

Weekly Informer

27th May 2021

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 \$0.83) Buy

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Analyst	Date	Price Target
Gavin Allen	24 th May 2021	\$1.17/sh

Company update

Investment case

Our view is the clear increase in sales rates that occurred in Perth apartments from around September 2020 to February 2021 has continued for FRI across the portfolio heading into fiscal 2022. The increased volume has likely seen decreases in available completed product, which in turn increases demand for off the plan product, and overall there seems sufficient demand in the system to see a significant increase in earnings from 2023 onwards. In the meantime, circa 5% fully franked yield and NTA of \$0.89/sh supports the stock at these levels. Buy PT \$1.17.

Key points

- Sales rates support a significant increase in earnings for FRI in our opinion from 2023 onwards, as current heightened sales in new projects complete construction and settle.
- The heightened activity has continued steadily; sales rates as per the February 2021 project update had increased to 45 to 50 apartments per month (over the previous 5 months) compared to 10 – 20 per month over the last 5 years.
- There is no evidence sales rates have subsequently decreased; we suspect sales rates have moderated to steady activity at heightened levels.
- Our view of these sales rates, combined with our view of construction time tables, suggests step change growth in 2023 and continuing in 2024.
- In the meantime, the stock trades under book value NTA and yields 4.8%.

Catalysts

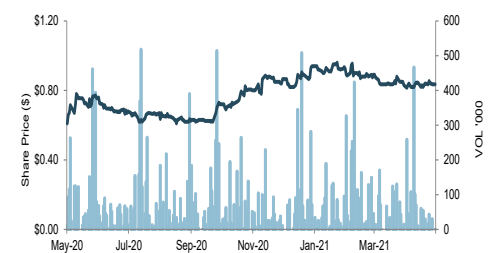
We look for the following in either a possible market update over the next month or so or with the full year result, in August:

- Confirmation of final dividend, (we see possible 2c final for 4c for the full year) or 4.8% fully franked yield.
- This would represent an increase in dividend over the 3c paid in 2020.
- Confirmation heightened sales rates have continued.
- Confirmation that construction timetables are on track, including project debt arrangements.
- The maths of which supports the step change earnings growth we look for in 2023.
- With this idea then firmly in the market, we look to FRI breaking free of its current trading range, which is under its NTA.
- Other possible positive developments include activity or sales in Pelago in Karratha (a currently strong rental market).
- **Buy, PT \$1.17 (14x forecast 2023 EPS 12 months from now, representing a 40% return plus 4% dividend return).**

Finbar Group Ltd	Year End 30 June	
Share Price	0.83	A\$/sh
Price Target	1.17	A\$/sh
Shares on issue	272.1 m, diluted	
Market Capitalisation	225.8	A\$m
Enterprise Value	248.1	A\$m
Debt	53.8	A\$m
Cash	31.5	A\$m

Key Financials	2021a	2022f	2023f
Revenue (A\$m)	97.6	99.0	217.5
EBITDA (A\$m)	9.9	13.1	32.7
EBIT (A\$m)	9.8	13.0	32.6
Reported NPAT (A\$m)	7.4	9.1	22.8
Normalised NPAT (A\$m)	7.4	9.1	22.8
Gross Cashflow (A\$m)	7.1	9.2	22.9
Capex (A\$m)	-0.3	-0.3	-0.3
Op. Free Cashflow (A\$m)	-8.4	-108.3	108.6
Revenue Growth (%)	-37%	1%	120%
EBITDA Growth (%)	-1%	32%	150%
Norm. NPAT Growth (%)	12%	22%	151%
Normalised EPS (Ac)	2.74	3.34	8.38
Norm. EPS growth (%)	0.12	0.22	1.51
PER (x)	30.3	24.8	9.9
EV:EBITDA (x)	25.1	18.9	7.6
EV:EBIT (x)	25.3	19.1	7.6
DPS (Ac)	4.00	4.00	6.00
Dividend Yield (%)	4.8%	4.8%	7.2%
Net Cash (A\$m)	-51.0	-168.6	-73.8
Net Debt:Equity (%)	21%	70%	30%
Interest Cover (x)	na	na	na

Share Price Chart



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Finbar Group Ltd

(FRI \$0.83) Buy

Analysis

We view settlement of the project pipeline as follows:

Fri share of revenues					
Projects	2020	2021	2022	2023	2024
Complete	(\$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	-	-	-
63 Adelaide Terrace (Vue)	23	15	-	-	-
Palmyra East	22	8	3	-	-
Sabina	46	18	8	-	-
Riverena	-	21	5	-	-
Maylands (Kennedy)	17	10	-	-	-
Palmyra West	-	-	-	13	13
The Point	-	-	-	-	45
Aurora	-	-	-	36	36
Dianella	-	-	43	20	-
Civic Heart	-	-	-	125	75
AT 238 Adelaide Terrace	-	-	32	15	-
101 Hay Street	-	-	-	-	50
Revenue forecast	145	86	90	209	219

Revenues per the above will not necessarily equate to reported revenues due to equity accounted developments. This does not impact our view of reported profits

- There is a large development pipeline available for settlement in 2023 and 2024.

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Finbar Group Ltd

(FRI \$0.83) Buy

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Financial Statements	2020a	2021a	2022f	2023f	Performance Ratios	2020a	2021a	2022f	2023f
Income Statement					Growth & Margins				
Sales	145.4	87.0	90.0	208.5	Revenue Growth	0%	-37%	1%	120%
Other	8.9	10.6	9.0	9.0	EBITDA Growth	-31%	-1%	32%	150%
Revenue	154.3	97.6	99.0	217.5	EBIT Growth	-31%	-1%	33%	151%
COGS	-131.5	-69.7	-71.9	-166.8	Normalized Net Profit Growth	-41%	12%	22%	151%
Operating costs	-19.0	-18.0	-14.0	-18.0	EBITDA margin	6%	10%	13%	15%
EBITDA	10.0	9.9	13.1	32.7	EBIT margin	6%	10%	13%	15%
Depreciation	-0.1	-0.1	-0.1	-0.1	Normalized net profit margin	4%	8%	9%	10%
Other non cash	0.0	0.0	0.0	0.0	Effective tax rate	37%	30%	30%	30%
EBIT	9.9	9.8	13.0	32.6	Liquidity				
Net Interest income/(expense)	0.6	0.8	0.0	0.0	Capex/depreciation (x)	3.0	3.0	2.9	2.8
Associates	0.0	0.0	0.0	0.0	Current ratio (x)	1.2	1.7	0.8	1.1
Other income/(expense)	0.0	0.0	0.0	0.0	Quick ratio (x)	1.7	2.2	-3.8	0.8
Abnormal items (pretax)	0.0	0.0	0.0	0.0	Receivable days	26	25	51	51
EBT	10.5	10.6	13.0	32.6	Payable days	67	85	102	102
Tax expense	-3.9	-3.2	-3.9	-9.8	Risk Measures				
Discontinued operations	0.0	0.0	0.0	0.0	Dividend Cover (x)	1.0	0.8	1.0	1.6
Minority interest	0.0	0.0	0.0	0.0	Payout ratio (%)	104%	124%	102%	61%
Reported Earnings	6.6	7.4	9.1	22.8	Net interest cover (x)	na	na	na	na
Adjustments (one off)	0.0	0.0	0.0	0.0	Net debt/equity (%)	14%	21%	70%	30%
Net Profit	6.6	7.4	9.1	22.8	Returns				
Cash flow (A\$m)					Share Data/Valuation				
Pretax profit	10.5	10.6	13.0	32.6	ROIC	0.0	0.0	0.0	0.1
+ Depreciation & Amort	0.1	0.1	0.1	0.1	ROA	0.0	0.0	0.0	0.1
+ Provisions	0.0	-0.5	0.0	0.0	ROE	0.0	0.0	0.0	0.1
-Interest paid (net)	0.0	0.0	0.0	0.0	Share Data				
+ Revaluation	-6.8	0.0	0.0	0.0	Issued shares (m)	272.1	272.1	272.1	272.1
+ Share of associates AT	0.0	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	-4.6	-3.2	-3.9	-9.8	Basic EPS (A\$)	2.4	2.7	3.3	8.4
Gross Cashflow	-0.9	7.1	9.2	22.9	YoY change (%)	-41%	12%	22%	151%
- Capital Expenditure	-0.3	-0.3	-0.3	-0.3	Fully diluted EPS (A\$)	2.4	2.7	3.3	8.4
- Change in Working Capital	16.4	-15.1	-117.2	86.0	YoY change (%)	-41%	12%	22%	151%
Operating Free Cashflow	15.2	-8.4	-108.3	108.6	Fully diluted normalised EPS (A\$)	2.4	2.7	3.3	8.4
- Dividends Paid	-13.6	-9.2	-9.2	-13.9	YoY change (%)	-0.4	0.1	0.2	1.5
+/- Revaluation	0.0	0.0	0.0	0.0	Dividend/share (A\$)	3.0	4.0	4.0	6.0
- Acquisitions (Disposals)	0.0	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
- Dividends received	0.0	0.0	0.0	0.0	Gross cashflow/share (A\$)	-0.3	2.6	3.4	8.4
+ Equity issued	0.0	0.0	0.0	0.0	NBV/share (A\$)	88.9	88.3	88.2	91.5
-Disposals	0.0	0.0	0.0	0.0	NTA/Share (A\$)	88.9	88.3	88.2	91.5
+/- Other	-0.9	0.0	0.0	0.0	Valuation				
Net Cashflow	0.7	-17.6	-117.6	94.8	PER (Basic) (x)	34.1	30.3	24.8	9.9
BoP Net Cash / (Debt)	-34.1	-33.4	-51.0	-168.6	PER (Fully diluted) (x)	34.1	30.3	24.8	9.9
(+/-) Net Cashflow	0.7	-17.6	-117.6	94.8	PER (Fully diluted, normalized) (x)	34.1	30.3	24.8	9.9
EoP Net Cash / (Debt)	-33.4	-51.0	-168.6	-73.8	P/CFPS (x)	-259.9	32.0	24.5	9.9
Balance Sheet (\$m)					Price/NBV (x)	0.9	0.9	0.9	0.9
Cash	30.6	29.5	-88.1	6.7	Price/NTA (x)	0.9	0.9	0.9	0.9
Receivables	10.3	6.0	12.5	28.9	Dividend Yield (%)	3.6%	4.8%	4.8%	7.2%
Inventories	58.8	88.3	137.4	79.0	EV/EBITDA (x)	24.9	25.1	18.9	7.6
Investments in Equ. Inv	0.0	0.0	0.0	0.0	EV/EBIT (x)	25.1	25.3	19.1	7.6
Other	0.8	0.8	0.8	0.8	EV/Revenue (x)	1.6	2.5	2.5	1.1
Total current assets	100.5	124.6	62.6	115.4	Company Description				
Receivables	26.9	15.7	32.5	75.3	FRI is a WA based property developer.				
Inventories	95.8	88.3	137.4	79.0					
Property, plant and equipment	9.4	9.6	9.8	10.0					
Equity accounted Inv.	1.4	1.4	1.4	1.4					
Investment property	97.3	97.3	97.3	97.3					
Deferred tax assets	6.3	6.3	6.3	6.3					
Other	0.1	0.1	0.1	0.1					
Total non current assets	237.3	218.8	284.8	269.4					
Total assets	337.8	343.4	347.4	384.8					
Payables	24.3	16.2	20.1	46.6					
Interest bearing liabilities	55.5	55.5	55.5	55.5					
Current tax payable	1.1	1.1	1.1	1.1					
Provisions	0.5	0.0	0.0	0.0					
Total current liabilities	81.4	72.9	76.7	103.3					
Payables	1.8	1.2	1.5	3.4					
Interest bearing liabilities	8.5	25.0	25.0	25.0					
Non current tax liabilities	4.2	4.2	4.2	4.2					
Provisions	0.0	0.0	0.0	0.0					
Total non current liabilities	14.5	30.4	30.7	32.6					
Total liabilities	95.9	103.3	107.4	135.9					
Net Assets	241.9	240.1	240.0	248.9					
Contributed equity	194.5	194.5	194.5	194.5					
Reserves	0.4	0.4	0.4	0.4					
NCI	0.0	0.0	0.0	0.0					
Retained Earnings	47.0	45.2	45.1	54.0					
Total equity	241.9	240.1	240.0	248.9					

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