360 Capital Group

ASX Release

24 August 2016

360 Capital Group (TGP)
FY16 Results
Fund Manager and Co-investment Strategy Provides Third Year of Record Operating Profit
Both Funds Management and Investment Revenue up over 40% on the PCP

360 Capital Group (ASX code: TGP) (Group or 360 Capital) is pleased to announce its financial results for the year ending 30 June 2016.

The Group has completed the transition to a pure fund manager and co-investor with the settlement of the Group's remaining direct asset during the year.

The Group's investment philosophy is now concentrated on two key business areas:

- Funds management
- Co-investment in its managed funds

The Group continues to focus on the growth of its listed business; however it will continue to be disciplined and selective when considering asset acquisitions in light of the current market conditions. Its funds are positioned well for growth with high quality assets that have generated strong capital returns to date and are forecast to deliver continued reliable income returns.

The Group has highly transparent and recurring earnings and does not need to forecast funds under management (FUM) growth in order to meet earnings targets. The acquisition of appropriate assets by its funds will drive earnings beyond current forecasts, whilst ongoing recycling of non-core capital will provide capacity to grow co-investment income and sponsor fund growth.

Group FY16 key achievements

- 95% of operating revenue from recurring sources (management fees and co-investment income)
- Repaid all bank debt at Group level with $47.0 million in proceeds from direct asset disposal
- 15.0% total return on $224.4 million of co-investments driven by redeployment of $15.5 million into 360 Capital Industrial Fund (TIX), $1.6 million into 360 Capital Havelock House Property Trust, $3.9 million into 360 Capital Total Return Fund (TOT)
- Increased FUM by 22.6% to $1.48 billion following TIX's acquisition of the $331.3 million Australian Industrial AREIT (ANI)
- Generated efficiencies from reduced operating costs following business simplification
- Deployed excess cash to buyback 9.1 million (3.7%) of TGP securities
- Lengthened terms on unlisted trusts & agreed terms to sell Subiaco Square Shopping Centre (Group owns 39.8% of 360 Capital Subiaco Square Shopping Centre Property Trust)
- Progressed discussions on potential JV/partnering opportunities with institutions and overseas capital partners

Group FY16 key financial results

- Statutory net profit of $24.1 million in line with the previous year
- Operating profit of $16.0 million up 9.1% on $14.6 million pcp
- Statutory Earnings per Security (EPS) of 10.6cps in line with 2015
- Operating EPS of 7.0cps up 9.4% on 6.4cps pcp
- Distributions per Security (DPS) of 6.25cps up 8.7% on 5.75cps pcp
- Net asset value (NAV) per Security of 74.8cps up 5.9% on 70.6cps pcp

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1. Funds Management:

- FUM increased by $272.2 million (22.6%) to $1.48 billion
- Total FY16 funds management fees were $10.2 million, up 41.8% on pcp

FY16 recurring funds management revenue of $8.7 million was up 38.7% on pcp. This was supplemented with a further $1.5 million in acquisition, exit, underwriting, performance and other fees taking total funds management fees to $10.2 million compared to $7.2 million in FY15.

Total FUM increased to $1.48 billion mainly as a result of TIX's acquisition of ANI as well as recent revaluations of the majority of platform assets. This growth was partly offset by non-core disposals in TOF and TIX as part of those funds' asset recycling strategies

The Group forecasts FY17 recurring funds management fees of $9.3 million and a further $2.0 million in other funds management revenue including exit fees, performance fees and recognition of the balance of the underwriting and acquisition fees associated with the 360 Capital Retail Fund No.1. Total FY17 forecast funds management fees of $11.3 million represent an increase of 11.5% on the pcp and assumes no growth in FUM.

Listed Funds

FUM in 360 Capital's listed Fund platform grew 30.1% over the year to $1.18 billion driven by TIX's acquisition of ANI in December 2015 which increased TIX's FUM to $923.3 million.

The Group paid $8.9 million to ANI investors as part of the cash component of the takeover which, along with the $5.0 million previously accrued for the existing funds management platform, has been classified as an intangible in the Group's balance sheet.

360 Capital Office Fund (TOF) sold 33 Allara Street in Canberra reducing its FUM by 8.4% to $211.0 million as part of its non-core asset disposal and recycling strategy. With gearing of 17.8%, TOF is well positioned to grow its FUM in FY17.

TOT reduced its FUM from $50.7 million to $41.3 million over the period as a result of the sale of its direct assets with cash deployed into one strategic investment and two security buybacks.

The Group remains focused on growing its listed funds in a responsible manner. However, it is prepared to stand still in market conditions that are not conducive to earnings accretive FUM growth.

Recurring listed funds management revenue over the 12 months to 30 June 2016 was $7.1 million up 47.7% on the pcp. For FY17, the Group forecasts recurring revenue from the listed business of $7.6 million assuming no growth in FUM.

Unlisted Funds

360 Capital currently has five unlisted trusts totalling $301.1 million in FUM. The Group has continued its strategy of rationalising its unlisted trusts with the closure of its property securities business in May 2016 as it did not reach sufficient scale to warrant the operating costs of the business. The Group has agreed terms to dispose of Subiaco Square Shopping Centre to take advantage of the current position of the centre following approval from trust unitholders. The Group owns 39.8% of the Trust and expects to make a significificate profit on its investment.

The Group is focused on continuing to sell down its underwriting units in Retail Fund No.1 and will issue a fresh product disclosure statement (PDS) in September 2016. A successful sell down of the outstanding $28.5 million will enable the Group to recognise the remaining underwriting and acquisition fees in FY17 associated with the fund.

Post period, 360 Capital 111 St Georges Terrace Property Trust issued a PDS to raise a maximum of $9.8 million to reduce gearing and fund incentives following the successful leasing of over 5,000 square metres at 111 St Georges Terrace during the year. The Group currently has a 44.4% stake in this trust and will not participate in the capital raising in line with its strategy of reducing its exposure to its unlisted trusts.

During the year, unitholders in the 360 Capital 441 Murray Street Property Trust and 360 Capital Havelock House Property Trust each extended the terms of their trusts by a further three years. The Group also increased its holding in Havelock House Property Trust to 39.3% to take advantage of potential capital appreciation in this healthcare facility.

Recurring unlisted funds management revenue over the 12 months to 30 June 2016 was $1.6 million, up 8.5% on the pcp. For FY17, the Group forecasts recurring revenue from the unlisted business of $1.7 million (broadly in line with FY16) before underwriting and acquisition fee revenue of $2.0 million from the sell down of Retail Fund No.1.

Institutional capital partnership strategy

Over the period, the Group continued discussions with institutional capital partner investors looking to increase their exposure to Australian real estate with a likeminded manager. With a lower cost of capital than domestic investors, these overseas institutional investors are expected to increase their presence in Australia and the Group views these partners as a growth part of the business. The Group is going to be selective on who it partners with in this regard; will be patient on building these long term relationships and will continue to explore the approaches it has to date.

2. Co-investments in 360 Capital funds

Over the past 12 months, the Group increased its co-investment capital to $224.4 million, up 15.6% on 30 June 2015. The majority of the increase was a further investment in TIX to maintain a 15.6% ownership post the compulsory acquisition of ANI. The Group's total co-investment in listed funds increased by 29.9% to $146.8 million across TIX, TOF and TOT over the period.

In line with the Group's strategy of decreasing its exposure to its unlisted trusts, the Group reduced its co-investment from $81.1 million to $77.6 million and this is expected to fall further with the sale of Subiaco Square Shopping Centre and further sell down of Retail Fund No.1.

The Group received total distribution income of $17.5 million during FY16, up 45.0% on pcp. For FY17 the Group forecasts total co-investment revenue of $16.5 million, down $1.0 million on FY16 reflecting releasing to be undertaken at 441 Murray Street and the expected sale of Subiaco Square Shopping Centre.

3. Direct assets: Hurstville sale settled 30 September 2015

On 30 September 2015, the Group settled the disposal of its last direct asset being 20 Woniora Road, Hurstville, NSW for a gross sale price of $47.0 million. The Group received $1.2 million in rent for the three months to 30 September 2015.

The Group utilised sale proceeds to repay 100% of its bank debt ($11.0 million), increase its co-investment in TIX ($15.5 million), pay $8.9 million in cash to ANI investors as part of the takeover, with the balance used as general working capital and the buyback of Group Securities.

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4. Operating and other expenses

FY16 operating expenses increased 8.4% to $6.1 million in comparison to $5.7 million in FY15. Although FUM grew by 22.6% to $1.48 billion during FY16, simplification of the business has enabled a reduction in full time staff to 15 people. Reflecting this, FY16 operating expenses included residual costs relating the restructure and the property securities business which was wound up during the year. Going forward the Group forecasts FY17 operating expenses be approximately 25% below FY16 levels as a result of FY16 operating decisions.

The Group's FY16 tax expense increased significantly (up 86.1% to $1.2 million) as a result of the increase in Group funds management revenue.

Net interest expense was higher than FY15 reflecting three months of bank interest associated with the Hurstville property, as well as interest on the $75.0 million corporate bond issue. Going forward, the Group does not plan to borrow outside its corporate bond issue, which will see reduced interest expense in FY17.

5. Strategy and outlook

The Group will maintain its "capital light" strategy, opting to grow earnings and distributions per Security in excess of its peers including, where appropriate, capital management initiatives to enhance returns to Securityholders.

The Group will continue to focus on building high quality, recurring earnings from its funds management activities and its co-investments. The Group is in a very strong position should there be a slowdown in the commercial real estate market in Australia.

Excluding any future growth in FUM, the Group is forecasting $9.3 million in recurring management fee revenue for FY17, as well as $2.0 million in underwriting and acquisition fees. The Group's co-investments are forecast to provide $16.5 million in distribution income, prior to the reinvestment of the net proceeds from the Group's share in Subiaco Shopping Centre Property Trust.

The Group forecasts FY17 revenue to be at least 93% from recurring sources.

The Group remains focused on growing its existing listed funds in a disciplined manor and will continue to progress institutional partnership opportunities whilst remaining patient and highly selective in choosing the right partner(s).

In terms of broader market drivers, the Group expects interest rates in Australia to continue to fall, offset in part by increasing interest margins amongst the banks. However, the continued fall in interest rates is likely to increase the demand further for higher yielding investments such as real estate assets from which the Group is positioned well to benefit.

Looking at underlying fundamentals of property investment, as a general statement, limited growth in rents and businesses taking longer to make occupancy decisions is expected to generate high occupancy within our portfolios, albeit with lower levels of rental growth than historically experienced.

As capital continues to flow into Australia and smaller AREITs look to become more relevant, the Group expects continued AREIT sector consolidation.

Taking all of these factors into account, the pricing of Australian commercial real estate is now at or higher than the levels experiences before the last GFC. As such, the Group will remain selective in its growth plans and opportunistic in its approach.

The Group's key focuses for FY17 are:

- Continue to sell down underwriting equity in Retail Fund No.1 ($28.5m) with an updated PDS due September 2016
- TOF using its excess debt capacity to grow its asset base and increase its relevance
- TOT restoring value to its securityholders and maximise its 14.7% stake in Industria REIT (IDR)
- Advance the discussions to explore private institutional mandates to grow TGP's sustainable revenue streams
- Complete the disposal of Subiaco Square and recycle capital into listed funds
- Continue the Group's strategy of reducing exposure to unlisted trusts
- Optimise all 360 Capital-managed fund debt facility tenures
- Be mindful of where we are in the cycle, continuing to focus on our business plan of building recurring revenue streams and be opportunistic in our approach to creating value for our investors

FY17 Operating EPS and DPS forecasts

The Group remains focused on growing its recurring revenue streams while not increasing Group risk.

In line with its policy of not forecasting FUM growth, assuming FUM remains at current levels, the Group provides FY17 Operating Earnings guidance of 6.8 – 7.0cps.

The Group's distribution policy is to distribute between 80 - 100% of operating earnings. Given the quality and high visibility of Group earnings, the Board has elected to increase FY17 distribution per Security guidance to 6.5cps, up 4.0% from 6.25cps in FY16.

A TGP investor/analyst teleconference call will be held today at 3:00pm Sydney time. To view the webcast of this teleconference, please visit www.360capital.com.au and follow the links to register.

More information on the Group can be found on the ASX's website at www.asx.com.au using the Group's ASX code "TGP", on the Group's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing investor.relations@360capital.com.au

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About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group's 15 full time staff have significant property, funds and investment management experience. 360 Capital Group manages nine investment vehicles holding assets valued at over $1.48 billion on behalf of over 12,000 investors and has over $220 million worth of co-investments across the 360 Capital Group.