Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 24 November 2022

Stride Property Group
HY23 Interim Results

Stride Property Group (Stride) (note 1) announces its interim results for the six months ended 30 September 2022 (HY23).

Key highlights

- Higher net rental income of $34.1m (HY22: $30.7m), up $3.4m or 11.2%
- Leasing activity in the Stride Property Limited (SPL) Office and Town Centre portfolio has been strong, delivering a 5% increase on previous rentals
- Stable management fee income (note 2) at $12.0m (HY22: $12.2m), down $0.2m or 1.2% from HY22, including a strong result from underlying recurring management fee income of $8.9m, up 16% (HY22: $7.6m), partially offsetting lower activity-based and performance fee income
- Higher profit before other (expense)/income and income tax at $25.3m, up 36% (HY22: $18.6m), or 8% after allowing for project costs in relation to Fabric Property Limited in HY22
- Net portfolio devaluation of $(51.8)m from 31 March 2022, contributing to a loss after income tax of $(53.1)m (HY22: $61.5m profit after income tax)
- Higher distributable profit (note 3) after current income tax of $29.3m, up 21.2% (HY22: $24.2m)
- Weighted average capitalisation rate as at 30 September 2022 for SPL's directly held portfolio softened by 28bps to 5.6%, or by 27bps to 5.3% on a look-through basis. SPL's directly held portfolio value is down (4.3)% in the six months to 30 September 2022, or (3.6)% on a look-through basis
- Net tangible assets (NTA) per share of $2.14, down 6.1% on 31 March 22. NTA does not include the value of SIML's management contracts
- SPL's loan to value ratio (LVR) (note 4) is 32%, as at 30 September 2022 or 38% on a committed basis (note 5). SPL's committed look-through LVR (note 6) is 36%, and 28% on a balance sheet basis (note 7) after taking into account the value of SPL's equity investments in its managed funds of $434m. SPL has current interest rate swaps in place representing 93% of drawn debt as at 30 September 2022, or 76% on a committed basis (note 5)
- Refined dividend policy to target a total cash dividend to shareholders that is between 80% and 100% of SPL's distributable profit and 25% and 75% of the distributable profit of Stride Investment Management Limited (SIML) (note 8)

- Distributable profit guidance for FY23 of 10.0cps to 10.5cps, and updated dividend guidance of 8.00cps combined cash dividend for SPL and SIML for FY23, down from 9.91cps. This revised FY23 dividend guidance reflects a combined payout ratio of between 76% and 80% of Stride's forecast distributable profit, reflecting a prudent approach to capital management in the current macroeconomic environment

Results overview and outlook

Stride today announces its interim results for the six months ended 30 September 2022. Net rental income was up 11.2% from HY22, primarily due to the impact of COVID-19 abatements on the earnings for HY22. Leasing activity in the direct portfolio has been strong, with SPL's directly held Office and Town Centre portfolio delivering a 5% increase on previous rentals. Management fee income (note 2) of $12.0m was slightly down on HY22, cycling from a higher level of activity-based and performance fee income in HY22. However, positively, underlying recurring management fee income of $8.9m was up 16% (HY22: $7.6m) due to significant growth in the portfolios of Investore Property Limited (Investore) and Industre Property Joint Venture (Industre) over the past 18 months.

This contributed to higher profit before other (expense)/income and income tax of $25.3m, up 36% on HY22, or 8% after allowing for project costs in relation to Fabric Property Limited in HY22. Distributable profit (note 3) of $29.3m was also higher, up 21.2% from HY22. After recognising a $(51.8)m net devaluation in SPL's portfolio and losses from investments in the Stride Products, Stride reports a loss after income tax of $(53.1)m (HY22: $61.5m profit after income tax).

Stride's recent activity has been focussed on enhancing the quality and resilience of its portfolio, which has meant that it is well positioned to secure rental income growth in a high inflationary environment. Stride's established real estate investment management business provides diversification of income, and future opportunities for growth in activity-based fee income across economic cycles.

While Stride has strong interest rate hedging in place which will help provide protection against interest rate fluctuations, and a stable distributable profit profile, we consider that, in the current macro economic environment, taking a prudent and proactive approach to cost and capital management is the best pathway to protect shareholder value.

Accordingly, Stride has today announced initiatives designed to reflect market conditions and Stride's transition to a maturing real estate investment manager, including cost management to reflect the current environment of slower activity, growth and access to capital; $30m to $60m of disposals of selected properties; and implementation of a dividend reinvestment plan. Stride has also updated its dividend policy to one that is more appropriate for Stride's transition to a maturing real estate investment management business, and which will enable Stride to retain capital. Stride's refined dividend policy therefore differentiates between the property ownership business and the real estate investment management business. The refined policy is to target a total cash dividend to shareholders that is between 80% and 100% of SPL's distributable profit and 25% and 75% of SIML's distributable profit (note 8).

Taking these factors into account, Stride forecasts FY23 full year distributable profit (note 3) of between 10.0 and 10.5 cps, and expects to pay a combined cash dividend for SPL and SIML of 8.00cps for FY23, which represents between 76% and 80% of Stride's forecast distributable profit. This dividend forecast is down from the 9.91cps guidance given at the time of Stride's FY22 annual results in May 2022.

Finally, Stride still intends to establish a new Stride Product when market conditions are conducive. Stride will keep the market informed as to progress.

Diversified business

Stride's strategy of creating a group of Products in core commercial property sectors as the basis of its real estate investment management business means that Stride has a diversified platform, providing revenue from all four core commercial property classes (via SPL) as well as its real estate investment management business (via SIML). Stride derives its revenue from:

- Management fees - recurring management fees represented 16% of Stride's HY23 look-through revenue sources (note 10), with activity and performance fees a further 6%. Accordingly, SIML's real estate investment management fees now represent 22% of Stride's HY23 look-through revenue.
- Property income - direct property income from SPL's directly owned property, and indirect property income from SPL's investment in the Stride Products of Industre, Investore and Diversified NZ Property Trust (Diversified).

SPL has exposure to the four core property sectors given its directly owned property, as well as its investment in the Stride Products. This provides diversification of revenue from each of the core property sectors, diversifying risk given changing market conditions. As at 30 September 2022, Stride received 32% of its look-through revenue (note 10) from the office sector, 21% from retail shopping centres, 15% from industrial property, and 10% from large format retail property.

Real Estate Investment Management business

Stride's real estate investment management business, SIML, continues to deliver strong recurring management fee growth, with recurring management fees growing 16% from HY22. Overall management fee income was down slightly at $12.0m, reflective of the slowing market conditions and reduced transactional activity.

Stride's total assets under management (AUM) reduced slightly to $3.5bn ($3.6bn as at 31 March 2022), primarily as a result of the disposal of $83m of office properties and the net revaluation movement as at 30 September 2022. Including committed acquisitions and developments (note 9), total pro forma AUM increases to $3.7bn, while external pro forma AUM increases from $2.5bn to $2.6bn.

Acquisitions completed by the Stride Products in HY23 have included properties with future development pipelines. SIML is currently managing $110m of active projects, with a future pipeline in excess of $650m across the Stride Products. Development projects deliver additional fees to SIML through development fees, as well as the resulting increase in AUM, which drives higher recurring management fees.

Portfolios and Products

Stride's strategy of creating a group of Products in core commercial property sectors as the basis of its real estate investment management business means that Stride has a diversified platform, providing income from all four core commercial property classes as well as its real estate investment management business. The Stride Products currently comprise Industre, which invests in industrial property primarily located in the Auckland region, Investore, which owns a portfolio of large format retail properties, and Diversified, which owns four shopping centres.

Industre

Industre's portfolio (note 11) is valued at $778.3m as at 30 September 2022, reflecting a net valuation decrease of (2.6)% over the six months to 30 September 2022, driven by +30 bps weighted average capitalisation rate expansion, partially offset by +4.5% market rental growth. Industre's portfolio is approximately 8% under-rented (based on Industre's valuation reports as at 30 September 2022, and comparing passing rent to market rent on a face rental basis), providing scope for future rental increases. 23% of the Industre portfolio by net Contract Rental is subject to a market rent review or expiry over the remainder of FY23 and FY24, with an additional 21% in FY25, providing the opportunity to capture potential market rental upside.

Investore

Investore's large format retail portfolio has a focus on "everyday needs" tenants, which contribute 73% of Contract Rental (note 12), resulting in a resilient income stream in varying market conditions. Investore's portfolio is valued at $1.18bn as at 30 September 2022 (note 13), a net decline of (3.4)% for the six months ended 30 September 2022. Investore's portfolio continues to demonstrate strong portfolio metrics, with 99.5% occupancy by area and WALT of 8.5 years. During HY23 Investore completed $28.1m of acquisitions, comprising the completion of the acquisition of development land at Waimak Junction, Kaiapoi, and the lessor's interest in land at 3 Averill Street, Papakura, Auckland.

Diversified

Over HY23, Diversified's properties have benefited from improved tenant demand for retail space, as well as strong sales performance, with Moving Annual Turnover at 30 September 2022 increasing by $23.6m or +6% against 30 September 2019 (pre COVID-19) (note 14). Rent reviews have generated a 6% increase against previous base rent, while 15 new lettings have been completed, increasing base rent against March 2022 market rents for those units by 9% (note 15).

Diversified's portfolio is valued at $456.4m as at 30 September 2022 (note 15), a net valuation loss of (3.8)% over the six months to 30 September 2022, driven by a weighted average capitalisation rate increase of 33 bps, partially offset by strong leasing activity.

The Diversified portfolio has been impacted over the last few years by the rebuild of part of the Queensgate Shopping Centre following the Kaikoura earthquake. However, this is now largely complete, with New Zealand's second IMAX theatre scheduled to be opened by Event Cinemas at Queensgate Shopping Centre in December. This is expected to drive increased customer visitation to the centre. During HY23 Diversified also settled the majority of the insurance claim for this rebuild with insurers.

SPL Office and Town Centre Portfolio

Following the sale of four non-core office assets during HY23, SPL's Office portfolio has been repositioned to exhibit enduring demand. Only 0.9% of the Office portfolio Contract Rental (note 12) expires during the remainder of FY23, with 6.1% expiring in FY24. Rent reviews were completed across 40% of the Office portfolio during HY23, with an increase of +4.9% on previous rentals.

SPL has committed to the acquisition of the office property currently under development at 110 Carlton Gore Road, Auckland, with the acquisition expected to settle in 2023. SPL's Office portfolio (note 16) is valued at $616.8m as at 30 September 2022, reflecting a net valuation movement of $(28.9)m or (4.5)% over the six months from 31 March 2022, driven predominantly by a weighted average capitalisation rate expansion of +28 bps since 31 March 2022. On a pro forma basis, assuming the acquisition of 110 Carlton Gore Road had settled as at 30 September 2022, the Office portfolio would have a value of $819.8m.

SPL is in the design and consenting phase for seismic upgrade works at 55 Lady Elizabeth Lane, Wellington. A further update will be provided with the FY23 annual results.

As with Diversified, the SPL Town Centre portfolio has benefited from positive Moving Annual Turnover, with Moving Annual Turnover increasing by $229m or 16% compared with September 2019 (pre COVID-19) (note 17). This growth has supported positive leasing and rental activity, with rent reviews generating a 5% increase to base rental, and 17 new deals (comprising 4 new lettings and 13 renewals) having been committed during HY23, generating a 10% increase in base rent against March 2022 market rent. The SPL Town Centre portfolio (note 17) is valued at $287.5m as at 30 September 2022, reflecting a net valuation loss of (3.2)% over the six months to 30 September 2022, due to an increase in the weighted average capitalisation rate of +33 bps.

Capital management

Stride takes a prudent approach to capital management, particularly given the current rising interest rate environment. SPL's LVR was 32% as at 30 September 2022, rising to 38% on a committed basis (note 5). However, this LVR only reflects SPL's directly held investment property, and does not take into account SPL's interests in the Stride Products. Taking these interests into account, SPL's committed gearing is 36% on a look-through basis (note 6) or 28% on a balance sheet basis when taking into account SPL's equity interests in the Stride Products, valued at $434m as at 30 September 2022 (note 7).

Post balance date, SPL cancelled $75m of bank facilities, as part of its cost management initiatives, intended to right size the business for the current environment.

The weighted average maturity of SPL's debt facilities is 2.9 years as at 30 September 2022, and its next debt facility to mature is in FY25. The weighted average cost of debt (including margin and line fees) is 3.6%, increasing only 2 bps since 31 March 2022, compared with ~225 bps increase in floating rates over the same period.

As at 30 September 2022 SPL had $335m of active interest rate swaps, representing 93% of drawn debt, or 76% on a committed basis (note 5).

Sustainability

Stride continues to focus on ensuring the sustainability of its properties and business, with a particular focus on environment and climate change. Stride annually completes the Global Real Estate Sustainability Benchmark (GRESB) process to assess its sustainability performance and is targeting 70 points for FY23, with the aim of being in the top quartile over time.

Stride is focussed on measuring its greenhouse gas emissions, including continuing to improve measurement of scope 3 emissions, as this will enable it to set emissions reduction targets across its greenhouse gas emission inventory. To support this, Stride is completing a decarbonisation assessment of its properties. Aligned with the objective of reducing its greenhouse gas emissions, Stride focusses on green ratings for its properties, with six out of eight Office properties (including the property at 110 Carlton Gore Road, Auckland, which is expected to be acquired by SPL in 2023) having a green rating. Improvement projects are currently underway for two properties to improve their green rating, and SPL is exploring options for green ratings for its

Town Centre properties, although it acknowledges that it is generally harder to achieve a rating for these properties than for office properties.

Stride is also focussed on people and community, with an employee engagement survey having been completed during HY23, and a tenant engagement survey in progress.

Dividend and earnings guidance

In accordance with the revised dividend policy announced today, the Stride Boards provide updated dividend guidance of 8.00cps combined cash dividend for SPL and SIML for FY23, down from 9.91cps. This revised FY23 dividend guidance reflects a payout ratio of between 76% and 80% of Stride's distributable profit.

Consistent with this revised guidance, Stride today declares a combined cash dividend of 1.84cps for SPL and SIML for the quarter ended 30 September 2022, to be paid on 9 December 2022 to all shareholders on the register as at 5.00pm on 2 December 2022 (the record date).

Given the adjustment to the dividend policy, the Stride Boards have elected to provide guidance for their expected FY23 full year distributable profit, and currently forecast distributable profit of between 10.0 and 10.5 cps for FY23.

Dividend Reinvestment Plan

Stride today announces that it has adopted a new Dividend Reinvestment Plan, which provides eligible shareholders with the opportunity to invest the net proceeds of the cash dividends payable on their shares in additional fully paid ordinary shares in each of SIML and SPL, without incurring brokerage fees. Participation in the plan is entirely optional for eligible shareholders.

The new plan takes effect from 5 December 2022, and accordingly does not apply to the dividend declared by each of SPL and SIML today. Further information on the plan will be sent to shareholders on 5 December 2022, together with instructions on how to participate.

In connection with the adoption of the Dividend Reinvestment Plan, the previous dividend reinvestment plan that applied to SPL (which was previously known as DNZ Property Fund Limited) has been terminated, and all elections under that plan cease to apply (including in respect of the dividend declared today).

Notes:

1. Stride Property Group (Stride) comprises Stride Investment Management Limited (SIML) and Stride Property Limited (SPL). A stapled security of the Stride Property Group comprises one ordinary share in SIML and one ordinary share in SPL. The stapled securities are quoted on the NZX Main Board under the ticker code SPG. Information presented in this presentation is on a combined basis unless otherwise specified.
2. Net of management fees received from SPL.
3. Distributable profit is a non-GAAP measure and consists of (loss)/profit before income tax, adjusted for determined non-recurring and/or non-cash items, share of (loss)/profits in associates, dividends received from associates and current tax. Further information, including the calculation of distributable profit and the adjustments to (loss)/profit before income tax, is set out in note 4.4 to the consolidated interim financial statements for the six months ended 30 September 2022.

4. Banking covenant Loan to Value Ratio, calculated as bank debt as a percentage of investment property. Includes (1) SPL's office and retail properties; (2) debt associated with these properties; and (3) the "as is" value of 110 Carlton Gore Road, Auckland, (in accordance with SPL's debt facility agreement), and excludes SPL's interest in the Industre joint operation and associated bank debt which are reported as part of the assets and liabilities of SPL (see note 3.2 to the consolidated interim financial statements for further information).
5. SPL commitments include (1) the settlement of 110 Carlton Gore Road, Auckland; (2) seismic works in relation to the disposal of 2 Carr Road, Auckland, and 25 & 35 Teed Street, Auckland; (3) various capital expenditure commitments contracted for (refer note 3.3 to the consolidated interim financial statements); and (4) reduced borrowing due to Stride's revised FY23 dividend guidance.
6. Look-through LVR includes SPL's directly held property (including loan to vendor of 110 Carlton Gore Road) and debt as well as its proportionate share of the property and debt of each of the Stride Products. For commitments, see note 9.
7. Balance sheet LVR includes SPL's office and town centre properties (including loan to vendor of 110 Carlton Gore Road) as well as the value of SPL's interests in each of the Stride Products, and SPL's direct debt. For commitments, see note 5.
8. Stride's refined dividend policy is to target a dividend equivalent to 25%-75% of SIML's distributable profit after current tax, and 80%-100% of SPL's distributable profit after current tax. Dividends will be paid so that the payout ratios of SPL and SIML each year are the same.
9. Commitments include: (1) SPL: the settlement of 110 Carlton Gore Road, Auckland, with settlement expected in 2023; seismic works in relation to the disposal of 2 Carr Road, Auckland, and 25 and 35 Teed Street, Auckland; various capital expenditure commitments contracted for (refer note 3.3 to the consolidated interim financial statements); and reduced borrowing due to Stride's revised FY23 dividend guidance; and (2) Investore: stage 1 development at Waimak Junction, Kaiapoi, plus $9.2m of capital expenditure across the existing portfolio; (3) Industre: estimated costs of construction for three committed developments.
10. Stride's revenue comprises SIML management fees and SPL revenue. SPL revenue comprises income derived from SPL's directly held property plus revenue derived from its interests in the Stride Products which is calculated based on net Contract Rental on a look-through basis as at 30 September 2022. Management fees comprise HY23 management fees from Stride Products (i.e. excluding fees from SPL).
11. Industre metrics exclude properties categorised as 'Development and other', namely (1) 439 Rosebank Road, Auckland; (2) 34 Airpark Drive, Auckland; and (3) 14, 14a and 20 Favona Road, Auckland.
12. Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to SPL (or the relevant landlord) by that tenant under the terms of the relevant lease as at the relevant date, annualised for the 12-month period on the basis of the occupancy level for the relevant property as at the relevant date, and assuming no default by the tenant.
13. Investore's portfolio value excludes (1) the seismic works ($3.0m) to be completed by Stride Property Limited (SPL) in relation to 2 Carr Road, Auckland, acquired from SPL and settled on 30 April 2020; and (2) lease liabilities.
14. Sales for Chartwell Shopping Centre, Hamilton, for the 12 month period ended 30 September 2022 exclude the month of October 2021 due to limited operations caused by lockdown conditions during that month, with sales for the 11 month period ending 30 September 2022 then annualised.
15. Diversified metrics exclude properties categorised as "Development and other", being Diversified's 50% share of Johnsonville Shopping Centre.
16. SPL's Office portfolio metrics exclude properties categorised as 'Development and other' in the consolidated interim financial statements, comprising 55 Lady Elizabeth Lane, Wellington and 110 Carlton Gore Road, Auckland (unless otherwise expressly stated). Office portfolio valuation also includes the value of the floor space at 34 Shortland Street, Auckland, and 22 The Terrace, Wellington, which house SIML's offices and are shown in the consolidated interim financial statements as property, plant and equipment (see note 7.6 to the consolidated interim financial statements); and excludes lease liabilities.
17. SPL's Town Centre portfolio metrics exclude properties categorised as 'Development and other' in the consolidated interim financial statements, comprising SPL's 50% share of Johnsonville Shopping Centre. Town Centre valuation also excludes lease liabilities. In calculating Moving Annual Turnover figures: (1) sales data is not collected for all tenants at Silverdale Centre, Auckland, as not all tenants are obliged to provide this information

under the terms of their lease; (2) sales for Silverdale Centre, Auckland, and NorthWest Shopping Centre, Auckland, for the 12 month period ended 30 September 2022 exclude the months of October and November 2021 due to limited operations caused by lockdown conditions during those months, with sales for the 10 month period ending 30 September 2022 then annualised.

Ends

Attachments provided to NZX:

- Stride Property Group – HY23 Interim Results Announcement - 241122
- Stride Property Group – HY23 Consolidated Interim Financial Statements – 241122
- Stride Property Group – HY23 Interim Results Presentation– 241122
- Stride Property Group – NZX Results Announcement – 241122
- Stride Property Limited – NZX Distribution Notice – 241122
- Stride Investment Management Limited – NZX Distribution Notice – 241122

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A Stapled Security of the Stride Property Group comprises one ordinary share in Stride Property Limited and one ordinary share in Stride Investment Management Limited. Under the terms of the constitution of each company, the shares in each can only be transferred if accompanied by a transfer of the same number of shares in the other.

*Stapled Securities are quoted on the NZX Main Board under the ticker code SPG. Further information is available at **www.strideproperty.co.nz** or at www.nzx.com/companies/SPG.*