

1 February 2018

Folkestone Limited (FLK)

BUY

Share Price: A\$1.14

2017 Scorecard

Target Price:

A\$1.65

Calendar year 2017 was a very strong for Folkestone Limited (FLK). Not only did it deliver significant earnings growth but it also was active in launching new funds, new projects, and delivering strong returns to its fund investors. In our view last year signalled the coming of age of the development pipeline, which has been building for many years. As a result we see the recent pull back in the share price, which is more about movements in bond rates rather than company specific events, as a buying opportunity for investors. We expect earnings to be flat in FY18 and then strong again in FY19, reflecting the lumpiness of development profits. We maintain our BUY recommendation.

Investment Highlights

- Revenue growth of ~21% 2 yr CAGR
- EBITDA growth of ~33% p.a. 2 yr CAGR
- EPS growth of ~36% p.a. 2 yr CAGR
- Share price / NTA – 15% premium
- FY19 P/E of 6.9x

2017 Highlights

- The group wound up the Oxley Shopping Centre Fund, which provided FLK with a \$0.8m performance fee, having delivered investors an IRR of 14.5%.
- FLK launched the 560 lot Wollert Development Fund, which was significantly oversubscribed. FLK earned an \$8.8m rezoning fee.
- The group announced its first townhouse joint venture development with ID Land in Melbourne.
- FLK wound up the Wollongong Income Fund, which provided FLK with a \$2.9m performance fee, having delivered investors an IRR of 23.6%.
- FLK launched the Sydney Airport Hotel fund, which raised \$50m in equity and was significantly oversubscribed.
- FLK also launched the Green Square Hotel Fund in late November, which at last update had seen strong interest.
- The group secured its second seniors living project at Chatswood Golf Course, which will commence in 2018.
- Investors voted to extend the Sydney Olympic Park Fund, having delivered them an IRR of 17.2%, which provided FLK with a \$2.2m performance fee.

Earnings Revisions and Valuation

- No change to our financial forecasts.
- Our NAV valuation remains at \$1.65, which is partly based on a maintainable development EBIT of \$15m on an 8x multiple.

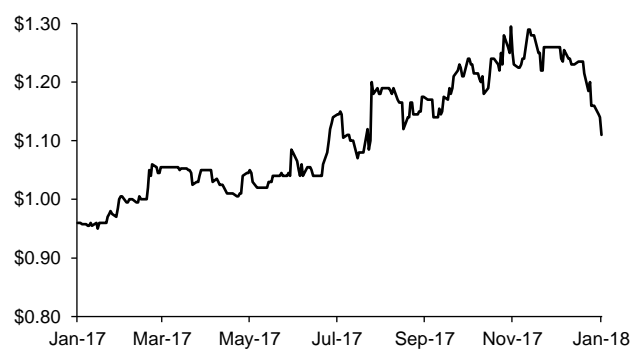
Company Data

Shares – ordinary (M)	147.6
Dilution (M)	2.3
Total (fully diluted) (M)	150.1
Market capitalisation (\$M)	168.6
12 month low/high (\$)	0.95 / 1.30
Average monthly turnover (\$M)	1.7
Index	All Ordinaries
GICS Industry	Real Estate

Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	19.4	33.7	32.3	49.4	53.9
Costs (\$M)	-11.6	-14.1	-14.4	-14.8	-15.2
EBITDA (\$M)	7.9	19.6	17.9	34.6	38.7
NPAT (adj.)(\$M)	5.5	13.3	12.7	24.6	27.8
EPS (¢ps)	3.4	8.9	8.4	16.4	18.6
EPS Growth (%)	49.8	160.5	-4.7	94.4	13.2
PER (x)	33.5	12.9	13.5	6.9	6.1
Free Cashflow (\$M)	-0.7	10.9	12.6	24.6	27.8
FCFPS (¢ps)	-0.5	7.4	8.5	16.6	18.8
Enterprise Value (\$M)	160.0	156.6	148.7	128.6	108.9
EV / EBITDA (x)	20.3	8.0	8.3	3.7	2.8
Dividends (¢ps)	2.5	3.3	3.0	5.5	6.2
Payout ratio (%)	73.4	36.1	35.0	33.0	33.0
Yield (%)	2.2	2.9	2.6	4.8	5.5

FLK – performance over one year



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Analysis

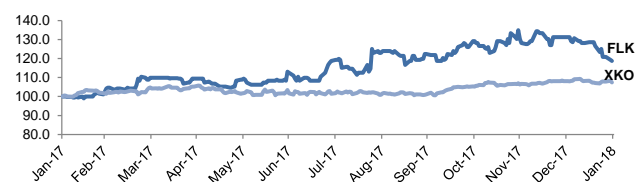
Folkestone Limited (FLK)

Year end 30 June

MARKET DATA

Recommendation		BUY
Price	\$	1.14
Price target (12-month)	\$	1.65
52 week high / low	\$	0.95 / 1.30
Market capitalisation	\$m	168.6
Shares on issue (basic)	no.	147.9
Options / rights	no.	0.0
Other equity	no.	2.3
Shares on issue (diluted)	no.	150.1

12-MONTH SHARE PRICE PERFORMANCE



PROFIT AND LOSS

	FY16	FY17	FY18e	FY19e	FY20e
Funds Management	\$m 15.9	17.0	23.2	25.1	28.5
Development	\$m 3.6	16.7	9.2	24.3	25.3
REVENUE	\$m 19.4	33.7	32.3	49.4	53.9
Employee Expenses	\$m (8.0)	(10.5)	(10.7)	(11.0)	(11.3)
Operating Expenses	\$m (3.5)	(3.6)	(3.7)	(3.8)	(3.9)
EBITDA	\$m 7.9	19.6	17.9	34.6	38.7
Depreciation & amortisation	\$m (0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	\$m 7.8	19.5	17.8	34.5	38.6
Net interest	\$m (0.1)	(0.6)	0.3	0.7	1.2
Pretax Profit	\$m 7.7	18.9	18.1	35.1	39.8
Tax expense	\$m (2.2)	(5.6)	(5.4)	(10.5)	(11.9)
Minorities/Preference dividend	\$m 0.0	0.0	0.0	0.0	1.0
Reported NPAT	\$m 5.5	13.3	12.7	24.6	27.8
Significant items	\$m (0.4)	0.0	0.0	0.0	0.0
Operating NPAT	\$m 5.0	13.3	12.7	24.6	27.8

INTERIM SUMMARY

	2H16	1H17	2H17	1H18	2H18
REVENUE	\$m 9.3	10.3	23.4	17.6	14.7
Employee Expenses	\$m (4.2)	(4.0)	(6.5)	(4.0)	(6.7)
Operating Expenses	\$m (1.7)	(1.4)	(2.2)	(1.5)	(2.2)
EBITDA	\$m 3.4	4.9	14.7	12.1	5.8
Depreciation & amortisation	\$m (0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	\$m 3.4	4.9	14.6	12.1	5.7
Net interest	\$m (0.0)	(0.2)	(0.4)	0.1	0.2
Pretax Profit	\$m 3.3	4.7	14.2	12.2	5.9
Tax expense	\$m (0.9)	(1.5)	(4.1)	(3.7)	(1.8)
Minorities/Preference dividend	\$m 0.0	0.0	0.0	1.0	1.0
Reported NPAT	\$m 2.4	3.2	10.1	8.5	4.1
Significant items	\$m (0.6)	0.1	0.0	0.0	0.0
Operating NPAT	\$m 1.8	3.3	10.1	8.5	4.1
Normalised EPS	€ 1.2	2.2	6.7	5.7	2.7

BALANCE SHEET

	FY16	FY17	FY18e	FY19e	FY20e
Cash	\$m 20.2	21.9	29.7	49.8	69.5
Receivables	\$m 23.5	20.5	20.5	20.5	20.5
Inventory	\$m 15.0	11.3	11.4	11.5	11.6
Associates/JV's (Development)	\$m 12.0	20.5	20.5	20.5	20.5
Investments (FET)	\$m 82.0	97.9	97.9	97.9	97.9
Prop, plant & equip	\$m 0.5	0.5	0.5	0.6	0.7
Intangibles	\$m 12.8	12.8	12.7	12.6	12.5
Other	\$m 0.4	0.4	0.4	0.4	0.4
Total assets	\$m 166.5	185.8	193.7	213.9	233.6
Payables	\$m 2.4	4.1	4.1	4.1	4.1
Borrowings	\$m 12.2	10.1	10.1	10.1	10.1
Other	\$m 6.1	12.9	12.9	12.9	12.9
Total liabilities	\$m 20.7	27.1	27.1	27.1	27.1
Net assets	\$m 145.8	158.7	166.6	186.7	206.5
Equity	\$m 145.7	158.7	166.6	186.7	206.5
Minorities	\$m 0.0	(0.0)	(0.0)	(0.0)	(0.0)
Shareholder's equity	\$m 145.8	158.7	166.6	186.7	206.5
Shares on issue	m 147.3	147.6	147.6	147.6	147.6

PER SHARE DATA

	FY16	FY17	FY18e	FY19e	FY20e
Reported EPS (diluted)	€ 3.7	8.9	8.4	16.4	18.6
Normalised EPS (diluted)	€ 3.4	8.9	8.4	16.4	18.6
...Growth	% 49.8	160.5	(4.7)	94.4	13.2
Operating cash flow per share	€ (0.1)	7.6	8.6	16.7	18.9
Free cash flow per share	€ (0.5)	7.4	8.5	16.6	18.8
FCF yield	% (0.4)	6.5	7.5	14.6	16.5
Dividend	€ 2.5	3.3	3.0	5.5	6.2
Payout	% 73.4	36.1	35.0	33.0	33.0
Yield	% 2.2	2.9	2.6	4.8	5.5
Franking	% 100.0	100.0	100.0	100.0	101.0
NTA (\$/share)	\$ 0.90	0.99	1.04	1.18	1.31

VALUATION DATA

	FY16	FY17	FY18e	FY19e	FY20e
P/E	x 33.5	12.9	13.5	6.9	6.1
Price to Free cash flow p/share	x (249.9)	15.4	13.3	6.9	6.1
Price to Book	x 1.2	1.1	1.0	0.9	0.8
Price to NTA	x 1.3	1.2	1.1	1.0	0.9
Enterprise value	\$m 160.0	156.6	148.7	128.6	108.9
EV/EBITDA	x 20.3	8.0	8.3	3.7	2.8
EV/EBIT	x 20.6	8.0	8.4	3.7	2.8

GROWTH PROFILE

	FY16	FY17	FY18e	FY19e	FY20e
Revenue	% 34.3	73.1	(4.0)	52.8	9.0
EBITDA	% 76.9	148.0	(8.6)	93.5	11.8
EBIT	% 78.9	150.0	(8.6)	94.1	11.8
Operating NPAT	% 71.3	164.5	(4.7)	94.4	13.2
Operating EPS	% 49.8	160.5	(4.7)	94.4	13.2
DPS	% n/a	30.0	(7.7)	83.4	13.2

LEVERAGE

	FY16	FY17	FY18e	FY19e	FY20e
Net debt	\$m (8.0)	(11.8)	(19.6)	(39.7)	(59.4)
Leverage (net debt / (net debt + equity))	% (5.8)	(8.0)	(13.3)	(27.0)	(40.4)
LVR (net debt / assets)	% (4.8)	(6.3)	(10.1)	(18.6)	(25.4)
Interest cover (EBIT / net interest)	x 11.7	26.0	35.1	68.1	76.1

DUPONT ANALYSIS

	FY16	FY17	FY18e	FY19e	FY20e
Net Profit Margin	% 28.0%	39.5%	39.2%	49.8%	51.7%
Asset Turnover	x 0.1x	0.2x	0.2x	0.2x	0.2x
Return on Assets	% 3.3%	7.1%	6.5%	11.5%	11.9%
Financial Leverage	x 1.1x	1.2x	1.2x	1.1x	1.1x
Return on Equity	% 3.7%	8.4%	7.6%	13.2%	13.5%

KEY RATIOS

	FY16	FY17	FY18e	FY19e	FY20e
EBITDA margin	% 40.6	58.1	55.3	70.0	71.8
EBIT margin	% 40.0	57.8	55.0	69.8	71.6
NPAT margin	% 28.0	39.5	39.2	49.8	51.7
ROE	% 3.7	8.4	7.6	13.2	13.5
ROA	% 3.3	7.1	6.5	11.5	11.9

Source: Petra Capital

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US Investors

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