

GARDA Property Group

Real Estate Office REITs
6 February 2025

BUY

Next 12 months looks transformational for the balance sheet and earnings

EVENT

Results: GDF reported 1H25 FFO and DPU of 3.65c and 3.15c respectively, both in line with MA estimates. In addition to the 6.3c FY25 DPU guidance that was reaffirmed, GDF intends to pay a 0.9c fully franked special dividend following the sale of a \$2m non-core parcel of land (as announced at the FY24 result) - this will be paid in equal installments throughout the year.

North Lakes: The key focus for GDF remains completing the required earth works (\$8.6m cost to complete at Dec'24) at North Lakes prior to settlement, planned for early FY26. GDF announced the sale of this asset in Oct'24 for \$114m, with one of the conditions requiring GDF to complete all remaining civil, intersection and road works (expected cost at that time was \$11.2m). FIRB approval has been received.

Acacia Ridge: 38-56 Peterkin Street reached practical completion in Dec'24. This facility is a 14,777sqm industrial shed, that can be let in two parts. Expected rents are \$200/sqm, delivering an incremental \$3.0m net income when fully let. Tenant marketing is underway, with discussions progressing with several opportunities. Our FY25 estimates do not include any income from this asset.

69 Peterkin Street (6,214sqm) is currently vacant following a tenant departure in CY24. A DA is in place for a 3,000sqm expansion. Positive rent reversion is expected upon a deal across either the existing and/or the potential expansion space, compared to prior passing rent of \$135/sqm.

Asset valuations: 3 of 11 assets were independently valued in Dec'24, resulting in a \$10.7m decrease in book values. Cairns and Richlands saw cap rates expand, 62bps and 75bps respectively.

Balance sheet and capital management: Gearing at Dec'24 was ~40%, however post settlement of North Lakes, gearing falls to ~25% (pre a likely special distribution). Forecast WACD for FY25 (all in) is ~4.7%.

Asset sale: GDF has put the Cairns office building on the market. Last book value \$79.4m, with an 8.37% cap rate. A sale of this asset would see gearing fall ~10-15% (depending on price relative to book), with GDF becoming a pure-play industrial REIT, with a small private credit offering.

Outlook: DPU guidance for FY26 has been reaffirmed. Earnings guidance was marginally increased from 6.3c to 6.6c.

IMPACT

Negligible changes to EPU, with an increased contribution from private credit offset by deferral of income contribution from both of the Acacia Ridge properties (income estimated to commence 1H26). We maintain our Buy rating, our target price moves to \$1.57 (prev. \$1.66).

INVESTMENT VIEW

The divestment of North Lakes was a strategic decision, that will realise positive outcomes for unit holders. Likewise with Cairns, though this asset produces strong cashflow, it is a large exposure for GDF, in a regional market. A successful sale would see GDF with ~10-15% gearing, a pure-play industrial portfolio, and sufficient capital to pursue attractive opportunities / developments.

Y/E JUN 30	2024a	2025e	2026e	2027e
NPAT	13.3	13.4	19.4	20.3
EPS (Diluted) (¢)	6.4	6.7	9.7	10.1
P/E	17.4x	16.7x	11.6x	11.0x
EPS Growth	(10.0)%	4.0%	44.4%	4.8%
DPS (¢)	6.3	7.2	7.5	8.0
Yield	5.6%	6.4%	6.7%	7.1%
DPS growth	(12.5)%	14.3%	4.2%	6.7%
Net Tangible Assets (\$/share)	1.71	1.62	1.70	1.78
Prem / (Disc) to NTA	(34.5)%	(30.7)%	(34.1)%	(36.9)%
Gearing	38.3%	42.3%	27.9%	27.0%

All figures are in AUD.

COMPANY UPDATE

Ticker	GDF
Stock Price	\$1.12
Target Price	\$1.57
Forecast Capital Return	40.2%
Forecast Dividend Yield	6.4%
Estimated Total Return - 12Mth	46.6%

COMPANY MARKET DATA

Market Cap	\$224.6m
Free Float (%)	86.0%
Enterprise Value	\$445.3m
Shares on issue	200.5m
52-wk Range	\$1.06 - \$1.30

ESTIMATE CHANGES 2024a 2025e 2026e 2027e

NPAT - new	13.3	13.4	19.4	20.3
NPAT - old	13.3	13.6	19.4	20.4
% Change	0.0%	(1.2)%	0.2%	(0.1)%
EPS (Dil.) (¢) - new	6.4	6.7	9.7	10.1
EPS (Dil.) (¢) - old	6.4	6.8	9.7	10.2
% Change	0.0%	(1.3)%	0.1%	(0.2)%
DPS (¢) - new	6.3	7.2	7.5	8.0
DPS (¢) - old	6.3	7.2	7.5	8.0
% Change	0.0%	0.0%	0.0%	0.0%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



ANALYST

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EPS GROWTH INTO FY26 DRIVEN BY DEBT REDUCTION (PROCEEDS FROM NORTH LAKES SALE) AND GROWTH IN CREDIT BOOK

GDF is well positioned for strong (~42%) EPS growth into FY26 given:

1) Growth in the credit business (estimated to contribute \$6.4m revenue in FY25).

With \$27.5m deployed at Dec'24, GDF generated \$3.6m in revenue during the half, with an FY25 forecast of \$6.4m, equating to an average return on capital of 22%, which includes line and establishment fees. Lending revenue is expected to increase to ~21% of group revenue in FY25, up from 9% in FY23.

The loans vary across the risk spectrum (senior to mezz), and predominantly relate to construction funding. Targeted loans are typically <12 months duration.

2) A material reduction in debt and interest expense upon settlement of North Lakes; and

Upon settlement of North Lakes, a \$57m gain will be crystallised, having acquired the land for \$20m in Jun'21, with planned divestment for \$114m early FY26. Proceeds will be used to reduce gearing, resulting in significant accretion to earnings, given the site was non-income producing. GDF will likely pay a special distribution to cover associated unit holder tax liabilities.

3) Anticipated income commencement from both Acacia Ridge assets in 1H26.

Figure 1 - Estimated income from GDF's Acacia Ridge assets (to commence in FY26)

Earnings from Acacia Ridge to commence FY26	Expected completion	Estimated Rent (\$/sqm)	NLA	Total income (\$m)	Potential Cap Rate	Theoretical valuation
38-56 Peterkin St, Acacia Ridge	Dec-24	200	14,777	3.0	5.8%	51.4
69 Peterkin St, Acacia Ridge - 'as is'		200	6,214	1.2	6.0%	20.7
69 Peterkin St, Acacia Ridge - extension (not committed as yet)	tbc	200	3,000	0.6	6.0%	10.0
Total (excl. extension)				4.2		

Source: GDF, MAest

OUTLOOK & VALUATION

With gearing expected to be ~25% upon settlement of North Lakes, GDF is well positioned to pursue both opportunistic developments / acquisitions, as well as moderately increase its exposure to credit. No doubt this will be opportunity lead, though we don't expect credit exposure to increase materially from the current \$27m exposure.

In the event Cairns is successfully divested, GDF's focus will likely be on redeploying capital into industrial opportunities. Post settlement of either/both of these assets, its likely GDF will clarify their strategy with regards to pursuing asset acquisitions vs increasing credit exposure.

GDF has guided to an FY25 DPU of 6.3c, with FFO guidance upgraded to reflect a 95% payout ratio (previously 100%). equating to 6.6c (previously 6.3c).

In addition to the core 6.3c DPU, GDF has elected to pay a fully franked special distribution of 0.9c (\$1.8m in total) following the sale of a non-core land parcel in Townsville, that was held with the corporate entity (stapled to the trust). The special dividend will be paid in four equal installments through FY25.

As a result, total dividend / distribution income in FY25 will amount to 7.2c, reflecting an income yield of 6.4%.

Importantly, as GDF completes both developments at Acacia Ridge, the incremental income should effectively mean GDF can sustain the 7.2c distribution in FY26.

GDF trades at a ~31% discount to NTA, which in the context of what will unfold in the coming 6 months is too wide in our view.

Key catalysts remain: 1) Settlement of North Lakes (early FY26); 2) Leasing both Acacia Ridge assets (2H25); and 3) Successful outcome with divestment of Cairns (1H26); and 4) maintaining credit earnings to maximise returns on capital (FY25/26).

GARDA Property Group (GDF) Market Cap: \$224.6m Stock Price: \$1.12 Target Price: \$1.57 Buy

Y/E JUN 30

KEY STOCK DATA (\$)	2023A	2024A	2025E	2026E	2027E
EPS (adj.)(¢)	7.2	6.4	6.7	9.7	10.1
EPS Yield	12.1%	10.8%	11.7%	14.6%	15.4%
EPS Reported (Basic)	(2.4)	(20.8)	(2.0)	15.6	15.5
DPS	7.2	6.3	7.2	7.5	8.0
DPS Yield	6.4%	5.6%	6.4%	6.7%	7.1%
NTA/Share	1.96	1.71	1.62	1.70	1.78
Prem / (Disc) to NTA	(42.8)%	(34.5)%	(30.7)%	(34.1)%	(36.9)%
Gearing (Debt/Property) (%)	34.9%	38.3%	42.3%	27.9%	27.0%
Interest Cover (x)	2.2x	1.9x	1.9x	4.1x	5.4x
Forecast Dividend Yield					6.4%
Estimated Total Return - 12 Mth					46.6%
Target Price					\$1.57

BALANCE SHEET (\$)	2023A	2024A	2025E	2026E	2027E
Cash	13.2	17.0	12.1	14.4	14.3
Investments	488.8	495.4	416.4	322.8	339.3
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	141.0	53.2	144.7	144.5	144.4
Total Assets	643.0	565.6	573.2	481.8	498.0
Current Creditors	5.7	2.6	2.6	2.6	2.6
Debt	224.3	216.6	242.2	134.3	134.7
Provisions	3.8	3.2	3.6	3.8	4.0
Other	2.2	1.2	1.5	1.5	1.5
Total Liabilities	234.6	223.0	249.1	141.2	141.9
Net Assets	408.4	342.6	324.1	340.6	356.1
Equity & Reserves	357.1	347.1	347.3	347.3	347.3
Retained Profit	51.3	(4.5)	(23.1)	(6.7)	8.9
Shareholders' Equity	408.4	342.6	324.1	340.6	356.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Equity	408.4	342.6	324.1	340.6	356.2

SUM OF THE PARTS VALUATION

Current Trust Properties					408.1
Stated Cap Rate			6.11%		
Moelis Cap Rate			6.39%		
Market Val Incr/(Decr)				(12.0)	
Currency Adjustment					0.0
Mark-to-Mkt Trust Val					396.0
Equity Acc. Investments					0.0
Trust EV					396.0
Prop & Funds Mgmt	6.0		3.0x		18.0
Development Earnings	0.0		0.0x		0.0
Trust Expenses	(5.4)		6.0x		(32.4)
Manager Fee	0.0		0.0x		0.0
Corporation EV	0.6		(24.3)x		(14.4)
add other assets / liabs					137.9
add back deferred tax					0.0
less intangibles					0.0
less minorities					0.0
less Group Net Debt				(220.7)	
Group Equity Val					298.8
Group Val/Shr					\$1.49

PROFIT & LOSS (\$)	2023A	2024A	2025E	2026E	2027E
Net Property Income	24.6	20.7	18.6	23.9	25.1
Other Operating Income	0.4	4.3	6.9	7.2	5.5
Equity Accounted Profit	0.0	0.0	0.0	0.0	0.0
Other	(3.5)	(4.6)	(4.9)	(5.6)	(5.8)
EBITDA	21.5	20.4	20.6	25.4	24.7
Depreciation & Amortisation	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	21.4	20.3	20.4	25.2	24.6
Net Interest Income/(Expense)	(6.3)	(7.1)	(6.8)	(5.8)	(4.2)
Pre-tax profit	15.1	13.1	13.6	19.4	20.3
Tax	(0.1)	0.1	(0.2)	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	14.9	13.3	13.4	19.4	20.3
Revaluations	(6.5)	(39.3)	(13.9)	11.8	10.8
Profit/(Loss) on Assets	(11.7)	(11.2)	0.0	0.0	0.0
IFRS Adjustments	(0.1)	(5.0)	(3.1)	0.0	0.0
Amort of incentives	0	0	0	0	0
Straight-line rents	(1.6)	(0.7)	(0.5)	0.0	0.0
NPAT (Reported)	(4.9)	(42.9)	(4.1)	31.2	31.1

CASHFLOW (\$)	2023A	2024A	2025E	2026E	2027E
Net Property Income	24.6	20.7	18.6	23.9	25.1
Interest Received	(2.9)	9.7	(0.4)	0.0	0.0
Interest Paid	(9.0)	(10.5)	(10.1)	(6.1)	(4.6)
Other	(1.3)	(14.0)	(1.4)	1.5	(0.4)
Operating Cash Flow	11.5	6.0	6.6	19.2	20.1
Capex	0.0	0.0	(38.2)	(0.7)	(5.7)
Acquisitions	(39.1)	(54.8)	0.0	0.0	0.0
Divestments	75.8	106.1	13.5	106.0	0.0
Other investing cashflow	(4.6)	(20.8)	1.3	0.0	0.0
Investing Cash Flow	32.2	30.5	(23.4)	105.3	(5.7)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(15.0)	(13.5)	(14.0)	(14.6)	(15.3)
Net Borrowings	(34.8)	(8.0)	25.5	(108.0)	0.4
Other financing cashflow	(0.8)	(11.7)	(0.1)	0.0	0.0
Financing Cash Flow	(50.7)	(33.2)	11.3	(122.6)	(14.9)
Exchange Rate Adj	0.0	0.0	0.0	0.0	0.0
Net incr/(decr) in cash	(7.0)	3.3	(5.4)	2.0	(0.5)

DISCOUNTED CASHFLOW VALUATION

Bond rate	4.25%
Equity Risk Premium	6.00%
Beta	0.73
WACC	8.60%
DCF Terminal Growth	3.00%
Perpetuity %	74.57%

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1.06%	27.66%	71.28%

GARDA Property Group Rating History as of 02-05-2025



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