



DUXTON
W A T E R



DUXTONWATER^{LTD}
(ASX:D20)

2 September 2020

Half Year Report

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AGENDA

- Duxton Water Ltd overview
- Half year financial results
- Water as an investment
- Current conditions
- ACCC
- Shareholder questions
- Introduction to the Australian water market

BOARD MEMBER



ED PETER

Chairman of the
Board

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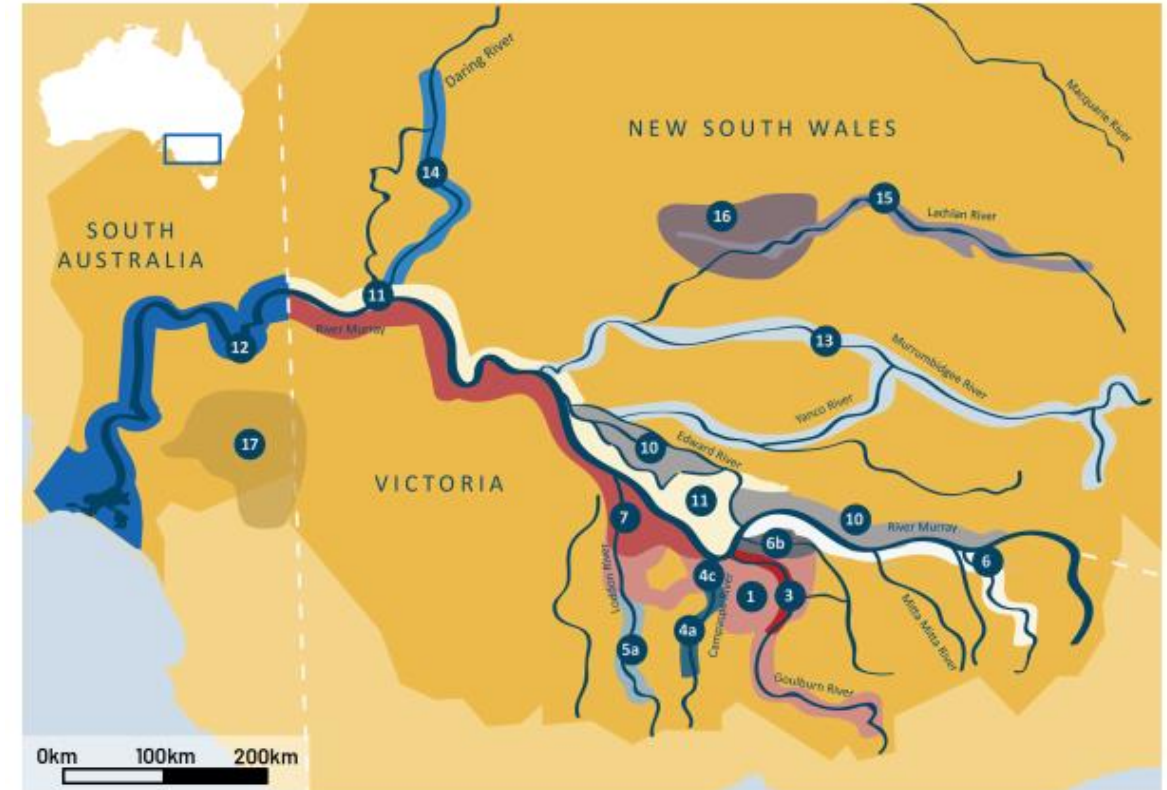
INVESTMENT MANAGEMENT



ALISTER WALSH

Director of Water Assets
& Portfolio Manager

- The primary investment objective of Duxton Water is to build a portfolio of permanent water entitlements and utilise this portfolio to provide flexible water supply solutions to our Australian farming partners. 100% of Duxton Water's portfolio is active in the supply of these products.
- The Company generates a return by offering irrigators a range of water solutions, including long-term entitlement leases, forward allocation contracts and spot allocation sales.
- Duxton supports a number of agricultural industries including viticulture, dairy, broadacre, almonds, citrus, olives and dried fruits. Our water is used in these industries to produce quality Australian food and fibre to be consumed in Australia and exported around the world.



Interstate Water Trading Zones

1 – Greater Goulburn	5a – Part Loddon	10 – NSW Murray above Barmah Choke	14 – Lower Darling
3 – Lower Goulburn	6 – Vic Murray above Barmah Choke	11 – NSW Murray below Barmah Choke	15 – Lachlan
4a – Part Campaspe	6b – Lower Broken Creek	12 – South Australia Murray	16 – Lower Lachlan Groundwater
4c – Lower Campaspe	7 – Vic Murray from Barmah Choke to SA Border	13 – Murrumbidgee	17 – SA Mallee Groundwater
			Murray Darling Basin
			River

AT

30 JUN 2020

the company held

83,740ML

of Water Entitlement

&

Total Portfolio Value of

\$315.3 million

OVER THE

PAST 6 MONTHS

695ML

permanent water entitlement

acquired (net)

FROM

1 JULY 2020

64%

of permanent entitlement

leased to

Australian farming partners

FROM

1 JUL 2020

annualised leasing revenue

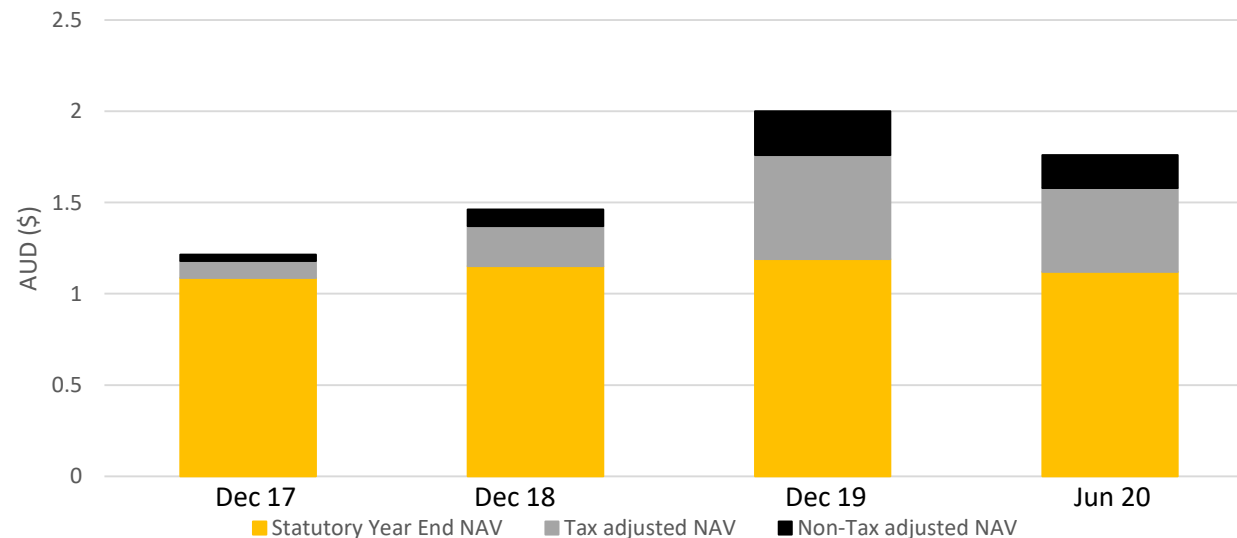
\$9.5 million

HALF YEAR OVERVIEW

- The underlying performance of the Duxton Water portfolio remains durable and robust and has been built to deliver consistent returns over the climatic cycle
- The portfolio delivered an operational gross profit of \$1.83 million
- Continued growth of the permanent portfolio, acquiring a further 754ML and selling 59ML
- Increased the annualised leasing revenue from \$9.1m to \$9.5m and in further discussion to continue to grow the visible income stream from leases
- Paid a final 2019 fully franked dividend of \$0.028, marking the sixth consecutive and incrementally increased dividend since listing in late 2017 for a total of 15.3c, either partly of fully franked
- Provided Shareholders with targets for the next 4 dividend payments, and are pleased to provide the fifth dividend target within this report

NET ASSET VALUE (NAV) PERFORMANCE

- In accordance with the Australian Accounting Standards, the water portfolio must be held at cost less accumulated impairment.
 - Unable to recognise \$76.40m in capital gain
- Since the beginning of 2020, the permanent entitlement market has fallen by ~6%. For context, since January 2014 water entitlement values have increased 254% which is reflective of long-term structural drivers.
- When the carrying value of these water assets revert back toward cost, the impairment is reversed, positively impacting the Statement of Profit or Loss and statutory retained earnings of the Company.



30 June 2020

the Company's **statutory**

net asset value
PER SHARE **A\$1.12**

Add back:
unrealised capital gains
\$0.46

the Company's **non-statutory**

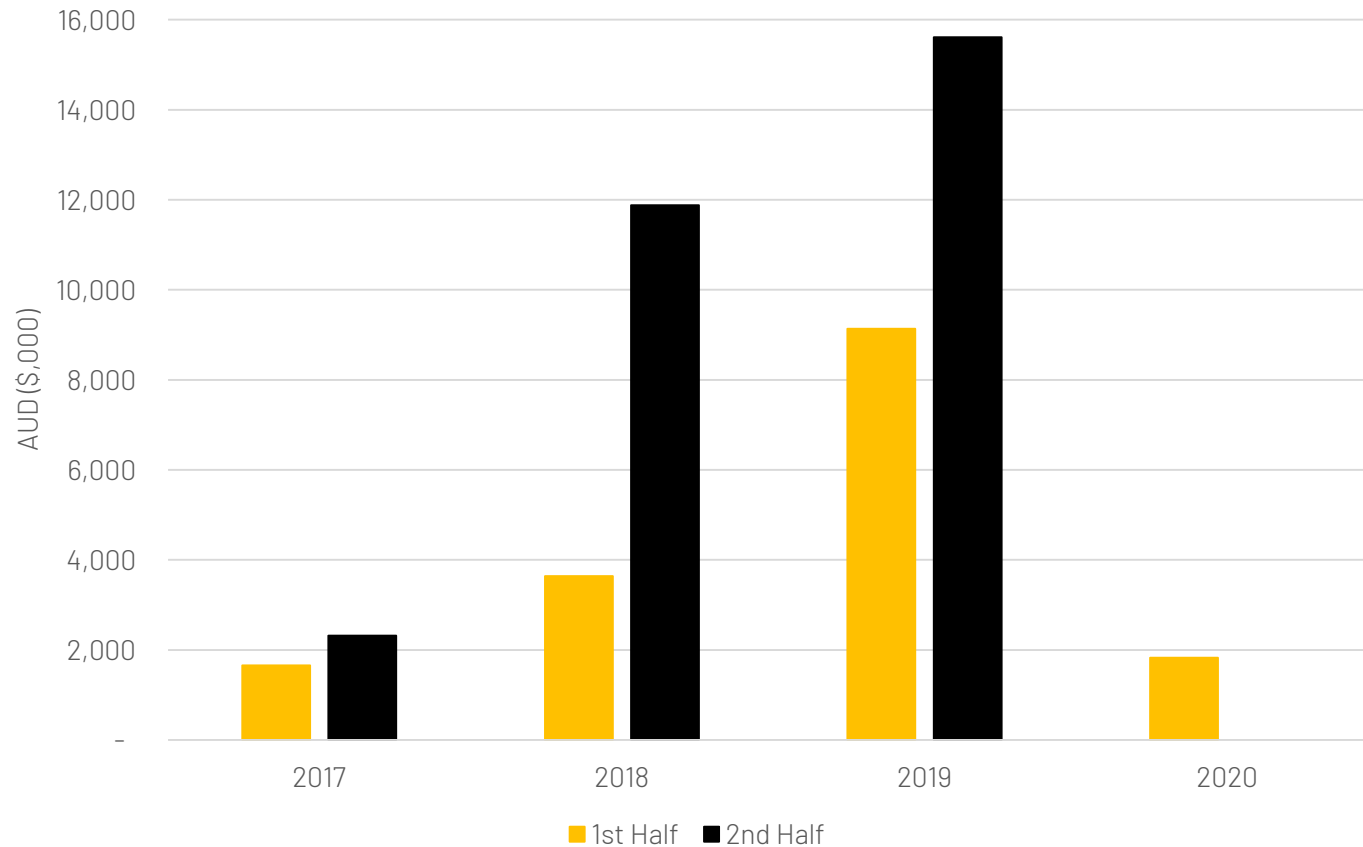
net asset value
PER SHARE **A\$1.58**

Add back:
tax provision for capital gain
\$0.18

Reported **(Pre-tax provision)**

net asset value
PER SHARE **A\$1.76**

OPERATIONAL GROSS PROFIT



Historically the Company generates a stronger profit in the second half of the financial year due to overlap of the Company's financial year (Jan-Dec) and the water year (Jul-Jun).

- New leases generally commence from 1 July
- New season allocation announcements against unleased entitlements largely occur in the second half of a year
- Capital deployment in the second half of 2018 & 2019 delivering returns, acquisitions of entitlement with allocation
- Specific considerations for 2020;
 - the recognition of negotiated forward contracts falling in the second half
 - Structural disruptions through March-May to the allocation market

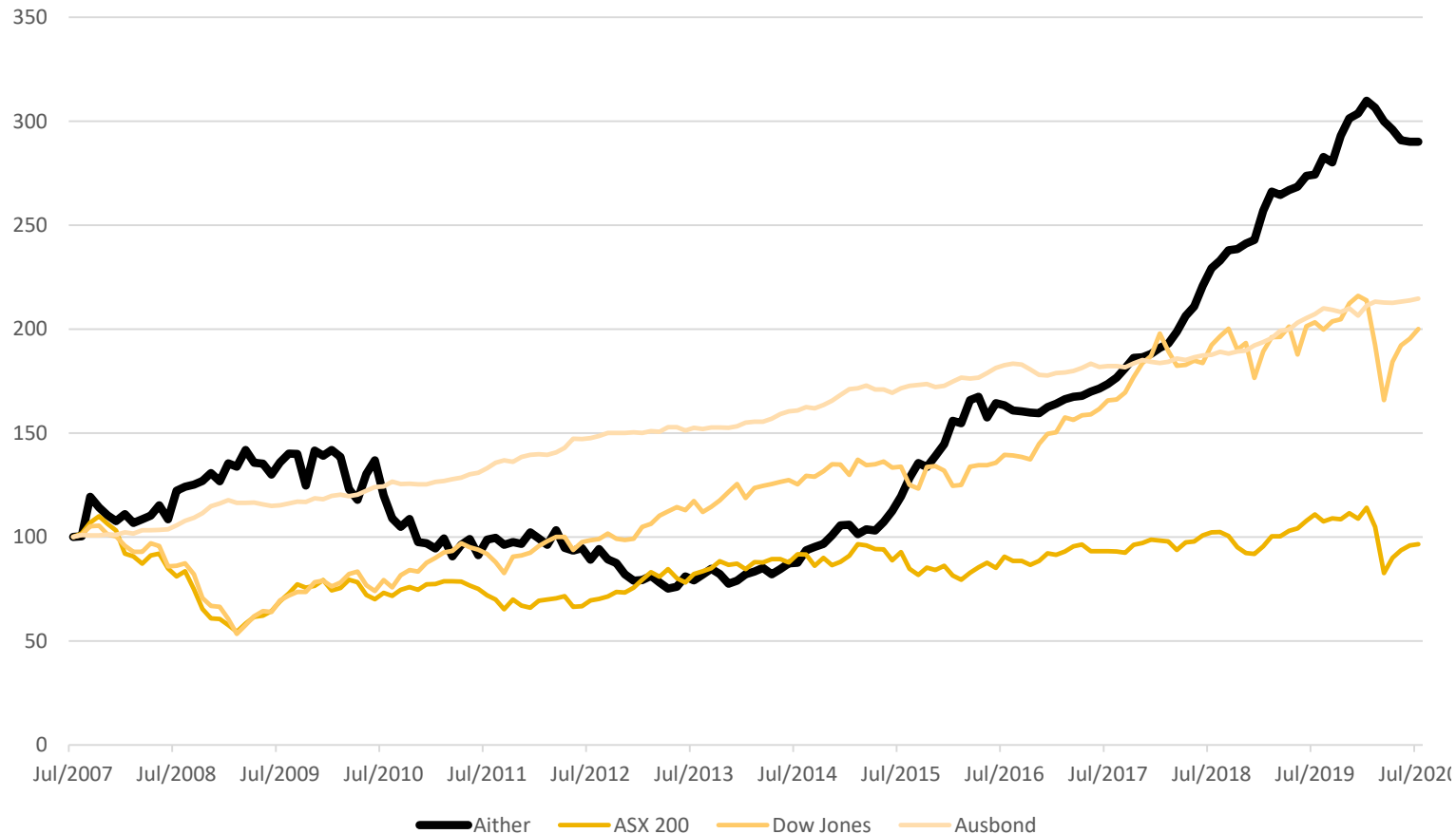
DIVIDENDS

- The Company is committed to providing Shareholders with a bi-annual dividend.
- During the half-year ended 30 June 2020, Duxton Water paid a 2.8 cent (fully franked) dividend on 30 March 2020.
- The increased lease revenue provides great visibility to the Company's future revenue generating capabilities and a level of hedging against future water pricing fluctuations.
- The Company is pleased to provide the next five bi-annual dividend targets, providing Shareholders with long term viability to cash returns.

Interim 2020 \$0.029	Final 2020 \$0.030	Interim 2021 \$0.031	Final 2021 \$0.032	Interim 2022 \$0.033
ALL FULLY FRANKED*				

**Dividends targets to be paid in the following reporting period.*

ENTITLEMENT PRICING- AITHER ENTITLEMENT INDEX

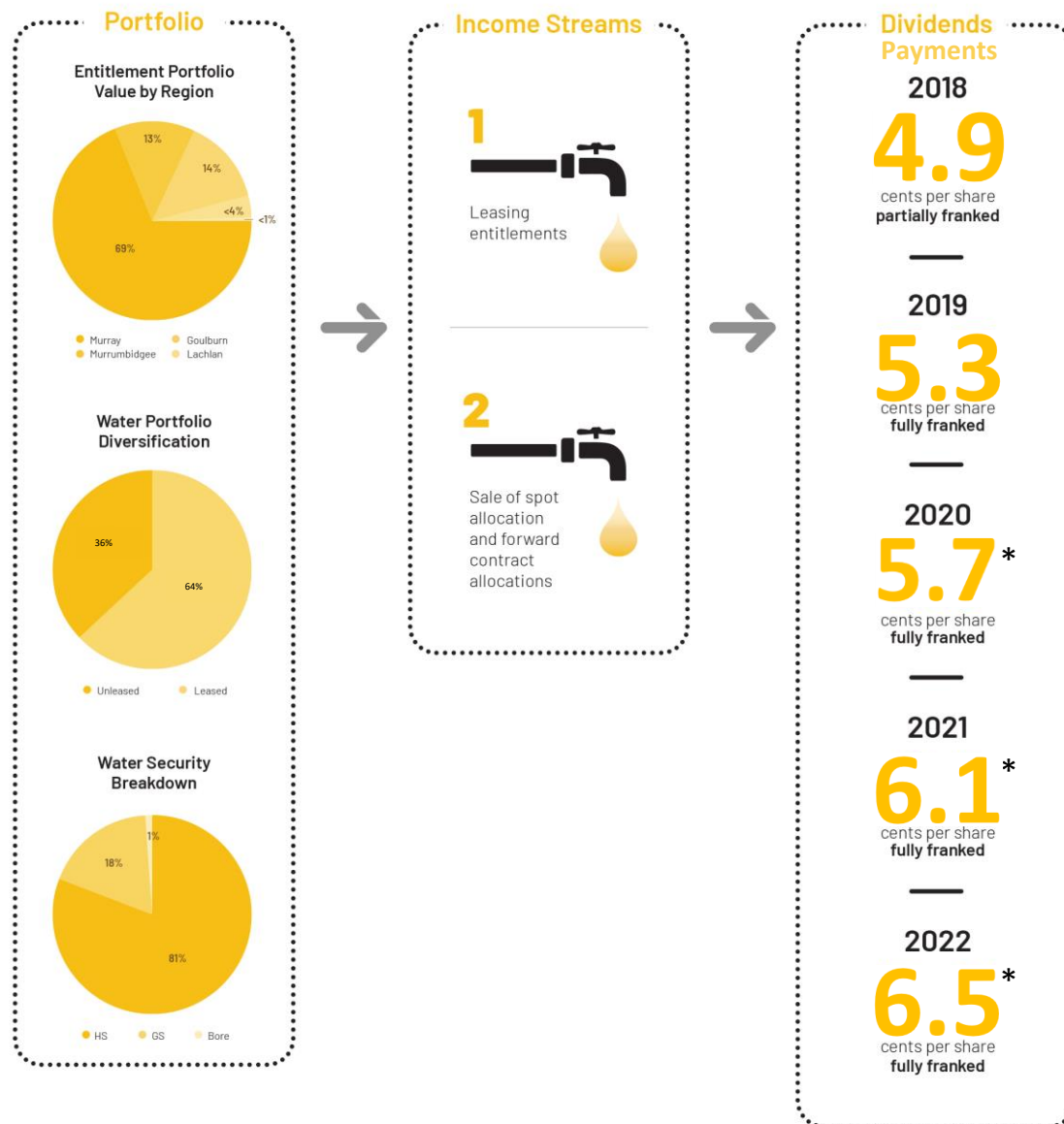


- This graph shows the Aither Entitlement Index over the period from July 2007 to July 2020.
- The Aither index tracks the change in weighted capital value of a group of major water entitlement types across the southern Murray-Darling Basin.
- The graph indicates the movement in values since 2014, driven by major increases in permanent crop plantings.
- Entitlement values have seen a Compound Annual Growth Rate (CAGR) of 17.72% over the past five years. Since the inception of the Index an 8.48% CAGR has been observed.

CORRELATION

	Aus. Water Entitlements (AUD)	ASX 200 (AUD)	FTSE 100 (GBP)	DAX (EURO)	Hang Seng (HKD)	Dow Jones index USD)	BACMO (AUD)
Aust Water Entitlement (AUD)	1.00	-0.08	-0.01	-0.10	-0.07	-0.09	0.16
ASX 200 (AUD)	-0.08	1.00	0.75	0.77	0.72	0.62	-0.19
FTSE 100 (GBP)	-0.01	0.75	1.00	0.79	0.79	0.65	-0.30
DAX (EURO)	-0.10	0.77	0.79	1.00	0.79	0.67	-0.24
Hang Seng (HKD)	-0.07	0.72	0.79	0.79	1.00	0.65	-0.28
Dow Jones index (USD)	-0.09	0.62	0.65	0.67	0.65	1.00	-0.36
BACMO (AUD)	0.16	-0.19	-0.30	-0.24	-0.28	-0.36	1.00

- This table shows the correlation of Australian water entitlement returns with major equities and bond indices between 2007 and July 2020.
- Australian water returns display negative correlation with the equity indices and a low correlation with bonds.
- Investment in water entitlements with a portfolio provides diversification benefits.



Balanced Entitlement Portfolio

Delivering consistent returns over the climatic cycle

Income Streams

Passive income is generated through leases:

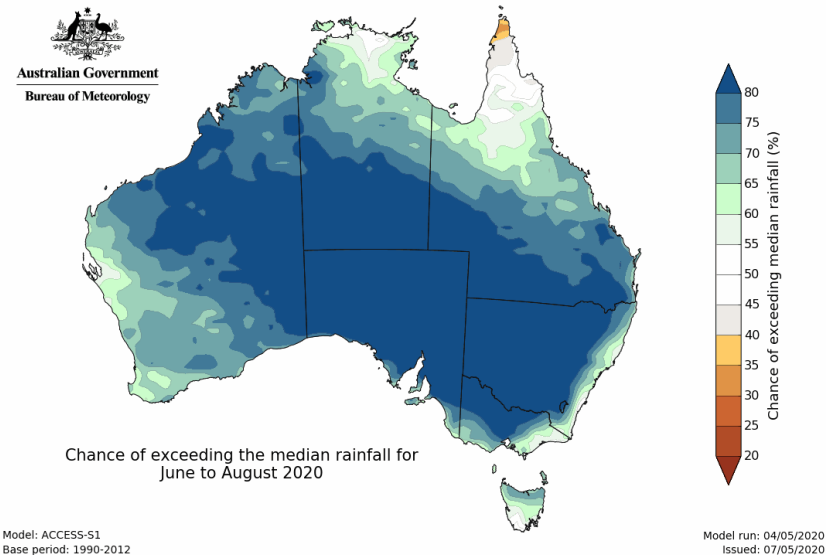
- Stable Income
- High quality and diversified lessees
- Lease payments in advance
- Asset backed

Active Income is generated through allocations:

- Flexible to suit seasonal conditions
- Hedged through forward contracts

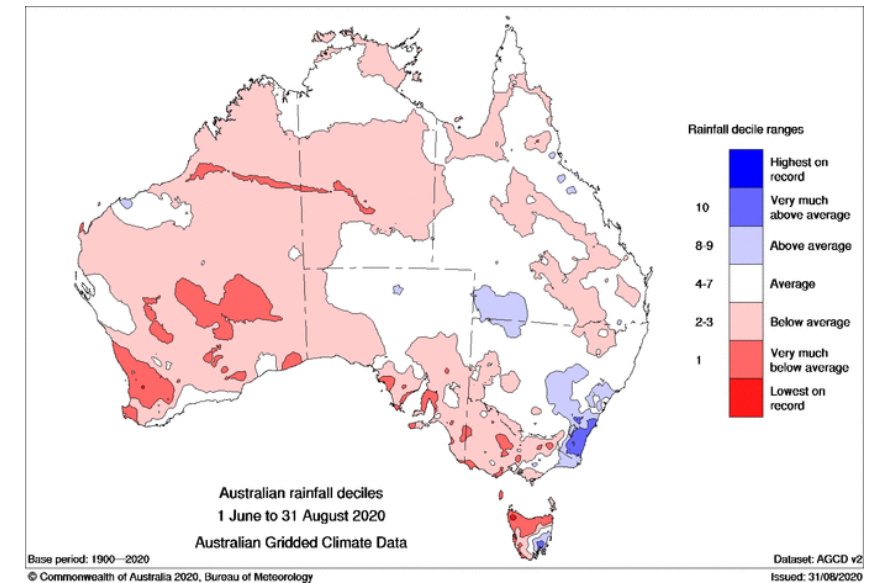
WINTER RAINFALL OUTLOOK

BOM rainfall forecast as at 7 May 2020



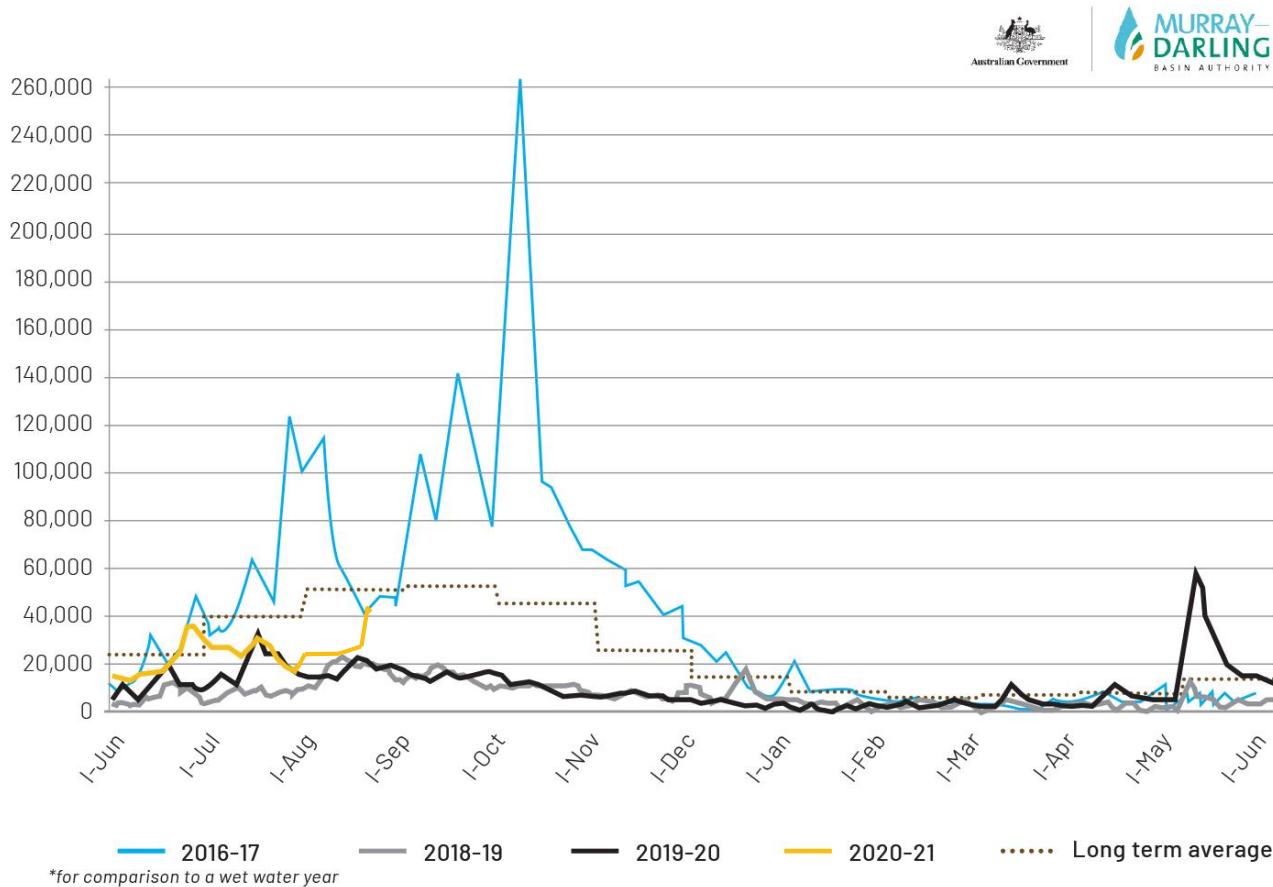
- In May, the BOM forecast expected a high chance of exceeding median rainfall over the winter period.
- Rainfall for the season was below average for much of southern Australia with rainfall on the east coast largely falling outside of the MDB.
- It was Australia's sixth warmest winter on record.

Winter rainfall deciles



MURRAY SYSTEM DAILY INFLOWS

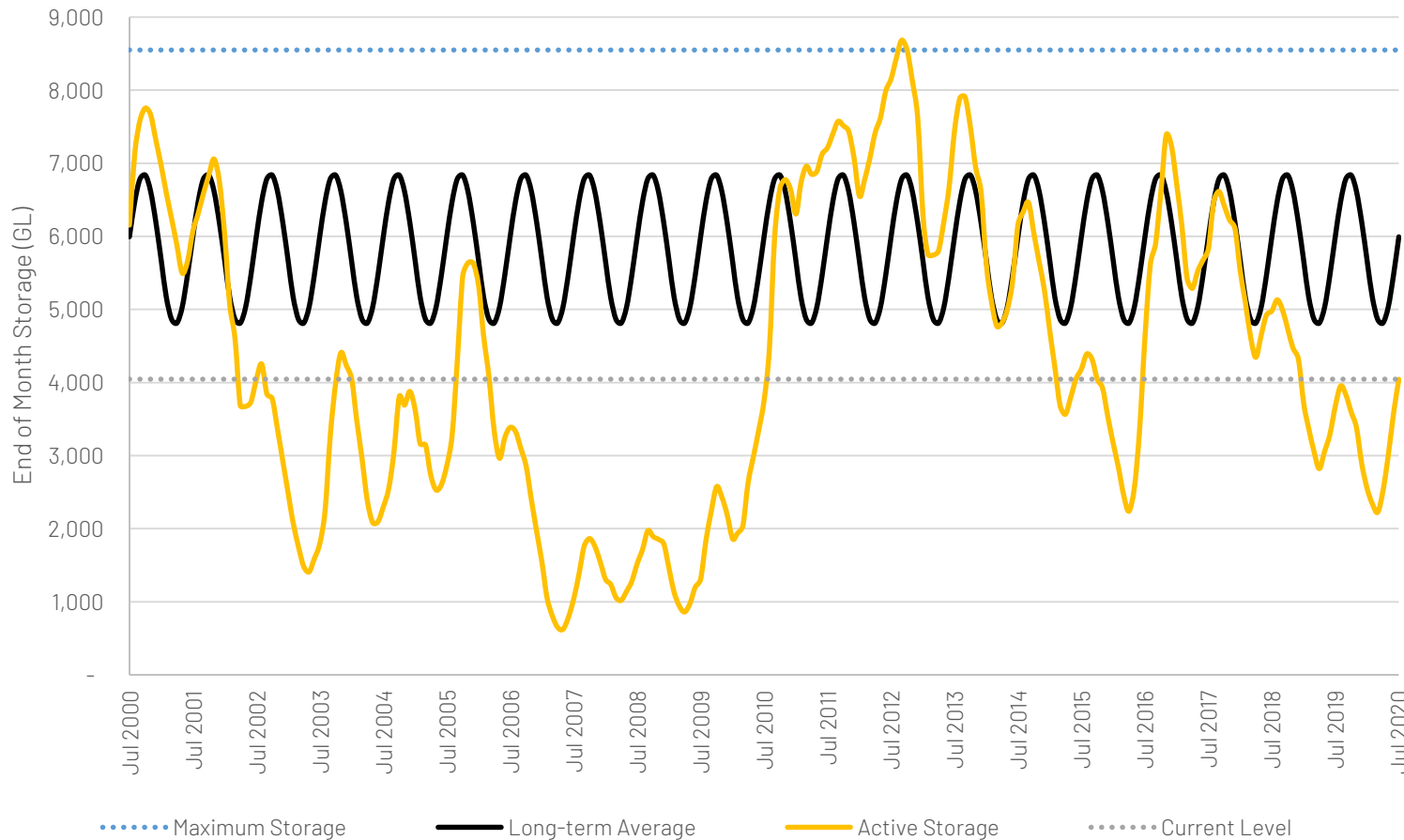
(Excluding Snowy Darling, Inter-valley trade and environmental inflows)



<https://www.mdba.gov.au/sites/default/files/weeklyreports/River-Murray-Operations-Weekly-Report-5-August-2020.pdf>

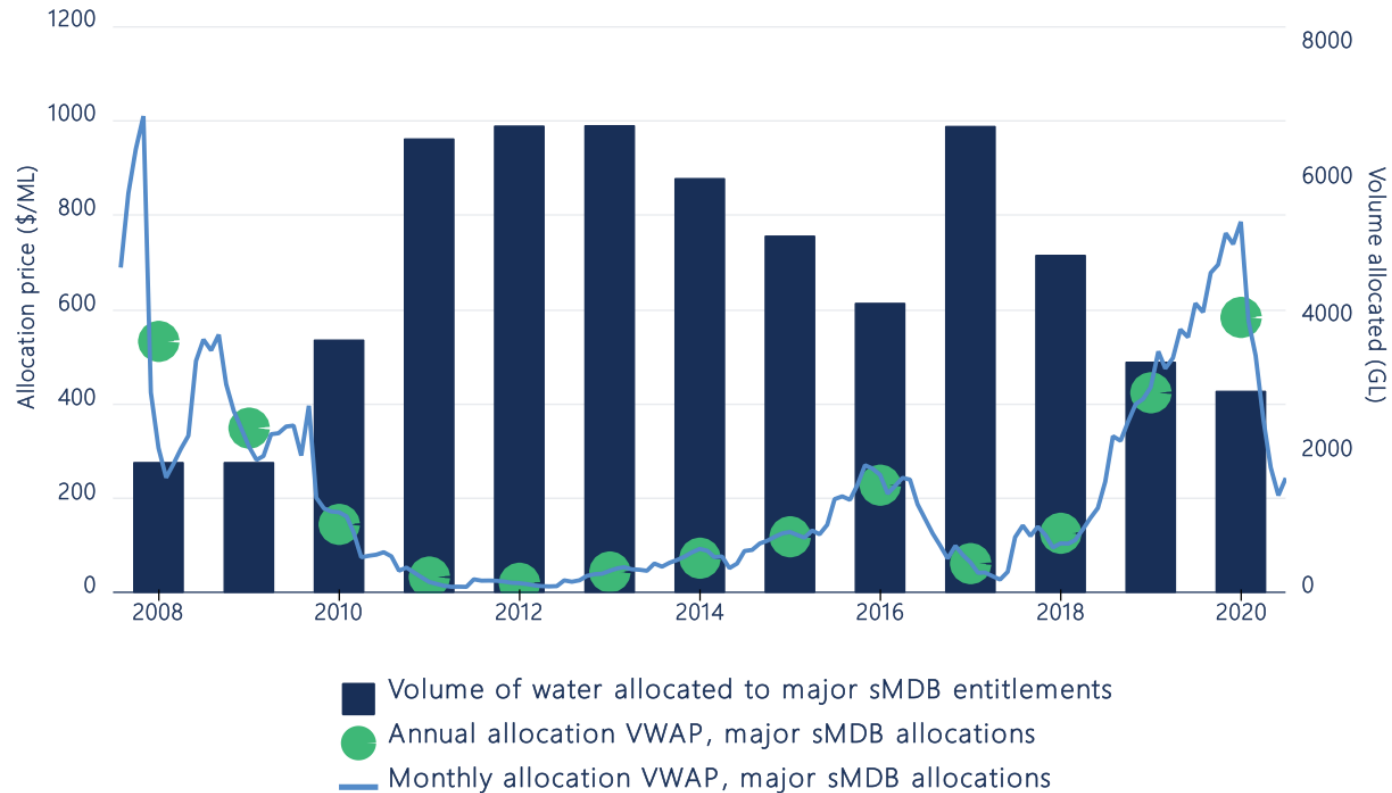
- 2019 saw the Murray Darling Basin experience the driest period on record.
- The Murray System inflows continue to track well below the long-term averages, with the BoM predicting less than a 60% chance of the region exceeding median rainfall in the next 3 months.
- It is expected that the consumptive water supply may reach levels not seen since the millennium drought.

MDBA ACTIVE STORAGE- JUNE 2000 TO PRESENT



- The MDBA total active storage at 29 July 2020 was at 47% capacity with recent rains only providing a small increase in storage volume. This is compared to 43% capacity at this time last year.
- The current storage levels are well below the average levels represented by the black line.
- Recent BOM rainfalls are projecting above average rainfall across much of Australia however climate drivers are yet to lock into the wetter part of their cycle.

VOLUME OF ALLOCATED WATER AND PRICING



Source: Aither, 2020. Based on Victorian, New South Wales, and South Australian water registers, 2020.

The water market and allocation price is solely a reflection of resource availability collectively to entitlement holders and the structural industry demand from water users.

The last 10 years this has been impacted by the high marginal return per megalitre that irrigators have been able to generate and lower levels of allocation available to the consumptive pool due to government buybacks of entitlement for environmental purposes

ACCC INQUIRY

On 30 July 2020, the ACCC released their interim report into the Southern Murray Darling Basin Water Market.

The Directors of Duxton Water believe it is a thorough and well-balanced report that identified opportunities to improve governance, regulatory and operational frameworks that support Australian water markets.

The report also stated, “water trading has brought substantial benefits to water users across the basin” and that returning to a system where water was tied to land, “would be to the detriment of the Australian economy and would significantly diminish the value of water entitlements.”.

Duxton Water will continue to be an active participant in the ACCC’s review. The final report is due to be released in November 2020.

ACCC Process



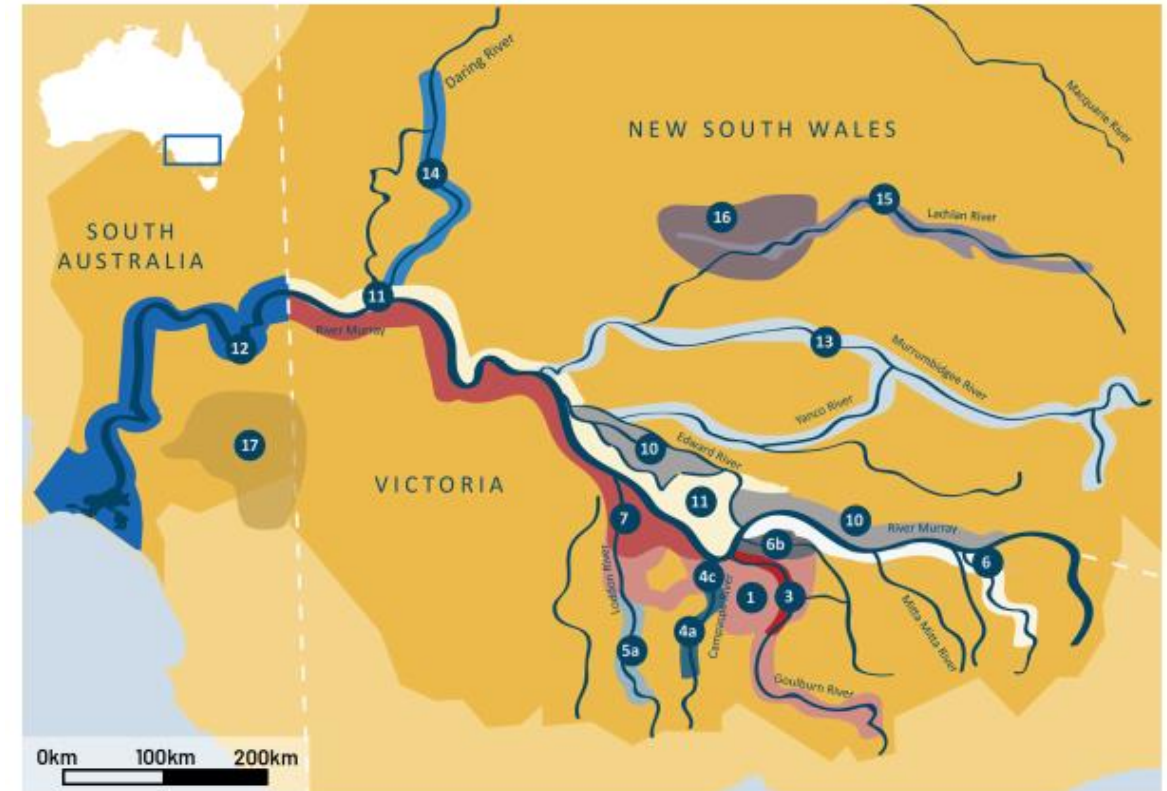
SHAREHOLDER QUESTIONS

What is the Australian water market?

AUSTRALIAN WATER MARKET

Southern Murray Darling Basin

- The Australian water market is spread across contained or interconnected river and ground water systems.
- Australia's most active water market is the southern Murray Darling Basin (sMDB) where 80% of trade occurs.
- The entitlements in the sMDB are valued at ~\$27bn. In the 2018/2019 water year, the market turnover in entitlements and allocation was ~\$1.5bn.¹
- The sMDB is considered the food bowl of Australia, diversified across permanent and annual crops and a major contributor to Australia's agricultural industry.



Interstate Water Trading Zones

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			Murray Darling Basin
			River

¹ Aither Pty Ltd, 2019 + estimate of internal NSW Irrigation Company turnover.

Water Entitlements

- Water entitlements are perpetual rights to an annual share of water within a system.
- There are more than 150 different types of entitlements in the basin, with 30-40 entitlements making up the vast majority of volume traded.

Zones

- Water entitlements are defined by zones – which are classified into river systems or ground water sources.

Security

- Throughout a season, the Government distributes allocation against entitlements. The approved allocation is handed down based on entitlement security: firstly to the high security entitlements and then to general security.
- **High security** - receives an allocation in most years, wet or dry.
- **General security** - typically, only receives allocation in medium to wet seasons.
- High security entitlements trade at a higher value to general security entitlements because of their capability to receive an allocation in most years.



A **Growing Demand** for water caused by factors such as:

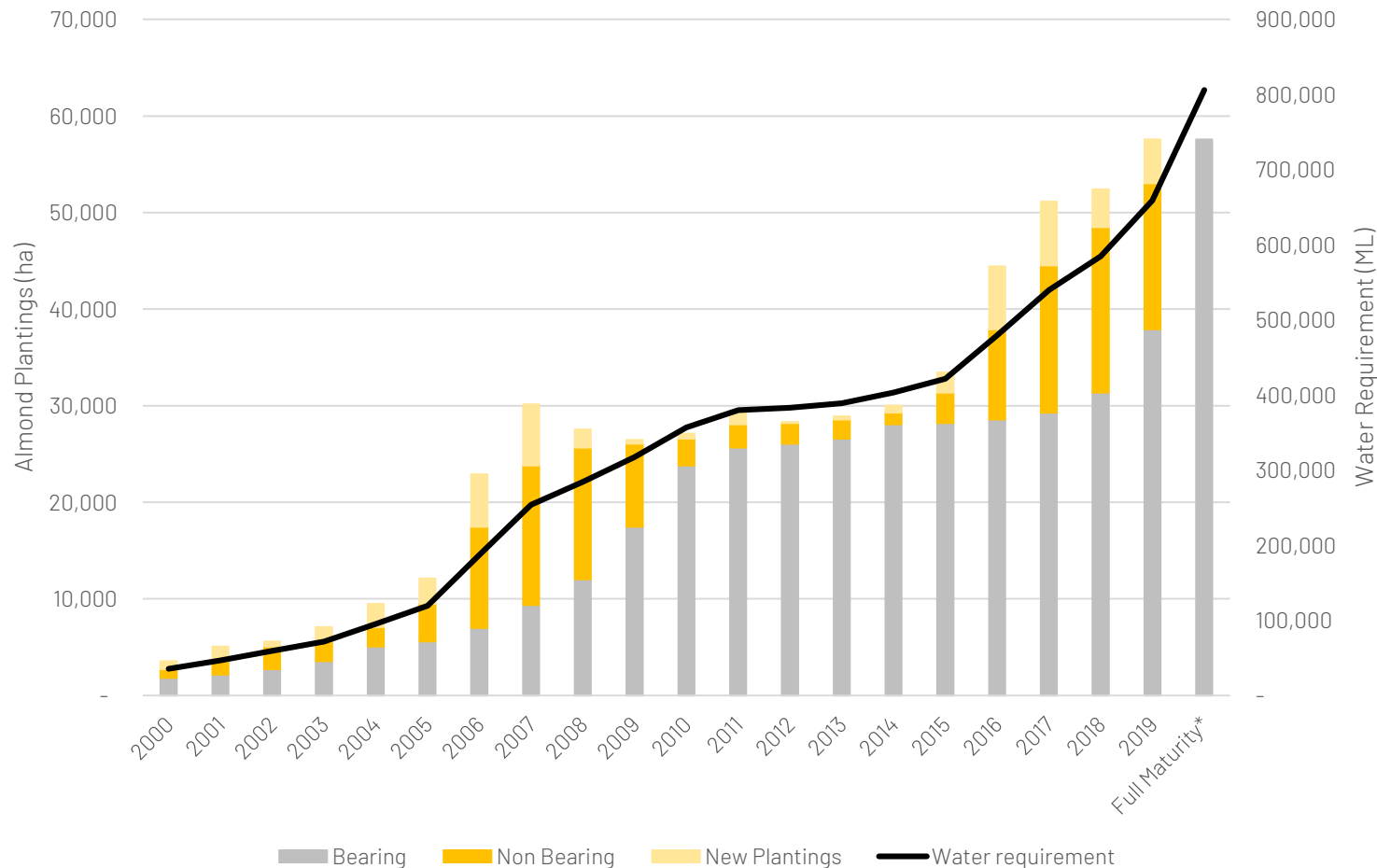
- Demand from farmers and institutional investors pursuing higher value permanent crop strategies that require substantially more water.
- The maturity of the Australian water market has led to the development of more sophisticated water supply products (such as long-term leases), which have delivered farmers with a capital light approach of risk managing this key input to their business.

A **Constrained Supply** of water due to factors such as:

- Water entitlements are a regulated and limited resource (cap and trade system).
- Addressing the imbalance between consumptive and environmental requirement through the implementation of voluntary water buyback & water efficiency programs. Through combined State and Federal holdings approximately 30% of the consumptive pool has been acquired for environmental purpose, 20-22% over the last 10 years.
- Variability of climate and seasonal conditions effect the supply available to the consumptive pool.



ALMOND PLANTING AND WATER DEMAND

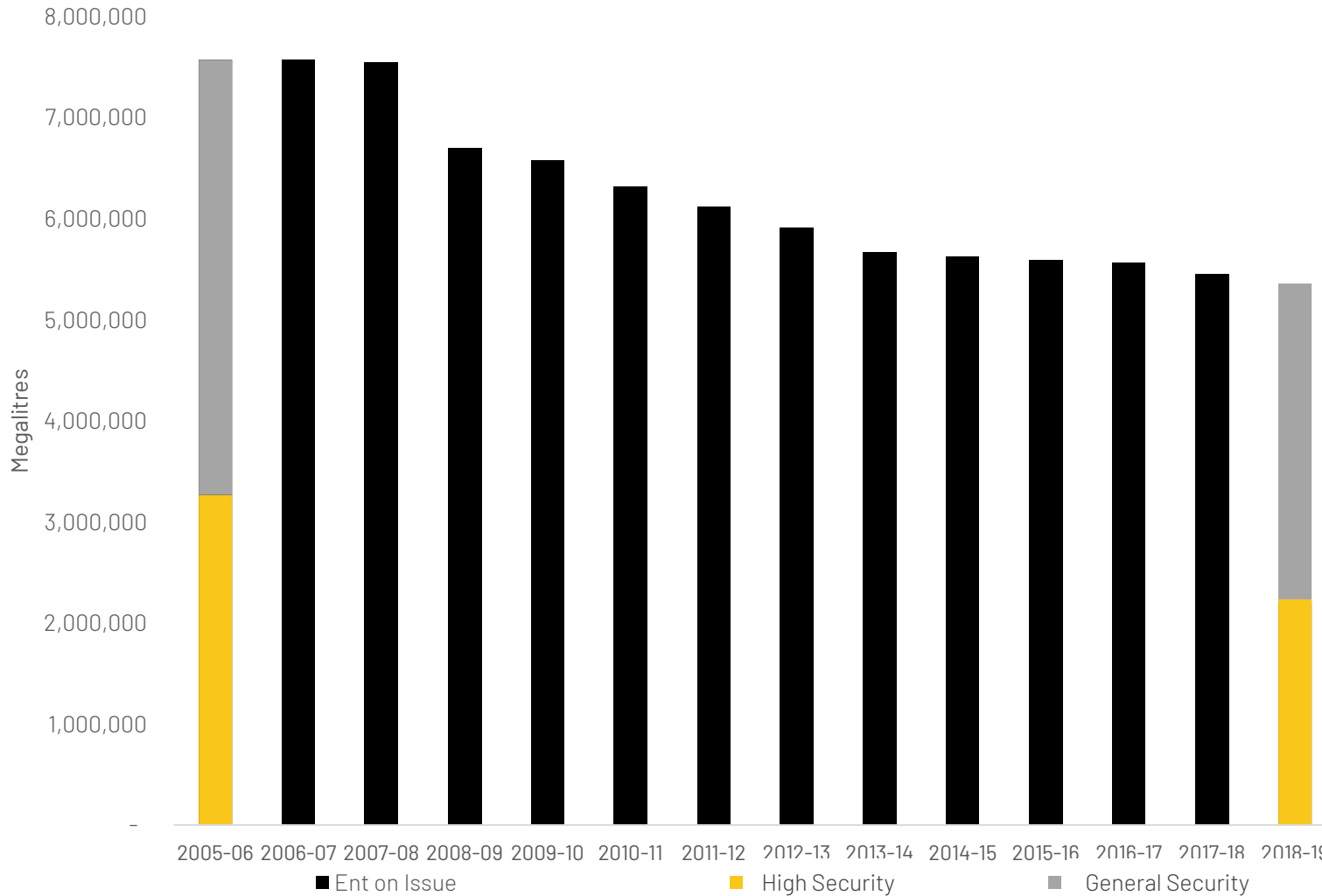


- There are 14.9x more mature almond orchards since 2000, with over 15,000ha planted between 2016 and 2018 alone.
- At planting stage, trees demand 3ML/ha, and build up to 14ML/ha at maturity (6+ years).
- When the trees are at full maturity, this equates to a total industry demand of ~800GL of water to sustain production, assuming no further plantings.
- This represents over a third of High Security entitlements available to Irrigators. This percentage could be significantly higher depending on annual allocation volumes.

*Based on full maturity of Almond Board of Australia expectations

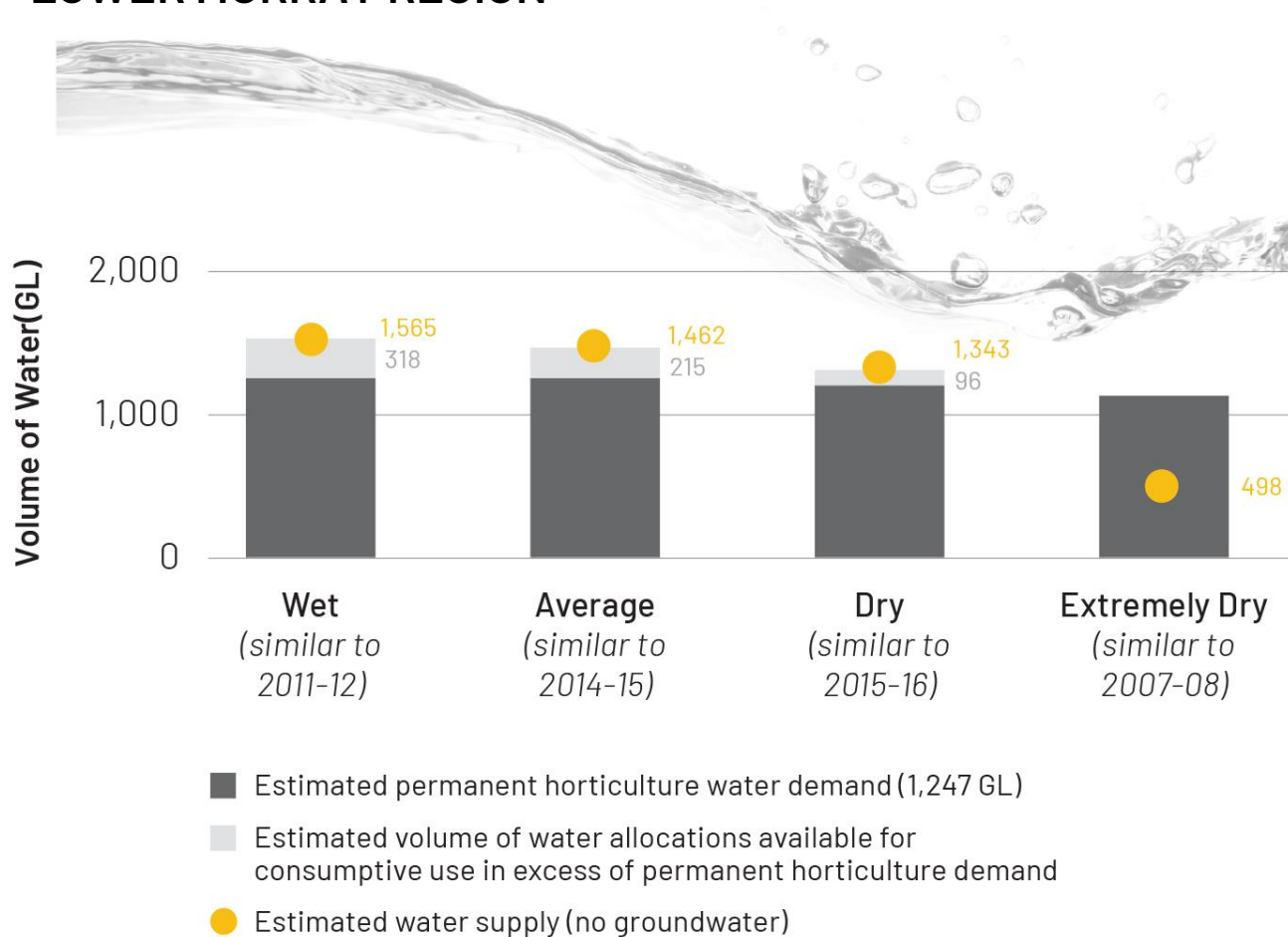
<http://www.theland.com.au/story/5226905/favourable-projections-for-australian-cotton/?cs=4936>
Source: Australian Almonds, Orchard Size Statistics

SMDB ENTITLEMENTS ON ISSUE FOR CONSUMPTIVE USE



- This reduction of consumptive water has been a key driver to the price of allocation.
- This is because there are significantly less high security entitlements available, which are key to long-term water security particularly for permanent plantings.

WATER AVAILABILITY & HORTICULTURE DEMAND IN THE LOWER MURRAY REGION



- It is estimated that existing permanent horticulture in the Lower Murray will demand ~1,250 GL of irrigation water per annum at full maturity.
- In the Lower Murray, during an average to dry year the water demand from existing horticulture may only be 100-250 GL less than the total water volume available for consumptive use.
- The analysis suggests that under an extremely dry scenario, the water supply within the Lower Murray may only meet 40% of existing permanent horticulture water demand (at full maturity).
- Supply shortfall will need to be met through carryover from wetter years and the trade of water from other valleys.
- Upward pressure is placed on allocation prices as demand is increased and supply declines.

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