

Finbar Group Ltd

(FRI \$0.95) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	March 2018	\$1.37/sh

Investment case

FRI has reported 1h 2018 operating profit of \$1.6m, with a significant second half skew expected consistent with our expectations. Commentary accompanying the result was the most upbeat from FRI in a number of years. A substantially improved 2018 (over 2017) is anticipated and we have no reason to amend forecasts at this stage, looking for in the region of \$12m in operating profit after tax (before impairment). The business has a development pipeline of \$2b and is very well positioned to benefit from a turnaround in WA that appears to be underway. It is worth recognising that during the period 2009 - 2016 FRI averaged \$24m in operating profit after tax, suggestive of the available leverage. In the meantime, the stock is yielding circa 5.7% fully franked.

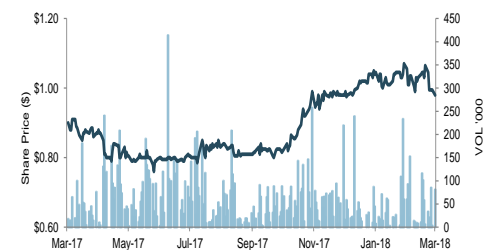
Key points

- Finbar has generated a first half operating profit of \$1.6m (\$0.5m loss after CBD office asset impairment).
- Results will be weighted to the second half due to anticipated completion of Aire and Aurelia.
- Commentary looks for "full year results to substantially exceed 2017".
- A dividend was declared of \$0.03 (Euroz \$0.02)
- FRI had a cash balance at the half of \$34m and \$79m in completed stock for sale (FRI share \$42.1m)
- In 1h 2018 FRI averaged \$8.4m in sales per month and we would expect completed stock to clear over the next 12 months or so.
- Finbar sold \$118m in property in 1h 2018 which is up 127% on the pcp, with activity at the highest levels since 2015.
- In particular commentary talks to momentum continuing to build with sales activity encouraging in recently launched projects, Palmyra Apartment Estate and Sabina Applecross.
- There is early indication of price increases possible in some product.
- 2019 earnings are supported by Vue Tower and Reva, which both commenced construction during 1h 2018 and have a combined end value of circa \$200m (FRI share \$125m)
- Together with finished product available to settle during 2019 and this compares favourably with the circa \$140m in revenues we are looking for in 2018.

Finbar Group Ltd	Year End 30 June	
Share Price	0.95	A\$/sh
Price Target	1.37	A\$/sh
Valuation (DCF)	1.37	A\$/sh
WACC	10.0%	
Terminal Growth	3.0%	
Shares on issue	231.3	m, diluted
Market Capitalisation	219.9	A\$m
Enterprise Value	303.9	A\$m
Debt Dec 2017	118.8	A\$m
Cash Dec 2017	35.2	A\$m

Key Financials	2017a	2018f	2019f
Revenue (A\$m)	124.2	140.6	163.5
EBITDA (A\$m)	15.4	14.5	20.2
EBIT (A\$m)	9.5	14.4	20.1
Reported NPAT (A\$m)	5.1	10.2	14.1
Normalised NPAT (A\$m)	10.0	11.6	14.1
Gross Cashflow (A\$m)	13.3	12.0	14.3
Capex (A\$m)	1.1	-0.3	-0.3
Op. Free Cashflow (A\$m)	-17.6	18.4	-1.5
Revenue Growth (%)	12%	19%	15%
EBITDA Growth (%)	175%	-56%	50%
Norm. NPAT Growth (%)	-52%	16%	14%
Normalised EPS (Ac)	4.33	5.00	6.11
Norm. EPS growth (%)	-52%	15%	22%
PER (x)	22.0	19.0	15.5
EV:EBITDA (x)	19.7	20.9	15.0
EV:EBIT (x)	32.0	21.1	15.1
DPS (Ac)	6.00	6.00	6.00
Dividend Yield (%)	6.3%	6.3%	6.3%
Net Cash (A\$m)	-74.3	-68.4	-83.7
Net Debt:Equity (%)	34%	32%	39%
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

We provide below our view of the project pipeline for FRI (Euroz estimates):

Fri share of revenues					
Projects	2018	2019	2020	2021+	
Complete	(\$m)	(\$m)	(\$m)	(\$m)	
Ecco	1	-	-	-	
Subiaco	1	-	-	-	
Norwood	1	-	-	-	
The Springs (Arbor North)	1	-	-	-	
Maylands (Unison)	4	-	-	-	
Northbridge (James street) Linq	12	-	-	-	
Concerto and Harmony	25	15	-	-	
Motive	10	10	-	-	
Under construction					
Aire (West Perth)	30	23	-	-	
South Perth (Aurelia)	53	15	-	-	
Preselling					
Reva S/Perth	-	38	10	-	
63 Adelaide Terrace (Vue)	-	58	15	-	
Palmyra East	-	-	25	-	
Sabina	-	-	62	-	
Imminent Launch					
Circa Apartments Rowe Avenue Riverdale	-	-	23	-	
Development Approval					
Maylands (Kennedy)	-	-	-	43	
Palmyra West	-	-	26	-	
The Point	-	-	-	45	
Canning Highway	-	-	55	55	
Future projects					
Harmony	-	-	-	20	
61 Waverly street	-	-	-	33	
Lot 888	-	-	-	20	
Belmont (GE Highway)	-	-	-	75	
South Perth Civic Triangle	-	-	-	150	
2 Homelea Court (Riverdale)	-	-	-	77	
Lot 1000 Riversdale	-	-	-	33	
Revenue forecast	137	158	216	550	1,060
Revenues per the above will not equate to reported revenues due to equity accounted developments. This does not impact our view of reported profits.					

We note:

- Earnings for 2018 are supported by presales at Aire and Aurelia, supplemented by settlement of completed products in which sales rates have increased over the last number of months.
- In 2019 we look for contribution from Vue (43% presold) and Reva (48.8% presold), both of which are under construction, together with sales in completed product driving steady 2019 growth.
- We look for conditions to continue to improve over the next six months supporting our step change in growth in 2020.
- Our forecasts for 2020 require two additional projects currently not yet selling, progressing to marketing and then ultimately construction and settlement over the next 28 months.
- In the above we assume the second stage of the Applecross project (sister to Sabina), and Palmyra West proceed, however realistically it could be any one of ten or so projects that could contribute in that time frame, four of which already have DA approval and so are ready to go.

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Investment case

- FRI currently yields 6.3% providing support for the stock at current levels.
- Ultimately the investment case is about earnings growth as conditions in WA improve increasing the number of projects delivered and settling each year.
- Below we table operating after tax earnings (excluding revaluations) from 2009/2010 to 2015/16)

	2010	2011	2012	2013	2014	2015	2016
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Operating Earnings after tax	22.5	14.6	20.2	29.3	37.6	25.9	21.0
Average	24.4						

- As the above indicates, operating NPAT over this seven period averaged \$24m per annum.
- While the pipeline of opportunities available to FRI far exceeds that in play during this period, this average is a reasonable expectation as a first step as conditions recover.
- Broadly it requires three or four projects completed per annum rather than two which has been the case for the last number of years.
- We look for activity over the next 12 months consistent with the idea FRI can return to circa \$24m in NPAT by 2020 or 2021.
- FRI will trade up in advance of this expectation is our view.
- We set our 12 month price target at 1.38, which is the DCF outcome of earnings growing to around \$24m per annum by 2021 and maintaining those levels going forward.
- This is an increase from our previous PT of \$1.25, reflecting the increased confidence depicted in commentary accompanying the half year result.
- We see FRI responding to market momentum, the first step of which is positive sales out of the Sabina project

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Financial Statements	2017a	2018f	2019f	2020f	Performance Ratios	2017a	2018f	2019f	2020f
Sales	115.1	136.6	157.5	215.8	Growth & Margins				
Other	9.1	4.0	6.0	6.0	Revenue Growth	12%	19%	15%	37%
Revenue	124.2	140.6	163.5	221.8	EBITDA Growth	175%	-56%	50%	0%
Operating costs	-108.8	-126.0	-142.3	-189.6	EBIT Growth	74%	13%	16%	36%
EBITDA	15.4	14.5	21.2	32.2	Normalized Net Profit Growth	-52.5%	16%	13%	33%
Depreciation	-5.9	-0.1	-0.1	-0.1	EBITDA margin	12.4%	10.3%	13.0%	14.5%
Other non cash	0.0	0.0	0.0	0.0	EBIT margin	7.6%	10.2%	12.9%	14.4%
EBIT	9.5	14.4	21.1	32.0	Normalized net profit margin	8.1%	8.2%	9.1%	10.2%
Net Interest income/(expense)	0.6	0.1	0.1	0.1	Effective tax rate	50%	30%	30%	30%
Associates	0.0	0.0	0.0	0.0	Liquidity				
Other income/(expense)	0.0	0.0	0.0	0.0	Capex/depreciation (x)				
Abnormal items (pretax)	0.0	0.0	0.0	0.0	Current ratio (x)	1.1	1.2	1.1	1.0
EBT	10.1	14.5	21.2	32.2	Quick ratio (x)	2.1	3.6	2.3	1.6
Tax expense	-5.0	-4.4	-6.4	-9.7	Receivable days	26	15	18	30
Discontinued operations	0.0	0.0	0.0	0.0	Payable days	11	5	6	10
Minority interest	0.0	0.0	0.0	0.0	Risk Measures				
Reported Earnings	5.1	10.2	14.8	22.5	Dividend Cover (x)	n/a	n/a	n/a	n/a
Dividends	-13.9	-13.9	-13.9	-18.5	Payout ratio (%)	272%	137%	94%	82%
Adjustments (one off)	0.0	0.0	0.0	0.0	Net interest cover (x)	na	na	na	na
Retained earnings	-8.8	-3.7	1.0	4.0	Net debt/equity (%)	34%	32%	39%	42%
Net Profit (ex valuation)	10.0	11.6	14.8	22.5	Returns				
Cash flow (A\$m)	2017a	2018f	2019f	2020f	Return on avg capital employed (%)	4%	7%	10%	15%
Pretax Profit	10.1	14.5	21.2	32.2	WACC (%)				
+ Depreciation	5.9	0.1	0.1	0.1	Return on assets (%)	3%	4%	6%	9%
- Tax Paid	-3.0	-4.4	-6.4	-9.7	Return on average equity (%)	2%	5%	7%	10%
+ inc (- dec) in provisions	0.3	-0.3	0.0	0.0	Company cost of equity (%)				
- Profit/+ loss on disposal	0.0	2.0	0.0	0.0	Share Data/Valuation	2017a	2018f	2019f	2020f
+/- Other	0.0	0.0	0.0	0.0	Share Data				
Gross Cashflow	13.3	12.0	15.0	22.7	Issued shares (m)	231.1	231.3	231.3	231.3
- Capital expenditure	1.1	-0.3	-0.3	-0.3	Weighted ave shares (m)	231.1	231.3	231.3	231.3
+/- Changes in working capital	-32.0	6.8	-15.5	-11.9	Fully diluted shares (m)	231.1	231.3	231.3	231.3
Operating Free Cashflow	-17.6	18.4	-0.8	10.5	Basic EPS (A\$)	0.02	0.04	0.06	0.10
+/- Investments	0.0	0.0	0.0	0.0	YoY change (%)	-37%	99%	46%	52%
- Dividends	-16.2	-13.9	-13.9	-18.5	Fully diluted EPS (A\$)	0.04	0.05	0.06	0.10
+ Proceeds from equity raised	0.0	0.0	0.0	0.0	YoY change (%)	-52%	15%	28%	52%
+/- (Acquisition) Disposals	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (A\$)	0.04	0.05	0.06	0.10
+/- Minority interests	0.0	0.0	0.0	0.0	YoY change (%)	-52%	15%	28%	52%
+/- Other	6.6	0.0	0.0	0.0	Dividend/share (A\$)	0.060	0.060	0.060	0.080
Net cashflow	-27.2	4.6	-14.7	-8.0	Franking (%)	100%	100%	100%	100%
Cash at beginning of period	-45.7	-72.9	-68.4	-83.0	Gross cashflow/share (A\$)	0.06	0.05	0.06	0.10
Net debt at end of period	-72.9	-68.4	-83.0	-91.0	NBV/share (A\$)	0.94	0.93	0.93	0.95
Balance Sheet (\$m)	2017a	2018f	2019f	2020f	NTA/Share (A\$)	0.94	0.93	0.93	0.95
Cash	68.8	41.6	27.0	19.0	Valuation				
Receivables	16.4	8.3	9.6	15.8	PER (Basic) (x)	43.0	21.6	15.5	9.8
Inventories	115.0	97.6	105.3	104.4	PER (Fully diluted) (x)	22.0	19.0	15.5	9.8
Other	0.9	0.9	0.9	0.9	PER (Fully diluted, normalized) (x)	22.0	19.0	15.5	9.8
Current Assets	201.1	148.5	142.8	140.1	P/CFPS (x)	16.5	18.3	15.4	9.7
Receivables	37.3	19.0	21.9	36.0	Price/NBV (x)	1.0	1.0	1.0	1.0
Inventories	73.1	76.7	82.7	82.0	Price/NTA (x)	1.0	1.0	1.0	1.0
Property/Plant/Equipment	12.4	12.6	12.8	13.0	Dividend Yield (%)	6.3%	6.3%	6.3%	8.4%
Equity Accounted Investments	1.8	1.8	1.8	1.8	Fully diluted normalized 3 yr EPS Cagr (%)	n/a	n/a	n/a	n/a
Investment Property	86.4	84.4	84.4	84.4	PEG ratio (x)	n/a	n/a	n/a	n/a
Deferred tax assets	0.3	0.3	0.3	0.3	EV	294.2	288.3	303.6	311.7
Other	4.4	4.4	4.4	4.4	EV/EBITDA (x)	19.7	20.9	15.0	9.4
Non Current Assets	215.7	199.2	208.3	221.9	EV/EBIT (x)	32.0	21.1	15.1	9.5
Total Assets	416.8	347.7	351.1	362.0	EV/Revenue (x)	2.4	2.2	1.9	1.4
Payables	-41.4	-13.7	-15.7	-21.4	NPV/SOP (A\$)				
Interest bearing liabilities	-143.1	-110.0	-110.0	-110.0	Other Information				
Current tax payable	-3.2	-3.2	-3.2	-3.2	12-mth High/Low (A\$/sh)			\$1.05/\$0.76	
Provisions	-0.3	0.0	0.0	0.0	Average daily volume (A\$m)				0.2
Current Liabilities	-188.0	-126.9	-128.9	-134.6	ASX Code				FRI
Payables	-8.5	-2.8	-3.2	-4.4	Next result				August 2018
Interest bearing liabilities	0.0	0.0	0.0	0.0	Company Description				
Tax liabilities	-3.7	-3.7	-3.7	-3.7	FRI is a WA based property developer.				
Provisions	-0.1	-0.1	-0.1	-0.1					
Non Current Liabilities	-12.3	-6.6	-7.0	-8.2					
Total Liabilities	-200.3	-133.5	-135.9	-142.7					
Net Assets	216.5	214.2	215.2	219.2					
Contributed equity	157.3	157.3	157.3	157.3					
Reserves	0.2	0.2	0.2	0.2					
Retained profits	59.0	56.7	57.7	61.7					
Minority Interests	0.0	0.0	0.0	0.0					
Total equity	216.5	214.2	215.2	219.2					

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