NEW ZEALAND RURAL LAND CO

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Market Update

New Zealand Rural Land Company (NZL: NZX) is providing an update to its guidance last announced with the FY22 half year result for the period ending 31 December 2021. This update considers the current dairy environment, independent valuations (which will be finalised as at 30 June 2022) and the release of the latest Monetary Policy Statement by the RBNZ on 25 May 2022. The Monetary Policy Statement (MPS) forecasts inflation (which effects NZL's lease income) and forecasts OCR (which effects NZL's short-term interest costs).

On 25 May 2022, the RBNZ released its second MPS of 2022, with the key development being increased inflation expectations from its February 2022 and November 2021 forecasts, with annual inflation now forecast to peak at +7.0% at 30 June 2022.

As a result of this, the RBNZ believes that the OCR will need to increase further than previously forecast to return inflation to near the 2% mid-point.

	Forecast Annual Headline Consumer Price Index (CPI) Increase (%)				
MPS Release	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Nov-21	1.5%	5.7%	2.9%	2.1%	n/a
Feb-22	1.5%	6.6%	3.2%	2.4%	2.0%
May-22	1.5%	6.9%	4.4%	2.5%	2.0%

The continued high inflationary environment will have a net positive impact on NZL's performance in three ways:

1. Higher long-term lease revenue: Each of NZL's current leases includes three yearly uncapped CPI adjustments. Given the high level of inflation already observed and forecasts for inflation to remain at elevated levels, NZL expects to realise a significant and permanent uplift to lease income at renewal intervals in 2024 and 2025. Based on current RBNZ forecasts indicative annual rental increases would be almost +14% for leases resetting as at June 2024 (approximately 65% of NZL's current portfolio) and +9% for those resetting in June 2025. Strong dairy prices and the underlying credit quality of NZL's tenants provides comfort that the increased lease costs will be within the financial capacity of the tenants.

2. Increasing rural land asset values: As noted in NZL's market update released on 19 May 2022, conditions remain relatively buoyant in the New Zealand rural land market. NZL has demonstrated an ability to acquire high quality assets attractively priced in prevailing conditions, which leads to strong revaluation gains. NZL is confident that its acquisitions to date coupled with the ongoing high inflationary environment (which can lead to higher rural land prices), will lead to a material uplift in NAV as at 30 June 2022. Discussions with valuers to date for the 30 June 2022 valuations have indicated that based on comparable sales and updated cash flow assumptions, the valuation of NZL's dairy assets are likely to see an increase of +7.50% - +9.50% versus 30 June 2021. If revaluations do occur in this range, this would result in an +9.8% - +12.5% NAV uplift versus NZL's last reported unaudited NAV of $1.36 share as at 31 December 2021 - see table on next page.

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	31 December 2021 (Actual - Unaudited)	30 June 2022 Revaluations Indicative Range		
		7.5%	8.5%	9.5%
Total NAV ($m)	131.8	146.7*	148.7*	150.6*
Shares on Issue (m)	96.9	98.3*	98.4*	98.5*
NAV per Share ($)	1.36	1.49*	1.51*	1.53*
Growth in NAV per Share (%)	n/a	+9.8%	+11.2%	+12.5%

**Adjusted for an estimated performance fee payable to the Manager and deferred tax*

3. Higher short term interest rates: As a result of the RBNZ's decision to raise the OCR by a further 50 basis points and the material additional rate rises signalled for later in 2022, interest rate forecasts for FY23 continue to be revised higher. NZL has total debt of $88.5m of which approximately $24.0m is subject to hedging arrangements. Interest costs on the unhedged portion of NZL's debt represent a significant portion of NZL's non-fixed cost base and are a key unknown when producing forecasts. NZL has revised its interest expense forecasts for FY23 using market data as of 31 May 2022. This results in an increase to interest expense and therefore decreased short term FY23 and FY24 forecast cash earnings. Previous guidance for AFFO provided at the half year result release in February 2022 was 6.5 cps and 6.4 cps for FY23 and FY24 respectively. Based on current forecast interest rates NZL now expects to maintain AFFO and dividends of at least 5.0 cps in year FY23, and withdraws FY24 guidance. NZL will provide guidance for FY24 during the FY23 financial year given closer proximity to revaluation dates and the interest rate outlook at the time.

Summary & FY22 Dividend Update:

NZL generates value for shareholders through a combination of asset value appreciation and cash flows from long-term leases. While increases in forecast interest rates are expected to reduce cash-earnings over the near- term, these are forecast to be more than offset by permanent increases to rental income as a result of uncapped CPI adjustments over the longer term. Additionally, NZL is expecting to see a material increase in NAV which could result in total shareholder returns being higher than previously guided.

The outlook for NZL's business remains positive with increasing revenue and favourable expected revaluations, meanwhile, the Manager continues to progress acquisition opportunities.

NZL reconfirms its dividend policy of paying 95% of AFFO as dividends. NZL now expects to pay a final dividend of 2.19 cps in September following the release of the Company's full year result for FY22 (period ending 30 June 2022). This will bring the total dividend for FY22 to 4.20cps (previous guidance 4.16cps).

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