

Challenger Wine Trust (ASX:CWT)

Results for half-year ended 31 December 2008 (HY09)

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Fund Manager
5 February 2009



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Key points

- Operating performance remains solid
 - Net property income of \$16.6 million – up 5.3% on pcp
 - Profit from operating activities after tax of \$8.4 million – up 5.6%
 - Occupancy 98.4%; WALE 5.3 years with low level of expiries in FY09 (4.3%) & FY10 (nil)
 - 1st half distribution of 4.7 cpu
 - Financing in place; first expiry in May 2011
 - Interest rate swaps out of money by \$21.7 million; will unwind towards maturity of contracts
 - Net Independent Valuation (NIV): 78 cpu

- Challenging environment
 - Industry confronting an over-supply of grapes with lower export volumes
 - Pressure on property values in some regions
 - LVR headroom narrowed
 - Increase in bank lending margins

- CWT to maintain balance sheet strength and flexibility in uncertain times
 - Asset sales planned to strengthen balance sheet
 - Assessing implications of industry-wide write downs
 - Distribution guidance for FY09 under review

Financial results

Operating profit remains solid

- Profit from operating activities after tax \$8.4 million – up 5.6% on pcp
 - Net property income up \$0.8 million (5.3%) to \$16.6 million
 - Finance costs up \$0.5 million (8%) to \$6.6 million
 - Operating expenses down 24%; RE & Manager fees flat
- Half year ended 31 Dec 08 (HY09) distribution 4.7 cents per unit (cpu)
- Property revaluation decrement of \$5.6 million

	HY09	HY08	Variance	
	\$000	\$000	\$000	%
Net property income	16,635	15,802	833	5.3
Profit from operating activities after tax	8,421	7,973	448	5.6
Net profit	2,872	12,651		
<i>Adjusted for:</i> Net fair value movements	5,559	(3,817)		
Undistributed income ¹	(426)	(861)		
Distribution to unitholders	8,005	7,973	32	0.4%
Distribution per unit (cents)	4.70	4.68	0.02	0.4%

Notes:

1. HY09 includes \$10K net realised gain on sale of properties (HY08: \$861K)

NIV at 78c

- Reduction in NIV mainly due to mark-to-market movement on interest rate swaps (13 cpu)
- Water rights are treated as intangible assets held at cost
- NTA excludes water rights; NAV includes water rights at cost
- NIV includes water rights at independent valuation – reflects real value to CWT

	\$'000		Cents per unit	
	Dec-08	Jun-08	Dec-08	Jun-08
Net Tangible Assets (NTA)	102.2	130.8	60	77
Add: Water rights (at cost)	21.8	21.8		
Net Asset Value (NAV)	124.0	152.6	73	90
Add: Water rights fair value increment ¹	9.2	8.4		
Net Independent Value (NIV)	133.2	161.0	78	94

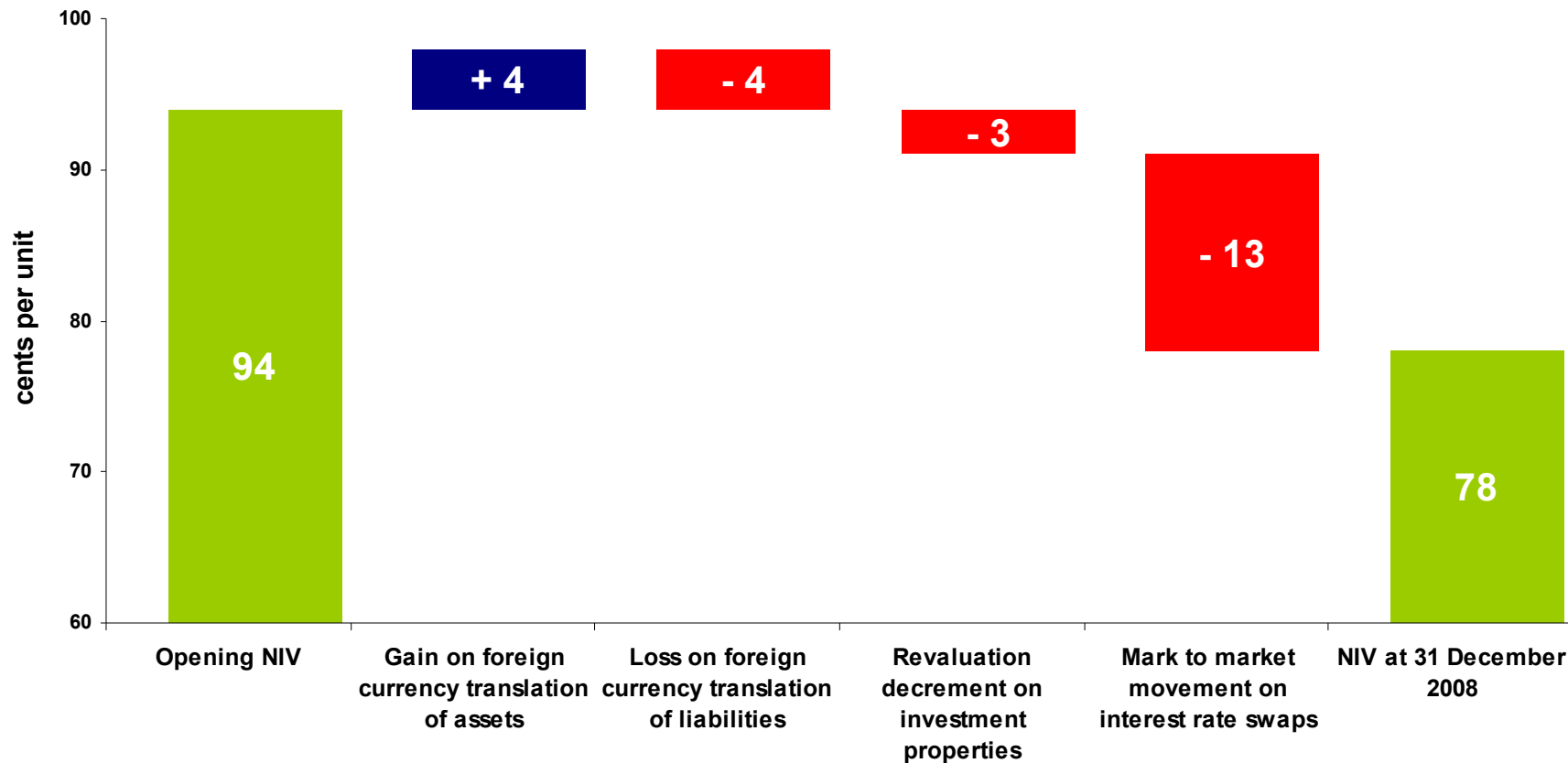
Notes:

1. As per independent valuation

NTA & NIV impacted by interest rate swaps mtm

➤ NIV at 78 cpu as at 31 December 2008

- Impacted by mark-to-market (mtm) movement on interest rate swaps



Financial position as at 31 December 2008

- Gearing¹ at 50.7%; no new borrowings in HY09
- Interest rates² effectively 100% hedged for duration of lease terms
- New Zealand borrowings provide natural currency hedge for NZ assets
- Weighted average cost of borrowings to increase to around 8.6% from March 09 due to increased bank margin

		31-Dec-08	30-Jun-08
Total assets	\$m	313.7	316.2
Borrowings	\$m	159.3	155.2
Gearing (debt to total assets)	%	50.7	49.0
Weighted average cost of borrowings (incl margins)	%	8.17	7.89
Interest cover ratio	x	2.3	2.3

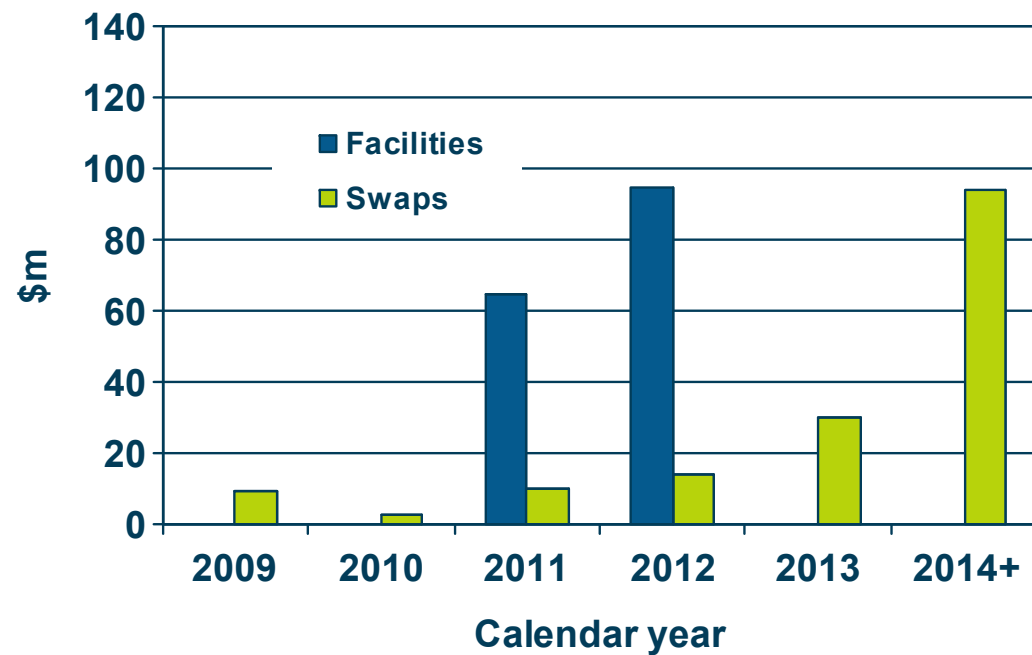
Notes:

1. Debt to total assets
2. Excluding margin

Finance secured to 2011/2012

- Total facilities of \$167.6 million (from 2 Australian banks)
 - \$159.3 drawn
 - No facility expiries before 2011

Borrowing facility & swap maturity profile



Financial covenants & headroom

- LVRs¹ apply to borrowing facilities from banks
- All covenants complied with during HY09

Facility	Covenant	CWT position at 31 December 08	Headroom on security value		Headroom on debt	
			\$m	%	\$m	%
1	Debt to security value < 57%	49.6%	\$16.9m	13.0%	\$9.6m	14.9%
2	Debt (including net fair value of hedge contract) to security value < 60%	55.5%	\$13.4m ²	7.6%	\$8.0m	8.2%

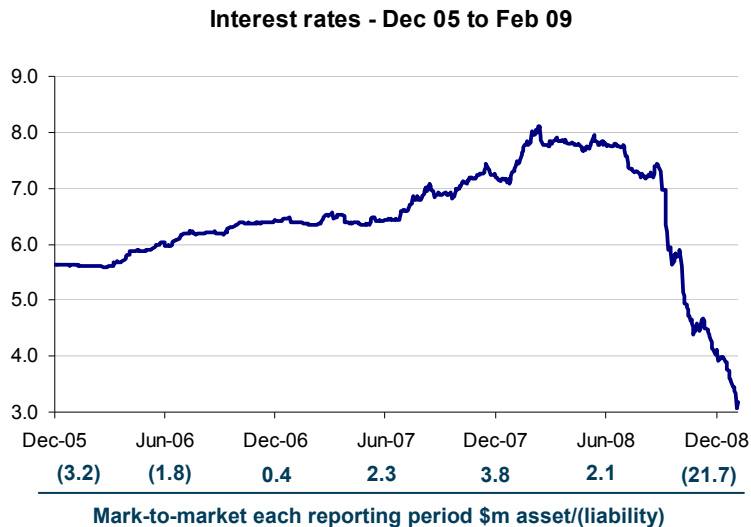
- No market capitalisation covenants

Notes:

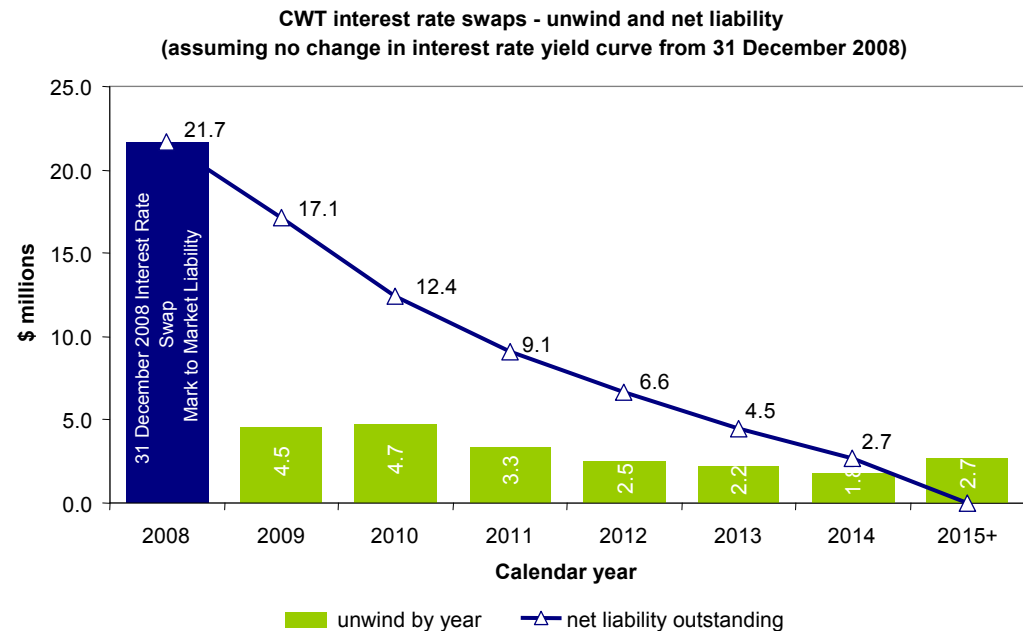
1. Loan-to-valuation ratios
2. All 31 December 08 property revaluations were against facility #2

Derivative financial instruments – interest rate (IR) swaps

- IR swaps remove volatility by hedging exposure to interest rate fluctuations
 - At 31 Dec 08 CWT effectively 100% hedged for movements until lease expiry
- IR swaps are recorded on balance sheet at fair value (mark-to-market) with gains or losses taken directly to equity
 - Fair value at 31 Dec 08: net liability of 21.7m (30 Jun 08: net asset of \$2.1m)
 - Interest rate forward curve assumed further interest rate cut of circa 1%
- CWT anticipates holding swaps to maturity unless properties sold
 - If held to maturity liability will unwind at no cost to CWT



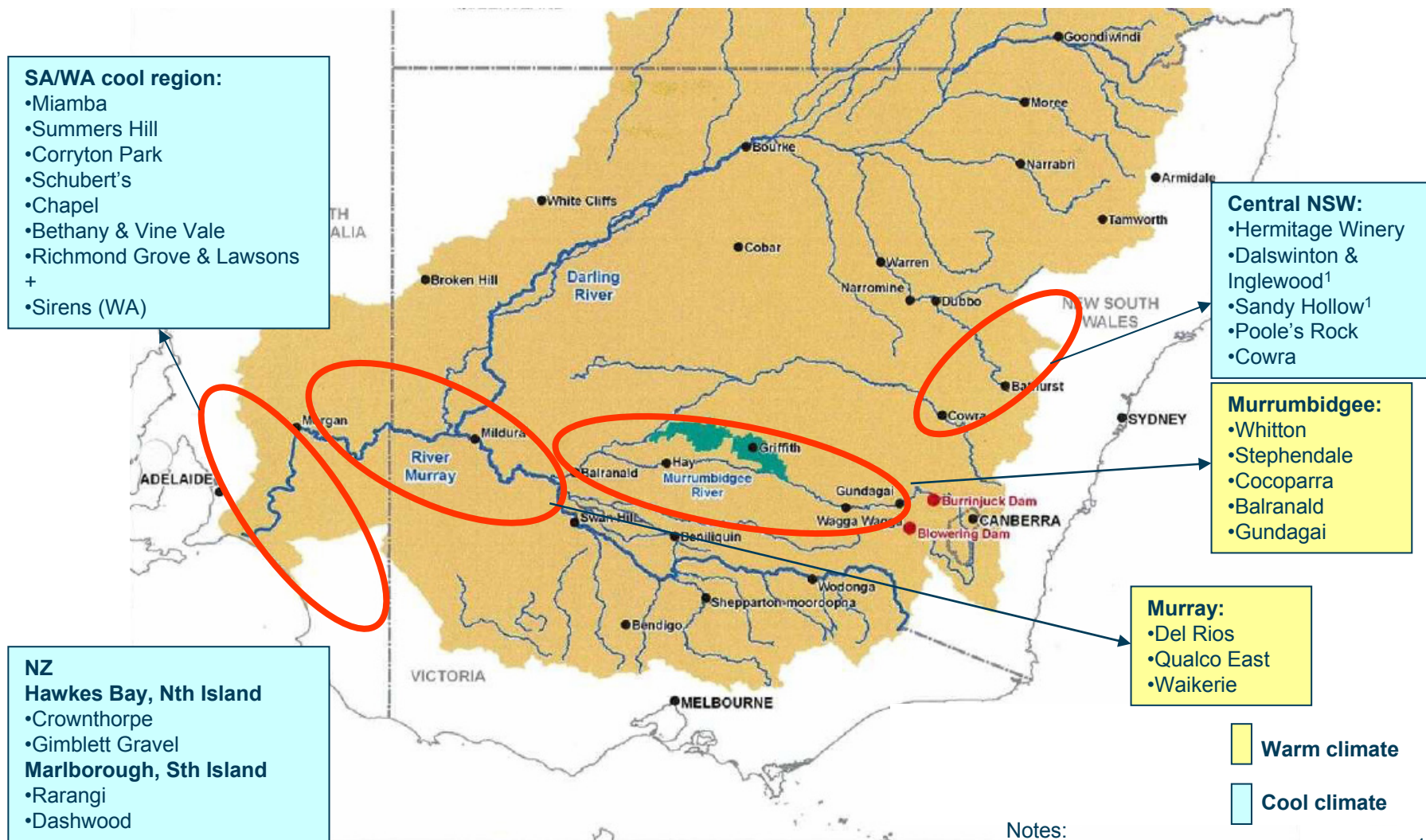
Source: RBA 90 day bank bills



Portfolio update



Regional map of CWT's eastern portfolio



Notes:

1. Contract for sale exchanged

Revaluations reduce values by \$5.6m

- 9 of 25 properties independently revalued (21% of portfolio value)
- Dalswinton/Inglewood and Sandy Hollow vineyards written down in line with sales prices
- All properties independently revalued since June 2008 (except Sirens, WA)

Portfolio by region	% of portfolio	Fair Value at 31 Dec 08 \$m	Fair Value pre revaluation \$m	Change \$m	Change ¹ %
Murray River	21%	64.8	65.1	(0.3)	(0.5%)
New Zealand	24%	74.2	75.0	(0.8)	(1.1%)
Murrumbidgee River	26%	78.8	81.0	(2.2)	(2.7%)
SA/WA cool regions	23%	71.8	72.6	(0.8)	(1.1%)
Central NSW	6%	17.1	17.7	(0.6)	(3.5%)
Total decrement in fair values		306.7	311.5	(4.8)	(1.5%)
Less: reduction in carrying values due to recognising water rights at cost				(0.8)	
Total decrement in carrying values				(5.6)	

Notes:

Numbers may not add due to rounding

1. Across total portfolio

Portfolio snapshot at 31 December 2008

		Australia	New Zealand ¹	Total	30 June 2008
Number of assets		21	4	25	25
Portfolio carrying value	\$m	223.3	74.2	297.5	298.8
Portfolio fair (market) value	\$m	232.5	74.2	306.7	307.2
% total portfolio value²	%	76	24	100	100
Total area	ha	5,067	743	5,809	5,809
Area planted	ha	3,934	624	4,558	4,558
Occupancy	%	98.1	100	98.4	100
WALE	yrs	5.7	3.5	5.3	5.7
Average passing rental yield	%	11.9	8.0	10.9	10.9
Over/(under) renting - Portfolio	%	18.9	(11.1)	12.2	8.9
Over/(under) renting ³ - AU	%	18.9	n/a	18.9	17.5
Over/(under) renting ³ - NZ	%	n/a	(11.1)	(11.1)	(17.2)

Notes:

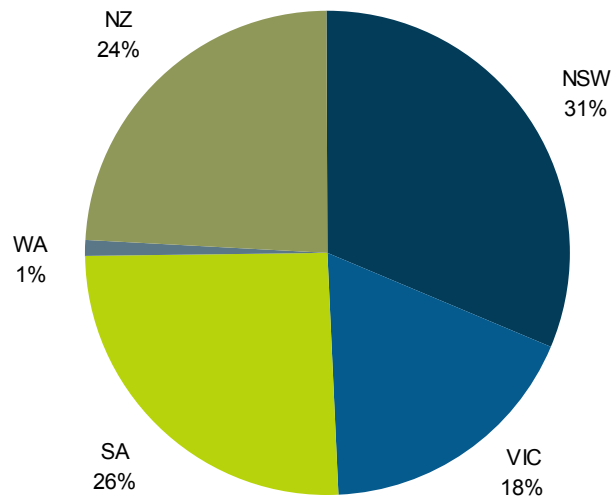
1. New Zealand portfolio value at 31 December 2008 based on spot rate of 1.1930
2. Based on fair value
3. Over/(under) renting calculations are based on management's assumptions regarding achievable market rentals

Portfolio diversification

- 76% of portfolio (by fair value) leased to major listed wine companies

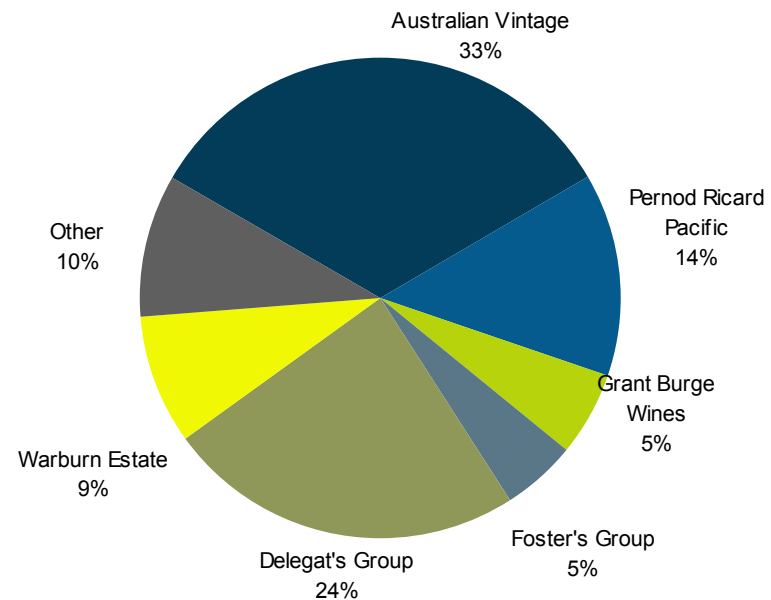
Geographic diversification (by fair value)

As at 31 December 2008



Tenant diversification (by fair value)

As at 31 December 2008

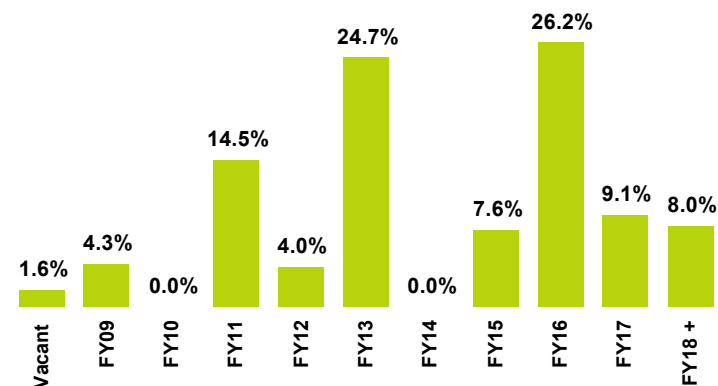


Lease expiry profile and activity

- 98.4% portfolio occupancy at 31 Dec 08 (99% as at 7 Aug 08)
- WALE at 5.3 years
- 4.3% of portfolio by income expiring over FY09 and FY10

Property	Lease expiry	Activity
Hermitage Road Winery	Part leased	Main crushing plant untenanted
Bethany Creek & Vine Vale	Vacant	Vacated October 2008. In negotiation with interested party
Dalswinton & Inglewood	Apr 09	Inglewood: contracts exchanged for settlement on 30 Mar 09. Sale price \$0.6m. Dalswinton: marketed for sale
Cowra Station	Apr 09	Marketed for sale
Sandy Hollow	Apr 09	Contracts exchanged for settlement by 21 May 09. Sale price \$2.0m.

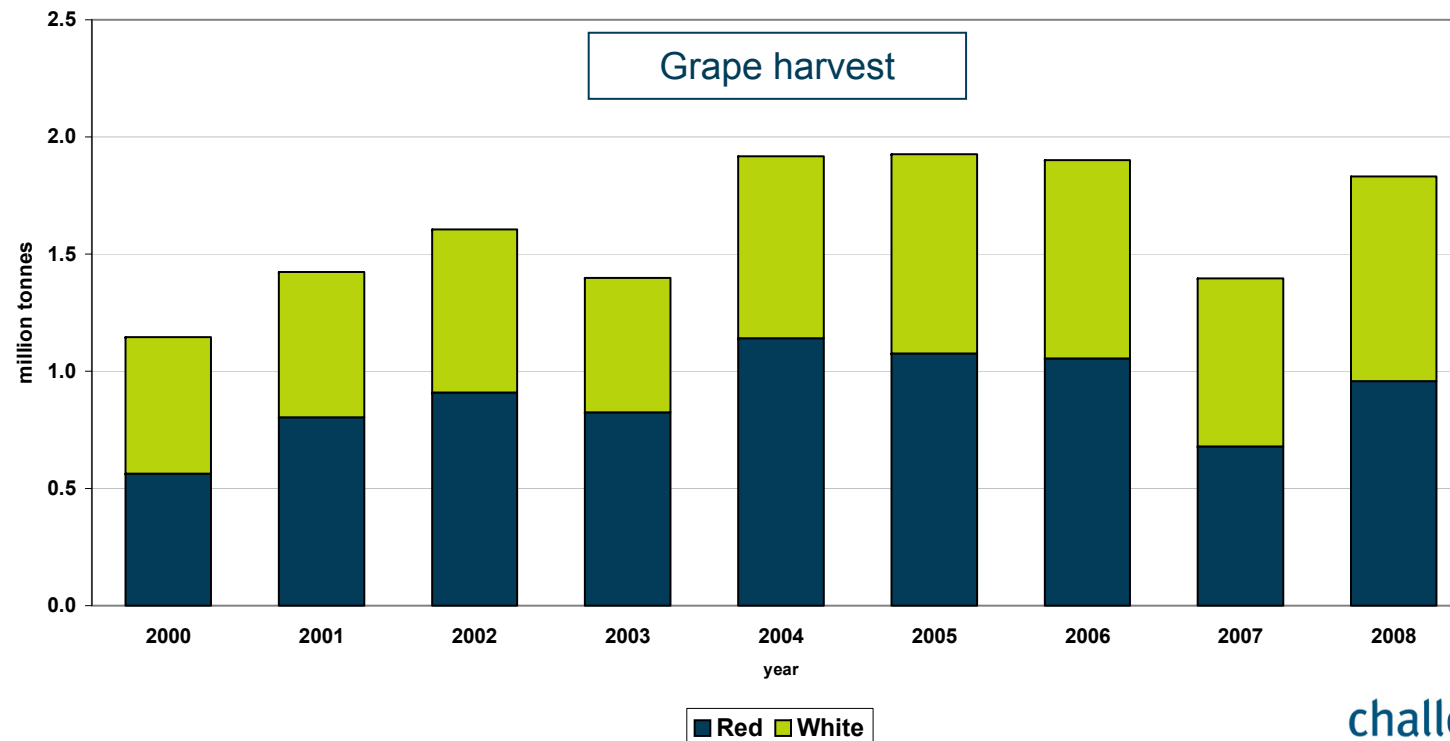
Weighted Maturity Profile as at 31 December 2008



Australasian vineyard industry conditions

Australian grape production

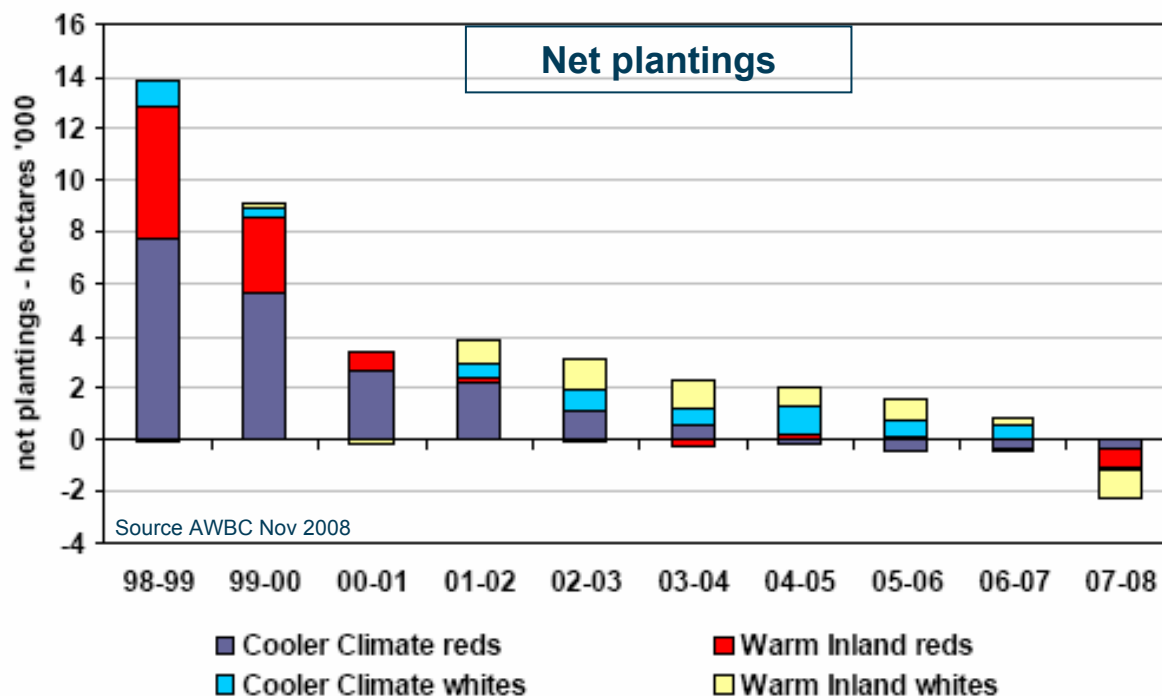
- 2007 grape harvest: 1.4 million tonnes
 - Impacted by frost and drought
 - Wine companies use inventory to meet demand
- 2008 grape harvest: 1.8 million tonnes
- 2009 grape harvest – circa 1.75 million tonnes (but grapes expected to be left on vine)



* Source: The Australian Winegrape & ABS

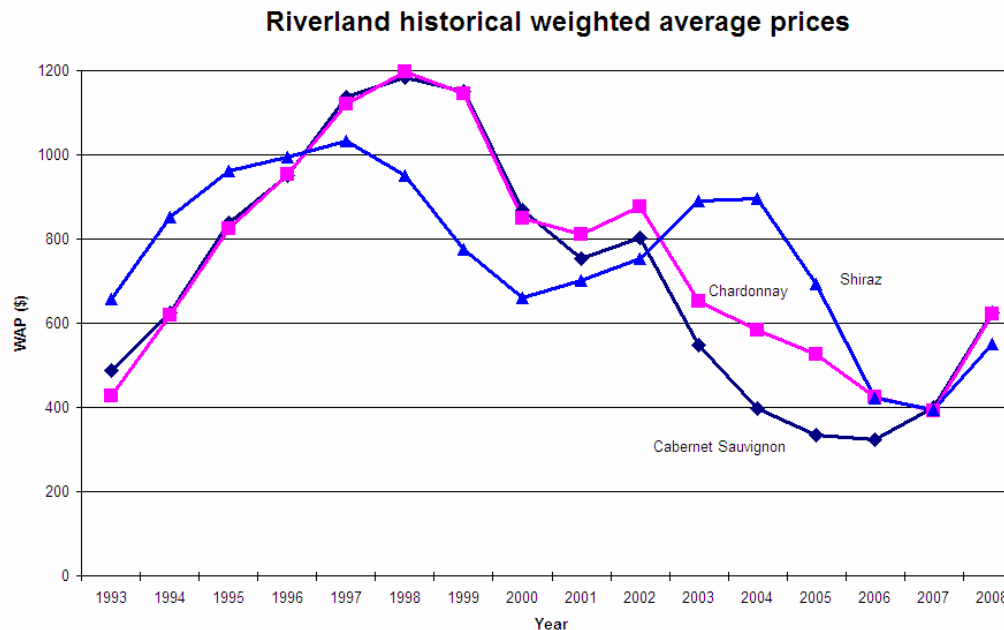
Supply no longer increasing

- 07/08 was first year of net vine removals – mainly warm climate/white grapes
- Expect greater net removals in 08/09 - lack of water availability & lower profitability
- Supply outlook:
 - less production as vines get older
 - global consumption increasing
 - long lead time for production to increase as vines mature
 - potential for under supply in the future



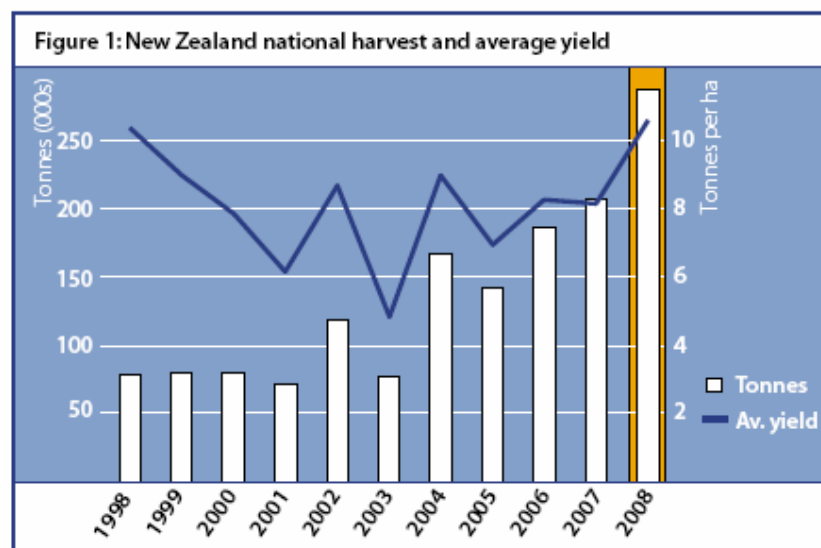
Grape prices

- Expected lack of grapes caused higher contract grape prices in 2008
- Grape prices expected to reverse in 2009 toward 2007 levels due to oversupply
- Caution: grape supply can be quickly impacted by weather causing supply shortfalls i.e. frost, hot temperatures



New Zealand wine market remains strong

- 2008: large yields with larger than anticipated inventories of sauvignon blanc – lower Australian prices for NZ wine
- Demand for NZ wine globally expanding particularly sauvignon blanc
- Sauvignon blanc is now No.1 consumed variety in Australia
- CWT NZ portfolio primarily chardonnay, sauvignon blanc, pinot noir and merlot
- 24% of CWT portfolio in NZ
- CWT tenant - Delegat Group - experienced record profits last year
- Delegat's Oyster Bay remains No.1 NZ brand in UK and Australia



Source: NZ Wine 2008 Vintage Survey and Rabobank

Summary

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Questions

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Appendices

Detailed income statement

	HY09	HY08	Variance	
	\$000	\$000	\$000	%
Net property income	16,635	15,802	833	5.3
Other income	476	333	143	42.9
Finance costs	(6,627)	(6,150)	(477)	(7.8)
Management fees	(1,211)	(1,217)	6	0.5
Operating expenses	(606)	(795)	189	23.8
Profit from operating activities before tax	8,667	7,973	694	8.7
Income tax expense	(246)	-	(246)	
Profit from operating activities before tax	8,421	7,973	448	5.6
Net realised gains from sale of property	10	861	(851)	
Net fair value movements	(5,559)	3,817	(9,376)	
Net profit	2,872	12,651	(9,779)	(77.3)

Movements in fair value and carrying value

	Fair value \$000	Carrying value \$000
30-Jun-08	307,229	298,851
Acquisitions & upgrades	481	481
Disposals	(154)	(154)
Revaluation changes	(4,743)	(4,743)
Water rights (decrease in carrying value due to recognising intangible assets at cost)	-	(816)
Depreciation	(155)	(155)
Foreign currency translation movements	4,038	4,038
31-Dec-08	306,696	297,502



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