

# Finbar Group Ltd

## (FRI \$1.27) Buy

**Analyst:** Gavin Allen  
**Date:** 13<sup>th</sup> April 2015

### Company update

**Price Target:** \$1.79/sh

### Investment Case:

FRI recently had a very strong sales outcome on the Aurelia project, which achieved 73 sales (62% of the project) on the first weekend of marketing in early March. Meanwhile, analysis of project updates suggests sales in under construction projects continue to tick along. Outcome for 2015 will depend on sales achieved on two major projects and equally timing will play a role in 2016 earnings, however overall we see sufficient sales in place to maintain the current 10c per annum dividend and on this basis FRI yields 7.9% per annum. In the meantime presales are perhaps surprisingly robust and FRI will over the 2017/2018 period deliver on its three largest projects to date, Concerto (50% sold), Aurelia (62% sold) and Civil Heart (DA expected shortly and right next to Aurelia). Sector headwinds mean obvious catalysts are scarce, however FRI is a proven performer through many cycles and the yield supports the stock at these levels - Buy maintained.

### Key Points:

- A recent announcement that FRI achieved 73 sales during the first weekend of release at its Aurelia project (62% of the project) is an excellent result. This is particularly given what has now been at least 18 month of oversupply sentiment.
- This is not to suggest the market has not slowed, as it undoubtable has, however is testament to the idea demand remains for well placed and priced product.
- In the meantime, outcome for 2015 and 2016 is dependent on timing of the remaining sales at Toccota and Subi Strand (for 2015) and on sales and construction timing on the Motive project (for 2016) – see project pipeline below.
- Our analysis of project sales and timing is consistent with the maintenance of the current 8% yield, even after allowing for fluidity around timing, and we consider our forecasts conservative.
- In the meantime, the three largest projects in FRI's history are in progressed stages, set for delivery in 2017 and 2018 and driving at that time significant further growth.

### Analysis:

We provide below our interpretation of the project pipeline for FRI together with the units required to be sold to hit our numbers:

Finbar Group	Year end 30 June	
<b>Share Price</b>	<b>1.27</b>	<b>A\$/sh</b>
<b>Price Target (PER)</b>	<b>1.79</b>	<b>A\$/sh</b>
Valuation (DCF)	1.79	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	228.4	m, diluted
Market Capitalisation	290.1	A\$m
Enterprise Value	315.6	A\$m
Debt (Dec 2014)	103.0	A\$m
Cash (Dec 2014)	48.8	A\$m

Key Financials	2014a	2015f	2016f
Revenue (A\$m)	273.1	181.1	188.0
EBITDA (A\$m)	59.1	39.3	38.5
EBIT (A\$m)	58.9	39.2	38.4
Reported NPAT (A\$m)	36.5	27.4	26.9
Normalised NPAT (A\$m)	37.6	27.4	26.9
Gross Cashflow (A\$m)	41.7	27.1	27.1
Capex (A\$m)	2.2	-0.5	-0.5
Op. Free Cashflow (A\$m)	99.6	-44.4	-24.3
Revenue Growth (%)	111%	-35%	6%
EBITDA Growth (%)	37%	-33%	-2%
Norm. NPAT Growth (%)	28%	-27%	-2%
Normalised EPS (Ac)	17.01	12.02	11.79
Norm. EPS growth (%)	25%	-29%	-2%
PER (x)	7.5	10.6	10.8
EV:EBITDA (x)	5.3	8.0	8.2
EV:EBIT (x)	5.4	8.1	8.2
DPS (Ac)	10.00	10.00	10.00
Dividend Yield (%)	7.9%	7.9%	7.9%
Net Cash (A\$m)	-17.5	-25.6	-63.6
Net Debt:Equity (%)	7%	10%	24%

### Share Price Chart



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Fri share of revenues								
Construction commenced/complete	2015	2016	2017	2018	Units to sell to hit numbers			%
	(\$m)	(\$m)	(\$m)	(\$m)	2015	2016	2017	Sold
AU	3	-	-	-	-	-	-	100%
Ecco	3	-	-	-	-	-	-	100%
The Springs	50	-	-	-	12	-	-	94%
Pelago	-	-	-	13	-	-	-	64%
Mill Point Road	7	-	-	-	-	-	-	100%
Subiaco	70	13	-	-	20	39	-	78%
Toccatà	38	5	-	-	9	3	-	78%
280 Lord Street	-	18	-	-	-	15	-	81%
Concerto and Harmony	-	-	100	-	-	-	116	51%
The Springs (Arbor North)	-	39	-	-	-	52	-	66%
Construction not yet commenced								
Maylands (Unison)	-	42	-	-	-	98	-	42%
Maylands (Kennedy)	-	-	23	23	-	-	90	0%
Dianella	-	-	-	37	-	-	-	0%
The Springs (South and 1014)	-	-	27	38	-	-	116	0%
West Perth	-	-	-	63	-	-	-	0%
Northbridge (James street)	-	65	-	-	-	69	-	41%
West Leederville	-	-	41	-	-	-	115	20%
South Perth (Aurelia)	-	-	67	-	-	-	65	62%
South Perth Civic Triangle	-	-	-	175	-	-	-	0%
Belmont (GE Highway)	-	-	15	15	-	-	-	0%
63 Adelaide Terrace	-	-	-	38	-	-	-	0%
Revenue forecast	171	181	271	401	41	276	502	

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

- We look for circa 41 further sales to hit our 2015 forecasts over the next 82 days.
- Over 2015 FRI has averaged 1.5 sales per day and on this basis should achieve our sales targets handily.
- In 2016 we require a further 276 units sold, again, easily achievable in the context of current run rate.
- To put the 276 in context, we would estimate at least 50% of sales are in place for 2016, a strong position this far out.
- In addition, for 2017 and 2018, 50% of Concerto and 62% of Aurelia are sold, again a strong position.
- Finally, the Civic Heart project, the biggest in FRI history, should achieve DA shortly and the marketing release of this project in 1H 2016, assuming successful, would be a genuine catalyst (the project is next to Aurelia)
- In the meantime the 288 apartment Pelago project is 64% sold with 91% of the remaining apartments rented, generating circa \$6.5m in annual rent. A healthy return on equity invested given all associated bank debt has been retired.

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### Headwinds

- It is clear the number of new apartment buildings available for investors to consider has increased.
- Whether these opportunities are ultimately built is a function of achieving the necessary presales to enable the project to be banked.
- In addition, as the mining boom unwinds, rent rates are decreasing and this may impact investor appetite.
- Finally, the media is talking up all of the above which does not help sentiment generally.

### Mitigation

- We continue to believe that the market will sensibly address the supply and demand equation, as the nature of presales required to finance a project acts as a supply brake of sorts over the medium term.
- This is not to suggest short term peaks in supply may not occur from time to time, particularly if a number of marginal projects scrape over the presales threshold at the same time potentially resulting in an excess of supply upon completion.
- When this happens new supply doesn't receive presales, the excess supply is eventually cleaned out, and the cycle resumes.

### Long term

- Finbar continues to be one of the low cost producers in the WA market with a proven track record of delivery.
- We also continue to believe Finbar product will see a sustained share of the available demand, demand we believe will increase over the medium to long term as WA residents look for alternative living arrangements in a sprawling city. The case precedent for this in other growing cities is clear.
- Short term demand will likely moderate as rents reduce and investors potentially slow however ultimately we see a city continuing to grow over time that is fundamentally underserved in terms of apartment living.

### Investment Thesis

- Investment sentiment as it pertains to WA is clearly poor as the mining construction cycle ends and low commodities prices create job and economic uncertainty.
- Finbar is not immune from this and we see no immediate catalysts, particularly as Finbar has been unable to be definitive in terms of 2015 earnings with the half year result. This is because timing on the sale of remaining product at Subiaco and Toccata is unknown.
- That said, we see pipeline the of opportunity as sufficiently robust to maintain and ultimately increase the dividend even as earnings fluctuate somewhat with timing of projects and FRI currently yields 7.9% fully franked.
- We see this as a floor, and while catalysts are skinny and consequently FRI may do some further time over the next 3 months at current levels, we continue to like the business, its track record and management.
- In the meantime the stock trades at 10.6x our reduced 2015 forecasts, hardly demanding.
- We maintain our Buy recommendation with a long term view, despite some potential short term earnings fluidity.

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# EUROZ

SECURITIES LIMITED

Analyst: Gavin Allen

FINANCIAL STATEMENTS					PERFORMANCE RATIOS				
YEAR END 30 JUNE					13A	14A	15F	16F	17F
<b>Income Statement</b>									
Sales	124.2	261.9	170.5	181.0	271.1				
Other	16.0	11.2	10.6	7.0	7.0				
<b>Revenue</b>	<b>140.2</b>	<b>273.1</b>	<b>181.1</b>	<b>188.0</b>	<b>278.1</b>				
Operating costs	-97.0	-214.0	-141.8	-149.5	-221.5				
<b>EBITDA</b>	<b>43.2</b>	<b>59.1</b>	<b>39.3</b>	<b>38.5</b>	<b>56.6</b>				
Depreciation	-0.2	-0.1	-0.1	-0.1	-0.1				
Other non cash	0.0	0.0	0.0	0.0	0.0				
<b>EBIT</b>	<b>43.0</b>	<b>58.9</b>	<b>39.2</b>	<b>38.4</b>	<b>56.5</b>				
Net Interest income/(expense)	0.2	-0.2	0.0	0.1	0.1				
Associates	1.3	0.0	0.0	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>39.2</b>	<b>38.5</b>	<b>56.5</b>				
Tax expense	-13.0	-17.9	-11.8	-11.5	-17.0				
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>27.4</b>	<b>26.9</b>	<b>39.6</b>				
Dividends	-13.1	-13.2	-13.7	-13.7	0.0				
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0				
Retained earnings	18.1	23.3	13.7	13.2	39.6				
<b>Net Profit (ex valuation)</b>	<b>29.3</b>	<b>37.6</b>	<b>27.4</b>	<b>26.9</b>	<b>39.6</b>				
<b>Cash flow (A\$m)</b>									
<b>Pretax Profit</b>	<b>44.5</b>	<b>58.7</b>	<b>39.2</b>	<b>38.5</b>	<b>56.5</b>				
+ Depreciation	0.2	0.1	0.1	0.1	0.1				
- Tax Paid	-7.4	-17.6	-11.8	-11.5	-17.0				
+ inc (- dec) in provisions	0.0	0.5	-0.5	0.0	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>27.1</b>	<b>27.1</b>	<b>39.7</b>				
- Capital expenditure	0.3	2.2	-0.5	-0.5	-0.5				
+/- Changes in working capital	-32.9	55.7	-70.9	-50.9	21.5				
<b>Operating Free Cashflow</b>	<b>4.7</b>	<b>99.6</b>	<b>-44.4</b>	<b>-24.3</b>	<b>60.7</b>				
+/- Investments	0.0	0.0	0.0	0.0	0.0				
- Dividends	-17.9	-16.4	-13.7	-13.7	0.0				
+ Proceeds from equity raised	0.0	8.4	0.0	0.0	0.0				
+/- (Acquisition) Disposals	0.0	0.0	50.0	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	-8.1	-38.0	60.7				
Cash at beginning of period	-85.3	-103.9	-17.5	-25.6	-63.6				
Net debt at end of period	-103.9	-17.5	-25.6	-63.6	-2.9				
<b>Balance Sheet (\$m)</b>									
Cash	35.6	60.9	62.8	24.8	85.5				
Receivables	24.3	11.1	3.1	3.3	5.0				
Inventories	180.0	75.8	116.1	144.6	133.7				
Other	0.7	0.4	0.4	0.4	0.4				
<b>Current Assets</b>	<b>240.6</b>	<b>148.2</b>	<b>182.4</b>	<b>173.2</b>	<b>224.6</b>				
Receivables	12.0	46.1	13.0	13.8	20.7				
Inventories	4.2	11.8	91.2	113.6	105.1				
Property/Plant/Equipment	14.7	12.4	12.7	13.1	13.5				
Equity Accounted Investments	1.1	0.0	0.0	0.0	0.0				
Investment Property	122.1	135.0	85.0	85.0	85.0				
Deferred tax assets	2.4	1.9	1.9	1.9	1.9				
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>203.9</b>	<b>227.5</b>	<b>226.2</b>				
<b>Total Assets</b>	<b>397.1</b>	<b>355.4</b>	<b>386.3</b>	<b>400.7</b>	<b>450.8</b>				
Payables	-33.4	-12.0	-19.7	-20.8	-31.4				
Interest bearing liabilities	-43.7	0.0	-10.0	-10.0	-10.0				
Current tax payable	-9.0	-13.5	-13.5	-13.5	-13.5				
Provisions	0.0	-0.5	0.0	0.0	0.0				
<b>Current Liabilities</b>	<b>-86.1</b>	<b>-26.0</b>	<b>-43.2</b>	<b>-44.3</b>	<b>-54.9</b>				
Payables	0.0	0.0	0.0	0.0	0.0				
Interest bearing liabilities	-95.8	-78.4	-78.4	-78.4	-78.4				
Tax liabilities	-9.2	-11.8	-11.8	-11.8	-11.8				
Provisions	-0.1	-0.5	-0.5	-0.5	-0.5				
<b>Non Current Liabilities</b>	<b>-105.1</b>	<b>-90.7</b>	<b>-90.7</b>	<b>-90.7</b>	<b>-90.7</b>				
<b>Total Liabilities</b>	<b>-191.2</b>	<b>-116.7</b>	<b>-133.9</b>	<b>-135.0</b>	<b>-145.6</b>				
<b>Net Assets</b>	<b>206.0</b>	<b>238.7</b>	<b>252.4</b>	<b>265.6</b>	<b>305.2</b>				
Contributed equity	137.8	151.7	151.7	151.7	151.7				
Reserves	1.4	1.4	1.4	1.4	1.4				
Retained profits	63.6	78.2	91.9	105.2	144.7				
Minority Interests	3.1	7.4	7.4	7.4	7.4				
<b>Total equity</b>	<b>205.9</b>	<b>238.7</b>	<b>252.4</b>	<b>265.7</b>	<b>305.2</b>				
<b>Growth &amp; Margins</b>									
Revenue Growth	34%	111%	-35%	6%	50%				
EBITDA Growth	13%	37%	-33%	-2%	47%				
EBIT Growth	13%	37%	-34%	-2%	47%				
Normalized Net Profit Growth	45.3%	28.0%	-26.9%	-1.9%	46.9%				
EBITDA margin	30.8%	21.6%	21.7%	20.5%	20.4%				
EBIT margin	30.7%	21.6%	21.6%	20.4%	20.3%				
Normalized net profit margin	20.9%	13.8%	15.2%	14.3%	14.2%				
Effective tax rate	29%	30%	30%	30%	30%				
<b>Liquidity</b>									
Capex/depreciation (x)									
Current ratio (x)	2.8	5.7	4.2	3.9	4.1				
Quick ratio (x)	1.8	6.0	3.3	1.3	2.9				
Receivable days	31	39	21	10	17				
Payable days	6	13	6	8	16				
<b>Risk Measures</b>									
Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a				
Payout ratio (%)	66%	60%	83%	85%	0%				
Net interest cover (x)	na	294.6	na	na	na				
Net debt/equity (%)	50%	7%	10%	24%	1%				
<b>Returns</b>									
Return on avg capital employed (%)	21%	25%	15%	14%	19%				
WACC (%)									
Return on assets (%)	12%	16%	16%	15%	14%				
Return on average equity (%)	16%	16%	11%	10%	14%				
Company cost of equity (%)									
<b>SHARE DATA/VALUATION</b>									
<b>Share Data</b>									
Issued shares (m)	218.2	220.8	228.4	228.4	228.4				
Weighted ave shares (m)	216.0	220.8	228.4	228.4	228.4				
Fully diluted shares (m)	216.0	220.8	228.4	228.4	228.4				
Basic EPS (A\$)	0.14	0.17	0.12	0.12	0.17				
YoY change (%)	10%	14%	-27%	-2%	47%				
Fully diluted EPS (A\$)	0.14	0.17	0.12	0.12	0.17				
YoY change (%)	44%	25%	-29%	-2%	47%				
Fully diluted normalised EPS (A\$)	0.136	0.17	0.12	0.12	0.17				
YoY change (%)	44%	25%	-29%	-2%	47%				
Dividend/share (A\$)	0.095	0.100	0.100	0.100	0.000				
Franking (%)	100%	100%	100%	100%	100%				
Gross cashflow/share (A\$)	0.17	0.19	0.12	0.12	0.17				
NBV/share (A\$)	0.94	1.08	1.11	1.16	1.34				
NTA/Share (A\$)	0.94	1.08	1.11	1.16	1.34				
<b>Valuation</b>									
PER (Basic) (x)	8.8	7.7	10.6	10.8	7.3				
PER (Fully diluted) (x)	9.4	7.5	10.6	10.8	7.3				
PER (Fully diluted, normalized) (x)	9.4	7.5	10.6	10.8	7.3				
P/CFPS (x)	7.4	6.7	10.7	10.7	7.3				
Price/NBV (x)	1.3	1.2	1.1	1.1	1.0				
Price/NTA (x)	1.3	1.2	1.1	1.1	1.0				
Dividend Yield (%)	7.5%	7.9%	7.9%	7.9%	0.0%				
Fully dil normalized 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	393.9	307.6	305.6	343.7	282.9				
EV/EBITDA (x)	7.3	5.3	8.0	8.2	5.6				
EV/EBIT (x)	7.3	5.4	8.1	8.2	5.6				
EV/Revenue (x)	2.3	1.2	1.7	1.7	1.1				
NPV/SOP (A\$)									
<b>OTHER INFORMATION</b>									
12-mth High/Low (A\$/sh)					\$1.80/\$1.28				
Average daily volume (A\$m)					0.2				
ASX Code					FRI				
Next result					Feb 2015				
<b>COMPANY DESCRIPTION</b>									
FRI is a WA based property developer									

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## Contact Details

Euroz Securities Ltd +61 8 9488 1400

### International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Richard Hamersley - Industrials Analyst	+61 8 9488 1414
Michael Skinner - Resources Analyst	+61 8 9488 1431
Julian Lake - Associate Analyst	+61 8 9488 1470

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
David Curnow - Executive Director	+61 8 9488 1422
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Ben Laird - Executive Director	+61 8 9488 1429
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Associate Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Tom Ruello - Institutional Adviser	+61 8 9488 1420

### Private Client Advisors

James Mackie - Head of Private Clients	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Ben Statham - Associate Director	+61 8 9488 1417
Steve Grove - Associate Director	+61 8 9488 1410
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ryan Stewart - Associate Director	+61 8 9488 1441
Jonathan van Hazel - Associate Director	+61 8 9488 1443
Christian Zerovich - Associate Director	+61 8 9488 1436
Michael Bartley - Investment Adviser	+61 8 9346 0352
Brian Bates - Associate Director	+61 8 9346 0314
Paul Berson - Associate Director	+61 8 9346 0314
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Nick Dempster - Investment Adviser	+61 8 9346 0357
Richard Gardner - Investment Adviser	+61 8 9488 1444
Phil Grant - Associate Director	+61 8 9346 0306
Jamie Mann - Investment Adviser	+61 8 9346 0301
Duncan Relf - Investment Adviser	+61 8 9346 0322
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Steve Wood - Investment Adviser	+61 8 9346 0305
Nicholas Blakiston - Associate Adviser	+61 8 9488 1473
David Salmon - Associate Adviser	+61 8 9488 1419