

# Vital Healthcare

## NZ\$150m Capital Raise

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### RESTRICTED

Vital Healthcare Property (VHP) has announced a capital raise of NZ\$150m at an offer price of NZ\$2.80 per share, representing a 6% discount to the previous closing price of NZ\$2.98. The raise is being completed to fund c.NZ\$100m of brownfield developments, and provide capacity for a potential acquisition. VHP also announced that it has progressed the sale of several regional assets which are anticipated to raise approximately NZ\$100m in early 2021. Our rating is RESTRICTED.

NZX Code	VHP	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.98	NPAT* (NZ\$m)	46.8	n/a	n/a	n/a	PE	28.8	n/a	n/a	n/a
Target price	n/a	EPS* (NZc)	10.4	n/a	n/a	n/a	EV/EBIT	25.9	n/a	n/a	n/a
Risk rating	n/a	EPS growth* (%)	7.2	n/a	n/a	n/a	EV/EBITDA	25.9	n/a	n/a	n/a
Issued shares	453.8m	DPS (NZc)	8.8	n/a	n/a	n/a	Price / NTA	1.2	n/a	n/a	n/a
Market cap	NZ\$1,352m	Imputation (%)	100	n/a	n/a	n/a	Cash div yld (%)	2.9	n/a	n/a	n/a
Avg daily turnover	229.4k (NZ\$607k)	*Based on normalised profits					Gross div yld (%)	4.2	n/a	n/a	n/a

### Key Points

- **The offer:** Consists of (1) a NZ\$125m underwritten Placement and (2) a NZ\$25m Unit Purchase Plan (UPP). The Placement has now been completed, with NorthWest subscribing for at least \$31.9m of new units, representing its pro rata 25.5% stake in VHP. The UPP offer opens on 13 October 2020.
- **Acquisition:** VHP is in advanced discussions to acquire a premium private hospital in a metropolitan area for NZ\$95m, on a 5.25% year 2 stabilised cap rate. The hospital is leased to a high-quality hospital operator for 30 years. Assuming the acquisition goes ahead, VHP anticipates being in a position to execute and complete this transaction during the fourth quarter of 2020.
- **Developments:** VHP has announced development commitment for three of its existing properties, with cost to complete totalling A\$62.9m. A further c.NZ\$33m of developments are still in due diligence but are considered highly likely to proceed. The c.NZ\$100m of developments are driven by tenant demand, and are expected to return a weighted average yield on cost of ~6.0%.
- **Asset sales:** VHP has commenced an off market expressions of interest process to a select group of bidders, regarding the sale of c.NZ\$100 of healthcare assets. VHP expects these to transact at or above book value based on current market demand for healthcare assets.
- **Gearing:** VHP's pro forma debt to gross assets reduces from 38.7% to 33.0% upon completion of the offer (assuming VHP completes the NZ\$95m acquisition and c.NZ\$100m of asset sales). VHP does not have a stated target gearing range, however its bank LVR covenant imposes a 50% limit.
- **NTA:** The pro-forma NTA for VHP is NZ\$2.38, unchanged from the reported NTA reported at FY20. This implies a price-to-NTA ratio of 1.17x at the offer price of NZ\$2.80.
- **Portfolio WALE:** Following divestments/acquisition, VHP expects its WALE to increase from 18.6 to 19.4 years
- **Dividends:** VHP's Board has reconfirmed its previously released distribution guidance of at least 8.75cpu for the FY21 financial year, representing a cash yield of at least 3.13% at the offer price.

**Forsyth Barr Limited is a Joint Lead Manager and Forsyth Barr Group Limited is an Underwriter of the Placement and will receive fees in connection with those roles.**

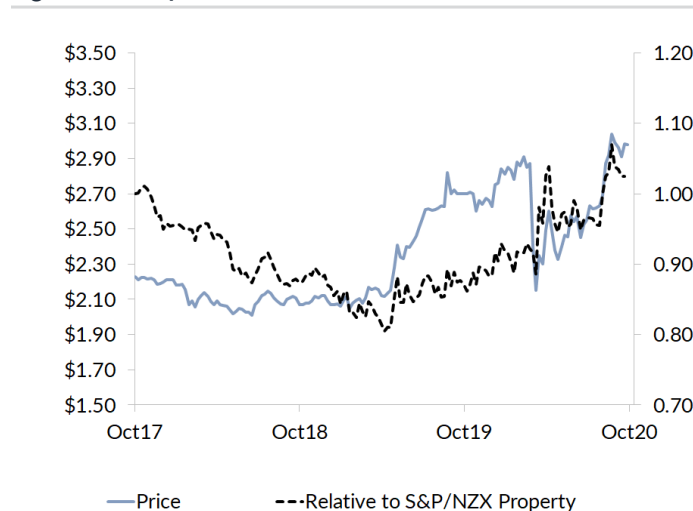
## Vital Healthcare Property Trust (VHP)

Priced as at 07 Oct 2020 (NZ\$)

2.98

<b>12-month target price (NZ\$)*</b>	n/a	<b>Spot valuations (NZ\$)</b>										
Expected share price return	n/a	1. DCF										n/a
Net dividend yield	n/a	2. NAV										n/a
Estimated 12-month return	n/a	3. n/a										n/a
<b>Key WACC assumptions</b>		<b>DCF valuation summary (NZ\$m)</b>										
Risk free rate	n/a	Total firm value										n/a
Equity beta	n/a	(Net debt)/cash										n/a
WACC	n/a	Less: Capitalised operating leases										n/a
Terminal growth	n/a	Value of equity										n/a
<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	
Sales revenue	97.7	98.8	n/a	n/a	n/a	EV/EBITDA (x)	25.5	25.9	n/a	n/a	n/a	
<b>Normalised EBITDA</b>	<b>80.3</b>	<b>82.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	EV/EBIT (x)	25.5	25.9	n/a	n/a	n/a	
Depreciation and amortisation	0	0	n/a	n/a	n/a	PE (x)	30.8	28.8	n/a	n/a	n/a	
<b>Normalised EBIT</b>	<b>80.3</b>	<b>82.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	Price/NTA (x)	1.3	1.2	n/a	n/a	n/a	
Net interest	(29.9)	(28.0)	n/a	n/a	n/a	Free cash flow yield (%)	0.4	-2.9	n/a	n/a	n/a	
Associate income	0	0	n/a	n/a	n/a	Net dividend yield (%)	2.9	2.9	n/a	n/a	n/a	
Tax	(7.6)	(7.2)	n/a	n/a	n/a	Gross dividend yield (%)	4.2	4.2	n/a	n/a	n/a	
Minority interests	0	0	n/a	n/a	n/a							
<b>Normalised NPAT</b>	<b>42.9</b>	<b>46.8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	
Abnormals/other	50.6	11.4	n/a	n/a	n/a	Interest cover EBIT (x)	2.7	2.9	n/a	n/a	n/a	
<b>Reported NPAT</b>	<b>93.4</b>	<b>58.1</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	Interest cover EBITDA (x)	2.7	2.9	n/a	n/a	n/a	
Normalised EPS (cps)	9.7	10.4	n/a	n/a	n/a	Net debt/ND+E (%)	41.4	42.5	n/a	n/a	n/a	
DPS (cps)	8.8	8.8	n/a	n/a	n/a	Net debt/EBITDA (x)	9.1	9.9	n/a	n/a	n/a	
<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	
Revenue (%)	7.8	1.1	n/a	n/a	n/a	Return on assets (%)	4.2	3.9	n/a	n/a	n/a	
EBITDA (%)	5.6	2.1	n/a	n/a	n/a	Return on equity (%)	4.2	4.3	n/a	n/a	n/a	
EBIT (%)	5.6	2.1	n/a	n/a	n/a	Return on funds employed (%)	3.9	3.8	n/a	n/a	n/a	
Normalised NPAT (%)	-6.9	9.1	n/a	n/a	n/a	EBITDA margin (%)	82.2	83.0	n/a	n/a	n/a	
Normalised EPS (%)	-8.9	7.2	n/a	n/a	n/a	EBIT margin (%)	82.2	83.0	n/a	n/a	n/a	
Ordinary DPS (%)	2.2	0.0	n/a	n/a	n/a	Capex to sales (%)	36.3	85.2	n/a	n/a	n/a	
<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
<b>EBITDA</b>	<b>80.3</b>	<b>82.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	Imputation (%)	100	100	n/a	n/a	n/a	
Working capital change	(1.9)	(1.3)	n/a	n/a	n/a	Pay-out ratio (%)	91	85	n/a	n/a	n/a	
Interest & tax paid	(37.8)	(36.3)	n/a	n/a	n/a							
Other	0	0	n/a	n/a	n/a							
<b>Operating cash flow</b>	<b>40.6</b>	<b>44.4</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>							
Capital expenditure	(35.5)	(84.1)	n/a	n/a	n/a							
(Acquisitions)/divestments	(23.5)	(65.2)	n/a	n/a	n/a							
Other	(42.2)	79.3	n/a	n/a	n/a							
<b>Funding available/(required)</b>	<b>(60.5)</b>	<b>(25.6)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>							
Dividends paid	(32.7)	(33.5)	n/a	n/a	n/a							
Equity raised/(returned)	0	0	n/a	n/a	n/a							
<b>(Increase)/decrease in net debt</b>	<b>(93.2)</b>	<b>(59.2)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>							
<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>							
Working capital	(12.5)	(13.8)	n/a	n/a	n/a							
Fixed assets	1,836.4	2,086.3	n/a	n/a	n/a							
Intangibles	0	0	n/a	n/a	n/a							
Right of use asset	0	0	n/a	n/a	n/a							
Other assets	87.7	8.4	n/a	n/a	n/a							
<b>Total funds employed</b>	<b>1,911.7</b>	<b>2,081.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>							
Net debt/(cash)	728.1	808.3	n/a	n/a	n/a							
Lease liability	0	0	n/a	n/a	n/a							
Other liabilities	153.8	179.6	n/a	n/a	n/a							
Shareholder's funds	1,029.7	1,093.1	n/a	n/a	n/a							
Minority interests	0	0	n/a	n/a	n/a							
<b>Total funding sources</b>	<b>1,911.7</b>	<b>2,081.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>							

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

**Figure 1. Price performance**


Source: Forsyth Barr analysis

**Figure 2. Substantial shareholders**

Shareholder	Latest Holding
Northwest	25.5%
Forsyth Barr Investment Management	8.1%
ACC	5.0%

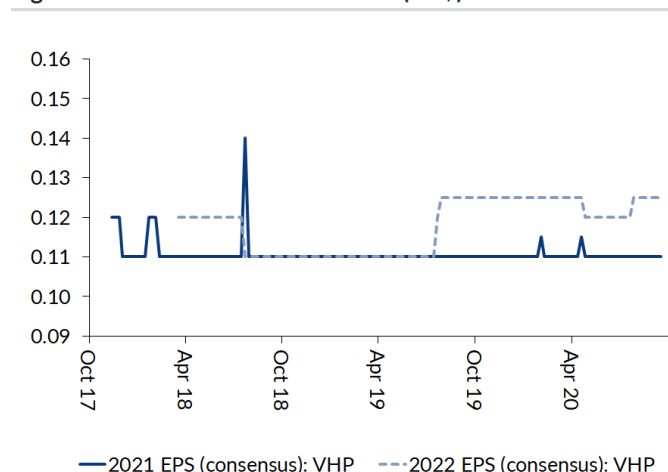
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 3. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect VHP's balance date - June)										
Vital Healthcare	VHP NZ	NZ\$2.98	NZ\$1,352	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ARGOSY PROPERTY *	ARG NZ	NZ\$1.38	NZ\$1,151	19.7x	19.6x	20.6x	20.0x	20.6x	20.0x	4.6%
GOODMAN PROPERTY TRUST *	GMT NZ	NZ\$2.40	NZ\$3,332	36.3x	35.5x	30.0x	28.7x	30.0x	28.7x	2.3%
INVESTORE *	IPL NZ	NZ\$2.19	NZ\$806	27.9x	25.8x	21.8x	20.6x	21.8x	20.6x	3.6%
KIWI PROPERTY GROUP *	KPG NZ	NZ\$1.10	NZ\$1,718	17.2x	15.8x	17.8x	15.9x	17.8x	15.9x	5.6%
ASSET PLUS *	APL NZ	NZ\$0.30	NZ\$109	15.7x	20.3x	22.6x	24.0x	22.6x	24.0x	6.0%
PRECINCT PROPERTIES NZ *	PCT NZ	NZ\$1.69	NZ\$2,220	26.4x	26.2x	27.2x	26.2x	27.2x	26.2x	3.9%
PROPERTY FOR INDUSTRY *	PFI NZ	NZ\$2.70	NZ\$1,352	30.6x	30.0x	24.7x	24.7x	24.7x	24.7x	2.9%
STRIDE PROPERTY *	SPG NZ	NZ\$2.13	NZ\$778	20.8x	22.0x	31.0x	35.0x	31.0x	35.0x	4.7%
Compco Average:				24.3x	24.4x	24.5x	24.4x	24.5x	24.4x	4.2%
VHP Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

EV = Current Market Cap + Actual Net Debt

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

**Figure 4. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

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