

Stride Property Company Update

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NEUTRAL 

Stride Property Group (SPG) has significantly re-rated downwards in recent weeks, and news flow is likely to remain problematic given the uncertainties around 31 March revaluations, rent relief necessary in the office and retail sectors, and the ability to grow the funds management business in the near-term. We have not changed our earnings forecasts at this stage but have reduced our NAV which has dropped our target price from NZ\$2.18 to NZ\$1.75 and we retain our NEUTRAL rating. The current NTA is NZ\$1.97 and SPG has one of the lowest gearing levels in the sector post the asset sale to Investore (IPL).

NZX Code	SPG	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.34	NPAT* (NZ\$m)	38.8	38.3	39.0	39.9	EV/EBITDA	12.8	13.3	13.6	13.3
Target price	NZ\$1.75	EPS* (NZc)	10.6	10.5	10.7	10.9	EV/EBIT	12.8	13.3	13.6	13.3
Risk rating	Medium	EPS growth* (%)	-0.1	-1.4	2.0	2.2	PE	12.6	12.8	12.5	12.3
Issued shares	365.2m	DPS (NZc)	9.9	9.9	9.9	10.4	Price / NTA	0.7	0.7	0.7	0.7
Market cap	NZ\$489m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.4	7.4	7.4	7.7
Avg daily turnover	332.2k (NZ\$694k)	*Based on normalised profits					Gross div yld (%)	10.6	10.6	10.6	11.1

Large discount to NTA

SPG has been very heavily sold off, down -44% YTD, and is trading at one of the largest NTA discounts in the sector (Figure 4). As is the case with other LPVs, there is near-term asset valuation uncertainty as the valuers review assets with a 31 March year-end. We do not expect significant cap rate expansion immediately given the lack of market evidence and lower long term interest rates; however, valuers will be cautious about vacancy, re-leasing time frames, and rental growth levels, in particular for retail assets.

Diversified asset base but high retail weighting and potentially more operating leverage

SPG has diversified revenue sources (17% office, 17% industrial, 14% large format retail (LFR), 29% retail and 23% management fee income) but it has relatively high retail exposure vs. NZ LPVs. Its retail assets typically have a large number of speciality tenants, i.e. Johnsonville and NorthWest Shopping centres, which we see as higher risk vs. LFR. Around half of SPG's asset management income is derived from Shopping Mall owner, Diversified. Management fees are largely based on asset values which are expected to decline.

SPG has been transitioning from a diversified passive REIT to an active asset management business. The 1Q21 sale of three LFR assets to Investore and the establishment of Industrie continues to shift assets from its balance sheet to its managed vehicles. SPG has also stated post these transactions its balance sheet gearing will reduce to 20% and allow headroom to grow its portfolio of directly held office assets with the aim of establishing an office product. Given this drop in gearing, SPG is well placed to capitalise on opportunities as they arise and makes it less likely to need an equity issue, depending on what happens to asset values near-term.

Retain NEUTRAL rating

While there remain near-term uncertainties regarding rent relief, and rental and vacancy levels in the office and retail sectors in particular, SPG has been substantially sold off. We have adjusted our earnings estimates for the sales of the three LFR assets to IPL, and the purchase of the 16 Wickham St development. We assume settlement for the LFR divestment occurs at the end of 1Q21. This reduces our FY20-22E EPS by -0.1%/-3.8%/-3.3% with loss of rental income partially offset by higher management fees and lower interest. Our target price has fallen from NZ\$2.18 to NZ\$1.75 on the back of a drop in our NAV from NZ\$2.05 to NZ\$1.62.

Stride Property Group (SPG)

Priced as at 02 Apr 2020 (NZ\$)						1.34																	
12-month target price (NZ\$)*						1.75	Spot valuations (NZ\$)																
Expected share price return						30.6%	1. SOTP					2.05											
Net dividend yield						7.4%	2. NAV					1.62											
Estimated 12-month return						38.0%	n/a					n/a											
Key WACC assumptions						DCF valuation summary (NZ\$m)																	
Risk free rate						2.00%	Total firm value					982											
Equity beta						0.80	(Net debt)/cash					(327)											
WACC						5.6%	Less: Capitalised operating leases					0											
Terminal growth						1.5%	Value of equity					655											
Profit and Loss Account (NZ\$m)						Valuation Ratios																	
Sales revenue	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E								
Normalised EBITDA	77.1	74.0	75.1	75.8	77.5	EV/EBITDA (x)	12.0	12.8	13.3	13.6	13.3	EV/EBIT (x)	12.0	12.8	13.3	13.6							
Depreciation and amortisation	60.2	55.7	56.3	56.5	57.8	PE (x)	12.6	12.6	12.8	12.5	12.3	Price/NTA (x)	0.7	0.7	0.7	0.7							
Normalised EBIT	0	0	0	0	0	Free cash flow yield (%)	-0.8	1.8	-11.5	-1.8	6.8	Net dividend yield (%)	7.4	7.4	7.4	7.4							
Net interest	60.2	55.7	56.3	56.5	57.8	Net dividend yield (%)	7.4	7.4	7.4	7.4	7.7	Gross dividend yield (%)	10.6	10.6	10.6	10.6							
Associate income	(16.2)	(14.1)	(14.8)	(13.2)	(12.7)	Capital Structure						2018A	2019A	2020E	2021E	2022E							
Associate income	4.3	4.2	4.2	4.3	4.3	Interest cover EBIT (x)	3.7	3.9	3.8	4.3	4.5	Interest cover EBITDA (x)	3.7	3.9	3.8	4.3	4.5						
Tax	(9.6)	(7.0)	(7.5)	(8.7)	(9.5)	Net debt/ND+E (%)	30.8	31.7	34.2	27.8	27.9	Net debt/EBITDA (x)	4.9	5.9	6.6	5.0	5.0						
Minority interests	0	0	0	0	0	Key Ratios						2018A	2019A	2020E	2021E	2022E							
Normalised NPAT	38.8	38.8	38.3	39.0	39.9	Return on assets (%)	6.0	5.2	5.0	5.3	5.4	Return on equity (%)	5.8	5.5	5.4	5.3	5.4						
Abnormals/other	(8.1)	2.5	0	0	0	Return on funds employed (%)	n/a	4.5	4.2	4.2	4.4	EBITDA margin (%)	78.1	75.3	75.0	74.6	74.6						
Reported NPAT	95.3	72.8	46.9	48.2	49.6	EBIT margin (%)	78.1	75.3	75.0	74.6	74.6	Capex to sales (%)	53.8	33.1	69.7	37.7	6.7						
Normalised EPS (cps)	10.6	10.6	10.5	10.7	10.9	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	Imputation (%)	100	100	100	100	100						
DPS (cps)	9.9	9.9	9.9	9.9	10.4	Pay-out ratio (%)	93	93	95	93	95	Operating Performance											
Growth Rates						2018A	2019A	2020A	2021A	2022A	2018A	2019A	2020E	2021E	2022E								
Revenue (%)	14.0	-4.0	1.4	0.9	2.2	Return on assets (%)	6.0	5.2	5.0	5.3	5.4	2015A	2016A	2017A	2018A	2019A							
EBITDA (%)	6.8	-7.5	1.1	0.4	2.1	Return on equity (%)	5.8	5.5	5.4	5.3	5.4	Major Property Values (NZ\$m)											
EBIT (%)	6.8	-7.5	1.1	0.4	2.1	EBITDA margin (%)	78.1	75.3	75.0	74.6	74.6	1 Grey Street, WLG	48.8	49.8	49.8	52.8	57.2						
Normalised NPAT (%)	10.9	0.0	-1.4	2.0	2.2	Capex to sales (%)	53.8	33.1	69.7	37.7	6.7	Jville Shopping Centre, WLG (50%)	34.1	32.9	30.5	30.7	30.1						
Normalised EPS (%)	10.8	-0.1	-1.4	2.0	2.2	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6						
Ordinary DPS (%)	-0.5	0.0	0.0	0.0	4.8	Imputation (%)	100	100	100	100	100	33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-						
Cash Flow (NZ\$m)						2018A	2019A	2020E	2021E	2022E	Pay-out ratio (%)	93	93	95	93	95	Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8	
EBITDA	60.2	55.7	56.3	56.5	57.8	Operating Performance						2015A	2016A	2017A	2018A	2019A	65 Chapel St, Tauranga	35.2	38.7	40.5	41.5	45.1	
Working capital change	(0.9)	(2.5)	2.1	0.0	(0.0)	Return on assets (%)	6.0	5.2	5.0	5.3	5.4	Return on equity (%)	5.8	5.5	5.4	5.3	5.4	Mt Wellington Shopping Ctr, AKL	36.3	37.2	35.1	36.3	36.5
Interest & tax paid	(23.7)	(20.7)	(20.0)	(19.2)	(19.3)	Return on funds employed (%)	n/a	4.5	4.2	4.2	4.4	EBITDA margin (%)	78.1	75.3	75.0	74.6	74.6	Silverdale Centre	82.5	85.5	90.0	98.4	100.5
Other	2.1	0.6	0	0	0	EBIT margin (%)	78.1	75.3	75.0	74.6	74.6	Capex to sales (%)	53.8	33.1	69.7	37.7	6.7	2 Carr Road, Mt Roskill	29.7	31.5	36.9	42.8	47.3
Operating cash flow	37.8	33.2	38.4	37.3	38.4	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	Imputation (%)	100	100	100	100	100	Portfolio Summary					
Capital expenditure	(41.5)	(24.5)	(52.3)	(28.6)	(5.2)	Pay-out ratio (%)	93	93	95	93	95	Investment properties (NZ\$m)	872.4	1,274.8	895.3	902.2	966.3	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8
(Acquisitions)/divestments	78.0	0	7.4	113.7	0	Major Property Values (NZ\$m)						2015A	2016A	2017A	2018A	2019A	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6	
Other	4.3	2.1	0	0	0	1 Grey Street, WLG	48.8	49.8	49.8	52.8	57.2	Jville Shopping Centre, WLG (50%)	34.1	32.9	30.5	30.7	30.1	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92
Funding available/(required)	78.6	10.7	(6.5)	122.5	33.2	Jville Shopping Centre, WLG (50%)	34.1	32.9	30.5	30.7	30.1	25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4
Dividends paid	(36.0)	(36.2)	(36.2)	(36.2)	(37.9)	25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6	33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-	Balance Sheet (NZ\$m)					
Equity raised/(returned)	0	0	0	0	0	33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-	Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8	Working capital	(12.6)	(14.9)	(17.0)	(17.0)	(17.0)
(Increase)/decrease in net debt	42.6	(25.4)	(42.7)	86.3	(4.7)	Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8	65 Chapel St, Tauranga	35.2	38.7	40.5	41.5	45.1	Fixed assets	867.9	882.8	936.4	860.4	875.3
Balance Sheet (NZ\$m)						2018A	2019A	2020E	2021E	2022E	Mt Wellington Shopping Ctr, AKL	36.3	37.2	35.1	36.3	36.5	Intangibles	0	0	0	0	0	
Working capital	(12.6)	(14.9)	(17.0)	(17.0)	(17.0)	Silverdale Centre	82.5	85.5	90.0	98.4	100.5	2 Carr Road, Mt Roskill	29.7	31.5	36.9	42.8	47.3	Right of use asset	0	0	0	0	0
Fixed assets	867.9	882.8	936.4	860.4	875.3	Portfolio Summary						2015A	2016A	2017A	2018A	2019A	Other assets	132.0	135.1	135.1	147.1	147.1	
Intangibles	0	0	0	0	0	Investment properties (NZ\$m)	872.4	1,274.8	895.3	902.2	966.3	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8	Total funds employed	987.3	1,003.0	1,054.5	990.6	1,005.4
Right of use asset	0	0	0	0	0	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6	Net debt/(cash)	297.4	327.0	369.8	283.5	288.2
Other assets	132.0	135.1	135.1	147.1	147.1	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92	Lease liability	0	0	0	0	0
Total funds employed	987.3	1,003.0	1,054.5	990.6	1,005.4	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4	Other liabilities	22.8	21.9	21.9	21.9	21.9
Net debt/(cash)	297.4	327.0	369.8	283.5	288.2	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4	Balance Sheet (NZ\$m)											
Lease liability	0	0	0	0	0	Portfolio Summary						2015A	2016A	2017A	2018A	2019A	Shareholder's funds	667.1	704.2	713.0	735.3	745.4	
Other liabilities	22.8	21.9	21.9	21.9	21.9	Investment properties (NZ\$m)	872.4	1,274.8	895.3	902.2	966.3	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8	Minority interests	0	0	0	0	0
Shareholder's funds	667.1	704.2	713.0	735.3	745.4	Weighted average lease term (yrs)	5.1	7.9	4.9	5.1	4.8	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6	Total funding sources	987.3	1,053.1	1,104.6	1,040.6	1,055.5
Minority interests	0	0	0	0	0	Occupancy rate (%)	96.6	99.6	96.8	96.7	97.6	NTA per share (NZ\$)	1.81	1.97	1.67	1.82	1.92	Footnote					
Total funding sources	987.3	1,053.1	1,104.6	1,040.6	1,055.5	Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4	* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend											

Figure 1. LPV Balance sheet overview

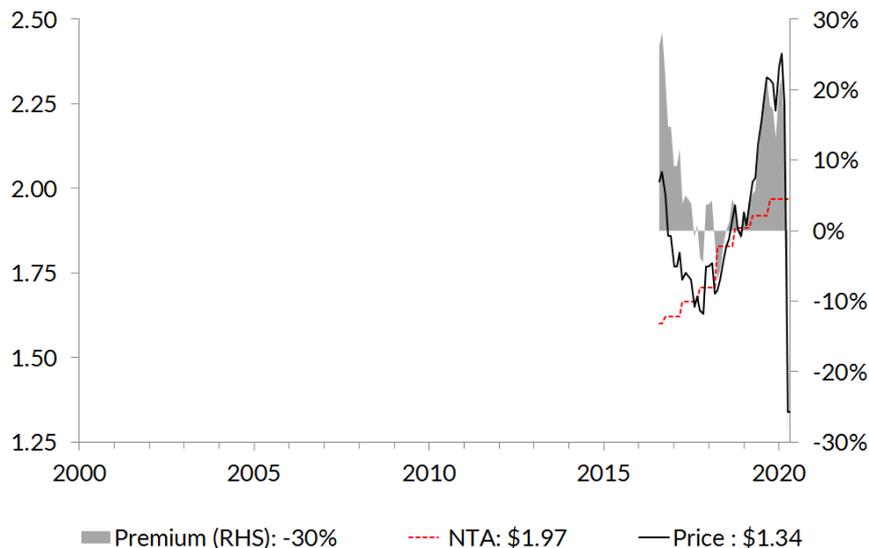
	As at	Reported gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	30.2%	35-40%	50%	75	-	27	2.2	-	2.2
ARG	Sep-19	36.2%	30-40%	50%	585	200	135	2.7	6.3	3.6
GMT	Sep-19	17.9%	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
Average/total		30.6%		51.1%	4,335	2,117	1,628	2.5	3.2	3.0

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. SPG 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%
Core simple average					7.5%	5.0%	95%	92%

Source: Forsyth Barr analysis, Eikon

Investment Summary

Stride Property Group (SPG) continues to execute well on portfolio initiatives and repositioning assets. However, we remain bearish on the growth outlook for shopping centres with structural and cyclical headwinds increasing for the retail sector. Additionally, SPG's funds management platform is scalable but the economic slowdown will limit growth opportunities. NEUTRAL.

Business quality

- **Improving portfolio metrics:** SPG continues to deliver good leasing outcomes with 98.2% occupancy and near-term lease expiry manageable.
- **Restructure:** In 2016 SPG separated its funds management business, Stride Investment Management Limited (SIML), and Stride Group, its direct portfolio. The stapled entities trade as one security.
- **Position in IPL:** SPG owns 19.9% of Investore, which will represent all of SPG's large format retail (LFR) after planned asset sales.

Earnings and cashflow outlook

- **Funds management income:** SPG has grown its external funds under management to NZ\$1.24bn, reflecting growth from Investore and Diversified. SPG intends to grow both funds over time and announced the establishment of industrial fund, Industrie.
- **Brownfield development:** SPG is looking at opportunities to unlock value across its older assets.

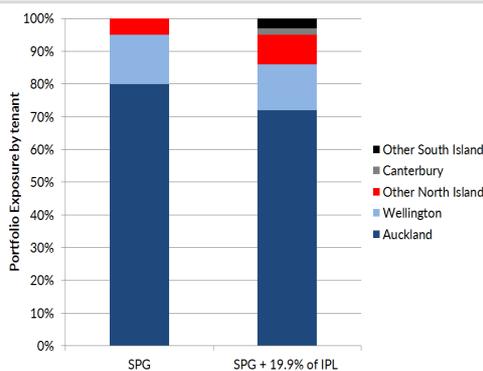
Financial structure

- **Balance sheet:** SPG's gearing is around average sector levels at ~35% but drops significantly to ~15% post the sale of its remaining large format retail properties to IPL.

Risk factors

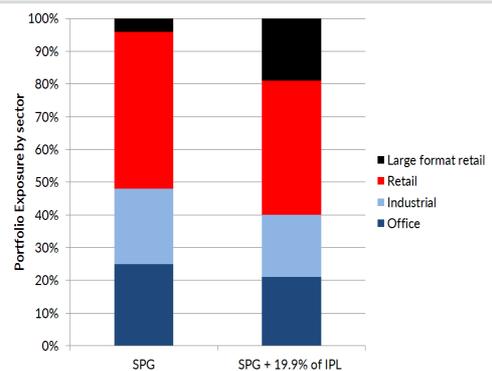
- **E-commerce growth:** SPG has a 47% weighting to retail assets (including its position in IPL), making it exposed to growing risks from e-commerce.

Figure 5. Geographical exposure



Source: Forsyth Barr analysis, Company Reports

Figure 6. Sector diversification



Source: Forsyth Barr analysis, Company Reports

Figure 7. Price performance


Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
ANZ NZ Investments	12.4%
ACC	10.2%

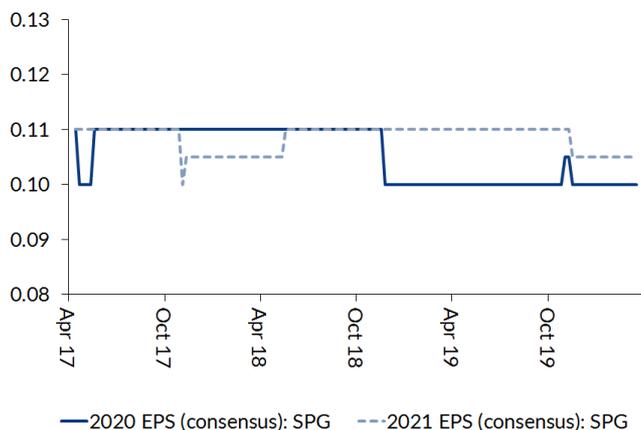
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 9. International valuation comparisons

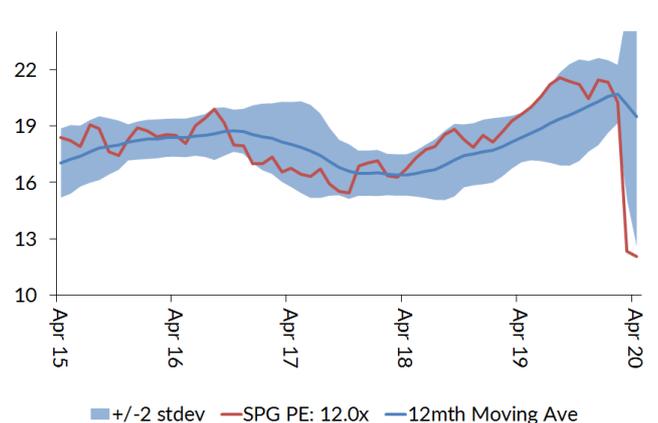
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
(metrics re-weighted to reflect SPG's balance date - March)										
Stride Property	SPG NZ	NZ\$1.34	NZ\$489	12.8x	12.5x	14.5x	14.4x	14.5x	14.4x	7.4%
Argosy Property *	ARG NZ	NZ\$0.84	NZ\$695	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%
Investore *	IPL NZ	NZ\$1.41	NZ\$429	17.4x	17.1x	18.3x	18.1x	18.3x	18.1x	5.4%
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%
Asset Plus *	APL NZ	NZ\$0.42	NZ\$68	10.9x	11.6x	8.4x	9.1x	8.4x	9.1x	8.6%
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%
Vital Healthcare *	VHP NZ	NZ\$2.05	NZ\$928	21.1x	20.1x	20.0x	18.9x	20.0x	18.9x	4.4%
Compcpo Average:				18.4x	18.0x	18.0x	16.8x	18.0x	16.8x	5.8%
SPG Relative:				-31%	-30%	-19%	-14%	-19%	-14%	28%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (SPG) 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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