

GARDA DIVERSIFIED PROP FUND

HOLD

Delivering in industrial but focus remains on leasing Botanicca 9

Real Estate / Diversified REIT's

21 February 2020

COMPANY UPDATE

| | |
|---|---------|
| Ticker | GDF |
| Stock Price | \$1.400 |
| Target Price | \$1.380 |
| Forecast Capital Return | (1.4%) |
| Forecast Dividend Yield | 6.4% |
| Estimated Total Return - 12 Mth Forward | 5.0% |

Company market data

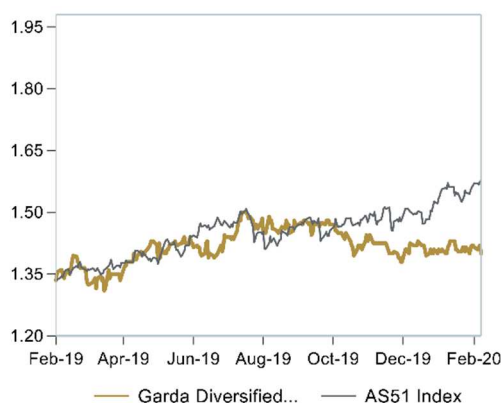
| | |
|------------------|-----------------|
| Market Cap. | \$282.7m |
| Free Float (%) | 86.0 |
| Enterprise Value | \$447.5m |
| 52 Week Range | \$1.31 - \$1.50 |
| Shares Out. | 201.9m |
| Avg. Daily Value | \$0.5m |

| Estimates changes | 2019a | 2020e | 2021e | 2022e |
|--------------------------------|-------|-------|-------|-------|
| Core NPAT - <i>old</i> | 13.2 | 16.1 | 18.6 | 19.9 |
| Core NPAT - <i>new</i> | 13.2 | 15.4 | 18.1 | 19.1 |
| % Change | 0.0 | (4.5) | (2.3) | (4.2) |
| Core EPS dil. (€) - <i>old</i> | 8.7 | 8.4 | 9.0 | 9.7 |
| Core EPS dil. (€) - <i>new</i> | 8.7 | 8.1 | 9.0 | 9.4 |
| % Change | 0.0 | (3.3) | (0.5) | (2.4) |
| DPS (€) - <i>old</i> | 9.0 | 9.0 | 9.0 | 9.3 |
| DPS (€) - <i>new</i> | 9.0 | 9.0 | 9.0 | 9.2 |
| % Change | 0.0 | 0.0 | 0.0 | (0.5) |

All figures are in AUD unless otherwise specified.

Share price performance

Garda Diversified Prop Fund vs. AS51 (rebased index)



Analyst

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EVENT

GDF has had a transformational 1H20 completing an internalisation. The result was in line with expectations with GDF delivering \$7.7m in FFO, equating to 4.35c. GDF paid a 4.5c distribution reflecting a payout ratio of 104%. Key takeaways from the result include:

Leasing: GDF successfully leased ~15% of the portfolio, or 21,997sqm in 1H20, with key leases secured at the Box Hill office asset, with a whole of building lease for 7 years. At Morningside, the asset acquired in 1H20, Komatsu (11,475sqm) also exercised a 3 year option.

Portfolio vacancy (ex Bot 9) is ~3% with vacant space at GDF's Gold Coast and Cairns assets. FY20 expiries are manageable at 4%, followed by ~2% in FY21. The main focus remains securing a leasing outcome at Bot 9, which equates to ~14% of portfolio income once fully let.

Development pipeline: construction is underway at **Berrinba** (\$6.5m build cost) – a leasing campaign is under way. At **Wacol**, Building C is also due to commence shortly, with GDF in final discussion with a tenant for ~5,200sqm (100% of Building C). Building B and A will follow in future stages. The third development project underway is at Acacia Ridge, which will also be completed in stages. A pre-commit is in the final stages of being secured for ~50% of stage 1 at 69 Peterkin St, with construction to commence in Apr'20.

Capital management: GDF is in the final stages of completing a refinance with two major banks. The facility is expected to be a \$200m syndicated facility, increasing GDF's borrowing capacity by \$19.3m.

Guidance: GDF has confirmed DPU guidance of 9.0c. With leasing at Botanicca 9 tracking behind our expectations, we assume no income contribution to FY20, which will likely see GDF's payout ratio increase to ~110%.

IMPACT

Our estimate changes reflect a delay in income assumptions from Botanicca 9. We maintain our Hold rating.

INVESTMENT VIEW

We remain attracted to GDF's value add development approach to small industrial. Though we remain positive on the outlook for B9, securing tenants remains the focus, and next the catalyst required to see the stock trade higher.

| Y/E Jun 30 | 2019a | 2020e | 2021e | 2022e |
|--------------------------------|--------|--------|-------|-------|
| Core NPAT | 13.2 | 15.4 | 18.1 | 19.1 |
| Core EPS (Diluted) (€) | 8.7 | 8.1 | 9.0 | 9.4 |
| P/E | 16.2x | 17.2x | 15.6x | 14.8x |
| EPS growth | (0.6%) | (6.0%) | 10.3% | 5.2% |
| DPS (€) | 9.0 | 9.0 | 9.0 | 9.2 |
| Yield | 6.4% | 6.4% | 6.4% | 6.6% |
| DPS growth | 0.0% | 0.0% | 0.0% | 2.2% |
| Net Tangible Assets (\$/share) | 1.37 | 1.36 | 1.36 | 1.37 |
| Prem / (Disc) to NTA | 2.2% | 2.8% | 2.8% | 2.5% |
| Gearing | 36.0% | 40.3% | 43.2% | 44.4% |

All figures are in AUD.

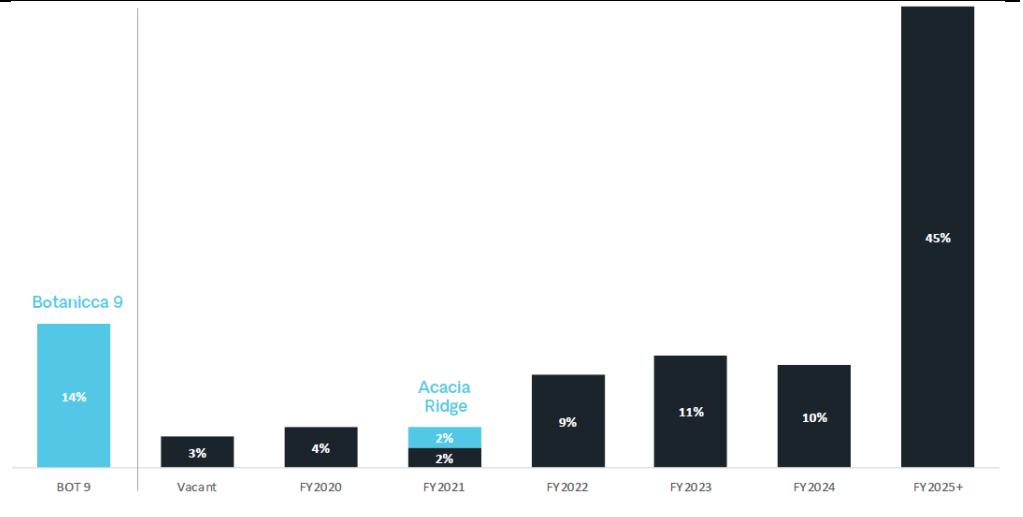
LEASING AT BOTANICCA 9 KEY TO FY21

GDF executed on ~22k sqm of leasing during the period, with key deals including:

- Box Hill office asset: new 7 year lease executed over ~5,728sqm (100%) of the asset.
- 3 yr option exercised at Morningside, which was acquired in 1H20. The lease is with Komatsu over ~11.5k sqm. Longer term, there is expansion opportunity with this asset.
- A short term lease has been signed at 56 Peterkin St, Acacia Ridge. This is a development asset – expiry of this lease aligns with the development plan.

Looking forward, the lease expiry profile is relatively benign.

Figure 1: GDF lease expiry profile



Source: Company, Moelis Analysis

Vacancy within the established portfolio includes:

- 802sqm at the Gold Coast; and
- 1,158sqm at Cairns.

FY20 expiries include:

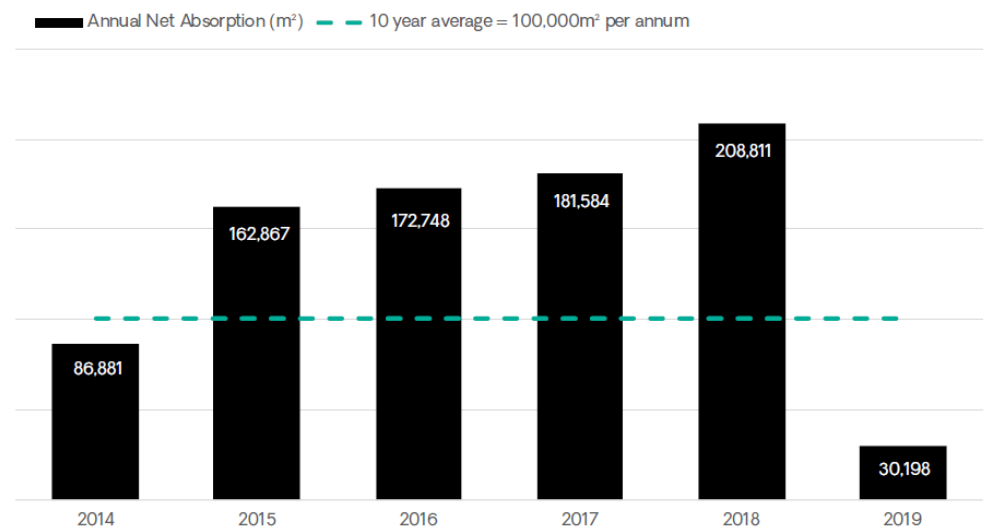
- QPS (Gold Coast) – 968sqm
- Grant Thornton (Cairns) – 548sqm
- Visy (Lytton) – 3,477sqm.

Our estimates assume 6 months downtime for these expiries.

The major leasing focus however remains the 7,100sqm office building at Botanicca 9. This represents ~14% of GDFs income. We have updated our assumptions to assume negligible income in CY20. We note however, GDF still has access to a rent guarantee (~\$2m undrawn) from the acquisition of Acacia Ridge, which can potentially be used to offset lost income at B9.

Though enquiry at this asset remains strong, conversion has proven more challenging, particularly in the context of materially lower net absorption figures within Melbourne office.

Figure 2: Melbourne office net absorption



Source: JLL, GDF

One of the challenges facing B9, is the additional space coming to market with GOZ shortly due to complete their 19,000sqm development Botanicca 3.

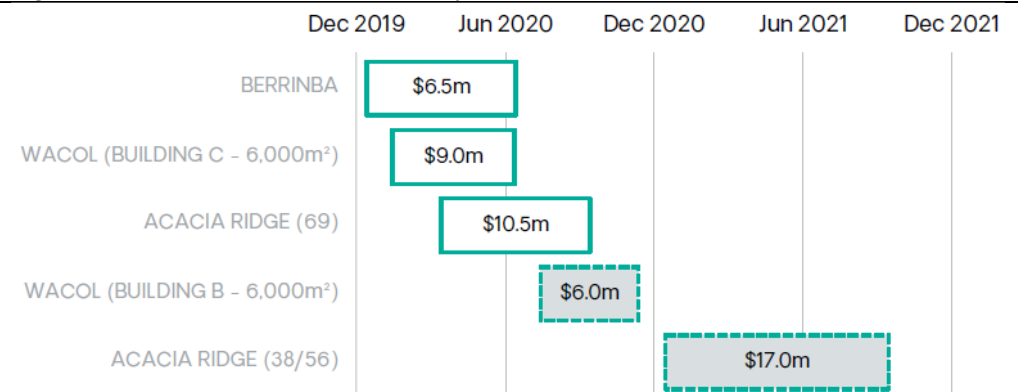
With strong enquiry continuing, GDF remain optimistic of tenant conversion. Our estimates assume 1 month of income in 1H21.

STRONG EXECUTION OF DEVELOPMENT PIPELINE

One of the key attractions to GDF remains their value-add industrial development pipeline.

The near-term pipeline amounts to \$26m - GDF has sufficient capacity to fund this component. These projects total 22,704sqm.

Figure 3: Forecast pipeline CAPEX deployment



Source: Company, Moelis Analysis

Berrinba is a spec build industrial asset, providing flexible options of ~5,000sqm with 500sqm of office, or alternatively can be divided in half. Marketing is underway now construction has commenced.

Wacol - Building C is a 6,000sqm industrial development, with GDF in final discussions securing a pre-commit.

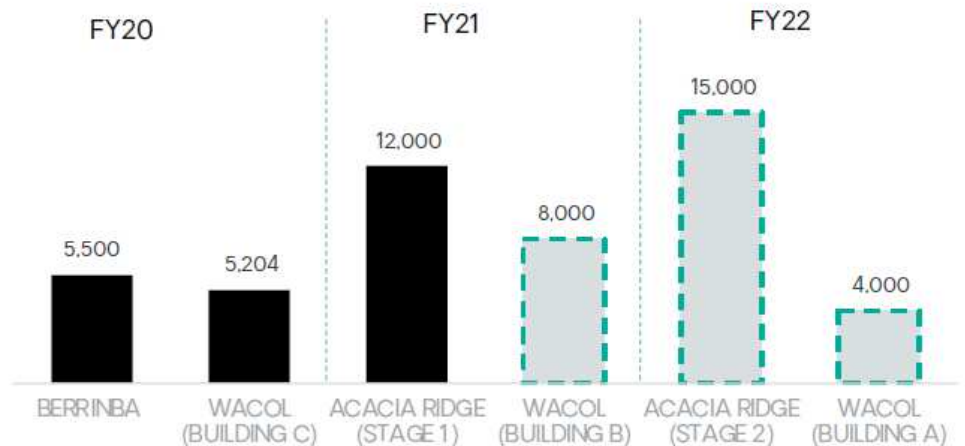
Building B and Building A will follow as future development opportunities.

69 Peterkin St at Acacia Ridge is the first stage of two, with GDF progressing a ~12k sqm development. GDF is in advanced discussions with a pre-commit tenant for 6,200sqm.

38 and 56 Peterkin St will follow as Stage 2.

Execution of the development is a unique offering within the small cap industrial / office space, and should help fuel GDF's future growth.

Figure 4: Project delivery timeframe and NLA (sqm)



Source: Company, Moelis Analysis

OUTLOOK AND VALUATION

At Dec'19, GDF's gearing was ~37%. With an increase in debt facility, GDF will have sufficient liquidity to fund its development pipeline, though this will likely see gearing increase to ~40%. These developments will be integral to driving GDF's earnings growth in FY21 and FY22 as full year contributions come through.

Growth in Net Property Income in FY20 is largely driven by recent acquisitions, as well as a partial contribution from anticipated leasing at Botannicca 9. We assume Botannicca 9 leasing ramps up to fully let from Jan'21. FY21 is also supported by contributions from Berrinba (full year) and Wacol (partial year), with contributions from the completion of works at Acacia Ridge also likely (partial year).

Near term however, the focus remains on leasing Botannicca 9. Fully let, B9 contributes ~\$4m income or ~1c of earnings per half.

Our SOTP valuation is \$1.36 (prev. \$1.40), and our DCF is \$1.34 (prev. \$1.41), resulting in a 12-month target price of \$1.38. We maintain our Hold rating.

Garda Diversified Prop Fund (GDF)

Market Cap: \$283m

Last Price: \$1.400

Target Price: \$1.380

Hold
Key Stock Data

| Year Ending Jun | 2018a | 2019a | 2020e | 2021e | 2022e |
|--------------------------------------|---------|-------------|--------|-------|-------|
| EPS (adj.) (€) | 8.7 | 8.7 | 8.1 | 9.0 | 9.4 |
| EPS Yield | 6.2% | 6.2% | 5.8% | 6.4% | 6.7% |
| EPS growth | (15.4%) | (0.6%) | (6.0%) | 10.3% | 5.2% |
| EPS reported (€) | 18.8 | 18.9 | 4.3 | 9.0 | 9.4 |
| DPS (€) | 9.0 | 9.0 | 9.0 | 9.0 | 9.2 |
| DPS Yield | 6.4% | 6.4% | 6.4% | 6.4% | 6.6% |
| DPS growth | (4.3%) | 0.0% | 0.0% | 0.0% | 2.2% |
| NTA / share | 1.28 | 1.37 | 1.36 | 1.36 | 1.37 |
| Prem/(Disc) to NTA | 9.0% | 2.2% | 2.8% | 2.8% | 2.5% |
| Gearing (Debt/Property) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Gearing (Debt/Assets) | 36.3% | 36.0% | 40.3% | 43.2% | 44.4% |
| Return on Equity | 6.5% | 6.7% | 5.9% | 6.9% | 7.2% |
| Interest Cover | 4.4x | 3.7x | 4.5x | 3.6x | 3.5x |
| 12 Mth Fwd Dividend Yield | | 6.4% | | | |
| Estimated 12 Mth Target Price | | \$1.380 | | | |
| Total Estimated 12 Mth Return | | 5.0% | | | |

Profit and Loss (\$m)

| Year Ending Jun | 2018a | 2019a | 2020e | 2021e | 2022e |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Property Income | 14.3 | 19.4 | 22.0 | 26.3 | 29.8 |
| Other Operating Income | 0.0 | 1.4 | 1.6 | 2.2 | 0.8 |
| Equity Accounted Profit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | (1.6) | (4.8) | (4.6) | (4.4) | (4.6) |
| EBITDA | 12.7 | 16.0 | 19.1 | 24.1 | 26.0 |
| Depr & Amort | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 12.7 | 16.0 | 19.1 | 24.1 | 26.0 |
| Net interest expense | (1.5) | (2.8) | (3.7) | (6.0) | (6.9) |
| Pre-tax profit | 11.2 | 13.2 | 15.4 | 18.1 | 19.1 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT (adj) | 11.2 | 13.2 | 15.4 | 18.1 | 19.1 |
| Adjustments: | | | | | |
| Revaluations | 14.3 | 9.0 | (6.8) | 0.0 | 0.0 |
| Profit/(Loss) on Assets | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 |
| IFRS Adjustments | (0.9) | 4.7 | (1.0) | 0.0 | 0.0 |
| Amort. of incentives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Straight-line rents | (0.4) | 0.4 | 0.4 | 0.0 | 0.0 |
| NPAT (reported) | 24.2 | 28.8 | 8.1 | 18.1 | 19.1 |

Balance Sheet (\$m)

| Year Ending Jun | 2018a | 2019a | 2020e | 2021e | 2022e |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 4.5 | 20.2 | 14.9 | 12.8 | 11.7 |
| Investments | 283.9 | 332.8 | 425.0 | 451.8 | 464.8 |
| Inv. in Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangibles | 0.0 | 0.0 | 33.6 | 33.6 | 33.6 |
| Other | 2.2 | 3.3 | 6.2 | 6.2 | 6.2 |
| Total Assets | 290.6 | 356.3 | 479.8 | 504.5 | 516.3 |
| Current Creditors | 2.8 | 4.2 | 3.8 | 3.8 | 3.8 |
| Debt | 105.4 | 128.3 | 193.3 | 218.1 | 229.0 |
| Provisions | 3.1 | 3.6 | 4.5 | 4.5 | 4.7 |
| Other | 1.4 | 3.1 | 3.1 | 3.1 | 3.1 |
| Total Liabilities | 112.7 | 139.2 | 204.8 | 229.6 | 240.6 |
| Net Assets | 177.9 | 217.1 | 275.0 | 274.9 | 275.7 |
| Equity & Reserves | 256.9 | 281.1 | 346.1 | 346.1 | 346.1 |
| Retained Profits | (79.0) | (64.0) | (71.1) | (71.1) | (70.3) |
| Shareholders' Equity | 177.9 | 217.1 | 275.0 | 274.9 | 275.7 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Equity | 177.9 | 217.1 | 275.0 | 274.9 | 275.7 |

Cashflow (\$m)

| Year Ending Jun | 2018a | 2019a | 2020e | 2021e | 2022e |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Property Income | 14.3 | 19.4 | 22.0 | 26.3 | 29.8 |
| Interest Received | 0.3 | 2.2 | (5.7) | 0.0 | 0.0 |
| Interest Paid | (1.3) | (4.1) | (5.5) | (6.7) | (7.3) |
| Other | (2.2) | 3.0 | 4.8 | (1.6) | (3.6) |
| Operating Cashflow | 11.1 | 20.5 | 15.7 | 18.0 | 18.9 |
| Growth | 15.8% | 84.5% | (23.4%) | 14.6% | 5.3% |
| Capital expenditure | (5.1) | (8.6) | (15.9) | (21.8) | (13.0) |
| Acquisitions | 0.0 | 16.4 | 0.0 | 0.0 | 0.0 |
| Divestments | (76.0) | (44.0) | (74.8) | (5.0) | 0.0 |
| Other | (0.8) | (2.4) | 1.6 | 0.0 | 0.0 |
| Investing Cashflow | (81.9) | (38.6) | (89.1) | (26.8) | (13.0) |
| Equity raised | 29.1 | 25.0 | 31.5 | 0.0 | 0.0 |
| Dividends paid | (10.8) | (13.4) | (14.4) | (18.2) | (18.1) |
| Net borrowings | 45.8 | 22.8 | 53.0 | 24.8 | 10.9 |
| Other | (0.3) | (0.8) | (2.0) | 0.0 | 0.0 |
| Financing Cashflow | 63.8 | 33.7 | 68.0 | 6.6 | (7.2) |
| Exchange Rate Adj | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net incr/(decr) in cash | (7.0) | 15.6 | (5.4) | (2.2) | (1.3) |

Sum of the Parts Valuation

| | \$m | | | |
|------------------------------|--------------|--|----------------|---------------|
| Current Trust Properties | | | | 407.6 |
| Stated Cap Rate | | | 6.6% | |
| Moelis Cap Rate | | | 6.4% | |
| Market Val Incr/(Decr) | | | | 21.2 |
| Currency Adjustment | | | | 0.0 |
| Mark-to-Mkt Trust Val | | | | 428.8 |
| Development/ Acq. Pipeline | | | | 39.3 |
| Trust EV | | | | 468.1 |
| Prop & Funds Mgmt | 0.5 | | 8.0x | 4.0 |
| Development Earnings | 0.0 | | 0.0x | 0.0 |
| Trust Expenses | (4.4) | | 7.0x | (31.0) |
| Manager Fee | 0.5 | | 8.0x | 4.0 |
| Corporation EV | (3.4) | | 6.7x | (23.0) |
| add other assets / liabs | | | | 31.4 |
| add back deferred tax | | | | 0.0 |
| less intangibles | | | | (33.6) |
| less minorities | | | | 0.0 |
| Group EV | | | | 438.9 |
| less Group Net Debt | | | | (164.8) |
| Group Equity Val | | | | 274.1 |
| Shares on issue (m) | | | 201.9 | |
| Group Val | | | \$1.358 | |

Discounted Cashflow Valuation

| | |
|---------------------|----------------|
| Bond rate | 4.3% |
| Equity risk premium | 6.0% |
| Beta | 0.8 |
| Discount rate | 8.8% |
| Perpetuity growth | 2.5% |
| DCE/Share | \$1.342 |
| Perpetuity % | 56.2% |

Divisional Analysis (\$m)

| Year Ending Jun | 2018a | 2019a | 2020e | 2021e | 2022e |
|-----------------|-------|-------|-------|-------|-------|
| | 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 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 12.7 | 16.0 | 19.1 | 24.1 | 26.0 |

Source: Company data, IRESS, Moelis Australia research estimates

21-Feb-20

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| SELL | HOLD | BUY |
|------|-------|-------|
| 7.0% | 43.7% | 49.3% |

Rating and Price Target History: Garda Diversified Prop Fund (GDF) as of 20/02/2020


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