

ASX ANNOUNCEMENT

4 August 2021

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Corporate Announcement Office
Australian Securities Exchange

Results for year ended 30 June 2021

ALE Property Group (ASX: LEP, or 'ALE') is pleased to announce its results for the year ended 30 June 2021:

Highlights

- Statutory profit of \$179.2 million
- Distributable income of \$34.4 million or 17.15 cps, an increase of 13%
- NTA per security of \$3.71 an increase of 24.2%
- 2018 rental determinations received; litigation to set aside Victorian determinations underway
- Independent valuers have assessed the uncapped/uncollared rent of the portfolio as 35.6% under market
- Sale of 6 non-core properties for \$72.86m; a weighted average premium to value of 24.2%
- Covenant gearing reduced from 41.3% to 36.4% due to lower net borrowings and increased investment property valuations

Financial results

Statutory net profit increased by \$159.2 million to \$179.2 million in 2021 largely due to;

- net property valuation gains (\$141.3 million);
- higher Distributable Earnings (\$4.0 million);
- profits on sale of properties (\$4.2 million); and
- lower derivative movements (increment of \$6.1 million compared to a decrement of \$17.3 million).
- offset by higher borrowing cost amortisation (\$4.0 million).

Distributable Income increased by \$4.0 million (13%) to \$34.4 million in 2021 due to:

- rental income from CPI rent increases (\$0.4 million);
- backdated rental increases from 2018 on 36 properties that were subject to independent rental determinations received in September 2020 (\$0.7 million);
- lower finance costs (\$4.8 million).
- offset by higher management expenses (\$1.7 million).

Sale of Non-Core Assets

Following a portfolio review the following assets were sold:

Property	Price	Yield ¹	Premium to Book Value ²	Method
Boundary Hotel, East Bentleigh Vic	\$33.00m	4.23%	30%	At tender
Edinburgh Castle Hotel, Kedron Qld³	\$7.50m	4.54%	0%	Immediately after auction
Kedron Park Hotel, Qld⁴	\$4.60m	4.80%	35%	At auction
Morwell Hotel, Vic³	\$3.06m	4.74%	13%	At auction
Noosa Reef Hotel, Noosa Heads, Qld	\$13.90m	4.81%	15%	At auction
Pelican Waters Inn Caloundra Qld³	\$10.80m	4.06%	42%	At auction
	\$72.86m	4.40% w. av.	24.2% w. av.	

The proceeds of these sales were used to reduce net debt and partially restructure ALE's interest rate swap book.

Tudor Inn, Cheltenham Victoria and Royal Exchange Hotel, Toowong Queensland are currently for sale by tender and auction respectively.

Property Valuations

Following the November 2018 rental determinations, ALE's entire portfolio was independently valued as at 31 October 2020. These valuations were adopted as carrying values for the 31 December 2020 accounts. Consistent with ALE's valuation policy, for the period ended 30 June 2021 36 properties (or 44%) of the portfolio were independently valued and Directors' valuations were undertaken for the remaining 44 properties (or 56% of the portfolio).

¹ Net income/price before acquisition costs

² As at 31 December 2020

³ Settled

The valuation process has resulted in an increase in aggregate valuations of \$89.71m since December 2020. The increase represents a 7.45% increase in the portfolio value.

The independent valuations were undertaken by: NSW (Charter Keck Cramer⁵ 4, Savills 3), QLD (Charter Keck Cramer⁵ 12), Vic (CBRE 14) and SA (CBRE 3).

a. Changes in key valuation metrics

The increase in valuations was driven by a reduction in capitalisation rates supported by sales evidence, highlighting the strong lease covenant and strategic nature of the ALE portfolio:

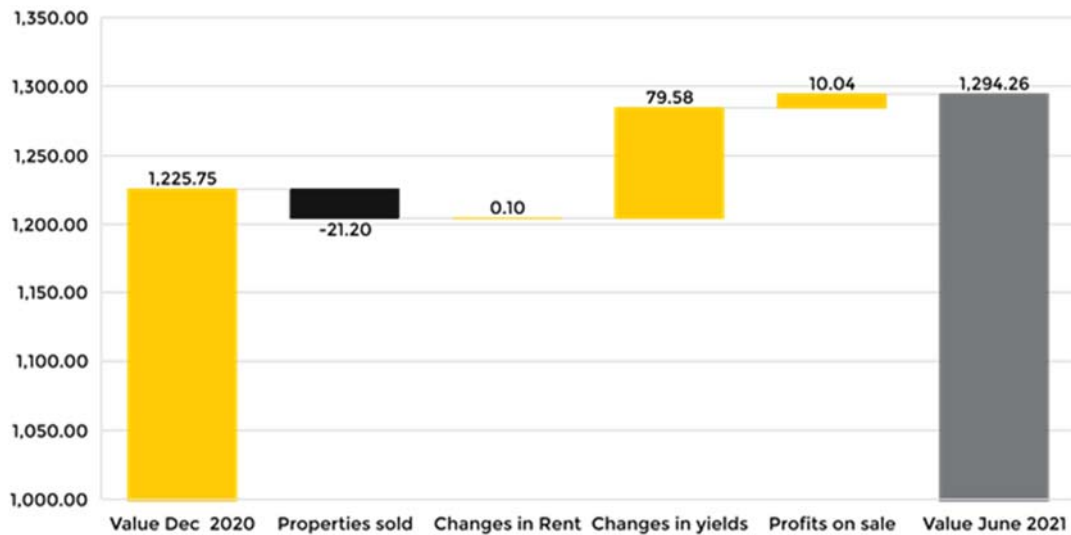
- The Continuing Properties value has **increased by 6.95%** since December 2020.
- The average Passing Yield of the Continuing Properties has **decreased by 32bps** since December 2020 from 4.90% to 4.58%

December 2020			June 2021		Movement		
	Passing Adopted Yield	Valuation \$m	Passing Adopted Yield	Valuation \$m	Valuation Increase \$m	% change	Change in Passing Adopted Yield
NSW	4.58%	186.200	4.31%	198.430	12.230	6.57%	(27bps)
QLD	4.70%	349.970	4.38%	375.595	25.625	7.32%	(32bps)
SA	5.20%	42.050	4.95%	44.200	2.150	5.11%	(25bps)
VIC	5.04%	535.000	4.69%	574.670	39.670	7.41%	(35bps)
WA	6.28%	32.480	6.28%	32.480	-	0.00%	-
Continuing Properties	4.90%	1,145.700	4.58%	1,225.375	79.675	6.95%	(32bps)
Properties held for sale ⁵	5.45%	58.850	4.71%	68.886	10.036	17.05%	(74bps)
Total properties	4.94%	1,204.500	4.59%	1,294.261	89.711	7.45%	(35bps)
Properties sold ⁶		21,200					
Total Properties		1,225.750					

⁵ Properties that sold during the financial year but did not settle by 30 June 2021 (two properties) and properties currently being marketed for sale (two properties)

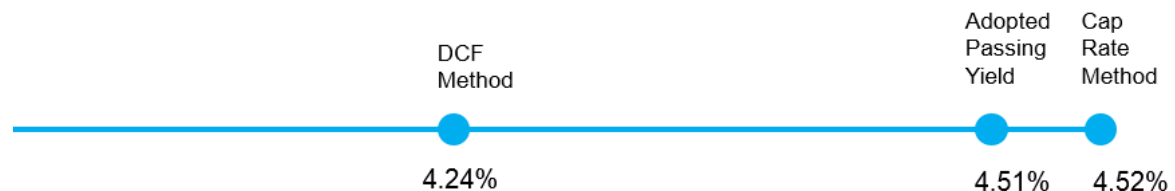
⁶ Properties that sold and settled during the financial year (four properties)

Contributors to Change in Valuation \$m



b. Discounted Cash Flow (DCF) Valuations for Independently Valued Properties

In assessing each property, independent valuers applied both the traditional capitalisation rate along with DCF based valuation methods. Whilst the valuation results reflect a combination of both methods, the adopted valuations continue to give much greater weighting to the traditional capitalisation rate method.



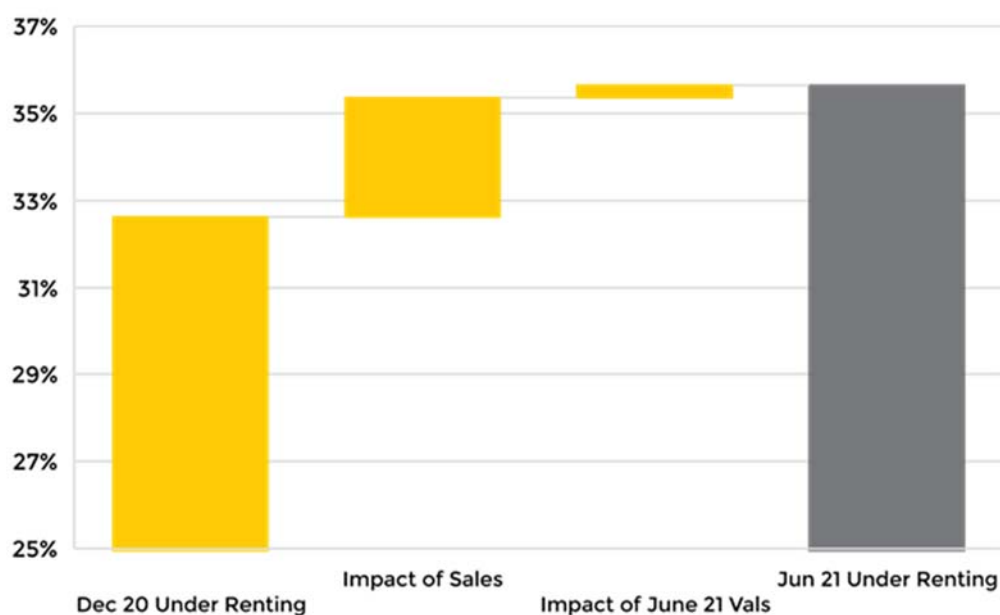
A greater reliance on the DCF valuation methodology is likely to better reflect the under-renting in the portfolio. Low returns are currently being accepted for well leased assets, with recent sales evidence involving ALE's six Non-Core properties indicating that the estimated purchasers' IRR of the properties sold is lower than that adopted by valuers for the Continuing Properties.

c. Uncapped/Uncollared Rent Levels

Consistent with previous practice, the independent valuers have provided an opinion of the uncapped/uncollared rent of the Continuing Properties. This analysis indicates that at 30 June 2021, the uncapped/uncollared rent for the overall portfolio has increased from 32.6% in December 2020 to 35.6%, a 9.2% increase.

The increase in aggregate under-renting largely reflects the benefits of the strategic decision to dispose of Non-Core properties.

Contributors to Change in Under-renting



This analysis includes the impact of the possible sale of Royal Exchange Hotel and Tudor Inn hotel, both of which are currently being offered for sale.

Under-renting is not evenly distributed across the portfolio and includes some properties that are leased at market rates and some that are over-rented.

FY22 Distribution Guidance

ALE will maintain its strategic priority of delivering predictable and growing distributions for securityholders whilst maintaining an investment grade credit profile. ALE's distribution policy going forward reflects the positive outlook for earnings and valuations following receipt of the 2018 rental determinations and expected to flow from the 2028 uncapped/uncollared rent reviews.

ALE is pleased to announce FY21 distribution guidance of 22.0 cents per security, representing a 2.3% increase relative to FY21 distributions. Distributions will be paid quarterly commencing the quarter ending 30 September 2021.

Further Information

For further information please refer to the presentation and other material lodged with ASX today.

This ASX release was approved and authorised for release by the Board of Directors

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