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OCEANIA HEALTHCARE

NZE: OCA

New Zealand | Healthcare - Healthcare Facilities & Services

Hold Recommendation

Current Price: NZD 0.77 (2023-Sep-20)
Target Price: NZD 0.81
Upside: 3.9%

Aged Care Business For Meeting The Needs Of Today's Society.

We issue a **HOLD** recommendation for Oceania Healthcare (OCA) shares, and we have set a one-year target price of $0.81. This target suggests a potential 3.9% increase from the share price of $0.77 as of September 20, 2023. Our target price is determined through a Discounted Cash Flow (DCF) evaluation.

Oceania Healthcare (OCA) has recently made strategic investments in premium care and retirement villages, which are in line with long-term demographic trends such as an **aging population and longer life expectancy**. In light of the current high cost of capital environment driven by rising interest rates, the retirement village and aged care sector faces significant headwinds. The potential for prolonged high interest rates, coupled with economic and geopolitical uncertainties, suggests that the cost of capital may persist at elevated levels. While long-term demand projections align with demographic trends, the sector's strong negative correlation with interest rates and inflation leads us to issue our recommendation, pending a more favorable interest rate environment.

Valuation Metrics	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F	FY28F
EV/EBITDA (x)	13	16	15	16	16	16	16
EV/EBIT (x)	12	12	10	9	9	9	8
Pay-out Ratio (%)	35	37	36	38	38	37	37
P/E (x)	13.5	9.4	8.6	8.8	8.8	8.7	8.6
Dividend Yield (%)	2.6	4.0	4.3	4.2	4.2	4.3	4.3

Source: NZX, Company data, Team consensus

NZE: OCA

Share Outstanding	724m
Market Cap	$550m
Current Price	0.77
12-month Target Price	**0.81**
Upside Potential	3.9%
52-Weeks high	0.95
52-Weeks low	0.66

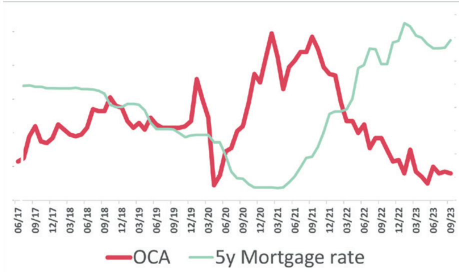


Figure 1: OCA Share Price v/s 5Y Mortgage Rate
Source: NZX

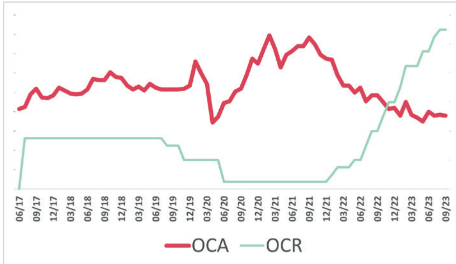


Figure 2: OCA share price v/s OCR
Source: NZX

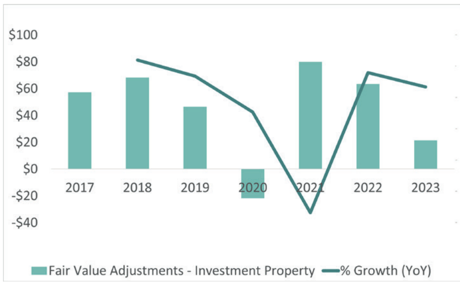


Figure 3: %age change - OCA Fair value adjustments - Investment Property
Source: CoreLogic NZ Limited

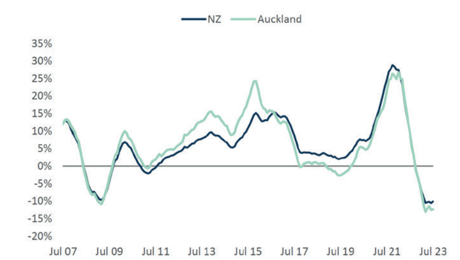


Figure 4: NZ & Auckland Property values change
Source: CoreLogic NZ Limited

INVESTMENT OUTLOOK

Short-Term Challenges in the Operating Environment

Interest Rates Could Remain Elevated for an Extended Period: Over the last seven years, there has been a noticeable relationship between OCA's stock price and both the Official Cash Rate (OCR) and the five-year mortgage rate, with a strong inverse correlation **(Figures 1 & 2)**. There are growing concerns about the extended period of high-interest rates, which could continue to put pressure on the value of OCA's investment properties. These concerns are supported by a significant 66% decrease in the fair value movement of investment property in FY23 **(Figure 3)**. This decrease coincided with a broader 10.1% decline in average property values across New Zealand **(Figure 4).** The recent decision by the RBNZ to maintain interest rates at 5.5% in August is consistent with our expectation of persistently higher rates in the long term.

In our analysis of OCA stock, we've observed a strong inverse correlation between its share price and a high-interest rate environment, as demonstrated in **Figure 1.** We conducted an analysis considering factors like the 5-year mortgage rate, OCR, and 10-year bond yield, and all of them exhibited a significant negative correlation with OCA's stock performance. Furthermore, in our comparison of OCA's price-to-earnings ratio with its industry peers, we observe that OCA maintains a relatively elevated P/E ratio. However, it's worth noting that OCA is currently trading at a price below its book value **(Figure 5)**. Nevertheless, the strong negative correlation between OCA's stock and interest rate indicators suggests that OCA's stock performance is likely to remain subdued until interest rates cool down.

Soft Margin in Aged Care

OCA places significant reliance on regulated care fees, which form a crucial part of its revenue structure. This dependence makes OCA vulnerable to changes in regulations. The care segment is grappling with a problem where expenses are exceeding revenue, and this issue is worsened by factors such as inflation and increasing nurse salaries **(Figure 6).** In response to this challenge, OCA has adopted a strategic approach by giving emphasis to premium care suites. This strategy involves diversifying its healthcare-centric portfolio to enhance its resilience to revenue fluctuations. Notably, premium revenue currently makes up 10% of the care segment's total revenue, indicating an ongoing transition in this direction.

KEY METRICS

	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Revenue	231.1	247.2	265.8	286.0	308.5	332.7	358.9
uEBITDA	74.5	80.1	88.9	95.2	99.8	107.6	115.7
uNPAT	55.0	58.6	63.3	66.9	68.7	73.2	78.0
Net Profit Margin	24%	24%	24%	23%	22%	22%	22%
EBITDA Margin	32%	32%	33%	33%	32%	32%	32%
uEPS (cps)	7.8	8.1	8.7	9.2	9.5	10.1	10.8
DPS (cps)	2.8	3.0	3.2	3.4	3.6	3.8	4.0

BUSINESS DESCRIPTION

OCA has established a strong presence in the healthcare sector of New Zealand. The company operates in 48 strategically chosen locations across eight different cities, with a primary focus on Auckland, and serves almost 4,000 residents. In recent times, OCA has made significant investments to shift from traditional aged care to premium care and retirement villages. This strategic move aligns with long-term demographic trends, such as a growing aging population and higher life expectancy.

Business Model

The company conducts its operations primarily through two main segments: Aged Care Services, which includes services like rest home, hospital, and dementia care; and Retirement Villages, which provides a range of living options tailored to the specific requirements and preferences of its residents. Notably, care suites are becoming a growing component of OCA's portfolio (**Figure 7).**

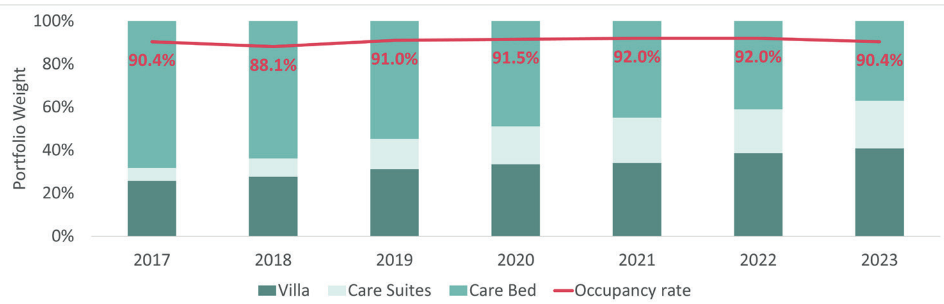


Figure 7: OCA portfolio weight
Source: Company data

Village revenue drivers:

1) Occupancy Rate: OCA has consistently maintained an average occupancy rate of 92% over the past 5 years. This figure is lower when compared to its peers, as they have achieved a 95% occupancy rate during the same period.

2) Deferred Management Fees (DMF) and Fixed Weekly Fees: OCA collects 30% of the Occupation Right Agreement (ORA) as Deferred Management Fees (DMF) and records this income in the third year after a resident has moved in. In addition to DMF, OCA charges a fixed weekly fee.

3) Profit from Unit Resales and Development: Another significant revenue source for OCA is derived from the resale of units and the profit generated during the development phase. The margin achieved during the development process and subsequent unit resales significantly contribute to the financial performance of OCA's retirement village segment.

Aged care revenue drivers:

1) Weekly Charges Involving Resident Contributions and DHB Subsidies: A key aspect of generating revenue in the aged care sector is the weekly charges imposed on residents. These charges encompass contributions made by residents themselves as well as subsidies granted by District Health Boards (DHBs). Generally, these fees are subject to maximum limits for resident contributions, which are determined in

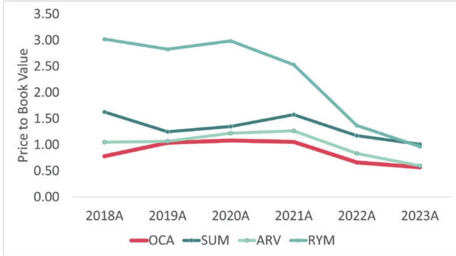


Figure 5: OCA & Peers Price to Book
Source: Company data

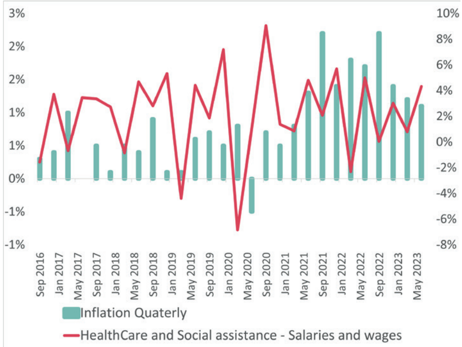


Figure 6: Quarterly Inflation v/s Healthcare sector % age wage change
Source: Government data, Team consensus

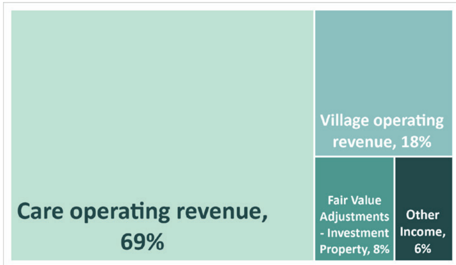


Figure 8: FY23 Total Income Structure
Source: Company data

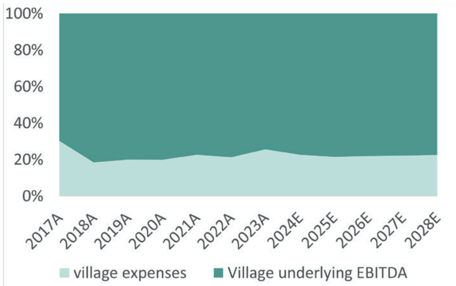


Figure9: Village segment uEBITDA & Expenses %
Source: Company data, Team consensus

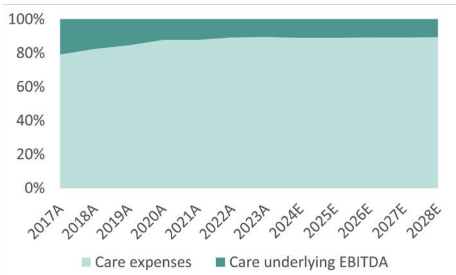


Figure 10: Care segment uEBITDA & Expenses %
Source: Company data, Team consensus

accordance with regulations established by the Ministry of Health.

2) Premium Accommodation Charges (PAC) and DMF from Care Suites: Revenue within this segment is further bolstered by Premium Accommodation Charges (PAC) and Deferred Management Fees (DMF) derived from the occupancy of care suites.

INDUSTRY OVERVIEW

In this section, we will introduce OCA's engagement in two separate industries: aged care and retirement villages. We will address the aged care sector separately due to its unique regulatory environment, demand for medical services, and distinct revenue sources.

Retirement Village

Increase in the Aging Population: The growing population of individuals aged 75 and older presents a significant target audience for retirement village communities, and this demographic has been steadily expanding. From 2018 to 2021, there was a 12.27% rise in this age group, indicating a rising demand for retirement villages. This trend is expected to persist as the baby boomer generation enters the 75+ age category. Projections anticipate a substantial increase from 345,000 in 2011 to 832,000 in the coming years, as shown in **Figure 11**. This demographic shift consistently fuels the demand for retirement villages. However, unlike companies like Tesla, Google, or Facebook, which operate in markets with demand that is difficult to quantify, Oceania Healthcare's (OCA) growth is closely tied to quantifiable demand linked to the aging population, without unquantifiable demand factors in its business model.

High Penetration Rate:: The penetration rate in New Zealand stands at 14.3% in 2022. Combining the forecast of population growth and the New Zealand healthcare penetration rate, the population village retirement for OCA will be 79.4k residents by 2033 and continue to increase to 116.6k in 2048. With the assumption of 1:1 for the OCA's residents-to-units remain for the future, it is estimates that OCA will have 79.4k additional units in 2033 and 116.6k in 2048.

"The Big Six": There are several providers operating retirement villages independently throughout the country. Despite OCA holding only an 8.4% market share, the company offers a range of retirement village options, including standard and luxury facilities. This positions OCA as one of the significant players in the industry, as depicted in **Figure 12.**

Special Interest-Free Funding Mechanism: OCA operates with a diverse business model that involves property sales, the establishment of Occupation Right Agreements (ORA) with new residents, and the collection of Deferred Management Fees (DMF), which aids in capital recovery. A noteworthy feature of this model is the obligation for OCA to refund residents their ORA when they choose to leave their units. What makes this arrangement intriguing is that it grants OCA access to interest-free funding. The longer a resident decides to stay in the retirement village, the more OCA can utilize these funds, thereby improving their capital efficiency.

Sales and Real Estate Market: There is a noticeable delay in the connection between the sale prices of retirement villages and the ongoing trends in the housing market. OCA has clearly maintained a consistently upward trend in its sale prices, as depicted in **Figure 13**. The unique nature of the retirement village sector emphasizes the importance of price stability. Companies in this industry intentionally avoid sudden and drastic changes in their pricing strategies, as they understand the need to find a balanced approach. The goal is to attract new residents while also protecting the interests of existing ones.

Aged Care

Aged care services primarily focus on providing medical care to meet the essential needs of residents, rather than catering to optional preferences. The aged care sector operates across four levels of care: rest homes, dementia care, hospitals, and psycho-geriatric care. This government funding extends to a significant portion, a substantial 63% of long-term aged care residents, totalling 40,941 individuals benefiting from these subsidies. Conversely, only 37% for self-funded patients **(Figure 15.1).**

Shortage of Nurses: In recent years, there has been a growing shortage of nurses, and competing companies have been offering substantial pay increases to attract them. This has led to an increase in operating expenses in the aged care industry, as illustrated in **Figure 9.** These operating costs are expected to continue rising, especially

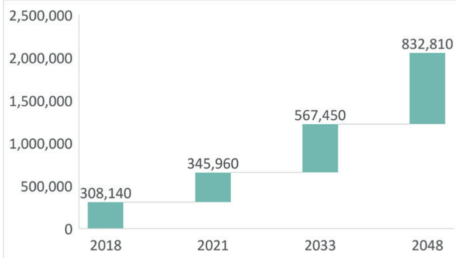


Figure 11: 75+population in 2021 and forecast to 2033, 248
Source: JIL report

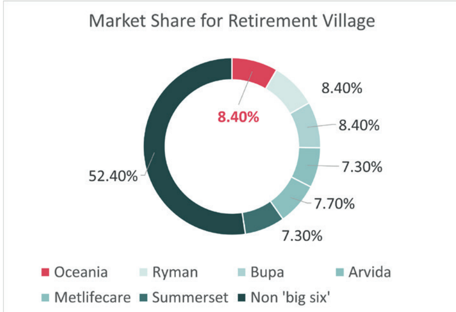


Figure 12: Market Share for Retirement Village
Source: JIL report

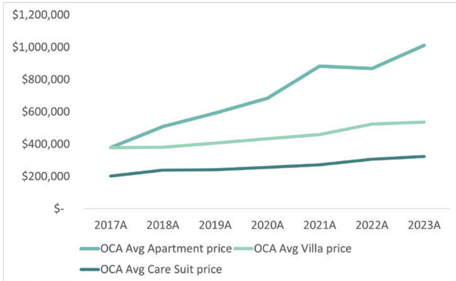


Figure 13: OCA average sales price 2017-2023
Source: Company data

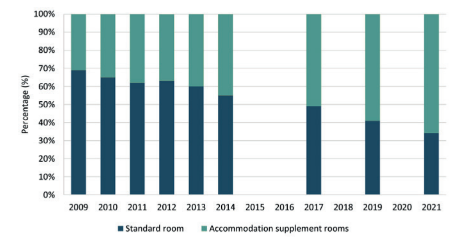


Figure 14: Proportion of rooms with accommodation supplements to standard rooms, 2009 to 2021
Source: NZACA

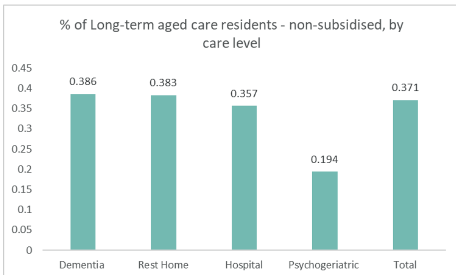


Figure 15.1: %of Long-term aged care residents

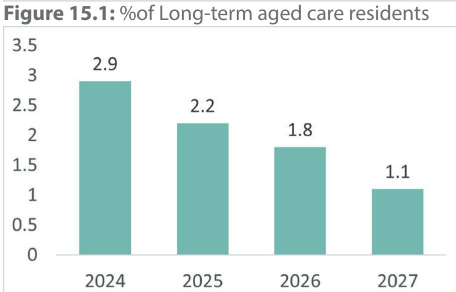


Figure 15.2: Net Capex healthcare sector forecast
Source: NZACA

in the aftermath of the nurse strike that occurred on September 5, 2023. Consequently, it is anticipated that government funding may not be sufficient to cover the escalating costs, which could exert downward pressure on profit margins.

Premium Services: In the varied aged care industry, many providers, including prominent ones like the 'Big 6,' are active in the region. To set themselves apart, these providers frequently provide premium services like the Premium Accommodation Charge (PAC). These services are designed to meet the needs of individuals who are willing to pay extra for added convenience and comfort, as illustrated in **Figure 14.**

Uncertainty Regarding Subsidies: The lack of clarity in subsidy policies in New Zealand's healthcare sector is posing difficulties for the aged care industry. Despite the government's announcement of a modest 1.2 percent increase in annual funding for the industry, it falls short of addressing the current inflation rate of 6%. Moreover, there is uncertainty surrounding the government's intention to reduce net capital expenditure in the healthcare sector for the upcoming years, as depicted in **Figure 15.2.**

COMPETITIVE POSITION

Luxurious Retirement Living in Prime Spots: OCA's presence in seven retirement villages located in various prime locations offers a significant edge over its competitors, as indicated in **Appendix 1.6.** This advantage enables OCA to establish and offer highly luxurious retirement village settings, often situated in picturesque surroundings.

Impressive Development Profit Margin: OCA's outstanding development profit margin of 33%, especially when compared to its industry peers **(Figure 16),** underscores its dedication to expanding and improving its services to meet the needs of its residents. This sets OCA apart as a significant player in the retirement village sector, given that OCA, along with Ryman and Bupa, collectively holds the largest market share for retirement villages. This market share is even greater than that of Arvida, which is considered a benchmark for OCA due to their similar market share in the broader healthcare industry (**Figure 12**).

Effective Talent Recruitment Strategy: In the labor-intensive aged care sector in New Zealand, Oceania Healthcare has strategically developed a comprehensive talent acquisition approach to address labor shortages. The company's Wesley Institute of Nursing Education plays a dual role by assisting in the registration of internationally qualified nurses in New Zealand and providing a re-entry program for local nurses. To further strengthen its workforce, Oceania has forged governmental partnerships with India and the Philippines, allowing for the recruitment of foreign nursing professionals who undergo six weeks of training at the Wesley Institute before participating in internships at Oceania's facilities.

FINANCIAL ANALYSIS

Profitability

Village DMF Performance: During the fiscal year under consideration, Oceania Healthcare (OCA) has achieved $247 million in revenue, reflecting a 7% YoY growth rate. However, upon examining **Figure 21**, a decreasing trend in new sales volume becomes evident. This decline is also reflected in OCA's recent years' Deferred Management Fee (DMF) figures **(Figure 24)**, where the YoY growth rate dropped from 29% in FY21 to 17.8% this year, largely due to the sensitivity of these figures to fluctuations in the housing market. While the average village revenue contributes less than 20% to the total revenue, it maintains a significantly higher EBITDA margin (34% of total revenue in FY23) compared to the care segment (8%) **(Figure 17).** The village segment contributed $83 million in EBITDA to the overall EBITDA of $80 million. It's worth noting that despite the strong profit margins generated by the village segment, OCA maintains a notable emphasis on its aged care offerings, specifically care suites, comprising 59% of its total units, distinguishing it from industry peers.

Profit Margin Challenges in Aged Care: OCA's aged care segment is facing profit margin challenges primarily due to rising expenses. In recent years, expenses have been increasing at a faster rate than revenue, prompting the need for a thorough assessment of cost management strategies. Premium revenue generated from care suites, including Premium Accommodation Charges (PAC) and care suite Deferred Management Fees (DMF), contributed $20.4 million, accounting for 10% of the aged care segment's revenue in FY23. The outlook for new care suites, such as The Helier,

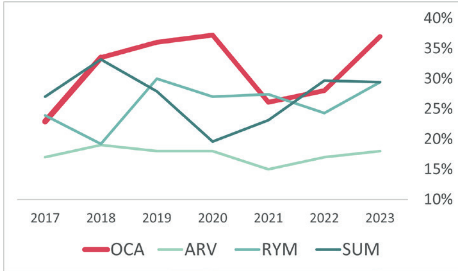


Figure16: Development Margin (%) peers comparison
Source: Company data

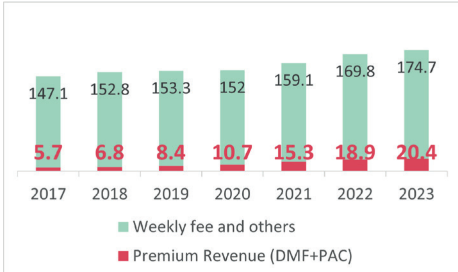


Figure 17: OCA Care revenue breakdown 2017-2023
Source: Company data

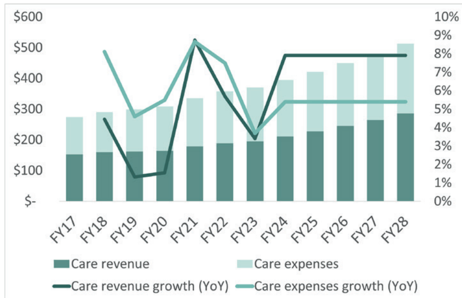


Figure 18: OCA care segment revenue & expenses
Source: Company data, Team consensus

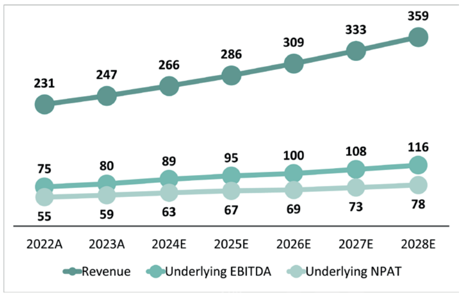


Figure 19: OCA revenue forecast
Source: Company data, Team consensus

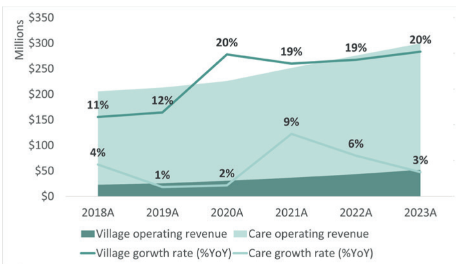


Figure 20: OCA village, care revenue growth (% YoY)
Source: Company data

anticipates a more robust revenue growth trajectory of 8% year-over-year over the next five years, surpassing the pace of growth in care expenses, as illustrated in Figure 18.

NPAT Growth: OCA has shown a 6-year Compound Annual Growth Rate (CAGR) for underlying Net Profit After Tax (uNPAT) of 1.99%, a figure that significantly trails behind the 6-year CAGR for total assets, which is an impressive 16%. This disparity highlights the challenges OCA faces in achieving a robust Return on Assets (ROA). The stagnant NPAT figures observed in recent years **(Figure 19)** are attributed to OCA's substantial investments in brownfield projects. However, our outlook anticipates more substantial growth as OCA's delayed pipeline projects, affected by the impact of COVID-19, commence operations and yield higher-margin returns. Our projections suggest an expected average annual growth rate of 8% in EBITDA, which aligns with the growth rate experienced in FY23. We anticipate that the strong demand for OCA's aged care offerings and its prime location sites will drive revenue growth, particularly since approximately 60% of its portfolio is dedicated to the care segment. However, the retirement village segment is expected to exhibit softer earnings over the next five years, partially offsetting the revenue increase **(Figure 20)**. This projection of an 8% revenue growth rate YoY slightly lags behind the forecasted growth rate of total assets, estimated at 10% year-over-year over the next five years. This is due to our expectations of a subdued housing market, which may result in delays in residents' move-in times as they await a favorable housing price rebound.

Fluctuations in Resale and Development Margins: The ongoing decline in resale margins **(Figure 22**) and the significant drop in new sales volume **(Figure 21)** have raised concerns, especially in the context of both the housing market and OCA's operational performance. Fortunately, there is some positive news in the form of this year's development margin, which has rebounded to 37%, returning to pre-COVID-19 levels. This improvement can be attributed to a slowdown in the Cordell Construction Cost Index (CCCI) percentage change, as reported by CoreLogic. The CCCI decreased from 2.4% in March 2022 to 0.6% in June of the current year. Figure 23 underscores the strong negative correlation between OCA's development margin and the Cordell Construction Cost Index (CCCI), highlighting the significant impact of fluctuations in construction costs on OCA's development margin.

Solvency

Cash Generation vs. Total Asset Growth: Oceania Healthcare (OCA) encountered significant challenges in its operating cash flow, experiencing a worrying 33.5% decline compared to FY22 levels. This decline was primarily due to prolonged periods for property sales in the current housing market and disruptions caused by adverse weather conditions in FY23. **Figure 25** illustrates an ongoing trend where investing cash flow consistently exceeds operating cash flow over the past seven years. Notably, in FY23, this gap was particularly pronounced, with investing cash flow surpassing operating cash flow by $149 million – an amount equivalent to 2.55 times the underlying Net Profit After Tax (uNPAT) for the same fiscal year. This performance metric underscores OCA's comparatively higher cash requirements for its investment activities compared to industry peers, as evidenced by an ARV (Asset Replacement Value) ratio of 1.7, while competitors like RYM and SUM have ratios below 1.

Management's Emphasis on Capital Management: In recent communications, OCA's management has emphasized their commitment to prioritize strategies for managing the balance sheet and debt. However, our analysis indicates an anticipated increase in the company's debt levels over the next five years. In FY23, OCA witnessed a substantial year-on-year growth of 22% in total debt, primarily due to obtaining a $500 million bank loan with a variable interest rate ranging from 4.05% to 7.52%. (OCA expanded its total debt facility limits from $350 million to $500 million for a five-year tenure). Looking ahead, we predict a growing rate of growth in total debt levels, reaching 27% by FY28 **(Figure 26)**. Several factors contribute to this projection: 1) Discrepancy in Growth Rates: Our projections suggest that OCA's year-over-year growth in underlying Net Profit After Tax (uNPAT) for the next five years will be lower than the growth rate of total assets. Consequently, OCA will have to explore additional funding sources beyond acquiring new residents' Occupation Right Agreements (ORA). 2) Bond Maturity: OCA has two bonds amounting to $225 million that are set to mature in FY27 and FY28. Due to the extended "days to sell" in the housing market during FY23, resulting in a

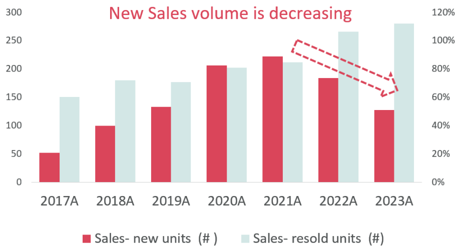


Figure 21: OCA Sales from FY17-FY23
Source: Company data

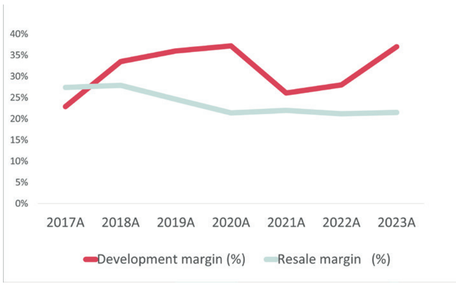


Figure 22: OCA sales margin % from FY17-FY23
Source: Company data

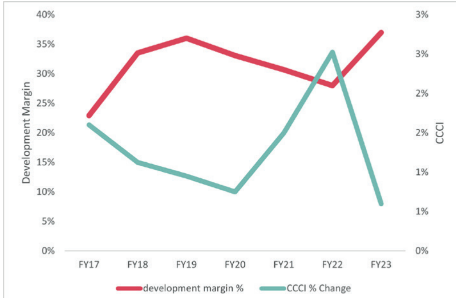


Figure 23: OCA development margin % v/s CCCI% change FY17-FY23
Source: CoreLogic, Company data

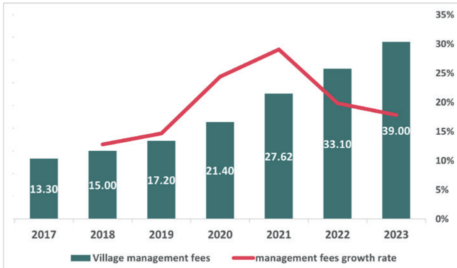


Figure 24: OCA DMF growth (YoY) 2017-2023
Source: Company data

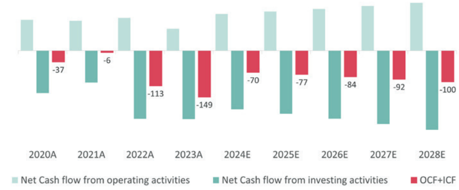


Figure 25: OCA Cash generation
Source: Company data, Team consensus

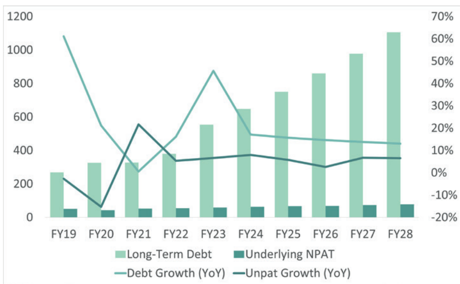


Figure 26: OCA long-term debt, uNPAT growth (% YoY)
Source: Company data, Team consensus

30% reduction in resale volume, we expect this trend to continue, impacting OCA's ability to generate cash. Instead of giving top priority to repaying bonds, our analysis suggests that OCA might choose to extend the maturity of these bonds, which could result in an increase in debt levels prior to the bond maturity dates. Therefore, our projection includes a consistent 8% annual growth rate in net borrowing increments until FY28, with the repayment of borrowed funds constituting approximately 40% of the revenue.

VALUATION

Discounted Cash Flow Model (DCF)

DCF - Base Scenario	2024E	2025E	2026E	2027E	2028E
Net income	63.3	66.9	68.7	73.2	78.0
Depreciation and amortization	10.8	11.6	12.5	13.5	14.6
CapEx	129.9	139.8	150.8	162.6	175.4
ΔWorking Capital	-6.3	12.1	1.4	5.2	-33.4
Net borrowing	70.6	75.9	81.9	88.3	95.3
FCFE	21.1	2.6	10.9	7.3	45.8
PV	19.1	2.2	8.2	5.0	28.4
PV (FCFE & TV)	555.5				
Shares outstanding	724.1				
Share price	0.77				

The target price obtained from our Discounted Cash Flow (DCF) valuation is $0.77, representing the base case scenario. The best-case projection suggests a value of $1.44, while the worst-case scenario indicates $0.34. Additionally, our 12-month forward valuation stands at $0.82, taking into account a forecasted Weighted Average Cost of Capital (WACC) of 6.3%. In our DCF model, we extended our forecast horizon to cover five years, concluding in FY28, and assumed a terminal growth rate of 4%, which aligns with industry average trends and was used to estimate free cash flow to equity **(as detailed in Appendix 4.1).**

Sensitivity Analysis

The DCF valuation model focuses on two crucial elements: the Cost of Equity and Terminal Growth Rate (TGR). In this model, only the cost of equity is considered for discounting, representing the specific expectations of equity holders' returns, simplifying the valuation process. Through a two-way analysis, we examine both factors and their impact on OCA's share price. The cost of equity and growth rate were adjusted by +/- 10% from their previous percentages to evaluate how these variations affect the share price **(Figure 27).** This analysis demonstrates that a 10% change in both key drivers results in more than a 10% change in the share price, emphasizing their significant sensitivity

Given that Net Income has a substantial influence on the overall share price picture, a sensitivity analysis is conducted by combining the **Net Income** with the **Cost of Equity**. Using the same parameter adjustment for net income, the analysis shows that a 10% shift in both key drivers also results in more than a 10% change in share price, signifying the material sensitivity of these drivers. Despite the significant influence of all the key drivers on the share price in the sensitivity analysis, the probability that the share price will be higher than 0.84 (for buy recommendation) or lower than 0.69 (for sell recommendation) is 40%. Leaving the share price between 0.69 and 0.84 (for a hold recommendation) is 20%. Thus, the 'hold recommendation' is reaffirmed.

Scenario Analysis

Bull/ Bear FCFE DCF: We conduct a DCF scenario analysis by altering various conditions in our assumption **(Figure 28**). In the bull case, the implied share price is $1.44, which indicates an 87% upside relative to the current share price. In the bear case, the suggested share price is $0.36, which means we suggest 55.8% downside close to the current share price.

Monte Carlo Simulation: We conduct a Monte Carlo simulation with ten thousand iterations, simultaneously adjusting all the key drivers in the DCF model **(Appendix 4.4).** The objective is to determine how variations in expected returns and earnings impact the trajectory of OCA's share price. **Figures 29 and 30** present summary statistics and distributions for the current implied share price resulting from this simulation. It suggests that there is a 55.4% likelihood of the share price being above $0.77, while there is a 44.6% likelihood of the share price being below $0.77.

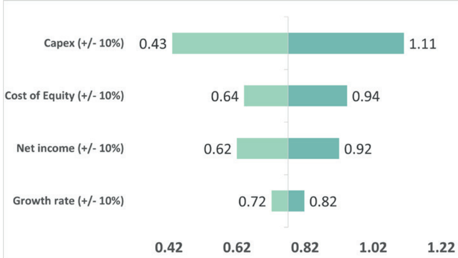


Figure 27: Share Price Sensitivity
Source: Team consensus

Variable	Value
Risk-Free rate	2.4%
Beta	1.5
Market Risk Premium	5
Cost of Equity	10.0%
Cost of Debt	3.6%
Tax Rate	28%
Terminal growth rate	4
WACC	6.3%

FCFE DCF	Bear	Base	Bull
Gross Margin (Average)	22%	29%	30%
Changes in Working Capital	-167%	-212%	-167%
FCFE CAGR	-28%	181%	50%
Share Price	0.4	0.8	1.4
Up/ Downslide	-53.2%	0.0%	87.0%

Figure 28: FCFE DCF scenario analysis
Source: Team consensus

Summary stats of Monte Carlo simulation	
Minimum	0.26
Maximum	2.678
Mean	0.829
Std Dev	0.234
Variance	0.055
Skewness	1.314
Iteration	10000
Likelihood of Share Price <0.7	0.446
Likelihood of Share Price >0.7	0.554

Figure 29: Monte Carlo Summary Table
Source: Company data, Team consensus

Variable	Distribution	Std Dev
FY 28		
NPAT ($000)	Normal	$8.18
FY28		
Cost of Equity	Normal	0.82%

Figure 30: Monte Carlo Summary Table
Source: Company data, Team consensus

Dividend Discount Model (DDM)

DDM	2023	2024(F)	2025(F)	2026(F)	2027(F)	2028(F)	Terminal Value
Dividend Paid	21.8	23.1	24.4	25.8	27.2	28.8	
Dividend Payout Ratio	0.4	0.4	0.4	0.4	0.4	0.4	
Shares Outstanding	724.1	724.1	724.1	724.1	724.1	724.1	
Dividend/ Share	0.0	0.0	0.0	0.0	0.0	0.0	
YoY growth		5.7%	5.7%	5.7%	5.7%	5.7%	1.0
Cost of Equity		10.0%					
PV of DPS & Terminal Value		0.029	0.028	0.027	0.026	0.025	0.605
Implied Share Price		0.7					
Long-term growth rate		5.7%					

BASE CASE SCENARIO	2018	2019	2020	2021	2022	2023
Dividend paid (cps)	12.5	28.4	22.2	6.3	19.4	21.8
%age change in dividend paid		128%	-22%	-72%	208%	12%

The DDM is highly relevant to OCA as dividends are crucial due to the sector's stable cash flows that attract investors to invest in the company. Management's intent to reduce the dividend payout ratio to between 30% to 50% to reinvest in the CAPEX. We forecast OCA will retain the growth for its dividend per share to be 5.7% over the next years. By retaining a cost of equity of 10.01% in the forecast and terminal periods respectively, we obtain an implied share price of $0.74, strengthening our 'Hold' recommendation **(Appendix 4.3).**

Upon reviewing OCA's historical dividend payments, a consistent trend emerges. However, it's essential to highlight the OCA's ambitious plans for future growth and acquisitions. Our peer analysis **(Appendix 2.2)** illustrates how OCA's peers have expanded their asset portfolios over recent years, and we anticipate OCA to follow suit. Furthermore, our industry analysis points to promising demand projections with a supply-side still in development. OCA has consistently generated revenue from its aged care business and seeks to enhance its operations in both aged care and retirement villages through future asset acquisitions and expansion initiatives. Given these considerations, our DDM model incorporates a moderate dividend growth rate.

Relative Valuation

In our five-year projection, OCA's Return on Equity (ROE) is anticipated to dip below the estimated Weighted Average Cost of Capital (WACC) of 6.3%, while Return on Invested Capital (ROIC) is expected to slightly surpass this cost rate. As shown in the table below, OCA consistently achieves lower pre-tax ROE and operating margins compared to its peers in recent years **(Appendix 3.3).** The forecast also indicates that OCA's total assets will expand at a faster rate than its revenue, leading to a declining ROE over the next five years. The high capital expenditure (shown in table below) as a percentage of total revenue raises concerns about OCA's ability to generate cash.

	2023A	2024E	2025E	2026E	2027E	2028E
ROE (%)	6.1%	6.2%	6.0%	5.7%	5.6%	5.5%
ROIC (%)	7.2%	7.5%	7.6%	7.6%	7.7%	7.8%
EV/EBITDA (x)	16	15	15	16	16	16
EV/EBIT (x)	18	17	18	18	18	18
P/E (x)	9.4	8.5	8.6	8.8	8.7	8.6
Capex to total revenue (%)	42%	49%	49%	49%	49%	49%

ENVIRONMENTAL, SOCIAL & GOVERNANCE

Environmental

In FY2023, OCA was heavily involved in the construction sector, completing 233 units and care suites while having an additional 409 in progress. This level of activity naturally leads to a significant amount of waste and carbon emissions. In FY 2023, Oceania underwent a significant overhaul of its sustainability framework. The company conducted a comprehensive assessment of its most significant impacts by

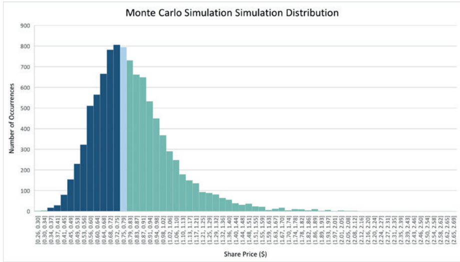


Figure 31: Monte Carlo Distribution Histogram
Source: Team consensus

Dividend Discount Model - Base Case	
Terminal Value of Dividends (NZDm)	1.0
PV Terminal Value (NZDm)	0.6
Sum of PV Forecasted Dividends	0.1
Cost of Equity	10.0%
Implied Share Price	0.7

Figure 32: Dividend Discount Model - Base Case
Source: Team consensus

	OCA
ESG Score	40
Resource Use	4.96
Emissions	26.84
Env. Innovation	0
Workforce	49.76
Human Right	0
Community	22.36
Product Responsibility	28
Management	74.59
Shareholders	99.18
CSR Strategy	0

Figure 33: OCA's ESG score
Source: Refinitiv

GHG tCO2 e	2023	2022
Scope 1 Emissions	1965	1952
Scope 2 Emissions	1834	1826
Scope 3 Emissions	38477	49752

Figure 34: GHG Emission scope
Source: Company data, Team consensus, Financial Markets Authority

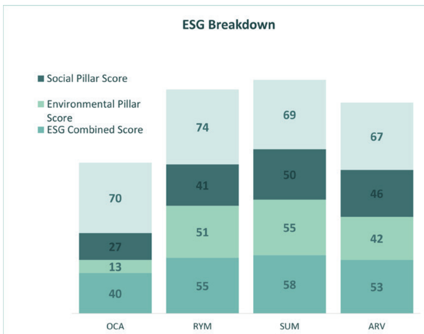


Figure 35: ESG breakdown peer comparison
Source: Refinitiv, Company data

aligning with the latest Global Reporting Initiatives (GRI) guidelines. Concurrently, Oceania revamped its sustainability framework from 2023 to 2030. The primary aim of this sustainability framework is to create lasting value for its stakeholders while also preserving the environment for future generations. Oceania has adopted an adaptable approach within this framework, leveraging practices related to its supply chain, forming strategic partnerships and collaborations, harnessing technology and innovation, adopting a data-driven approach, strengthening risk management procedures, enhancing sustainability capabilities, advocating for responsible practices, and refining its policies and processes.

Emission score: In FY2023, OCA took a significant step in its commitment to reducing greenhouse gas (GHG) emissions **(Figure 34).** It aligned its objectives with the Science Based Targets initiative (SBTi) to establish well-founded emission reduction targets. The company reported a notable 26.06% decrease in total GHG emissions compared to FY2022, with this reduction primarily attributed to the decrease in scope 3 emissions, which are generated indirectly through the company's value chain. **(Details in Appendix 2.3)**

Green agreement on construction: OCA has shown an emerging dedication to sustainability, particularly by linking Environmental, Social, and Governance (ESG) targets to its $500 million bank loan. The achievement of these targets has the potential to impact the terms and conditions of the loan.

Social

OCA's performance in the social aspect reveals significant areas that require improvement, especially in terms of establishing a comprehensive workforce policy. One notable deficiency is the absence of a flexible working hours policy, a standard practice among its peers. This gap is particularly concerning, given OCA's emphasis on "People Capability" as a major strategic pillar. Over the past five years, OCA has encountered challenges in maintaining positive net employment growth, with two instances of negative growth. Additionally, OCA's less-than-optimal transparency in reporting injury and accident metrics further affects its performance in the social aspect.

Furthermore, OCA's reporting regarding safety metrics, including injury and accident disclosures, falls short of satisfactory standards, resulting in a lower score in this aspect.

Governance

In the realm of governance, OCA follows a well-organized approach, boasting a Board characterized by a high level of independence and a diverse composition in terms of gender and expertise. The Chair of the Board is elected on an annual basis, ensuring dynamic leadership that can adjust to the changing requirements and objectives of the company. The Board holds at least nine meetings in a financial year, fostering consistent oversight and strategic deliberations to guide the company effectively.

Board of Directors: (Appendix 1.4) All OCA's board members serve in non-executive roles. The board has gender balance, with women representing 42.3% of its composition, demonstrating a consistent commitment to gender inclusivity over the years. OCA's has a board enriched with exceptional expertise and a variety of perspectives.

Executive Leadership: In terms of senior management, OCA has executive leadership with diverse background and gender diversity. **(Appendix 1.4)**.

Compensation: In FY2023, OCA had a notably high compensation structure for its Non-Executive Directors, with CEO Robert Pattinson receiving a total payout of $1,145,529 in FY2023, positioning OCA at the upper end of the scale compared to its peers. Board remuneration remains competitive, averaging $124,568, it places OCA as the second-highest payer among its primary competitors. However, we commend OCA's approach to executive management compensation, which is designed to strike a balance that incentivizes both short and long-term performance objectives. This dual-pronged strategy only aligns with the company's broader goals as well with industry standards.

Policies: OCA has implemented strong policies aimed at promoting ethical governance and ensuring transparency in its activities. One of these policies is the "Trade in Company Security Policy," which outlines specific timeframes following the disclosure of full-year and half-year results to the NZX and ASX. During these periods, directors and employees are allowed to trade OCA's shares, effectively limiting such transactions to a 60-day window to prevent insider trading. OCA has policy that fosters a culture

Principle	Standards met
Ethical Standards	
Directors are expected to both adhere to and promote elevated ethical standards	Yes
Board composition and performance	
Board should have balance of skills, knowledge, experience, independence and perspectives.	Yes
Board Committees	
Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility	Yes
Reporting and disclosure	
Integrity in financial and non financial reporting, and in the timeliness and balance of corporate disclosures.	Yes
Remuneration	
The remuneration of directors and executives should be transparent, fair and reasonable	Yes
Risk Management	
Directors are expected to possess a robust comprehension of the key risks encountered by the business and consistently ensure that suitable procedures are in place for identification and management of these risks	Yes
Auditors	
The board should ensure the quality and independence of external audit process.	Yes
Shareholders' Relations and stakeholders interest	
The board should respect the right of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity	Yes

Figure 36: Financial Markets Authority government handbook
Source: Company data, Team consensus, Financial Markets Authority

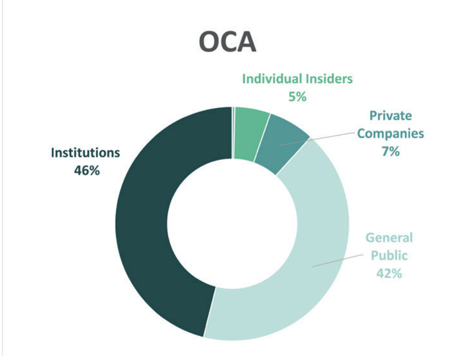


Figure 37: OCA ownership breakdown
Source: Simply Wall Street

of accountability and integrity. These initiatives highlight OCA's dedication to ethical trading practices and the promotion of a transparent operational environment.

We evaluated Oceania's corporate governance structure based on industry parameters. When it comes to the shareholding structure, OCA has allocated 0.4% of its shares, to its Employee Shares Scheme (ESS). Individual insiders hold a 5% share in the company **(Appendix 1.1)**. Private companies have a 6.4% share in OCA. The general public holds 42.2% of the company's shares while institutions possess 46% of the shares **(Figure 37)**. ESS shareholdings are subject to a lock-in period of 3 years on a pro-rata basis for employees. The insiders' significant 5% share ownership in the company demonstrates their alignment of interest with the company's business. Over the past year, insiders have purchased OCA shares, and there have also been block deals by institutions, as indicated in the attached table. It's worth noting that OCA does not have any family founders or government stakes in its shareholding structure.

In the board of directors, Oceania has three female and four male independent directors. The average tenure of the board members is approximately 5.4 years, with Elizabeth Coutts serving as the Chair of the Board since 2014. The board convenes for nine meetings annually, with an overall attendance rate of 90%. All seven directors on the board are considered independent. These board members also hold positions outside of OCA and can be considered moderately busy. Notably, Oceania lacks two important corporate governance committees, namely the remuneration committee and the nomination committee. The CEO of OCA has been in the role for four years, and it's earnings have shown a significant increase from 2019 to 2023 **(Figure 38, Appendix 1.5).**

INVESTMENT RISK

Operating Risk

OR1: Excessive Focus on Aged Care Segment: OCA has strategically positioned itself as a dominant player in the aged care sector since its IPO, and this focus intensified in 2020, thanks to government support during the COVID-19 pandemic. This approach ensured a consistent cash flow, taking advantage of allowances like the level 4 alert operational continuity and wage subsidies. However, as the pandemic's effects subside, the fundamental issue of the aged care sector's low profitability becomes apparent, with a median EBITDA margin of only 11.3% since 2016, in stark contrast to the independent living unit (ILU) sector's healthier median margin of 31.2%. Despite its efforts to increase its stake in the ILU sector to 41% in FY2023, OCA still lags significantly behind the industry median of 76.3%.

OR2: Sluggish Response to Market Changes: OCA maintains a significant emphasis on the care sector, with a notable 37% of its portfolio dedicated to care beds **(Figure 38).** This figure stands out, particularly when compared to its closest competitor, ARV, which holds a 27% stake. However, this strategy has raised concerns about OCA's ability to adapt quickly to evolving market dynamics. **Impact**: The company's cautious approach to portfolio transformation, marked by a high retention of care beds and a moderate increase in ILU stakes projected for 2030, could potentially limit OCA's growth in profitability margins, especially in comparison to industry trends that favor a higher allocation to independent living units (ILUs).

OR3: Exposure to Extreme Weather Events: In early 2023, OCA encountered significant disruptions due to unprecedented weather events in the North Island, particularly affecting operations in January and February. While five sites in the Hawkes Bay region sustained limited physical damage, the overall environment was severely compromised, leading to serious concerns regarding the well-being of the residents **(Figure 40 & 41)**. **Impact**: The adverse weather conditions not only increased the complexity of rescue operations due to the mobility challenges faced by the elderly but also raised worries about potential adverse effects on residents' well-being. These events highlighted the vulnerability of OCA's operations to extreme weather events, emphasizing the need for proactive risk management.

Market Risk

MR1: Property Market Uncertainty: The Monetary Policy Committee's decision in August to maintain the OCR at 5.50% is aimed at bringing annual consumer price inflation back within the 1 to 3% target range **(Figure 42).** However, the property market has exhibited a notable sensitivity to OCR fluctuations. Since 2021, as the OCR has steadily risen, there has been a noticeable contraction in median housing prices.

	Mar-21	Mar-22	Mar-23
Company Earnings	175.4	193.7	187.0
Total CEO Compensation Earned	0.6	1.2	1.1

Figure 38: OCA CEO compensation earned
Source: Company data

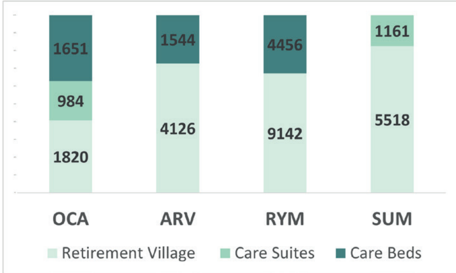


Figure 39: Peer portfolio comparison
Source: Company data

Figure 40: Cyclone Gabrielle Impact
Source: Stuff

Figure 41: Auckland Flooding
Source: Stuff

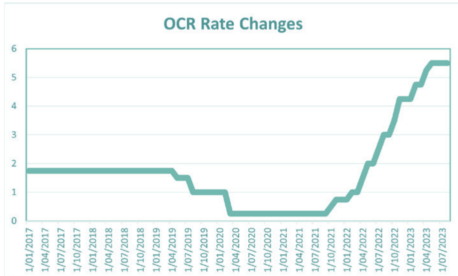


Figure 42: OCR rate changes 2017-2023
Source: RBNZ

Figure 43: Labour cost index 2017-2023
Source: Stats NZ

This decline in housing prices, along with prolonged days on the market for property sales, has reduced residents' enthusiasm for purchasing ORA. Many potential residents prefer to sell their homes and have more liquidity before transitioning to retirement villages. **Impact**: The property market's performance could potentially affect the profitability and attractiveness of ILU offerings. A prolonged slump in housing prices could discourage potential residents, impacting OCA's revenue streams. Recent trends indicate a slight rebound in median housing prices. Additionally, the retirement village industry typically experiences a lag in response to broader property market fluctuations, providing some insulation against immediate impacts. As OCA continues to integrate care with village offerings, the decision to move to a retirement village is increasingly seen as a 'need' rather than a lifestyle choice. This shift in perception reduces the elasticity of demand.

MK2: Escalating Labor Costs and Workforce Shortage: Since OCA's IPO in 2017, New Zealand has witnessed a substantial 44% increase in the minimum wage **(Figure 43).** However, New Zealand nurses' wages still lag behind global standards, resulting in a significant migration of healthcare professionals to Australia. **Impact**: OCA, which maintains a substantial care portfolio, has the industry's highest employee-to-resident ratio at 0.75:1, significantly exceeding its closest competitor, ARV, with a ratio of 0.43:1. This situation has resulted in nearly 60% of total expenses being allocated to employee benefits and costs, placing downward pressure on OCA's EBIT margin. The challenge intensifies as reducing wages to control expenses could potentially exacerbate labour shortages, leading to operational difficulties and a decline in service quality

MK2: Nurse and Careworkers Labour Market Risk: The shortage of nurses in New Zealand's healthcare industry is a pressing concern requiring immediate attention. Despite a decreasing nurse-to-population ratio **(Figures 46)**, it remains alarmingly low when compared other development countries. Adding to the challenge, around 5000 nurses have relocated to Australia since August 2023, attracted by higher salaries. This exodus threatens to exacerbate the healthcare staffing crisis, potentially evolving into a national issue. Urgent action is needed to implement strategies for nurse retention and recruitment to ensure the stability and effectiveness of our healthcare system.

Company Risk

CR1: Stagnated Growth and Increasing Unsold Inventory (Figure 44): In FY23, OCA experienced minimal growth, with Underlying EBITDA increasing by only 5% to $80 million. When excluding the impact of acquisitions, this translates to approximately 2% organic growth. Impact: OCA faced a decline in several critical metrics, including lower-than-expected new sales and a significant rise in unsold inventory, which nearly doubled to $374 million in the latter part of FY2023. Simultaneously, the company's net debt increased to $554 million, and the debt-to-equity ratio rose by 17% year-over-year, surpassing management's targets. This situation, characterized by a growing backlog of unsold inventory and mounting debt levels, poses a substantial challenge to OCA's financial stability. Mitigation: To address this challenge, OCA must revamp its sales approach to accelerate the sales cycle and reduce the unsold inventory backlog..

CR2: Negative Cash Flow and Prolonged Sales Cycles for New Developments: OCA faces a dual challenge consisting of generating negative free cash flow from its existing assets and experiencing extended sales cycles for its new retirement villages. This issue is evidenced by the two-year duration required for unit sales in the latter part of FY2023. Impact: The combination of negative cash flow and extended sales cycles is placing significant strain on OCA's financial stability, necessitating immediate corrective actions to guide the company towards a more stable and growth-oriented path. OCA's management has initiated a series of remedial measures, including reducing the annual construction rate to a range of 200-250 units, decreasing capital expenditure by strategically focusing on larger land holdings, and revising the dividend payout ratio to a range of 30-50%, with FY23's payout standing at 38%.

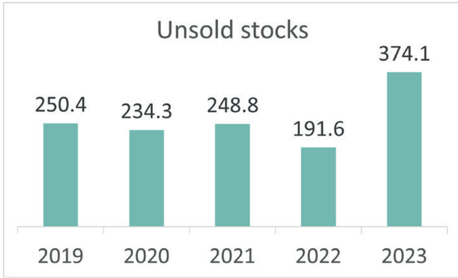


Figure 44: OCA unsold stock 2019-20223
Source: Company data

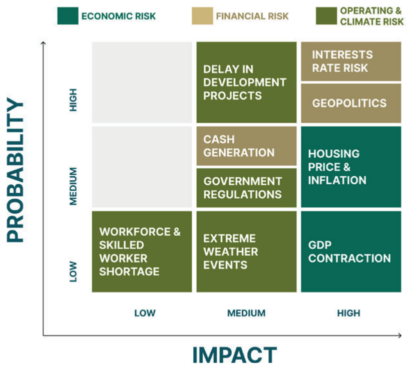


Figure 45: Risk Matrix
Source: Team consensus

	NZ	AUS	USA
Total Population	5,223k	26,473k	339,996k
Registered and enrolled nurses	69,641	450,000	5,200,000
nurse to population ratio	1:75	1: 59	1: 65

Figure 46: Nurse to population ratio
Source:

	2000	2023
Total population	3,858,000	5,223,100
Registered and enrolled nurses	45388	69,641
Nurse to population ratio	1:85	1:75

Figure 47: NZ Nurse to population ratio 2022, 2023
Source:

Note for Sensitivity Analysis (page 6)

Growth Rate (rows: Cost of Equity)

Cost of Equity	Bear	Bear	Base	Bull	Bull
	3.2%	3.6%	4.0%	4.4%	4.8%
8.11%	0.993	1.077	1.177	1.299	1.450
9.01%	0.820	0.877	0.943	1.021	1.113
10.01%	0.682	0.722	0.767	0.818	0.877
11.0%	0.580	0.609	0.641	0.677	0.718
12.1%	0.495	0.516	0.540	0.565	0.594

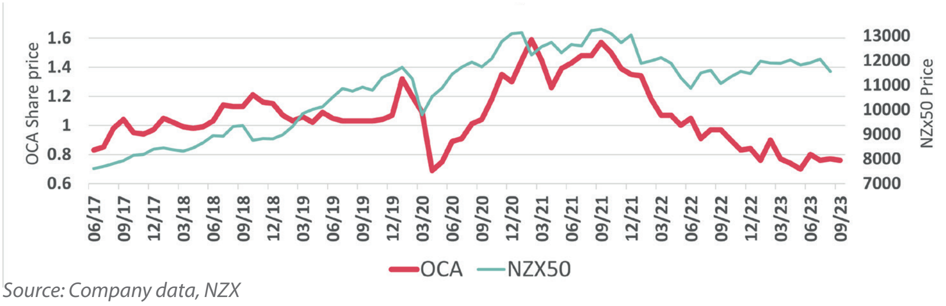
Capex (rows: Cost of Equity)

Cost of Equity	Bull	Bull	Base	Bear	Bear
	-15%	-10%	0%	10%	15%
-15%	1.1	0.9	0.5	0.2	0.0
-10%	1.1	0.1	0.6	0.3	0.1
0%	1.3	1.1	0.8	0.4	0.3
10%	1.4	1.3	0.9	0.6	0.4
15%	1.5	1.3	1	0.7	0.5

APPENDIX

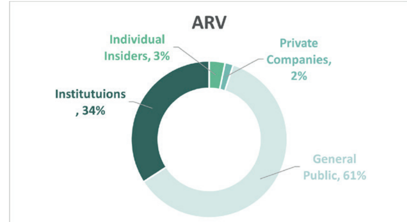
1.1 SHARE PRICE HISTORY & OWNERSHIP

OCA share price history

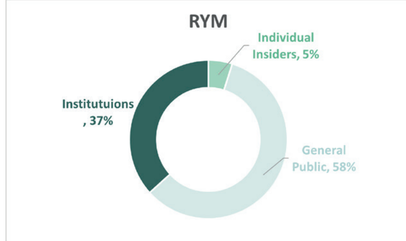


Source: Company data, NZX

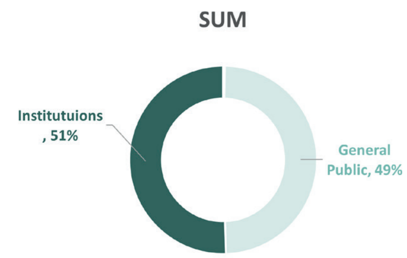
ARV Ownership Breakdown



RYM Ownership Breakdown



SUM Ownership Breakdown



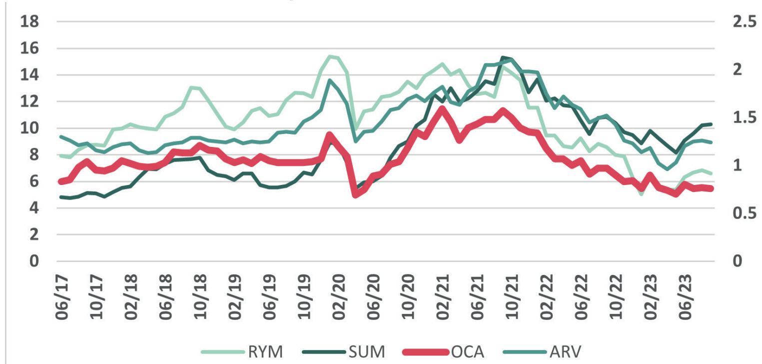
Source: Company data

Peers EPS Comparison

EPS comparison	2017	2018	2019	2020	2021	2022	2023
OCA	12.4	12.7	7.5	-2.2	13.8	8.7	2.2
% Change		2.4%	-40.9%	-129.3%	727.3%	-37.0%	-74.7%
SUM	109.8	97.1	78.6	102.3	238.2	116.7	57.3
% Change		-100.0%	-100.4%	-101.7%	-107.1%	-100.2%	-100.6%
ARV	17	15	14	8	24	32.4	11.4
% Change		-11.8%	-6.7%	-42.9%	200.0%	34.9%	-64.8%
RYM	71.3	77.6	65.2	52.9	84.6	138.6	49.9
% Change		8.8%	-16.0%	-18.9%	59.9%	63.8%	-64.0%

Source: Company data

Peer Share Price comparison



Source: NZX

Insiders' and institutions' transactions over the previous year

	Shares Bought	Shares Sold	Deal Value (NZD)	Max Price
Forsyth Barr Investment Management Limited	2,632,790		2,001,241	0.8
Forsyth Barr Investment Management Limited		1,305K	1,305,796	0.8
BlackRock, Inc	4,217,146		3,535,615	0.8
Anz New Zealand Investments Limited	24,366,148			0.1
Anz New Zealand Investments Limited		6,059K	8,088,921	1.1
Eizabeth Coutts	85,000		6,4900	0.8
Sally Evans	60,000		47,400	0.8
BlackRock, Inc		296,204	219,064	0.8

Source: Company data

1.2 SWOT

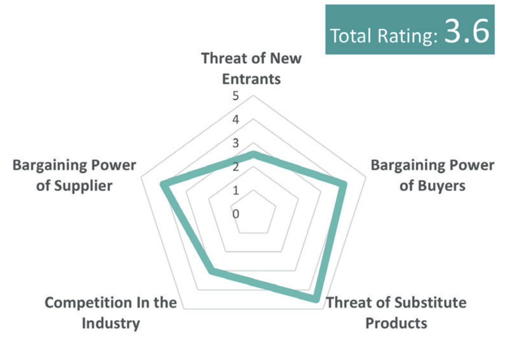
S	W	O	T
- Offering Premium Living - Outsourced Construction - Quick Cash Recycling	- Requires substantial capital expenditure to secure premium locations. - Faces strict regulations by DHB regarding the allocation of care beds. - Incurs significant employee expenses due to a primary focus on care provision.	- Strategic Capital Management - Reinvestment from Dividend Cuts: - Demographic Trend	- Intense Competition - Loss of Competitive Edge - Vulnerable to the fluctuating property market and weak sales. - High inflation and OCR increases could lead to higher expenses. - Nurse forces shortage

Source: Team consensus

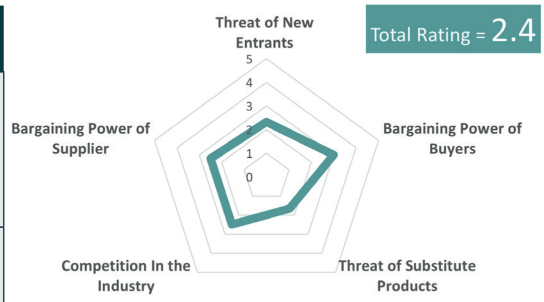
	Overall Score	Score Breakdown (	Score
Threat of New Entrants	2.5/5	High capital requirement for both operating expense and management expenses.	1/5
		Complying with legal regulations act as in Healthcare 1956 No 65, Section 120A, Regulation as to Homes and Day-care Centres for Aged Person.	4/5
Bargaining Power of Buyers	4/5	Presence of other alternatives like local clinics, hospitals, and in-home care to take care of the +85 patients' health. The abundance of substitutes increases buyer choice; refer to Appendix 2.2.	5/5
		The number of elderly residents (85+ years) seeking care is relatively stable and expected to increase by 3% from 2023 up to 2028.	3/5
Threat of Substitute Products	4.5/5	The presence of local hospitals and in-home care services constitutes a high threat of substitution products, especially OCA, which has a small market share for aged care.	5/5
		OCA distinguished itself from its competitors through its premium aged care (PAC) offering. Premium customers tend to exhibit higher brand loyalty, often referred to as 'customer stickiness,' especially within the luxury segment.	4/5
Competition in Industry	4/5	Higher degree of similarities among service provider.	4/5
Bargaining Power of Supplier	4/5	Strategic talent Acquisition to mitigate labour shortage.	5/5
		The supplier's customer diversification – the supplier has a large customer base	3/5

1.3 PORTER'S FIVE FORCES

Aged Care Porter's Five Forces



Retirement Village Porter's Five Forces



Scale of interaction:	
0	no interaction
1	insignificant
2	low
3	average
4	High
5	very High

	Overall Score	Score Breakdown (Porter's Five Forces (Retirement Village))	Score
Threat of New Entrants	2.3/5	There are high barriers to entry such as strict regulations as in Retirement Villages Act 2003 No 112, Part 2, Registration, Occupation Rights Agreements, and Related Requirements and Rules	3/5
		Substantial capital requirements	1/5
		Expertise in healthcare management is required to establish and operate aged care facilities effectively.	3/5
Bargaining Power of Buyers	3/5	OCA operates within the premium luxury segment a niche characterized by a limited apartment supply	1/5
		The industry's nature promotes price stability to maintain resident confidence	1/5
Threat of Substitute Products	2/5	No perfect substitute for premium in the retirement village	0/5
		OCA's focus on premium locations makes a direct substitute unlikely	2/5
		OCA's focus on maintaining the service quality	4/5
Competition in Industry	2.5/5	A major player in the healthcare industry particularly retirement village segment (2)	2/5
		There is still competition from other 'Big 6' companies have the same market share as OCA, which are Ryman and Bupa	3/5
		The market share for 'non-Big 6' is more than 50% of the overall market share creating a competitive environment for OCA.	3/5
		OCA development margin is higher compared to its peers as they focus on the premium strategy.	2/5
Bargaining Power of Supplier	2.5/5	The supplier serves a large and diverse customer base, they are less dependent on any single buyer	2/5
		Interest rates can indirectly influence supplier power; as the interest rate is expected to decrease, the cost of financing construction materials and facility expansion may decrease. Thus increase the possibility of bargaining cost with the supplier.	3/5

1.4 BOARD OF DIRECTORS & EXECUTIVE DIRECTORS PROFILES

Board of Directors

ELIZABETH COUTTS, (ONZM, BMS, FCA) Chair and Independent directo	Appointment date - November 2014 Committee -Audit Committee, People and culture committee, Clinical & Health & safety committee, development committee, Sustainability committee	19,02,507 shares hold	Remuneration $200,000
Dame Kerry Prendergast (DNZM, CNZM, MBA(VUW), NZRN, NZM) Independent director	Appointment date - December 2016 Committee - Clinical & health and safety committee (Chair)	361,297 shares hold	Remuneration $115,000
Sally Evans (BHSc, MSc, FAICD, GAIST) Independent Director	Appointment date - March 2018 Committee - People and Culture committee(chair), Clinical & Health and Safety committee	143,584 shares hold	Remuneration $112,000
Gregory Tomlinson (AME) INDEPENDENT DIRECTOR	Appointment date - March 2018 Committee - Development committee (Chair)	27,882,244 shares hold	Remuneration $112,000
Rob Hamilton (BSc, BCom) INDEPENDENT DIRECTOR	Appointment date - September 2021 Committee - Sustainability committee (Chair), Audit committee	40,500 shares hold	Remuneration $112,000
Peter Dufaur (BProp) INDEPENDENT DIRECTOR	Appointment date - September 2021 Committee - Development committee	77,169 shares hold	Remuneration $100,000
ALAN ISSAC (CNZM, BCA, FCA) Independent director	Appointment date - October 2015 Committee - Audit Committee(Chair), People and culture committee	311,389 shares hold	Remuneration $120,000

Executive Directors Profiles

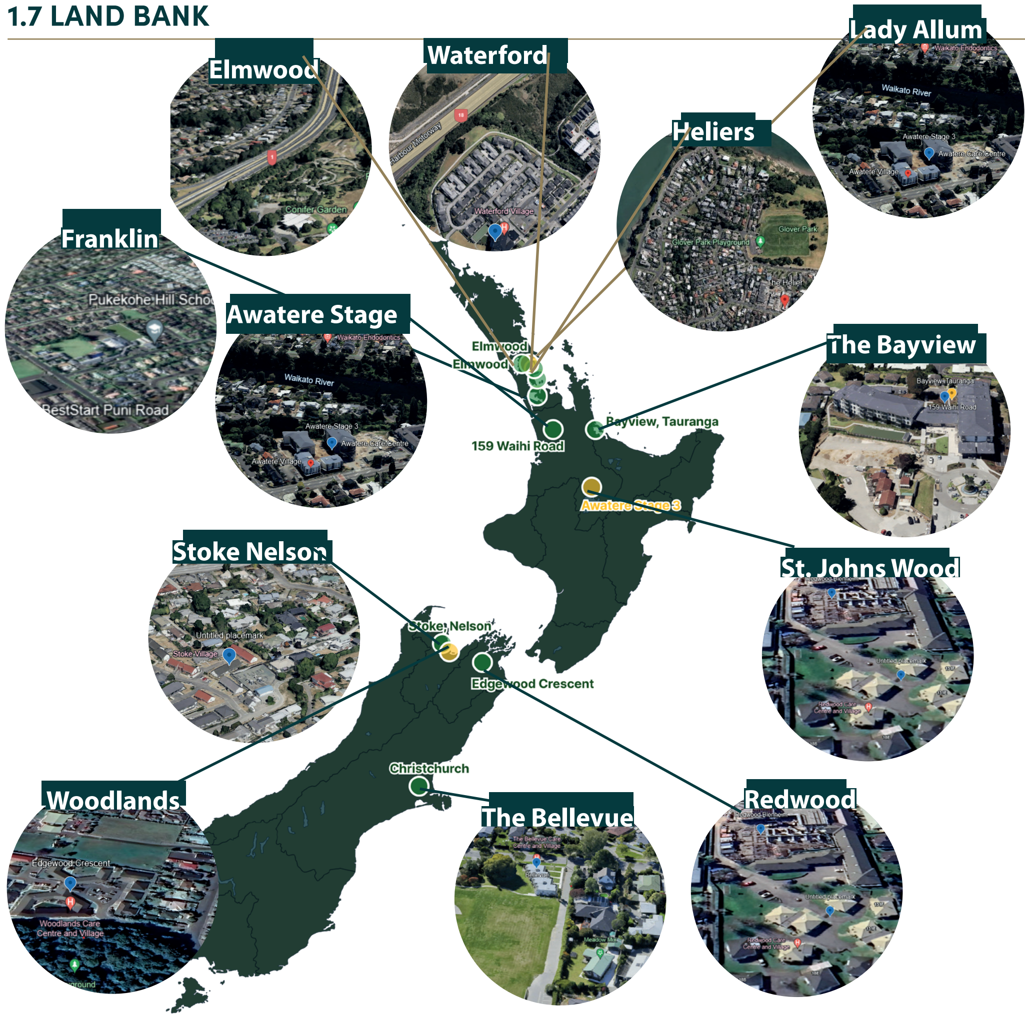
Brent Pattinson BBS, CA(CAANZ) Chief Executive Officer	Brent is a qualified CA and has over a decade of experience in Investment Banking. Brent has a keen focus and interest in the aged care and retirement sector. He was involved in providing investment banking advice to Oceania in its 2017 IPO and to other listed and privately owned peers in the sector. Brent has held senior finance roles in NZ corporations.
Anna Thorburn BA, LLB(Hons) Group General Manager Corporate Services	Anna joined Oceania in 2012. She has previously worked as senior solicitor in the corporate /commercial team at Russell McVeagh. She has over 15 years of legal experience. Anna portfolio within Oceania includes legal, governance, risk, people & culture, health & safety and village settlements.
Andrew Buckingham MRICS, AAPI Group General Manager Property and Development	Andrew is an accomplished property dealer with a broad range of skills and networks gained over more than 35 years in NZ and Australia. Previously Andrew was General Manager of Development at Precinct Properties, where he was responsible for the development of commercial buildings including Commercial Bay in Auckland. Before joining Precinct properties, Andrew was Project Director for New Zealand International Convention Centre at SKYCITY and prior to that he was the project director for the Sylvia Park retail complex and ASB North Wharf development for Kiwi Income Property Trust. Andrew portfolio in Oceania includes design, procurement and delivery of the Oceania development pipeline nationwide and identifying new opportunities and acquisitions of new assets.
Kathyrn Waugh BSci, CA (Institute Chartered Accountants Scotland) Chief Financial Officer	Kathryn joined Oceania in 2009 as Financial Controller and was appointed as CFO in March 2021. Kathyrn is a qualified CA and has held senior roles in PWC, UK and NZ, prior to joining Oceania. Kathryn has been involved in a number of Oceania corporate transactions including IPO in 2017, retail bonds in 2020 and 2021, asset acquisitions deals, and refinance, increase in banking facilities and sustainable – linked loan in May 2020. As a CFO Kathyrn portfolio have finance, shared services, investor relations, sustainability and technology delivery teams.
Anita Hawthorne BCom, CA (CAANZ), MCIPS (Chartered Institute of Procurement and Supply) Group General Manager Sales & Services	Anita joined Oceania as Group General Manager Sales & Services in July 2022. Prior to joining Oceania Anita worked in Air NZ for almost 22 years and held senior leadership roles in Air NZ. Her most recent role in Air NZ was Group General Manager Operations & Infrastructure and General Manager Customer Experience. Anita portfolio in Oceania includes Sales, Marketing, Resident Experience and Operations. Anita has completed her executive education from Stanford University, California, USA and the Darden Business School programme in Taupo, New Zealand.

Executive Remuneration Framework

Executive pay structure	
Total Fixed Remuneration	Base salary, provision for car park, vehicle allowance and kiwisaver contributions.
Short term incentive(STI)	Done as cash payment and capped at 100% OCA base salary for the executive. Performance criteria to be met - uEBITDA target for the FY, strategic pillar initiatives targets, key focussed business delivery targets, health and safety targets, sustainability targets. For FY 23, targets were set at 10% increase in above parameters.
Long term incentive(LTI)	Done as Performance Share Rights. The participation and extent of participation is invited by the Board after review of the executive. The vesting period is three years. These share rights do not have voting rights and dividends entitlements. On conversion, the participant will receive one ordinary share per qualifying performance rights less taxes. The share rights price is determined by 20 days VWAP on either side of the FY.

Source: Company data

1.7 LAND BANK



Land Bank and Development under Construction Sites of OCA

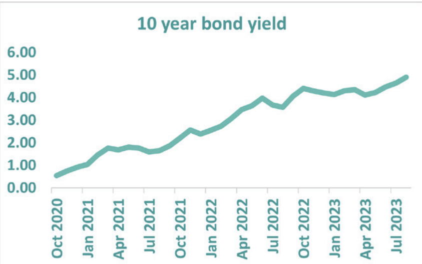
All the estimated projected value of units is conservative and can expect an appreciation of 7% to 10% on our estimated value.

Analyzing the land bank breakdown table, it becomes apparent that OCA employs a distinctive strategy for their greenfield pipeline projects. They complete the initial phase of constructing retirement village and apartment units, commence sales to collect lump-sum ORA payments for capital recovery, and subsequently resume building the remaining care suite units. A similar approach was observed in the case of The Helier project, where 62 apartments were completed in March 2023, welcoming its first residents, while 17 apartments and 32 care suites remained under construction.

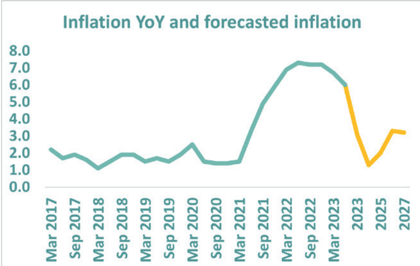
Source: Company Data

Project Name	Location	Site Offering	Estimated Project Value	Completion update/estimate as of FY 2023
Waterford Stage 1	Waterford, 84, Buckley Revenue, Hobsonville, Auckland, 0616.	50 units, 1, 2 & 2 plus bedroom apartment.	(920000 per unit value)*(50 units) = 46million	Commenced in June 2022, completion deadline not projected.
Waterford Stage 2		112 apartments & care suites from both stages		Planning is underway
The Helier Stage 2	28 Waimere Street, St Heliers, Auckland, 1071.	Luxury apartment, 79 units, 32 care suites.	150 million	Estimated completion FY24
The Helier Stage 1	28 Waimere Street, St Heliers, Auckland, 1071.			Construction completed in FY23
Elmwood, Auckland	Elmwood, 131 Hill Road, Manurewa, Auckland. Calibri Bold	106 Suites		Commenced in Sept 2021, completion deadline not projected.
Lady Allum Stage 1	20 Napolean Avenue, Milford, Auckland	Units and Suites		Construction completed in FY23
Awatere Stage 3, Hamilton	Awatere Stage 3, 1350 Victoria Street, Beerescourt, Hamilton	71 Suites		Commenced in March 2022, completion deadline not projected
Stoke Nelson	188 Songer Street, Stoke, Nelson	8 villas	(395000 per unit value)*(8 units) = 3.1 million	Construction completed in FY23
The Bellevue Stage 2	21 Windermere Road, Papanui, Christchurch,	46 units, 1- and 2-bedroom apartment	640000(average price/unit) *46 = 29.4 million	Estimated completion FY24
Redwood, Blenheim	131 ClegHorn Street, Redwoodtown, Blenheim	55 care suites		Commenced in May 2021, completion deadline not projected.
The Bayview, Stage 3, Tauranga	160 Waihi Road, Tauranga	28 units	650000(per unit value)*(28 units) = 18.2 Million	Commenced in March 2022, completion deadline not projected.
St Johns Wood, Taupo	133 Tamamutu Street, Taupō	40 care suites		Construction completed in FY23
Woodlands, Motueka	6 Edgewood Crescent, Motueka	18 care suites		Construction completed in FY23
Franklin, Pukekohe	Franklin, Pukekohe, Auckland	106 suites, 43 apartments, 134 villas		Resource consent received in FY23.
Bream Bay Village	Ruakaka, Northland	150 villas and care suites		Acquired 0.45 ha in FY23. OCA also holds option to buy 6.7 ha of adjacent land. OCA haven't executed option as per FY23.

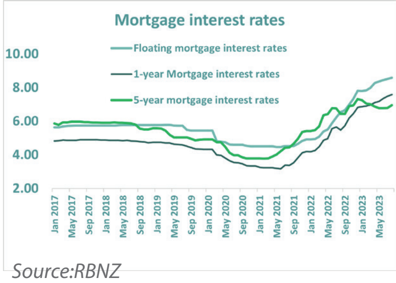
2.1 INDUSTRY DRIVER



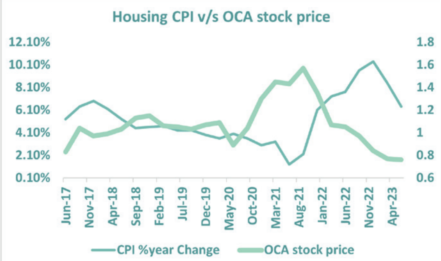
Source:RBNZ



Source:RBNZ



Source:RBNZ



Source:

2.2 PEERS COMPARISON

	OCA	ARV	RYM	SUM
Retirement Village	1820	4126	9142	5518
Care Suites	984	212*		1161
Care Beds	1651	1544	4456	
Total Units	4455	5670	13598	6679

Source:

Peers Comparison - Fundamental

Company	Share Price (21 Sep)	EPS(cps)	Beta(5y Monthly)	Market Cap (NZDm)	Total Sites in NZ	% DMF	Employees	Dividend Yield	P/E	Total Residents
OCA	0.76	2.2	1.34	548	48	30%	2891	4.21%	35.22	4000+
ARV	1.26	11.4	1.07	913	36	30%	2900+	8.21%	11.07	6750+
RYM	6.54	49.9	1.79	4.47B	38	20%	7200	3.23%	18.84	13900
SUM	9.84	116.7	1.56	2.33B	39	30%	2400+	2.29%	8.65	7400+

	OCA	247.2	231.1	175.4	193.7	187	180.1	171.9
Total Revenue	%age change	7.0%	31.8%	-9.4%	3.6%	3.8%	4.8%	
	RYM	571	508.8	455.8	423.9	382.3	342.5	289.2
	% change	12.2%	11.6%	7.5%	10.9%	11.6%	18.4%	
	ARV	222	201.7	174.5	163.7	152.4	132.3	101.4
	% change	10.1%	15.6%	6.6%	7.4%	15.2%	30.5%	
	SUM	128.3	238.7	205.4	172.4	154	137	110.5
	% change	-46.3%	16.2%	19.1%	11.9%	12.4%	24.0%	
Care and Village Fees	OCA	195.1	188.7	178.6	164.2	161.7	159.6	152.8
	% change	3.4%	5.7%	8.8%	1.5%	1.3%	4.5%	
	RYM	437.3	398.2	359.2	333.4	302.0	270.5	227.4
	% change	9.8%	10.8%	7.8%	10.4%	11.7%	19.0%	
	ARV	149.0	144.7	133.6	129.5	125.6	109.9	85.7
	% change	3.0%	8.3%	3.2%	3.1%	14.3%	28.2%	
	SUM	144.6	126.8	111.6	101.3	91.2	74.5	57.8
	% change	14.0%	13.6%	10.2%	11.1%	22.3%	29.0%	
Deffered Management Fees	OCA	52.3	43.5	36.5	30.8	25.7	23	20.7
	% change	20.2%	19.1%	18.6%	19.8%	11.7%	11.1%	
	RYM	122.8	105.6	93.2	88.7	79.0	70.1	61.0
	% change	16.3%	13.3%	5.0%	12.3%	12.7%	14.9%	
	ARV	62.1	48.6	33.5	29.0	21.4	18.1	12.3
	% change	27.8%	44.9%	15.5%	35.4%	18.2%	47.9%	
	SUM	92.3	75.2	60.8	52.5	45.6	35.8	28.0
	% change	22.8%	23.7%	15.8%	15.0%	27.5%	27.7%	
Operating Expenses	OCA	231.4	219.0	203.7	197.9	175.8	165.8	151.7
	% change	6%	8%	3%	13%	6%	9%	
	RYM	533.3	466.2	395.3	349.2	303.7	268.0	225.6
	%change	14.4%	17.9%	13.2%	15.0%	13.3%	18.8%	
	ARV	212.1	181.0	152.8	139.6	129.8	108.8	80.9
	% change	17.2%	18.5%	9.4%	7.5%	19.4%	34.5%	
	SUM	211.8	179.0	146.8	122.4	112.4	88.6	71.1

		2023	2022	2021	2020	2019	2018	2017
Total Assets	OCA	2544.9	2197.7	1882.2	1548.7	1399.4	1147.2	918.2
Total Assets	% change	16%	17%	22%	11%	22%	25%	
	RYM	12510.6	10996.1	9171.6	7677.2	6651.5	5796.9	4944.8
	% change	13.8%	19.9%	19.5%	15.4%	14.7%	17.2%	
	ARV	3762.0	3396.9	2181.7	1907.1	1299.6	1132.4	794.9
	% change	10.7%	55.7%	14.4%	46.7%	14.8%	42.5%	
	SUM	5840.3	4923.7	3893.2	3337.9	2766.4	2232.8	1706.8
	% change	18.6%	26.5%	16.6%	20.7%	23.9%	30.8%	
Total Liabil-ities	OCA	1582.7	1248.9	1048.5	953.5	789.5	610.1	450.3
	% change	27%	19%	10%	21%	29%	35%	
	RYM	7846.7	7531.8	6342.4	5376.3	4481.4	3856.3	3292.7
	% change	4.2%	18.8%	18.0%	20.0%	16.2%	17.1%	
	ARV	2368.0	2051.8	1355.3	1184.5	749.9	621.9	423.4
	% change	15.4%	51.4%	14.4%	57.9%	20.6%	46.9%	
	SUM	3647.2	2999.2	2538.3	2206.0	1787.6	1447.0	1161.2
	% change	21.6%	18.2%	15.1%	23.4%	23.5%	24.6%	
CF from operating activites	OCA	70.27	105.56	96	99.33	89.32	82.26	38.93
	% change	-33%	10%	-3%	11%	9%	111%	
	RYM	650.8	586.0	413.1	449.8	401.4	349.3	322.8
	% change	11.1%	41.8%	-8.2%	12.0%	14.9%	8.2%	
	ARV	152.6	151.8	130.8	102.9	69.1	53.9	39.7
	% change	0.6%	16.1%	27.1%	48.9%	28.3%	35.6%	
	SUM	369.2	383.4	266.8	237.9	217.8	207.7	192.6
	% change	-3.7%	43.7%	12.2%	9.2%	4.9%	7.8%	

Source: Company data

2.2 ESG

Overall ESG Score

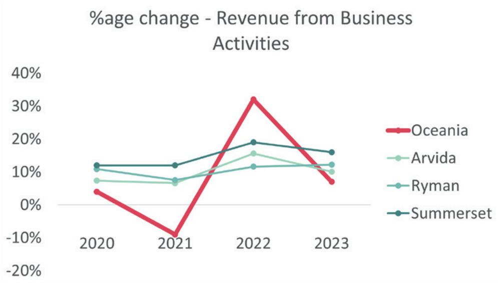
	OCA	RYM	SUM	ARV
ESG Combined Score	40	55.15	57.73	53.15
Environmental Pillar Score	13.05	51.35	54.92	42.48
Social Pillar Score	26.6	40.97	49.79	46.39
Governance Pillar Score	69.56	74.06	68.66	66.59
ESG Controveries Score	100	100	100	100

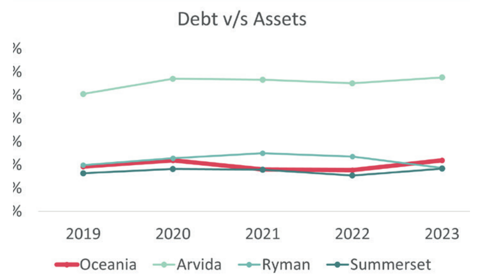
ESG Score Peer Comparison

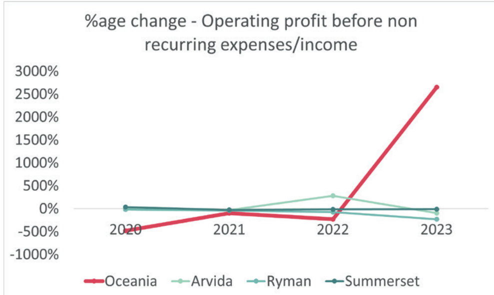
	OCA	RYM	SUM	ARV
ESG Score	40	55.15	57.73	53.15
Resource Use	4.96	42.91	60.64	42.28
Emissions	26.84	78.31	66.54	56.87
Env. Innovation	0	0	0	0
Workforce	49.76	69.95	71.39	85.75
Human Rights	0	0	52.6	15.59
Community	22.36	57.93	56.97	56.25
Product Responsibilty	28	28	28	27.34
Management	74.59	84.43	89.34	82.5
Shareholders	99.18	61.48	27.05	32.5
CSR Strategy	0	41.07	27.68	38.18

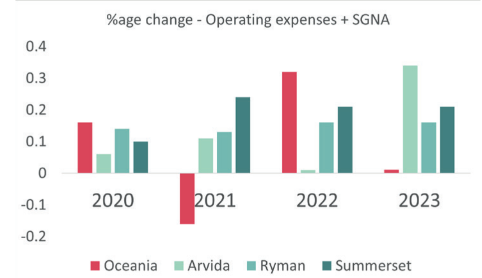
Source: Refinitiv

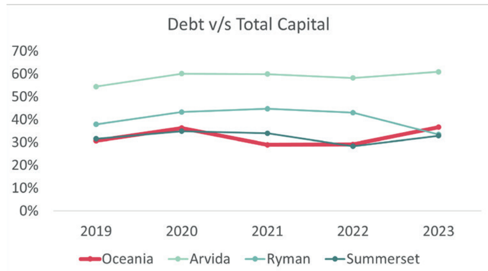
Peers Comparison - Key Ratios

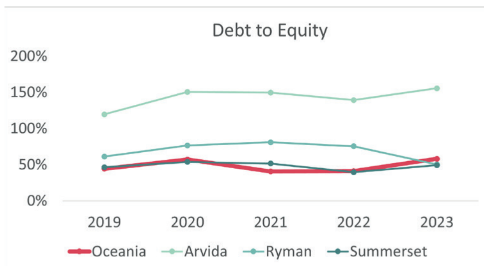












Source: Company data

Financial Markets Authority Corporate Governance in New Zealand: Principles and Guidelines

Principle	Standards met	Description
Ethical Standards		
Directors are expected to both adhere to and promote elevated ethical standards	Yes	OCA upholds the highest ethical standards, as outlined in its charter, which defines responsibilities to shareholders, customers, the community, and suppliers. The company also actively promotes equity, diversity, and inclusion policies.
Board composition and performance		
Board should have balance of skills, knowledge, experience, independence and perspectives.	Yes	All seven OCA board members are independent and bring diverse expertise, serving as directors for other companies, contributing deep knowledge in their respective fields.
Board Committees		
Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibity	Yes	OCA has established various committees, including the Audit Committee, People and Culture Committee, Clinical & Health & Safety Committee, Sustainability Committee, and Development Committee.
Reporting and disclosure		
Integrity in financial and non financial reporting, and in the timeliness and balance of corporate disclosures.	Yes	OCA provides semi-annual and annual reports, investor updates, and communications in compliance with NZX and ASX listing rules. Key material information is communicated by the Chairperson of the board, CEO, and CFO.
Remuneration		
The remuneration of directors and executives should be transparent, fair and reasonable	Yes	OCA has well-structured executive remuneration practices, though it lacks a dedicated remuneration committee. The People and Culture Committee oversees remuneration recommendations and reviews, which align with industry standards.
Risk Management		
Directors are expected to possess a robust comprehension of the key risks encountered by the business and consistently ensure that suitable procedures are in place for identification and management of these risks	Yes	Risk identification and management are integral to OCA's business, with the board identifying and addressing various risks, including financial, climate, and operational risks.
Auditors		
The board should ensure the quality and independence of external audit process.	Yes	OCA maintains audit quality and independence through its audit committee, ensuring compliance with laws, policies, and financial reporting processes. External auditors are also invited to relevant meetings.
Shareholders Relations and stakeholders interest		
The board should respect the right of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity	Yes	OCA prioritizes shareholder rights and fosters positive relationships with both shareholders and stakeholders. Shareholders are kept informed through annual and interim reports, media releases, annual meetings, and direct access to key figures such as the Chairperson of the Board, CEO, and CFO. Additionally, these individuals serve as points of contact for analysts and the media.

Source: Financial Markets Authority

Scope 3 emissions breakdown

Source: National GRID

Scope 3 Emissions	2023	2022	Remarks
Purchased goods and services	14130	13035	The statement pertains to the extraction, production, and transportation of goods and services procured or obtained by the reporting company within the reporting year. The category of "purchased goods and services" encompasses emissions linked to the goods and services acquired by an organization.
Capital good	16990	30235	The OCA calculates emissions from the initial carbon output when a new development is complete. The emissions in this category can vary year to year and at times, fluctuations can be substantial. These variations depend on the numbers of projects OCA is completing in reporting year. As the fluctuations in this metrics can swing extremes, investors should watch this metrics for OCA total environmental impact.
Fuel and Energy related activities	1157	1129	The types of emissions in the category: upstream emissions of purchased fuels, purchased electricity, Transmission and distribution losses.
Waste generated in operations	1494	1340	Emissions generated from disposal and treatment of waste generated by OCA. The waste could be solidwaste, eg, landfilled waste, incinerated waste, wastewater.
Employee commuting	3535	3224	The number will increase as direct and vendor workforce of OCA will increase.
Downstream leased assets	649	845	These are the emissions generated from the operation of assets that are owned by OCA and leased to other entities in the reporting year. These emissions are excluded in scope 1 and scope 2 reporting.

3.1 PRO-FORMA ASSUMPTION

Growth Rates Assumptions

Village revenue growth	2024E	2024E	2024E	2027E	2028E
Bull Case	9.9%	10.6%	11.9%	11.8%	11.8%
Base Case	5.7%	6.4%	7.7%	7.6%	7.6%
Bear Case	2.8%	3.5%	3.3%	3.2%	3.2%

Occupancy	2024E	2024E	2024E	2027E	2028E
Bull Case	91%	92%	93%	94%	95%
Base Case	91%	91%	91%	92%	92%
Bear Case	90%	90%	89%	89%	88%

DCF Assumptions

DCF- Base Scenario Assumptions

1. For the base assumption, the firm will perform at least matching with the growth of New Zealand's economy. The GDP growth rate for New Zealand is taken from the NZ Treasury.

2. According to JLL's report on the aged care industry, as of 2023, there are 383,530 individuals aged 75 and above in New Zealand. The current penetration rate for retirement village operators is 14%, which translates to 53,694 people from the overall aged population residing in retirement villages. Oceania Healthcare (OCA) holds a 7.51% share of this addressable market, with approximately 4,031 residents living in OCA's retirement villages. The forecasted penetration rate is expected to remain consistent for the next decade.

3. Based on management guidance, OCA plans to add 5,931 new units over the next seven years. Calculating this, OCA is anticipated to deliver around 200 new units annually. In the base scenario, OCA's occupancy rate is projected to reach 92% in 2028 through linear development.

4. Looking ahead to 2028, the aged population is forecasted to grow to 471,930 individuals. With a 14% penetration rate, the addressable market will encompass 66,070 potential residents. This growth will contribute to the village revenue, with the 4.24% compound annual growth rate (CAGR) of the aged population being factored into the revenue growth projection.

5. From database.earth, the average life expectancy for NZ will increase from 82.45 years in 2021 to 83.87 years in 2028. It is assumed to increase by around 2% annually and will be added to the average life expectancy till 2028. As life expectancy increases, older adults's stay in villages and aged care units will increase. The village segment revenue is forecasted to increase based on life expectancy.

6. Unit resale number is also forecasted to be in line with village segment revenue. Therefore, the same growth rate is used for the resale unit growth.

7. Unit development sale number is also forecasted to be in line with village segment revenue. Therefore, the same growth rate is used to develop sales unit growth.

8. We utilize the results obtained from the regression analysis, which includes an intercept value of 0.3196, to project future resale unit prices based on the movements of the Official Cash Rate (OCR).

9. We utilize the results obtained from the regression analysis, which includes an intercept value of 0.48498, to project future development unit prices based on the movements of the Official Cash Rate (OCR).

DCF - Best Scenario Assumptions

10. Based on the management guidance, there will be 5,931 units in the next 7 years. By calculation as below, OCA is forecasted to deliver 216 new units annually. In the best scenario, OCA's occupancy rate is expected to reach 95% in 2028 in a straight-line development.

11. In the best-case scenario, we make the assumption that OCA's average development unit price will continue to increase at the same CAGR of 1.4% observed over the past six years.

12. For the best scenario, we assume OCA's average development unit price will follow the past seven years' CAGR (4.7%) and continue to increase.

13. The firm is expected to at least match the 8.5% Compound Annual Growth Rate (CAGR) projected for Hospitals/Healthcare Facilities, according to the Stern NYU data.

DCF - Worst Scenario Assumptions

14. The penetration rate is forecasted to be consistent for the next 10 years. Based on the management guidance, there will be 5,931 units in the next 7 years. By calculation as below, OCA is forecasted to deliver 178 new units annually. In the worst scenario, OCA's occupancy rate is expected to decrease to 88% in 2028 in a straight-line development.

Key Operation Assumptions

Bull Case	2023A	2024E	2025E	2026E	2027E	2028E
Total aged population	383530	401210	418890	436570	454250	471930
Addressable market	53694	56169	58645	61120	63595	66070
Market share	7.5%	7.6%	7.7%	7.8%	7.9%	7.9%
YoY growth		0.1%	0.1%	0.1%	0.1%	0.1%
Occupancy rate	90.4%	91.3%	92.2%	93.2%	94.1%	95%
Residents	4032	4267	4507	4752	5000	5252

Base Case	2023A	2024E	2025E	2026E	2027E	2028E
Total aged population	383530	401210	418890	436570	454250	471930
Addressable market (14%)	53694	56169	58645	61120	63595	66070
Market share	2.0%	7.5%	7.5%	7.6%	7.6%	7.6%
YoY growth		5.5%	0.0%	0.0%	0.0%	0.0%
Occupancy rate	90.4%	90.7%	91.0%	91.4%	91.7%	92%
Residents	4031	4227	4424	4622	4821	5022
Total units	4459	4659	4859	5059	5259	5459
Care bed units	2773	2897	3021	3146	3270	3394

Bear Case	2023A	2024E	2025E	2026E	2027E	2028E
Total aged population	383530	401210	418890	436570	454250	471930
Addressable market (14%)	53694	56169	58645	61120	63595	66070
Market share	7.5%	7.4%	7.4%	7.4%	7.3%	7.3%
YoY growth		-0.1%	-0.0%	-0.0%	-0.0%	-0.0%
Occupancy rate	90.4%	89.9%	89.4%	89.0%	88.5%	88%
Residents	4032	4169	4338	4505	4670	4833
Total units	4459	4637	4851	5064	5278	5492
Care bed units	2773	2883	3016	3149	3282	3415

Debt level Assumptions

	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Cash flow Statement												
Net Increases/(decreases) in borrowings	-140.4	69.3	96.1	56.8	0.6	47.0	173.9	94.5	101.7	109.7	118.3	127.6
% of Revenue	-81%	38%	51%	29%	0%	20%	70%	36%	36%	36%	36%	36%
% Growth (YoY)		-149%	39%	-41%	-99%	7481%	270%	-46%	8%	8%	8%	8%
Proceeds from borrowings	145.0	119.8	180.4	166.3	90.3	162.5	228.2	200.5	215.7	232.7	251.0	270.6
% of Revenue	84%	66%	96%	85%	42%	70%	92%	75%	75%	75%	75%	75%
% Growth (YoY)		-17%	51%	-8%	-46%	80%	40%	-12%	8%	8%	8%	8%
Repayment of borrowings	-285.4	-50.5	-84.4	-109.5	-89.7	-115.5	-54.3	-105.9	-114.0	-123.0	-132.6	-143.0
% of Revenue	164%	28%	45%	56%	42%	50%	22%	40%	40%	40%	40%	40%
% Growth (YoY)		-82%	67%	30%	-18%	29%	-53%	95%	8%	8%	8%	8%
Balance Sheet												
Long-Term Debt	93.0	166.7	268.6	325.5	327.3	380.1	553.6	648.1	749.9	859.6	977.9	1105.5
% of Total Asset	10%	15%	19%	21%	17%	17%	22%	24%	25%	26%	27%	27%
% Growth (YoY)		79%	61%	21%	1%	16%	46%	17%	16%	15%	14%	13%

We estimate a net change in borrowing over the next five years, with a geomean of 36% for borrowing and 75% for repayment of borrowing, resulting in an aggressive total debt growth projection of $1,106 million. This growth is justified by several reasons:

1) OCA's industry is capital-intensive, with landbank and project pipelines (as shown in Appendix 1.7), necessitating significant capital investments. 2) We assume that OCA's management has an aggressive expansion and acquisition strategy in response to the projected demand in the market. 3) In our peer comparison analysis (as detailed in Appendix 2.1), we observed that OCA has consistently maintained the lowest total debt to total asset ratio and capital ratio over the past five years, indicating room for growth in their debt levels.

3.3 FINANCIAL STATEMENTS

Income Statement	2023A	2024E	2025E	2026E	2027E	2028E
Revenue	**$247**	**$266**	**$286**	**$309**	**$333**	**$359**
Total Income	$284	$307	$333	$363	$397	$434
Depreciation and amorti-sation	$9	$11	$12	$13	$13	$15
Interest Expense	$13	$15	$17	$19	$21	$23
Reported NPAT	$15	$15	$18	$22	$28	$37
Underlying EBITDA	**80**	**89**	**95**	**100**	**108**	**116**
Underlying EBIT	71	78	84	87	94	101
Underlying NPAT	**59**	**63**	**67**	**69**	**73**	**78**
Underlying EPS (cps)	$8	$9	$9	$9	$10	$11
DPS (cps)	3	3	3	4	4	4

Cash Flow Statement	2023A	2024E	2025E	2026E	2027E	2028E
Underlying EBITDA	**80.1**	**88.9**	**95.2**	**99.8**	**107.6**	**115.7**
Receipts from customers	376.6	447.4	481.4	519.2	560.0	603.9
Interest & Tax paid	-2.6	-3.2	-7.5	-16.2	-18.5	0.2
Other	-229.1	-232.8	-250.5	-270.2	-291.4	-314.3
Payments for outgoing ORA	-79.3	-81.6	-87.8	-94.7	-102.1	-110.1
Net CFO	**70.3**	**118.1**	**125.7**	**134.4**	**143.6**	**153.6**
Capital expen-diture	-103.6	-129.9	-139.8	-150.8	-162.6	-175.4
Other		**-58.3**	**-62.7**	**-67.7**	**-73.0**	**-78.7**
Net CFI	-219.6	-188.2	-202.5	-218.4	-235.6	-254.1
Net change in borrowings	173.9	94.5	101.7	109.7	118.3	127.6
Dividends paid	-21.8	-23.1	-24.4	-25.8	-27.2	-28.8
Net CFF	147.1	71.5	77.4	84.0	91.1	98.9
Ending cash carried forward	7.5	8.9	9.5	9.4	8.6	7.0

3.2 REVENUE PROJECTION

(millions)	2023	2024E	2025E	2026E	2027E	2028E
Village segment						
+ Village management fees	39	38.9	41.9	45.6	49.6	53.7
+ Village weekly fees	9.1	5.2	5.4	5.6	5.9	6.1
+ Other village operating income	4.2	5.2	5.4	5.6	5.9	6.1
Village operating revenue	52.3	55.3	58.8	63.4	68.2	73.4
Resales						
Realised resale gains	27	32	32	32	34	36
New sales						
Realised development margin	32	29	30	31	33	35
Total village revenue	112	116	121	126	135	145
Village underlying EBITDA	83	90	95	99	105	112
Aged care segment						
Operating revenue	195	211	227	245	265	285
Operating expenses	175	184	194	204	215	227
Care underlying EBITDA	21	23	24	25	26	27
Total						
Less: Corporate/ other	24	24	24	24	24	24
Underlying EBITDA	80	89	95	100	108	116
Less: depreciation and amortization ex Care Suites	9	11	12	13	13	15
Underlying EBIT	71	78	84	87	94	101
Underlying NPAT	59	63	67	69	73	78

Balance Sheet						
	2023A	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Working Capital	**167.0**	**50.3**	**62.4**	**63.8**	**68.9**	**35.6**
Investment property	1597.7	1809.5	2049.4	2321.0	2628.7	2977.1
Property, Plant and Equipment	712.2	749.5	789.6	832.8	879.4	929.7
Right of use assets	4.3	0.0	0.0	0.0	0.0	0.0
Intangible assets	6.7	6.7	6.7	6.7	6.7	6.7
Current assets	**224.1**	**112.1**	**129.9**	**136.4**	**145.7**	**118.9**
Total assets	2544.9	2677.7	2975.6	3296.9	3660.5	4032.5
Long-Term Debt	**553.6**	**648.1**	**749.9**	**859.6**	**977.9**	**1105.5**
Other Liabilities	818.8	973.4	946.4	1051.7	1165.3	1293.8
Trade and other payables	52.3	51.1	56.7	61.6	67.9	76.3
Lease Liabilities	4.8	10.6	10.8	11.0	8.8	7.0
Total liabilities	1582.7	1656.7	1869.5	2097.9	2348.8	2614.5
Shareholders' equity	962.3	1021.0	1106.1	1199.0	1311.7	1418.0
Total equity and liabilities	2545.0	2677.7	2975.6	3296.9	3660.5	4032.5

Growth Rate (YoY)						
	2023A	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Revenue (%)	**7.0%**	**7.5%**	**7.6%**	**7.9%**	**7.8%**	**7.8%**
Underlying EBITDA (%)	7.5%	11.0%	7.1%	4.9%	7.7%	7.6%
Underlying EBIT (%)	10.8%	9.7%	7.0%	4.5%	7.7%	7.5%
Underlying NPAT (%)	6.6%	8.0%	5.7%	2.6%	6.7%	6.5%
Underlying EPS (%)	3.9%	8.0%	5.7%	2.6%	6.7%	6.5%

DCF - Bull Scenario

DCF - Bull Scenario	2024E	2025E	2026E	2027E	2028E
Net income	66.1	76.3	85.3	96.0	108.6
Depreciation and amortization	10.8	11.6	12.5	13.5	14.6
CapEx	129.9	139.8	150.8	162.6	175.4
ΔWorking Capital	-116.7	12.1	1.4	5.2	-33.4
Net borrowing	70.6	75.9	81.9	88.3	95.3
FCFE	134.2	12.0	27.6	30.1	76.4
PV	122.0	9.9	20.8	20.6	47.4
PV (FCFE & TV)	1041.2				
Shares outstanding	724.1				
Share price	1.44				

Key Drivers						
	2023A	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Sales-new units (#)	**128**	**135**	**144**	**155**	**167**	**180**
Sales- resold units (#)	280	296	315	339	365	393
Development margin (%)	37%	32%	33%	33%	32%	32%
Resale margin (%)	22%	25%	24%	24%	24%	23%
Villa EBITDA	83	90	95	99	105	112
Care EBITDA	21	23	24	25	26	27
Occupancy %	90%	91%	91%	91%	92%	92%

DCF - Bear Scenario

DCF - Bear Scenario	2024E	2025E	2026E	2027E	2028E
Net income	58.5	56.7	51.8	48.5	45.5
Depreciation and amortization	10.8	11.6	12.5	13.5	14.6
CapEx	129.9	139.8	150.8	162.6	175.4
ΔWorking Capital	-116.7	12.1	1.4	5.2	-33.4
Net borrowing	70.6	75.9	81.9	88.3	95.3
FCFE	126.6	-7.6	-5.9	-17.4	13.3
PV	115.1	-6.2	-4.5	-11.9	8.2
PV (FCFE & TV)	243.3				
Shares outstanding	724.1				
Share price	0.34				