

# Radius Residential Care

## Positive 1Q25 Trading Update

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Radius Residential Care (RAD) has provided a positive 1Q25 trading update at its ASM, with all key metrics tracking ahead of 1Q24. While few specific numbers were provided in the update, RAD reiterated its FY25 guidance and said key metrics are expected to exceed FY24, despite RAD having one less care facility post the sale of Arran Court in January 2024. RAD also announced that it has signed a Memorandum of Understanding (MoU) with Senior Trust Capital. The strategic partnership will see RAD provide specialist care services for purpose-built care facilities developed by Senior Trust clients. It is expected to add up to +400 care beds to RAD's existing portfolio of 1,789 beds over the next five years. While we await further details, we view the Senior Trust deal as incrementally positive for RAD, given its track record as a profitable care operator. We leave our estimates unchanged and our blended spot valuation rises +2cps to NZ\$0.28.

NZX Code	RAD	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$0.20	Rev (NZ\$m)	171.2	174.0	180.8	187.9	PE	16.5	8.7	7.1	6.0
Spot Valuation	NZ\$0.28 (from 0.26)	NPAT* (NZ\$m)	3.5	6.6	8.1	9.5	EV/EBIT	13.9	13.4	12.3	11.4
Risk rating	Medium	EPS* (NZc)	1.2	2.3	2.8	3.3	EV/EBITDA	8.9	8.7	8.1	7.7
Issued shares	284.9m	DPS (NZc)	0.7	1.4	1.7	1.8	Price / NTA	1.3	1.1	1.1	1.1
Market cap	NZ\$57.m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.5	7.0	8.5	9.0
Avg daily turnover	188.1k (NZ\$24k)	*Based on normalised profits					Gross div yld (%)	4.9	9.7	11.8	12.5

### What's changed?

- **Blended spot valuation:** Rises +2cps, reflecting a re-rate in peer multiples.

### Strong 1Q25 trading with key metrics ahead of 1Q24

RAD's 1Q25 trading update was solid. While few specifics were provided, RAD stated that key metrics are ahead of 1Q24, including occupancy and underlying EBITDAR per bed. Interest costs fell -29% in 1Q25 to NZ\$1.7m, reflecting reduced borrowings post the sale of Arran Court, which was completed in January 2024. Additionally, RAD has now contracted all of the vacant stock units (an undisclosed number of its 148 total units) in its retirement segment, and expects to settle on these contracts in 2024. RAD reiterated its FY25 guidance, with key metrics expected to continue to track ahead of FY24, in line with our expectations.

### Senior Trust Capital deal announced

RAD has signed a MoU with Senior Trust Capital, to provide care services in purpose-built care facilities developed by Senior Trust clients under a leasehold agreement. Senior Trust Capital is a New Zealand based investment firm which invests in premium senior living facilities. RAD expects the MoU with Senior Trust to add up to +400 care beds over the next five years to RAD's existing portfolio of 1,789 owned and leased care beds. While details are light at this stage, we note that RAD has a strong track record of profitably operating leased care facilities. Further, operating Senior Trust facilities under a leasehold agreement should be relatively low risk and is unlikely to require major capital outlays.

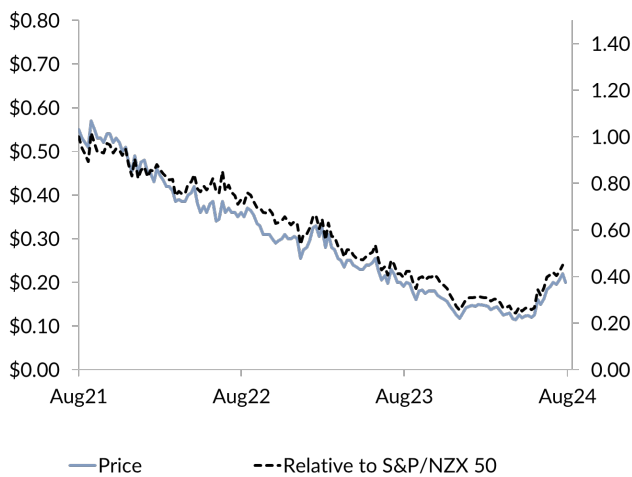
### Funding increase slightly ahead of expectations

The Ministry of Health (MoH) has confirmed a care funding increase for RAD of +3.2%, effective from 1 July 2024. The funding rise was slightly ahead of RAD's internal expectations but broadly in line with our expectations. Significantly improved government funding settings for aged care remain as a very positive potential catalyst for RAD's future performance, as two government reviews are currently underway.

**Radius Residential Care Limited (RAD)**

<b>Market Data (NZ\$)</b>						<b>Spot valuation (NZ\$)</b>					
Priced as at 06 Aug 2024					<b>0.20</b>	Comparable relative					0.27
52 week high / low					0.22 / 0.11	DCF					0.27
Market capitalisation (NZ\$m)					57.0	Dividend Discount Model (DDM)					0.29
<b>Carbon and ESG (CESG)**</b>						<b>Key WACC assumptions</b>					
CESG rating					n/a	Risk free rate					5.00%
CESG score					n/a	Equity beta					1.19
Sector average CESG score					n/a	WACC					9.6%
NZ average CESG score					n/a	Terminal growth					1.5%
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>					
Revenue	2023A	2024A	2025E	2026E	2027E	EV/Sales (x)	2023A	2024A	2025E	2026E	2027E
Normalised EBITDA	146.3	171.2	174.0	180.8	187.9	EV/EBITDA (x)	1.7	1.6	1.4	1.4	1.3
Depreciation and amortisation	22.7	29.6	28.7	30.4	31.9	EV/EBIT (x)	11.1	8.9	8.7	8.1	7.7
Normalised EBIT	(10.0)	(9.9)	(8.6)	(8.5)	(8.4)	PE (x)	26.8	13.9	13.4	12.3	11.4
Net interest	12.7	19.7	20.1	22.0	23.5	Price/NTA (x)	47.1	16.5	8.7	7.1	6.0
Associate income	(12.4)	(15.5)	(11.5)	(11.5)	(11.1)	Free cash flow yield (%)	1.3	1.3	1.1	1.1	1.1
Tax	0	0	0	0	0	Adj. free cash flow yield (%)	-100.4	13.9	11.4	13.0	14.3
Minority interests	0.9	(12.1)	(2.0)	(2.4)	(2.9)	Net dividend yield (%)	-2.8	15.4	13.6	16.3	17.6
Normalised NPAT	0	0	0	0	0	Gross dividend yield (%)	3.5	3.5	7.0	8.5	9.0
Abnormals/other	1.2	3.5	6.6	8.1	9.5	Interest cover EBIT (x)	4.9	4.9	9.7	11.8	12.5
Reported NPAT	(3.3)	(11.9)	(1.5)	(2.0)	(2.1)	Interest cover EBITDA (x)	0.8	1.2	1.6	1.7	1.9
Normalised EPS (cps)	(2.1)	(8.5)	5.1	6.1	7.5	Net debt/ND+E (%)	1.8	1.9	2.5	2.6	2.9
DPS (cps)	0.4	1.2	2.3	2.8	3.3	Net debt/EBITDA (x)	61.2	54.4	51.6	50.2	48.3
<b>Growth Rates</b>						<b>Capital Structure</b>					
Revenue (%)	2023A	2024A	2025E	2026E	2027E	Net debt/EBITDA (x)	2023A	2024A	2025E	2026E	2027E
EBITDA (%)	9.7	17.1	1.6	3.9	3.9	Interest cover EBIT (x)	0.8	1.2	1.6	1.7	1.9
EBIT (%)	1.9	30.5	-3.2	6.2	4.7	Interest cover EBITDA (x)	1.8	1.9	2.5	2.6	2.9
Normalised NPAT (%)	-22.1	>100	-2.6	7.6	7.5	Net debt/ND+E (%)	61.2	54.4	51.6	50.2	48.3
Normalised EPS (%)	-27.8	>100	90.0	23.0	18.1	Net debt/EBITDA (x)	4.4	2.5	2.5	2.2	2.0
Ordinary DPS (%)	-38.1	>100	90.1	23.0	18.1	Key Ratios	2023A	2024A	2025E	2026E	2027E
	-52.1	0.0	100.0	21.4	5.9	Return on assets (%)	2.6	5.7	5.6	6.0	6.4
<b>Cash Flow (NZ\$m)</b>						Return on equity (%)	1.9	5.6	9.9	12.0	13.8
EBITDA	2023A	2024A	2025E	2026E	2027E	Return on funds employed (%)	0.3	0.9	1.7	2.1	2.5
Working capital change	22.7	29.6	28.7	30.4	31.9	EBITDA margin (%)	15.5	17.3	16.5	16.8	17.0
Interest & tax paid	(2.5)	(3.7)	(0.4)	(0.3)	(0.3)	EBIT margin (%)	6.4	11.1	10.7	11.0	11.4
Other	(14.2)	(14.0)	(13.5)	(13.9)	(14.0)	Capex to sales (%)	40.1	2.0	3.0	2.9	2.9
Operating cash flow	2.0	2.3	0	0	0	Capex to depreciation (%)	-588	-35	-60	-62	-64
Capital expenditure	4.0	14.1	14.8	16.3	17.6	Imputation (%)	100	100	100	100	100
(Acquisitions)/divestments	(58.7)	(3.5)	(5.2)	(5.3)	(5.4)	Pay-out ratio (%)	165	58	61	60	54
Other	(2.6)	(3.4)	(3.1)	(3.6)	(4.0)	Operating Performance	2023A	2024A	2025E	2026E	2027E
Funding available/(required)	(57.7)	7.3	6.5	7.4	8.2	Segment EBITDA					
Dividends paid	(2.9)	0	(3.7)	(4.6)	(4.8)	Aged care	33.7	42.7	42.0	43.3	44.7
Equity raised/(returned)	0	0	0	0	0	Retirement villages	0.8	4.5	4.2	4.9	5.2
(Increase)/decrease in net debt	(60.6)	7.3	2.8	2.9	3.3	Support	-11.8	-17.6	-17.5	-17.8	-18.1
<b>Balance Sheet (NZ\$m)</b>						Total	22.7	29.6	28.7	30.4	31.9
Working capital	2023A	2024A	2025E	2026E	2027E	Key drivers					
Fixed assets	(6.7)	(4.4)	(4.0)	(3.8)	(3.4)	Sales - new units	0	0	3	6	6
Intangibles	133.9	117.3	118.0	118.7	119.5	Ave price - new sales (NZ 000's)	0	0	500	515	530
Right of use asset	19.8	16.1	16.1	16.1	16.1	Sales - resold units	8	28	17	18	18
Other assets	112.5	109.9	105.8	101.8	98.0	Ave price - re-sales (NZ 000's)	464	390	402	414	426
Total funds employed	76.1	73.5	75.7	78.0	80.3	Gross development margin	0	0	25%	25%	25%
Net debt/(cash)	335.5	312.4	311.5	310.9	310.5	Gross resales margin	21%	16%	16%	16%	16%
Lease liability	100.1	73.5	70.7	67.9	64.5	Portfolio					
Other liabilities	121.5	121.1	118.0	114.4	110.4	Care beds	1,889	1,789	1,789	1,789	1,789
Shareholder's funds	41.1	46.7	47.0	51.8	56.9	Care bed occupancy	92%	92%	92%	92%	92%
Minority interests	72.9	71.1	75.9	76.8	78.7	Accommodation supplement beds	1,287	1,217	1,219	1,219	1,220
Total funding sources	0	0	0	0	0	% of beds with supplements	68%	68%	68%	68%	68%

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend\*\* Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at [www.forsythbarr.co.nz/corporate-news-events/cesg-report](http://www.forsythbarr.co.nz/corporate-news-events/cesg-report)

**Figure 1. Price performance**


Source: Forsyth Barr analysis

**Figure 2. Substantial shareholders**

Shareholder	Latest Holding
Wave Rider Holdings	35.4%
Windhaven Care Holdings	10.6%
Neil John Foster	5.8%
Main Family Trust No.2	5.4%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 3. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2026E		
				2025E	2026E	2025E	2026E	2025E	2026E			
(metrics re-weighted to reflect RAD's balance date - March)												
Radius Care	RAD NZ	NZ\$0.20	NZ\$57	8.7x	7.1x	8.7x	8.1x	13.4x	12.3x	8.5%		
Arvida Group Limited *	ARV NZ	NZ\$1.63	NZ\$1,192	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
Oceania Healthcare *	OCA NZ	NZ\$0.79	NZ\$572	7.5x	6.3x	11.7x	9.8x	12.9x	10.8x	2.5%		
Ryman Healthcare *	RYM NZ	NZ\$4.52	NZ\$3,108	18.6x	12.4x	19.8x	15.2x	23.7x	17.8x	0.0%		
Summerset Group Limited *	SUM NZ	NZ\$11.36	NZ\$2,677	13.2x	12.4x	16.4x	15.3x	17.8x	16.6x	1.7%		
<b>Compco Average:</b>				<b>13.1x</b>	<b>10.4x</b>	<b>16.0x</b>	<b>13.4x</b>	<b>18.1x</b>	<b>15.0x</b>	<b>1.4%</b>		
<b>EV = Mkt cap+net debt+lease liabilities+min interests-investments</b>				<b>RAD Relative:</b>		<b>-34%</b>	<b>-32%</b>	<b>-46%</b>	<b>-40%</b>	<b>-26%</b>	<b>-18%</b>	<b>503%</b>

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (RAD) companies fiscal year end

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