

Investore Property Limited

Interim Results HY23

Investore Property Limited (Investore) announces its interim results for the six months ended 30 September 2022 (HY23).

Financial Summary (for the six months ended 30 September 2022)

- Net rental income of \$30.2 million, up \$2.2 million from HY22 primarily due to acquisitions and structured rent reviews completed during HY23
- Profit before other expense and income tax of \$17.7 million, up \$2.3 million or 15% from HY22
- Loss after income tax attributable to shareholders of \$(27.7) million, as a result of a net \$(42.7) million decrease in the fair value of its property portfolio over the six months to 30 September 2022. This decrease is due to a softening of capitalisation rates across the portfolio, driven primarily by the higher interest rate environment. This compares to a profit after income tax for HY22 of \$56.9 million
- Distributable profit (Note 1) after current income tax of \$15.4 million, up \$2.1 million or 16% from HY22

Strong Capital Management Position Maintained (as at 30 September 2022)

- Weighted average cost of debt of 3.93%, an increase of +16 bps from 31 March 2022, compared with an increase of approximately 225 bps in floating rates
- Weighted average fixed interest rate maturity (including bonds and interest rate swaps) of 3.8 years
- 91% of borrowings are fixed
- \$250 million (70%) of current fixed rate debt not maturing until 2027
- Loan to value ratio (LVR) (Note 2) of 32.6% and committed LVR of 34.4%, within the Board's long term target gearing range of 30-40%

Portfolio Overview (as at 30 September 2022)

- Portfolio value of \$1.2 billion (Note 3), a net valuation decrease of \$(42.7) million or (3.4)% over the six month period to 30 September 2022
- Average property market capitalisation rate of 5.0%, an increase of +20 bps over the six months to 30 September 2022
- \$28.1 million of acquisitions (Note 4) completed in the six months to 30 September 2022

- 41 rent reviews completed during HY23, resulting in a 4.4% increase on previous rentals
- Net tangible asset (NTA) per share of \$2.21, down \$(0.11) from 31 March 2022 NTA per share of \$2.32

Outlook

- High portfolio concentration of “Everyday Needs” tenants underpins a resilient income stream in varying market conditions
- Proactive capital management remains a key focus in volatile market conditions
- Explore opportunities to recycle selected assets into higher growth investment and value add initiatives
- Share buyback programme remains on pause
- Cash dividend guidance for FY23 of 7.90 cents per share, with the Board continuing to monitor market conditions for the remainder of FY23

Further information can be found in Investore’s consolidated interim financial statements and presentation for HY23 released with this announcement.

Overview

Investore has delivered an increase in operating earnings for HY23, with profit before other expense and income tax of \$17.7 million, up \$2.3 million or 15% from HY22, and distributable profit (Note 1) after current income tax of \$15.4 million, up \$2.1 million or 16% from HY22.

This increase in operating earnings has been driven through rental growth, due to the acquisition of the properties at Countdown Petone and 4 Carr Road during the 12 months ended 31 March 2022, as well as an increase in rental income from 41 rent reviews completed during HY23, resulting in a 4.4% increase on previous rentals. Also supporting the result is a \$1.1 million reduction in corporate expenses in the period, with nil performance fees payable in HY23 (HY22: \$1.7 million).

A decrease in the portfolio value as at 30 September 2022 due to capitalisation rate movement, resulted in a loss after income tax attributable to shareholders of \$(27.7) million for the six month period to 30 September 2022. This decrease is due to a softening of capitalisation rates across the portfolio, driven primarily by the higher interest rate environment.

The Investore Board is very conscious of the risks posed by the current macroeconomic environment, and has taken a prudent position with capital management. As at 30 September 2022, 91% of Investore’s borrowings are fixed, with a weighted average cost of debt of 3.93%, an increase of +16 bps from 31 March 2022, compared with an increase of approximately 225 bps in floating rates. Investore’s weighted average fixed interest rate maturity (including bonds and interest rate swaps) is 3.8 years as at 30 September 2022, with \$250 million (70%) of current fixed rate debt not maturing until 2027. This, together with Investore’s stable portfolio and a prudent LVR (Note 2) of 32.6% (34.4% committed), protects Investore against increases in interest rates over the short to medium term. The LVR is within the Board’s long term target gearing range of 30-40%.

Chair Mike Allen observed “Investore has delivered a resilient operating earnings result for the six months to 30 September 2022, resulting in an increase in profit before other expense and income tax and distributable profit. Investore has been proactive with several capital management initiatives which will benefit Investore over the short to medium term”.

Investore has today declared a dividend for the quarter ended 30 September 2022 of 1.975 cents per share to be paid on 1 December 2022 to all shareholders on the register at the close of business on 24 November 2022 (the record date). This dividend will carry imputation credits of 0.368861 cents per share. A supplementary dividend of 0.167382 cents per share will be paid to non-resident shareholders.

Proactive Capital Management

Proactive capital management continues to be a key pillar of Investore's business. As noted, Investore has taken a prudent approach to capital management, with 91% of borrowings fixed, and a weighted average cost of debt of 3.93% as at 30 September 2022.

During HY23 Investore refinanced \$75 million of bank facilities, extending two facilities for a further two years, to November 2025. Investore has no bank debt expiring until April 2025. As part of this refinancing Investore renegotiated its covenants with the banking syndicate, removing the six year WALT covenant and reducing the LVR covenant from 65% to 52.5%.

Investore also commenced an on-market share buyback programme of up to 5% of its ordinary shares in July 2022. As at 30 September 2022, Investore has acquired and cancelled 632,398 shares for a total cost of \$1.1 million (including transaction costs). The on-market share buyback programme was paused on 8 September 2022 pending the release of Investore's interim results. Acknowledging the current heightened market volatility, the Board has resolved to keep the share buyback programme on pause. The Board will continue to monitor market conditions and may recommence the share buyback programme by notice to the market.

Targeted Growth

Investore continues to focus on targeted growth of its portfolio, completing \$28.1 million of acquisitions in HY23:

- Investore acquired the balance of the freehold land at 3 Averill Street, Papakura, Auckland, for \$18.0 million in August 2022. This acquisition provides Investore with control of the landholding, broadening future development options at the property. Consolidation of the freehold for the property also delivered a net valuation uplift of +\$5.25 million or +15% on the 31 March 2022 valuation for this property.
- In September 2022, Investore settled the acquisition of the land at Waimak Junction, Kaiapoi, for \$10.1 million (reduced from the previously announced price of \$10.5 million). Investore has commenced works for the new Countdown anchored, 5 star Green Star targeted supermarket as part of stage 1 of the development of this site, with stage 1 due to be complete by late 2023. Stage 1 of the development has a yield on cost of 5.5%. The remainder of the site, being 1.6 hectares, provides further growth opportunities for Investore and has been earmarked for a large format retail development as part of stage 2 of the overall development.

Portfolio

Investore's portfolio is valued at \$1.2 billion as at 30 September 2022 (Note 3). The average property market capitalisation rate increased +0.2% over the six months to 30 September 2022 to 5.0%, which contributed to a net devaluation of \$(42.7) million or (3.4)% over the six month period to 30 September 2022.

Investore's portfolio continues to have strong metrics as at 30 September 2022, demonstrating a resilient portfolio:

- 99.5% occupancy rate by area
- Long weighted average lease term (WALT) of 8.5 years
- 74% of Contract Rental (Note 5) expiring in 2030 or beyond
- Anchor tenants deliver 86% of Contract Rental
- A high proportion of tenants that operate in the "Everyday Needs" category, with these tenants delivering 73% of Contract Rental

Investore completed 41 rent reviews in HY23, resulting in a +4.4% increase on previous rentals. 54% of these rent reviews were either fixed or CPI structured reviews.

Governance

Investore continues to support the development of future directors, and is pleased to announce the appointment of Erika McDonald as a future director following the conclusion of Emma McDonald's tenure in June 2022. Erika will attend meetings of the Investore Board, but will not vote or have any rights or obligations of a director.

Sustainability

Investore continues to focus on ensuring its portfolio remains sustainable for the future. Activities are focussed on collecting and monitoring greenhouse gas emissions, which will enable a focus on activities to reduce those emissions, as well as obtaining Green Star ratings for buildings.

In order to enable an understanding of the environmental efficiency of its properties, Investore has commenced a process to obtain Green Star Performance ratings for two portfolios of standalone supermarkets and hardware stores, and is targeting a 5 star Green Star rating for the Countdown store being developed in Kaiapoi.

Investore completed its first Global Real Estate Sustainability Benchmark (GRESB) assessment in 2022 and is targeting 70 points for FY23, with the aim of being in the top quartile of comparator companies over time.

Outlook

Looking ahead, Investore considers that its resilient portfolio, with a high concentration of “Everyday Needs” tenants underpins a resilient income stream in varying market conditions. Investore will also continue to monitor its capital position and take a proactive approach to capital management, given the current volatile market conditions.

Investore will explore opportunities to recycle selected assets into higher growth investments and value add initiatives.

The Investore Board confirms that it is targeting an annual cash dividend of 7.90 cents per share to shareholders for FY23, consistent with Investore’s policy of paying between 90-100% of distributable profit, noting it will continue to monitor market conditions for the remainder of FY23.

Notes:

1. 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 (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)/profit before income tax, is set out in note 3.3 to the consolidated interim financial statements.
2. Loan to Value Ratio (LVR) is calculated based on independent valuations, which include seismic works to be funded by Stride Property Limited (SPL) in relation to 2 Carr Road, Auckland, acquired from SPL and settled on 30 April 2020. The independent valuations also exclude lease liabilities.
3. Portfolio value excludes (1) \$3.0 million of seismic works to be completed by SPL in relation to 2 Carr Road, Auckland, acquired from SPL and settled on 30 April 2020; and (2) lease liabilities.
4. Property acquisitions in HY23 comprise (1) land at Waimak Junction, Kaiapoi, for \$10.1 million; and (2) the lessor’s interest in land at 3 Averill Street, Papakura, Auckland for \$18.0 million.
5. 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 lease, annualised for the 12-month period on the basis of the occupancy level of the relevant property, and assuming no default by the tenant.

Ends

Attachments provided to NZX:

- Investore Property Limited - Interim Results Announcement HY23 – 161122
- Investore Property Limited – Consolidated Interim Financial Statements HY23 - 161122
- Investore Property Limited - Interim Results Presentation HY23 - 161122
- Investore Property Limited - NZX Results Announcement HY23 - 161122
- Investore Property Limited - NZX Distribution Notice FY23 Q2 - 161122

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