

Weekly Informer

4th March 2021

EUROZ HARTLEYS

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Finbar Group Ltd

(FRI \$0.925) Buy

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Analyst	Date	Price Target
Gavin Allen	25 th February 2021	\$1.17/sh ▲ from \$0.89/sh

1h 2021 results

Investment case

FRI has delivered NPAT numbers (as we detail below) a little above our expectations and ends the period with solid cash balance. The investment case is however about momentum in relation to sales in an increasingly active Perth apartment market. High end product in particular is selling well and the cautious return of investors, together with transition of renters to buyers has seen total sales volume hit five year records, with January sales the highest since 2006.

While there are clearly some uncertainties still to play out, on balance we look to the FRI share price trading ahead of earnings, recognising construction timetables dictate first meaningful earnings from the improved conditions occur 2023.

Key points

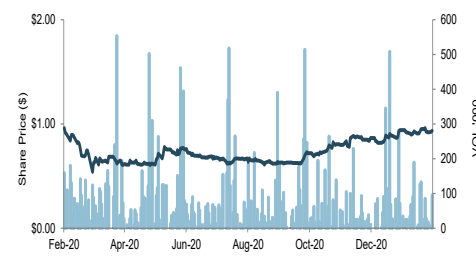
FRI has reported half year 2021 results as follows:

- NPAT delivered of \$4m (EH \$3m).
- Sales levels reach five year record highs, supporting new works and growth.
- Construction of landmark Civic Heart project commenced in February 2021.
- Cash at bank at \$31.5m and completed stock is debt free.
- Fully franked interim dividend of \$0.02 per share.
- Overall sales momentum has returned with Civic Heart selling well, the project AT238 being accelerated, and investors have returned, albeit cautiously, to the market.
- Rental pressures in the West are transitioning renters to owners.
- We look to significant sales boost in 2023 when Civic Heart completes, and were current conditions to continue, FRI has plenty of firepower to respond including:
 - \$469m in works under construction,
 - \$544m of estimated end value associated with approved projects
 - \$335m in estimated end value in unapproved projects.
- This level of pipeline, with demand continuing, supports the \$23m to \$37m NPAT years FRI enjoyed in the six years 2010 to 2015.
- The lower end of this NPAT generation might indicatively support circa \$1.20 per share; the higher end circa \$1.70 per share.
- In the meantime, the stock trades around it's \$0.89 NTA yielding (on annualised interim dividend basis), 4.3% per annum.

Finbar Group Ltd	Year End 30 June	
Share Price	0.925	A\$/sh
Price Target (NTA)	1.17	A\$/sh
Shares on issue	272.1 m,	diluted
Market Capitalisation	251.7	A\$m
Enterprise Value	274.0	A\$m
Debt	53.8	A\$m
Cash	31.5	A\$m

Key Financials	2021f	2022f	2023f
Revenue (A\$m)	97.6	45.5	217.5
EBITDA (A\$m)	9.9	2.4	32.7
EBIT (A\$m)	9.8	2.3	32.6
Reported NPAT (A\$m)	7.4	1.6	22.8
Normalised NPAT (A\$m)	7.4	1.6	22.8
Gross Cashflow (A\$m)	7.0	1.7	22.9
Capex (A\$m)	-0.3	-0.3	-0.3
Op. Free Cashflow (A\$m)	-8.4	5.3	44.7
Revenue Growth (%)	-37%	-53%	378%
EBITDA Growth (%)	-1%	-76%	1263%
Norm. NPAT Growth (%)	12%	-78%	1319%
Normalised EPS (Ac)	2.72	0.59	8.38
Norm. EPS growth (%)	0.12	-0.78	13.19
PER (x)	34.0	156.6	11.0
EV:EBITDA (x)	27.7	114.2	8.4
EV:EBIT (x)	28.0	119.3	8.4
DPS (Ac)	3.00	1.00	6.00
Dividend Yield (%)	3.2%	1.1%	6.5%
Net Cash (A\$m)	-45.3	-40.0	0.1
Net Debt:Equity (%)	18%	16%	0%
Interest Cover (x)	na	na	na

Share Price Chart



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Finbar Group Ltd

(FRI \$0.925) Buy

Analysis

The following provide a breakdown of possible development settlements:

Fri share of revenues				
Projects	2020	2021	2022	2023
Complete	(\$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
The Point	-	-	-	-
Canning Highway stage 2, 3	-	-	-	36
Harmony	-	-	-	-
Dianella	-	-	22	10
Lot 888	-	-	-	-
Belmont (GE Highway)	-	-	-	-
Civic Heart	-	-	-	150
2 Homelea Court (Riverdale)	-	-	-	-
Lot 1000 Riversdale	-	-	-	-
AT 238 Adelaide Terrace	-	-	47	-
101 Hay Street	-	-	-	-
Other	-	-	-	-
Revenue forecast	145	86	37	209
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				

- We never get this exactly right of course, however it is perhaps useful in depicting the impact of Civic Heart, now under construction.
- Were current conditions to continue, there is a significant pipeline of approved and future products behind it.
- Our revised PT of \$1.17 is not much more sophisticated than 14 x our 2023 forecast EPS of 8.4c, which assumes some fairly mundane GP margin out of part settlement on Civic Heart.
- In reality, we see the stock trading ahead of earnings, recognising that for the 6 years 2010 to 2015, FRI generated NPAT between \$24m and \$37m, and can do so again were current demand to prove sustained.

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Finbar Group Ltd

(FRI \$0.925) Buy

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Financial Statements	2020a	2021f	2022f	2023f	Performance Ratios	2020a	2021f	2022f	2023f
Income Statement					Growth & Margins				
Sales	145.4	87.0	36.5	208.5	Revenue Growth	0%	-37%	-53%	378%
Other	8.9	10.6	9.0	9.0	EBITDA Growth	-31%	-1%	-76%	1263%
Revenue	154.3	97.6	45.5	217.5	EBIT Growth	-31%	-1%	-77%	1319%
COGS	-131.5	-69.7	-29.1	-166.8	Normalized Net Profit Growth	-41%	12%	-78%	1319%
Operating costs	-19.0	-18.0	-14.0	-18.0	EBITDA margin	6%	10%	5%	15%
EBITDA	10.0	9.9	2.4	32.7	EBIT margin	6%	10%	5%	15%
Depreciation	-0.1	-0.1	-0.1	-0.1	Normalized net profit margin	4%	8%	4%	10%
Other non cash	0.0	0.0	0.0	0.0	Effective tax rate	37%	30%	30%	30%
EBIT	9.9	9.8	2.3	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	1.8	2.0	1.6
Other income/(expense)	0.0	0.0	0.0	0.0	Quick ratio (x)	1.7	2.5	5.6	2.3
Abnormal items (pretax)	0.0	0.0	0.0	0.0	Receivable days	26	25	51	51
EBT	10.5	10.6	2.3	32.6	Payable days	67	85	102	102
Tax expense	-3.9	-3.2	-0.7	-9.8	Risk Measures				
Discontinued operations	0.0	0.0	0.0	0.0	Dividend Cover (x)	1.0	2.1	na	4.9
Minority interest	0.0	0.0	0.0	0.0	Payout ratio (%)	104%	47%	0%	20%
Reported Earnings	6.6	7.4	1.6	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%	18%	16%	0%
Net Profit	6.6	7.4	1.6	22.8	Returns				
Cash flow (A\$m)					ROIC	0.0	0.0	0.0	0.1
Pretax profit	10.5	10.6	2.3	32.6	ROA	0.0	0.0	0.0	0.1
+ Depreciation & Amort	0.1	0.1	0.1	0.1	ROE	0.0	0.0	0.0	0.1
+ Provisions	0.0	-0.5	0.0	0.0	Share Data/Valuation				
-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	-0.7	-9.8	Basic EPS (A\$)	2.4	2.7	0.6	8.4
Gross Cashflow	-0.9	7.0	1.7	22.9	YoY change (%)	-41%	12%	-78%	1319%
- Capital Expenditure	-0.3	-0.3	-0.3	-0.3	Fully diluted EPS (A\$)	2.4	2.7	0.6	8.4
- Change in Working Capital	16.4	-15.1	3.9	22.1	YoY change (%)	-41%	12%	-78%	1319%
Operating Free Cashflow	15.2	-8.4	5.3	44.7	Fully diluted normalised EPS (A\$)	2.4	2.7	0.6	8.4
- Dividends Paid	-13.6	-3.5	0.0	-4.6	YoY change (%)	-0.4	0.1	-0.8	13.2
+/- Revaluation	0.0	0.0	0.0	0.0	Dividend/share (A\$)	3.0	3.0	1.0	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	0.6	8.4
+ Equity issued	0.0	0.0	0.0	0.0	NBV/share (A\$)	88.9	90.4	91.0	97.6
-Disposals	0.0	0.0	0.0	0.0	NTA/Share (A\$)	88.9	90.4	91.0	97.6
+/- Other	-0.9	0.0	0.0	0.0	Valuation				
Net Cashflow	0.7	-11.9	5.3	40.1	PER (Basic) (x)	38.0	34.0	156.6	11.0
BoP Net Cash / (Debt)	-34.1	-33.4	-45.3	-40.0	PER (Fully diluted) (x)	38.0	34.0	156.6	11.0
(+/-) Net Cashflow	0.7	-11.9	5.3	40.1	PER (Fully diluted, normalized) (x)	38.0	34.0	156.6	11.0
EoP Net Cash / (Debt)	-33.4	-45.3	-40.0	0.1	P/CFPS (x)	-289.6	35.9	147.1	11.0
Balance Sheet (\$m)					Price/NBV (x)	1.0	1.0	1.0	0.9
Cash	30.6	35.2	40.5	80.6	Price/NTA (x)	1.0	1.0	1.0	0.9
Receivables	10.3	6.0	5.1	28.9	Dividend Yield (%)	3.2%	3.2%	1.1%	6.5%
Inventories	58.8	88.3	83.8	50.4	EV/EBITDA (x)	27.5	27.7	114.2	8.4
Investments in Equ. Inv	0.0	0.0	0.0	0.0	EV/EBIT (x)	27.7	28.0	119.3	8.4
Other	0.8	0.8	0.8	0.8	EV/Revenue (x)	1.8	2.8	6.0	1.3
Total current assets	100.5	130.4	130.2	160.7	Company Description				
Receivables	26.9	15.7	13.2	75.3	FRI is a WA based property developer				
Inventories	95.8	88.3	83.8	50.4					
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	211.9	240.8					
Total assets	337.8	349.2	342.1	401.6					
Payables	24.3	16.2	8.1	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	64.8	103.3					
Payables	1.8	1.2	0.6	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	29.8	32.6					
Total liabilities	95.9	103.3	94.6	135.9					
Net Assets	241.9	245.9	247.5	265.7					
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	50.9	52.6	70.8					
Total equity	241.9	245.9	247.5	265.7					

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Quick Comment

Finbar Group Ltd (FRI \$0.925) Buy



Analyst	Date	Price Target
Gavin Allen	24 th February 2021	\$0.89/sh (under review)

1h 2021 results

Key Points

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- Sales levels reach five year record highs, supporting new works and growth.
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- Rental pressures in the West are transitioning renters to owners.
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Investment Thesis

FRI has delivered NPAT numbers a little above our expectations and ends the period with solid cash balance. The investment case is however about momentum in relation to sales in an increasingly active Perth apartment market. High end product in particular is selling well and the cautious return of investors, together with transition of renters to buyers has seen total sales volume hit five year records, with January sales the highest since 2006. While there are clearly some uncertainties still to play out, on balance we look to the FRI share price trading ahead of earnings, recognising construction timetables dictate first meaningful earnings from the improved conditions occur 2023. Buy

Finbar Group Ltd (FRI)

Share Price	0.925	A\$/sh	Enterprise Value	274	A\$/m
Price Target (under review)	0.89	A\$/sh	Investment Prop debt	53.8	A\$/m
Shares on issue	272.1	m(dil)	Cash	31.5	A\$/m
Market Capitalisation	251.7	A\$m			

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