

# Finbar Group Ltd

## (FRI \$1.07) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	5 <sup>th</sup> February 2018	\$1.25/sh

### Half year approaches

#### Investment case

We are forecasting \$12m in 2018 operating NPAT with a heavy skew to the second half as the Aurelia and Aire projects complete. In 2019 we look to the Reva and Vue projects contributing, both of which are currently committed for or under construction. In combination with sale of existing stock we see earnings sufficient to support our forecast 5% dividend yield in both 2018 and 2019. In the meantime the development pipeline remains substantial and conditions on the ground appear to be improving. FRI will launch Sabina this month, a high profile project in a great location. Strong sales momentum on this project would be a key indicator conditions have improved. We look to positive momentum on this project to drive renewed interest in FRI and maintain a Buy with a \$1.25 PT.

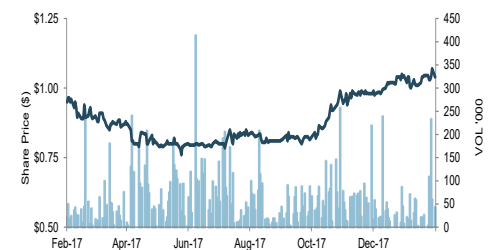
#### Key points

- We continue to believe FRI has sufficient stock, sales and product to support at least a 5c dividend in 2018 and 2019, despite what have been very tough conditions over the last 24 months.
- While further minor impairments can't be ruled out, we see operating NPAT in the region of \$12m plausible and this supports our minimum 5c or 5% yield expectation.
- In 2019, Reva and Vue contribute, both of which presold well initially and have continued to sell in the last number of months consistent with the idea conditions are improving.
- Investor activity has perhaps improved somewhat however we believe investors have not yet been penalised for inaction, despite a clear presence in sales offices.
- We are seeing early evidence that investor inertia may be abating and it won't take much in the way of price increases to see an increase in investor activity.
- In the meantime, since the last company update in October 2017, FRI has launched the Palmyra East project which looks to have sold well to date and the high profile Sabina project, located in prestige suburb Applecross, is set for launch this month.
- We believe conditions have improved sufficiently to see a positive project launch and assuming this occurs, we would expect ASX announcements and associated press and marketing to drive share price momentum.
- From 2010 to 2015 FRI averaged circa \$28m in NPAT per annum, with each of those six years producing at least \$23m in NPAT and in 2014, \$36.5m
- We would expect consistent NPAT above \$20m once again (in more normal market conditions) which we suspect are perhaps not far away.
- Importantly the FRI Development Approved pipeline of projects supports these income levels for many years in our opinion and in a price increase cycle, potentially income well above these levels.
- In the meantime our investment case is supported by a minimum 5% per annum yield and \$0.95 NTA.
- We maintain our 12 month PT of \$1.25, based on conservative DCF that sees NPAT to around \$20m in 2020; clearly history and the development pipeline suggests earnings can be substantially higher than that in the more normal market we believe is now just around the corner.

Finbar Group Ltd	Year End 30 June	
Share Price	1.07	A\$/sh
Price Target	1.25	A\$/sh
Valuation (DCF)	1.25	A\$/sh
WACC	9.6%	
Terminal Growth	3.0%	
Shares on issue	231.3	m, diluted
Market Capitalisation	247.7	A\$m
Enterprise Value	321.7	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	21.1
Revenue Growth (%)	12%	23%	29%
EBITDA Growth (%)	175%	-34%	0%
Norm. NPAT Growth (%)	-76%	20%	25%
Normalised EPS (Ac)	2.21	5.30	7.91
Norm. EPS growth (%)	-76%	140%	49%
PER (x)	48.5	20.2	13.5
EV:EBITDA (x)	20.9	18.4	12.3
EV:EBIT (x)	33.9	18.5	12.4
DPS (Ac)	6.00	5.00	5.00
Dividend Yield (%)	5.6%	4.7%	4.7%
Net Cash (A\$m)	-74.3	-72.3	-62.8
Net Debt:Equity (%)	34%	33%	28%
Interest Cover (x)	na	na	na

#### Share Price Chart



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## Finbar Group Ltd

(FRI \$1.07) Buy

## Analysis

We provide below our view of the project pipeline for FRI (FRI share):

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 sales rate of one apartment per day. Recent sales activity may suggest this assumption is conservative.
- 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.

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## Finbar Group Ltd

### (FRI \$1.07) Buy

- 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.
- We believe we are beginning to see this already.
- On this front imminent launch of the Sabina Project will be a key indicator.

#### Investment Thesis

- FRI is trading just above 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 possible.
- In our opinion the waiting period is nearly complete.

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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)	30.7	48.5	20.2	13.5
Inventories	100.5	115.0	101.0	97.4	PER (Fully diluted) (x)	11.8	48.5	20.2	13.5
Other	3.8	0.9	0.9	0.9	PER (Fully diluted, normalized) (x)	11.8	48.5	20.2	13.5
<b>Current Assets</b>	<b>146.2</b>	<b>201.1</b>	<b>181.3</b>	<b>189.8</b>	P/CFPS (x)	33.0	18.6	20.5	13.4
Receivables	28.9	37.3	19.7	25.4	Price/NBV (x)	1.1	1.1	1.1	1.1
Inventories	52.2	73.1	79.4	76.6	Price/NTA (x)	1.1	1.1	1.1	1.1
Property/Plant/Equipment	13.3	12.4	12.6	12.8	Dividend Yield (%)	6.5%	5.6%	4.7%	4.7%
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
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	294.4	322.0	320.1	310.5
Other	0.0	4.4	4.4	4.4	EV/EBITDA (x)	57.4	20.9	18.4	12.3
<b>Non Current Assets</b>	<b>191.0</b>	<b>215.7</b>	<b>204.5</b>	<b>207.6</b>	EV/EBIT (x)	58.9	33.9	18.5	12.4
<b>Total Assets</b>	<b>337.2</b>	<b>416.8</b>	<b>385.8</b>	<b>397.4</b>	EV/Revenue (x)	3.7	2.6	2.2	1.7
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)				\$1.07/\$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					
Non Current Liabilities	-52.2	-12.3	-6.7	-7.5					
<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>225.4</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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