

ASX/Media Announcement

13 February 2018

Propertylink delivers a strong HY18 result, well positioned to deliver FY18 guidance

Propertylink Group (ASX:PLG) today announces strong financial and operational results for the first half of FY18 and reaffirms distributable earnings guidance of 9.0 cents per security and distribution guidance of 7.3 cents per security.

Propertylink's Managing Director and CEO, Stuart Dawes said "I am very pleased with the ongoing strong performance delivered across the business, continuing the momentum established in the previous year.

"Our strategy to position the wholly owned industrial portfolio in urban east-coast infill locations is delivering tangible results, with occupancy increased to 99.3%, like for like rental growth of 4.1% and strong valuation uplifts during the first half.

"We are seeing good traction across our investment management business, recently establishing the PACT fund with new investor, Partners Group and are well progressed on other new initiatives.

"We continued to take advantage of strong transactional markets, with the divestment of a number of external fund assets delivering excellent returns to external investors and attractive performance fees for Propertylink.

"Importantly we have maintained a prudent approach to capital management, positioning us with a strong balance sheet to take advantage of future growth opportunities."

HIGHLIGHTS

Financial performance

- Distributable earnings of \$33.3 million, up 84% on the previous corresponding period
- Performance fees of \$22.3m (\$14.7 million after staff incentives and tax) following the achievement of outstanding returns on external fund assets divested during the period
- Interim distribution of 3.6 cents per security, up 33% on the previous corresponding period and reflecting a distribution yield of 7.2%⁽¹⁾
- Solid growth in net tangible assets (NTA) of 12% to 97.5 cents per security during the six months ending 31 December 2017
- Maintained a strong balance sheet with gearing of 30.6%, at the low end of the target range

Wholly owned industrial portfolio:

- Property revaluation uplift across the portfolio of \$39.7 million or 7.1%, with the weighted average capitalisation rate tightening 36 basis points to 6.86%
- Occupancy increased to 99.3% from 97.0% at 30 June 2017
- Like for like rental growth of 4.1%
- The acquisition of a \$48 million business park asset in Lane Cove, NSW reflecting a capitalisation rate of 7.13% and delivering growth to the portfolio

Investment management:

- Average total return of 24%⁽³⁾ delivered across external funds since inception
- Realised an average total return of 25% on external fund assets divested during the half year period
- Establishment of the Propertylink Australian Commercial Trust (PACT) with new investor, Partners Group, targeting an initial investment of \$500 million in the value-add office market
- Property valuation uplift of \$83 million delivering growth in assets under management during the period

FINANCIAL RESULTS

Key Earnings Metrics

Earnings metrics	HY18	HY17	Change
Total comprehensive income ⁽⁴⁾	\$83.1m	\$38.1m	218.1%
Net revaluation gains / revaluation gain per security	\$51.3m / 8.51 cps	\$16.5m / 2.74 cps	310.9%
Distributable earnings / distributable earnings per security ⁽⁴⁾	\$33.3m / 5.52 cps	\$18.0m / 2.99 cps	184.6%
Distribution per security / payout ratio	3.60 cps / 65%	2.70 cps / 90%	133.3%
Operating revenue			
Net property income ⁽⁵⁾	\$21.5m	\$18.7m	15.0%
Performance fee income ⁽⁶⁾	\$22.3m	-	-
Co-investment income ⁽⁷⁾	\$2.8m	\$1.4m	200.0%
Investment management revenue	\$2.9m	\$4.0m	(27.5%)
Property management revenue	\$1.9m	\$2.1m	(9.5%)

Distributable earnings of \$33.3 million for HY18 reflected a stronger contribution from the wholly owned industrial portfolio and co-investment income, enhanced by performance fees on divestment of external fund assets. Total comprehensive income of \$83.1 million included \$51.3 million of net revaluation gains in the half.

The interim distribution of 3.6 cents per security for the six months to 31 December 2017 reflects a payout ratio of 65%, with a portion of the net proceeds from performance fees retained to fund growth.

The distribution for the six months ending 31 December 2017 of 3.6 cents per security will be paid to securityholders on 6 March 2018.

Net property income of \$21.5 million was delivered across the wholly owned industrial portfolio, up 15% and reflecting a 6 month contribution in HY18 compared to 4.5 months for HY17. HY18 net property income was comparatively reduced by non-core asset sales, the majority of which were completed during FY17.

Performance fees of \$22.3 million were realised during the period. After associated staff incentives and applicable tax this contributed \$14.7 million to distributable earnings.

Propertylink's co-investment in external funds delivered \$2.8 million to distributable earnings, excluding \$11.6 million in fair value adjustments. The lift in co-investment income reflects Propertylink's increased co-investment in PAIP II and growth in the PEP fund in which Propertylink maintains a 25% co-investment.

Investment management revenue of \$2.9 million was down 27.5% on the prior period due to transition of the PAIP fund to the wholly owned industrial portfolio, divestment of external fund assets and lower comparative fund asset acquisitions. Similarly, property management revenue of \$1.9m was down by 9.5%.

Financial Position at 31 December 2017

During the half year period Propertylink capitalised on strong financial and operational performance to increase the term and limit of debt facilities, providing capacity for growth in the wholly owned industrial portfolio and co-investments in external funds.

Gearing at 31 December 2017 was 30.6%, remaining at the lower end of the target range of 30-40% and in line with 30 June 2017 gearing levels. Look through gearing at 31 December 2017 was 36.1%, compared with 35.2% at 30 June 2017.

Debt headroom at the end of the period was \$55 million, with available cash of \$15 million providing liquidity of \$70 million.

Net tangible assets increased by 12% over the six-month period, to 97.5 cents per security at 31 December 2017. This growth was driven by strong uplifts in valuations across the wholly owned industrial portfolio and assets held in external funds through co-investments, the realisation of performance fees and solid underlying earnings.

WHOLLY OWNED INDUSTRIAL PORTFOLIO

Propertylink's active approach to asset management continued to improve the performance and positioning of the wholly owned industrial portfolio throughout the first half of FY18, delivering tangible value and solid recurring income to security holders.

	31 Dec 2017	30 Jun 2017	31 Dec 2016
Industrial portfolio value	\$758m	\$695m	\$698m
Number of properties	30	30	32
Gross lettable area	461,606 sqm	481,164 sqm	503,698 sqm
Occupancy	99.3%	97.0%	95.1%
Like for like rental growth	4.1% ⁽⁸⁾	2.6% ⁽⁹⁾	-
Tenant incentives	9.30%	12.99%	11.04%
WALE	4.0 years	4.4 years	4.4 years
WACR	6.86%	7.22%	7.40%

Propertylink's Chief Investment Officer, Peter McDonald said "The wholly owned industrial portfolio has continued to strengthen throughout the first half of FY18. Near to zero vacancy, low near-term lease expiries and a fixed rental review profile across the portfolio underpins solid future rental growth, further enhanced by a positive outlook across the key markets of Sydney and Melbourne.

"The outstanding portfolio metrics and significant value delivered during the period is evidence of our active asset management approach combined with the strategic positioning of the portfolio. With 83% of the portfolio located in the strong Sydney and Melbourne markets, focused on east coast infill locations with exposure to the key strategic market themes of urbanisation, last mile logistics, aging population and technology we see further upside potential."

Revaluations

At 30 September 2017, all assets in the portfolio were independently valued in accordance with Propertylink's valuation policy. Combined with subsequent internal valuations at 31 December 2017, an uplift on carrying value of \$39.7 million, or 7.1% was recognised during the period, driven by a combination of positive market fundamentals and continued leasing success.

The weighted average capitalisation rate (WACR) tightened by 36 basis points over the period, to 6.86%.

Leasing Activity

Propertylink's strong active lease management throughout the first half of FY18 continued to maintain the strength of the wholly owned industrial portfolio. In the context of a low FY18 expiry profile largely occurring in the last quarter, 23,438 sqm or 5.1% of the portfolio was transacted across 16 leasing deals delivering:

- 7 lease renewals at a tenant retention rate of 87.5% and average incentives of 3.8%
- 9 new leases, including 3 leases on areas vacant since acquisition of the portfolio, at an average incentive of 11.1% with average downtime of 4.7 months
- Increased portfolio occupancy to 99.3% following leasing success in Brisbane and Perth.

Repositioning of 71-93 Whiteside Road, Clayton VIC

The repositioning of 71-93 Whiteside Road, Clayton was completed during the period, delivering a modernised 28,662 sqm industrial facility for Walkinshaw Automotive under a 15-year lease which commenced in September 2017. The \$6.3 million⁽¹⁰⁾ project included various base building upgrades and the construction of a new corporate hub facility.

"We acquired the Clayton property in August 2016 on a cap rate of 8.5% with around six months remaining on the existing lease. Through a collaborative approach we repositioned the asset to meet the long-term needs of a new tenant, Walkinshaw Automotive.

"The project has delivered an outstanding facility with three modernised warehouses and office space that is state of the art, creating a highly attractive corporate presence for Walkinshaw, while enabling them to remain in the Clayton area close to their existing employees.

"The excellent leasing outcome combined with a successful capital works program has enhanced rental income and delivered an increased asset value of around 45%. Further, this showcases the strong asset and project management capabilities delivered by our in-house team" said Peter McDonald.

Property Divestments

During the 6 months to 31 December 2017, Propertylink completed the sale of non-core assets from the wholly owned industrial portfolio, delivering gross proceeds of \$32.6 million from the settlement of 150-156 McCredie Road, Smithfield and Sylvania Way, Lisarow. The divestment program has enhanced the quality of the portfolio while maintaining strong exposure to the Sydney industrial market.

INVESTMENT MANAGEMENT

At 31 December 2017 Propertylink managed \$959 million in industrial and office assets across six external funds on behalf of global institutional investors. Strong results continued to be achieved across the investment management business, delivering an average total return of 24%⁽³⁾ to investors since establishment of the external funds and 28% on all assets divested.

Propertylink's Managing Director and CEO, Stuart Dawes said "Over the past six months we have continued to demonstrate our ability to source capital and identify real estate investment opportunities, while maintaining a disciplined approach to the acquisition of assets and their timely divestment.

"We have taken advantage of opportunities to realise value and divested a number of assets across our funds supported by the strength of market conditions in Sydney and Melbourne. This has delivered superior outcomes for our investment partners and strong performance fees to Propertylink security holders.

"Importantly, we successfully recycled a key North Sydney office asset held in the POP fund into the newly established PACT vehicle, meeting the capital needs of an existing investor and providing an outstanding investment opportunity for our new investment partner.

"With a spread of external fund assets across the risk-return spectrum combined with our strong capability to manage to core through our active approach to asset management, we have a clear opportunity to maintain assets under management through the creation of long term core funds or through growth in our wholly owned industrial portfolio."

Divestment of External Fund Assets

Divestments completed during the period achieved an average total return of 25% for investors, comprising:

- 320 Pitt Street, Sydney for \$275 million, delivering a total return of 38% to investors in POP II;
- A 25% total return on the sale of 90 Mills Road, Braeside for \$51 million; and
- The sale of 73 Miller Street, North Sydney for \$150 million⁽¹¹⁾ realising a total return of 15% for POP.

These transactions generated performance fees of \$22.3 million to Propertylink.

The completion of these sales brings Propertylink's average total return on divested assets to 28%, further enhancing Propertylink's track record.

Acquisition of External Fund Assets

During HY18 Propertylink acquired a \$21 million industrial facility in Frenchs Forest, Sydney to further enhance the Propertylink Australian Industrial Portfolio (PAIP II).

In December 2017, Propertylink established the Propertylink Australian Commercial Trust (PACT) with new investor, Partners Group the leading global private markets investment manager. Propertylink maintains a 15% co-investment in the new venture, which will initially target value-add office investments of \$500 million.

In December 2017 PACT completed the acquisition of 73 Miller Street, North Sydney through the purchase of the 95% interest held by Propertylink's offshore investment partner for \$142.5 million and Propertylink's 5% direct interest in the asset. The purchase reflects a full acquisition price of \$150 million and a core market yield of 6.6%.

"We are very pleased to introduce Partners Group as a new investment partner, providing us with strong growth prospects focused on the creation of core institutional grade assets in the office market," said Stuart Dawes.

Co-investments

Aligning interests with investors, Propertylink continued to co-invest in external funds throughout the period, increasing co-investments by \$35 million to \$98 million at 31 December 2017. The uplift largely reflects Propertylink's increased co-investment in the PAIP II fund and a co-investment of 15% in the newly established PACT vehicle, bringing the average co-investment across external funds to 18.4% at 31 December 2017.

During the half year ended 31 December 2017, through independent and internal valuations across the portfolio, Propertylink delivered an increase in external funds under management of \$83 million. This resulted in an increase in the equity accounted value of co-investment stakes of \$11.6 million during the period.

OUTLOOK

Stuart Dawes said "There continues to be strong appetite for Australian real estate investment across both the industrial and office markets. Our strong track record of delivering market leading returns has resulted in ongoing support from both existing and new external fund investors.

"Our investment management business is well positioned for growth, driven by strong investor demand combined with our strategies surrounding the emerging market trends of urbanisation and e-commerce, which we expect to translate into longer term funds under management.

"Further, across both our wholly owned industrial portfolio and external funds, we maintain a solid pipeline of development and repositioning opportunities, providing further capacity to drive future growth and create prime grade real estate.

"Our wholly owned industrial portfolio is well positioned for growth having completed the divestment of non-core assets, with excellent portfolio metrics enhanced by heavy exposure to urban east coast infill locations with strong market fundamentals and a positive outlook.

"We maintain significant exposure to the strong Sydney and Melbourne markets, with a focus on opportunities to capitalise on emerging market trends surrounding urbanisation and e-commerce across both our wholly owned industrial portfolio and investment management business.

Propertylink maintains the following guidance in relation to FY2018, as upgraded in December 2017:

- Distributable Earnings per Security of 9.0 cents; and
- Distribution per Security of 7.3 cents per security, reflecting a distribution of 81% of distributable earnings.

RESULTS PRESENTATION

Propertylink presents its HY18 results by webcast and teleconference at 9:00am on Tuesday 13 February 2018. An archive of the event will be available later in the day on the Propertylink website <http://propertylink.com.au/investor-centre/>.

Further Enquiries

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About Propertylink

Propertylink is an A-REIT, listed on the Australian Stock Exchange under the code "PLG". Propertylink is an internally managed real estate group that owns and manages a diversified portfolio of logistics, business park and office properties and is a leading investment and asset management business with A\$1.7 billion of assets under management. Propertylink's integrated, in-house approach to active asset management is aimed at maximising the performance and value of assets under management for our global investors from North America, Europe, the Middle East, Asia and Australia.

Footnotes

- (1) Distribution yield calculated using PLG share price at 31 December 2017 of \$1.00.
- (2) FY2018 lease expiry excludes 1 Lake Drive, Dingley VIC which will become a redevelopment project on lease expiry in June 2018.
- (3) Weighted average total return across external funds excludes 50 Ann Street, Brisbane (PEP) and PACT in acquisition phase.
- (4) HY17 earnings include 6 months of income from PHL and PT (investment management and co-investment income) and 4.5 months of income from PAIP (wholly owned industrial portfolio).
- (5) HY17 net property income includes 4.5 months from PAIP (wholly owned industrial portfolio).
- (6) Performance fees of \$25.2m in HY17 were attributed to pre-IPO securityholders.
- (7) Co-investment income excludes \$11.6m (HY17 \$1.5m) of fair value adjustments.
- (8) 31 December 2017 like for like rental growth is from the first half of FY17 to the first half of FY18.
- (9) 30 June 2017 like for like rental growth is from the second half of FY16 to the second half of FY17.
- (10) \$5m incurred on Clayton repositioning project to 31 December 2017.
- (11) The \$150 million transaction of 73 Miller Street comprises the sale of the 95% interest for \$142.5 million held by Propertylink's offshore investment partner and Propertylink selling its 5% direct interest in the asset into PACT.