

GARDA DIVERSIFIED PROP FUND

HOLD

Botanica 9 the swing factor to FY20

Real Estate / Diversified REIT's

23 August 2019

COMPANY UPDATE

Ticker	GDF
Stock Price	\$1.460
Target Price	\$1.450
Forecast Capital Return	(0.7%)
Forecast Dividend Yield	6.2%
Estimated Total Return - 12 Mth Forward	5.5%

Company market data

Market Cap.	\$237.8m
Free Float (%)	86.0
Enterprise Value	\$388.2m
52 Week Range	\$1.22 - \$1.50
Shares Out.	162.9m
Avg. Daily Value	\$0.5m

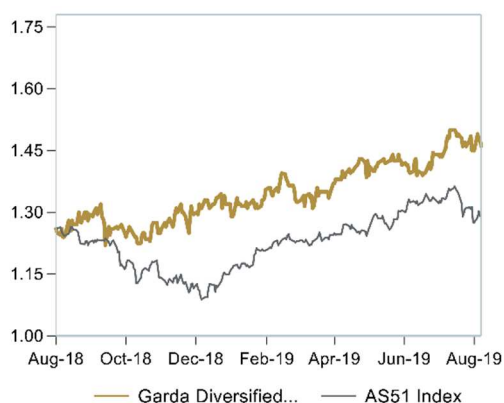
Estimates changes

	2018a	2019e	2020e	2021e
Core NPAT - <i>old</i>	11.2	13.5	15.1	16.1
Core NPAT - <i>new</i>	11.2	13.2	14.7	16.2
% Change	0.0	(2.0)	(2.8)	0.4
Core EPS dil. (€) - <i>old</i>	8.7	8.8	9.3	9.9
Core EPS dil. (€) - <i>new</i>	8.7	8.7	9.0	9.9
% Change	0.0	(2.0)	(2.8)	0.5
DPS (€) - <i>old</i>	9.0	9.0	9.0	9.5
DPS (€) - <i>new</i>	9.0	9.0	9.0	9.5
% Change	0.0	0.0	0.0	0.0

All figures are in AUD unless otherwise specified.

Share price performance

Garda Diversified Prop Fund vs. AS51 (rebased index)



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EVENT

GDF delivered FFO of \$13.2m, or 8.66cpu, ~2% below Moelis estimates. GDF's DPU of 9c for FY19 reflects a payout ratio of 104%, essentially reflecting the impact of higher gearing as GDF has funded the development of Botanica 9. As income from this asset begins to come through, we see the payout ratio returning to < 100%. Key highlights from the result include:

NTA +6.2% on Jun'18, to \$1.37, largely driven by valuation uplift and development profit, as well the \$8m received in litigation proceeds.

Completion of development at Botanica 9 generated an ~\$8.5m profit uplift (5c per unit). The asset is a ~7,000sqm office building located in the metro office market of Richmond, in Melbourne. The key focus for GDF remains securing a tenant/tenants for this building – given time required to complete a fit out, we have pushed our income commencement out 3 months to Mar'20. On a fully let basis, Botanica 9 should contribute ~\$4m net property income.

GDF's development pipeline is well positioned for FY20 and FY21, with projects at Berrinba (Qld) and Wacol (Qld) expected to require ~\$21m of capex in FY20. Further development opportunities also exist with the recent acquisitions at Acacia Ridge, which are subject to a rent guarantee (equating to ~18 months).

GDF has successfully executed leases on ~11k sqm in FY19, maintaining occupancy at ~98% (ex Botanica 9).

Following completion of construction at Botanica 9 (\$34m spend in FY19), GDF's LVR is ~38.5%. Having secured a \$50.1m security from St George in FY19, the Fund has ~\$22.6m of headroom, sufficient to undertake the Berrinba development (\$6.5m) and the majority of the Wacol development (\$22m). GDF may look to a further asset sale early FY21 to fund the balance, noting the asset at Varsity Lakes could be a candidate for sale following some leasing needing to be done in 1H20.

IMPACT

Changes to FY20 reflect the slight slippage in timing around Botanica 9. Growth into FY21 reflects income at Berrinba (12 months) and Wacol (3 months) coming online.

INVESTMENT VIEW

Maintain Hold and TP at \$1.45.

Y/E Jun 30	2018a	2019e	2020e	2021e
Core NPAT	11.2	13.2	14.7	16.2
Core EPS (Diluted) (€)	8.7	8.7	9.0	9.9
P/E	16.8x	16.9x	16.2x	14.7x
EPS growth	(15.4%)	(0.6%)	4.0%	10.5%
DPS (€)	9.0	9.0	9.0	9.5
Yield	6.2%	6.2%	6.2%	6.5%
DPS growth	(4.3%)	0.0%	0.0%	5.6%
Net Tangible Assets (\$/share)	1.28	1.37	1.42	1.49
Prem / (Disc) to NTA	13.6%	6.6%	2.8%	(2.3%)
Gearing	36.3%	36.0%	43.5%	43.4%

All figures are in AUD.

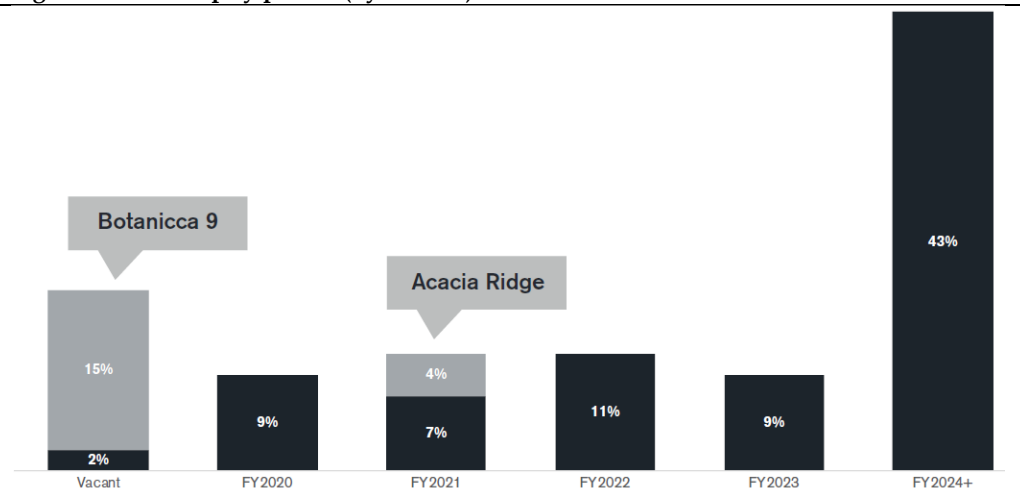
ACTIVE LEASING THROUGH FY19

GDF leased ~11,282sqm through FY19, of which 6,857qsm was completed in 2H19. Notable deals include:

- Grant Thornton at Cairns for 10 years, with 3.5% fixed bumps.
- Freight and Logistics at Archerfield for 2,769sqm (1 yr extension)
- Kuehne + Nagel at Lytton for 2,200sqm for 3 years, with 3% fixed bumps.

FY20 expiries are manageable with ~9% of the portfolio expiring, followed by 11% in FY21 (of which 4% is likely to become redevelopment stock).

Figure 1: GDF's expiry profile (by income)



Source: Company, Moelis Analysis

Key lease expiries in FY20 include:

- Benjamin Place, Lytton
- Varsity Parade, Varsity Lakes (Queensland Police expiry)

In FY20, Acacia Ridge is likely to form part of the development pipeline, with GDF currently in the process of assessing redevelopment options and potential leasing outcomes.

LEASING AT BOTANICCA 9 THE #1 FOCUS

Representing ~16% of income for GDF, Botanicca 9 is a key leasing focus for GDF. Initial targets indicated rent commencing from Jan'20, however given the length of time required to complete a fitout, it's likely this is starting to slip towards Mar/Apr'20. Anecdotally however, enquiry has picked up and there are a number of ongoing discussions with potential tenants, ranging from interest in 1 floor to 4 floors.

THE DEVELOPMENT PIPELINE

Berrinba Industrial Development

- GDF acquired the 11,940sqm site in Nov'18 for \$3.0m
- Asset is located in established industrial precinct
- Development to consist of ~5,000sqm of warehouse and 500sqm of office
- Construction costs: \$5m
- Due to commence 1QFY20
- Estimated (MOE) income contribution from 1H FY21

Wacol Industrial Development

- GDF acquired the 4.1 Ha site for \$5.9m in May'19, recently revalued at \$6.5m
- DA submitted for ~17,000sqm of prime space over 3 separate buildings targeting 4,000sqm – 8,000sqm tenants
- Development approvals expected to be received prior to end of Dec'19
- Capex estimated at \$22m, with ~\$15m to be deployed in FY20.

Target yields on development are ~7%.

Figure 2: Berrinba Industrial Development



Source: GDF

Figure 3: Wacol Industrial Development



Source: GDF

CAPITAL MANAGEMENT

GDF's gearing (LVR) is ~38.5% at Jun'19. The Fund is benefitting from having low hedging (35%) resulting in a weighted average cost of debt of 3.15%.

GDF's target LVR range is 30% - 35%, though the Fund may go above this for short periods of time i.e. to fund near-term developments. With \$22.6m of headroom, GDF has sufficient headroom to fund the development at Berrinba, and the majority of Wacol, though may look to sell an asset (i.e. Varsity Lakes) to fund this development. Varsity Lakes was previously identified as a non-core asset, though we understand there is some leasing to execute prior to commencing a sales campaign.

OUTLOOK AND VALUATION

GDF has guided to an FY20 distribution of 9.0 cents per share – flat on FY19 and in line with Moelis estimates. From an earnings perspective, GDF has guided to a payout of 100% - 105%, with the variation resulting from the inclusion of nil – 3 months income from Botanicca 9. Moelis estimates assume a 100% payout ratio.

GDF currently trades at a ~7% premium to NTA (though there is potential upside to this depending on the outcome at B9), and offers investors a 5.7% DPU yield.

As income from the developments begins to come through however, there is scope for solid earnings and distribution growth in FY21. We maintain our Hold rating. Our target remains unchanged at \$1.45.

Garda Diversified Prop Fund (GDF)

Market Cap: \$238m

Last Price: \$1.460

Target Price: \$1.450

Hold
Key Stock Data

Year Ending Jun	2017a	2018a	2019e	2020e	2021e
EPS (adj.) (€)	10.3	8.7	8.7	9.0	9.9
EPS Yield	7.0%	6.0%	5.9%	6.2%	6.8%
EPS growth	-	(15.4%)	(0.6%)	4.0%	10.5%
EPS reported (€)	19.3	18.8	18.9	13.8	16.7
DPS (€)	9.4	9.0	9.0	9.0	9.5
DPS Yield	6.4%	6.2%	6.2%	6.2%	6.5%
DPS growth	-	(4.3%)	0.0%	0.0%	5.6%
NTA / share	1.21	1.28	1.37	1.42	1.49
Prem/(Disc) to NTA	20.7%	13.6%	6.6%	2.8%	(2.3%)
Gearing (Debt/Property)	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing (Debt/Assets)	29.8%	36.3%	36.0%	43.5%	43.4%
Return on Equity	8.6%	6.5%	6.7%	7.1%	7.4%
Interest Cover	5.3x	4.4x	3.7x	3.4x	3.5x
12 Mth Fwd Dividend Yield		6.2%			
Estimated 12 Mth Target Price		\$1.450			
Total Estimated 12 Mth Return		5.5%			

Profit and Loss (\$m)

Year Ending Jun	2017a	2018a	2019e	2020e	2021e
Net Property Income	14.7	14.3	12.8	21.3	25.8
Other Operating Income	0.0	0.0	8.0	0.0	0.0
Equity Accounted Profit	0.0	0.0	0.0	0.0	0.0
Other	(1.5)	(1.6)	(4.8)	(3.9)	(4.2)
EBITDA	13.1	12.7	16.0	17.5	21.7
Depr & Amort	0.0	0.0	0.0	0.0	0.0
EBIT	13.1	12.7	16.0	17.5	21.7
Net interest expense	(2.4)	(1.5)	(2.8)	(2.8)	(5.5)
Pre-tax profit	10.7	11.2	13.2	14.7	16.2
Tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	10.7	11.2	13.2	14.7	16.2
Adjustments:					
Revaluations	9.5	14.3	9.0	7.9	10.9
Profit/(Loss) on Assets	(0.2)	0.0	1.6	0.0	0.0
IFRS Adjustments	0.5	(0.9)	4.7	0.0	0.0
Amort. of incentives	0.0	0.0	0.0	0.0	0.0
Straight-line rents	(0.5)	(0.4)	0.4	0.0	0.0
NPAT (reported)	20.1	24.2	28.8	22.5	27.1

Balance Sheet (\$m)

Year Ending Jun	2017a	2018a	2019e	2020e	2021e
Cash	11.4	4.5	20.2	25.1	24.7
Investments	188.1	283.9	332.8	400.3	422.0
Inv. in Associates	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	1.2	2.2	3.3	3.3	3.3
Total Assets	200.6	290.6	356.3	428.7	450.0
Current Creditors	1.5	2.8	4.2	4.2	4.2
Debt	59.7	105.4	128.3	186.3	195.4
Provisions	2.6	3.1	3.6	3.7	3.9
Other	0.9	1.4	3.1	3.1	3.1
Total Liabilities	64.7	112.7	139.2	197.3	206.6
Net Assets	135.9	177.9	217.1	231.3	243.4
Equity & Reserves	227.8	256.9	281.1	287.1	287.1
Retained Profits	(91.9)	(79.0)	(64.0)	(55.8)	(43.7)
Shareholders' Equity	135.9	177.9	217.1	231.3	243.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	135.9	177.9	217.1	231.3	243.4

Cashflow (\$m)

Year Ending Jun	2017a	2018a	2019e	2020e	2021e
Net Property Income	14.7	14.3	12.8	21.3	25.8
Interest Received	(0.8)	0.3	2.2	0.0	0.0
Interest Paid	(2.4)	(1.3)	(4.1)	(5.1)	(6.2)
Other	(1.9)	(2.2)	9.6	(1.8)	(3.6)
Operating Cashflow	9.6	11.1	20.5	14.4	15.9
Growth	10.8%	15.8%	84.5%	(29.7%)	10.6%
Capital expenditure	(6.1)	(5.1)	(8.6)	(26.8)	(10.8)
Acquisitions	22.3	0.0	16.4	0.0	0.0
Divestments	(41.1)	(76.0)	(44.0)	(32.9)	0.0
Other	(0.5)	(0.8)	(2.4)	0.0	0.0
Investing Cashflow	(25.3)	(81.9)	(38.6)	(59.6)	(10.8)
Equity raised	19.9	29.1	25.0	6.0	0.0
Dividends paid	(9.6)	(10.8)	(13.4)	(14.2)	(14.9)
Net borrowings	14.3	45.8	22.8	58.0	9.1
Other	0.0	(0.3)	(0.8)	0.0	0.0
Financing Cashflow	24.6	63.8	33.7	49.8	(5.8)
Exchange Rate Adj	0.0	0.0	0.0	0.0	0.0
Net incr/(decr) in cash	8.8	(7.0)	15.6	4.6	(0.6)

Sum of the Parts Valuation

	\$m			
Current Trust Properties				381.6
Stated Cap Rate			6.8%	
Moelis Cap Rate			6.6%	
Market Val Incr/(Decr)				11.2
Currency Adjustment				4.0
Mark-to-Mkt Trust Val				396.7
Development/ Acq. Pipeline				8.8
Trust EV				405.5
Prop & Funds Mgmt	0.0	0.0x		0.0
Development Earnings	0.0	0.0x		0.0
Trust Expenses	(1.3)	10.0x		(12.6)
Manager Fee	(2.6)	3.0x		(7.9)
Corporation EV	(3.9)	5.3x		(20.4)
add other assets / liabs				(7.6)
add back deferred tax				0.0
less intangibles				0.0
less minorities				0.0
Group EV				377.5
less Group Net Debt				(150.5)
Group Equity Val				227.0
Shares on issue (m)				162.9
Group Val				\$1.394

Discounted Cashflow Valuation

Bond rate	4.3%
Equity risk premium	6.0%
Beta	0.8
Discount rate	8.9%
Perpetuity growth	2.5%
DCE/Share	\$1.429
Perpetuity %	53.8%

Divisional Analysis (\$m)

Year Ending Jun	2017a	2018a	2019e	2020e	2021e
	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
	13.1	12.7	16.0	17.5	21.7

Source: Company data, IRESS, Moelis Australia research estimates

23-Aug-19

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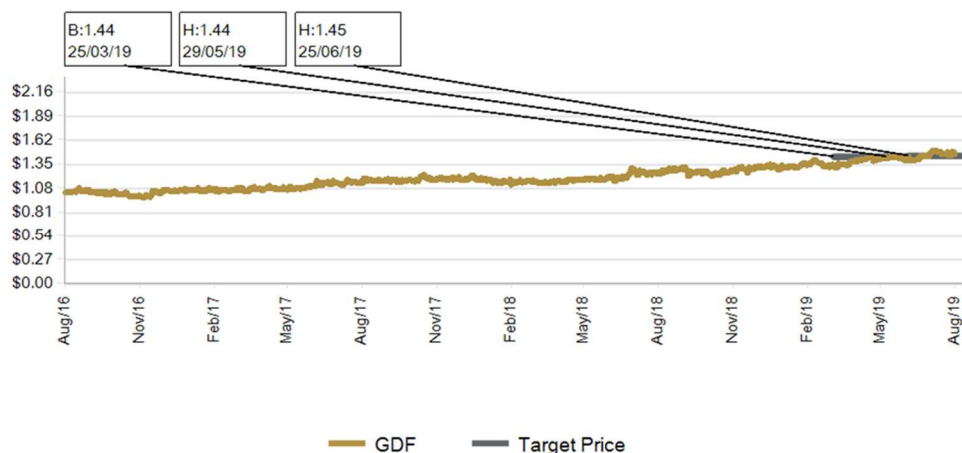
Buy: >15% **Hold:** 5% to 15% **Sell:** <5%.

RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 23 August 2019

SELL	HOLD	BUY
7.7%	49.2%	43.1%

Rating and Price Target History: Garda Diversified Prop Fund (GDF) as of 22/08/2019



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