

Weekly Informer

9th June 2022

EUROZ HARTLEYS

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The Weekly Informer is Euroz Hartleys' weekly research clearing document. It includes research notes on stocks within the coverage universe published during the preceding week. The Weekly Informer is published mid-week

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Finbar Group Ltd

(FRI \$0.73) Buy

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Analyst	Date	Price Target
Gavin Allen	7 th June 2022	\$1.17/sh

Full year approaches

Event

With the end of financial year approaching we take stock of our expectations over the medium term.

Impact

- We have tweaked our 2022 and 2023 numbers and rolled forward into 2024 where we see a significant jump in earnings.
- Finbar, while seeing completed stock sold (supporting 2022 earnings), has seen off the plan sales volumes and prices increase broadly, and in our opinion can generate solid earnings despite construction costs increasing.
- A significant number of projects are under construction as follows:
 - AT 238 (end value \$91m, FRI 50%)
 - Civic Heart (end value \$400m, FRI 50%)
 - Aurora (end value \$138m, FRI 50%)
 - The Point (end value \$99m, FRI 50%)
- Further projects are preselling, waiting on construction windows:
 - Garden Towers (end value \$235m, FRI 50%)
- In the meantime, we would expect rental conditions in Karratha to be very strong.
- The net result is we expect earnings around the \$10m NPAT level for 2022 and 2023, before a jump into the \$20m+ region over the medium term.

Action

Buy, PT \$1.17

Key Catalysts

- The market will be keen for confirmation/clarity on completion margins.
- WA borders being open probably helps particularly with eventual demonstration of international migration.
- Full year update is likely to depict solid sales have continued in our view.

Finbar Group Ltd	Year End 30 June	
Share Price	0.73	A\$/sh
Price Target	1.17	A\$/sh
Shares on issue	272.1 m, diluted	
Market Capitalisation	198.6	A\$m
Enterprise Value	217.5	A\$m
Debt	71.5	A\$m
Cash	52.6	A\$m

Key Financials	2022f	2023f	2024f
Revenue (A\$m)	85.5	81.0	192.0
EBITDA (A\$m)	15.1	13.7	28.6
EBIT (A\$m)	14.6	13.2	28.1
Reported NPAT (A\$m)	11.5	10.5	20.9
Normalised NPAT (A\$m)	11.5	10.5	20.9

Gross Cashflow (A\$m)	11.9	10.9	21.4
Capex (A\$m)	-0.1	-0.1	-0.1
Op. Free Cashflow (A\$m)	24.2	-57.8	181.7

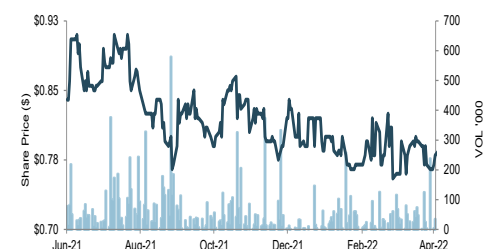
Revenue Growth (%)	-17%	-5%	137%
EBITDA Growth (%)	40%	-9%	109%
Norm. NPAT Growth (%)	30%	-9%	100%

Normalised EPS (Ac)	4.2	3.8	7.7
Norm. EPS growth (%)	0.30	-0.09	1.00
PER (x)	17.3	19.0	9.5
EV:EBITDA (x)	14.4	15.9	7.6
EV:EBIT (x)	14.9	16.5	7.7

DPS (Ac)	4.00	6.00	6.00
Dividend Yield (%)	5.5%	8.2%	8.2%

Net Cash (A\$m)	-4.0	-75.6	92.3
Net Debt:Equity (%)	2%	31%	-37%
Interest Cover (x)	na	na	na

Share Price Chart



Disclaimer

This analyst declares that he has a beneficial interest in Finbar Group Ltd.

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Finbar Group Ltd

(FRI \$0.73) Buy

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Analysis

We provide below our interpretation of possible settlement values and timing (FRI share).

Fri share of revenues						
Projects	2020	2021	2022	2023	2024	2025
Complete	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Concerto and Harmony	5	1	-	-	-	-
Motive	4	2	-	-	-	-
Aire (West Perth)	5	-	-	-	-	-
South Perth (Aurelia)	9	-	-	-	-	-
Reva S/Perth	13	13	2	-	-	-
63 Adelaide Terrace (Vue)	23	15	5	-	-	-
Palmyra East	22	8	5	-	-	-
Sabina	46	18	8	-	-	-
Riverena	-	21	10	-	-	-
Maylands (Kennedy)	17	10	-	-	-	-
Palmyra West	-	-	-	-	-	-
The Point	-	-	-	-	23	23
Aurora	-	-	-	-	36	36
Dianella	-	-	40	20	-	-
Civic Heart	-	-	-	-	125	75
AT 238 Adelaide Terrace	-	-	-	47	-	-
Garden Towers	-	-	-	-	-	100
Revenue forecast	145	86	70	67	183	234

- We won't have these exactly right; the point being we see step change sales in 2024 and 2025 based on under construction and selling projects.
- A focus of the market has margin generation in an inflating costs environment.
- We look to FRI making historical margins (although perhaps at the lower end on some some projects) as cost pressures will no doubt impact in some circumstances,.
- Mitigating factors are:
 - Hanssen, the primary FRI construction company, works nearly exclusively for FRI, embedding efficiencies into the construction process.
 - FRI builds in contingency for cost increases in every project; the use of contingencies results in acceptable margin, heightened margin results when contingency is not required.
 - Much of the stock is solid post construction; this enables increased costs to be passed on in increased sales prices.
- Patience may be required however FRI is trading under NTA and the step change in earnings we are looking for is not so far away.
- Buy, PT \$1.17.

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Finbar Group Ltd

(FRI \$0.73) Buy

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Financial Statements	2021a	2022f	2023f	2024f	Performance Ratios	2021a	2022f	2023f	2024f
Income Statement					Growth & Margins				
Sales	93.3	69.5	67.0	183.0	Revenue Growth	-33%	-17%	-5%	137%
Other	10.1	16.0	14.0	9.0	EBITDA Growth	0%	40%	-9%	109%
Revenue	103.4	85.5	81.0	192.0	EBIT Growth	4%	42%	-10%	113%
COGS	-81.7	-55.4	-51.3	-146.4	Normalized Net Profit Growth	34%	30%	-9%	100%
Operating costs	-12.8	-15.0	-16.0	-17.0	EBITDA margin	10%	18%	17%	15%
EBITDA	10.8	15.1	13.7	28.6	EBIT margin	10%	17%	16%	15%
Depreciation	-0.5	-0.5	-0.5	-0.5	Normalized net profit margin	9%	13%	13%	11%
Other non cash	0.0	0.0	0.0	0.0	Effective tax rate	27%	30%	30%	30%
EBIT	10.3	14.6	13.2	28.1	Liquidity				
Net Interest income/(expense)	0.8	0.8	0.8	0.8	Capex/depreciation (x)	0.1	0.1	0.1	0.1
Associates	0.9	0.9	0.9	0.9	Current ratio (x)	4.5	4.4	2.8	2.9
Other income/(expense)	0.0	0.0	0.0	0.0	Quick ratio (x)	2.7	1.9	-2.6	3.2
Abnormal items (pretax)	0.0	0.0	0.0	0.0	Receivable days	32	43	43	43
EBT	12.0	16.4	15.0	29.9	Payable days	99	109	109	109
Tax expense	-3.2	-4.9	-4.5	-9.0	Risk Measures				
Discontinued operations	0.0	0.0	0.0	0.0	Dividend Cover (x)	1.0	1.2	0.8	1.5
Minority interest	0.0	0.0	0.0	0.0	Payout ratio (%)	104%	81%	132%	66%
Reported Earnings	8.8	11.5	10.5	20.9	Net interest cover (x)	na	na	na	na
Adjustments (one off)	0.0	0.0	0.0	0.0	Net debt/equity (%)	8%	2%	31%	-37%
Net Profit	8.8	11.5	10.5	20.9	Returns				
Cash flow (A\$m)					ROIC	0.0	0.0	0.0	0.1
Pretax profit	12.0	16.4	15.0	29.9	ROA	0.0	0.0	0.0	0.1
+ Depreciation & Amort	0.5	0.5	0.5	0.5	ROE	0.0	0.0	0.0	0.1
+ Provisions	0.1	0.0	0.0	0.0	Share Data/Valuation				
-Interest paid (net)	0.0	0.0	0.0	0.0	Share Data				
+ Revaluation	-1.9	0.0	0.0	0.0	Issued shares (m)	272.1	272.1	272.1	272.1
+ Share of associates AT	-0.9	0.0	0.0	0.0	Weighted ave shares (m)	272.1	272.1	272.1	272.1
+ Other non cash expense	0.0	0.0	0.0	0.0	Fully diluted shares (m)	272.1	272.1	272.1	272.1
- Tax Paid	-2.5	-4.9	-4.5	-9.0	Basic EPS (A\$)	3.3	4.2	3.8	7.7
Gross Cashflow	7.3	11.9	10.9	21.4	YoY change (%)	34%	30%	-9%	100%
- Capital Expenditure	-0.1	-0.1	-0.1	-0.1	Fully diluted EPS (A\$)	3.3	4.2	3.8	7.7
- Change in Working Capital	9.2	12.3	-68.7	160.4	YoY change (%)	34%	30%	-9%	100%
Operating Free Cashflow	16.5	24.2	-57.8	181.7	Fully diluted normalised EPS (A\$)	3.3	4.2	3.8	7.7
- Dividends Paid	-8.2	-9.2	-13.9	-13.9	YoY change (%)	0.3	0.3	-0.1	1.0
+/- Revaluation	0.5	0.5	0.5	0.5	Dividend/share (A\$)	4.0	4.0	6.0	6.0
- Acquisitions (Disposals)	0.0	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
- Dividends received	0.7	0.0	0.0	0.0	Gross cashflow/share (A\$)	2.7	4.4	4.0	7.9
+ Equity issued	0.0	0.0	0.0	0.0	NBV/share (A\$)	89.2	90.0	88.7	91.3
- Disposals	0.0	0.0	0.0	0.0	NTA/Share (A\$)	89.2	90.0	88.7	91.3
-Loans to Equity Acnt	-8.0	0.0	0.0	0.0	Valuation				
+Proceeds from Equity Acnt	12.6	0.0	0.0	0.0	PER (Basic) (x)	22.5	17.3	19.0	9.5
+/- Other	0.9	0.0	0.0	0.0	PER (Fully diluted) (x)	22.5	17.3	19.0	9.5
Net Cashflow	14.5	14.9	-71.7	167.9	PER (Fully diluted, normalized) (x)	22.5	17.3	19.0	9.5
BoP Net Cash / (Debt)	-33.4	-18.9	-4.0	-75.6	P/CFPS (x)	27.2	16.6	18.2	9.3
(+/-) Net Cashflow	14.5	14.9	-71.7	167.9	Price/NBV (x)	0.8	0.8	0.8	0.8
EoP Net Cash / (Debt)	-18.9	-4.0	-75.6	92.3	Price/NTA (x)	0.8	0.8	0.8	0.8
Balance Sheet (\$m)					Dividend Yield (%)	5.5%	5.5%	8.2%	8.2%
Cash	52.6	23.3	-48.4	119.5	EV/EBITDA (x)	20.2	14.4	15.9	7.6
Receivables	8.1	8.2	7.9	21.7	EV/EBIT (x)	21.1	14.9	16.5	7.7
Inventories	57.7	60.6	95.0	0.0	EV/Revenue (x)	2.1	2.5	2.7	1.1
Investments in Equ. Inv	0.0	0.0	0.0	0.0					
Other	0.2	0.2	0.2	0.2					
Total current assets	118.6	92.3	54.7	141.4					
Receivables	26.0	26.5	25.6	69.8					
Inventories	82.1	60.6	95.0	0.0					
Property, plant and equipment	9.2	8.8	8.4	8.0					
Equity accounted Inv.	2.2	2.2	2.2	2.2					
Investment property	97.9	97.9	97.9	97.9					
Deferred tax assets	6.7	6.7	6.7	6.7					
Other	0.6	0.6	0.6	0.6					
Total non current assets	224.8	203.4	236.4	185.3					
Total assets	343.4	295.7	291.1	326.7					
Payables	22.2	16.6	15.4	43.8					
Interest bearing liabilities	2.2	2.2	2.2	2.2					
Current tax payable	1.5	1.5	1.5	1.5					
Provisions	0.6	0.6	0.6	0.6					
Total current liabilities	26.5	20.8	19.6	48.1					
Payables	0.0	0.0	0.0	0.1					
Interest bearing liabilities	69.3	25.0	25.0	25.0					
Non current tax liabilities	5.0	5.0	5.0	5.0					
Provisions	0.1	0.1	0.1	0.1					
Total non current liabilities	74.3	30.0	30.0	30.1					
Total liabilities	100.8	50.9	49.7	78.2					
Net Assets	242.6	244.9	241.5	248.5					
Contributed equity	194.5	194.5	194.5	194.5					
Reserves	0.5	0.5	0.5	0.5					
NCI	0.0	0.0	0.0	0.0					
Retained Earnings	47.7	49.9	46.5	53.6					
Total equity	242.6	244.9	241.5	248.5					

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