

# Summerset Group

## FY19 Result – Sun Still Shining

**JEREMY SIMPSON CFA**

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

### OUTPERFORM

Summerset Group (SUM) has reported a robust FY19 result, driven by, as expected, a much stronger 2H performance. However, it has flagged a slower growth rate in FY20 as it invests in the business and builds its capability to deliver to its medium term target of 600 units per annum. While the stalling in EPS growth momentum is disappointing, SUM remains well positioned to capitalise on its substantial growth opportunity in NZ and Australia. OUTPERFORM.

NZX Code	SUM	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$8.32	NPAT* (NZ\$m)	106.2	106.6	129.2	151.3	EV/EBITDA	18.4	18.8	16.0	14.0
Target price	NZ\$8.70	EPS* (NZc)	47.1	47.2	57.2	67.0	EV/EBIT	19.6	20.1	17.0	14.9
Risk rating	High	EPS growth* (%)	7.1	0.3	21.2	17.1	PE	17.7	17.6	14.5	12.4
Issued shares	225.8m	DPS (NZc)	14.1	14.2	17.2	20.1	Price / NTA	1.7	1.6	1.5	1.4
Market cap	NZ\$1,878m	Imputation (%)	0	0	0	0	Cash div yld (%)	1.7	1.7	2.1	2.4
Avg daily turnover	349.1k (NZ\$2,253k)	*Based on normalised profits					Gross div yld (%)	1.7	1.7	2.1	2.4

### Solid set of FY19 numbers close to forecasts while demand metrics remain intact

FY19 was close to expectations with underlying profit of NZ\$106.2m (up +8%). Development margins were strong at 28% but below the pcp, while resales margins were 26% ahead of the pcp. The 2H19 dividend was 7.7cps (+7%). NTA lifted to NZ\$5.02 cents (+14%) and gearing is up slightly at 33.7%. Net operating cash flow was up +9% to NZ\$237.9m. Resales stock remains low and while new sales stock increased slightly, stock levels remain very manageable and in part reflect large blocks of new units delivered late in the period. Aged care occupancy was a strong 97%.

### Near-term earnings growth stall with a slower build rate and increased investment for the future

SUM has indicated a flat outlook for underlying earnings in FY20 as it invests in its business including lifting wages for carers and registered nurses, expands its capability in Australia and moves to a more conservative lift in near-term growth in development activity to ensure it is sustainable.

### Earnings and target price dialled back – still a large long term prize

We have lifted operating expenses and reduced near-term development margins slightly, as well as adopting a lower new build rate for FY20–22 than previously forecast after SUM indicated it now expects a build rate of 400 units in FY20 and 500–550 in FY21, which was below market expectations. This has materially dropped near-term forecast earnings. There is a partial offset by a small increase in our forecast new sales and resales pricing, and a lift in resales margins towards what SUM has achieved recently. Our long run new build and resales forecasts are unchanged, however, we have lifted longer term pricing and margins slightly. The net result is our DCF valuation has fallen from NZ\$8.27 to NZ\$8.00 and our target price has fallen from NZ\$8.90 to NZ\$8.70.

**Summerset Group Holdings (SUM)**

Priced as at 25 Feb 2020 (NZ\$)						<b>8.32</b>						
<b>12-month target price (NZ\$)*</b>						<b>8.70</b>	<b>Spot valuations (NZ\$)</b>					
Expected share price return						4.6%	1. DCF					8.00
Net dividend yield						1.8%	2. n/a					n/a
Estimated 12-month return						6.3%	3. n/a					n/a
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>						
Risk free rate						2.00%	Total firm value					2,384
Equity beta						0.88	(Net debt)/cash					(576)
WACC						7.7%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					1,809
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>						
Sales revenue	2018A	2019A	2020E	2021E	2022E		2018A	2019A	2020E	2021E	2022E	
Normalised EBITDA	229.5	251.9	277.0	320.5	362.7	EV/EBITDA (x)	19.4	18.4	18.8	16.0	14.0	
Depreciation and amortisation	117.0	129.5	131.7	156.3	178.7	EV/EBIT (x)	20.6	19.6	20.1	17.0	14.9	
Normalised EBIT	(6.7)	(7.8)	(8.1)	(9.1)	(10.2)	PE (x)	18.9	17.7	17.6	14.5	12.4	
Net interest	110.4	121.7	123.5	147.2	168.6	Price/NTA (x)	1.9	1.7	1.6	1.5	1.4	
Associate income	(11.6)	(15.4)	(16.9)	(18.0)	(17.3)	Free cash flow yield (%)	-4.6	-5.5	-1.0	3.2	5.5	
Tax	0	0	0	0	0	Net dividend yield (%)	1.6	1.7	1.7	2.1	2.4	
Minority interests	(1.7)	1.6	0	0	0	Gross dividend yield (%)	1.6	1.7	1.7	2.1	2.4	
Normalised NPAT	0	0	0	0	0	<b>Capital Structure</b>						
Abnormals/other	98.8	106.2	106.6	129.2	151.3	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E	
Reported NPAT	116.0	69.0	0	0	0	Interest cover EBITDA (x)	9.3	7.3	6.9	7.9	9.5	
Normalised EPS (cps)	214.8	175.2	106.6	129.2	151.3	Net debt/ND+E (%)	10.1	8.4	7.8	8.7	10.3	
DPS (cps)	43.9	47.1	47.2	57.2	67.0	Net debt/EBITDA (x)	31.3	33.7	34.5	32.2	28.4	
	13.2	14.1	14.2	17.2	20.1		3.8	4.4	4.8	3.9	3.1	
<b>Growth Rates</b>						<b>Key Ratios</b>						
Revenue (%)	2018A	2019A	2020A	2021A	2022A		2018A	2019A	2020E	2021E	2022E	
EBITDA (%)	23.2	9.8	10.0	15.7	13.2	Return on assets (%)	3.9	3.3	3.1	3.4	3.6	
EBIT (%)	19.7	10.7	1.6	18.7	14.4	Return on equity (%)	10.1	9.4	9.0	10.2	11.0	
Normalised NPAT (%)	18.5	10.3	1.5	19.2	14.5	Return on funds employed (%)	8.4	7.5	6.7	7.7	8.6	
Normalised EPS (%)	21.0	7.6	0.3	21.2	17.1	EBITDA margin (%)	51.0	51.4	47.5	48.8	49.3	
Ordinary DPS (%)	19.7	7.1	0.3	21.2	17.1	EBIT margin (%)	48.1	48.3	44.6	45.9	46.5	
	20.0	6.8	0.5	21.2	17.1	Capex to sales (%)	126.5	130.0	94.0	98.9	97.6	
						Capex to depreciation (%)	4,344	4,198	3,200	3,496	3,486	
						Imputation (%)	0	0	0	0	0	
						Pay-out ratio (%)	30	30	30	30	30	
<b>Cash Flow (NZ\$m)</b>						<b>Operating Performance</b>						
EBITDA	2018A	2019A	2020E	2021E	2022E		2018A	2019A	2020A	2021A	2022E	
Working capital change	117.0	129.5	131.7	156.3	178.7	Revenue (NZ\$m)						
Interest & tax paid	100.5	108.2	126.6	239.5	296.0	Care fees		91.2	101.3	109.8	123.3	136.2
Other	(13.1)	(13.3)	(16.9)	(18.0)	(17.3)	Management fees		45.6	52.5	60.5	72.1	85.8
Operating cash flow	0	0	0	0	0	Other		0.2	0.2	0	0	0
Capital expenditure	204.4	224.4	241.3	377.8	457.5	<b>Fair value m'tment in Investment Property (NZ\$m)</b>						
(Acquisitions)/divestments	(290.4)	(327.4)	(260.5)	(317.1)	(353.9)	Realised		92.5	97.9	106.8	125.1	140.7
Other	0	0	0	0	0	Unrealised		0	0	0	0	0
Funding available/(required)	(87.2)	(103.0)	(19.1)	60.7	103.6	<b>Total revenue</b>		<b>229.5</b>	<b>251.9</b>	<b>277.0</b>	<b>320.5</b>	<b>362.7</b>
Dividends paid	(19.7)	(19.5)	(32.0)	(38.8)	(45.4)							
Equity raised/(returned)	1.9	2.2	0	0	0							
(Increase)/decrease in net debt	(105.0)	(120.4)	(51.1)	21.9	58.2							
						<b>Key Drivers</b>						
<b>Balance Sheet (NZ\$m)</b>						Sales - new units	339	329	360	440	510	
Working capital	2018A	2019A	2020E	2021E	2022E	Ave unit price - new sales (NZ\$000s)	566	665	685	705	726	
Fixed assets	(57.4)	(98.0)	(53.9)	(62.4)	(70.6)	Sales - resold units	301	323	370	422	470	
Intangibles	2,717.8	3,261.0	3,620.1	4,053.2	4,537.6	Ave unit price - resales (NZ\$000s)	406	445	476	509	525	
Right of use asset	6.6	6.1	6.1	6.1	6.1	Gross development margin (%)	33.2	27.9	24.0	23.0	22.0	
Other assets	0	0	0	0	0	Gross resales margin (%)	23.5	25.7	27.0	25.0	24.0	
Total funds employed	4.6	12.6	12.6	12.6	12.6	New apartments/units	454	354	450	550	600	
Net debt/(cash)	2,671.6	3,181.7	3,585.0	4,009.6	4,485.8	New beds	52	0	80	80	80	
Lease liability	445.3	575.6	626.7	604.8	546.7	<b>Portfolio</b>						
Other liabilities	0	0	0	0	0	Apartments/units	3,732	4,086	4,536	5,086	5,686	
Shareholder's funds	1,247.6	1,474.2	1,768.3	2,132.3	2,561.9	Beds	845	845	925	1,005	1,085	
Minority interests	978.8	1,131.9	1,189.9	1,272.5	1,377.2							
Total funding sources	0	0	0	0	0							

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

## FY19 Result – key points of interest

### Result in line but softer outlook comments for FY20 than expected

SUM's FY19 result was in line with our expectations in most areas, with underlying profit of NZ\$106.2m (up +8%) versus our forecast of NZ\$106.2m. Revenue items were typically slightly stronger than forecast, offset by slightly higher than expected expense items. Development margins were strong at 28% but below the pcp and in line with our forecasts, while resales margins were 26% ahead of the pcp and our expectations. The 2H19 dividend was 7.7cps in line with our forecast of 7.7cps (+7%) and provides a full year dividend of 14.1cps. The record date is 10 March and payment is on 23 March.

NTA lifted to NZ\$5.02 (+14%) over the last 12 months versus NZ\$4.38 in the pcp with a portfolio gain of +20%. Key drivers of the revaluation gain were better pricing and new stock delivered. Debt was up NZ\$135m to NZ\$587m but gearing is only slightly up at 33.7%. Net operating cash flow was up +9% to NZ\$237.9m and essentially grew by the same rate as underlying profit.

**Figure 1. FY19 Results Summary (NZ\$m)**

12 months ending 31 December	FY18	FY19	Chg	Forbar	Comments
Revenue					
Care fees	91.2	101.3	11%	105.4	Below expectations, no new care beds
Management fees/other	45.9	52.7	15%	51.7	Close to expectations
Fair value movement of investment property					
Realised value movement					
Development margin	63.7	61.0	-4%	60.0	Inline
Resales margin	28.7	36.9	29%	34.0	Inline
Total realised value movement	92.5	97.9	6%	94.0	Inline
Unrealised value movement	117.4	67.4		120.0	
Total fair value movement	209.9	165.3	-21%	214.0	
Total reported revenue	346.9	319.3	-8%	371.1	
Total Costs	112.4	122.4	9%	125.3	
Total reported EBITDA	234.4	196.9	-16%	245.8	
Depreciation	6.7	7.8	17%	6.9	
EBIT	227.8	189.1	-17%	238.9	
Net interest	(11.6)	(15.4)	33%	(12.7)	
EBT	216.2	173.7	-20%	226.2	
Tax	1.7	(1.6)		0.0	
Reported profit	214.5	175.3	-18%	226.2	
Unrealised value movement	(117.4)	(67.4)		(120.0)	
Tax (deferred) + other	1.7	(1.7)		0.0	
Underlying profit	98.8	106.2	8%	106.2	Close to forecasts
Underlying revenue	229.5	251.9	10%	251.1	Steady growth as expected
Underlying EBITDA	117.0	129.5	11%	125.8	Steady growth as expected
EPS - underlying profit (cps)	43.9	47.1	7%	47.0	
FY dividend (cps)	13.20	14.10	7%	6.2	30% pay-out, low end of target range
Operating cash flow	217.8	237.9	9%		In line with underlying profit growth
Operating cash flow (cps)	96.9	105.2	9%		
Weighted ave number of shares	224.8	226.1	1%		
Total assets	2,766	3,338.0	21%		Portfolio expansion
Investment property	2,718	3,261.0	20%		
Net debt	445	576.0	29%		All project related/work in progress
Shareholders equity	979	1,132.0	16%		
Gearing - net debt / (net debt + equity)	31.3%	33.7%	8%		Gearing up slightly
NTA (cps)	4.38	5.02	15%		Strong uplift again
NTA at 30 June 19 (cps)	4.71		7%		

Source: Forsyth Barr analysis

### Stock levels tick up but remain very manageable

New vacant stock levels continue to lift and remain slightly evaluated versus historic trends at 6.5% of its total portfolio and was not helped by the timing of new stock delivery being late in the period. SUM noted that resales demand remains strong and resales stock remains low which is a key indicator that demand remains robust. Aged care occupancy was high at 97% and SUM continues to lift the DHB certification levels of its care facilities and continues to progress its unique memory care dementia product which it is now rolling out in new villages.

### FY19 new stock numbers hit recent guidance but FY20 to be below expectations

FY19 saw SUM marginally surpass its targeted build rate (350 units), delivering 354 total new units across the portfolio, with the majority of this new product being represented by independent living units (78%). These new units were a product of completions at eight sites, three of which were newly opened villages at Avonhead (Christchurch), Kenepuru (Wellington), and Richmond (Nelson-Tasman) as detailed in Figure 4. The aggregate portfolio currently stands at 4,086 units and 858 care beds with no new care beds added in FY19.

SUM is now targeting to build 400 units in FY20 versus our forecast of 500 units, which is disappointing, but the stalling highlights the investment involved to build up the business to its 600 units per annum medium term annual target growth rate on a sustainable basis.

### Stronger 2H for new sales volumes and pricing

New sales enjoyed a strong 2H in terms of volumes and pricing, and the high 1H20 margin was held. This helped offset a weak 1H20 for new sales volumes and delivered an FY19 net development gain of NZ\$61m, down -4.3% on the pcp as detailed in Figure 2 but close to expectations.

**Figure 2. New sales summary**

12 months ending 31 December	FY18	FY19	% chg pcp	Forsyth Barr	2H19	Seq chg	Comments
Gross Proceeds	\$192.0m	\$218.7m	13.9%	\$214.3m	\$123.4m	29.5%	Boosted by stronger pricing
Value per unit	\$566,372	\$664,742	17.4%	\$651,327	\$639,378	-8.8%	Auckland apartments in the mix
Development margin	33.2%	27.9%		28.0%	27.5%	-3.1%	Down on pcp but still strong
Development gains	\$63.7m	\$61.0m	-4.3%	\$60.0m	\$34.0m	25.4%	Steady
Villas	235	216	-8.1%		145	104.2%	Strong vol 2H
Apartments	16	62	287.5%		25	-32.4%	
Serviced Apartments / Memory care	88	51	-42.0%		23	-17.9%	
Total	339	329	-2.9%	329	193	41.9%	Strong vol 2H

Source: Forsyth Barr analysis

### Resales gains a highlight

Resales gains were up +29% at NZ\$36.9m and ahead of our forecasts and also enjoyed a strong 2H19 on the back of stronger volumes, pricing, and in particular, margins as detailed in Figure 3.

**Figure 3. Resales summary**

12 months ending 31 December	FY18	FY19	% chg pcp	Forsyth Barr	2H19	Seq chg	Comments
Realised gains	\$28.7m	\$36.9m	28.6%	\$34.0m	\$22.6m	58.3%	Strong result – margins, pricing & vol up
Resale margin	23.5%	25.7%	9.4%	24.0%	27.4%	17.1%	Very good 2H resales margin
Gross Proceeds	\$122.2m	\$143.7m	17.6%	\$141.6m	\$82.6m	35.2%	
Value per unit	\$405,980	\$444,892	9.6%	\$438,458	\$453,846	5.5%	Pricing gains with more villas in the mix
Villas	163	173	6.1%	0	101	40.3%	
Apartments	48	31	-35.4%	0	21	110.0%	
Serviced Apartments / Memory care	90	119	32.2%	0	60	1.7%	
Total	301	323	7.3%	323	182	28.2%	Solid lift in vol with stronger 2H

Source: Forsyth Barr analysis

## Portfolio/Development Update

**Figure 4. FY19 Portfolio deliveries**

	Villas	Apartments	SAs	Total units
Avonhead	60			60
Casebrook	65			65
Ellerslie		67		67
Hobsonville	8	8	4	20
Kenepuru	29			29
Richmond	31			31
Rototuna	59			59
Warkworth	23			23
<b>Total</b>	<b>275</b>	<b>75</b>	<b>4</b>	<b>354</b>

Source: Forsyth Barr analysis, Company Reports

### Sun continues to shine in Victoria

SUM has taken further steps to execute upon the well recognised opportunity presented across the Tasman, by announcing the acquisition of a second Victorian property. The ~8.3 ha site is in the Beachside town of Torquay, 22km from Geelong. It is located next to local shopping centres and where the 75+ year old demographic is forecast to increase by ~80% by 2031.

This purchase complements the company's maiden Australian acquisition of an 8 ha property at Cranbourne North, 41km south east of Melbourne's CBD, made in September 2019. SUM indicated it expects to have its first residents by late FY21. As SUM expands its Melbourne based team, its Victorian landbank will follow suit as it looks to capitalise on the immense market demand for a fully integrated-continuum model. SUM believes that Victoria has a lower retirement village penetration rate than NZ and also inferior retirement/aged care product, providing significant potential for its offering.

**Figure 5. Development Pipeline**

	Region	Villas	Apartments	SAs	Total units	Care beds	Consented
<b>Existing sites</b>							
Milldale	Auckland	105	117	76	298	43	no
Parnell	Auckland		216	100	316		no
St Johns	Auckland		225	73	298	30	yes
Papamoa	Bay of Plenty	211		76	287	43	yes
Bell Block	Taranaki	222		76	298	43	yes
Te Awa	Hawke's Bay	241		76	317	43	yes
Kenepuru	Wellington	85	48	106	239	43	yes
Lower Hutt	Wellington	42	109	66	217	30	yes
Waikanae	Wellington	214		76	290	43	no
Richmond	Nelson	203		76	279	43	yes
Avonhead	Christchurch	105		99	204	43	yes
Ellerslie	Auckland	4	75		79		yes
Hobsonville	Auckland	38			38		yes
Rototuna	Waikato	73		76	149	43	yes
Casebrook	Christchurch	136		76	212	43	yes
<b>Total existing sites</b>		<b>1679</b>	<b>790</b>	<b>1052</b>	<b>3521</b>	<b>490</b>	
<b>New sites</b>							
Blenheim	Nelson	139		80	219	20	no
Rangiora	Christchurch	261		76	337	43	yes
Cambridge	Cambridge	207		76	283	43	no
Whangarei	Whangarei	214		76	290	43	yes
Cranbourne North	Melbourne	145		50	195	72	no
Torquay	Melbourne	195		50	245	72	no
Prebbleton	Christchurch	214		76	290	43	no
<b>Total new sites</b>		<b>1,375</b>		<b>484</b>	<b>1859</b>	<b>336</b>	<b>29%</b>
<b>Total landbank</b>		<b>3,054</b>	<b>790</b>	<b>1,536</b>	<b>5,380</b>	<b>826</b>	<b>64%</b>
Auckland landbank		147	633	249	1,029	73	
Proportion Auckland		5%	80%	16%	19%	9%	

Source: Forsyth Barr analysis, Company Reports

### Three new villages to open in FY20 and 400 unit build rate target

FY20 is expected to see the opening of villages at Te Awa (Napier), Papamoa Beach (Tauranga) and Bell Block (New Plymouth) along with the main buildings housing the care centre and serviced apartments at Casebrook (Christchurch) and Rototuna (Hamilton). This immediate pipeline of product gives us confidence that SUM will be able to meet its guided FY20 build rate of 400 units and beds. Additionally, SUM's 5,380 unit and 826 care bed landbank now holds the top spot in terms of capacity across the entire listed NZ retirement sector, providing the business with sufficient resource to significantly grow its operations, meet its medium term targeted build rate of 600 units and beds p.a. and generate the desired tailwind of earnings beyond FY20.

## Forecast and target price reviewed

### Near term earnings pulled back on lower volumes and higher costs – retain OUTPERFORM

SUM has guided to flat underlying earnings in FY20 as a result of cost pressures as it lifts the pay rates towards sector leading levels for its care givers and registered nurses, expands its capability in Australia, and because it expects development margins to revert back to typical long run levels of around 20–25% after being elevated in recent years. SUM has also indicated it expects a build rate of 400 units in FY20 and 500–550 in FY21 which is below the market expectations of SUM to get closer to its target of 600 units over this time frame.

As a result of these changes our forecasts for near-term earnings have pulled back as detailed in Figure 6 and Figure 7, with a partial offset by a small increase in forecast new sales and resales pricing, and a lift in our resales margins towards what SUM has achieved in recent periods.

Our long run forecasts in terms of new build activity are unchanged as well as forecast resales volumes, however, we have lifted longer term pricing and margins slightly. The net result is our DCF valuation has fallen from NZ\$8.27 to NZ\$8.00 and our target price has fallen from NZ\$8.90 to NZ\$8.70.

With the recent pull back in SUM's share price we remain with an OUTPERFORM rating. The low earnings growth now expected for FY20 is a disappointment, however, it is placing SUM in a stronger longer-term position, demand metrics remain robust and SUM remains with the scale and expertise to capitalise on the very positive demographic tailwind for successful owners and operators of integrated retirement village product.

**Figure 6. Changes to forecast key drivers**

Year ending 31 December	Old	New	% Chg
Gross devel margin % FY20	28.0	27.9	-0.4%
Gross devel margin % FY21	25.0	24.0	-4.0%
Gross devel margin % FY22	23.0	23.0	0.0%
Sales - new units FY20	329	329	0.0%
Sales - new units FY21	400	360	-10.0%
Sales - new units FY22	480	440	-8.3%
Ave price - new sales FY20 (NZ\$m)	0.651	0.665	2.1%
Ave price - new sales FY21 (NZ\$m)	0.671	0.685	2.1%
Ave price - new sales FY22 (NZ\$m)	0.691	0.705	2.1%
Sales - resold units FY20	323	323	0.0%
Sales - resold units FY21	370	370	0.0%
Sales - resold units FY22	422	422	0.0%
Ave price - resold sales FY20 (NZ\$m)	438	445	1.5%
Ave price - resold sales FY21 (NZ\$m)	465	476	2.4%
Ave price - resold sales FY22 (NZ\$m)	493	509	3.4%
Gross resales margin % FY20	24.0	25.7	7.1%
Gross resales margin % FY21	23.0	27.0	17.4%
Gross resales margin % FY22	22.0	25.0	13.6%

Source: Forsyth Barr analysis

**Figure 7. Changes to earnings forecasts and target price (NZ\$m)**

Year ending 31 December	Old	New	% Chg
Revenue FY20	288.2	277.0	-3.9%
Revenue FY21	328.0	320.5	-2.3%
Revenue FY22	369.1	362.7	-1.7%
EBITDA FY20	145.3	131.7	-9.4%
EBITDA FY21	166.6	156.3	-6.2%
EBITDA FY22	188.3	178.7	-5.1%
Normalised profit FY20	123.8	106.6	-13.9%
Normalised profit FY21	142.7	129.2	-9.4%
Normalised profit FY22	165.2	151.3	-8.4%
Dividend FY20 (cps)	16.5	14.2	-13.9%
Dividend FY21 (cps)	19.0	17.2	-9.4%
Dividend FY22 (cps)	25.6	20.1	-21.5%
Price Target	8.90	8.70	-2.2%

Source: Forsyth Barr analysis

## Investment Summary

With a strengthening development and sales track record, and a land bank of circa seven years, Summerset Group (SUM) remains confident of achieving its medium term build target of 600 units per annum. There remains significant growth potential from demographic trends, a further lift in its FY20 target build rate of 400 units and expansion into Australia with the acquisition of further sites 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 354 in FY19, and has achieved attractive development margins. 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 cashflow outlook

- **Underlying EPS growth track record pausing briefly in FY20:** Since listing on the NZX in 2011, SUM has generated strong EPS growth on a consistent basis. After a flatter year in FY20 as SUM expands its capabilities, growth is expected in FY21. A key EPS driver will be SUM lifting its build rate over the medium term from 350 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.

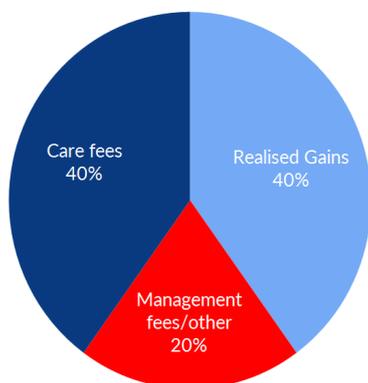
### Financial structure

- **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.

### Risk factors

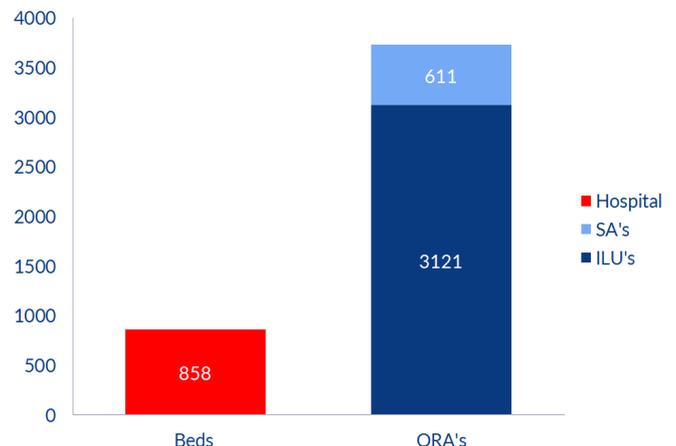
- **Oversupply:** The significant industry pipeline poses the threat of short-term oversupply, offset by a likely shortage of quality beds longer term.
- **Housing market downturn:** A downturn in the buoyant housing conditions is a threat to SUM's resales volumes, cash flows, and gearing.

Figure 8. SUM FY18 revenue mix (NZ\$m)

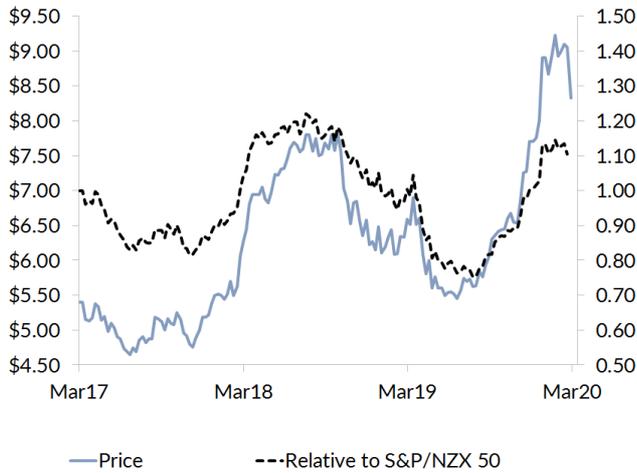


Source: Forsyth Barr analysis, Company Reports

Figure 9. SUM portfolio as at 31 December 2018



Source: Forsyth Barr analysis, Company Reports

**Figure 10. Price performance**


Source: Forsyth Barr analysis

**Figure 11. Substantial shareholders**

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

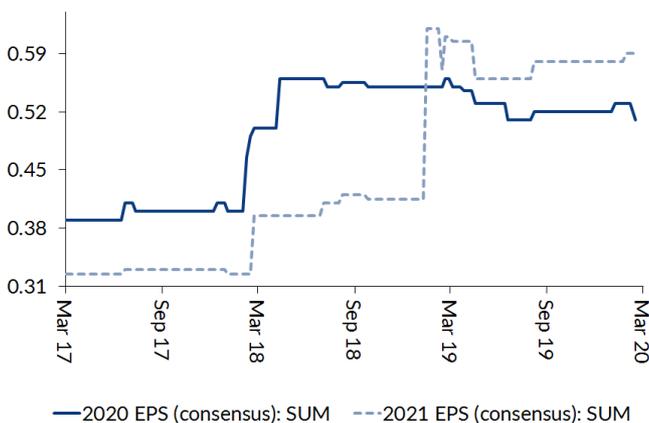
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 12. International valuation comparisons**

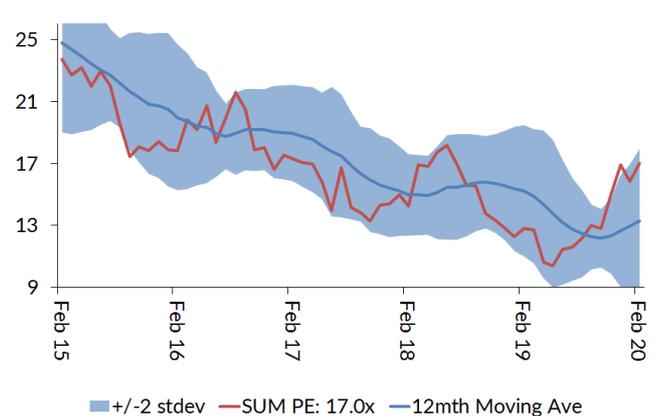
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Summerset Group	SUM NZ	NZ\$8.32	NZ\$1,878	17.6x	14.5x	18.6x	15.7x	19.9x	16.7x	2.1%
Metlifecare *	MET NZ	NZ\$6.91	NZ\$1,474	15.7x	14.4x	17.0x	15.7x	18.1x	16.7x	1.7%
Ryman Healthcare *	RYM NZ	NZ\$16.70	NZ\$8,350	28.5x	24.4x	27.9x	24.1x	30.4x	26.1x	2.1%
Oceania Healthcare *	OCA NZ	NZ\$1.21	NZ\$737	12.3x	11.4x	13.0x	12.2x	15.3x	14.2x	4.8%
Arvida Group Limited *	ARV NZ	NZ\$1.86	NZ\$1,008	15.6x	13.8x	14.9x	12.8x	16.4x	14.1x	4.0%
<b>Compco Average:</b>				<b>18.0x</b>	<b>16.0x</b>	<b>18.2x</b>	<b>16.2x</b>	<b>20.1x</b>	<b>17.8x</b>	<b>3.1%</b>
<b>SUM Relative:</b>				<b>-2%</b>	<b>-9%</b>	<b>2%</b>	<b>-3%</b>	<b>-1%</b>	<b>-6%</b>	<b>-34%</b>

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 13. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 14. One year forward PE (x)**


Source: Forsyth Barr analysis

**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:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: Jeremy Simpson. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 24 Feb 2020, Forsyth Barr's research ratings were distributed as follows:

<b>OUTPERFORM</b>	<b>NEUTRAL</b>	<b>UNDERPERFORM</b>
<b>29.4%</b>	<b>52.9%</b>	<b>17.6%</b>

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:** Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: ARV MET PEB

**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.