

Finbar Group Ltd

(FRI \$1.00) Hold, downgrade from Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	20 th January 2016	\$1.22/sh

Half year approaches

Investment case

FRI continues to boast an impressive project pipeline, driven by a significant list of approved projects. Conditions in WA have demonstrably deteriorated however, and without a change in demand, we see sales rates and consequently the timing of completion associated with projects pushed out. Forecasting earnings is difficult. We are looking for a \$7m first half NPAT, one third of our now \$23.5m underlying 2016 NPAT. Impairment on commercial property can't be ruled out and there remains some fluidity around timing in both 2016 and 2017. Longer term, FRI is trading at NTA and we are confident this well run, quality business can see growth, and probably significant growth through the cycle. That said, in the current environment catalysts are scarce, investment sentiment is weak and with a three to six month view we reduce to a Hold recommendation pending clarity on the 2016 result and presales into 2017.

Key points

- FRI boasts an impressive project pipeline, however conditions have clearly further deteriorated and despite trading at NTA, the stock lacks catalysts.
- We are looking for \$7m in first half 2016 NPAT on the way to \$23.5m for the full year. This is down from \$26.2m previously forecast.
- In addition the company owns a number of commercial properties which are marked to market and given the deterioration in commercial property outlook in WA, some impairment is possible in our view.
- In 2017, the project pipeline supports potential growth, however sales rates are difficult to read and will remain so for a period in our opinion.
- We reduce to a Hold for the time being pending clarity the impact the changing conditions may have on short and medium term earnings.
- Over the long term, the stock is trading at NTA, has a strong, if a little fluid yield, and an impressive pipeline of projects with development approval.
- While we reduce to a Hold recommendation with a 3 to 6 month view, we are confident over the long haul, FRI at \$1.00 offers excellent value.

Finbar Group Ltd	Year End 30 June	
Share Price	1.00	A\$/sh
Price Target (PER)	1.22	A\$/sh
Valuation (DCF)	1.16	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	232.0	m, diluted
Market Capitalisation	232.0	A\$m
Enterprise Value	248.6	A\$m
Debt	(84.8)	A\$m
Cash	63.0	A\$m

Key Financials	2015a	2016f	2017f
Revenue (A\$m)	93.9	174.5	194.5
EBITDA (A\$m)	16.7	33.7	38.4
EBIT (A\$m)	16.6	33.6	38.3
Reported NPAT (A\$m)	25.9	23.5	26.8
Normalised NPAT (A\$m)	25.9	23.5	26.8
Gross Cashflow (A\$m)	9.9	23.6	27.0
Capex (A\$m)	-1.3	-1.3	-1.3
Op. Free Cashflow (A\$m)	15.9	8.9	-51.9
Revenue Growth (%)	-66%	87%	12%
EBITDA Growth (%)	-71%	102%	14%
Norm. NPAT Growth (%)	-31%	-9%	14%
Normalised EPS (Ac)	11.33	10.14	11.57
Norm. EPS growth (%)	-33%	-10%	14%
PER (x)	8.8	9.9	8.6
EV:EBITDA (x)	14.9	7.4	6.5
EV:EBIT (x)	15.0	7.4	6.5
DPS (Ac)	10.00	8.00	8.00
Dividend Yield (%)	10.0%	8.0%	8.0%
Net Cash (A\$m)	-15.8	-19.3	-82.8
Net Debt:Equity (%)	7%	8%	31%
Interest Cover (x)	na	na	na

Share Price Chart



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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)
Pelago	-	-	13	10
Subiaco	21	10	-	-
Toccata	4	-	-	-
Norwood	18	-	-	-
Concerto and Harmony	-	63	38	-
The Springs (Arbor North)	39	-	-	-
Maylands (Unison)	42	-	-	-
Northbridge (James street)	40	26	-	-
South Perth (Aurelia)	-	67	-	-
Construction not yet commenced				
Maylands (Kennedy)	-	23	23	-
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
Revenue forecast	168	188	383	368

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 reduced 2016 NPAT expectation (excluding any possible impairment), is trading on a PE of 9.9x.
- The stock paid 10c in dividends in 2015 on \$26m NPAT and were earnings to decrease modestly, as we are forecasting, so might the dividend.
- On the other hand, the board might decide to maintain dividend as a show of confidence in outlook.
- We can see argument for either position and see dividend for the full year in the range of 7c to 10c.
- Consequently the stock is currently yielding between 7% and 10% per annum fully franked.
- At \$1.00 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 catalyst and we reduce to a Hold recommendation with a three to six month view.

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Financial Statements	2013a	2014a	2015f	2016f	2017f
Sales	124.2	261.0	89.4	167.5	187.5
Other	16.0	11.2	4.5	7.0	7.0
Revenue	140.2	272.2	93.9	174.5	194.5
Operating costs	-97.0	-214.0	-77.2	-140.8	-156.1
EBITDA	43.2	58.2	16.7	33.7	38.4
Depreciation	-0.2	-0.1	-0.1	-0.1	-0.2
Other non cash	0.0	0.0	0.0	0.0	0.0
EBIT	43.0	58.0	16.6	33.6	38.3
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
EBT	44.5	58.7	31.6	33.6	38.4
Tax expense	-13.0	-17.9	-5.7	-10.1	-11.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.3	-4.3	0.0	0.0	0.0
Reported Earnings	31.2	36.5	25.9	23.5	26.8
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	11.9	15.2
Net Profit (ex valuation)	29.3	37.6	25.9	23.5	26.8
Cash flow (A\$m)	2013a	2014a	2015f	2016f	2017f
Pretax Profit	44.5	58.7	31.6	33.6	38.4
+ Depreciation	0.2	0.1	0.1	0.1	0.2
- Tax Paid	-7.4	-17.6	-21.4	-10.1	-11.5
+ 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
Gross Cashflow	37.3	41.7	9.9	23.6	27.0
- Capital expenditure	0.3	2.2	-1.3	-1.3	-1.3
+/- Changes in working cap	-32.9	55.7	7.3	-13.3	-77.6
Operating Free Cashflow	4.7	99.6	15.9	8.9	-51.9
+/- 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	-2.7	-63.5
Cash at beginning of period	-85.3	-103.9	-17.5	-16.6	-19.3
Net debt at end of period	-103.9	-17.5	-16.6	-19.3	-82.8
Balance Sheet (\$m)	2013a	2014a	2015f	2016f	2017f
Cash	35.6	60.9	69.0	65.5	2.0
Receivables	24.3	11.1	24.7	12.3	13.7
Inventories	180.0	75.8	47.5	70.0	112.5
Other	0.7	0.4	8.5	8.5	8.5
Current Assets	240.6	148.2	149.7	156.3	136.7
Receivables	12.0	46.1	42.8	21.2	23.8
Inventories	4.2	11.8	26.1	55.0	88.4
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
Non Current Assets	156.5	207.2	198.2	206.7	243.8
Total Assets	397.1	355.4	347.9	363.0	380.5
Payables	-33.4	-12.0	-15.3	-19.3	-21.6
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
Current Liabilities	-86.1	-26.0	-51.5	-55.4	-57.7
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
Non Current Liabilities	-105.1	-90.7	-58.3	-58.3	-58.3
Total Liabilities	-191.2	-116.7	-109.8	-113.7	-116.0
Net Assets	205.9	238.7	238.1	249.3	264.5
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	93.6	108.9
Minority Interests	3.1	7.4	0.6	0.6	0.6
Total equity	205.9	238.7	238.1	250.1	265.3
Performance Ratios	2013a	2014a	2015f	2016f	2017f
Growth & Margins					
Revenue Growth	34%	110%	-66%	87%	12%
EBITDA Growth	13%	35%	-71%	102%	14%
EBIT Growth	13%	35%	-71%	103%	14%
Normalized Net Profit Growth	45.3%	28.0%	-31.1%	-9.1%	14.1%
EBITDA margin	30.8%	21.4%	17.8%	19.3%	19.8%
EBIT margin	30.7%	21.3%	17.6%	19.2%	19.7%
Normalized net profit margin	20.9%	13.8%	27.5%	13.5%	13.8%
Effective tax rate	29%	30%	18%	30%	30%
Liquidity					
Capex/depreciation (x)					
Current ratio (x)	2.8	5.7	2.9	2.8	2.4
Quick ratio (x)	1.8	6.0	6.1	4.0	0.7
Receivable days	31	38	29	33	25
Payable days	6	13	3	7	9
Risk Measures					
Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a
Payout ratio (%)	66%	60%	88%	79%	69%
Net interest cover (x)	na	290.1	na	na	na
Net debt/equity (%)	50%	7%	7%	8%	31%
Returns					
Return on avg cap employed (%)	21%	25%	7%	13%	15%
WACC (%)					
Return on assets (%)	12%	15%	16%	16%	16%
Return on average equity (%)	16%	16%	11%	10%	10%
Company cost of equity (%)					
Share Data/Valuation	2013a	2014a	2015f	2016f	2017f
Share Data					
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	0.10	0.12
YoY change (%)	10%	14%	-32%	-10%	14%
Fully diluted EPS (A\$)	0.14	0.17	0.11	0.10	0.12
YoY change (%)	44%	25%	-33%	-10%	14%
Fully dil normalised EPS (A\$)	0.136	0.17	0.11	0.10	0.12
YoY change (%)	44%	25%	-33%	-10%	14%
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	0.10	0.12
NBV/share (A\$)	0.94	1.08	1.04	1.07	1.14
NTA/Share (A\$)	0.94	1.08	1.04	1.07	1.14
Valuation					
PER (Basic) (x)	6.9	6.0	8.8	9.9	8.6
PER (Fully diluted) (x)	7.4	5.9	8.8	9.9	8.6
PER (Fully diluted, norm) (x)	7.4	5.9	8.8	9.9	8.6
P/CFPS (x)	5.8	5.3	23.1	9.8	8.6
Price/NBV (x)	1.1	0.9	1.0	0.9	0.9
Price/NTA (x)	1.1	0.9	1.0	0.9	0.9
Dividend Yield (%)	9.5%	10.0%	10.0%	8.0%	8.0%
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	335.9	249.5	216.0	219.5	283.0
EV/EBITDA (x)	5.8	4.3	14.9	7.4	6.5
EV/EBIT (x)	5.8	4.3	15.0	7.4	6.5
EV/Revenue (x)	1.8	0.9	2.6	1.4	1.3
Other Information					
12-mth High/Low (A\$/sh)					\$1.48/\$1.09
Average daily volume (A\$m)					0.2
ASX Code					FRI
Next result					Feb 2016
Company Description					
FRI is a WA based property developer.					

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