

ASX release

1H23 financial results summary

22 February 2023

Rural Funds Management Limited (RFM) have today released the Rural Funds Group (ASX: RFF) (the Group) Financial Statements for the half year ended 31 December 2022 (1H23) as summarised below.

Financial highlights

- Property revenue increase of 7% to \$37.4 million (m).
- Earnings (total comprehensive income) increase of 50% to 15.5 cents per unit (cpu).
- Adjusted net asset value (NAV) increase of 3% to \$2.78 per unit.
- Distributions per unit (DPU) of 6.10 cents (inclusive of franking), in line with forecast.
- Gearing of 31%, at the lower end of the target range.

Property revenue increased 7% compared to the prior period driven by lease indexation (annual mechanisms and rent reviews), rent on capex and new leases.

The increase in earnings were largely driven by revaluations in the cattle sector (up \$21.3m), macadamia sector (up \$18.7m) and development capex of \$31.0m.

On a per unit basis adjusted funds from operations (AFFO) was impacted by higher interest rates but in line with the prior period adjusting for the TRG macadamia lease payment attributable to 1H23.¹

Gearing ended the period at 31.5% at the lower end of the target range of 30-35%. During the period the debt facility was expanded to provide ongoing funding for higher and better use and productivity developments.

Additional forward-dated interest rate hedges totalling \$175.0m were entered into since the start of the period. FY24 hedges will increase from \$189.7m in FY23 to \$402.2m in FY24. The weighted average hedge duration is 6.8 years at a weighted average hedge rate of 2.71%.

Portfolio update

The portfolio is expected to benefit in future years from its development pipeline, including:

- 3,000 ha macadamia development forecast to be completed by FY25 (leased to TRG commenced January 2023).¹
- Development of an additional 2,000 ha forecast to commence in FY25. Seeking potential lessee(s) to occur closer to development commencement.
- 475 ha of mature orchards undergoing improvements prior to seeking long-term lessee(s).

¹ Lessee is a company managed by The Rohatyn Group (TRG) on behalf of a joint venture between TRG and a global institutional investor. Second stage of lease (1,800 ha) subject to completion of water supply infrastructure. TRG lease payments to be received for full financial year (FY23) in 2H23.

- Productivity improvements occurring on five cattle and cropping properties prior to seeking lessees.²

Portfolio highlights

- Diversification: 67 properties across five agricultural sectors (almonds, cattle, cropping, vineyards and macadamias).
- Quality lessees and counterparties: 81% of FY23f lease revenue from corporate lessees.
- Long weighted average lease expiry profile: 12.3 years.
- Structured rental growth: CPI and fixed indexation and market rent review mechanisms.
- Development and leasing pipeline: productivity improvements and conversion to higher and better use developments expected to generate earnings growth in future years.

Outlook and guidance

- Forecast FY23 AFFO revised to 10.7 cpu (0.6 cpu reduction to prior forecast).³
- Forecast FY23 distributions per unit: 11.73 cents plus 0.47 cent franking credit maintained.

Management to continue to focus on macadamia developments, productivity improvements and leasing assets under development.

Results webinar

A financial results webinar will be held today at 11:00AM AEDT. Those wishing to attend the webinar will need to register using the following link: <https://webcast.openbriefing.com/rff-hyr-2023/>. A recording of the webinar will be made available on the RFM website.

Rural Funds Group (ASX: RFF)

Rural Funds Group is an agricultural Real Estate Investment Trust (REIT) listed on the ASX under the code RFF. RFF owns a diversified portfolio of Australian agricultural assets which are leased predominantly to corporate agricultural operators. RFF targets distribution growth of 4% per annum by owning and improving farms that are leased to good counterparties. RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805).

Rural Funds Management Limited (RFM)

Rural Funds Management Limited is the responsible entity and manager of RFF. RFM is an agricultural fund and asset manager established in 1997. The management team includes specialist fund managers, finance professionals, horticulturists, agronomists and other agricultural managers. RFM's company culture is informed by its long-standing motto "Managing good assets with good people".

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² One property (Kaiuroo) has a settlement period of up to Nov 2023.

³ FY23 forecast AFFO includes reduced revenue on macadamia operational assets held for leasing, flood mitigation costs and revised interest rate assumption (one-month BBSW assumption increased from 3.5% (Feb 2023 to Jne 2023) to 3.76% (Feb 2023 to Jne 2023)).