

# Dexus (ASX:DXS)

## ASX release



16 August 2017

### 2017 Annual results – A year of growth with positive outlook for FY18

Dexus today announced a strong 2017 financial and operational result, achieving distribution per security growth of 4.5%.

Darren Steinberg, Dexus Chief Executive Officer said: “Property is a long dated asset class and successful property companies focus on the long term. Five years ago we updated our strategy, building on our foundational strengths of office ownership and funds management to enhance our position in the Australian property market. In that time we have provided an annualised total security holder return of 17.4% and grown our total funds under management from \$12.9 billion to \$24.9 billion<sup>1</sup>, and we are well positioned to continue the momentum we see in our business today.

“In FY17, we delivered on what we set out to achieve operationally, and for the first time the group has achieved gender pay equity for like-for-like roles. We have a positive outlook for FY18 with guidance for distribution per security growth of 4.0-4.5%.”

#### FINANCIAL HIGHLIGHTS

- Funds from Operations<sup>2</sup> (FFO) of \$617.7 million, up 1.1% on FY16
- Net profit after tax of \$1,264.2 million, up 0.3% on FY16
- Underlying FFO per security (FFO excluding trading profits) of 58.9 cents, up 4.2% on FY16
- Distribution per security of 45.47 cents, up 4.5% on FY16
- Return on Contributed Equity<sup>3</sup> of 7.6% and Return on Equity<sup>4</sup> of 18.2%
- Raised \$500 million via an institutional placement to partly fund the acquisition of MLC Centre, Sydney, 100 Harris Street, Pyrmont and 90 Mills Road, Braeside
- Pro forma gearing<sup>5</sup> of 26.7%<sup>6</sup>

#### OPERATIONAL HIGHLIGHTS

##### *Property portfolio*

- Strong one-year unlevered total return of 14.1% in office portfolio and 12.6% in industrial portfolio
- Increased office portfolio occupancy<sup>7</sup> to 97.2%<sup>8</sup>
- Record year of industrial leasing activity, increasing industrial portfolio occupancy<sup>7</sup> to 96.5%<sup>8</sup>
- Progressed Dexus’s \$2.1 billion pipeline of development opportunities

##### *Funds Management*

- Launched an unlisted healthcare property fund to be finalised in FY18
- Delivered top quartile performance for Dexus Wholesale Property Fund (DWPF) over one, three, five, seven and ten years, and raised \$550 million of equity<sup>9</sup> from existing and new DWPF unitholders
- Delivered a one year unlevered total property return of 14.7% for the Dexus Office Partnership, and an annualised unlevered property return of 14.6% since inception

##### *Trading*

- Delivered \$47.2 million of trading profits net of tax, with the sale of 105 Phillip Street, Parramatta contributing to approximately 60% of FY18 trading profits
- Added further opportunities to the trading pipeline to deliver profits in future years

#### Financial results

Alison Harrop, Chief Financial Officer, said: “All of our earnings drivers have contributed positively to this year’s result, and despite remaining active with transactions we maintained our balance sheet strength, positioning us well for FY18.”

Dexus’s net profit after tax was \$1,264.2 million, an increase of \$4.4 million from the prior year. The key drivers of this movement included: FFO, which increased by \$6.9 million resulting in FFO per security of 63.8 cents, an increase of 1.1%; and net revaluation gains of investment properties of \$704.7 million, representing a 6.5% uplift across the portfolio, were \$109.7 million lower than the prior year. This was largely offset by the change in fair value movements in derivatives and interest bearing liabilities and gains from the sale of investment properties compared to FY16.

Valuation gains across our property portfolio were the primary driver of an increase of 92 cents in NTA<sup>10</sup> per security to \$8.45 over the year. The valuation uplift reflected tightening capitalisation rates supported by market sales evidence, in addition to leasing success and rental growth achieved at office properties,

and completed industrial developments. At 240 St Georges Terrace in Perth, the impending lease expiry of Woodside in FY19 and the current Perth market conditions contributed to a 17.5% devaluation at this property.

Distribution per security was 45.47 cents for the 12 months ended 30 June 2017, up 4.5% on the prior year, with the payout remaining in line with free cash flow, in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2017 of 23.76 cents per security will be paid to Dexus Security holders on Tuesday, 29 August 2017.

Dexus ended the year with pro forma gearing<sup>5</sup> of 26.7%<sup>6</sup>, below its target range of 30-40%, and achieved a reduction in cost of debt to 4.1%, while extending the debt duration<sup>11</sup> to 5.6 years.

## Property portfolio

### Dexus Office Portfolio<sup>8</sup>

Key metrics	30 June 2017	30 June 2016
Occupancy by income	97.2%	96.3%
Weighted average lease expiry (by income)	4.8 years	4.7 years
Average incentive	14.5%	17.7%
Weighted average cap rate	5.78%	6.16%

### Dexus Industrial Portfolio<sup>8</sup>

Key metrics	30 June 2017	30 June 2016
Occupancy by income	96.5%	90.4%
Weighted average lease expiry (by income)	5.1 years	4.1 years
Average incentive	14.5%	9.5%
Weighted average cap rate	6.88%	7.38%

Kevin George, Executive General Manager, Office and Industrial said: "Our office and industrial portfolios delivered 2.6% and 3.6% like-for-like income growth respectively. Strong returns were driven by leasing, most notably at our properties in the buoyant Sydney and Melbourne markets. Leasing performance across the office portfolio resulted in occupancy of 97.2%, and in Sydney we experienced strong effective rental growth from tightening supply and increased demand.

"We have an opportunity to capitalise on the strength of the market through negotiating favourable terms on our Sydney lease expiries<sup>12</sup>, which represent 64% of expiries over the next three years. Our exposure to the Woodside expiry at 240 St Georges Terrace in Perth in FY19 represents 3.2% of total property portfolio income. We are committed to repositioning and leasing this property, and are pleased with the current level of enquiry.

"Our focus on improving our industrial portfolio returns resulted in a record year of leasing, with 117 deals undertaken across 432,105 square metres<sup>13</sup>, improving occupancy to 96.5%."

### Development

Ross Du Vernet, Chief Investment Officer said: "We remained active across the group's \$4.3 billion development pipeline, of which \$2.1 billion sits in the Dexus portfolio. In office we progressed construction of 100 Mount Street, North Sydney and 105 Phillip Street, Parramatta. We also completed 125,600 square metres of industrial development leasing and activated seven industrial facilities in New South Wales and Victoria."

## Funds Management

Dexus now manages \$12.7 billion of funds on behalf of 69 third party clients and continued to deliver performance for its clients through leasing, transactions, and the completion of developments which led to property valuation growth.

All funds delivered strong performance, with DWPF outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership delivered a one year unlevered total property return of 14.7% and an annualised unlevered total property return of 14.6% since inception.

Darren Steinberg said: "We continued to diversify and grow our funds management business through the launch of a new healthcare property fund that will be finalised in FY18."

## Trading

In FY17 Dexus delivered \$47.2 million of trading profits, net of tax, from the sale of three properties, including 105 Phillip Street, Parramatta which also secured approximately 60% of FY18 trading profits. Planning approvals were received for 32 Flinders Street, Melbourne and progressed at 12 Frederick Street, St Leonards. Five projects have been earmarked to deliver trading profits in future years, including potential opportunities at Parramatta and Gladesville.

## Customer

Deborah Coakley, Executive General Manager, Customer and Marketing said: “Over the past five years we have built on and developed our product and service offering to create Workspace Dexus. In addition, we have recently refreshed our brand to further establish our customer connections and articulate our difference in a meaningful way.”

From a Corporate Responsibility and Sustainability (CR&S) perspective, Dexus continues to achieve leading performance across surveys and benchmarks including the Global Real Estate Sustainability Benchmark (GRESB) and the United Nations Principles of Responsible Investment (PRI). Importantly, Dexus is focused on maximising the resource productivity within its properties and has set ambitious energy, water and waste reduction targets to reduce costs and lessen the environmental impacts of business operations.

## Summary and guidance

Darren Steinberg said: “The group’s continued strong performance in FY17 has positioned us for growth in distributions in FY18 and we are well placed to capitalise on the positive market conditions in Sydney and Melbourne. Brisbane and Perth have turned the corner, but the recovery in Perth will take time and depend on the performance of the local economy.

“We expect to see further support for real estate values into FY18 as a result of the strength of property fundamentals in Sydney and Melbourne combined with persistent investment demand from global and local players attracted to the stable returns from quality well leased properties.

“We continue to focus our investment strategy on Australia’s major cities, reinforcing our belief that cities will benefit from the global trend of urbanisation.

“Our market guidance<sup>14</sup> for the 12 months ending 30 June 2018 is to deliver distribution per security growth of 4.0-4.5%.”

## 2017 Annual Reporting Suite

This *ASX announcement* should be read in conjunction with the *2017 Annual Results presentation, 2017 Financial Accounts and 2017 Property Synopsis and Debt Summary*, released to the Australian Securities Exchange today and available on [www.dexus.com](http://www.dexus.com)

<sup>1</sup> Includes transactions settled up to 16 August 2017.

<sup>2</sup> FFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, rental guarantees and coupon income. Underlying FFO excludes trading profits net of tax. Adjusted FFO deducts maintenance capital expenditure and lease incentives.

<sup>3</sup> Return on Contributed Equity (ROCE) is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.

<sup>4</sup> Return on Equity (ROE) is calculated as the growth in net tangible assets per security plus the distribution paid/payable per security divided by the opening net tangible assets per security.

<sup>5</sup> Adjusted for cash and for debt in equity accounted investments.

<sup>6</sup> Pro forma gearing is adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Taras Avenue, Altona North and 46 Colin Street, West Perth, including the impact of transactions costs. Actual gearing (look-through) is 22.1% at 30 June 2017.

<sup>7</sup> By income.

<sup>8</sup> Portfolio metrics for 30 June 2017, including portfolio value, area, occupancy and WALE are adjusted for the transactions settled up to 16 August 2017.

<sup>9</sup> Includes \$300 million of equity raised subsequent to 30 June 2017.

<sup>10</sup> Net tangible asset backing.

<sup>11</sup> Includes \$60 million of Medium Term Notes issued in July 2017 and three bank facilities for \$325 million that commenced in July 2017.

<sup>12</sup> Including MLC Centre, Sydney and 100 Harris Street, Pyrmont.

<sup>13</sup> Including Heads of Agreement.

<sup>14</sup> Barring unforeseen circumstances guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; underlying FFO per security growth of 2.0-2.5% underpinned by Dexus office portfolio like for like growth of 4-5%, Dexus industrial portfolio like for like income growth of 3-4%, management operations FFO of c.\$50 million and cost of debt in line with FY17; trading profits of \$35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of \$165-170 million; and excluding any further transactions.

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**About Dexus**

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$24.9 billion. We believe that the strength and quality of our relationships will always be central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$12.2 billion of office and industrial properties. We manage a further \$12.7 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$4.3 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 54 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 28,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. [www.dexus.com](http://www.dexus.com)

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