



GARDA Property Group (GDF)

Attractive Yield on Potential Depressed Earnings

Our View

We remain cautiously optimistic on GDF's long-term prospects despite economic uncertainty amid Covid-19 disruption. With Victoria in lockdown, we note the leasing of Botannica 9 in the short term becomes less likely and have attributed no earnings from this property for FY21 (previously three months income included). We have also further reduced our debt funds management earnings for FY21 to reflect the likelihood of fewer construction projects and the resultant decline in demand for capital. GDF's portfolio is proving resilient with strong rent collection continuing as the tenant base of multinationals and government agencies is somewhat insulated from the economic uncertainty. On-going projects at Berrinba, Wacol and Acacia Ridge remain on track and conservatively assuming these properties remain vacant post-completion, we expect gearing of 40% (LVR covenant <50%) and ICR of ~4.0x (well ahead of >2.5x covenant). Despite believing our forecasts now reflect the bear case, we continue to apply a 10% discount to our valuation to reflect the on-going uncertainty and an increased development risk profile.

GDF trades at a 12% discount to our adjusted \$1.15 valuation which is in line with our adjusted NAV. With the risk of tenant default or debt covenant breaches sitting towards the low end, we believe GDF remains attractive to investors particularly given the forecast 7.2% distribution yield on depressed earnings.

Key Points

Forecasts reduced

We have reduced our FY21 revenue contribution for Botannica 9 from three months to zero as the recent lockdown in Victoria is likely to slow the leasing process further. With anywhere from 3-6 months of fit-out time required, any leasing commitments made before Christmas are likely to provide upside to our forecasts. It is worth noting Botannica 9 book value of \$59m assumes a vacant building and therefore a reduction in value (outside of market fluctuations) is not required should it remain vacant. We have also reduced our debt funds management contribution for FY21 with the assumption of fewer small-to-medium sized projects going ahead and therefore less capital required by developers. In line with these changes we have reduced our underlying payout ratio to 95% which reflects 7.4cpu distribution for FY21, a current forecast yield of 7.2%.

Negligible property revaluation impacts a sign of things to come

The recent revaluation of five properties realised an overall gain of <1% with the outliers being a 10% decline (\$1.07m) in a small industrial site in QLD and a 4% increase (\$1.25m) at a Melbourne city fringe office property in Box Hill. Given the economic uncertainty, valuers are taking a prudent approach and factoring in low-to-zero rental growth in the short term. We expect NAV uplifts outside of capex spend and asset creation to be subdued through FY21, pending Covid-19 impact.

Vanilla result expected on August 20; tighter acquisition outlook expected

We expect FY20 results to be in line with our forecasts and FY21 outlook commentary to be limited to rent collection, leasing outcomes and project updates. We understand the industrial market in particular to have tightened somewhat with cap rates compressing and therefore proving more difficult to find attractive acquisition opportunities. We view this as short-term positive so GDF can bed-down existing projects and potentially further reduce debt levels.

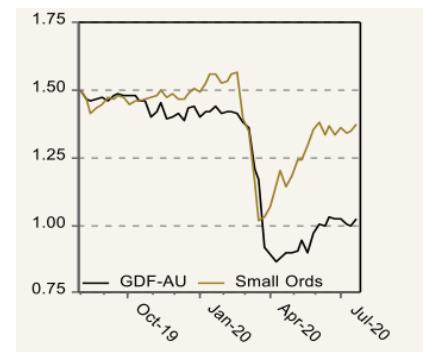
30 July 2020

Recommendation: Outperform

Summary (AUD)

Market Capitalisation	\$227.6M
Share price	\$1.025
52 week low	\$0.80
52 week high	\$1.54

Share price graph (AUD)



Key Financials (AUD)

	FY19A	FY20E	FY21E
Rental income	26.3	28.6	30.8
Adj. EBIT	15.0	18.9	21.6
Underlying NPAT	12.2	15.8	16.9
FFO Total	13.2	15.8	16.9
FFO per unit	8.7	7.7	7.4
DPS (c)	9.0	8.6	7.4
Dist Yield	8.8%	8.3%	7.2%
Payout Ratio	104.7%	109.0%	99.9%
Payout adj. for Treasury stock	NA	104.0%	95.2%

GARDA Property Group - Financial Summary GDF \$1.03

PROFIT & LOSS SUMMARY (A\$m)				
Period	FY19A	1H20A	FY20E	FY21E
Rental Income	26.3	14.3	28.6	30.8
Debt Advisory Income	0.0	0.0	0.2	1.0
Other Income	(1.0)	(0.5)	(0.9)	(0.9)
Total Operating Expenses	10.3	5.3	9.1	9.3
Adj. EBIT	15.0	8.5	18.9	21.6
Net Interest	(2.8)	(1.4)	(3.1)	(4.8)
Underlying NPAT	12.2	7.1	15.8	16.9
FFO	13.2	7.7	15.8	16.9
Statutory Adjustments	15.6	(7.5)	0.0	0.0
Reported NPAT	28.8	0.2	15.8	16.9

EARNINGS AND DIVIDENDS				
Period	FY19A	1H20A	FY20E	FY21E
Weighted Average Units on Issue	152.4	176.8	204.6	227.6
Underlying EPS (c)	8.7	4.4	7.7	7.4
PE Ratio (x)	12.8	25.4	13.3	13.8
FFO Per Unit (c)	0.09	0.04	0.08	0.07
Tax Deferred	76.6%	NA	73.0%	73.0%
Distribution Payout Ratio (%)	104.7%	103.8%	109.0%	99.9%
Payout Ratio Adj. for Treasury Stock	NA	NA	104.0%	95.2%
Distribution (c)	9.00	4.50	8.55	7.40
Distribution Yield (%)	8.8%	4.4%	8.3%	7.2%

DEBT RATIOS				
Period	FY19A	1H20A	FY20E	FY21E
Debt Per Unit (c)	74.1	6.9	87.4	83.0
Gearing % (LVR)	38.5%	43.4%	41.2%	40.8%
Adj. EBIT Interest cover (x)	5.1	5.9	5.9	4.4
Underlying NPAT cover (x)	4.2	4.9	4.9	3.4
Reported NPAT cover (x)	9.8	0.1	4.9	3.4

BALANCE SHEET SUMMARY (A\$m)				
Period	FY19A	1H20A	FY20E	FY21E
Cash	20.2	12.2	25.1	11.5
Receivables	1.4	6.2	2.9	3.1
Investment Properties	332.8	407.6	434.0	462.5
Intangibles	0.0	33.6	33.6	33.6
Other Assets	1.9	0.0	0.0	0.0
TOTAL ASSETS	356.3	459.6	495.6	510.7
Total Borrowings	128.3	176.9	178.9	188.9
Distribution Payable	3.6	1.5	4.9	4.2
Other Liabilities	7.4	6.9	6.6	6.9
TOTAL LIABILITIES	139.2	185.4	190.3	199.9
TOTAL EQUITY	217.1	274.2	305.3	310.8

CASH FLOW SUMMARY (A\$m)				
Period	FY19A	1H20A	FY20E	FY21E
Net Cash - Operating Activities	20.6	7.9	18.5	16.7
Net Cash - Investing Activities	(38.6)	(71.7)	(92.3)	(22.9)
Finance Cost	2.9	1.4	3.2	4.9
Net Cash from Financing Activities	33.7	55.8	78.7	(7.5)
Net Cash Flow	15.7	(8.1)	4.9	(13.7)
Opening Cash Balance	4.5	20.2	20.2	25.1
Closing Cash Balance	20.2	12.2	25.1	11.5

FUNDS FROM OPERATIONS (A\$m)				
Period	FY19A	1H20A	FY20E	FY21E
Net Gain (Loss) for Reporting Period	28.78	0.15	15.78	16.86
Change In Fair Value of Property (gain)	(8.99)	6.77	0.00	0.00
Other Changes in Fair Value	(6.59)	0.77	0.00	0.00
FFO Total	13.19	7.70	15.78	16.86
FFO Per Unit (c)	8.66	4.35	7.71	7.41

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