

FKP Property Group

FKP AU / FKP.AX

Market Cap
US\$802.0m
 A\$851.8m

Avg Daily Turnover
US\$5.33m
 A\$5.65m

Free Float
60.0%
 321.6 m shares

Current
A\$2.02
 Target **A\$2.38**
 Prev. Target **A\$2.38**
 Up/Downside **17.6%**

SHORT TERM (3 MTH) LONG TERM

TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

Morgans Analyst(s)

Josephine LITTLE

T (61) 7 3334 4505
 E josephine.little@morgans.com.au

Fiona BUCHANAN

T (61) 7 3334 4879
 E fiona.buchanan@morgans.com.au

Share price info

Share price perf. (%)	1M	3M	12M
Relative	36.1	59.1	56.3
Absolute	36.7	63.8	79

Major shareholders

Major shareholders	% held
Mulpha International Bhd	26.0
Perennial	12.0
Stockland	11.0

Ticking boxes

FKP's residential development trading update highlights a strong pick-up in trading conditions. We believe FKP can trade up to NTA (A\$2.74) and beyond as additional assets are sold (placing FKP in a net cash position) and retirement earnings (yield on assets) improve.

Our earnings forecasts and A\$2.38 price target are unchanged at this point. We maintain an Outperform rating with the group still trading at a steep discount to NTA, a recapitalised balance sheet, sales momentum improving across the residential/retirement operations and management's commitment to further asset sales (non-retirement).

Strong resi pick-up

FKP provided a residential development update, highlighting contracts on hand for the Residential Communities and Apartments division increasing by A\$109m since 30 June. This is largely due to strong land sales at Rochedale and continuing sales momentum at The Milton (80% pre-sold), Luxe (nearly completely sold out) and Aerial (13 apartments remaining). There will likely be an earnings skew to the 2H given the timing around Luxe and other land estate settlements. FKP has also seen a strong improvement in enquiries and sales at its Peregian/Ridges and Point Cook estates. Given the strong sell-through of Rochedale and Peregian in

particular, we expect the group will sell through these projects over the next three years as opposed to selling them outright.

More cash coming

With resi markets on the improve, we expect FKP could receive around A\$120m+ of cash flow over FY14 from settlements including: Rochedale (cA\$20m+); Aerial (A\$20-25m); and Luxe (A\$75m). FKP's net debt could well fall to around A\$250m (cA\$400m currently), prior to any further asset sales which are expected. We expect FKP to re-commence paying distributions from FY15 (expect a 40-60% payout ratio).

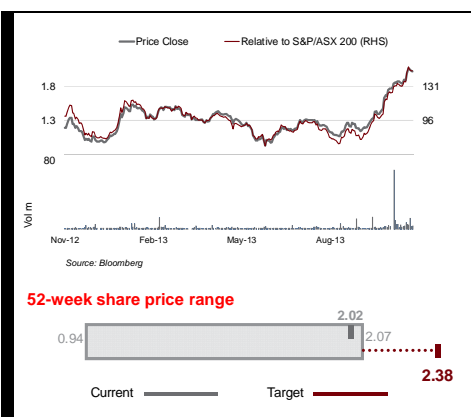
Strong value on offer

New management are achieving targets and have a clear forward strategy in place. There is still work to be done, particularly within the retirement operations to improve yields and ramp up development. However, FKP continues to trade at a steep discount to NTA (c26%) which provides an opportunity in our view.

Financial Summary

	Jun-11A	Jun-12A	Jun-13A	Jun-14F	Jun-15F
Total Net Revenues (A\$m)	351.8	215.4	332.8	384.6	386.6
Operating EBITDA (A\$m)	190.3	86.6	59.5	69.8	75.4
Net Profit (A\$m)	122.0	(324.1)	(166.5)	39.8	45.0
Normalised EPS (A\$)	0.73	0.24	0.12	0.09	0.09
Normalised EPS Growth	7.2%	(67.1%)	(49.1%)	(23.3%)	(4.0%)
FD Normalised P/E (x)	2.78	8.43	16.57	21.62	22.51
DPS (A\$)	0.16	0.15	0.01	0.00	0.02
Dividend Yield	8.12%	7.58%	0.50%	0.00%	0.83%
EV/EBITDA (x)	8.36	20.47	30.39	25.22	25.53
P/FCFE (x)	23	16	NA	NA	1,656
Net Gearing	51.5%	81.7%	55.7%	27.4%	28.4%
P/BV (x)	0.32	0.49	0.97	0.92	1.09
ROE	11.7%	4.6%	5.7%	4.9%	4.8%
Normalised EPS/consensus EPS (x)				0.93	0.93

SOURCE: MORGANS, COMPANY REPORTS



Profit & Loss

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F
Total Net Revenues	215.4	332.8	384.6	386.6
Gross Profit	215.4	332.8	384.6	386.6
Operating EBITDA	86.6	59.5	69.8	75.4
Depreciation And Amortisation	(2.9)	(2.7)	(2.6)	(2.6)
Operating EBIT	83.7	56.8	67.2	72.8
Total Financial Income/(Expense)	(12.5)	(9.2)	(16.3)	(14.0)
Total Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0
Total Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	71.2	47.6	50.9	58.8
Exceptional Items				
Pre-tax Profit	71.2	47.6	50.9	58.8
Taxation	(25.0)	(8.3)	(11.0)	(13.8)
Exceptional Income - post-tax	(365.1)	(205.7)	0.0	0.0
Profit After Tax	(318.9)	(166.4)	39.9	45.1
Minority Interests	(5.2)	(0.1)	(0.1)	(0.1)
Pref. & Special Div	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	(324.1)	(166.5)	39.8	45.0
Normalised Net Profit	46.2	39.3	39.9	45.1
Fully Diluted Normalised Profit	41.0	39.2	39.8	45.0

Balance Sheet

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F
Total Cash And Equivalents	18	31	29	17
Properties Under Development				
Total Debtors	74	80	92	84
Inventories	872	675	671	674
Total Other Current Assets	167	38	38	38
Total Current Assets	1,131	823	830	813
Fixed Assets	24	22	22	22
Total Investments	2,587	2,511	2,522	2,536
Intangible Assets	4	2	4	4
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	2,615	2,535	2,548	2,561
Short-term Debt	292	407	255	64
Current Portion of Long-Term Debt				
Total Creditors	71	72	83	85
Other Current Liabilities	1,416	1,373	1,373	1,373
Total Current Liabilities	1,778	1,851	1,710	1,521
Total Long-term Debt	684	278	170	361
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	41	24	24	24
Total Non-current Liabilities	725	303	194	386
Total Provisions	71	30	30	30
Total Liabilities	2,574	2,184	1,935	1,937
Shareholders' Equity	702	670	938	933
Minority Interests	469	504	505	505
Total Equity	1,171	1,174	1,443	1,437

Cash Flow

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F
EBITDA	86.6	59.5	69.8	75.4
Cash Flow from Inv. & Assoc.	2.6	5.3	5.7	6.3
Change In Working Capital	(66.0)	54.0	2.7	6.4
Straight Line Adjustment				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	(69.4)	(57.5)	(43.3)	(33.0)
Tax Paid	2.3	(5.5)	(11.0)	(13.8)
Cashflow From Operations	(43.9)	55.8	23.9	41.4
Capex	(2.1)	(0.8)	(12.9)	(12.9)
Disposals Of FAs/subsidiaries	81.9	126.2	77.5	0.0
Disposals of Investment Properties				
Acq. Of Subsidiaries/Investments	(122.4)	(73.0)	(55.0)	(40.0)
Other Investing Cashflow	6.9	2.2	0.0	0.0
Cash Flow From Investing	(35.7)	54.6	9.6	(52.9)
Debt Raised/(repaid)	100.7	(300.5)	(262.2)	12.2
Proceeds From Issue Of Shares	0.0	207.8	232.0	0.0
Shares Repurchased				
Dividends Paid	(21.1)	(17.7)	(3.2)	(0.6)
Preferred Dividends				
Other Financing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Financing	79.6	(110.4)	(33.5)	11.5

Key Ratios

	Jun-12A	Jun-13A	Jun-14F	Jun-15F
Revenue Growth	(38.9%)	54.8%	15.6%	0.5%
Operating EBITDA Growth	(54.5%)	(31.3%)	17.3%	8.0%
Operating EBITDA Margin	40.4%	17.9%	18.2%	19.6%
Net Cash Per Share (A\$)	-5.59	-2.03	-0.93	-0.81
BVPS (A\$)	4.10	2.08	2.20	1.86
Gross Interest Cover	6.70	6.17	3.86	4.85
Effective Tax Rate	35.1%	17.4%	21.7%	23.4%
Net Dividend Payout Ratio	5.84%	8.20%	1.54%	3.95%
Accounts Receivables Days	105.6	84.6	81.9	83.7
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	(1.67%)	(1.45%)	(1.61%)	(1.73%)
ROCE (%)	3.74%	2.84%	3.67%	3.96%

QUEENSLAND

BRISBANE	(07) 3334 4888
BUNDABERG	(07) 4153 1050
CAIRNS	(07) 4222 0555
CALOUNDRA	(07) 5491 5422
CHERMSIDE	(07) 3350 9000
EDWARD STREET	(07) 3121 5677
EMERALD	(07) 4988 2777
GLADSTONE	(07) 4972 8000
GOLD COAST	(07) 5581 5777
IPSWICH/SPRINGFIELD	(07) 3202 3995
MACKAY	(07) 4957 3033
MILTON	(07) 3114 8600
MT GRAVATT/CAPALABA	(07) 3245 5466
NOOSA	(07) 5449 9511
REDCLIFFE	(07) 3897 3999
ROCKHAMPTON	(07) 4922 5855
SPRING HILL	(07) 3833 9333
SUNSHINE COAST	(07) 5479 2757
TOOWOOMBA	(07) 4639 1277
TOWNSVILLE	(07) 4725 5787
YEPPON	(07) 4939 3021

NEW SOUTH WALES

SYDNEY	(02) 8215 5055
ARMIDALE	(02) 6770 3300
BALLINA	(02) 6686 4144
BALMAIN	(02) 8755 3333
CHATSWOOD	(02) 8116 1700
COFFS HARBOUR	(02) 6651 5700
GOSFORD	(02) 4325 0884
HURSTVILLE	(02) 9570 5755
MERIMBULA	(02) 6495 2869
NEUTRAL BAY	(02) 8969 7500
NEWCASTLE	(02) 4926 4044
NEWPORT	(02) 9998 4200
ORANGE	(02) 6361 9166

PORT MACQUARIE	(02) 6583 1735
SCONE	(02) 6544 3144
SYDNEY – LEVEL 9	(02) 8215 5000
SYDNEY – LEVEL 33	(02) 8216 5111
SYDNEY – MACQUARIE STREET	(02) 9125 1788
SYDNEY – MACQUARIE STREET (Parramatta)	(02) 9615 4500
SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
WOLLONGONG	(02) 4227 3022

ACT

CANBERRA	(02) 6232 4999
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VICTORIA

MELBOURNE	(03) 9947 4111
BRIGHTON	(03) 9519 3555
CAMBERWELL	(03) 9813 2945
CARLTON	(03) 9066 3200
FARRER HOUSE	(03) 8644 5488
GEELONG	(03) 5222 5128
RICHMOND	(03) 9916 4000
SOUTH YARRA	(03) 9098 8511
TRARALGON	(03) 5176 6055
WARRNAMBOOL	(03) 5559 1500

WESTERN AUSTRALIA

PERTH	(08) 6462 1999
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SOUTH AUSTRALIA

ADELAIDE	(08) 8464 5000
NORWOOD	(08) 8461 2800

NORTHERN TERRITORY

DARWIN	(08) 8981 9555
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TASMANIA

HOBART	(03) 6236 9000
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