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ARENA REIT

Real Estate

UNDERPERFORM

ARF A\$4.96

TARGET PRICE A\$3.95

Arena REIT is an ASX300 listed property group that owns, manages, and develops social infrastructure properties across Australia. Our current portfolio of social infrastructure properties is leased to a diversified tenant base in the growing early learning and healthcare sectors.

Company Data

Number of shares	346.1
Market Capitalisation	\$1,716.6
Free float (%)	97.7
12-month high/low	\$4.97/\$3.00
Average Daily Turnover (\$m)	9.197784
% S&P/ASX200	0.080
DDM Ranking	391
% All Ordinaries	0.069
GICS Industry Group	Real Estate

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end	2021A	2022F	2023F	2024F
Revenue (\$M)	59.8	65.0	70.6	76.3
EBITDA (\$M)	55.4	61.6	67.0	71.3
Reported NPAT (\$M)	165.4	122.7	84.1	86.6
Adjusted NPAT (\$M)	51.9	63.7	68.4	65.7
Reported EPS (c)	27.0	20.7	22.0	19.4
Adjusted EPS (c - FD)	15.2	16.7	17.8	18.6
Adjusted EPS growth (%)	4.5	9.7	6.8	4.1
Adjusted P/E (x)	32.6	29.7	27.8	26.7
Dividend (c/sh)	14.8	15.9	17.1	18.1
Gross yield (%)	3.0	3.2	3.4	3.7
Net yield (%)	3.0	3.2	3.4	3.7
ROIC (%)	4.9	5.4	5.5	4.9

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

HY2022 Results and upgrade to FY22 distribution guidance

On 11th February 2022, Arena REIT (ARF) announced its HY2022 Results and upgrade to FY2022 distribution guidance with the following highlights:

Financial Highlights:

- Net operating profit (distributable income) of \$27.5 million, up 11% on the prior corresponding period (pcp);
- Statutory net profit of \$185.8 million, up 204% on pcp;
- Total Assets of \$1.35 billion, up 17% on 30 June 2021;
- Net Asset Value (NAV) per security of \$3.02, up 18% on 30 June 2021;
- Earnings per security (EPS) of 8.0 cents, up 10% on pcp;
- Distributions per security (DPS) of 7.9 cents, up 7.5% on pcp; and
- FY22 full year distribution guidance increased to 16.0 cents, up 8.1% on pcp.

Portfolio Highlights:

- 100% of the portfolio facilitates access to essential community services;
- 100% portfolio occupancy maintained;
- 100% of contracted rent has been received for the period 1 July 2021 to 31 December 2021;
- Weighted average lease expiry (WALE) of 19.8 years;
- Portfolio valuation uplift of \$153 million;
- Portfolio weighted average passing yield 5.14%;
- Continued to rollout the installation of solar renewable energy systems;
- One operating early learning centre (ELC) and eight ELC development sites acquired;
- Terms agreed post balance date for the acquisition of six operating ELC properties for \$38 million;
- Three development projects completed;
- Two ELC properties divested at an average premium of 15% to book value;
- Development pipeline of 19 ELC projects at a forecast total cost of \$122 million; and
- Average like-for-like rent review increase of 3.6%.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said, "I would like to acknowledge the significant efforts and achievements of our tenant partners under ongoing challenging conditions. I'd also like to express my appreciation to the Arena team for their dedication and hard work and true partnership approach in delivering positive community and investment outcomes."

Earnings changes

ARF has advised that FY22 full year distribution guidance is 16 cpu – this compares to market expectations of 15.9 cpu. Hence, we do not expect any significant earnings revisions for FY22 and future periods.

Valuation

We are updating our 12-month target price from \$3.33 to \$3.95 and retaining our UNDERPERFORM recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	36.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	31.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	31.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)