



FY19 Interim Results Presentation

Argosy Property Limited
20 November 2018

► www.argosy.co.nz



AGENDA



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PRESENTED BY:

Peter Mence CEO



Dave Fraser CFO



Note: This result should be read in conjunction with the NZX release dated 20 November 2018. Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not reflect exactly absolute figures.



Our strength lies in the diversity of our properties across sectors, location and sizes allowing us to adapt to the changing needs of our tenants.

Peter Mence
CEO

HIGHLIGHTS

Argosy



FY19 Interim Highlights



4.7%

Increase in Net
Property Income

9.2%

Uplift in Net Distributable
Income

3.1%

Annualised rental growth
on rents reviewed

1.5625

Q2 dividend cents per
share

98.4%

Occupancy (by rental)

5.6 years

WALT

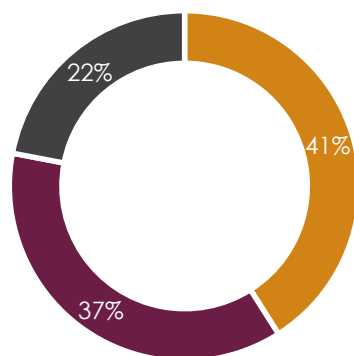




Shareholder return focus	<ul style="list-style-type: none"> ▶ Transition Value Add properties to drive earnings and capital growth with an environmental focus. ▶ Streamlined tenant led development process and execution. ▶ AFFO based dividend policy by 2021.
Diversified approach	<ul style="list-style-type: none"> ▶ Continue to invest in a diverse range of properties across sectors, locations and sizes.
Investment Strategy underpinned by Core and Value Add properties	<ul style="list-style-type: none"> ▶ Core properties between 75-90% of the portfolio by value. ▶ Investment Policy sector bands well established. Industrial 40-50%, Office 30-40%, Retail 15-25%.
Ongoing commitment to corporate governance best practice	<ul style="list-style-type: none"> ▶ Experienced Board with a proven track record. ▶ Renewal process underway with appointment of Stuart McLaughlan and Chris Gudgeon. ▶ More changes pending over the next 12 months.

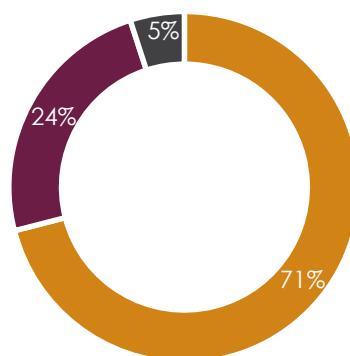
Portfolio at a Glance

TOTAL PORTFOLIO VALUE
BY SECTOR



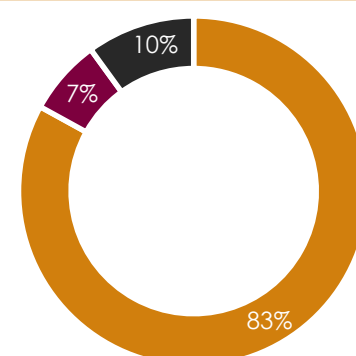
- Industrial
- Office
- Retail

TOTAL PORTFOLIO VALUE
BY REGION



- Auckland
- Wellington
- Regional North Island & South Island

PORTFOLIO MIX
BY VALUE



- Core properties
- Value Add properties
- Properties and land to divest

- ▶ Divestment of non Core assets continuing with recent sales of 31 El Prado Drive, Palmerston North and 1478 Omahu Road, Hastings (both included in 10% above).
- ▶ Expect to move towards the higher end of the industrial band and lower end of the retail band over the medium term.

Sector Summary



INDUSTRIAL

NUMBER OF BUILDINGS

37

MARKET VALUE OF ASSETS (\$M)

\$670.0

OCCUPANCY (BY INCOME)

100%

WALT (YEARS)

7.0

CONTRACT YIELD

6.5%



OFFICE

NUMBER OF BUILDINGS

16

MARKET VALUE OF ASSETS (\$M)

\$596.8

OCCUPANCY (BY INCOME)

96.4%

WALT (YEARS)

3.7

CONTRACT YIELD

6.9%



RETAIL

NUMBER OF BUILDINGS

9

MARKET VALUE OF ASSETS (\$M)

\$356.2

OCCUPANCY (BY INCOME)

100%

WALT (YEARS)

6.6

CONTRACT YIELD

6.5%

Value Add

- The following properties have been designated as Value Add and make up ~7% of the total portfolio:

Property	Sector	Location	Valuation \$m
90 - 104 Springs Road, East Tamaki	Industrial	Auckland	5.6
80 Springs Road, East Tamaki	Industrial	Auckland	10.7
211 Albany Highway, Albany	Industrial	Auckland	22.4
960 Great South Road, Penrose	Industrial	Auckland	6.3
99-107 Khyber Pass Road, Grafton	Office / Retail	Wellington	9.0
8-14 Willis Street	Retail	Wellington	15.1
180-202 Hutt Road, Kaiwharawhara	Retail	Wellington	16.3
Stewart Dawsons Corner	Retail	Wellington	17.7
TOTAL \$m (excl. land)			103.1
56 Jamaica Drive	Land	Wellington	1.1
15 Unity Drive	Land	Auckland	4.4
246 Puhinui Road	Land	Auckland	3.4
133 Roscommon Road, Wiri	Land	Auckland	8.7
TOTAL \$m			120.7



7 Waterloo Quay Update

► **Damage Assessment**

- Interim damage assessment reports and reinstatement scope reports with insurers.
- Next stage is cost assessment which should be completed by early 2019.

► **Insurance Claim**

- Six interim claims made under Argosy's material damage and business interruption insurance.
- Total received to 31 October is \$14.9m (after deductible).
- In the interim period \$2.3m has been allocated to loss of rents and \$2.8m to material damage reinstatement.

► **Reinstatement**

- Reinstatement of affected floors will be complete by March 2019 (apart from level 12).
- Recent changes in the method of measurement for seismic resilience has meant an upgrade is required to bring the building up to required standard for long term government occupation.
- Cost is not final but estimated at \$15-20m to complete this work.
- All works to enable leasing expected to be complete by September 2019.

► **Leasing**

- NZ Post to pay Argosy a termination fee of \$2.9m on 30 November 2018.
- Calculated based on previous rent for levels 2-4 and 7 from 30 November through to 31 August 2019.
- Office leasing environment in Wellington is favourable and currently in negotiations for the remaining space.

Revaluations



	30 Sep 18 Book Value (\$m)	30 Sep 18 Valuation (\$m)	Δ \$m	Δ %	Market Yield *	
					30 Sep 18	31 Mar 18
Auckland	1,121.2	1,151.3	30.1	2.7%	6.50%	6.75%
Wellington	393.5	392.8	(0.8)	-0.2%	7.32%	7.60%
North Island Regional & South Island	73.6	78.9	5.3	7.2%	7.47%	7.96%
Total	1,588.3	1,623.0	34.6	2.2%	6.70%	6.98%

	30 Sep 18 Book Value (\$m)	30 Sep 18 Valuation (\$m)	Δ \$m	Δ %	Market Yield *	
					30 Sep 18	31 Mar 18
Industrial	656.3	670.0	13.7	2.1%	6.54%	6.74%
Office	597.5	596.8	(0.7)	-0.1%	7.23%	7.37%
Retail	334.5	356.2	21.7	6.5%	6.23%	6.80%
Total	1,588.3	1,623.0	34.6	2.2%	6.70%	6.98%

- ▶ Solid revaluation gain 2.2% above book value
- ▶ Regionally, Auckland biggest contributor
- ▶ Wellington office: Stout Street recorded \$4m increase but overall result offset by 7 Waterloo Quay
- ▶ Big increases for two Auckland retail assets in Albany and 320 Ti Rakau Drive following leasing successes there.
- ▶ Portfolio market yield¹ firmed 28bps with Auckland firming 25bps and Retail 57bps

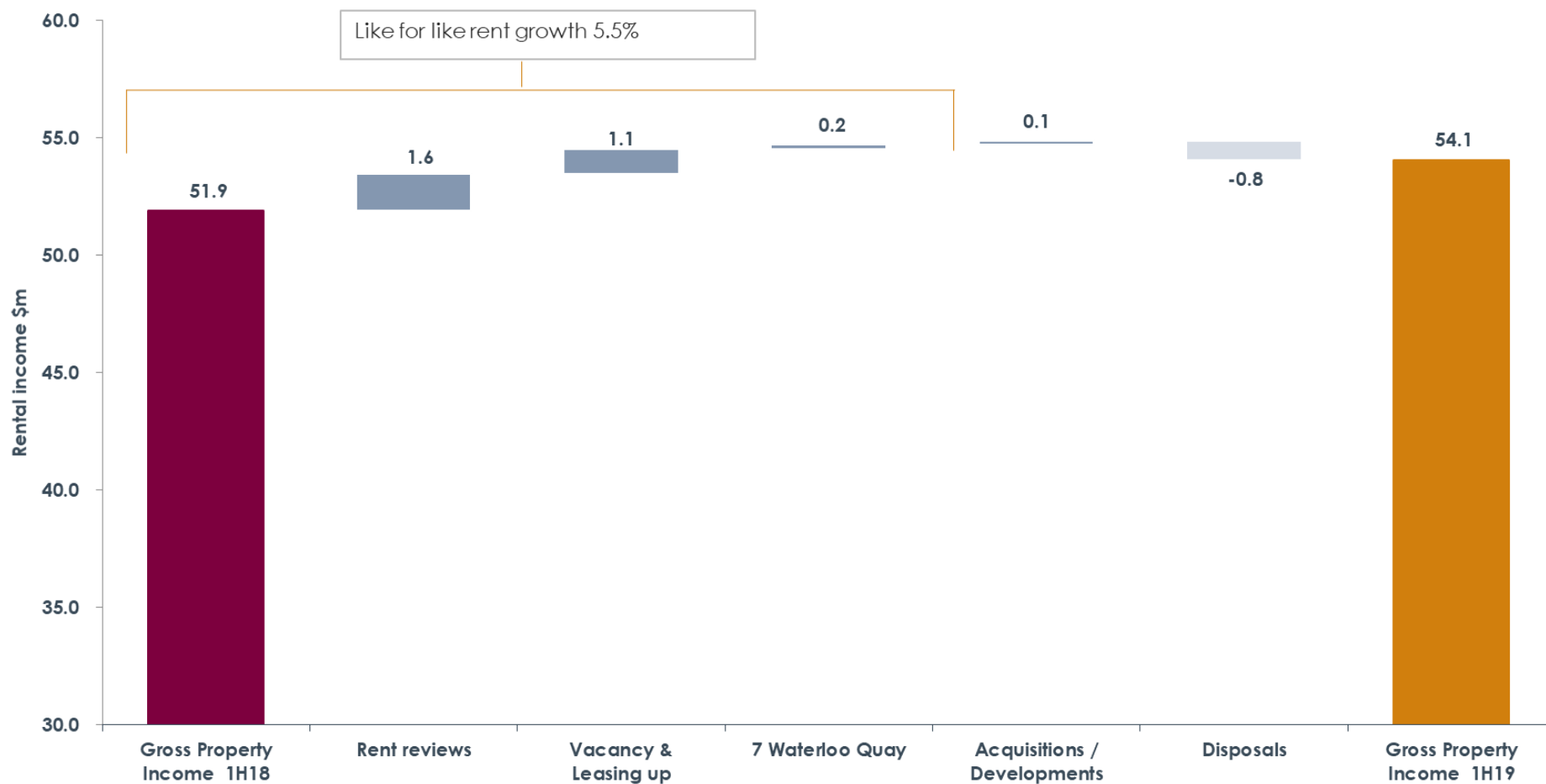
¹ Yields exclude Waterloo Quay and Stewart Dawson Corner.

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FINANCIALS



Income Reconciliation



Financial Performance



	1H19	1H18	
	\$m	\$m	
Net property income	50.8	48.5	Like-for-like growth of 5.5% driving increase in net income
Administration expenses	(5.1)	(4.7)	Expenses up due to mixture of restructuring and additional resourcing costs across the business
Profit before financial income/(expenses), other gains/(losses) and tax	45.6	43.8	
Interest expense	(12.2)	(12.6)	
Gain/(loss) on derivatives	(1.5)	(2.7)	
Revaluation gains	34.6	-	Interim revaluation gains largely driven by cap rate firming
Realised gains/(losses) on disposal	2.9	0.2	Solid realised gains in favourable vendor market
Net: Insurance proceeds & earthquake expense	1.7	(1.3)	
Profit before tax	71.2	27.4	
Taxation expense	(4.5)	(4.3)	
Profit after tax	66.8	23.1	
Basic and diluted earnings per share (cents)	8.07	2.80	

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Distributable Income



	1H19 \$m	1H18 \$m
Profit before income tax	71.2	27.4
Adjusted for:		
Revaluations gains	(34.6)	-
Realised losses/(gains) on disposal	(2.9)	(0.2)
Derivative fair value loss/(gain)	1.5	2.7
Earthquake expense net of recoveries	-1.7	1.3
Gross distributable income	33.4	31.2
Depreciation recovered	0.2	0.4
Current tax expense	(4.9)	(5.3)
Net distributable income	28.7	26.3
Weighted average number of ordinary shares (m)	827.0	823.6
Gross distributable income per share (cents)	4.04	3.79
Net distributable income per share (cents)	3.47	3.19

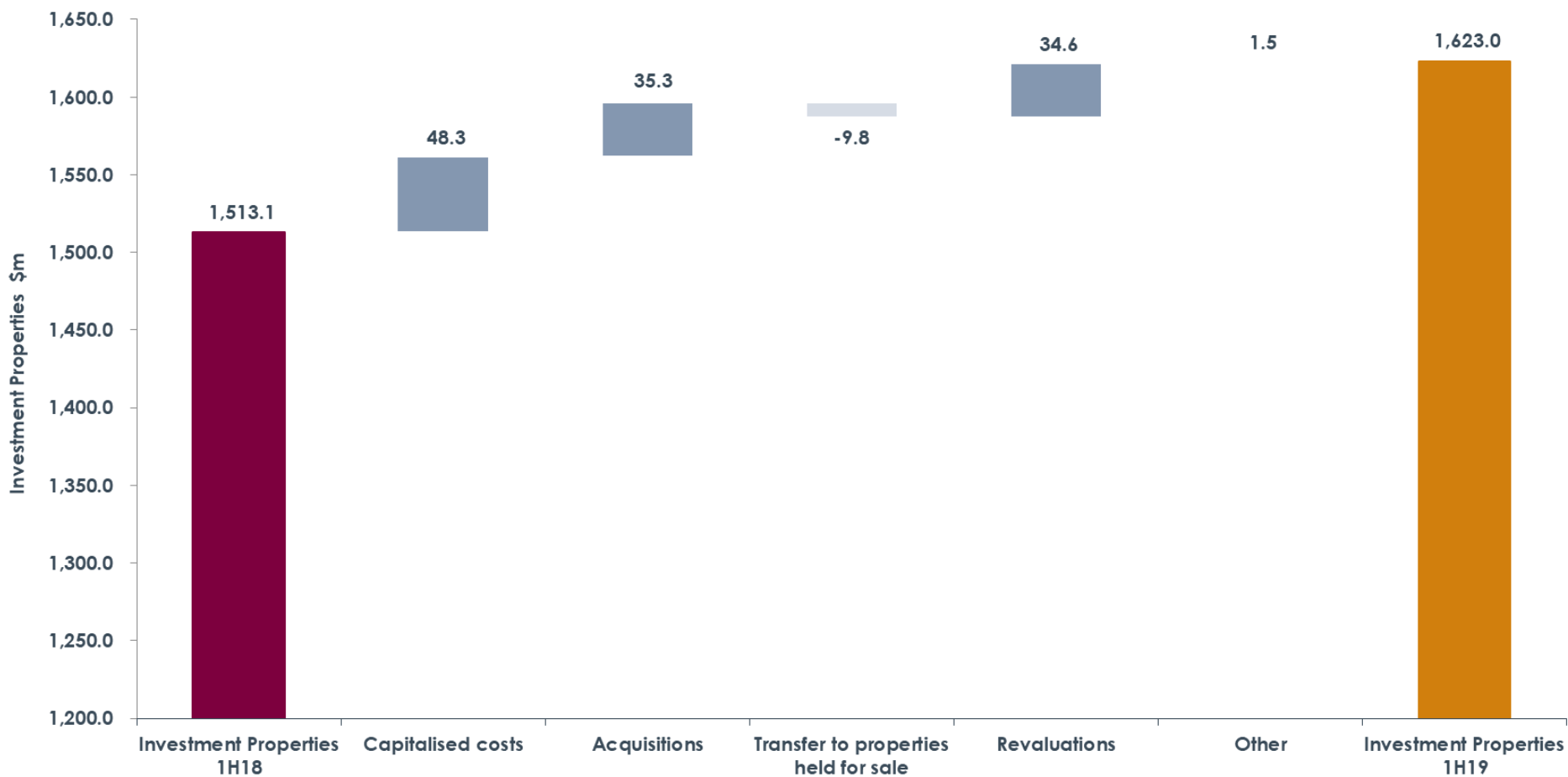
➔ Current tax slightly lower due to disposal write-downs at 7 Waterloo Quay and Wyndham St

➔ Net distributable income per share up by 8.8%

Investment Properties

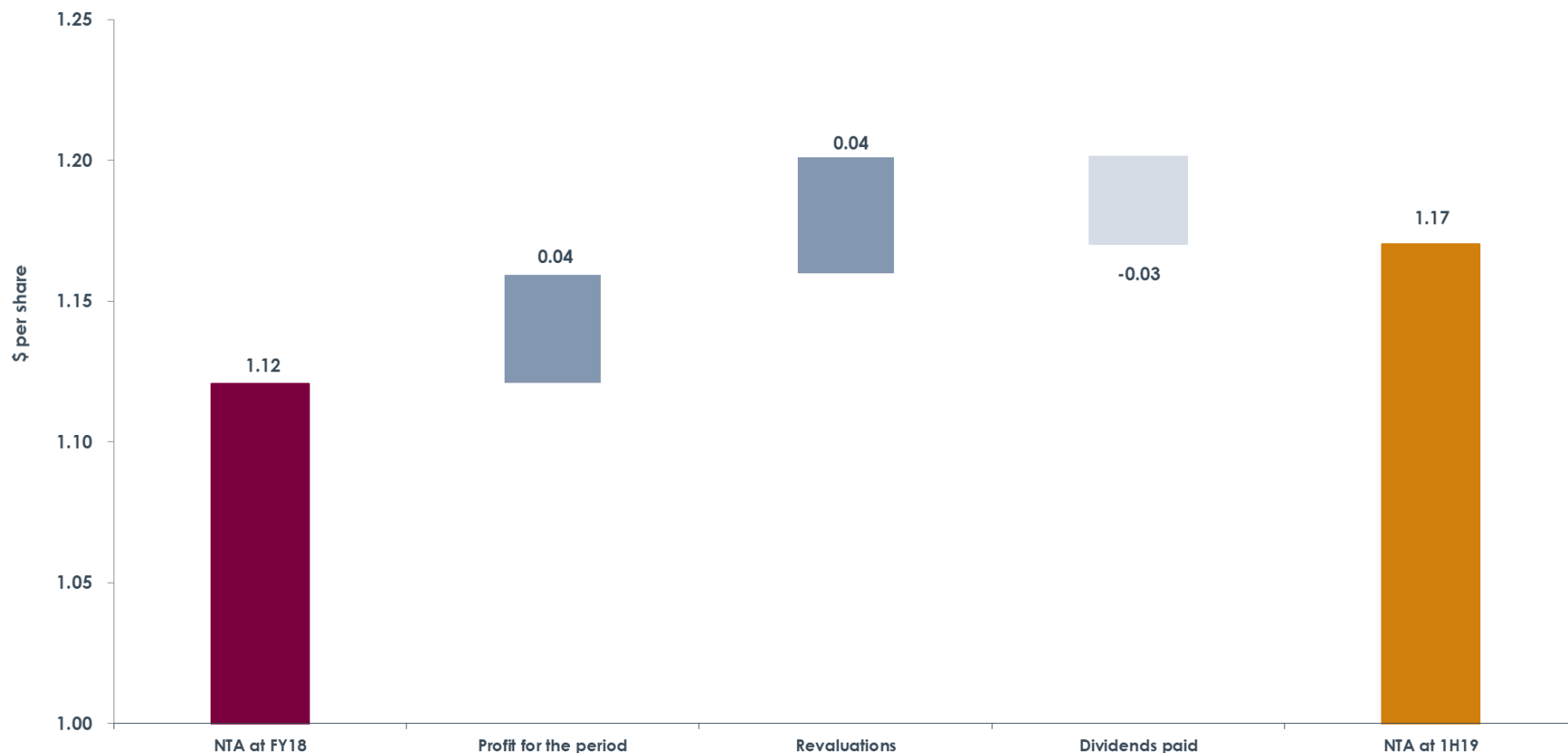


► Portfolio growth driven by a combination of capital projects, acquisitions and revaluation gains.



Movement in NTA per share

► Interim revaluation gain strong driver of ~4.5% uplift for the period.



Gearing

	1H19 \$m	FY18 \$m
Investment properties	1,623.0	1,513.1
Assets held for sale	9.8	27.4
Other assets	10.3	4.3
Total assets	1,643.1	1,544.8
Bank debt (excl. capitalised borrowing costs)	605.0	554.2
Debt-to-total-assets ratio	36.8%	35.9%

- ▶ The asset held for sale is 626 Gt South Rd (Auckland), sold for \$10.6m and which settles in November 2018.
- ▶ The sale of 626 Great South Road and further divestments recently announced totalling ~\$46m will reduce gearing by approximately 2.2%.
- ▶ Target policy gearing range is between 30-40%.

36.8%

Debt-to-total assets ratio

Funding & Interest Rate Management



	1H19	FY18
Weighted average duration of bank facility	2.6 years	3.1 years
Weighted average interest rate ¹	4.86%	4.98%
Interest Cover Ratio	3.3x	3.3x
% of fixed rate borrowings	57%	62%
Average fixed interest rate ²	4.56%	4.56%

- ▶ Argosy maintains strong relationships with its banking partners ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited, and remains well within its banking covenants.
- ▶ Argosy restructured its syndicated bank facility in October 2018, by adding a further tranche of \$25 million, expiring October 2020 (Tranche E).
- ▶ Argosy is reviewing its long term debt funding options with a view to diversifying its debt funding base over the next 12 months.

3.3x

Interest Cover Ratio

¹ Including margin and line fees

² Excluding margin and line fees

Dividends

- ▶ A second quarter cash dividend of 1.5625 cents per share has been declared, with imputation credits of 0.3890 cents per share attached, and will be paid on 19 December 2018.
- ▶ FY19 dividend guidance of 6.25 cents per share remains unchanged, an increase of ~1.0% on the previous year.
- ▶ The FY19 dividend reflects the Board's wish for shareholders to share in the continued strong results whilst allowing Argosy to maintain its momentum towards an AFFO based dividend policy by 2021.

6.25c

FY19 dividend guidance

19 Dec

2nd quarter dividend paid

Leasing Update

Argosy



Leasing Success



- ▶ Strong results over the first half of the year, maintaining a high portfolio WALT of 5.6 years.
- ▶ 24 leasing transactions completed during the period, totalling ~39,500m² of NLA.
- ▶ Notable leasing successes include:

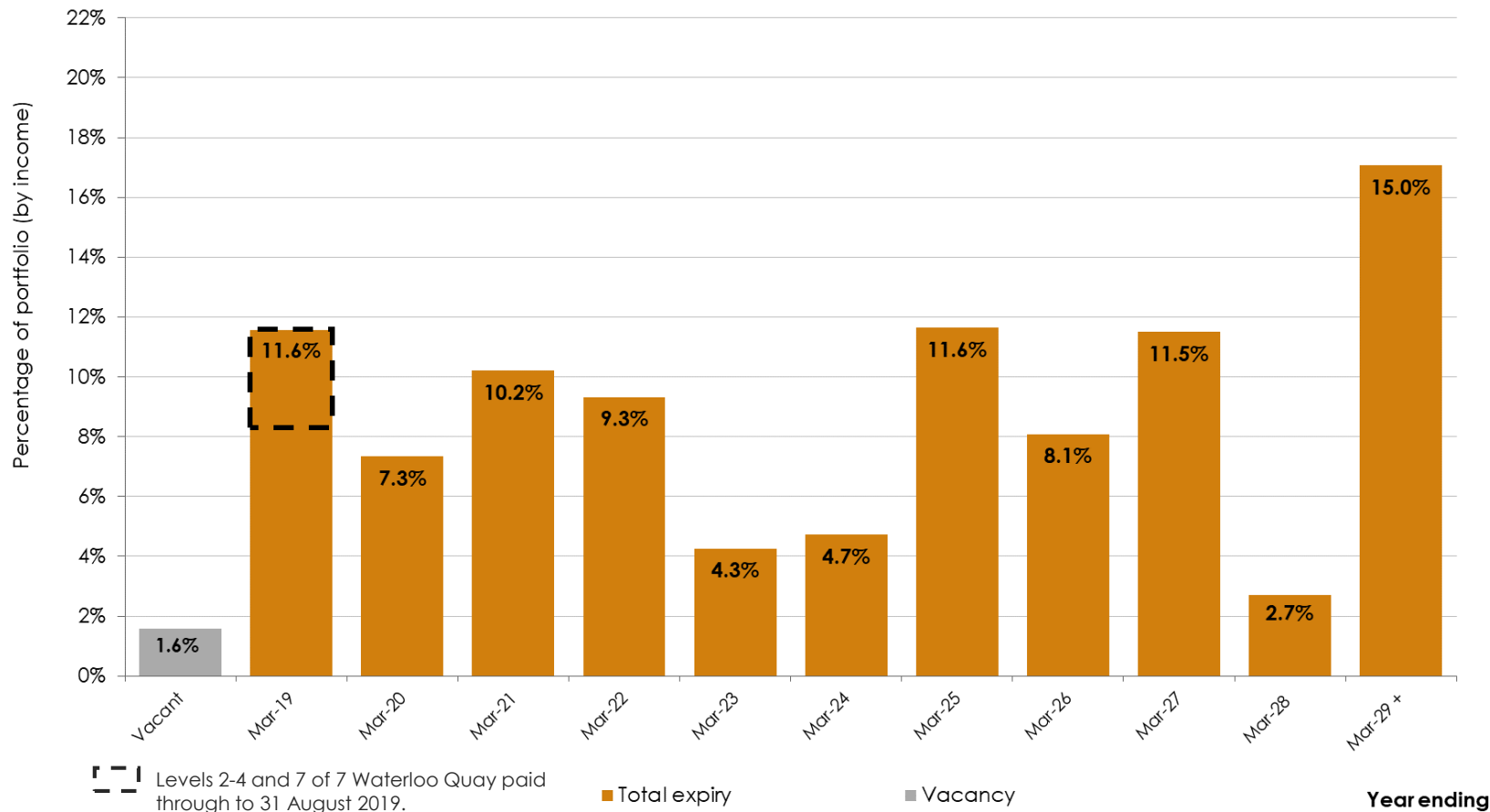
Property	Tenant	NLA (sqm)	Lease Term
320 Ti Rakau Drive, East Tamaki, Auckland	Bunnings Limited	12,374	10 years
Albany Lifestyle Centre, Albany, Auckland	E Road Limited	1,690	9 years
Albany Lifestyle Centre, Albany, Auckland	Peterken Enterprises Ltd	1,225	6 years
Albany Mega Centre, Albany, Auckland	Outdoor Holdings Ltd	592	6 years

- ▶ Some larger FY19 lease expiries to address include:

Property	Tenant	NLA (sqm)	Status
147 Gracefield Road, Wellington	The Information Management Group	8,018	In discussions with tenant
8-14 Willis Street, Wellington	Reserve Bank of New Zealand	3,234	In discussions with tenant
Albany Mega Centre, Auckland	North Beach Trading Limited	1,085	In discussions with tenant

Lease Maturity

- ▶ Normalised lease maturity profile relatively stable over the medium term. Government tenants showing strong interest in 7 Waterloo Quay space.



► Office

- Flexible working environments driving disconnect between employment growth and net absorption. Structural trend is occupiers relocating taking ~10% less space per person than they had previously.
- Rental growth impacted by new supply and there has been an increase in incentives to reflect this.
- The 2016 earthquake created structural change in the Wellington market, strong demand, low vacancy and stock levels. There is a shortage of large floor plate/high quality stock with upward rental growth pressure as a result. Prime vacancy is minimal given pending new supply. Market vacancy is mostly C grade stock.

► Industrial

- Steady economic growth driving occupier demand. Offshore capital flows driving yields/cap rates lower.
- Continued low supply forecast with 1.4% new supply expected per annum between 2018-2022.
- Land values are at historic highs.
- New rental benchmarks being set with ~\$130-140m2 for prime warehouse.
- Vacancy at historic lows for both prime and secondary (< 2%).

► Retail

- Generally a more negative retail spending outlook. Waning migration, increasing fuel prices and flat housing prices are providing headwinds.
- However, some offset from rising minimum wage and a booming tourism sector.
- Approximately 200,000m2 of retail space to be added by 2022.
- Continued increase in online retailing.
- Large format retail expected to see biggest rental growth.

Looking Ahead

Argosy



Looking ahead

Income and earnings sustainability	<ul style="list-style-type: none">▶ Earnings per share growth▶ AFFO based dividend policy in medium term
Sound capital position	<ul style="list-style-type: none">▶ Liquid, flexible and diverse capital base▶ Longer term debt options being considered
Improve portfolio metrics and quality	<ul style="list-style-type: none">▶ Reduce key vacancies and proactive management of expiry profile▶ Undertake Value Add projects to enhance portfolio quality
Corporate governance	<ul style="list-style-type: none">▶ Maintain appropriate Board composition to deliver strategy▶ Ongoing commitment to corporate governance best practice



Adjusted Funds from Operations (AFFO)



	1H19 \$m	1H18 \$m	
Net distributable income	28.7	26.3	--▶ +9.2%
Amortisation of tenant incentives and leasing costs	2.0	2.1	
Funds from operations (FFO)	30.7	28.5	--▶ +8.1%
Capitalisation of tenant incentives and leasing costs	(3.0)	(1.8)	
Maintenance capital expenditure	(2.5)	(3.6)	
Tax effected maintenance capital expenditure recovered	0.1	0.2	
Adjusted funds from operations (AFFO)	25.3	23.2	--▶ +9.0%
Weighted average number of shares on issue (m)	827.0	823.6	
AFFO per share (cents)	3.06	2.82	
Dividends paid/payable in relation to period	3.13	3.10	
Dividend payout ratio (to AFFO)	102%	110%	

Note: Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not exactly reflect absolute figures. AFFO is an alternative performance measure used to assist investors in assessing the Company's underlying performance and to determine income available for distribution. This reconciliation is based on guidelines for disclosing AFFO as provided by the Property Council of Australia.

Rent Reviews



Type	#	Previous Rent (000's)	New rent (000's)	\$ Increase (000's)	% Increase	Annualised \$ Increase (000's)	Annualised % Increase	% of rent reviewed
Total	42	15,508	16,043	535	3.4%	478	3.1%	100.0%

By review type								
Fixed	27	8,792	9,073	281	3.2%	281	3.2%	56.7%
Market	4	2,200	2,325	125	5.7%	101	4.6%	14.2%
CPI	11	4,516	4,645	129	2.9%	96	2.1%	29.1%

By sector								
Industrial	9	7,802	8,107	305	3.9%	280	3.6%	50.3%
Office	17	2,719	2,794	76	2.8%	63	2.3%	17.5%
Retail	16	4,987	5,142	154	3.1%	135	2.7%	32.2%

By location								
Auckland	36	12,943	13,352	409	3.2%	390	3.0%	83.5%
Wellington	5	1,854	1,938	84	4.5%	46	2.5%	12.0%
Other	1	711	753	42	5.9%	42	5.9%	4.5%

Rent Reviews

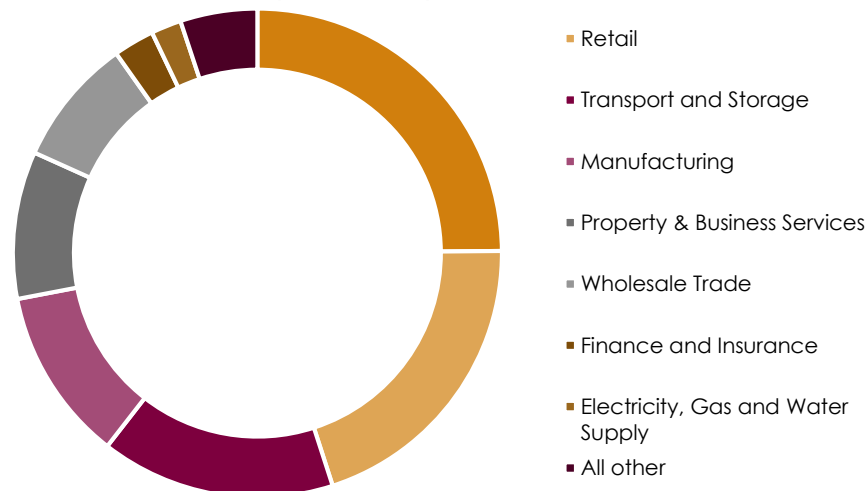


	#	Previous Rent (000's)	New rent (000's)	\$ Increase (000's)	% Increase	Annualised \$ Increase (000's)	Annualised % Increase	% of rent reviewed
Auckland								
Office	14	2,195	2,247	52	2.4%	51	2.3%	13.8%
Industrial	6	5,760	5,963	203	3.5%	203	3.5%	44.5%
Retail	16	4,988	5,142	154	3.1%	136	2.7%	41.7%
	36	12,943	13,352	409	3.2%	390	3.0%	100.0%
Wellington								
Office	3	523	548	25	4.6%	11	2.2%	28.2%
Industrial	2	1,331	1,390	59	4.5%	35	2.6%	71.8%
Retail	0	0	0	0	0.0%	0	0.0%	0.0%
	5	1,854	1,938	84	4.5%	46	2.5%	100.0%

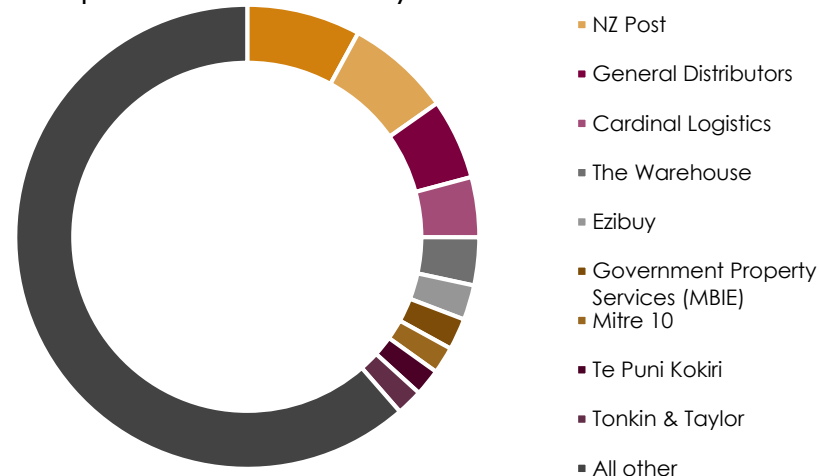
Portfolio Metrics

- The strength of our diversified portfolio is in the breadth and depth of our tenant base and sectors they represent.

Rent Roll by Industry



Top 10 Customers by Rent

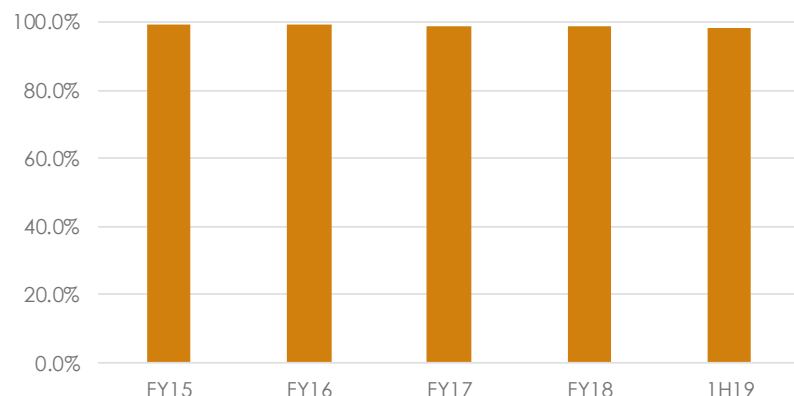


Note: Data as at 30 September 2018

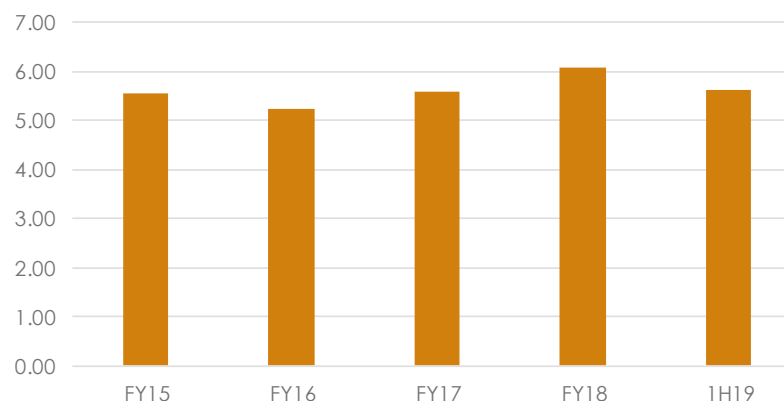
Portfolio Snapshot

- Our focus is delivering improved portfolio quality and is reflected in our strong portfolio metrics

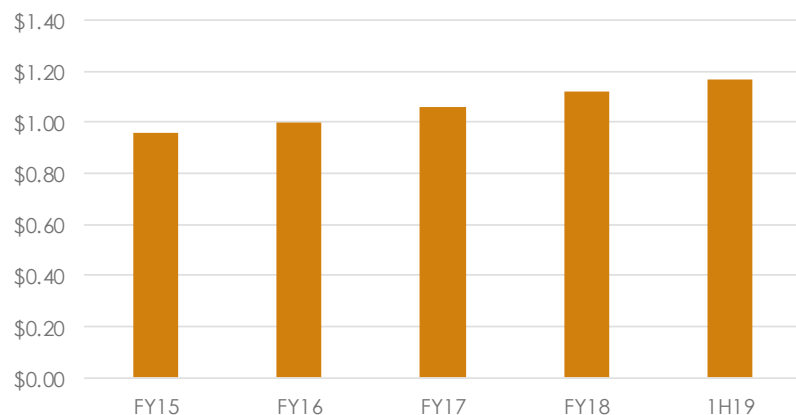
Occupancy



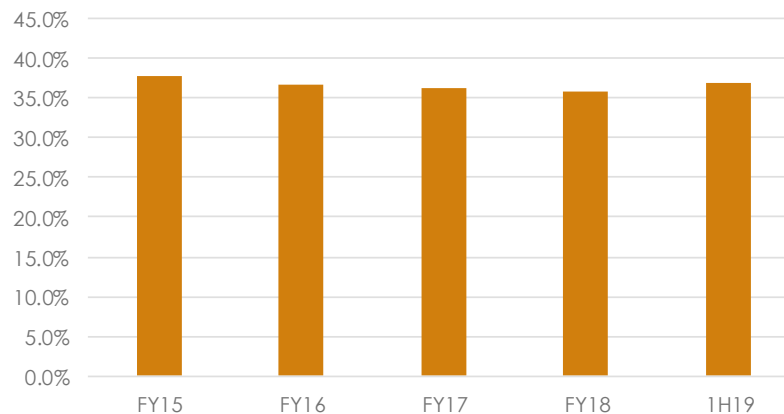
WALT (years)



Net Tangible Assets



Debt-to-total-assets



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All values are expressed in New Zealand currency unless otherwise stated.

20 November 2018