Argosy

18.5.2022

Market Release

FY22 Annual Result – Building a better future

Argosy will present the FY22 annual result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10020943-uEqL7N.html or dial 0800 453 055 and quote the conference ID 10020943. 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 12 months to 31 March 2022.

Key highlights for the period include:

- Net profit after tax of $236.2 million;
- $163.7 million annual revaluation gain, an increase of 8% on book value;
- Increase in NTA per share to $1.74 from $1.53 at 31 March 2021, a 13.7% increase;
- Net property income for the period of $105.1 million;
- High occupancy (~98.7%) and WALT (5.7 years);
- Strong portfolio leasing and rent review outcomes, including 3% annualised rental growth on rents reviewed;
- 7WQ in Wellington is now 100% leased;
- Our continued focus on sustainability and progressive green developments with 8-14 Willis Street now substantially complete and 105 Carlton Gore Road, and 12-20 Bell Ave underway;
- A full year dividend of 6.55 cents per share, a 1.6% increase over FY21; and
- FY23 dividend guidance of 6.65 cents per share, a 1.5% increase on the prior year;

Chairman Jeff Morrison said, "the Board is very pleased with the way the business has delivered through yet another Covid-19 impacted year. This has laid a strong foundation for FY23 and beyond. The business continues to demonstrate the resilience offered by a portfolio diversified by sector, tenant and location.

Over the last 24 months the company's exposure to the Auckland Industrial sector has been a positive influence, underpinning the Company's ability to deliver dividend and revaluation growth through difficult economic conditions.

The Company's focus is on driving our sustainability strategy by providing environmentally sensitive, high quality, vibrant spaces for its tenants and their staff. We'll continue building and maintaining strong relationships with those tenants and other stakeholders to drive sustainable returns for shareholders. The recent completion of large office and mixed use refurbishment projects in Wellington is a good example of this.

Argosy is able to effectively redevelop existing buildings into green buildings to help the reduction of its carbon footprint. Argosy has a significant pipeline of green opportunities ahead of it, particularly in Auckland's Industrial market.

The business is well positioned to deliver sustainable returns despite the headwinds of higher inflation, rising interest rates and geopolitical volatility. Based on current projections for the portfolio and subject to market and interest rate conditions, the FY23 dividend is expected to be 6.65 cents per share, a 1.5% increase on the prior year."

Argosy's Chief Executive Officer, Peter Mence said, "After another challenging year affected by lockdowns and restrictions, its pleasing to have delivered what we consider to be a very solid full year result to shareholders.

We delivered on our operational focus areas around vacancies, key expiries and developments. We also divested our non Core asset at 25 Nugent Street at a healthy premium to book value. Our core portfolio metrics have remained sound despite the operational environment being so difficult for everyone.

8-14 Willis Street is now substantially complete and has been handed over to Statistics New Zealand for fitout. The handover sees Argosy complete the largest green development project in its history. We are targeting a 6 Green Star rating for this high quality Core asset. The Wellington office market continues to exhibit strong fundamentals and our ongoing exposure to Government rental streams provides resilience during uncertain times.

Master planning at Argosy's two key Auckland industrial estates at Mt Richmond Road and Neilson Street is well progressed and we are fielding strong market enquiry for these sites, which will be redeveloped into green industrial estates. We're excited about the potential these sustainably focused properties bring to the portfolio and the cross section of new industrial tenants showing interest. Strong industrial fundamentals means this sector is forecast to be the best performer over the next five years.

We are focusing on our organic Value Add development pipeline due to scarcity of land driving very high bare land pricing. Given the pipeline of work ahead, we've resourced our development team accordingly.

With the economy facing a range of headwinds, the next 12 months will be challenging for the domestic economy, but the business is well positioned for it.

We will continue to work hard on the things we can control. On the operational side, this is leasing up vacancies and renewing expiring leases. On the strategic side, we'll keep working closely with our tenants and supporting their growth aspirations, completing our existing green projects and master planning and developing our Value Add opportunities. All of these support the delivery of our strategic plan and sustainable distributions to shareholders."

Financial Results

Statement of Comprehensive Income

For the 12 months to 31 March, Argosy reported net property income of $105.1 million for the period, marginally down compared with the prior comparable period.

Net property income was bolstered by steady rental growth, a full year contribution from Mt Richmond and lower Covid-19 rent rebates over the period, offset by disposals, particularly the Albany Lifestyle Centre.

For the year to 31 March, Argosy provided $1.6 million in rental abatements to tenants and no deferrals.

Net interest expense of $25.6 million was down by $2.9 million on the prior comparable period, primarily due to higher capitalised interest on developments and lower debt levels.

Annual valuations for the year to 31 March were performed by CBRE Limited, Colliers International New Zealand Limited, Bayleys Valuation Limited and Jones Lang Lasalle. The total unrealised revaluation gain for the year to 31 March was $163.7 million or an 8% increase above book value. Of the annual gain 56% was recognised in the interim desktop valuation assessments at 30 September 2021. The portfolio is 3.3% under-rented, excluding market rent on vacant space.

Distributable Income

Net distributable income for the year was $64.7 million compared to $67.7 million in the prior comparable period. The prior comparable period included a forfeited deposit of $4.5 million from the original sale of the Albany Lifestyle Centre, which was not settled.

Valuations

By location, Auckland was the largest contributor to the total year end valuation result with an unrealised revaluation increase of $142.1 million or 87% of the total portfolio uplift. By sector, and at 51% of Argosy's portfolio by value Industrial was the key driver of the overall gain at $144.7 million, up 14.7% on book value. The Office portfolio increased $9.1 million, and Large Format Retail increased by $9.8 million.

As a result of the FY22 revaluation gain, Argosy's NTA increased to $1.74, or 13.7% from $1.53 at 31 March 2021. Following the revaluation, Argosy's portfolio shows a contract yield on values of 5.23% and a yield on fully let market rentals of 5.43%.

Portfolio Activity

Portfolio Metrics, Rent Reviews and Leasing

As at 31 March, Argosy's WALT was 5.7 years and portfolio occupancy was 98.7%.

For the year to 31 March, Argosy completed 99 rent reviews achieving annualised rental growth of 3.0%. These reviews were achieved on rents totalling $60.1 million. On rents subject to review by sector, Argosy achieved annualised rental growth of 2.8% for Industrial rent reviews, 3.2% for Office rent reviews and 3.2% for Large Format Retail rent reviews.

Peter Mence said "The second half of the year was challenging as we operated under red traffic light settings. However, we were very pleased to have delivered solid results around key operating metrics of occupancy, rental growth and leasing."

For the year to 31 March, 76% of rents reviewed were subject to fixed reviews, 8% were market reviews and 16% were CPI based. Fixed reviews accounted for 72% of the total annualised rental uplift and Auckland and Wellington contributed 76% and 19% of the total annualised rental uplift respectively.

Argosy completed 31 leasing transactions across 74,376m^2 of NLA over the year to 31 March. Lease transactions were made up of new leases (23), extensions (3), renewals (5).

Key leasing highlights over the financial year include;

- Thermo Fisher Scientific NZ Limited, 5 Allens Road, East Tamaki, 6yr renewal
- Commercial Fisheries Services Limited, Level 12 at 7WQ, new 9yr lease
- Mobil Oil NZ Limited, 8 Nugent Street, 3yr extension
- Macpac Limited, Albany Mega Centre, new 6yr lease
- Ministry of Housing and Urban Development, 7WQ, new 7yr lease
- The Baby Factory, Albany Mega Centre, new 6yr lease
- PBT Transport, 18-20 Bell Ave, new 10yr lease
- PBT Transport, 12-16 Bell Ave, new 10yr lease
- Tax Management New Zealand Limited, 23 Customs Street, new 5yr lease

”It is very pleasing to have 7WQ now 100% leased, with 94% of space occupied by government tenants. Coupled with the substantially completed façade works, the building is now well positioned to deliver resilient, long term income given its weighting to highly defensive Government rental streams.

The Auckland Industrial sector continues to be very attractive with strong bottom-up fundamentals, including low vacancy and strong rental growth. It’s a resilient sector and has the best forecast returns over the next five years. With half of Argosy’s portfolio weighted to Industrial, the pipeline of green Value-Add development industrial sites will enhance our portfolio quality and resilience over the longer term” said Peter Mence.

Acquisitions

After Balance Date, Argosy acquired 100 Maui Street (Maui Street), located in Pukete, Hamilton for $33.1 million. Maui Street has excellent connectivity to motorway arterials and State Highway One. Peter Mence said “By location, the property is consistent with our strategy and enhances our exposure to the attractive Industrial sector. Prolife Foods are a well-established local food manufacturer. They are a high quality partner and an essential service, which aligns with our strategy of being a diversified business with resilient earnings and cashflows. There is also 8,100m^2 of vacant land for development in the future which provides additional attraction to this acquisition. We’re pleased to welcome Prolife Foods into the Argosy family.”

The purchase price was the mid-point of a Colliers International initial valuation range and gives an IRR of 6.7% and an initial yield of 4.5%.

The acquisition sees Argosy with a portfolio weighting to the Golden Triangle of 1.5% versus our 5% target and increases our overall Industrial exposure to 52%. The acquisition environment remains strong despite rising interest rates. As highlighted above, Argosy remains open to strategic acquisitions that meet its investment criteria, preferably industrial sites within a prime industrial precinct with the capacity to support tenant growth aspirations.

Divestment of non Core Assets

Argosy sold the Albany Lifestyle Centre in April 2021 and Omahu Road, Hastings in September 2021. In the second half of FY22, the Company announced it had unconditionally sold 25 Nugent Street in Auckland, for $22.0 million. The sale to a local investor, reflected a 28% premium above book value and settlement is expected to occur in September 2022. These sales reflect the back end of Argosy’s capital management initiatives over the last 24 months, where assets no longer meet Argosy’s investment criteria.

Investment Policy Bands

The Board made a strategic decision to adjust Argosy's Investment Policy target bands to increase the portfolios weighting towards the strongly performing Industrial sector. Accordingly, by portfolio value, the Industrial target is now 55-65% (was 45-55%), Office is now 25-35% (was 30-40%) and the Large Format Retail target is now 5-15% (was 10-20%).

Peter Mence said "We have done a lot of work assessing the organic Value Add opportunities within the portfolio coupled with analysis of forecast sector returns. Auckland Industrial is forecast to be the best performing sector over the medium term and by delivering on our current pipeline of Value Add opportunities, we expect to be within our new target bands over the medium term. We're excited about what the future holds for Argosy and the development team are going to be extremely busy delivering a pipeline of well-designed, vibrant and sustainable spaces for tenants and their staff to work and flourish."

Developments

8-14 Willis Street and 360 Lambton Quay, Wellington

The development at 8-14 Willis Street is now substantially complete with the building to be formally handed over to Statistics New Zealand. The tenant has access to nine floors and soft fit out is being undertaken by the tenant as well as audio visual installation works. The building is targeting a 6 Green Star Built rating.

Leasing on the office space at 360 Lambton Quay continues and there is strong interest for the space. Management is progressing documentation of a lease on the property.

The retail area in both buildings is now fully leased.

7 Waterloo Quay, Wellington (7WQ) – leasing and façade works

The building is now 100% leased and the façade works have largely been completed.

12-16 & 18-20 Bell Ave, Mt Wellington, Peter Baker Transport Limited (PBT)

This $8.8 million redevelopment targeting 4 Green Star continues to progress well. PBT has entered into a new 10 year lease with two rights of renewal of six years. On completion, the project is forecast to have a yield on development cost of 5.2% and IRR of 8.3%. The forecast valuation on completion is expected to be $69 million.

Argosy Chief Executive Officer Peter Mence said "This type of project really embodies our vision of building a better future for our tenants, their staff, the environment and of course our stakeholders. Argosy has built a market leading position over the last decade in redeveloping existing buildings into green assets, and we have more of these industrial opportunities in the pipeline.

Extending PBT's lease at the location for ten years was fundamental to the project and exemplifies the benefits of having valuable relationships with our tenants to support their long-term strategic growth aspirations.

The development is clearly on strategy and demonstrates that tenants are increasingly collaborative around environmental & sustainability issues and keen to support our commitment to reduce carbon emissions. The recent expansion of our development team enhances our capability to deliver on the growing development pipeline across the business."

The development is expected to be completed by September 2022.

105 Carlton Gore Road, Newmarket

Argosy has commenced another capital project with this $35 million green redevelopment with an expected completion date in May 2023. The building is now targeting 6 Green Star certification (previously 5 Star) and is forecast to be valued at $65 million on completion, generating an IRR of 7.2% and a yield on cost of 5.3%. Leasing enquiry for the redeveloped building is strong, and it is expected that it will be leased prior to completion.

"The green redevelopment at 105 Carlton Gore Road will certainly offer something different, bringing a fresh and vibrant look to the area" said Peter Mence.

Capital Management

As at 31 March, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 31.1% compared to 35.9% at 31 March 2021. The ratio continues to reflect the net impact of divestments and revaluation gains, offset by development activity during the period[1].

Argosy's year end gearing sits towards the bottom end of its target gearing band of 30-40%, and well below its bank covenant of 50%. The Board considers there is sufficient capacity to accommodate known, medium term funding requirements.

As noted in the first half of the year, Argosy extended $215 million of its existing syndicated bank facilities with ANZ Bank of New Zealand Limited, Bank of New Zealand Limited, Hongkong and Shanghai Banking Corporation, Commonwealth Bank of Australia and Westpac New Zealand Limited. The total amount of the bank facilities has reduced by $35 million and is now $455 million, down from $490 million previously.

[1] The ratio excludes the right of use asset at 39 Market Place of $40.2 million, recorded in the period under NZ IFRS 16.

Argosy's weighted average debt tenor, including bonds, was 3.5 years (4.2 years at 31 March 2021) and its weighted average interest rate was 4.14%, compared to 3.69% at 31 March 2021.

Strategy and Governance

"Argosy's future will be driven by maintaining our leading market position of redeveloping existing buildings into green and driving growth into the attractive Auckland Industrial sector, especially over the medium term. We'll continue to develop strong relationships with the Government sector. Our FY23 key deliverables will be focused on completing existing developments, commencing our new green projects, leasing new developments and residual portfolio vacancies and addressing key expiries. Our big strategic goals coupled with our current year objectives, support the delivery of resilient and sustainable dividend growth over the long term" said Jeff Morrison.

Argosy's Annual Shareholders Meeting (ASM) will be held as a hybrid meeting on 21 June at 2pm at the Royal New Zealand Yacht Squadron in Auckland. The hybrid functionality of the ASM allows shareholders to attend virtually and participate in all elements of the meeting including questions and answers and completing all voting.

Mike Pohio and Chris Gudgeon will retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election.

Dividends and Outlook

A fourth quarter dividend of 1.6375 cents per share has been declared for the March quarter with 0.1276 cents per share imputation credits attached. This brings the full year dividend to 6.55 cents per share in line with guidance. The dividend will be paid to shareholders on 22 June 2022 and the record date will be 8 June 2022. The Dividend Reinvestment Plan has been suspended by the Board until further notice.

Jeff Morrison said "We remain very focused on delivering measured dividend growth to shareholders. Based on current projections for the portfolio and subject to market conditions (including interest rate increases), the forecast FY23 dividend guidance is 6.65 cents per share, a 1.5% increase on the prior year."

Argosy starts FY23 with a portfolio in good shape and the business with a very sound capital position with strong foundations for this year and beyond. The company remains driven to ensure it remains a sustainably focused (green), resilient and diversified business that delivers measured sustainable dividend growth to shareholders.

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