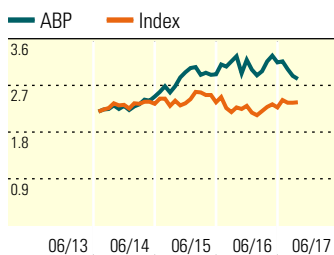


Abacus Property Group ABP

Snapshot

Fair Value Uncertainty	Medium
Moat Rating	None
Fair Value \$	3.50
Stewardship Rating	Standard
Market Cap \$Mil	1,620
Morningstar Style Box	
Price \$ (4:00PM 07-Oct-2016)	2.83
52 Week High/Low \$	3.41/2.77
Shares Issued Mil	572
Morningstar Sector	Real Estate
Morningstar Industry	REIT - Diversified
GICS Sector	Real Estate

Price vs. Market



	06/15	06/16	06/17e	06/18e
NPAT (\$Mil)	128.3	124.0	119.2	193.6
EPS ¢	24.5	22.4	21.4	34.8
EPS Chg %	17.4	-8.7	-4.2	62.4
DPS ¢	17.0	17.0	17.0	17.0
Franked %	0.0	0.0	0.0	0.0
Div Yld %	6.0	5.5	6.0	6.0
P/E x	11.6	13.8	13.3	8.2

Source: Morningstar estimates 27-Sep-2016 .

Profile

Abacus Property Group (ABP) is a diversified property group that specialises in investing in core plus property opportunities across Australia's commercial property markets. It invests in office, retail and industrial properties, self-storage facilities, participation in property ventures and developments and property funds management.

Analyst Recommendation: **Accumulate** (4:00PM 07-Oct-2016)



Investment Perspective by Tony Sherlock 19-Aug-2016
Abacus Property Group is a property investment and funds-management group, with interests in property lending, joint ventures, and development. It is a stapled security comprising a share in each of Abacus Group Holdings and Abacus Group Projects and a unit in each of Abacus Trust and Abacus Income Trust, which can only be traded together. Abacus has a strong track record of acquiring mispriced assets, actively managing them to increase value, and then either selling or recycling them into funds management products. Annuity-style earnings from asset ownership are expected to comprise 60%-70% of ongoing EBITDA, with the balance from volatile private-equity-style activities.

Research Archive

Time	Date	Recommendation	Price \$	Event
10:10AM	06-Oct-2016	Accumulate	2.86	
<i>Pullback in Abacus' Security Price Presents a Buying Opportunity</i>				
6:58PM	19-Aug-2016	Accumulate	3.16	
<i>Abacus' Earnings Dip; Better Opportunities Will Appear If the Firm Is Patient</i>				
4:00PM	06-Jul-2016	Accumulate	3.05	\$
<i>Price move through trigger level</i>				
4:30PM	27-Jun-2016	Hold	3.14	
<i>Promising Residential Pipeline Prompts Fair Value Upgrade for Abacus to AUD 3.50</i>				
4:00PM	15-Apr-2016	Hold	3.10	\$
<i>Price move through trigger level</i>				

\$ = Price Move = Research Report

Financials

	06/14	06/15	06/16	06/17e	06/18e
Sales Revenue (\$Mil)	306.9	236.5	228.4	295.3	419.3
EBITDA Margin %	49.5	70.9	71.5	55.4	60.3
EBIT (\$Mil)	148.9	164.6	161.6	161.8	250.9
EBIT Margin %	48.5	69.6	70.8	54.8	59.8
Adjusted NPAT (\$Mil)	101.3	128.3	124.0	119.2	193.6
Reported NPAT (\$Mil)	111.6	147.6	160.7	119.2	193.6
Earnings Per Share ¢	20.8	24.5	22.4	21.4	34.8
Avg no. of Shares (\$Mil)	486.1	524.4	554.7	556.6	556.6
Book Value Per Share ¢	257.8	268.3	273.3	278.6	296.4
Net Operating Cashflow (\$Mil)	86.2	86.2	86.2	113.7	195.5
Capex (\$Mil)	-6.8	-3.6	-3.6	-13.3	-12.7
Free Cash Flow (\$Mil)	136.6	83.4	-76.5	226.6	289.0

Consensus

	2016	2017e	2018e
EPS ¢	56.0	26.0	29.0
DPS ¢	17.0	21.0	18.0
Dividend Yield %	6.0	7.4	6.2

Key Dates

Fiscal Year End	30 Jun	AGM	13 Nov 2015
Listing Date	14 Nov 2002	DRIP	Active

Equities Research Methodology and Disclosure

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Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses and allowing them to compound over time is the surest way to create wealth in the stock market. The long term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus because history has shown that market sentiment is fleeting, momentum can quickly reverse, and the herd is sometimes a dangerous crowd. Occasionally, this approach causes our recommendations to appear out of step, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. The brief definitions that follow help illustrate our

methodology. Extensive methodology documents are available on our website.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high quality companies. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, profits are more susceptible to competition. Companies with a narrow moat are likely to achieve normalised excess returns beyond ten years while wide moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low quality, no moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Fair Value Estimate

Our fair value estimate is primarily based on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because history has shown that the market price of a security will migrate towards the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered.

Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price to fair value ratios that drive our recommendations: Lower price/fair values (<1.0) lead to positive recommendations while higher price/ fair values (>1.0) lead to negative recommendations. Our price/fair values have proven highly predictive of future stock returns. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme which indicates that nearly all investors should avoid speculating on that company's shares. Risk and volatility-averse investors should generally avoid very high and extreme uncertainty companies.

Recommendations

Our recommendations are based on the current share price relative to Morningstar's Fair Value Estimate after adjusting for an appropriate margin of safety. These recommendations are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

Depending on the portfolio strategy being employed, the ratings below can indicate different actions for different investors. For example, income investors might be best served holding a fairly valued investment with a reliable dividend stream instead of rotating into a buy recommendation with questionable income characteristics. Nonetheless, our recommendations serve as valuable starting points for equity portfolio strategies.

The Australia and New Zealand Buy, Accumulate, Hold, Reduce, and Sell recommendations are broadly aligned with the star ratings in Morningstar's global product. In order to reduce the volatility in Australia/New Zealand recommendations, a minor adjustment is made to the Australia/New Zealand recommendations for those stocks trading at a price very close to the point at which a change in the rating is triggered.

Equities Research Methodology and Disclosure

Buy (significantly undervalued, ★★★★★): Our buy recommendations indicate that we believe appreciation beyond a fair risk-adjusted return is highly likely over a multi-year timeframe. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximising upside potential. This rating encourages investors to consider an overweight position in the security relative to the appropriate benchmark.

Accumulate (modestly undervalued, ★★★★): Our accumulate recommendation indicates that we believe appreciation beyond a fair risk-adjusted return is likely. This rating encourages investors to own the firm's shares, possibly overweight relative to the appropriate benchmark after fully considering the security's fit with their targeted portfolio and more attractively-priced alternatives, such as our buy recommendations.

Hold (fairly valued, ★★★): Our hold recommendation indicates that we believe investors are likely to receive a fair risk-adjusted return (approximately cost of equity). Concentrated portfolios might consider reducing or exiting these positions if more attractively-priced alternatives are available.

Reduce (modestly overvalued, ★★): Our reduce recommendation indicates that we believe investors are likely to receive a less than fair risk-adjusted return and should consider directing their capital elsewhere. Securities with a reduce recommendation should generally be underweight and exited completely in most strategies, assuming less expensive alternatives are available.

Sell (significantly overvalued, ★): Our sell recommendation indicates that we believe there is a high probability of undesirable risk-adjusted returns from the current market price over a multi-year timeframe. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to substantial loss. This rating encourages investors to strongly consider exiting portfolio positions in the security in nearly all strategies.