CROMWELL DELIVERS ROBUST $144.9 MILLION OPERATING PROFIT

FY15 HIGHLIGHTS

- Profit from operations of $144.9 million ($146.7 million in FY14)
- Operating earnings per security of 8.35 cps, distributions per security up 3% at 7.86 cps
- Statutory Profit of $148.8 million down from $182.5 million in FY14
- Net capital profit on cost of $61 million on sale of assets in FY15 and post balance date
- Acquisition of Valad Europe ($5.9 billion AUM plus an additional $1.8 billion in investment capacity), a pan European wholesale funds management platform
- Total external AUM of $7.5 billion up from $1.3 billion FY14
- Group gearing of 45% with $99 million of disposals post June 30 2015 lowering to 42%
- Portfolio gearing of 36% with disposals post 30 June lowering rate to 32%
- Cash balance of $233 million post balance date asset sales
- FY15 debt interest expense down $11 million from $70m in FY14 to $59m
- FY16 operating earnings per security expected to be at least 9.00 cps, with distributions per security forecast to again grow by at least 3% to 8.10 cps

Global Real Estate Investment Manager Cromwell Property Group (ASX: CMW) today reported profit from operations of $144.9 million for the year to 30 June 2015.

The profit from operations equated to 8.35 cents per security (cps). Distributions per security (dps) increased by 3% to 7.86 cps, from 7.6 cps in FY14. This was in line with Cromwell's previous market guidance.

Cromwell CEO Paul Weightman said the performance in FY15 was robust and reflected a clear focus on actively managing the core property portfolio and growing the funds management business.

"We believe some of the current sales activity represents peak of the cycle pricing for prime office assets, notably in Sydney and Melbourne. As stewards of our investors capital, we will only invest where we believe we can deliver superior risk-adjusted returns through the cycle."

Consistent with these views Cromwell was a net seller of assets in FY15, with 321 Exhibition Street in Melbourne settling in July last year for $206.9 million, and 43 Bridge Street Hurstville contracted to sell for $37 million, with settlement post financial year end.

Subsequent to the financial year end Bligh House in Sydney ($68 million) has been sold and Terrace Office Park in Brisbane ($31 million) is subject to an unconditional contract of sale.

"We have also been working our other portfolio assets hard and believe our strategy of active management will enable us to continue to deliver secure, stable and growing returns for investors," he said.

During the year portfolio valuations increased by $25.4 million or 1.1% with increases in long leased properties being partially offset by decreases in some properties with vacancies or shorter lease profiles which form part of the active asset allocation in the portfolio.

PORTFOLIO UPDATE

Net property earnings from the Group's property portfolio, on a like for like basis, increased 2.2% to $141.6 million with the increased rental income from a year's contribution from The Henry Waymouth Centre being offset by the expiry of the Medibank lease at 700 Collins Street.

Cromwell continues to execute its active management strategy as exemplified by 100 Waymouth Street in Adelaide. The building was completely refurbished in 2013/2014 and is now fully leased, adding to operating earnings and also delivering a valuation uplift of 26% from $47.5 million to $60.1 million.

Terrace Office Park is contracted to sell for $31 million which represents a 41% premium to its previous valuation of $22 million. This premium again reflects Cromwell's ability to add value to its portfolio, in this instance through securing a Development Approval for 521 apartments.

Mr Weightman said the Group would continue to actively manage its portfolio, reposition and upgrade core assets while also taking advantage of investor demand to recycle capital into opportunities that offer higher returns.

"We will continue to recycle capital into opportunities that we believe will provide a higher rate of return. This includes the redevelopment of Northpoint Tower in North Sydney and the new Department of Social Services national headquarters building at Tuggeranong Office Park in ACT. We also purchased Borrowdale House which adjoins Lovett Tower in Canberra to enhance the future potential of that asset".

As at 30 June 2015, the Group's property portfolio had a Weighted Average Lease Expiry (WALE) of 5.7 years and a vacancy rate of 5.4% by gross income compared to the national CBD office average of 12.2% (JLL Research). Government (and government owned and funded entities) contribute 45% of gross income.

Cromwell continues to focus on proactively managing its lease expiries and has signed a number of Heads of Agreements post year end. When converted into formal leases they will further extend WALE and reduce future expiries.

"Our internal management model is a major reason we are able to maintain portfolio quality and strong future cash flows notwithstanding soft market conditions", Mr Weightman said.

Cromwell expects market conditions to remain soft for the next 12 to 18 months but with growth in like for like property income in FY16 improving on the back of biannual reviews in a number of larger assets.

FUNDS MANAGEMENT - WHOLESALE

Wholesale funds management earnings increased to $2.6 million as a result of increased activity from Cromwell's Australian wholesale fund, Cromwell Partners Trust and a part year contribution from Valad Europe.

The acquisition of Valad Europe contributes to Cromwell's stated strategic objective of generating 20% of Group earnings from funds management. Valad Europe has provided Cromwell with ownership of an established, well respected European funds management business that has a broad range of international institutional, banking, assurance, sovereign wealth and pension fund customers.

“Valad Europe is a strong cultural and strategic fit with Cromwell. It also has a clear strategy, good track record and a high level of recurring fee income. We were also able to acquire the business on an attractive multiple,“ said Mr Weightman.

“More importantly the acquisition provides us with local real estate capability in 15 countries and access to a broad range of international capital providers. Capital flows are increasingly global and we want to provide investors with a platform that can meet their objectives. We will focus on growing our funds, and footprint, over time,” he added.

Valad Europe has 27 funds covering 400+ properties and 3,700 tenants over 4.2 million sqm.

FUNDS MANAGEMENT - RETAIL

Retail funds management earnings were $1.4 million, down from $3.5 million in FY14, mainly due to lower transactional fees. The lower fees reflect Cromwell’s caution with regards to asset acquisitions on behalf of investors at this late stage of the property cycle.

AUM from the Group’s unlisted direct products and interests in Phoenix Portfolios (45% interest) and New Zealand’s Oyster Property Group (50% interest) still showed solid growth increasing by $0.3 billion to $1.5 billion.

During the year Cromwell also confirmed its position as one of Australia’s leading fund managers, scooping two awards at the 2014 Professional Planner/Zenith Fund Awards. Cromwell picked up the A-REIT award for the second consecutive year and the Direct Property award for the first time.

Mr Weightman said it was an honour for the funds management team to be recognised by industry peers.

“The Professional Planner/Zenith Fund Awards set a benchmark for excellence in our industry and it was fantastic to receive two awards this year,” he said.

The Cromwell Phoenix Opportunities Fund was launched in December 2014 and the Cromwell Phoenix Core Listed Property Fund was launched in March 2015 following the closure of the highly successful Cromwell Phoenix Property Securities Fund to new investors.

In New Zealand, the Oyster Property Group performed well. Three syndicates, the New Zealand Racing Board head office in Wellington, Cardinal Logistics Distribution Centre and Albany office building in Auckland, all closed oversubscribed. AUM grew by 18% from NZ$618 million to over NZ$733 million in FY15 reflecting the strong local demand for Euro denominated investment product.

CAPITAL MANAGEMENT

Cromwell continues to adopt a conservative approach to capital management. Group gearing as at 30 June 2015 was 45% up from 42% as at 30 June 2014 largely as a result of the issue of convertible bonds to fund the acquisition of Valad Europe. Asset sales post 30 June 2015 have reduced gearing to 42%, towards the lower end of Cromwell’s target range.

Mr Weightman said maintaining appropriate gearing was an important focus.

“It would be easy to chase assets in the current market. We believe investment discipline, debt management and building good cash reserves are essential and give us the capacity and flexibility to adapt quickly to changes in market conditions.”

The Group also continued its hedging program during the year and has hedged future interest rates through an interest rate cap to May 2019. The average interest rate paid fell during FY15 resulting in a debt interest expense reduction of $11m. This trend is likely to continue as existing out of the money interest rate hedges roll off.

“Cromwell’s debt platform and hedging program continue to provide management with a high level of comfort on the quantum and cost of Cromwell’s debt over the short and medium term,” said Mr Weightman.

OUTLOOK

Cromwell’s strategic objective to consistently grow distributions by 3% per annum remains unchanged. This is based on the expectation that the Group’s property portfolio will continue to deliver consistent earnings into the future due to its underlying tenant quality and lease profile.

The Group expects FY16 earnings to be not less than 9.00 cps (8.35 cps FY15) and distributions to be not less than 8.10 cps (7.86 cps FY15). This represents an earnings per security and distributions per security yield of 8.65% and 7.79% respectively based on closing price of $1.04 on 26 August 2015.

Earnings guidance is based on conservative assumptions on the level of transactional revenue including promotes and performance fees in our funds management business and on the returns from our cash reserves which are assumed to remain on deposit for the full financial year.

“We will not be rushed into making acquisitions that do not measure up on a through-the-cycle basis. Though offshore capital continues to flow into Australia and push up prices, the property cycle is not dead”, he added.

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About Cromwell Property Group

Cromwell Property Group (ASX:CMW) is a Global Real Estate Investment Manager. The Group is included in the S&P/ASX 200. As at 30 June 2015 Cromwell had a market capitalisation in excess of $1.8 billion, a direct property investment portfolio in Australia valued at $2.1 billion, and total assets under management and investment capacity of $11.9 billion across Australia, New Zealand and Europe.