

# Finbar Group Ltd

## (FRI \$0.92) Buy, Upgrade from Speculative Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	25 <sup>th</sup> October 2017	\$1.22/sh

### Company update

#### Investment case

FRI provided an update at recent AGM suggesting signs of improvement in sales rates in existing and off plan product. It is early, however we are seeing indications of an improving WA economy in a number of key indicators and FRI is very leveraged to confidence returning to WA. In particular, the investment market, which is not yet penalised for indecision, has been active at sales sites, at this stage slow to commit. This will change if sentiment continues to improve. In the meantime, two large well presold projects set for delivery in 2018 and considerable completed stock ready for sale supports our dividend expectations and may support profitability in 2018 up meaningfully on 2017. Buy.

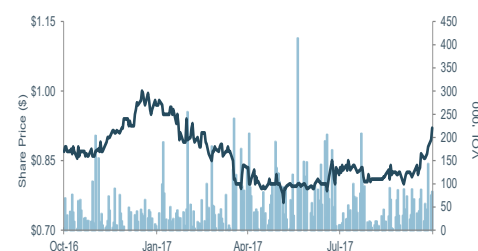
#### Key points

- FRI provided a market update at the 2017 AGM, with the following key takeaways:
  - Despite 2017 being a clearly tough year there have been early signs of a small increase in sales rates.
  - Investors, a key historical buyer of FRI product, are attending sales sites, however are not yet being penalised for indecision, and sales have been soft broadly.
  - Despite this, FRI paid 6c in dividends in 2017, yielding 6.4% on that number and 5.4% on our current 5c per share 2018 dividend forecast.
  - There is reason for optimism in relation to maintenance of the dividend, with two major projects, Aurelia (76% presold) and Aire (65% presold) under construction for completion in 2018. The FRI share of these two projects is \$121m, with the presold component being circa \$86m.
  - In addition, we calculate the FRI share of completed not yet sold product at circa \$84m across primarily the Motive, Linq and Concerto projects.
  - In short we see a number of levers to support a 2018 year that is better than 2017, and, in absence of further impairments, perhaps meaningfully so.
  - We believe FRI has seen the bottom and the leverage to an improving WA economy is clear.

Finbar Group Ltd	Year End 30 June	
Share Price	0.92	A\$/sh
Price Target	1.22	A\$/sh
Valuation (DCF)	1.22	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	231.3	m, diluted
Market Capitalisation	213.0	A\$m
Enterprise Value	287.0	A\$m
Debt	143.1	A\$m
Cash	68.8	A\$m

Key Financials	2017a	2018f	2019f
Revenue (A\$m)	124.2	147.6	188.5
EBITDA (A\$m)	15.4	17.5	26.2
EBIT (A\$m)	9.5	17.4	26.0
Reported NPAT (A\$m)	5.1	12.3	18.3
Normalised NPAT (A\$m)	5.1	12.3	18.3
Gross Cashflow (A\$m)	13.3	12.1	18.4
Capex (A\$m)	1.1	-0.3	-0.3
Op. Free Cashflow (A\$m)	-17.6	12.1	61.1
Revenue Growth (%)	12%	23%	29%
EBITDA Growth (%)	175%	-34%	0%
Norm. NPAT Growth (%)	-76%	20%	25%
Normalised EPS (Ac)	2.21	5.30	7.90
Norm. EPS growth (%)	-76%	140%	49%
PER (x)	41.7	17.4	11.6
EV:EBITDA (x)	18.6	16.4	11.0
EV:EBIT (x)	30.2	16.5	11.0
DPS (Ac)	6.00	5.00	5.00
Dividend Yield (%)	6.5%	5.4%	5.4%
Net Cash (A\$m)	-74.3	-72.3	-22.8
Net Debt:Equity (%)	34%	33%	10%
Interest Cover (x)	na	na	na

#### Share Price Chart



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## Analysis

We provide below our view of project pipeline for FRI:

Fri share of revenues				
Projects	2018	2019	2020+	
Complete	(\$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	20	-	
Motive	15	5	-	
<b>Under construction</b>				
Aire (West Perth)	30	23	-	
South Perth (Aurelia)	53	15	-	
<b>Preselling</b>				
Reva S/Perth	-	48	-	
63 Adelaide Terrace (Vue)	-	73	-	
<b>Imminent launch</b>				
Palmyra East		-	24	
Sabina			61	
Circa Apartments Rowe Avenue Riversdale		-	23	
<b>Development Approval</b>				
Maylands (Kennedy)	-	-	43	
Palmyra West	-	-	26	
The Point			45	
Canning Highway	-	-	110	
<b>Future projects</b>				
Harmony	-	-	20	
61 Waverly street	-	-	33	
Lot 888	-	-	20	
Belmont (GE Highway)	-	-	75	
South Perth Civic Triangle	-	-	150	
2 Homelea Court (Riversdale)	-	-	77	
Lot 1000 Riversdale	-	-	33	
<b>Revenue forecast</b>	<b>142</b>	<b>183</b>	<b>740</b>	<b>1,064</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.				

We note the following:

- The \$142m in development revenue we are looking for compares favourably with circa \$120m we estimate was delivered in 2017.
- The \$142m we are looking for assumes delivery of the presold components of Aurelia and Aire and the current sales rate of one apartment per day to continue.
- Timing of sales is still a little fluid and consequently so will our forecasting; the important thing to note is that we can see where earnings sufficient to maintain dividend in both 2018 and 2019 would be generated.
- Most importantly, beyond this there is a substantial pipeline of possible projects, much of it with development approval, ready to be rolled out as conditions improve.
- WA is systematically unrepresented compared to the rest of Australia in terms of apartment living and it won't need a huge change in sentiment, in our opinion, to see the cycle turn.

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### Investment Thesis

- FRI is trading at NTA and yields 5% on bottom of the cycle earnings.
- In our opinion, there are early signs of improvement in the WA economy.
- At some point the cycle will turn, it is only a matter of when, with particular leverage available in a return of the investment buyer, currently not penalised for indecision.
- The investment thesis therefore is fairly simple, investors are paid 5% to wait, and, investing at NTA, with the leverage available, there is considerable upside available.
- We upgrade to a Buy.

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Financial Statements	2016a	2017a	2018f	2019f	Performance Ratios	2016a	2017a	2018f	2019f
Sales	102.7	115.1	141.6	182.5	<b>Growth &amp; Margins</b>				
Other	-15.0	9.1	6.0	6.0	Revenue Growth	15%	12%	23%	29%
<b>Revenue</b>	<b>87.7</b>	<b>124.2</b>	<b>147.6</b>	<b>188.5</b>	EBITDA Growth	-66%	175%	-34%	0%
Operating costs	-82.1	-108.8	-130.0	-162.3	EBIT Growth	-67%	74%	19%	28%
<b>EBITDA</b>	<b>5.6</b>	<b>15.4</b>	<b>17.5</b>	<b>26.2</b>	Normalized Net Profit Growth	-18.6%	-75.8%	20%	25%
Depreciation	-0.1	-5.9	-0.1	-0.1	EBITDA margin	6.4%	12.4%	11.9%	13.9%
Other non cash	0.0	0.0	0.0	0.0	EBIT margin	6.2%	7.6%	11.8%	13.8%
<b>EBIT</b>	<b>5.5</b>	<b>9.5</b>	<b>17.4</b>	<b>26.0</b>	Normalized net profit margin	24.0%	4.1%	8.3%	9.7%
Net Interest income/(expense)	0.5	0.6	0.1	0.1	Effective tax rate	18%	50%	30%	30%
Associates	4.7	0.0	0.0	0.0	<b>Liquidity</b>				
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)	2.6	1.1	1.1	1.2
<b>EBT</b>	<b>10.7</b>	<b>10.1</b>	<b>17.5</b>	<b>26.1</b>	Quick ratio (x)	1.3	2.1	5.6	5.0
Tax expense	-1.9	-5.0	-5.3	-7.8	Receivable days	29	26	16	21
Discontinued operations	0.0	0.0	0.0	0.0	Payable days	5	11	5	7
Minority interest	-0.7	0.0	0.0	0.0	<b>Risk Measures</b>				
<b>Reported Earnings</b>	<b>8.1</b>	<b>5.1</b>	<b>12.3</b>	<b>18.3</b>	Dividend Cover (x)	n/a	n/a	n/a	n/a
Dividends	-16.2	-13.9	-11.6	-11.6	Payout ratio (%)	201%	272%	94%	63%
Adjustments (one off)	0.0	0.0	0.0	0.0	Net interest cover (x)	na	na	na	na
Retained earnings	-8.1	-8.8	0.7	6.7	Net debt/equity (%)	21%	34%	33%	28%
<b>Net Profit (ex valuation)</b>	<b>21.0</b>	<b>5.1</b>	<b>12.3</b>	<b>18.3</b>	<b>Returns</b>				
<b>Cash flow (A\$m)</b>	<b>2016a</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>	Return on avg capital employed (%)	2%	4%	8%	12%
<b>Pretax Profit</b>	<b>10.7</b>	<b>10.1</b>	<b>17.5</b>	<b>26.1</b>	WACC (%)				
+ Depreciation	0.1	5.9	0.1	0.1	Return on assets (%)	2%	3%	5%	7%
- Tax Paid	-3.2	-3.0	-5.3	-7.8	Return on average equity (%)	3%	2%	6%	8%
+ inc (- dec) in provisions	-0.1	0.3	-0.3	0.0	Company cost of equity (%)				
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	<b>Share Data/Valuation</b>	<b>2016a</b>	<b>2017a</b>	<b>2018f</b>	<b>2019f</b>
+/- Other	0.0	0.0	0.0	0.0	<b>Share Data</b>				
<b>Gross Cashflow</b>	<b>7.5</b>	<b>13.3</b>	<b>12.1</b>	<b>18.4</b>	Issued shares (m)	231.5	231.1	231.3	231.3
- Capital expenditure	-0.3	1.1	-0.3	-0.3	Weighted ave shares (m)	231.5	231.1	231.3	231.3
+/- Changes in working capital	-37.8	-32.0	0.4	3.0	Fully diluted shares (m)	231.5	231.1	231.3	231.3
<b>Operating Free Cashflow</b>	<b>-30.6</b>	<b>-17.6</b>	<b>12.1</b>	<b>21.1</b>	Basic EPS (A\$)	0.03	0.02	0.05	0.08
+/- Investments	10.0	0.0	0.0	0.0	YoY change (%)	-69%	-37%	140%	49%
- Dividends	-16.2	-16.2	-11.6	-11.6	Fully diluted EPS (A\$)	0.09	0.02	0.05	0.08
+ Proceeds from equity raised	0.0	0.0	0.0	0.0	YoY change (%)	-20%	-76%	140%	49%
+/- (Acquisition) Disposals	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (A\$)	0.09	0.02	0.05	0.08
+/- Minority interests	0.0	0.0	0.0	0.0	YoY change (%)	-20%	-76%	140%	49%
+/- Other	7.7	6.6	0.0	0.0	Dividend/share (A\$)	0.070	0.060	0.050	0.050
Net cashflow	-29.1	-27.2	0.6	9.6	Franking (%)	100%	100%	100%	100%
Cash at beginning of period	-16.6	-45.7	-72.9	-72.3	Gross cashflow/share (A\$)	0.03	0.06	0.05	0.08
Net debt at end of period	-45.7	-72.9	-72.3	-62.8	NBV/share (A\$)	0.98	0.94	0.95	0.97
<b>Balance Sheet (\$m)</b>	<b>2016a</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	NTA/Share (A\$)	0.98	0.94	0.95	0.97
Cash	28.1	68.8	70.8	80.3	<b>Valuation</b>				
Receivables	13.8	16.4	8.6	11.1	PER (Basic) (x)	26.4	41.7	17.4	11.6
Inventories	100.5	115.0	101.0	97.4	PER (Fully diluted) (x)	10.1	41.7	17.4	11.6
Other	3.8	0.9	0.9	0.9	PER (Fully diluted, normalized) (x)	10.1	41.7	17.4	11.6
<b>Current Assets</b>	<b>146.2</b>	<b>201.1</b>	<b>181.3</b>	<b>189.8</b>	P/CFPS (x)	28.4	16.0	17.6	11.5
Receivables	28.9	37.3	19.7	25.4	Price/NBV (x)	0.9	1.0	1.0	0.9
Inventories	52.2	73.1	79.4	76.6	Price/NTA (x)	0.9	1.0	1.0	0.9
Property/Plant/Equipment	13.3	12.4	12.6	12.8	Dividend Yield (%)	7.6%	6.5%	5.4%	5.4%
Equity Accounted Investments	4.1	1.8	1.8	1.8	Fully diluted normalized 3 yr EPS Cagr (%n/a)	n/a	n/a	n/a	n/a
Investment Property	92.2	86.4	86.4	86.4	PEG ratio (x)	n/a	n/a	n/a	n/a
Deferred tax assets	0.3	0.3	0.3	0.3	EV	259.7	287.3	285.3	275.8
Other	0.0	4.4	4.4	4.4	EV/EBITDA (x)	51.2	18.6	16.4	11.0
<b>Non Current Assets</b>	<b>191.0</b>	<b>215.7</b>	<b>204.5</b>	<b>207.6</b>	EV/EBIT (x)	52.6	30.2	16.5	11.0
<b>Total Assets</b>	<b>337.2</b>	<b>416.8</b>	<b>385.8</b>	<b>397.4</b>	EV/Revenue (x)	3.3	2.3	1.9	1.5
Payables	-31.3	-41.4	-14.2	-18.2	NPV/SOP (A\$)				
Interest bearing liabilities	-22.7	-143.1	-143.1	-143.1	<b>Other Information</b>				
Current tax payable	-3.2	-3.2	-3.2	-3.2	12-mth High/Low (A\$/sh)			\$1.00/\$0.76	
Provisions	0.0	-0.3	0.0	0.0	Average daily volume (A\$m)				0.2
<b>Current Liabilities</b>	<b>-57.2</b>	<b>-188.0</b>	<b>-160.5</b>	<b>-164.5</b>	ASX Code				FRI
Payables	0.0	-8.5	-2.9	-3.7	Next result				Feb 2018
Interest bearing liabilities	-52.1	0.0	0.0	0.0	<b>Company Description</b>				
Tax liabilities	0.0	-3.7	-3.7	-3.7	FRI is a WA based property developer.				
Provisions	-0.1	-0.1	-0.1	-0.1					
<b>Non Current Liabilities</b>	<b>-52.2</b>	<b>-12.3</b>	<b>-6.7</b>	<b>-7.5</b>					
<b>Total Liabilities</b>	<b>-109.4</b>	<b>-200.3</b>	<b>-167.2</b>	<b>-172.1</b>					
<b>Net Assets</b>	<b>227.8</b>	<b>216.5</b>	<b>218.6</b>	<b>225.3</b>					
Contributed equity	157.5	157.3	157.3	157.3					
Reserves	0.4	0.2	0.2	0.2					
Retained profits	69.3	59.0	61.1	67.8					
Minority Interests	0.6	0.0	0.0	0.0					
<b>Total equity</b>	<b>227.8</b>	<b>216.5</b>	<b>218.6</b>	<b>225.3</b>					

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**Euroz Securities Limited** +61 8 9488 1400

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Germany	0800 1800 554
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Malaysia	1800 805 002
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USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Duncan Relf - Associate Director	+61 8 9346 0322
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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