

August 5, 2024

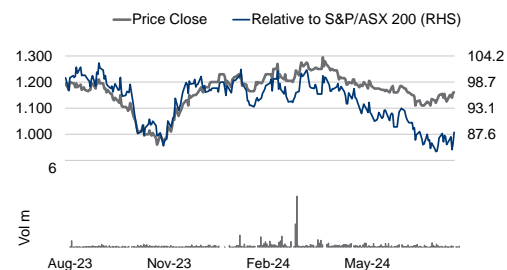
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Stock code:	GDF AU
Price:	A\$1.16
12-month target price:	A\$1.59
Previous target price:	A\$1.65
Up/downside to target price:	37.5%
Dividend yield:	5.6%
12-month TSR*:	43.1%
Market cap:	A\$253.2m
Average daily turnover:	A\$0.11m
Index inclusion:	ALL ORDINARIES

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	4.0	-2.5	-3.7	-13.4
Rel ASX/S&P200	1.1	-7.2	-11.7	-19.4



Source: IRESS

Financial summary

	Jun-24A	Jun-25F	Jun-26F	Jun-27F
Income (A\$m)	20.7	19.4	23.5	27.8
EBITDA (A\$m)	19.8	19.6	23.0	27.2
FFO (A\$m)	13.3	12.7	13.7	14.8
FFO per share (Acps)	6.4	6.4	6.8	7.4
FFO ps growth (%)	-12.1%	-1.5%	7.8%	7.6%
DPS (Acps)	6.3	7.2	6.6	7.1
Dividend Yield (%)	5.4%	6.2%	5.7%	6.1%
Payout Ratio (%)	98%	100%	97%	96%
Net Debt: Assets (%)	36%	42%	43%	43%
NTA (A\$)	1.71			

Source: Company data, Morgans estimates

Related research

[GDF \(ADD - TP A\\$1.65\) - 05 Jun 2024](#)
[Sector report - 05 Mar 2024](#)

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

– GARDA Property Group

GARDA Property Group

Building beyond FY25

- During FY24 GDF transitioned to an industrial focused portfolio following its exit from Melbourne office (+\$100m). Proceeds were applied to debt reduction and to provide BS capacity for the devt pipeline (27% of portfolio)/lending activities.
- FY25 DPS guidance of 6.3cps (flat on pcps) is in line with our forecasts with the payout ratio expected to be ~100%. GDF will also pay a special distribution from a \$2m land sale (0.9cps) over FY25 bringing total DPS to 7.2cps.
- We retain an Add rating with a revised price target of \$1.59.

FY24 result – key highlights

- FY24 FFO of \$13.3m/6.4c (vs \$14.9m/7.2c in the pcps). DPS 6.3c/97.5% payout ratio (vs 100.6% in the pcps). Earnings were underpinned by rental income however proceeds from property lending activities (4.6% of total assets/\$26.2m in deployed loans at Jun-24) also contributed. The buyback was also active over the period (4% of securities on issue/9.6m securities at an average price of \$1.21) and has been extended through to April 2025. NTA \$1.71 vs \$1.96 at June 2023 due to the impact from asset sales -20c and net revaluations including swaps -5c.

Portfolio overview

- Portfolio** valued at around \$500m (+80% industrial) with a WALE of 4.8 years; occupancy 94.4%; and WACR 6.06% (industrial 5.58% and Cairns office asset 7.75%). Industrial cap rates have expanded 68bps since Jun-23 however rental growth has helped offset. Pinnacle East, Wacol (land) has been sold and will settle in 1H25 (\$13.5m) with the devt/capital focus now on the larger North Lakes project.
- Revaluations** as at May-24 resulted in a \$3.7m decrease (0.75%) vs 1H24. Cairns (office) as well as two industrial assets (Richlands, Acacia Ridge) are expected to be revalued in Dec-24. North Lakes is expected to be valued in 1Q25 as it reaches practical completion for various civil works programs currently underway. As at Dec-23 North Lakes had a gross realisation value of \$116.8m (vs current assessed valuation of \$95.4m). During the period GDF existed all Melbourne office assets at a 21% discount to BV.
- Leasing** on the established portfolio in FY25 is focussed on the Cairns Corporate Tower (5 tenancies) and a vacancy at 69 Peterkin St, Acacia Ridge has prompted GDF to develop further NLA on the site and subsequently expects to lease the enlarged site with increased rent (\$7m spend FY25/~6.4% yield on cost).
- Development focus on North Lakes.** 38-36 Peterkin St, Acacia Ridge is due to complete in Dec-24 (leasing underway) and is expected to deliver \$3m pa in income when fully leased. North Lakes (construction likely to commence 2025 with DA still pending for 2 lots) is the major devt project (we assume some income contribution from 2H26).
- Contributions from Property lending to increase in FY25.** As at Jun-24 there was \$26.2m in deployed loans (\$16.5m due for repayment in 1H25). Property lending represented 12% of revenue in FY24 and estimated to grow to 18% in FY25. Targeted loan terms <12 months so capital able to be redeployed if needed.
- Capital management.** Gearing is 36.5%; hedging at 69%. During the period the facility limit was reduced \$20m to \$270m (currently drawn to \$217m). The weighted average debt expiry is 2.7 years and forecast cost of debt is 4.8% in FY25 (vs ~4.7% in FY24). ICR 2x however we note GDF has renegotiated ICR covenants with lenders while the development projects complete (ICR covenant = 1.5x).

Minor changes to forecasts

- Post result our NAV moves to \$1.59 from \$1.65.

Investment view

- GDF provides exposure to Brisbane industrial and one office asset in Cairns with the portfolio valued at +\$500m. +80% of the portfolio is weighted to industrial and this will increase as developments complete. New income from industrial developments will replace loss of income from asset sales, however FY25 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 development). Our NAV is \$1.59. Add.

Risks

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

GARDA Property Group

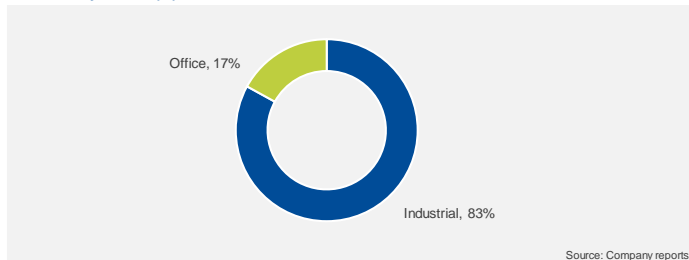
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as at August 5, 2024

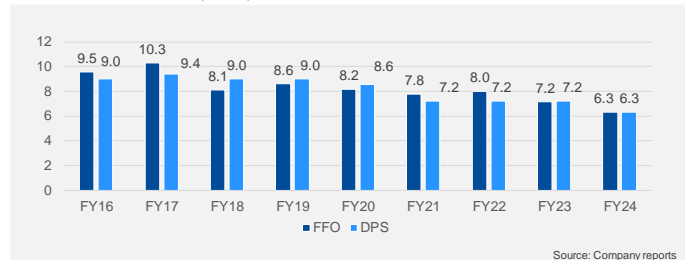
Price (A\$):	1.16	12-month target price (A\$):	1.59
Market cap (A\$m):	253.2	Up/downside to target price (%):	37.5
Free float (%):	86.0	Dividend yield (%):	5.6
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	43.1

GARDA Property (GDF) is a REIT focussed on industrial and commercial property however post asset sales undertaken over the past 12 months, the portfolio is now mainly focussed on SE QLD industrial assets with one commercial asset in Cairns. The portfolio is valued at around \$500m (+ an active 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.

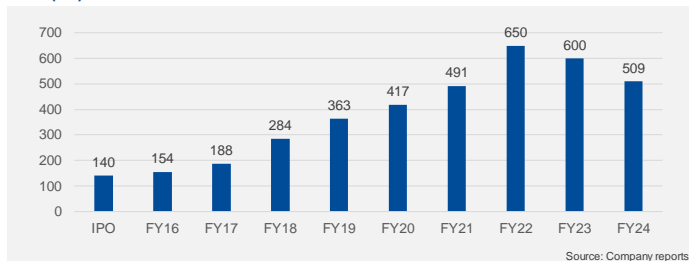
Portfolio by sector (%) - FY24



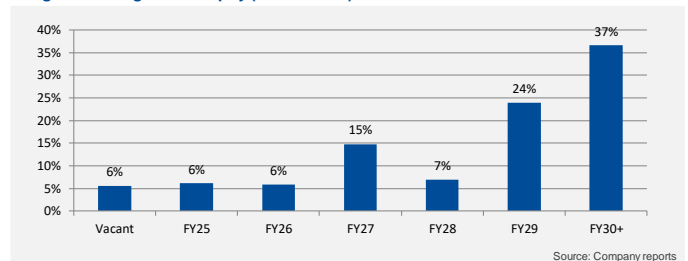
Historical FFO and DPS (cents)



AUM (\$m)



Weighted average lease expiry (% of income) - FY24



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 around 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 \$1.71 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 there will be impacts to near term earnings.

Payout ratio high but reducing

While, GDF's payout ratio fell from +100% to 97.5% in FY24 it will remain elevated while the development pipeline completes and it absorbs impacts from recent asset sales.

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



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

Figure 1: Financial summary

Profit and loss											
	Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E						
Net rental income	23.4	20.7	19.4	23.5	27.8	Share price	\$1.16	Market Cap		A\$252.5m	
Other revenue	2.9	4.3	5.5	5.0	5.0	Price target	\$1.59				
Operating Costs	-5.1	-5.2	-5.4	-5.5	-5.6	TSR	42.9%				
EBITDA	21.2	19.8	19.6	23.0	27.2						
Depreciation	0.0	0.0	0.0	0.0	0.0	Valuation					
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0						
EBIT	21.2	19.8	19.6	23.0	27.2	NAV	\$1.59				
Net Interest Income/Expense	-6.3	-6.5	-6.8	-9.3	-12.5						
Pre-tax Profit	14.9	13.3	12.7	13.7	14.8						
Tax	0.0	0.0	0.0	0.0	0.0	Price target	\$1.59				
NPAT	-4.9	-42.9	12.7	13.7	14.8						
Other items	-19.9	-56.2	0.0	0.0	0.0						
FFO	14.9	13.3	12.7	13.7	14.8						
Cash flow statement						Key metrics					
	Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E		Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E
EBITDA	21.2	19.8	19.6	23.0	27.2	P/E	16.2	18.0	18.3	16.9	15.7
Net interest	-8.6	-9.9	-6.8	-9.3	-12.5	Yield	6.2%	5.4%	6.2%	5.7%	6.1%
Tax	0.0	0.0	0.0	0.0	0.0						
Changes in working capital	-0.8	-3.3	-0.1	0.4	0.4	PEG	-1.6	-1.8	-12.2	2.2	2.1
Operating cash flow	11.8	6.6	12.6	14.1	15.2	EV/EBITDA	22.3	22.9	25.7	22.9	19.4
Capex	0.0	0.0	0.0	0.0	0.0						
Free Cash Flow	11.8	6.6	12.6	14.1	15.2	Price/NTA					
Acquisitions and divestments	36.8	51.3	-49.5	-25.0	0.0	Op. cash flow yield	4.7%	2.6%	5.0%	5.6%	6.0%
Other Investing cash flow	-4.6	-20.8	0.0	0.0	0.0	Free cash flow yield	4.7%	2.6%	5.0%	5.6%	6.0%
Investing cash flows	0.0	0.0	0.0	0.0	0.0						
Increase / decrease in Equity	-0.5	-11.6	0.0	0.0	0.0	Per share data	Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E
Increase / decrease in Debt	-34.8	-8.0	40.0	25.0	0.0	Securities on issue	227.2	217.7	217.7	217.7	217.7
Dividends paid	-15.0	-13.5	-14.5	-13.3	-14.2	Weighted securities	208.4	206.0	200.3	200.3	200.3
Other financing cash flows	-0.3	-0.2	0.0	0.0	0.0	Dist. EPS (A\$)	0.072	0.064	0.064	0.068	0.074
Financing cash flows	-50.7	-33.2	25.5	11.7	-14.2	DPS (A\$)	0.072	0.063	0.063	0.066	0.071
						Payout ratio	100%	98%	100%	97%	96%
						NTA (A\$)	1.96	1.71			
Balance Sheet						Result quality					
	Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E		Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E
Assets						Cash flow conversion	96.1%	83.2%	99.4%	101.6%	101.5%
Cash And Deposits	13.2	17.0	5.6	6.4	7.4	FCF vs. NPAT	79.3%	49.3%	99.1%	102.8%	102.7%
Debtors	12.3	0.2	0.1	0.2	0.2						
Inventory	0.0	0.0	0.0	0.0	0.0	Gearing					
Other current assets	1.2	27.8	27.8	27.8	27.8		Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E
Total Current Assets	26.6	45.0	33.6	34.4	35.5	Net Debt	211	200	251	275	274
Fixed Assets	0.0	0.0	0.0	0.0	0.0	Net Debt / net Assets	34%	36%	42%	43%	43%
Investments	600.5	508.7	558.2	593.2	603.2	EBIT interest cover (x)	2.2	2.0	1.8	1.7	1.9
Goodwill	0.0	0.0	0.0	0.0	0.0	Invested Capital	619	539	592	627	636
Intangibles	0.0	0.0	0.0	0.0	0.0	Enterprise Value	475	452	503	528	527
Other non-current assets	15.8	11.9	11.9	11.9	11.9						
Total Non-Current Assets	616.4	520.6	570.1	605.1	615.1	Growth ratios					
TOTAL ASSETS	643.0	565.6	603.7	639.5	650.6		Jun-23A	Jun-24A	Jun-25E	Jun-26E	Jun-27E
Liabilities						Revenue	-5.7%	-11.7%	-6.1%	20.8%	18.4%
Short Term Debt	0.0	0.0	0.0	0.0	0.0	Operating costs	-7.2%	2.2%	2.0%	2.0%	2.0%
Creditors	4.4	2.1	2.0	2.4	2.8	EBITDA	2.5%	-7.0%	-1.0%	17.6%	18.3%
Other current liabilities	5.0	3.7	3.7	3.7	3.7	EBIT	2.5%	-7.0%	-1.0%	17.6%	18.3%
Total Current Liabilities	9.5	5.8	5.7	6.1	6.5	NPAT	-10.3%	-11.1%	-4.2%	7.8%	7.6%
Long Term Debt	224.3	216.6	256.6	281.6	281.6	EPS growth	-10.3%	-10.0%	-1.5%	7.8%	7.6%
Other Debt	0.0	0.0	0.0	0.0	0.0	DPS growth	0.0%	-12.5%	0.4%	5.0%	6.5%
Other Non-Current liabilities	0.9	0.6	0.6	0.6	0.6						
Total Non-Current liabilities	225.2	217.3	257.3	282.3	282.3	Portfolio					
TOTAL LIABILITIES	234.6	223.0	262.9	288.3	288.8		Jun-24	Jun-23	Jun-22	Dec-21	Jun-21
Equity						Value (A\$m)	509.0	599.3	650.7	558.9	496.0
Issued capital	354.5	342.9	342.9	342.9	342.9	Occupancy	94%	91%	91%	94%	91%
Retained earnings	51.3	-4.5	-6.3	4.1	14.7	WALE (years)	4.8	4.9	5.7	5.6	5.5
Other reserves and FX	2.5	4.2	4.2	4.2	4.2	WACR	6.06%	5.60%	5.05%	5.27%	5.78%
TOTAL EQUITY	408.4	342.6	340.8	351.2	361.8						

Source: Morgans estimates, company data



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