

Investore

Cashing Up to Go Shopping

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OUTPERFORM

Investore (IPL) has announced an NZ\$100m capital raise (split NZ\$85m underwritten placement and an NZ\$15m share purchase plan). Post the raise IPL's NTA is NZ\$1.68 and gearing will reduce to 30.9% (was 41.8% after acquisitions, the highest in the sector) providing NZ\$295m of headroom to capitalise on acquisition opportunities that may arise. IPL also provided FY21 cash dividend guidance of 7.60cps based on a 95% to 100% payout of distributable profit. We have adjusted our earnings and DPS to reflect the equity raise and FY21 guidance. IPL's appeal remains its defensive supermarket based rental income; OUTPERFORM.

NZX Code	IPL	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.77	NPAT* (NZ\$m)	20.9	20.8	28.7	30.0	EV/EBITDA	19.2	18.4	14.4	13.9
Target price	NZ\$1.85	EPS* (NZc)	8.0	7.6	7.9	8.2	EV/EBIT	19.2	18.4	14.4	13.9
Risk rating	Low	EPS growth* (%)	2.1	-5.4	4.8	2.9	PE	22.1	23.3	22.3	21.6
Issued shares	260.1m	DPS (NZc)	7.6	7.6	7.6	7.7	Price / NTA	1.0	1.0	1.0	1.0
Market cap	NZ\$460m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.3	4.3	4.3	4.3
Avg daily turnover	215.3k (NZ\$382k)	*Based on normalised profits					Gross div yld (%)	6.1	6.1	6.1	6.2

Balance sheet headroom for acquisitions

The capital raise reduces IPL's gearing from 41.8% to 30.8% and provides headroom for NZ\$295m of acquisitions to its maximum LVR of 48% (covenant 65%). IPL's strategy remains acquiring and/or developing Large Format Retail assets with a focus on tenants who provide everyday needs. While IPL's assets are typically standalone stores, the recent acquisition of two shopping centres with a higher proportion of specialty tenants suggests its mandate has broadened slightly.

Furthermore, IPL has a goal to diversifying its tenant base, with Countdown currently being 63% of contract rent. In the current climate there may be distressed sellers and not many buyers, while there could be an increase in sale and lease back activity.

Incorporating the raise lowers EPS 4–5%,

We have reduced our FY20/21/22 EPS by -3.3%/-4.4%/-5.2%. Our FY20 change reflects adjusting for performance fees paid. In FY21/22 the dilution from the capital raise is partially offset by lower interest costs and tax benefits from depreciation on building structure. We have also included IPL's expected COVID-19 impact of NZ\$1m to NZ\$2m gross rent in FY21.

DPS up 11% on guidance

We have lifted our FY21/22 DPS forecasts by +10.9%/+8.4% with our FY21 DPS of 7.6cps in line with IPL's guidance. We had previously reduced our DPS forecasts to reflect the uncertain operating environment, however, today's earnings and distribution guidance highlights the attractive defensive qualities of IPL's portfolio.

Investore (IPL)

Priced as at 29 Apr 2020 (NZ\$)

1.77
12-month target price (NZ\$)*
1.85

Expected share price return

4.5%

Net dividend yield

4.3%

Estimated 12-month return

8.8%

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

906

(Net debt)/cash

(312)

Less: Capitalised operating leases

0

Value of equity

591

Profit and Loss Account (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
Sales revenue	43.1	46.1	46.3	53.4	55.7
Normalised EBITDA	37.7	40.1	39.4	47.2	49.1
Depreciation and amortisation	0	0	0	0	0
Normalised EBIT	37.7	40.1	39.4	47.2	49.1
Net interest	(11.7)	(13.8)	(13.0)	(12.7)	(13.1)
Associate income	0	0	0	0	0
Tax	(5.5)	(5.3)	(5.5)	(5.7)	(5.9)
Minority interests	0	0	0	0	0
Normalised NPAT	20.5	20.9	20.8	28.7	30.0
Abnormals/other	(25.6)	(17.7)	(8.6)	(2.4)	(7.1)
Reported NPAT	46.2	38.6	29.4	31.1	37.1
Normalised EPS (cps)	7.9	8.0	7.6	7.9	8.2
DPS (cps)	7.5	7.6	7.6	7.6	7.7

Valuation Ratios

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	19.6	19.2	18.4	14.4	13.9
EV/EBIT (x)	19.6	19.2	18.4	14.4	13.9
PE (x)	22.5	22.1	23.3	22.3	21.6
Price/NTA (x)	1.1	1.0	1.0	1.0	1.0
Free cash flow yield (%)	4.2	3.4	4.1	5.8	6.0
Net dividend yield (%)	4.2	4.3	4.3	4.3	4.3
Gross dividend yield (%)	6.0	6.1	6.1	6.1	6.2

Capital Structure

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	3.2	2.9	3.0	3.7	3.7
Interest cover EBITDA (x)	3.2	2.9	3.0	3.7	3.7
Net debt/ND+E (%)	41.5	41.3	29.2	29.0	28.7
Net debt/EBITDA (x)	8.1	7.8	5.6	5.5	5.3

Growth Rates

	2018A	2019A	2020E	2021E	2022E
Revenue (%)	27.4	6.8	0.4	15.4	4.3
EBITDA (%)	24.1	6.2	-1.6	19.6	4.1
EBIT (%)	24.1	6.2	-1.6	19.6	4.1
Normalised NPAT (%)	16.5	1.8	-0.3	37.7	4.7
Normalised EPS (%)	n/a	2.1	-5.4	4.8	2.9
Ordinary DPS (%)	n/a	1.9	0.0	0.0	1.1

Key Ratios

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.1	5.2	5.1	5.2	5.3
Return on equity (%)	4.8	4.7	3.9	4.5	4.7
Return on funds employed (%)	4.2	4.1	4.0	4.6	4.4
EBITDA margin (%)	87.4	86.9	85.2	88.3	88.1
EBIT margin (%)	87.4	86.9	85.2	88.3	88.1
Capex to sales (%)	5.1	12.0	4.1	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	100	96	94

Cash Flow (NZ\$m)

	2018A	2019A	2020E	2021E	2022E
EBITDA	37.7	40.1	39.4	47.2	49.1
Working capital change	1.0	0.2	(0.0)	0.0	0.0
Interest & tax paid	(17.2)	(19.0)	(18.6)	(18.5)	(19.1)
Other	0	0	0	0	0
Operating cash flow	21.4	21.2	20.8	28.7	30.0
Capital expenditure	(2.2)	(5.5)	(1.9)	(2.1)	(2.3)
(Acquisitions)/divestments	(47.8)	0	10.2	(135.8)	0
Other	0	98.5	0	0	0
Funding available/(required)	(28.6)	114.1	29.1	(109.1)	27.8
Dividends paid	(20.0)	(19.7)	(20.9)	(27.5)	(28.2)
Equity raised/(returned)	0	(2.6)	82.6	97.7	0
(Increase)/decrease in net debt	(48.6)	91.8	90.8	(38.9)	(0.5)

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	901.7	911.0
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	901.1	910.4
Net debt/(cash)	304.7	311.5	220.7	259.6	260.0
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	534.3	635.7	644.6
Minority interests	0	0	0	0	0
Total funding sources	735.9	760.6	760.8	901.1	910.4

* 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 ~70% 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).

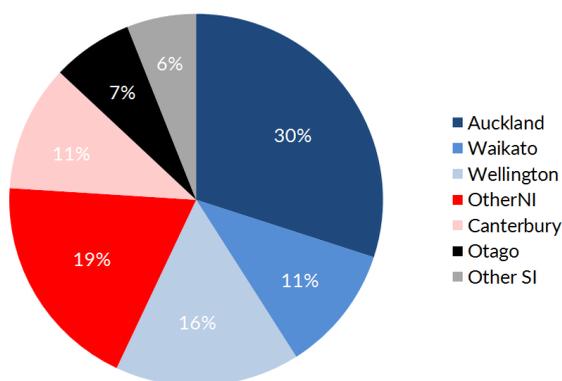
Financial structure

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

Risk factors

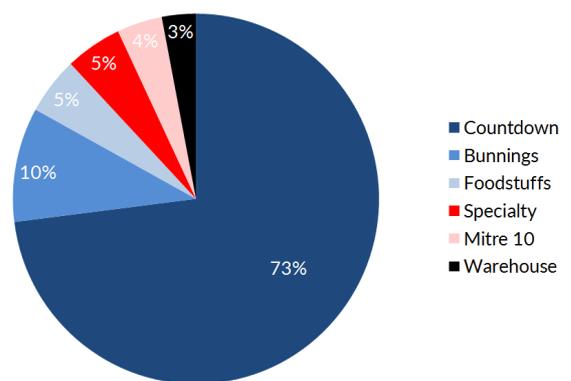
- **Retail exposure:** IPL is the only listed property vehicle with a 100% weighting to retail assets.
- **Interest rates:** IPL's relatively high gearing means it is more sensitive to interest rate movements versus its listed peers but is appropriate given the low risk nature of its portfolio.

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

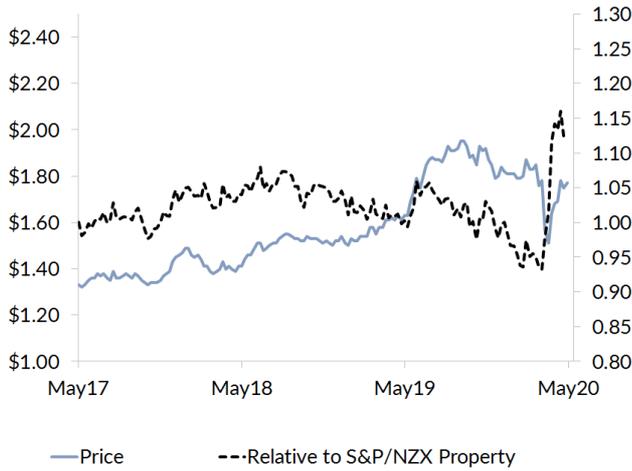


Source: Forsyth Barr analysis, Company Reports

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%

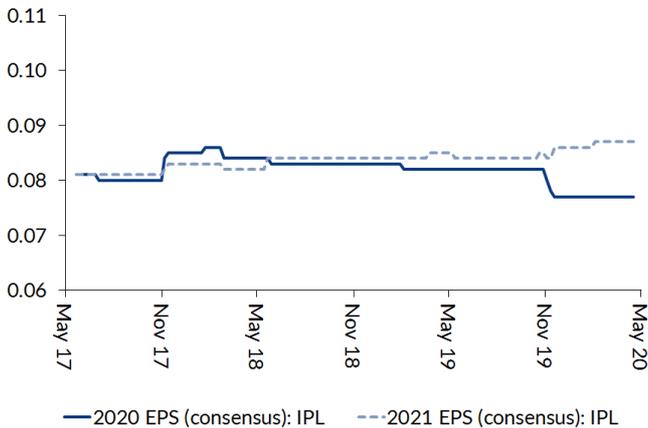
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International valuation comparisons

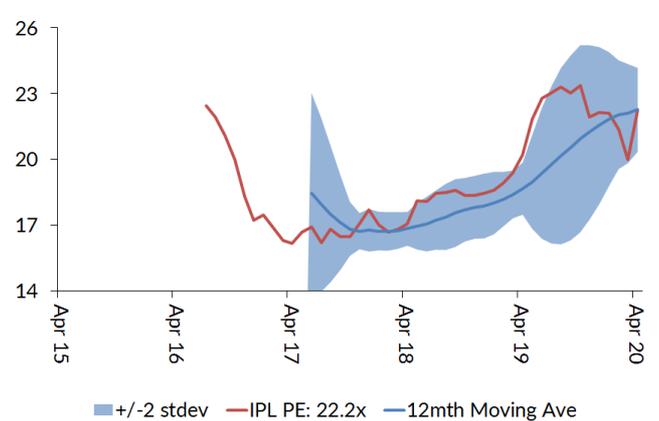
Company (metrics re-weighted to reflect IPL's balance date - March)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Investore	IPL NZ	NZ\$1.77	NZ\$460	23.3x	22.3x	19.6x	16.4x	19.6x	16.4x	4.3%
Argosy Property *	ARG NZ	NZ\$1.08	NZ\$893	16.4x	15.7x	16.6x	15.4x	16.6x	15.4x	4.3%
Goodman Property Trust *	GMT NZ	NZ\$2.29	NZ\$3,173	33.9x	33.2x	29.4x	26.8x	29.4x	26.8x	2.3%
Kiwi Property Group *	KPG NZ	NZ\$0.98	NZ\$1,538	13.8x	13.5x	15.3x	14.3x	15.3x	14.3x	5.1%
Precinct Properties NZ *	PCT NZ	NZ\$1.58	NZ\$2,069	24.2x	23.1x	25.7x	21.2x	25.7x	21.2x	3.2%
Property For Industry *	PFI NZ	NZ\$2.17	NZ\$1,082	25.2x	24.7x	20.0x	19.9x	20.0x	19.9x	2.8%
Stride Property *	SPG NZ	NZ\$1.50	NZ\$548	14.3x	14.0x	15.5x	15.5x	15.5x	15.5x	4.6%
BWP TRUST	BWP AT	A\$3.44	A\$2,210	18.0x	19.1x	n/a	20.2x	20.3x	20.2x	5.3%
CHARTER HALL LONG WALE REIT	CLW AT	A\$4.41	A\$2,152	15.9x	15.1x	n/a	15.3x	27.8x	15.3x	6.7%
CHARTER HALL RETAIL REIT	CQR AT	A\$3.00	A\$1,398	13.4x	10.5x	n/a	15.3x	16.5x	15.0x	8.6%
SHOPPING CENTRES AUSTRALASIA	SCP AT	A\$2.19	A\$2,317	14.5x	13.9x	n/a	18.7x	19.2x	18.4x	6.3%
Compcp Average:				19.0x	18.3x	20.4x	18.3x	20.6x	18.2x	4.9%
IPL Relative:				23%	22%	-4%	-10%	-5%	-10%	-13%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcp 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

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