



21 February 2019

APN PROPERTY GROUP ANNOUNCES HY2019 INTERIM RESULTS AND REAFFIRMS EARNINGS GUIDANCE

HY2019 Achievements

- Operating Earnings¹ \$4.8 million with 98% of earnings generated from recurring sources
- Operating Earnings 1.55 cents per share (cps); on track to achieve full year guidance range of 2.40 cps to 2.90 cps
- Statutory net profit after tax \$6.0 million versus \$9.6 million in the prior corresponding period (pcp) which included significant unrealised mark to market gains
- Funds Under Management (FUM) remained steady at \$2.8 billion overall
- Cash holdings increased 96% since June 2018 to \$29.3 million² positioning APN for growth
- Strong and flexible balance sheet with net tangible assets of \$121.2 million; NTA per share of 38.6 cents (up 3% versus June 2018)
- Strong operational results including leasing and asset improvement projects across \$1.2 billion direct property funds – average lease expiry of 8.3 years and occupancy of 98%
- Interim dividend declared of 1.25 cps (fully franked); FY19 dividend guidance reaffirmed at 2.25 cps
- Stapled structure proposal progressing – shareholder approval received

APN Property Group Limited (ASX: APD) (APN or the Group) today reported a statutory net profit after tax for the 6 months ended 31 December 2018 of \$6.0 million. This compares to \$9.6 million in the prior corresponding period (pcp) primarily reflecting prior period unrealised mark to market gains on co-investments. Operating Earnings¹ was \$4.8 million or 1.55 cents per share, marginally down on the pcp respective results of \$5.1 million or 1.67 cps, due mainly to higher income tax paid over the period – operating earnings before tax was up 6% on pcp.

The Board has declared a fully franked interim dividend of 1.25 cps for the period ended 31 December 2018, to be paid on 15 March 2019 to all shareholders registered as at 28 February 2019.

APN's Chief Executive Officer, Mr Tim Slattery, said "APN has delivered another strong result with our recurring net income increasing to \$13.1 million for the half and nearly all of our operating earnings being delivered from recurring sources. APN's income-oriented commercial property funds have continued to deliver strong returns for our investors over the period. These products with consistent and growing cash distribution yields backed by real assets continue to be attractive to a wide range of investors. Our listed and unlisted direct property funds in particular are in excellent shape – with relatively low gearing levels, excellent future income profiles and increasingly attractive acquisition opportunities emerging. We have remained disciplined with respect to acquisitions, consistent with our long term view of delivering value for investors and shareholders. To position APN to capitalise on these opportunities we have significantly increased APN's cash position to \$29.3 million² which is reflected in APN's net tangible asset backing of 38.6 cents per share."

¹ Operating Earnings is an unaudited performance metric used by the Group as the key measurement of its underlying performance. It adjusts statutory profit for certain non-operating items recorded in the income statement including discontinued operations (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

² Includes cash held in trust for underlying funds managed by the Group of \$0.3 million and \$5.0 million for AFS Licences.

“Recent market volatility coupled with receding expectations of near term interest rate rises highlights the attraction of commercial property for investors. The sector is also well positioned if potential changes to the treatment of franking credits are implemented – with property trusts offering comparatively higher after tax cash returns for low tax bracket taxpayers including retirees.”

“The Hayne Royal Commission has highlighted the importance of putting one’s investors first and having a strong culture to achieve this objective. For APN, as an independent, specialist investment manager with a long term view the current market should continue to provide good growth opportunities and we continue to offer investors in our funds and our shareholders true alignment with Management and Directors owning nearly 40% of the company, and APN holding over \$100 million in investments in its funds.”

‘Property for income’ delivering strong results across APN’s Funds

APN Industria REIT (ASX: ADI, previously IDR)³ reported strong results with earnings (funds from operations) increasing by 3.3% per security, and occupancy increasing to 96%. Over 6,600 sqm of leasing transactions were completed during the period including approximately 3,300sqm at Brisbane Technology Park. These leasing results continue to demonstrate the implementation and success of APN’s ‘hands on’ approach to the management of our real estate in delivering value for APN Industria REIT securityholders.

APN Industria REIT’s FUM increased \$34 million or 4% to \$698 million, predominantly due to the \$26 million acquisition of three Victorian industrial properties. ADI’s strong balance sheet position and gearing level of 33.3% continues to attract investors seeking quality risk-adjusted income and capital investment returns.

APN Convenience Retail REIT (ASX: AQR, previously CRR) continues to perform ahead of its IPO forecasts, with earnings (funds from operations) up 4% for the period to 10.72 cents per security. Net tangible assets per security has increased from \$2.73 to \$2.95 since IPO with the current property valuations reflecting an attractive 7.0% cap rate. APN Convenience Retail REIT continues to offer investors an attractive set of investment metrics with occupancy at 100%, a weighted average lease expiry of 12.1 years, high quality global and national tenants and an annual cash distribution yield of 7.4% (as at 31 December 2018). FUM increased \$14 million to \$357 million following the acquisition of one property and property revaluation gains of \$7.5 million for the period.

APN’s Real Estate Securities division reported FUM at balance date of \$1,594 million, which was \$74 million lower than June 2018 primarily due to negative mark-to-market movements for the portfolio of \$64 million (which have largely been reversed between balance date and 21 February 2019). Net inflows into the APN AREIT Fund were flat over the period reflecting negative sentiment towards residential property being attributed to all property types, expectations of higher interest rates (which have subsequently receded) among other factors. Some investor channels have also been affected by changes resulting from the Hayne Royal Commission which may continue for some time.

The APN Asian REIT Fund continues to gain traction with FUM increasing by 63% over the past 12 months to \$31 million at balance date. The Fund gained additional independent research ratings and has recently added been added to BT’s investment platform. The Asian REIT Fund has delivered a total return since inception in 2011 of 13.9% and offers investors a liquid investment in a high quality portfolio of commercial properties primarily in Singapore, Hong Kong and Japan. The Fund pays monthly cash distributions consistent with APN’s ‘property for income’ approach.

APN’s Direct Property division increased FUM 24% over the period to \$157 million with the addition of a fifth fund, the \$25 million APN Nowra Property Fund successfully closing during the period. The APN Steller Development Fund is well advanced on the completion of its sixth and final project with 108% of investors capital returned to date and the Fund being on track to deliver its target IRR of 18%.

On 4 February 2019 the APN Regional Property Fund launched an equity raising transaction for the two A-Grade office buildings it owns in the central business district of Newcastle, NSW. The Fund has delivered an 18.8% annualised return over the last three years and the buildings under APN’s management have been maintained at an average occupancy of 99% over the past 10 years. At an independent valuation cap rate of 7.25% which equates to a building value of \$51.75 million or \$5,500 per square metre of lettable area compares favourably against comparable Sydney properties at approximately \$17,500 per square metre. “We believe

³ As announced on 11 February 2019, Industria REIT and Convenience Retail REIT renamed to APN Industria REIT and APN Convenience Retail REIT, respectively. The ticker codes changed from CRR to AQR on 19 February 2019 and IDR to ADI on 20 February 2019. The main drivers for the rebrand are to provide the funds the full benefit of their sponsorship from APN Property Group and simplify market positioning for tenants and investors.

these buildings offer a very attractive cash flow profile and an attractive entry point as investors do not need to pay stamp duty as part of this raising and these properties have been very solid performers. They are well placed with recent energy efficiency and foyer and amenities upgrades and the Newcastle market we believe is well positioned with its cost of living for resident employees, cost effective rents and recent and future capital investment in the immediate and surrounding Hunter Valley region," Mr Slattery said

Stapling proposal progressing – shareholder approval received

APN's stapling proposal is progressing, with ASIC and shareholder approvals received or on track for receipt within our 30 June 2019 target completion timeframe. Discussions with the Australian Taxation Office in respect to the requested class ruling which APN is seeking on behalf of shareholders to provide certainty in relation to the tax consequences of the transaction are ongoing. It is possible that the outcome of these discussions may result in adjustments to the stapling proposal (within the parameters approved by shareholders) or the timing of implementation of the transaction.

To reiterate the indicative pro-forma stapled entity financial information previously issued in August 2018 remains subject to the assumptions provided at the time. The eventual financial impact of the stapling transaction (on implementation) will depend on the relevant factors at the time.

APN continues to expect the stapling proposal will be implemented by 30 June 2019.

Outlook and guidance reaffirmed

Operating Earnings¹ guidance is reaffirmed at 2.40 to 2.90 cps for the 2019 financial year. In accordance with our approach to providing earnings guidance, only transactions which have been completed or are sufficiently certain are reflected in this guidance and it remains subject to a continuation of the current market conditions. Dividend guidance is reaffirmed at 2.25 cps for the full year, comprising the 1.25 cps fully franked interim dividend declared today and a forecast fully franked final dividend of 1.00 cps.

In closing, Mr Slattery commented, "I believe APN is in very good shape to continue the momentum our team has built over the past few years. Our funds are delivering strong income-based performance and we are in a strong financial position. We intend to use our balance sheet actively to grow the business and we remain very optimistic about our ability to deliver further value for shareholders as we continue to build the scale and profitability of the business."

Conference call

APN will hold a group investor conference call at 11:00am (AEDT) today, 21 February 2019.

Dial in details: Participants can dial +61 2 9007 3187 or 1800 558 698 (toll free) to join the call. When prompted, please enter Conference ID: 410012

To bypass the operator and gain immediate access to the event participants can preregister: <https://services.choruscall.com.au/diamondpass/apn-410012-invite.html>

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NOTES**Forward looking statements**

This release contains forward-looking statements, estimates and projections, which are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors many of which are beyond APN Property Group's control and which may cause actual results to differ materially from those expressed in the statements contained in this announcement.

About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager. Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutional and retail investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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