

Ingenia Communities Group

On track to meet FY18 guidance

Ingenia Communities Group (INA.ASX) owns, operates and develops affordable senior lifestyle and holiday communities. The lifestyle business uses a land-lease rental model where the occupant buys the dwelling and rents the land. The Ingenia Gardens portfolio operates rental-only villages with onsite care facilities and accounts for 20% of the value of the \$717m portfolio (value as at 31 December 2017). Villages are located across Australia in metropolitan and coastal locations. The Deferred Management Fee (DMF) portfolio is non-core and ear-marked for divestment with capital to be used to fund developments. At 31 December 2017, the carrying value of assets held for sale was \$16.3m.

Strategy

INA targets the segment of the seniors' market that relies on the age pension to fund their retirement and it offers an alternative to traditional retirement models through its land-lease model. Its tourism related portfolio caters for the cost conscious grey nomads segment of the market. Growth is achieved through occupancy improvement and rent/accommodation charge increases, which in turn are tempered by changes in the age pension and general affordability concerns. H118 rental income accounted for 80% of EBIT and EBIT margins improved by 400bps to 25%. In May 2017 a placement and entitlement offer raised \$74m at \$2.60 per share to fund acquisitions and developments. At 31 December 2017 the Loan Value Ratio (LVR) was 35.1% within the company's preferred range of 30-40% and below banking covenant of 50%.

Outlook

Guidance was provided at the AGM and confirmed at the release of the H118 result. The guidance provided was new home settlements in FY18 of 260-280 and >350 in FY19. The FY18 EBIT guidance range is \$45-\$47m implies a H1/H2 split of 40%/60%. Management's confidence in meeting guidance is underpinned by the expectation of a strong H2 supported by 27 contracts and deposits. Underlying EPS of 7.1 cents for H118 was up 18% on pcp and the distribution of 5.1 cents per share was in line with pcp.

Earnings history and Consensus forecasts (A\$m)

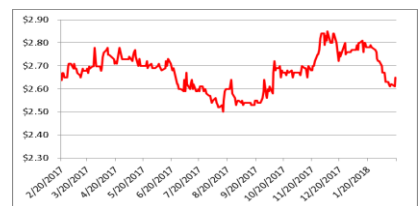
Y/E	Revenue	EBITDA	EBIT	NPAT*	DPS (c)	EPS (c)*	PE (x)	P/CF (x)	Yield (%)
6/16	107.1	24.8	24.2	20.2	9.3	9.3	28.6	19.2	3.5
6/17	149.9	32.9	32.1	23.5	10.2	10.2	26.0	15.9	3.8
6/18 (f)	185.4	n/p	n/p	32.5	9.0	11.4	23.2	n/p	3.4
6/19(f)	224.1	n/p	n/p	40.3	9.5	13.4	19.8	n/p	3.6

Source: Company data; Consensus for FY18 and FY19 derived from Stockopedia.com. Earnings are "underlying" and exclude re-valuations of properties.

Share details

ASX Code	INA
Share Price	\$2.65
Market Capitalisation	\$549M
Number of shares	207.3m
Enterprise Value	\$778M
Sector	Real Estate
Free Float	97.2%

Share price performance



RaaS RAP 5-point score* = 4/5

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- An alternative model to Retirement Villages and not likely to be impacted by concerns about the financing model
- Exposure to low cost tourist accommodation market
- Development pipeline

Downside Case

- Exposure to property market
- Exposure to possible increase in interest rates and need for capital to fund further developments
- Possible changes to pension asset/income tests may demand

Catalysts

- Meeting FY18 guidance
- Yield >9%

Comparative companies (Australia & NZ)

LIC, GTY, EGH

Substantial Institutional Shareholders

None

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