

# Results Announcement for the half-year ending **31 December 2014**



Centuria Capital Limited  
**Presentation to Investors and Analysts**



[www.centuria.com.au](http://www.centuria.com.au)

## Contents

- 3. Half-year in Review
- 4. Group Strategy
- 6. Results Overview
- 8. Underlying Segment Results
- 10. Property Funds Management Division
- 15. Unlisted Property
- 17. Listed Property
- 18. Investment Bonds Division
- 22. Non-Core Assets
- 23. Appendices

## Directory

Group CEO	<b>John McBain</b>
CEO Unlisted Property Funds	<b>Jason Huljich</b>
CEO Listed Property Funds	<b>Nicholas Collishaw</b>
General Manager - Investment Bonds	<b>Neil Rogan</b>
Group CFO	<b>Matthew Coy</b>

**Centuria Capital Limited**  
Suite 39.01, Level 39  
100 Miller Street  
North Sydney NSW 2060

T: 02 8923 8923  
F: 02 9460 2960

[www.centuria.com.au](http://www.centuria.com.au)



# Half-year in Review

## Major objectives achieved:

- Non-core operations monetised
- Business model refined
- Balance sheet strengthened
- Centuria Metropolitan REIT listed
- Investment bond business reactivated

## Solid financial performance:

- 87% increase Underlying NPAT and EPS
- 50% increase in Statutory NPAT and EPS
- Interim dividend of 2.0 cps declared
- 22.5% half year total shareholder return<sup>(i)</sup>

(i) Includes dividends declared in respect of the half-year ended 31 December 2014

# Group Strategy – achieving 2013 objectives

---

## Business model

Significantly refined by:

- divesting non-core operations
- positioning as a Specialist Investment Manager in two core sectors:
  - Property Funds Management
  - Tax Effective Investment Bonds

## Strategic Objectives

Centuria has executed its major strategic objectives, refining its business model and significantly strengthening its balance sheet.

These include:

- sale of the Over Fifty Insurance business for \$5.2 million
- sale of the \$124 million Variable Rate Reverse Mortgage Portfolio yielding \$31.7 million cash before transaction costs and taxation
- successful listing of the \$143 million Centuria Metropolitan REIT on ASX
- appointment of new general manager and distribution staff to investment bond business
- total shareholder return of 22.5% over half year <sup>(i)</sup>

(i) Includes dividends declared in respect of the half-year ended 31 December 2014

# Group Strategy – refreshed for 2015

---

**Centuria aims to increase shareholder wealth through a combination of growing share value and the delivery of consistent returns.**

## Core strategic objectives

Centuria will utilise its enhanced balance sheet together with a strong focus on our core operations to underpin the following core strategies:

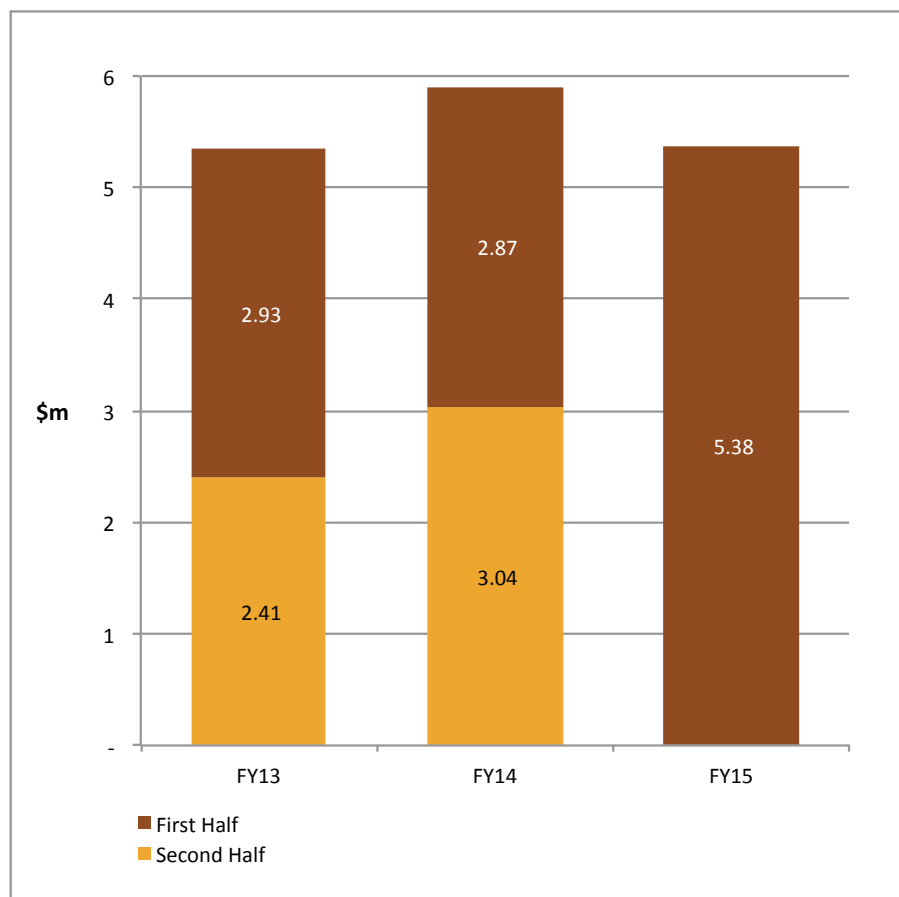
- Grow \$.87 billion property funds management business
- Grow Centuria Metropolitan REIT
- Promote a new Asian “Club” investment vehicle to acquire Australian assets
- Grow Investment bond business from \$.72 billion base

## Detailed strategies

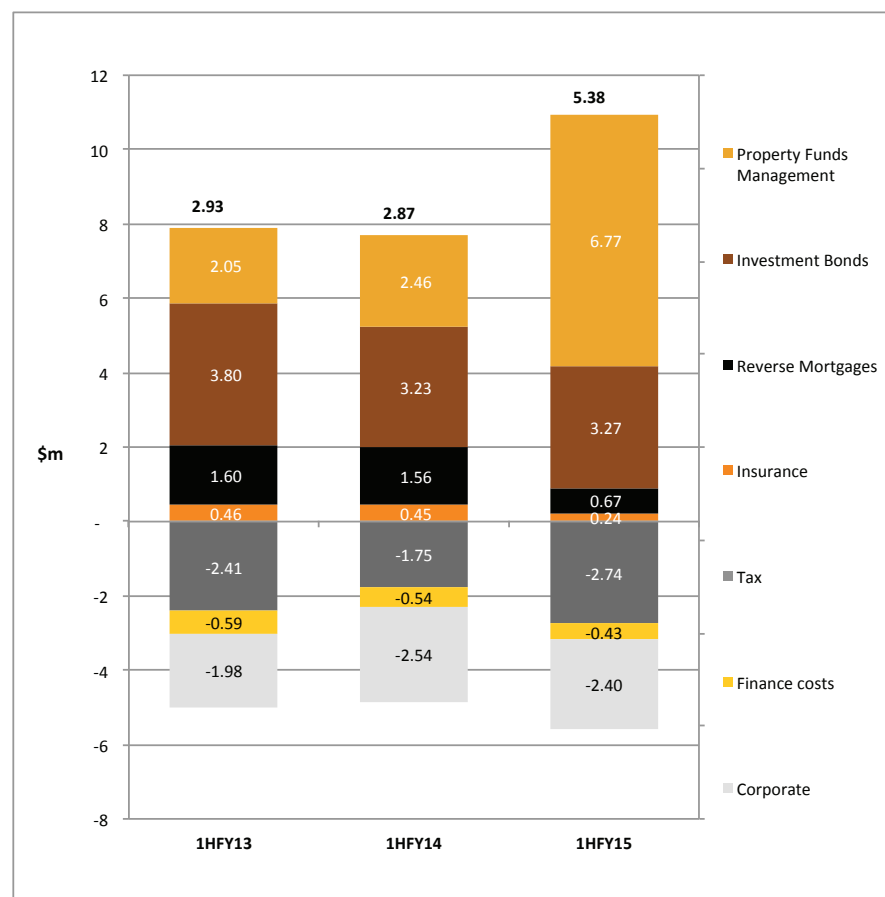
- Provide Group bridging support to accelerate unlisted property funds management growth
- Short term co-investment with Centuria investors in value-add property projects
- Provide capital support to grow Centuria Metropolitan REIT strongly – this is a new profit stream for the Group with high potential
- Further expansion and resourcing of Centuria’s Investment Bond business
- Provide Group support to seed and invest in Asian “Club” investment vehicle
- Pursue accretive corporate acquisitions or expansion in core business areas

# 31 December 2014 – Results Overview

## Underlying Net Profit After Tax<sup>(i)</sup> (\$millions)



## Underlying Net Profit After Tax by Segment<sup>(i)</sup> (\$millions)



(i) Underlying profit is a non-IFRS measure and is profit before specific non-cash and significant items and related taxation.

# 31 December 2014 – Results Overview

## Financial Summary

	Six months ended 31-Dec14	Six months ended 31-Dec-13	Change	12 months ended 30-Jun-14
Statutory NPAT	\$7.6m	\$5.0m	52.1%	\$9.1m
Statutory EPS (basic)	9.8c	6.5c	50.8%	11.6c
<b>Underlying NPAT <sup>(i)</sup></b>	<b>\$5.4m</b>	<b>\$2.9m</b>	<b>87.6%</b>	<b>\$5.9m</b>
Underlying EPS (basic) <sup>(i)</sup>	6.9c	3.7c	88.1%	7.6c
Dividend per share (fully franked)	2.0c	1.25c	60.0%	2.75c
	31-Dec14	30-Jun-14	Change	
Net Assets	\$111m	\$105m	6.6%	
Net Assets per share <sup>(ii)</sup>	\$1.43	\$1.34	6.1%	
NTA per share <sup>(ii)</sup>	\$0.75	\$0.66	12.9%	
Funds Under Management:				
Property Funds	\$865m	\$922m	(6.2%)	
Investment Bonds	\$716m	\$714m	0.2%	

(i) Underlying profit is a non-IFRS measure and is profit before specific non-cash and significant items and related taxation.

(ii) Net Assets per share and NTA per share based on ordinary shares on issue (excluding contingently issuable performance rights)

# Underlying Segment Results<sup>(i)</sup>

	6 months ended 31-Dec-14	6 months ended 31-Dec-13	12 months ended 30-Jun-14	Commentary
<b>Underlying profit by segment</b>				
Property funds management	6,772	2,463	5,043	Reflects increased performance and sale fees
Investment bonds	3,268	3,234	6,430	
Reverse mortgage portfolio	667	1,562	2,897	Reflects sale of portfolio in Oct-14
Insurance	244	450	1,090	Reflects sale of subsidiary in Oct-14
Corporate	(2,404)	(2,539)	(4,878)	
<b>Underlying profit before interest and tax</b>	<b>8,547</b>	<b>5,170</b>	<b>10,582</b>	
Corporate finance costs	(426)	(546)	(1,040)	Reflects repayment of facility in Dec-14
<b>Underlying profit before tax</b>	<b>8,121</b>	<b>4,624</b>	<b>9,542</b>	
Underlying tax expense	(2,745)	(1,758)	(3,638)	
<b>Underlying net profit after tax<sup>(ii)</sup></b>	<b>5,376</b>	<b>2,866</b>	<b>5,904</b>	
<b>Non-underlying adjustments:</b>				
Unrealised gain on fair value of derivatives	1,126	3,223	5,007	Accounting for valuation of interest rate swaps
Centuria Life seed capital valuation movement	(3,137)	(176)	(511)	Refer to Note (iii) below
Gains on sales of non-core assets	5,194	-	-	Gains on sale of subsidiary and RM portfolio
Other non-underlying adjustments	-	-	39	
Tax impact	(955)	(914)	(1,360)	
<b>Statutory net profit</b>	<b>7,604</b>	<b>4,999</b>	<b>9,079</b>	

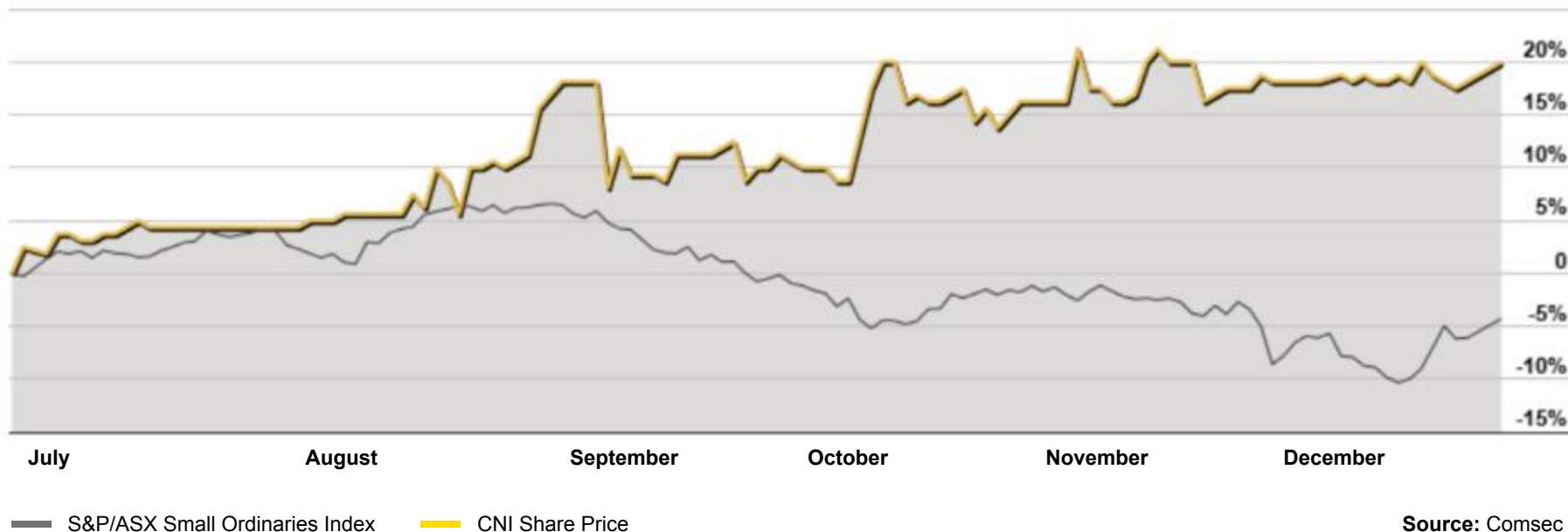
(i) Extracted from Segment Information in Note 3 of the Centuria Capital Limited Interim Financial Report lodged with ASX on 19 February 2015

(ii) Underlying profit is a non-IFRS measure and is profit before specific non-cash and significant items and related taxation.

(iii) Impairment of seed capital resulted from the write-down of the two remaining legacy non-performing commercial loans within the Income Accumulation Fund. One loan has been realised (settlement of underlying property to occur in 2HFY15) with the remaining loan being worked out.



# CNI share price relative performance to S&P/ASX Small Ordinaries Index\*



\*The S&P/ASX Small Ordinaries Index represents the small cap members of the S&P/ASX 300 Index, but excludes those in S&P/ASX 100 Index. The S&P/ASX Small Ordinaries index is used as an institutional benchmark for small cap Australian equity portfolios. The index covers approximately 7% of Australian equity market capitalization (Source :ASX)

# Property Funds Management Division

# Property Funds Management Division Overview

---

- The Centuria Metropolitan REIT (CMA) was launched on 10<sup>th</sup> December 2014. CMA is a \$143 million open ended ASX listed trust invested in a diversified portfolio of commercial and industrial assets located throughout Australian metropolitan markets. Centuria's extensive asset management experience is engaged to add value to the properties with a goal of increasing investor returns with capital appreciation.
- Centuria's unlisted division has also had an excellent period, taking advantage of a strong property market to dispose of mature assets realising significant profits for its investors and performance fees for Centuria.
- With historically low interest rates, investor demand for both listed and unlisted property vehicles has continued to increase and this can be seen in the performance of CMA since its listing as well as the significant demand for Centuria's latest unlisted offering – Centuria 2 Wentworth Street Fund closing oversubscribed before the offer close date.
- Centuria expects these desirable conditions to continue throughout the year which bodes well for the expansion of its property activities.



# Property Funds Management Strategy Outlined

---

## Centuria continues to execute its property strategy evidenced by:

- The successful listing of the Centuria Metropolitan REIT during this half year, and
- Approval of its first 68 unit development approval in Mosman, NSW, which was significantly oversubscribed

## Unlisted Funds

- \$200m + of new investment product targeted annually
- Specific focus on larger assets and utilisation of Centuria's in-house value-add property skill set
- Identify development opportunities within existing portfolio creating additional downstream revenue

## Asian Hub

Centuria is committed to its Asian hub and established its Singapore office in 2012 to distribute Centuria property funds to offshore institutional and mid-tier investors.

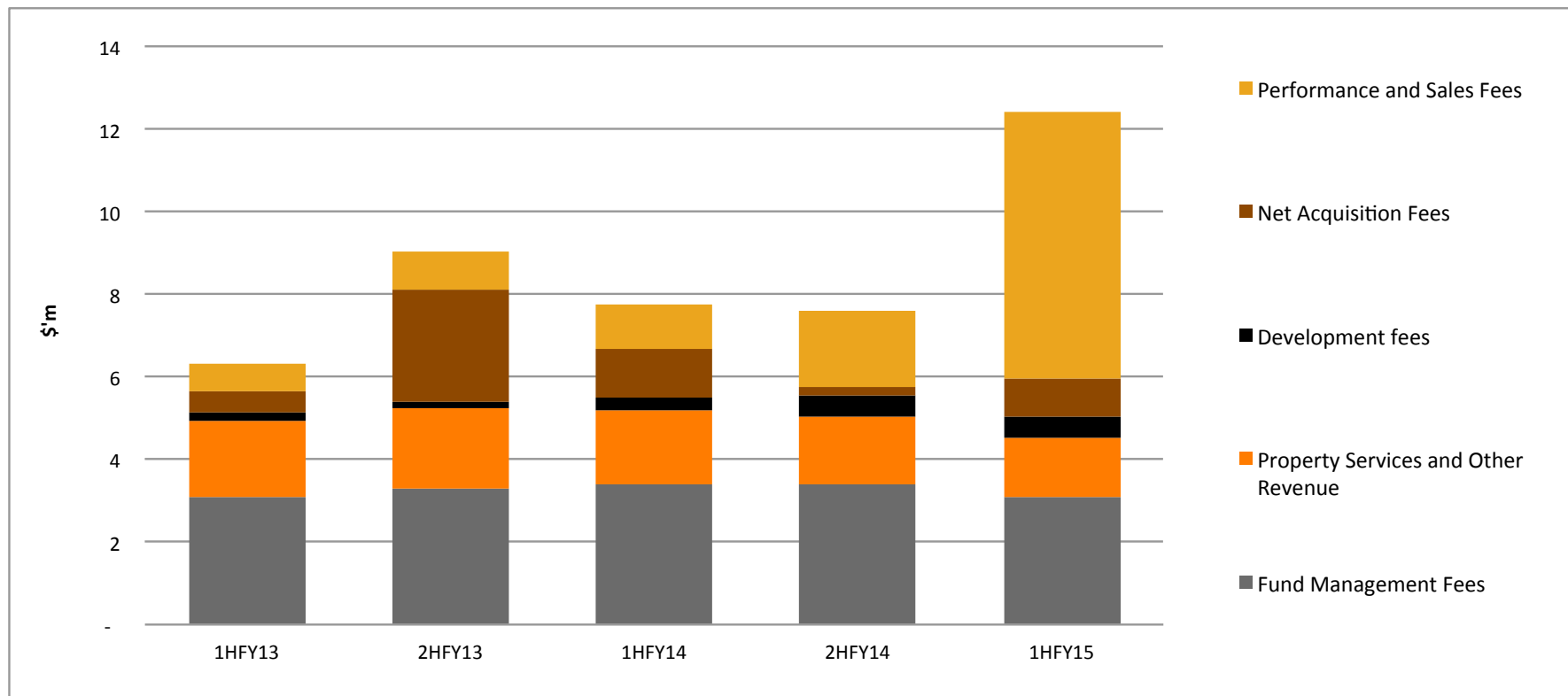
Centuria expects to launch a Club Fund in 2015 to take advantage of offshore demand for Australian property and leverage Centuria's proven track record in the commercial core-plus sector.

## Listed Funds

- Centuria Metropolitan REIT (CMA) listed on the Australian Stock Exchange on 10 December 2014
- CMA's initial share price of \$2.00 per security increased to \$2.10 per security as at 31 December 2014 and has continued to rise post half-year end

## 31 December 2014 – Property Funds Management Division

### Revenue Sources (\$millions)



- Significant performance and sale fees contributed to a stand out 1HY2015 result for the division
- Annuity stream fee income has decreased marginally with sales but expected to recover with growth mandate

## 31 December 2014 – Property Funds Management Division

- Four property acquisitions during the half-year, one in the unlisted property funds division and three in the listed property funds division
- Focus on larger assets continuing with average property value now \$32.4m (30 June 14: \$31.3m)
- Cyclical profit-taking on mature trusts has produced high performance and sale fees impacting FUM in short term. (\$0.87 billion Dec 14)
- Unlisted in strong acquisition phase with \$150 million acquisitions completed or secured in current financial year

### Business Profile of Funds

**3,636**

Number of Investors

**15**

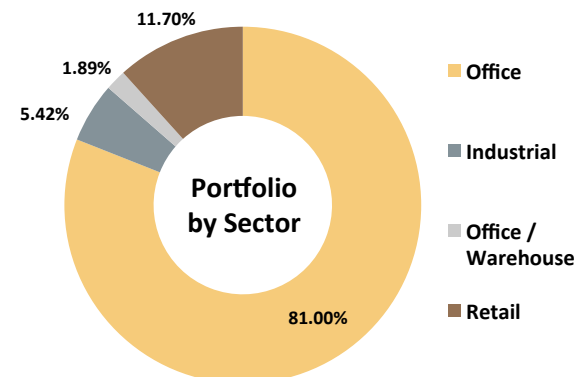
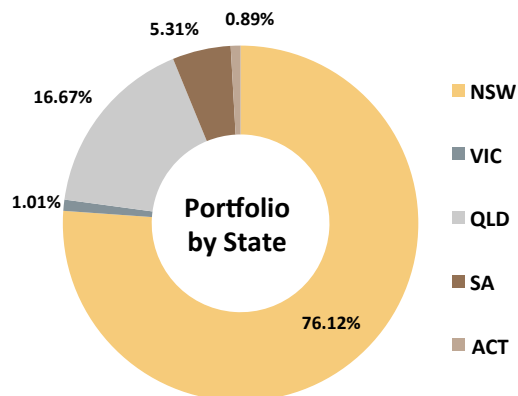
Number of Funds

**4.3** years

Portfolio Weighted Average  
Lease Expiry (income)

**26**

Number of  
Properties



# Unlisted Property Funds Management - highlights

The Unlisted Property Funds division had a record half year driven by significant sale and performance fees.

## Highlights through the period include;

- Sold 6 properties in the period to realise \$6.5 million in sale and performance fees.
- Purchased 2-10 Wentworth Street, Parramatta for \$45 million. Over 500 Reservations of Interest received for the required equity and the fund raising closed oversubscribed two weeks early.
- Received approval for the development of 68 apartments at 339 Military Road, Mosman. Equity for this development fund significantly oversubscribed. Substantial development management and performance fees will flow from this project.
- Increased development team capability to take advantage of existing residential development pipeline.
- Increased interest in unlisted property funds due to decreasing term deposit rates and Investors search for stable investment yield.



Monarch by Centuria  
339 Military Road, Mosman, Sydney



2-10 Wentworth Street, Parramatta, Sydney



# Unlisted Property - Value Add Case Study

## 441 St Kilda Road, Melbourne



**Centuria acquired the property in June 2012 for \$58 million. Over the next 2 years the Centuria team added significant value to the asset utilising its strong asset management experience and sold the property in October 2014 for \$82.1 million.**

Purchase Price:	\$58 million
Sale Price:	\$82.1 million
Capital Gain:	35.1%
IRR (Post Fees):	20.6%
Average Income Return:	7.5%

- Purchased off-market – Centuria research targeted precinct as having high growth potential
- Three major tenants vacated (as expected) leaving 4,469 sqm vacant.
- Re-leased 40% of the total NLA of the property within 6 months to quality tenants in a difficult leasing environment.
- Increased the average rental in the property from \$280 psqm on purchase to a new benchmark of \$330 psqm on sale (18% increase in 2 years).
- Repositioned the asset and its WALE to ensure it was highly sought after by prospective purchasers.
- Sold the asset at optimum point in the cycle and set a record rate per square metre for a St Kilda Road asset.
- Realised \$3.6 million in sales and performance fees from the sale.





## Listed Property

- Initial listed fund launched December 2014 - Centuria Metropolitan REIT
  - total asset value \$183 million
  - invested in metropolitan office and industrial assets
  - conservative gearing of 25%
  - initial distribution yield forecast at 8.25%
  - initial security price \$2.00 per security, closing price on 31 December 2014, \$2.10 per security
- Establishment of CMA enabled retention of \$110 million of existing FUM and delivered over \$70 million of new FUM
- CNI invested along side new institutional and retail investors with strong support from existing CNI private investors and will benefit from CMA's performance
- CMA's success has broadened its exposure to institutional investors which was a key objective of Centuria's Listed Property Strategy
- As favourable market conditions continue it is proposed to expand CMA creating a flagship investment vehicle for both existing and new investors



555 Coronation Drive, Toowong, QLD

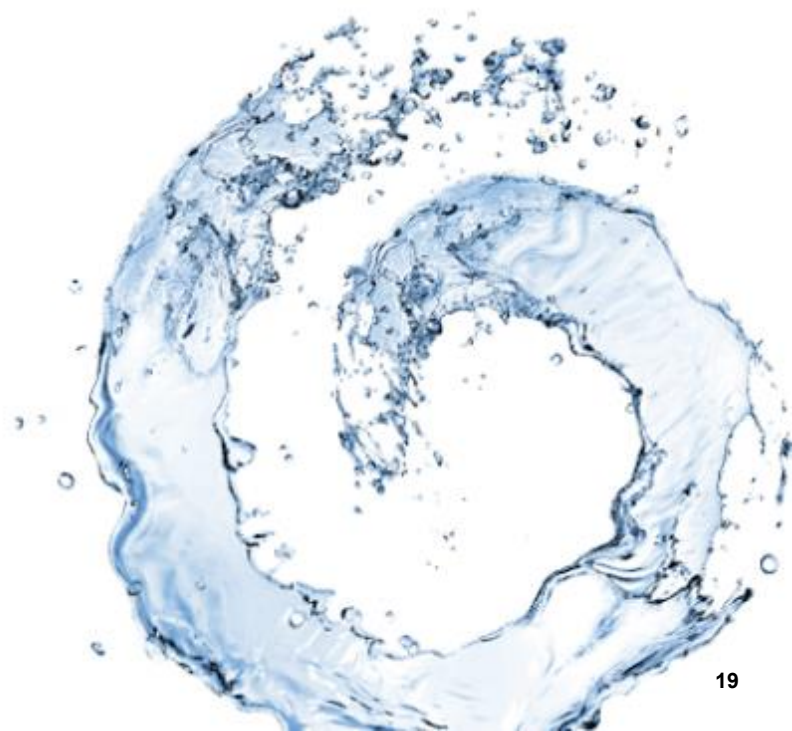
# Investment Bonds Division



# 31 December 2014 – Investment Bonds Division

## Outline of Investment Bonds

- Investment Bonds are technically insurance bonds or “friendly society” bonds issued by APRA-regulated Life Insurance companies, such as Centuria Life.
- These bonds are long term savings and/or estate planning vehicles and enjoy a tax incentivised status provided investors invest for 10 years, after which they can withdraw their capital and interest tax-free.
- They are very flexible in that investors may withdraw all or part of their investment at any time, although this will affect the tax incentivised status of the investment.
- Centuria has a range of bonds which offer underlying investments in differing asset classes including Australian shares, fixed interest and diversified funds.



# 31 December 2014 – Investment Bonds Division

## Strategy for Investment Bond division

- Centuria is positioning its investment bonds as either complimentary to compulsory Superannuation or as targeted savings vehicles for special purposes such as funding a child's education.
- Successive rounds of Superannuation legislation changes and the prospect of further potential changes have created some uncertainty around this vehicle and investors are seeking alternative strategies such as Investment bonds to protect savings and provide stable returns.
- Centuria is utilising third party distribution channels in addition to its in-house distribution capability to to cost effectively distribute its products.
- Centuria is committing an increased level of resources to this division, appointing Neil Rogan as General Manager Investment Bond division. Neil previously held the position of Head of Marketing and Campaigns at AMP. Further business development and product development appointments were also made in the half.



Neil Rogan, General Manager,  
Investment Bonds Division

# 31 December 2014 – Investment Bonds Division

---

## New Products/Performance

- Launch of Implemented Portfolios Dynamic Asset Allocation Bond and the Mason Stevens Credit Bond Fund under the Centuria Tax Astute Series
- Policyholder numbers steadily increasing with 83,488 primary holders at 31 December 2014 (30 June 2014: 83,136).
- During calendar 2014 FUM flows stabilized. The division is now experiencing increasing inflows and a greater level of retentions.
- The higher sales have been generated from our newly launched products together with renewed interest from financial advisers and clients and a growing range of product offerings.
- Investment Bond Division continues to be strengthened with the recent appointment of a Business Development Manager in NSW.

**\$394m**

---

Total FUM of Centuria Life Investment Bonds

**\$322m**

---

Total FUM of Over Fifty Guardian Friendly Society Bonds

**\$716m** (Jun-14 \$714m)

---

Total FUM

## 31 December 2014 – Non-core Assets

---

### Reverse Mortgage Portfolio Update

- Centuria successfully sold its variable rate reverse mortgage portfolio in October 2014 in line with its strategy to monetise non-core operations.
- \$31.7 million cash was released to the Group (before transaction costs and taxation)
- Fixed interest rate loan portfolio with book value of \$27.0 million retained
- Value of book secured by \$83.8 million of residential property (36.95% weighted average LVR)
- Non-recourse warehouse loan reduced to \$12.8m at 31 December 2014 (30 June 2014: \$114.2m)
- Loan facility maturity date extended to 31 March 2016
- This fixed interest portfolio is considered a long term stable investment

# Appendices

# Appendices

## Statutory Account Reconciliations

---



### General comment on statutory accounts reconciliation

- The “Statutory Accounts” show the consolidated results of the Company and its controlled entities, including the Benefit Funds of Centuria Life, which Centuria is required to consolidate under Australian Accounting Standards
- The “Benefit Funds” reflect the stand alone results, assets and liabilities and equity of policyholders of the benefit funds
- The “Statutory accounts excluding Benefit Funds” reflect the results, assets, liabilities and equity attributable to Centuria shareholder funds



# Appendix 1:

## Income Statement for six months ended 31 December 2014<sup>(i)</sup>



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Property funds management revenue	12,559	-	12,559
Investment bond revenue	3,972	(1,141)	5,113
Reverse mortgages revenue <sup>(ii)</sup>	4,424	-	4,424
Insurance revenue <sup>(ii)</sup>	287	-	287
Corporate revenue	5,143	-	5,143
<b>Total revenue</b>	<b>26,385</b>	<b>(1,141)</b>	<b>27,526</b>
Finance costs	(2,322)	-	(2,322)
Employee benefits expense	(5,892)	-	(5,892)
Administrative and other expenses	(5,125)	-	(5,125)
Impairment of related party receivable (seed capital) <sup>(iii)</sup>	(4,009)	-	(4,009)
Unrealised gain from fair value movements of derivative financial instruments	1,126	-	1,126
<b>Net profit before tax</b>	<b>10,163</b>	<b>(1,141)</b>	<b>11,304</b>
Income tax expense	(2,559)	1,141	(3,700)
<b>Profit for the period</b>	<b>7,604</b>	<b>-</b>	<b>7,604</b>

(i) Extracted from the Statement of Comprehensive Income and Segment Information of the Centuria Capital Limited Interim Financial Report lodged with ASX on 19 February 2015.

(ii) Revenue and results from the reverse mortgages and insurances divisions were impacted by the sales that took place in October 2014.

(iii) Discounting of seed capital is disclosed as part of finance costs (\$0.872m).

## Appendix 2:

# Summary Balance Sheet as at 31 December 2014<sup>(i)</sup>



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents <sup>(ii)</sup>	23,011	-	23,011
Assets classified as held for sale	13,635	-	13,635
Other financial assets – reverse mortgage portfolio <sup>(iii)</sup>	45,052	-	45,052
Assets in respect of Benefit Funds	396,053	396,053	-
Intangible assets	53,025	-	53,025
Other assets	17,767	-	17,767
<b>Total assets</b>	<b>548,543</b>	<b>396,053</b>	<b>152,490</b>
<b>Liabilities</b>			
Borrowings – reverse mortgages	12,831	-	12,831
Derivative financial liabilities – reverse mortgages	18,008	-	18,008
Liabilities in respect of Benefit Funds	396,053	396,053	-
Other liabilities	10,230	-	10,230
<b>Total liabilities</b>	<b>437,122</b>	<b>396,053</b>	<b>41,069</b>
<b>Net assets</b>	<b>111,421</b>	<b>-</b>	<b>111,421</b>

(i) Extracted from the Statement of Financial Position of the Centuria Capital Limited Interim Financial Report lodged with ASX on 19 February 2015.

(ii) Includes \$6.2m Corporate, \$6.9m Property Funds, \$2.3m Reverse Mortgages and \$7.6m Centuria Life (\$9.9m not available for use (Reverse Mortgages and Centuria Life)

(iii) Other financial assets – reverse mortgages cost of \$27.0m plus fair value adjustment of \$18.0m.

## Appendix 3:

### Summary Cash Flow Statement for six months ended 31 December 2014<sup>(i)</sup>



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Management fees received	14,413	-	14,413
Benefit funds net payments	(18,781)	(18,781)	-
Payments to suppliers and employees	(11,943)	-	(11,943)
Other net operating receipts	797	-	797
<b>Net cash flows provided by/(used in) operating activities</b>	<b>(15,514)</b>	<b>(18,781)</b>	<b>3,267</b>
<b>Cash flows from investing activities</b>			
Benefit funds net receipts	64,070	64,070	-
Payments for plant and equipment	(42)	-	(42)
Acquisition of investments	(16,640)	-	(16,640)
Net proceeds from sale of subsidiary	4,873	-	4,873
<b>Net cash flows provided by/(used in) investing activities</b>	<b>52,261</b>	<b>64,070</b>	<b>(11,809)</b>
<b>Cash flows from financing activities</b>			
Proceeds from sale of reverse mortgages, net of repayment of borrowings	31,702	-	31,702
Repayment of borrowings – corporate	(12,000)	-	(12,000)
Other net financing activities	(1,264)	-	(1,264)
<b>Net cash flows provided by financing activities</b>	<b>18,438</b>	<b>-</b>	<b>18,438</b>
<b>Net increase in cash and cash equivalents</b>	<b>55,185</b>	<b>45,289</b>	<b>9,896</b>

(i) Extracted from the Statement of Cash Flows of the Centuria Capital Limited Interim Financial Report lodged with ASX on 19 February 2015.

# Disclaimer

---

This document has been issued by Centuria Capital Limited ABN 22 095 454 336 and contains general information about Centuria Capital Limited and its related bodies corporate ("Centuria") which is current as at 19 February 2015.

The information in this document is in summary form and does not purport to be complete. Due to the impact of rounding, the totals shown for charts, graphs or tables in this document may not equate to the sum of the individual components of the relevant chart, graph or table. Accordingly, it should be read in conjunction with all other information concerning Centuria filed with the Australian Securities Exchange.

The document has been prepared from information believed to be accurate, however, no representation or warranty is made as to the accuracy or adequacy of any information contained in the document. To the extent permitted by law, Centuria, its related bodies corporate and their respective directors, officers and employees, exclude liability for any loss or damage resulting from the issue or use of, or reliance on, anything contained in or omitted from this document.

This document is not a recommendation or personal advice in relation to Centuria or any product or service offered by Centuria and does not take into account the investment objectives, financial situation or needs of any particular person. Past performance is not indicative of future performance.

To the extent this document contains prospective financial information, that information has been based on current expectations about future events and is, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from expectations.

# Centuria®



[www.centuria.com.au](http://www.centuria.com.au)