

An aerial photograph showing a large center pivot irrigation system in operation over a vast, green agricultural field. The system consists of a long, straight metal arm supported by a series of wheels, with multiple smaller arms branching off it. Water is being sprayed from the ends of these arms, creating a misty effect over the crops. The field is divided into long, straight rows of green plants, likely corn or soybeans. The overall scene is bright and clear, suggesting a sunny day.

# **DUXTON** WATER LIMITED DECEMBER 2022

**PROUDLY SUPPORTING AUSTRALIAN IRRIGATORS AND FARMERS**

Duxton Water Limited | 2022 Annual Results Presentation





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**This presentation has been authorised for release by the Chairman of Duxton Water Limited.**







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# FULL-YEAR 2022 SNAPSHOT

12%  
PORTFOLIO  
RETURN\*  
(12 MONTHS)

\$377M  
WATER  
PORTFOLIO  
VALUE

\$1.90  
PER SHARE  
NON-STATUTORY  
NET ASSET VALUE  
(POST-TAX)

\$1.62  
SHARE PRICE

83.6GL  
TOTAL WATER  
OWNED

54%  
LEASED

(\*) Total Portfolio Return is based on NAV movements and includes franked dividends for the 12-month period to 31 December 2022.

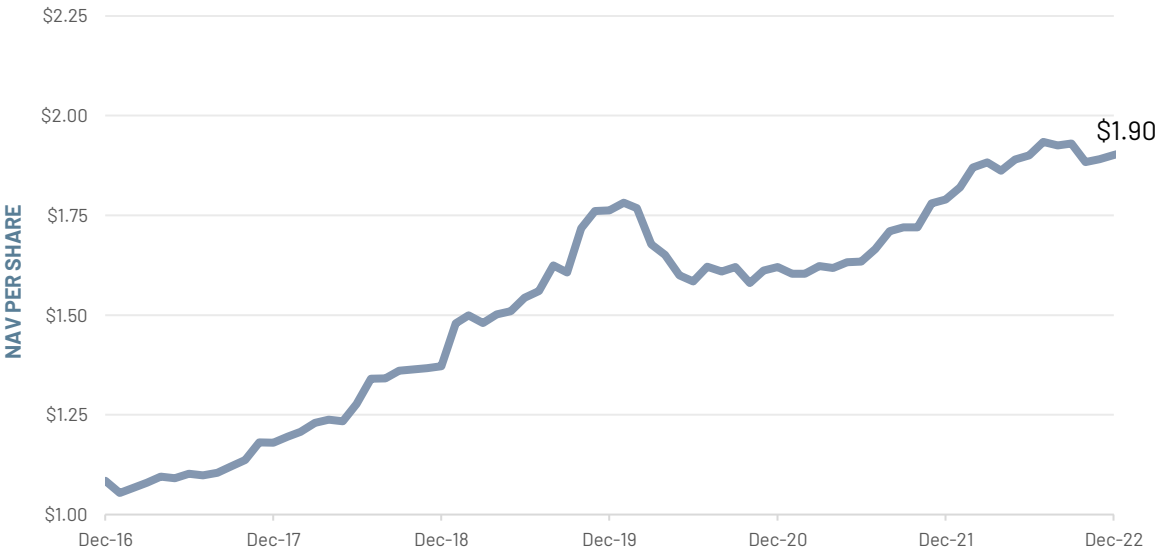
Duxton Water's Investment Manager is part of the broader Duxton group of companies that operates Australian agricultural businesses in **viticulture, dried fruit, nuts, broadacre, bees, dairy, apples and water**. In any given year, the Duxton businesses produce **15-20 different commodities** and **provide jobs** for over **500 people living in rural communities** every year.

# Full-Year 2022 Snapshot

Water is a defensive asset class that continued to generate positive returns for our shareholders in 2022.

- Extremely wet conditions seen over the last 2-3 years caused by a rare alignment of climatic drivers, only seen once before in recorded history.
- Triple La Nina coinciding with a negative Indian Ocean Dipole has caused the most significant flooding events since 1956.
- Duxton Water delivered on both its dividend targets and generated a total portfolio return of 12% in the 12 months to 31 December 2022.
- Over the last 6 years we have experienced an extreme dry period, two extremely wet periods, a global pandemic, and Australia’s steepest tightening of monetary policy.
- In all of this, water entitlement values continue to trade at near all time highs and the portfolio has generated an annualised Net Asset Value return of 13% compounding since inception in 2016.
- Board remains confident in the Company’s strategy to continue to deliver balanced returns to shareholders across all parts of the climatic cycle.

NET ASSET VALUE (“NAV”) PER SHARE SINCE INCEPTION



Portfolio Performance	6 Months	12 Months	Inception	Annualised
Total NAV Return	1.5%	11.9%	117.9%	13.2%

^These figures are based on NAV movements and include franked dividends for the period.







# Financial Results



# Financial Results

**Duxton Water delivered positive results for investors in one of the wettest years of the last 60 years.**

Key Metrics	FY2022	FY2021	Difference	% Change
Profit before tax	\$14.0m	\$12.2m	+\$1.8m	<b>+15%</b>
Net profit after tax	\$10.0m	\$8.5m	+\$1.5m	<b>+18%</b>
Earnings per share	8.4 cps	7.1 cps	+1.3 cps	<b>+18%</b>
Dividends per share	6.5 cps	6.1 cps	+0.4 cps	<b>+7%</b>
Portfolio size	83.6 GL	80.0 GL	3.6 GL	<b>+5%</b>

- Reported highest ever NPAT of **\$10.01 million** (+15% change) driven by consistent leasing revenue stream, profits on sale of permanent water assets, and favourable interest rate swap valuations.
- Paid two fully franked dividends totalling **6.5 cents per share** (+7% change).
- Increased size of portfolio by 3.6 gigalitres due to increased exposure to general security/low reliability assets. Most general security assets saw value appreciation of between 6-50% during the year.

Lease Portfolio	FY2022	FY2021	Difference	% Change
Lease revenue	\$8.2m	\$9.2m	(\$1.0m)	<b>(11%)</b>
Leased %	54%	72%	(18%)	<b>(25%)</b>
Weighted Average Lease Expiry	1.4 yrs	1.3 yrs	+0.1 yrs	<b>+8%</b>

- Extremely wet conditions saw a reduced demand for water leases in 2022.
- Demand for leases increased significantly in early 2023 due to drier outlook.
- Successfully executed several new leases in early 2023.
- Actively working towards getting back to long-term lease target of 70-80%.



## Financial Results

**Our portfolio generated a 12% total return in the 12 months to 31 December 2022.**

**A strong result when compared to the performance of most of the major Australian S&P Indices over the same period.**

Net asset summary	FY2022	FY2021	Difference	% Change
Permanent water assets (fair value)	\$376.8m	\$338.4m	\$38.4m	<b>+11%</b>
Temporary water assets (fair value)	\$0.1m	\$1.2m	(\$1.1m)	<b>(92%)</b>
Total net assets	\$244.4m	\$214.1m	\$30.3m	<b>+14%</b>
Net asset value (NAV) per share	\$1.90	\$1.78	\$0.12	<b>+7%</b>

- Total portfolio return of **12%** during the financial year, comprising of **7%** NAV growth, and **5%** gross dividend yield.
- NAV per share increased by 12 cents to **\$1.90 per share** during the year.
- Continued to expand and diversify the permanent water portfolio which is now valued at **\$377 million** (+11% change during the year).
- Most unleased temporary water assets sold prior to 31 December 2022 to support spring and early summer irrigation.





# Capital Management

**We continued to actively manage our debt position and swaps portfolio in 2022.**

Debt summary	FY2022	FY2021	Difference	% Change
Total debt drawn	\$125.0m	\$106.0m	\$19.0m	<b>+18%</b>
Total gearing	30%	27%	3%	<b>+11%</b>
Total fixed debt	\$15.0m	\$55.0m	(\$40.0m)	<b>(73%)</b>
Total variable debt	\$110.0m	\$51.0m	\$59.0m	<b>+116%</b>
Effective cost of borrowings	3.04%	2.28%	+0.76%	<b>+33%</b>

Interest summary	FY2022	FY2021	Difference	% Change
Cash finance expense	(\$3.5m)	(\$2.3m)	(\$1.2m)	<b>+52%</b>
Cash gain on swaps (realised)	\$2.4m	-	\$2.4m	<b>-</b>
Non-cash gain on swaps (unrealised)	\$2.6m	\$0.7m	\$1.9m	<b>+271%</b>
Total finance income/(expense)	\$0.8m	\$0.4m	\$0.4m	<b>+100%</b>
Average debt drawn	\$116.0m	\$104.7m	\$11.3m	<b>+11%</b>

- Effective cost of borrowings for 2022 of **3.04%**.
- Portfolio gearing of **30%** is within max LVR covenant of **40%**.
- Closed 5-year fixed interest rate swaps that were due for expiry within the next 2.5 years. Resulted in a **\$2.4 million** cash payment being made to the company in late 2022.
- Total of **\$15 million** remains hedged in 10-year fixed interest rate swaps that are due for expiry between 2029-2031. Total fair value adjustments held against these swaps at 31 December 2022 is **\$2.6 million**.
- Continue to monitor fixed interest rate markets for hedging opportunities as we move through the economic cycle.





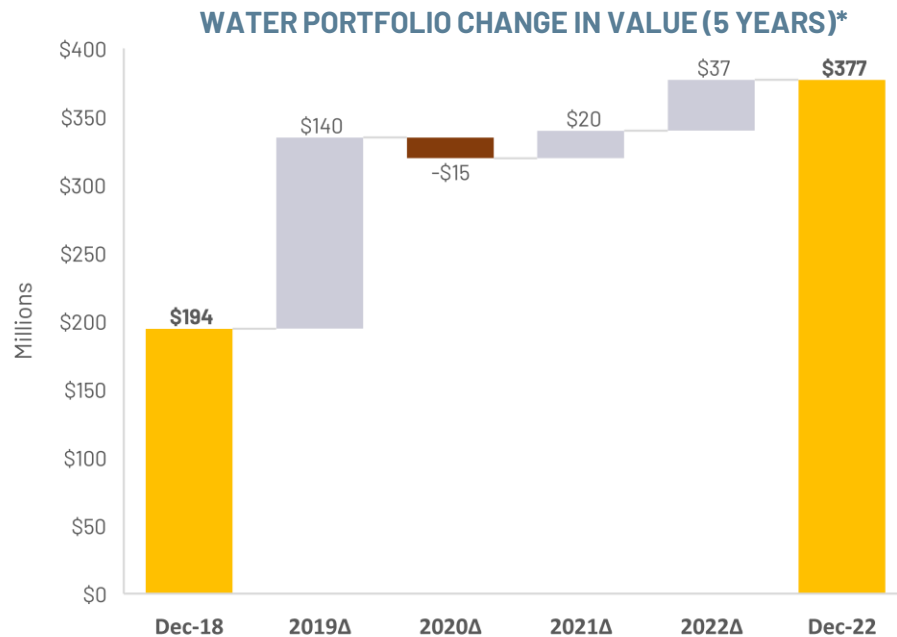
# Portfolio Performance





# Portfolio Performance

Our diverse portfolio of Australian Water Entitlements of 83.6 GL, grew by \$37 million (or 11%) in 2022.



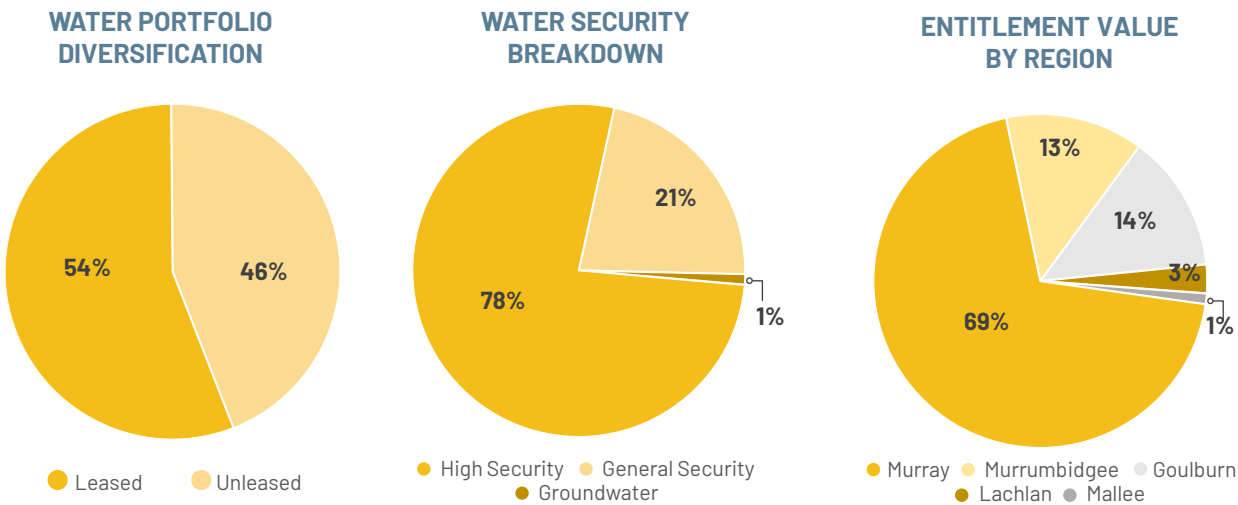
- Water entitlements across the southern Basin increased by **7%** (on average) in one of the wettest years in recorded history.
- Strong demand for high security entitlements driven by irrigators looking to improve long-term water security.
- Most major **general security entitlements** have appreciated in value by **6-50%** over the last 12 months and have yielded 100% allocations due to wetter than average conditions.
- Continue to seek well priced acquisition opportunities and actively manage the portfolio to work within the climatic cycle.

*\*Changes in portfolio value comprise of movements in equity, debt and portfolio pricing movements.*



# Portfolio Diversification

Our diversification strategy of owning a mixture of water entitlements has continued to provide benefits for both our customers and our shareholders.



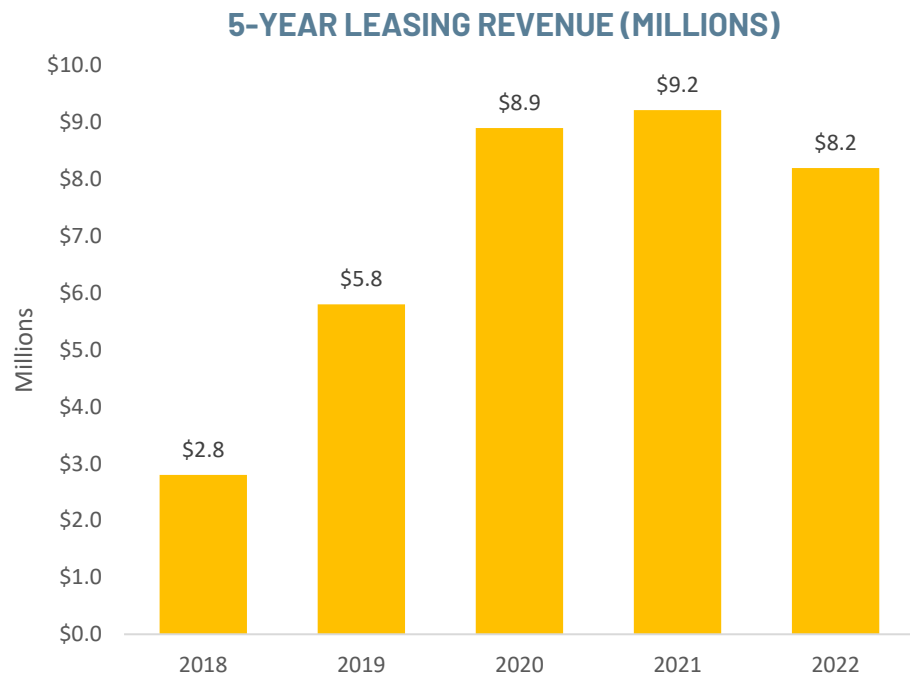
- Strategic portfolio composition continues to provide opportunity and flexibility for both our customers and shareholders.
- Increased portfolio size to **83.6 GL** during the year (2021: 80.0 GL). Currently invested in 18 different entitlement types.
- Across the southern Basin, water entitlement values increased by an average of **7%** in the 12 months to 31 December 2022.
- Continued to seek new leasing partnerships to further diversify the lease book.
- Actively working towards getting back to long-term leasing target of **70-80%**.
- Continuing to monitor water markets outside of the southern Murray Darling Basin for investment opportunities.





## Lease Portfolio

We have continued to partner with farmers to help improve their choice and flexibility when it comes to preparing for the years ahead.



- Leasing revenue of **\$8.2 million** in 2022 (2021: \$9.2 million). Reduction in leasing revenue due to leases rolling-off on 30 June 2022, and a reduced demand from irrigators throughout 2022 due to extreme wet conditions.
- Significant increase in demand for leases in early 2023 due to the prospect of a drier outlook.
- Successfully executed new 5-10 year leases for the upcoming water year 2023-2024. New lessees include some of Australia's most prominent horticulture producers.
- Currently, **54%** of the company's water portfolio is leased to Australian farming businesses (representing 70% of high security assets).
- Actively working towards growing leasing revenue stream and getting back to long-term leasing target of **70-80%**.





# Outlook

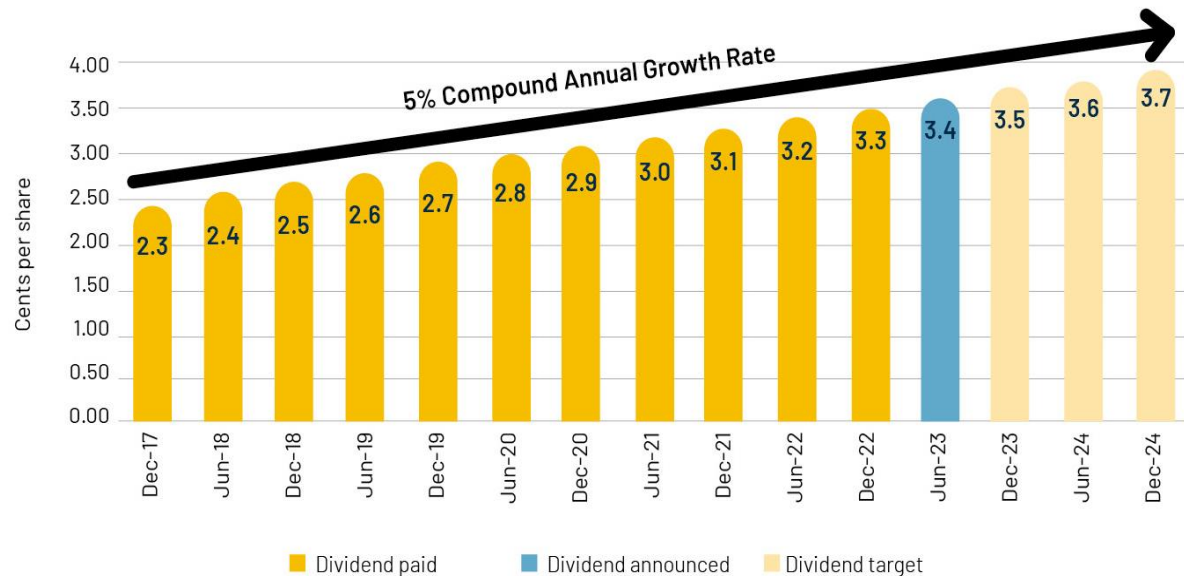




## Dividend Guidance

We remain confident in the long-term strategy of our business and would like to reaffirm our intention to continue to provide shareholders with a bi-annual dividend, franked to the greatest extent possible.

### Company Dividend History

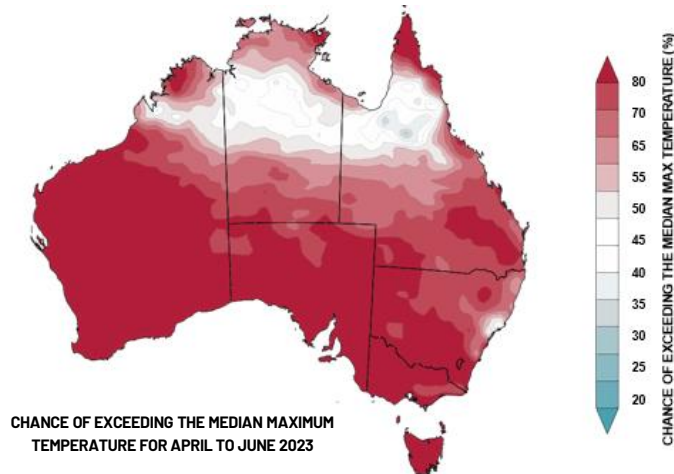
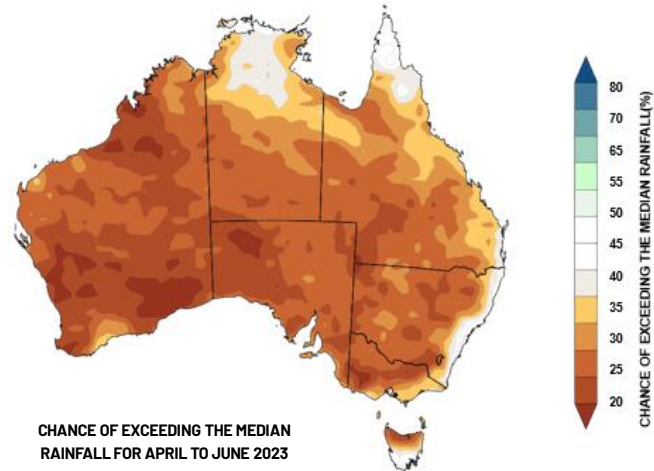


- The company delivered on both of its dividend targets in 2022. Shareholders received two fully franked dividends during the year, **totalling 6.5 cents per share**.
- The company has continued to increase its annual dividend year-on-year. Dividends paid out to shareholders have seen a **5% Compound Annual Growth Rate** since the company paid its maiden dividend in November 2017.
- Due to continued strong performance, the Board was pleased to formally announce the Final 2022 dividend of **3.4 cents per share** (fully franked). The Record Date for this dividend is 14 April 2023, with the Payment Date being 28 April 2023.
- Fully franked dividend targets out to the end of **FY2024**.



# Weather Outlook

**We will continue working alongside our customers to provide flexibility and security for their water supply ahead of the upcoming water years.**



- The Bureau of Meteorology ("BOM") weather outlook for April to June 2023 suggest a low chance of exceeding the median rainfall and a high chance of exceeding the median maximum temperature across most of the country.
- The BOM and several international climate model forecasts are suggesting there is the possibility of an El Niño and a positive Indian Ocean Dipole ("IOD") forming by mid-2023.
- El Niño typically brings drier than average conditions to eastern Australia, while a positive IOD brings drier conditions over central and southern Australia.
- The prospect of a drier outlook has increased demand for leases and forward allocation contracts for the new water year commencing 1 July 2023.

Source: Bureau of Meteorology





# Water Buybacks

**The Australian Government is committed to delivering the Basin Plan in full.**



- The Murray Darling Basin Plan has a water recovery target of 2,075 GL per year. So far, the Government has recovered 2,026 GL of this target, leaving a 49 GL shortfall.
- In early 2023, the Australian Government announced it would recommence on-market buybacks in March 2023. Buybacks will take place across 6 catchments, up to the volume of 49 GL.
- On-market water buybacks are a mechanism by which the Government voluntarily purchases water licences from willing sellers and transfers them to the Commonwealth Environmental Water Holder. By doing so, these licences are taken out of the consumptive pool of water available for agricultural use.
- In addition, there exists an enhanced environmental outcomes recovery target of 450GL per year, which is to be achieved through efficiency measures.
- The Company does not foresee on-market Government buybacks having a material impact on the key operations of its business.





# Thank You

We have great confidence in the outlook for our business.

We have a weather forecast that suggests more normal conditions aren't too far away, and we hope this brings much needed relief to the Australian farming community.

Our business is in a very strong position. We have a clear strategy in place to ensure we can continue to meet our business objectives and deliver value for both our customers and our shareholders.

We look forward to continuing our strong momentum into 2023 and discussing our results at our Annual General Meeting later this year.





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