STOCKS DOWN UNDER

18 MAY 2022

ASX Property Stocks Down Under

> *Success is not final; failure is not fatal: it is the courage to continue that counts.*

- Winston Churchill (1874-1965), British Prime Minister

INGENIA COMMUNITIES

You couldn't have picked a worse time to announce a downgrade

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Stocks Down Under rating: ★★

ASX: INA
Market cap: A$1.6BN

52-week range: A$3.78 / A$7.00
Share price: A$4.00

Just over a month since we looked at Lifestyle Communities (ASX: LIC), we turn our attention to its peer Ingenia Communities. On that very same day (13 April), Ingenia revealed it was feeling the pinch from supply chain and labour shortages and cut its EBIT and EPS growth. The timing couldn't have been worse, coming just before the market crash. All stocks have been punished but Ingenia in particular – the ASX 200 is down 5% since then, but Ingenia is down over 19%. Can it recover?

Share price chart

Source: Tradingview

Ingenia entered the ASX in 2012 via an internalisation of multiple ING real estate trusts which were separately listed. The company operates lifestyle communities for permanent living and holiday parks. It has a $2bn property portfolio with 109 properties across Australia, spread across Queensland, NSW, Victoria and WA. It has four segments: Lifestyle Development (which sells homes and land outright), Lifestyle Rental (which sells houses, but retains the land and receives rent payments from residents), Ingenia Gardens (which is aged care) and Ingenia Holidays (tourism accommodation). No one accounts for more than a third of its earnings although nearly 80% of its portfolio value is derived from Queensland and NSW.

The company has several revenue streams, including the outright sale of home and land packages (for its development segments), lease payments (in its Rental and Gardens segments) and payments for short term stays (for its Holidays segment). It has also managed funds that own holiday parks and villages in their own right.

A period of growth that's rapidly slowing

FY21 was a solid year for the company. The lack of international travel meant higher demand for interstate and intrastate travel, while record low interest rates sparked a housing boom. In FY21, Ingenia recorded EBIT of $94.4m (up 31% on FY20), revenue of $295.6m (up 21%) and a $77.2m underlying profit (up 31%). Its

operating cash flows were more than double the prior year, at $137.6m. All of its segments were up, but the greatest contributor to its earnings was the company's Lifestyle Development segment, which sells home and land packages (contributing $46.1m). The company told shareholders it expected 20-25% EBIT growth, 3-6% EPS growth and 1,800-2,000 segments over the next three years.

Ingenia's 1HY22 results showed slowing momentum with EBIT declining 16% on 1HY21, but the company reiterated its guidance and continued to undertake acquisitions into the 2HY22. Most recently on 3 March 2022, when it acquired the Federation Villages portfolio, which consisted of 3 properties in Victoria. And last November it raised $475m to acquire 20 communities and development sites.

But Ingenia dropped a bombshell on 13 April 2022. The company was experiencing delays in new home completions due to supply chain challenges; labour shortages and the unprecedented rain fall on the East Coast. Ingenia slashed its EBIT growth forecast to 5-10% of FY21 and underlying EPS would be 1-2 cents below FY21. The stock has been punished since then, falling over 20% despite the company reiterating its 1,800-2,000 settlements target and noting Ingenia Holidays revenue was up 45% on the prior year.

Can it bounce back?

Considering Ingenia is still expecting EBIT growth you might argue the company has been oversold. It is, however, still trading at a 15% premium to its NAV (Net Asset Value) of $3.47 per share, well ahead of the average among ASX property stocks.

It's EV/EBITDA and P/E for FY23 are both just over 14x. These figures are behind the ASX 200 Real Estate industry group which is 15.2x P/E and 16.2x EV/EBITDA although behind the broader ASX 200 Index (which Ingenia is a part of) - ~8.2x EV/EBITDA and 14.4x P/E. It doesn't appear that investors are pricing in a bounce back for FY23.

Consensus estimates for the company's EBITDA disagree, forecasting 7% growth in FY22 from FY21 from $98.2m to $105.1m. Looking to FY23, consensus estimates are for 28% EBITDA growth – to $135.5m - and 29% revenue growth from $322.9m to $417.1m. Although it may be reasonable to expect less extreme weather events in the coming 12 months, it is difficult to tell if or when supply chain issues will resolve.

Finally, we think it is worth comparing Ingenia to its peer Lifestyle Communities (ASX: LIC), which we covered in early April. LIC is purely a community developer, selling the house and leasing the land. It's share price was held back by being purely exposed to Victoria (the state that has spent the longest time in lockdowns) and that it stopped giving one-year forecasts, opting to give three-year horizons.

LIC's share price hasn't escaped the market meltdown but has only fallen 16% in a month and investors responded positively on 10 May when it reiterated its long-term settlement guidance. LIC's target of 1,100-1,300 settlements between FY22 and FY24 is lower than Ingenia's target (which it has not formally withdrawn), but it is easier to see it reaching this target right now considering Ingenia's supply chain issues. LIC is priced at 13.4x EV/EBITDA and 22.3x P/E for FY23 – a significant premium on a P/E basis to Ingenia and the broader property sector, but it's easy to see why it is trading at a premium right now.

All things considered, it's difficult to give Ingenia any more than two stars at the moment. We do think it has potential to return to growth once the supply chain issues are behind it, but we would rather sit on the sidelines until we can be certain this is the case.

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