



ASX ANNOUNCEMENT

Abacus Property Group

2018 Full Year Results

Results highlights

- The Group¹ delivered an AIFRS statutory profit of \$243.7 million in FY18
- Abacus underlying profit² was \$183.3 million
- Abacus funds from operations was \$169.8 million, up 9%
- Abacus underlying earnings per security was 31.7 cents
- Abacus funds from operations per security was 29.4 cents, up 7%
- Abacus FY18 distribution per security up 3% to 18.0 cents
- Distribution payout ratio of 61.3% of funds from operations
- Net tangible assets (NTA) of \$3.18 per security, up 8.5%³
- Review of current strategy has confirmed Group trajectory with a refined focus on preferred sectors of office and self storage
- Continue to enhance overall portfolio quality with over \$277 million of office acquisitions
- Initiated non-core disposal program resulting in \$278 million of proceeds
- Self Storage portfolio delivered RevPAM⁴ growth of 5.6%
- Realised \$151 million in cash from residential developments
- Group gearing low at 23.3%, further reduced post balance date to c.18%

Abacus Managing Director, Steven Sewell, commented “Abacus has had another active year delivering a strong result for the year. It’s been an eventful and demanding year for everyone at the Group and I’d

1 The Group consists of Abacus Property Group, Abacus Hospitality Fund and Abacus Wodonga Land Fund

2 Underlying profit and earnings per security are non-AIFRS measures that Abacus uses to assess performance and distribution levels. They are calculated in accordance with the AICD/Finsia principles.

3 Adjusted to include the distribution paid in August 2017

4 RevPAM: Revenue per available square metre.



like to thank everyone for their energy and commitment in delivering these results. Transitioning into the role of Managing Director has allowed for a review of the business to be undertaken, assessing current market conditions, project status and outlook to confirm our strategic direction. As a result, we've had an active end to the year with a high level of acquisitions within the investment portfolio and the disposal of several non-core assets. This has improved the overall quality of the portfolio and sets us up well to drive higher levels of recurring earnings and deliver growth in distributions to securityholders."

Strategic direction confirmed

An internal review has confirmed the trajectory for Abacus into and through the next stage of its evolution. An enhancement to existing business structure and processes with a focus on resourcing, systems and workplace design will be an enabler for superior returns. The Group's capital allocation will be aimed at:

- Increasing our investment in longer dated core plus developed to core office assets
- Increasing our investment in self storage
- Limiting balance sheet exposure to non-core assets
 - Reducing exposure to residential
 - Reducing exposure to retail at this point in the cycle
 - Monetising land bank as value is created
- Desire to partner with key long term institutional capital to drive sustainable returns via the third party capital platform

Board has affirmed the distribution policy of 2-3% distribution growth pa over the medium term.

Capital management

The Abacus balance sheet remains conservatively gearing at 23.3%. Post balance date transactions have further reduced gearing to c.18% increasing the Group's available liquidity and providing over \$600 million of capacity for acquisition or organic growth opportunities.

Mr Rob Baulderstone, Abacus Chief Financial Officer, noted "Our balance sheet continues to maintain good levels of liquidity and gearing, with capacity to add to our office and self storage portfolios in line with our stated strategy for growing our recurring earnings base to fund distribution growth to our securityholders."

Segment review

1. Property

- 97 properties valued at \$2.13 billion
- Revaluation gains of \$65.3 million across the portfolios

A. Commercial portfolio

- \$98.3 million underlying EBITDA contribution
- 35 commercial properties valued at \$1.464 billion
- Portfolio capitalisation rate: 6.16%



- Occupancy⁵: 91.3%
- Like for like rental growth of 3.6%⁵
- Weighted average lease expiry (WALE) profile of 4.1 years⁵.

The commercial portfolio was impacted by further portfolio remixing as non-core assets are replaced with assets that will drive more sustainable returns over the long term. Underlying EBITDA decreased to \$98.3 million following higher levels of gains in FY17. Acquisitions have helped increase the portfolio's total assets higher to almost \$1.5 billion across 35 properties and included:

- 187 Todd Road, Port Melbourne VIC for \$43.5 million (100% interest), settled Nov 2017
- 452 Johnston Street, Abbotsford VIC for \$93.5 million (100% interest), settled Mar 2018
- 464 St Kilda Road, Melbourne VIC for \$47.7 million (50% interest), settled May 2018
- 11 Bowden Street, Alexandria NSW for \$48.9 million (100% interest), settled Mar 2018; and
- 63 Ann Street, Surry Hills NSW for \$27.5 million (100% interest), settled April 2018

Changes in the portfolio and a stronger leasing environment helped the portfolio occupancy increased from 90.5% to 91.3% at 30 June 2018. Pleasingly, like for like rental growth also remained strong delivering growth of 3.6%. This was largely due to the performance of the Group's property management team, leasing of developed assets and in-built annual rental increases.

The Group's capital allocation strategy will continue to target assets with much longer dated core plus developing to core strategies to ensure more sustainably growing revenue levels in the medium to long term. While we limit balance sheet exposure to the retail sector at this point in the cycle we'll remain focused on select CBD and CBD fringe office markets which offer the best risk adjusted returns.

Abacus' third party capital joint ventures remain an integral strategic investment platform for the Group. As previously mentioned, we have expanded the platform with a new joint venture with Wing Tai, out of Singapore to acquire 464 St Kilda Road in Melbourne. Abacus and its joint venture partner Heitman completed its investment fund during the year. Abacus currently has \$1.8 billion of assets under management including Abacus' \$650 million ownership share. We'll continue to develop high quality, long term strategic partnerships with likeminded institutions that share our investment thematic. This was further highlighted post balance date, in July, where we completed a 50/50 super convenience retail partnership with ISPT with c.\$300m of Abacus retail assets.

B. Self Storage portfolio

- \$55.9 million underlying EBITDA contribution up 27.7%
- 62 self storage assets valued at \$666 million
- Portfolio capitalisation rate: 7.5%
- Occupancy⁶: 89.4%
- Average rental pa⁶: \$276 per sqm
- RevPAM⁶: up 5.6% to \$247 per sqm

The Group remains committed on growing exposure to the self storage sector while also ensuring the portfolio is operating as efficiently and profitably as possible. An evaluation of the portfolio occurred during the year, highlighting a portfolio of five assets as non-core due to regional concerns and limitations to future occupancy and rental growth. This portfolio was divested in May 2018 for \$26.5 million resulting in a \$9 million gain. The Group acquired two sites for self storage development that

⁵ Excluding development assets.

⁶ Excluding assets awaiting conversion or newly converted assets in lease up.



should contribute to the portfolio and add to returns to the portfolio in the next few years. Focus remains on growing our presence in metropolitan areas on Australia's Eastern Seaboard that will deliver higher average rental rates than the current portfolio average to drive portfolio returns.

The portfolio's stabilised assets are the key contributor to underlying growth. They continue to deliver improved operating performances across Australian and New Zealand markets. Despite the portfolio's reduction to 62 assets, the stabilised portfolio grew occupancy to 89.4% from 89.2% and average rental rate increased to \$276/m² from \$262/m². The increased rental and occupancy improved portfolio revenue per available metre (RevPAM) to \$247/m² from \$234/m² in 2017, a 5.6% increase assuming a stabilised New Zealand exchange rate.

The portfolio's development pipeline consists of 13 main projects with c.\$60 million of committed capital across the portfolio including expansion of stabilised facilities and brownfield and greenfield developments. We anticipate delivering these projects over the next three years adding 45,000 m² of net lettable area. These projects will deliver c.20% valuation uplift once completed.

2. Developments

The residential developments business delivered an increased underlying EBITDA result of \$92.7 million, up 68%, attributable to increased returns from completed development projects. Abacus has total assets of \$449 million invested across several residential developments in capital city markets on the eastern seaboard of Australia. Abacus controls approximately 7,700 apartment units or land lots which equates to approximately \$58,000 cost base per unit/land lot.

Abacus completed four residential joint venture development projects during the last 12 months. As at 30 June 2018:

- The Eminence, Melbourne VIC delivered 193 apartments in the inner city suburb of Carlton. All units have settled.
- Ashfield Central, Sydney NSW delivered 101 apartments and 3 retail units in the inner-city suburb of Ashfield. Settlements began in June 2018 with 99 apartments and retail units settled. We remain confident of settling the remainder in early FY19.
- Ivy and Eve, Brisbane QLD delivered 476 apartments and 2 retail units across two buildings in the inner-city suburb of South Brisbane. Achieved 383 settlements, and we are confident of settling the remaining apartments in FY19.
- One A, Erskineville Sydney NSW delivered 175 apartments in the inner-city suburb of Sydney. 162 apartments have settled, and we remain confident of settling the remainder in early FY19.

Further, Abacus has several joint ventures that own land sites across the Metropolitan Sydney area. The internal review did highlight several value appreciation/realisation opportunities and there is currently an active public sales program on several projects, Riverlands, Lane Cove and various others will be considered as market conditions permit.

Outlook

The Group's affirmed strategy towards higher than previous levels of stable and predictable recurring earnings will have several notable implications as the business recalibrates. The Board has committed to the Groups' distribution policy of 2-3% growth pa, targeting FY19 DPS of 18.5c, a 2.8% increase on FY18. There is therefore a potential for near term adjustment to a higher distribution payout ratio from the current historical low.

Irrespective, FY19 outlook remains positive with a refined and narrowed strategic focus as a high conviction owner and manager highlighting Abacus as a long term value proposition. The Group's recent acquisitions are expected to boost funds from operations immediately and liquidity levels remain healthy for further acquisitions with a conservative balance sheet. Increasing third party capital



relationships across multiple facets of the Group are also expected to drive income and capital growth initiatives.

Abacus' substantial acquisition capacity provides excellent opportunity to take advantage of prospects in the self storage and office markets as markets move into the next stage of the cycle. This capacity can be further leveraged to invest in a larger number of projects through joint venture arrangements.

In evaluating our expected FY19 funds from operations, any value capture process regarding the main Camellia site will be finalised following consideration of state government gazettal for density at that time, a review of sub-division options into more manageable/defined parcels that may provide a more stable and sustainable revenue stream to the Group and the planned decontamination of the site (c.\$33m).

Abacus Managing Director, Mr Steven Sewell, commented "I'm very pleased to deliver these results. I'm excited and looking forward to the next 12 months as we enact strategies that will shape Abacus for the next step in its evolution while unlocking and demonstrating our value proposition".

Further information

Further information on Abacus' full year results and an update on current operations are provided in the financial report and investor presentation.

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Investor enquiries

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About Abacus

Abacus Property Group is a diversified property group that specialises in investing in core plus property opportunities across Australia's commercial property markets. Abacus was established in 1996 and listed on the ASX in November 2002. Abacus has achieved a successful track record of acquiring property based assets and actively managing those assets to enhance income and capital growth. Abacus has a market capitalisation of \$2.1bn.