



Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 26 May 2023

Stride Property Group FY23 Annual Results

Stride Property Group (Stride) (Note 1) has released its Annual Report, Results Presentation and Sustainability Report for the twelve months ended 31 March 2023 (FY23).

Highlights include:

- Leasing transactions for SPL's directly held portfolio (Note 2) delivered 4.9% rental growth on previous rentals
- Strong growth in market rentals for SPL's directly held portfolio (Note 2), up 7.1% on 31 March 2022
- Record growth in retail sales across SPL's directly held portfolio (Note 2), up 16.4% on FY22 and 21.8% on FY19 (pre-Covid-19)
- Recurring management fee income up \$1.5 million or 9.5% on FY22
- Sustainability targets set, including reducing greenhouse gas emissions by 42% by 2030 from FY20 baseline year
- Committed loan to value ratio (Note 3) of 37% to 38%, with initiatives advanced to reduce this further
- Combined cash dividend of 8.0 cents per share for FY23, representing a payout of 75% of distributable profit (Note 4) and 84% of AFFO (Adjusted Funds from Operations)

Stride has delivered positive operating earnings for FY23, with distributable profit (Note 4) after current income tax of \$57.6 million, up \$3.5 million from FY22 (\$54.2 million). This equates to distributable profit after tax of 10.66 cents per share, which exceeds the guidance given by Stride in November 2022 of between 10.0 and 10.5 cents per share.

While Stride has seen strong rental growth across its portfolio during FY23, softer capitalisation rates due in part from high interest rates have resulted in a lower portfolio valuation. A net portfolio valuation reduction of \$(118.5) million for FY23 has contributed to a loss after income tax for Stride for FY23 of \$(116.7) million (FY22: \$112.3 million profit after income tax).

As part of the HY23 interim results announcement, Stride announced a series of proactive and prudent cost and capital management steps to protect shareholder value in the current volatile economic environment, which it is successfully executing:

- A dividend reinvestment plan was implemented during FY23, with approximately 40% of Stride's issued capital taking up the offer in relation to the first dividend to which it applied, meaning that Stride was able to retain additional cash in the business or reduce bank debt.
- Cost management initiatives implemented with annualised cost savings of \$1.0 - \$1.5 million achieved.
- Stride is progressing its disposal strategy, with one asset with a sale price of approximately \$30 million currently subject to a conditional agreement for sale and purchase.

Stride's loan to value ratio (LVR) as at 31 March 2023 was 36.4%, increasing to 37-38% on a committed basis (Note 3), although this does not take into account the impact of any potential disposals.

As at 31 March 2023, 80% of Stride's drawn debt was hedged, with a weighted average cost of debt of 3.96%. This represents an increase of 41 basis points since 31 March 2022, compared with a 375 basis point increase in New Zealand's Official Cash Rate over the same period.

SPL and SIML are pleased to announce fourth quarter (1 January 2023 to 31 March 2023) dividends to be paid by each company on 22 June 2023 to all shareholders on the register as at the close of business on 6 June 2022, as follows:

- SPL announces a cash dividend for the fourth quarter of FY23 of 1.78083 cents per share.
- SIML announces a cash dividend for the fourth quarter of FY23 of 0.060 cents per share.

This brings the total combined cash dividend for Stride Property Group for FY23 to 8.0 cents per share, in line with the revised dividend guidance. The FY23 cash dividends represent a payout of 80% of SPL's distributable profit and 54% of SIML's distributable profit, consistent with the revised dividend policy announced in November 2022 of targeting a total cash dividend to shareholders that is between 80% and 100% of SPL's distributable profit and between 25% and 75% of SIML's distributable profit. The combined cash dividend of 8.0 cents per share for FY23 represents a payout of 75% of Stride's distributable profit and 84% of AFFO (Adjusted Funds from Operations).

The Dividend Reinvestment Plan will operate for the FY23 fourth quarter dividends of both SPL and SIML, with a 2% discount being applied when determining the issue price. The last date for receipt of an application for participation in the Dividend Reinvestment Plan in respect of this dividend is 5pm on 7 June 2023.

FY23 Overview:

Financial Performance – Stride Property Group

- Net rental income of \$71.1m, up \$5.2m from FY22 (\$65.8m)
- \$53.5m profit before other (expense)/income and income tax, up \$7.0m from FY22 (\$46.5m)
- \$(116.7)m loss after income tax, due primarily to a net portfolio valuation reduction of \$(118.5)m compared with a \$30.7m net valuation gain for FY22, and a share of loss in equity-accounted investments of \$(42.4)m for FY23, compared with a \$65.6m share of profit in equity-accounted investments for FY22. The net portfolio valuation reduction and share of loss in equity-accounted investments is due in large part to the movement in portfolio capitalisation rates partly as a result of the high interest rate environment
- \$57.6m distributable profit (Note 4) after current income tax, up \$3.5m from FY22 (\$54.2m). Distributable profit after tax of 10.66cps, down from FY22 (10.95cps)
- FY23 combined cash dividend of 8.0cps, in line with revised guidance
- Net tangible assets (NTA) per share of \$1.98 as at 31 March 2023 (FY22: \$2.28)

Real Estate Investment Management Business

- \$23.3m management fee income (Note 5), slightly down on FY22 (\$24.3m)
- Recurring management fees of \$17.6m were up \$1.5m or 9.5% on FY22. SIML's activity fees for FY23 were lower due to lower performance fees and transaction activity
- Assets under management of \$3.2bn, or \$3.4bn on a pro forma basis after taking into account committed acquisitions, developments and disposals (Note 6). This includes \$2.3bn of external assets under management
- Stride continues to actively support the Stride Products – Investore Property Limited (Investore), Industrie Property Joint Venture (Industre) and Diversified NZ Property Trust (Diversified)

SPL Town Centre Portfolio

- Portfolio value of \$293.5m as at 31 March 2023 (Note 2)
- Cap rate softening of +73bps was partially offset by an +8.6% increase in net market rentals (Note 2)
- Total portfolio net valuation loss of (2.4)% or \$(7.7)m
- Moving annual turnover (Note 7) improved to \$267m, +16.4% against FY22 and +21.8% against FY19 (pre-Covid-19), with strong performance across all categories
- Rent reviews and renewals drove a +4.3% rental uplift driven by CPI related reviews (Note 2)
- Specialty gross occupancy cost at NorthWest reduced to 11.0% for FY23 from 12.8% for FY19

SPL Office Portfolio

- Portfolio value of \$553.1m as at 31 March 2023 (Note 8) or \$748.4m on a pro forma basis as if the acquisition of the property at 110 Carlton Gore Road, Auckland, had settled as at 31 March 2023
- Rent reviews and renewals completed across 75% of the portfolio during FY23 with an increase of +4.0% on previous base rental (Note 2)
- +76bps cap rate softening partially offset by 6.2% market rental growth (Note 2)
- Total portfolio net valuation loss of \$(86.8)m or (10.0)% for FY23
- Only 5.7% of Contract Rental (Note 9) expiring in FY24 and 13.7% in FY25 (Note 2)
- Acquisition of 110 Carlton Gore Road, Auckland, property expected to settle on 31 May 2023
- 34 Shortland Street upgrade works scheduled, including lobby upgrade, end of trip facilities, sustainability initiatives and turnkey suites. The sustainability initiatives are expected to enable the building to achieve a 4 star NABERSNZ rating

Industre Property Joint Venture

- Total portfolio valuation of \$786m as at 31 March 2023, reflecting a net valuation decrease of (10.7)%
- +100bps of cap rate expansion was partially offset by +13.1% market rental growth across the investment portfolio (Note 10)
- 34 rent reviews were completed over 137,415 sqm, all of which were fixed, resulting in +3.1% increase to previous rentals
- \$29m development project completed at 439 Rosebank Road, Auckland, delivering a 5.2% yield on cost (including land) and targeting a 5 Green Star As Built rating
- 9.7 years weighted average lease term (WALT) (Note 10)

Investore Property Limited

- Portfolio valued at \$1.1bn as at 31 March 2023 (Note 11)
- 82 rent reviews completed over 130,144sqm, resulting in a +3.3% increase on previous rentals
- Property acquisitions of \$28.1m completed during FY23, including development land at Hakarau Road, Kaiapoi, with stage 1 development commenced
- Distributable profit after income tax of \$31.0m, up +4% from FY22
- 92% drawn debt fixed for an average period of 3.3 years

Diversified NZ Property Trust

- Portfolio valuation of \$467m as at 31 March 2023, reflecting a total portfolio net valuation loss of (8.3)% for the 12 months to 31 March 2023
- Moving annual turnover +\$61m / +14.0% vs FY19 over the portfolio (Note 10)

- Rent reviews generated a rental uplift of +8.3% on previous rentals (Note 10)
- Cap rate softening of +81bps was partially offset by strong leasing activity driving rental growth (Note 10)
- EVENT Cinemas opening at Queensgate Shopping Centre has supported sales (+26.1%) for Q4 FY23 vs Q4 FY19 (pre-Covid-19) at that centre
- Leverage improvements with Queensgate insurance settlement and the sale of Remarkables Park (post balance date) above book value

Capital Management – SPL

- SPL's bank covenant LVR (Note 12) was 36.4% as at 31 March 2023, or 37%-38% on a committed basis (Note 3)
- When factoring in SPL's interests in its products, SPL's committed (Note 6) gearing is:
 - ~37% on a look-through basis (Note 13)
 - ~28% on a balance sheet basis (Note 14)
- Dividend reinvestment plan established as a flexible and effective mechanism to support the balance sheet and encourage growth
- \$75m facilities cancelled November 22 to reduce line fee costs
- Weighted average cost of debt at 3.96%, an increase of only 41bps over FY23 compared to a 375bps increase in the Official Cash Rate, as a result of SPL's strong hedging position
- As at 31 March 2023, 80% of SPL's drawn debt was hedged, reducing to approximately 75% after considering commitments (Note 3)

Sustainability

- Stride has made significant advances in developing its sustainability and climate change strategy, understanding its climate risks and opportunities, setting targets, and embedding sustainability considerations into its day to day operations
- Stride has set a number of targets, including reducing scope 1 and 2 greenhouse gas emissions by 42% by 2030 from the FY20 baseline year, which is supported by a number of initiatives, including a decarbonisation plan currently in progress
- 74% of office properties by value are rated 4 star NABERSNZ or 5 Green Star (Note 2)

Outlook

- With its resilient portfolio, prudent capital management and its Real Estate Investment Management (REIM) business to provide earnings diversification, Stride considers it is well positioned to grow rental income and manage the risks associated with the current economic conditions
- Stride will continue to support the growth and portfolio optimisation of its Products, and still intends to establish a new Stride Product when market conditions are conducive

- The Stride Boards confirm they currently intend to pay a combined cash dividend for SPL and SIML during FY24 of 8.0 cents per share, subject to market conditions

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 share in SIML and one 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. Excludes properties categorised as (1) 'Development and Other'; and (2) 'Assets Classified as held for sale' in the consolidated financial statements. For SPL's office portfolio, these properties are (1) 55 Lady Elizabeth Lane, Wellington; (2) 110 Carlton Gore Road, Auckland; and (3) 22 The Terrace, Wellington. For SPL's town centre portfolio, this is SPL's 50% share of Johnsonville Shopping Centre, Wellington.
3. SPL commitments include (1) the settlement of 110 Carlton Gore Road, Auckland; building upgrades at 34 Shortland Street, Auckland; various capital expenditure commitments contracted for (refer note 3.4 to the consolidated financial statements); and the estimated FY24 impact of other capital management initiatives announced at Stride's HY23 results in November 2022, excluding the impact of any potential disposals.
4. 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)/profit in equity-accounted investments, dividends received from equity-accounted investments 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 4.2 to the consolidated financial statements for the year ended 31 March 2023.
5. Net of management fees received from SPL.
6. Commitments include: (1) SPL: the settlement of 110 Carlton Gore Road, Auckland; building upgrades at 34 Shortland Street, Auckland; and various capital expenditure commitments contracted for (refer note 3.4 to the consolidated financial statements); (2) Investore: the development of the Countdown at Hakarau Road, Kaiapoi, and other capital expenditure commitments; (3) Diversified: the disposal of Remarkables Park Town Centre; and (4) Industrie: estimated costs of construction for two committed developments.
7. Excludes properties categorised as 'Development and Other' in the consolidated financial statements. 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.
8. Excludes properties categorised as (1) 'Development and Other'; and (2) 'Assets Classified as held for sale' in the consolidated financial statements. Includes the value of Stride's office at 34 Shortland Street, Auckland, which is shown in the consolidated financial statements as 'Property, plant and equipment'.
9. 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.
10. Excludes properties categorised as (1) 'Development and Other'; and, where applicable, (2) 'Assets Classified as held for sale' in the respective financial statements.
11. Excludes lease liabilities.
12. 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 facility agreement); and excludes SPL's interest in the Industrie joint operation and associated bank debt which are reported as part of the assets and liabilities of SPL (see note 7.3 to the consolidated financial statements for further information).
13. Look-through gearing 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.
14. Balance sheet gearing includes SPL's office and town centre properties (including the loan to the vendor of 110 Carlton Gore Road, Auckland) as well as the value of SPL's interests in each of the Stride Products, and SPL's direct debt.

Ends

Attachments provided to NZX:

- Stride Property Group – FY23 Annual Results Announcement - 260523
- Stride Property Group – FY23 Annual Report – 260523
- Stride Property Group – FY23 Annual Results Presentation – 260523
- Stride Property Group – FY23 Sustainability Report - 260523
- Stride Property Group – NZX Results Announcement – 260523
- Stride Property Limited – NZX Distribution Notice – 260523
- Stride Investment Management Limited – NZX Distribution Notice – 260523
- Stride Property Group – Shareholder Communications Notice – 260523

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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.