

# GARDA Property Group

## Keeping industrious

**HOLD** (no change)

Current price:	A\$1.35
Target price:	A\$1.37
Previous target:	A\$1.42
Up/downside:	1.5%
Reuters:	GDF.AX
Bloomberg:	GDF AU
Market cap:	US\$201m
	A\$307m
Average daily turnover:	US\$0.00m
	A\$0.00m
Current shares o/s	227.6m
Free float:	86.0%

- GDF's result was in line with expectations with FY20 DPS guidance of 9cps reaffirmed (implied distribution yield of 6.6%). We also note GDF internalised during the half.
- Near term the focus is on leasing Botanicca 9 (14% of current income) and the roll out of the project pipeline which is focused on Brisbane industrial.
- Post balance date, GDF has also successfully refinanced its debt facilities.
- The portfolio is currently valued at A\$405m across 17 office and industrial assets (WACR 6.6%; WALE 5.6 years) and is expected to increase as current projects are completed over the next 12-18 months.
- We retain a Hold rating with a revised price target of A\$1.37.

### 1H20 result overview

GDF reported funds from operations of A\$7.7m (vs A\$6.5m in the pcp) or FFO per unit of 4.35c (vs 4.40c in the pcp). A half year distribution of 4.5c (vs 4.5c in the pcp) was paid in line with FY guidance. During the 1H, GDF completed a placement which raised A\$25m (20m units at A\$1.25) with proceeds used to pay down debt. NTA is A\$1.19. Current gearing is 36% and post balance date management finalised the refinancing of its debt facilities with St George and ANZ. The new debt structure is a A\$200m syndicated facility that also increases capacity by A\$19.3m (equating to undrawn funds of c\$32m). The tenor is three years and all in debt costs of approx. 3%.

### FY20 DPS guidance unchanged

FY20 DPS guidance remains 9cps (note the payout ratio will be around 110% while the project pipeline rolls out). We adjust to our forecasts to take into account the delay in leasing up Botanicca 9 (some income was forecast to flow through in FY20). As a result, DPS remains unchanged at 9cps, however FY20 FFO moves from 8.6 to around 8.2c.

### Project pipeline

GDF offers exposure to 17 east coast office/industrial properties currently valued at A\$405m (WALE 5.6 years; WACR 6.60% down from 6.78% at June and occupancy 83%/97% ex Botanicca 9). Following completion of existing projects: Berrinba, Wacol Building C and Acacia Ridge (stage 1) the portfolio is expected to be valued at around A\$434m. The key near term focus is on leasing Botanicca 9 with no further update with the result (represents 14% of income/cA\$4m net income pa). FY20/21 lease expiries on the balance of the portfolio stand at 4%/4% respectively, however 2% in FY21 relates to Acacia Ridge which is a development asset. During the 1H, GDF also acquired a A\$41m industrial site at 326 & 340 Thynne Rd, Morningside in Brisbane (cap rate 5.75%; occupancy 100% with the WALE increasing to 5 years from 3.35 years since acquisition).

### Retain Hold rating

GDF offers exposure to 17 east coast office/industrial properties currently valued at A\$405m which is set to grow post the completion of several industrial projects over the next 18 months. Post result, our blended DCF/NAV (6.5% cap rate) valuation moves to A\$1.37 from A\$1.42. We retain our Hold rating with a key near-term catalyst/risks relating to leasing outcomes at Botanicca 9 and execution of the project pipeline.



Price performance	1M	3M	12M
Absolute (%)	-4.6	-3.6	-2.7
Relative (%)	-1.5	-3.8	-14.8

#### Fiona BUCHANAN

T (61) 7 3334 4879

E fiona.buchanan@morgans.com.au

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

– GARDA Property Group

#### Key metrics

	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
Revenue (A\$m)	15.4	20.4	22.3	27.3	30.0
EBITDA (A\$m)	12.7	16.0	18.7	23.7	26.0
EBIT (A\$m)	12.7	16.0	18.7	23.7	26.0
Distributable earnings (A\$m)	11.2	13.2	14.3	17.9	19.7
Distributable EPS (cps)	8.1	8.6	8.2	8.7	9.5
EPS growth (%)	-21.3%	6.5%	-5.4%	6.3%	9.1%
Normalised P/E (X)	16.7	15.7	16.6	15.6	14.3
DPS (A\$)	9.0	9.0	9.0	9.3	9.5
Yield	6.7%	6.7%	6.6%	6.9%	7.0%
Payout ratio	111%	104%	110%	107%	100%
Gearing (ND/A)	36%	32%	41%	44%	46%
NTA (A\$)	1.29	1.37	1.19		

SOURCE: MORGANS, COMPANY REPORTS

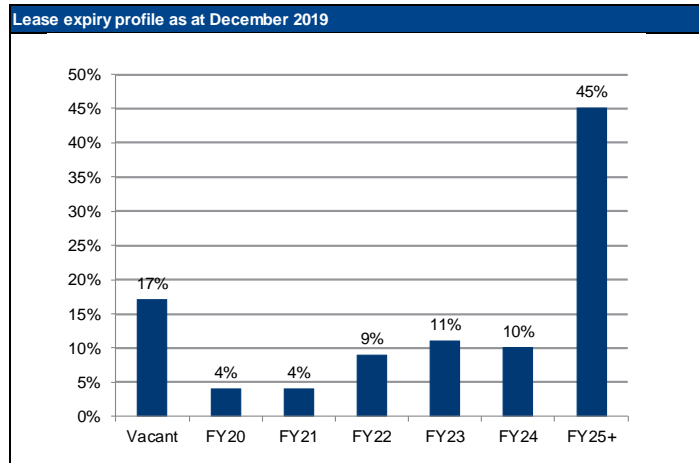
### GARDA Property Group

as at February 28, 2020

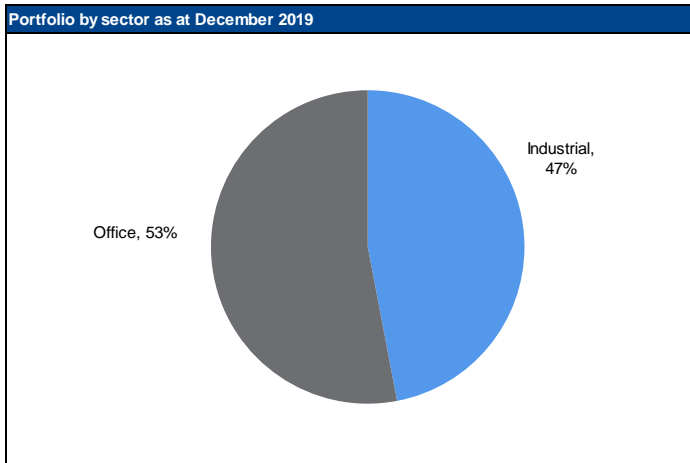
Market cap (A\$m):	307	Rating:	HOLD
Shares outstanding (m):	227.6	Price (A\$):	1.35
Free float (%):	86.0	Target price (A\$):	1.37
Website:	www.gardacapital.com.au	Upside/downside to target price (%):	1.5

#### Company description

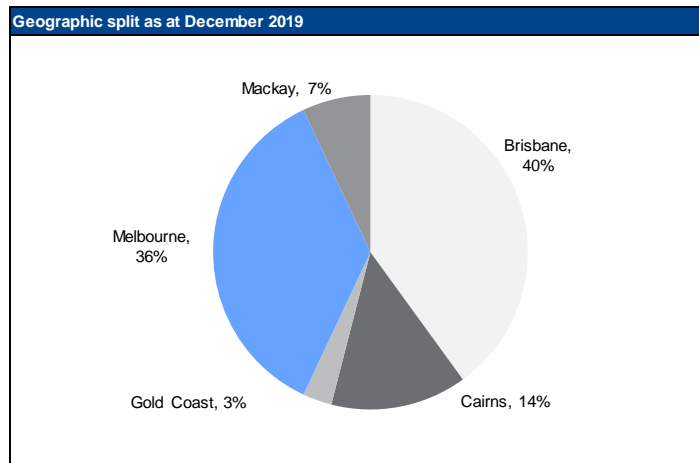
GARDA Diversified Property Fund (GDF) is a REIT focussed on industrial and commercial property. It has a portfolio valued at around \$405m (17 properties) spread across the East Coast of Australia. The assets are focussed on the industrial and office sectors. GDF's objective is to provide sustainable and growing distributable income derived from investments. It also aims to maintain gearing within a range of 30-35%. GDF is internally managed.



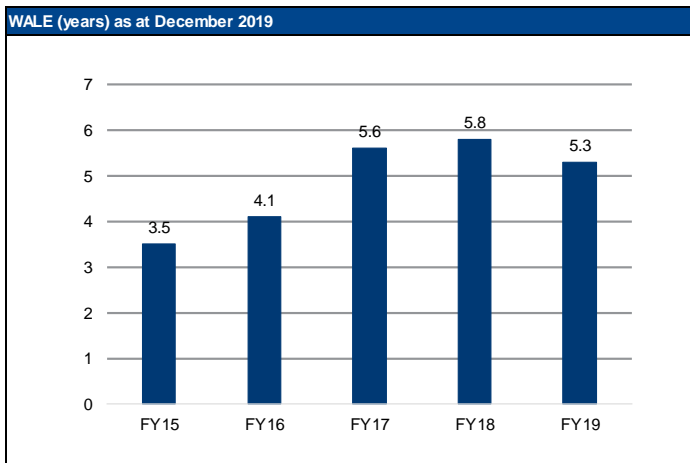
SOURCE: COMPANY REPORTS



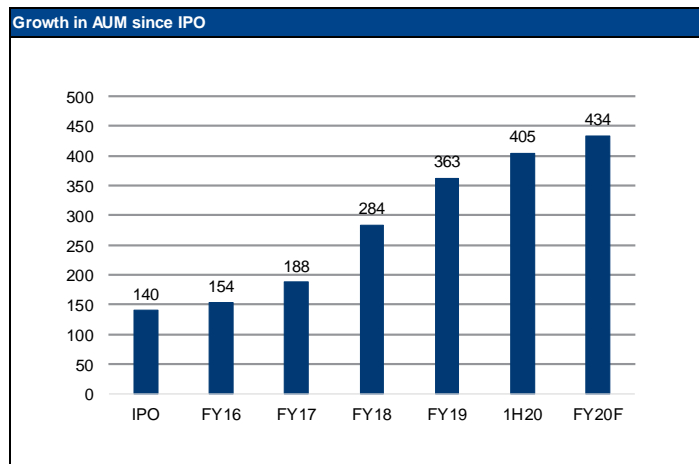
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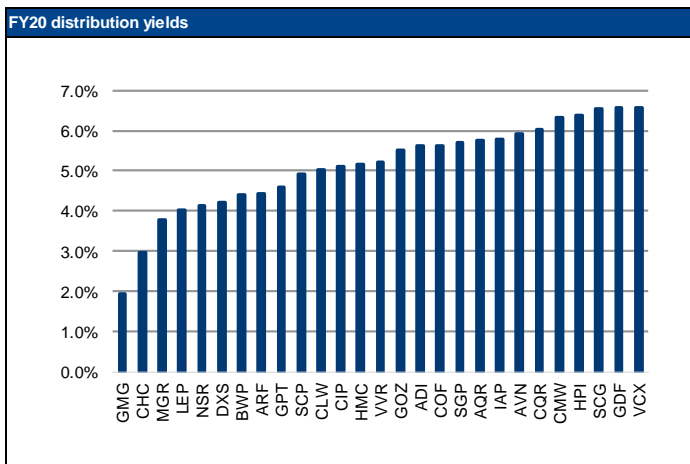
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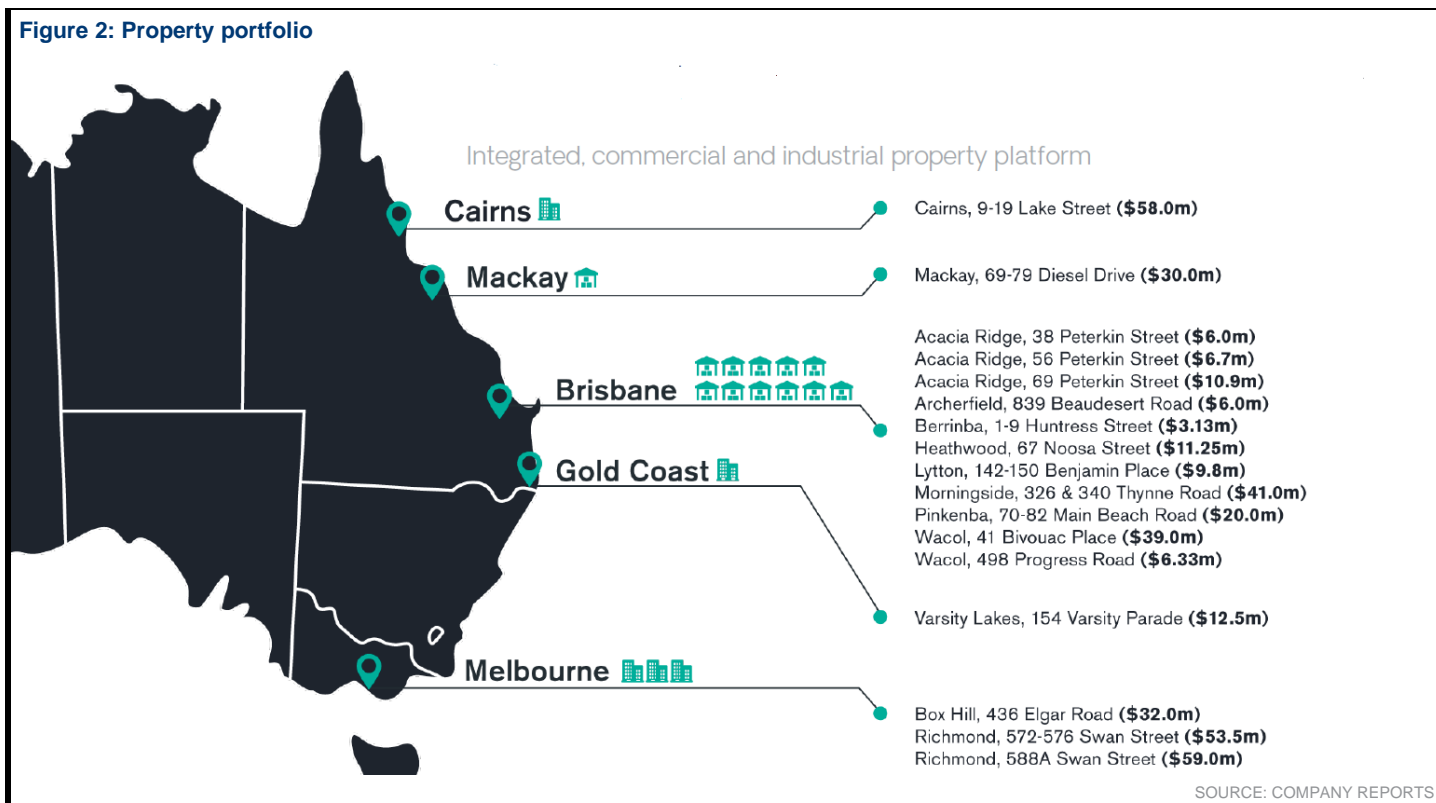
SOURCE: FACTSET, MORGANS

Figure 1: Financial summary

Profit and loss											
	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E						
Revenue	15.4	20.4	22.3	27.3	30.0	Share price	\$1.35	Market Cap A\$213.9m			
Other revenue	0.0	0.0	0.7	0.7	0.7	Price target	\$1.37				
Total Operating Costs	-2.7	-4.4	-4.3	-4.3	-4.7	TSR	8.4%				
EBITDA	12.7	16.0	18.7	23.7	26.0						
Depreciation	0.0	0.0	0.0	0.0	0.0	Valuation	DCF inputs:				
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0	DCF valuation	\$1.52	WACC	8.3%		
EBIT	12.7	16.0	18.7	23.7	26.0	NAV (6.5% cap rate)	\$1.03	RFR	3.3%		
Net Interest Income	-1.5	-2.8	-4.4	-5.8	-6.3	Valuation (50/50)	\$1.37	MRP	6%		
Pre-tax Profit	11.2	13.2	14.3	17.9	19.7	Price target	\$1.37	Ba	0.8		
Tax	0.0	0.0	0.0	0.0	0.0						
NPAT	24.2	28.8	13.6	17.9	19.7	Implied yield	6.5%				
Other items	13.0	15.6	-0.7	0.0	0.0						
Distributable earnings	11.2	13.2	14.3	17.9	19.7						
Cash flow statement						Key metrics/ multiples					
	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E		Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
EBITDA	12.7	16.0	18.7	23.7	26.0	P/E	16.7	15.7	16.6	15.6	14.3
Net interest	-1.2	-4.0	-4.4	-5.8	-6.3	Yield	6.7%	6.7%	6.6%	6.9%	7.0%
Tax	5.3	4.0	0.0	0.0	0.0	PEG		2.4	-3.0	2.5	2.3
Changes in working capital	-5.6	-3.4	0.0	0.6	0.3	EV/EBITDA	22.7	20.1	26.0	21.5	19.6
Operating cash flow	11.2	20.6	14.3	18.6	20.0	Price/NTA	1.05	0.99	1.22	1.23	1.24
Capex	-5.1	-8.6	-5.0	-1.0	-1.0	Operating cash flow yield	5.2%	9.6%	6.7%	8.7%	9.4%
Free Cash Flow	6.1	12.0	9.3	17.6	19.0	Free cash flow yield	2.8%	5.6%	4.4%	8.2%	8.9%
Acquisitions and divestments	-76.0	-29.5	-93.5	-22.0	-8.5						
Other Investing cash flow	-0.8	-0.6	0.0	0.0	0.0	Per share data					
Investing cash flows	-5.1	-8.6	-5.0	-1.0	-1.0		Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
Increase / decrease in Equity	30.0	25.0	31.5	0.0	0.0	Shares on issue	138.4	158.4	227.7	227.7	227.7
Increase / decrease in Debt	45.8	22.8	51.6	25.0	10.0	Distributable EPS (A\$)	0.081	0.086	0.082	0.087	0.095
Dividends paid	-10.8	-13.4	-20.4	-21.1	-21.5	DPS (A\$)	0.090	0.090	0.090	0.093	0.095
Other financing cash flows	-1.2	-0.8	-1.0	0.0	0.0	Payout ratio	111%	104%	110%	107%	100%
Financing cash flows	63.8	33.7	61.7	3.9	-11.5	NTA (A\$)	1.28	1.37	1.11	1.10	1.09
Balance Sheet						Result quality					
	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E		Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
Assets						Cash flow conversion	55.7%	128.7%	100.0%	102.7%	101.3%
Cash And Deposits	4.5	20.2	2.6	2.0	1.0	FCF vs. NPAT	54.3%	91.3%	65.0%	97.9%	96.6%
Debtors	2.2	1.4	1.8	2.2	2.5						
Inventory	0.0	0.0	0.0	0.0	0.0	Gearing					
Other current assets	0.0	0.0	0.0	0.0	0.0		Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
Total Current Assets	6.7	21.7	4.4	4.3	3.5	Net Debt	100.9	108.1	178.2	203.7	214.7
Fixed Assets	0.0	0.0	0.0	0.0	0.0	Net Debt / Assets	34.7%	30.3%	37.3%	40.7%	42.2%
Investments	283.9	332.8	437.3	460.3	469.8	EBIT interest cover (x)	8.7	5.7	4.3	4.1	4.1
Goodwill	0.0	0.0	33.6	33.6	33.6	Invested Capital	273.2	321.8	464.3	487.3	496.1
Intangibles	0.0	0.0	0.0	0.0	0.0	Enterprise Value	287.8	322.0	485.5	511.1	522.0
Other non-current assets	0.0	1.9	1.9	1.9	1.9	Growth ratios					
Total Non-Current Assets	283.9	334.7	472.8	495.8	505.3		Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
TOTAL ASSETS	290.6	356.3	477.2	500.0	508.8	Revenue	2.4%	32.6%	9.1%	22.6%	9.7%
Liabilities						Operating costs	36.6%	60.8%	-2.8%	0.9%	8.4%
Short Term Debt	18.3	15.4	0.0	0.0	0.0	EBITDA	-2.9%	26.5%	16.7%	26.8%	9.7%
Creditors	2.8	4.2	4.6	5.7	6.2	EBIT	-2.9%	26.5%	16.7%	26.8%	9.7%
Other current liabilities	3.1	3.6	3.6	3.6	3.6	NPAT	4.5%	17.7%	8.5%	25.3%	10.0%
Total Current Liabilities	24.2	23.2	8.2	9.2	9.8	EPS growth	-21.3%	6.5%	-5.4%	6.3%	9.1%
Long Term Debt	87.1	112.9	180.7	205.7	215.7	DPS growth	-4.3%	0.0%	-0.3%	3.4%	1.9%
Other Debt	0.0	0.0	0.0	0.0	0.0	Portfolio					
Other Non-Current liabilities	1.4	3.1	3.1	3.1	3.1		Dec-19	Jun-19	Dec-18	Jun-18	
Total Non-Current liabilities	88.5	116.0	183.9	208.9	218.9	Value (A\$m)*	405.0	363.0	330.0	327.3	
TOTAL LIABILITIES	112.7	139.2	192.1	218.1	228.7	Occupancy**	83%	83%	99%	95%	
Equity						WALE	5 years	5 years	5.7 years	5.8 years	
Issued capital	256.9	281.1	350.9	350.9	350.9	WACR	6.60%	6.79%	6.78%	6.78%	
Retained earnings	-79.0	-64.0	-64.8	-68.0	-69.8						
Other reserves and FX	0.0	0.0	0.0	0.0	0.0	*Includes assets under development as if complete					
TOTAL EQUITY	177.9	217.1	286.1	282.9	281.1	**ex Botanica 9 = 97%					

SOURCE: MORGANS RESEARCH, COMPANY

## PORTFOLIO



## Tenants

**Figure 3: Top 10 tenants as at December 2019**

Tenant	Property	Industry	% of Portfolio Gross Income	Expiry
Planet Innovation <sup>1</sup>	Box Hill	Science & Tech	10.3% <sup>2</sup>	Nov-27
J Blackwoods & Sons	Mackay	Industrials	9.9%	Jan-29
Volvo Group	Wacol	Auto	9.6%	Jul-28
Qld Gov (DTMR)	Cairns	Government	7.8%	Nov-21
Golder Asscoaites	Richmond	Professional Services	6.8%	Jan-25
Komatsu	Morningside	Industrials	6.9%	Jul-20
Byrne Group	Pinkenba	Industrials	5.8%	Aug-33
Fulton Hogan	Richmond	Industrials	3.7%	Jun-22
McLardy McShane	Richmond	Professional Services	3.6%	Jan-23
James Engineering	Heathwood	Industrials	3.3%	Mar-28

1. Annualised gross income commencing 1 December 2020 SOURCE: COMPANY REPORTS

**Queensland**

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
Partners	
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

**New South Wales**

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor	+61 2 8215 5000
Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
House	
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

**Victoria**

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

**Western Australia**

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

**South Australia**

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

**Australian Capital Territory**

Canberra	+61 2 6232 4999
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**Northern Territory**

Darwin	+61 8 8981 9555
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**Tasmania**

Hobart	+61 3 6236 9000
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