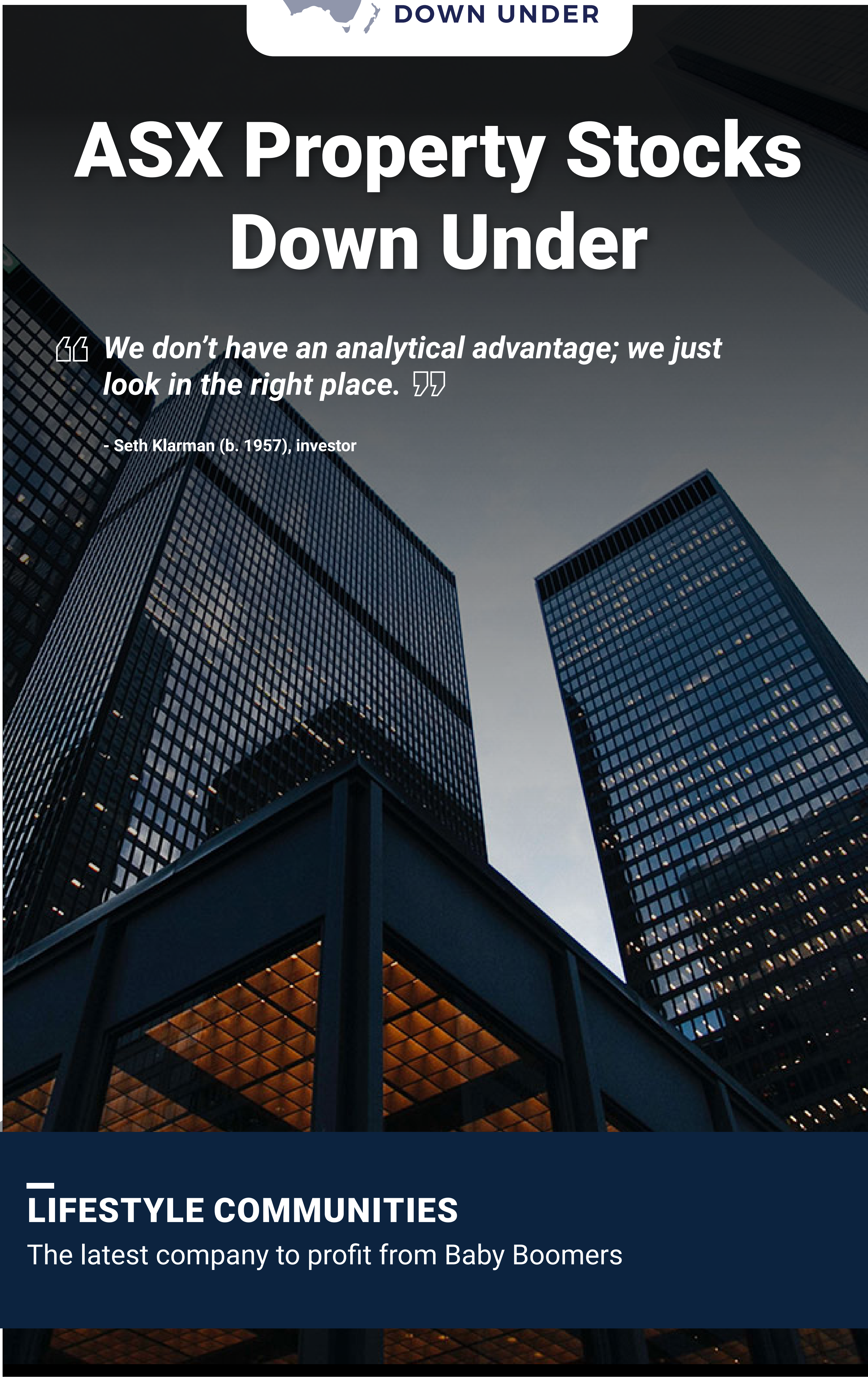
STOCKS DOWN UNDER

13 APRIL 2022

ASX Property Stocks Down Under



We don't have an analytical advantage; we just look in the right place.

- Seth Klarman (b. 1957), investor

LIFESTYLE COMMUNITIES

The latest company to profit from Baby Boomers

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Stocks Down Under rating: ★★★★

ASX: LIC
Market cap: A$1.6BN

52-week range: A$13.26/A$23.85
Share price: A$15.74

All through their lives, Baby Boomers have had a significant impact on differing sections of the economy – causing demand for certain goods and services to skyrocket. Now as the Boomers retire, it's retirement facilities that are in demand and Lifestyle Communities (ASX: LIC) is front and centre to capitalise. As the name suggests, it offers so-called "lifestyle communities", which are communities of independent, low-maintenance properties aimed at over 55s who are retired or semi-retired. The company has been a long-term winner, gaining over 300% in the last years. And it's eyeing even more growth in the next few years.

Share price chart

Source: Tradingview

Not your average retirement facilities

Lifestyle Communities began in 2003 and backdoor listed in 2007 through the shell of former tech company Namberry. Its properties are exclusively in Victoria, with a particular focus on Melbourne and Geelong's growth corridors. The company is focused on greenfield sites rather than brownfields – meaning it builds new communities rather than buying and refurbishing existing ones. LIC's communities are reimagined retirement facilities with resort-style facilities that are actively maintained and refurbished.

Instead of selling parcels of land and moving on as other developers do, LIC only sells the houses and offers 90-year leases on the land. As of 15 February 2022, LIC had 2,958 homes under management across its 25 communities. It generates revenue through site rental fees and management fees. The former is $192 per single and $222 per couple per week and indexed at either 3.5% or price inflation (whichever is greater). The latter is payable when residents sell and can be up to 20% of the value of a home. These income streams grow over time as it builds new communities and welcomes new residents.

At first glance, growing numbers of residents selling isn't a good sign, but the reality is 50% move out for health or death reasons. For the other half, the move to one of LIC's communities is not a "final move". They may want to live elsewhere or take advantage of rising property prices. And it is not uncommon for them to return to another LIC community later. The majority of LIC's customers are aged pensioners and consequently the rental stream is underpinned by the Age pension and Commonwealth rental assistance.

A longer-term horizon

LIC's share price and fortunes have followed that of the broader property market in Victoria. So far as pricing is concerned, there was a brief period of subdued activity in March-April of 2020, but prices have rebounded since thanks to record low interest rates. However, with Victoria spending longer in lockdowns than any other states, sales were slower to complete with in-person inspections difficult. Ultimately, LIC shares are 77% higher than their pre-Corona Crash levels and have gained over 300% in the last five years. It recently acquired land for its 25th community and has over 4,000 homeowners.

In FY21 (the 12 months to 30 June 2021), LIC made a $91.1m NPAT underpinned by a $76m post-tax non-cash uplift in the value of its portfolio. This was up from $42.8m in FY20, which in turn was down 22.2% from FY19. In 1HY22, LIC delivered a $27.5m NPAT, up from $14.1m in 1HY21, and again the growth in LIC's portfolio was the primary driver of the increase.

Nevertheless, due to the short-term volatility, LIC has stopped giving one-year forecasts and is focusing on a three-year horizon instead. It wants to deliver 1,100 to 1,300 new home settlements and 450 to 550 resale settlements between FY22 and FY24. It has also increased its debt facility from $275m to $375m to support the acquisition of three new sites in the coming months.

It's trading at a premium, but for a good reason

This is the third time we've covered LIC. The first was in August 2020 amidst Victoria's Stage 4 lockdowns and we gave it two stars, concerned about its valuation in the context of construction projects being delayed and the company suspending its guidance. But before the end of the year, we changed our tune and gave it four stars as restrictions were lifted and conditions improved. Since then, the share price has grown from $10.77 to $15.74 - a gain of 46% as construction resumed.

Consensus revenue and EBITDA estimates for FY23 stand at $236.1m and $115.2m respectively, meaning the company is trading at 17.1x EV/EBITDA and 27.3x P/E. Meanwhile, its main peer Ingenia (ASX: INA) which trades at 16.3x EV/EBITDA and 17.5x P/E. Ingenia has the benefit of being spread across warmer states where you'd be more likely to retire to because of the warmer climate plus having short term holiday parks. However, Ingenia has struggled with supply chain and cost inflation pressures as well as inclement weather.

LIC does not appear to have had similar issues although it noted a significant increase in activity after the recent round of lockdowns with would-be residents wanting to get out of the city while they could. We believe as long as the problems that have affected Ingenia do not affect LIC, it should continue to grow from here. Four stars from us.

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