

GARDA PROPERTY GROUP

HOLD

GDF secures Fuji Xerox as foundation tenant for Botanica 9

Real Estate / Diversified REIT's

17 December 2020

COMPANY UPDATE

Ticker	GDF
Stock Price	\$1.230
Target Price	\$1.240
Forecast Capital Return	0.6%
Forecast Dividend Yield	5.8%
Estimated Total Return - 12 Mth Forward	6.5%

Company market data

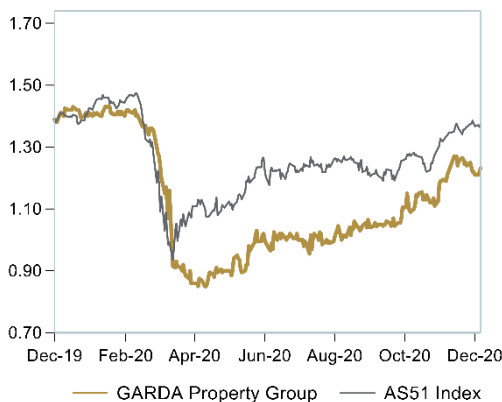
Market Cap.	\$257.1m
Free Float (%)	86.0
Enterprise Value	\$437.6m
52 Week Range	\$0.85 - \$1.43
Shares Out.	208.6m
Avg. Daily Value	\$0.2m

Estimates changes	2020a	2021e	2022e	2023e
Core NPAT - <i>old</i>	16.2	15.8	16.9	18.1
Core NPAT - <i>new</i>	16.2	15.8	17.3	18.4
% Change	0.0	0.1	2.4	1.9
Core EPS dil. (€) - <i>old</i>	8.5	7.6	8.1	8.7
Core EPS dil. (€) - <i>new</i>	8.5	7.6	8.3	8.8
% Change	0.0	0.1	2.4	1.9
DPS (€) - <i>old</i>	8.6	7.2	7.5	7.9
DPS (€) - <i>new</i>	8.6	7.2	7.5	7.9
% Change	0.0	0.0	0.0	0.0

All figures are in AUD unless otherwise specified.

Share price performance

GARDA Property Group vs. AS51 (rebased index)



Analyst

Edward Day

+61 2 8288 5424

edward.day@moelisaustralia.com

EVENT

Leasing at Botanica 9: GDF has secured Fuji Xerox as its foundation tenant for the completed Botanica 9 development. Fuji Xerox have agreed to lease 2,400sqm, reflecting approximately 1/3 of GLA, along with 55 car parks. Lease metrics are commercial in confidence given several other leasing negotiations are on foot, though we note GOZ's approximate metrics at Botanica 3 were \$430/sqm and a 30% incentive. We'd anticipate GDF's lease terms were marginally more favorable given the shorter lease term (7 years to Fuji Xerox) and the smaller space. We note the original feasibility used rents of \$450/sqm, and achieving these in a post-COVID environment would be a solid outcome in our view. We understand the incentive is to be taken as abatement over the term of the lease, meaning no additional capital is required from GDF up front.

The outcome is hugely positive in that it a) secures cashflow for FY22, and b) will likely make it easier to secure smaller tenants given the building is activated with the foundation tenant.

Valuation updates: GDF released updated valuations for Dec'20, with ~25bps compression seen at all independently revalued assets. We'd caution however that valuation uplift from cap rate compression was largely offset by a softening of assumptions around rental growth and downtime, in line with independent valuations at Jun'20. Valuations also captured capex deployed at developments including Berrinba and Progress Road, Wacol. The weighted average portfolio cap rate tightened 17bps to 6.4%.

IMPACT

Our earnings changes by ~2.4% in FY22 and ~2% in FY23. We move our rating to Hold given recent share price strength. Our target price increases to \$1.24.

INVESTMENT VIEW

Leasing at Botanica 9 is one of the key outcomes we've been looking for, and the lease with Fuji Xerox should provide confidence in the attractiveness and value proposition of B9. GDF yields 5.9% based on FY21 DPU guidance of 7.2c, noting this doesn't include any income from B9. The income in FY21 from Fuji Xerox's lease at B9 will largely offset the rental guarantee booked in FY20, before driving earnings growth as more of the building is let up through 2H21 and into FY22. The developments at Wacol and Berrinba are also meaningful to earnings growth, with EPU expected to grow by ~10% and 6% in FY22 and FY23 respectively.

Y/E Jun 30	2020a	2021e	2022e	2023e
Core NPAT	16.2	15.8	17.3	18.4
Core EPS (Diluted) (€)	8.5	7.6	8.3	8.8
P/E	14.6x	16.3x	14.8x	13.9x
EPS growth	(2.1%)	(10.6%)	9.7%	6.4%
DPS (€)	8.6	7.2	7.5	7.9
Yield	6.9%	5.8%	6.1%	6.4%
DPS growth	(5.0%)	(15.8%)	4.2%	4.7%
Net Tangible Assets (\$/share)	1.18	1.24	1.30	1.38
Prem / (Disc) to NTA	4.1%	(0.4%)	(5.5%)	(10.6%)
Gearing	39.1%	39.9%	41.7%	41.0%

All figures are in AUD.

GARDA Property Group (GDF) Market Cap: \$257m Last Price: \$1.230 Target Price: \$1.240 **Hold**
Key Stock Data

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
EPS (adj.) (€)	8.7	8.5	7.6	8.3	8.8
EPS Yield	7.0%	6.9%	6.1%	6.7%	7.2%
EPS growth	(0.6%)	(2.1%)	(10.6%)	9.7%	6.4%
EPS reported (€)	18.9	2.9	14.0	14.1	15.0
DPS (€)	9.0	8.6	7.2	7.5	7.9
DPS Yield	7.3%	6.9%	5.8%	6.1%	6.4%
DPS growth	0.0%	(5.0%)	(15.8%)	4.2%	4.7%
NTA / share	1.37	1.18	1.24	1.30	1.38
Prem/(Disc) to NTA	(10.0%)	4.1%	(0.4%)	(5.5%)	(10.6%)
Gearing (Debt/Property)	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing (Debt/Assets)	36.0%	39.1%	39.9%	41.7%	41.0%
Return on Equity	6.7%	6.2%	5.6%	5.8%	5.9%
Interest Cover	3.7x	3.6x	4.2x	4.0x	4.1x
12 Mth Fwd Dividend Yield		5.8%			
Estimated 12 Mth Target Price		\$1.240			
Total Estimated 12 Mth Return		6.5%			

Profit and Loss (\$m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Net Property Income	19.4	22.7	21.9	26.0	28.4
Other Operating Income	1.4	1.2	2.0	0.6	0.6
Equity Accounted Profit	0.0	0.0	0.0	0.0	0.0
Other	(4.8)	(4.0)	(4.4)	(4.6)	(4.8)
EBITDA	16.0	19.9	19.5	22.0	24.3
Depr & Amort	0.0	0.0	0.0	0.0	0.0
EBIT	16.0	19.9	19.5	22.0	24.3
Net interest expense	(2.8)	(3.8)	(3.7)	(4.6)	(5.8)
Pre-tax profit	13.2	16.1	15.8	17.3	18.4
Tax	0.0	0.1	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	13.2	16.2	15.8	17.3	18.4
Adjustments:					
Revaluations	9.0	(7.0)	11.1	12.0	12.8
Profit/(Loss) on Assets	1.6	0.0	0.0	0.0	0.0
IFRS Adjustments	4.7	(4.4)	2.4	0.0	0.0
Amort. of incentives	0.0	0.0	0.0	0.0	0.0
Straight-line rents	0.4	0.7	0.0	0.0	0.0
NPAT (reported)	28.8	5.6	29.2	29.3	31.3

Balance Sheet (\$m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Cash	20.2	20.5	8.9	9.3	10.4
Investments	332.8	417.4	453.6	493.3	512.0
Inv. in Associates	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	33.6	33.6	33.6	33.6
Other	3.3	5.7	5.7	5.7	5.7
Total Assets	356.3	477.3	501.8	542.0	561.7
Current Creditors	4.2	4.1	4.1	4.1	4.1
Debt	128.3	186.7	200.1	226.0	230.1
Provisions	3.6	3.8	3.8	3.9	4.2
Other	3.1	2.2	2.2	2.2	2.2
Total Liabilities	139.2	196.7	210.1	236.3	240.5
Net Assets	217.1	280.6	291.7	305.7	321.1
Equity & Reserves	281.1	355.4	355.4	355.4	355.4
Retained Profits	(64.0)	(74.9)	(63.7)	(49.7)	(34.3)
Shareholders' Equity	217.1	280.6	291.7	305.7	321.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	217.1	280.6	291.7	305.7	321.1

Cashflow (\$m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Net Property Income	19.4	22.7	21.9	26.0	28.4
Interest Received	2.2	(4.1)	0.0	0.0	0.0
Interest Paid	(4.1)	(5.1)	(4.7)	(5.5)	(5.9)
Other	3.0	0.5	(1.6)	(3.3)	(4.2)
Operating Cashflow	20.5	14.0	15.6	17.2	18.3
<i>Growth</i>	<i>84.5%</i>	<i>(31.9%)</i>	<i>12.0%</i>	<i>10.3%</i>	<i>6.4%</i>
Capital expenditure	(8.6)	0.0	(22.6)	(27.7)	(5.9)
Acquisitions	16.4	0.0	0.0	0.0	0.0
Divestments	(44.0)	(81.1)	(2.5)	0.0	0.0
Other	(2.4)	2.0	0.0	0.0	0.0
Investing Cashflow	(38.6)	(79.1)	(25.1)	(27.7)	(5.9)
Equity raised	25.0	31.5	0.0	0.0	0.0
Dividends paid	(13.4)	(16.2)	(15.7)	(15.2)	(15.6)
Net borrowings	22.8	59.6	13.4	26.0	4.0
Other	(0.8)	(9.5)	0.0	0.0	0.0
Financing Cashflow	33.7	65.4	(2.3)	10.8	(11.6)
Exchange Rate Adj	0.0	0.0	0.0	0.0	0.0
Net incr/(decr) in cash	15.6	0.2	(11.7)	0.3	0.9

Sum of the Parts Valuation

	\$m	
Current Trust Properties		431.7
Stated Cap Rate	6.4%	
Moelis Cap Rate	6.2%	
Market Val Incr/(Decr)		19.4
Currency Adjustment		0.0
Mark-to-Mkt Trust Val		451.1
Development/Acq. Pipeline		11.7
Trust EV		462.8
Prop & Funds Mgmt	0.5	8.0x
Development Earnings	0.0	0.0x
Trust Expenses	(4.4)	8.0x
Manager Fee	0.5	8.0x
Corporation EV	(3.4)	(27.4)
add other assets / liabs		29.3
add back deferred tax		0.0
less intangibles		(33.6)
less minorities		0.0
Group EV		427.1
less Group Net Debt		(180.5)
Group Equity Val		246.6
Shares on issue (m)		208.6
Group Val		\$1.182

Discounted Cashflow Valuation

Bond rate	4.3%
Equity risk premium	6.0%
Beta	0.7
Discount rate	8.6%
Perpetuity growth	2.5%
DCF/Share	\$1.242
Perpetuity %	59.0%

Divisional Analysis (\$m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	16.0	19.9	19.5	22.0	24.3

RESEARCH & SALES RESPONSIBILITIES

Equities

Simon Scott	Head of Equities	+612 8288 5418
Elliot Leahey	Business Manager	+612 8288 5402
Jacqui Irons	Corporate Broking	+612 8288 5427

Equities Sales & Trading

Bryan Johnson		+612 8288 5412
Andrew Harvey		+612 8288 5428
Sam Clark		+612 8288 5410
Jack Dyson		+612 8288 5401
Mitchell Hewson - <i>Head of Execution</i>		+612 8288 5417
Aaron Payne - <i>Real Estate</i>		+612 8288 5405

Equities Research

Real Estate	
Edward Day	+612 8288 5424
Ronan Barratt	+612 8288 5426
Murray Connellan	+612 8288 5421
Industrials	
Sean Kiriwan	+618 6555 8602
Sarah Mann	+612 8288 5407
Tom Tweedie	+612 8288 5423

email: firstname.lastname@moelisaustralia.com

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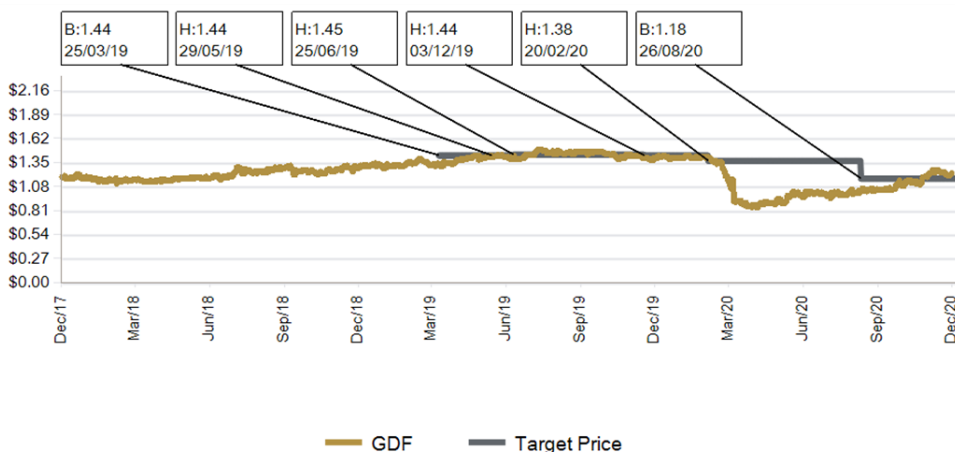
Buy: >15% **Hold:** 5% to 15% **Sell:** <5%.

RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 17 December 2020

SELL	HOLD	BUY
2.7%	28.4%	67.6%

Rating and Price Target History: GARDA Property Group (GDF) as of 16/12/2020



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