

Finbar Group Ltd

(FRI \$0.80) Speculative Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	24 th August 2017	\$0.93/sh

Full year results

Investment case

As recently guided, FRI has reported full year NPAT of \$5.1m and operating profit of \$9.6m. A final dividend of 3c was declared for 6c full year and current yield of 7.3%. We had forecast \$13.5m, and it would seem a good number of Concerto settlements will now fall in 2018. The business finished the year with \$75m (the FRI share) in titled product and \$67m in cash. In 2018 it is anticipated the Aurelia and Aire projects will complete and settle and, together with modest sales in titled stock and we look at a 5c dividend for 2018 as entirely defensible. Together with strong balance sheet, an active share buy back scheme and \$0.93 per share book value NTA and we maintain our Speculative Buy; with speculation only really around timing of the eventual recovery.

Key points

- Finbar has reported full year NPAT of \$5.1m and operating profit (adjusted for impairments on a number of investment properties) was \$9.6m.
- FRI finished 2017 with \$67m in cash and \$75m (the FRI share) of completed stock ready for sale.
- Conditions are undeniably slow and the market is at clear cyclical lows; despite Perth being under represented in apartment living compared to other markets.
- For 2018, Aurelia, a 50% JV project with end value of \$135m, and presales of circa \$103m, should contribute meaningfully to our 2018 development revenue forecast of \$115m (circa \$50m is attributable to presales associated with this project.)
- In addition, 55 sales in Concerto will settle in 2018, driving another circa \$22m in sales for FRI, again based entirely on presold product.
- The Aire project, also scheduled for completion in 2018 has achieved \$75m in presales from \$110m in anticipated total revenue. The FRI share of this is \$37m.
- During 2017 FRI sold 70% of titled stock on hand at end of 2016 and if this were to occur again, a further \$50m in sales, (70% of the \$75m in titled stock end 2017), may also be reasonably anticipated as revenues.
- In total this would equate to circa \$160 in revenues (the FRI share), comparing favourably with the circa \$115m in development revenues we are forecasting in 2018.
- This, together with rental income would support the 5c dividend we look for in 2018 (compared to 6c in 2017), representing 6% yield.
- This is the basic premise of our investment case and Speculative Buy, that at least 6% yield is available (and \$0.93 in NTA) through the bottom of the cycle.
- Beyond this is a \$2b approved pipeline of potential projects, offering significant leverage as conditions improve
- We maintain our Speculative Buy recommendation for the time being.
- We will issue more detailed research in the next few weeks detailing our view of prospects by project.
- In the meantime we set our 12 month PT at \$0.93 being NTA.

Finbar Group Ltd	Year End 30 June	
Share Price	0.80	A\$/sh
Price Target	0.93	A\$/sh
Valuation (DCF)	1.22	A\$/sh
WACC	10.6%	
Terminal Growth	2.0%	
Shares on issue	231.1	m, diluted
Market Capitalisation	185.2	A\$m
Enterprise Value	259.2	A\$m
Debt	143.1	A\$m
Cash	68.8	A\$m

Key Financials	2017a	2018f	2019f
Revenue (A\$m)	124.2	122.0	161.0
EBITDA (A\$m)	15.4	16.6	25.0
EBIT (A\$m)	9.5	16.4	24.9
Reported NPAT (A\$m)	5.1	11.6	17.5
Normalised NPAT (A\$m)	5.1	11.6	17.5
Gross Cashflow (A\$m)	13.3	11.4	17.7
Capex (A\$m)	1.1	-0.3	-0.3
Op. Free Cashflow (A\$m)	-17.6	-11.1	34.1
Revenue Growth (%)	12%	-2%	35%
EBITDA Growth (%)	175%	-1%	0%
Norm. NPAT Growth (%)	-76%	-3%	29%
Normalised EPS (Ac)	2.21	5.02	7.58
Norm. EPS growth (%)	-76%	127%	51%
PER (x)	36.3	15.9	10.6
EV:EBITDA (x)	16.8	15.7	10.4
EV:EBIT (x)	27.3	15.8	10.4
DPS (Ac)	6.00	5.00	5.00
Dividend Yield (%)	7.5%	6.0%	6.0%
Net Cash (A\$m)	-74.3	-95.6	-73.0
Net Debt:Equity (%)	34%	44%	33%
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

We provide below our breakdown of FRI earnings:

	2013	2014	2015	2016	2017	2018	2019
Revenue	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Property development	124.2	261.0	89.4	102.7	115.1	113.0	152.0
Cost of Sales	-86.6	-204.7	-59.6	-68.1	-92.8	-89.5	-120.0
Gross Profit (a)	37.6	56.3	29.8	34.6	22.3	23.5	32.0
Rent/ Mgtment fees (net of prop expenses)	13.7	10.4	4.5	2.7	8.5	9.0	9.0
Other (revaluations and profit on sale)	2.3	0.8	-	-17.7	0.6	-	-
Administration	-10.4	-9.3	-17.6	-14.0	-16.0	-16.0	-16.0
Other	-	-	-	-	-	0.0	-
Operating costs	-10.4	-9.3	-17.6	-14.0	-16.0	-16.0	-16.0
EBITDA	43.2	58.2	16.7	5.6	15.4	16.6	25.0
Depreciation & amortisation	-0.2	-0.1	-0.1	-0.1	-5.9	-0.1	-0.1
EBIT	43.0	58.0	16.6	5.5	9.5	16.4	24.9
Net borrowing costs	0.2	-0.2	1.6	0.5	0.6	0.1	0.1
Share or equity investments (a)	1.3	0.9	13.4	4.7	-	-	-
Net profit before tax	44.5	58.7	31.6	10.7	10.1	16.6	25.0
Tax expense	-13.0	-17.9	-5.7	-1.9	-5.0	-5.0	-7.5
Net profit after tax	31.5	40.8	25.9	8.8	5.1	11.6	17.5
Minorities (b)	-0.3	-4.3	-	-0.7	-	-	-
Net profit available to owners	31.2	36.5	25.9	8.1	5.1	11.6	17.5
Adjusted net profit (excluding revaluations) (c)	29.3	37.6	25.9	21.0	5.1	11.6	17.5

Note to table:
a) FRI conduct business through JV arrangements which result in equity accounted profits
In our forecasts we model the FRI share of all known projects for ease of reconciling the forecast to individual project profit
Consequently reported revenues will be different to our forecasts however the segment note and reported NPAT remain like for like

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Financial Statements	2016a	2017a	2018f	2019f	Performance Ratios	2016a	2017a	2018f	2019f
Sales	102.7	115.1	113.0	152.0	Growth & Margins				
Other	-15.0	9.1	9.0	9.0	Revenue Growth	15%	12%	-2%	35%
Revenue	87.7	124.2	122.0	161.0	EBITDA Growth	-66%	175%	-1%	0%
Operating costs	-82.1	-108.8	-105.4	-136.0	EBIT Growth	-67%	74%	-2%	32%
EBITDA	5.6	15.4	16.6	25.0	Normalized Net Profit Growth	-18.6%	-75.8%	-3%	29%
Depreciation	-0.1	-5.9	-0.1	-0.1	EBITDA margin	6.4%	12.4%	13.6%	15.5%
Other non cash	0.0	0.0	0.0	0.0	EBIT margin	6.2%	7.6%	13.5%	15.5%
EBIT	5.5	9.5	16.4	24.9	Normalized net profit margin	24.0%	4.1%	9.5%	10.9%
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	Liquidity				
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	1.1
EBT	10.7	10.1	16.6	25.0	Quick ratio (x)	1.3	2.1	4.9	5.3
Tax expense	-1.9	-5.0	-5.0	-7.5	Receivable days	29	26	12	16
Discontinued operations	0.0	0.0	0.0	0.0	Payable days	5	11	3	5
Minority interest	-0.7	0.0	0.0	0.0	Risk Measures				
Reported Earnings	8.1	5.1	11.6	17.5	Dividend Cover (x)	n/a	n/a	n/a	n/a
Dividends	-16.2	-13.9	-11.6	-11.6	Payout ratio (%)	201%	272%	100%	66%
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	0.0	6.0	Net debt/equity (%)	21%	34%	44%	33%
Net Profit (ex valuation)	21.0	5.1	11.6	17.5	Returns				
Cash flow (A\$m)	2016a	2017a	2018f	2019f	Return on avg capital employed (%)	2%	4%	7%	11%
Pretax Profit	10.7	10.1	16.6	25.0	WACC (%)				
+ Depreciation	0.1	5.9	0.1	0.1	Return on assets (%)	2%	3%	4%	6%
- Tax Paid	-3.2	-3.0	-5.0	-7.5	Return on average equity (%)	3%	2%	5%	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	Share Data/Valuation	2016a	2017a	2018f	2019f
+/- Other	0.0	0.0	0.0	0.0	Share Data				
Gross Cashflow	7.5	13.3	11.4	17.7	Issued shares (m)	231.5	231.1	231.1	231.1
- Capital expenditure	-0.3	1.1	-0.3	-0.3	Weighted ave shares (m)	231.5	231.1	231.1	231.1
+/- Changes in working capital	-37.8	-32.0	-22.2	16.8	Fully diluted shares (m)	231.5	231.1	231.1	231.1
Operating Free Cashflow	-30.6	-17.6	-11.1	34.1	Basic EPS (A\$)	0.03	0.02	0.05	0.08
+/- Investments	10.0	0.0	0.0	0.0	YoY change (%)	-69%	-37%	127%	51%
- 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%	127%	51%
+/- (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%	127%	51%
+/- 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	-22.6	22.6	Franking (%)	100%	100%	100%	100%
Cash at beginning of period	-16.6	-45.7	-72.9	-95.6	Gross cashflow/share (A\$)	0.03	0.06	0.05	0.08
Net debt at end of period	-45.7	-72.9	-95.6	-73.0	NBV/share (A\$)	0.98	0.94	0.94	0.97
Balance Sheet (\$m)	2016a	2017a	2018f	2019f	NTA/Share (A\$)	0.98	0.94	0.94	0.97
Cash	28.1	68.8	47.5	70.1	Valuation				
Receivables	13.8	16.4	6.9	9.3	PER (Basic) (x)	23.0	36.3	15.9	10.6
Inventories	100.5	115.0	114.8	103.6	PER (Fully diluted) (x)	8.8	36.3	15.9	10.6
Other	3.8	0.9	0.9	0.9	PER (Fully diluted, normalized) (x)	8.8	36.3	15.9	10.6
Current Assets	146.2	201.1	170.1	183.8	P/CFPS (x)	24.7	13.9	16.2	10.5
Receivables	28.9	37.3	15.7	21.1	Price/NBV (x)	0.8	0.9	0.8	0.8
Inventories	52.2	73.1	90.2	81.4	Price/NTA (x)	0.8	0.9	0.8	0.8
Property/Plant/Equipment	13.3	12.4	12.6	12.8	Dividend Yield (%)	8.8%	7.5%	6.3%	6.3%
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	231.9	259.5	280.8	258.2
Other	0.0	4.4	4.4	4.4	EV/EBITDA (x)	46.3	16.8	15.7	10.4
Non Current Assets	191.0	215.7	211.4	208.2	EV/EBIT (x)	47.5	27.3	15.8	10.4
Total Assets	337.2	416.8	381.5	392.0	EV/Revenue (x)	3.0	2.1	2.1	1.6
Payables	-31.3	-41.4	-11.1	-14.9	NPV/SOP (A\$)				
Interest bearing liabilities	-22.7	-143.1	-143.1	-143.1	Other Information				
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
Current Liabilities	-57.2	-188.0	-157.4	-161.2	ASX Code				FRI
Payables	0.0	-8.5	-2.3	-3.1	Next result				Feb 2018
Interest bearing liabilities	-52.1	0.0	0.0	0.0	Company Description				
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	-6.1	-6.9					
Total Liabilities	-109.4	-200.3	-163.5	-168.1					
Net Assets	227.8	216.5	218.0	223.9					
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	60.4	66.4					
Minority Interests	0.6	0.0	0.0	0.0					
Total equity	227.8	216.5	217.9	223.9					

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