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NEW ZEALAND EQUITY RESEARCH | PROPERTY | DIVERSIFIED PROPERTY
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Stride Property
March 2020 Valuations — Keeping Pace

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NEUTRAL

Stride Property Group's (SPG) FY20 valuations were broadly stable with a strong uplift for Industrial assets offset by weak Retail outcomes. FY20 dividend guidance of 9.91cps is unchanged. SPG is providing support to tenants impacted by COVID-19 lockdown measures, which is expected to reduce FY21 gross rental income by NZ$8–11m. This lower rental income is partially offset by cost savings and depreciation benefits. The net impact has reduced our FY21 EPS by -9%. Longer term, we currently assume cost and depreciation benefits are offset by vacancy and lower rental rates. As such our FY22+ estimates are broadly unchanged and target price remains NZ$1.75. A broader earnings review will be undertaken with the FY20 result expected over the next month. NEUTRAL.

NZX Code	SPG
Share price	NZ$1.54
Target price	NZ$1.75
Risk rating	Medium
Issued shares	365.2m
Market cap	NZ$562m
Avg daily turnover	344.9k (NZ$704k)

Financials: Mar/	19A	20E	21E	22E
NPAT* (NZ$m)	38.8	38.3	35.6	40.2
EPS* (NZc)	10.6	10.5	9.7	11.0
EPS growth* (%)	-0.1	-1.4	-7.0	12.9
DPS (NZc)	9.9	9.9	6.9	8.6
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	14.1	14.6	16.8	14.9
EV/EBIT	14.1	14.6	16.8	14.9
PE	14.5	14.7	15.8	14.0
Price / NTA	0.8	0.8	0.8	0.7
Cash div yld (%)	6.4	6.4	4.5	5.6
Gross div yld (%)	9.2	9.2	6.4	8.0

Strong industrial valuations offset by retail weakness

SPG's March 2020 portfolio value was NZ$995.6m, down NZ$1m from March 2019. Industrial valuations were strong (+14% yoy) but offset by declines in office (-2%) and retail (-11%) assets. SPG noted that reported valuations are 3–12% below pre COVID-19 draft valuations received in early March.

Tenant rent support of NZ$8–11m expected in FY21

SPG has provided support for tenants impacted by COVID-19 in the form of rent abatements and deferrals, and in some cases combined into wider lease discussions. SPG's initial assessment (assuming no further economic deterioration or any Government interventions rating to commercial leases) that this tenant support will reduce FY21 gross rent by NZ$8.0–11.0m and distributable income by NZ$5.8–8.0m. Lower rent is partially offset by 1) identified corporate cost savings of $3.0m and 2) tax benefits from depreciation on building structure of NZ$1.1m.

Gearing heading lower

Gearing was 39.1% at 31 March but this has since been reduced by the sale of large format retail assets to Investore (IPL) that settled on 30 April. SPG expects gearing to reduce to <20% with the eventual establishment of industrial fund Industre which is waiting on OIO approval (expected in June). This provides headroom of NZ$215m (after a reduction in debt facilities) to warehouse assets as SPG continues its transition from a diversified passive REIT to an asset management business.

Incorporating FY21 guidance lowers EPS -9%

We have reduced our FY20/21/22 EPS by 0.0%/-9.2%/-0.4%. Our FY21 change reflects the mid-point of SPG's rent abatement guidance being partially offset by lower corporate costs and depreciation benefits. Our broadly unchanged FY22 earnings assumes depreciation benefits and corporate cost savings (half of which we carry forward) are offset by increased vacancy and lower rental rates. Our DPS forecasts are unchanged and our FY21E of 6.9cps represents a 71% payout of our revised EPS estimate.

Stride Property Group (SPG)

Priced as at 01 May 2020 (NZ$)	**1.54**

12-month target price (NZ$)*	**1.75**
Expected share price return	13.6%
Net dividend yield	4.7%
Estimated 12-month return	18.3%

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	0.80
WACC	5.6%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	77.1	74.0	75.1	66.3	74.5
Normalised EBITDA	**60.2**	**55.7**	**56.3**	**50.0**	**56.3**
Depreciation and amortisation	0	0	0	0	0
Normalised EBIT	**60.2**	**55.7**	**56.3**	**50.0**	**56.3**
Net interest	(16.2)	(14.1)	(14.8)	(13.0)	(12.4)
Associate income	4.3	4.2	4.2	4.3	4.3
Tax	(9.6)	(7.0)	(7.5)	(5.8)	(8.1)
Minority interests	0	0	0	0	0
Normalised NPAT	**38.8**	**38.8**	**38.3**	**35.6**	**40.2**
Abnormals/other	(8.1)	2.5	0	0	0
Reported NPAT	**95.3**	**72.8**	**46.9**	**47.7**	**50.7**
Normalised EPS (cps)	10.6	10.6	10.5	9.7	11.0
DPS (cps)	9.9	9.9	9.9	6.9	8.6

Growth Rates	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**
Revenue (%)	14.0	-4.0	1.4	-11.7	12.3
EBITDA (%)	6.8	-7.5	1.1	-11.1	12.6
EBIT (%)	6.8	-7.5	1.1	-11.1	12.6
Normalised NPAT (%)	10.9	0.0	-1.4	-7.0	12.9
Normalised EPS (%)	10.8	-0.1	-1.4	-7.0	12.9
Ordinary DPS (%)	-0.5	0.0	0.0	-30.4	24.8

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**60.2**	**55.7**	**56.3**	**50.0**	**56.3**
Working capital change	(0.9)	(2.5)	2.1	0.2	(0.1)
Interest & tax paid	(23.7)	(20.7)	(20.0)	(17.1)	(18.1)
Other	2.1	0.6	0	0	0
Operating cash flow	**37.8**	**33.2**	**38.4**	**33.1**	**38.2**
Capital expenditure	(41.5)	(24.5)	(52.3)	(28.6)	(5.2)
(Acquisitions)/divestments	78.0	0	7.4	113.7	0
Other	4.3	2.1	0	0	0
Funding available/(required)	**78.6**	**10.7**	**(6.5)**	**118.3**	**32.9**
Dividends paid	(36.0)	(36.2)	(36.2)	(25.2)	(31.4)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**42.6**	**(25.4)**	**(42.7)**	**93.1**	**1.5**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(12.6)	(14.9)	(17.0)	(17.2)	(17.0)
Fixed assets	867.9	882.8	936.4	863.3	879.1
Intangibles	0	0	0	0	0
Right of use asset	0	0	0	0	0
Other assets	132.0	135.1	135.1	147.1	147.1
Total funds employed	**987.3**	**1,003.0**	**1,054.5**	**993.3**	**1,009.2**
Net debt/(cash)	297.4	327.0	369.8	276.7	275.2
Lease liability	0	0	0	0	0
Other liabilities	22.8	21.9	21.9	21.9	21.9
Shareholder's funds	667.1	704.2	713.0	744.8	762.2
Minority interests	0	0	0	0	0
Total funding sources	**987.3**	**1,053.1**	**1,104.6**	**1,043.4**	**1,059.2**

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

Spot valuations (NZ$)	
1. SOTP	2.05
2. NAV	1.62
n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	985
(Net debt)/cash	(327)
Less: Capitalised operating leases	0
Value of equity	658

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	13.2	14.1	14.6	16.8	14.9
EV/EBIT (x)	13.2	14.1	14.6	16.8	14.9
PE (x)	14.5	14.5	14.7	15.8	14.0
Price/NTA (x)	0.8	0.8	0.8	0.8	0.7
Free cash flow yield (%)	-0.7	1.5	-10.0	-2.3	5.9
Net dividend yield (%)	6.4	6.4	6.4	4.5	5.6
Gross dividend yield (%)	9.2	9.2	9.2	6.4	8.0

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.7	3.9	3.8	3.8	4.6
Interest cover EBITDA (x)	3.7	3.9	3.8	3.8	4.6
Net debt/ND+E (%)	30.8	31.7	34.2	27.1	26.5
Net debt/EBITDA (x)	4.9	5.9	6.6	5.5	4.9

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	6.0	5.2	5.0	4.7	5.2
Return on equity (%)	5.8	5.5	5.4	4.8	5.3
Return on funds employed (%)	n/a	4.5	4.2	3.9	4.3
EBITDA margin (%)	78.1	75.3	75.0	75.5	75.7
EBIT margin (%)	78.1	75.3	75.0	75.5	75.7
Capex to sales (%)	53.8	33.1	69.7	43.1	7.0
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	93	93	95	71	78

Operating Performance	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**
Major Property Values (NZ$m)					
1 Grey Street, WLG	48.8	49.8	49.8	52.8	57.2
J.ville Shopping Centre, WLG (50%)	34.1	32.9	30.5	30.7	30.1
25 O'Rorke Rd, Penrose	47.7	57.2	61.3	64.0	66.6
33 Corinthian Drive, AKL (ASB)	34.0	40.8	46.1	47.4	-
Meridian Energy Building, WLG	33.4	34.0	32.7	33.9	35.8
65 Chapel St, Tauranga	35.2	38.7	40.5	41.5	45.1
Mt Wellington Shopping Ctr, AKL	36.3	37.2	35.1	36.3	36.5
Silverdale Centre	82.5	85.5	90.0	98.4	100.5
2 Carr Road, Mt Roskill	29.7	31.5	36.9	42.8	47.3
Portfolio Summary					
Investment properties (NZ$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
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
Average portfolio cap rate (%)	7.7	7.0	7.0	6.6	6.4

Investment Summary

Stride Property Group (SPG) has executed well on portfolio initiatives and repositioning assets over the past 12-24 months. However, we remain bearish on the growth outlook for shopping centres with structural and cyclical headwinds increasing for the retail sector. While SPG's funds management platform is scalable, 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. SPG intends to grow both funds over time and announced the establishment of industrial fund, Industre.
- **Brownfield development:** SPG is looking at opportunities to unlock value across its older assets.

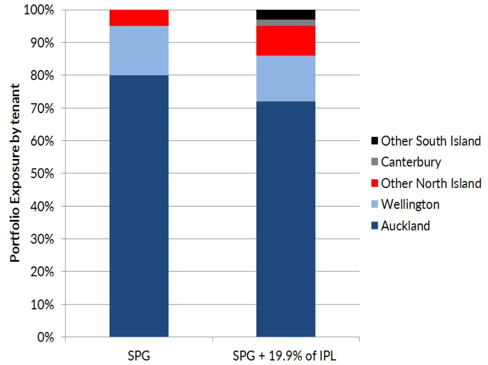
Financial structure

- **Balance sheet:** SPG's gearing is around average sector levels at ~35% in FY20 but drops significantly to ~27% post the sale of its remaining large format retail properties to IPL.

Risk factors

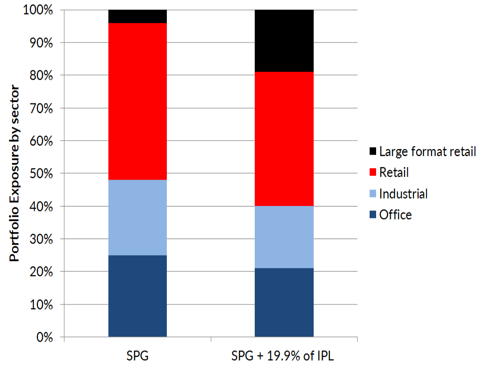
- **E-commerce growth:** SPG has a 47% weighting to retail assets (including its position in IPL), making it exposed to growing risks from e-commerce.

Figure 1. Geographical exposure



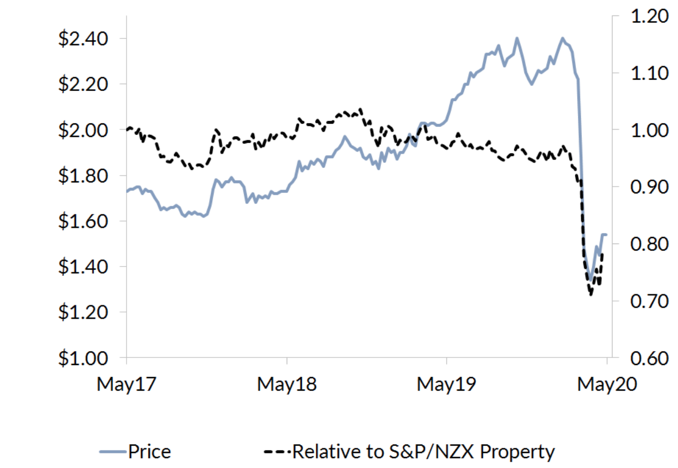
Source: Forsyth Barr analysis, Company Reports

Figure 2. Sector diversification



Source: Forsyth Barr analysis, Company Reports

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
ANZ NZ Investments	12.4%
ACC	11.2%

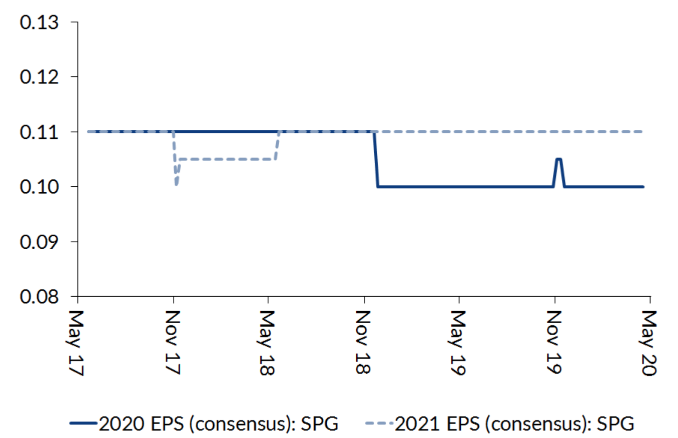
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect SPG's balance date - March)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Stride Property	**SPG NZ**	**NZ$1.54**	**NZ$562**	**14.7x**	**15.8x**	**15.8x**	**17.8x**	**15.8x**	**17.8x**	**4.5%**
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%
Investore *	IPL NZ	NZ$1.77	NZ$539	23.3x	22.3x	21.6x	18.0x	21.6x	18.0x	4.3%
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%
Asset Plus *	APL NZ	NZ$0.40	NZ$64	10.2x	10.8x	8.1x	8.6x	8.1x	8.6x	5.0%
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%
Vital Healthcare *	VHP NZ	NZ$2.45	NZ$1,110	25.2x	24.0x	22.2x	21.0x	22.2x	21.0x	3.5%
			Compco Average:	**21.5x**	**20.9x**	**19.9x**	**18.1x**	**19.9x**	**18.1x**	**3.8%**
EV = Current Market Cap + Actual Net Debt			**SPG Relative:**	**-32%**	**-24%**	**-20%**	**-2%**	**-20%**	**-2%**	**17%**

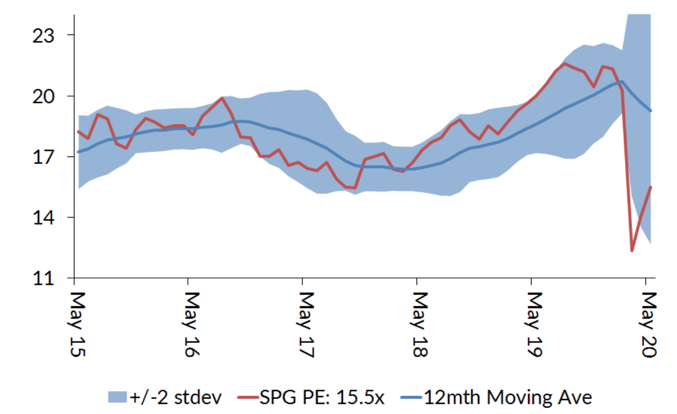
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (SPG) companies fiscal year end

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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