RaaS
Research as a Service

RAP Report

18th June 2018

Lifestyle Communities

"Downsize to a bigger life"

Lifestyle Communities Ltd (LIC.ASX) commenced operations in 2003 and listed on ASX in 2007 with a major capital raise of $36m in 2012. The business model is to build and sell affordable homes to seniors receiving the age pension and rent assistance. Residents will pay a weekly rental fee for the lease of the site (90 year lease period provides certainty). The attraction to an incoming resident includes living in a community with others of similar demographic and freeing up capital whilst still maintaining entitlements to the age pension. The release of capital is ~$129,000 because homes are typically priced at 75-80% of the median house price. At 31December 2017 there were 1,776 occupied homes and a further 1,051 awaiting settlement, under development or subject to planning.

Strategy

LIC is setting out to dominate the affordable housing market for those over 50 years of age with less than $520,000 in total equity. The average entry age is ~10 years less than the average entry age for retirement villages and LIC's current average age of residents is 72 years.

Unlike retirement villages, residents remain in control. They own their own homes and pay a rental (of about 20% of the age person and rent assistance allowance) to occupy the land. The financial statements, like retirement villages, are muddied by revaluations of developed and undeveloped land. The model means that LIC will continue to benefit from the appreciating portion of the property market (the land) leaving the resident with the building which deteriorates. If the land is appreciating it is likely that the value of the building will appreciate albeit it at a lesser rate than the land. The primary markets for the product are those in receipt of the age pension and in some cases the receipt of rental assistance. LIC's revenue comes from sale of new dwellings (gross profit of 23.3% in H118), from rental income and deferred management fees for onsite management and use of communal facilities.

Outlook

Guidance for sales in FY18 was upgraded by 50 homes in May 2018 and is now 310-320 dwellings. Earnings guidance is a non-specific "more than last year:" with H1 NPAT of $15.8m. FY19 guidance is for settlements of between 310 and 340 dwellings. The current focus is on growth corridors of Melbourne and key regional centres. Broker consensus (2 brokers) is for 22.6% and 12.2% revenue growth and for 9.8% and 16.4% EPS growth respectively in FY18 and FY19. Unrealised fair value adjustments are included in both revenue and EPS.

Earnings history (A$m)

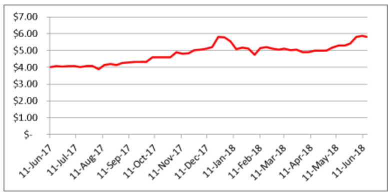
Y/E	Revenue	EBITDA	EBIT	NPAT	EPS (c)	PE (x)	Fair Val Adj ($m)	P/CF
June 2014	63.7	9.0	8.8	12.3	12.0	30.4	12.3	64.2
June 2015	78.8	16.8	16.5	16.7	16.5	26.4	15.1	37.3
June 2016	70.2	18.0	17.7	19.3	18.6	33.7	18.9	n/a
June 2017	100.4	26.6	26.2	27.7	26.6	46.3	26.7	17.7

Source: Company data; EPS = diluted earnings per share

Share details

ASX Code	LIC
Share Price	A$5.80
Market Capitalisation	$614.7M
Number of shares	104.6M
Enterprise Value	$654.1M
Free Float	68.9%

12-month share price performance



RaaS RAP 5-point score* = 4/5

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

Upside Case

- No entry fees and a reasonable DMF matched with costs of providing the services
- Annuity income streams from rentals
- Supported by government age pension and rent assistance

Downside Case

- No control over pension payment and regulations which may change due to budgetary pressures
- Securing the right development opportunities
- Exposure to rising interest rates

Catalysts

- Number of settlements in operation
- Improved yield

Comparative companies (Australia & NZ)

APY.ASX, GTY.ASX

Substantial Shareholders

Cooper Investors 7.55%, Washington H.Soul Pattinson/Pengana 6.09%, Australian Super 5.48%, AFIC 5.23%, BT Investment Management 5.07%

RaaS Advisory contacts

Moira Daw +61 418 697 275
moira.daw@raasgroup.com

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

*The RaaS RAP 5-point scorecard is derived from the last reported full financial year's performance over the prior year. Past performance is not a guarantee of future performance.