

# ALE Property Group

11<sup>th</sup> Annual General Meeting – 6 November 2014



**Crows Nest Hotel, Crows Nest, Sydney, NSW**

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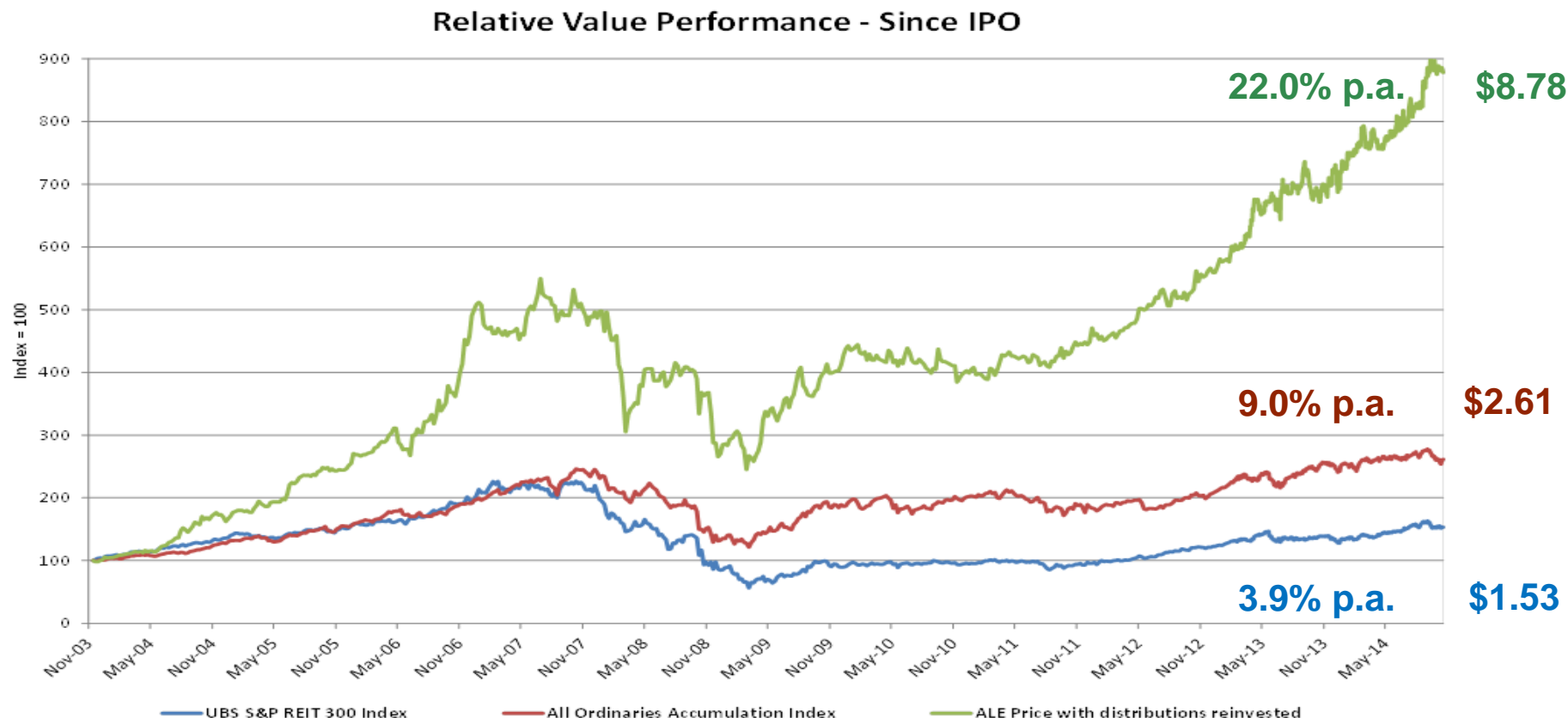
# ALE Property Group

## Growing Securityholder Value – Consistently

- **High quality properties**
- **Low risk capital structure**
- **Growing, long term and secure rental income**
- **Positive prospects for market rent review upside**
- **Highly experienced and well credentialed Board**
- **Experienced management team**
- **One of lowest management expense ratios in AREIT sector**
- **Consistent strategy to grow distributions and securityholder value**

# 11 Years of Equity Performance

## \$8.78 of Accumulated Value



**ALE : \$1.00 invested in 2003. \$8.78 of accumulated market value<sup>1</sup>**

1. Includes equity market price as at 20 October 2014 and reinvestment of distributions and 2009 renunciation payment

# Financial Highlights

## Full Year to 30 June 2014

- FY14 distributable profit of \$31.2m or 15.96 cps
  - distributable profit reduced by one-off refinancing expense of 0.9 cps
- FY14 distribution of 16.45 cps
  - exceeded guidance of at least 16.35 cps
  - 96.43% tax deferred and 3.57% CGT concessional
  - fully funded out of current and prior year accumulated distributable profits
- \$335m AMTN refinancing and hedge restructure ensures strong capital position
  - maturity dates now diversified over next three, six and nine years
  - simplified debt structure includes just two types of fixed rate bonds
  - lower base interest rates fixed and simplified hedging for 8.4 years
  - savings from all up interest rate of 4.35% p.a. that is fixed until Aug 2017

# Property Highlights

## Full Year to 30 June 2014

- Property revenue of \$54.7m, up \$1.4m vs pcg
- 86 properties' statutory valuations increased by 5.14% to \$821.68m due to
  - CPI rental growth of 2.25%
  - average capitalisation rate reduced from 6.59% to 6.42%
  - QLD land tax reductions
- All independent (DCF) valuations assumed a 10% capped increase in 2018 rent
- Weighted average lease expiry of around 14 years
- Portfolio value includes future market rent reviews arising from enhanced ALH profit
  - significant capital expenditure by ALH at the properties
  - Victorian gaming changes continue to provide materially positive impact
  - ALH's FY14 EBITDAR increased 6.6% across all 320+ pub operations
  - potential for further valuation uplift from 2028 open market rent review

# FY14 Results

## Distributable Profit

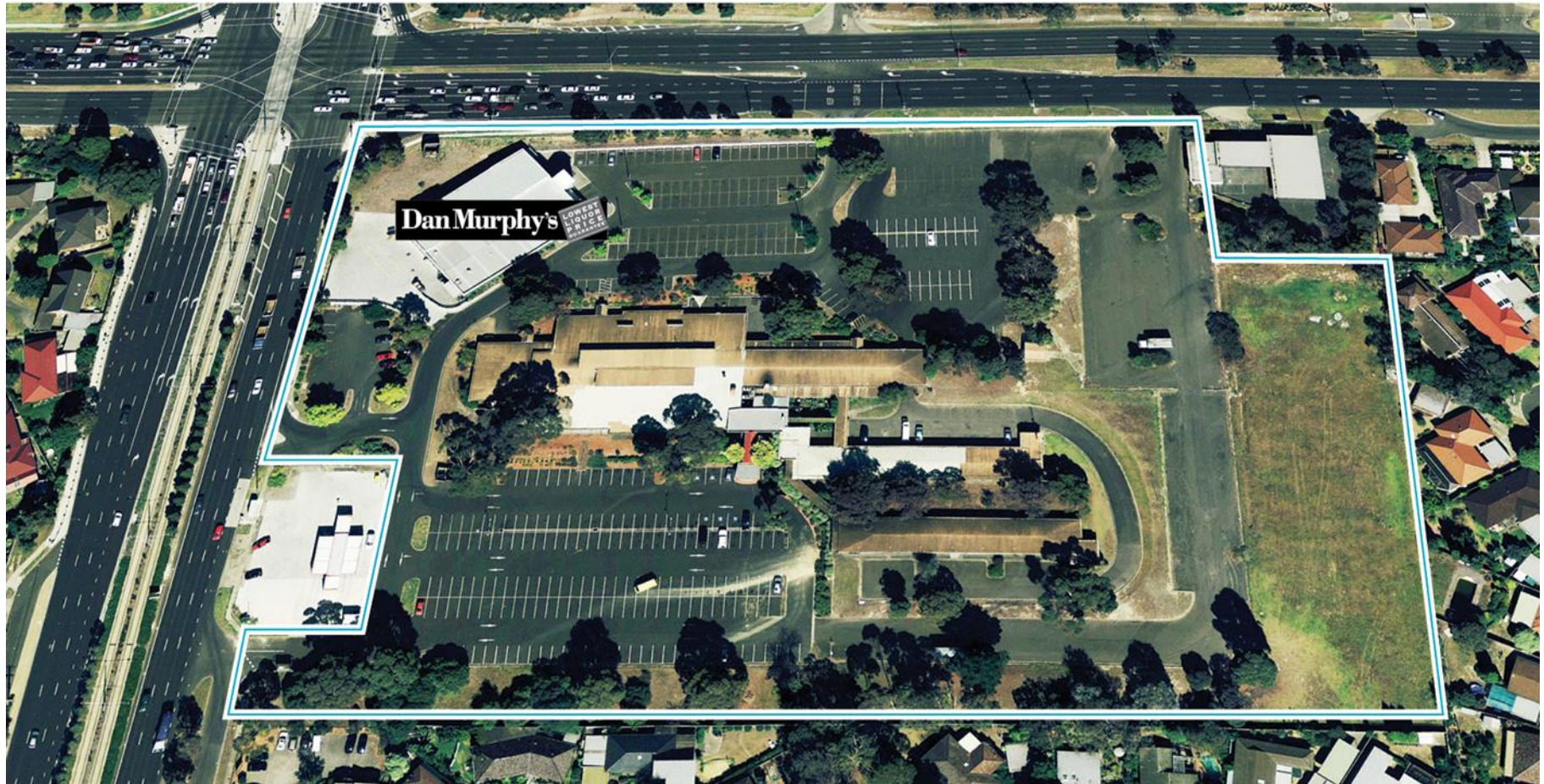
Millions	FY14	FY13	Comments
Revenue from Properties	<b>\$54.7</b>	\$53.3	➤ CPI based rent increase and other income
Other Revenue	<b>\$2.2</b>	\$2.8	➤ Reduced average cash balances and deposit rates
Borrowing expense	<b>\$19.0</b>	\$17.8	➤ Includes expected one off CMBS prepayment cost of \$1.7m
Management expense	<b>\$4.6</b>	\$4.3	➤ Remains one of lowest expense ratios in AREIT sector
Land tax expense	<b>\$2.1</b>	\$2.3	➤ Land tax for QLD properties only. Successful objections
<b>Distributable Profit <sup>1</sup></b>	<b>\$31.2</b>	\$31.7	➤ In line with expectations after one off prepayment cost
Funds From Operations (FFO)	<b>\$31.2</b>	\$31.7	➤ Equal to distributable profit
Securities on Issue	<b>195.7</b>	194.2	➤ Increase from September 2013 DRP. Now suspended
Distributable Profit (cps)	<b>15.96c</b>	16.32c	➤ In line with expectations after one off prepayment cost
<b>Distribution (cps)</b>	<b>16.45c</b>	16.00c	➤ Exceeded guidance of 16.35c. Additional 0.49c paid from prior period accumulated distributable profits

1. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit



# ALE's Properties

## High Quality, Well Located and Significant Development Potential



**Burvale Hotel, Melbourne, VIC**

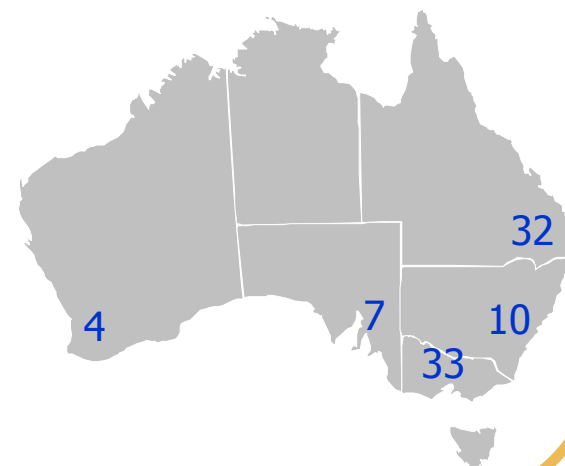


# High Quality Property Portfolio

## Summary of Portfolio and Leasing Arrangements

- ALE (ASX:LEP) is the largest freehold owner of pubs in Australia
- Owns 86 pub freehold properties across the mainland capital cities
- Long term favourable lease structure provides security of income growth
  - 25 year initial term with average 14 years remaining
  - 83 properties on triple-net<sup>1</sup> leases
  - four options for ALH to extend lease by up to 40 years
- 100% occupancy / 0% vacancy
- Favourable rental outlook backed by ALH's capital expenditure
- 100% leased to ALH who is
  - Australia's leading pub operator
  - 75% owned by Woolworths Limited
  - owner of licences and certain development rights

**ALE's 86 Pubs in Australia**



1. Three of the 86 properties are on double-net leases

# High Quality Property Portfolio

## Consistent Strategy Driving Growth in Securityholder Returns

- ALE has a strong understanding of the high quality pub property market in Australia including lease arrangements and the drivers and risks to valuation
- Based on this capability, ALE has implemented a disciplined and consistent approach to both small and larger scale acquisition and disposal opportunities
- ALE actively reviews opportunities which meet its portfolio criteria
- Over the past eleven years ALE has acquired \$100m of properties at an average cap. rate of 7.2% and sold \$137m of properties at an average cap. rate of 6.1%
- Shepparton Hotel in regional Victoria was sold during FY14 at 6.3% cap rate as ALH wished to combine the property with its sale of the operating business
- ALE keenly bid for the ALH portfolio of 54 hotels in June 2014 but was unsuccessful at the expression of interest price we offered

# High Quality Property Portfolio - Valuations

## 30 June 2014 Valuations

- Valuations increased 5.14% over the year
- Cap. rate reduced from 6.59% to 6.42% – within range of 6.1% and 6.6% since 2006
- Valuations substantially exclude significant capital expenditure by ALH
- Diversity of property values across the portfolio ranging from \$2.1m to \$21.2m with an average of \$9.6m. Value range is liquid through the cycle and highly marketable to investors.

Portfolio breakdown by geography (as at June 2014)

	Number of properties	Value (\$m)	Average Value (\$m)	WACR	Geographic Diversity By Value
NSW	10	113.9	11.4	6.56%	<p>A 3D pie chart illustrating the geographic distribution of the portfolio's value. The largest portion is VIC at 49%, followed by QLD at 30%, NSW at 14%, SA at 4%, and WA at 3%.</p>
QLD	32	240.9	7.5	6.33%	
SA	7	33.6	4.8	6.52%	
VIC	33	406.0	12.3	6.41%	
WA	4	27.3	6.8	6.75%	
<b>Total</b>	<b>86</b>	<b>821.7</b>	<b>9.6</b>	<b>6.42%</b>	

# Properties

## November 2014 Rent Reviews

- 79 of ALE's 87 properties rents were reviewed at November 2014 in line with state based CPI
- Weighted average CPI result for 79 properties of 2.24% was broadly in line with the national average
- Passing rent (before deducting QLD land tax) increases by around \$1.1m to \$55.6m
- Any changes to the value of the properties will be confirmed following further discussions with ALE's independent valuers and announced during December 2014

# Case Study – Property Redevelopment by ALH

## Hamilton Hotel, Hamilton, Brisbane, QLD



**2003**



**2014**

- Located between Airport and CBD on Brisbane River, near Breakfast Creek Hotel
- Acquired for \$6.6m in 2003 at cap rate of 7.0%
- ALH spent ~ \$13m in 2009 to reconstruct hotel and add Dan Murphy's
- Valued at June 2014 at \$9.6m at cap rate of 6.01% (limited recognition of capex)
- Market rent reviews due in 2018 (10% collar) and 2028 (open)



# ALE Property Group

## Capital Management



**Young & Jackson Hotel, Melbourne CBD, VIC**

# Capital Management

## Strategic Objectives Met

- **ALE's capital management strategy is focussed on reducing refinancing risk, while delivering consistent growth in distributions**
- During FY14 ALE met its objectives through a debt refinancing which:
  - simplified the capital structure even further
  - transacted at one of the low points in the credit market since 2007
  - retained long term and cost effective CIBs
  - diversified and extended the debt maturity profile
  - established a presence in a more liquid and flexible debt capital market
  - reduced the credit margins materially over the next six years
  - maintained a long term and 100% fixed / hedged base interest rate profile

# Capital Management

## Refinancing Process

- Over an 18 month period investigated a wide range of debt markets and met 60+ investors
  - Syndicated bank debt in Australian and Asian markets
  - CMBS in Australian and European markets
  - Capital Indexed Bonds in Australian market
  - Listed and unlisted ALE Notes 3 in Australian and Asian markets
  - US Private Placements in the American market
- Ultimately dual tracked both ATMN and USPP
  - Positive response received from meeting around 25 USPP investors (US pension funds)
  - Fully documented both marketing and legal documentation for both markets
  - Ultimately AMTN was more favourable on price and terms for ALE's preferred tenor
  - For ALE's future long term debt requirements, USPP market remains a very viable option

# Capital Management

## Investment Grade Rating and Refinancing

- Investment grade credit rating of Baa2 assigned by Moody's to ALE DPT
- Significant refinancing was completed on 29 May 2014
- Issue of \$335m of Australian Medium Term Notes (AMTN) included:
  - 3.25 year notes of \$110m at 1.30% margin
  - 6.25 year notes of \$225m at 1.50% margin
- Proceeds progressively applied to full repayment of existing facilities at higher credit margins:
  - \$160m of CMBS (repaid June 2014 with penalty for early prepayment)
  - \$165m of ALE Notes 2 (exercised redemption right at August 2014)
  - restructure and termination of associated interest rate hedging facilities
- Base interest rates on 100% of ALE's net debt remains fixed or hedged for average 8.4 years

# Capital Management

## AMTN Refinancing – Notable Features

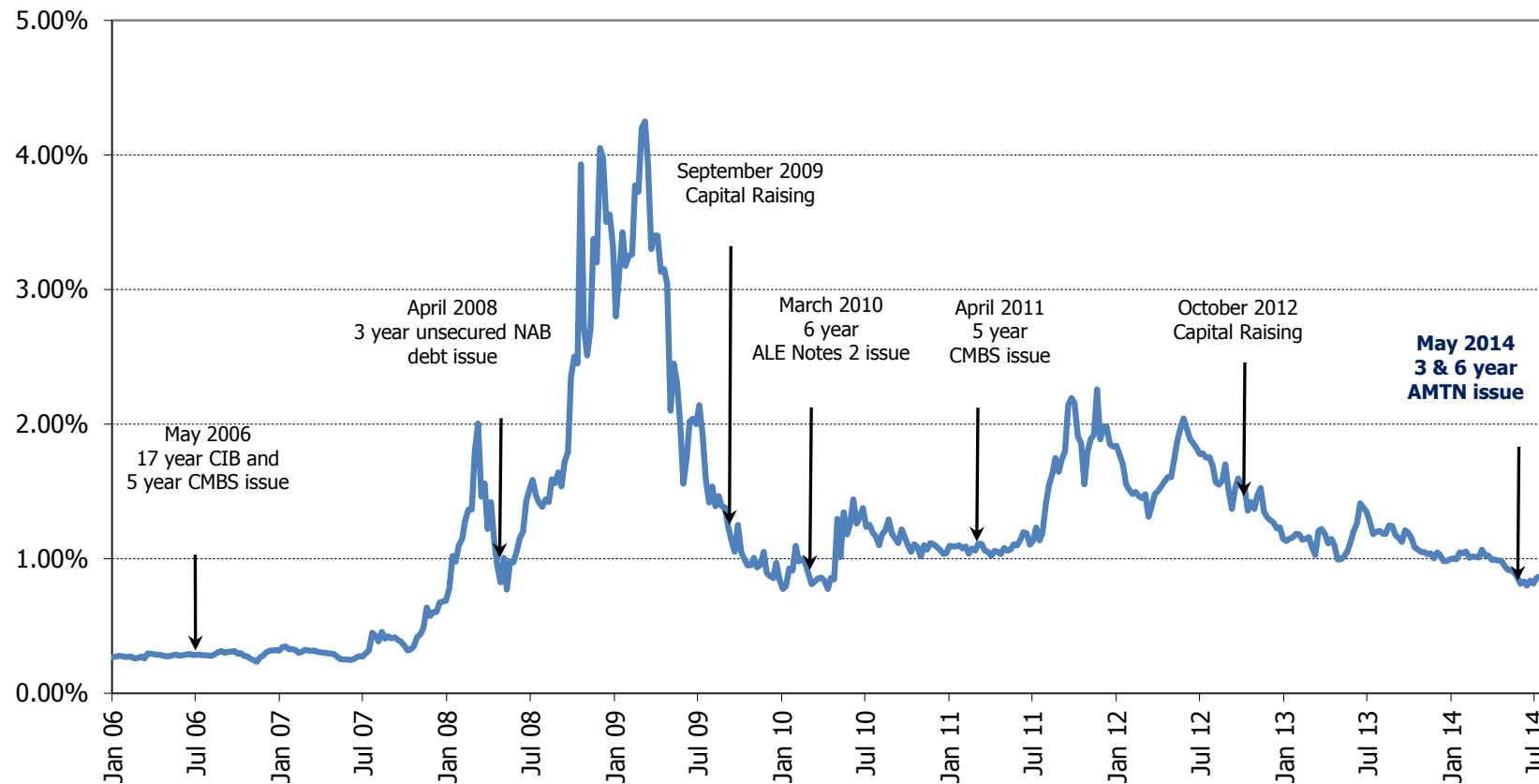
- Largest AMTN issue by an AREIT since 2011
- For Baa2 / BBB rated issuers, the AMTN was at the time of issue the
  - second largest ever inaugural issue by an AREIT
  - lowest ever credit margin for an unsecured issue with a 6+ year term
- Now trades in secondary markets in line with higher rated issuers
- Only dual tranche AMTN by an Australian corporate issuer in year to May 2014
- Significant demand (around \$650m) from around 40 investors was scaled to deliver a very competitive outcome
- Allocations made to quality Australian and Asian fixed interest investors, many of whom have participated in a range of ALE debt issues since 2003
- Unique market terms including buy back rights for ALE at anytime during the bond term
- UBS and Citi acted as joint lead managers.



# Capital Management

AMTN executed at one of the low points in the credit market since 2007

iTraxx Credit Index

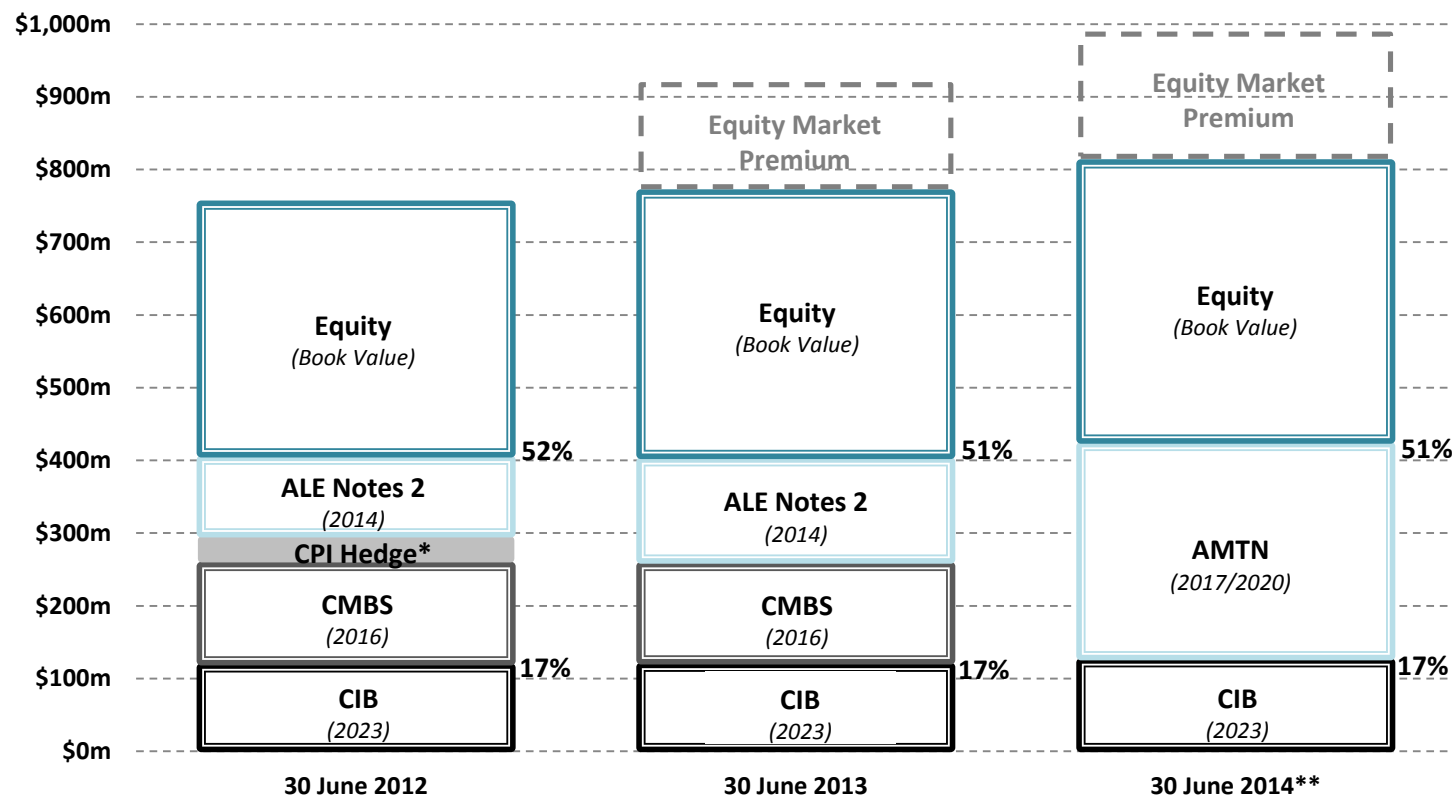


Source: ALE and Bloomberg

# Capital Management

## Capital Structure

ALE's capital structure has become increasingly simple



- Equity Market Premium represents the difference between the market capitalisation based value and book value of ALE
- Covenant gearing percentage levels at both the secured and total net debt levels are indicated above

\* CPI Hedge accumulated indexation. \*\* After ALE Notes 2 redemption (expected August 2014)

# Capital Management

## Capital Structure

Debt Facility	Issue Rating	June 14 Amount (\$M)	Base Rate	Issue Margin	All Up Fixed Rate	Scheduled Maturity	Remaining Term (Years)
AMTN (Unsecured)	Baa2	<b>\$110</b>	2.95%	1.30%	4.25%	Aug 2017	2.8
AMTN (Unsecured)	Baa2	<b>\$225</b>	3.50%	1.50%	5.00%	Aug 2020	5.8
CIB (Secured)	AAA / Aaa	<b>\$141</b>	3.20%	0.20%	3.40%*	Nov 2023	9.0
Total and Averages		<b>\$476</b>	<b>3.28%</b>	<b>1.07%</b>	<b><u>4.35%</u></b>		<b>6.1</b>
(Cash) on Deposit		(\$47)					
<b>Total Net Debt</b>		<b>\$429</b>					

\* Base Rate for CIB is a real rate. The balance of the CIB escalates at CPI

- Above amounts exclude \$102.6m of remaining ALE Notes 2 and the cash to be used to fund redemption on 20 August 2014
- Fixed rate and interest rate hedging facilities provide a weighted average hedging term of 8.8 years
- Net debt is fully fixed / hedged to November 2022. The fixed rates apply until the AMTN maturity dates, after which the base interest rates are hedged at 3.83% p.a. Overall hedging values are currently \$3.9m in the money
- Cash balance above includes \$8.39m held in debt reserve as security for the CIB, \$16.1m for September 2014 distribution and \$2.0m reserve for AFSL regulatory requirements

# Capital Management

## Covenant Headroom

- Substantial headroom to all debt covenants continues to apply
- Covenant gearing at 51.7% (FY13 50.9%) is in target range of 50-55%
- Headroom (at June 2014) to AMTN gearing covenant of 60.0% equates to:
  - 103 bps expansion in average cap rate (from 6.42% to 7.45%) or
  - 13.8% or \$115m reduction in property values
  - average cap rates have moved within range of 6.07% and 6.60% since 2006
  - headroom provides some capacity to add to AMTN issuance
- AMTN gearing covenant of 60% relates to distribution stopper and 65% to default
- Interest cover ratio (at June 2014) of 2.48 times compares to AMTN covenant at 1.50 times
  - 100% of net debt hedged until Nov 22 and next debt maturity is \$110m in Aug 2017

# FY15 Outlook





# FY15 Outlook

## Discipline Provides Certainty with Upside

- During the period ALE's properties demonstrated their quality by increasing in value
- Lower base interest rates and credit margins locked in for the long term
- Interest expenses fixed at all up cash rate of 4.35% p.a. until Aug 2017 when only 23% of total debt is due for refinancing
- Positive outlook for future market rent increases
  - 2018 - independent valuers are assuming 10% increases
  - 2028 - portfolio value analysis provides a range of outcomes
- ALE continues to review acquisitions that meet disciplined strategy and criteria

### **ALE aims to grow distributions by at least CPI**

- FY15 distribution guidance of 16.45 cps (FY14) plus at least CPI
- FY15 distribution is expected to be at least 75% tax deferred
- Significant savings realised from the AMTN refinancing will largely replace the now fully amortised hedging benefits that reduced interest expenses over recent years
- All guidance assumes the existing portfolio, hedging and capital structure continues
- Guidance is also subject to consultations ALE will conduct with larger and smaller securityholders around future gearing levels
  - gearing may fall materially if property revaluations are positively impacted by future CPI based rent increases and any uplift (of up to 10%) from the 2018 market rent reviews
  - ALE could either maintain or allowing gearing to fall over the next four to five years
  - options include increased distributions, security buybacks and debt funded acquisitions

# ALE's Investment Proposition

- **High quality asset portfolio** with broad geographic and valuation diversification
- **Triple net leases** to tenant that is **75% owned by Woolworths** Limited
- **Long average lease term of 14 years**, with annual CPI increases and options provides **secure and stable income and capital growth**
- Portfolio **under rented** according to independent valuers and a range of indicators provides **10% rent upside potential at 2018 rent review**
- **Low risk capital structure** with average debt maturity of 6.1 years and average hedging maturity of 8.4 years
- **Expected distribution yield of at least 5.4%<sup>1</sup>** for FY15

1. Based upon security price of \$3.13 as at 5 November 2014 and FY15 distribution guidance of at least 16.45 cents per security plus assumed CPI of 2.5%

# Attachments



**Stamford Hotel, Melbourne, VIC**

# About ALE

## ALE & ALH: A Quality and Sustainable Pub Landlord and Tenant Arrangement

- Quality locations
- Long term history of pub operation
- Capital city located properties
- Low building to land utilisation = spare land
- Investment grade tenant with strong commitment to pub operations
- Profitable tenant with capacity and willingness to fund capital expenditure
- Rents that are below market rent levels driven by operator's strong profit profile
- Strong assignment and gaming transfer protections for landlord
- Triple net lease structure that encourages property improvements by tenant
- Cross defaulting leases that maximise tenant compliance across the portfolio





# About ALH

## A Strong and Performing Tenant

- Nov 2004 Woolworths / Mathieson JV acquired ALH - 135 licensed venues for \$1.33 billion
- ALH now operates more than 320 licensed venues and over 460 retail liquor outlets across Australia, including BWS and Dan Murphy's
- For FY14 the ALH Group reported EBITDAR of \$743m, up 6.6% on FY13
- Woolworths operates more than 1,400 retail liquor outlets across Australia with liquor sales for the year to 30 June 2014 of \$7.4 billion
- ALH is Australia's leading pub operator on any measure



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