GARDA PROPERTY GROUP

BUY

Focus remains on Botanicca 9… but its paid for and leasing it only means upside to income

Real Estate / Diversified REIT's

27 August 2020

COMPANY UPDATE

Ticker	GDF
Stock Price	$1.040
Target Price	$1.180
Forecast Capital Return	13.5%
Forecast Dividend Yield	6.9%
Estimated Total Return - 12 Mth Forward	20.4%

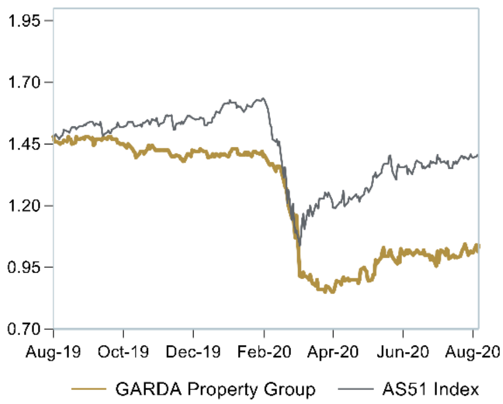
Company market data	
Market Cap.	$216.9m
Free Float (%)	86.0
Enterprise Value	$383.1m
52 Week Range	$0.85 - $1.48
Shares Out.	208.6m
Avg. Daily Value	$0.2m

Estimates changes	2020a	2021e	2022e	2023e
Core NPAT - *new*	16.2	15.8	16.9	18.1
Core EPS dil. (¢) - *new*	8.5	7.6	8.1	8.7
DPS (¢) - *new*	8.6	7.2	7.5	7.9

All figures are in AUD unless otherwise specified.

Share price performance

GARDA Property Group vs. AS51 (rebased index)



Analyst

Edward Day

+61 2 8288 5424

edward.day@moelisaustralia.com

EVENT

Garda delivered FY20 FFO of $16.6m, or 8.5cps, -~2% on pcp, with the main detractor been higher interest expense following the completion of Botanicca.

The result was solid against the COVID backdrop, with ~$6.5k in rent forgiven, and ~$0.4m in rent deferred of which $0.1m has been collected and the remainder is expected to be collected prior to Christmas.

Strong leasing outcomes in industrial developments: GDF secured ~15,125sqm of leasing outcomes across its key projects including Berrinba, Wacol, and Acacia Ridge.

Leasing success at Cairns: the QLD gov't agreed to new leasing terms including a 10-year lease over ~3.5k sqm representing ~25% of the Cairns NLA, increasing the Cairns' asset WALE to ~4.8 years.

Independent valuations resulted in a net increase of $0.8m on Dec'19 vals, with the key movers being the development projects, and Box Hill where GDF secured a ~7 year lease renewal from Planet Innovation.

Balance sheet: GDF cash settled the exit of ~$60m in swaps, subsequently entering into $100m of swaps at a materially more favourable rate, resulting in an all-in rate of 2.4%. Gearing remains relatively comfortable at 36.7% following completion of the development at Botanicca, bearing in mind there is still ~$23.4m in committed capital expenditure required to build out the development pipeline. Fully funded, gearing increases to ~40%. Ideally, before the pipeline is fully funded, GDF secures income from Bot 9, which has the potential to contribute ~$4m in income p.a.

Outlook: GDF has guided to $0.072 DPU, paid in $0.018 quarterly instalments. This is expected to equate to a payout ratio of between 95% - 100% and assumes no income is received from Botanicca 9.

IMPACT

We reinstate coverage with a Buy rating and target price of $1.18.

INVESTMENT VIEW

Solid leasing outcomes at GDF's industrial developments highlight the benefits of their value-add approach. GDF's valuation looks attractive with guidance implying an FY21 DPU yield of 6.9% - prior to any contribution from Botanicca. This asset however, will continue to drag on earnings until let, and is a key requirement to relieving stress on balance sheet and enabling GDF to progress a number of second stage developments.

Y/E Jun 30	2020a	2021e	2022e	2023e
Core NPAT	16.2	15.8	16.9	18.1
Core EPS (Diluted) (¢)	8.5	7.6	8.1	8.7
P/E	12.3x	13.8x	12.8x	12.0x
EPS growth	(2.1%)	(10.8%)	7.3%	7.0%
DPS (¢)	8.6	7.2	7.5	7.9
Yield	8.2%	6.9%	7.2%	7.5%
DPS growth	(5.0%)	(15.8%)	4.2%	4.7%
Net Tangible Assets ($/share)	1.35	1.35	1.35	1.36
Prem / (Disc) to NTA	(22.7%)	(22.7%)	(23.1%)	(23.7%)
Gearing	39.1%	41.9%	44.7%	44.9%

All figures are in AUD.

STRONG LEASING AT INDUSTRIAL DEVELOPMENTS

GDF executed key lease deals at its industrial development projects including:

i. **Berrinba:** USG Boral – 5 year lease – 2,925sqm (50% of building) commencing Nov'20.

ii. **Wacol**: YHI Corp (WheelDemon) – 10 year lease – 6,000sqm (100% of Building C) to commence upon completion (est. Mar'21).

iii. **Acacia Ridge:** Austrans (existing tenant from 38 Peterkin St) – 7 year lease – 6,200sqm (50% of Stage 1) – commencing upon completion (est. Jun'21).

Successful leasing outcomes in established assets were also achieve at:

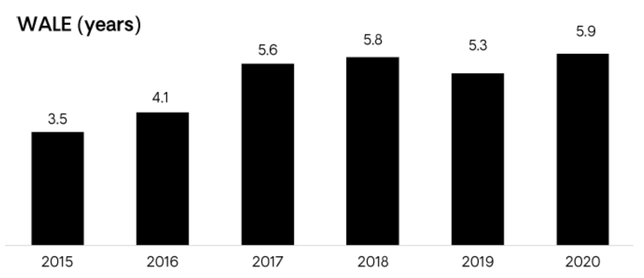
i. Cairns: DTMR – new 10 year lease – 3,456sqm (24% of Cairns NLA)

ii. Box Hill: Planet Innovation – 7 year lease – 5,729sqm (100% of building)

iii. Morningside: Komatsu – 3 year lease – 11,475sqm

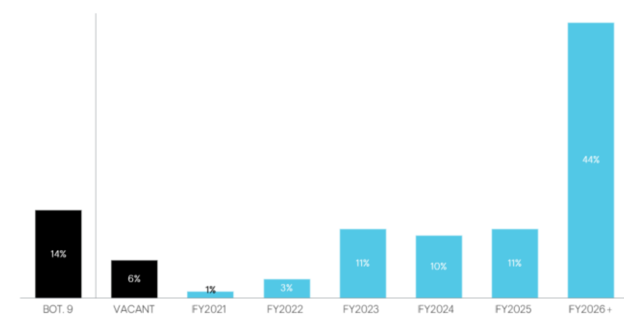
These leasing outcomes have increased GDF's WALE to 5.9 years from 5.3 years.

Figure 1:WALE



Source: GDF

Figure 2: Lease expiry profile

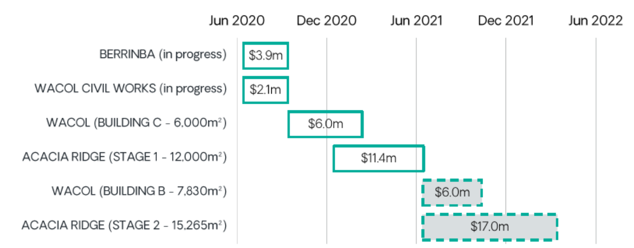


Source: GDF

The focus however remains on leasing Botanicca 9, which has the potential to add ~$4m in income (pre-incentives) once fully let. This is an important outcome to enabling execution of the extended development pipeline.

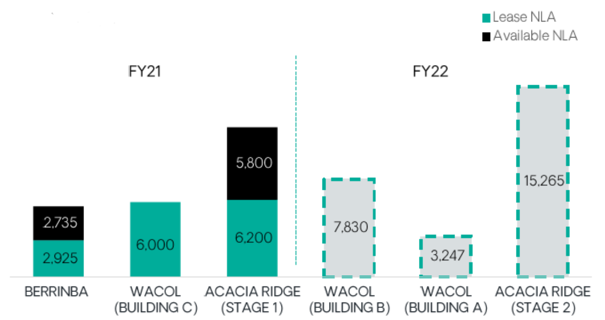
GDF's balance sheet gearing is ~36.7%, and we see this heading to ~40% once committed capital of $23.4m has been deployed. Though these developments have the potential to add material value to GDF's NTA, the second stages (i.e. Wacol B and Acacia Ridge Stage 2) will be unlikely to proceed in the absence of additional capital, or income from Bot 9.

Figure 3: Capex delivery profile



Source: GDF

Figure 4: Project NLA delivery



Source: GDF

OUTLOOK AND VALUATION

At Jun’20, GDF’s gearing was ~36.7%. Importantly, during the year, GDF successfully restructured its debt facility including increasing its facility limit ~$20m to $200m. As part of the restructure, the existing swap ($60m) was cash settled, with new interest rate swaps entered into at significantly lower rates. GDF’s all-in cost of debt is now ~2.4%.

With this increased 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 FY22 and FY23 as full year contributions come through.

Our FY21 estimates assume nil income from Botanicca 9, as well as at Berrinba and Wacol where we assume incentives are taken up front.

Our SOTP valuation is $1.15 and our DCF is $1.16, resulting in a 12-month target price of $1.18. We reinstate coverage with a Buy rating

.

GARDA Property Group (GDF) — Market Cap: $217m — Last Price: $1.040 — Target Price: $1.180 — Buy

Key Stock Data

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
EPS (adj.) (¢)	**8.7**	**8.5**	**7.6**	**8.1**	**8.7**
EPS Yield	**8.3%**	**8.1%**	**7.3%**	**7.8%**	**8.3%**
EPS growth	*(0.6%)*	*(2.1%)*	*(10.8%)*	*7.3%*	*7.0%*
EPS reported (¢)	18.9	2.9	8.7	8.1	8.7
DPS (¢)	**9.0**	**8.6**	**7.2**	**7.5**	**7.9**
DPS Yield	**8.7%**	**8.2%**	**6.9%**	**7.2%**	**7.5%**
DPS growth	*0.0%*	*(5.0%)*	*(15.8%)*	*4.2%*	*4.7%*
NTA / share	**1.37**	**1.35**	**1.35**	**1.35**	**1.36**
Prem/(Disc) to NTA	**(24.1%)**	**(22.7%)**	**(22.7%)**	**(23.1%)**	**(23.7%)**
Gearing (Debt/Property)	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing (Debt/Assets)	36.0%	39.1%	41.9%	44.7%	44.9%
Return on Equity	6.7%	6.2%	6.0%	6.4%	6.8%
Interest Cover	3.7x	3.6x	4.1x	3.6x	3.7x
12 Mth Fwd Dividend Yield		6.9%			
Estimated 12 Mth Target Price		$1.180			
Total Estimated 12 Mth Return		**20.4%**			

Profit and Loss ($m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Net Property Income	19.4	22.7	21.7	26.0	28.4
Other Operating Income	1.4	1.2	2.2	0.8	0.8
Equity Accounted Profit	0.0	0.0	0.0	0.0	0.0
Other	(4.8)	(4.0)	(4.4)	(4.6)	(4.8)
EBITDA	**16.0**	**19.9**	**19.5**	**22.2**	**24.5**
Depr & Amort	0.0	0.0	0.0	0.0	0.0
EBIT	**16.0**	**19.9**	**19.5**	**22.2**	**24.5**
Net interest expense	(2.8)	(3.8)	(3.8)	(5.2)	(6.4)
Pre-tax profit	**13.2**	**16.1**	**15.8**	**16.9**	**18.1**
Tax	0.0	0.1	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	**13.2**	**16.2**	**15.8**	**16.9**	**18.1**
Adjustments:					
Revaluations	9.0	(7.0)	0.0	0.0	0.0
Profit/(Loss) on Assets	1.6	0.0	0.0	0.0	0.0
IFRS Adjustments	4.7	(4.4)	2.4	0.0	0.0
Amort. of incentives	0.0	0.0	0.0	0.0	0.0
Straight-line rents	0.4	0.7	0.0	0.0	0.0
NPAT (reported)	**28.8**	**5.6**	**18.1**	**16.9**	**18.1**

Balance Sheet ($m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Cash	20.2	20.5	18.9	18.9	19.6
Investments	332.8	417.4	442.5	470.2	476.0
Inv. in Associates	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	33.6	33.6	33.6	33.6
Other	3.3	5.7	5.7	5.7	5.7
Total Assets	**356.3**	**477.3**	**500.7**	**528.4**	**535.0**
Current Creditors	4.2	4.1	4.1	4.1	4.1
Debt	128.3	186.7	210.0	236.0	240.0
Provisions	3.6	3.8	3.8	3.9	4.2
Other	3.1	2.2	2.2	2.2	2.2
Total Liabilities	**139.2**	**196.7**	**220.1**	**246.2**	**250.5**
Net Assets	**217.1**	**280.6**	**280.6**	**282.2**	**284.5**
Equity & Reserves	281.1	355.4	355.4	355.4	355.4
Retained Profits	(64.0)	(74.9)	(74.8)	(73.2)	(71.0)
Shareholders' Equity	**217.1**	**280.6**	**280.6**	**282.2**	**284.5**
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**217.1**	**280.6**	**280.6**	**282.2**	**284.5**

Cashflow ($m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
Net Property Income	19.4	22.7	21.7	26.0	28.4
Interest Received	2.2	(4.1)	0.0	0.0	0.0
Interest Paid	(4.1)	(5.1)	(4.8)	(6.2)	(6.5)
Other	3.0	0.5	(1.4)	(3.1)	(4.0)
Operating Cashflow	**20.5**	**14.0**	**15.6**	**16.7**	**17.9**
Growth	*84.5%*	*(31.9%)*	*11.6%*	*7.5%*	*7.0%*
Capital expenditure	(8.6)	0.0	(22.6)	(27.7)	(5.8)
Acquisitions	16.4	0.0	0.0	0.0	0.0
Divestments	(44.0)	(81.1)	(2.5)	0.0	0.0
Other	(2.4)	2.0	0.0	0.0	0.0
Investing Cashflow	**(38.6)**	**(79.1)**	**(25.1)**	**(27.7)**	**(5.8)**
Equity raised	25.0	31.5	0.0	0.0	0.0
Dividends paid	(13.4)	(16.2)	(15.7)	(15.2)	(15.6)
Net borrowings	22.8	59.6	23.4	26.0	4.0
Other	(0.8)	(9.5)	0.0	0.0	0.0
Financing Cashflow	**33.7**	**65.4**	**7.7**	**10.8**	**(11.6)**
Exchange Rate Adj	0.0	0.0	0.0	0.0	0.0
Net incr/(decr) in cash	**15.6**	**0.2**	**(1.8)**	**(0.2)**	**0.5**

Sum of the Parts Valuation

			$m
Current Trust Properties			417.4
Stated Cap Rate		6.6%	
Moelis Cap Rate		6.4%	
Market Val Incr/(Decr)			18.5
Currency Adjustment			0.0
Mark-to-Mkt Trust Val			**436.0**
Development/Acq. Pipeline			7.9
Trust EV			**443.8**
Prop & Funds Mgmt	0.5	5.0x	2.5
Development Earnings	0.0	0.0x	0.0
Trust Expenses	(4.4)	8.0x	(35.4)
Manager Fee	0.5	5.0x	2.5
Corporation EV	**(3.4)**	**8.9x**	**(30.4)**
add other assets / liabs			29.3
add back deferred tax			0.0
less intangibles			(33.6)
less minorities			0.0
Group EV			**406.6**
less Group Net Debt			(166.2)
Group Equity Val			**240.4**
Shares on issue (m)		208.6	
Group Val		**$1.153**	

Discounted Cashflow Valuation

Bond rate	4.3%
Equity risk premium	6.0%
Beta	0.7
Discount rate	8.6%
Perpetuity growth	2.5%
DCF/Share	**$1.160**
Perpetuity %	56.9%

Divisional Analysis ($m)

Year Ending Jun	2019a	2020a	2021e	2022e	2023e
	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
	16.0	**19.9**	**19.5**	**22.2**	**24.5**

Source: Company data, IRESS, Moelis Australia research estimates — 27-Aug-20

RESEARCH & SALES RESPONSIBILTIES

Equities

Simon Scott	Head of Equities	+612 8288 5418
Elliot Leahey	Business Manager	+612 8288 5402
Jacqui Irons	Corporate Broking	+612 8288 5427

Equities Sales & Trading

Bryan Johnson	+612 8288 5412
Andrew Harvey	+612 8288 5428
Sam Clark	+612 8288 5410
Jack Dyson	+612 8288 5401
Mitchell Hewson - *Head of Execution*	+612 8288 5417
Aaron Payne - *Real Estate*	+612 8288 5405

Equities Research

Real Estate

Murray Connellan	+612 8288 5421
Edward Day	+612 8288 5424
Ronan Barratt	+612 8288 5426

Industrials

Sean Kiriwan	+618 6555 8602
Sarah Mann	+612 8288 5407
Brendon Kelly	+612 8288 5413
Tom Tweedie	+612 8288 5423

email: firstname.lastname@moelisaustralia.com

DISCLOSURE APPENDIX

ANALYST CERTIFICATION

The analyst, Edward Day, responsible for the content of this research report, in whole or in part, certifies that with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report accurately reflect his or her personal views on the subject companies and securities, and (2) no part of his or her compensation was, is, or will be directly or indirectly linked to the specific recommendations or views expressed in this research report.

I declare that:

a) to the best of my knowledge I am not in receipt of inside information and the research does not contain inside information; and
b) no other part of Moelis Australia has made any attempt to influence the research."

COMPANY SPECIFIC DISCLOSURES

RATING DEFINITIONS

All companies under coverage are assigned a rating of Buy, Hold or Sell based on the expected 12 month total return estimated by the analyst(s). The total return is a combination of the estimated capital gain or loss, in addition to the estimated 12 month forward dividends or distributions. In relation to all companies that Moelis Australia Securities conducts research coverage on the relevant total return bands that derive the ratings are:

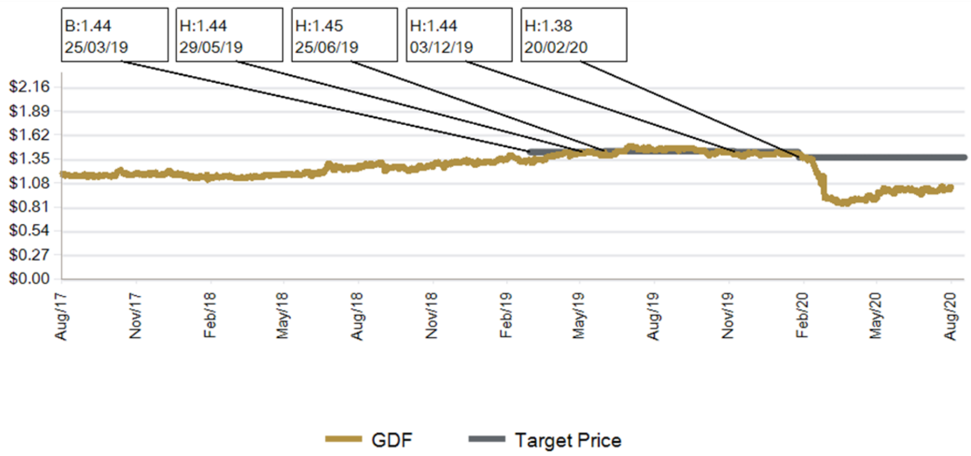
Buy: >15% **Hold:** 5% to 15% **Sell:** <5%.

RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 27 August 2020

SELL	HOLD	BUY
2.8%	29.6%	66.2%

Rating and Price Target History: GARDA Property Group (GDF) as of 26/08/2020



GENERAL TERMS OF USE FOR MOELIS RESEARCH REPORTS

Research reports have been prepared by Moelis Australia Securities Pty Ltd ("Moelis Securities"), ACN 122 781 560, AFS Licence 308 241, a Participant of the ASX Group and Chi-X and the intellectual property relating to the content vests with Moelis Securities unless otherwise noted.

GENERAL DISCLAIMER AND DISCLOSURES

Disclaimer

The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed, and except to the extent that liability cannot be excluded, Moelis Securities does not accept any liability for any direct or consequential loss arising from relying upon the content in this document. This document is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the analyst's best judgement as of the date of preparation and is subject to change without notice. Due to changing market conditions, actual results may vary from forecast provided. Past performance is not an indication of future return, and loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income from, certain investments.

This document is intended to provide general advice to wholesale investors only. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of this report. It does not purport to make any recommendation that any buying or selling is appropriate or any person's investment objectives or financial needs, and prior to making any investment decision a person should contact their professional advisors on whether or not any information in this document is appropriate to their individual circumstances.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Moelis Securities to any registration or licensing requirement within such jurisdiction. International Investors should contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment. If you have received this document in error, please destroy it and any copies of it immediately.

Disclosure

Moelis Australia Limited, its officers, directors, employees, agents and authorized representatives may hold securities in any of the companies to which this document refers and may trade in the securities mentioned either as principal or as agent. Our sales and trading representatives may provide oral or written opinions that are contrary to the opinions expressed in this document. Our related body corporate Moelis Australia Advisory Pty Ltd ("Moelis Advisory"), may make statements or provide advisory services to the company to which this document refers and such statements may be contrary to the views or recommendations expressed in this document. Moelis Advisory may have previously been appointed by GDF to provide corporate advisory services for which it may have received compensation. Moelis Advisory may be appointed by GDF to provide corporate advisory services in the future for which it may receive compensation. The analyst responsible for this document has taken reasonable care to achieve and maintain independence and objectivity and certifies that no part of their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The compensation of the analyst is based on overall revenues of Moelis Securities and its related entities. The analyst may also interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. In producing research reports, the analyst may attend site visits and other meetings hosted by the issuers the subject of its research report. In some instances the costs of such site visits or meeting may be met in part or in whole by the issuers concerned if Moelis Securities considers it is appropriate and reasonable in the specific circumstance relating to the site visit or meeting and will not comprise the integrity of the research report.

Moelis Securities is a trading participant of the ASX Group and Chi-X and earns fees and commissions from dealing in the relevant financial product.

General U.S. Disclaimer

This report is a product of Moelis Securities, which is the employer of the research analyst(s) who has prepared the report. The research analyst(s) preparing the report is/are resident outside the United States of America (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is not intended for use by, or distribution to, persons in the U.S. that do not meet the definition of a major U.S. institutional investor under Rule 15a-6 under the U.S. Securities Exchange Act of 1934 ("Rule 15a-6"). The financial instruments described herein may not have been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold in the U.S. unless they have been registered under the Securities Act, or pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act, and in compliance with any applicable securities laws of any state or other jurisdiction of the U.S.. This report has been prepared by Moelis Securities and is being distributed to major U.S. institutional investors pursuant to Rule 15a-6(a)(2).

Any U.S. Persons or recipients of this Report located in the U.S. that are interested in trading the financial instruments referred to in this report should only effect such transactions through a U.S.-registered broker-dealer.

The distribution of this report in certain jurisdictions may be prohibited or restricted by rules, regulations and/or laws of such jurisdictions and persons into whose possession this presentation comes should inform themselves about and observe any such restrictions. Any failure to comply with such prohibitions or restrictions may constitute a violation of the laws of such other jurisdictions.