360 Capital Group

28 February 2018

360 Capital Group (TGP)
HY18 Results
Executing on Strategy

360 Capital Group (ASX code: TGP) (Group or 360 Capital) is pleased to announce its financial results for the half year ending 31 December 2017.

Following the sale of the majority of its funds management business and co-investments, the Group has been focused on investment opportunities in real estate markets which provide increased capital preservation given the Group's views on the Australian property cycle.

The Group is now focused on two areas of business:

1/ Real estate equity investment in sectors providing superior returns

2/ Real estate debt investment

Management is also focused on ensuring it has a diverse range of capital sources to enable the Group to execute on its growth strategies. These include focusing on:

- Partnering with public capital via 360 Capital Total Return Fund (ASX: TOT) and the proposed 360 Capital Mortgage REIT;
- Partnering with private capital including high net worth individuals, private equity investors and family offices;
- Building strong relationships with banks and other debt capital providers.

Group key achievements over the past six months to 31 December 2017:

- Secured a 67.3% stake in Asia Pacific Data Centre Group (ASX: AJD) through a takeover deploying $142.2 million;
- Entered the non-bank real estate lending through 360 Capital Total Return Fund (ASX: TOT) and staffed up business for growth;
- Post period the Group completed a $47.7 million capital reallocation including providing 7.98 cents per security in franking credits to securityholders;
- Continued the disposal of unlisted securities to Centuria with a further $3.6 million sold and $50.1 million to be settled by January 2019;
- Continued to expand our private client relationships as part of diversifying our capital sources to enable the Group to grow.

Group key financial results highlights for the half year ended 31 December 2017:

- Statutory net profit of $27.3m down 49.0% on pcp due to pcp including profit from sale of funds management business;
- Operating profit of $6.0m down 34.1% on $9.2m pcp;
- Statutory earnings per security (EPS) of 13.1cps down 45.6% on 24.1cps pcp due to pcp including profit from sale of FM business;
- Operating EPS of 2.8cps down 31.7% on pcp due to high cash reserves held during the period;
- Distributions per security (DPS) of 1.50cps down 53.8% on 3.25cps pcp;
- NTA per security increased 11.6% from $0.95 as at 30 June 2017 to $1.06;
- Increase in ASX trading price from $0.965 to $1.05, a total shareholder return of 10.3% for the 6 months.

ASX Release

The Group is now focused on rolling out its strategy of:

1/ Real estate equity investment in sectors providing superior returns:

Excluding our residual interests managed by Centuria Capital Group, the Group has two equity interests totalling $188.5 million comprising a 67.3% interest in Asia Pacific Data Centre Group (ASX: AJD) and a 23.7% interest in 360 Capital Total Return (ASX: TOT).

The Group has exposure to non-bank lending activities through its $18.6 million investment in TOT.

The Group has gained exposure to the data centre real estate sector. During the past 6 months, the Group made a full cash takeover for AJD. Prior to the Offer, the Group held 19.9% of the total securities of AJD. At the close of the takeover, the Group owned a total of 67.3% of securities on issue with a total value of $169.9 million as at 31 December 2017.

Currently the AJD portfolio comprises 3 data centres located in Sydney, Melbourne, Perth all leased to NEXTDC on triple net leases with an average weighted average lease expiry of 10.3 years.

Post the takeover by 360 Capital, NEXTDC called a securityholder meeting to wind up the Trust of AJD. The Group has initiated proceeding in the Supreme Court of NSW seeking a declaratory relief that it is entitled to vote on a windup.

On 14 February AJD announced that it has agreed terms to dispose of the entire portfolio for $280.0 million, a $67.2 million uplift, increasing the NTA of AJD to $2.20.

2/ Real Estate Debt Investment

Given the Group's views on the market for traditional real estate assets in Australia, the Group is focused on expanding into non-bank lending activities. With APRA continuing to place restraints on the Australian banks capital allocation to certain property sectors, we see real estate debt investment as a strong growth area for the Group.

Currently only 20% of real estate financing is through non-bank sources. With the restraints currently on banks, non-bank lending to commercial property is expected to double over the next few years creating a $30 billion market opportunity.

Over the past 6 months, through AMF Finance, the Group's joint venture with TOT, the Group has reviewed over $1.0 billion in transactions. TOT is forecasting to have all of its available capital of approximately $72.7 million allocated to non-bank lending the end of March 2018.

The Group has a strong and growing pipeline of lending opportunities providing potential for further deployment of cash across its capital sources to drive Group earnings going forward.

To date, the approved transactions have been in the $5.0 million to $50.0 million range, and the Group has sourced these from brokers or direct relationships. Typical internal rates of return (IRRs) from these real estate debt investments are between 12-15% per annum.

Whilst the Group has been approached by several Australian banks to partner on lending transactions we are also focused on growing its broker networks.

The Group is targeting to be a major participant in non-bank lending within the Australian real estate marketplace and expects these activities to be a major contributor to revenue growth through establishment fees, management fees and direct return though co-investment with its partners and TOT.

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The Group is developing a new first mortgage fund to be listed on the ASX. The proposed fund will provide retail investors access to strong monthly returns as well as assisting unlisted wholesale investors and the Group's capital partners gain exposure to first mortgage debt investments. Within the revised forecasts today, the Group has not allowed any revenue for this fund. The Group is currently proposing to launch this fund in 2018.

Given the increased volume in transaction activities, the Group appointed David Grauaug as Head of Real Estate Debt and James Cama as Manager of Real Estate Debt.

3/ Non-core Investments

Over the past 6 months, the Group continued to reduce its exposure to the unlisted funds previously managed by 360 Capital, with the disposal of all of its units owned in the Centuria Havelock House Fund for $3.6 million.

The Group's remaining non-core unlisted investments comprise: $30.5 million in Centuria 111 St Georges Terrace Fund which is under a put and call option providing the Group with a 7.5% guaranteed return until its put option date in January 2019 and $24.1 million in Centuria Retail Fund, of which $19.5 million is also under a put and call option on the same basis.

4/ Capital Sources

To fund the Group's growth, management continues to diversify its funding sources and now has access to the following sources of capital:

Public Capital	-	360 Capital Group (ASX: TGP)
	-	360 Capital Total Return (ASX: TOT)
	-	360 Capital Mortgage REIT (to be launched in 2018)
Private Capital	-	High net worth individuals
	-	Family offices
	-	Private equity – Australian and overseas institutional capital
Debt Capital	-	Strong relationships with banks
	-	Growing network of overseas banks
	-	Private debt capital

The Group has been assessing various opportunities over the past 6 months with capital partners including various debt investment opportunities. The Group will continue to assess partnering opportunities but will be patient in deployment of partner's capital.

5/ Capital management

The Group has invested a total of $142.2 million into Asia Pacific Data Centres. This was funded from existing cash reserves and a $20.0 million unsecured corporate facility for 2 years which was fully drawn as part of the AJD takeover.

Over the past 6 months the Group has issued 12.5 million securities at $0.98 per security under a three-year employee security plan with a total shareholders return performance hurdle of 12% p.a. over the vesting period of 3 years. As part of this issue, the Group also provided staff with limited recourse loans for $12.2 million.

ASX Release

As a result of the Group's sale of the majority of its funds management business, the Group undertook a $47.7 million capital reconstruction to rebalance the capital between the Trust and the Company. This reconstruction resulted in a 21.01 cps increase to securityholder cost base of units in the Trust and provided 7.98 cps in franking credits to securityholders.

The Group's capital restructure provides the Trust with the necessary capital base to carry out its strategy of making real estate debt and equity investments in line with the Group's growth strategy.

6 Key Focus for balance of FY18

- Continue to roll out our non bank lending and as the pipeline grows, expand our capital sources to accommodate this growth;
- Deploy the balance of TOT's capital into non-bank lending where transactions meet TOT's total return and risk parameters;
- Progress the IPO of the 360 Capital Mortgage REIT;
- Continue to develop and diversify our capital sources to fund the Group's growth in the various business activities;
- Remain patient and diligent with our capital, manage the exposures to Centuria, look at growing revenue streams without using TGP capital, and continue to be opportunistic in our approach to creating value for our investors.

7 Forecast FY18 Operating EPS and DPS

As a result of the Group redeploying the majority of its cash reserves during the period, the Group increased its earnings and distribution guidance for the year from 3.00 cents per security to 5.50 cents per security, skewed to the second half of the financial year with each quarter's distribution forecast to be 2.00 cents per quarter.

If AJD dispose of their data centres in FY18, distributions will reduce to 0.75 cps per quarter and a special distribution of 12.0 cps (ie 15.0 cps FY18).

More information on the Group can be found on the ASX's website at www.asx.com.au using the Group's ASX code "TGP", on the Group's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1300 082 130 or emailing investor.relations@360capital.com.au

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About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The Group actively invests in direct property assets, property securities, real estate debt and various corporate real estate investments within Australian real estate markets on a private and public equity basis.