



2 March 2017

## Investment Ideas

### *Igenia Communities (INA): Poised to Benefit from Aging Population*

***Igenia Communities offers exposure to the growing demand for retirement and aged care facilities in Australia. Although the sale of DMF assets impacted 1H17 results, the repositioning of the developer's assets looks likely to benefit the company on the back of the aging population and increasing preference for affordable accommodation by retirees.***

***IRESS consensus estimates indicate a target price of \$3.20, which is a 20% premium to the current share price of \$2.67. Coupled with IRESS consensus dividend yield forecasts of around 3%, this represents total upside potential of 23%.***

#### **Strong 1H17 Results:**

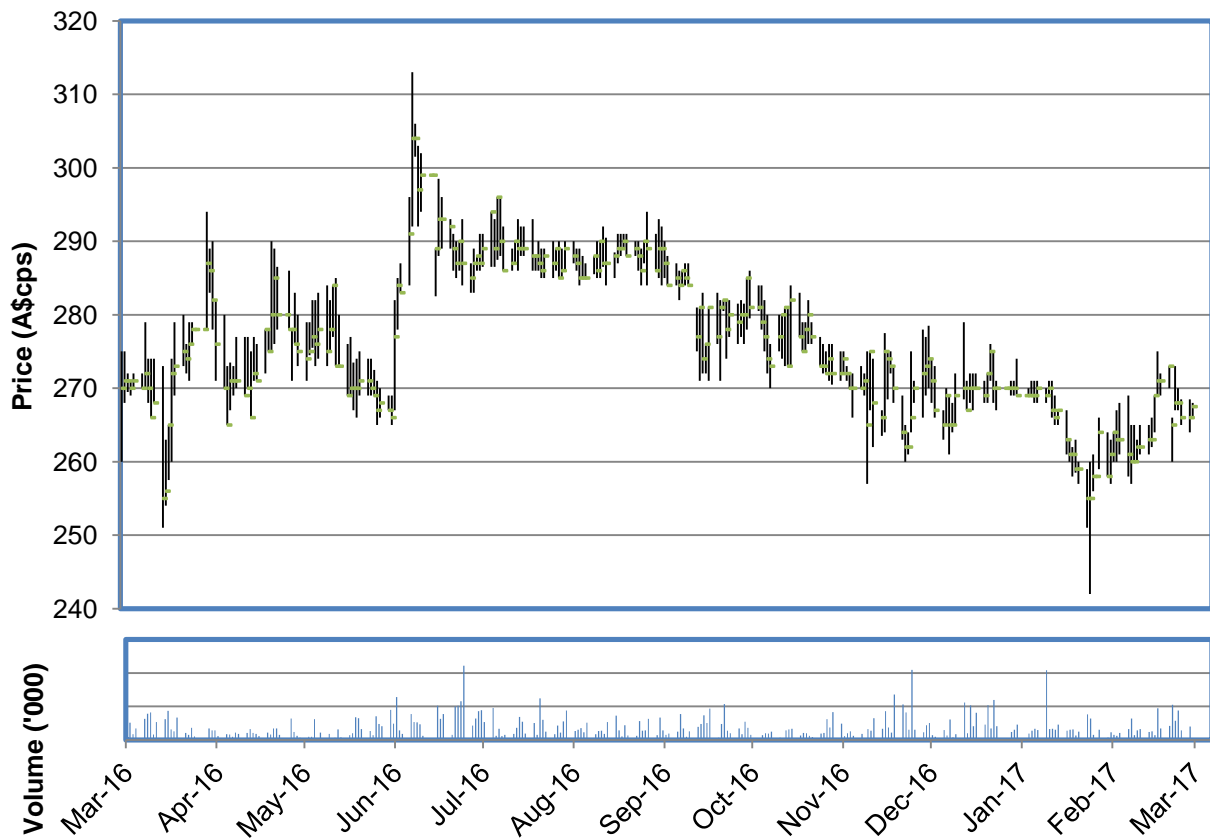
- Igenia Communities posted positive underlying 1H17 results, with statutory reported profit down 30% on the back of a loss on the sale of its DMF assets in October 2016.
- Despite the decline in statutory profit, a 25% increase in revenue, 26% increase in EBITDA and 5% rise in EPS was recorded.
  - o ***Igenia is gaining ground on the aged care market with record occupancy rates in its 'Garden Villages' and new home settlements which has ultimately resulted in its strong financial performance.***

#### **Positive Outlook:**

- Igenia upgraded its FY17 settlements target to 190, an increase of 78% on FY16, and this trend is expected to continue through FY18 with a target of 260 settlements.
- Supporting INA is the strength in industry fundamentals with the Australian population over 65 forecasted reach 4.2 million by 2020, and 8.8 million by 2050 from current levels at 3.6 million.
  - o Affordable accommodation options for retirees are becoming increasingly attractive with a large proportion of retirees in Australia without super, and this is complemented by the high rates of qualification for Commonwealth Rental Assistance.
- ***INA's move towards affordable accommodation options such as Manufactured Home Estates (MHE) and rental accommodation will continue to be a key driver for demand.***
  - o The market for retirement villages is largely untapped with significant potential to be realised. Over 80% of the population over 65 do not reside in DMFs, MHEs and rental villages. Currently, MHEs only comprise about 3% of total retiree accommodation. At current MHE occupancy levels, there is significant potential for this market to grow.
- Benefits of Igenia's move towards affordable accommodation are becoming evident as INA's average profit per new home increases.
  - o ***We see this as a key complement to the rise in new settlements. Given the rising trend in new settlements and the ageing population, we expect that this will drive demand for Igenia's properties, facilitating the generation of strong cash flows which will allow for continued expansion to operations.***
- As part of its future growth strategy, INA will seek to capitalise on the tourism boom in Australia by growing its portfolio of holiday parks and resorts in key tourist destinations across the east coast. We see the focus on short term accommodation as an important diversification to INA's revenue base as competition for retirement villages rises.



**INA share price history (1 March 2016 - Present) (A\$cps)**



Source: IRESS, State One Stockbroking

Investment Data	
Share Price (\$)	2.67
Ord Shares (m)	177
Market Cap (\$'m)	472.7
EV (\$'m)	562
Net Debt (\$'m)	89.3
Average Daily Vol (6 mths)	191,104
52 Week High/Low (\$)	3.13 – 2.42

EPS Data	FY16	FY17F	FY18F	FY19F
EPS (c)	13.32	18.64	20.42	21.63
PER (X)	20.45	14.32	13.07	12.34
DPS (c)	9.00	9.30	14.67	16.08
DPS yield (%)	3.42	3.30	5.39	5.90

Substantial Shareholders (%)	
Cohen & Steers Inc.	11.57
The Vanguard Group Inc.	6.11
Ellerstone Capital Limited	7.21
AMP Limited	5.01

Source: IRESS. State One Stockbroking



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