

# Investore Super Essential

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## OUTPERFORM

Investore Property (IPL) has benefited in recent weeks from its defensive qualities and its exposure to its 'essential' supermarket businesses. While IPL has arguably less upside in a recovery scenario than some of the other more retail and office focused NZ LPVs that have been heavily sold off, we remain with an OUTPERFORM rating and continue to like the strongly defensive characteristics given the level of economic and property valuation uncertainty.

NZX Code	IPL	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.62	NPAT* (NZ\$m)	20.9	21.6	25.3	26.2	EV/EBITDA	18.2	16.9	13.4	12.9
Target price	NZ\$1.85	EPS* (NZc)	8.0	7.8	8.3	8.6	EV/EBIT	18.2	16.9	13.4	12.9
Risk rating	Low	EPS growth* (%)	2.1	-2.2	6.1	3.6	PE	20.2	20.7	19.5	18.8
Issued shares	260.1m	DPS (NZc)	7.6	7.6	7.6	7.8	Price / NTA	1.0	0.9	0.9	0.9
Market cap	NZ\$421m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.7	4.7	4.7	4.8
Avg daily turnover	210.5k (NZ\$373k)	*Based on normalised profits					Gross div yld (%)	6.7	6.7	6.7	6.9

### Defensive tenant base limits downside

Compared to NZ REIT sector, IPL has performed relatively well, down -12% YTD, and trading broadly in line with NTA. The tenant base of IPL's large format retail assets is relatively well insulated from COVID-19, with majority of rental income derived from Supermarkets. While headline retail sales have reduced significantly over the past few weeks, data from Paymark points to a meaningful increase in food sales. A sustained increase in food sales is supportive to IPL's rental income with supermarket leases typically including a turnover component.

### Asset purchases lift gearing, lowers Supermarket exposure

IPL has committed to purchasing three large format retail (LFR) assets from Stride Property Group (SPG) for \$141m, with expected settlement in 1Q21 (ie in the current quarter). This transaction was partially funded via an NZ\$85m equity raise in Nov-19, as such IPL will have lower than normal gearing at its FY20 result (FB estimate 29%), however, we expect this to lift to typical levels upon settlement. Whilst these asset purchases are accretive (EPS +c.2.5%) we note they decrease portfolio exposure to Supermarkets (78% to 69% of gross rent) and increase the number of smaller specialty tenants (5% to 11% of gross rent).

### In a strong position

IPL's appeal remains its defensive supermarket based rental income. While IPL will have higher gearing post settlement of asset purchases, we see asset-revaluation risk as more limited than other retail assets given long lease terms and potential for turnover driven rent growth. We do note that IPL's gearing is high vs. the sector; however, its small average asset size (\$19m) is helpful for balance sheet management and it has a maximum gearing covenant of 65% versus the 50% typical in the sector.

We have adjusted our earnings estimates for the Nov-20 capital raise and the purchase of the three LFR assets from SPG. We assume settlement for the LFR divestment occurs at the end of 1Q21. The timing mismatch between capital raise and asset settlement impacts our FY20 EPS estimates (-4.5%) but the transaction is accretive longer term (FY21-22E +0.8%/+2.8%). No change to our target price of NZ\$1.85.

**Investore (IPL)**

Priced as at 02 Apr 2020 (NZ\$)						<b>1.62</b>						
<b>12-month target price (NZ\$)*</b>						<b>1.85</b>	<b>Spot valuations (NZ\$)</b>					
Expected share price return						14.2%	1. DCF					1.95
Net dividend yield						4.7%	2. NAV					1.66
Estimated 12-month return						18.9%	n/a					n/a
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>						
Risk free rate						2.00%	Total firm value					858
Equity beta						0.70	(Net debt)/cash					(312)
WACC						4.9%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					544
<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	43.1	46.1	46.3	54.0	56.0	EV/EBITDA (x)	18.6	18.2	16.9	13.4	12.9	
Depreciation and amortisation	37.7	40.1	40.5	47.8	49.3	EV/EBIT (x)	18.6	18.2	16.9	13.4	12.9	
Normalised EBIT	0	0	0	0	0	PE (x)	20.6	20.2	20.7	19.5	18.8	
Net interest	37.7	40.1	40.5	47.8	49.3	Price/NTA (x)	1.0	1.0	0.9	0.9	0.9	
Associate income	(11.7)	(13.8)	(13.1)	(14.9)	(15.7)	Free cash flow yield (%)	4.6	3.7	4.7	5.5	5.7	
Tax	0	0	0	0	0	Net dividend yield (%)	4.6	4.7	4.7	4.7	4.8	
Minority interests	(5.5)	(5.3)	(5.8)	(7.5)	(7.4)	Gross dividend yield (%)	6.6	6.7	6.7	6.7	6.9	
Normalised NPAT	0	0	0	0	0	<b>Capital Structure</b>						
Abnormals/other	20.5	20.9	21.6	25.3	26.2	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E	
Reported NPAT	(25.6)	(17.7)	(10.4)	(9.4)	(7.2)	Interest cover EBITDA (x)	3.2	2.9	3.1	3.2	3.2	
Normalised EPS (cps)	46.2	38.6	32.0	34.7	33.4	Net debt/ND+E (%)	41.5	41.3	28.8	39.5	39.0	
DPS (cps)	7.9	8.0	7.8	8.3	8.6	Net debt/EBITDA (x)	8.1	7.8	5.4	7.5	7.2	
	7.5	7.6	7.6	7.6	7.8	<b>Key Ratios</b>						
<b>Growth Rates</b>						2018A	2019A	2020E	2021E	2022E		
Revenue (%)	27.4	6.9	0.4	16.7	3.7	Return on assets (%)	5.1	5.2	5.3	5.2	5.3	
EBITDA (%)	24.1	6.3	0.9	18.1	3.3	Return on equity (%)	4.8	4.7	4.0	4.6	4.7	
EBIT (%)	24.1	6.3	0.9	18.1	3.3	Return on funds employed (%)	4.2	4.1	4.1	4.3	4.1	
Normalised NPAT (%)	16.5	1.8	3.0	17.5	3.6	EBITDA margin (%)	87.4	86.9	87.4	88.4	88.1	
Normalised EPS (%)	n/a	2.1	-2.2	6.1	3.6	EBIT margin (%)	87.4	86.9	87.4	88.4	88.1	
Ordinary DPS (%)	n/a	1.9	0.3	0.0	2.3	Capex to sales (%)	5.1	12.0	4.1	3.9	4.1	
<b>Cash Flow (NZ\$m)</b>						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
EBITDA	37.7	40.1	40.5	47.8	49.3	Imputation (%)	100	100	100	100	100	
Working capital change	1.0	0.1	(0.0)	0.0	0	Pay-out ratio (%)	95	95	97	92	91	
Interest & tax paid	(17.2)	(19.0)	(18.9)	(22.4)	(23.1)	<b>Portfolio Summary</b>						
Other	0	0	0	0	0		*2016A	2017A	2018A	2019A		
Operating cash flow	21.4	21.2	21.6	25.3	26.2	Investment properties (NZ\$m)	641.4	660.4	738.3	761.2		
Capital expenditure	(2.2)	(5.5)	(1.9)	(2.1)	(2.3)	Weighted average lease term (yrs)	14.8	14.3	13.1	12.4		
(Acquisitions)/divestments	(47.8)	0	13.6	(140.8)	0	Occupancy rate (%)	99.7	99.8	99.9	99.9		
Other	0	98.5	0	0	0	M'tment/Admin cost % of assets (%)	n/a	0.6	0.8	0.8		
Funding available/(required)	(28.6)	114.1	33.3	(117.5)	24.0	NTA per share (NZ\$)	1.46	1.55	1.64	1.70		
Dividends paid	(20.0)	(19.7)	(21.0)	(23.2)	(23.8)	Portfolio cap rate (%)	6.44	6.36	6.19	6.05		
Equity raised/(returned)	0	(2.6)	82.6	0	0	Portfolio initial yield (%)	6.68	6.57	6.36			
(Increase)/decrease in net debt	(48.6)	91.8	94.9	(140.7)	0.2	*metrics shown on a pro-forma basis as at March 2016						
<b>Balance Sheet (NZ\$m)</b>												
Working capital	2018A	2019A	2020E	2021E	2022E							
Fixed assets	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)							
Intangibles	738.3	742.1	759.9	912.1	921.6							
Right of use asset	0	0	0	0	0							
Other assets	2.1	22.2	3.2	3.2	3.2							
Total funds employed	735.9	760.6	759.3	911.5	921.0							
Net debt/(cash)	304.7	311.5	216.6	357.4	357.2							
Lease liability	0	0	0	0	0							
Other liabilities	2.1	5.8	5.8	5.8	5.8							
Shareholder's funds	429.1	443.2	536.8	548.3	558.0							
Minority interests	0	0	0	0	0							
Total funding sources	735.9	760.6	759.3	911.5	921.0							

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

**Figure 1. LPV Balance sheet overview**

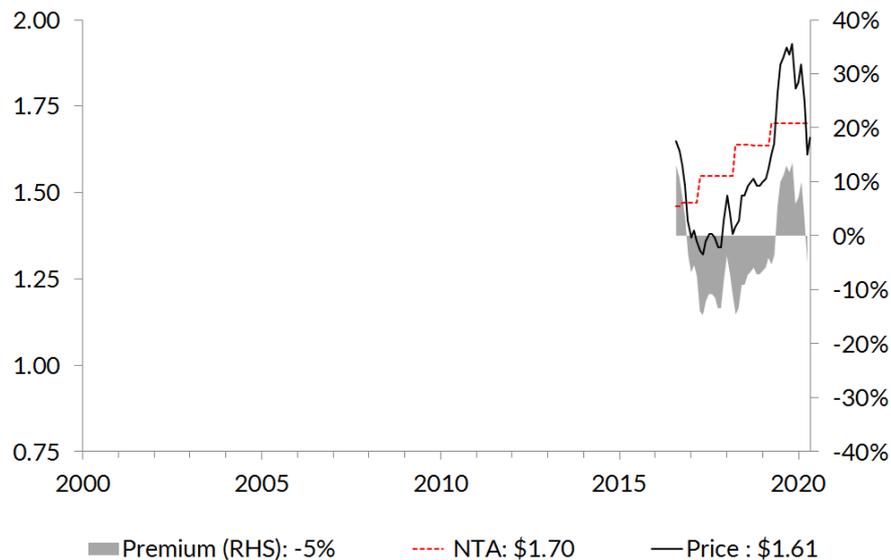
	As at	Reported gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	30.2%	35-40%	50%	75	-	27	2.2	-	2.2
ARG	Sep-19	36.2%	30-40%	50%	585	200	135	2.7	6.3	3.6
GMT	Sep-19	17.9%	25-35%	50%	400	556	400	2.6	4.6	3.8
IPL	Sep-19	40.6%	<48%	65%	270	100	65	1.5	4.1	2.2
KPG	Sep-19	27.4%	25-35%	45%	825	475	303	3.5	3.7	3.6
PCT	Dec-19	25.4%	<37.5%	50%	610	586	322	3.3	5.1	4.2
PFI	Dec-19	28.2%	<40%	50%	300	200	84	3.1	5.1	3.9
SPG	Sep-19	34.4%	38-42%	50%	400	-	67	1.8	-	1.8
VHP	Dec-19	35.1%	na	50%	870	-	225	2.0	-	2.0
<b>Average/total</b>		<b>30.6%</b>		<b>51.1%</b>	<b>4,335</b>	<b>2,117</b>	<b>1,628</b>	<b>2.5</b>	<b>3.2</b>	<b>3.0</b>

Source: Forsyth Barr analysis, Company reports

**Figure 2. Hypothetical asset value declines required to breach banking covenant**

	Reported Gearing	Bank Covenant	Approx Debt Drawn	Approx Asset Value	Minimum Asset Value	Asset Value Decline
APL	30.2%	50%	50.0	160.0	100.0	-40%
ARG	36.2%	50%	650.0	1,790.0	1,300.0	-28%
GMT	17.9%	50%	530.0	2,960.0	1,060.0	-64%
IPL	40.6%	65%	300.0	750.0	470.0	-38%
KPG	27.4%	45%	930.0	3,400.0	2,070.0	-39%
PCT	25.4%	50%	870.0	3,440.0	1,750.0	-49%
PFI	28.2%	50%	430.0	1,520.0	860.0	-44%
SPG	34.4%	50%	300.0	880.0	610.0	-31%
VHP	35.1%	50%	680.0	1,940.0	1,360.0	-30%

Source: Forsyth Barr analysis, Company reports

**Figure 3. IPL long run P/NTA**


Source: Forsyth Barr analysis

**Figure 4. LPV compco**

LPV	Code	Rating	Price 2-Apr	Target price	Gross yield	AFFO yield	P/NAV	P/NTA
Asset Plus	APL	UNDERPERFORM	\$0.38	\$0.65	13.5%	8.3%	58%	54%
Argosy Property	ARG	NEUTRAL	\$0.89	\$1.13	10.1%	7.0%	87%	69%
Augusta Capital	AUG	NEUTRAL	\$0.81	\$1.38	11.1%	8.8%	58%	109%
Goodman Property	GMT	NEUTRAL	\$2.18	\$1.92	4.4%	2.9%	115%	126%
Investore	IPL	OUTPERFORM	\$1.61	\$1.85	6.8%	4.7%	97%	95%
Kiwi Property Group	KPG	NEUTRAL	\$0.89	\$1.29	11.5%	7.3%	78%	63%
Precinct Properties	PCT	NEUTRAL	\$1.70	\$1.52	5.3%	3.5%	106%	116%
Property for Industry	PFI	OUTPERFORM	\$2.04	\$2.15	5.4%	3.8%	99%	103%
Stride Property	SPG	NEUTRAL	\$1.35	\$1.75	10.5%	6.8%	84%	69%
Vital Healthcare	VHP	OUTPERFORM	\$2.21	\$2.76	5.8%	4.0%	94%	95%
<b>Core simple average</b>					<b>7.5%</b>	<b>5.0%</b>	<b>95%</b>	<b>92%</b>

Source: Forsyth Barr analysis, Eikon

## Investment Summary

Investore (IPL) is a listed property company which owns NZ\$740m of large format retail properties throughout New Zealand. Its 40-asset portfolio comprises mostly of supermarkets, with its key tenant General Distributors (operator of Countdown) accounting for 72% of contracted rent. We have been cautious on the medium-term outlook for rental growth with the majority of IPL's rent reviews linked to turnover but it may now get a near-term boost from this. The leases typically include hard-ratchets and as a result are defensive. **OUTPERFORM.**

### Business quality

- **Long lease terms and high occupancy:** IPL's WALT of 11.9 years is significantly higher than the sector average of 6.8 years (ex VHP) and its occupancy of 99.7% is also sector leading. FY20 expiries have all been renewed and only 4.7% of rental income expires over the next three years.

### Earnings and cashflow outlook

- **Bunnings acquisition:** IPL has recently acquired three Bunnings properties for NZ\$78.5m which was ~4% accretive to EPS.
- **Externally managed:** IPL is managed by Stride Investment Management Limited (SIML), the management arm of Stride Property (SPG).

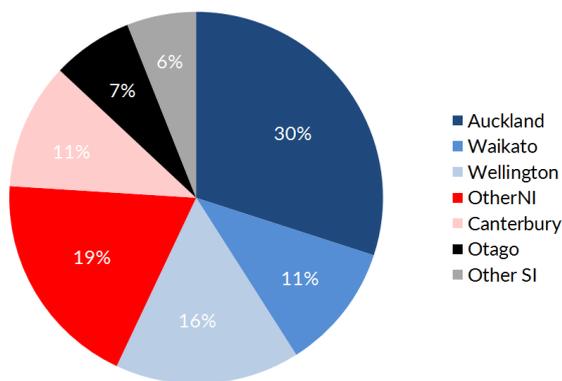
### Financial structure

- **Balance sheet:** IPL has a target maximum gearing ratio of 48% and is currently geared at 41% (1H20).

### Risk factors

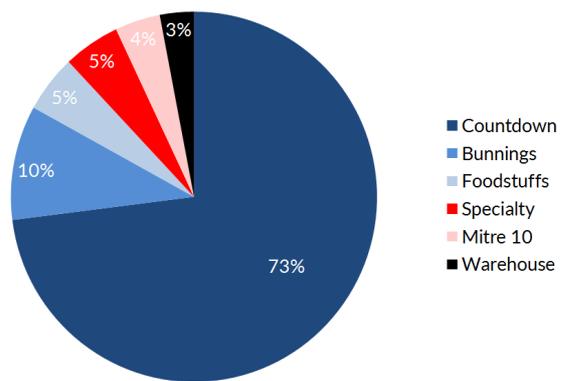
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets.
- **Interest rates:** IPL's relatively high gearing means it is more sensitive to interest rate movements versus its listed peers but is appropriate given the low risk nature of its portfolio.

Figure 5. Funds under management (NZ\$bn)



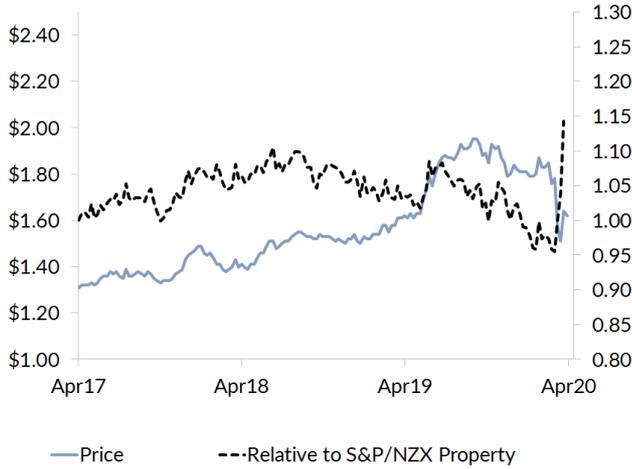
Source: Forsyth Barr analysis, Company Reports

Figure 6. Net Revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

**Figure 7. Price performance**



Source: Forsyth Barr analysis

**Figure 8. Substantial shareholders**

Shareholder	Latest Holding
Stride Property	19.9%
ANZ NZ Investments	11.2%
Salt Funds Management	10.2%
ACC	7.2%

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

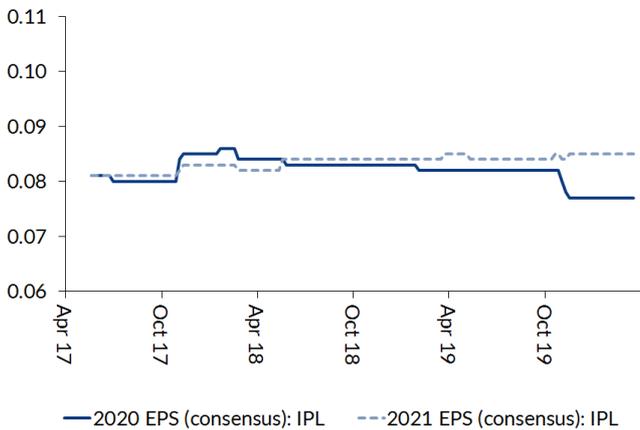
**Figure 9. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
<b>Investore</b>	<b>IPL NZ</b>	<b>NZ\$1.62</b>	<b>NZ\$421</b>	<b>20.7x</b>	<b>19.5x</b>	<b>18.1x</b>	<b>15.3x</b>	<b>18.1x</b>	<b>15.3x</b>	<b>4.7%</b>
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	12.7x	12.2x	14.4x	13.5x	14.4x	13.5x	7.5%
Goodman Property Trust *	GMT NZ	NZ\$2.05	NZ\$2,841	30.4x	29.8x	26.8x	24.4x	26.8x	24.4x	3.2%
Kiwi Property Group *	KPG NZ	NZ\$0.84	NZ\$1,318	11.8x	11.7x	14.0x	13.1x	14.0x	13.1x	8.5%
Precinct Properties NZ *	PCT NZ	NZ\$1.47	NZ\$1,931	22.6x	21.6x	24.4x	20.2x	24.4x	20.2x	4.3%
Property For Industry *	PFI NZ	NZ\$1.76	NZ\$878	20.5x	20.1x	17.3x	17.2x	17.3x	17.2x	4.4%
Stride Property *	SPG NZ	NZ\$1.30	NZ\$475	12.4x	12.2x	14.2x	14.2x	14.2x	14.2x	7.6%
BWP TRUST	BWP AT	A\$3.25	A\$2,088	16.8x	18.2x	n/a	19.1x	19.2x	19.1x	5.6%
CHARTER HALL LONG WALE REIT	CLW AT	A\$3.76	A\$1,835	13.2x	12.5x	n/a	13.5x	24.5x	13.5x	7.8%
CHARTER HALL RETAIL REIT	CQR AT	A\$2.96	A\$1,380	12.8x	9.3x	n/a	14.1x	15.8x	14.0x	10.0%
SHOPPING CENTRES AUSTRALASIA	SCP AT	A\$2.17	A\$2,044	14.0x	12.8x	n/a	16.5x	17.3x	16.4x	7.1%
<b>Compco Average:</b>				<b>16.7x</b>	<b>16.0x</b>	<b>18.5x</b>	<b>16.6x</b>	<b>18.8x</b>	<b>16.6x</b>	<b>6.6%</b>
<b>IPL Relative:</b>				<b>24%</b>	<b>22%</b>	<b>-2%</b>	<b>-7%</b>	<b>-4%</b>	<b>-7%</b>	<b>-29%</b>

EV = Current Market Cap + Actual Net Debt

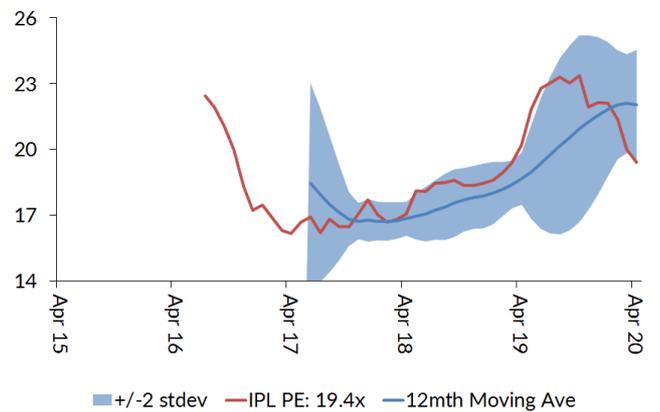
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (IPL) companies fiscal year end

**Figure 10. Consensus EPS momentum (NZ\$)**



Source: Forsyth Barr analysis

**Figure 11. One year forward PE (x)**



Source: Forsyth Barr analysis

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