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KPG drives robust performance amid strategic transformation

- **Net rental income: $89.1m (-16.2%. +2.5% like-for-like)**
- **Operating profit before tax: $52.4m (-26.7%. -1.0% like-for-like)**
- **Net loss after tax: -$36.5m (+75.8%. +76.6% like-for-like)**
- **Adjusted funds from operations: $48.6m (-25.4%. -0.2% like-for-like)**
- **Net tangible assets per share: $1.17 (-4.9%)**
- **Interim dividend: 2.85 cents per share (+0%)**

Kiwi Property released its interim results for the six months ended 30 September 2023 (1H24) today, announcing a robust asset performance and further momentum on its portfolio transformation programme, despite economic headwinds.

Building a stronger portfolio

The company made solid progress on its strategy of creating and curating retail-led mixed-use properties at key transport nodes in 1H24. The location and favourable zoning of key strategic assets including Sylvia Park, LynnMall, The Base and Drury are expected to accelerate their densification and growth, helping to boost valuations and performance over time.

Kiwi Property's asset sales programme delivered over $127 million in 1H24, following the disposal of Westgate Lifestyle and the Sylvia Park IKEA site. Chief Executive Officer, Clive Mackenzie, said the company's capital recycling activity would help create a higher quality and more profitable asset base.

"By disposing of our non-core, capital-intensive assets and reinvesting the proceeds into opportunities such as Drury and build-to-rent, we will build a greener, more resilient and lower-risk portfolio. While this capital recycling activity has resulted in a temporary decline in revenue, the steps we're taking will promote greater tenant demand, better rents, lower seismic costs and improved returns for our shareholders."

Financial performance

Kiwi Property experienced a 16.2% reduction in net rental income to $89.1 million in 1H24 following the aforementioned asset sales, while operating profit before tax decreased 26.7% to $52.4 million and adjusted funds from operations (AFFO) was down 25.4% to $48.6 million.

When viewed on a like-for-like[1] basis however, net rental income rose 2.5%, while AFFO declined a marginal 0.2%, highlighting the company's resilience through the first half of the financial year. Like-for-like operating profit before tax decreased by 1.0%, driven by higher interest costs.

Valuations in focus

Further to the announcement by Kiwi Property on 25 September 2023, capitalisation rate increases underpinned a 2.5% or $81.1 million reduction in the fair value of the company's investment portfolio in 1H24. Mixed-use assets were down 1.1% or $21.3 million, while global sector headwinds saw the office portfolio decrease 5.9% or $52.4m. The decline in asset values contributed to a net loss after tax of $36.5 million. Kiwi Property's mixed-use, office, retail and other properties were valued at $3.1 billion as at 30 September 2023.

"The reduction in the value of our investment portfolio is disappointing but reflects the recent downturn in the property cycle. On a more positive note, it's encouraging to see the increased stabilisation of our mixed-used asset values, where rental growth has helped offset capitalisation rate softening. For example, The Base has defied the economic conditions to increase in value by 3.7% through the period," says Mackenzie.

Robust rental and sales growth

Kiwi Property completed almost 350 leasing transactions in the first half of FY24, delivering a 4.5% total uplift on new mixed-use leases, renewals and rent reviews. New office leases and renewals were up 13.9%. Kiwi Property's ability to drive rental growth in the challenging climate reflects the performance and productivity of its tenancies. Sales across the company's mixed-use and retail centres grew 14.9% to $2.1 billion in the 12 months to 30 September 2023.

Disciplined capital management

Kiwi Property maintained its focus on proactive capital management over recent months, including amending its bond gearing covenant from 45% to 50% in October 2023, a move supported by 99.8% of voting bondholders. The amendment brings Kiwi Property in line with other listed property entities in the sector while also providing consistency across its bond and banking covenants. Kiwi Property's gearing was 35.3% on 30 September 2023, up 30bps on FY23.

"We're committed to maintaining a solid balance sheet and have taken steps over recent periods to put the company in an even more resilient financial position, including asset sales and being disciplined about non-essential capital expenditure. The successful delivery of our exciting Sylvia Park BTR and Drury projects remain a priority, and securing suitable third-party funding will be important for any new major developments," says Mackenzie.

Continued progress on build-to-rent

Construction of Kiwi Property's build-to-rent (BTR) development at Sylvia Park continued in 1H24, with the building's three structures topped off in August 2023. Work is underway on fit-outs of the scheme's 295 studio, one, two and three-bedroom apartments ahead of a scheduled opening from May 2024. Strong inbound migration, high borrowing costs and a decline in building consents are expected to promote demand for rental accommodation in the short to medium term, accelerating growth in the BTR sector.

Kiwi Property will release its new BTR brand, Resido, to the consumer market in the coming weeks. The aspirational proposition will be advertised across a range of marketing channels and consumer touch points, helping to stimulate tenant demand. Kiwi Property expects the lease-up of its Sylvia Park BTR project to take 12-18 months.

Sustained ESG momentum

Kiwi Property made further progress on its sustainability agenda in 1H24, as it continued towards its ambition of being net carbon negative in its operations by 2030. The company was awarded a score of 79 out of 100 by the Global Real Estate Sustainability Benchmark in October 2023, reflecting its strong ESG credentials. As part of Kiwi Property's focus on increasing the wellbeing of people in and around its communities, the company also recently launched a campaign designed to bring people together and connect over a cup of coffee. Over 8,000 people participated in the initiative, raising funds for the Mental Health Foundation and driving sales for Kiwi Property's food and beverage retailers.

Dividend and guidance

Kiwi Property will pay a cash dividend of 1.425 cents per share for the second quarter of FY24 on 20 December 2023, taking the interim cash dividend payment to 2.85 cents per share. The dividend reinvestment plan will not operate for Q3 FY24 and will be reassessed by the company on a quarterly basis. Kiwi Property today also reiterated its dividend guidance at 5.70 cents per share for FY24[2], which it expects to be within its target payout range of 90-100% of AFFO.

FY24 Outlook

Kiwi Property Chair, Simon Shakesheff, said: "We're pleased to maintain our dividend, despite the challenging economic conditions, in line with our focus on delivering for our shareholders. Our like-for-like operational results reflect the resilience of the business, and it's encouraging to see leasing spreads and pedestrian counts rising. The retail sector continues to perform better than many had expected, and we're well-positioned to benefit from this trend, given our excellent portfolio of retail-led mixed-use assets.

"As always, closely managing our balance sheet and executing our strategic transformation remains a priority. We're working hard to complete the Sylvia Park BTR scheme, progress earthworks at Drury and secure the capital to support our ambitions. By delivering on this agenda and continuing to grow earnings, we will help drive value and returns for investors."

Additional information

Kiwi Property has today also released an Interim Results Presentation, which is available for download on the company's website, kp.co.nz or from nzx.com.

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Notes:

General: Net rental income, operating profit before tax and adjusted funds from operations are non-GAAP performance measures. Refer to the Kiwi Property Interim Results Presentation for the six months ended 30 September 2023 for details. **1:** Like-for-like results exclude the impact of asset sales and COVID-19 adjustments. **2:** Dividend guidance and payments are contingent on the company's financial performance through the financial year and barring material adverse events or unforeseen circumstances.

Contact us for further information:

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About us:

Kiwi Property (NZX: KPG) is one of the largest listed property companies on the New Zealand Stock Exchange and is a member of the S&P/NZX 20 Index. We have been around for over 25 years and proudly own and manage a significant real estate portfolio comprising some of New Zealand's best mixed-use, retail and office buildings. Our objective is to provide investors with a reliable investment in New Zealand property through the ownership and active management of a diversified, high-quality portfolio. Kiwi Property is licensed under the Real Estate Agents Act 2008. To find out more, visit our website, kp.co.nz