



# ALE Property Group

31 December 2017 Half Year Results

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Crows Nest Hotel, Sydney, NSW



# Group Highlights

Half Year to 31 December 2017

## Property Portfolio

**\$1,100.5m**

Statutory property values

**5.14%**

Average capitalisation rate

**10.8 years**

Weighted average lease expiry

**1.7%**

CPI Income growth

**100%**

Occupancy

## Capital Structure

**41.7%**

Net gearing

**4.2 years**

Average debt maturity

**7.9 years**

Hedge maturity

**4.26%**

All up cash interest rate

**Baa2**

Investment grade rating

## Equity Performance

**\$14.6m**

Distributable profit

**10.35 cps**

Distribution

**100%**

Distribution tax deferred

**\$949.5m**

ASX market capitalisation

**18.0% p.a.**

Three year total return

Capitalisation rates, lease terms, interest rates, maturity terms and rental growth rates are all weighted averages.

Specific definitions are on other pages or in the statutory accounts.

Results are for the half year ending or as at 31 December 2017.

In addition to the weighted average lease expiry term, there are four 10 year options for ALH to extend (83 of 86 properties).





# Financial and Property Highlights

Half Year to 31 December 2017



## Profit

- Distributable profit of **\$14.6m**
- Net profit after tax (IFRS) of \$29.7m



## Growing Distributions

- Half year distribution of **10.35 cps**
- Up 2.0% on previous corresponding period (pcp)
- In line with guidance and 100% tax deferred



## Consistent Outperformance

- 2003 IPO investment in ALE of \$1.00 has accumulated value at 31 December 2017 of \$15.62
- Outperformed AREIT 300 Index for all periods including 1, 3, 5, 10 and 14 years since IPO



## Property Revenue of \$28.9m

- Up \$0.5m or 1.7%
- Driven by annual CPI rent increases



## Property Valuations \$1,100.5m

- Valuations increased by 1.9%
- Average capitalisation rate remained at 5.14%
- Discounted cash flow methodology valuations of 33 properties equivalent to a 4.48% cap rate at June 2017
- Pub property market remains strong



## Award

- Ranked second of 43 AREITs in FY17 survey for second year running by **BDO**



## Financial Results

Half Year to 31 December 2017



# Distributable Profit

Half Year to 31 December 2017

Millions	Dec 17	Dec 16	Comments
Revenue from properties	<b>\$28.9</b>	\$28.4	▪ Driven by annual CPI based rent increases
Other revenue	<b>\$0.5</b>	\$0.4	▪ Higher cash balances partly offset by lower interest rates
Borrowing expense <sup>1</sup>	<b>\$11.1</b>	\$10.3	▪ Lower interest rates on increased borrowings
Management expense	<b>\$2.6</b>	\$2.3	▪ Increased costs associated with market rent review preparations
Land tax expense	<b>\$1.2</b>	\$1.1	▪ Land tax for QLD properties only
<b>Distributable Profit <sup>2</sup></b>	<b>\$14.6</b>	\$15.1	▪ Primarily impacted by increased borrowing expenses
Distributable Profit (cps) <sup>3</sup>	<b>7.48c</b>	7.70c	
<b>Distribution (cps)</b>	<b>10.35c</b>	10.15c	▪ In line with guidance. 2.87 cps paid from capital (cash reserves)

1. Borrowing expense changed for two reasons

a. borrowings increased by \$40m

b. average all up interest rate reduced from 4.35% to 4.26% p.a.

2. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit.

3. 195.8 million securities were on issue as at both dates above

4. Rounding differences may arise



# Net Profit (IFRIS) and Distributable Profit

Half Year to 31 December 2017

Millions	Dec 17	Dec 16
Total Revenue	<b>\$29.4</b>	\$28.8
Total Other Income (Including fair value increments)	<b>\$20.4</b>	\$31.3
Total Expenses (Including fair value decrements)	<b>(\$20.0)</b>	(\$14.6)
Income tax expense	<b>(\$0.0)</b>	(\$0.0)
<b>Net Profit after income tax (IFRS)</b> (Primarily impacted by derivatives)	<b>\$29.75</b>	\$45.5
<b>Add back non cash items:</b>		
Fair value (increments) to investment properties	<b>(\$20.4)</b>	(\$13.9)
Fair value (increments) / decrements to derivatives	<b>\$3.8</b>	(\$17.4)
Employee share based payments	<b>\$0.1</b>	\$0.1
Non-cash finance costs	<b>\$1.4</b>	\$0.8
Income tax expense	<b>\$0.0</b>	\$0.0
<b>Distributable Profit</b>	<b>\$14.6</b>	\$15.1

ALE has a policy of paying distributions subject only to an amount not less than the taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE and hence how distributions are determined. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG. Rounding differences may arise in the above table.





## Pub Property Portfolio

High Quality, Well Located and Development Potential

Burvale Hotel, Melbourne, VIC





# Pub Property Portfolio

ALH Continues To Perform Strongly

## ALH: Australia's largest pub operator

- ~ 330 licensed venues
- ~ 550 liquor outlets
- ~ 1,900 short stay rooms
- ALH is 75% owned by Woolworths and 25% by the Bruce Mathieson Group
- Woolworths is Australia's largest liquor retailer
- ALE owns 27% of ALH's operated venues
- ALH itself owns around 45 pub properties



## ALH FY17 Revenue

- \$4,256m
- Up 3.7% on pcp

## ALH FY17 EBITDAR

- \$803m
- Up 13.0% on pcp
- 18.9% of revenue

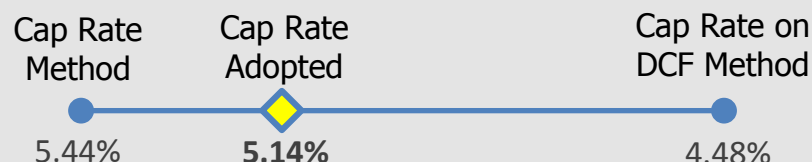




# Pub Property Portfolio

31 December 2017 Valuations

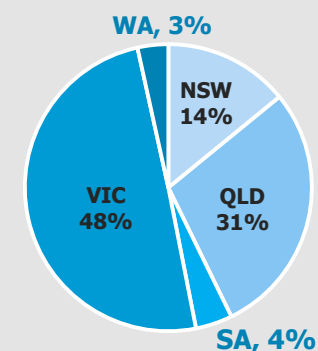
- Valuations increased by **\$20.4m** (or 1.9%) reflecting rent increases during the half year and stable average adopted cap rate of **5.14%**
- June 2017 independent DCF valuations of 33 properties provided higher valuations equivalent to a **4.48%** cap rate
- Valuer's adopted cap rates reflect a blend of cap rate and discounted cash flow (DCF) methodologies



- Property valuations are driven by current rents, cap rates and the difference between current and market rents
- As the market rent reviews get closer, values will increasingly take into account the expected increase in rents

## Portfolio composition as at 31 December 2017

State	Properties	Value (m)	Average Value (m)	WACR*
NSW	10	\$152.4	\$15.2	5.08%
QLD	32	\$346.2	\$10.8	5.02%
SA	7	\$38.0	\$5.4	5.52%
VIC	33	\$532.5	\$16.1	5.16%
WA	4	\$31.5	\$7.9	5.96%
<b>Total</b>	<b>86</b>	<b>\$1,100.5</b>	<b>\$12.8</b>	<b>5.14%</b>



## Geographic Diversity

Geographic percentages represent book values in each State  
\* WACR: Weighted Average Capitalisation Rate



# Pub Property Portfolio

## Layers of Value



### Current Income

- 100% of the properties are leased to ALH, Australia's largest pub operator
- Long term triple net leases (83 of 86 properties)
- Properties have operated in current locations as pubs for more than 60 years on average



### Future Increases In Income

- Rents are expected to increase at capped market rent review in Nov 2018 and more materially at the uncapped review in 2028



### Potential Long Term Value

- ALE's properties have a significant land value component
- More than 90% of the ~1 square kilometre of land owned by ALE is located in Australian capitals and major cities
- ALE and ALH continue to explore development opportunities together for mutual benefit
- Alternate use opportunities exist for a number of the properties in the longer term





## Case Studies – Property Development by ALH

Miami Tavern, Gold Coast, QLD



**Before Development**



**New Dan Murphy's**

- Located at Miami Beach, Miami, Gold Coast
- 13kms from Gold Coast Airport
- Acquired in 2003 for \$4.1m at a cap rate of 8.4%
- **New Dan Murphy's opened December 2017**
- **Refurbishment of the hotel completed December 2017**
- EBITDAR for ALH is expected to benefit significantly, positively underpinning ALE's future market rent
- Valued December 2017 at \$13.4m at a cap rate of 5.14%



# Case Studies – Property Development by ALH

Gepps Cross Hotel, Adelaide, SA



**Developed Hotel**



**New Dan Murphy's**

- Located in the north eastern suburbs of Adelaide
- Acquired for \$2.2m in 2003 at a cap rate of 9.9%
- Hotel substantially reconstructed and reopened in May 2016
- ALH joined forces with Coopers Brewing to create Adelaide's first Coopers Alehouse
- **New Dan Murphy's opened December 2017**
- EBITDAR for ALH is expected to benefit significantly, positively underpinning ALE's future market rent
- Valued December 2017 at \$6.3m at a cap rate of 4.76%
- Awarded Best Redeveloped Metropolitan Hotel for 2017 in South Australia by AHA

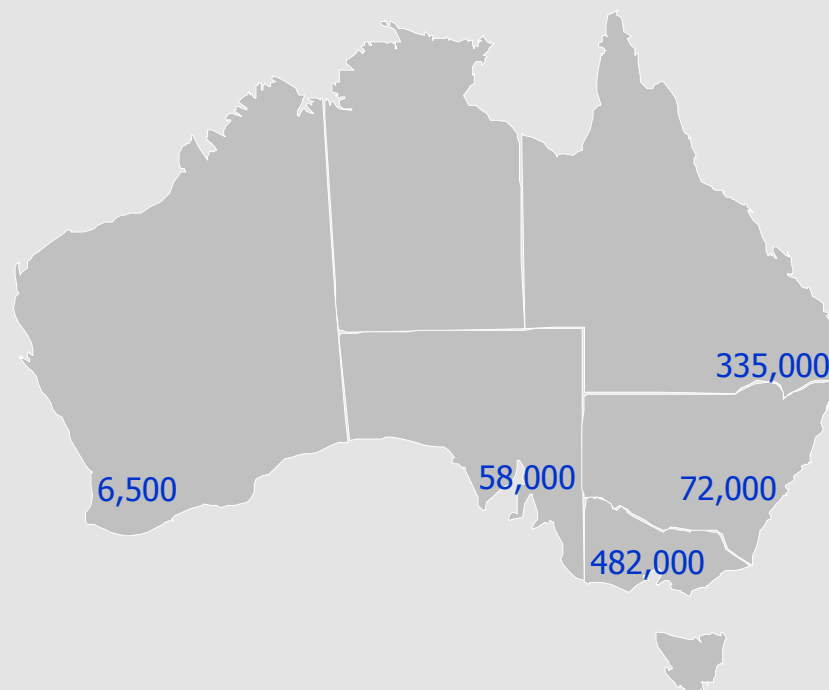


# Property Portfolio Characteristics

## Significant land holdings

- 90%+ of land located in Australian capitals and major cities
- \$1.1 billion of book value at 31 December 2017 based on current rental income
- 86 properties occupy a land area of 950,000 square metres
- Average property size of 11,100 square metres
- Average book value of \$1,150 per square metre of land
- Book values also include value of building improvements and long term / high quality leases
- Average 25% of each property is occupied by pub and retail liquor buildings (balance is car parking and vacant land)
- Opportunities to continue to develop and expand existing hotels
  - complementary higher and better use strategies including vacant land and existing buildings
  - considered jointly by ALE and ALH

Total Land Holdings By State (square metres)



As at 31 December 2017. All areas are estimates and rounded approximations only





# Capital Management



# Capital Management

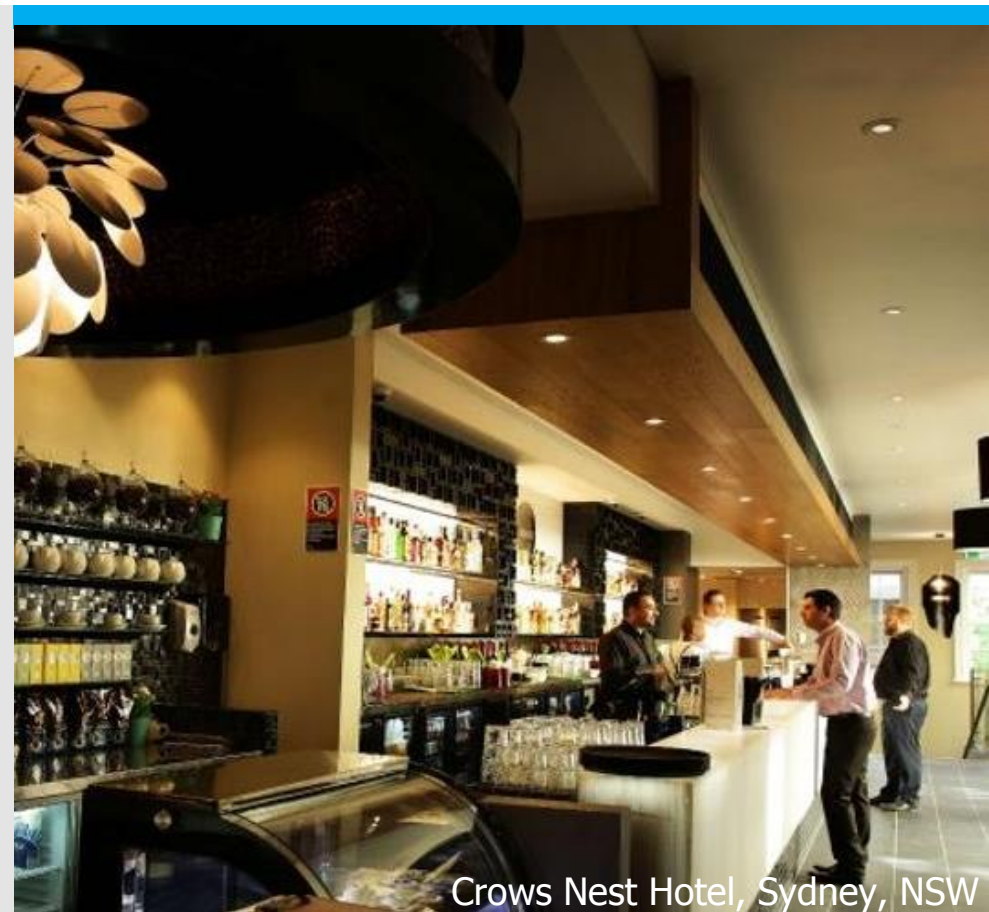
## A Sound Debt Capital Structure

### Capital management priorities

- Managing refinancing and interest rate risk
- Growing securityholders' distributions

### Capital structure with positive features

- Simplified debt capital structure
- Investment grade credit rating of Baa2 (stable)
- Debt maturities diversified across next 5.9 years
- Next debt maturity in August 2020
- Base interest rates fully hedged for next 7.9 years
- All up fixed cash interest rate of 4.26% p.a.
- Gearing at 41.7% (42.7% at June 2017)
- Interest cover at 2.6 times

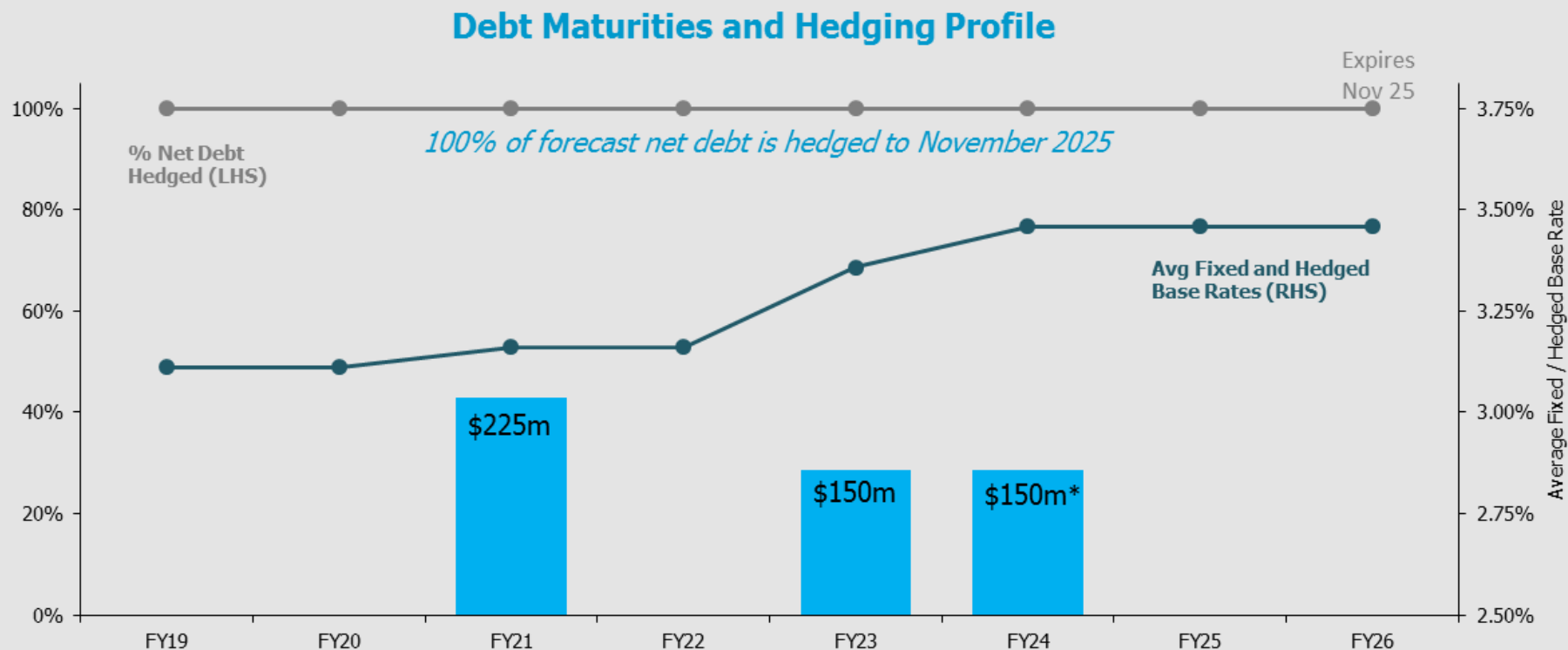


Crows Nest Hotel, Sydney, NSW



# Capital Management

## Diversified Debt Maturities And Long Term Hedging



\* balance escalates with CPI



Note: Base interest rates exclude credit margins





# Capital Management

## Substantial Covenant Headroom

- Substantial headroom to all debt covenants continues
- Covenant gearing of 41.7% (FY16 44.7%)
- Headroom to AMTN gearing covenant of 60% equates to:
  - 31% (approx.) reduction in property values
  - Expansion in average cap rate from current 5.14% to 7.50%
  - ALE's average capitalisation rates have not exceeded 6.57% since 2006
- AMTN gearing covenant of 60% relates to distribution stopper and covenant of 65% relates to default
- Interest cover ratio at 2.6 times compares favourably to AMTN covenant at 1.5 times
  - 100% of ALE's forecast net debt is hedged for a term of 7.9 years
  - Next debt maturity in August 2020 of \$225m



## Outlook



# Outlook – Market Rent

Certainty of Earnings With Long Term Upside



## Current vs Market Rent

- Current total rent received is materially less than ALE's current view of market rent (the difference)
- Extent of the difference is not spread evenly across the portfolio
- Difference is a result of factors including:
  - continual operational improvements of many pubs by ALH
  - capital expenditure undertaken by ALH to redevelop hotels and add Dan Murphy's bottle shops and reactivate accommodation (at least 30,000 sqm over the past 14 years)
  - improved gaming regulatory framework, especially in Victoria



## November 2018 Market Rent

- Each hotel's earnings outlook, past earnings results and applicable market rent parameters will be important to the outcomes
- On current EBITDAR results, ALE is on strong grounds for a positive outcome
- Given the uneven spread of the difference across the portfolio, we do not expect that all 76 individual hotels will receive the full 10% rental uplift



## 2028 Market Rent

- Open market rent review where the full extent of the material difference will be captured in each of the individual properties' rents



# Outlook – Market Rent

## Market Rent Reviews and Lease Renewals

Hotel	Next Rent Review Date	Rent* (\$m)	Next Renewal Date	Renewal Term (Years)	Lease Type, Review and Renewal Details **
Balmoral, WA	Feb 2018	0.48	Feb 2023	5	2018 renewal agreed by ALH. CPI increase to apply
Berwick, VIC	Jun 2018	1.20	Jun 2028	10	Standard lease
Camp Hill, QLD	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
Gepps Cross, SA	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
<b>74 Hotels</b>	Nov 2018	49.96	Nov 2028	10	74 Standard leases
Pelican Waters, QLD	Dec 2018	0.50	Dec 2028	10	Standard lease
Four Mile Creek, QLD	Jun 2019	0.46	Jun 2029	10	Standard lease. Minimum ratchet and maximum 10%
Noosa Reef, QLD	Jun 2019	0.70	Jun 2029	10	Standard lease
Brass Monkey, WA	Jun 2020	0.58	Jun 2020	5	Review with minimum ratchet and maximum open
Pritchard's, NSW	Sep 2020	1.73	Sep 2020	10	Increase at fixed 3%
Burleigh Heads, QLD	Nov 2023	0.78	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.80	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.63	Nov 2028	10	Standard lease. Nov 2018 increase of 10% occurred June 2017
<b>Total Rent</b>		<b>58.42</b>			

\* December 2017 rent amounts before deducting land tax for QLD properties. \*\* Standard leases review to market between Jun 2018 and Jun 2024 and may increase or decrease by 10% from preceding year's rent. The first of four 10 year options for ALH to renew are between 2028 and 2034. Three non-standard leases relate to Balmoral, Brass Monkey and Pritchard's.





# ALE's Value Proposition



- High quality pub property portfolio
- Triple net leases to ALH, Australia's largest pub operator
- Long leases over strategically important property with terms averaging 10.8 years plus options
- Current property rents are substantially below market levels
- Potential opportunities from increased utilisation of land and further development of properties
- Investment grade and low risk capital structure
- FY18 distribution yield of at least 4.3%<sup>1</sup>
- Aim to increase annual distributions by at least CPI
- FY18 distribution expected to be 100% tax deferred. FY19 is expected to be partly tax deferred
- Potential for enhanced distributions and/or capital management initiatives following 2018 rent review

1. Based upon a security price of \$4.85 as at 31 December 2017 and FY18 distribution guidance of at least 20.40 cps plus CPI

## Disclaimer

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