



# Half-year Results to 31 December 2016

February 2017

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# Presentation Outline

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- > 2017 half-year highlights
- > Results
- > Portfolio
- > Capital management
- > Primary business objectives
- > Outlook



## 2017 HALF-YEAR HIGHLIGHTS

# 2017 half-year highlights

<b>\$75.8m</b> ↑ Total income 1.5%	<b>\$55.5m</b> ↑ Dist. profit 4.1%	<b>8.63 cpu</b> ↑ Distribution 4.1%	<b>\$2.60</b> ↑ NTA 3.1%	<b>10.6% pa</b> 10 yr total return
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Portfolio performance	Portfolio management	Capital management
<b>2.4%</b> like-for-like rental growth	<b>5.5%</b> ↑ 4 MRRs finalised	<b>4.6%</b> cost of debt at 31 Dec 2016
<b>6.77%</b> portfolio cap rate	<b>1</b> property divestment	<b>8.4%</b> reduction in borrowing costs
<b>5.5 years</b> portfolio WALE	<b>99.9%</b> leased	<b>2.7 years</b> debt duration
<b>10.4%</b> annualised portfolio ROIC	<b>15 properties</b> zoned for higher and better use	<b>21.2%</b> gearing



## RESULTS

# Results - financial performance 6 monthly

	6 months to Dec 16	6 months to Jun 16	6 months to Dec 15
Total income	\$75.8m	\$75.5m	\$74.7m
Management expense ratio	0.62%	0.64%	0.66%
Other expenses	\$3.0m	\$3.1m	\$3.1m
Distributable profit	\$55.5m	\$54.6m	\$53.3m
Property revaluation gains	\$17.9m	\$29.1m	\$173.5m
Net profit including property revaluations	\$73.4m	\$83.7m	\$226.8m
Number of units on issue	642.2m	642.2m	642.2m
Six month distribution (cents per unit)	8.63	8.50	8.29
Total assets	\$2,218.7m	\$2,200.5m	\$2,179.8m
Borrowings	\$470.4m	\$472.3m	\$479.6m
Weighted average cost of debt <sup>1</sup>	4.69%	4.95%	5.08%
Net Tangible Assets (per unit)	\$2.60	\$2.56	\$2.52
NTA per unit excluding hedging liabilities	\$2.60	\$2.58	\$2.53
Weighted average cap rate	6.77%	6.77%	6.81%

<sup>1</sup> Finance costs divided by average borrowings for the six months



PORTFOLIO



# Portfolio – market rent review outcomes

Four Bunnings reviews resulted in a 5.5% increase, 1 from FY2016, and 3 due during the period

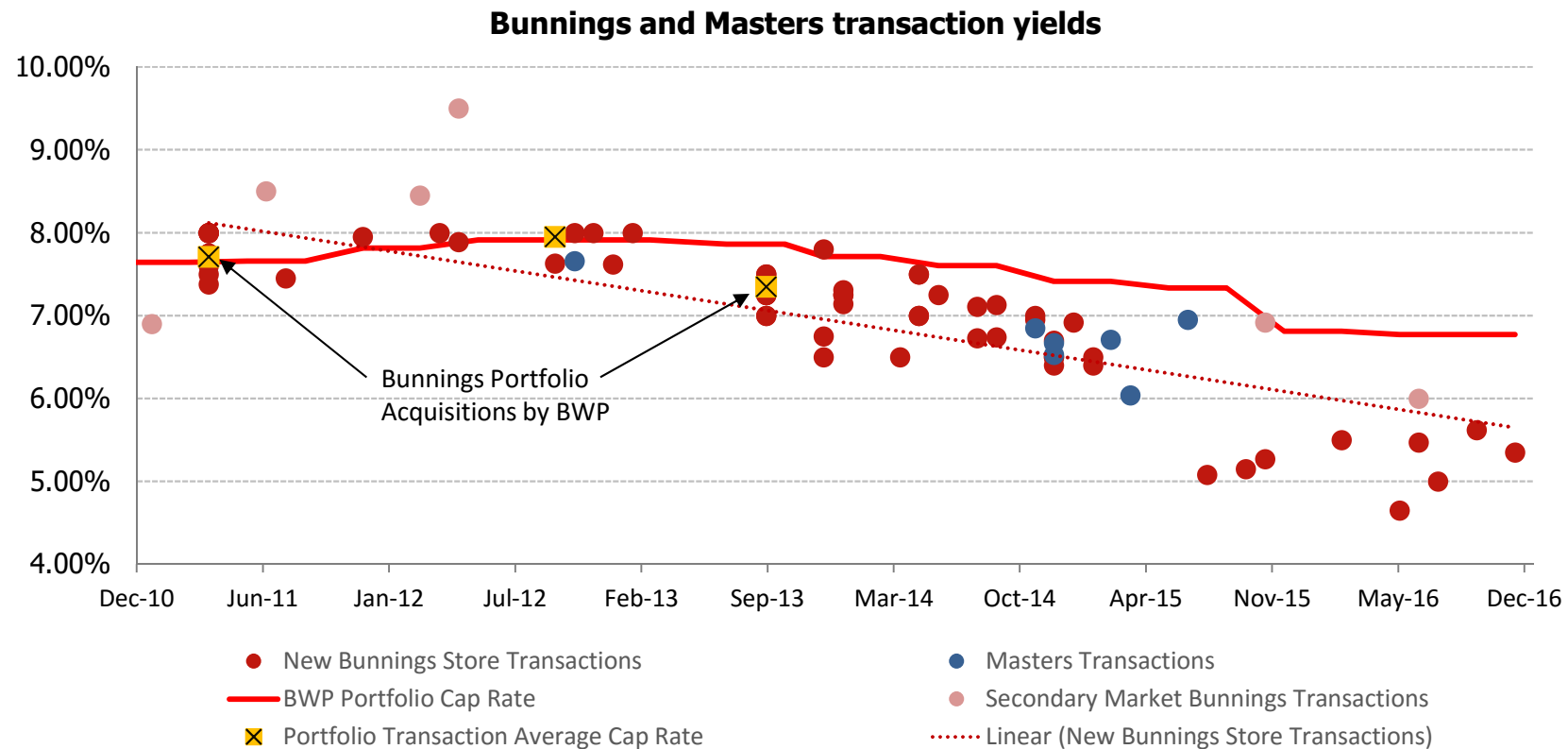
Property location	Customer	Passing rent (\$pa)	Reviewed rent <sup>1</sup> (\$pa)	Variance	Effective date
Belmont North <sup>2</sup>	Bunnings	954,629	1,145,000	19.9%	5-Mar-16
Midland	Bunnings	1,635,825	1,785,765	9.2%	5-Sep-16
Mindarie	Bunnings	1,635,825	1,639,695	0.2%	5-Sep-16
Frankston	Bunnings	2,043,580	2,043,580	0.0%	20-Dec-16
<b>Weighted Average</b>				<b>5.5%</b>	

<sup>1</sup> Belmont North, Midland and Mindarie market rent reviews were determined by an independent valuer, Frankston was negotiated

<sup>2</sup> The market rent review was due during the year ended 30 June 2016, but was determined in the current financial year

# Portfolio – capitalisation rate trends

- > Acquisition yields remain low, largely driven by the private investor market
- > Compression has been particularly evident in the hardware and home improvement sector with the most recent Bunnings Warehouse transactions yielding approximately 5.0%



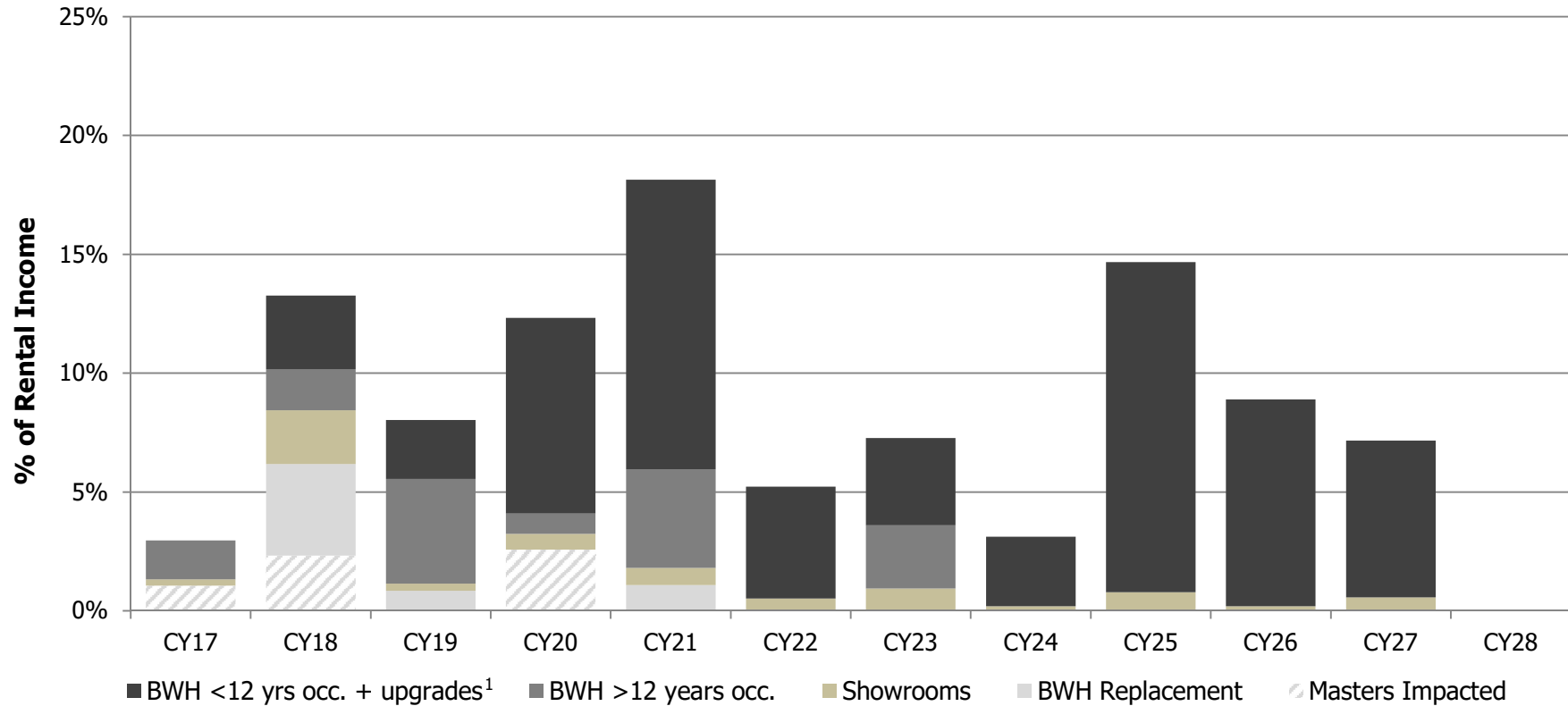
# Portfolio – December 2016 revaluation

- > December 2016 weighted average capitalisation rate 6.77% (June 2016: 6.77%)
  - 23 independent valuations (27% of BWP portfolio value), average cap rate 7.16%
  - 57 internal valuations, average cap rate 6.62%
  - Stand alone Bunnings Warehouses weighted average cap rate of 6.40%
- > 1HFY2017 net fair value gain of \$17.9m on revaluation
  - Rental growth largely contributed to the net fair value gain
  - Cap rate movement; 22 properties decreased, 41 properties no change, and 17 properties increased
- > Seven Masters impacted stores independently valued as at 31 Dec 2016

# Portfolio – Bunnings lease expiries next 3 years

Property	Lease expiry	Options	Rent (\$'000pa)	Comments
Gladstone	Feb 2017	3 x 5 yrs	1,138	Further 5 year option exercised, lease expiry now Feb 2022
Oakleigh South	Mar 2017	2 x 5 yrs	1,963	Extended to Mar 2018
Dandenong	Nov 2017	2 x 5 yrs	1,612	Notification required by Aug 2017, possible Masters related vacancy
Hervey Bay	Dec 2017	2 x 5 yrs	1,252	Notification required by Sep 2017
Fyshwick	Dec 2017	5 yrs	1,233	Notification required by Sep 2017
Cairns	Feb 2018	3 x 5 yrs	1,293	Bunning vacated – repositioning in progress
Wollongong	Feb 2018	3 x 5 yrs	1,446	Notification required by Nov 2017
Villawood	May 2018	5 x 5 yrs	1,688	Expansion and lease extension agreed – completion late 2017
Altona	Sep 2018	2 x 5 yrs	1,185	Bunnings vacated – call option expired, discussions with adjoining owner continuing
Mentone	Sep 2018	2 x 5 yrs	1,624	Notification required by Jun 2018
Burleigh Heads	Oct 2018	2 x 5 yrs	1,741	Bunnings vacated – repositioning in progress
Underwood	Oct 2018	2 x 5 yrs	1,614	Notification required by Jul 2018
Port Macquarie	Nov 2018	2 x 5 yrs	1,014	Notification required by Aug 2018
Mandurah	Nov 2018	2 x 5 yrs	1,559	Notification required by Sep 2018, possible Masters related vacancy
Epping	Mar 2019	2 x 5 yrs	1,277	Bunnings vacated – repositioning in progress
Bayswater	Apr 2019	4 x 5 yrs	1,881	Notification required by Feb 2019
Browns Plains	May 2019	1 x 5 yrs	1,731	Notification required by Feb 2019

# Portfolio – weighted average lease expiry profile



- > 40% of Bunnings Warehouse stores in initial lease term
- > 33% of Bunnings Warehouse stores have been or are proposed to be upgraded
- > 5% of Bunnings Warehouse stores older format but very difficult to replace
- > 24 yrs - average duration of occupancy of the original portfolio (to end of current lease term)

<sup>1</sup> includes both proposed and completed upgrades

# Portfolio – Bunnings Warehouse replacements

Property	Lease expiry <sup>1</sup>	Progress
Cairns	Feb 2018	Discussions progressing with a potential lessee
Altona	Sep 2018	Option agreement expired, discussions continuing with adjoining owner
Burleigh Heads	Oct 2018	Re-leasing/re-formatting discussions progressing
Epping	Mar 2019	Zoned mixed use, discussions well progressed to reformat and re-lease to other large format retail tenants, longer term residential re-development opportunity
Mindarie	Sep 2021	Detailed assessment of redevelopment/ re-zoning options underway

<sup>1</sup>To the end of the current lease term

## Portfolio – Masters impacted stores

- > On 24 Aug 2016, Woolworths announced the sale of the Masters property portfolio (40 freehold trading locations, 21 leasehold trading locations and 21 freehold development locations) to Home Consortium (“Home”), subject to Lowe’s (Woolworths’ joint venture partner) consent
- > On 24 Aug 2016, Wesfarmers announced that Bunnings had entered into a transaction with Home (subject to the Woolworths/ Lowe’s/ Home transaction proceeding) to occupy 15 ex-Masters sites (comprising 6 freehold trading locations, 2 freehold development sites and 7 leasehold trading locations)
- > On 26 Aug 2016, BWP announced that Bunnings had advised its intention to vacate up to seven existing Bunnings Warehouse properties owned by BWP, subject to finalisation of arrangements between Home/ Woolworths and Lowe’s, and some third party landlords, for the occupation of ex-Masters sites to replace each of the BWP impacted stores
- > At this point in time the Home transaction has not been finalised, as such Bunnings has not vacated any of the properties, and there is no certainty of timing as to when the proposed transaction will be completed

# Portfolio – Masters impacted stores

Property	Lease expiry <sup>1</sup>	Proposed alternative use
Dandenong	Nov 2017	Neighbourhood shopping centre development
Oakleigh South	Mar 2018	Large format retail, long term residential mixed use development
Mandurah	Nov 2018	Large format retail
Morley	Jul 2020	Large format retail, short/medium term residential mixed use development
Hoxton Park	Oct 2020	Large format retail

- > Two additional sites are still subject to confidentiality, the lease expiry for the two sites is late 2017 and early 2021 respectively
- > The above is subject to finalisation of the Masters transaction by Home Consortium

<sup>1</sup> To the end of the current lease term



# Portfolio – Replacement store process

- > For any store at risk of vacancy (i.e. Bunnings replacement stores and Masters impacted stores), the Trust takes immediate action to establish a repositioning or divestment strategy.
- > Generally this process involves:
  - Identifying all of the potential alternative uses;
  - Supporting alternative uses with economic/financial feasibility analysis, taking into account site zoning and risk/benefit of rezoning; and
  - Entering into discussions with all potential key occupants.
- > The key objective is to establish and execute a solution for each replacement property in a manner which is consistent with the existing risk/return profile of the Trust.



 CAPITAL MANAGEMENT

## Capital management – debt facilities

- > Average borrowings for the half-year \$477.0m (down 0.9% on previous year)
  - 4.69% weighted average cost of debt after hedging (2015: 5.08%)
  - Borrowing costs for the half-year \$11.3m (down 8.4% on pcp)
- > All bank facilities can be extended a further year each year, subject to agreement
- > Cost of debt at 31 December 2016: 4.6%
- > Interest cover: 6.1x at 31 December 2016 (2015: 5.5x)
- > Gearing: 21.2% at 31 December 2016 (2015: 22.0%)
- > A- /Stable / - S&P rating maintained

As at 31 December 2016	Limit (\$m)	Drawn (\$m)	Expiry
<b>ANZ</b>	110	78	1 July 2018
<b>CBA</b>	110	83	31 July 2020
<b>WBC</b>	135	109	30 April 2020
<b>Corporate bond</b>	200	200	27 May 2019
<b>Total/ Weighted average</b>	<b>555</b>	<b>470</b>	<b>2.7 years</b>

# Capital management – interest rate hedging

Hedge book profile by half-year ending:	Dec 16	Jun 17	Dec 17	Jun 18	Dec 18	Jun 19
Active swaps (\$m)	165	140	128	88	58	98
Swap rates (%)						
Maximum	5.54	5.54	5.54	5.54	4.92	4.92
Minimum	2.39	2.39	2.39	2.39	2.39	2.39
Weighted average (%) <sup>1</sup>	4.26	4.05	4.16	4.09	3.39	3.07

<sup>1</sup> Weighted average at balance date of active swaps

- > Including fixed rate corporate bonds:
  - \$365.0m hedged at 3.51% weighted average to maturity, at 31 December 2016



## PRIMARY BUSINESS OBJECTIVES

# Primary Business Objectives

- > Secure and growing income stream
- > Long term capital growth
- > Strong customer alignment



## Investment themes

- > Large format retailing property ownership - home Improvement/ Bunnings focus
- > Sustainable portfolio returns supported by balance sheet flexibility
- > Property location attributes



## Drivers of returns

 **GROWTH**

- > Annual rental growth
- > Well priced acquisitions & re-investment
- > Cost of funding

 **SECURITY OF INCOME**

- > Wesfarmers covenant
- > Duration of occupancy
- > Predictable operating expenditure



## Long term value creation

-  Pro-active management of existing properties
-  Portfolio growth
-  Effective management of the Trust and its capital



OUTLOOK

# Outlook

## > **Rental growth:**

- Increased rental income from upgrades completed in FY2016
- 19 CPI / 26 fixed rent reviews in second half FY2017
- 4 Bunnings MRR's to be finalised in second half FY2017

## > **Re-positioning of vacated or to be vacated stores:**

- For properties vacated or to be vacated by Bunnings, the focus is on re-leasing the existing building, or re-configuring and leasing the building, or if applicable, re-zoning properties for their highest and best use, and/or divesting properties if they have reached their valuation potential

## > **Investment:**

- Portfolio growth opportunities will be influenced by the direction of interest rates and other macro-economic factors
- Will progress opportunities to re-invest in existing portfolio and re-zonings

## > **FY2017 distribution:**

- On the basis of further expected rental growth from the existing portfolio, after taking into account the likelihood of low inflation in the near term, the Trust could expect distribution per unit growth of about 3 per cent for FY2017, in line with the outlook provided in August 2016



## Further information

**[bwptrust.com.au](http://bwptrust.com.au)**

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