

# APN Convenience Retail REIT

## AQR goes shopping to mitigate FY22 risks

AQR today announced a \$30m institutional placement and a \$5m security purchase plan to partly fund the acquisition of 12 service stations. While the acquisitions are forecast to be slightly dilutive to FY21 FFO/share, we expect earnings accretion from FY22. Acquisitions for FY21 now total over \$126m (excludes fund-throughs). We believe AQR has accelerated its acquisitions to offset any downtime/rental reversions from expiring leases. The incremental earnings from the acquisitions should now safeguard FY22 FFO/share growth despite large expiries in FY22.

### Acquisitions provide diversification and extends WALE

- AQR today announced the acquisition of 12 service station sites for \$75.3m (9 are in exclusive due diligence). The acquisitions include seven metro sites and 5 regional sites. The acquisitions reduce AQR's exposure to QLD from 59% to 53% and increases AQR's WALE from 11.1 to 11.7 years.
- The acquisitions will be partly funded by debt and equity. As a result, gearing post the \$5m SPP will increase to 30.5%, at the lower end of AQR's target gearing range of between 25% and 40%.
- Driven by the strong demand for service stations, yields continue to compress. AQR acquired today's assets at a 6.1% yield (majority off-market), below the 6.2% yield achieved during FY20. We expect yields to continue to tighten and have reduced our acquisition yield to 6.0%.

### Acquisitions to be accretive to FFO/share from FY22

- Although Management has reaffirmed FY21 guidance (FFO/Share and DPS of between 21.8 and 22.0cps), we expect the acquisitions to be slightly dilutive to FY21 FFO/Share (21.9cps), driven by the timing of the equity raising and acquisitions.
- From FY22, we expect the acquisition to be 4% accretive (includes Shell Bellevue and Chevron Balcatta acquisitions).
- AQR's pro-forma NTA reduces from \$3.27/share at 30 June 2020 to \$3.24/share post today's institutional placement.

### Acquisitions to mitigate losses from FY22 expiries

- We believe the acquisitions should safeguard FY22 FFO/share growth and provide a reasonable buffer for any downtime or rental reversions from expiring leases in FY22. We assume over renting of 20% for the EG Group leases and no downtime (100% renewal).
- We maintain our accumulate recommendation on AQR. Our TP increases 1% noting the acquisitions are accretive to earnings from FY22.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT (\$m)	21.8	23.2	30.9	35.8	38.0
Normalised NPAT (\$m)	17.0	19.3	25.6	28.7	30.3
Normalised EPS (c)	21.5	21.6	21.9	23.3	23.6
EPS Growth (%)	16.2	0.5	1.2	6.4	1.7
Dividend (c)	20.9	21.8	21.8	23.0	23.4
Payout ratio (%)	97.2	100.9	99.7	99.0	99.0
EV/EBITDA (X)	13.3	17.3	15.2	12.8	12.6
Normalised P/E (x)	17.0	16.9	16.7	15.7	15.4

Source: OML, Iress, APN Convenience Retail REIT

### Last Price

**A\$3.65**

### Target Price

**A\$3.87** (Previously A\$3.82)

### Recommendation

**Accumulate**

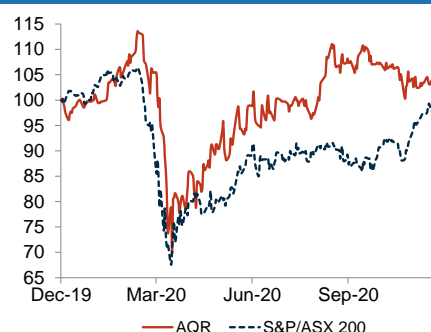
### Risk

**Medium**

### Specialized REITS

ASX Code	AQR
52 Week Range (\$)	2.47 - 4.02
Market Cap (\$m)	400.4
Shares Outstanding (m)	109.7
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	-4.7
12 Month Total Return (%)	3.7
Benchmark 12 Month Return (%)	-0.3
NTA FY21E (¢ per share)	364.8
Net Debt FY21E (\$m)	176.3

### Relative Price Performance



Source: FactSet

### Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	-	-
NPAT (OM) (\$m)	25.6	28.7
EPS (C) (c)	-	-
EPS (OM) (c)	21.9	23.3

Source: OML, Iress, APN Convenience Retail REIT

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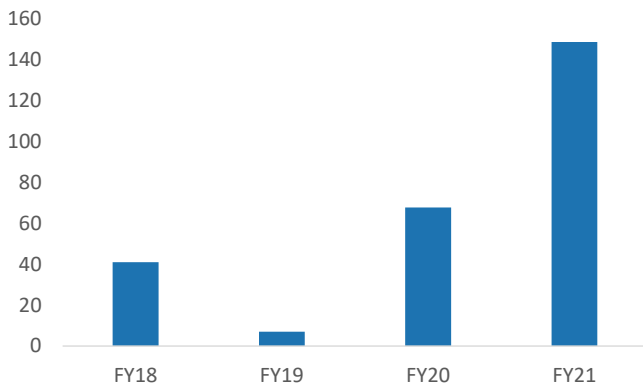
## Key Charts and Tables

Figure 1: Old vs New forecast

Post Nov Acquisitions	FY21			FY22		
	Old	New	% Change	Old	New	% Change
Net property income	32.3	34.6	7%	34.6	39.6	15%
Management Fee	-2.9	-2.9	0%	-3.1	-3.1	0%
Coporate costs	-0.8	-0.8	0%	-0.8	-0.8	0%
Finance Cost	-4.5	-5.3	18%	-5.1	-7.1	39%
Other						
<b>FFO</b>	<b>24.1</b>	<b>25.6</b>	<b>6%</b>	<b>25.6</b>	<b>28.7</b>	<b>12%</b>
<b>FFO/Share</b>	<b>22.0</b>	<b>21.9</b>	<b>-1%</b>	<b>22.3</b>	<b>23.3</b>	<b>4%</b>
<b>Distribution per unit</b>	<b>21.8</b>	<b>21.8</b>	<b>0%</b>	<b>22.1</b>	<b>23.0</b>	<b>4%</b>
<b>WANOS</b>	<b>109.7</b>	<b>117.1</b>	<b>7%</b>	<b>114.7</b>	<b>123.2</b>	<b>7%</b>
<b>Non Operating</b>						
Property Valuations	26.3	49.1	86%	-1.6	7.5	-559%
Other	4.2	1.7	-60%	4.2	4.2	0%
<b>Statutory Profit</b>	<b>54.6</b>	<b>76.3</b>	<b>40%</b>	<b>28.2</b>	<b>40.3</b>	<b>43%</b>

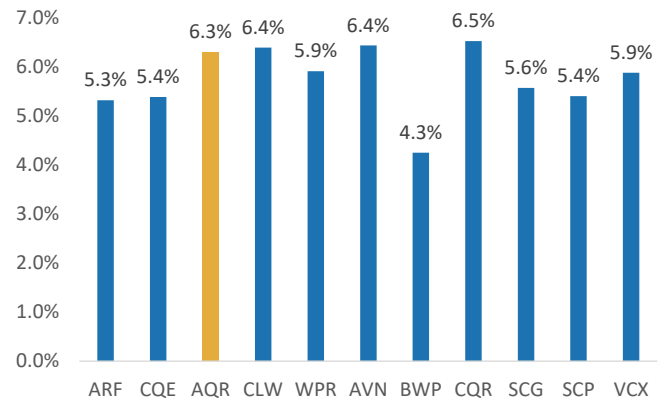
Source: Ord Minnett Limited estimates

Figure 2: FY21 acquisitions expected to be the highest since listing



Source: Company data, Ord Minnett Limited estimates. Acquisitions include fund through arrangements

Figure 3: FY22F distribution yield looking attractive



Source: Bloomberg for non-rated companies, Ord Minnett Limited estimates

**APN Convenience Retail REIT**

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Net operating income	24.7	26.4	34.6	39.6	41.9
Management EBIT	-	-	-	-	-
Development EBIT	-	-	-	-	-
Other EBIT	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)
Unallocated overheads	(2.3)	(2.5)	(2.9)	(3.1)	(3.1)
<b>EBIT</b>	<b>21.8</b>	<b>23.2</b>	<b>30.9</b>	<b>35.8</b>	<b>38.0</b>
Net interest expense	(4.8)	(4.0)	(5.3)	(7.1)	(7.6)
<b>Pre-tax profit</b>	<b>17.0</b>	<b>19.3</b>	<b>25.6</b>	<b>28.7</b>	<b>30.3</b>
Net tax (expense) / benefit	-	-	-	-	-
Minorities	-	-	-	-	-
<b>Normalised NPAT</b>	<b>17.0</b>	<b>19.3</b>	<b>25.6</b>	<b>28.7</b>	<b>30.3</b>
Significant items/Adj.	7.0	26.5	50.7	11.7	23.9
<b>Reported NPAT</b>	<b>24.0</b>	<b>45.8</b>	<b>76.3</b>	<b>40.3</b>	<b>54.3</b>
Normalised dil. EPS (cps)	21.5	21.6	21.9	23.3	23.6
FFO/share (cps)	21.5	21.6	21.9	23.3	23.6
Reported EPS (cps)	30.4	51.1	65.4	32.7	42.3
DPS (cps)	20.9	21.8	21.8	23.0	23.4
Dividend yield (%)	5.7	6.0	6.0	6.3	6.4
Payout ratio (%)	97.2	100.9	99.7	99.0	99.0
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	78.9	109.7	123.2	123.2	129.3

<b>CASH FLOW (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EBITDA	21.8	23.2	30.9	35.8	38.0
Change in working capital	(3.8)	3.8	-	-	-
Interest Paid	(4.9)	(4.7)	(5.4)	(7.2)	(7.8)
Interest Received	0.0	0.0	0.1	0.1	0.1
Tax Paid	-	-	-	-	-
Other Operating Items	3.4	-	-	-	-
<b>Operating Cash Flow</b>	<b>16.4</b>	<b>22.4</b>	<b>25.6</b>	<b>28.7</b>	<b>30.3</b>
Capital expenditure	(0.1)	(1.5)	(0.2)	(2.1)	(0.3)
Acquisitions	(7.9)	(70.1)	(143.9)	(30.0)	(20.0)
Divestments	-	9.8	-	-	-
Other Investments Items	-	-	(2.5)	-	-
<b>Investment Cash Flow</b>	<b>(8.0)</b>	<b>(61.8)</b>	<b>(146.6)</b>	<b>(32.1)</b>	<b>(20.3)</b>
Inc/(Dec) in equity	(0.1)	98.7	45.0	-	20.0
Inc/(Dec) in borrowings	5.4	(39.5)	120.0	20.0	-
Dividends paid	(16.3)	(17.7)	(26.7)	(28.4)	(30.3)
Other financing items	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>(11.0)</b>	<b>41.5</b>	<b>138.3</b>	<b>(8.4)</b>	<b>(10.3)</b>
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	(2.5)	2.0	17.2	(11.8)	(0.2)

<b>BALANCE SHEET (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Cash	0.3	2.3	19.6	7.7	7.5
Receivables	0.1	0.9	0.9	0.9	0.9
Inventory	-	-	-	-	-
Other current assets	0.0	0.3	0.3	0.3	0.3
PP & E	-	-	-	-	-
Property Investments	358.3	448.2	641.1	678.6	718.4
Inventory	-	-	-	-	-
Equity Acc Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Intangibles	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Other non-current assets	-	-	-	-	-
<b>Total Assets</b>	<b>358.7</b>	<b>451.6</b>	<b>661.8</b>	<b>687.5</b>	<b>727.1</b>
Short term debt	-	-	-	-	-
Payables	2.8	7.0	7.0	7.0	7.0
Other current liabilities	0.9	1.2	1.2	1.2	1.2
Long term debt	115.4	75.8	195.8	215.8	215.8
Other non-current liabilities	1.6	2.3	2.3	2.3	2.3
<b>Total Liabilities</b>	<b>124.9</b>	<b>92.3</b>	<b>212.3</b>	<b>232.3</b>	<b>232.3</b>
<b>Total Equity</b>	<b>233.8</b>	<b>359.3</b>	<b>449.5</b>	<b>455.2</b>	<b>494.8</b>
Net debt (cash)	115.1	73.5	176.3	208.1	208.3

**Accumulate**

<b>DIVISIONS</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>KEY METRICS (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue growth	18.3	7.0	30.6	14.5	5.9
EBITDA growth	18.4	6.9	32.8	15.9	6.2
EBIT growth	18.4	6.9	32.8	15.9	6.2
Normalised EPS growth	16.2	0.5	1.2	6.4	1.7
EBITDA margin	88.0	87.8	89.3	90.3	90.6
OCF /EBITDA	0.0	0.0	0.0	0.0	0.0
EBIT margin	88.0	87.8	89.3	90.3	90.6

<b>VALUATION RATIOS (x)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Reported P/E	12.0	7.1	5.6	11.1	8.6
Normalised P/E	17.0	16.9	16.7	15.7	15.4
Price To Free Cash Flow	17.2	17.1	16.9	15.8	15.6
Price To NTA	1.2	1.1	1.0	1.0	1.0
EV / EBITDA	13.3	17.3	15.2	12.8	12.6
EV / EBIT	13.3	17.3	15.2	12.8	12.6

<b>LEVERAGE</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
ND / (ND + Equity) (%)	33.0	17.0	28.2	31.4	29.6
Net Debt / EBITDA (%)	529.2	316.2	571.2	582.0	548.5
EBIT Interest Cover (x)	4.6	5.8	5.9	5.0	5.0
EBITDA Interest Cover (x)	4.6	5.8	5.9	5.0	5.0

<b>SUBSTANTIAL HOLDERS</b>	<b>m</b>	<b>%</b>
APN Property Group	18.6	17.0%

<b>VALUATION</b>	
Cost of Equity (%)	7.5
<b>Equity NPV Per Share (\$)</b>	<b>4.17</b>
Multiples valuation method	SOTP
Multiples valuation	3.58
Target Price Method	50% DDM / 50% SOTP
Target Price (\$)	3.87
Valuation disc. / (prem.) to share price (%)	6.0

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BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
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