

Peet Ltd

16 November 2021

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Issuer Outline

Peet Ltd (Peet, Company, the Group), founded in 1895 and listed on the ASX in 2004, is Australia's largest pure-play listed residential land developer, with a current market capitalisation of AUD546m as at 15 November 2021. Peet acquires, develops and markets residential land. Peet has three business divisions:

1. Funds management (FM) where Peet manages projects on behalf of land syndicates and under development management and co-investment arrangements. – represents 60% of the business
2. Joint ventures (JV) which are entered into with government, statutory authorities and private landowners which generally involve Peet undertaking the development of land on behalf/in conjunction with the owner/co-owner. – 15% of business
3. Company-owned projects primarily for residential development purposes. – 25% of the business

As at 30 June 2021, Peet's total land bank was 44,957 lots with an on-completion value of approximately AUD13.6bn across 52 projects nationally. The land bank represents approximately 14 years' lot supply based on current sales rates. Peet estimate that more than 87% of its land bank will be in development by 2024.

Sector: Real Estate
Sub-sector: Residential
Country: Australia
Ownership: Public

Key Financials (AUDm)

LTM (30 Jun)	2021
Revenue	220.3
EBITDA	33.2
Interest Expense	(5.3)
Total Assets	889.8
Cash	64.1
Debt	275.0
Gearing Ratio	24.8%
EBITDA/Interest	6.5x

Source: S&P Capital IQ, FIIG Securities

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call ¹	Maturity Date
AU3CB0262210	AUD75m	Snr Unsecured	6.75%	Semi-Annual	7 Dec 2021	07 Jun 2024
AU3FN0060638	AUD75m	Snr Unsecured	BBSW + 4.85%	Quarterly	30 Sept 2023	30 Sept 2026

¹Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call

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Peet Ltd

Strengths

- **The largest “pure play” residential developer in Australia:** with a land bank of 44,957 lots as at 30 June 2021. Its portfolio is diversified and strategically located in the growth corridors of major cities across all of Australia’s mainland states and territories. This geographic diversity enables Peet to manage changing conditions in different markets, noting Peet is largely absent from the Sydney market as it considers the risk v reward unbalanced. Peet has a successful history of operating through property and economic cycles.
- **Diverse sources of income:** The Company has diversity of income via Funds Managements and JV arrangements (as well as company-owned projects). In addition to the share of net profits, they also earn management fees through the development process.
- **Reduced propriety exposure risk:** Peet’s funds management and joint venture divisions reduce proprietary exposure risks and requires lower capital contribution and therefore leverage. Approximately 60% of assets under management (AUM) are funded with third party capital with a Gross Development Value (GDV) of AUD10.7bn out of a total Group GDV of AUD13.6bn.
- **Strong growth against COVID-19 backdrop:** Despite the broader economic slowdown due to the pandemic, Peet’s sales increased 35% in FYH21 with a total of 3,142 lots sold a gross value of AUD858.8m, driven by strong demand and government stimulus. Settlements over the period increased 66% with a gross value of AUD304.8m, the group EBITDA was up 65% due to improved market conditions, leading to a significant increase in sales and settlement volumes across all business segments (FM, Company-owned and JV’s) and all states (save for Victoria). FM and JV, which have a lower capital intensity than on balance sheet projects, generated ~70% of the Group’s EBITDA.
- **Takes a long-term position:** Peet historically takes a long-term positions, mindful of the current property cycles. For example Peet has not made any acquisitions in Sydney or Melbourne over the last 3-4 years, and has strategically decided to focus on other markets with better fundamentals like Queensland. In addition, Peet states that it is seeing a shift in consumer demand from CBD high rise, smaller apartment dwellings to properties with a larger floorplate located in the middle ring. The Company believes it is well placed to meet the shift in demand due to its existing land bank, and focus of townhouses and low rise apartments.
- **Peet has a good liquidity profile.** At the onset of COVID19, Peet undertook a range of capital management initiatives to shore up liquidity and protect its balance sheet. These included the deferral of the commencement of new projects to minimise capital expenditure, noting that some of these developments have now commenced on the back of market improvements and government stimulus. Peet also commenced the divestment of non-core regional assets, with AUD49m of a total AUD75m settled in FY21, and remainder expected in FY22/23. Gearing is currently at 24.8% however as Peet have accelerated their development/construction activity this is likely to trend slightly higher in the short term to the upper end of its target range (20-30%).
- **Limited exposure to off shore buyers:** The property market experienced significant growth over the last year primarily due to government stimulus packages, however with international border closures we may see the growth in the market slowdown. We note that positively Peet does not have significant exposure to foreign buyers. It has not directly marketed offshore and, therefore is likely to remain largely insulated against a loss in demand from overseas buyers, given its sales exposure is predominantly across domestic first, and subsequent home buyers, builders and investors

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Risks

- Reliance on Western Australia: A large portion of development in Peet's pipeline is located in WA (38%). WA's population growth in 2019/20 was better than expected at 1.5% however as a result of the COVID19 pandemic and border closures, forecast for the next two years is much weaker at 0.8% and 0.7% respectively. 60% of WA's population growth is attributable to migration. Further to the slow growth in population, the WA property market is largely driven by the performance of the mining sector. We note that whilst the WA mining sector was highly successful in 2020, potential headwinds to highlight include the speed at which the COVID19 vaccine is rolled out to allow the loosening of border restrictions, commodity price risk, geopolitical risk (however given China's reliance on Australia's mining sector we don't feel that the rising tensions will impact demand), and climate change risk and the pressure on the mining industry to provide sustainable alternatives. We believe that Peet's development pipeline is likely to feel the flow on effects of any downside impact on the mining sector, posing an increase in settlement risk.
- Economic and property cycles risk: The Company is inherently exposed to any downturn in the markets in which Peet operates which would likely impact asset valuations, as well as existing and future developments. Currently Peet have ~70% of its land bank under development, with 80% forecast for 2023. Conversely, increasing cost of land across the country, would pose a potential risk for Peet when replenishing its land bank during an economic upswing, noting that Peet has mentioned it had lost in the past bids for parcels of lands that were sold for 25% more than what it was willing to pay, which would indicate good pricing discipline.
- Property and development risks: Each development is subject to project-specific risks such as development cost increases/overruns and property risks including sale rates and settlement conversion. Should any of these risks materialise, this would negatively impact the profitability of the relevant projects, noting this risk is partly mitigated by the diversity of projects under development at any point in time.
- Gearing could increase: Currently, the company's gearing ratio is at 24.8% (within its 20-30% target) after the settlement of AUD49m of its current AUD75m strategic non-core asset divestment programme, (with the remainder to settle in FY22/23). In addition, Peet has 1,948 contracts in hand with a gross value of AUD546.6m expected to settle, which should provide adequate capital and liquidity to recycle into new projects. Nevertheless, an acceleration of new projects or slowdown in sales / settlements could increase the company's debt level and keep the gearing ratio at the top end of the target range.
- Compared to other unrated AUD bonds, Peet notes have a limited covenant package. The only financial covenant is that on an incurrence basis the Gearing Ratio must be less than 50%. At 24.8% (as calculated in accordance with the terms of the notes), there is currently significant headroom under this covenant. However we note that under Peet's bank facilities, it must comply with a number of standard financial covenants including an interest cover ratio, gearing ratio, real property ratio and minimum shareholders' equity.

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Summary Financials

The financial summary below represents the consolidated operations of Peet Ltd (AUDm, FYE 30 June).

Income Statement	FY17	FY18	FY19	FY20	FY21
Revenue	296.0	287.6	249.5	188.3	220.3
EBITDA	59.0	67.5	60.9	21.1	33.2
Net Interest Expense	(8.3)	(10.2)	(8.5)	(5.0)	(5.3)
Net income	44.3	48.6	47.4	(30.7)	28.1
Balance Sheet	FY17	FY18	FY19	FY20	FY21
Cash	88.4	76.7	33.6	46.8	64.1
Total assets	933.8	928.9	922.1	888.7	889.8
Total debt	288.2	241.1	257.1	300.0	275.0
Total equity	525.3	551.4	560.0	513.1	532.6
Cash Flow Statement	FY17	FY18	FY19	FY20	FY21
Cash flow from operating activities	57.2	67.3	(12.1)	(7.9)	14.4
Cash flow from investing activities	(1.5)	(20.9)	(26.7)	3.6	29.5
Credit Metrics	FY17	FY18	FY19	FY20	FY21
Net Debt/EBITDA	3.4x	2.4x	3.7x	11.3x	6.1x
EBITDA/Net Interest Expense	7.1x	6.6x	7.1x	4.5x	6.5x
Debt / Capital	35.4%	30.4%	31.5%	36.9%	34.1%

Source: S&P Capital IQ Company, FIIG estimates

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