12 August 2014

GPT delivers NPAT of $240.6m and EPS growth of 4.5% in first half

1H 2014 Financial Highlights

- Net Profit After Tax of $240.6 million down 6.4 per cent on pcp
- Earnings per security (EPS) growth of 4.5 per cent on pcp
- 8.4 per cent Total Return on a rolling 12 month basis
- $1.1 billion of asset acquisitions
- 18.3 per cent growth in Funds Under Management[1]
- 9.7 per cent Total Return to GPT from Funds Management Business
- 24.8 per cent gearing, and Net Tangible assets (NTA) of $3.82
- US$175m 15 year US Private Placement

Overview

The GPT Group (GPT) today announced a solid 2014 Interim Result, delivering earnings per security (EPS) growth of 4.5 per cent on the prior corresponding period (pcp) and Adjusted Funds from Operations (AFFO) of $183.3 million, up 3.3 per cent on pcp.

CEO and Managing Director Michael Cameron said GPT had continued to execute on its strategy, and was on track to deliver EPS growth of at least 3 per cent and achieve its Total Return target of 9 per cent for the full year. The business grew through $1.1 billion in acquisitions, whilst maintaining a fortress balance sheet.

“It has been an active period for the group, which has been characterised by improved conditions in the retail sector and signs of recovery in both the Sydney and Melbourne office markets,” Mr Cameron said.

“The pleasing result for securityholders has been driven by a solid portfolio performance, with growth coming from a 16.2 per cent uplift in income contribution from the logistics portfolio, following several acquisitions, and the completion of new development product, as well as another strong period for the funds management division, which delivered a 9.7 per cent return to the business.

“Statutory Net Profit After Tax of $240.6 million was down 6.4 per cent on the prior period. While the value of the GPT portfolio increased by $30.8 million, this was offset by the impact of asset sales in the second half of 2013 and a negative mark-to-market movement on derivatives.”

Chief Financial Officer Mark Fookes said GPT’s active financial and capital management saw continued low costs across the business, during the period.

“A successful US$175 million issue in the US private placement market, helped to lengthen the debt expiry profile and further diversify GPT’s debt sources. The cost of debt in the first half was 30 basis points lower than 2013,” Mr Fookes said.

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[1] Defined as the assets under management for GWSCF and GWOF, growth since 1 January 2014

"GPT management costs also remain at a sector low, with our Management Expense Ratio[2] at just 40 basis points."

Retail portfolio result supported by improved market conditions

- Comparable income growth of 2.6 per cent on pcp
- Occupancy at 99.5 per cent
- Specialty sales growth of 3.0 per cent for the first half

Chief Investment Officer Carmel Hourigan said retail fundamentals had improved with retail sales growth above the long term average and online sales growth moderating. Ms Hourigan said this had been reflected in GPT's retail business with key operating metrics improving in the six months to June.

"Melbourne Central, Highpoint, Sunshine Plaza and Casuarina Square all performed strongly and delivered the largest contributions to the retail portfolio result. Across the portfolio comparable income growth was up from 1.5 per cent last year, to 2.6 per cent for this half. Pleasingly, GPT has just 35 vacancies across 3,300 shops," Ms Hourigan said.

"Specialty sales strengthened to 3 per cent growth in the first half. Retail services, cafes and restaurants were among the strongest performers. Sales from categories such as Discount Department Stores have declined, leading to more modest overall centre sales growth.

"GPT continues to unlock the value of its $1.1 billion retail development pipeline. Construction has begun on student accommodation, as part of plans to further develop Casuarina Square in Darwin into a major activity centre. The $210 million expansion of Wollongong Central for the shopping centre fund is set to transform the CBD, when it opens in late September, this year.

"We are also currently reviewing our plans to expand the award winning Rouse Hill Town Centre and take advantage of its position in a strong growth corridor, which is underpinned by the NSW Government's new rail link that will have a station adjacent to the centre."

Office portfolio future expiry significantly reduced

- 105,850sqm of leases signed or at HOA in first half
- WALE extended to 6.3 years, up from 5.8 years in December 2013
- Development and repositioning of MLC Centre to deliver long term benefits

Ms Hourigan said that as anticipated, the office markets in Sydney and Melbourne had reached an inflection point and were now showing signs of improved activity.

"This has translated into a busy first half with significant office leasing for the portfolio of 105,000sqm. This activity has continued to strengthen the lease profile, and puts the Group in a stronger position for the future," Ms Hourigan said.

"Over the past four years GPT has leased more than 450,000sqm of office space and now has a low and flat expiry profile.

[2] Management Expense Ratio is defined as management expenses divided by assets under management

"Like for like income growth in office, for the period, was negative 3.1 per cent, which was predominantly due to vacancy at the MLC Centre. Excluding the MLC Centre, like for like growth would have been positive 1.5 per cent.

"I am pleased to say we have leased or renewed more than 10,000sqm in the MLC Centre tower, so far this year, and we have made good progress on redevelopment plans for the ground floor retail as part of an exciting repositioning of the asset."

The MLC Centre repositioning includes:

- A new food court, which will capture the influx of new workers to Martin Place, as well as end of trip facilities, with a forecast cost to GPT of $7.5 million
- A comprehensive façade restoration, with a forecast cost to GPT of $63 million
- A Development Application to be lodged this year for new luxury retail on King and Castlereagh Streets, as well as expansion of the food and bar venues overlooking the tower plaza, and a new tower foyer and entry from Castlereagh Street, with a forecast cost to GPT of $75 million.

"The additional façade costs have been provided for in the valuation of the asset as at June, and are the primary reason for a $35 million reduction in the carrying value of the asset," Ms Hourigan said.

"Once all of the works are completed, the MLC Centre will be established as one of the most sought after precincts in Sydney."

Logistics portfolio growth driven by quality development

- Completions and acquisitions drive income up 16 per cent year on year
- $650m development pipeline, of which approximately $300m is underway
- Development and asset repositioning provides opportunities to add further value

Ms Hourigan said GPT's Logistics portfolio had grown significantly since 2012, almost doubling in size to $1.5 billion, when committed developments are completed early next year.

"Initial growth in logistics came through acquisitions but much more is now being delivered via our significant development capability, as competition for assets increases and there are fewer quality assets for sale," Ms Hourigan said.

"Our development pipeline is now greater than $650 million of which $300 million is currently under construction. While the portfolio WALE remains a solid 5.5 years it will increase to greater than 8 years upon completion of committed development product in early 2015.

"The Toll NQX headquarters in Brisbane opened earlier this year and, along with the acquisitions of assets at Yatala in Brisbane and Yennora in Sydney, helped drive up income 16 per cent on the same period last year. Three other quality assets at Erskine Park, including a logistics facility for TNT and two state-of-the-art cold storage and processing facilities are progressing well and will deliver meaningful contributions to the business from FY15.

"Our future pipeline has been enhanced with the acquisition of a 58 hectare site at Wacol, a prime industrial location in Brisbane's south east. This site will be developed over a 5 to 6 year period with our joint venture partners, delivering more than $350 million in new product."

Funds Management business grows and delivers solid returns

Mr Cameron said the first half of 2014 had been a successful period for GPT's Funds Management business, which had contributed 9.7 per cent return to the Group.

"The contribution to the Group earnings is set to grow following the completion of several major transactions for the GPT Wholesale Office Fund and GPT Wholesale Shopping Centre Fund totalling $1 billion. The funds have now launched a capital raise of $650 million, between them," he said.

"GPT expects to launch a Metropolitan Office Fund before the end of the year, while an industrial fund remains subject to the purchase of suitable assets from the market."

Outlook

Mr Cameron said GPT was on track to achieve EPS growth of at least 3 per cent in 2014, reflecting the improved position of the portfolio, while the Group was also on track to meet its Total Return target of 9 per cent for the year.

"GPT is in a good position, as the team continues to work the portfolio hard to deliver consistent returns. There is the opportunity to add further value as the Group completes a number of logistics developments and continues to deliver growth in funds under management," Mr Cameron said.

– Ends –

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