ASX/Media Announcement

14 August 2018

Propertylink delivers FY18 earnings ahead of guidance, well positioned for underlying growth in FY19

Propertylink Group (ASX:PLG) today announced strong financial and operational results for FY18, delivering distributable earnings of 9.25 cents per security, exceeding guidance of 9.0 cents per security.

Propertylink's Managing Director and CEO, Stuart Dawes said he was very pleased with the strong results achieved during the year, with the business well positioned for solid underlying growth in FY19.

"The positioning of our wholly owned industrial portfolio to urban east-coast infill locations to benefit from the emerging themes of e-commerce and urbanisation is delivering strong tangible value to our securityholders. This is enhanced by our industry leading expertise in the active management of these assets," Mr Dawes said.

He said Propertylink had maintained strong performance across its investment management platform, delivering total returns of 25 percent since inception.

"Our demonstrated success in delivering value continues to underpin our strong relationships with existing and new global institutional investors, who continue to seek opportunities in the Australian real estate market."

He said the investment management platform was positioned for solid growth in the coming year, with a number of initiatives well advanced.

Mr Dawes said Propertylink had taken advantage of strong transactional markets during the year, with the divestment of a number of external fund assets delivering average returns of 25 percent to investors and $22.3 million in performance fees to Propertylink.

"We will continue to benefit from solid performance fees and co-investment returns embedded across our funds over the coming years.

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

FY18 HIGHLIGHTS

Financial performance:

- Distributable earnings of $55.7 million, up 23 percent on the previous corresponding period
- Performance fees of $22.3m ($14.5 million after staff incentives and tax) having achieved outstanding returns on external fund assets divested during the year
- Distributions for the year ended 30 June 2018 of 7.3 cents per security, up 16 percent on the previous corresponding period
- Strong growth in net tangible assets (NTA) of 19 percent to $1.04 per security

Propertylink (Holdings) Limited (ACN 092 684 798), Propertylink Investment Management Limited (ACN 136 865 417) (AFSL 338189) as responsible entity of Propertylink Trust (ARSN 613 032 750) and Propertylink Australian Industrial Partnership (ARSN 613 032 812)
Level 29, 20 Bond Street, Sydney NSW 2000 T: +612 9186 4700 www.propertylink.com.au

- Return on equity of 27.4 percent[1] during the year
- Balance sheet gearing of 29.6 percent, below the target range of 30-40 percent

Wholly owned industrial portfolio:

- Revaluation uplifts across the portfolio of $77.2 million up 13.1 percent on a like for like basis, with the weighted average capitalisation rate tightening 56 basis points to 6.66 percent
- Occupancy increased to 99.2 percent from 97.0 percent at 30 June 2017
- Like for like rental growth of 6.0 percent driven by a strong fixed rent review profile and increased occupancy across the Perth and Brisbane portfolio
- A low FY19 lease expiry profile of 11.2 percent, weighted to the strong Sydney market and second half of the year
- The acquisition of a $48 million business park asset and exchange of contracts for the $8.6 million acquisition of adjoining vacant land in Lane Cove, NSW delivering growth to the portfolio in a sought after inner Sydney location

Investment management:

- Average total return of 25 percent[2] delivered across external funds since inception
- Realised average total return of 25 percent on external fund assets divested during the year, with an average total return on divestments since inception of 28 percent
- 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 uplifts of $97 million delivering growth in assets under management during the period
- Strong visibility over a number of opportunities to deliver growth across the investment management platform in the coming year, translating into longer dated funds under management

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FINANCIAL RESULTS

Key Earnings Metrics

Earnings metrics	FY18	FY17	Change
Total comprehensive income[3]	$142.8m	$87.2m	64%
Net revaluation gains / revaluation gain per security	$77.2m / 12.8 cps	$37.3m / 6.19 cps	107%
Distributable earnings / distributable earnings per security[3]	$55.7m / 9.25 cps	$45.3m / 7.51 cps	23%
Distribution per security / payout ratio	7.3 cps / 79%	6.32 cps / 84%	16%
Operating revenue			
Net property income[4]	$49.2m	$43.7m	13%
Co-investment income[5]	$6.0m	$4.7m	28%
Performance fee income[6]	$22.3m	$25.2	(12%)
Investment management revenue	$5.3m	$7.5m	(29%)
Property management revenue	$4.0m	$4.5m	(11%)
Gain on disposal of investment property	$0.1m	$5.7m	(98%)

Distributable earnings of $55.7 million for FY18 reflects a 12-month contribution from the wholly owned industrial portfolio, compared to 10.5 months in the prior year. Earnings were further enhanced by performance fees of $22.3 million ($14.5 million after tax and staff incentives) on divestment of external fund assets. Total comprehensive income of $142.8 million includes $91.0 million of net revaluation gains across the wholly owned industrial portfolio and co-investments during the year.

Distributions of 7.3 cents per security for the twelve months to 30 June 2018 reflects a payout ratio of 79 percent, with a portion of the net proceeds from performance fees retained to fund growth.

The distribution for the six months ending 30 June 2018 of 3.7 cents per security will be paid to securityholders on 4 September 2018.

Financial Position at 30 June 2018

Gearing at 30 June 2018 was 29.6 percent, slightly below the target range of 30 to 40 percent. Look through gearing at 30 June 2018 was 34.9 percent, down from 35.2 percent over the 12 month period.

Debt headroom at year end was $45 million, with available cash of $17 million providing liquidity of $62 million.

Net tangible assets increased by 19 percent during the year to $1.04 per security at 30 June 2018. This growth was driven by a strong uplift 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.

Strong growth in NTA combined with distributions, delivered a return on equity of 27.4 percent[1] during FY18.

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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 year, delivering strong rental growth and tangible value to securityholders.

	30 Jun 2018	30 Jun 2017	PDS
Industrial portfolio value	$800m	$695m	$685m
Number of properties	30	30	33
Gross lettable area	461,606 sqm	481,164 sqm	515,403 sqm
Occupancy	99.2%	97.0%	95.0%
Like for like rental growth	6.0%[7]	2.57%[8]	-
Tenant incentives	11.40%	12.99%	15.49%
WALE	3.8 years	4.4 years	3.6 years
WACR	6.66%	7.22%	7.65%

Propertylink's Chief Investment Officer, Peter McDonald said the wholly owned industrial portfolio had gone from strength to strength since the group listed in August 2016.

"Our portfolio metrics are industry leading across the industrial sector we are positioned in," Mr McDonald said.

"This combined with the value achieved during the year, is evidence of the strength of our asset and investment management platform, delivered through a focused active asset management approach."

He said near to zero vacancy, low near-term lease expiry and a fixed rental review profile across the portfolio all underpinned solid future rental growth. This was enhanced by the positioning of the portfolio to urban infill locations in Sydney and Melbourne, markets experiencing significant rental growth fueled by demand from e-commerce users in these highly sought-after and densely populated locations.

Mr McDonald said the portfolio included considerable opportunities to deliver value through leasing, asset repositioning and selective development.

"Our ability to drive value across our existing assets through an active approach is a key strength, and imperative in the current industrial market where asset pricing continues to tighten," he said.

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Demonstrated Leasing Expertise

Propertylink's strong active lease management throughout year, continued to strengthen the wholly owned industrial portfolio. In the context of a low FY18 lease expiry profile, 75,304 sqm or 16.3 percent of the portfolio was transacted across 35 leasing deals delivering:

- 12 lease renewals at a tenant retention rate of 58.9 percent and average incentives of 6.6 percent
- 23 new leases at an average incentive of 13.9 percent with average downtime of 2.7 months
- Increased portfolio occupancy to 99.2 percent following leasing success in Brisbane and Perth
- Strong like for like rental growth of 6.0 percent driven by a strong fixed rent review profile and increased occupancy across the portfolio
- A low FY19 lease expiry profile of 11.2 percent, weighted to the second half of the year and the strong Sydney market, providing opportunity for rental growth

Extending an existing partnership with Walkinshaw Automotive, Propertylink commenced a three year lease with Walkinshaw's New Age Caravan's business at 82 Taryn Drive, Epping in June 2018. The pending vacancy of this 10,590 sqm facility was a key FY18 expiry in the wholly owned industrial portfolio and was leased with no downtime, a key achievement across the leasing transactions undertaken during the year.

Peter McDonald said the ability of Propertylink's in-house asset and property management team to drive value through leasing, was evident in the results achieved across the portfolio this year.

"We have one of the best industrial leasing teams in the country and by retaining the management of our tenants in-house, we foster strong and enduring partnerships that ultimately deliver great value across the portfolio," he said.

Revaluations

At 30 June 2018, all assets in the portfolio were independently valued in accordance with Propertylink's valuation policy. An uplift on carrying value of $77.2 million, or 13.1 percent on book value 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 56 basis points over the year, to 6.66 percent.

INVESTMENT MANAGEMENT

At 30 June 2018 Propertylink managed $973 million in industrial and office assets across five external funds on behalf of global institutional investors. Strong results continued to be achieved across the investment management platform, delivering an average total return of 25 percent(2) to investors since establishment of the external funds and 28 percent on assets divested.

Key metrics across the external fund portfolio strengthened during the year delivering WALE of 4.8 years, occupancy of 94 percent and a WACR of 6.4 percent at 30 June 2018.

“We are receiving extraordinary levels of interest from wholesale capital seeking real estate investments in Australia,” Propertylink’s Managing Director and CEO, Stuart Dawes said.

“One of Propertylink’s strengths is the quality and depth of our relationships with global institutional investors.

“Due to our continued ability to deliver strong returns and our willingness to take advantage of opportunities to realise value for our investors, we are receiving excellent support in the market, underpinning our ability to source capital to drive growth across the investment management platform,” he said.

Divestment of assets generate strong returns

Divestments completed during the first half of the year achieved an average total return of 25 percent for investors, comprising:

- 320 Pitt Street, Sydney for $275 million, delivering a total return of 38 percent to investors in POP II;
- A 25 percent 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[9] realising a total return of 15 percent for POP.

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

Establishment of $500 million PACT fund

During FY18, Propertylink acquired $171 million of assets across the investment management platform, notably the $150 million acquisition of 73 Miller Street, North Sydney as part of the establishment of the Propertylink Australian Commercial Trust (PACT) with new investor, Partners Group.

The fund will target $500 million of value-add office investments in Sydney, Melbourne and Brisbane, providing the business with strong growth opportunities focused on the creation of core institutional grade assets in the Australian office market.

Growth in co-investments

Aligning interests with investors, Propertylink continued to co-invest in external funds throughout the period, increasing co-investments by $38 million to $101 million at 30 June 2018. The uplift largely reflects valuations, Propertylink’s increased co-investment in the PAIP II fund and a co-investment of 15 percent in the newly established PACT vehicle, bringing the average co-investment across external funds to 18.7 percent at 30 June 2018.

During the year, through independent and internal valuations across the portfolio, Propertylink delivered an increase in external funds under management of $97 million. This resulted in an increase in the equity accounted value of co-investment stakes of $13.8 million during the period.

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Solid fund growth expectations in FY19

Mr Dawes said that high levels of global investor demand for Australian real estate combined with Propertylink's strong performance and market strategies surrounding urbanisation, last-mile logistics, ageing population and technology had positioned the business for solid growth in the coming year.

"We have good visibility over a number of opportunities that will deliver growth across our investment management platform, that will also translate into longer date funds under management," Mr Dawes said.

The PACT fund, established in December 2017, maintains initial capacity for a further $350 million in acquisitions, targeting value-add office investment opportunities in Sydney, Melbourne and Brisbane. Propertylink's acquisition pipeline is well positioned on a number of assets for this fund.

Propertylink is well progressed on the establishment of the Propertylink Urban Renewal Partnership with an existing investor. The fund will initially target around $200 million in office and industrial property, with a focus on urban renewal opportunities over a 10-year period.

Propertylink is also progressing on the next phase of a core-plus/value-add industrial strategy following the full commitment of capital in the PAIP II fund during FY18. This total return investment style vehicle will focus on building a high quality portfolio of industrial property located in major markets on east coast Australia, where assets present repositioning opportunities. Propertylink is well positioned on this strategy and currently seeking acquisition opportunities.

OUTLOOK

Stuart Dawes said it was an exciting time for Propertylink, with the business expected to deliver solid growth and to continue to drive strong value in the coming year.

"Our wholly owned industrial portfolio and the assets we manage in our external funds are heavily weighted to the well performing Sydney and Melbourne industrial and office markets.

"With a positive outlook for rental and value growth across these markets, particularly Sydney, we expect to see strong performance across both sides of the business through FY19," Mr Dawes said.

He said Propertylink would continue to focus on the active management of its assets through leasing, targeted capital expenditure and development to drive growth and deliver value across the business, including the creation of prime grade real estate.

"We are seeing a strong tailwind for industrial property, as the emergence of e-commerce and material growth expectations in this sector drives occupier demand in urban infill locations, close to the population to facilitate last mile delivering.

"Our portfolio has been strategically positioned to these markets and is well placed to benefit over the short, medium and long term.

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"There continues to be strong appetite for Australian real estate investment across both the industrial and office markets. Our track record of delivering market leading returns combined with our strategies surrounding urbanisation and e-commerce are providing us with strong growth opportunities across our investment management platform which we expect to translate into solid growth in assets under management over the coming year," he said.

GUIDANCE

Propertylink provides the following guidance[10] in relation to FY19:

- Distributable Earnings per Security of 7.6 to 7.7 cents; and
- Distribution per Security of 7.3 cents.

RESULTS PRESENTATION

Propertylink presents its FY18 results by webcast and teleconference at 9:00am on Tuesday 14 August 2018. An archive of the event will also 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$1.8 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.

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Footnotes

(1) Return on equity is calculated as the growth in NTA per security plus the distribution paid per security divided by the opening NTA per security.

(2) Weighted average total return across external funds excludes PACT in the acquisition phase.

(3) FY17 includes 12 months of income from PHL and PT (investment management and co-investment income) and 10.5 months of income from PAIP (wholly owned industrial portfolio).

(4) Net property income is presented on a distributable earnings basis. FY17 net property income includes 10.5 months from PAIP (wholly owned industrial portfolio).

(5) Co-investment income excludes $13.8m (FY17 $3.8m) of fair value adjustments.

(6) Performance fees in FY18 contributed $14.5m to distributable earnings after tax and staff incentives. Performance fees of $25.2m in FY17 were attributed to pre-IPO security holders and not included in distributable earnings as reported in the table.

(7) FY18 like for like rental growth is against the comparative twelve month period and excludes 71-93 Whiteside Road Clayton, which was a development asset during the nine months to September 2017.

(8) 30 June 2017 like for like rental growth compares the second half of FY16 to the second half of FY17.

(9) The $150 million transaction of 73 Miller Street comprises the sale of the 95 percent interest for $142.5 million held by Propertylink's offshore investment partner and Propertylink selling its 5 percent direct interest in the asset into PACT.

(10) Guidance does not include performance fees. Transactions may occur during the year that will generate performance fees. Propertylink will update guidance when these transactions occur.

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