

Investore Property Limited

Interim Results HY24

Investore Property Limited (Investore) announces its interim results for the six months ended 30 September 2023 (HY24).

HY24 Highlights

- Investore has delivered resilient operating earnings during HY24, as evidenced by the following metrics which, despite challenging economic conditions, are broadly consistent with HY23:
 - Profit before other expense and income tax at \$17.6 million (HY23 \$17.7 million)
 - Distributable profit (Note 1) after current income tax at \$15.3 million (HY23 \$15.4 million)
 - Distributable profit per share at 4.18 cents (HY23 4.20 cents)
 - Net rental income at \$30.4 million (HY23 \$30.2 million)
- Dividend reinvestment plan (DRP) implemented, resulting in \$2.5 million being retained from the FY24 Q1 dividend
- Agreement reached with Woolworths to fund online expansion works at Countdown Greenlane, in conjunction with an agreement to extend the lease term at Countdown Hamilton (Anglesea) for 6 years, with a further 6 year right of renewal
- Investore is developing a new Woolworths supermarket in Hakarau Road, Kaiapoi, due to open in December 2023, and targeting a 5 Green Star rating

Financial Summary (for the six months ended 30 September 2023)

- Loss after income tax attributable to shareholders of \$(66.5) million, driven by a net \$(82.7) million or (7.8)% reduction in the fair value of the property portfolio for the period, due to a 56 basis point softening in the investment portfolio market capitalisation rate to 6.24% (Note 2)

Portfolio Overview (as at 30 September 2023)

- Portfolio value of \$1.0 billion (Note 3)
- Average portfolio market capitalisation rate of 6.24% and initial yield of 6.35% (Note 2)
- Weighted average lease term (WALT) of 7.7 years (Note 2)
- 29 rent reviews completed during HY24, resulting in a 3.2% increase on previous rentals
- Net Tangible Assets (NTA) per share \$1.61, down \$(0.23) from 31 March 2023 NTA per share of \$1.84

Capital Management (as at 30 September 2023)

- Weighted average cost of debt of 4.34%
- Weighted average fixed interest rate maturity (including bonds and interest rate swaps) of 2.8 years
- 89% of borrowings hedged or subject to a fixed rate of interest
- Loan to value ratio (LVR) (Note 4) of 40.3% and committed LVR of 40.6% (Note 5)

Revised Dividend Policy and Dividend Guidance

- Investore has today declared a cash dividend for Q2 of FY24 of 1.975 cents per share, consistent with its Q1 dividend, to be paid on 12 December 2023 to all shareholders on the register at the close of business on 24 November 2023 (the record date). This dividend will carry imputation credits of 0.370516 cents per share. A supplementary dividend of 0.168133 cents per share will be paid to non-resident shareholders. The Investore Board has determined the DRP will apply to this dividend, with a 2% discount being applied when determining the issue price.
- The Board has also determined to revise its dividend policy to pay out between 80%-100% of distributable profit (previously between 90%-100%). This revised dividend policy will enable Investore to balance income returns for investors while retaining additional capital to improve balance sheet resilience.
- Aligned with this, the Board has revised its full year cash dividend guidance for FY24 to 7.20 cents per share (previously 7.90 cents per share). Distributable profit per share for FY24 is expected to be at least 7.90 cents per share.
- The revised FY24 guidance will be reflected in the Q3 and Q4 dividends which will transition to 1.625 cents per share per quarter, representing 6.50 cents per share on an annualised basis. The 6.50 cents per share annualised cash dividend level is expected to be sustainable into FY25 and reflect a payout near the midpoint of the revised dividend policy range (Note 6).

Further information can be found in Investore's consolidated interim financial statements and presentation for HY24 released with this announcement.

Financial Overview (for the six months ended 30 September 2023)

Investore is pleased to report that despite challenging economic conditions, it has delivered resilient operating earnings for HY24, with profit before other expense and income tax remaining stable at \$17.6 million, compared with \$17.7 million at HY23. Distributable profit (Note 1) after current income tax also remained consistent with HY23 at \$15.3 million, compared with \$15.4 million at HY23.

This resilience in operating earnings is largely a result of Investore's portfolio of quality, well-located large format retail properties that serve everyday needs such as supermarkets, hardware stores, general merchandise, health & wellbeing centres and food & beverage stores. Anchor tenants deliver 87% of Investore's Contract Rental (Note 7), attracting regular, repeat visitation to Investore's properties and enhancing the portfolio's resilience. This resilience in Investore's portfolio helped to deliver stable net rental income of \$30.4 million (HY23 \$30.2 million).

Investore delivered a loss after income tax attributable to shareholders of \$(66.5) million as a result of a net reduction in the fair value of Investore's portfolio of \$(82.7) million or (7.8)% over the six month period to 30 September 2023, to \$1.0 billion (Note 3). This compares to a loss after income tax for HY23 of \$(27.7) million. This reduction in the fair value of Investore's portfolio is largely due to capitalisation rate movement across the portfolio (Note 2), with the average portfolio capitalisation rate softening by 56 basis points over the six month period to 30 September 2023 to 6.24%, a consequence of the continuation of the high interest rate environment.

Portfolio

As noted above, Investore's portfolio is valued at \$1.0 billion (Note 3). Despite the challenging macroeconomic backdrop, Investore's portfolio (Note 2) continues to demonstrate resilient metrics as at 30 September 2023:

- 99.2% occupancy rate by area
- Long weighted average lease term (WALT) of 7.7 years
- 75% of Contract Rental (Note 7) expiring in FY30 or beyond
- Initial yield of 6.35%
- Anchor tenants deliver 87% of Contract Rental
- A high proportion of tenants operate in the "Everyday Needs" category, with these tenants delivering 69% of Contract Rental
- 81% of Contract Rental is earned from properties located in New Zealand's main centres (Note 8)
- 34% of Countdown stores are paying turnover rent (Note 9), up from 30% at 31 March 2023

Active Portfolio Management

Investore continues to seek opportunities to enhance its existing portfolio, including through collaborating with key tenants to undertake capital projects and improve customer experience. Investore agreed with Woolworths to fund a new online extension and eight drive-through pick up bays at Countdown Greenlane. As well as optimising the portfolio, these online expansion works are expected to drive an increase in turnover rental and support the growth in online sales fulfilled by the store. Investore will provide a \$1.9 million capital contribution towards the works at a 7.5% per annum yield on cost, which will become part of the base rent.

In connection with the arrangement relating to the online expansion works at Countdown Greenlane, Investore and Woolworths reached an agreement, post the 30 September 2023 balance date, to extend the lease at Countdown Hamilton (Anglesea) for 6 years, with a further 6 year right of renewal. This renewal resulted in Countdown Hamilton's valuation increasing by \$1.45 million or 23% and is illustrative of Investore maximising value across its portfolio while providing mutually beneficial outcomes to both Investore and Woolworths and fostering collaboration across the portfolio.

29 rent reviews were completed during HY24, resulting in a 3.2% increase on prior rentals. 23 of these rent reviews were subject to either a CPI based rent review or a fixed rent review, with the CPI rent reviews resulting in a 7.1% uplift on prior rentals. Including the Countdown Hamilton (Anglesea) lease extension (which occurred post balance date), the renewals that were completed during HY24 represent 77% of all the leases that are due to expire during FY24 by Contract Rental (Note 7).

Development – Hakarau Road, Kaiapoi

Stage one of the Hakarau Road, Kaiapoi, development, being the construction of a new Woolworths supermarket, is due to open in December 2023. The new supermarket is a sustainable development, targeting a 5 Green Star rating, and utilising low carbon concrete and low embodied carbon materials where appropriate, to reduce emissions. The building was designed to reduce water consumption and energy use, with the implementation of energy efficient refrigeration and lighting systems. Solar panels have been installed to reduce reliance on the electricity grid, and electric vehicle chargers have been installed for customer convenience.

Upon completion the supermarket will have a 12 year lease and will generate a yield on cost of 5.5%, with the total cost of the project being approximately \$27.2 million (including land). The balance of the site, being approximately 1.6 hectares, is being held for future development.

Proactive Capital Management

The Investore Board remains committed to prudent capital management initiatives. Investore benefits from high levels of hedging or fixed rate debt at below prevailing market rates over the short to medium term. As at 30 September 2023, 89% of Investore's borrowings are fixed, with a weighted average cost of debt of 4.34%, an increase of 33 basis points during HY24, compared with an increase of 75 basis points in the Official Cash Rate over the same period. Investore's weighted average fixed interest rate maturity (including bonds and interest rate swaps) is 2.8 years and the weighted average fixed interest rate (excluding margins) is 2.00% as at 30 September 2023.

During HY24 Investore secured \$100 million of bank facilities to provide liquidity for the upcoming maturity of the IPL010 bond in April 2024. Investore has no bank debt maturing until FY26.

Investore has also implemented a DRP, with 35% participation for the FY24 Q1 dividend. This resulted in \$2.5 million being retained by Investore, which was used to assist in managing leverage.

Investore's LVR (Note 4) is 40.3% and 40.6% on a committed basis (Note 5). The Investore Board will continue to monitor and manage the leverage level over the near term through an asset sales programme of select non-core assets (provided appropriate value can be realised), the continued operation of the DRP, and a revised dividend policy and dividend guidance, announced today.

Sustainability

Sustainability continues to be a focus for Investore. Investore seeks to reduce the environmental impact of its existing portfolio as well as being committed to ensuring new developments are green rated.

Investore has very low scope 1 and 2 emissions, primarily from air conditioning systems and electricity for lighting. A project has been undertaken to assess refrigerants used across the portfolio and planning is underway to replace all harmful refrigerants.

Investore completed the Global Real Estate Sustainability Benchmark (GRESB) assessment in 2023 and scored 63%, an increase from 51% in 2022, which Investore considers to be a positive outcome given Investore's portfolio consists of many single-tenanted, existing properties.

Outlook

The underlying metrics of Investore's portfolio of quality, well-located large format retail properties remain resilient, providing a defensive rental income stream from non-discretionary, everyday needs retail tenants. However, elevated inflation levels and higher interest rates continue to impact investment conditions and investor activity levels, leading to higher property capitalisation rates and consequently lower valuations. The proposed change to tax deductibility of depreciation on commercial buildings poses further headwinds to after tax earnings in future years.

In the current challenging macroeconomic climate, Investore continues to monitor and manage its leverage over the near term through prudent and proactive capital management initiatives. These include an asset sales programme of \$25 million - \$50 million of non-core assets, provided appropriate value can be realised, the continued operation of the DRP, and a revised dividend policy and dividend guidance.

The Investore Board has determined to revise its dividend policy to pay out between 80%- 100% of distributable profit (previously between 90%- 100%). This revised dividend policy will enable Investore to balance income returns for investors while retaining additional capital to improve balance sheet resilience.

Investore has today declared a cash dividend for Q2 of FY24 of 1.975 cents per share, which is consistent with its Q1 dividend. The Board has further determined that the DRP will apply to this dividend, with a 2% discount being applied when determining the issue price.

Aligned with the revised dividend policy, the Board has also updated its full year FY24 cash dividend guidance to 7.20 cents per share (previously 7.90 cents per share). Distributable profit per share for FY24 is expected to be at least 7.90 cents per share.

The revised FY24 guidance will be reflected in the Q3 and Q4 dividends which will transition to 1.625 cents per share per quarter, representing 6.50 cents per share on an annualised basis. The 6.50 cents per share annualised cash dividend level is expected to be sustainable into FY25 and reflect a payout near the midpoint of the revised dividend policy range (Note 6).

Notes:

1. Distributable profit is a non-GAAP measure and consists of loss before income tax, adjusted for determined non-recurring and/or non-cash items (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) and current tax. Further information, including the calculation of distributable profit and the adjustments to loss before income tax, is set out in note 3.3 to the consolidated interim financial statements.

2. Metrics refer to stabilised investment portfolio, which excludes properties classified as “Development and Other” in note 2.2 and properties classified as assets held for sale in note 2.4 to the consolidated interim financial statements.
3. As at 30 September 2023. Portfolio value excludes lease liabilities.
4. Loan to Value Ratio (LVR) is based on independent valuations. The independent valuations exclude lease liabilities.
5. Commitments include: (1) the development of Woolworths Hakarau Road, Kaiapoi; (2) other capital expenditure commitments; (3) reduced borrowing due to Investore’s revised FY24 dividend guidance; and (4) reduced borrowing due to the retained income from Investore’s dividend reinvestment plan which is assumed to continue for the balance of the distributions related to FY24 with participation at the same rate as the FY24 Q1 dividend.
6. This assumes the proposed changes to tax depreciation come into effect for FY25.
7. Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to Investore by that tenant under the terms of the relevant leases, annualised for the 12-month period on the basis of the occupancy level of the relevant property, and assuming no default by the tenant.
8. Main centres consists of Auckland, Hamilton, Tauranga, Wellington, Dunedin and Christchurch.
9. Weighted by Moving Annual Turnover (MAT). MAT is determined by calculating the net sales over the 12-month period ending on the relevant reporting date.

Ends

Attachments provided to NZX:

- Investore Property Limited – Interim Results Announcement HY24 - 161123
- Investore Property Limited - Consolidated Interim Financial Statements HY24 - 161123
- Investore Property Limited - Interim Results Presentation HY24 - 161123
- Investore Property Limited - NZX Results Announcement HY24 - 161123
- Investore Property Limited - NZX Distribution Notice FY24 Q2 - 161123

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