## Ryman Healthcare – Plenty left in the tank

Last time we discussed the importance of capturing long term trends and asked the question – where might Ryman Healthcare, one of New Zealand's best-known companies be in 10 years' time? We think the company will be larger, more profitable, and continue to be rewarding for shareholders. However, even good trends don't always travel in a straight line.

Recently the retirement industry has been attracting some negative headlines, particularly in Australia, but also here in NZ where some have questioned company valuations and retirement company prospects being too dependent on the long-rising housing market. There is no doubt a serious correction, or crash, in housing would have consequences for many sectors of the economy, but who knows when, or if that will come to pass. A choppy move sideways for a few years is a more likely outcome. Across the ditch the media have been focusing on some very poor company behaviour by some Australian retirement companies but this just serves to highlight the superiority of the way Ryman conducts its business. So, why is Ryman likely to continue to be successful?

There are many factors that are usually required to deliver superior long-term investor returns - a great management team, a great product or service delivered within a sound and growing industry, and overall sound economic growth all play a part. Ryman has benefitted from the leadership of outgoing CEO Simon Challies who in his decade at the helm oversaw strong growth in Ryman's industry leading position and in shareholder returns. Total shareholders returns (dividends and share price growth) have been around 18% per annum for the last 10 years. Importantly, since Ryman's listing in 1999 no new shares have been issued with all the growth being funded from the balance sheet and cash flow. The question is can the next 10 years be just as good? The company has one ingredient locked in – a huge demographic tailwind that will grow its market.

Under new CEO Gordon McLeod, the company is preparing for a new boom. From the late 1930's to the early 1960's NZ's birth rate doubled from 30,000 to 60,000 a year. Fast-forward 75 years and it is easy to see why the over 75's 'grey wave' is upon us. In 2020, it will be 75 years since the end of WW2 after which the baby boom got going in earnest. The 'grey wave' has barely started and will only increase in the next 10-20 years as the Boomers age which is why Ryman's management, and many others, are so confident of future demand for retirement living. The company's recent annual report states "Our target markets in New Zealand and Australia are now entering the early stages of an exceptional demographic growth period for our target market, which continues for more than 30 years." With such clear and easy to forecast demand on the horizon the understandable risk would be that the industry over-reacts and builds too much supply thus wrecking a great opportunity for investors. However, this does not appear to be the case. Ryman, and other large players in the industry are racing to build more supply but they simply cannot keep up with demand. Ryman has so far developed 28 villages and its development pipeline has 17 villages at various stages. Project sizes are growing but they need to, to meet demand. Over the past 3 years Ryman's share price has consolidated in the $8-10 range while the company has increased its earnings by 50%. This lacklustre share price performance likely reflected too much earlier optimism but Ryman has gone through similar phases previously only for the share price to then trend higher again – a reminder that it is earnings that drive the share price of a company longer term, not market sentiment. So, back to the question of where Ryman might be in 10 years' time?

The company still maintains a medium-term goal of growing profits and dividends at 15% per annum which it has delivered since 1999. Let's assume Ryman can only deliver 10% as they grow larger. All things being equal (they never are!) the current share price of $9 with an annual dividend of 17.8 cents should have grown to around $23 with a 46-cent dividend. Quite satisfactory for those that stay the course.

***The companies mentioned above are examples of the types of quality companies in the sectors discussed. This should not be construed to be personalised advice nor a recommendation to invest in these companies. Please contact Kinnell & Co. regarding how best to take advantage of the trends listed above.***

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