NZX Release

16 June 2020

Financial result for the year ended 31 March 2020

Asset Plus Limited (NZX: **APL**) announces its financial results for the year ended 31 March 2020, reporting a net loss after tax of $14.69 million, down from a $3.80 million profit in the previous year. The material loss was driven by an unrealised loss as a result of revaluations of investment property caused by COVID-19 impacts.

Adjusted funds from operations (AFFO)[1] of $4.74 million is in line with the previous financial year. Higher net rental income received during the financial year was offset by increased due diligence costs.

APL Chairman, Bruce Cotterill said "Over the past 12 months we have set out to progress our transformation to a value-add strategy, continuing to reposition the existing portfolio to facilitate that change, and successfully completing two new acquisitions in line with that mandate."

Other key points from the year are:

- No dividend is to be paid for the fourth quarter due to the impact of COVID-19
- Unrealised loss on the fair value of investment property of $19.1m or 11.9%
- Portfolio occupancy is 98.3% which is increased from 96.7%
- The WALT is 3.16 years which has decreased from 5.5 years at 31 March 2019 due to the sale of the Heinz Watties property and purchase of 35 Graham Street
- Loan to value ratio is 34.3% (8.5% as at 31 March 2019)
- Net tangible assets (NTA) of 56.7 cents per share (cps) are reduced from 69.4 cps due to an unrealised loss on revaluation of investment property
- Purchase of 35 Graham Street for $58.0 million in late June 2019
- Purchase of land in Albany (in December 2019) and signing of a conditional agreement to develop and lease with Auckland Council for a 15-year lease term
- Sale of Heinz Watties property in Hastings for $29.1 million in December 2019

COVID-19 impact

The investment property portfolio has materially reduced in value by $19.1m. Rental abatements and relief applied to the April – June 2020 quarter are expected to impact operating earnings by $0.59 million ($0.42 million on an after tax basis), equivalent to approximately 6% of the current annualised gross rental income. This lost revenue will be partially offset by the reintroduction of building depreciation. The full impact of COVID-19 will not be known for some time. While upfront rental abatement and relief has been granted, preservation of longer term value is also a key strategy, and this includes ensuring the continuing operations of all retail tenants.

[1] *Adjusted funds from operations (AFFO) is non-GAAP financial information and is a common investor metric, calculated based on guidance issued by the Property Council of Australia. Asset Plus considers that AFFO is a useful measure for shareholders and management because it assists in assessing the Company's underlying operating performance. This non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities. A reconciliation of the net profit after tax to AFFO is included in the accompanying results presentation. The independent auditors have confirmed that the AFFO calculations have been fairly extracted from the audited Group financial statements for the year ended 31 March 2020.*

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Portfolio activity

Mark Francis, Managing Director of Augusta said "The successful acquisition of 35 Graham Street in June 2019 was the first step towards implementation of our approach to yield plus growth assets, with the purchase immediately enhancing the company's earnings, providing growth opportunities through redevelopment in the medium term, and increasing the portfolio weighting to the Auckland market."

"Following on from the acquisition of Graham Street, APL acquired bare land in the Albany basin in December 2019, for the purposes of constructing a 15,100m^2 office building, with Auckland Council as an anchor tenant. We are pleased to be working with Auckland Council, who have committed to a 15 year lease term for more than 63% of the space subject to satisfaction of a funding and shareholder approval condition in favour of APL[2]."

During the year APL actively pursued two material potential acquisitions which were operating businesses, with property backed assets. Given the scale and associated complexity of these assets, significant due diligence was undertaken which came at both material cost, and considerable time invested by the Manager and Board. Unfortunately, these transactions have not eventuated leading to $1.0 million of due diligence costs being incurred.

Munroe Lane update

On the back of the conditional agreement with Council, APL launched a fully underwritten $100 million equity raise in March 2020. Unfortunately, as a result of the market volatility associated with COVID-19 the Board elected to withdraw the offer and defer the capital raise until market conditions stabilise. As a result of this deferral, APL has secured an extension to the funding condition until the end of July 2020, with a further right (at both parties' discretion) to extend until the end of October 2020. Asset Plus is currently in discussions with Auckland Council to extend the funding condition through to October, however agreement has yet to be reached. In the meantime, the design for the development continues and the resource consent has now been granted. Current debt capability means that APL can continue to facilitate the progression of design and consenting for the development in accordance with the agreed milestone schedule during the conditional period. The Asset Plus Board continues to review funding options for the Munroe Lane development.

Portfolio update

Six lease renewals were completed at Stoddard Road, covering 17% of the rental income. As a result, the WALE for the property increased to 4.12 years (from 4.02 a year ago), however, the valuation decreased to $37.5 million (from $39.5 million a year ago). While passing income has marginally increased, the valuer has assessed a reduction in the market rental level and softened the capitalisation rate.

Several lease renewals were completed at Eastgate. However, many of these are on a monthly rollover to provide flexibility for a future redevelopment. The new Bargain Chemist tenancy is a complimentary addition to the Centre. As a result, the WALT was 4.53 years (down from 5.07 years) and the valuation decreased from $54.5 million to $46.9 million.

The Auckland Council lease at 35 Graham Street runs for a further 12 months to the end of June 2021. 35 Graham Street was acquired for $58.0 million in June 2019 and has been revalued to $50.1 million

[2] The funding and shareholder approval condition is due for satisfaction by 31 July 2020. However, the agreement with Auckland Council provides an ability for the parties to agree to further extend it to 30 October 2020 (with such agreement at each party's absolute discretion).

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as at 31 March 2020.

Financial result

The net loss after tax for the year ended 31 March 2020 is $14.69 million ($3.80 million profit in the prior year). The material net loss was driven by the unrealised revaluation loss on investment property caused by COVID-19. AFFO for the year was $4.74 million ($4.74 million in the prior year).

Net revenues from the property portfolio increased by $1.32 million due to the purchase of 35 Graham Street partly offset against the sale of the Heinz Watties property. There was, however, no material rental growth in respect to the like for like portfolio. The income increase was offset against an increase in funding costs of $0.6 million as debt was drawn to fund the 35 Graham Street acquisition. Debt was repaid when the Heinz Watties property was sold in December 2019.

The result also reflects $1.0 million of due diligence costs as well as $0.8 million of costs associated with the withdrawn capital raise.

A loss on revaluation of investment property of $19.1 million was recorded, driven primarily due to the impacts of COVID-19.

Balance Sheet

Debt is currently drawn to $49.25 million which represents a LVR of 34.3% (8.5% in the prior year).

The NTA is now 56.7 cents per share (down from 69.4 cps in the prior year) driven by the unrealised revaluation loss on investment property.

Independent valuers have identified a level of material valuation uncertainty. Each valuer has highlighted that less certainty and a higher degree of caution should be attached to the valuations, and that values could change quickly and significantly due to subsequent events.

Dividend

A final quarter dividend will not be paid as a result of the impact of COVID-19 and the uncertainty in the current environment. Total cash dividends paid for the year are therefore 2.70 cents per share. The dividend remains subject to quarterly review but is expected to be reinstated once there is more certainty on future trading conditions.

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Outlook

The impact of COVID-19 further reinforces the adopted approach towards a diversified, value-add strategy that ultimately will increase the portfolio size.

The manager continues to focus on working with retail tenants to navigate these uncertain times and preserve value in the longer term.

While the capital raise was withdrawn, the management team is focused on securing the Munroe Lane development with the Auckland Council and works remain on timetable. A decision on the development of Graham Street has yet to be made by the Asset Plus Board. Consideration is being given to the scale of the proposed development given vacancy rates, market sentiment, tenant pre-commitment, and the significant capital requirements for the preferred development option. The property provides options for reduced scale redevelopment which may become the preferred option given current market conditions, and ability to secure leasing pre-commitments.

-ENDS-

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