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February 12, 2024

GARDA Property Group

Industrial now +80% of the portfolio

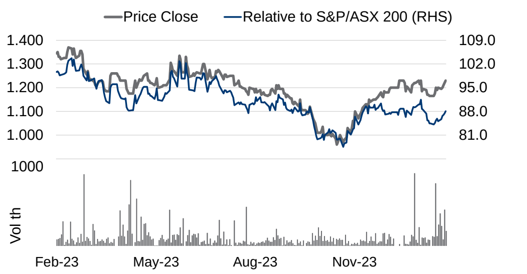
ADD (no change)

Stock code:	GDF AU
Price:	A$1.23
12-month target price:	A$1.65
Previous target price:	A$1.65
Up/downside to target price:	34.3%
Dividend yield:	5.2%
12-month TSR*:	39.5%
Market cap:	A$278.8m
Average daily turnover:	A$0.13m
Index inclusion:	ALL ORDINARIES

** Total stock return – Up/downside to target price + 12-month forward dividend yield.*

Price performance

(%)	1M	3M	12M	3Y
Absolute	1.7	24.2	-10.9	6.0
Rel ASX/S&P200	0.0	15.2	-13.0	-6.1



Source: IRESS

Financial summary

	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Income (A$m)	23.4	21.7	22.4	25.9
EBITDA (A$m)	21.2	18.8	19.6	23.0
FFO (A$m)	14.9	12.4	12.9	14.3
FFO per share (Acps)	7.2	6.0	6.2	6.9
FFO ps growth (%)	-13.8%	-16.8%	4.1%	10.5%
DPS (Acps)	7.2	6.3	6.3	6.5
Dividend Yield (%)	5.9%	5.1%	5.1%	5.3%
Payout Ratio (%)	100%	106%	102%	95%
Net Debt: Assets (%)	34%	30%	37%	39%
NTA (A$)	1.96	1.73		

Source: Company data, Morgans estimates

Related research

GDF (ADD - TP A$1.65) - 23 Jan 2024

GDF (ADD - TP A$1.73) - 08 Aug 2023

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Analyst(s) own shares in the following stocks mentioned in this report:

– GARDA Property Group

- Asset sales have been a key focus in 1H24 with GDF now completely exiting all its Melbourne office properties. Proceeds have been applied to debt reduction and to provide balance sheet capacity for Brisbane industrial development projects.
- The $495m portfolio is now +80% weighted to SE QLD industrial with the sole office asset the Cairns Corporate Tower (BV $82m).
- Post asset sales, NTA stands at $1.73 and pro-forma gearing is 30.1%. Leasing risk on established assets remains minimal in the near term with the key focus on leasing up developments underway (particularly North Lakes).
- FY24 DPS guidance remains 6.3c. Given the loss of income from recent asset sales, the estimated payout ratio is now ~105%. We retain an Add rating on GDF with a price target of $1.65.

Event

- 1H24 result.

1H dominated by asset sales

- GDF reported FFO of $7.0m (vs $7.6m in the pcp) with income lower due to asset sales and higher interest costs. 1H distribution 3.15c/94.7% payout ratio. Pro-forma NTA is $1.73 (vs $1.96 at Jun-23) post Melbourne office sales/revaluations. While earnings will be impacted in the short term due to asset sales, the recently completed Richlands project will start contributing from 2H24.
- **Portfolio overview.** Valued at $495m which includes 12 properties: WALE 5.2 years; occupancy 98%; and WACR 5.62% (industrial 5.01% and Cairns 7.75%). Half the portfolio was independently valued at Dec-23 with industrial market rent helping offset cap rate expansion and industrial land values holding/increasing. The balance of the established industrial assets will be revalued as at Jun-24.
- **Asset sales.** During 1H24, GDF sold three office assets in Melbourne for a total of $104.1m as well as a non-core block of land in Townsville for $2m. Over the past 12 months, GDF divested all four Melbourne office assets for $144.4m at a c20% discount to the combined BVs. Proceeds will be used to pay down debt as well as fund the ongoing industrial development pipeline (mainly North Lakes).
- **Leasing activity focussed on new developments.** All established industrial properties are 100% occupied and the Cairns office building is c95% occupied. There are no lease expiries in 2H24 on the established portfolio and FY25 expiries of 8% relate to the Cairns Corporate Tower (seven tenancies). New leases commencing via the development portfolio will assist in delivering rental growth. Projects currently undertaking tenant negotiations include Acacia Ridge (due to complete at the end of CY24) and Pinnacle East, Wacol (DA approved).
- **Beyond FY24, development now focussed on North Lakes.** In addition to the above projects, work at Pinnacle North Lakes has begun with bulk earthworks to complete in Apr-24 (c$7m cost to complete) and civil works to finalise by Dec-24 ($16m cost). GDF notes that civil works can run concurrently with any built form construction (potentially mid 2024). We expect to see potential pre-commitment leasing outcomes as work progresses (potential revenue FY26).
- **Capital management.** Gearing is 30.1%. GDF's debt facility limit is currently $290m drawn to $187m ($150m hedged). The weighted avg debt expiry is around 2 years and weighted avg hedged debt duration 3.4 years. 1H24 weighted average cost of debt was 4.7% and FY24 forecast at 4.8%. ICR at 2x vs covenant of 1.5x.

No changes to forecast and valuation

- Post result, our forecasts and NAV remain unchanged.

Investment view

- GDF provides exposure to Brisbane industrial and one office asset in Cairns. Following asset sales in 1H24, 83% of the portfolio is now weighted to industrial and this will increase as developments complete. New income from industrial developments will replace loss of income from asset sales, however FY24/25 will see timing impacts. Funding is in place for the active assets with the focus now moving to the projects that will contribute to earnings beyond FY25 (predominantly North Lakes industrial devt). Catalysts include successful pre-commitment leasing outcomes on new projects; M&A; and asset re-ratings. Our NAV is $1.65.

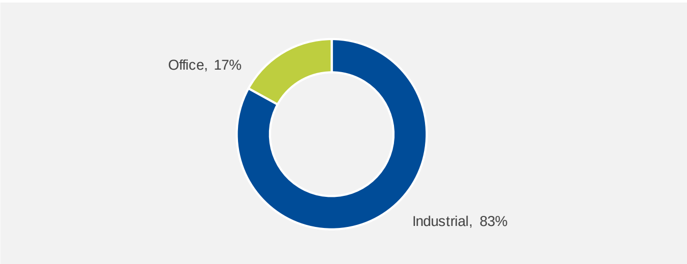
GARDA Property Group

ADD | **as at February 12, 2024**

Price (A$):	1.23	12-month target price (A$):	1.65
Market cap (A$m):	278.8	Up/downside to target price (%):	34.3
Free float (%):	86.0	Dividend yield (%):	5.2
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	39.5

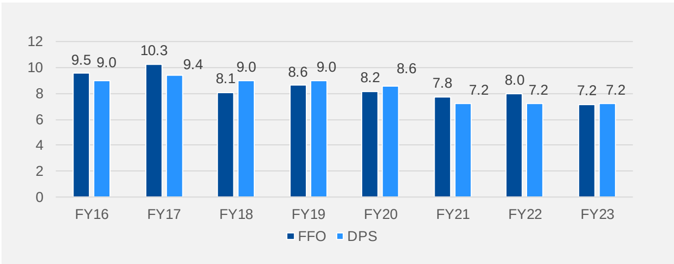
GARDA Property (GDF) is a REIT focussed on industrial and commercial property however post asset sales settling the portfolio will be mainly located in SE QLD with one commercial asset in Cairns. Post flagged asset sales, the portfolio will be valued at around $500m (+ an industrial development pipeline). GDF's objective is to provide sustainable and growing distributable income derived from investments. It also aims to maintain gearing within a range of 30-35%. GDF is internally managed.

Portfolio by sector (%) - 1H24



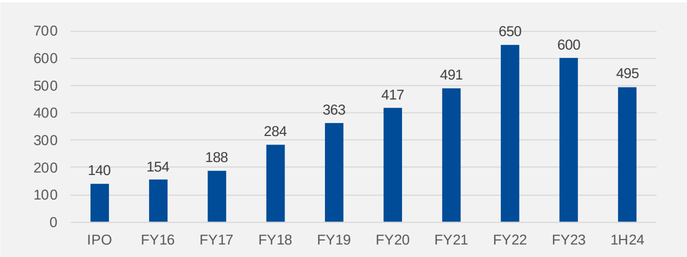
Source: Company reports

Historical FFO and DPS (cents)



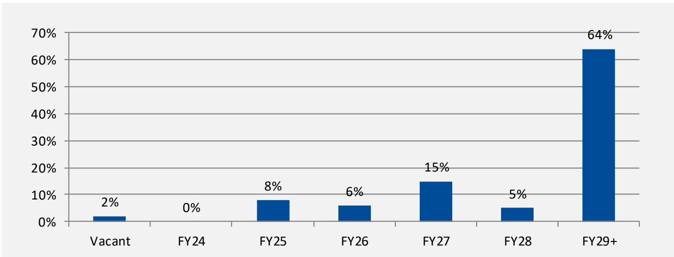
Source: Company reports

AUM ($m)



Source: Company reports

Weighted average lease expiry (% of income) - 1H24



Source: Company reports

Bull points

Development pipeline to enhance earnings

We expect there is near and medium-term upside risk to current earnings based on the "build to own strategy". GDF has several industrial developments due to complete which will deliver increased rental income over the medium term.

Growing exposure to industrial

Post asset sales, GDF's portfolio is aroiund 83% weighted to industrial assets and will reweight further as the current pipeline builds out. There remains good tailwinds for industrial assets with rental growth strong and the Brisbane vacancy rate below 2% for +5,000sqm and 0% for 15,000-20,000sqm which should drive rental growth..

Trading below NTA

GDF is trading at a large discount to its $1.73 NTA and we expect the development pipeline will provide further upside as it completes.

Bear points

Lower income while developments complete/impacts from asset sales

New income from industrial developments will replace loss of income from asset sales, however FY24/25 will see timing impacts regarding earnings.

Payout +100% in FY24

GDF will payout c105% in FY24 while the development pipeline completes and impacts from recent asset sales. However, once assets are leased up and active developments complete GDF expects the payout ratio to fall to 90-100%.

General economic risks

If there is a wider economic downturn it may impact tenant demand and ability to grow rent if vacancies increase. Higher interest costs may also be a drag on earnings.

Environmental, Social and Governance

ESG

Exposure

Management

Exposure

GDF does not have operational control over any of its established industrial assets but engages with industrial tenants to identify opportunities to reduce energy, water, waste and greenhouse gas emissions. GDF is committed to development activities consistent with a circular economy and which seek to minimise negative impacts on the locality.

Management

GDF's operationally controlled assets achieved an average 4.9 NABERS Energy rating as a direct result of efficiency initiatives. It is GDF's intention to provide more granular environmental data following the independent preparation of a carbon account for all activities. GDF also intends to explore additional ESG reporting, measuring, and benchmarking frameworks.

Source: Morgans

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Figure 1: Financial summary

Profit and loss	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Net rental income	24.9	23.4	21.7	22.4	25.9
Other revenue	1.4	2.9	2.4	2.6	2.6
Operating Costs	-5.5	-5.1	-5.3	-5.4	-5.5
EBITDA	20.7	21.2	18.8	19.6	23.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0
EBIT	20.7	21.2	18.8	19.6	23.0
Net Interest Income/Expense	-4.1	-6.3	-6.4	-6.7	-8.7
Pre-tax Profit	16.7	14.9	12.4	12.9	14.3
Tax	0.0	0.0	0.0	0.0	0.0
NPAT	140.5	-4.9	12.4	12.9	14.3
Other items	123.9	-19.9	0.0	0.0	0.0
FFO	16.7	14.9	12.4	12.9	14.3

Share price	$1.23	Market Cap	A$278.3m
Price target	$1.65		
TSR	39.4%		
Valuation			
NAV	$1.65		
Price target	$1.65		

Cash flow statement	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
EBITDA	20.7	21.2	18.8	19.6	23.0
Net interest	-4.8	-8.6	-6.4	-6.7	-8.7
Tax	0.0	0.0	0.0	0.0	0.0
Changes in working capital	2.0	-0.8	-0.5	-0.3	-1.3
Operating cash flow	17.9	11.8	11.9	12.7	12.9
Capex	0.0	0.0	-1.0	-1.0	-1.0
Free Cash Flow	17.9	11.8	10.9	11.7	11.9
Acquisitions and divestments	-40.5	36.8	40.1	-56.0	-25.0
Other Investing cash flow	-7.3	-4.6	0.0	0.0	0.0
Investing cash flows	0.0	0.0	-1.0	-1.0	-1.0
Increase / decrease in Equity	0.0	-0.5	-1.3	0.0	0.0
Increase / decrease in Debt	50.0	-34.8	-23.0	55.0	25.0
Dividends paid	-15.0	-15.0	-13.1	-13.2	-13.6
Other financing cash flows	-0.9	-0.3	0.0	0.0	0.0
Financing cash flows	34.1	-50.7	-37.4	41.8	11.4

Key metrics	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
P/E	15.4	17.2	20.6	19.8	17.9
Yield	5.9%	5.9%	5.1%	5.1%	5.3%
PEG	5.1	-1.7	-1.2	4.8	1.7
EV/EBITDA	25.0	23.1	24.1	26.0	23.4
Price/NTA	0.6				
Op. cash flow yield	6.4%	4.3%	4.3%	4.5%	4.6%
Free cash flow yield	6.4%	4.3%	3.9%	4.2%	4.3%

Per share data	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Securities on issue	227.6	227.2	226.2	226.2	226.2
Weighted securities	208.4	208.0	208.0	208.0	208.0
Dist. EPS (A$)	0.080	0.072	0.060	0.062	0.069
DPS (A$)	0.072	0.072	0.063	0.063	0.065
Payout ratio	90%	100%	106%	102%	95%
NTA (A$)	2.05	1.96	1.73		

Balance Sheet	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Assets					
Cash And Deposits	19.8	13.2	26.7	24.2	22.6
Debtors	8.9	12.3	11.9	12.3	14.2
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	1.2	1.2	1.2	1.2
Total Current Assets	28.7	26.6	39.8	37.7	38.0
Fixed Assets	0.0	0.0	0.0	0.0	0.0
Investments	650.7	600.5	546.4	603.4	629.4
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	15.5	15.8	15.8	15.8	15.8
Total Non-Current Assets	666.3	616.4	562.3	619.3	645.3
TOTAL ASSETS	695.0	643.0	602.1	656.9	683.2
Liabilities					
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Creditors	2.8	4.4	3.6	3.7	4.3
Other current liabilities	4.5	5.0	5.0	5.0	5.0
Total Current Liabilities	7.3	9.5	8.6	8.7	9.3
Long Term Debt	258.9	224.3	201.3	256.3	281.3
Other Debt	0.0	0.0	0.0	0.0	0.0
Other Non-Current liabilities	0.7	0.9	0.9	0.9	0.9
Total Non-Current liabilities	259.6	225.2	202.2	257.2	282.2
TOTAL LIABILITIES	266.9	234.6	210.8	265.9	291.5
Equity					
Issued capital	355.0	354.5	353.2	353.2	353.2
Retained earnings	71.3	51.3	35.6	35.3	36.0
Other reserves and FX	1.8	2.5	2.5	2.5	2.5
TOTAL EQUITY	428.1	408.4	391.3	391.1	391.8

Result quality	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Cash flow conversion	109.5%	96.1%	97.2%	98.7%	94.2%
FCF vs. NPAT	107.7%	79.3%	87.8%	90.2%	83.6%

Gearing	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Net Debt	239	211	175	232	259
Net Debt / net Assets	35%	34%	30%	37%	39%
EBIT interest cover (x)	4.0	2.2	1.9	1.9	1.8
Invested Capital	669	619	565	623	649
Enterprise Value	519	491	453	510	537

Growth ratios	Jun-22A	Jun-23A	Jun-24E	Jun-25E	Jun-26E
Revenue	14.8%	-5.7%	-7.2%	3.1%	15.6%
Operating costs	9.5%	-7.2%	3.9%	2.0%	2.0%
EBITDA	4.1%	2.5%	-11.4%	4.1%	17.3%
EBIT	4.1%	2.5%	-11.4%	4.1%	17.3%
NPAT	3.0%	-10.3%	-17.0%	4.1%	10.5%
EPS growth	3.0%	-10.3%	-16.8%	4.1%	10.5%
DPS growth	0.0%	0.0%	-12.2%	0.2%	2.9%

Portfolio	Jun-23	Jun-22	Dec-21	Jun-21	Jun-20A
Value (A$m)	599.3	650.7	558.9	496.0	417.0
Occupancy	91%	91%	94%	91%	80%
WALE	4.9 years	5.7 years	5.6 years	5.5 years	5.9 years
WACR	5.60%	5.05%	5.27%	5.78%	6.60%

Source: Morgans estimates, company data

Portfolio

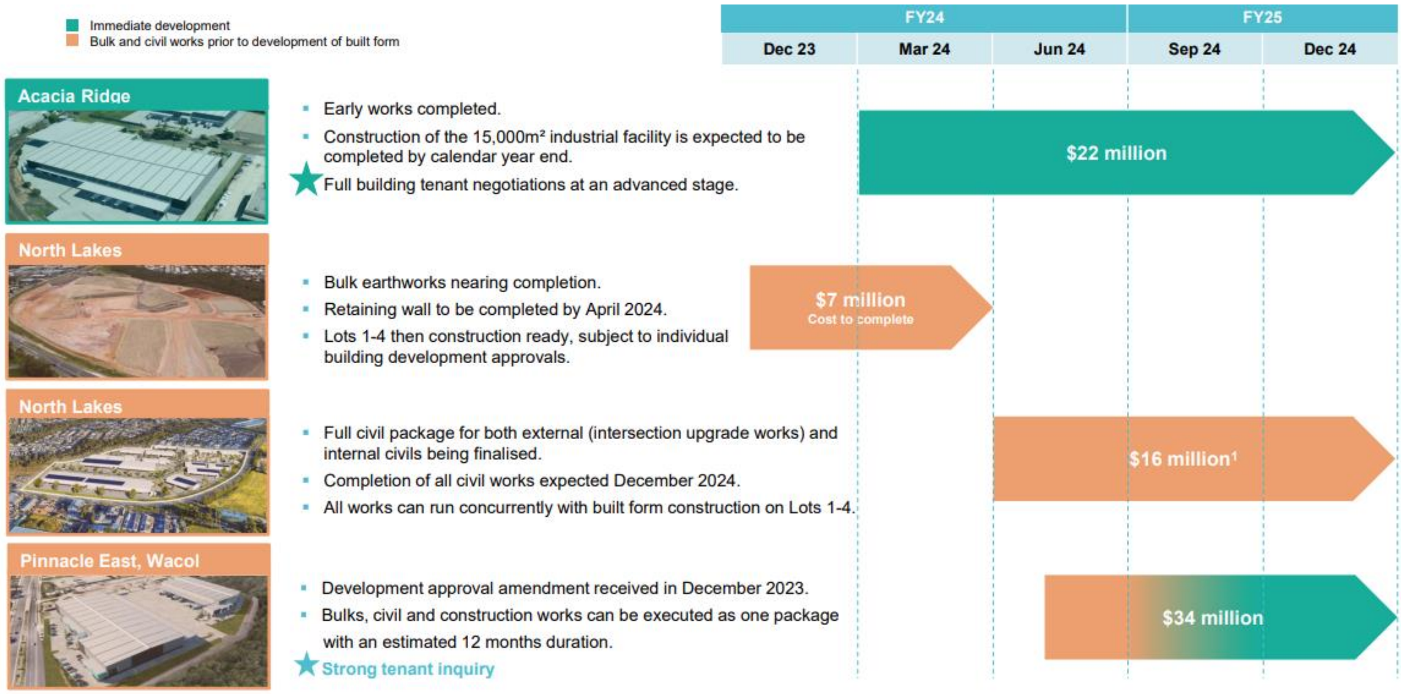
Development

Total pipeline of 145,000sqm underway focussed on Brisbane industrial.

FY24 development projects:

- **Richlands**: construction of the 12,912sqm industrial facility at Bandara St was completed in Dec-23 and a 10-year lease of the property has commenced (will contribute $1.8m in annualised income).
- **Acacia Ridge**: construction of a 14,826sqm industrial facility at Acacia Ridge commenced in Oct-23 and management notes that lease negotiations are well advanced. Construction is due to complete late 2024 and is expected to provide $2.6m in annualised income (based on current market rents) once leased.
- **North Lakes**: bulk earthworks on the 25ha North Lakes industrial site commenced in Oct-23 and expected to complete in Apr-24. Following this built form can start construction (potential mid 2024). We expect further detail to be provided as works progress.
- **Wacol**: final development approvals for the 14,875sqm Pinnacle East industrial site were received in Nov-23 and this project may commence during FY24 (potential revenue from FY26).

Figure 2: Development pipeline



Source: Company data

Revaluations

Post asset sales, GDF's portfolio is valued at $495m across 12 properties.

The weighted average cap rate is currently 5.62%: industrial 5.01% and Cairns 7.75% vs industrial 4.90% and Cairns 7.00% at May-23.

GDF's view is that prime Brisbane industrial cap rates appear to have stabilised between 5.25% and 5.75%. The balance of the established industrial assets will be revalued as at Jun-24.

Figure 3: Property portfolio

Valuation Date	Property	Sector	Valuation ($m)	Cap Rate (%)	Movement (%)
Dec-23	Acacia Ridge, 69 Peterkin St	Industrial	22.1	5.50%	0.75%
Dec-23	Acacia Ridge, 38-56 Peterkin St	Industrial Land	19.7	-	-
Dec-23	North Lakes, 109-135 Boundary Rd	Industrial Land	87.2[1]	-	-
Dec-23	Wacol, Pinnacle East	Industrial Land	15.5	-	-
Dec-23	Richlands, 56-72 Bandara St	Industrial	37.8	5.25%	-
Oct-23	Cairns, 7-19 Lake St	Office	82.0	7.75%	-
May-23	Berrinba, 1-9 Kellar St	Industrial	15.4	5.25%	-
May-23	Heathwood, 67 Noosa St	Industrial	15.5	5.50%	-
May-23	Morningside, 326 & 340 Thynne Rd	Industrial	54.5	5.25%	-
May-23	Pinkenba, 70-82 Main Beach Rd	Industrial	35.5	4.50%	-
May-23	Wacol, 41 Bivouac Pl	Industrial	58.5	4.75%	-
May-23	Wacol, Pinnacle West	Industrial	45.9	4.75%	-
	Total property value		**489.6**		
	Value accretive capex[2]		6.3		
	Total Portfolio		**495.9**	5.62%	

Source: Company data

1. The independent value 'on completion' of the 25 ha adopted by the valuer in the current 31 December 2023 valuation is $116.8m or $467/sqm of developable land. The difference between the adopted Directors' valuation of $87.2m and the assessed gross realisation of $116.8m is accounted for by the estimated 'cost to complete'. 2. Represents value accretive capital expenditure on independently valued properties.

Half the portfolio was independently valued at Dec-23 with industrial market rent helping offset cap rate expansion and industrial land values holding/increasing.

- Richlands: $37.8m (cap rate 5.25%) based on $170/sqm market rent.
- Acacia Ridge (69 Peterkin St): $22.1m (+$0.7m). The cap rate expanded 75 bps since May-23 to 5.50%, offset by a 25% increase in market rent to $170/sqm.
- Acacia Ridge (38-56 Peterkin St): $19.7m (+$1.4m to the 'as is' land valuation following the completion of remediation works).
- North Lakes: 'on completion' land value was assessed at $116.8m, however a Directors' valuation of $87.2m was adopted, calculated as a gross realisation of the site, less estimated cost to complete.
- Pinnacle East, Wacol: $15.5m (+$4.5m to the 'as is' land valuation following completion of remediation works and development approval).
- Cairns: $82.0m (-$5.8m/7.75% cap rate).

Risks

Tenant default/non-renewal; delays with key development projects.

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Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
Gladstone	+61 7 4972 8000	Balmain	+61 2 8755 3333	Southbank	+61 3 9037 9444
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Springfield-Ipswich	+61 7 3202 3995	Neutral Bay	+61 2 8969 7500		
Spring Hill	+61 7 3833 9333	Newcastle	+61 2 4926 4044	**South Australia**	
Sunshine Coast	+61 7 5479 2757	Orange	+61 2 6361 9166	Adelaide	+61 8 8464 5000
Toowoomba Chalk Capital	+61 7 4639 1277	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
Townsville	+61 7 4725 5787	Scone	+61 2 6544 3144	Exchange Place	+61 8 7325 9200
West End	+61 7 3151 8300	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
				Unley	+61 8 8155 4300
Northern Territory		**Australian Capital Territory**		**Tasmania**	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

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