22.11.2022

Market Release

FY23 Interim Result

Argosy will present the FY23 interim result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10026640-dlz5m8.html or dial 0800 453 055 and quote the conference ID 10026640. 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 six months to 30 September 2022.

Key highlights for the period include:

- Net property income of $55.0 million, up 3.6%;
- Net distributable income of $32.9 million (flat on pcp);
- Adjusted Funds From Operations (AFFO) of $32.0 million, up 25.7%;
- Continued high occupancy (98.9%) and WALT (5.5 years);
- Strong portfolio leasing and rent review outcomes over the first half of the year, including 2.6% annualised rental growth on rents reviewed;
- Modest $23.5 million revaluation loss resulting in a decrease in NTA per share to $1.72 from $1.74 at 31 March 2022;
- Continued successful focus on sustainability and progressing green developments; and
- Unchanged 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 company has continued to build on the foundations laid in prior years in the first six months of FY23. While rising interest rates, inflation and cost of living concerns continue to create headwinds for the economy, Argosy has continued to deliver on strategy underpinned by a robust capital position and resilient portfolio.

A key benefit of Argosy's portfolio is the resilience that diversification by location and sector provides through various economic cycles.

The bottom-up fundamentals of the Auckland Industrial and Wellington Office sectors remain strong, with both experiencing ongoing rental growth and low vacancy levels. Rental income from Government tenancies also helps to underpin the company's earnings and dividends.

Argosy continued to execute on its Value Add opportunities over the first six months with the completion and formal opening of 8-14 Willis Street in Wellington for Statistics New Zealand in July.

Based on current projections for the portfolio and subject to market and interest rate conditions, FY23 dividend guidance is reiterated at 6.65 cents per share, a 1.5% increase on the prior year."

Argosy's Chief Executive Officer, Peter Mence said "We have started the year very well. Operationally, the business is in good shape with several new leases and renewals being addressed. The Auckland Office leasing market has proven to be more resilient than many expected, particularly in the non-CBD segment. The current environment is showing a decided preference by tenants for sustainable green rated buildings, and this is providing benefits from decisions made by the company up to a decade ago.

The development team have continued to progress our Value Add opportunities at Mt Richmond, Neilson Street and 105 Carlton Gore Road which is now over 50% leased. We continue to receive strong market enquiry for these properties which underpin our green development pipeline over the next few years.

We expect that the next 12 months will be challenging for the domestic economy but believe the business is well placed and expect dividends to be consistent with guidance. We will remain focused on achieving the best long term results for our shareholders while being cognisant of the immediate hurdles and opportunities. To do this, we will continue to develop our Value Add opportunities to deliver high quality, vibrant green spaces for our tenants that support their growth aspirations. We will continue to focus on working with our customers, addressing expiries and leasing vacancy within the portfolio. We expect to see further rental growth in the portfolio over the next six months. All of these activities support the delivery of our strategy and sustainable distributions to shareholders."

Financial Results

Statement of Comprehensive Income

For the six months to 30 September, Argosy reported net property income of $55.0 million for the period, up 3.6% compared with the prior comparable period.

The net property income increase was driven by steady like for like rental growth of 3.6%, part period contributions from acquisitions (Maui Street) and developments (Willis Street) and lower Covid-19 rent rebates over the period, offset by disposals.

Net interest expense of $16.3 million was up $3.2 million on the prior comparable period, due to higher floating interest rates and higher debt volume from acquisitions and development expenditure.

An internal assessment of property valuations was undertaken at the end of the period and reviewed by an independent valuer. Based on the internal assessment, a total unrealised revaluation loss for the period of $23.5 million, or a 1% decrease to book value as at 30 September 2022, was adopted. Chairman Jeff Morrison said, "Although there is little transactional evidence, the Argosy Board believed it was prudent to reflect wider market expectation around softening market conditions up to 30 September."

Argosy also received $3.0 million during the period from the defaulting purchaser under the March 2020 contract for the sale of the Albany Lifestyle Centre. The sale of the property to an alternative purchaser was subsequently completed in May 2021.

Distributable Income

Net distributable income for the six months was $32.9 million, stable compared to $33.0 million in the prior comparable period.

AFFO

AFFO for the six months was $32.0 million which was up by $6.5 million on the $25.5 million recorded in the prior comparable period. The prior comparable period included $7.2 million in façade repairs at 7 Waterloo Quay. These repairs are now complete.

NTA

As a result of the interim internal assessment, Argosy's NTA decreased to $1.72, from $1.74 at 31 March 2022.

Portfolio Activity

Portfolio Metrics, Rent Reviews and Leasing

As at 30 September, Argosy's WALT was 5.5 years and portfolio occupancy was 98.9%, up slightly from 98.7% at 31 March 2022.

For the six months to 30 September, Argosy completed 53 rent reviews achieving annualised rental growth of 2.6%. These reviews were achieved on rents totalling $27.0 million. On rents subject to review by sector, Argosy achieved annualised rental growth of 2.4% for Industrial rent reviews, 2.8% for Office rent reviews and 3.5% for Large Format Retail rent reviews.

For the first six months of the 2023 financial year, 87% of rents reviewed were subject to fixed reviews and 12% were market reviews.

Argosy completed 19 leasing transactions across 21,046m^2 of NLA over the six months to 30 September. Lease transactions were made up of new leases (9), extensions (2) and renewals (8). Notably, leasing enquiry remains almost exclusively focused on sustainable green rated premises.

Key leasing highlights over the financial period include:

- Ministry for the Environment, 8 Willis Street, 2,225m^2 on a new 6 year lease;
- Alchemy Equipment Limited, 360 Lambton Quay, 115m^2 on a new 7 year lease;
- Macpac New Zealand Limited, 360 Lambton Quay, 389m^2 on a new 6 year lease;
- Bentley and Co Limited, 23 Customs Street, 204m^2 on a new 6 year lease;
- Harbour Cancer Centre, 105 Carlton Gore Road, 755m^2 on a new 12 year lease;
- Stantec New Zealand, 105 Carlton Gore Road, 1,606m^2 on a new 8 year lease;
- Briscoes Group Limited, Albany Mega Centre, 3,568m^2 renewed for 6 years;
- The Sports Authority (Rebel Sports), Albany Mega Centre, 2,083m^2 renewed for 6 years;
- Lighting Direct, Albany Mega Centre, 571m^2 renewed for 6 years; and
- Mainfreight, 32 Bell Ave, 8,139m^2 renewed for 12 months.

"We continue to see strong bottom-up fundamentals, including low vacancy and strong rental growth in the Auckland Industrial market. The Auckland Industrial sector is forecast to contribute solid returns over the next few years and, with half of our portfolio in this sector, the portfolio remains well positioned to deliver attractive long term returns to shareholders." said Peter Mence.

Acquisitions

Argosy acquired an Industrial property at 100 Maui Street (Maui Street), located in Pukete, Hamilton for $33.1 million early in the period. The Maui Street acquisition is consistent with Argosy's strategy and enhances its exposure to the attractive Industrial sector.

Prolife Foods are the tenant and a local food manufacturer, making them an essential service and high-quality tenant. The property includes 8,100m^2 of vacant land for development in the future.

Divestment of non Core Assets

During the period, Argosy settled the sale of 25 Nugent Street in Auckland, for $22.0 million.

Argosy regularly reviews its investment portfolio as part of its capital management planning and will divest assets which no longer meet its investment criteria, redeploying those funds into green Value Add opportunities.

Argosy

Developments

105 Carlton Gore Road, Newmarket

Argosy's $35 million green redevelopment continues to track well 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%.

Activity in the Auckland leasing market has been encouraging with new lease commitments secured for two tenancies making up approximately 50% of the building by net lettable area. Harbour Cancer Centre (HCC) and Stantec New Zealand (Stantec) have signed up to long term leases. HCC have committed to a 12 year lease for 755m^2 on the ground floor. Stantec have committed to an 8 year lease for 1,606m^2 of space including all Level 4 (1,086m^2) and part Level 3 (~520m^2).

We are in advanced exclusive negotiations with an international tenant for a further floor in this building (~1,086m^2).

Capital Management

As at 30 September, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 32.5% compared to 31.1% at 31 March 2022. The increase in the ratio[1] reflects the net impact of acquisitions/developments, and the small revaluation decline during the period.

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

During the period Argosy increased and extended its 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 and Westpac New Zealand Limited. Argosy has also announced that Industrial and Commercial Bank of China Limited (ICBC) has joined the syndicate. The total amount of the bank facility has increased by $20 million and is now $475 million. Argosy's weighted average debt tenor, including bonds, was 3.7 years (3.5 years at 31 March 2022) with the nearest tranche of bank debt expiring in April 2025. Its weighted average interest rate was 5.00% (4.14% at 31 March 2022).

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

Strategy and Governance

Chairman Jeff Morrison said "The world is experiencing economic and geopolitical volatility which continues to impact global financial markets. Argosy is mindful of this and remains committed to delivering on its investment strategy.

We will continue to drive growth into the attractive Auckland Industrial sector and build an increasingly sustainable and green portfolio. Our key deliverables over the remainder of FY23 include completing existing developments, commencing new green projects, leasing new developments and residual portfolio vacancies and addressing key expiries.

Our big strategic goals coupled with our current year objectives, continue to support the delivery of sustainable dividend growth 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 0.159398 cents per share imputation credits attached. Overseas investors will receive an additional supplementary dividend of 0.072332 cents per share to offset non-resident withholding tax. The record date for the dividend is 7 December 2022 and the payment date is 21 December 2022. The Dividend Reinvestment Plan remains suspended for now.

Jeff Morrison said "Subject to market conditions including interest rate increases, the forecast FY23 dividend guidance of 6.65 cents per share, a 1.5% increase on the prior year, is reiterated.

Argosy has started the FY23 year off well, underpinned by its strong financial position and its diversified portfolio of increasingly green and resilient assets delivering sustainable dividend growth to shareholders."

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