

DUXTON WATER LIMITED

DECEMBER 2023



PROUDLY SUPPORTING AUSTRALIAN IRRIGATORS AND FARMERS

Duxton Water Limited | 2023 Annual Results Presentation



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This presentation has been authorised for release by the Chairman of Duxton Water Limited.





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FULL-YEAR 2023 SNAPSHOT

Duxton Water's Investment Manager operates a broad range of Australian agricultural businesses in **viticulture, dried fruit, nuts, broadacre, bees, dairy, apples, and water**. In any given year, the Duxton businesses produce around **15-20 different commodities** and **provide jobs** for over **500 people living** in **rural communities**.

-9.5%
**PORTFOLIO
RETURN¹**
(12 MONTHS)

\$390M
**WATER
PORTFOLIO
VALUE**

\$1.62
PER SHARE
**NON-STATUTORY
NET ASSET VALUE**
(POST TAX)

90.5GL
**TOTAL WATER
OWNED**

60%
LEASED %

3.1
YEARS
WALE²

1. Total Portfolio Return is based on non-statutory post-tax NAV movements and includes franked dividends for the 12-month period to 31 December 2023.

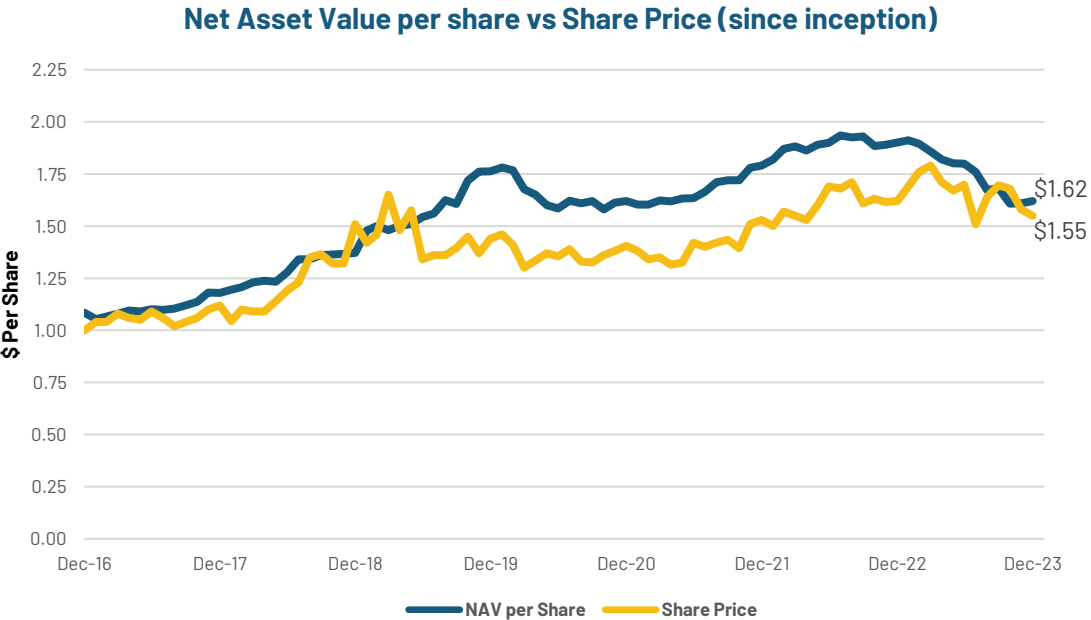
2. Weighted Average Lease Expiry



Full-Year 2023 Snapshot

Water is a defensive and uncorrelated asset class that has a demonstrated history of paying dividends across the climatic cycle.

- Duxton Water delivered on both its dividend targets in FY2023. Shareholders received fully franked dividends totalling **6.9 cents per share** during the year.
- The Company's lease portfolio has continued to act as a hedge against persistent low allocation prices. **60%** of the portfolio leased at 31 December 2023. Focus on strengthening leasing revenue stream in year ahead.
- Increased Weighted Average Lease Expiry to **3.1 years** (up from 1.4 years).
- Successfully executed a **\$39.1 million** acquisition and lease back of high security water entitlements with Treasury Wine Estates ("TWE").
- Raised a total of **\$51.5 million** of equity from new and existing shareholders to fund the TWE transaction, with surplus funds being used to repay debt.
- Free bonus options issued to eligible shareholders on a **1:4 basis**. Options are quoted on the ASX under ticker code **D200A**, have an exercise price of **\$1.92**, and expiry date of **10 May 2026**.
- Wet conditions carry into the fourth consecutive year. General security entitlements continue generate above average yields, while high security entitlements continue to generate below average yields.



Portfolio Performance	6 Months	12 Months	Inception	Annualised
Total NAV Return	-7.1%	-9.5%	+100.9%	+10.0%

^These figures are based on NAV movements and include franked dividends for the period.





Financial Results



Financial Results

Duxton Water paid fully franked dividends of 6.9 cents per share during FY2023 (6.6% gross dividend yield, based on \$1.50 share price).

Key Metrics	FY2023	FY2022	Difference	% Change
Profit before tax	\$9.0m	\$14.0m	-\$5.0m	-36%
Net profit after tax	\$6.3m	\$10.0m	-\$3.7m	-37%
Earnings per share	4.8 cps	8.4 cps	-3.6 cps	-43%
Dividends per share	6.9 cps	6.5 cps	+0.4 cps	+6%
Portfolio size	90.5 GL	83.6 GL	+6.9 GL	+8%

Lease Portfolio	FY2023	FY2022	Difference	% Change
Lease revenue	\$7.9m	\$8.2m	-\$0.3m	-4%
Leased %	60%	54%	+6%	+11%
Weighted Average Lease Expiry	3.1 yrs	1.4 yrs	+1.7 yrs	+121%

- Duxton Water reported a NPAT of **\$6.3 million** for FY2023 (FY2022: \$10.0 million).
- Lower NPAT primarily due to timing of water allocation sales in FY2023. Fair Market Value of water allocations held for sale at 31 December 2023 was **\$4.2 million** (31 December 2022: \$0.1 million).
- Paid two fully franked dividends during FY2023, totalling **6.9 cents per share** (FY2022: 6.5 cents per share).
- Increased size of portfolio by **6.9 gigalitres** (+8% increase by volume).
- Leasing revenue remained relatively stable at **\$7.9 million** (FY2022: \$8.2 million).
- Leased percentage at the end of FY2023 increased to **60%** (FY2022: 54% leased).
- Material increase to the Company's WALE of **3.1 years** (31 December 2022: **1.4 years**). This provides further visibility to recurring lease revenue stream.



Financial Results

This year our portfolio valuation exceeded \$400 million for the first time since inception.

This is a key milestone for the Company as it seeks to continue building scale ahead of anticipated market tailwinds.

Net asset summary	FY2023	FY2022	Difference	% Change
Permanent water assets (fair value)*	\$386.3m	\$376.8m	+\$9.5m	+3%
Temporary water assets (fair value)*	\$4.2m	\$0.1m	+\$4.1m	+4100%
Total net assets (fair value)*	\$247.6m	\$244.4m	+\$23.2m	+10%
Non-statutory Net Asset Value per share	\$1.62	\$1.90	-\$0.28	-15%

* Fair Market Value is prepared in accordance with the Company's monthly NAV statement. The water portfolio is evaluated on a monthly basis by the Company's independent valuer, "Aither Pty Ltd". Fair Market Value is a non-IFRS measure that is not reviewed or audited by the Company's auditor.

- During FY2023, the Company's water entitlement portfolio exceeded **\$400 million** for the first time since inception.
- Net Asset Value ("NAV") closed at **\$1.62 per share**, decreasing by 28 cents per share (or 15%) during FY2023.
- Reduction in NAV was largely driven by dividends paid during the year (**7 cents**), dilution from capital raising activities (**7 cents**), with a softening in water entitlement prices being largely responsible for the difference (**14 cents**).
- Recent entitlement price softening likely due to irrigators selling water entitlements to generate cash ahead of the upcoming farming season. Irrigators continue to be faced with challenging economic conditions of higher interest rates, higher input costs, and lower commodity prices.
- During FY2023, the Company successfully completed a **\$39.1 million** acquisition of water entitlements from TWE. This acquisition comprised of **4.8 giga litres** of premium high security (below choke Murray) water entitlements.
- The Company continues to monitor water entitlement markets for well-priced opportunities in zones that complement the existing strategy.



Capital Management

We continue to monitor long-term interest rate markets for further hedging opportunities.

Debt summary	FY2023	FY2022	Difference	% Change
Total debt drawn	\$116.5m	\$125.0m	-\$8.5m	-7%
Total gearing	29%	30%	-1%	-3%
Total fixed debt	-	\$15.0m	-\$15.0m	-100%
Total variable debt	\$116.5m	\$110.0m	+\$6.5m	+6%
Effective cost of borrowings	5.20%	3.04%	+2.16%	+71%

Interest summary	FY2023	FY2022	Difference	% Change
Interest paid on debt	\$5.7m	\$3.5m	+\$2.2m	+63%
Cash gain (loss) on swaps (realised)	(\$0.7m)	\$2.4m	-\$3.1m	-129%
Non-cash gain (loss) on swaps (unrealised)	-	\$1.9m	-\$1.9m	-100%
Net finance income/(expenses)	(\$6.5m)	\$0.8m	-\$7.3m	-913%

DEBT SUMMARY

- Gearing of **29%** remained relatively stable throughout the year (31 December 2022: 30%). Current gearing is within max LVR covenant of **40%**.
- Total debt drawn reduced by **\$8.5 million** during FY2023.
- Effective cost of borrowings for FY2023 of **5.20%**. This is up from **3.04%** in FY2022. Increase due to the Company closing its fixed interest rate swaps.
- Funds received from the Company's July/August 2023 capital raising activities (**\$51.5 million**) were used to reduce debt drawn until settlement of the TWE transaction took place in November 2023.
- The Company is actively reviewing its hedging strategy and is closely monitoring interest rate markets for further hedging opportunities.

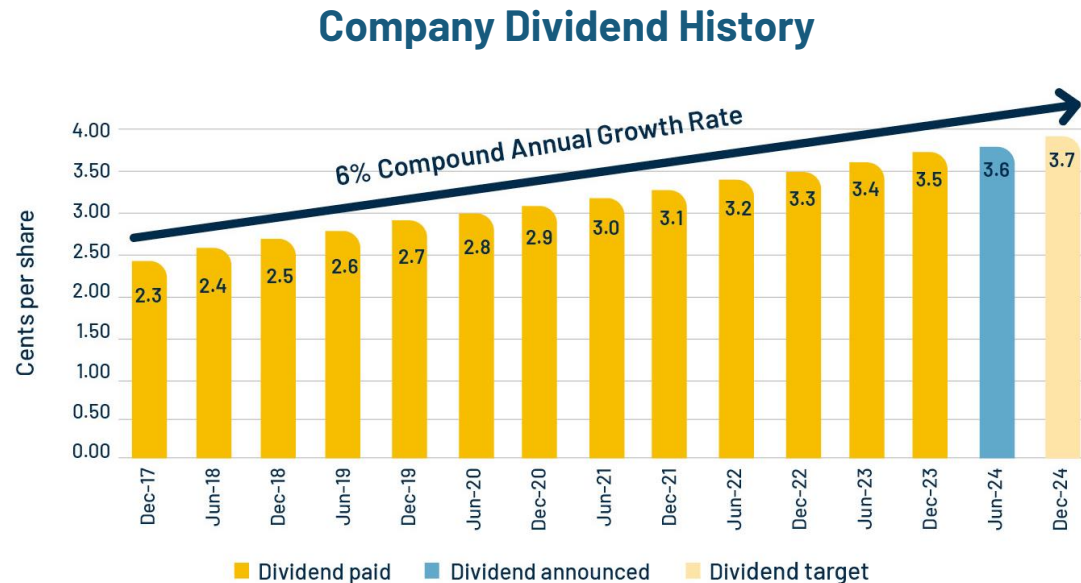
INTEREST SUMMARY

- Total interest paid for FY2023 of **\$5.7 million** (FY2022: \$3.5 million).
- During FY2023, the Company closed its remaining **10-year** interest rate swaps to hedge against anticipated decline of longer-term interest rate markets. This resulted in a total cash settlement of **\$1.9 million** being paid to the Company in early 2023.



Dividends

Duxton Water paid fully franked dividends of 6.9 cps during FY2023. This equates to a 6.6% gross dividend yield (based on \$1.50 share price).



- Duxton Water delivered on **both** of its dividend targets in FY2023.
- Shareholders received two fully franked dividends during the year, totalling **6.9 cents per share** (FY2022: 6.5 cents per share).
- The Company has continued to increase its annual dividend year-on-year. Dividends paid out to shareholders have seen a **6% Compound Annual Growth Rate** since the Company paid its maiden dividend in November 2017.
- Total dividends of **38 cents per share** have been paid to shareholders since November 2017.
- In line with previously stated dividend guidance, the Company is pleased to formally declare a Final 2023 dividend of **3.6 cents per share** (fully franked).
- The Record Date for upcoming dividend is Friday, **12 April 2024**, with the Payment Date being Friday, **26 April 2024**.
- In the second half of FY2023, the Company increased its Dividend Reinvestment Plan ("DRP") discount to **5%** (up from 3%). The Company's DRP will continue for the upcoming dividend.



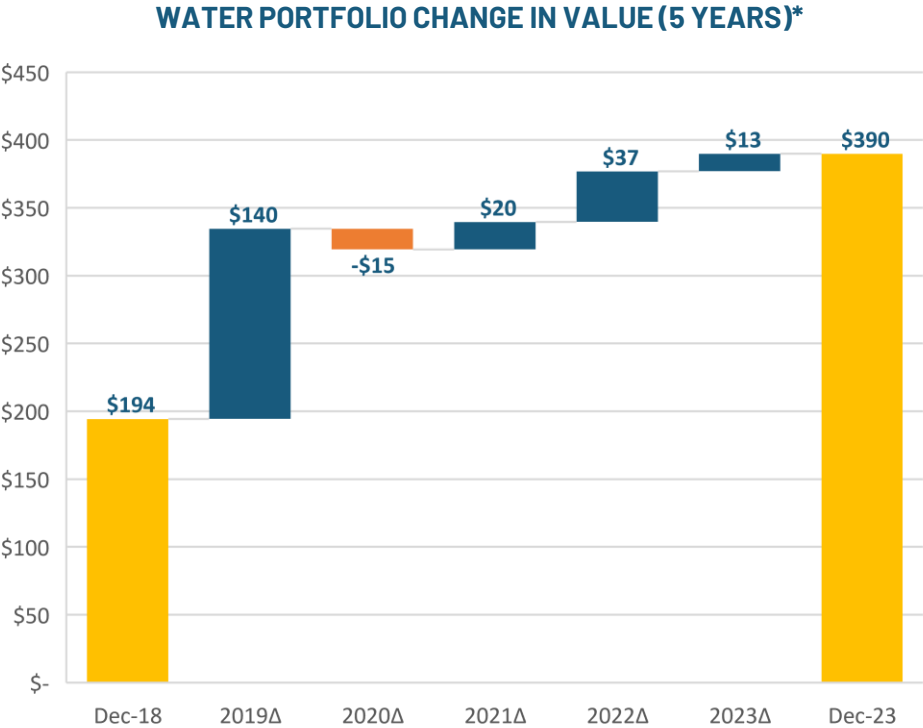


Portfolio Performance



Portfolio Performance

We increased the size of our water entitlement portfolio by 6.7 gegalitres during the year (+8%).



- The Company’s portfolio reached all-time highs during 2023. The portfolio exceeded **\$400 million¹** and **90 gegalitres** for the first time since inception.
- While some of the Company’s general security water entitlements appreciated in value during 2023, high security entitlement values continued to decrease throughout the basin.
- We believe the recent price softening seen throughout 2023 can be attributed to the agricultural sector selling entitlements to generate working capital.
- Farmers continue to be faced with higher borrowing costs and lower commodity prices. The recent flooding events of early 2023 compounded these challenges by causing significant crop loss and logistical challenges within the 2023 harvest period.
- Given the strong macro fundamentals, the potential for future growth within the Company’s portfolio is high. In the last two months of 2023, entitlement prices rebounded by **2.6%**, and transactional levels improved slightly. Entitlement markets remained relatively flat in January 2024.

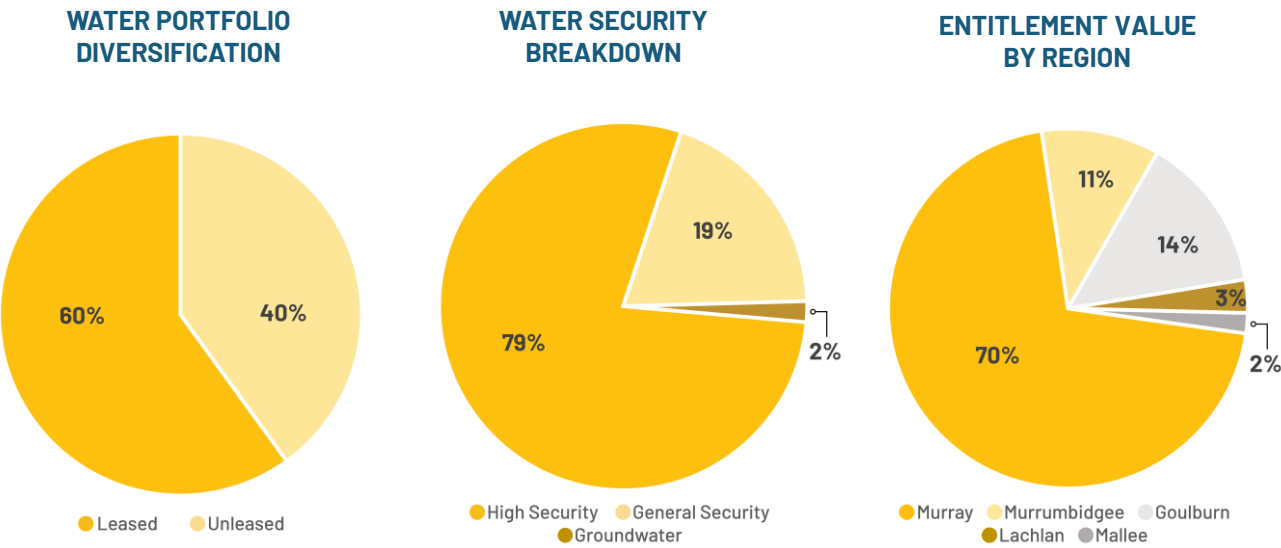
**Changes in portfolio value comprise of movements in equity, debt, and portfolio pricing movements.*

1. Fair Market Value is prepared in accordance with the Company’s monthly NAV statement. Fair Market Value is a non IFRS measure that is not reviewed or audited by the Company’s auditor.



Portfolio Diversification

We have continued to seek well price opportunities that fit our target portfolio composition.

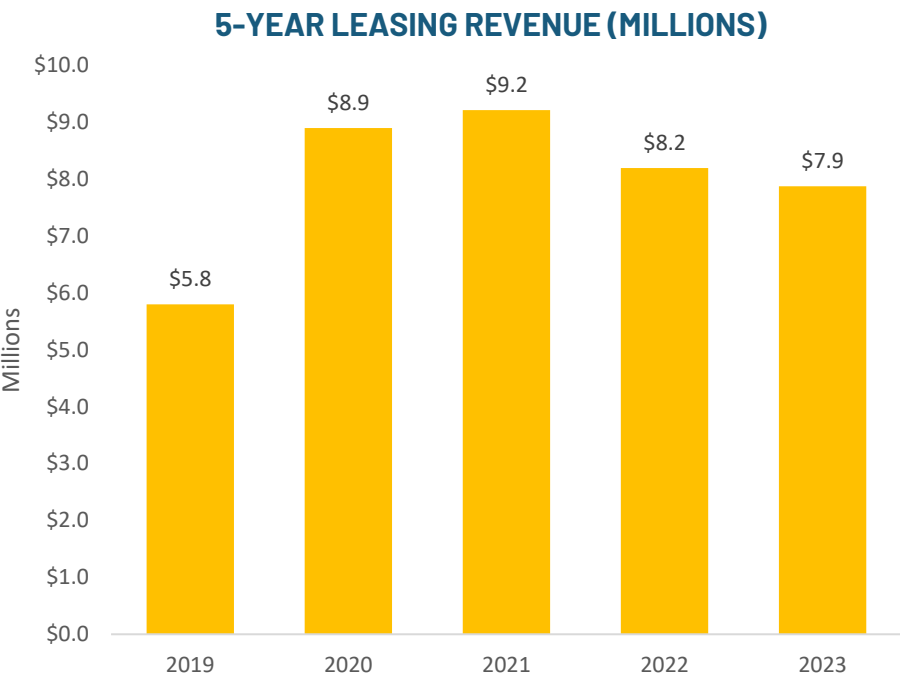


- Strategic portfolio composition continues to provide opportunity and flexibility for both our customers and shareholders.
- General security assets continue to generate above average yields due to persistent wet weather conditions.
- Increased portfolio size by **8%** during the year to **90.5 gigalitres** (2022: 83.6 gigalitres). Currently invested in **19** different entitlement types.
- The Company continues to seek new leasing partnerships with both corporate and family farming businesses, to further diversify the lease book.
- The Company continues to monitor water markets outside of the southern Murray Darling Basin for investment opportunities.



Lease Portfolio

Long-term water entitlement leases enable Australian farming business to take a multi-year approach to their water strategy.



- The Company’s leasing revenue of **\$7.9 million** remained relatively stable in FY2023 (FY2022: \$8.2 million).
- Leases that expired on 30 June 2023 were largely offset by the Company’s new leasing arrangement with TWE (as announced 3 July 2023).
- Successfully leased **\$31.3 million** of water entitlements to TWE during the year. This will generate **\$1.4 million** in annual leasing revenue for the duration of the lease¹.
- The Company’s lease portfolio has continued to act as a strong hedge against the persistent lower allocation prices.
- At 31 December 2023, **60%** of the company’s water portfolio is leased to Australian farming businesses (representing 70% of high security assets).
- Actively working towards growing leasing revenue stream and getting back to long-term leasing target of **70-80%**.

1. As announced on 3 July 2023, D2O granted TWE a call option to buy the acquired water entitlements back from D2O at market price (subject to a price cap and collar) prior to 30 June 2024. In the event TWE calls this option, TWE has the right to terminate the lease associated with the entitlements.





Outlook



Water Buybacks

The Government has announced that southern Murray Darling Basin water buybacks will commence in 2024.



Government water buybacks to commence in 2024:

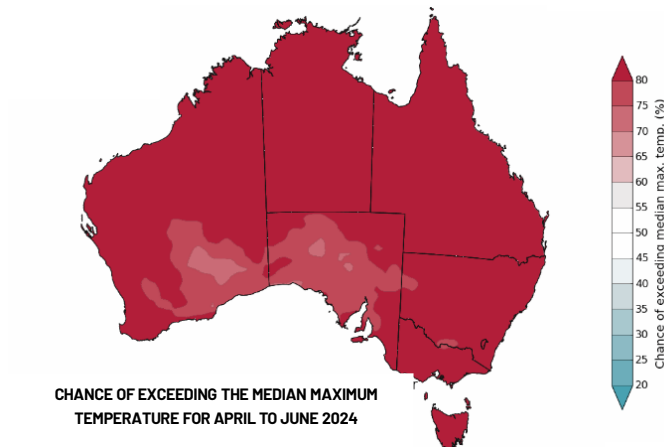
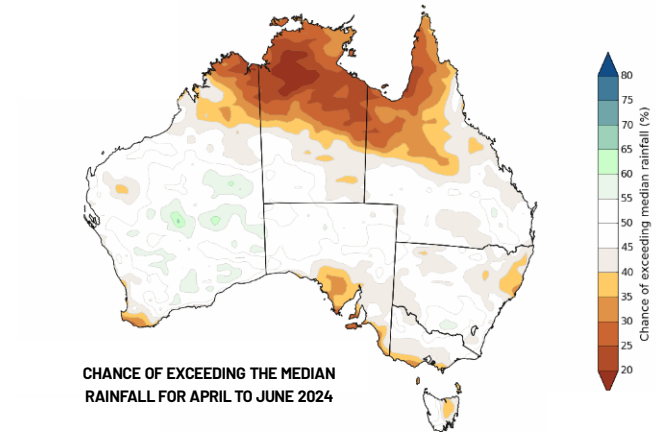
- The Government plans to recover up to 450 gigalitres of water entitlements. This equates to approximately 5% of water entitlements on issue in the southern Murray Darling Basin. However, this represents a much larger percentage of free float.
- Government buybacks involve the direct purchase of water licences from the market by the Government, which are then transferred to the Commonwealth Environmental Water Holder. These licenses, previously used for agriculture, are then repurposed to environmental uses.
- On 7 December 2023, the “Restoring our Rivers” Act was passed. This Act allows the Federal Government to conduct large-scale water buybacks to meet the Basin Plan targets.
- On 30 January 2024, the Government released a draft framework¹ for delivering 450 gigalitres of water to the environment.
- The framework outlines that voluntary water purchases for entitlements in the southern Murray Darling Basin will commence in 2024.
- 100% of the Company’s water portfolio comprises of southern Murray Darling Basin water entitlements.

1. Link to Draft Framework – 450GL Recovery: https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a8f4464525d140f6d670/public_assets/Draft450Framework.pdf



Weather Outlook

We will continue working alongside our customers to provide flexibility and water security for the years ahead.



- The Bureau of Meteorology's rainfall forecast for April 2024 to June 2024 suggests that average to below-average rainfall is likely for most of Australia¹.
- Rainfall over the Murray Darling Basin is expected to be below-average for the month of March 2024, and average for the months of April 2024 to June 2024.
- The outlook also indicates a high likelihood of above average maximum temperatures throughout Australia for April 2024 to June 2024¹.
- El Niño continues in the Tropical Pacific. It's currently receding and is expected to return to neutral by April/May 2024.
- As of 6 February 2024, the positive Indian Ocean Dipole ("IOD") event has ended, and the IOD index has returned to neutral.

1. Source - Bureau of Meteorology Maps - climate outlook issued 29 February.



Thank You

We have great confidence in the future of our business.

We would like to reaffirm that we have a clear strategy in place to capitalise on market conditions as they unfold.

We would like to thank our new and existing shareholders for their support in our 2023 capital raise. We raised a total of \$51.5 million of new equity during the year, which was a fantastic result in a difficult market.

Finally, thank you to all our customers and lessees for their business in 2023.

We look forward to discussing our results at our Annual General Meeting later this year.

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