

# ALE Property Group

## December 2015 Half Year Results – 16 February 2016



**Somerville Hotel, Somerville, Melbourne, VIC**

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# Group Highlights

## Half Year to 31 December 2015

ALE Property Group named top A-REIT for FY15

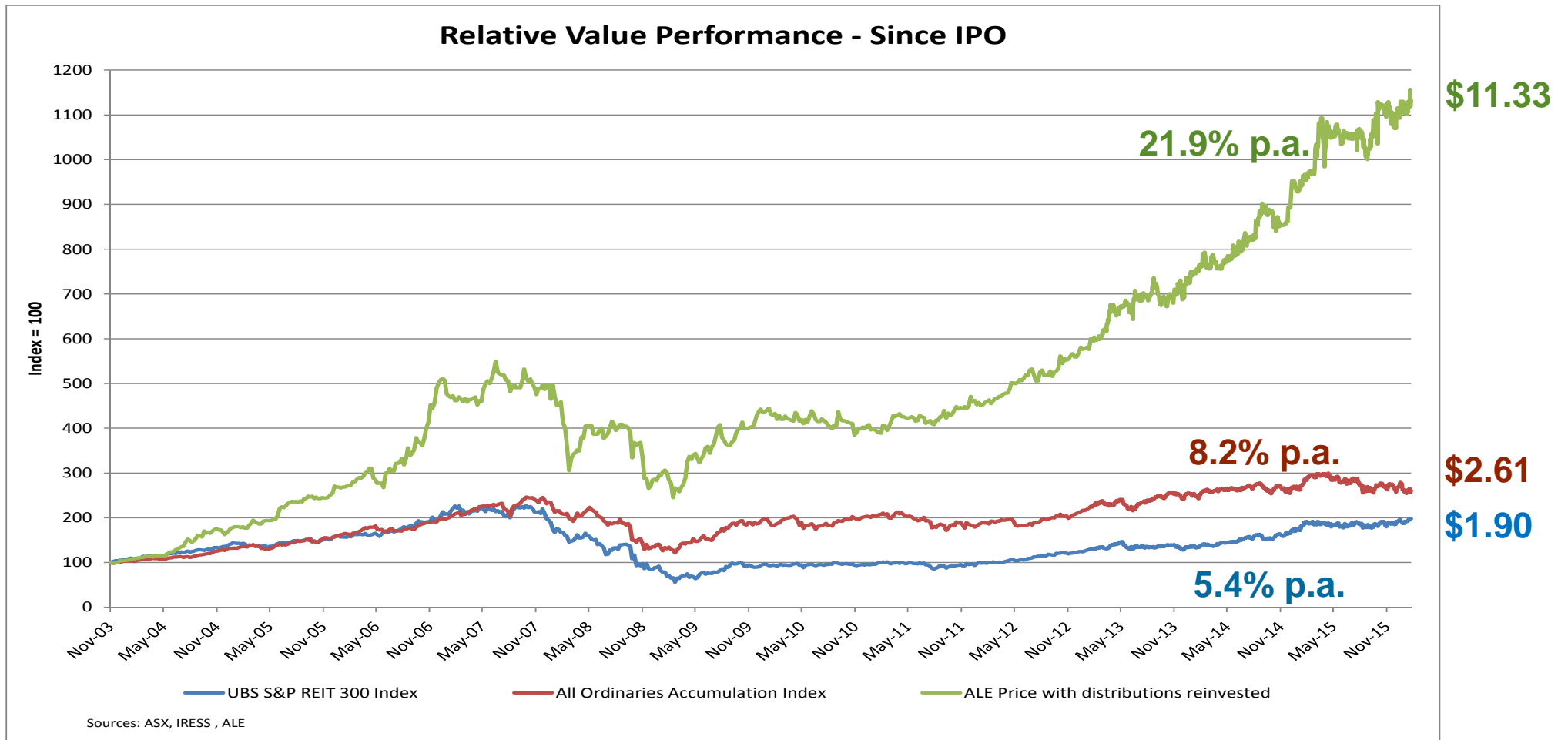


Portfolio Performance	Capital Management	Equity Performance
<b>\$953.9m</b> Statutory property values ↑	<b>45.7%</b> Net gearing ↓	<b>9.90 cps</b> Distribution ↑
<b>5.74%</b> Capitalisation rates ↓	<b>4.9 years</b> Debt maturity ↓	<b>29.3%</b> CY15 total return ↑
<b>12.8 years</b> WALE ↓	<b>9.9 years</b> Hedge maturity ↑	<b>21.9% p.a.</b> 12 year total return ↑
<b>2.0%</b> Rental income growth ↔	<b>4.35%</b> All up cash interest rate ↔	<b>\$2.49</b> NTA ↑
<b>100%</b> Occupancy ↔	<b>Baa2</b> Investment grade rating ↔	<b>100%</b> Distribution tax deferred ↔

Capitalisation rates, interest rates, maturity terms and rental growth rates are all weighted averages. Specific definitions are on other pages or in the statutory accounts. Results are for the six months ending or as at 31 December 2015.

# ALE's 12 Years of Equity Market Outperformance

## \$11.33 of Accumulated Value



**ALE : \$1.00 invested in 2003. \$11.33 of accumulated market value<sup>1</sup>**

1. Includes equity market price of **\$3.85** as at 5 February 2016 and reinvestment of distributions and 2009 renunciation payment

# Financial Highlights

## Half Year to 31 December 2015

- Distributable profit of \$14.8m for the half year
- Distribution for the half year of 9.90 cps
  - increase of 17.90% on previous December half year
  - on track to achieve full year guidance of at least 20.00 cps
  - fully funded out of current and prior year accumulated distributable profits
- Distributions for the half year expected to be 100% tax deferred
- Capital position remains strong
  - debt maturity dates diversified across next eight years
  - all up cash interest rate of 4.35% p.a. is fixed until next debt maturity in August 2017
  - base interest rate hedging extended from seven to around ten years at 3.46% p.a.
  - gearing reduced from 48.0% to 45.7% and provides significant headroom
- ALE Property Group named top A-REIT for FY15 

# Property Highlights

## Half Year to 31 December 2015

- Property revenue of \$28.0m, up \$0.5m vs pcp (driven by CPI rent review)
- Property valuations increased by \$53.4m or 5.93% to \$953.9m
- Average capitalisation rate reduced from 5.99% to 5.74%
- Portfolio value includes future market rent reviews arising from enhanced ALH profit
  - significant and continuing capital expenditure by ALH at ALE's properties
  - December 2015 independent valuations continue to focus on cap rate methodology
  - ALH's FY15 EBITDAR increased 4.1% across all 330+ pub operations
  - potential for further valuation uplift from 2028 open market rent review
- Brass Monkey Hotel, Perth (non-standard) lease extended to 2020 with market rent unchanged following independent determination at 40% of the hotel's average EBITDAR
- Weighted average lease term remaining of 12.8 years

# December 2015 Half Year Results

## Net Profit (IFRS) and Distributable Profit

Half Year ending 31 December 2015	\$m
Total Revenue	28.5
Total Other Income (Fair value increments to investment properties)	53.0
Total Expenses (Cash expenses and fair value decrements to derivatives)	(18.4)
Income Tax Expense	(0.0)
<b>Net Profit after income tax (IFRS)</b>	<b>63.1</b>
Add Back: Fair value increments to investment properties	(53.0)
Fair value decrements to derivatives	3.4
Employee share based payments	0.1
Non-cash finance costs	1.3
Income tax expense	0.0
<b>Distributable Profit</b>	<b>14.8</b>

ALE has a policy of paying distributions subject only to an amount not less than the taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE and hence how distributions are determined. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG. Rounding differences may arise in the above table.

# December 2015 Half Year Results

## Distributable Profit

Half Year Ended (\$Million)	31 Dec 2015	31 Dec 2014	Comments
Revenue from Properties	<b>\$28.0</b>	\$27.4	➤ Driven by annual November CPI based rent increases
Other Revenue	<b>\$0.5</b>	\$1.2	➤ Interest income on lower cash balances
Borrowing Expense	<b>\$10.3</b>	\$11.1	➤ Full impact of reduced margins from 2014 refinancing
Management Expense	<b>\$2.3</b>	\$2.2	➤ One of lowest expense ratios in sector
Land Tax Expense	<b>\$1.1</b>	\$1.1	➤ Land tax for QLD properties only
<b>Distributable Profit</b>	<b>\$14.8</b>	\$14.4	
Distributable Profit (cps)	<b>7.58c</b>	7.37c	
<b>Distribution (cps)</b>	<b>9.90c</b>	8.40c	➤ In line with guidance. Additional 2.32 cps paid from 3.33 cps of accumulated undistributed profits from prior periods

1. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit.
2. Rounding differences may arise
3. 195.7 million securities were on issue during both the periods above.



# ALE Property Group Properties



**Burvale Hotel, Melbourne, VIC**

# ALE's Property Portfolio

## ALH Continues To Perform Strongly

- ALH operates around 330 licensed venues and 550 retail liquor outlets across Australia
- ALE owns 86 properties or 26% of the licensed venues that ALH currently operates
- For FY15 ALH Group reported
  - Revenue of \$3,949m, up 2.6% pcp
  - EBITDAR of \$773m, up 4.1% pcp (or 19.6% of revenue)
- For FY15 Woolworths reported
  - Liquor sales of \$7.7 billion (up 4.2% and represents 18% of Food and Liquor sales)
- Woolworths operates more than 1,500 retail liquor outlets across Australia
- ALH is Australia's leading pub operator on any measure



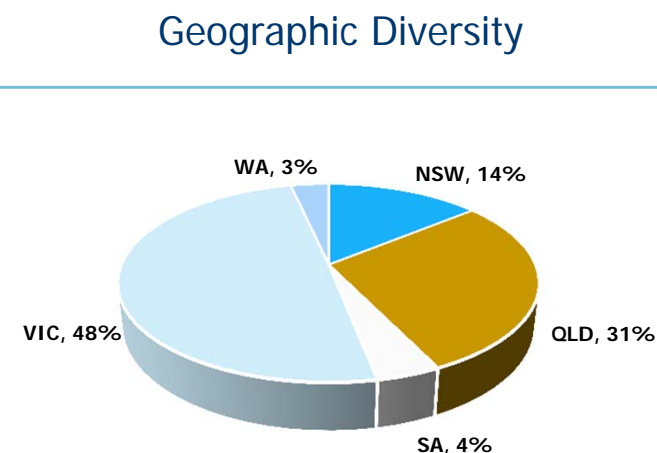
# High Quality Property Portfolio

## 31 December 2015 Valuations

- Valuations increased by \$53.4m or 5.93% during the half year
- Average cap rate reduced from 5.99% to 5.74% – have not exceeded 6.57% since 2006
- Valuations substantially exclude positive market rent prospects and significant capex by ALH
- Capital city locations with individual values at the highly liquid end of the market

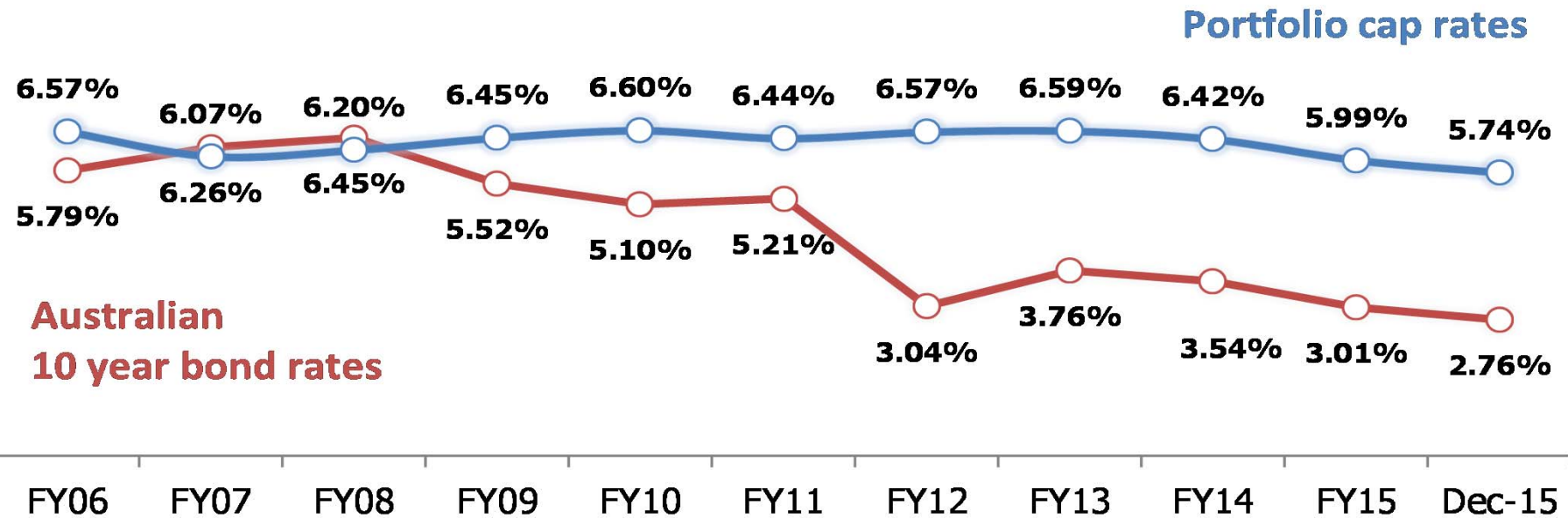
### Portfolio breakdown by geography (as at December 2015)

	Properties	Value (\$m)	Av. Value (\$m)	WACR
VIC	33	459.7	13.9	5.77%
QLD	32	296.9	9.3	5.70%
NSW	10	135.0	13.5	5.50%
SA	7	33.6	4.8	6.04%
WA	4	28.6	7.1	6.53%
<b>Total</b>	<b>86</b>	<b>953.9</b>	<b>11.1</b>	<b>5.74%</b>



# ALE's Property Portfolio

## A Material Difference Between Bond and Cap Rate Movements



### Australian 10 year bond rates

- Over the 10 years to December 2015 bond rates fell by around 3.0% compared to ALE's cap rates which fell by around 0.8%. Bond rates have since fallen further. ALE's cap rates now exceed long term real bond rates by more than 5%
- Current levels of both long term nominal and real bond rates provide a helpful buffer to ensure future capitalisation rate stability



# Case Study – Property Redevelopment by ALH

## Somerville Hotel, Melbourne, Victoria



- Located in the heart of Victoria's popular Mornington Peninsula
- Acquired for \$2.64m in 2003 at a cap rate of 9.1%
- ALH have invested around \$5m capital towards a recently completed major refurbishment
- EBITDAR for ALH and future market rent for ALE are expected to benefit significantly
- \$6.25m December 2015 valuation at 5.19% cap rate (limited recognition of market rent)
- Market rent reviews apply in 2018 (10% cap and collar) and 2028 (open)

# ALE Property Group Capital Management



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

# Capital Management

## A Strong Debt Capital Structure

- Capital management strategy continues to focus on:
  - managing all aspects of refinancing risk
  - delivering a growing distribution profile
- Debt capital structure is currently characterised by the following positive features:
  - simplified debt capital structure with just two types of fixed rate bonds
  - investment grade credit rating of Baa2 (Moody's)
  - gearing ratio fell from 51.7% to 48.0% during FY15 and fell to 45.7% at December 2015
  - maturity dates spread across the next eight years
  - 100% of net debt hedged at low base interest rates – extended from seven to ten years
  - All up cash interest rate of 4.35% p.a. that is fixed until the next refinancing in FY18

# Capital Management

## December 2015 Capital Structure

Debt Facility	Issue Rating	Amount (\$M)	Base Rate	Issue Margin	All Up Fixed Cash Rate	Scheduled Maturity	Remaining Term (Years)
AMTN (Unsecured)	Baa2	<b>\$110</b>	2.95%	1.30%	4.25%	Aug 2017	1.7
AMTN (Unsecured)	Baa2	<b>\$225</b>	3.50%	1.50%	5.00%	Aug 2020	4.7
CIB (Secured)	AAA / Aaa	<b>\$145</b>	3.20%	0.20%	3.40%	Nov 2023	7.9
Total and Averages		<b>\$480</b>	<b>3.28%</b>	<b>1.07%</b>	<b><u>4.35%</u></b>		<b>4.9</b>
(Cash) on Deposit		(\$41)					
<b>Total Net Debt</b>		<b>\$439</b>					

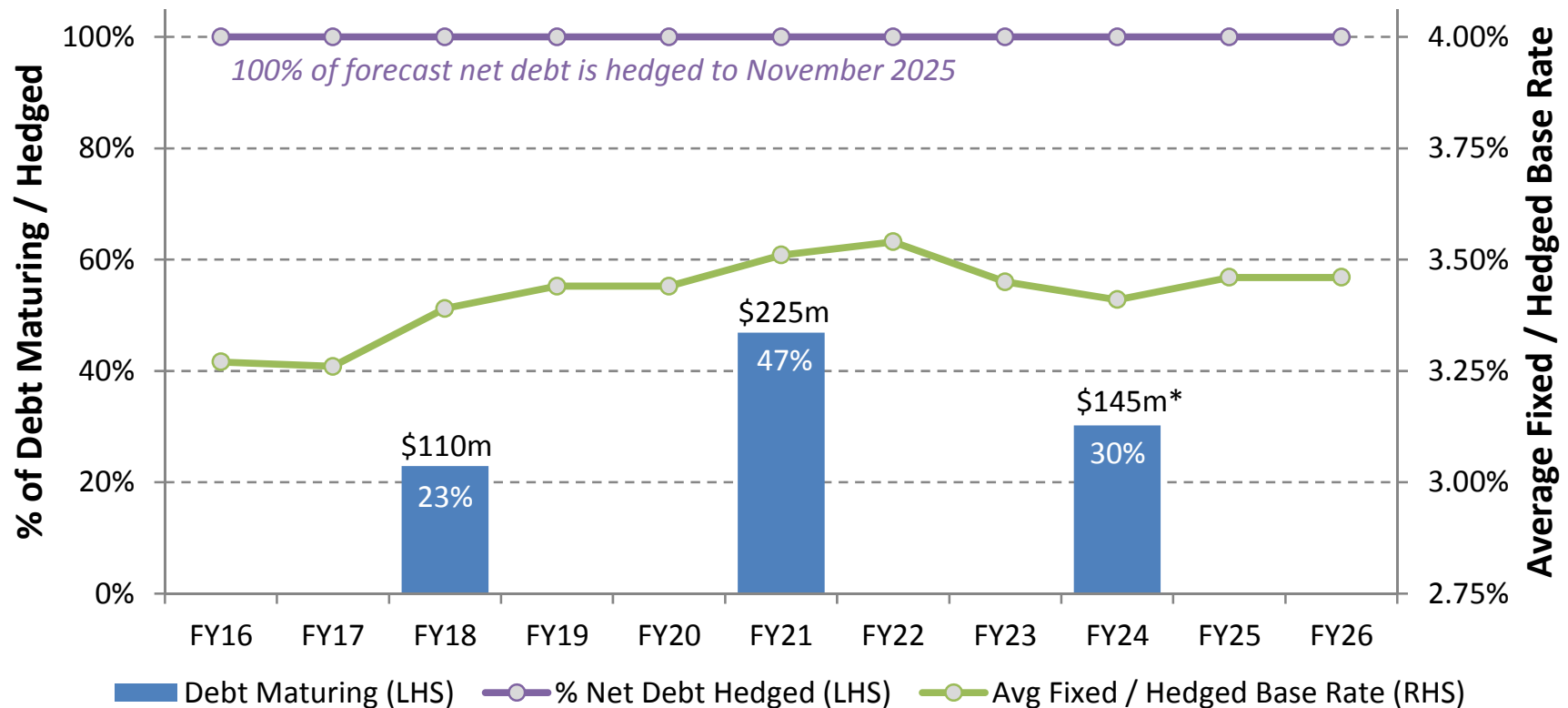
- Base Rate for CIB is a real rate. The balance of the CIB escalates at CPI
- Debt amounts are gross. They exclude reductions for any unamortised borrowing costs
- The all up fixed cash rates apply until the AMTN and CIB maturity dates, after which the base interest rates are hedged until November 2025 on around 100% of ALE's forecast net debt amounts
- Fixed rate and forward start hedging facilities provide a weighted average total hedging term of 9.9 years on 100% of net debt
- At December 2015 hedging facilities represented a \$4.5m liability. Given significant falls in interest rates, as at 12 February 2016, the liability increased to \$9.3m for pre-existing hedging and \$6.1m for the extended hedging transacted on 4 February 2016
- Cash above includes \$8.4m of debt reserve security, \$19.4m for March 2016 distribution and \$2.0m reserve for AFSL requirements



# Capital Management

## Diversified Debt Maturities And Long Term Hedging

### Debt Maturities and Hedging Profile



\* balance escalates with CPI

Note: Base interest rates exclude credit margins

# FY16 Outlook and Strategy



**The Breakfast Creek Hotel, Brisbane, QLD**

# FY16 Outlook

## Discipline Provides Certainty with Upside

- Current expectation is for the portfolio's rents to increase at the November 2018 rent review
  - increases for each property are capped and collared at 10%
  - EBITDAR levels for each property in the years leading up the review will be important
- Continuing positive outlook for significant market rent increases in 2028 \*
- Increasing engagement with ALH to identify opportunities to monetise or develop underutilised parts of 970,000sm (approx.) of total land area to further to enhance portfolio returns
- ALE continues to review acquisitions that meet both a disciplined strategy and criteria
- Low base interest rates and credit margins locked in for the long term
- Interest expenses fixed at an all up cash rate of 4.35% p.a. until August 2017, when first tranche of AMTN (\$110m) is due for refinancing
- Base interest rates on around 100% of net debt hedged for 9.9 years until November 2025

\* See separate announcement made on 12 November 2013 for more information

# FY16 Outlook

## Distribution Guidance

- At 2015 AGM the Board advised that it was aiming to move gearing back to target of between 50% and 55% over time and provided the following guidance:
  - FY16 distribution increased to at least 20 cps comprising
    - around 18 cps from current and accumulated distributable profits
    - around 2 cps from surplus cash balances
  - FY16 distribution is expected to be 100% tax deferred
  - annual distributions to increase by CPI
  - consideration of additional distributions following completion of 2018 rent review
- ALE continues to assess a range of property asset and capital opportunities to further grow distributions and securityholder value

All guidance assumes the existing portfolio, hedging and capital structure continue

# ALE's Current Position

- **High quality property portfolio** with broad geographic and valuation diversification
- **Triple net leases** to tenant that is 75% owned by Woolworths Limited
- **Long lease terms** averaging around 13 years, with annual CPI increases and options providing **secure and stable income and capital growth**
- According to independent valuers, the portfolio is **substantially under rented** providing **potential upside at the 2018 and 2028 market rent reviews**
- **Low risk capital structure** with diverse debt maturity dates across next eight years and base interest rates fully hedged for around ten years
- **Expected distribution yield of at least 5.2%<sup>1</sup>** for FY16

1. Based upon a security price of \$3.84 as at 31 December 2015 and FY16 distribution guidance of at least 20.00 cps

# Attachments



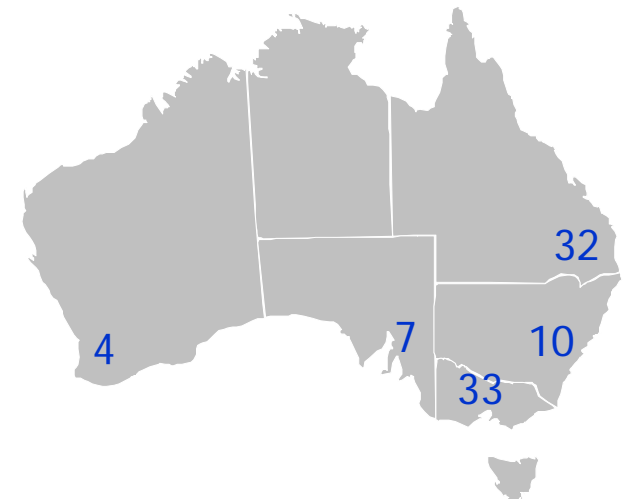
**Stamford Hotel, Melbourne, VIC**

# High Quality Property Portfolio

## Summary of Portfolio and Leasing Arrangements

- ALE (ASX:LEP) is the owner of largest freehold pub property portfolio in Australia
- Owns 86 pub freehold properties across the five mainland capital cities
- 100% occupancy / 0% vacancy
- 100% leased to ALH who is
  - Australia's leading pub operator
  - 75% owned by Woolworths Limited
  - owner of licences and certain development rights
- Material capital expenditure by ALH at ALE's properties provides a positive market rental outlook

ALE's 86 Pubs in Australia



# About ALE and ALH

## Quality and Sustainable Pub Landlord and Tenant Arrangement

- Locations with a long term history of pub operation
- Capital city located properties with low average building to land utilisation
- Investment grade tenant with strong commitment to pub operations
- Profitable tenant with capacity and track record of funding capital expenditure
- Rents that are below market rent levels driven by operator's strong profit profile
- Uncapped rent increases for both annual inflation indexed and 2028 market reviews
- Strong assignment and gaming transfer protections for landlord
- Triple net lease structure encourages property improvements by tenant
- Cross defaulting leases that maximise tenant compliance across the portfolio





# High Quality Property Portfolio

## Consistent Strategy Driving Growth in Securityholder Returns

- ALE has a strong understanding of the commercial pub property market, the industry's leasing arrangements and the drivers and risks to property 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:
  - quality tenant covenant with diverse locations and sustainable profitability
  - long term leases with an indexed rental structure, where the outgoings and development risks are assumed by the tenant
  - smaller value properties that are attractive to a range of investors
  - properties that will remain strategically important to the tenant's core operations
- Over the past 11 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%

# 12 Years of Equity Performance

## Consistently outperforming all benchmarks

<i>Total Returns to 31 December 2015 (p.a.)</i>	ALE	A-REITs	All Ords.
➤ One year	29.3%	14.9%	2.1%
➤ Three years	25.1%	15.4%	9.2%
➤ Five years	22.9%	14.6%	6.9%
➤ 12 years since 2003 ASX listing	21.9%	5.4%	8.2%

Source: UBS

### *ALE's Longer Term Performance*

➤ Investment at 2003 ASX listing	<b>\$1.00</b> (= \$91m)
➤ Total distributions and payments so far	<b>\$2.71</b> (= \$327m)
➤ Tax preferred component of distributions to date	<b>\$2.02</b> (= \$285m)
➤ Accumulated market value to 31 December	<b>\$11.33</b> (= 1033%)
➤ Market capitalisation growth since 2003	<b>\$91m to \$752m</b>

1. Accumulated market value includes reinvestment of distributions since 2003 listing
2. Distributions are all distributions paid and declared to March 2016
3. Total returns include both distributions and security price movements to 31 December 2015
4. AREITs returns include S&P/ASX 300 Property Accumulation Index
5. All Ords. returns include S&P/ASX 300 Accumulation Index

# 31 December 2015 Half Year Results

## Key Metrics

As at	31 December 2015	30 June 2015	Change
86 properties valuation	<b>\$953.9m</b>	\$900.5m	5.9%
AMTN gearing <sup>1</sup>	<b>45.7%</b>	48.0%	(2.3%)
Net assets	<b>\$487.2m</b>	\$443.7m	9.8%
Net assets per security	<b>\$2.49</b>	\$2.27	9.8%
Price as premium to NTA <sup>2</sup>	<b>55.0%</b>	62.6%	(7.6%)
Market Capitalisation <sup>2</sup>	<b>\$751.8m</b>	\$722.1m	4.1%

1. AMTN gearing = (Total Borrowings – Cash ) / (Total Assets – Cash – Deferred Tax Assets). Derivatives values are excluded. This covenant ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that has the least headroom available.
2. Based upon security price of \$3.84 as at 31 December 2015 and \$3.69 as at 30 June 2015

# Properties

## Market Rent Outlook

- ALE is unable to provide forecasts of future ALH EBITDAR growth and corresponding market rent
- Rent reviewed to market (for 79 of the 86 properties)
  - at 2018 (10% cap / collar)
  - on ALH electing to extend for each 10 years from 2028 to 2058 (open)
- While Brass Monkey was recently set at 40%, independent valuers advise that market rent for pub properties in Australia is usually set at between 35% and 40% of a pub operator's EBITDAR
- Capital expenditure by ALH, ALH's operating capability and Victorian gaming reforms have materially increased ALH's EBITDAR. This is all positive for future market rent reviews

# Properties

## Portfolio Valuation Outlook

- Statutory valuations by CBRE adopted comparable property capitalisation rates and discounted cash flow (DCF) methodologies
- For December 2015 CBRE used cap rates as their primary valuation methodology which attributes little if any value arising from the 2028 open market rent reviews. If these open reviews were taken into account, then the property valuations may change
- ALE currently considers that a portfolio purchaser may be prepared to pay a premium for the whole or a significant part of ALE's portfolio given the value inherent in both the unique leasing arrangements and the independent valuers' positive outlook for market rent
- See separate announcement made on 12 November 2013 for more information

# Capital Management

## Substantial Covenant Headroom

- Substantial headroom to all debt covenants continues to apply
- Covenant gearing around 45.7% (FY15 48.0%) is below target range of 50% to 55%
- Headroom to AMTN gearing covenant of 60.0% equates to:
  - 181 bps expansion in average cap rate (from 5.74% to 7.55%) or
  - 24% (approx) reduction in property values
- AMTN gearing covenant of 60% relates to distribution stopper and 65% to default
- Interest cover ratio at 2.49 times compares to AMTN covenant at 1.50 times
  - 100% of ALE's net debt is hedged and is now extended to around 10 years
  - next debt maturity in FY18 of \$110m represents only 26% of total debt

# About ALE

## Research Analyst Coverage of ALE

The following equity research analysts currently cover ALE's stapled securities:

- Farina Parsons
  - Jon Mills
  - Scott Molloy
  - Paul Checchin & Rob Freeman
- Morningstar
  - Intelligent Investor
  - JP Morgan Securities
  - Macquarie Securities

ASX code for ALE's listed stapled securities: LEP

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