

Takeover of Rabinov Property Trust (RBV)

Investment Summary

- GOZ has made a takeover offer to acquire the Rabinov Property Trust (ASX Code: RBV), an illiquid small REIT (market cap \$44m) which is currently geared to 76%.
- GOZ is offering scrip at a 0.48 ratio plus a special distribution of 2.3 cents. This implies an offer price of \$0.95 which is a 41% premium to the previous RBV share price and a 4% discount to its NTA. This looks like a good deal for both parties and it should get shareholder approval given RBV's major shareholder owns 83% of the stock.
- After the end of the takeover offer period GOZ also intends to undertake an \$80.7 million renounceable rights issue at \$1.90 to reduce gearing.
- The transaction is 0.6% eps/dps accretive for GOZ in FY12, lowers the NTA from \$2.03 to \$2.00, and reduces gearing from 54% to 50%. It also achieves managements stated objectives of increasing the diversification away from industrial and increasing the portfolio.
- Conditional on the transaction proceeding GOZ's existing syndicated debt facility is to be increased to \$636m with ANZ joining the syndicate. This will also lead to a 20bp reduction in the margin to 2.00%.
- Overall this is a positive announcement and a good transaction which gets GOZ closer to its stated objective of being an important player in the domestic REIT space. Liquidity still remains the only hurdle given its now increased size, so hopefully the forthcoming capital raise will facilitate the entry of new shareholders.
- Our new price target is \$2.00 (was \$2.03) in line with NTA. This implies a 12% return including GOZ's FY12 9.0% yield. As a result we maintain our BUY recommendation.

15 April 2011

12mth Rating

BUY

Price	A\$	1.95
Target Price	A\$	2.00
12m Total Return	%	11.6

RIC: GOZ.AX

BBG: GOZ AU

Shares o/s	m	280.3
Free Float	%	50.0
Market Cap.	A\$m	546.5
Net Debt (Cash)	A\$m	399.9
Net Debt/Equity	%	123.4
3m Av. D. T'over	A\$m	0.06
52wk High/Low	A\$	2.04/1.73
2yr adj. beta		0.92

Valuation:

Methodology		NAV
Value per share	A\$	2.00

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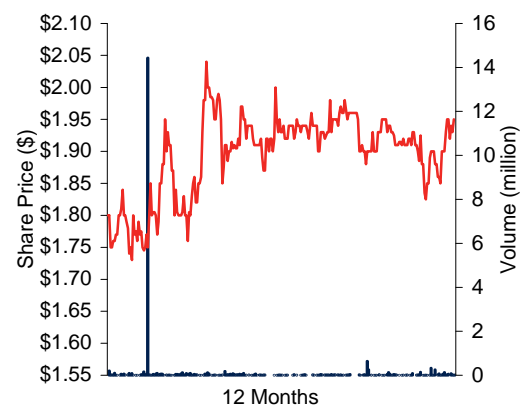
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Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(210.1)	46.7	43.5	49.1	51.4
Recurrent NPAT (\$m)	14.9	22.5	34.5	49.1	51.4
Recurrent EPU (cents)	43.1	16.6	17.3	17.5	18.3
EPU Growth (%)	(18.4)	(61.5)	4.2	1.4	4.6
PER (x)	4.5	11.7	11.3	11.1	10.6
EBITDA (\$m)	61.6	65.4	81.1	95.3	97.9
EV/EBITDA (x)	9.2	10.1	11.1	11.8	11.5
Free Cashflow	18.7	22.4	36.7	47.9	50.2
FCFPS (cents)	54.1	16.6	18.4	17.1	17.9
PFCF (x)	3.6	11.8	10.6	11.4	10.9
DPS (cents)	32.5	14.0	17.1	17.5	18.3
Yield (%)	16.7	7.2	8.8	9.0	9.4

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-2.1	-1.0	9.9
Rel. S&P/ASX 300	-2.4	-3.7	11.8

Takeover of Rabinov Property Trust

GOZ is making a scrip-for-scrip off-market takeover offer to acquire all the units in Rabinov Property Trust (ASX Code: RBV).

The offer price

The transaction provides RBV shareholders with an effective offer price of approximately \$0.95. Under the takeover offer, RBV shareholders will be offered 0.48 GOZ shares for each RBV share. The Scrip Offer has an implied value of approximately \$0.93 per based on the last traded price of GOZ of \$1.93 per security. RBV shareholders will also be entitled to receive a special distribution of 2.3 cents per RBV share.

Who is Rabinov Property Trust (RBV)

RBV is an illiquid small REIT (market cap \$44m) which is currently geared to 76%. The portfolio comprises 12 diversified assets worth \$234.8m located across Australia.

Transaction Mechanics

Six properties which do not meet Growthpoint's investment criteria will be divested to RBV's major unitholder.

The notional proceeds from the sale of the excluded properties of \$50.8 million will be used to repay most of the outstanding RBV subordinated debt of \$59.0 million with the balance of the subordinated debt of \$8.2 million to be repaid in full.

Figure 1: RBV Overview

Assets				Debt			
Properties to be owned by GOZ	\$m ¹	Excluded Properties	\$m ²	Bank Debt	\$m ³	Subordinated Debt	\$m
Building 2, 572-576 Swan Street, Richmond (Office, VIC)	72.0	1735 Sydney Road, Campbellfield (Industrial, VIC)	23.6	ANZ facility ⁴	135.0	Anrose facility	18.0
Buildings 1 and 3, 572-576 Swan Street, Richmond (Office, VIC)	47.5	68-76 Grand Junction Rd, Kilburn (Industrial, SA)	13.0			Genox facility	41.0
66 Kennedy Drive, Cambridge (Office, TAS)	25.5	42-48 Callandoon St, Goondwindi (Retail, QLD)	5.0				
7 Laffer Drive, Bedford Park (Office, SA)	18.8	385-395 Grieve Pde, Altona North (Industrial, VIC)	4.7				
365 Fitzgerald Road, Derrimut (Industrial, VIC)	12.2	11-13 West Thebarton Rd, Thebarton (Industrial, SA)	3.4				
306-318 Abbots Road, Lyndhurst (Industrial, VIC)	8.0	Werribee St, North Rockhampton (Industrial, QLD)	1.1				
Total	184.0		50.8		135.0		59.0

Source: GOZ

Benefits to GOZ shareholders

GOZ shareholders will benefit from:

- Accretive transaction with FY12 pro forma DPS increasing by 0.6% to 17.5 cents per stapled security
- Increase in total asset base to c. \$1.2bn; implied post-Transaction market capitalisation of \$541m
- Further diversification of assets in terms of sector and geography with high quality tenant base
- Extension of existing GOZ debt facilities on improved pricing with funding sources now across three major domestic banks.
- Reduction in gearing in merged group following the Capital Raising
- Opportunity for lower cost of capital and possible re-rating of Growthpoint securities

Figure 2: Key Metrics

Metric	Pre-Transaction (standalone)	Post Transaction and Capital Raising	Change ⁵
FY12 Pro forma DPS (c) ¹	17.4	17.5	↑0.6%
Pro forma NTA ²	2.03	2.00	↓1.9%
Pro forma gearing ^{2,4}	54.0%	50.4%	↓6.8%

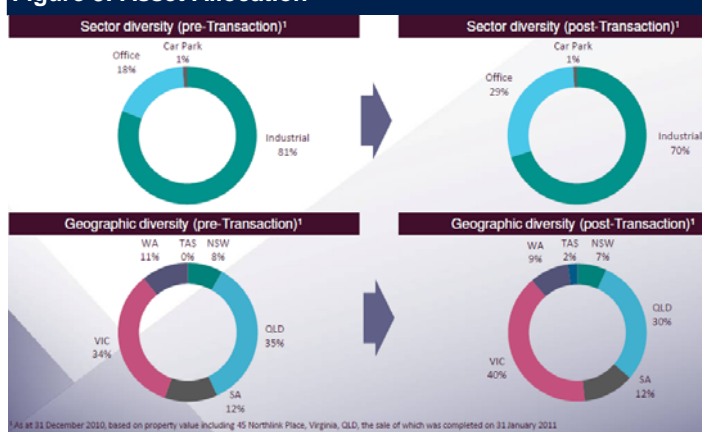
Source: GOZ

What's on offer to RBV shareholders?

This is a very attractive offer to RBV shareholders, and represents a 41.8% premium to the last traded price of \$0.67. It also provides RBV shareholders with an investment in a much larger and liquid trust.

The merged group

The addition of the 6 properties will provide a merged group with a diversified property investment portfolio of approximately \$1.2 billion.

Figure 3: Asset Allocation

Source: GOZ

Figure 4: Merged Group

	GOZ ⁶	RBV ^{5,6}	Combined Pro forma ⁶
No of properties ¹	32	6	38
WALE ²	9.1	7.4	8.8
Property Value	991.5	184.0	1,175.5
Weighted Average Cap Rate ³	8.5%	8.3%	8.5%
Occupancy	100%	100%	100%

Source: GOZ

Will it be successful?

While the transaction is conditional upon RBV shareholder approval we consider this a done deal. RBV's major unitholder who owns 83% of the stock has advised they intend to accept the scrip offer in respect of those units in the absence of a superior proposal and subject to the independent expert concluding that the transaction is reasonable.

Revised Debt Terms

Conditional on the Transaction proceeding, GOZ's existing syndicated debt facility is to be extended. Syndicate banks include National Australia Bank, Westpac and ANZ (new GOZ financier). Key points:

- \$636m facility with \$596m drawn post Transaction and Capital Raising
- Expires on 31 December 2013
- Transaction completion
- Covenants: 65% LVR, 1.4x ICR
- Margins: 2.00% (were 2.20%)

Post Transaction Capital Raising

After the end of the takeover offer period, GOZ intends to undertake an \$80.7 million renounceable rights issue at \$1.90 to reduce gearing.

Growthpoint Properties Limited of South Africa, which currently has a relevant interest in approximately 67.61% of the Growthpoint securities, has confirmed to Growthpoint that it is prepared to take up its pro-rata entitlement to Growthpoint securities under the Capital Raising and underwrite the balance of the Capital Raising. This renounceable rights issue will be available to Rabinov unitholders who accept the offer under the takeover bid during the offer period.

Timetable

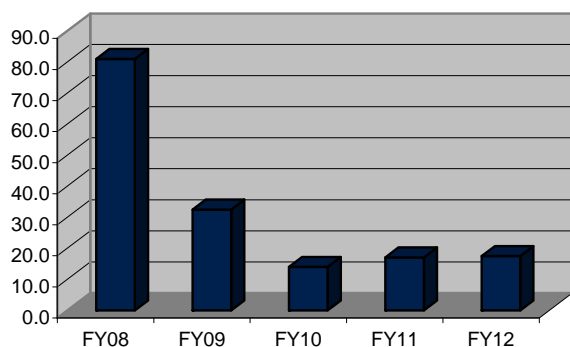
The following dates are subject to change:

Figure 5: Indicative Timetable	
Announcement of the takeover	13 April 2011
Despatch of the Bidder's Statement, Target's Statement (including independent expert's report) and Notice of Meeting for sale of the Excluded Properties	Mid to late April 2011
Scrip Offer opens	Mid to late April 2011
General meeting of Rabinov unitholders to approve the sale of the Excluded Properties	Late May 2011
Scrip Offer closes (unless extended)	June 2011
Capital Raising	June/July 2011

Source: GOZ

Growthpoint Properties Australia (GOZ) \$1.95

Cash Flow (\$m)	2010A	2011A	2012A	2013A
Operating Cashflow	22.6	37.5	49.1	51.4
Capex	-0.1	-0.8	-1.2	-1.2
Disposals	0.0	13.2	0.0	0.0
Acquisitions	-85.4	-232.5	-138.0	0.0
Other	0.0	0.0	-8.0	0.0
Investing Cashflow	-85.5	-220.1	-147.2	-1.2
Equity Raised	183.1	99.8	79.1	0.0
Increase (Repay) Debt	-99.0	129.8	59.1	0.0
Distributions Paid	-11.4	-31.4	-43.1	-50.3
Other	0.0	0.0	0.0	0.0
Financing Cashflow	72.7	198.1	95.1	-50.3
Net change in Cash Held	9.7	15.6	-2.9	-0.1
Closing Cash Balance	16.7	32.3	29.4	29.3
Op CF/Dividend (%)	50.3	83.8	87.7	97.8

Dividends (Cents)**Valuation**

NAV		DCF	
Current Cap rate	8.5%	Beta	0.90
Assumed Cap rate	8.5%	WACC	9.1%

Valuation: \$ 1.99 Val'n: \$ 2.21

Overview

Growthpoint Properties Australia (GOZ) is a REIT focused on domestic commercial property with earnings only from passive rental income. Management is internalised.

Board of Directors

Lyndsay Shaddock	Chairman
Tim Collyer	Managing Director
Norbert Sasse	Executive Director
David Spruell	Non-Executive Director
Grant Jackson	Non-Executive Director
Francois Marais	Non-Executive Director
Estienne de Klerk	Executive Director

Substantial Shareholders

	%
Growthpoint SA	67.0%
Emira Property Fund SA	9.1%
APN Property Group	5.0%
Subtotal	81.1%

Profit & Loss (\$m)	2010A	2011F	2012F	2013F
Property NOI	68.3	84.7	99.4	102.2
Other Income	0.0	0.0	0.0	0.0
Expenses	-2.9	-3.6	-4.1	-4.3
EBITDA	65.4	81.1	95.3	97.9
Depn & Ammort	0.0	0.0	0.0	0.0
EBIT	65.4	81.1	95.3	97.9
Net Interest	-34.0	-41.1	-46.2	-46.5
Asset Sales	0.0	0.0	0.0	0.0
Unrealised gains	15.2	3.5	0.0	0.0
Profit Before Tax	46.7	43.5	49.1	51.4
Tax expense	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
NPAT (Reported)	46.7	43.5	49.1	51.4
NPAT (Adjusted)	22.5	34.5	49.1	51.4

Balance Sheet (\$m)

Assets	2010A	2011F	2012F	2013F
Cash	16.7	32.3	29.4	29.3
Receivables	1.1	1.7	1.7	1.7
Investment Properties	728.8	945.0	1132.2	1133.4
Other Investments	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Derivatives	0.0	0.0	0.0	0.0
Other Assets	28.2	33.7	33.7	33.7
Total Assets	774.8	1012.8	1197.0	1198.2

Liabilities

Interest Bearing Liabilities	416.6	546.7	605.8	605.8
Derivatives	14.6	7.3	7.3	7.3
Other liabilities	19.6	25.1	25.1	25.1
Total Liabilities	450.8	579.2	638.3	638.3

Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	324.0	433.6	558.8	559.9

EPS/DPS	2010A	2011F	2012F	2013F
EPU (Reported)	34.5	21.8	17.5	18.3
EPU (Adjusted)	16.6	17.3	17.5	18.3
EPS growth (%)	-61.5	4.2	1.4	4.6

DPS	14.0	17.1	17.5	18.3
AFFO	16.6	18.4	17.1	17.9
DPS growth (%)	-56.9	22.1	2.5	4.6
Payout Ratio (%)	84.3	98.9	100.0	100.0
Distribution Yield (%)	7.2	8.8	9.0	9.4

Ratios

Profitability	2010A	2011F	2012F	2013F
NOI Growth (%)	6.3	23.9	17.4	2.8
NPAT Growth (%)	50.9	53.6	42.5	4.6
ROA (%)	2.9	3.4	4.1	4.3
ROE (%)	6.9	8.0	8.8	9.2
Tax Rate (%)	0.0	0.0	0.0	0.0

Market Performance

Price/Earnings (x)	11.7	11.3	11.1	10.6
EV/EBITDA (x)	10.9	11.5	11.8	11.5
Price/NTA (%)	-3.9	-4.3	-2.2	-2.4

Balance Sheet

Net Debt/Equity (%)	123.4	118.6	103.2	103.0
Net Debt/Assets (%)	51.6	50.8	48.2	48.1
Interest Cover (x)	1.9	2.0	2.1	2.1
NTA (\$/share)	2.03	2.04	1.99	2.00
Shares (m)	159.6	212.8	280.3	280.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
17 Aug 10	Research Note	1.99	1.91	B	
06 Dec 10	Event Impact Email	1.99	1.93	B	1.0%
22 Feb 11	Research Note	2.03	1.91	B	-1.0%
	Current Share Price		1.95		2.1%

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