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Fund Research & Ratings
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Listed Property

GARDA Diversified Property Fund (ASX Code: GDF)

12 September 2019

FY19 Results: Waiting on Botanicca

Accumulate

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Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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GARDA Diversified Property Fund (ASX: GDF)

Accumulate

See the end of this document for a description of Core Property's ratings. The rating must be viewed in the context of comparable A-REITs and not across all products.

Forecast Distribution:	6.2%
Forecast 12 Month Capital Return:	6.1%
Total Expected Return:	**12.3%**

Company Data	
ASX Code:	GDF
Price:	$1.47
Market Capitalisation:	$232.9M
Securities on Issue:	158.4M
52 Week Range:	$1.21-$1.545

Share price performance

Source: IRESS

FY19 results: Waiting on Botanicca

- *FY19 results in line with guidance, with FFO per unit of 8.7 cpu and distributions of 9.0 cpu.*
- *Office building at Botanicca 9, Richmond VIC completed in June 2019, expected to be fully leased by July 2020 with estimated net property income of $4.0M p.a.*
- *FY20 distributions expected to be flat as GDF works to complete industrial developments and lease up Botanicca 9 with benefits to flow in FY21 onwards.*
- *Currently trading at 7.3% premium to NTA and 6.2% distribution yield for FY20.*

GDF reported FY19 results with FFO up 17.7% and FFO per security flat at 8.7cps due to the issue of new securities to fund growth.

Key focus for GDF in FY20 will be to lease up recently completed Botanicca 9 office building in Richmond VIC. Expectations are for the building to be fully leased by July 2020 (previously January 2020). The building remains a key focus for GDF to lease up in FY20, with the potential to add around $4.0M p.a. in net income once fully leased. GDF will also be looking to complete a number of developments at three recent industrial sites acquired.

With a focus on growth, and an LVR 38.5% against a target of 30% - 35%, GDF is likely to undertake further small capital raisings to fund industrial developments and growth initiatives through FY20.

FY20 guidance is for distributions to remain around 9.0cps, with growth likely to come once Botanicca 9 is leased up.

Core Property has maintained an Accumulate recommendation: We have updated our forecasts and rolled forward our valuation to $1.46 per unit and price target to $1.56 per unit. The successful lease up of Botanicca 9 is expected to provide strong earnings growth in FY21, with new expectations for the property to be fully leased by July 2020, around 12 months after completion. At current price levels GDF provides an attractive yield of 6.2% for FY20 and is trading 7.3% premium to its NTA of $1.37 per unit. Whilst we expect some uncertainty until GDF can lease up Botanicca 9, this may provide opportunities for investors to Accumulate at more favourable prices.

Year Ended 30 June	FY19A	FY20F	FY21F	FY22F
NPAT - Reported - $M	28.8	14.6	16.9	17.1
NPAT - adj - $M	13.2	13.8	16.1	16.2
Price/Earnings Ratio	19.7	16.8	14.5	14.4
FFO - cents	8.7	8.7	10.2	10.2
EPU - Growth		17.2%	16.3%	0.7%
DPU - cents	9.0	9.0	9.5	9.8
Distribution Yield	6.1%	6.2%	6.5%	6.7%
NTA per unit	$1.37	$1.38	$1.40	$1.42
Gearing	33.2%	33.8%	34.1%	34.6%

Source: Core Property estimates
Note: Gearing = (net debt – cash) / (net debt – cash + net assets)

Key Metrics

Strategy
To provide sustainable and growing distributable income derived from commercial and industrial real estate across the east coast of Australia. GDF focuses on a combination of newer and high yielding assets that is diversified across building type, location and tenants. The Fund is relatively defensive as it focuses on maintaining a conservative capital structure.

Board & Management
Board of the RE consists of Executive Chairman (Matthew Madsen) plus an Independent Director (Morgan Parker) and two Non-Executive Directors (Mark Hallett and Philip Lee). **Senior Management** includes Matthew Madsen (Executive Chairman and Managing Director), David Addis (Chief Operating Officer), Paul Brown (Manager, Investor Relations), Paul Lohr (Asset Manager) and Ikram Patel (Financial Controller).

Portfolio

Metric	June 19
No of Properties	12
Valuation	$332.8M
Portfolio Capitalisation Rate	6.79%
Locations	Australia
Sector	Office, Industrial
Occupancy	83%[1]
WALE	5.3 years

Note 1: Occupancy is 98% excluding Botanicca 9

Key Properties

June 19	% Portfolio
588 Swan St, Richmond	18.9%
7-19 Lake St, Cairns	17.1%
572 Swan St, Richmond	15.9%
41 Bivouac Pl, Wacol	10.6%
436 Elgar Rd, Box Hill	9.5%
Top 5	**72.0%**

Key Tenants

June 19	% income
J Blackwoods & Sons	10.1%
Volvo Group	9.5%
Qld Gov (DTMR)	8.0%
Golder Associates	7.2%
Planet Innovation	7.2%
Top 5	**42.0%**

Geography

June 19	% Portfolio
NSW	-
VIC	44.4%
QLD	55.6%
ACT	-
WA	-
SA	-
Total	**100%**

Debt	Jun 2019
Gearing	32.5%
Target LVR	30-35%
Drawn Debt	$139.7M
Facility limit	$162.3M
Weighted Expiry	1.15 years
All in cost of debt	3.16%
% Hedged	37%
LVR	38.5%
LVR Covenant	50%

Expenses	Jun 2019
RE Fee	0.65% of GAV
Outgoings	17.8% of rental income

Historical	FY17	FY18	FY19
EPU – FFO per Unit	10.3	8.7	8.7
DPU – Distributions per Unit	9.4	9.0	9.0
Payout Ratio	94.4%	100.7%	104.7%
Distribution Frequency	Qtrly	Qtrly	Qtrly
NTA per Unit	$1.21	$1.28	$1.37

FY19 Results

GDF reported its Full Year 2019 on 22 August 2019. The following is a review of the results.

FY19 Results to 30 June 2019

FY19 results	FY19	FY18	Change
Earnings			
Statutory Net Profit after tax *	**$28.8M**	$24.2M	+19.1%
Funds From Operations	**$13.2M**	$11.2M	+17.7%
FFO per security (on weighted units)	**8.7 cps**	8.7cps	No change
Distributions Paid	**$13.8M**	$11.3M	22.4%
Distribution per security	**9.0cps**	9.0cps	No change
Payout ratio	**104.7%**	100.7%[1]	+4.0%
Movement over 12 months	**As at Jun 2019**	**As at Jun 2018**	**Change**
Balance Sheet			
NTA per security	**$1.37**	$1.29	+6.2%
LVR (%)	**38.5%**	37.5%	+1.0%
Weighted average cost of debt	**3.16%**	3.8%	-0.64%
Weighted average debt maturity	**1.15 years**	1.8 years	-0.65 years
Borrowings – on balance sheet	**$139.7M**	$107.2M	+30.3%
Portfolio			
Property Valuation	**$332.8M**	$283.9M	+17.2%
Occupancy rate	**83%[2]**	95%	-12%
Number of properties	**12**	11	+1 property
Weighted Average Capitalisation Rate	**6.79%**	6.78%	+1bps
WALE (Weighted Average Lease Expiry)	**5.3 years**	5.8 years	-0.5 years

Source: GDF, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes. Note 1: Payout ratio is adjusted to take into account 26.1M of units issued on 20 December 2017, which were not entitled to receive a distribution for the December 2017 period. Note 2: Occupancy increases to 98% excluding Botanicca 9.

Key Points

- **Funds From Operations (FFO)** of $13.2M increased by 17.7% for the year, driven by net acquisitions as well as completed projects. FFO per security was flat at 8.7 cps after taking into account the issue of new units to fund GDF's growth objectives. Units on issue increased in October 2018 through the issue of 20M units at $1.25 per unit, raising $25M which was used to initially pay down debt and fund the completion of the Botanicca 9 office building at 588A Swan St, Richmond VIC.
- **Portfolio metrics:**
  - **Occupancy levels** fell to 83% (95% at June 2018) following the completion and inclusion of Botanicca 9 (588A Swan St, Richmond VIC) which GDF is looking to lease up in the coming period. Excluding the impact of Botannica 9, occupancy levels would have been 98% on the remainder of the portfolio.
  - **Weighted average rent reviews** of 3.14% was delivered across the portfolio, in line with the 3.2% delivered in FY18.
  - **Portfolio WALE** of 5.3 years, down from 5.8 years, reflecting the movement over the six-month

period.

- **The investment portfolio** increased to $332.8M (from $283.9M at June 2018), an increase of $48.9M. Key movements during the period include:
    - **Botanicca 9 (588A Swan St, Richmond VIC):** delivered a $42.6M increase in valuation for the year (including $28.9M during the second half) following the completion of construction in June 2019. The building was independently valued at $62.8M which includes around $8.5M in valuation gains on the project cost, or around 5cps. GDF has advised that it continues to hold discussions with potential tenants however we now expect GDF to fully lease the building by July 2020 (previously January 2020).
    - **7-19 Lake St, Cairns QLD:** delivered a $6.0M increase in valuation during the second half, following the renewal of leases and increased occupancy at 97% (from 94% at June 2018)
    - **Acquisitions** of $9.5M for 1-9 Huntress Rd, Berrinba and 498 Progress Rd, Wacol, QLD.
    - **The sale** of 747 Lytton Rd, Murrarie QLD in June 2019 for $17.3M (at a premium to its book value of $14.3M at December 2018), and
    - Valuation movements across the remaining assets in the portfolio.

- **Additional acquisitions of $31.0M** were completed post balance date, on 5 July 2019 consisting of three neighbouring industrial assets at 38, 56 & 69 Peterkin Street, Acacia Ridge QLD and an industrial warehouse at 839 Beaudesert Rd, Archerfield QLD. The acquisitions deliver an additional 27,000 sqm of space via a 15,000sqm and 12,000sqm building with redevelopment potential and are covered by a $2.0M rental guarantee.
- **Debt:** The Loan to Valuation Ratio (LVR) on the portfolio increased slightly to 38.5% (from 37.5%) during the year, above GDF's target range of 30% - 35%. GDF indicated the LVR is likely to increase in the short term as the Fund draws additional debt to complete the construction of the Berrinba and Wacol industrial projects. We expect GDF may require a small capital raising and/or a minor asset sale, in order to reduce its debt back to within its target gearing range. GDF currently has $139.7M of drawn debt with $125.8M falling due in September 2020 and the balance due to mature in April/June 2021. GDF has advised that it is currently in discussions to restructure its debt facility with its lenders to fund its future growth.
- **Net Tangible Assets (NTA)** increased 6.2% to $1.37 per unit, driven largely by revaluation gains (including the Botannica 9 and Cairns valuations) as well as the receipt of $8.0M in cash from the settlement of an historical litigation issue. NTA has reduced to around $1.36 per unit after taking into account acquisition costs post 30 June 2019.
- **Distributions** of $13.8M were paid, up 22.4% for the year. Distributions per security of 9.0 cps for FY19 was in line with the 9.0cps delivered in FY18 after adjusting for the issue of new units.
- **Management has advised that its focus for FY20** will be on:
    1) completing the leasing of Botannica 9, with potential net income of around $4.0M p.a on a fully leased basis.
    2) Progress and complete recent industrial developments at Berrinba (construction to be completed) Wacol (achieve development approval and commence construction) and Acacia Ridge (progress re-development options and leasing outcomes).
    3) look for further acquisitions to grow Assets Under Management, with a target of around $100M p.a. of AUM growth. Existing projects are likely to deliver around 50% of this, with further growth expected to be funded by additional capital raisings.
    4) Restructure debt facilities ahead of upcoming debt maturities.
- **FY20 Guidance** was provided with GDF expecting to maintain distributions at 9.0cps. The FY20 payout ratio is expected to remain in the range of 100% - 105%, indicating FFO per security of 8.6 – 9.0cps, compared to the 8.7cps delivered in FY19. GDF expects the payout ratio to normalise upon the leasing of Botanicca 9, whereby we expect the additional lease income will drive the payout ratio into the 90% - 100% range.

Financial Forecasts

We have updated our financial forecasts for GDF, which is summarised in the table below.

Forecast Earnings - Core Property

Financial Forecasts	FY19A	FY20F	FY21F	FY22F
Funds from Operations (FFO) - $M	13.2	13.8	16.1	16.2
FFO per Unit – cpu	8.7	8.7	10.2	10.2
Payout Ratio	104.7%	103.5%	93.5%	96.0%
Distributions - cpu	9.0	9.0	9.5	9.8
Management Distribution Guidance - cpu	9.0	9.0		

Source: Core Property forecasts

Portfolio Metrics

The following table is a summary of GDF's portfolio at June 2019.

GDF Property Portfolio - as at 30 June 2019

Property	Valuation $M		Capitalisation Rate %		Occupancy %		WALE (years)	
	Jun19	Dec18	Jun19	Dec18	Jun19	Dec18	Jun19	Dec18
7-19 Lake Street, Cairns QLD (including land at 26-30 Grafton St, Cairns QLD)	$57M	$51.0M	8.25%	8.25%	97%	98%	3.6	3.2
154 Varsity Parade, Varsity Lakes QLD	$12.8M	$14.0M	8.25%	8.25%	83%	90%	2.6	2.9
142-150 Benjamin Place, Lytton QLD	$9.5M	$9.7M	7.00%	7.00%	100%	100%	1.9	1.2
B2, 747 Lytton Road, Murarrie QLD	-	$14.3M	-	8.00%	-	100%	-	3.6
436 Elgar Road, Box Hill VIC	$31.5M	$29.0M	6.25%	6.25%	100%	100%	3.4	3.9
572-576 Swan Street, Richmond VIC	$53.0M	$52.5M	5.75%	5.75%	100%	100%	4.4	4.9
69-79 Diesel Drive, Mackay QLD	$30.0M	$30.2M	7.50%	7.50%	100%	100%	9.5	10.0
41 Bivouac Place, Wacol QLD	$35.3M	$35.3M	6.25%	6.25%	100%	100%	9.0	9.5
70-82 Main Beach Road, PinkenbaQLD	$20.0M	$19.0M	7.00%	7.37%	100%	100%	14.1	14.6
588A Swan Street, Richmond VIC (Botanicca 9)	$62.8M	$33.9M	5.75%	5.75%	0%	NA	NA	NA
67 Noosa Street, Heathwood QLD	$10.5M	$9.8M	7.25%	7.40%	100%	100%	8.8	9.2
1-9 Huntress Road, Berrinba QLD	$3.0M	$3.0M	NA	NA	NA	NA	NA	NA
498 Progress Road, Wacol QLD	$6.5M	-	NA	-	NA	-	NA	-
Capital Expenditure post valuation	$1.0M	$4.5M	NA	NA	NA	NA	NA	NA
Total Portfolio	**$332.8M**	**$306.3M**	**6.79%**	**6.78%**	**97.8%**	**99.0%**	**6.4**	**5.7**

Source: GDF

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Appendix: Financial Summary

GARDA Diversified Property Fund (ASX: GDF)

Profit & Loss	FY19A	FY20F	FY21F	FY22F
Operating Revenue	25.0	29.6	33.7	33.6
Property Expenses	-5.9	-7.2	-8.7	-8.4
Net Property Income	**19.0**	**22.4**	**25.0**	**25.2**
Other Income & Expenses	-2.3	-2.1	-2.2	-2.2
RE Fees	-2.1	-2.4	-2.6	-2.7
EBITDA	**14.6**	**17.9**	**20.1**	**20.3**
Depn & Amort	0.0	0.0	0.0	0.0
EBIT	**14.6**	**17.9**	**20.1**	**20.3**
Net Interest	-2.8	-4.0	-4.0	-4.0
Pre Tax Profit	**11.8**	**13.8**	**16.1**	**16.2**
Tax	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
NPAT - adj	**11.8**	**13.8**	**16.1**	**16.2**
Non Recurring Items	17.0	0.8	0.8	0.9
NPAT - Statutory	**28.8**	**14.6**	**16.9**	**17.1**

Summary	FY19A	FY20F	FY21F	FY22F
NPAT - adj	11.8	13.8	16.1	16.2
Price Earnings Multiple	19.7	16.8	14.5	14.4
Revenue Growth	27.2%	18.1%	13.7%	-0.3%
EBIT Growth	22.2%	22.0%	12.7%	0.6%
Value of Properties	332.8	341.7	347.7	353.2
Net Assets	217.1	219.2	222.6	224.5
NTA per Unit	$1.37	$1.38	$1.40	$1.42
Prem(Disc) to NTA per unit	7.3%	6.3%	4.6%	3.8%
DPU	9.0	9.0	9.5	9.8
Payout Ratio	113.9%	103.5%	93.5%	96.0%
DPU Growth		0.5%	5.0%	3.4%
Yield	6.1%	6.2%	6.5%	6.7%

Cashflow	FY19A	FY20F	FY21F	FY22F
Operating Activities	24.6	24.2	26.9	27.2
Net Interest	-4.0	-4.0	-4.0	-4.0
Tax Paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Operating Cashflow	**20.6**	**20.2**	**22.9**	**23.2**
Capex	-9.1	-7.0	-7.7	-7.7
Maintainable Operating CF	**11.5**	**13.2**	**15.2**	**15.5**
Distributions	-13.4	-13.3	-16.4	-15.3
Acquisitions	-45.9	0.0	0.0	0.0
Disposals	16.4	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Free Cashflow	**-31.4**	**-0.1**	**-1.2**	**0.2**
Change in Debt	22.8	7.4	7.4	6.8
Change in Equity	24.2	0.0	0.0	0.0
Net Cashflow	15.7	7.3	6.2	7.0

Key Ratios	FY19A	FY20F	FY21F	FY22F
EPU (adj)	7.5	8.7	10.2	10.2
EPU - Reported	18.2	9.2	10.7	10.8
EPU (adj) - Growth		17.2%	16.3%	0.7%
LVR	38.5%	37.5%	36.9%	36.3%
Net Debt/(Net Debt + Equity)	33.2%	33.8%	34.1%	34.6%
Net interest Cover	5.2	4.4	5.0	5.0
Distn / Maintainable CF	116.3%	100.6%	107.7%	98.6%
ROE	5.6%	6.4%	7.2%	7.2%

Balance Sheet	FY19A	FY20F	FY21F	FY22F
Cash	20.2	16.5	13.3	9.8
Debtors	1.4	2.0	2.0	2.0
Investments	0.0	0.0	0.0	0.0
Other Assets	334.7	341.7	347.7	353.2
Total Assets	**356.3**	**360.2**	**362.9**	**364.9**
Creditors	4.2	5.8	5.8	5.8
Borrowings	128.3	128.3	128.3	128.3
Provisions	0.0	0.0	0.0	0.0
Other Liabilities	6.7	6.9	6.3	6.4
Total Liabilities	**139.2**	**141.0**	**140.3**	**140.5**
Net Assets	**217.1**	**219.2**	**222.6**	**224.5**

Valuation		
Discount Rate	9.0%	
Terminal Growth Rate	2.5%	
DCF Valuation per Share	$1.46	
12 Month Target Price	**$1.56**	DCF rolled forward 12 mths
12 month Dividend Yield	6.2%	
12 month Target Price	6.1%	
Total Est. 12 mth return	**12.3%**	

Source: Core Property forecasts
Note: Gearing = (net debt – cash) / (net debt – cash + net assets)

Ratings Process for A- REITs

Core Property Research evaluates recommendations on listed A-REITs continuously, based on a range of qualitative and quantitative criteria ranging from management, appropriateness of the A-REIT's capital structure and the property portfolio metrics. From a quantitative perspective, Core Property's recommendations are based on Total Expected Returns (forecast distribution yield plus forecast capital gain or loss) for a 12-month time horizon, using a range of valuation methodologies. The two most commonly used valuation techniques are Discounted Cash Flow (DCF), which uses an A-REI's expected free cash flow, and the net Asset Valuation (NAV) approach.

The 12-month Total Return is compared with set total return bands and assigned a 12-month recommendation based on the Recommendation Definitions below.

Recommendation Definitions

Recommendation	Definition
Buy	If the 12-month Total Expected Return is forecast to be 15% or more.
Accumulate	If the 12-month Total Expected Return is forecast to be at least 10% and less than 15%.
Hold	If the 12-month Total Expected Return is forecast to be at least 5% and less than 10%.
Reduce	If the 12-month Total Expected Return is forecast to be at least 0% and less than 5%.
Sell	If the 12-month Total Expected Return is forecast to be less than 0%.

At times of extreme volatility, it is quite possible that the recommendations will swing between each of our bands. During such times, Core Property will adopt a more flexible approach to recommending stocks, based on a slightly longer duration, and as such, recommendations may appear to be inconsistent when compared with the bands. This is to avoid clouding value judgments with short-termism.

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