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Yovich & Co. Market Update

17th January 2022

Sector Review – Aged Care / Retirement

In this week's market update, we review the Aged Care / Retirement sector, covering the four NZX-listed companies in the table below:

Company	Current Price	Consensus Target Price	Forward PE Ratio	Forward Dividend Yield
Arvida Group	$1.91	$2.31	15.90	2.82%
Oceania Healthcare	$1.28	$1.64	15.69	3.39%
Ryman Healthcare	$11.84	$13.35	25.56	1.71%
Summerset Group	$13.17	$15.43	21.23	1.39%

Impact from COVID Lockdown

The lockdowns during 2021 in New Zealand and Australia have been a negative for the retirement sector, due to:

- Paused resales activity and no refurbishments during the lockdown period;
- Delayed developments and sales of new units;
- Higher aged care costs, reflecting higher staffing costs and increased use of protective equipment.

Of the four companies, Ryman and Oceania have been most impacted by the lockdowns, with c.60% of their unit development pipelines at the time located in either Auckland or Melbourne, where the lockdowns have been much longer. Summerset on the other hand has land holdings skewed to regional locations that were not as affected as Auckland, while Arvida has the lowest portfolio exposure to Auckland. The effect of this is shown in the table below, which shows the return of the shares for the 2021 calendar year, excluding dividends:

Company	Opening Price	Closing Price	% Return
Arvida Group	$1.764	$1.97	11.7%
Oceania Healthcare	$1.44	$1.34	-7.6%
Ryman Healthcare	$15.30	$12.25	-19.4%
Summerset Group	$12.60	$13.68	9.0%

Despite the lockdown, Ryman's resales volume hit a recent high given that most of its existing units for resale were located outside of Auckland and Melbourne. Coupled with further record house price gains during the year, meant record resale profits. New development has been stalled by c. 3-6 months, however the build rate is forecast to pick up in the medium term.

Looking Ahead to 2022

While house price increases are starting to taper off, with many expecting flat house price growth or even falls in some areas, this comes after a period of very strong growth, which will leave the sector well placed to deliver pricing growth. The sector remains leveraged to the demographic trend of over 75s set to grow rapidly over the next 10-20 years.

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Preferred Exposures to the Sector

Ryman and Summerset remain our favoured exposures to the sector, due to their more attractive growth opportunities, including in Victoria. Ryman and Summerset also have a higher percentage of assets in the higher margin retirement village units, while Oceania and Arvida have a higher weighting to aged care, being more defensive.

In last week's update, we picked our 10 preferred stocks from a list of 26 stocks picked by a range of brokers. While Summerset made our top 10, Ryman was not in any of the brokers' top 5 picks, although had it been it would have made our top 10 alongside Summerset.

With the Ryman share price having fallen a further 3.35% in 2022, we believe this offers investors an attractive entry price to a proven growth company that often looks expensive, and is our preferred pick at this time.

Ryman is changing its dividend policy from 50% of underlying profit to between 30% and 50%. It has strong long-term growth plans and this change will enhance its ability to continue to deliver the Ryman experience to more communities.

Investment News

Rio Tinto (RIO.ASX) Orders Battery Locomotives to Reduce Emissions

Rio Tinto is a mining company operating in 35 countries. They have ordered four FLXdrive battery-electric locomotives to support sustainable operations of their rail network in Western Australia, supporting their goal to achieve a 50% reduction in Scope 1 and Scope 2 carbon emissions by 2030. Wabtec will deliver the FLXdrive battery locomotives to Rio Tinto in 2023. RIO shares have traded up 6.73% in the last week.

Current Share Price: AUD$110.60, **Consensus Target Price**: AUD$106.79