

# Finbar Group Ltd

## (FRI \$1.13) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	27 <sup>th</sup> August 2015	\$1.49/sh

### Full year reporting 2015

#### Investment case

FRI have reported full year 2015 NPAT of \$25.9m and a final dividend of 6c, in line with guidance issued in late July. FRI will pay 10c in total dividends for 2015, which we think will be replicated in 2016 and on this basis yields 9% per annum fully franked. At \$1.13 FRI trades at 10x the delivered 2015 NPAT, hardly demanding. Investors are apparently skittish on FRI pending a WA economic slow down. We see industry sales slowing rather than capitulating and based on the project pipeline and presales achieved to date, see a bright medium and long term future. That said, sentiment is hard to ignore and it is difficult to see FRI trade much beyond 12x 2016 forecasts, notwithstanding the healthy dividend yield. This translates to \$1.49, our revised 12 month price target.

#### Key points

- FRI has reported full year 2015 NPAT of \$25.9m per guidance issued late July.
- A final dividend of 6c will be paid, translating to 10c for full year 2015 and we see this replicated in 2016. On this basis the stock yields 9% fully franked.
- Presales are out to \$408m, versus \$239m this time last year and medium term prospects are reasonable, notwithstanding poor sentiment in relation to the WA economy.
- We note that since the July update, FRI has received development approval on a further four projects, extending the medium term pipeline of prospects.
- We believe sales rates will (and probably already have) slowed, however FRI has presales in place sufficient to see a 2016 year that could be broadly in line with 2015 before a sizable improvement in earnings in 2017 and 2018.
- While we appreciate this will seem at odds with what is widely recognised to be a slowing WA economy it is largely supported by the presales, with the caveat that a good outcome on presales on the large Civic project is achieved.
- This project goes to market on September 12, and will be a good guide to appetite and consequently the prospect of strong growth in 2017 and 2018.
- If sales do slow, we continue to look to a base load of work at least supporting the 10c dividend and 9% yield.
- Buy maintained.

#### Analysis

We provide below our interpretation of the FRI sales pipeline:

Finbar Group	30 June
Share Price	1.13 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	258.1 A\$m
Enterprise Value	274.7 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)	10.0	9.1	6.5
EV:EBITDA (x)	16.4	6.7	4.9
EV:EBIT (x)	16.6	6.8	4.9
DPS (Ac)	10.00	10.00	10.00
Dividend Yield (%)	8.8%	8.8%	8.8%
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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Fri share of revenues	2016	2017	2018	Units		Total	%
				to be sold	2017		
Construction commenced/complete	(\$m)	(\$m)	(\$m)	2016	2017		to be Sold
Subiaco	21	-	-	42	-	264	16%
Toccata	4	-	-	9	-	45	20%
280 Lord Street	18	-	-	14	-	59	24%
Concerto and Harmony	-	100	-	-	94	226	42%
The Springs (Arbor North)	39	-	-	44	-	154	29%
Maylands (Unison)	42	-	-	85	-	169	50%
Northbridge (James street)	65	-	-	47	-	116	41%
South Perth (Aurelia)	-	67	-	-	40	138	29%
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	-	-	90	143	63%
South Perth Civic Triangle	-	-	175	-	-	294	100%
Belmont (GE Highway)	-	15	15	-	-	na	100%
63 Adelaide Terrace	-	-	38	-	-	na	100%
Revenue forecast	193	271	401	241	430		
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 indicated above, we see steady sales in 2016 versus 2015 before step change growth in 2017 and 2018.
- 2016 will be a little fluid with swing factors sales rates at Maylands and Northbridge.
- Nevertheless, we expect the dividend maintained in 2016.
- Ironically our 2017 growth expectations are perhaps better supported, with strong pre sales in particular at Concerto and Aurelia as per the below:
  - Concerto 58% presold
  - West Leederville 37% presold
  - Aurelia 71% presold

**Investment Thesis**

- FRI trades on a delivered 2015 PE of 10x and yields 9% per annum fully franked.
- Prospects in 2016 are a little uncertain however we believe FRI has sufficient presold for 2016 (and likely to settle) to maintain the 2015 dividend in 2016, providing a floor.
- As 2016 progresses, FRI will commence presales on the significant Civic project and if this sells well it should provide catalyst for the stock. Presales commence Sept 2015.
- FRI has traded through many investment cycles and has consistently been profitable. While we see some short term fluidity, the pipeline is very strong and the uncertainty is well priced at \$1.13 with a sustainable 9% yield.
- Over the medium term healthy presales are in place. While the WA economy may well slow, we continue to believe Perth is fundamentally undersupplied in term of apartments (compared to other cities of a comparable size).
- Buy maintained. PT \$1.49

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Financial Statements	2013a	2014a	2015a	2016f	2017f	Performance Ratios	2013a	2014a	2015a	2016f	2017f
Sales	124.2	261.0	89.4	192.5	271.1	<b>Growth &amp; Margins</b>					
Other	16.0	11.2	4.5	7.0	7.0	Revenue Growth	34%	110%	-66%	115%	41%
<b>Revenue</b>	<b>140.2</b>	<b>272.2</b>	<b>93.9</b>	<b>199.5</b>	<b>278.1</b>	EBITDA Growth	13%	35%	-71%	144%	39%
Operating costs	-97.0	-214.0	-77.2	-158.8	-221.5	EBIT Growth	13%	35%	-71%	145%	39%
EBITDA	43.2	58.2	16.7	40.7	56.6	Normalized Net Profit Growth	45.3%	28.0%	-31.1%	9.8%	39.1%
Depreciation	-0.2	-0.1	-0.1	-0.1	-0.2	EBITDA margin	30.8%	21.4%	17.8%	20.4%	20.4%
Other non cash	0.0	0.0	0.0	0.0	0.0	EBIT margin	30.7%	21.3%	17.6%	20.3%	20.3%
<b>EBIT</b>	<b>43.0</b>	<b>58.0</b>	<b>16.6</b>	<b>40.6</b>	<b>56.4</b>	Normalized net profit margin	20.9%	13.8%	27.5%	14.2%	14.2%
Net Interest income/(expense)	0.2	-0.2	1.6	0.0	0.0	Effective tax rate	29%	30%	18%	30%	30%
Associates	1.3	0.9	13.4	0.0	0.0	<b>Liquidity</b>					
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	Capex/depreciation (x)					
Abnormal items (pretax)	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	2.8	5.7	2.9	2.9	2.8
<b>EBT</b>	<b>44.5</b>	<b>58.7</b>	<b>31.6</b>	<b>40.6</b>	<b>56.4</b>	Quick ratio (x)	1.8	6.0	6.1	4.5	3.6
Tax expense	-13.0	-17.9	-5.7	-12.2	-16.9	Receivable days	31	38	29	37	39
Discontinued operations	0.0	0.0	0.0	0.0	0.0	Payable days	6	13	3	8	16
Minority interest	-0.3	-4.3	0.0	0.0	0.0	<b>Risk Measures</b>					
<b>Reported Earnings</b>	<b>31.2</b>	<b>36.5</b>	<b>25.9</b>	<b>28.4</b>	<b>39.5</b>	Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a
Dividends	-13.1	-13.2	-13.7	-13.7	-13.7	Payout ratio (%)	66%	60%	88%	81%	58%
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0	Net interest cover (x)	na	290.1	na	na	na
Retained earnings	18.1	23.3	12.2	14.7	25.8	Net debt/equity (%)	50%	7%	7%	net cash	net cash
<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>Results</b>					
<b>Cash flow (A\$m)</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>	Return on avg cap employed (%)	21%	25%	7%	16%	21%
<b>Pretax Profit</b>	<b>44.5</b>	<b>58.7</b>	<b>31.6</b>	<b>40.6</b>	<b>56.4</b>	WACC (%)					
+ Depreciation	0.2	0.1	0.1	0.1	0.2	Return on assets (%)	12%	15%	16%	16%	15%
- Tax Paid	-7.4	-17.6	-21.4	-12.2	-16.9	Return on average equity (%)	16%	16%	11%	12%	15%
+ inc (- dec) in provisions	0.0	0.5	-0.4	-0.1	0.0	Company cost of equity (%)					
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	0.0	<b>Share Data/Valuation</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>
+/- Other	0.0	0.0	0.0	0.0	0.0	<b>Share Data</b>					
<b>Gross Cashflow</b>	<b>37.3</b>	<b>41.7</b>	<b>9.9</b>	<b>28.5</b>	<b>39.7</b>	Issued shares (m)	218.2	220.8	228.4	228.9	228.9
- Capital expenditure	0.3	2.2	-1.3	-1.3	-1.3	Weighted ave shares (m)	216.0	220.8	228.4	228.9	228.9
+/- Changes in working capital	-32.9	55.7	7.3	3.5	-17.0	Fully diluted shares (m)	216.0	220.8	228.4	228.9	228.9
<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>	Basic EPS (A\$)	0.14	0.17	0.11	0.12	0.17
+/- Investments	0.0	0.0	0.0	0.0	0.0	YoY change (%)	10%	14%	-32%	10%	39%
- Dividends	-17.9	-16.4	-25.0	-13.7	-13.7	Fully diluted EPS (A\$)	0.14	0.17	0.11	0.12	0.17
+ Proceeds from equity raised	0.0	8.4	0.0	0.0	0.0	YoY change (%)	44%	25%	-33%	10%	39%
+/- (Acquisition) Disposals	0.0	0.0	10.0	0.0	0.0	Fully dil normalised EPS (A\$)	0.136	0.17	0.11	0.12	0.17
+/- Minority interests	0.0	0.0	0.0	0.0	0.0	YoY change (%)	44%	25%	-33%	10%	39%
+/- Other	-5.4	-5.2	0.0	0.0	0.0	Dividend/share (A\$)	0.095	0.100	0.100	0.100	0.100
Net cashflow	-18.6	86.4	0.9	16.9	7.7	Franking (%)	100%	100%	100%	100%	100%
Cash at beginning of period	-85.3	-103.9	-17.5	-16.6	0.3	Gross cashflow/share (A\$)	0.17	0.19	0.04	0.12	0.17
Net debt at end of period	-103.9	-17.5	-16.6	0.3	8.0	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>Balance Sheet (\$m)</b>	<b>2013a</b>	<b>2014a</b>	<b>2015a</b>	<b>2016f</b>	<b>2017f</b>	<b>Valuation</b>					
Cash	35.6	60.9	69.0	85.1	92.8	PER (Basic) (x)	7.8	6.8	10.0	9.1	6.5
Receivables	24.3	11.1	24.7	14.1	19.8	PER (Fully diluted) (x)	8.3	6.6	10.0	9.1	6.5
Inventories	180.0	75.8	47.5	59.3	65.2	PER (Fully diluted, normalized) (x)	8.3	6.6	10.0	9.1	6.5
Other	0.7	0.4	8.5	8.5	8.5	P/CFPS (x)	6.6	6.0	26.1	9.1	6.5
<b>Current Assets</b>	<b>240.6</b>	<b>148.2</b>	<b>149.7</b>	<b>167.1</b>	<b>186.4</b>	Price/NBV (x)	1.2	1.0	1.1	1.0	0.9
Receivables	12.0	46.1	42.8	24.4	34.4	Price/NTA (x)	1.2	1.0	1.1	1.0	0.9
Inventories	4.2	11.8	26.1	46.6	51.2	Dividend Yield (%)	8.4%	8.8%	8.8%	8.8%	8.8%
Property/Plant/Equipment	14.7	12.4	13.5	14.7	15.8	Fully dil norm 3 yr EPS Cagr (%)	n/a	n/a	n/a	n/a	n/a
Equity Accounted Investments	1.1	0.0	4.1	4.1	4.1	PEG ratio (x)	n/a	n/a	n/a	n/a	n/a
Investment Property	122.1	135.0	110.7	110.7	110.7	EV	362.0	275.6	242.1	226.0	218.3
Deferred tax assets	2.4	1.9	1.0	1.0	1.0	EV/EBITDA (x)	6.4	4.7	16.4	6.7	4.9
Other	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	6.4	4.7	16.6	6.8	4.9
<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>	EV/Revenue (x)	2.0	1.0	2.9	1.4	1.0
<b>Total Assets</b>	<b>397.1</b>	<b>355.4</b>	<b>347.9</b>	<b>368.6</b>	<b>403.6</b>	<b>Other Information</b>					
Payables	-33.4	-12.0	-15.3	-22.2	-31.4	12-mth High/Low (A\$/sh)				\$1.48/\$1.09	
Interest bearing liabilities	-43.7	0.0	-31.8	-31.8	-31.8	Average daily volume (A\$m)				0.2	
Current tax payable	-9.0	-13.5	-4.3	-4.3	-4.3	ASX Code				FRI	
Provisions	0.0	-0.5	-0.1	0.0	0.0	Next result				Feb 2016	
Current Liabilities	-86.1	-26.0	-51.5	-58.3	-67.5	<b>Company Description</b>					
Payables	0.0	0.0	0.0	0.0	0.0	FRI is a WA based property developer					
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>205.9</b>	<b>238.7</b>	<b>238.1</b>	<b>252.0</b>	<b>277.8</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>						

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