Argosy

20.11.2024

Market Release

FY25 Interim Result – Green, Diversified, Resilient

Argosy will present the FY25 interim result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10041307-k2ju3x.html dial 0800 453 055 and quote the conference ID#10041307. 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 6 months to 30 September 2024.

KEY RESULTS FOR THE PERIOD INCLUDE:

- Net property income for the period of $58.4 million, which is flat on the prior comparable period.
- $8.7 million interim revaluation gain for the six months to 30 September, up 0.4% on book value, compared to a loss of $50.8 million in the prior comparable period.
- Net profit after tax of $33.0m (including the $8.7 million revaluation gain), compared to a net loss after tax of $(19.3) million (including the $50.8 million revaluation loss) in the prior comparable period.
- Net distributable income of $27.5 million, down 6.9% on the prior comparable period (note this period has incurred incremental tax expense of $1.4 million, following the Government's removal of tax deductions for depreciation on buildings).
- Solid portfolio metrics, with occupancy at 95.8% and WALT of 5.0 years.
- NTA per share of $1.46, up from $1.45 at 31 March 2024.
- Portfolio gearing steady at 37.2%, comfortably within the target band of 30-40%.
- Successful portfolio leasing and rent review outcomes, including 2.6% annualised rental growth on rents reviewed.
- Progress on green developments, continuing our portfolio transformation and progress to a 50% green portfolio by 2031 (36.7% at 30 September).
- Argosy achieved notable success at the annual Property Council of New Zealand Awards. The company won the Supreme Award for its 6 Green Star Built property located at 8-14 Willis Street/Stewart Dawson Corner. Additionally, it received an Excellence Award for the 6 Star Green

Built property at 105 Carlton Gore Road. These accolades further underscore the quality of our portfolio and our commitment to sustainable practices.

- Appointment of Alex Cutler to the Board, as part of the Board succession process.
- Reaffirmed FY25 full year dividend guidance of 6.65 cents per share, consistent with the prior year.

CHAIRMAN REVIEW

Chairman Jeff Morrison said, “The business has performed well during the period, despite a difficult operating environment. Portfolio metrics, including weighted average lease terms and occupancy ratios, have remained solid.

Argosy continues to make progress towards its portfolio sustainability goal of 50% green assets by 2031, as evidenced by green buildings completed, certifications achieved, and progress on developments. Greening our portfolio towards more sustainable buildings, with appropriate certifications validating their quality, will drive long term value. Argosy is focused on being the market leader in retrofitting existing buildings to create modern, attractive working environments for our tenants and their people. We will continue to target strategic growth opportunities with green potential – with Auckland Industrial being the focus.

The Board was delighted the Company won the Supreme Award at the Property Council of New Zealand Awards for the 6 Green Star Built property at 8-14 Willis Street/Stewart Dawson Corner. The Property Council Awards is a prestigious awards program that recognises excellence in design and innovation in the built environment. The Board congratulates staff and all the Company’s partners who worked on the project.

At the last Annual Shareholders Meeting, the Board noted it is focused on ensuring there is appropriate succession planning in place at Board level. The first step in that process has seen Alex Cutler join the Board. Alex has global experience working with multinational organisations to assist their understanding of the strategic importance of sustainability.

Argosy’s strategy is increasingly focused on achieving sustainability goals and to have someone with Alex’s experience and qualification on the Board, reinforces the importance of this area to the business and to the future of the Company. Alex will stand for election at the 2025 Annual Shareholders Meeting, together with any current Directors seeking re-election.

The Board is comfortable with the company's capital position and balance sheet strength. 8 Forge Way, Auckland, which was sold in the prior period for $35.2 million, is expected to settle in March 2025 and proceeds will be applied to our green development at 224 Neilson Street. The business has sufficient funding capacity to accommodate medium term development requirements and strategic acquisition opportunities, should they arise.

The Board previously announced an expected FY25 full-year cash dividend of 6.65 cents per share, in line with the prior year. There is no change to that guidance.

Our policy is to pay between 85-100% of AFFO earnings. The Board is comfortable being outside policy for limited periods to reduce dividend volatility.

MANAGEMENT REVIEW

Argosy's Chief Executive Officer, Peter Mence said "Difficult economic conditions and restrictive interest rate settings have persisted into the first half of FY25 (although some welcome relief is in sight). The extended time to close leasing opportunities continues and we expect this to remain for the balance of the FY25 financial year.

Our portfolio occupancy at 95.8% is solid, however our core focus over the next twelve months will be to address vacancy and near term expiries. We continue to receive positive market enquiry for green properties with their vibrant and engaging environments, which reinforces our overall strategic direction. Our green development projects underpin our strategic goal of greening half our portfolio by 2031.

There is growing evidence around rental premiums between green and non-green buildings. A recent Jones Lang Lasalle report estimates a 6.7% rental premium for certified buildings in New Zealand (with combination 6 Green Star/5 Star NABERSNZ ratings). Buildings with both ratings also have the lowest vacancy rates. The benefit to health and well-being as a result of a superior indoor environment quality is gaining greater understanding in the market.

Furthermore, we expect to see growing valuation differentials between certified buildings in New Zealand with combination 6 Green Star/5 Star NABERSNZ ratings and those without (circa 10%). These effects are expected to underpin the sustainability and stability of earnings and dividends over the long term.

Financial Results

Statement of Comprehensive Income

For the 6 months to 30 September, Argosy reported net property income of $58.4 million for the period, which was consistent with the prior comparable period. Interest expense of $21.3 million was also consistent with the prior comparable period. Lower overall debt levels and slightly lower rates were offset by lower capitalised interest.

An independent assessment of the portfolio showed a minor lift in value as at 30 September, and this has been adopted by the Company. The total unrealised revaluation gain for the 6 months to 30 September was $8.7 million or 0.4% on book value. Overall cap rates softened by 2 basis points to an average of 6.23%, but this was offset by an increase in market rents. By sector, Industrial increased by $2.7 million or 0.3%, Office increased by $2.2million or 0.3%, and Large Format Retail increased by $3.8 million or 2.0%. The portfolio is 11.8% under-rented, excluding market rent on developments.

Following the adoption of the change in value, Argosy's portfolio shows a contract yield on values of 5.96% and a yield on fully let market rentals of 6.84%.

Argosy's NTA has increased to $1.46 from $1.45 as at 31 March 2024.

Net profit after tax was $33.0m (including an $8.7 million revaluation gain), compared to a net loss after tax of $(19.3) million (including a $50.8 million revaluation loss) in the prior comparable period.

Distributable Income

Net distributable income (NDI) for the year was $27.5 million compared to $29.5 million in the prior comparable period. NDI has been negatively impacted in this period by incremental tax expense of $1.4 million, following the Government's removal of tax deductions for depreciation on buildings.

Portfolio Activity - Portfolio Metrics, Rent Reviews and Leasing

Peter Mence said "The first half of the financial year was influenced by tight economic conditions and geopolitical uncertainty. The team has worked hard delivering solid results around core operating metrics including occupancy, rental growth and leasing outcomes."

As at 30 September, Argosy's WALT was 5.0 years and portfolio occupancy was 95.8%.

For the period to 30 September, Argosy completed 48 rent reviews, achieving annualised rental growth of 2.6%. These reviews were achieved on rents totalling $27.3 million.

On rents subject to review by sector, Argosy achieved annualised rental growth of 2.6% for Industrial rent reviews, 2.4% for Office rent reviews and 4.0% for Large Format Retail rent reviews.

For the period to 30 September, 91% of rents reviewed were subject to fixed reviews, 7% were market reviews and 2% were CPI based.

Argosy completed 26 leasing transactions across 21,300m² of NLA over the period to 30 September. Lease transactions were made up of new leases (13), renewals (8) and extensions (5).

Key leasing highlights over the six month period include;

- Cotton On Clothing Limited, Albany Mega Centre - 1,718m² on a 10 year renewal;
- Mitchell Vranjes Consulting Engineers Limited, 8 Nugent Street - 810m² on a 6 year renewal;
- Trust Investments Management Limited, 105 Carlton Gore Road - 529m² on a new 8 year lease;
- New Zealand Educational Institute, 101 Carlton Gore Road - 984m² on a new 7 year lease;
- Booths Logistics Limited, 32 Bell Avenue - 8,790m² on a new 3 year lease;
- Henkel New Zealand Limited, 12 Allens Road - 2,344m² on a new 10 year lease.

Peter Mence said "We are pleased with the efforts of the team over the first six months of the year. We've managed to retain many important tenants and also attract new tenants to the portfolio.

The softer leasing environment was offset to some degree by the ongoing strong bottom-up fundamentals for the Industrial sector. This sector continues to show low forecast vacancy and positive rental growth and is forecast to deliver solid returns over the next three years. Our portfolio was 52% weighted to Industrial at 30 September and, following the completion of our pipeline of green Value Add development Industrial sites, will continue to increase toward our target weighting of 60-70% over the medium term."

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Divestment of non Core Assets

The non Core property at 8 Forge Way, Auckland, was unconditionally sold in FY24 for $35.2 million and is expected to settle in March 2025.

A further six properties have been identified as non Core, with a combined current book value of $116 million, and these properties are expected to be divested over the medium term.

Developments

Neilson Street

This project is the first of Argosy's Value Add green industrial estates and the development is progressing well. The 3.5ha site is strategically located, 8km from the Auckland CBD with excellent access to State Highway 1, State Highway 20 and the wider transport network. The first warehouse, column-free with an 11m knee, spans 5,000m² and is on track for completion in February 2025. This will be followed by a 11,500m² clear span warehouse featuring a 13m knee and a 3,500m² breezeway. The second warehouse is expected to be completed by December 2025.

Both warehouses are targeting 6 Green Star Design and As Built ratings. The design team have incorporated a wide range of green initiatives to help achieve the 6 Star rating, including low carbon concrete, rainwater harvesting, solar electricity generation and intelligent lighting and air conditioning. With approximately 1,880 solar panels, generating over 1.2GWh of energy annually, on completion the facility will have one of the largest rooftop photovoltaic installations in the country.

Following completion, 224 Neilson Street is expected to have an end value of $109 million, with a yield on development cost of 5.6% and an internal rate of return of 8.1%.

"This site is well located, and tenant enquiry has increased in the last two months. There is demand for modern, well located and sustainable buildings. Green developments like Neilson Street, coupled with a lack of new supply, means we are well placed to benefit from this demand." said Peter Mence.

Mt Richmond

Mt Richmond is a 10.6 hectare Value Add green development site in the central industrial precinct of Mt Wellington, only 15km from the Auckland CBD. The Mt Richmond development is an important part of our long term strategy given our positive view of the Industrial sector over the long term.

Master planning for Mt Richmond continues, with some strong interest from prospective tenants.

Acquisitions

There were no acquisitions in the interim period. However, in November 2024, Argosy unconditionally purchased 291 East Tamaki Road (and adjacent titles). This is a 4.6 hectare level site in a well-established industrial precinct, just 2km's from State Highway 1.

The initial purchase price and attendant capital works is $61 million, and the fully-let holding return is 4.8%. The site is currently 58% leased, with the balance expected to be leased up prior to settlement, in August 2025.

“This location is a prime redevelopment opportunity and will be well-placed to capitalise on strong prospective net absorption for Auckland Industrial in the coming years.” said Peter Mence.

Banking Facilities

In July, Argosy extended its syndicated bank facilities with ANZ Bank of New Zealand Limited, Bank of New Zealand Limited, Commonwealth Bank of Australia, Westpac New Zealand Limited and Industrial and Commercial Bank of China Limited. The new Tranches and expiries are:

Tranche A: $210 million, expiry 1 October 2027.

Tranche B: $215 million, expiry 1 October 2028.

Tranche D: $100 million, expiry 1 October 2029.

Argosy’s weighted average debt tenor, including bonds, was 3.2 years at 30 September (2.3 years at 31 March 2024). The weighted average interest rate was 5.5% (5.6% at 31 March 2024).

DIVIDENDS

A second quarter dividend of 1.6625 cents per share has been declared for the September quarter with imputation credits of 0.246287 cents per share attached. This will bring the interim dividend for the six months to 30 September to 3.325 cents per share. Overseas investors will receive an additional supplementary dividend of 0.111761 cents per share to offset non-resident withholding tax.

The record date for the dividend is 4 December 2024 and the payment date is 18 December 2024.

Argosy has re-opened its Dividend Reinvestment Plan (‘DRP’) and it will be available for shareholders to participate in for the second quarter dividend. There will be a 2% discount applied to the price at which shares will be issued under the DRP for this dividend. Please see the second quarter dividend announcement today for more details.

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