

# Asset Plus

## First Look at Valuation Impacts from COVID-19

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### UNDERPERFORM

APL has confirmed it will not pay a 4Q20 dividend and will consider the ability to pay FY21 dividends on a quarter-by-quarter basis. This is in line with our thinking set out in the last LPV sector monthly; we currently forecast FY21 DPS of 2.0cps or 63% of our unchanged AFFO. APL is also the first LPV to provide 31 March 2020 valuations with a reduction in value of 11% vs. the pcp. This reduces APL's NTA by 20% to 0.57cps and sees gearing increase to 35%. The current environment increases risks around APL's retail heavy portfolio as well as its asset recycling and growth strategies. UNDERPERFORM.

NZX Code	APL	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$0.41	NPAT* (NZ\$m)	5.2	6.3	5.9	5.7	EV/EBITDA	12.2	10.5	13.3	13.6
Target price	NZ\$0.65	EPS* (NZc)	3.2	3.9	3.6	3.5	EV/EBIT	12.2	10.5	13.3	13.6
Risk rating	High	EPS growth* (%)	-17.7	21.1	-5.8	-3.6	PE	12.7	10.5	11.1	11.5
Issued shares	161.9m	DPS (NZc)	3.6	2.7	2.0	2.7	Price / NTA	0.6	0.7	0.7	0.7
Market cap	NZ\$65.6m	Imputation (%)	100	100	100	100	Cash div yld (%)	8.9	6.7	4.9	6.7
Avg daily turnover	107.0k (NZ\$65k)	*Based on normalised profits					Gross div yld (%)	12.7	9.5	7.0	9.6

### 4Q20 DPS cut

APL announced it will not pay a 4Q20 dividend. We currently forecast FY21 DPS of 2.0cps or 63% of, at this stage, unchanged AFFO. This retains \$4m of capital vs. a rent role of c.\$11m and provides headroom for APL to potentially provide rent relief. The full impact of any potential support remains unclear given uncertainty around any Government support for tenants and the timing of changes in alert levels.

### Portfolio valuations -11%

APL is the first LVP to provide a 31 March 2020 portfolio valuation with a reduction in value of -11% vs. the pcp, and down -12% from the 20 March draft valuations that were provided with the cancelled capital raising. Figure 1 sets out the changes with reductions of -5% to -14%. As a result of these revaluations; 1) NTA declines to \$0.57 which is down -20% vs. 1H20 NTA of \$0.71 and 2) gearing increases to 35% and remains within APL's banking covenant of 50%.

### Read-throughs from the first post COVID-19 valuations

APL has portfolio challenges with a large weighting to retail, an office development project and no industrial; as such we expect better near-term valuation outcomes across the wider LPV sector. On specific assets 1) 22 Stoddard Rd (down -5%) is anchored by a Warehouse Red Shed and contains 16 speciality tenants, as such we believe **IPL's largely supermarket focussed assets and ARG's mostly large format retail will see better valuation outcomes**, 2) 35 Graham St's (down -14%) sharp devaluation reflects positioning as a value add/development office asset and we expect existing A-grade/Prime office with strong tenant covenants and long WALT to hold up better. **PCT's portfolio is best positioned here followed by KPG, ARG and SPG**, and 3) The Eastgate Shopping Centre (down -14%) has faced numerous challenges since the Christchurch earthquakes and has heavy competition given the level of shopping mall space per capita in Christchurch, so we expect the **shopping centres in KPG's and SPG's portfolios to hold up better**.

As pointed out in our recent sector report, it took 2-3 years for cap rates to peak and rents to bottom post GFC. While NZ valuers will be more proactive this cycle, the range of post lockdown outcomes remains wide and further valuation adjustments are likely when we have more evidence about the degree of economic slowdown and likely recovery time frame.

**Asset Plus Limited (APL)**

 Priced as at 16 Apr 2020 (NZ\$) **0.41**
**12-month target price (NZ\$)\*** **0.65**

Expected share price return	58.5%
Net dividend yield	5.0%
Estimated 12-month return	63.5%

**Spot valuations (NZ\$)**

1. DCF	0.63
2. NAV	0.66
n/a	n/a

**Key WACC assumptions**

Risk free rate	2.00%
Equity beta	0.78
WACC	5.8%
Terminal growth	1.5%

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

Total firm value	105
(Net debt)/cash	(10)
Less: Capitalised operating leases	0
Value of equity	95

**Profit and Loss Account (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Sales revenue	12.3	9.3	10.9	10.3	10.2
<b>Normalised EBITDA</b>	<b>10.1</b>	<b>7.6</b>	<b>9.1</b>	<b>8.6</b>	<b>8.4</b>
Depreciation and amortisation	0	0	0	0	0
<b>Normalised EBIT</b>	<b>10.1</b>	<b>7.6</b>	<b>9.1</b>	<b>8.6</b>	<b>8.4</b>
Net interest	(2.8)	(1.1)	(1.6)	(1.5)	(1.5)
Associate income	0	0	0	0	0
Tax	(1.0)	(1.3)	(1.2)	(1.2)	(1.2)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>6.3</b>	<b>5.2</b>	<b>6.3</b>	<b>5.9</b>	<b>5.7</b>
Abnormals/other	(3.2)	(1.4)	(22.3)	0.7	(1.8)
<b>Reported NPAT</b>	<b>3.1</b>	<b>3.8</b>	<b>(16.0)</b>	<b>6.6</b>	<b>3.9</b>
Normalised EPS (cps)	3.9	3.2	3.9	3.6	3.5
DPS (cps)	3.6	3.6	2.7	2.0	2.7

**Valuation Ratios**

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	11.5	12.3	10.6	13.4	13.7
EV/EBIT (x)	11.5	12.3	10.6	13.4	13.7
PE (x)	10.6	12.8	10.6	11.3	11.7
Price/NTA (x)	0.6	0.6	0.7	0.7	0.7
Free cash flow yield (%)	2.6	5.2	2.7	7.7	7.4
Net dividend yield (%)	8.8	8.8	6.6	4.9	6.7
Gross dividend yield (%)	12.5	12.5	9.4	6.9	9.5

**Capital Structure**

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	3.6	7.0	5.8	5.8	5.5
Interest cover EBITDA (x)	3.6	7.0	5.8	5.8	5.5
Net debt/ND+E (%)	27.8	8.0	34.7	33.0	32.9
Net debt/EBITDA (x)	4.4	1.3	5.4	5.5	5.5

**Growth Rates**

	2018A	2019A	2020E	2021E	2022E
Revenue (%)	0.5	-24.3	16.5	-5.1	-1.2
EBITDA (%)	1.6	-25.1	19.5	-5.2	-1.6
EBIT (%)	1.6	-25.1	19.5	-5.2	-1.6
Normalised NPAT (%)	1.9	-17.7	21.1	-5.8	-3.6
Normalised EPS (%)	1.9	-17.7	21.1	-5.8	-3.6
Ordinary DPS (%)	0.0	0.0	-25.0	-26.3	37.2

**Key Ratios**

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	6.0	6.0	6.2	5.9	5.8
Return on equity (%)	5.5	4.6	6.8	6.2	6.0
Return on funds employed (%)	5.0	4.2	5.6	4.9	4.8
EBITDA margin (%)	81.9	81.2	83.2	83.1	82.7
EBIT margin (%)	81.9	81.2	83.2	83.1	82.7
Capex to sales (%)	38.4	3.8	41.0	7.2	7.6
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	93	113	70	55	78

**Cash Flow (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>10.1</b>	<b>7.6</b>	<b>9.1</b>	<b>8.6</b>	<b>8.4</b>
Working capital change	0.3	(1.6)	(0.0)	(0.0)	(0.0)
Interest & tax paid	(3.9)	(2.2)	(2.8)	(2.7)	(2.8)
Other	0	0	0	0	0
<b>Operating cash flow</b>	<b>6.5</b>	<b>3.8</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>
Capital expenditure	(4.7)	(0.4)	(4.5)	(0.7)	(0.8)
(Acquisitions)/divestments	12.7	37.5	(36.6)	0	0
Other	3.8	(0.8)	0	0	0
<b>Funding available/(required)</b>	<b>18.3</b>	<b>40.1</b>	<b>(34.8)</b>	<b>5.1</b>	<b>4.9</b>
Dividends paid	(5.8)	(5.8)	(4.4)	(3.2)	(4.4)
Equity raised/(returned)	0	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>12.4</b>	<b>34.3</b>	<b>(39.2)</b>	<b>1.9</b>	<b>0.5</b>

**Property Statistics**

	2015A	2016A	2017A	2018A	2019A
<b>Key metrics</b>					
No. properties	5	5	5	4	3
Average lease term (years)	5.9	5.4	4.6	4.4	5.5
Occupancy rate (%)	97.0	97.1	96.0	97.4	96.7
Cap rate (%)	8.21	7.91	7.74	7.43	7.40
Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1
NTA per share (NZ\$)	0.725	0.740	0.723	0.706	0.694

**Balance Sheet (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Working capital	(1.5)	0.5	0.5	0.5	0.5
Fixed assets	168.4	123.0	141.8	143.3	142.2
Intangibles	0	0	0	0	0
Right of use asset	0	0	0	0	0
Other assets	0.1	0.5	0.5	0.5	0.5
<b>Total funds employed</b>	<b>166.9</b>	<b>123.9</b>	<b>142.7</b>	<b>144.2</b>	<b>143.2</b>
Net debt/(cash)	44.0	9.7	48.9	47.0	46.5
Lease liability	0	0	0	0	0
Other liabilities	8.5	1.9	1.9	1.9	1.9
Shareholder's funds	114.3	112.3	91.9	95.3	94.8
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>166.9</b>	<b>123.9</b>	<b>142.7</b>	<b>144.2</b>	<b>143.2</b>

**Portfolios values (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
AA centre	33.8	36.2	40.9	43.8	
Eastgate Shopping Centre	50.4	58.0	59.5	58.0	54.5
Print Place	13.3	13.0	11.0	0	0
Heinz Wattie Warehouse	27.2	27.2	27.0	27.3	29.1
Roskill Centre	33.6	35.0	36.0	38.0	39.5
Portfolio value (NZ\$m)	158.2	169.4	174.4	167.1	123.1

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

## Movements

**Figure 1. Valuation revisions**

Property	Sector	Grade	Location	Mar-19 valuation	Mar-20 valuation	change
35 Graham St	Office	A-grade	Auckland	58.0m	50.1m	-13.6%
22 Stoddard Road	Retail	Neighbourhood	Auckland	39.5m	37.5m	-5.1%
Eastgate Shopping Centre	Retail	Sub-Regional	Christchurch	54.5m	46.7m	-14.3%
Munroe Lane	Land		Auckland	7.3m	7.5m	3.4%
				<b>159.3m</b>	<b>141.8m</b>	<b>-11.0%</b>

Source: Forsyth Barr analysis

**Figure 2. Implied cap rate change (assumes no change in market rents)**

Property	Mar-19 actual	Mar-20 actual	change
35 Graham St	6.90%	7.99%	1.09%
22 Stoddard Road	6.13%	6.46%	0.33%
Eastgate Shopping Centre	8.13%	9.49%	1.36%

Source: Forsyth Barr analysis

## Investment Summary

In 2018 Asset Plus Limited (APL) 1) externalised its management to Augusta Capital [AUG], 2) did significant asset sales, and 3) launched a new brand identity. While APL lacks scale versus peers, its management agreement with AUG provides access to significant expertise. While APL continues to trade at a sizable discount to the sector, it looks challenging for APL to generate scale and diversify its portfolio away from retail exposure. UNDERPERFORM.

### Business quality

- **Property fundamentals:** At its 1H20 result APL had a three asset portfolio of around NZ\$150m. 1H20 occupancy was 98%, the WALT 4.2 years.
- **Augusta management deal:** In March 2018, APL sold its management rights to AUG for NZ\$4.5m. Key terms are: 1) a minimum term of five years, 2) base management fees of 0.50% of AUM, falling to 0.40% of AUM < NZ\$500m, and 3) performance fees of 10% of relative outperformance vs NZX property benchmark.

### Earnings and cashflow outlook

- **Acquisition activity:** APL's purchase of 35 Graham St in Auckland for NZ\$58m is a medium term redevelopment opportunity with a robust near-term holding yield.
- **Development activity:** APL is working on a potential major redevelopment at Eastgate which would add an additional major to the centre and repurpose some of the existing space.

### Financial structure

- **Balance sheet:** Gearing (LVR) lifts to ~26% with the Graham St acquisition and Heinz Watties divestment.

### Risk factors

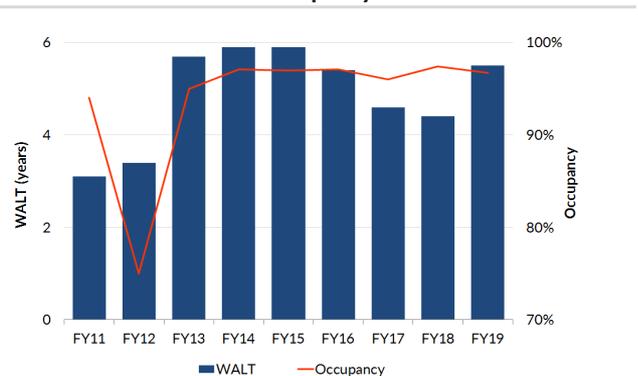
- **Economy and E-commerce growth:** APL's retail assets are smaller sub-regional and neighbourhood centres, which could be more susceptible to e-commerce risks and the economic slow down than major regional centres.
- **Sourcing new assets:** APL will need to source new 'value-add' properties to replace asset sales and utilise its balance sheet. A sustained period of low gearing would put pressure on APL's dividend.

Figure 3. Sector and regional portfolio exposure

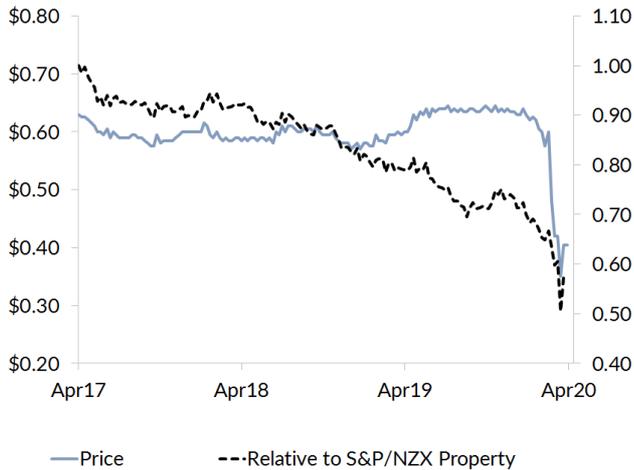
	Auckland	Other North Island	South	Island	Total
Industrial	-	15%	6%		22%
Office	23%	-	-		23%
Retail	21%	-	34%		55%
<b>Total</b>	<b>44%</b>	<b>15%</b>	<b>40%</b>		<b>100%</b>

Source: Forsyth Barr analysis, Company Reports

Figure 4. Portfolio WALT and occupancy



Source: Forsyth Barr analysis, Company Reports

**Figure 5. Price performance**


Source: Forsyth Barr analysis

**Figure 6. Substantial shareholders**

Shareholder	Latest Holding
Augusta Capital	18.9%
Salt Funds Management	15.8%
ACC	9.6%

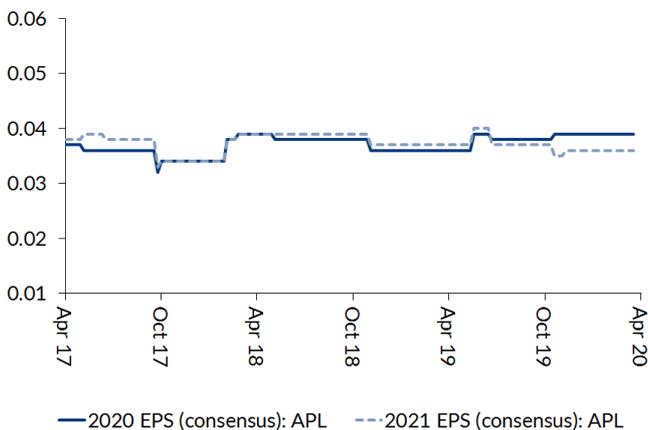
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 7. International valuation comparisons**

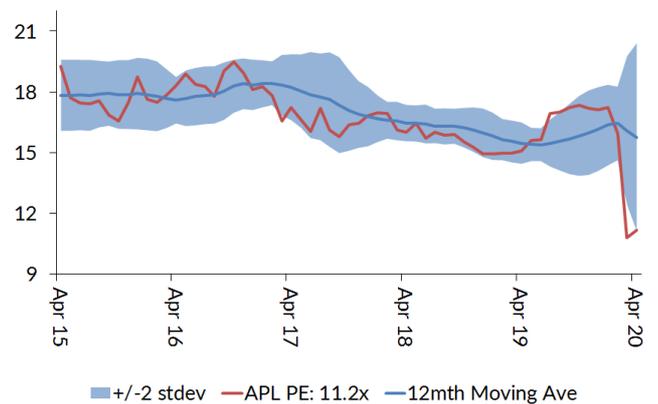
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Asset Plus	APL NZ	NZ\$0.41	NZ\$66	10.5x	11.1x	8.3x	8.8x	8.3x	8.8x	4.9%
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	12.7x	12.2x	14.4x	13.5x	14.4x	13.5x	5.6%
Goodman Property Trust *	GMT NZ	NZ\$2.05	NZ\$2,841	30.4x	29.7x	26.8x	24.4x	26.8x	24.4x	2.6%
Investore *	IPL NZ	NZ\$1.41	NZ\$429	18.0x	16.9x	18.3x	15.5x	18.3x	15.5x	4.9%
Kiwi Property Group *	KPG NZ	NZ\$0.84	NZ\$1,318	11.8x	11.5x	14.0x	13.1x	14.0x	13.1x	5.9%
Precinct Properties NZ *	PCT NZ	NZ\$1.47	NZ\$1,931	22.6x	21.6x	24.4x	20.2x	24.4x	20.2x	3.4%
Property For Industry *	PFI NZ	NZ\$1.76	NZ\$878	20.5x	20.0x	17.3x	17.2x	17.3x	17.2x	3.5%
Stride Property *	SPG NZ	NZ\$1.30	NZ\$475	12.4x	12.1x	14.2x	14.2x	14.2x	14.2x	5.3%
Vital Healthcare *	VHP NZ	NZ\$2.05	NZ\$928	21.1x	20.0x	20.0x	18.9x	20.0x	18.9x	4.1%
<b>Comppo Average:</b>				<b>18.7x</b>	<b>18.0x</b>	<b>18.7x</b>	<b>17.1x</b>	<b>18.7x</b>	<b>17.1x</b>	<b>4.4%</b>
<b>APL Relative:</b>				<b>-44%</b>	<b>-38%</b>	<b>-55%</b>	<b>-49%</b>	<b>-55%</b>	<b>-49%</b>	<b>11%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 8. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 9. One year forward PE (x)**


Source: Forsyth Barr analysis

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