

GARDA Property Group

Real Estate Office REITs
8 February 2024

BUY

Result in line. Focus on development pipeline delivery.

EVENT - 1H24 RESULT

GDF delivered FFO of 3.3c and DPU of 3.1c in 1H24. The result is inline with expectations. **FY24 guidance** of 6.3c DPU has been reaffirmed, and assumes a payout ratio of ~105% (also inline with expectations).

Asset sales: 1H24 was a transformative period for GDF noting the divestment of its three remaining Melbourne office exposures being Botanicca 7 & 9 (settled January 2024) and Hawthorn. A small parcel of development land in Townsville was also sold for \$2m. Combined, these asset sales realised gross proceeds of \$106.1m.

NTA: Following sales outcomes at B7 and B9, Hawthorn, and updated valuations at 6 of GDF's assets, NTA declined to \$1.73 (from \$1.96 at Jun'23) - the largest contributor to this decline was B7 and B9 which were sold at ~27% discount to prior book values. We do however expect NTA to trend higher as GDF's industrial development pipeline is delivered.

Gearing and capital management: Post asset sales (pro forma including settlement of B7 and 9), gearing is 30.1%, providing ample headroom for GDF to execute its ~145k sqm industrial development pipeline. Hedging has increased to ~80%, with a weighted average hedge duration of 3.4 years. GDF's ICR is 2.0x vs a covenant of 1.5x. This should mark the low point for GDF's ICR as income from developments comes online in FY25/26/27.

Development pipeline: **Richlands** (~13,000sqm) was completed in Dec'23 and is fully let. Construction at **Acacia Ridge** will commence throughout CY24, with the asset due to contribute income from Jan'25. Negotiations with a whole of asset tenant are well advanced.

Pinnacle East and **North Lakes** developments are not expected to contribute materially to income until FY26.

As GDF delivers its pipeline, we see gearing trending to ~35% by Jun'26 (~40% on the basis Pinnacle East proceeds).

IMPACT

Negligible changes to earnings. Maintain Buy rating and target price moves to \$1.60 (\$1.63).

Despite immaterial changes to earnings, the composition of our earnings has changed with the exclusion of the development at Pinnacle East progressing. With returns at this site expected to be somewhat marginal (requiring relatively high rents), GDF's capital is best allocated elsewhere (ie North Lakes) and as such we have removed the development and subsequent income from our estimates, noting there is no material change. We also assume this development is sold at current carrying (land) value. The added benefit should this eventuate, is balance sheet gearing remaining at 35% as North Lakes is delivered.

INVESTMENT THESIS

The divestment of the Melbourne office assets is strategically important in providing Garda incremental capital to recycle into its industrial development pipeline. Trading at a ~29.5% discount to pro forma NTA (~\$1.73), GDF remains a compelling exposure to what is an increasingly industrial focused portfolio.

We see FY24 as the low point for earnings, before delivery of projects drives meaningful earnings growth and value creation in FY25 and FY26.

Y/E JUN 30	2023a	2024e	2025e	2026e
NPAT	14.9	12.4	13.7	16.6
EPS (Diluted) (¢)	7.2	6.0	6.6	8.0
P/E	17.0x	20.5x	18.5x	15.2x
EPS Growth	(10.3)%	(16.8)%	10.5%	21.6%
DPS (¢)	7.2	6.3	6.5	7.0
Yield	5.9%	5.2%	5.3%	5.7%
DPS growth	0.0%	(12.5)%	3.2%	7.7%
Net Tangible Assets (\$/share)	1.96	1.76	1.83	1.90
Prem / (Disc) to NTA	(37.7)%	(30.8)%	(33.3)%	(35.9)%
Gearing	34.9%	31.4%	33.6%	35.7%

All figures are in AUD.

COMPANY UPDATE

Ticker	GDF
Stock Price	\$1.22
Target Price	\$1.60
Forecast Capital Return	31.1%
Forecast Dividend Yield	5.2%
Estimated Total Return - 12Mth	36.3%

COMPANY MARKET DATA

Market Cap	\$253.8m
Free Float (%)	86.0%
Enterprise Value	\$483.3m
Shares on issue	208.0m
52-wk Range	\$0.94 - \$1.45

ESTIMATE CHANGES 2023a 2024e 2025e 2026e

NPAT - new	14.9	12.4	13.7	16.6
NPAT - old	14.9	12.3	13.9	16.7
% Change	0.0%	0.6%	(1.5)%	(0.4)%
EPS (Dil.) (¢) - new	7.2	6.0	6.6	8.0
EPS (Dil.) (¢) - old	7.2	5.9	6.7	8.1
% Change	0.0%	0.5%	(1.7)%	(0.5)%
DPS (¢) - new	7.2	6.3	6.5	7.0
DPS (¢) - old	7.2	6.3	6.5	7.0
% Change	0.0%	0.0%	0.0%	0.0%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



ANALYST

Edward Day
edward.day@moelisaustralia.com
+61 2 8288 5424

DEVELOPMENT PIPELINE REMAINS THE FOCUS

GDF has recently sold and settled on ~\$106m in asset sales, resulting in gearing declining to ~30.1%. These sales are strategically important in that GDF no longer has exposure in Victoria, with the portfolio 100% Queensland based.

With capital capacity now on the balance sheet, the focus remains on delivering the ~145k sqm development pipeline across including Acacia Ridge, Wacol East, and North Lakes.

Acacia Ridge: Construction has commenced with GDF in advance negotiations with a potential tenant. This development is ~15,000sqm and expected to cost \$22m to complete. Indicative yield on cost is ~6-6.25% assuming rents of \$170/sqm. Construction is expected to be completed by Dec'24.

Pinnacle East: Site remediation works have been completed, with all major approvals now in place. GDF has had preliminary negotiations with a tenant over the back building on the site. Estimated costs to complete are ~\$34m, in addition to the existing \$15.5m already invested (land and earth works). Economic rents for this asset are >\$180/sqm. At \$180/sqm, this implies a yield on cost of ~5.0-5.5%.

North Lakes: Earthworks are expected to complete c. Apr'24, with civils commencing shortly thereafter. There is significant optionality with how GDF approaches development of this site, with options for smaller spec builds (~2,000-3,000 sqm) or larger pre-commit buildings. Given land costs are relatively low, expected returns are more attractive relative to the likes of Pinnacle East.

As mentioned, with the scale of North Lakes likely to require >\$100m over the medium term, we think there's potential GDF looks to recycle capital from Pinnacle East (as a land sale), and redeploy into North Lakes, where returns are superior. We note this is our assessment, and has not been confirmed by GDF.

OTHER KEY TAKEAWAYS FROM THE RESULT

Capital management: GDF retains \$119m in liquidity to fund its development requirements. Post the settlement of the Botanicca and Hawthorn assets, gearing is ~30.1% with hedging of ~80%. Hedge duration is relatively defensive at 3.4 years.

As capital is deployed, we have gearing increasing to ~35% (on the basis that Pinnacle East is divested).

GDF's ICR is ~2.0x compared to a 1.5x covenant. Our estimates assume GDF's ICR moves marginally lower in 2H24 but remains >1.7x (and hence covenant levels), before recovering in FY25 as income from developments comes online.

Occupancy: Portfolio occupancy increased to 98% following the divestment of the Melbourne office assets. The portfolio vacancy is concentrated at the Cairns office asset. This asset continues to perform strongly, being the pre-eminent office building in Cairns. There is negligible near term leasing risk, noting two tenants in Cairns comprise the near term expiries (FY25).

OUTLOOK AND VALUATION

GDF has reaffirmed DPU of 6.3c, with the payout ratio guidance moving to 105%.

The current implied DPU yield (based on guidance) is ~5.2%. We see significant upside to this as the development pipeline is delivered.

Key catalysts remain:

- 1) Leasing development projects (Acacia Ridge, North Lakes);
- 2) Managing capital allocation to maximise returns (i.e. selling Pinnacle East if returns are marginal)

We maintain our Buy rating. GDF trades at a ~29.5% discount to NTA, and continues to represent an attractive exposure to high a quality Brisbane industrial portfolio with development expected to drive earnings and valuation growth.

GARDA Property Group (GDF)	Market Cap: \$253.8m	Stock Price: \$1.22	Target Price: \$1.60	Buy
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Y/E JUN 30

KEY STOCK DATA (\$)	2022A	2023A	2024E	2025E	2026E
EPS (adj.)(¢)	8.0	7.2	6.0	6.6	8.0
EPS Yield	11.4%	10.7%	9.1%	9.8%	11.3%
EPS Reported (Basic)	67.4	(2.4)	(12.1)	12.9	14.3
DPS	7.2	7.2	6.3	6.5	7.0
DPS Yield	5.9%	5.9%	5.2%	5.3%	5.7%
NTA/Share	2.05	1.96	1.76	1.83	1.90
Prem / (Disc) to NTA	(40.6)%	(37.7)%	(30.8)%	(33.3)%	(35.9)%
Gearing (Debt/Property) (%)	37.3%	34.9%	31.4%	33.6%	35.7%
Interest Cover (x)	3.7x	2.2x	1.9x	2.6x	2.7x

Forecast Dividend Yield	5.2%
Estimated Total Return - 12 Mth	36.3%
Target Price	\$1.60

BALANCE SHEET (\$)	2022A	2023A	2024E	2025E	2026E
Cash	19.8	13.2	5.4	1.4	1.9
Investments	650.7	488.8	431.1	473.8	516.9
Inv. In Associates	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	24.5	141.0	108.1	108.0	107.8
Total Assets	695.0	643.0	544.6	583.2	626.7
Current Creditors	3.6	5.7	2.9	2.9	2.9
Debt	258.9	224.3	171.0	196.1	223.6
Provisions	3.8	3.8	3.3	3.4	3.6
Other	1.4	2.2	2.0	2.0	2.0
Total Liabilities	266.9	234.6	178.1	203.2	231.0
Net Assets	428.1	408.4	366.5	379.9	395.7
Equity & Reserves	356.9	357.1	357.4	357.4	357.4
Retained Profit	71.3	51.3	9.1	22.5	38.3
Shareholders' Equity	428.2	408.4	366.6	380.0	395.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Equity	428.2	408.4	366.6	380.0	395.7

SUM OF THE PARTS VALUATION

Current Trust Properties				495.9
Stated Cap Rate		5.59%		
Moelis Cap Rate		5.88%		
Market Val Incr/(Decr)				(6.4)
Currency Adjustment				0.0
Mark-to-Mkt Trust Val				489.5
Equity Acc. Investments				0.0
Trust EV				500.7
Prop & Funds Mgmt	1.9		2.0x	3.8
Development Earnings	0.0		0.0x	0.0
Trust Expenses	(4.9)		6.0x	(29.6)
Manager Fee	0.0		0.0x	0.0
Corporation EV	(3.1)		8.4x	(25.9)
add other assets / liabs				101.2
add back deferred tax				0.0
less intangibles				0.0
less minorities				0.0
less Group Net Debt				(229.5)
Group Equity Val				346.5
Group Val/Shr				\$1.67

PROFIT & LOSS (\$)	2022A	2023A	2024E	2025E	2026E
Net Property Income	26.8	24.6	21.4	22.4	27.1
Other Operating Income	0.1	0.4	3.3	1.8	1.1
Equity Accounted Profit	0.0	0.0	0.0	0.0	0.0
Other	(6.1)	(3.5)	(5.0)	(5.1)	(5.2)
EBITDA	20.7	21.5	19.7	19.1	23.0
Depreciation & Amortisation	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
EBIT	20.6	21.4	19.5	19.0	22.8
Net Interest Income/(Expense)	(4.1)	(6.3)	(7.3)	(5.3)	(6.2)
Pre-tax profit	16.5	15.1	12.2	13.7	16.6
Tax	0.2	(0.1)	0.2	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	16.7	14.9	12.4	13.7	16.6
Revaluations	111.6	(6.5)	(33.0)	13.1	13.1
Profit/(Loss) on Assets	(0.5)	(11.7)	0.0	0.0	0.0
IFRS Adjustments	12.2	(0.1)	(4.6)	0.0	0.0
Amort of incentives	0	0	0	0	0
Straight-line rents	0.6	(1.6)	0.1	0.0	0.0
NPAT (Reported)	140.5	(4.9)	(25.1)	26.8	29.8

CASHFLOW (\$)	2022A	2023A	2024E	2025E	2026E
Net Property Income	26.8	24.6	21.4	22.4	27.1
Interest Received	(5.3)	(2.9)	(3.9)	0.0	0.0
Interest Paid	(4.8)	(9.0)	(10.5)	(7.4)	(8.5)
Other	1.2	(1.3)	(0.9)	(1.2)	(1.9)
Operating Cash Flow	17.9	11.5	6.1	13.7	16.7
Capex	0.0	0.0	(26.2)	(29.5)	(30.1)
Acquisitions	(51.5)	(39.1)	(37.0)	0.0	0.0
Divestments	11.0	75.8	117.1	0.0	0.0
Other investing cashflow	(7.3)	(4.6)	(0.6)	0.0	0.0
Investing Cash Flow	(47.8)	32.2	53.4	(29.5)	(30.1)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(15.0)	(15.0)	(13.5)	(13.4)	(13.8)
Net Borrowings	50.0	(34.8)	(53.4)	25.1	27.5
Other financing cashflow	(0.9)	(0.8)	(0.7)	(0.0)	0.0
Financing Cash Flow	34.1	(50.7)	(67.6)	11.7	13.7
Exchange Rate Adj	0.0	0.0	0.0	0.0	0.0
Net incr/(decr) in cash	4.2	(7.0)	(8.1)	(4.1)	0.4

DISCOUNTED CASHFLOW VALUATION

Bond rate	4.25%
Equity Risk Premium	6.00%
Beta	0.68
WACC	8.30%
DCF Terminal Growth	3.00%
Perpetuity %	74.91%

RESEARCH & SALES RESPONSIBILITIES

Equities

Bryan Johnson	Head of Sales	+612 8288 5412
Edward Day	Head of Research	+612 8288 5424
Elliot Leahey	Business Director	+612 8288 5402
Jacqui Irons	Corporate Broking	+612 8288 5427

Equities Sales & Trading

Bryan Johnson	Head of Sales	+612 8288 5412
Aaron Payne		+612 8288 5405
Roger Gamble		+612 8288 5410
David Baker		+612 8288 5428
Jake Rischbieth		+612 8288 5654
Brooke Davis	Finance Executive	+612 8288 5417

Real Estate

Edward Day	Head of Research	+612 8288 5424
Murray Connellan		+612 8288 5421

Industrials

Ronan Barratt	+612 8288 5426
Sarah Mann	+612 8288 5407
Matthew Chen	+612 8074 0872
David Meehan	+612 8288 5413
Tom Tweedie	+612 8288 5430
Lachlan Scott	+612 8288 5403
Oliver Porter	+618 6555 8607

Resources

Paul Hissey	+613 8650 8626
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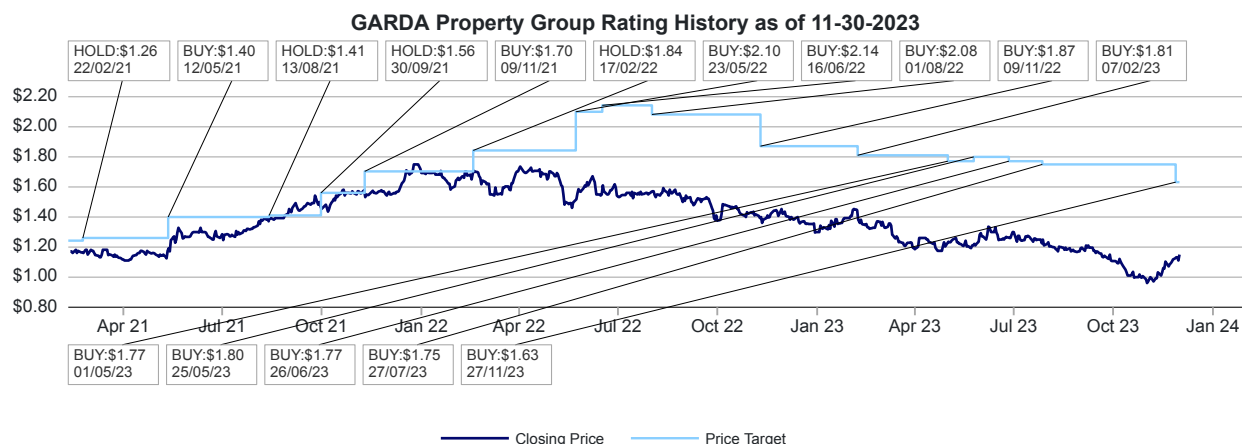
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