

Finbar, Significant projects settling in 2024

FRI.ASX | FINBAR GROUP LIMITED | REAL ESTATE | DEVELOPMENT

PRICE
A\$0.65/sh

TARGET PRICE
A\$1.00/sh
(FROM A\$1.17/sh)

RECOMMENDATION
BUY
(UNCHANGED)

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Event

- Finbar is a prominent apartment developer in Perth; a city with significant housing supply challenges, and has two large projects that will settle in 2024.
- The financial impact for Finbar is one of price (and therefore margin), available upon settlement of those apartments not yet sold.
- Regardless we would expect a significant increase in profitability in 2024, the question is how much.
- We explore some possibilities below:

Impact

- Finbar will have significant projects completing in 2024, and a significant increase in profits is forecast, based on sales that have already been achieved to date, and despite what could well be subdued GP consequent of construction cost increases.
- This is broadly the manner we have forecast earnings and dividends for 2024 and 2025.
- The possible alpha available in 2024 profit (beyond our forecast) is dependant on sales rates and prices achieved on the sale and settlement of those apartments not yet sold.
- Our maths suggests earnings that could support dividends of between 5c and 10c per share, or implied yield of 7.5% and 15% (on a per annum basis) over the next twelve months.
- Beyond this, in supporting earnings in 2025 and beyond, underlying price change likely needs to accelerate to (ironically) justify the meaningful development of further supply, and thus assist in solving the housing crisis; clearly there is a circular reference in play here.
- Our hypothesis; Perth remains sufficiently affordable for renters to become buyers and for investors to generate a satisfactory yield.
- In the end population growth (net migration) is the fundamental driver of demand, and in the context of already short supply, the necessary price increases to return GP to economically reasonable (historical) levels is on its way (*see the body of this report for evidence of now record levels of net migration into WA*).

Action

- Buy, yielding between 7.5% and 15% over a circa twelve month period (depending on sales timing) based on assumed subdued GP. Meanwhile NTA is \$0.89.
- PT of \$1.00 reprices our forecast 2025 dividend of 6c to 6% yield.

Catalysts

- Change in momentum around the sales cycle and a return to historical GP via increased pricing, in turn allowing a rationalisation of the construction market.
- Dividends

Share Price	0.65	A\$/sh	
Price Target	1.00	A\$/sh	
Shares on issue	272.1	m, dil...	
Market Capitalisation	176.9	A\$m	
Enterprise Value	335.8	A\$m	
Debt	177.1	A\$m	
Cash	18.2	A\$m	
Key Financial Metrics	23	24	25
Revenue (A\$m)	34.2	169.5	165.0
EBITDA (A\$m)	4.8	22.1	23.7
EBIT (A\$m)	4.5	21.8	23.4
Reported NPAT (A\$m)	3.1	14.9	16.0
Normalised NPAT (A...	3.1	14.9	16.0
Gross Cashflow (A\$m)	0.3	15.2	16.3
Capex (A\$m)	-0.2	-0.2	-0.2
Op. Free Cashflow (A...	-112.5	106.6	21.9
Revenue Growth (%)	-63%	396%	-3%
EBITDA Growth (%)	-69%	364%	7%
Norm. NPAT Growth ...	-71%	375%	7%
Normalised EPS (Ac)	1.2	5.5	5.9
Norm. EPS growth (%)	-0.71	3.75	0.07
PER (x)	56.4	11.9	11.1
EV:EBITDA (x)	70.5	15.2	14.2
EV:EBIT (x)	75.3	15.4	14.4
DPS (Ac)	2.00	5.50	6.00
Dividend Yield (%)	3.1%	8.5%	9.2%
Net Cash (A\$m)	-159.0	-66.2	-58.2
Net Debt:Equity (%)	66%	27%	24%
Interest Cover (x)	3.4	16.8	18.0

Performance



Source: IRESS

Income Statement	23	24	25
Sales	22.4	160.5	156.0
Other	11.8	9.0	9.0
Revenue	34.2	169.5	165.0
COGS	-19.0	-136.4	-130.4
Operating costs	-10.8	-11.0	-11.0
EBITDA	4.8	22.1	23.7
Depreciation	-0.3	-0.3	-0.3
EBIT	4.5	21.8	23.4
Net Interest income/(expense)	-1.3	-1.3	-1.3
Associates	0.8	0.8	0.8
EBT	3.9	21.3	22.8
Tax expense	-0.8	-6.4	-6.9
Reported Earnings	3.1	14.9	16.0
Net Profit	3.1	14.9	16.0
Cash flow	23	24	25
Pretax profit	3.9	21.3	22.8
+ Depreciation & Amort	0.3	0.3	0.3
+ Provisions	0.0	0.0	0.0
+ Revaluation	-0.4	0.0	0.0
+ Share of associates AT	-0.8	0.0	0.0
- Tax Paid	-2.8	-6.4	-6.9
Gross Cashflow	0.3	15.2	16.3
- Capital Expenditure	-0.2	-0.2	-0.2
- Change in Working Capital	-112.6	91.6	5.8
Operating Free Cashflow	-112.5	106.6	21.9
- Dividends Paid	-5.4	-13.9	-13.9
+/- Revaluation	0.3	0.3	0.3
- Acquisitions (Disposals)	0.0	0.0	0.0
- Dividends received	0.0	0.0	0.0
+ Equity issued	0.0	0.0	0.0
-Disposals	0.0	0.0	0.0
-Loans to Equity Acnt	-5.6	0.0	0.0
+Proceeds from Equity Acnt	16.5	0.0	0.0
+/- Other	0.1	0.0	0.0
Net Cashflow	-107.0	92.7	8.0
BoP Net Cash / (Debt)	-52.0	-159.0	-66.2
(+/-) Net Cashflow	-107.0	92.7	8.0
EOP Net Cash / (Debt)	-159.0	-66.2	-58.2
Balance Sheet	23	24	25
Cash	18.2	20.8	28.8
Receivables	20.5	40.7	39.5
Inventories	145.9	77.4	74.8
Other	2.8	2.8	2.8
Total current assets	187.4	141.7	145.9
Receivables	19.9	39.6	38.5
Inventories	114.9	77.4	74.8
Property, plant and equipment	9.5	9.4	9.3
Equity accounted Inv.	1.8	1.8	1.8
Investment property	98.9	98.9	98.9
Deferred tax assets	8.1	8.1	8.1
Other	0.2	0.2	0.2
Total non current assets	253.2	235.3	231.4
Total assets	440.6	377.0	377.3
Payables	15.1	40.2	38.4
Interest bearing liabilities	162.3	62.0	62.0
Current tax payable	1.9	1.9	1.9
Provisions	0.8	0.8	0.8
Total current liabilities	180.1	104.9	103.1
Payables	0.3	0.7	0.7
Interest bearing liabilities	14.8	25.0	25.0
Non current tax liabilities	5.3	5.3	5.3
Provisions	0.0	0.0	0.0
Total non current liabilities	20.4	31.0	31.0
Total liabilities	200.5	135.9	134.1
Net Assets	240.1	241.1	243.2
Contributed equity	194.5	194.5	194.5
Reserves	0.2	0.2	0.2
PERFORMANCE RATIOS	23	24	25
Growth & Margins			
Revenue Growth	-63%	396%	-3%
EBITDA Growth	-69%	364%	7%
EBIT Growth	-70%	388%	7%
Normalized Net Profit Growth	-71%	375%	7%
EBITDA margin	14%	13%	14%
EBIT margin	13%	13%	14%
Normalized net profit margin	9%	9%	10%
Effective tax rate	21%	30%	30%
Liquidity			
Capex/depreciation (x)	0.7	0.7	0.7
Current ratio (x)	1.0	1.4	1.4
Quick ratio (x)	2.6	1.5	1.8
Receivable days	335	93	93
Payable days	289	108	108
Risk Measures			
Dividend Cover (x)	0.2	1.1	1.2
Payout ratio (%)	442%	93%	87%
Net interest cover (x)	3.4	16.8	18.0
Net debt/equity (%)	66%	27%	24%
Returns			
ROIC	0.0	0.0	0.0
ROA	0.0	0.0	0.0
ROE	0.0	0.1	0.1
SHARE DATA/VALUATION	23	24	25
Share Data			
Issued shares (m)	272.1	272.1	272.1
Weighted ave shares (m)	272.1	272.1	272.1
Fully diluted shares (m)	272.1	272.1	272.1
Basic EPS (A\$)	1.2	5.5	5.9
YoY change (%)	-71%	375%	7%
Fully diluted EPS (A\$)	1.2	5.5	5.9
YoY change (%)	-71%	375%	7%
Fully dil norm EPS (A\$)	1.2	5.5	5.9
YoY change (%)	-0.7	3.7	0.1
Dividend/share (A\$)	2.0	5.5	6.0
Franking (%)	100%	100%	100%
Gross cashflow/share (A\$)	0.1	5.6	6.0
NBV/share (A\$)	88.2	88.6	89.4
NTA/Share (A\$)	88.2	88.6	89.4
Valuation			
PER (Basic) (x)	56.4	11.9	11.1
PER (Fully diluted) (x)	56.4	11.9	11.1
PER (Fully dil, norm) (x)	56.4	11.9	11.1
P/CFPS (x)	599.5	11.6	10.9
Price/NBV (x)	0.7	0.7	0.7
Price/NTA (x)	0.7	0.7	0.7
Dividend Yield (%)	3.1%	8.5%	9.2%
EV/EBITDA (x)	70.5	15.2	14.2
EV/EBIT (x)	75.3	15.4	14.4
EV/Revenue (x)	9.8	2.0	2.0

Figure 1: Project contribution - backward engineered from presales and construction time tables

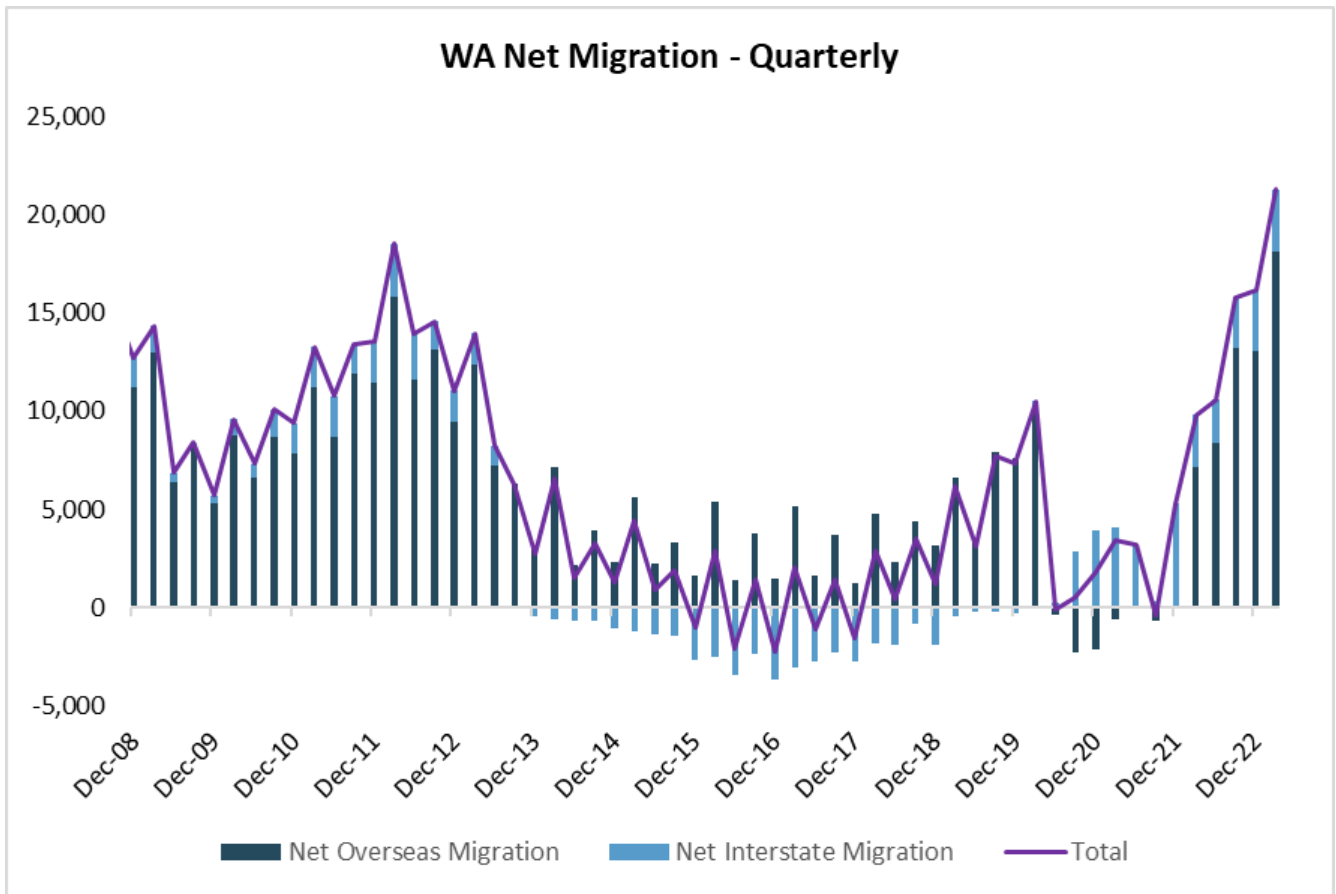
PROJECT SUMMARY				
Project		2024	2025	2026
AT 238	Unsold (\$m)	44		
	Total revenue	18	18	8
	FRI Share	50%	50%	50%
	FRI Revenue	9	9	4
	GP	10%	10%	10%
	Contribution	0.9	0.9	0.4
Project		2024	2025	2026
Civic	Total value	428		
	Total revenue*	250	150	27.8
	FRI Share	53%	53%	53%
	FRI Revenue	131	79	15
	GP	15%	15%	15%
	Contribution	19.7	11.8	2.2
Project		2024	2025	2026
Aurora	Total value	146		
	Total revenue**	60	60	26
	FRI Share	50%	50%	50%
	FRI Revenue	30	30	13
	GP	15%	15%	15%
	Contribution	4.5	4.5	2.0
Project		2024	2025	2026
Point	Total value	105.5		
	Total revenue***	0	75	30.5
	FRI Share	65%	65%	65%
	FRI Revenue	0	48.75	19.825
	GP	15%	15%	15%
	Contribution	0.0	7.3	3.0
Project		2024	2025	2026
Gardens	Total value	256		
	Total revenue****	0	0	256
	FRI Share	50%	50%	50%
	FRI Revenue	0	0	128
	GP	15%	15%	18%
	Contribution	0.0	0.0	23.0
Totals				
	FRI revenue	170	167	179
	FRI Contribution	25.1	24.5	30.6
	Rent	9	9	9
	Admin	-11	-11	-11
	EBITDA	23.1	22.5	28.6
	* \$236 is already sold			
	** \$55 is already sold			
	*** \$75m is already sold			
	**** \$96m already sold			

Source: EH - won't tie out to our official forecasts exactly - backward engineered to be indicative only

- We have assumed 15% GP; 20% would be a reasonable historical target.

Net migration is as follows:

Figure 2: Net migration beyond previous record levels



Source: ABS

- We continue to believe Perth is in fundamental under supply.
- A modest increase in prices is required to begin the alleviation of the problem and FRI is well placed to benefit.
- Buy

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Finbar Group Limited (FRI.ASX) | Price A\$0.65 | Target price A\$1.00 | Recommendation Buy;

Price, target price and rating as at 27 September 2023 (not covered)*

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