

Finbar Group Ltd

(FRI \$0.83) Hold

EUROZ

Analyst	Date	Price Target
Gavin Allen	June 2016	\$0.93/sh

Investment case

FRI is a well run business that leads the way in apartment development in WA and done so for many years. The macro environment is weak in WA however, and while we have reasonable visibility on earnings sufficient to defend a yield of circa 8% per annum fully franked, it is difficult to articulate a case for earnings growth in the current market, despite a substantial pipeline of development approved land. At present investors at \$0.83 are paid 8.4% per annum to wait out the cycle, which will turn at some point. In the meantime the stock lacks catalysts and further impairment can't be ruled out on investment properties. We continue to like this stock long term, however maintain our Hold recommendation for the time being as it is difficult to identify short term share price catalysts beyond the yield. Longer term though, for a patient investor, the opportunity is significant.

Key points

- We are looking for \$20m in 2016 NPAT which could frankly be as low as \$15m were further impairments required.
- The above is predicated on the recently completed Linq project settling on the majority of the 65% of this project which is presold.
- Provided this happens, we see a 4c final dividend or 7c full year translating to a current 8% fully franked yield.
- In 2017 we see the remainder of Unison and Linq sold (which will both be completed in 2016) together with Aurelia (70% presold) and Concerto (63% presold) contributing, driving sufficient earnings to maintain the 8% yield.
- Our analysis of 2018 (explored below), supports something similar, however visibility on timing is increasingly difficult, notwithstanding what is an impressive pipeline of Development Approved projects.
- FRI will see out the cycle, and for a patient investor, receiving an 8.4% yield to wait has plenty of merit as FRI are uniquely placed to respond when it does.
- In the meantime however, the stock lacks short term catalysts and we maintain our Hold recommendation for the time being.

Finbar Group Ltd	Year End 30 June	
Share Price	0.83	A\$/sh
Price Target	0.93	A\$/sh
Valuation (DCF)	1.22	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	232.0	m, diluted
Market Capitalisation	192.6	A\$m
Enterprise Value	254.6	A\$m
Debt	(107.0)	A\$m
Cash	44.3	A\$m

Key Financials	2015a	2016f	2017f
Revenue (A\$m)	93.9	172.2	176.3
EBITDA (A\$m)	16.7	29.1	33.7
EBIT (A\$m)	16.6	29.0	33.5
Reported NPAT (A\$m)	25.9	20.3	23.5
Normalised NPAT (A\$m)	25.9	24.0	23.5
Gross Cashflow (A\$m)	9.9	20.4	23.7
Capex (A\$m)	-1.3	-1.3	-1.3
Op. Free Cashflow (A\$m)	15.9	7.8	-6.9
Revenue Growth (%)	-66%	91%	-1%
EBITDA Growth (%)	-71%	74%	16%
Norm. NPAT Growth (%)	-31%	-7%	-2%
Normalised EPS (Ac)	11.33	10.35	10.13
Norm. EPS growth (%)	-33%	-9%	-2%
PER (x)	7.3	8.0	8.2
EV:EBITDA (x)	15.2	8.7	7.6
EV:EBIT (x)	15.4	8.8	7.6
DPS (Ac)	10.00	7.00	7.00
Dividend Yield (%)	12.0%	8.4%	8.4%
Net Cash (A\$m)	-15.8	-18.1	-34.3
Net Debt:Equity (%)	7%	7%	13%
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

We provide below our analysis of the pipeline of opportunities:

Fri share of revenues	EZL	EZL	EZL	EZL	EZL	EZL	EZL
Construction commenced/complete	2016	2017	FRI 2017	2018	FRI 2018	2019	FRI 2019
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Ecco	2	-	-	-	-	-	-
Subiaco	19	6	6	-	-	-	-
Toccata	16	-	-	-	-	-	-
Norwood	13	4	4	-	-	-	-
Concerto and Harmony	-	85	99	15	-	-	-
The Springs (Arbor North)	33	4	4	-	-	-	-
Maylands (Unison)	31	10	10	-	-	-	-
Northbridge (James street) Linq	55	10	10	-	-	-	-
South Perth (Aurelia)	-	50	68	19	-	-	-
Maylands (Kennedy)	-	-	-	-	-	43	43
Dianella	-	-	-	-	35	37	-
Arbour South	-	-	-	-	-	30	31
The Point (Rivervale)	-	-	-	-	-	49	49
Aire (West Perth)	-	-	-	63	55	-	-
Harper Terrace S/Perth	-	-	-	-	52	52	-
Motive	-	-	-	41	41	-	-
South Perth Civic Triangle	-	-	-	-	-	200	205
2 Homelea Court (Rivervale)	-	-	-	-	-	83	82
Belmont (GE Highway)	-	-	-	-	84	84	-
63 Adelaide Terrace (Vue)	-	-	-	40	80	40	-
Palmyra	-	-	-	-	-	28	28
Revenue forecast	171	169	201	177	347	646	438
Revenues per the above will not equate to reported revenues due to equity accounted developments. This does not impact our view of reported profits							
Constucted							
under construction							
Development approval received and selling off plan							

We note:

- Above we include our forecasts of settlement timing on FRI's share of the project pipeline (2019 is a catch all rather than forecast per sae).
- For 2017, 2018 and 2019 we include FRI's estimate of timing and completion value (not necessarily settlements) of the projects in the pipeline (per Feb project update).
- As the above indicates we are looking for a steady \$170m or so of settlements in each of 2016, 2017 and 2018.
- FRI see completions increasing steadily, however whether the completions occur as estimated will depend on timing of presales.
- Our forecasts take a conservative view, pushing many projects to the right reflecting a continuing weak market.
- Were the market to turn the opportunity for FRI to respond is significant and consequently we continue to like this stock long term.
- As mentioned above, investors are currently being paid 8% fully franked yield to wait it out and this will appeal to some investors.
- In the meantime the stock lacks catalysts.
- We set our 12 month price target at 9x forecast 2017 EPS or \$0.93.

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Financial Statements	2013a	2014a	2015f	2016f	2017f	Performance Ratios	2013a	2014a	2015f	2016f	2017f
Sales	124.2	261.0	89.4	170.5	169.3	Growth & Margins					
Other	16.0	11.2	4.5	1.7	7.0	Revenue Growth	34%	110%	-66%	91%	-1%
Revenue	140.2	272.2	93.9	172.2	176.3	EBITDA Growth	13%	35%	-71%	74%	16%
Operating costs	-97.0	-214.0	-77.2	-143.1	-142.6	EBIT Growth	13%	35%	-71%	75%	16%
EBITDA	43.2	58.2	16.7	29.1	33.7	Normalized Net Profit Growth	45.3%	28.0%	-31.1%	-7.2%	-2.2%
Depreciation	-0.2	-0.1	-0.1	-0.1	-0.2	EBITDA margin	30.8%	21.4%	17.8%	16.9%	19.1%
Other non cash	0.0	0.0	0.0	0.0	0.0	EBIT margin	30.7%	21.3%	17.6%	16.8%	19.0%
EBIT	43.0	58.0	16.6	29.0	33.5	Normalized net profit margin	20.9%	13.8%	27.5%	13.9%	13.3%
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	Liquidity					
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	2.8	2.8
EBT	44.5	58.7	31.6	29.0	33.6	Quick ratio (x)	1.8	6.0	6.1	4.0	3.2
Tax expense	-13.0	-17.9	-5.7	-8.7	-10.1	Payout ratio (%)	31	38	29	34	22
Discontinued operations	0.0	0.0	0.0	0.0	0.0	Receivable days	6	13	3	7	8
Minority interest	-0.3	-4.3	0.0	0.0	0.0	Risk Measures					
Reported Earnings	31.2	36.5	25.9	20.3	23.5	Dividend Cover (x)	n/a	n/a	n/a	n/a	n/a
Dividends	-13.1	-13.2	-13.7	-9.3	-9.3	Payout ratio (%)	66%	60%	88%	80%	69%
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	11.0	14.2	Net debt/equity (%)	50%	7%	7%	7%	13%
Net Profit (ex valuation)	29.3	37.6	25.9	24.0	23.5	Returns					
Cash flow (A\$m)	2013a	2014a	2015f	2016f	2017f	Return on avg cap employed (%)	21%	25%	7%	12%	13%
Pretax Profit	44.5	58.7	31.6	29.0	33.6	WACC (%)					
+ Depreciation	0.2	0.1	0.1	0.1	0.2	Return on assets (%)	12%	15%	16%	16%	16%
- Tax Paid	-7.4	-17.6	-21.4	-8.7	-10.1	Return on average equity (%)	16%	16%	11%	8%	9%
+ 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	Share Data/Valuation	2013a	2014a	2015f	2016f	2017f
+/- Other	0.0	0.0	0.0	0.0	0.0	Share Data					
Gross Cashflow	37.3	41.7	9.9	20.4	23.7	Issued shares (m)	218.2	220.8	228.4	232.0	232.0
- Capital expenditure	0.3	2.2	-1.3	-1.3	-1.3	Weighted ave shares (m)	216.0	220.8	228.4	232.0	232.0
+/- Changes in working capital	-32.9	55.7	7.3	-11.3	-29.3	Fully diluted shares (m)	216.0	220.8	228.4	232.0	232.0
Operating Free Cashflow	4.7	99.6	15.9	7.8	-6.9	Basic EPS (A\$)	0.14	0.17	0.11	0.09	0.10
+/- Investments	0.0	0.0	0.0	0.0	0.0	YoY change (%)	10%	14%	-32%	-23%	16%
- Dividends	-17.9	-16.4	-25.0	-9.3	-9.3	Fully diluted EPS (A\$)	0.14	0.17	0.11	0.10	0.10
+ Proceeds from equity raised	0.0	8.4	0.0	0.0	0.0	YoY change (%)	44%	25%	-33%	-9%	-2%
+/- (Acquisition) Disposals	0.0	0.0	10.0	0.0	0.0	Fully dil normalised EPS (A\$)	0.136	0.17	0.11	0.10	0.10
+/- Minority interests	0.0	0.0	0.0	0.0	0.0	YoY change (%)	44%	25%	-33%	-9%	-2%
+/- Other	-5.4	-5.2	0.0	0.0	0.0	Dividend/share (A\$)	0.095	0.100	0.100	0.070	0.070
Net cashflow	-18.6	86.4	0.9	-1.5	-16.2	Franking (%)	100%	100%	100%	100%	100%
Cash at beginning of period	-85.3	-103.9	-17.5	-16.6	-18.1	Gross cashflow/share (A\$)	0.17	0.19	0.04	0.09	0.10
Net debt at end of period	-103.9	-17.5	-16.6	-18.1	-34.3	NBV/share (A\$)	0.94	1.08	1.04	1.07	1.13
Balance Sheet (\$m)	2013a	2014a	2015f	2016f	2017f	NTA/Share (A\$)	0.94	1.08	1.04	1.07	1.13
Cash	35.6	60.9	69.0	66.7	50.5	Valuation					
Receivables	24.3	11.1	24.7	12.5	12.4	PER (Basic) (x)	5.7	5.0	7.3	9.5	8.2
Inventories	180.0	75.8	47.5	68.7	85.2	PER (Fully diluted) (x)	6.1	4.9	7.3	8.0	8.2
Other	0.7	0.4	8.5	8.5	8.5	PER (Fully diluted, normalized) (x)	6.1	4.9	7.3	8.0	8.2
Current Assets	240.6	148.2	149.7	156.3	156.5	P/CFPS (x)	4.8	4.4	19.1	9.5	8.1
Receivables	12.0	46.1	42.8	21.6	21.5	Price/NBV (x)	0.9	0.8	0.8	0.8	0.7
Inventories	4.2	11.8	26.1	54.0	66.9	Price/NTA (x)	0.9	0.8	0.8	0.8	0.7
Property/Plant/Equipment	14.7	12.4	13.5	14.7	15.8	Dividend Yield (%)	11.4%	12.0%	12.0%	8.4%	8.4%
Equity Accounted Investments	1.1	0.0	4.1	4.1	4.1	Fully dil norm 3 yr EPS Cagr (%)	n/a	n/a	n/a	n/a	n/a
Investment Property	122.1	135.0	110.7	110.7	110.7	PEG ratio (x)	n/a	n/a	n/a	n/a	n/a
Deferred tax assets	2.4	1.9	1.0	1.0	1.0	EV	296.4	210.1	176.6	178.9	195.1
Other	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	5.9	4.4	15.2	8.7	7.6
Non Current Assets	156.5	207.2	198.2	206.1	220.0	EV/EBIT (x)	5.9	4.4	15.4	8.8	7.6
Total Assets	397.1	355.4	347.9	362.4	376.6	EV/Revenue (x)	1.8	0.9	2.7	1.5	1.4
Payables	-33.4	-12.0	-15.3	-19.7	-19.6	Other Information					
Interest bearing liabilities	-43.7	0.0	-31.8	-31.8	-31.8	12-mth High/Low (A\$/sh)				\$1.29/\$0.84	
Current tax payable	-9.0	-13.5	-4.3	-4.3	-4.3	Average daily volume (A\$m)				0.2	
Provisions	0.0	-0.5	-0.1	0.0	0.0	ASX Code				FRI	
Current Liabilities	-86.1	-26.0	-51.5	-55.8	-55.7	Next result				FY2016	
Payables	0.0	0.0	0.0	0.0	0.0	Company Description					
Interest bearing liabilities	-95.8	-78.4	-53.0	-53.0	-53.0	FRI is a WA based property developer					
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	-114.1	-114.0						
Net Assets	206.0	238.7	238.1	248.4	263.4						
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	92.7	106.9						
Minority Interests	3.1	7.4	0.6	0.6	0.6						
Total equity	205.9	238.7	238.1	249.2	263.4						

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