

GARDA Diversified Property Fund

HOLD (no change)

Current price:	A\$1.46
Target price:	A\$1.45
Previous target:	A\$1.45
Up/downside:	-0.4%
Reuters:	GDF.AX
Bloomberg:	GDF AU
Market cap:	US\$160.9m
	A\$237.8m
Average daily turnover:	US\$0.07m
	A\$0.10m
Current shares o/s	162.9m
Free float:	86.0%

Projects in the pipeline

- GDF's FY19 result delivered FFO of A\$13.2m (vs A\$11.2m in the pcp) with FY19 DPS of 9c in line with guidance.
- FY20 DPS guidance has been set at 9cps (in line with our forecasts) and implies a FY20 distribution yield of around 6.2% (paid quarterly).
- The near term focus remains on leasing outcomes on the Botanicca 9 asset in Richmond, Melbourne which was completed in June 2019 as well as completing the Wacol and Berrinba industrial projects in Brisbane.
- We retain a Hold rating with a price target of A\$1.45.

FY19 result overview

GDF reported FFO of A\$13.2m (vs A\$11.2m in the pcp and Morgans at A\$13.3m). FY19 distribution of 9c (flat on the pcp) was in line with guidance (104.7% payout). Gearing stands at 38.5% with total debt facilities currently A\$162.3m (weighted average term to maturity 1.1 years/drawn to A\$139.7m). NTA as at June was A\$1.37 (vs A\$1.29 in the pcp). Post the issue of securities in July to help fund the Acacia Ridge acquisitions NTA falls slightly to A\$1.36.

FY20 DPS 9cps (flat on pcp)

FY20 DPS guidance is 9cps (in line with Morgans). The payout ratio for FY20 is expected to be between 100-105%, however this is expected to revert to 90-95% once the Botanicca 9 project is leased. FY20 lease expiries for the existing portfolio is 9% with the key near term leasing focus on the Botanicca 9 office asset (7,109sqm A grade building/15% of income) which is ongoing.

Portfolio valued at A\$363m; several projects in the pipeline

GDF's portfolio is valued at A\$363m (vs A\$284m in the pcp) which includes properties under construction. As well as revaluations, the uplift was driven by A\$40m in acquisitions during the period (a mix of income producing assets/redevelopment opportunities and development sites) and the A\$34m construction of Botanicca 9. We note GDF also divested its Murarrie asset in June 2019 (A\$1.6m net gain). The WACR is 6.79% and the WALE sits at 5.3 years. Occupancy is 83%, however excluding Botanicca 9 is 98%. AUM is expected to grow to A\$405m once the Berrinba and Wacol projects are completed (cA\$21m estimated construction in FY20). Further capital management initiatives (debt & equity) will be considered as the project pipeline (including the Acacia Ridge redevelopment) rolls out over FY20/21.

Retain Hold rating; yielding 6.2% paid quarterly

GDF offers exposure to east coast office/industrial property with weighted average rent reviews of approximately 3.1% pa. Our blended DCF/NAV (6.5% cap rate) valuation is A\$1.45. We retain our Hold rating with a key near-term catalyst/risk relating to leasing outcomes at Botanicca 9 which was completed in June 2019 as well as a successful outcome regarding debt refinancing (all facilities due FY21).



Price performance	1M	3M	12M
Absolute (%)	0.3	3.5	17.7
Relative (%)	3.1	3.6	13.9

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

– GARDA Diversified Property Fund

Key metrics

	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E
Revenue (A\$m)	15.4	20.4	23.2	25.6	26.8
EBITDA (A\$m)	12.7	16.0	19.4	21.6	22.6
EBIT (A\$m)	12.7	16.0	19.4	21.6	22.6
Distributable earnings (A\$m)	11.2	13.2	14.3	15.1	15.9
Distributable EPS (cps)	8.1	8.6	8.8	9.3	9.8
EPS growth (%)	-21.3%	6.5%	2.0%	5.3%	5.4%
Normalised P/E (X)	18.0	16.9	16.6	15.8	14.9
DPS (A\$)	9.0	9.0	9.0	9.2	9.5
Yield	6.2%	6.2%	6.2%	6.3%	6.5%
Payout ratio	111%	104%	102%	99%	97%
Gearing (ND/A)	36%	32%	41%	42%	42%
NTA (A\$)	1.29	1.37			

SOURCE: MORGANS, COMPANY REPORTS

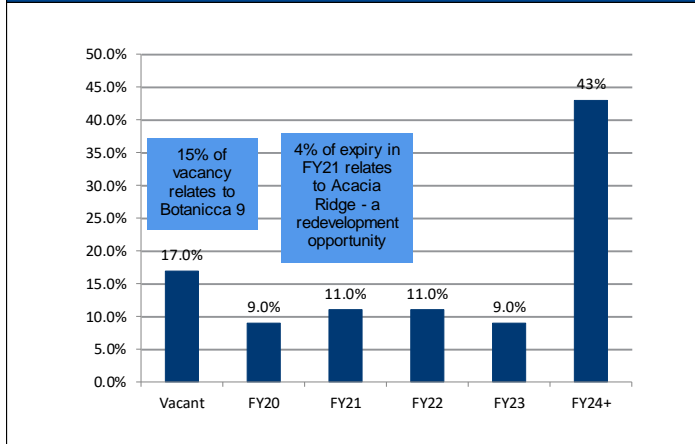
Figure 1: Business snapshot

GARDA Diversified Property Fund (as at 23-08-19)		GDF AU / GDF.AX		Real Estate
Market cap (A\$m):	237.8	Rating:	HOLD	
Shares outstanding (m):	162.9	Price (A\$):	1.46	
Free float (%):	86%	Target price (A\$):	1.45	
Company website:	www.gardacapital.com.au	Upside/downside to target price (%):	-0.4%	

Company description

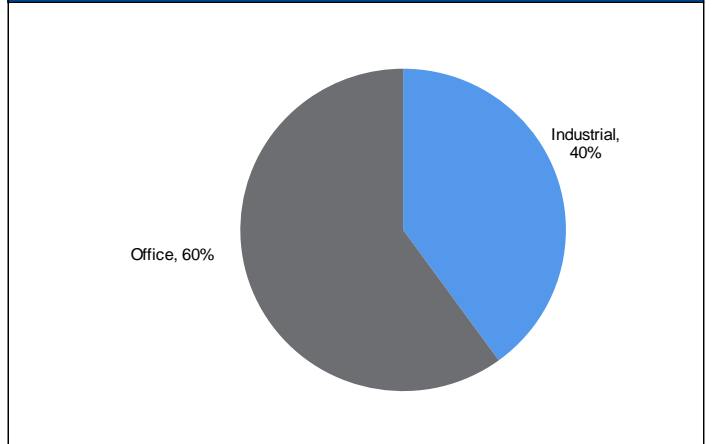
GARDA Diversified Property Fund (GDF) is a REIT focussed on industrial and commercial property. It has a portfolio valued at around \$363m spread across the East Coast of Australia. The assets are focussed on the industrial and office sectors. GDF's objective is to provide sustainable and growing distributable income derived from investments. It also aims to maintain gearing within a range of 30-35%. GDF is managed by GARDA Capital (GCM) which also holds a 13.5% stake in the Fund.

Lease expiry profile as at June 2019



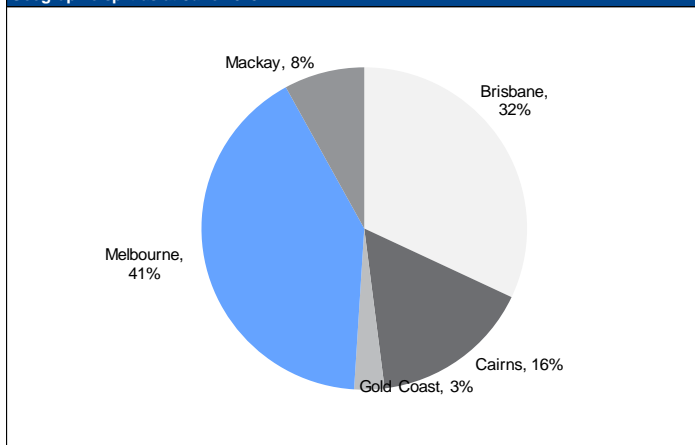
SOURCE: COMPANY REPORTS

Portfolio by sector as at June 2019



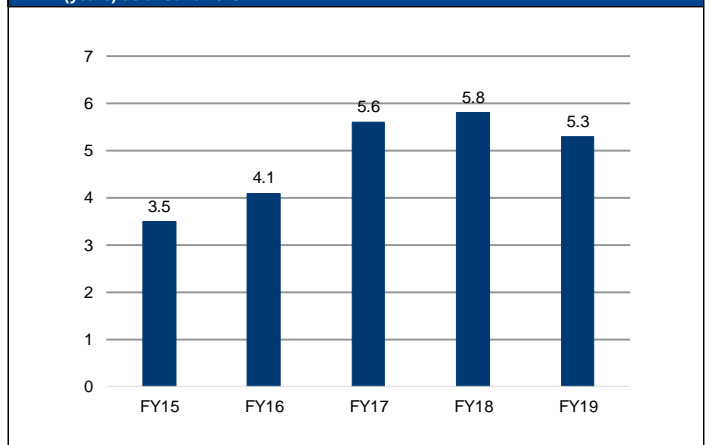
SOURCE: COMPANY REPORTS

Geographic split as at June 2019



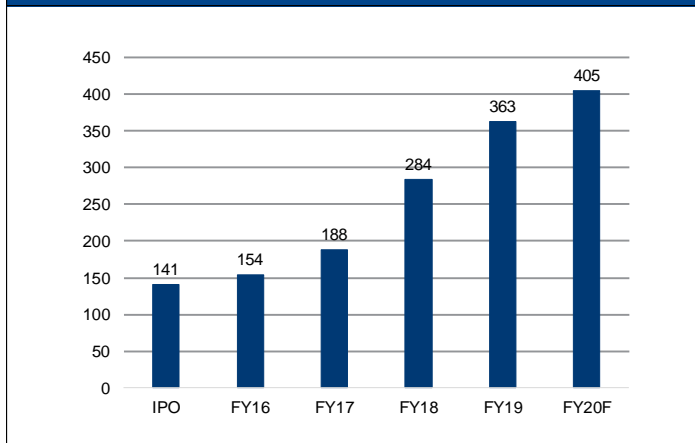
SOURCE: COMPANY REPORTS

WALE (years) as at June 2019



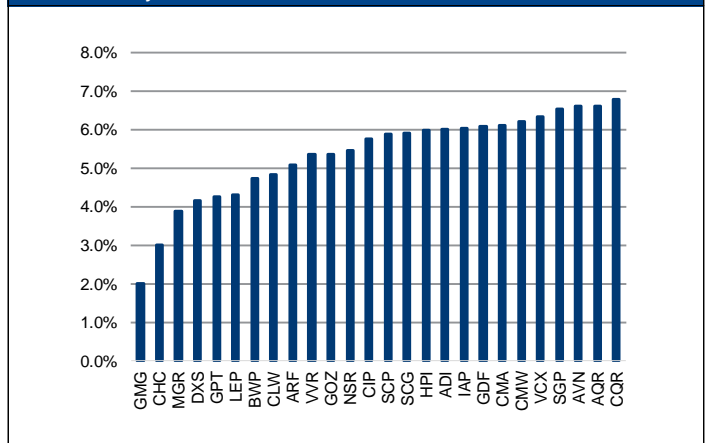
SOURCE: COMPANY REPORTS

Growth in AUM since IPO



SOURCE: COMPANY REPORTS

FY20 distribution yields



SOURCE: FACTSET, MORGANS

Figure 2: Financial summary

Profit and loss												
	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E							
Revenue	15.4	20.4	23.2	25.6	26.8	Share price	\$1.46		Market Cap A\$231.3m			
Other revenue	0.0	0.0	0.0	0.0	0.0	Price target	\$1.45					
Total Operating Costs	-2.7	-4.4	-3.8	-4.1	-4.2	TSR	5.8%					
EBITDA	12.7	16.0	19.4	21.6	22.6							
Depreciation	0.0	0.0	0.0	0.0	0.0	Valuation						
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0	DCF valuation	\$1.53		DCF inputs:			
EBIT	12.7	16.0	19.4	21.6	22.6	NAV (6.5% cap rate)	\$1.28		WACC	8.5%		
Net Interest Income	-1.5	-2.8	-5.0	-6.5	-6.7	Valuation (50/50)	\$1.45		RFR	3.3%		
Pre-tax Profit	11.2	13.2	14.3	15.1	15.9							
Tax	0.0	0.0	0.0	0.0	0.0	Price target	\$1.45		MRP	6%		
NPAT	24.2	28.8	14.3	15.1	15.9							
Other items	13.0	15.6	0.0	0.0	0.0	Implied yield @ valuation 6.2%						
Distributable earnings	11.2	13.2	14.3	15.1	15.9							
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	19.4	21.6	22.6	P/E	18.0		16.9	16.6	15.8	14.9
Net interest	-1.2	-4.0	-5.0	-6.5	-6.7	Yield	6.2%		6.2%	6.2%	6.3%	6.5%
Tax	5.3	4.0	0.0	0.0	0.0	PEG			2.6	8.2	3.0	2.8
Changes in working capital	-5.6	-3.4	0.4	0.3	0.2	EV/EBITDA	23.9		21.2	20.5	19.0	18.1
Operating cash flow	11.2	20.6	14.7	15.4	16.1	Price/NTA	1.14		1.07	1.07	1.04	1.01
Capex	-5.1	-8.6	-5.0	-1.0	-1.0	Operating cash flow yield	4.8%		8.9%	6.4%	6.7%	6.9%
Free Cash Flow	6.1	12.0	9.7	14.4	15.1	Free cash flow yield	2.6%		5.2%	4.2%	6.2%	6.5%
Acquisitions and divestments	-76.0	-29.5	-46.6	-12.0	0.0	Per share data						
Other Investing cash flow	-0.8	-0.6	0.0	0.0	0.0	Shares on issue	138.4		158.4	162.9	162.9	162.9
Investing cash flows	-5.1	-8.6	-5.0	-1.0	-1.0	Distributable EPS (A\$)	0.081		0.086	0.088	0.093	0.098
Increase / decrease in Equity	30.0	25.0	0.0	0.0	0.0	DPS (A\$)	0.090		0.090	0.090	0.092	0.095
Increase / decrease in Debt	45.8	22.8	33.0	12.0	0.0	Payout ratio	111%		104%	102%	99%	97%
Dividends paid	-10.8	-13.4	-14.7	-14.9	-15.4	NTA (A\$)	1.28		1.37	1.36	1.40	1.44
Other financing cash flows	-1.2	-0.8	0.0	0.0	0.0							
Financing cash flows	63.8	33.7	18.3	-2.9	-15.4							
Balance Sheet												
	Jun-18A	Jun-19A	Jun-20E	Jun-21E	Jun-22E							
Assets						Result quality						
Cash And Deposits	4.5	20.2	1.7	1.1	0.8	Cash flow conversion	55.7%		128.7%	102.0%	101.5%	100.7%
Debtors	2.2	1.4	1.6	1.8	1.9	FCF vs. NPAT	54.3%		91.3%	67.7%	95.6%	94.7%
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	Net Debt	100.9		108.1	159.6	172.1	172.5
Total Current Assets	6.7	21.7	3.3	3.0	2.7	Net Debt / Assets	34.7%		30.3%	40.5%	41.7%	41.1%
Fixed Assets	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	8.7		5.7	3.8	3.3	3.4
Investments	283.9	332.8	389.4	408.3	415.5	Invested Capital	273.2		321.8	381.8	400.3	407.2
Goodwill	0.0	0.0	0.0	0.0	0.0	Enterprise Value	303.1		339.4	397.4	409.9	410.3
Intangibles	0.0	0.0	0.0	0.0	0.0	Growth ratios						
Other non-current assets	0.0	1.9	1.9	1.9	1.9	Revenue	2.4%		32.6%	13.6%	10.4%	4.6%
Total Non-Current Assets	283.9	334.7	391.3	410.2	417.4	Operating costs	36.6%		60.8%	-13.0%	5.8%	2.7%
TOTAL ASSETS	290.6	356.3	394.6	413.2	420.1	EBITDA	-2.9%		26.5%	20.9%	11.4%	4.9%
Liabilities						EBIT	-2.9%		26.5%	20.9%	11.4%	4.9%
Short Term Debt	18.3	15.4	0.0	0.0	0.0	NPAT	4.5%		17.7%	8.6%	5.3%	5.4%
Creditors	2.8	4.2	4.8	5.3	5.6	EPS growth	-21.3%		6.5%	2.0%	5.3%	5.4%
Other current liabilities	3.1	3.6	3.6	3.6	3.6	DPS growth	-4.3%		0.0%	0.0%	1.9%	3.3%
Total Current Liabilities	24.2	23.2	8.4	8.9	9.1	Portfolio						
Long Term Debt	87.1	112.9	161.3	173.3	173.3	Value (A\$m)*	363.0		330.0		327.3	
Other Debt	0.0	0.0	0.0	0.0	0.0	Occupancy**	83%		99%		95%	
Other Non-Current liabilities	1.4	3.1	3.1	3.1	3.1	WALE	5 years		5.7 years		5.8 years	
Total Non-Current liabilities	88.5	116.0	164.4	176.4	176.4	WACR	6.79%		6.78%		6.78%	
TOTAL LIABILITIES	112.7	139.2	172.8	185.3	185.6	*Includes assets under development as if complete						
Equity						**ex Botanicca 9 = 98%						
Issued capital	256.9	281.1	281.1	281.1	281.1							
Retained earnings	-79.0	-64.0	-59.3	-53.3	-46.6							
Other reserves and FX	0.0	0.0	0.0	0.0	0.0							
TOTAL EQUITY	177.9	217.1	221.8	227.8	234.5							

SOURCE: MORGANS RESEARCH, COMPANY

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Analyst owns shares in the following mentioned company(ies): GARDA Diversified Property Fund

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