Goodman

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GMT delivers strong operating result with 4.8% growth in cash earnings

Date	28 May 2024
Release	Immediate

Goodman Property Trust (GMT or Trust) today announced its results for the year ended 31 March 2024.

The disciplined execution of an investment strategy exclusively focused on the Auckland industrial property market has continued to support strong operating results. While GMT has recorded a statutory loss, Internalisation and other initiatives have positioned it for the next phase of its business growth.

Key results include:

+ A 9.3% increase in operating earnings,[1] to $121.4 million after tax
+ A 4.8% increase in underlying cash earnings[2] to 7.44 cents per unit and a 5.1% increase in cash distributions, to 6.2 cents per unit
+ Guidance for FY25 is for further growth in cash earnings to around 7.5 cents per unit and cash distributions of 6.5 cents per unit, a 4.8% increase on 6.2 cents per unit
+ A statutory loss of $564.9 million after tax (including one-off costs of $275.5 million relating to the Internalisation and fair value losses resulting from independent property valuations), compared to a loss of $135.4 million in FY23
+ Net tangible assets of 201.4 cents per unit
+ Substantial balance sheet capacity, with a loan to value ratio[3] of 31.5% and $760 million of available liquidity at 31 March 2024
+ The completion of four fully leased development projects providing 79,452 sqm of warehouse and logistics space, with $209.7 million of work in progress (total project cost)
+ Positive leasing results with 141,284 sqm of space secured on new or revised terms, which together with recent rent reviews has contributed to like-for-like net property income growth of 6.5%.
+ Portfolio occupancy of 99.5% and a weighted average lease term of six years.

RESULT SNAPSHOT

The locational advantages and productivity benefits of GMT's urban logistics portfolio have contributed to significant revenue and earnings growth.

Chief Executive Officer, James Spence said, "We have achieved our leasing targets over the last 12 months and have continued to refine the portfolio, progressing development projects and investing in new building technologies to meet customer demand for greater efficiency, supply chain resilience and more sustainable property solutions."

Underlying cash earnings increased 4.8% to 7.44 cents per unit, consistent with guidance. Distributions increased by a similar percentage to 6.2 cents per unit, reflecting a pay-out ratio of around 83%.

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[1] Operating earnings is a non-GAAP financial measure included to provide an assessment of the performance of GMT's principal operating activities. The calculation is set out in GMT's Statement of Comprehensive Income and in note 3.1 of the financial statements.

[2] Cash earnings is a non-GAAP measure that assesses free cash flow, on a per unit basis, after adjusting for certain items. Calculation of GMT's cash earnings and underlying cash earnings is set out on page 25 of the 2024 Annual Report.

[3] Loan to value ratio is a non-GAAP financial measure used to assess the strength of GMT's balance sheet. The calculation is set out in note 2.6 of GMT's financial statements.

Cash earnings guidance for FY25 is for further growth to around 7.5 cents per unit, despite the headwinds created by the removal of tax deductions for building depreciation. Cash distributions of 6.5 cents per unit are expected to be paid, a 4.8% increase on FY24.

James Spence said, “The strength of this year’s operating result and positive guidance for FY25 demonstrates the resilience and agility of our business in more challenging market conditions.

Over the last 12 months we have internalised, refined our governance practices, and progressed our sustainability programme, initiatives that demonstrate the continued evolution of our business.”

While the operating performance of the Trust has been very strong, a 9.5% reduction in the fair value of the property portfolio and the one-off cost of Internalisation have contributed to a statutory loss of $564.9 million after tax.

James Spence said, “The reduction in property values over the last 12 months reflects the impact of higher interest rates on investment yields. We take a longer-term view on value creation and note that a net $670 million of fair value gains from property valuations have been recognised in GMT’s statutory results over the last five years.”

Further information is provided in the FY24 Annual Report, which was released today. A copy has been provided to the NZX as an attachment to this announcement and is available online at: https://bit.ly/3t80ciJ

A standalone FY24 Sustainability Report (compliant with the new Aotearoa New Zealand Climate Standards) will be released in late July 2024. The report will include further information around our emissions reduction strategy, how this is integrated into our business activities and the progress we have made toward our climate goals.

INTERNALISATION CREATES GREATER OPPORTUNITY

James Spence said, “Internalisation of GMT’s management is the most significant event of the year, it provides GMT with a more contemporary corporate structure that enables us to grow in a more capital efficient manner.”

Internalisation will allow GMT to pursue wider business opportunities including the establishment of a funds management platform. The successful execution of this strategy is expected to support annualised cash earnings growth of between 5% and 7% over the medium term.

More immediate benefits of the Internalisation are lower operating expenses and greater alignment.

CUSTOMER DEMAND

While the economy has slowed and customer demand is moderating, the positive leasing dynamic created by a highly constrained industrial market has continued to support strong revenue growth.

Market rents for prime industrial space have increased and the potential reversion to market within the portfolio remains substantial at around 23%.[4]

James Spence said, “Net property income has grown to over $200 million, with rent reviews and new leasing contributing to growth of 6.5% on a like-for-like basis.

The significant under-renting within the portfolio is also expected to drive future earnings growth, as rents are reviewed to market levels and new leases are secured at these higher rates.”

The rapid growth in demand for well-located and operationally efficient distribution facilities that occurred during the pandemic is also returning to more typical levels. With earlier customer pre-commitments creating a large development workbook, the volume of activity currently being undertaken by GMT remains significant.

James Spence said, “Four fully leased projects with a current value of almost $370 million have completed over the last 12 months and we have another three projects nearing completion.

[4] As assessed by independent valuers at 31 March 2024

Expected to achieve a 5 Green Star Built rating, these highly sustainable property solutions are improving the quality of the portfolio and contributing to GMT's growing rental cashflows."

A pipeline of greenfield sites and value-add properties within the portfolio provide future opportunity. These sites are expected to support the development of almost 400,000 sqm of urban logistics space over the next 10 to 15 years.

DISCIPLINED CAPITAL MANAGEMENT

Earlier asset sales and prudent financial management have facilitated the acceleration in GMT's development programme over recent years.

The Trust has a loan to value ratio of 31.5% and committed gearing of 32.1% at year end. It is a conservative setting (well below the 50% maximum allowed under GMT's Trust Deed and debt facility covenants) that provides operational flexibility and substantial balance sheet resilience.

James Spence said, "Recent treasury initiatives have extended GMT's bank facilities to $1.4 billion. The additional liquidity provides funding capacity to cover upcoming bond maturities and the early repayment of GMT's US Private Placement notes following Internalisation."

At 31 March 2024, GMT's debt facilities were 65.8% drawn, had a weighted average term to expiry of 3.2 years, and were 70% hedged for the next 12 months.

FUTURE FOCUSED

James Spence said, "A long-term view has always guided our investment decision making. Understanding the key structural trends that are driving customer demand for warehouse and logistics space has delivered strong operating results and positioned our business for sustainable growth. Internalisation provides the framework for even greater things.

While the economic outlook is uncertain and downside risks remain, we are confident that our disciplined financial management and focus on the Auckland industrial market will continue to deliver positive outcomes for our stakeholders."

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Attachments provided to NZX:

1. Goodman Property Trust and GMT Bond Issuer Limited Annual Report 2024
2. GMT's 2024 Annual Result Presentation
3. NZX Annual Result Announcement

About Goodman Property Trust:

GMT is a managed investment scheme, listed on the NZX. It has a market capitalisation of around $3.4 billion, ranking it in the top 15 of all listed investment entities. The Trust is New Zealand's leading warehouse and logistics space provider. It has a substantial property portfolio, with a value of $4.5 billion at 31 March 2024. The Trust also holds an investment grade credit rating of BBB from S&P Global Ratings.