

# Finbar Group Ltd

## (FRI \$1.15) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	22 <sup>nd</sup> September 2015	\$1.49/sh

### Civic Heart

#### Investment case

Finbar has announced presales of \$60m during the first week of release on its largest project to date, the \$400m Civic Heart project. FRI will need to presell a further \$140m off the plan over the next 3 months to bank the project in time for an early calendar 2016 construction start. FRI now has \$480m in presales from a \$2.25b pipeline. While conditions are soft, FRI continues to see steady sales across its development portfolio. FRI are looking for a return to growth in 2016 and consequently we see the current 9% yield as defensible. The medium and long term prospects for growth are supported by the project pipeline. Buy maintained.

#### Key points

- FRI has achieved \$60m in presales in the first week of release of its \$400m Civic Heart project.
- This was a good result in a softening market, and FRI is on track to commence construction early 2016.
- FRI saw earnings slip in 2015 after a very strong 2014, however should return to growth in 2016 with steady sales in product that is under construction with substantial presales.
- To hit our 2016 numbers we estimate FRI need to sell a further 220 units over the next nine months or 6 per week. This compares favourably with current sales rates averaging 1.5 per day.
- Ironically, to deliver a similar revenue number in 2017 (versus 2016), FRI need to sell a further circa 180 units (40 less than is required for 2016), a consequence of strong presales at Aurelia and Concerto.
- Consequently we have strong conviction in the general theme of growth available to FRI, and expect at a minimum the 9% yield is defensible despite the slow current conditions.
- If, on the other hand, and as we explore below, metropolitan Perth continues to see a greater portion of dwellings supplied by apartments versus traditional housing, the outlook brightens considerably.
- FRI has been servicing this market for many years, through many cycles, has a strong balance sheet and pipeline and we believe can grow over the medium term. Buy.

Finbar Group		30 June
Share Price	1.15	A\$/sh
Price Target (PER)	1.49	A\$/sh
Valuation (DCF)	1.70	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	228.9	m, diluted
Market Capitalisation	262.7	A\$m
Enterprise Value	279.3	A\$m
Debt	(84.8)	A\$m
Cash	69.0	A\$m

Key Financials	2015a	2016f	2017f
Revenue (A\$m)	93.9	199.5	278.1
EBITDA (A\$m)	16.7	40.7	56.6
EBIT (A\$m)	16.6	40.6	56.4
Reported NPAT (A\$m)	25.9	28.4	39.5
Normalised NPAT (A\$m)	25.9	28.4	39.5
Gross Cashflow (A\$m)	9.9	28.5	39.7
Capex (A\$m)	-1.3	-1.3	-1.3
Op. Free Cashflow (A\$m)	15.9	30.7	21.4
Revenue Growth (%)	-66%	115%	41%
EBITDA Growth (%)	-71%	144%	39%
Norm. NPAT Growth (%)	-31%	10%	39%
Normalised EPS (Ac)	11.33	12.41	17.26
Norm. EPS growth (%)	-33%	10%	39%
PER (x)	10.2	9.3	6.7
EV:EBITDA (x)	16.7	6.9	4.9
EV:EBIT (x)	16.9	6.9	4.9
DPS (Ac)	10.00	10.00	10.00
Dividend Yield (%)	8.7%	8.7%	8.7%
Net Cash (A\$m)	-15.8	0.3	8.0
Net Debt:Equity (%)	7%	net cash	net cash
Interest Cover (x)	na	na	na

#### Share Price Chart



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## Analysis

We provide below our interpretation of pipeline for FRI:

Fri share of revenues							
Construction commenced/complete	'16 (\$m)	'17 (\$m)	'18 (\$m)	'16 Units to be sold	'17	Total Units	% to be Sold
Pelago	-	-	13	-	-	288	64%
Subiaco	21	-	-	36	-	264	14%
Toccata	4	-	-	7	-	45	16%
Norwood	18	-	-	12	-	59	20%
Concerto and Harmony	-	100	-	-	79	226	35%
The Springs (Arbor North)	39	-	-	43	-	154	28%
Maylands (Unison)	42	-	-	85	-	169	50%
Northbridge (James street)	65	-	-	37	-	116	32%
South Perth (Aurelia)	-	67	-	-	35	138	25%
Construction not yet commenced							
Maylands (Kennedy)	-	23	23	-	90	180	100%
Dianella	-	-	37	-	-	163	100%
The Springs (South and 1014)	-	27	38	-	116	116	100%
West Perth	-	-	63	-	-	242	100%
West Leederville	-	41	-	-	75	143	52%
South Perth Civic Triangle	-	-	200	-	-	294	85%
Belmont (GE Highway)	-	15	15	-	-	na	100%
63 Adelaide Terrace	-	-	38	-	-	na	100%
Revenue forecast	193	271	426	220	395		

*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 discussed above, we see 220 units as required to be sold to hit our 2016 numbers.
- The largest risk is the Mayland Unison project, which is 50% sold and currently under construction. Further sales are perhaps now unlikely until construction completes.
- Nevertheless, current sales rates are we believe circa 10 per week, versus the 6 required per week to hit our numbers. FRI should wind up sufficiently close to our forecasts to defend the current 9% yield.
- In 2017 we look for strong growth requiring a further 395 units to be sold.
- The biggest risk to our growth targets is the second stage of Maylands and further Springs stages, however we note that to produce revenues in 2017 similar to 2016 (the minimum to continue to defend the yield), only 180 units are required to be sold, less than that required currently for 2016, in the Concerto, Aurelia and West Leederville projects.

## Investment Case

- FRI trades on a 2016 PE of 9.3x, yielding 8.7% fully franked.
- Peers are trading in the range of 8x - 14x, with WA companies in particular on the nose in terms investment sentiment, reflecting concerns around WA employment and apartment supply.
- Catalysts are somewhat scarce, however the attractive yield should provide a floor.

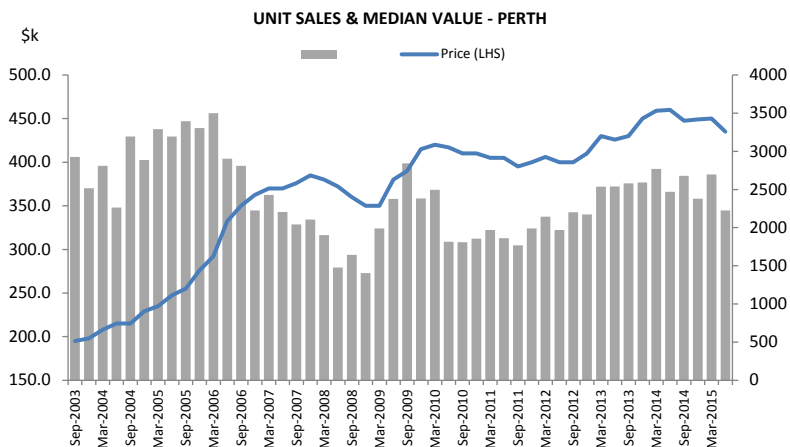
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- FRI needs to demonstrate growth to drive share price traction and re-rate, and as we discuss above, we expect modest change in 2016, with scope for strong growth in 2017.
- 12 months from now, having delivered 2016, were FRI to be looking at the growth we are contemplating in 2017, we would expect the stock to trade up.
- This growth is possible despite slower conditions, supported by the strong presales achieved to date, however FRI are unlikely to be rewarded for this in advance.



Source: Euroz/HIA

- That said, and as indicated above, unit sales are steady for the time being, and they would only need to remain steady to achieve the sales we require.
- In short, investment sentiment is weak in relation to the property development sector, and this is driving increasing value in property stocks, particularly WA based property stocks.
- While catalysts are scarce, the FRI fundamentals stack up.
- Buy maintained.

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Financial Statements	2013a	2014a	2015a	2016f	2017f
Sales	124.2	261.0	89.4	192.5	271.1
Other	16.0	11.2	4.5	7.0	7.0
<b>Revenue</b>	<b>140.2</b>	<b>272.2</b>	<b>93.9</b>	<b>199.5</b>	<b>278.1</b>
Operating costs	-97.0	-214.0	-77.2	-158.8	-221.5
<b>EBITDA</b>	<b>43.2</b>	<b>58.2</b>	<b>16.7</b>	<b>40.7</b>	<b>56.6</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>40.6</b>	<b>56.4</b>
Net Interest income/(expense)	0.2	-0.2	1.6	0.0	0.0
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>40.6</b>	<b>56.4</b>
Tax expense	-13.0	-17.9	-5.7	-12.2	-16.9
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>28.4</b>	<b>39.5</b>
Dividends	-13.1	-13.2	-13.7	-13.7	-13.7
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
Retained earnings	18.1	23.3	12.2	14.7	25.8
<b>Net Profit (ex valuation)</b>	<b>29.3</b>	<b>37.6</b>	<b>25.9</b>	<b>28.4</b>	<b>39.5</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>40.6</b>	<b>56.4</b>
+ Depreciation	0.2	0.1	0.1	0.1	0.2
- Tax Paid	-7.4	-17.6	-21.4	-12.2	-16.9
+ 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>28.5</b>	<b>39.7</b>
- Capital expenditure	0.3	2.2	-1.3	-1.3	-1.3
+/- Changes in working capital	-32.9	55.7	7.3	3.5	-17.0
<b>Operating Free Cashflow</b>	<b>4.7</b>	<b>99.6</b>	<b>15.9</b>	<b>30.7</b>	<b>21.4</b>
+/- Investments	0.0	0.0	0.0	0.0	0.0
- Dividends	-17.9	-16.4	-25.0	-13.7	-13.7
+ 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	16.9	7.7
Cash at beginning of period	-85.3	-103.9	-17.5	-16.6	0.3
Net debt at end of period	-103.9	-17.5	-16.6	0.3	8.0
<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	85.1	92.8
Receivables	24.3	11.1	24.7	14.1	19.8
Inventories	180.0	75.8	47.5	59.3	65.2
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>167.1</b>	<b>186.4</b>
Receivables	12.0	46.1	42.8	24.4	34.4
Inventories	4.2	11.8	26.1	46.6	51.2
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>201.5</b>	<b>217.3</b>
<b>Total Assets</b>	<b>397.1</b>	<b>355.4</b>	<b>347.9</b>	<b>368.6</b>	<b>403.6</b>
Payables	-33.4	-12.0	-15.3	-22.2	-31.4
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>-58.3</b>	<b>-67.5</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>-116.6</b>	<b>-125.8</b>
<b>Net Assets</b>	<b>206.0</b>	<b>238.7</b>	<b>238.1</b>	<b>252.0</b>	<b>278.6</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	96.4	122.2
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>252.8</b>	<b>278.6</b>

Performance Ratios	2013a	2014a	2015a	2016f	2017f
<b>Growth &amp; Margins</b>					
Revenue Growth	34%	110%	-66%	115%	41%
EBITDA Growth	13%	35%	-71%	144%	39%
EBIT Growth	13%	35%	-71%	145%	39%
Normalized Net Profit Growth	45.3%	28.0%	-31.1%	9.8%	39.1%
EBITDA margin	30.8%	21.4%	17.8%	20.4%	20.4%
EBIT margin	30.7%	21.3%	17.6%	20.3%	20.3%
Normalized net profit margin	20.9%	13.8%	27.5%	14.2%	14.2%
Effective tax rate	29%	30%	18%	30%	30%
<b>Liquidity</b>					
Capex/depreciation (x)					
Current ratio (x)	2.8	5.7	2.9	2.9	2.8
Quick ratio (x)	1.8	6.0	6.1	4.5	3.6
Receivable days	31	38	29	37	39
Payable days	6	13	3	8	16
<b>Risk Measures</b>					
Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a
Payout ratio (%)	66%	60%	88%	81%	58%
Net interest cover (x)	na	290.1	na	na	na
Net debt/equity (%)	50%	7%	7%	net cash	net cash
<b>Returns</b>					
Return on avg cap employed (%)	21%	25%	7%	16%	21%
WACC (%)					
Return on assets (%)	12%	15%	16%	16%	15%
Return on average equity (%)	16%	16%	11%	12%	15%
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	228.9	228.9
Weighted ave shares (m)	216.0	220.8	228.4	228.9	228.9
Fully diluted shares (m)	216.0	220.8	228.4	228.9	228.9
Basic EPS (A\$)	0.14	0.17	0.11	0.12	0.17
YoY change (%)	10%	14%	-32%	10%	39%
Fully diluted EPS (A\$)	0.14	0.17	0.11	0.12	0.17
YoY change (%)	44%	25%	-33%	10%	39%
Fully dil normalised EPS (A\$)	0.136	0.17	0.11	0.12	0.17
YoY change (%)	44%	25%	-33%	10%	39%
Dividend/share (A\$)	0.095	0.100	0.100	0.100	0.100
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (A\$)	0.17	0.19	0.04	0.12	0.17
NBV/share (A\$)	0.94	1.08	1.04	1.10	1.21
NTA/Share (A\$)	0.94	1.08	1.04	1.10	1.21
<b>Valuation</b>					
PER (Basic) (x)	8.0	7.0	10.2	9.3	6.7
PER (Fully diluted) (x)	8.5	6.8	10.2	9.3	6.7
PER (Fully dil, normalized) (x)	8.5	6.8	10.2	9.3	6.7
P/CFPS (x)	6.7	6.1	26.5	9.3	6.6
Price/NBV (x)	1.2	1.1	1.1	1.0	0.9
Price/NTA (x)	1.2	1.1	1.1	1.0	0.9
Dividend Yield (%)	8.3%	8.7%	8.7%	8.7%	8.7%
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	366.5	280.2	246.7	230.5	222.9
EV/EBITDA (x)	6.5	4.8	16.7	6.9	4.9
EV/EBIT (x)	6.5	4.8	16.9	6.9	4.9
EV/Revenue (x)	2.0	1.0	3.0	1.4	1.0
<b>Other Information</b>					
12-mth High/Low (A\$/sh)				\$1.48/\$1.09	
Average daily volume (A\$m)				0.2	
ASX Code				FRI	
Next result				Feb 2016	
<b>Company Description</b>					
FRI is a WA based property developer					

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