SUM has the expertise to leverage the ageing population and growing popularity of retirement village living.
- **Growing development track record:** SUM built 450 units in FY18, and has achieved attractive development margins recently. Execution is becoming critical as SUM starts building larger high rise developments and increasing project debt.
- **Investing in quality of care:** SUM is investing heavily in its care operation which is increasing the 'needs based' nature of its portfolio and it has started adding dementia services to new developments.

Earnings and cash flow outlook

- **Strong underlying EPS growth track record:** Since listing on the NZX in 2011, SUM has generated strong EPS growth on a consistent basis. A key EPS driver will be SUM lifting its build rate over the medium term from 450 to 600 units per annum and expansion into Australia.
- **Recycling capital:** The occupational right agreement (ORA) structure provides the ability to self-fund development, subsidise the cost of a care facility, recycle capital into new development, and capture capital gains when units are resold.

Company description

SUM is the second largest developer of integrated retirement villages in NZ. It offers a range of lifestyle options and aged care services for the long-stay care of the elderly. At 30 June 2019, it had a portfolio of 3,256 independent units, 615 Serviced and Memory Care apartments and 858 care beds across 24 operating villages. Although its care operations are the smaller part of its business, SUM has increased its focus on aged care services in recent years and continues to invest in this area. SUM was established in 1994 and listed on the NZX in November 2011.

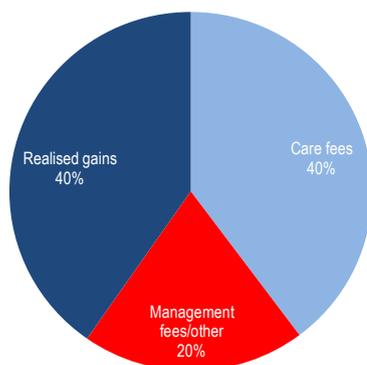
Financial structure

- **Balance sheet:** Gearing has increased as SUM has rapidly lifted its build rate, and invested in higher priced metropolitan land, but debt remains largely project related.
- **Dividends:** SUM has been paying out a dividend at the low end of its 30%–50% target pay-out rate and has a dividend reinvestment plan in place.

Risks factors

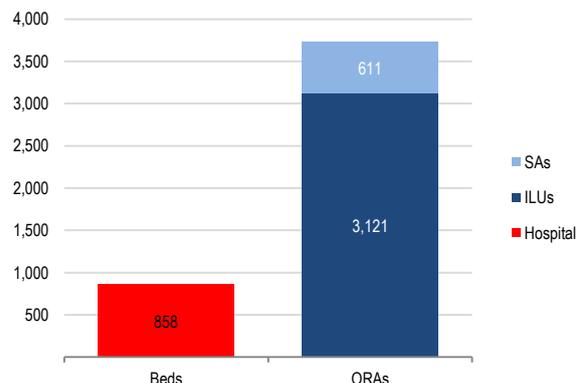
- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** A downturn in the buoyant housing conditions is a threat to SUM's resales volumes, cash flows, and gearing.

Figure 1. SUM FY18 revenue mix (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Figure 2. SUM portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

Figure 6. Substantial Shareholders

Shareholder	Latest Holding
Harbour Asset Management & Jarden Securities Limited	8.3%
Fisher Funds Management	6.2%

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

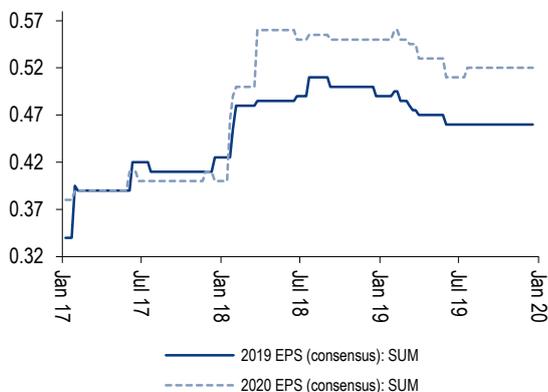
Figure 7. International Compco's

Company <i>(metrics re-weighted to reflect SUM's balance date - December)</i>	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld	
				2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Summerset Group	SUM NZ	NZ\$8.79	NZ\$1,984	18.7x	16.0x	19.3x	16.7x	20.4x	17.6x	1.9%	
Metlifecare *	MET NZ	NZ\$6.88	NZ\$1,468	16.2x	15.6x	17.7x	17.0x	18.8x	18.1x	1.7%	
Ryman Healthcare *	RYM NZ	NZ\$16.39	NZ\$8,195	32.6x	27.9x	31.8x	27.5x	35.0x	30.0x	1.8%	
Oceania Healthcare *	OCA NZ	NZ\$1.31	NZ\$798	14.7x	13.3x	15.3x	13.9x	18.0x	16.3x	4.1%	
Arvida Group Limited *	ARV NZ	NZ\$1.83	NZ\$992	17.6x	15.4x	18.8x	14.7x	20.7x	16.2x	3.6%	
Compco Average:				20.3x	18.1x	20.9x	18.3x	23.1x	20.1x	2.8%	
SUM Relative:				-8%	-11%	-8%	-8%	-12%	-12%	-33%	

EV = Current Market Cap + Actual Net Debt

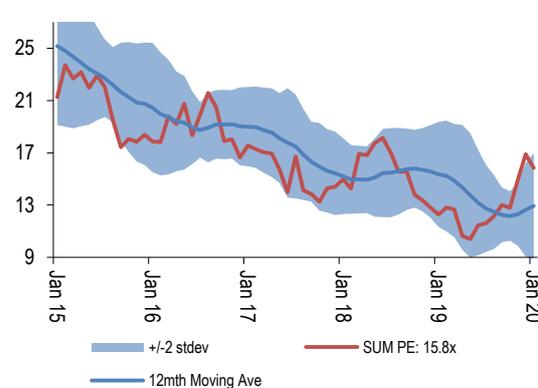
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SUM) companies fiscal year end

Figure 8. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 9. 12 Month Forward PE



Source: Forsyth Barr analysis

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