Argosy

29.11.2023

# Market Release

## FY24 Interim Result – Strong foundations

Argosy will present the FY24 interim result via a teleconference and webcast at 10am today. Please visit https://event.choruscall.com/mediaframe/webcast.html?webcastid=wyWeRpxL dial 0800 453 055 and quote the conference ID#10034663. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ('Argosy' or the 'Company') has reported its results for the 6 months to 30 September 2023.

Key results for the period include:

- Net property income for the period of $58.4 million, up 6.3% on the prior comparable period;
- $50.8 million interim revaluation loss for the six months to 30 September, down 2.3% on book value, contributing to a net loss after tax of $19.8 million;
- Net distributable income of $29.5 million, compares to $32.9 million for the prior comparable period which included a $3 million revenue receipt in respect of the non settlement of the Albany Lifestyle Centre;
- Strong portfolio metrics, with occupancy at 98.4% and WALT of 5.1 years;
- NTA per share of $1.52, from $1.58 at 31 March 2023;
- Portfolio gearing steady at 36.3%, near the middle of the target band of 30-40%;
- Successful portfolio leasing and rent review outcomes, including 3.6% annualised rental growth on rents reviewed and 91.3% tenant retention rate;
- Execution of strategy, including obtaining a 6 Green Star certification on 8-14 Willis Street and the successful completion of other green developments, continuing our portfolio transformation and progress to a 50% green portfolio by 2031; and
- Reaffirmed FY24 dividend guidance of 6.65 cents per share.

### CHAIRMAN REVIEW

Chairman Jeff Morrison said, "The Board is pleased with the way the portfolio has continued to deliver, despite more difficult operating conditions.

Inflation remains elevated as are interest rates. These factors have added to market volatility and weighed down market pricing in recent times.

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Despite this headwind, the portfolio, which remains diversified by tenant and sector, continues to be resilient and the exposure to the Government sector provides earnings defensiveness and certainty. Portfolio metrics, including tenant retention and occupancy ratios, have been particularly pleasing in the interim period.

The company has continued its strategic commitment to greening the portfolio through redevelopment, with 8-14 Willis Street achieving a 6 Green Star Built certification and a 130% NBS rating. The building has recently received a global seismic design award. The Excellence and Merit awards earned by 107 Carlton Gore Road at this year's Property Council New Zealand awards, further highlights the portfolio quality and Argosy's long term commitment to building a better future, particularly for our tenants and the environment.

The Board is comfortable with the company's capital position and balance sheet strength, and that Argosy has sufficient funding capacity to accommodate medium term development requirements and any further adverse property valuation movements.

Looking ahead, dividend guidance for FY24 is maintained at 6.65 cents per share, consistent with previous guidance."

## MANAGEMENT REVIEW

Argosy's Chief Executive Officer, Peter Mence said "We have started FY24 off very well despite softer operating and economic conditions.

Operationally, the business is in excellent shape with a solid capital position and strong leasing and rent review results over the period.

We did notice a softening in tenant enquiry levels leading up to the election and the time to close deals extended. However, there remains strong market interest and demand for green buildings. We continue to receive positive market enquiry for green properties with their vibrant and engaging environments, which reinforces our overall strategic direction.

The economic environment has resulted in us being even more vigilant around balancing near term results with delivery of our longer term strategic goals. Over the first six months we focused on working with our customers, addressing expiries and leasing vacancy within the portfolio. The combination of our short and long term focus areas continues to underpin the delivery of our strategy, sustainable distributions to shareholders and building a better future for all our stakeholders."

## Financial Results

### Statement of Comprehensive Income

For the 6 months to 30 September, Argosy reported net property income of $58.4 million for the period, up $3.5 million or 6.3% compared with the prior comparable period. Net property income was largely driven by solid like-for-like rental growth from rent reviews and completed developments, particularly 8-14 Willis Street.

Net interest expense of $21.2 million was up $4.9 million on the prior comparable period, primarily due to higher floating rates, higher overall debt levels and lower capitalised interest.

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Independent desktop valuations were performed as at 30 September on all properties by Colliers International. The total unrealised revaluation loss for the 6 months to 30 September was $50.8 million or 2.3% on book value. Overall cap rates softened by 19 basis points to an average of 6.03% and this was a primary driver in revaluation decreases. By sector, Industrial decreased $15.0 million or 1.3%, Office declined by $26.2 million or 3.2%, and Large Format Retail declined by $9.6 million or 4.6%. The portfolio is 9.4% under-rented, excluding market rent on developments.

As a result of the desktop revaluations, Argosy's NTA declined to $1.52 from $1.58 as at 31 March 2023. Following the revaluations, Argosy's portfolio shows a contract yield on values of 5.97% and a yield on fully let market rentals of 6.61%.

The revaluation loss contributed to a net loss after tax of $19.8 million, compared to a net profit of $10.7 million in the prior comparable period.

**Distributable Income**

Net distributable income for the year was $29.5 million compared to $32.9 million in the prior comparable period. The prior comparable period included a $3.0 million receipt in respect of the failed settlement of the Albany Lifestyle Centre.

**Portfolio Activity - Portfolio Metrics, Rent Reviews and Leasing**

Peter Mence said "The first half of the financial year was influenced by tighter economic conditions and geopolitical uncertainty. The team has worked hard delivering solid results around core operating metrics including occupancy, rental growth and leasing outcomes."

As at 30 September, Argosy's WALT was 5.1 years and portfolio occupancy was 98.4%.

For the period to 30 September, Argosy completed 62 rent reviews, achieving annualised rental growth of 3.6%. These reviews were achieved on rents totalling $51.9 million.

On rents subject to review by sector, Argosy achieved annualised rental growth of 3.3% for Industrial rent reviews, 3.9% for Office rent reviews and 3.5% for Large Format Retail rent reviews.

For the period to 30 September, 54% of rents reviewed were subject to fixed reviews, 44% were market reviews and 2% were CPI based.

Argosy completed 14 leasing transactions across 37,600m2 of NLA over the period to 30 September. Lease transactions were made up of new leases (8), renewals (5) and one extension.

Key leasing highlights over the six month period include;

- Instant Offices NZ Limited, 105 Carlton Gore Road for 1,102m2 on a new 8 year lease;
- Colgate Palmolive, 105 Carlton Gore Road for 561m2 on a new 6 year lease;
- Stantec New Zealand, 105 Carlton Gore Road for 1,647m2 on a new 8 year lease;
- Harbour Cancer Centre, 105 Carlton Gore Road for 772m2 on a new 12 year lease;
- Mainfreight Limited, 32 Bell Avenue, 8,138m2 on a 13 month extension;
- The Fitness Portal Limited, 8 Nugent Street, 1,348m2 on a new 8 year lease; and
- Steel & Tube Holdings Limited, 39 Randwick Road, 2,097m2 renewed for 3 years.

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Peter Mence said ”I was very happy with the diligence shown by the team over the first six months of the year. We’ve managed to retain many important tenants and attract some great new tenants to the portfolio, maintaining a retention rate above 91%.

I noted at our full year result that there was potential for a quieter period ahead. However, strong bottom up fundamentals for Auckland Industrial, including low forecast vacancy and rental growth together with a sizable reduction in new supply, leave the sector in positive space. The Industrial sector remains resilient with solid forecast returns over the next three years.

Our portfolio is 53% weighted to Industrial and our pipeline of green Value Add development Industrial sites, such as 224 Neilson Street, will continue to enhance portfolio quality and resilience over the longer term.”

**Divestment of non Core Assets**

There were no divestments during the first six months of the year. However, the non Core asset at 10 Transport Place, East Tamaki, was sold subsequent to 30 September for $38 million at a premium of 7.3% to 31 March 2023 book value.

**Developments**

**Mt Richmond**

Master Planning continues at this 10.6 hectare Value Add green development site in the central industrial precinct of Mt Wellington, only 15km from the Auckland CBD. However, due to market conditions including high interest rates, the development has been pushed back into FY25.

**Neilson Street**

Neilson Street is the second of Argosy’s Value Add green development sites. It is strategically located 8km from the Auckland CBD, with excellent access to both motorway networks. The site will offer 5 Green Star high stud office/warehouse options from 3,500m2 – 7,000m2.

“This location continues to generate interest and we are commencing earthworks for this development in early 2024. There is strong market demand for modern, well located and sustainable buildings. Green developments like Neilson Street coupled with attractive market fundamentals, means we are well placed to benefit from this demand.” said Peter Mence.

**Capital Management**

As at 30 September, Argosy’s debt-to-total-assets ratio, excluding capitalised borrowing costs, was 36.3% compared to 35.1% at 31 March 2023. This remains near the middle of our 30-40% target band and well below the bank/bond covenant of 50%. The settlement of the sale of Transport Place will reduce the debt-to-total-assets ratio to 35.2% on a proforma basis. The interest cover ratio was 2.5 times (2.8 times at 31 March 2023).

Argosy maintains syndicated bank facilities with ANZ Bank of New Zealand Limited, Bank of New Zealand Limited, The Hongkong and Shanghai Banking Corporation, Commonwealth Bank of Australia, Westpac New Zealand Limited and Industrial and Commercial Bank of China Limited (ICBC). The total amount of the bank facility is $525 million, an increase of $50 million from March 2023.

Argosy’s weighted average debt tenor, including bonds, was 2.8 years (3.2 years at 31 March 2023) with the nearest tranche of bank debt expiring in April 2025. The weighted average interest rate was 5.6% (5.4% at 31 March 2023).

**Strategy and Governance**

Jeff Morrison said: “We remain completely focused on building a better future for all our stakeholders. For tenants we do this by creating modern, vibrant, productive spaces where their businesses can thrive. For the environment, we will do this through our commitment to sustainability, greening our portfolio and reducing our carbon footprint. We’ll meet tenant demand, through redevelopment of existing buildings and development of new ones. For our shareholders, we’ll build a better future for them by maintaining a resilient business, providing diversified exposure to attractive property sectors and delivering them sustainable dividends. For our people, we apply the right support and opportunities to help them develop and grow. We remain weighted to the Auckland Industrial market, well placed to benefit from positive long term structural trends.

As we look ahead to the remainder of FY24, the economic environment is still looking difficult for business and consumers. The team recognises the challenges that lie ahead and remains focused on delivering on our critical operational objectives that drive earnings and dividend sustainability. These include completing existing developments and associated leasing up, commencing our new green industrial projects and addressing our residual vacancies and near term expiries. Over and above these, our key strategic goal around greening the portfolio remains a key focus and will support resilient and sustainable dividend growth to shareholders over the long term.”

**Dividends and Outlook**

A second quarter dividend of 1.6625 cents per share has been declared for the September quarter with imputation credits of 0.173398 cents per share attached. This will bring the interim dividend for the six months to 30 September to 3.325 cents per share. Overseas investors will receive an additional supplementary dividend of 0.078685 cents per share to offset non-resident withholding tax.

The record date for the dividend is 6 December 2023 and the payment date is 20 December 2023. The Dividend Reinvestment Plan remains suspended until further notice.

Jeff Morrison said: “Argosy has started the FY24 year well from an operational and capital management perspective. While the near term operating environment has its challenges, we’ll remain focused on our strategy of delivering a sustainably focused, resilient and diversified business that creates long term value for shareholders.”

**END.**

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