

Investore

4Q Divi Confirmed – On a Roll

JEREMY SIMPSON CFA

 jeremy.simpson@forsythbarr.co.nz
 +64 9 368 0022

OUTPERFORM

Investore's (IPL) March 2020 valuations have resulted in an NZ\$7.4m (or 1.0%) increase over book value. This valuation outcome was in line with our expectations, with IPL's large exposure to essential supermarket seeing lower impacts than other retail assets. IPL has also maintained its FY20 dividend guidance of 7.6cps (4Q 1.9cps). IPL's appeal remains its defensive supermarket based rental income. While IPL will have higher gearing post settlement of asset purchases this remains well within covenants (65% vs. typical LPV at 50%), and its small average asset size (\$19m) is helpful for balance sheet management. Our earnings, target price, and dividend forecasts are unchanged, and will be reviewed with the FY20 result expected in May. OUTPERFORM.

NZX Code	IPL	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.76	NPAT* (NZ\$m)	20.9	21.5	25.3	26.3	EV/EBITDA	19.1	17.9	14.2	13.7
Target price	NZ\$1.85	EPS* (NZc)	8.0	7.8	8.3	8.6	EV/EBIT	19.1	17.9	14.2	13.7
Risk rating	Low	EPS growth* (%)	2.1	-2.2	6.1	3.8	PE	22.0	22.5	21.2	20.4
Issued shares	260.1m	DPS (NZc)	7.6	7.6	6.9	7.1	Price / NTA	1.0	1.0	1.0	1.0
Market cap	NZ\$458m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.3	4.3	3.9	4.0
Avg daily turnover	215.8k (NZ\$383k)	*Based on normalised profits					Gross div yld (%)	6.2	6.2	5.6	5.8

Portfolio value increases +1.0% yoy

IPL's March 2020 valuations have resulted in an NZ\$7.4m (or 1.0%) increase over book value. Cap rates were broadly unchanged at 6.06% (6.04% FY19). These stable valuations reflect around 80% of IPL's tenants being essential and continuing to trade through lockdown. IPL noted that the reported valuations are 0–7.5% below draft valuations that were received in early March.

Acquisition update

The acquisition of three assets from Stride (SPG) is now unconditional following the receipt of Overseas Investment Office approval. IPL expects to settle this acquisition on 30 April. However, updated independent valuations have seen these assets reduce in value by NZ\$7.0m (5%) from the NZ\$140.75m purchase price. Two of these assets (Mt Wellington and Bay Central shopping centres) have a greater weighting to specialty tenants than IPL's current portfolio. While IPL will have higher gearing (41.8%) post settlement of these purchases it remains well within covenants (65% vs. typical LPV at 50%) and its small average asset size (\$19m) is helpful for balance sheet management.

Bank debt refinanced

IPL has also proactively refinanced NZ\$101m of bank facilities that were due to mature in June 2021. The facility was extended for a further 3 years and now matures in June 2024. IPL has also added a new NZ\$50m 5 year facility with its banking group. This leaves NZ\$46m of debt headroom once committed acquisitions are settled.

Investore (IPL)

Priced as at 28 Apr 2020 (NZ\$)

1.76
12-month target price (NZ\$)*
1.85

Expected share price return

5.1%

Net dividend yield

3.9%

Estimated 12-month return

9.0%

Spot valuations (NZ\$)

1. DCF

1.95

2. NAV

1.66

n/a

n/a

Key WACC assumptions

Risk free rate

2.00%

Equity beta

0.70

WACC

4.9%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

859

(Net debt)/cash

(312)

Less: Capitalised operating leases

0

Value of equity

544

Profit and Loss Account (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Sales revenue	43.1	46.1	46.3	54.0	56.0
Normalised EBITDA	37.7	40.1	40.4	47.7	49.4
Depreciation and amortisation	0	0	0	0	0
Normalised EBIT	37.7	40.1	40.4	47.7	49.4
Net interest	(11.7)	(13.8)	(13.1)	(15.0)	(15.7)
Associate income	0	0	0	0	0
Tax	(5.5)	(5.3)	(5.8)	(7.5)	(7.4)
Minority interests	0	0	0	0	0
Normalised NPAT	20.5	20.9	21.5	25.3	26.3
Abnormals/other	(25.6)	(17.7)	(8.6)	(2.4)	(7.1)
Reported NPAT	46.2	38.6	30.1	27.7	33.4
Normalised EPS (cps)	7.9	8.0	7.8	8.3	8.6
DPS (cps)	7.5	7.6	7.6	6.9	7.1

Valuation Ratios

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	19.6	19.1	17.9	14.2	13.7
EV/EBIT (x)	19.6	19.1	17.9	14.2	13.7
PE (x)	22.4	22.0	22.5	21.2	20.4
Price/NTA (x)	1.1	1.0	1.0	1.0	1.0
Free cash flow yield (%)	4.2	3.4	3.6	5.1	5.2
Net dividend yield (%)	4.2	4.3	4.3	3.9	4.0
Gross dividend yield (%)	6.1	6.2	6.2	5.6	5.8

Capital Structure

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	3.2	2.9	3.1	3.2	3.2
Interest cover EBITDA (x)	3.2	2.9	3.1	3.2	3.2
Net debt/ND+E (%)	41.5	41.3	29.1	39.8	39.1
Net debt/EBITDA (x)	8.1	7.8	5.4	7.5	7.2

Growth Rates

	2018A	2019A	2020E	2021E	2022E
Revenue (%)	27.4	6.8	0.4	16.7	3.7
EBITDA (%)	24.1	6.2	1.0	18.1	3.4
EBIT (%)	24.1	6.2	1.0	18.1	3.4
Normalised NPAT (%)	16.5	1.8	3.0	17.5	3.8
Normalised EPS (%)	n/a	2.1	-2.2	6.1	3.8
Ordinary DPS (%)	n/a	1.9	0.3	-10.0	3.3

Key Ratios

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.1	5.2	5.3	5.2	5.3
Return on equity (%)	4.8	4.7	4.0	4.7	4.7
Return on funds employed (%)	4.2	4.1	4.1	4.4	4.1
EBITDA margin (%)	87.4	86.9	87.4	88.4	88.2
EBIT margin (%)	87.4	86.9	87.4	88.4	88.2
Capex to sales (%)	5.1	12.0	11.4	3.9	4.1
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	95	95	97	83	82

Cash Flow (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
EBITDA	37.7	40.1	40.4	47.7	49.4
Working capital change	1.0	0.2	(0.0)	0.0	0
Interest & tax paid	(17.2)	(19.0)	(18.9)	(22.4)	(23.1)
Other	0	0	0	0	0
Operating cash flow	21.4	21.2	21.5	25.3	26.3
Capital expenditure	(2.2)	(5.5)	(5.3)	(2.1)	(2.3)
(Acquisitions)/divestments	(47.8)	0	13.6	(140.8)	0
Other	0	98.5	0	0	0
Funding available/(required)	(28.6)	114.1	29.8	(117.5)	24.0
Dividends paid	(20.0)	(19.7)	(21.0)	(20.9)	(21.6)
Equity raised/(returned)	0	(2.6)	82.6	0	0
(Increase)/decrease in net debt	(48.6)	91.8	91.5	(138.4)	2.4

Portfolio Summary

	*2016A	2017A	2018A	2019A
Investment properties (NZ\$m)	641.4	660.4	738.3	761.2
Weighted average lease term (yrs)	14.8	14.3	13.1	12.4
Occupancy rate (%)	99.7	99.8	99.9	99.9
M'ment/Admin cost % of assets (%)	n/a	0.6	0.8	0.8
NTA per share (NZ\$)	1.46	1.55	1.64	1.70
Portfolio cap rate (%)	6.44	6.36	6.19	6.05
Portfolio initial yield (%)	6.68	6.57	6.36	

*metrics shown on a pro-forma basis as at March 2016

Balance Sheet (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Working capital	(4.6)	(3.8)	(3.8)	(3.8)	(3.8)
Fixed assets	738.3	742.1	761.4	906.7	916.1
Intangibles	0	0	0	0	0
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	760.8	906.1	915.5
Net debt/(cash)	304.7	311.5	220.0	358.5	356.1
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	534.9	541.8	553.6
Minority interests	0	0	0	0	0
Total funding sources	735.9	760.6	760.8	906.1	915.5

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

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).

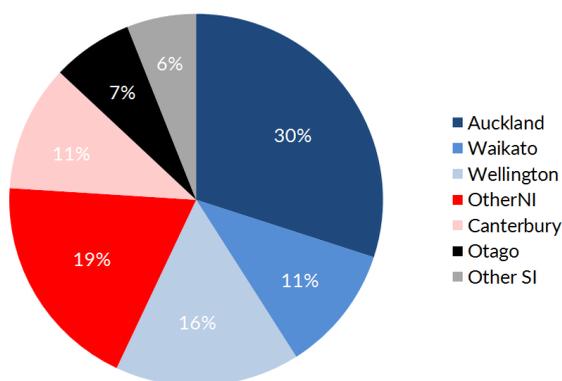
Financial structure

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

Risk factors

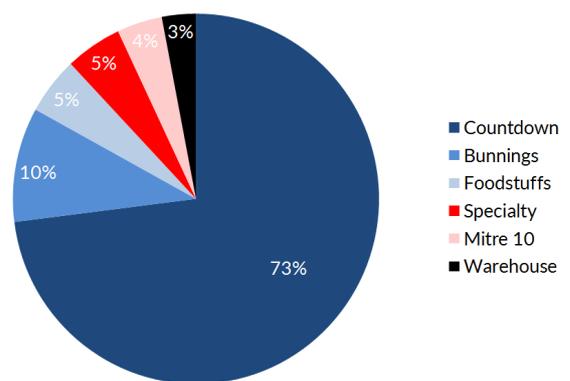
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets.
- **Interest rates:** IPL's relatively high gearing means it is more sensitive to interest rate movements versus its listed peers but is appropriate given the low risk nature of its portfolio.

Figure 1. Funds under management (NZ\$bn)



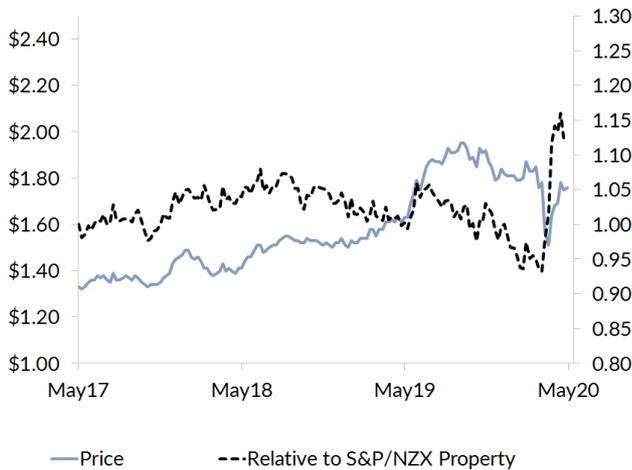
Source: Forsyth Barr analysis, Company Reports

Figure 2. Net Revenue by segment (NZ\$m)



Source: Forsyth Barr analysis, Company Reports

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. 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

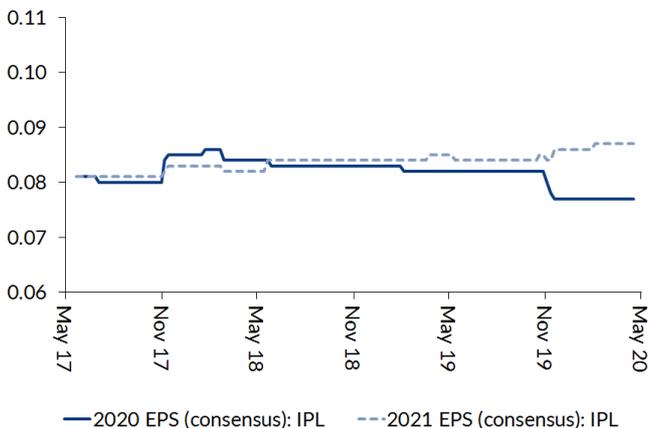
Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Investore	IPL NZ	NZ\$1.76	NZ\$458	22.5x	21.2x	19.0x	16.1x	19.0x	16.1x	3.9%
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	12.8x	12.2x	14.4x	13.3x	14.4x	13.3x	5.5%
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%
Kiwi Property Group *	KPG NZ	NZ\$0.84	NZ\$1,318	11.8x	11.5x	14.0x	13.0x	14.0x	13.0x	6.0%
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%
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%
Compcop Average:				16.7x	16.0x	18.5x	16.5x	18.8x	16.5x	5.7%
IPL Relative:				34%	32%	3%	-3%	1%	-3%	-31%

EV = Current Market Cap + Actual Net Debt

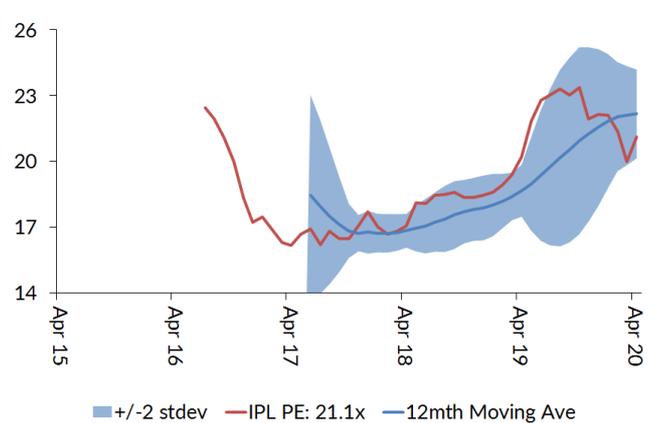
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (IPL) companies fiscal year end

Figure 6. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)



Source: Forsyth Barr analysis

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: Jeremy Simpson. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Ratings distributions: As at 27 Apr 2020, Forsyth Barr's research ratings were distributed as follows:

	OUTPERFORM	NEUTRAL	UNDERPERFORM
	42.0%	44.0%	14.0%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: ARG

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.