

# Summerset Group

## FY20 Preview — Shining Bright

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### OUTPERFORM

We expect no surprises when Summerset (SUM) reports its FY20 result on Tuesday, 23 February given Q4 sales metrics were released in January and earnings are largely pre-announced (underlying profit guidance of NZ\$96m to NZ\$98m). However, we look for three key points on result day: (1) an update on sales activity; SUM's strong post lockdown sales momentum has continued as evident by its Q4 sales and we expect no change to the trend in 2021, (2) further Australia insights; at its December investor day SUM briefly outlined its future Victoria growth plans, we look for any additional commentary or potential land acquisitions and, (3) the dividend; at its 1H20 result in August SUM reduced its dividend by 0.4cps. We forecast a reversal in 2H taking the full year dividend to 14.2cps (growth of 0.1cps).

NZX Code	SUM	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$12.92	NPAT* (NZ\$m)	106.2	97.1	126.8	153.4	PE	27.0	29.8	22.9	18.9
Target price	NZ\$12.80	EPS* (NZc)	47.9	43.3	56.4	68.2	EV/EBIT	27.1	29.2	23.2	19.4
Risk rating	Medium	EPS growth* (%)	7.9	-9.4	30.1	21.0	EV/EBITDA	25.5	27.0	21.7	18.2
Issued shares	224.9m	DPS (NZc)	14.1	14.2	16.0	20.0	Price / NTA	2.9	2.5	2.6	2.3
Market cap	NZ\$2,906m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.1	1.1	1.2	1.5
Avg daily turnover	302.8k (NZ\$2,387k)	*Based on normalised profits					Gross div yld (%)	1.5	1.5	1.7	2.1

### Key points of interest

- **An update on sales activity:** SUM led the sector out of lockdowns with strong new, and resales, numbers, this trend has shown no signs of abating with record Q4 sales (resales +29% and new sales +52%). We expect demand has remained healthy through early 2021 but look for any further insights.
- **Additional Australian insights:** SUM now has two sites in Victoria with the first units at Cranbourne North set for completion in late 2021. At its December investor day SUM also flagged its intentions to accelerate the pace of landbanking in Victoria with the focus remaining on high-quality, broad-acre sites. We await any further commentary on medium term Australian growth plans.
- **What will happen with the dividend?** While we don't consider the aged care sector as part of NZ's extensive yield universe, we believe, given the sector's low cash conversion, the confidence to pay dividends is an important signalling mechanism. At its 1H20 result SUM reduced its dividend by 0.4cps, a decision that disrupted 7 years of uninterrupted dividend growth and saved less than NZ\$1m in cash. We forecast a reversal in 2H taking the full year dividend to 14.2cps (growth of 0.1cps).

### Investor briefing — 11am NZ time on Tuesday, 23 February

NZ; 09 280 5290 or 0800 444 845, Australia; 1 800 175 864. Passcode: 2776878

**Figure 1. FY20 result expectations (NZ\$m)**

	FY19	FY20	% change
Revenue	251.6	267.2	6%
EBITDA	129.2	125.6	-3%
EBIT	121.4	116.2	-4%
Underlying profit	106.2	97.1	-9%
Annuity EBITDA	68.2	71.9	5%
DPS (cents)	14.1	14.2	1%

Source: Forsyth Barr analysis, Company reports

**Figure 2. FY20 earnings drivers**

	FY19	FY20	% change
Sales - new units	329	404	23%
New sales margin (%)	28%	22%	-6%
Sales - resold units	323	381	18%
Resales margin (%)	26%	24%	-2%
Average unit price - new sales (NZ\$000's)	665	618	-7%
Average unit price - resales (NZ\$000's)	445	458	3%

Source: Forsyth Barr analysis, Company reports

## Summerset Group Limited (SUM)

Priced as at 18 Feb 2021 (NZ\$)

12.92

### 12-month target price (NZ\$)\*

12.80

Expected share price return

-0.9%

Net dividend yield

1.3%

Estimated 12-month return

0.4%

### Spot valuations (NZ\$)

1. EV/Annuity EBITDA

14.80

2. DDM

10.85

3. n/a

n/a

### Key WACC assumptions

Risk free rate

2.30%

Equity beta

0.84

WACC

6.1%

Terminal growth

2.0%

### DCF valuation summary (NZ\$m)

Total firm value

n/a

(Net debt)/cash

n/a

Less: Capitalised operating leases

n/a

Value of equity

n/a

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	229.2	251.6	267.2	305.7	354.9
<b>Normalised EBITDA</b>	<b>116.7</b>	<b>129.2</b>	<b>125.6</b>	<b>159.3</b>	<b>189.6</b>
Depreciation and amortisation	(6.7)	(7.8)	(9.5)	(10.3)	(11.8)
<b>Normalised EBIT</b>	<b>110.1</b>	<b>121.4</b>	<b>116.2</b>	<b>148.9</b>	<b>177.8</b>
Net interest	(11.4)	(15.2)	(19.1)	(22.1)	(24.4)
Associate income	0	0	0	0	0
Tax	0	0	0	0	0
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>98.6</b>	<b>106.2</b>	<b>97.1</b>	<b>126.8</b>	<b>153.4</b>
Abnormals/other	115.9	69.1	(95.8)	50.9	38.5
<b>Reported NPAT</b>	<b>214.5</b>	<b>175.3</b>	<b>1.2</b>	<b>177.7</b>	<b>191.9</b>
Normalised EPS (cps)	44.4	47.9	43.3	56.4	68.2
DPS (cps)	13.2	14.1	14.2	16.0	20.0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	23.1	9.8	6.2	14.4	16.1
EBITDA (%)	19.6	10.7	-2.8	26.8	19.1
EBIT (%)	18.4	10.3	-4.3	28.2	19.4
Normalised NPAT (%)	20.8	7.7	-8.6	30.7	21.0
Normalised EPS (%)	20.9	7.9	-9.4	30.1	21.0
Ordinary DPS (%)	20.0	6.8	0.7	12.7	25.0

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>116.7</b>	<b>129.2</b>	<b>125.6</b>	<b>159.3</b>	<b>189.6</b>
Working capital change	29.8	54.3	62.7	7.9	1.3
Interest & tax paid	(11.4)	(15.2)	(19.1)	(22.1)	(24.4)
Other	82.6	69.6	114.4	190.6	225.3
<b>Operating cash flow</b>	<b>217.8</b>	<b>237.9</b>	<b>283.6</b>	<b>335.7</b>	<b>391.8</b>
Capital expenditure	(209.2)	(240.0)	(228.8)	(255.4)	(297.7)
(Acquisitions)/divestments	(54.7)	(57.3)	(60.0)	(65.0)	(70.0)
Other	75.4	106.1	95.6	51.4	50.3
<b>Funding available/(required)</b>	<b>29.3</b>	<b>46.7</b>	<b>90.4</b>	<b>66.6</b>	<b>74.4</b>
Dividends paid	(19.7)	(19.5)	(31.9)	(36.0)	(45.0)
Equity raised/(returned)	0	1.9	2.2	0	0
<b>(Increase)/decrease in net debt</b>	<b>9.7</b>	<b>29.1</b>	<b>60.7</b>	<b>30.6</b>	<b>29.4</b>

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(83.7)	(137.9)	(200.6)	(208.5)	(209.8)
Fixed assets	2,193.1	2,717.8	3,261.0	3,567.8	4,066.8
Intangibles	5.6	6.6	6.1	8.1	10.1
Right of use asset	0	0	0	0	0
Other assets	4.6	12.6	12.6	12.6	12.6
<b>Total funds employed</b>	<b>2,119.6</b>	<b>2,599.1</b>	<b>3,079.2</b>	<b>3,380.0</b>	<b>3,879.7</b>
Net debt/(cash)	339.7	431.3	536.3	652.7	727.8
Lease liability	0	0	10.5	10.5	10.5
Other liabilities	990.8	1,167.0	1,361.2	1,607.1	1,893.6
Shareholder's funds	789.1	1,000.8	1,171.2	1,109.7	1,247.9
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>2,119.6</b>	<b>2,599.1</b>	<b>3,079.2</b>	<b>3,380.0</b>	<b>3,879.7</b>

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	27.5	25.5	27.0	21.7	18.2
EV/EBIT (x)	29.2	27.1	29.2	23.2	19.4
PE (x)	29.1	27.0	29.8	22.9	18.9
Price/NTA (x)	3.6	2.9	2.5	2.6	2.3
Free cash flow yield (%)	0.3	-0.1	1.9	2.8	3.2
Net dividend yield (%)	1.0	1.1	1.1	1.2	1.5
Gross dividend yield (%)	1.4	1.5	1.5	1.7	2.1

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	9.6	8.0	6.1	6.7	7.3
Interest cover EBITDA (x)	10.2	8.5	6.6	7.2	7.8
Net debt/ND+E (%)	30.1	30.1	31.4	37.0	36.8
Net debt/EBITDA (x)	2.9	3.3	4.3	4.1	3.8

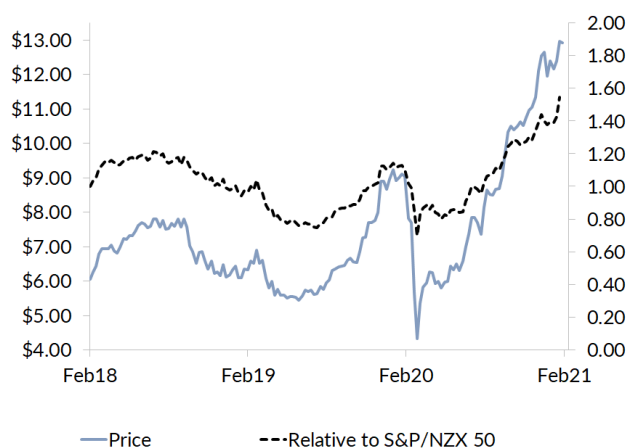
Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	4.9	4.4	3.4	4.0	4.2
Return on equity (%)	12.5	10.6	8.3	11.4	12.3
Return on funds employed (%)	8.7	7.3	5.5	6.9	7.5
EBITDA margin (%)	50.9	51.4	47.0	52.1	53.4
EBIT margin (%)	48.0	48.2	43.5	48.7	50.1
Capex to sales (%)	91.3	95.4	85.6	83.6	83.9
Capex to depreciation (%)	3,129	3,064	2,419	2,469	2,524
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	30	29	33	28	29

Operating Performance	2018A	2019A	2020E	2021E	2022E
<b>Revenue (NZ\$m)</b>					
Care fees	91.2	101.3	110.6	123.2	137.2
Management fees	45.6	52.5	60.8	71.1	82.4
Gain on resales	28.7	36.9	42.1	49.9	55.8
Gain on new sales	63.7	61.0	53.7	61.5	79.5
<b>Total revenue</b>	<b>229.2</b>	<b>251.6</b>	<b>267.2</b>	<b>305.7</b>	<b>354.9</b>

Key Drivers	2018A	2019A	2020E	2021E	2022E
Sales - new units	339	329	404	435	500
Ave unit price - new sales (NZ\$000s)	566	665	618	643	662
Sales - resold units	301	323	381	417	448
Ave unit price - resales (NZ\$000s)	406	445	458	479	498
Gross development margin (%)	33.2%	27.9%	21.5%	22.0%	24.0%
Gross resales margin (%)	23.5%	25.7%	24.1%	25.0%	25.0%

New apartments/units	2018A	2019A	2020E	2021E	2022E
New beds	52	0	86	80	80
<b>Total</b>	<b>506</b>	<b>354</b>	<b>411</b>	<b>505</b>	<b>560</b>

Portfolio	2018A	2019A	2020E	2021E	2022E
Apartments/units	3,732	4,086	4,411	4,846	5,346
Beds	858	858	944	1,024	1,104
<b>Total Portfolio</b>	<b>4,590</b>	<b>4,944</b>	<b>5,355</b>	<b>5,870</b>	<b>6,450</b>

**Figure 3. Price performance**


Source: Forsyth Barr analysis

**Figure 4. Substantial shareholders**

Shareholder	Latest Holding
Harbour Asset Management & Jarden Securities Limited	8.3%
Fisher Funds Management	6.2%
Milford Asset Management	5.3%

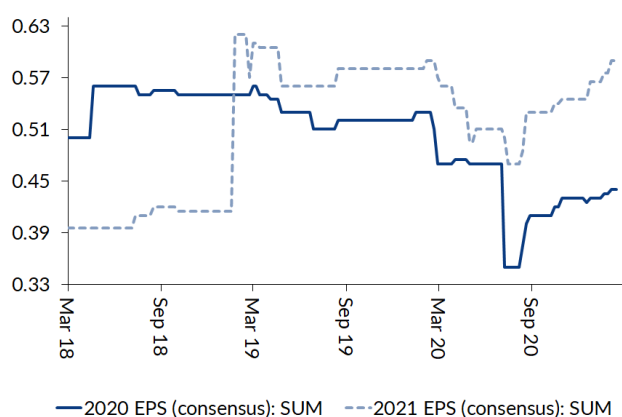
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 5. International valuation comparisons**

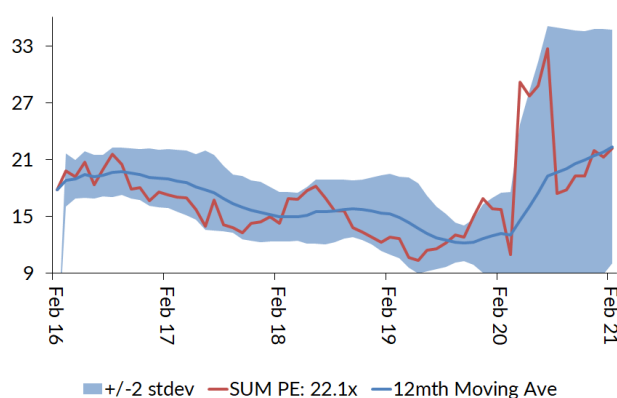
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect SUM's balance date - December)										
Summerset Group Limited	SUM NZ	NZ\$12.92	NZ\$2,906	29.8x	22.9x	26.6x	21.0x	28.7x	22.4x	1.2%
RYMAN HEALTHCARE *	RYM NZ	NZ\$15.42	NZ\$7,710	32.0x	27.0x	32.2x	27.3x	36.1x	30.4x	1.9%
OCEANIA HEALTHCARE *	OCA NZ	NZ\$1.55	NZ\$966	20.6x	17.2x	18.5x	15.8x	23.8x	20.0x	2.8%
ARVIDA GROUP LIMITED *	ARV NZ	NZ\$1.80	NZ\$976	19.0x	15.8x	19.9x	16.9x	22.2x	18.8x	3.7%
Compco Average:				23.9x	20.0x	23.5x	20.0x	27.4x	23.1x	2.8%
SUM Relative:				25%	15%	13%	5%	5%	-3%	-56%

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


Source: Forsyth Barr analysis

**Figure 7. One year forward PE (x)**


Source: Forsyth Barr analysis

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