

# Finbar Group Ltd

## (FRI \$0.90) Hold

EUROZ

Analyst	Date	Price Target
Gavin Allen	4 <sup>th</sup> March 2016	\$1.22/sh

### Company Update

#### Investment case

FRI recently released half year results, delivering \$6.3m in 1H 2016 NPAT, down from \$11.0m during the pcp. The result included a \$4.4m write down (after tax) in the carrying value of the Fairlane property and operationally was broadly per our expectations. The second half will be stronger as two significant projects complete, both of which have solid presales in place. Solid presales are also in place for 2017. FRI has a significant pipeline of approved projects and notwithstanding the slow market conditions, can defend its current 9% yield in our view. In addition it is trading under its \$1.00 NTA. On any fundamental metric, the stock is undervalued and with a strong balance sheet is well positioned for the inevitable eventual cyclical upswing. That said, catalysts are scarce and the investment headwinds are currently prohibitive. We maintain our Hold recommendation with a three to six month view.

#### Key points

- FRI has reported 1H 2016 NPAT of \$6.3m including a \$4.4m write down (after tax) in the carrying value at the Fairlanes property.
- On an underlying basis the result was \$10.7m and we continue to look for \$24m in underlying profit (\$20.3m reported, to account for the previously unforecast asset write down).
- The second half will see the Linq and Unison on Tenth developments complete and presales already in place primarily support our numbers.
- In addition, for 2017, Concerto and Aurelia, both under construction, will complete, both with solid presales.
- While 2017 earnings will ultimately depend on sales rates (in these projects) on the remaining stock, the presales in place support the current dividend.
- Sales are undeniably slow into a challenging market, however market forces are already slowing aspiring new developments and we would expect excess supply to be soaked up over the next 6 to 12 months.
- Catalysts are scarce though, and we maintain our Hold recommendation with a 3 to 6 month view. That said, we are confident that over the long haul, FRI at \$0.90 offers excellent value.

Finbar Group Ltd	Year End 30 June	
Share Price	0.90	A\$/sh
Price Target	1.22	A\$/sh
Valuation (DCF)	1.22	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	232.0	m, diluted
Market Capitalisation	208.8	A\$m
Enterprise Value	270.8	A\$m
Debt	(107.0)	A\$m
Cash	44.3	A\$m

Key Financials	2015a	2016f	2017f
Revenue (A\$m)	93.9	172.2	176.3
EBITDA (A\$m)	16.7	29.1	33.7
EBIT (A\$m)	16.6	29.0	33.5
Reported NPAT (A\$m)	25.9	20.3	23.5
Normalised NPAT (A\$m)	25.9	24.0	23.5
Gross Cashflow (A\$m)	9.9	20.4	23.7
Capex (A\$m)	-1.3	-1.3	-1.3
Op. Free Cashflow (A\$m)	15.9	7.8	-6.9
Revenue Growth (%)	-66%	91%	-1%
EBITDA Growth (%)	-71%	74%	16%
Norm. NPAT Growth (%)	-31%	-7%	-2%
Normalised EPS (Ac)	11.33	10.35	10.13
Norm. EPS growth (%)	-33%	-9%	-2%
PER (x)	7.9	8.7	8.9
EV:EBITDA (x)	16.2	9.3	8.0
EV:EBIT (x)	16.3	9.3	8.1
DPS (Ac)	10.00	8.00	8.00
Dividend Yield (%)	11.1%	8.9%	8.9%
Net Cash (A\$m)	-15.8	-20.4	-38.9
Net Debt:Equity (%)	7%	8%	15%
Interest Cover (x)	na	na	na

#### Share Price Chart



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# Finbar Group Ltd

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### Analysis

We provide below our interpretation of project pipeline:

Fri share of revenues	2016	2017	2018	2019
Construction commenced/complete	(\$m)	(\$m)	(\$m)	(\$m)
Ecco	1.5	-	-	-
Subiaco	19	6	-	-
Toccata	16	-	-	-
Norwood	13	4	-	-
Concerto and Harmony	-	85	15	-
The Springs (Arbor North)	33	4	-	-
Maylands (Unison)	31	10	-	-
Northbridge (James street)	55	10	-	-
South Perth (Aurelia)	-	50	19	-
<b>Construction not yet commenced</b>				
Maylands (Kennedy)	-	-	-	43
Dianella	-	-	37	-
The Springs (South and Rowe St)	-	-	79	-
West Perth	-	-	63	-
Harper Street S/Perth	-	-	52	-
West Leederville	-	-	41	-
South Perth Civic Triangle	-	-	-	200
2 Homelea Court	-	-	-	83
Belmont (GE Highway)	-	-	-	38
63 Adelaide Terrace	-	-	38	38
<b>Revenue forecast</b>	<b>170.5</b>	<b>169</b>	<b>343</b>	<b>401</b>

Revenues per the above will not equate to reported revenues due to equity accounted developments. This does not impact our view of reported profits

- As the above demonstrates, FRI has a significant pipeline of work ahead.
- The vast majority of the projects identified above, including the massive Civic Triangle project have development approval and are selling.
- Sales rates have however slowed and consequently, the timing in relation to banking, completion and ultimately settlement of projects is a little fluid.

### Investment Thesis

- FRI, on our 2016 underlying NPAT expectation, is trading on a PE of 8.7x, and yields 9% per annum.
- We believe this yield is defensible despite to soft market.
- At \$0.90 the stock is trading under NTA and on any long term fundamental analysis, looks good value.
- That said, economic conditions are uncertain and some fluidity exists around short term earnings.
- With this in mind the stock lacks catalysts and we maintain our Hold recommendation with a three to six month view.

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Financial Statements	2013a	2014a	2015a	2016f	2017f
Sales	124.2	261.0	89.4	170.5	169.3
Other	16.0	11.2	4.5	1.7	7.0
<b>Revenue</b>	<b>140.2</b>	<b>272.2</b>	<b>93.9</b>	<b>172.2</b>	<b>176.3</b>
Operating costs	-97.0	-214.0	-77.2	-143.1	-142.6
<b>EBITDA</b>	<b>43.2</b>	<b>58.2</b>	<b>16.7</b>	<b>29.1</b>	<b>33.7</b>
Depreciation	-0.2	-0.1	-0.1	-0.1	-0.2
Other non cash	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>43.0</b>	<b>58.0</b>	<b>16.6</b>	<b>29.0</b>	<b>33.5</b>
Net Interest income/(expense)	0.2	-0.2	1.6	0.0	0.1
Associates	1.3	0.9	13.4	0.0	0.0
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Abnormal items (pretax)	0.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>44.5</b>	<b>58.7</b>	<b>31.6</b>	<b>29.0</b>	<b>33.6</b>
Tax expense	-13.0	-17.9	-5.7	-8.7	-10.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.3	-4.3	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>31.2</b>	<b>36.5</b>	<b>25.9</b>	<b>20.3</b>	<b>23.5</b>
Dividends	-13.1	-13.2	-13.7	-11.6	-11.6
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
Retained earnings	18.1	23.3	12.2	8.7	11.9
<b>Net Profit (ex valuation)</b>	<b>29.3</b>	<b>37.6</b>	<b>25.9</b>	<b>24.0</b>	<b>23.5</b>
<b>Cash flow (A\$m)</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>
<b>Pretax Profit</b>	<b>44.5</b>	<b>58.7</b>	<b>31.6</b>	<b>29.0</b>	<b>33.6</b>
+ Depreciation	0.2	0.1	0.1	0.1	0.2
- Tax Paid	-7.4	-17.6	-21.4	-8.7	-10.1
+ inc (- dec) in provisions	0.0	0.5	-0.4	-0.1	0.0
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	0.0
+/- Other	0.0	0.0	0.0	0.0	0.0
<b>Gross Cashflow</b>	<b>37.3</b>	<b>41.7</b>	<b>9.9</b>	<b>20.4</b>	<b>23.7</b>
- Capital expenditure	0.3	2.2	-1.3	-1.3	-1.3
+/- Changes in working capital	-32.9	55.7	7.3	-11.3	-29.3
<b>Operating Free Cashflow</b>	<b>4.7</b>	<b>99.6</b>	<b>15.9</b>	<b>7.8</b>	<b>-6.9</b>
+/- Investments	0.0	0.0	0.0	0.0	0.0
- Dividends	-17.9	-16.4	-25.0	-11.6	-11.6
+ Proceeds from equity raised	0.0	8.4	0.0	0.0	0.0
+/- (Acquisition) Disposals	0.0	0.0	10.0	0.0	0.0
+/- Minority interests	0.0	0.0	0.0	0.0	0.0
+/- Other	-5.4	-5.2	0.0	0.0	0.0
Net cashflow	-18.6	86.4	0.9	-3.8	-18.5
Cash at beginning of period	-85.3	-103.9	-17.5	-16.6	-20.4
Net debt at end of period	-103.9	-17.5	-16.6	-20.4	-38.9
<b>Balance Sheet (\$m)</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>
Cash	35.6	60.9	69.0	64.4	45.9
Receivables	24.3	11.1	24.7	12.5	12.4
Inventories	180.0	75.8	47.5	68.7	85.2
Other	0.7	0.4	8.5	8.5	8.5
<b>Current Assets</b>	<b>240.6</b>	<b>148.2</b>	<b>149.7</b>	<b>154.0</b>	<b>151.9</b>
Receivables	12.0	46.1	42.8	21.6	21.5
Inventories	4.2	11.8	26.1	54.0	66.9
Property/Plant/Equipment	14.7	12.4	13.5	14.7	15.8
Equity Accounted Investments	1.1	0.0	4.1	4.1	4.1
Investment Property	122.1	135.0	110.7	110.7	110.7
Deferred tax assets	2.4	1.9	1.0	1.0	1.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Non Current Assets</b>	<b>156.5</b>	<b>207.2</b>	<b>198.2</b>	<b>206.1</b>	<b>220.0</b>
<b>Total Assets</b>	<b>397.1</b>	<b>355.4</b>	<b>347.9</b>	<b>360.1</b>	<b>371.9</b>
Payables	-33.4	-12.0	-15.3	-19.7	-19.6
Interest bearing liabilities	-43.7	0.0	-31.8	-31.8	-31.8
Current tax payable	-9.0	-13.5	-4.3	-4.3	-4.3
Provisions	0.0	-0.5	-0.1	0.0	0.0
<b>Current Liabilities</b>	<b>-86.1</b>	<b>-26.0</b>	<b>-51.5</b>	<b>-55.8</b>	<b>-55.7</b>
Payables	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	-95.8	-78.4	-53.0	-53.0	-53.0
Tax liabilities	-9.2	-11.8	-5.1	-5.1	-5.1
Provisions	-0.1	-0.5	-0.2	-0.2	-0.2
<b>Non Current Liabilities</b>	<b>-105.1</b>	<b>-90.7</b>	<b>-58.3</b>	<b>-58.3</b>	<b>-58.3</b>
<b>Total Liabilities</b>	<b>-191.2</b>	<b>-116.7</b>	<b>-109.8</b>	<b>-114.1</b>	<b>-114.0</b>
<b>Net Assets</b>	<b>205.9</b>	<b>238.7</b>	<b>238.1</b>	<b>246.0</b>	<b>257.9</b>
Contributed equity	137.8	151.7	154.7	154.7	154.7
Reserves	1.4	1.4	1.1	1.1	1.1
Retained profits	63.6	78.2	81.7	90.4	102.3
Minority interests	3.1	7.4	0.6	0.6	0.6
<b>Total equity</b>	<b>205.9</b>	<b>238.7</b>	<b>238.1</b>	<b>246.8</b>	<b>258.7</b>
<b>Performance Ratios</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>
<b>Growth &amp; Margins</b>					
Revenue Growth	34%	110%	-66%	91%	-1%
EBITDA Growth	13%	35%	-71%	74%	16%
EBIT Growth	13%	35%	-71%	75%	16%
Normalized Net Profit Growth	45.3%	28.0%	-31.1%	-7.2%	-2.2%
EBITDA margin	30.8%	21.4%	17.8%	16.9%	19.1%
EBIT margin	30.7%	21.3%	17.6%	16.8%	19.0%
Normalized net profit margin	20.9%	13.8%	27.5%	13.9%	13.3%
Effective tax rate	29%	30%	18%	30%	30%
<b>Liquidity</b>					
Capex/depreciation (x)					
Current ratio (x)	2.8	5.7	2.9	2.8	2.7
Quick ratio (x)	1.8	6.0	6.1	3.9	3.0
Payout ratio (%)	31	38	29	34	22
Receivable days	6	13	3	7	8
Payable days					
<b>Risk Measures</b>					
Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a
Payout ratio (%)	66%	60%	88%	91%	79%
Net interest cover (x)	na	290.1	na	na	na
Net debt/equity (%)	50%	7%	7%	8%	15%
<b>Returns</b>					
Return on avg cap employed (%)	21%	25%	7%	12%	13%
WACC (%)					
Return on assets (%)	12%	15%	16%	16%	16%
Return on average equity (%)	16%	16%	11%	8%	9%
Company cost of equity (%)					
<b>Share Data/Valuation</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>
<b>Share Data</b>					
Issued shares (m)	218.2	220.8	228.4	232.0	232.0
Weighted ave shares (m)	216.0	220.8	228.4	232.0	232.0
Fully diluted shares (m)	216.0	220.8	228.4	232.0	232.0
Basic EPS (A\$)	0.14	0.17	0.11	0.09	0.10
YoY change (%)	10%	14%	-32%	-23%	16%
Fully diluted EPS (A\$)	0.14	0.17	0.11	0.10	0.10
YoY change (%)	44%	25%	-33%	-9%	-2%
Fully dil normalised EPS (A\$)	0.136	0.17	0.11	0.10	0.10
YoY change (%)	44%	25%	-33%	-9%	-2%
Dividend/share (A\$)	0.095	0.100	0.100	0.080	0.080
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (A\$)	0.17	0.19	0.04	0.09	0.10
NBV/share (A\$)	0.94	1.08	1.04	1.06	1.11
NTA/Share (A\$)	0.94	1.08	1.04	1.06	1.11
<b>Valuation</b>					
PER (Basic) (x)	6.2	5.4	7.9	10.3	8.9
PER (Fully diluted) (x)	6.6	5.3	7.9	8.7	8.9
PER (Fully dil, normalized) (x)	6.6	5.3	7.9	8.7	8.9
P/CFPS (x)	5.2	4.8	20.8	10.3	8.8
Price/NBV (x)	1.0	0.8	0.9	0.8	0.8
Price/NTA (x)	1.0	0.8	0.9	0.8	0.8
Dividend Yield (%)	10.6%	11.1%	11.1%	8.9%	8.9%
Fully dil norm 3 yr EPS Cagr (%)	n/a	n/a	n/a	n/a	n/a
PEG ratio (x)	n/a	n/a	n/a	n/a	n/a
EV	312.7	226.3	192.8	197.4	215.9
EV/EBITDA (x)	6.3	4.7	16.2	9.3	8.0
EV/EBIT (x)	6.3	4.7	16.3	9.3	8.1
EV/Revenue (x)	1.9	1.0	2.9	1.6	1.5
<b>Other Information</b>					
12-mth High/Low (A\$/sh)					\$1.48/\$0.88
Average daily volume (A\$m)					0.2
ASX Code					FRI
Next result					FY 2016
<b>Company Description</b>					
FRI is a WA based property developer.					

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