Argosy

23.11.2021

Market Release

FY22 Interim Result – Staying Focused

Argosy will present the FY22 interim result via a teleconference and webcast at 10am today. Please visit https://s1.c-conf.com/diamondpass/10017807-qdgxr0.html or dial 0800 453 055 and quote the conference ID 10017807. 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 2021.

Key highlights for the period include:

- Continued focus on sustainability and green developments;
- Record interim net profit after tax of $127.0 million;
- Net property income for the period up 5.1%;
- High occupancy (~99%) and WALT (5.3 years);
- Strong portfolio leasing and rent review outcomes, including 2.4% annualised rental growth on rents reviewed;
- 7WQ in Wellington is now 100% leased (at 30 November);
- $91.7 million revaluation gain, an increase of 4.5% on book value;
- Increase in NTA per share to $1.64 from $1.53 at 31 March 2021, a 7.2% increase; and
- FY22 dividend forecast reconfirmed at 6.55 cents per share and the new dividend policy to commence from 1 April 2022.

Chairman Jeff Morrison said, "Our business has again demonstrated its quality and resilience, allowing us to deliver sustainable earnings, cashflows and dividends to shareholders.

Argosy's management team have worked hard delivering some very positive operational results. FY22 started very well with the economy and operating environment looking positive.

However, in August we returned to Alert Level 4 lockdown. This created a very challenging time again for tenants, staff, contractors and other stakeholders in the business. Nonetheless, Argosy is well placed to manage this near term economic volatility.

Based on current projections for the portfolio and subject to market conditions, the forecast FY22 dividend has been reconfirmed at 6.55 cents per share."

Argosy's Chief Executive Officer, Peter Mence said, "Despite the extended lockdown in Auckland and ensuing economic challenges which continue today, we are pleased to have delivered a solid result for the first six months of the 2022 financial year.

Although net distributable income fell, primarily due to the non-refundable deposit income recorded in the prior comparable period, our portfolio metrics were maintained at very high levels. We achieved solid rent reviews and leasing results despite difficult economic conditions.

During the period we continued to progress our green Wellington office development for Statistics New Zealand as well as the façade works at 7 Waterloo Quay. We also progressed the master planning for our Mt Richmond Road and Neilson Street industrial Value Add properties, which are exciting opportunities for us and have generated a lot of market interest. The current Covid-19 lockdown has certainly highlighted the benefits of having Argosy's portfolio heavily weighted to the industrial sector and the value warehousing and logistics bring to the business, supply chain and local economy. Additionally, the portfolio has benefited from its exposure to government tenants in Wellington.

Argosy's quality portfolio is in sound shape and our balance sheet is conservatively geared, allowing us flexibility to deliver on near term green Value Add projects or strategic acquisitions when they arise. We expect that the second half of the year will hold challenges as the economic and regulatory outlook remains unclear. Despite this, we will continue to focus on what we can control – working closely with our tenants and stakeholders, completing our green projects, master planning our Value Add opportunities and delivering sustainable distributions to shareholders."

Financial Results

Statement of Comprehensive Income

For the six months to 30 September, Argosy reported net property income of $53.1 million for the period, up 5.1% compared with the prior comparable period.

The increase was underpinned by solid like-for-like rental growth, a greater contribution from acquisitions (Mt Richmond) and lower Covid-19 rent rebates over the period, partially offset by disposals.

For the first six months Argosy provided for $0.8 million in rental abatements to tenants and no deferrals.

Net interest expense of $13.1 million is down by $1.1 million on the prior comparable period, primarily due to lower overall debt levels and higher capitalised interest.

Interim desk top valuations for the six months to 30 September were performed by CBRE and Colliers International New Zealand Limited. Following their review, the total unrealised revaluation gain for the period was $91.7 million or a 4.5% increase above book value. The portfolio is 3.0% under-rented, excluding market rent on vacant space.

Current tax expense was higher due to large deductions recorded in the prior comparable period and the non-assessable deposit for the Albany Lifestyle Centre.

Distributable Income

Net distributable income was $33.0 million compared to $36.0 million in the prior comparable period. The prior comparable period benefited from a forfeited non-refundable deposit of $4.5 million in respect of the Albany Lifestyle Centre.

Desk Top Valuations

Similar to last year, desk top valuations were performed which resulted in an interim revaluation gain of $91.7 million, or a 4.5% increase on book value. By location, Auckland was the largest contributor to the total unrealised revaluation increase, with $77.0 million or 84% of the total uplift. By sector, Industrial was again the key driver of the overall gain at $83.9 million, up 8.6%. The Office portfolio increased $6.3 million, and Large Format Retail increased by $1.5 million.

As a result of the revaluation gain, Argosy's NTA increased to $1.64, or 7.2% from $1.53 at 31 March 2021. Following the revaluation, Argosy's portfolio shows a contract yield on values of 5.42% and a yield on fully let market rentals of 5.58%.

Portfolio Activity

Portfolio Metrics, Rent Reviews and Leasing

As at 30 September, Argosy's WALT was 5.3 years and portfolio occupancy was 98.7%.

For the six months to 30 September, Argosy completed 47 rent reviews achieving annualised rental growth of 2.4%. These reviews were achieved on rents totalling $26.8 million. On rents subject to review by sector, Argosy achieved annualised rental growth of 2.4% for Industrial rent reviews, 2.4% for Office rent reviews and 3.2% for Large Format Retail rent reviews.

Peter Mence said "Despite the difficulties over the first six months, we were pleased to deliver solid operational metrics around occupancy, rent reviews and leasing transactions."

In the first six months, 81% of rents reviewed were subject to fixed reviews, 13% were market reviews and 6% were CPI based. Fixed reviews accounted for 88% of the total annualised rental uplift and Auckland and Wellington contributed 84% and 9% of the total annualised rental uplift respectively.

Argosy completed 21 leasing transactions across 50,458m^2 of NLA over the six months to 30 September. Lease transactions were mixed between extensions (2), renewals (3) and new leases (16).

Key leasing successes over the first six months of the financial year include;

- PBT Transport, 18-20 Bell Ave, 8,941m^2 and 12-16 Bell Ave, 9,763m^2 on new 10-year leases at both locations.
- Macpac Limited, Albany Mega Centre, 775m^2 on a new 6-year lease.
- Ministry of Housing & Urban Development, 7WQ, 1,228m^2 on a new 7.4-year lease.
- NZ Blood & Organ Service, 308 Gt South Road, 576m^2 on a new 3-year lease.
- Earthwise Group Ltd, 12 Allens Road, 2,337m^2 on a new 3-year lease.

Peter Mence, Argosy CEO said "While we delivered positive leasing outcomes over the first half of the year, given the extended nature of the current Covid-19 lockdown and impact on the Auckland economy, we remain somewhat cautious on the outlook for the second half of FY22.

The industrial sector continues to be the most resilient of all sectors with strong forecast returns and in that regard, Argosy is very well positioned. We are working closely with all our tenants during these uncertain times and we will continue to monitor things closely."

Acquisitions

Peter Mence said, "While we did not execute on any strategic acquisitions during the period, we take a long term view. For that reason, we will remain open to any potential acquisitions that meet our investment criteria because real estate is a long term investment. Auckland's underlying property fundamentals remain particularly sound and the industrial sector continues to fare better than others. There has been no change to our focus of securing strategic industrial sites within a prime industrial precinct to support our growth."

Developments

8-14 Willis Street and 360 Lambton Quay, Wellington

The development continues to progress despite the interruption from the recent Covid-19 lockdown. There was a significant project milestone achieved when the tower crane was removed on 8 August, just a week before the current lockdown started.

Works recommenced when Wellington went down to Alert Level 3 and included internal works such as services commissioning and tenant fitout related works.

Leasing on the 360 Lambton Quay (360LQ) part of the development continues and there is solid market interest for space given its attractive location.

Three unconditional leases at 360LQ have been concluded as follows;

- Mountain Warehouse (outdoor lifestyle retailer), 537m^2 on a new 10-year lease;
- Flo & Frankie (women's retail fashion), 168m^2 on a new 6-year lease;
- James Pascoe Limited (jewellery) returns after a 5 year absence, 118m^2 on a new 6-year lease.

The retail component of the combined site is now 90% leased with a conditional agreement on the remaining tenancy. The expected completion date of the project has been pushed out one month to March 2022.

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

The building is now 100% leased. As noted earlier, Level 9 of 7WQ has been leased to the Ministry of Housing and Urban Development (MHUD) on a new 7.4-year lease.

This lease term aligns with MHUD's existing lease for levels 6, 7 & 8 bringing its total leased area to 4,903m^2.

Subsequent to 30 September, Level 12 has been leased to FishServe on a new 9-year lease, commencing 1 April 2022. FishServe provides administrative services to the New Zealand commercial fishing industry on behalf of various Government agencies.

The additional work on the exterior façade of the building re-commenced after Wellington shifted down to Alert Level 3, and the project remains on budget.

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

PBT has occupied 12-16 and 18-20 Bell Avenue in Mt Wellington, Auckland since August 1999.

Argosy & PBT have now entered into an agreement for Argosy to undertake an $8.8 million refurbishment and redevelopment of the sites to reposition them, targeting a 4 Green Star Built rating. As part of the agreement, PBT has entered into a new 10-year lease.

On completion, the project is forecast to have a yield on total development cost of 5.2% and a valuation of $69.0 million. The development margin is forecast to be 26% and the IRR is 8.3%.

Argosy Chief Executive Officer Peter Mence said "We are very pleased to extend our existing relationship with PBT for a further 10 years. PBT has been a long term partner of ours for twenty years and we're excited to have them support this new green project and remain part of our portfolio for the foreseeable future.

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

The landlord base build works across the two properties includes full upgrades and an end of trip facility. The external works include new asphalt circulation on the site and a concrete hardstand to the front-loading zone of 12-16 Bell Ave.

The development is projected to be completed by September 2022.

Divestment of non Core Assets

During the first six months Argosy settled the sale of the Hastings Cool Store at Omahu Road for $10.4m. The sale reflects ongoing capital management initiatives, including asset divestments over the last 18 months where assets no longer meet Argosy's investment criteria. The proceeds have initially been deployed to reduce bank debt but will be redeployed into green developments in due course.

Subsequent to 30 September, Argosy has unconditionally sold its property at 25 Nugent Street in Auckland, for $22.0 million. The sale price reflects a 28% premium above book value and the sale is to a local investor. Settlement is expected to occur in September 2022.

Capital Management

As at 30 September, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 31.7% compared to 35.9% at 31 March 2021.

The ratio reflects the net impact of divestments and revaluation gains offset by development activity during the period. The ratio also excludes the lease liability and right of use asset at 39 Market Place of $41.6 million, recorded in the period under NZ IFRS 16.

Argosy's gearing at 30 September sits towards the bottom end of its target gearing band of 30-40%, and well below its bank covenant of 50%.

The Board regularly reviews the various capital management options at its disposal and believes the capital management initiatives undertaken during the year provide sufficient capacity to accommodate near term funding requirements.

During the period 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 also reduced by $35 million and at 30 September is now $455 million, down from $490 million previously.

Argosy's weighted average debt tenor, including bonds, was 4.0 years (4.2 years at 31 March 2021) and its weighted average interest rate was 3.88%, compared to 3.69% at 31 March 2021.

Dividends

A second quarter dividend of 1.6375 cents per share has been declared for the September quarter with imputation credits of 0.0720 cents per share attached. The second quarter dividend will be paid to shareholders on 22 December 2021 and the record date will be 8th December. The Dividend Reinvestment Plan (DRP) will be available for shareholders to participate in but no discount will apply. Argosy continues to pay dividends in line with its current policy, where annual dividends are less than net distributable income. However, as outlined in the FY21 annual results, commencing 1 April 2022, Argosy's policy will be to pay dividends between 85-100% of AFFO.

Governance and Strategy

Argosy's second hybrid Annual Shareholders Meeting (ASM) was held on 29 June at 2pm at the Royal New Zealand Yacht Squadron in Auckland. Jeff Morrison and Stuart McLauchlan were both elected as directors by shareholders. Argosy articulated its vision of building a better future with a big focus on environmental goals. There is significant global research which clearly articulates the benefits of greening buildings are not just for the environment, but for occupiers, owners and investors. Argosy has a strong track record of delivering green buildings in collaboration with its tenants.

Outlook

Structural change in the occupancy market hastened by the pandemic and New Zealand's responses to it is a key focus for the year ahead.

Argosy's quality portfolio is in good shape and its balance sheet is conservatively geared. It has capacity and flexibility to fund its near-term green Value Add opportunities. The balance of FY22 will be about focusing on the core operational elements of the business – including addressing key expiries and remaining rent reviews, leasing up remaining vacancies and developments. Argosy will progress its pipeline of green Value Add projects and focus on driving earnings and capital growth.

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