



GARDA Capital Group (GCM)

Strong Result & Outlook as Expected – \$2.46 Valuation & Price Target

Outperform

Share Price: \$2.21

Campbell Rawson
crawson@taylorcollison.com.au
+61 415 146 725

Our View

Despite a 25% share price appreciation in the past two months, we retain our Outperform recommendation with our FY20 price target moving from \$2.30 to \$2.46 as we better understand growth opportunities and strip out the extrapolation of one-off expenses from FY19. With all three current GDF projects nearing execution phase, management are turning their attention to additional acquisitions in order to maintain growth while diversifying and further de-risking the portfolio. We therefore expect upside to our forecasts and are also buoyed by a renewed focus on debt funds management revenue streams as management look to expand GCM’s lending capacity off a low base.

Key Points

FY19 Operating NPAT up 54.7% – Result as expected on the back of strong recurring management fee revenue growth and a significant uplift (255%) in capex fee revenue as GDF has expanded its portfolio via acquisitions and construction. Growth of this level breeds expectation and although management fees will grow in line with AUM, a new capital works benchmark has been established. Pleasingly, management are well on track to meet and possibly exceed the FY19 capital works fee level with \$55m of projects currently in the GDF pipeline (\$38m to be spent in FY20 vs. \$42.6m spent in FY19). NB: GCM receives 5% of any GDF capex spend.

Leasing of the recently completed ‘Botannica 9’ remains key for GDF portfolio – We are aware management are in discussion with multiple potential tenants and with vacancy of >1,000m² space in Melbourne city fringe remaining <2%, we are confident this process will be completed during 2H20. The current Botannica 9 valuation of \$62.8m is on an empty-building basis and once leased we estimate a further value attribution of \$7-\$10m (11-16%) and therefore upside to our forecasts. Furthermore, with little cost attached, we expect to see a greater focus on debt funds management activities in FY20 and have forecast 16% growth in this area (off a low base), which should flow straight to the bottom line.

Potential for liquidity event – With GDF’s gearing target range between 30-35% (current LVR is 38.5%) and NTA of \$1.36 (current share price is \$1.47) we see potential for near-term acquisitions to be equity funded. Management have indicated that GCM will participate in any form of GDF capital raising and with its own gearing at 37.5% and a 6-month share price appreciation of 42.5%, we see potential for a GCM capital raising to fund this. Such an event should open up liquidity and provide investors an opportunity to buy-in below our valuation.

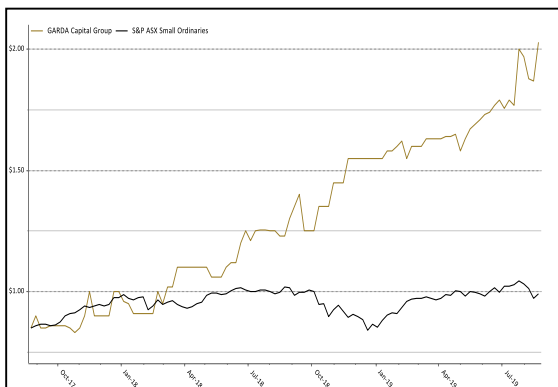
Summary

Market Capitalisation	\$59.1m
Unit Price	\$2.21
52 week low	\$1.25
52 week high	\$2.21
Ave Monthly Vol (year rolling)	132k

Key Financials (A\$ million)

Year End	FY19 Actual	FY20 Est.	FY21 Est.
Total Revenue	14.3	10.4	10.8
Operating Expenses	-4.1	-3.8	-3.9
EBIT	10.1	6.6	6.8
Underlying NPAT	8.4	4.1	4.3
Valuation			
Non Investment Operational Earnings	2.1	2.9	3.1
Multiple (x)	12.0	12.0	12.0
Operating EV (\$m)	25.1	35.4	37.7
GCM NAV (Net Assets)	25.8	26.7	28.5
Total GCM Value (EV+NAV)	51.0	62.1	66.3
Per Share Value (\$)	2.02	2.46	2.63
Debt Per Unit	47.4	47.4	47.4
Gearing (LVR)	37.5%	35.8%	35.8%

Unit Price Graph (A\$)





TAYLOR COLLISON

Sharebrokers and Investment Advisers
www.taylorcollison.com.au

Garda Capital Group - Financial Summary

Price \$ 2.21

PROFIT & LOSS SUMMARY (A\$m)

Period	FY18A	FY19A	FY20E	FY21E
Revenue	4.9	7.1	8.0	8.4
Other Income	2.3	7.2	2.4	2.4
Total Operating Expenses	(3.3)	(4.1)	(3.8)	(3.9)
Depreciation & Amortisation	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	3.8	10.1	6.6	6.8
Net Interest	(0.5)	(0.9)	(0.8)	(0.8)
PBT	3.3	9.3	5.7	6.0
Tax	(0.5)	(0.9)	(1.6)	(1.6)
Underlying NPAT	2.8	8.4	4.1	4.3

BALANCE SHEET SUMMARY (A\$m)

Period	FY18A	FY19A	FY20E	FY21E
Cash	8.5	3.9	5.4	7.1
Financial Assets	21.8	30.7	32.2	32.2
Other Assets	2.8	5.4	3.6	3.7
TOTAL ASSETS	33.1	39.9	41.3	43.1
Total Borrowings	12.0	12.0	12.0	12.0
Other Liabilities	1.4	2.1	2.5	2.5
TOTAL LIABILITIES	13.3	14.1	14.5	14.5
TOTAL EQUITY	19.8	25.8	26.7	28.5

EARNINGS AND DIVIDENDS

Period	FY18A	FY19A	FY20E	FY21E
Weighted Average Units on Issue	25.23	25.23	25.23	25.23
Underlying EPS (c)	11.60	34.77	16.42	17.12
PE Ratio (x)	19.06	6.36	13.46	12.91
Distribution Payout Ratio (%)	43.1%	28.4%	54.8%	52.6%
Distribution (c)	5.00	9.88	9.00	9.00
Distribution Yield (%)	2.3%	4.5%	4.1%	4.1%

CASH FLOW SUMMARY (A\$m)

Period	FY18A	FY19A	FY20E	FY21E
Net Cash - Operating Activities	2.14	3.39	3.47	3.64
Net Cash - Investing Activities	(8.51)	(5.75)	(0.05)	(0.05)
Finance Cost	(0.55)	(0.86)	(0.84)	(0.84)
Net Cash from Financing Activities	8.97	(2.31)	(1.86)	(1.89)
Net Cash Flow	2.60	(4.67)	1.55	1.70
Opening Cash Balance	5.95	8.55	3.88	5.43
Closing Cash Balance	8.55	3.88	5.43	7.13

DEBT RATIOS

Period	FY18A	FY19A	FY20E	FY21E
Debt Per Unit (c)	47.44	47.44	47.44	47.44
Gearing % (LVR)	51.96%	37.51%	35.79%	35.79%
EBIT Interest cover (x)	7.02	11.79	7.82	8.11
Underlying NPAT cover (x)	5.10	9.74	4.94	5.16

Valuation

Period	FY18A	FY19A	FY20E	FY21E
Non Investment Operating Revenue				
Funds Management Revenue	4.88	7.11	8.01	8.42
Operating Expenses	(3.24)	(4.07)	(3.78)	(3.92)
EBIT	1.64	3.05	4.23	4.50
Interest Expense (Non-investment Debt)	(0.16)	(0.16)	(0.16)	(0.16)
PBT	1.48	2.89	4.07	4.34
Income Tax Expense	(0.42)	(0.79)	(1.12)	(1.19)
Non Investment Operational Earnings	1.06	2.10	2.95	3.15
Multiple (x)	12.00	12.00	12.00	12.00
Operating EV (\$m)	12.71	25.15	35.39	37.75
GCM NAV (Net Assets)	19.80	25.81	26.74	28.54
Total GCM Value (EV+NAV)	32.51	50.95	62.13	66.29
Total Shares on Issue (m)	25.23	25.23	25.23	25.23
Per Share Value (\$)	1.29	2.02	2.46	2.63

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Analyst: Campbell Rawson

Release Authorised by: Mark Pittman

Taylor Collison Limited
Sharebrokers and Investment Advisers
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9377 1500 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

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