

Augusta Capital

NZ\$45m Equity Raise

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RESTRICTED 

Augusta Capital (AUG) has announced that it is conducting a fully underwritten NZ\$45m equity raise. The equity raise consists of an NZ\$32.6m 1 for 1.9 pro-rata accelerated entitlement offer, and an NZ\$12.4m placement to institutional investors, which has been successfully completed. Both the placement and entitlement offer will be undertaken at a fixed offer price of \$0.55 per share. Centuria Capital and Centuria Funds Management (ASX: CNI) will participate in the equity raise and take a stake of between 19% and 24.99% in AUG.

NZX Code	AUG	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$0.80	NPAT* (NZ\$m)	7.7	n/a	n/a	n/a	EV/EBITDA	5.1	n/a	n/a	n/a
Target price	n/a	EPS* (NZc)	8.8	n/a	n/a	n/a	EV/EBIT	5.1	n/a	n/a	n/a
Risk rating	n/a	EPS growth* (%)	34.1	n/a	n/a	n/a	PE	9.0	n/a	n/a	n/a
Issued shares	87.5m	DPS (NZc)	6.1	n/a	n/a	n/a	Price / NTA	1.1	n/a	n/a	n/a
Market cap	NZ\$70.m	Imputation (%)	0	n/a	n/a	n/a	Cash div yld (%)	7.7	n/a	n/a	n/a
Avg daily turnover	124.9k (NZ\$197k)	*Based on normalised profits					Gross div yld (%)	7.7	n/a	n/a	n/a

Seeking capital flexibility

AUG has highlighted that the proceeds from its equity raise will be used to repay existing debt facilities, resulting in a pro forma net cash position of NZ\$11m as at 31 March 2020. Additionally, AUG notes that its existing lender has extended a partial covenant waiver to 31 March 2021. AUG believes that the \$45m equity raise will provide sufficient capacity to operate at near break-even levels (assuming no fund offerings) for the next 24 months without being in breach of banking covenants or requiring further covenant relief, and without requiring any additional equity capital.

Impact of COVID-19

The outbreak of COVID-19 and the related economic consequences have had a "significant impact" on AUG, including two new fund offerings not proceeding; the Augusta Property Fund (APF) and the Augusta Tourism Fund (ATF). AUG now expects an FY20 NPAT loss of approximately NZ\$27m, and AFFO is expected to be near breakeven.

With the APF and ATF not proceeding, AUG will not receive the associated establishment fees and ongoing management fees. AUG is also unable to recover the NZ\$4.5m deposit it had paid on the Albany Lifestyle Centre, which was to be included in the APF. The settlement for the Anglesea Medical Centre has been deferred to 30 September 2020. Additionally, the development assets which were intended to seed the ATF will remain on AUG's balance sheet with further development now deferred. AUG has also been impacted by the withdrawal of Asset Plus' (APL) capital raise and planned asset development. AUG has cancelled its 4Q20 dividend.

Equity raise will see Centuria take a minority interest in AUG

ASX listed investment manager, CNI, has committed to participating in the equity raise. Following the placement, which took place on Tuesday 5 May, CNI has taken up an initial holding of 15.6%. CNI has committed to AUG to fully subscribe for all of its entitlements under the entitlement offer, as well as partially sub-underwrite the entitlement offer. CNI is expected to have a minimum shareholding of 19.0% following completion of the institutional component of the entitlement offer. CNI's shareholding will not exceed 24.99% after completion of the equity raise. Refer to page 3 for a summary of key dates related to the equity raise.

Augusta Capital Ltd (AUG)

Priced as at 05 May 2020 (NZ\$)

0.80

12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return	n/a					1. DCF	n/a				
Net dividend yield	n/a					2. Adj NAV	n/a				
Estimated 12-month return	n/a					3. n/a	n/a				
Key WACC assumptions						DCF valuation summary (NZ\$m)					
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				
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2018A	2019A	2020E	2021E	2022E	EV/EBITDA (x)	2018A	2019A	2020E	2021E	2022E
Normalised EBITDA	18.9	22.0	n/a	n/a	n/a	EV/EBIT (x)	8.2	5.1	n/a	n/a	n/a
Depreciation and amortisation	10.3	11.7	n/a	n/a	n/a	PE (x)	8.2	5.1	n/a	n/a	n/a
Normalised EBIT	0	0	n/a	n/a	n/a	Price/NTA (x)	12.1	9.0	n/a	n/a	n/a
Net interest	10.3	11.7	n/a	n/a	n/a	Free cash flow yield (%)	1.1	1.1	n/a	n/a	n/a
Associate income	(2.8)	(1.5)	n/a	n/a	n/a	Net dividend yield (%)	0.8	9.9	n/a	n/a	n/a
Tax	0	0	n/a	n/a	n/a	Gross dividend yield (%)	7.0	7.7	n/a	n/a	n/a
Minority interests	(1.8)	(2.4)	n/a	n/a	n/a		9.7	7.7	n/a	n/a	n/a
Normalised NPAT	0	0	n/a	n/a	n/a	Capital Structure					
Abnormals/other	5.8	7.7	n/a	n/a	n/a	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E
Reported NPAT	(4.8)	(0.8)	n/a	n/a	n/a	Interest cover EBITDA (x)	3.7	7.8	n/a	n/a	n/a
Normalised EPS (cps)	1.0	7.0	n/a	n/a	n/a	Net debt/ND+E (%)	3.7	7.8	n/a	n/a	n/a
DPS (cps)	6.6	8.8	n/a	n/a	n/a	Net debt/EBITDA (x)	30.8	6.7	n/a	n/a	n/a
	5.6	6.1	n/a	n/a	n/a		3.6	0.5	n/a	n/a	n/a
Growth Rates						Key Ratios					
Revenue (%)	2018A	2019A	2020A	2021A	2022A	Return on assets (%)	2018A	2019A	2020E	2021E	2022E
EBITDA (%)	-0.8	16.6	n/a	n/a	n/a	Return on equity (%)	7.3	11.4	n/a	n/a	n/a
EBIT (%)	-5.3	13.1	n/a	n/a	n/a	Return on funds employed (%)	6.9	9.0	n/a	n/a	n/a
Normalised NPAT (%)	-5.3	13.1	n/a	n/a	n/a	EBITDA margin (%)	0.0	0.0	n/a	n/a	n/a
Normalised EPS (%)	-14.4	34.1	n/a	n/a	n/a	EBIT margin (%)	54.7	53.0	n/a	n/a	n/a
Ordinary DPS (%)	-14.4	34.1	n/a	n/a	n/a	Capex to sales (%)	54.7	53.0	n/a	n/a	n/a
	2.3	8.9	n/a	n/a	n/a	Capex to depreciation (%)	1.3	1.4	n/a	n/a	n/a
						Imputation (%)	n/a	n/a	n/a	n/a	n/a
						Pay-out ratio (%)	98	0	n/a	n/a	n/a
							85	69	n/a	n/a	n/a
Cash Flow (NZ\$m)						Operating Performance					
EBITDA	2018A	2019A	2020E	2021E	2022E	Net revenue by segment:	2018A	2019A	2020E	2021E	2022E
Working capital change	10.3	11.7	n/a	n/a	n/a	Net rental income	5.7	3.0	n/a	n/a	n/a
Interest & tax paid	(4.3)	0.3	n/a	n/a	n/a	Distribution income	1.8	1.8	n/a	n/a	n/a
Other	(5.2)	(4.8)	n/a	n/a	n/a	Total yield income	7.4	4.7	n/a	n/a	n/a
Operating cash flow	0	0	n/a	n/a	n/a	Offeror Fees	3.7	5.9	n/a	n/a	n/a
Capital expenditure	0.8	7.2	n/a	n/a	n/a	Underwriting fees	1.5	2.1	n/a	n/a	n/a
(Acquisitions)/divestments	(0.2)	(0.3)	n/a	n/a	n/a	Total up-front deal fees	5.2	8.0	n/a	n/a	n/a
Other	(3.2)	31.0	n/a	n/a	n/a	Base management fees	4.2	5.2	n/a	n/a	n/a
Funding available/(required)	(5.3)	(1.6)	n/a	n/a	n/a	Transactional income	2.1	4.1	n/a	n/a	n/a
Dividends paid	(7.9)	36.3	n/a	n/a	n/a	Total recurring fees	6.3	9.3	n/a	n/a	n/a
Equity raised/(returned)	(4.8)	(5.3)	n/a	n/a	n/a	Total net rental income	18.9	22.0	n/a	n/a	n/a
(Increase)/decrease in net debt	(12.7)	31.0	n/a	n/a	n/a						
Balance Sheet (NZ\$m)						Funds under management					
Working capital	2018A	2019A	2020E	2021E	2022E	Directly held properties	2018A	2019A	2020E	2021E	2022E
Fixed assets	1.5	(0.2)	n/a	n/a	n/a	Syndications	84	31	n/a	n/a	n/a
Intangibles	85.3	31.5	n/a	n/a	n/a	Other properties	1,416	1,532	n/a	n/a	n/a
Right of use asset	21.7	20.2	n/a	n/a	n/a	Value Add fund no.1	96	96	n/a	n/a	n/a
Other assets	0	0	n/a	n/a	n/a	Asset Plus	74	0	n/a	n/a	n/a
Total funds employed	25.3	42.2	n/a	n/a	n/a	Industrial Fund	180	133	n/a	n/a	n/a
Net debt/(cash)	133.7	93.6	n/a	n/a	n/a	Total FUM	0	0	n/a	n/a	n/a
Lease liability	37.5	6.2	n/a	n/a	n/a		1,851	1,792	n/a	n/a	n/a
Other liabilities	0	0	n/a	n/a	n/a						
Shareholder's funds	12.1	1.3	n/a	n/a	n/a						
Minority interests	84.2	86.1	n/a	n/a	n/a						
Total funding sources	133.7	93.6	n/a	n/a	n/a						

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

Indicative dates

Figure 1. Indicative timeline

Date	Event
Monday, 4 May 2020	Trading halt commenced
Tuesday, 5 May 2020	Announcement of Equity Raise
Tuesday, 5 May 2020	Placement completed
Tuesday, 5 May 2020	Institutional Entitlement Offer opens
Tuesday, 5 May 2020	Settlement of new shares issued under the Placement on NZX to Centuria and commencement of trading of allotted new shares (subject to trading halt)
Tuesday, 5 May 2020	Institutional Entitlement Offer closes for New Zealand, Australia and Asia
Wednesday, 6 May 2020	Institutional Entitlement Offer closes for Rest of World
Wednesday, 6 May 2020	Announce results of Institutional Entitlement Offer
Wednesday, 6 May 2020	Trading halt lifted and shares recommence trading on NZX on an ex-entitlement basis
Thursday, 7 May 2020	Settlement of new shares issued under the Placement on NZX to all other investors and commencement of trading of allotted new shares
Thursday, 7 May 2020	Record Date for the Entitlement Offer
Friday, 8 May 2020	Retail Entitlement Offer opens
Friday, 8 May 2020	Dispatch of the Offer Document and Entitlement, and Acceptance Forms to Eligible Retail Shareholders
Tuesday, 12 May 2020	Settlement of Institutional Entitlement Offer on NZX and commencement of trading of allotted new shares
Tuesday, 19 May 2020	Retail Entitlement Offer closes
Friday, 22 May 2020	Announce results for Retail Entitlement Offer
Tuesday, 26 May 2020	Settlement of Retail Entitlement Offer on the NZX and commencement of trading of allotted new shares

Source: Forsyth Barr analysis, AUG company release

Investment Summary

Augusta Capital (AUG) has transitioned its business from property to funds management. AUG's funds management business makes it very different from the other listed property vehicles and gives it less capital intensive growth prospects, albeit at higher risk. RESTRICTED.

Business quality

- **Focus solely on funds management:** AUG's last directly held asset has been sold. The sale has provided substantial balance sheet capacity for warehousing, co-investment in new funds, and underwriting.

Earnings and cashflow outlook

- **Takeover offer withdrawn:** AUG was subject to a takeover offer for 100% of AUG's shares, via bid implementation agreement with Centuria Capital Group Limited (CNI), however, with recent market volatility the takeover has been terminated.
- **Funds management growth:** AUG is building its track record for executing on larger deals. Following the Industrial Fund and St Georges Bay road deals, we expect further near term-growth will be challenging.

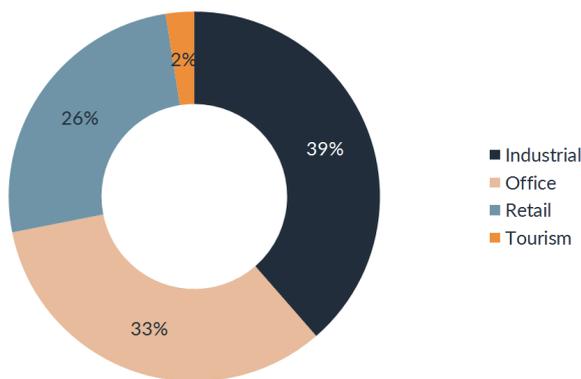
Financial structure

- **Capital raise to provide flexibility:** With the downturn in financial markets and the underlying economy, AUG has undertaken a capital raise that is designed to give it financial headroom for the possibility of a slower investment market near-term.

Risk factors

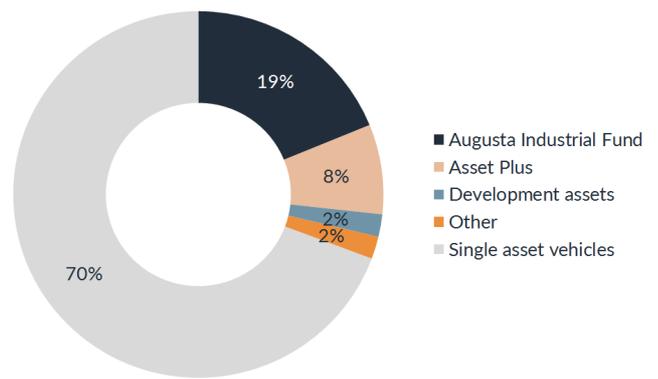
- **Acquiring new stock for investment products:** This has been the largest challenge for AUG's funds management business given a highly competitive property market.
- **Growing FUM in a slow economy:** The environment will be tougher to establish new funds near-term, however, it will lead to opportunities to source assets and investors will still be looking for yield.

Figure 2. Asset Under Management split by sector

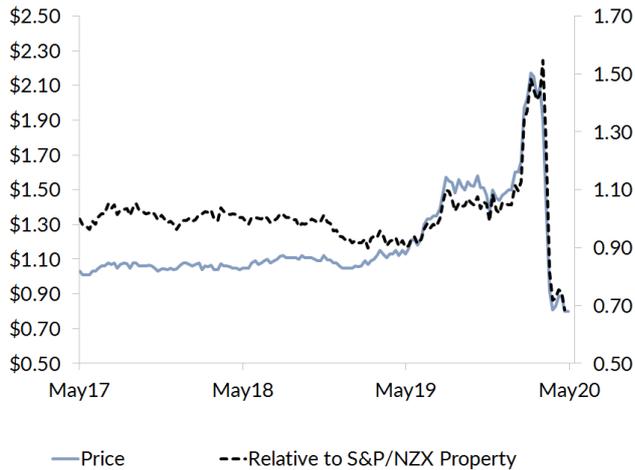


Source: Forsyth Barr analysis, Company reports

Figure 3. AUG managed funds



Source: Forsyth Barr analysis, Company reports

Figure 4. Price performance


Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
Mark Edward Francis	17.2%
ANZ NZ Investments	13.0%
ACC	6.5%
Kawaroa Trustees	6.1%

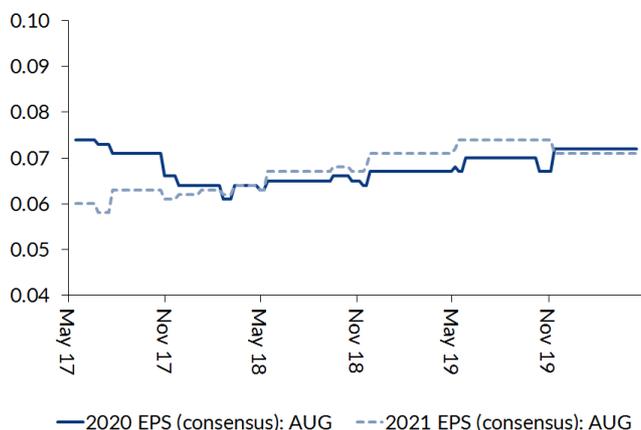
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 6. International valuation comparisons

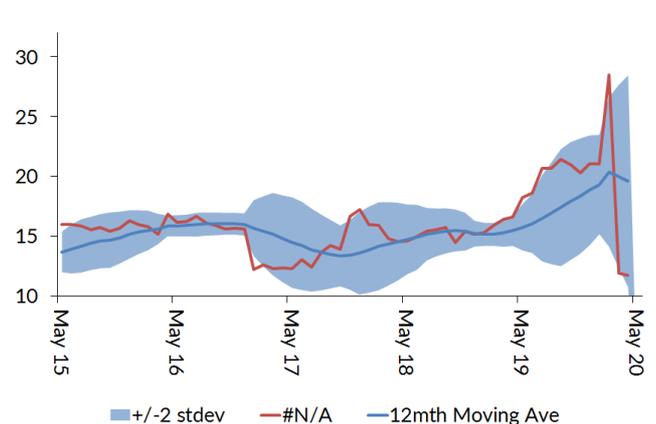
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Augusta Capital	AUGNZ	NZ\$0.80	NZ\$70	n/a						
PENDAL GROUP	PDL AT	A\$5.13	A\$1,656	10.6x	11.8x	7.9x	8.5x	8.3x	9.0x	7.2%
CHARTER HALL GROUP	CHC AT	A\$7.03	A\$3,274	11.3x	12.8x	12.1x	11.1x	12.6x	11.5x	5.5%
CROMWELL PROPERTY GROUP	CMW AT	A\$0.75	A\$1,960	9.6x	10.2x	19.4x	17.4x	19.2x	17.3x	9.8%
CENTURIA CAPITAL GROUP	CNI AT	A\$1.46	A\$705	11.7x	10.3x	14.2x	9.6x	14.2x	9.6x	5.3%
GOODMAN GROUP	GMG AT	A\$13.11	A\$23,970	20.7x	21.7x	28.4x	19.9x	28.4x	19.7x	2.4%
MAGELLAN FINANCIAL GROUP	MFG AT	A\$48.90	A\$8,914	21.8x	21.7x	16.1x	15.7x	16.1x	15.8x	4.2%
PLATINUM ASSET MANAGEMENT	PTM AT	A\$3.44	A\$2,018	13.8x	16.4x	9.5x	10.9x	9.6x	11.1x	6.3%
Stride Property*	SPG NZ	NZ\$1.50	NZ\$548	14.3x	15.4x	15.5x	17.5x	15.5x	17.5x	4.6%
360 CAPITAL GROUP	TGP AT	A\$0.87	A\$201	47.4x	n/a	20.1x	n/a	20.2x	n/a	n/a
Compcop Average:				17.9x	15.0x	15.9x	13.8x	16.0x	13.9x	5.7%
AUG Relative:				n/a						

EV = Current Market Cap + Actual Net Debt

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

Figure 7. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)


Source: Forsyth Barr analysis

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