CROMWELL PROPERTY GROUP

# EARNINGS AHEAD OF GUIDANCE. REALISATION, RECYCLING AND REINVESTMENT IMPROVE FUTURE EARNINGS QUALITY.

## FY17 RESULTS KEY HIGHLIGHTS AND STRATEGY

Global Real Estate Investment Manager Cromwell Property Group (ASX: CMW) today reported full year (FY17) operating profit of $152.2 million.

Operating profit was 8.65 cents per security (cps), 0.25 cents per security ahead of previous market guidance. Distributions for the year were 8.34 cps representing a 0.14 cps (1.7%) increase on FY16. Total assets under management (AUM) increased by $0.3 billion on the half year to $10.1 billion.

“This was a very good result especially when you consider we had exceptionally strong one-off transactional income in FY16,” said Cromwell Chief Executive Officer Paul Weightman.

“Over the last 4 years we have realised $762.3 million in total proceeds from the sale of 12 assets resulting in $96.8 million in fair value capital gains from selling into buoyant real estate markets. This has allowed us to recycle capital and reinvest in both our property portfolio and funds management platform.”

“Just over half (51%) of assets in the portfolio are now stabilised, low risk assets with a long weighted average lease expiry (WALE) of 12.1 years and minimal capex or tenant incentive exposure over the next 5 years.”

“A further 41% of the assets in the portfolio have a high level of predictable income with short to medium term upside from the value enhancement activities we have undertaken or initiated. These initiatives are all fully funded and are all expected to be earnings and value accretive,” he said.

“The remaining 8% of assets in the portfolio are marked for realisation or have strong potential for adaptive reuse. We expect that there will be further upside from these assets in the future,” he added.

“We have also continued to invest in our wholesale funds management platform to achieve our stated goal of transitioning our European business from one with a predominantly transactional focus to one that has a significant level of recurring income,” he added.

“Yesterday we announced the receipt from the Singapore Stock Exchange (SGX-ST) of eligibility-to-list (ETL) for a proposed European REIT. If we proceed to Initial Public Offering (IPO), the Cromwell European REIT (CEREIT) will significantly contribute to that strategy,” he said.

“Cromwell’s sponsor stake in CEREIT has been fully funded,” he added.

“Due to the restrictions on publicity surrounding the IPO, we are not able to say anything more than what we have announced, and accordingly we will not be taking any questions on the proposed listing of CEREIT on the SGX-ST until we have clearance to do so.”

## PROPERTY SEGMENTS UPDATE AND LEASE RENEWAL PROGRAMME

Our property portfolio continues to provide Cromwell with stable cashflows. Operating profit was $124.7 million, comprising 82% of total FY17 operating earnings.

Overall portfolio valuations increased by $108.7 million net of property improvements, lease costs and incentives, lifting Net Tangible Assets (NTA) by $0.08 to $0.89. The weighted average cap rate improved by 0.49% to 6.56%.

Tenant quality remains strong with Government and Government related entities contributing 45.48% of gross income and the top 5 tenants 64.52% of gross income.

“It is also pleasing that 91% of our tenants are satisfied with our performance as their landlord and property manager. This is a testament to the hard work of our in-house property and facility management teams,” said Mr. Weightman.

The overall occupancy rate of 92.1% has improved on the previous year (FY16 89.7%). The portfolio had an extended WALE of 7.2 years inclusive of the new lease at Tuggeranong Office Park to the Department of Social Services (DSS) which is due to start in September 2017.

Net property earnings, on a like for like basis, decreased 4.8% as vacancies in the active asset portfolio were only partially offset by strong rental increases from elsewhere in the portfolio.

Cromwell’s future lease expiry profile remains favourable with expiry of 6.5%, 6.2%, 8.0% and 7.8% in the next four years. Current vacancies are reflective of the fact that 8% of the portfolio is active and under redevelopment or refurbishment.

“Active assets include 50 Huntingfield Avenue in Tasmania, the old Tuggeranong building and 13 Keltie Street in ACT. We believe there is further potential upside from these assets,” said Mr. Weightman.

Cromwell leased or renewed leases over 64,000 sqm in the year including;

- An additional 6,300 sqm at 700 Collins Street in addition to the new Bureau of Meteorology lease (15,400 sqm). The asset is now 100% occupied with a WALE of 8.2 years.
- New leases in our Sydney assets including capturing the improving Sydney rental market achieving circa $1,000 per sqm per annum gross rent at 207 Kent Street.
- Securing 8,300 sqm of new and renewed leases within Northpoint Tower despite the ongoing development works.
- The Therapeutic Goods Administration (TGA) who took up their five year renewal option over the TGA Complex in ACT (18,524 sqm).

“We are also encouraged by the continuing leasing enquiry for 200 Mary Street where we have improved net occupancy to 68% in a very competitive Brisbane market,” said Mr. Weightman.

“This reflects the investment we have made into the asset including new end of trip facilities, a ‘business hub’ partnership with Regis, new lobby and our speculative fit-out programme which is proving popular with smaller to medium size tenants,” he added.

Cromwell sold Bundall Corporate Centre on the Gold Coast in June. The Centre was purchased for $63.5 million in January 2012 and subsequently sold for $89 million taking advantage of a strong local market ahead of the 2018 Commonwealth Games.

Cromwell has also entered into an agreement to sell Health & Forestry House, in Brisbane for $69 million. This transaction is due to complete in November 2017.

“With limited suitable acquisition opportunities available we are continuing to reinvest into our property portfolio which includes managing the $300 million investment we have made into Northpoint Tower in



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North Sydney and Tuggeranong. Both projects will complete in FY18 and contribute NTA and earnings growth to the Group," said Mr. Weightman.

"We also have other opportunities which we are considering including potential activity at Victoria Avenue Chatswood, Centenary House, TGA and Campbell Park all in the ACT. All activity is fully funded and expected to be value accretive," he concluded.

## FUNDS MANAGEMENT SEGMENTS

Funds management operating profit was $27.7 million (FY16 $29.2 million) comprising 18% of total operating profit.

The wholesale funds management segment generated operating profit of $16.9 million (FY16 $19.0 million).

During the year €1 billion of property assets were sold in Europe and €0.7 billion acquired on behalf of investors. This reflected a relatively quiet first half post Brexit, particularly in the UK. Activity on the continent remained strong throughout the year.

As at 30 June 2017 Cromwell had €3.4 billion in AUM (FY16 €3.7 billion) in Europe.

This figure included €153 million worth of assets in the Artemis office portfolio which comprises 33 assets, covering 360,000 sqm, in five different European countries. The rest of the portfolio, a further €255 million of assets, is currently in the process of being onboarded during the first half of this year and will add to AUM during FY18.

"This appointment plays to the strengths of Cromwell's investment management platform in Europe, relying on our cross-border capability and the strength and depth of our locally-based teams in each country and region," said Mr. Weightman.

The remainder of the contribution came from Cromwell's Australian wholesale fund which continues to progress with the development of Northpoint Tower in North Sydney.

Whilst Retail funds management operating profit of $8.2 million was a decrease from FY16 ($10.0 million) it reflected the difference in the $4.1 million in performance fees received from the renewal of the Cromwell Riverpark Trust in July 2016 and the $7.0 million from the Cromwell Box Hill Trust in the previous comparable period.

Excluding both performance fees, underlying operating profit increased by 35% with total AUM increasing by $0.1 billion in the year to finish at $1.8 billion (FY16 $1.7 billion).

Cromwell continues to invest in engaging with its retail investors, focusing on educational material and engaging content, ensuring its customers are fully informed about their investments and the property market in general.

"We actively measure how well we engage with our investors. The retail funds management business has a market leading Net Promoter Score (NPS). In the last Survey we were the only fund manager with a positive NPS (+16). It is pleasing to know our investors are our best advocates. We will continue to invest in them," said Mr. Weightman.

In New Zealand, Oyster Group AUM increased to NZD $1.2 billion as at 30 June 2017. Cromwell's share of profit from Oyster increased to $1.7 million up from $1.1 million in the previous year.



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## CAPITAL MANAGEMENT

As at 30 June 2017 NTA per security had increased by $0.08 to $0.89, cash and cash equivalents were $86.9 million and Group gearing was 45.2% (FY16 42.6%).

Cromwell also remains the largest investor in Investa Office Fund (ASX:IOF), purchasing its 9.83% stake on 12 April 2016 and subsequently being granted due diligence on IOF on 7 April 2017.

"it is obvious to us that a friendly transaction is unlikely to proceed, regardless of the price that we offer, and we continue to consider our options."

"Our stake was purchased at $4.24 per unit and total distributions of $12.2 million were received in the 2017 financial year. Based on IOF's closing share price on 23 August 2017 our Equity IRR is 24.3%," said Mr. Weightman

Debt facilities continue to be well diversified across eight lenders and a Convertible Bond issue with varying maturity dates.

The Group has a weighted average debt expiry of 2.4 years on a look-through basis with 68% not expiring until FY20 and beyond. Cromwell is also reviewing options over the next twelve months which are expected to lengthen tenor and diversify funding sources.

Future interest rates are hedged through an interest rate cap to May 2019. The average interest rate fell to 3.96%, down from 5.27% as at 30 June 2016.

"The weighted average margin is 1.39% and the hedge term of 1.9 years and we expect to take actions to further improve our hedging profile in the near term," said Mr. Weightman.

"The business has some key initiatives underway which are expected to conclude before the end of the 2017 calendar year..

"I expect that the proceeds of any realisations in FY18 will be applied in reduction of debt unless there is an alternative and compelling investment opportunity," he added.

## OUTLOOK

"Global risks remain high. A Chinese economic slowdown and/or capital retreat, conflict over North Korea, and the outcome of Brexit negotiations are amongst a number of issues which could impact global real estate markets," said Mr. Weightman.

"Moderate economic growth and inflation and the potential slow-down in the residential construction market are likely to keep interest rates relatively low for the next few years in Australia," he added.

"The global demand for yield, particularly from Asian investors is likely to continue for the foreseeable future. We expect capital values to continue to compress in anticipation of rental growth in Sydney and Melbourne."

"Elsewhere within our funds management business, we are looking to take advantage of the emerging European economic recovery. Real Eurozone GDP growth has shown positive momentum over the past three fiscal years, reaching 2.2% (annualised) in three months to 30 June 2017."

"If all conditions are met, we expect an IPO of European assets to occur in Singapore towards the end of September."

"As I have already mentioned, I am unable to comment further on the IPO process. All further announcements will be made in accordance with regulatory requirements," he added.



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"We are comfortable with using a small part of the excess fair value capital gains we have made, over and above that which we plan to re-invest back into our property portfolio and funds management platform, to fund a small portion (0.09 cps) of FY18 distributions," Mr. Weightman concluded.

Cromwell expects FY18 operating profit of 8.25 cps and a distribution of 8.34 cps.

FY18 guidance represents an operating profit per security and distributions per security yield of 8.8% and 8.9% respectively based on closing price of $0.935 on 24 August 2017.

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## ABOUT CROMWELL PROPERTY GROUP

Cromwell Property Group (ASX:CMW) is a Global Real Estate Investment Manager. The Group is included in the S&P/ASX 200. As at 30 June 2017, Cromwell had a market capitalisation of $1.7 billion, a direct property investment portfolio in Australia valued at $2.4 billion and total assets under management of $10.1 billion across Australia, New Zealand and Europe.



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