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ASX Announcement
27 February 2020

CROMWELL PROPERTY GROUP

59% INCREASE IN STATUTORY PROFIT PER SECURITY, STRATEGY DELIVERING RESULTS FOR SECURITYHOLDERS

HY20 HIGHLIGHTS AND STRATEGY UPDATE

- Statutory profit of $227.3 million, equivalent to 8.78 cps, up 59% (HY19 $111.1 million, 5.52 cps);
- Operating profit of $134.1 million, equivalent to 5.18 cps, up 26% (HY19 $82.6 million, 4.10 cps);
- Net Tangible Assets (NTA) up to $1.04 (FY19 $0.99);
- Weighted Average Lease Expiry (WALE) of 6.1 years and debt tenor of 4.2 years;
- Partnership with BlackRock Real Estate at 475 Victoria Avenue, Chatswood announced;
- Group gearing of 41%, within target range at 39% on a pro-forma basis (post Chatswood);
- Total assets under management (AUM) of $11.9 billion; and
- Strategic Review underway

Real estate investor and manager, Cromwell Property Group (ASX: CMW) (Cromwell), today reported half-year (HY20) statutory profit of $227.3 million (HY19 $111.1 million), equivalent to 8.78 cents per security (cps), up 59% on the 5.52 cps in the prior comparable period.

Operating profit, considered by the Directors to best reflect the underlying earnings of Cromwell, was $134.1 million, equivalent to 5.18 cps, a 26% increase from the 4.10 cps reported in HY19.

"We have delivered an exceptional set of results in the first half," said Cromwell CEO Paul Weightman.

"Our long-dated balance sheet assets continue to drive operating earnings above our rolling net operating income (NOI) target of 3.0%."

"Our 'Invest to Manage' strategy, which involves investing to acquire or develop assets, creating new funds, selling down to capital partners and then recycling the proceeds also continues to bear fruit," he added.

"In the half year we sold Northpoint Tower and recycled capital into 400 George Street, our LDK Healthcare joint venture and in acquiring the third-party interests in the Cromwell Polish Retail Fund"

Cromwell also announces that it has exchanged contracts to sell a 50% interest in 475 Victoria Avenue, Chatswood to a private fund managed by BlackRock Real Estate and will enter into a joint venture relationship for the expansion of the asset.

"Similar to the strategic approach taken with Northpoint the location, high-calibre tenants and development upside position the asset as an attractive investment proposition. We will review our existing plans with BlackRock and explore further ways to increase the value of the opportunity," said Mr Weightman.

"The Group has a clear proven strategy, a long-WALE portfolio of balance sheet properties, a $1.2 billion plus value-add development pipeline, a host of 'Invest to Manage' opportunities, a successful and growing business in Singapore and a robust platform and presence in Europe."

"We are exceptionally well-placed to continue to add value for all securityholders," he concluded.

DIRECT PROPERTY INVESTMENT SEGMENT UPDATE

Direct property investment segment profit was $105.7 million, 69% higher than the prior comparable period (HY19 $62.7 million). The portfolio is valued at $3.2 billion and is split into three components;

1. The Core portfolio comprises ten assets representing 75% of the Australian portfolio by value and has a WALE of 8.2 years. It has occupancy of 99.7% and has generated NOI growth of 3.4%;
2. The Core+ portfolio comprises six assets or 23% of the portfolio by value, has 96% occupancy, a WALE of 3.2 years and NOI growth of 2.1%; and
3. The Active portfolio consists of five assets or 2% of the portfolio by value. The WALE is 0.1 years as the buildings identified for redevelopment become vacant.

During the year, the weighted average cap rate tightened by 0.10% to 5.63% with a fair value increase in investment property of $110.1 million net of property improvements, lease costs and incentives. The WALE was 6.1 years due to strong leasing outcomes with 64 transactions for 83,775 sqm.

Mr Weightman stated, “Our Core and Core+ portfolios are performing strongly. Combined, they represent over 98% of the portfolio by value, have occupancy of 98.75% and are generating consistent strong NOI growth above our rolling 3.0% target.”

“We also have a very strong portfolio of value-add projects to consider,” he added.

“The ongoing work at Greenway is progressing well and we have a new opportunity with BlackRock at 475 Victoria Avenue, Chatswood. A development application for a new $85 million, 18,000 sqm PCA A-grade office building at 19 National Circuit, ACT has also just been lodged and we are conducting a feasibility review of a masterplan at Wakefield Street in Adelaide.”

“In conjunction with other confidential projects, we have a strong line of sight to at least $1.2 billion of development work either underway or likely to commence within the next few years,” he said.

INDIRECT PROPERTY INVESTMENT SEGMENT

The segment includes Cromwell’s 30.4% interest in the Cromwell European REIT (CEREIT), 50% interest in LDK Healthcare (LDK) and the Cromwell Polish Retail Fund (CPRF).

Segment operating profit was $25.5 million, up 31% from $19.4 million in the prior comparable period.

CEREIT announced its 2019 financial year (FY2019) annual results to the Singapore Exchange Securities Trading Limited this week. Net Property Income was €116.1 million with FY2019 distributions per unit, of 4.08 Euro cents, above IPO forecast.

Cromwell’s 30.4% equity accounted share of CEREIT’s operating profit for the period was $26.1 million (HY19: $25.3 million). The stake is now valued at over €400 million ($637 million).

“We are very pleased with our investment, the efforts of the CEREIT management team, and all those who have contributed to its undoubted success. CEREIT has exceeded its IPO forecasts and has a strong pipeline of potential opportunities which should see it continue its growth trajectory,” he said.

During the half, Cromwell acquired all third-party investor interests in CPRF for €512.9 million ($823.3 million). CPRF consists of a portfolio of accretive, destination centres in desirable metropolitan regions across Poland. The portfolio has been temporarily warehoused on Cromwell’s balance sheet.

"The fund will be restructured by the end of March. It will then be offered to capital partners and we expect to retain a long-term co-investment stake of 20% to 30%," he said, "similar to CEREIT."

"Once this has occurred the monies freed up will be used to repay debt or be recycled into one of our other 'Invest to Manage' opportunities," he concluded.

LDK has made impressive progress in restructuring the membership scheme at The Landings, one of Sydney's premium seniors' villages, which comprises 220 architecturally-designed homes.

"98% of residents have elected to convert from a Deferred Management Fee model to the new LDK membership model and all future residents will be offered this model going forward. Significant capital appreciation of the underlying assets is expected as a result," said Mr Weightman.

Greenway Views is also in the process of being transformed into a Seniors' Living village. The first residents have moved in and 210 apartments are expected to be operational by the end of April.

"From a standing start a year ago, we will now have 430 seniors living apartments operational by the end of April. We are keen to scale up and expand this joint venture further," he added.

FUNDS AND ASSET MANAGEMENT SEGMENT UPDATE

Cromwell's funds and asset management segment profit was $31.1 million, up 67% from $18.6 million in the prior comparable period. Total FUM was $8.3 billion.

Europe again saw substantial transactional activity in 2019 including the managed sell-down of the German Portfolio within the Cromwell European Diversified Fund generating an investor IRR of 19%.

"As per the previously declared strategy of broadening capital sources, 72% of the €3.8 billion under management in Europe is now more permanent capital. This level of recurring income will underpin the platform and its future growth," Mr Weightman said.

"2020 is also the last year with material expiries relating to the historic funds we acquired. Once the 2020 calendar year is over, just maintaining the current level of acquisitions will see the platform begin to scale up towards its medium-term target of €8 billion."

Within the retail component of the segment the highlight was the continued growth of the Cromwell Direct Property Fund which acquired 11 Farrer Place in Queanbeyan, NSW for $35 million and benefitted from strong inflows with gross assets increasing to $449 million.

"The fund continues to be popular with investors due to its with low gearing and ability to pay a secure distribution with some liquidity," Mr Weightman said.

In New Zealand, AUM at Oyster Group (50% interest) increased to NZ$1.8 billion (NZ$1.7 billion FY19). Highlights of the half were the popularity of the Oyster Industrial Limited offer and acquisition of a 60% ownership share in Tauranga Crossing which will be marketed to institutional investors in 2020.

OUTLOOK AND GUIDANCE

2020 will be a difficult year for the world economy as the knock-on effects of the Coronavirus (COVID19) are fully felt. In Australia, hit by bushfires, floods, reduced numbers of tourists and international students, and with a susceptibility to any downturn in the Chinese economy, forecasts are being lowered. Economic growth for 2020 is likely to be well below the previously forecast 2.00%.

"We do not underestimate the challenges ahead. 2020 was already looking like a year of muted global economic growth prior to the recent natural disasters and the coronavirus. Given current asset pricing levels, we remain highly selective and very cautious," said Mr Weightman

"We are also subject to continuing agitation from our largest securityholder, the latest episode of which is to call an EGM. We will respond to the notice that we received this morning in due course."

"We retain a strong balance sheet. NTA is up to $1.04, pro-forma gearing of 39% is within our target range, we have a long WALE of 6.1 years, 40% of gross passing income is sourced from government tenants and we have a wide range of value adding accretive options within our current portfolio."

"At the half-year we are ahead of run-rate and strategy and, despite the considerable uncertainty in the general external environment, the distractions from consistent securityholder agitation and the looming economic impact of the coronavirus, we are confident to maintain FY20 operating earnings guidance of not less than the 8.30 cps previously provided to the market," Mr Weightman concluded.

Operating profit is expected to be no less than 8.30 cps and distributions no less than 7.50 cps, representing an operating profit per security and distributions per security yield of 7.03% and 6.36% respectively based on a closing price of $1.18 per security on 26 February 2020.

Cromwell is undertaking a Strategic Review, in conjunction with its advisers, UBS and Goldman Sachs. The Strategic Review, led by Chair, Mr Leon Blitz, will examine all aspects of the business, the current 'Invest to Manage' strategy and all possible options to maximise securityholder value.

"This review is not driven by any concerns about performance, or lack of alignment or direction, but rather to ensure that all securityholders receive maximum value from their investments."

This may include a formal sale process of the Group or parts of the Group and a review of the capital structure required to execute the Groups strategy. The Board welcomes input from all of Cromwell's securityholders and other stakeholders.

"While we are confident in our 'Invest to Manage' strategy, and the results are plain to see, we are not so inflexible that we won't listen to our securityholders and consider ways to maximise value that is in the best interests of all of them," Mr Weightman concluded.

The Strategic Review is expected to conclude prior to Cromwell's full-year FY20 results.

Authorised for lodgement by Lucy Laakso (Company Secretary) and Paul Weightman (Chief Executive Officer).

Ends.

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ABOUT CROMWELL PROPERTY GROUP

Cromwell Property Group (ASX:CMW) is a diversified real estate investor and manager with operations on three continents and a global investor base. As at 31 December 2019, Cromwell had a market capitalisation of $3.1 billion, a direct property investment portfolio valued at $3.2 billion and total assets under management of $11.9 billion across Australia, New Zealand and Europe.