APN | Industria REIT

ASX ANNOUNCEMENT

19 August 2020

Results for the period ending 30 June 2020

Highlights

- Funds From Operations (FFO) up $5.6 million or 17.8% to $36.8 million, an increase of 1.6% to 19.3 cents on a per security basis
- Strong cash flow with 98% cash collections
- Record leasing volumes, with 28,900 square metres of leasing completed
- 28.8% gearing, below the target band of 30-40%
- Solid outlook, with FY21 FFO anticipated to be around the same as FY20, with opportunities to outperform through asset management and capital deployment

Financial Results

APN Funds Management, as Responsible Entity for APN Industria REIT, today announced the results for the financial year ending 30 June 2020. Statutory net profit increased 88% to $54.8 million, with $24.4 million of revaluation gains, as well as increased revenues from leases with fixed annual increases and additional income from acquisitions, driving a substantially higher result than the prior corresponding period (pcp).

Funds From Operations (FFO) increased 17.8% ($5.6 million) to $36.8 million, or 1.6% per security to 19.3 cents. Whilst the result was lower than the 2.5 – 3% guidance provided at the FY19 results, which was subsequently withdrawn following the onset of COVID-19, generating growth through this period demonstrates the resilience of the portfolio.

Net property income was up 15.1% to $46.6 million. Rent collections were strong, with 98% of contracted rent collected for the financial year. No accruals were posted for the equivalent of 0.55 cents per security of rent concessions. Debtors as at 30 June 2020 were less than 1% of total annual gross rent.

Gearing was 28.8%, consistent with 31 December 2019 and below the target range of 30 - 40%. The balance sheet remains well positioned to support growth in the near term, with $47 million of equity being raised in November 2019. The existing financial strength combined with the reliable income streams positioned APN Industria REIT well to weather the volatility caused by the COVID19 pandemic. The balance sheet position also enabled a security buyback to be initiated, to take advantage of the opportunity to use the APN Industria REIT balance sheet capacity to acquire securities at an average discount to Net Tangible Assets of 16%.

The weighted average cost of debt was 2.9% and interest cover 6.9x, one of the highest ratios in the REIT sector, a function of the Fund's low gearing and cost of debt.

Net Tangible Assets (NTA) increased 11 cents per security to $2.82. This was driven by $24.4 million of fair value adjustments, primarily relating to re-valuations completed throughout the financial year. For the assets revalued, capitalisation rates reduced by 22 basis points over the six months to December 2019; and 4 basis points over the six months to June 2020.

Alex Abell, Fund Manager of APN Industria REIT said: "In an uncertain economic environment we are pleased to have delivered FFO growth, which is backed by 98% cash collections from the Fund's diverse tenant base. Moving forward, the portfolio is well positioned with 95% of income being generated by government, national, multi-national or listed companies, and a conservatively levered balance sheet that provides scope to pursue over $70 million of growth opportunities."

Property Portfolio

The APN Industria REIT portfolio comprises 32 assets, 56% of which are industrial warehouses and 44% business park office properties (by value). The weighted average cap rate for the portfolio is 6.38% and weighted average lease expiry (WALE) is 5.7 years.

Leasing across the industrial portfolio totaled 17,300 square meters, including an early renewal of Edlyn Foods at 13 Ricky Way/10 Jersey Drive, Epping, extending the weighted average lease expiry from 4.8 to 8.2 years; and a renewal to Australian Glass Group over 6,100 square metres at 81 Rushdale St, Knoxfield. Both outcomes were ahead of the acquisition business plans, and underpin long term income profiles that reflect an average yield on cost of 7.1%.

An agreement with Westrac has been reached to fund a ~$5.5 million expansion at 1 Westrac Drive, Tomago, with work scheduled to start in September 2020. The expansion works will enhance Westrac's engineering capabilities at the site, and Westrac will be making a material investment towards the fit out, demonstrating their commitment to the site. The lease has 14.2 years remaining, and the costs incurred will generate a yield on cost of 6.75%.

The business park properties in the portfolio, located at Rhodes and Brisbane Technology Park (BTP), provide high-quality workspaces, are relatively low-density with an abundance of car parking and in close proximity to public transport, and are priced at a discount of over 30% to the CBD. APN's on-the-ground presence and active management leverages these characteristics to drive leasing outcomes, which included 11,600 square metres during the period.

Activity at BTP remained high, with 49 leasing deals completed over 11,100 square metres. Forty lease deals totaling more than 1,900 square metres were completed to tenants leasing less than 200 square metres, demonstrating the appeal to small enterprises - a segment of the market that has been specifically targeted by APN. As a result, occupancy has increased from 50% to 95% at 88 Brandl Street; and from 40% to 89% at 7 Clunies Ross Court, which offers serviced suites on level one.

At Rhodes Corporate Park, although there has been limited vacancy to lease, there has also been good activity for small requirements with two leases completed across 520 square metres. Post balance date, two further leases across 370 square metres have been agreed and only one vacant suite remains to lease.

Since 2018, APN has successfully targeted the small business market at both Rhodes and BTP. We see this segment of the market growing further as the step-change to working remotely has been relatively successful for most organisations since the disruptions caused by COVID-19 began in March 2020. However there have been challenges relating to personal connections, learning opportunities, and the mental health of the workforce, particularly for organisations that are likely to require workspaces that provide privacy and also the ability to collaborate in a safe environment that is close to home for the workforce. APN will continue to adapt to the evolving workplace trends to ensure the APN Industria REIT portfolio remains proactively positioned.

Occupancy as at 30 June 2020 was 94%. Post balance date, leasing transactions have been agreed that will increase occupancy to 96%.

Portfolio growth

APN has been highly selective when executing on growth opportunities. Activity has been largely focusing on opportunities in the warehousing and logistics sector. Over $1.4 billion of on and off-market opportunities were assessed; offers submitted on ~$380 million; and $57.1 million of acquisitions completed. These include the acquisition of 350-356 Cooper St (Epping, Victoria), and 60 Grindle Road (Wacol, Queensland).

APN continues to be focused on real estate fundamentals and long term value creation. Key acquisition criteria continue to be: the location of the underlying asset, and ability to re-lease to other occupiers; underlying land value and replacement cost; and the ability to leverage APN's experience and expertise to add value through asset management initiatives, as demonstrated since 2013.

Sustainability and commitment to carbon neutrality in FY21

Since 2017, APN Industria REIT has been actively reducing carbon emissions and enhancing the energy efficiency of its properties, largely through investments in solar PV and LED lighting. This continued in FY20 with the installation of a 632kW solar PV system at 81 Rushdale Street, Knoxfield, which is forecast to prevent 766,600kg of CO_2 from entering the atmosphere annually.

Across the portfolio, approximately 2.5MW of solar has now been installed, and total CO_2 emission reductions for FY21 (including LED's) are anticipated to be approximately 3,800 tonnes. At Brisbane Technology Park, where seven properties have been fitted with rooftop solar PV installations, energy selfsufficiency has increased to an average of 53% during daylight hours, reducing the reliance on the energy grid and delivering a yield on cost in excess of 15%.

In FY21, APN Industria REIT anticipates becoming the first A-REIT to achieve carbon neutrality in accordance with the Climate Active Organisations standard, an Australian Government framework recognised by the European Union Commission and the World Bank.

Overview and outlook

APN Industria REIT continues to be well-positioned for the future, with a high-quality portfolio generating resilient income from a tenant base underpinned by government, listed, national and multi-national companies, which make up 95% of the rent roll. Whilst the current economic environment remains uncertain, the balance sheet is conservatively positioned and there is capacity for growth, particularly through investment in industrial assets.

FY21 FFO and dividend per security are anticipated to be broadly in-line with FY20. Guidance is subject to tenants continuing to trade solvently and no significant deterioration in the current economic environment.

ENDS

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About APN Industria REIT

APN Industria REIT ('Industria) (ASX code: ADI) is a listed Australian real estate investment trust which owns interests in office and industrial properties that provide functional and affordable workspaces for business. Industria's $824 million portfolio of 32 properties located across the major Australian cities provides sustainable income and capital growth prospects for security holders over the long term. Industria has a target gearing band of 30 – 40%, providing flexibility for future growth without compromising the low-risk approach to management. Industria is managed by APN Property Group, a specialist real estate investment manager established in 1996, and governed by a majority independent Board.

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