

15 March 2023

## GARDA PROPERTY GROUP (GDF.AX)

FOCUSING ON INDUSTRIAL

**Sale of Box Hill Office Building:** GARDA has reached another milestone in its asset recycling program with the sale of 436 Elgar Rd, Box Hill, for \$40.3m – a 14% discount to book value of \$47.0m. The sale reduces pro-forma NTA to \$1.98/share (from \$2.01/share), and gearing is down to 31.2% (from 34.6%). Importantly, this represents an increase in available capital with undrawn debt now at \$75m, so management can continue executing on GDF's long-term strategy of building out its industrial property portfolio. Looking forward, GDF aims to continue recycling mature assets and has launched a campaign to sell two Queensland industrial assets with a combined book value of \$32.0m.

**Attractive Industrial Development Pipeline:** On March 6 GDF announced the practical completion of Building B, Pinnacle West, Wacol. This 8,213m<sup>2</sup> industrial site is fully leased to 2 tenants on 7-year and 10-year contracts. GARDA has an additional 16,000m<sup>2</sup> of industrial facility floorspace expected to reach practical completion over CY23 – which is already fully leased. As GDF reaches the completion stage of additional build-to-own assets, a significant uplift in FFO will follow. Additionally, in line with successful divestment of key office assets, GARDA's strategic weighting toward the industrial sector will increase to 43% (pro forma) of the total portfolio.

**Investment View:** GDF looks to us like a good quality REIT led by a capable management team, who are also significant shareholders and therefore deeply aligned to drive a value enhancing strategy over time. The stock is currently trading at a significant discount to NTA. Our forecasts imply further increases in NTA over the medium-term in line with the assumed delivery of the development pipeline. As such, we believe GDF currently offers investors attractive value bolstered by a healthy distribution yield of 5.7%.

**Valuation & Recommendation:** GDF's current NTA of \$1.98/share represents a significant premium to the current share price. We adopt a \$1.75/share target price to reflect ongoing valuation and interest rate headwinds across the Australian property market, however we believe GDF is defensively positioned within the sector given the strength of their existing development pipeline. **Overweight.**

## EQUITY RESEARCH

UPDATE

REITs

15 March 2023

Rating	OVERWEIGHT
Target Price (AUD)	1.75
Share Price (AUD)	1.27
Forecast Capital Return	37.8%
Forecast Distribution Yield	5.7%
Total Shareholder Return	43.5%

## Stock Details

Sector	REITs
ASX Code	GDF
Shares On Issue (m)	228
Market Capitalisation (A\$m)	289

## Key Leadership

Exec Chair & MD	Matthew Madsen
Director, Projects & Acqns	Mark Scammells

## Share Price Performance



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## FINANCIAL SUMMARY

Share Price	A\$/sh	1.27
Shares on Issue	m	227.6
Market Cap (A\$m)	A\$m	289.1
Net Cash / (Debt) (A\$m)	A\$m	(224.7)
Enterprise Value (A\$m)	A\$m	513.8

Profit & Loss	Units	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Net Rental Income	A\$m	22.3	25.5	21.9	26.3	28.4
Other Income	A\$m	1.6	1.4	2.5	1.8	2.0
Trust & Corporate Expenses	A\$m	(1.7)	(2.0)	(2.0)	(2.1)	(2.3)
Employees	A\$m	(3.3)	(3.6)	(3.2)	(3.7)	(4.0)
Other Expenses	A\$m	(0.4)	(0.0)	-	-	-
<b>EBITDA</b>	<b>A\$m</b>	<b>18.5</b>	<b>21.3</b>	<b>19.1</b>	<b>22.4</b>	<b>24.1</b>
D&A	A\$m	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
<b>EBIT</b>	<b>A\$m</b>	<b>18.3</b>	<b>21.2</b>	<b>19.0</b>	<b>22.2</b>	<b>23.9</b>
Interest	A\$m	(3.8)	(4.1)	(7.4)	(7.4)	(8.7)
<b>Profit Before Tax</b>	<b>A\$m</b>	<b>14.6</b>	<b>17.1</b>	<b>11.5</b>	<b>14.7</b>	<b>15.2</b>
Tax	A\$m	0.3	0.2	(0.0)	(0.0)	(0.0)
<b>Adjusted NPAT</b>	<b>A\$m</b>	<b>14.9</b>	<b>17.2</b>	<b>11.5</b>	<b>14.7</b>	<b>15.2</b>
Gains / (Losses)	A\$m	55.1	124.5	(55.7)	58.9	36.2
Other Non-Recurring Items	A\$m	(34.3)	(1.2)	(0.4)	-	-
<b>Reported NPAT</b>	<b>A\$m</b>	<b>35.7</b>	<b>140.5</b>	<b>(44.5)</b>	<b>73.6</b>	<b>51.4</b>
FFO Adjustments	A\$m	1.3	(0.6)	1.2	1.2	1.2
<b>FFO</b>	<b>A\$m</b>	<b>16.2</b>	<b>16.7</b>	<b>12.7</b>	<b>15.9</b>	<b>16.4</b>

Cashflow	Units	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Cash From Operations	A\$m	16.1	19.1	19.3	22.4	24.1
Interest	A\$m	(4.1)	(4.8)	(7.9)	(7.4)	(8.7)
Tax	A\$m	(0.3)	3.6	(0.3)	(0.0)	(0.0)
<b>Net Cash From Operations</b>	<b>A\$m</b>	<b>11.7</b>	<b>17.9</b>	<b>11.1</b>	<b>14.9</b>	<b>15.4</b>
Capex	A\$m	(0.0)	-	(29.6)	(50.0)	-
Acquisitions	A\$m	(25.9)	(40.7)	75.1	-	-
Other	A\$m	2.6	(7.1)	(4.0)	-	-
<b>Free Cash Flow</b>	<b>A\$m</b>	<b>(11.6)</b>	<b>(29.9)</b>	<b>52.6</b>	<b>(35.1)</b>	<b>15.4</b>
Borrowings	A\$m	21.7	49.1	(35.5)	40.0	-
Equity	A\$m	-	-	-	-	-
Dividend / Distribution	A\$m	(15.0)	(15.0)	(15.0)	(12.8)	(14.2)
<b>Net Increase / (Decrease) in Cash</b>	<b>A\$m</b>	<b>(5.0)</b>	<b>4.3</b>	<b>2.1</b>	<b>(7.9)</b>	<b>1.2</b>

Balance Sheet	Units	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Cash	A\$m	15.5	19.8	21.9	14.1	15.3
Receivables	A\$m	2.6	7.7	3.3	3.9	4.2
Investment Properties	A\$m	496.2	650.7	591.2	650.1	686.3
Intangibles	A\$m	-	-	-	-	-
Other	A\$m	4.4	16.8	5.0	5.0	5.0
<b>ASSETS</b>	<b>A\$m</b>	<b>518.8</b>	<b>695.0</b>	<b>621.4</b>	<b>673.0</b>	<b>710.8</b>
Creditors	A\$m	3.6	2.8	1.6	1.9	2.1
Borrowings	A\$m	209.0	258.9	223.7	263.7	263.7
Distribution Payable	A\$m	3.8	3.8	3.8	3.8	3.8
Other	A\$m	0.5	1.4	2.0	2.0	2.0
<b>LIABILITIES</b>	<b>A\$m</b>	<b>216.9</b>	<b>266.9</b>	<b>231.1</b>	<b>271.4</b>	<b>271.6</b>
<b>NET ASSETS</b>	<b>A\$m</b>	<b>302.0</b>	<b>428.1</b>	<b>390.3</b>	<b>401.7</b>	<b>439.3</b>

Liquidity & Leverage	Units	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Net Cash / (Debt)	A\$m	(193)	(239)	(202)	(250)	(248)
EBIT Interest Cover	x	4.9x	5.2x	2.6x	3.0x	2.7x
Gearing	%	39%	35%	34%	38%	36%
WACD	%	2.2%	3.0%			
Borrowing Capacity Available	A\$m	18.0	20.0			

## GARDA PROPERTY GROUP (GDF.AX)

Rating	OVERWEIGHT
Target Price	1.75
Upside / (Downside)	37.8%
Distribution Yield	5.7%
Total Return Forecast	43.5%

Per Share Data	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Stapled Securities Out (m, per ASX)	227.6	227.6	227.6	227.6	227.6
Stapled Securities Out (m, per accou)	208.6	208.6	208.8	208.8	208.8
Reported EPS (¢)	17.1¢	67.4¢	(21.3¢)	35.2¢	24.6¢
Adjusted EPS (¢)	7.1¢	8.3¢	5.5¢	7.0¢	7.3¢
Adjusted EPS Growth (%)	-5.3%	15.8%	-33.1%	27.6%	3.3%
FFO Per Share (¢)	7.75¢	7.98¢	6.09¢	7.61¢	7.84¢
Distribution Per Security (¢)	7.20¢	7.20¢	7.20¢	6.85¢	7.05¢
FFO Payout Ratio (%)	92.9%	90.2%	95.4%	90.0%	90.0%
Net Tangible Assets (A\$/security)	1.45	2.05	1.87	1.92	2.10
Change in NTA (A\$/security)	26.4¢	60.5¢	(18.3¢)	5.4¢	18.0¢

Valuation Metrics	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Distribution Yield (%)	5.7%	5.7%	5.7%	5.4%	5.6%
P/NTA	0.88x	0.62x	0.68x	0.66x	0.60x
Premium / (Discount) to NTA	-12.3%	-38.1%	-32.1%	-34.0%	-39.6%
P/E (x)	17.8x	15.4x	23.0x	18.0x	17.5x
EV / Sales	23.1x	20.2x	23.5x	19.5x	18.1x
EV / EBITDA	27.8x	24.1x	26.8x	23.0x	21.3x
EV / EBIT	28.1x	24.3x	27.1x	23.2x	21.5x

Operating Metrics (%)	Jun-21	Jun-22	Jun-23e	Jun-24e	Jun-25e
Sales Growth	4.5%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	82.9%	83.7%	87.6%	85.0%	85.0%
EBIT Margin	82.2%	83.0%	86.9%	84.3%	84.3%
Net Profit Margin	160.1%	551.6%	-203.7%	279.8%	181.0%
ROIC	11.8%	7.8%	7.0%	10.2%	8.8%
Return on Assets	6.9%	20.2%	-7.2%	10.9%	7.2%
Return on Equity	11.8%	32.8%	-11.4%	18.3%	11.7%
Effective Tax Rate	1.6%	-1.0%	0.2%	0.1%	0.1%

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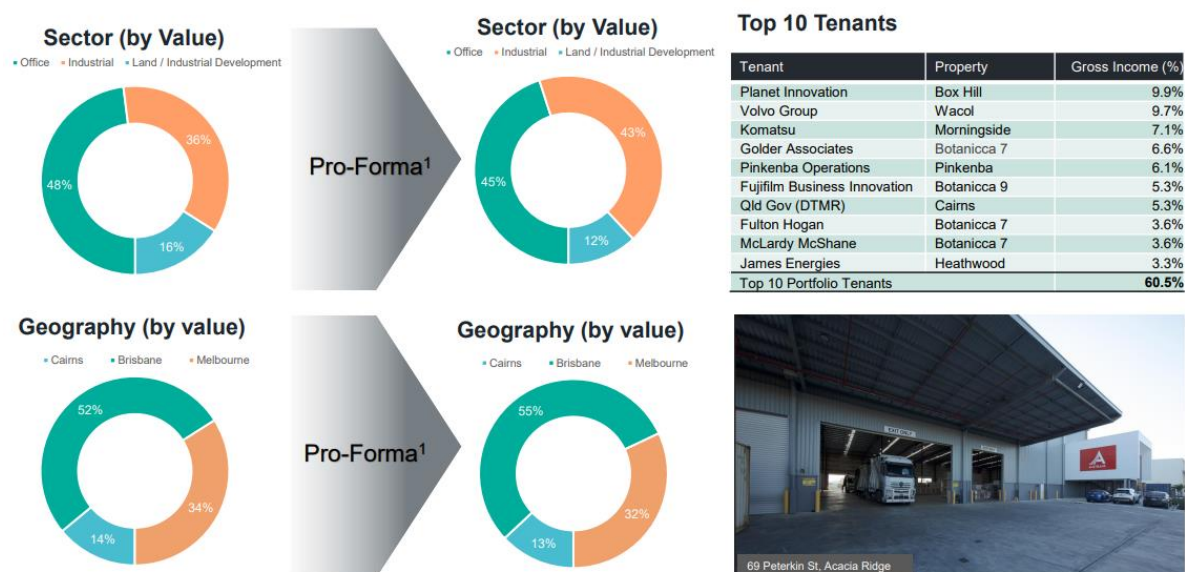
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## COMPANY DESCRIPTION

GARDA Property Group (ASX: GDF) (GARDA) is a real estate investor, developer and manager with investments along the eastern seaboard of Australia, from Cairns to Melbourne.

Figure 1: GDF Portfolio Overview



Source: Company Reports

## BOARD OF DIRECTORS

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### MATTHEW MADSEN

#### EXECUTIVE CHAIRMAN AND MANAGING DIRECTOR

Matthew has more than 25 years' experience in the funds management industry, predominantly in director and management roles. Matthew holds a Diploma in Financial Services, a Diploma in Financial Markets, is an affiliate member of the Securities Institute of Australia, and a member of the Australian Institute of Company Directors. Matthew was appointed to the Board in September 2011 and continues today as Executive Chairman.

### MARK HALLETT

#### EXECUTIVE DIRECTOR

Mark has in excess of 30 years' industry and legal experience. A qualified solicitor, he has considerable experience in corporate litigation, restructuring, and commercial property generally. Mark was principal and legal practice director of Hallett Legal and, following a merger in 2018, is now a consultant at Macpherson Kelley. Mark has managed successful property syndicates for business associates and continues to advise participants in the industry on property investment, legal and corporate restructuring. Mark was appointed to the Board in January 2011.

### PAUL LEITCH

#### INDEPENDENT DIRECTOR

Paul is an experienced senior executive, board member and advisor with public and private sector organisations. He is the past Chief Operating Officer for QIC, the Queensland based institutional fund manager. Most recently, he was Leader of the Brisbane Office of the Nous Group, Australia's largest privately-owned management consultancy firm. Paul has a special interest in family-owned and operated companies and is a director of Charles Porter and Sons and advisor to the Hewitt Group. He is also Chair of Pathways to Resilience, a Queensland charitable organisation. Paul holds a Bachelor of Arts (Music) and post graduate qualifications in education. He is a member of the Australian Institute of Company Directors and the Australian Human Resources Institute. Paul was appointed to the Board in March 2020.

### MORGAN PARKER

#### INDEPENDENT DIRECTOR

Morgan has 25 years' experience as a real estate investor, developer and banker. Morgan is currently a non-executive director at SunCentral, the government-owned company responsible for development of Maroochydore City Centre on Queensland's Sunshine Coast, and Newcastle Airport. He has previously worked for Morgan Stanley, Lendlease and Macquarie Group and his most recent executive role was as Chief Operating Officer at Dubai Holding. Morgan was appointed to the Board in December 2018.

**ANDREW THORNTON**  
NON-EXECUTIVE DIRECTOR

Andrew is Joint Managing Director and major shareholder of Great Western Corporation, a private group with interests in commercial and industrial property, general manufacturing, agricultural equipment and investments. He joined Great Western Corporation in 1995 gaining experience in accounting, finance, investment and management before becoming Joint Managing Director in 2010. Andrew previously served as Treasurer of both the Volvo Truck & Bus Dealer Council and the Daimler Truck Dealer Council. He is currently Company Secretary of HGT Investments Pty Ltd, GARDA Property Group's largest securityholder. Andrew holds a Bachelor of Business and is a member of the Australian Institute of Company Directors. Andrew was appointed to the Board in March 2020.

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