GROWTHPOINT
PROPERTIES

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Growthpoint delivers half-year distribution growth of 7.5%

Growthpoint Properties Limited today reported distribution growth of 7.5% for its six-month interim period to 31 December 2014, delivering performance at the top end of its market guidance. During the half-year, Growthpoint produced an annualised total return of 29.1% for investors, with its distributable income up 29.4% from the prior half-year.

Norbert Sasse, CEO of Growthpoint Properties Limited, attributes the positive results to significant growth in, and a solid performance from, Growthpoint's South African property portfolio. Growing distributions from Growthpoint's 64.5% holding in Growthpoint Properties Australia (GOZ), together with favourable exchange rates for Growthpoint, also enhanced distributions.

This is the first full six-month period that Growthpoint's acquisitions of Abseq, Tiber and its listed investments in Acucap and Sycom have contributed to its revenue, resulting in its revenue increasing by 20.6%.

Sasse comments: "Growthpoint has performed well, notwithstanding South Africa's very challenging trading conditions. We've also achieved significant growth, making Growthpoint a larger, more diverse and more defensive investment for our shareholders." Growthpoint's distributions are based on sustainable rental income. It doesn't distribute capital profits.

Shareholders can expect this positive performance from Growthpoint to continue, despite a tough operating environment. "Growthpoint is likely to deliver similar growth in distributions for shareholders, of between 7.0% and 7.5%, for the full year to 30 June 2015," says Sasse.

Growthpoint is the largest South African REIT and a JSE ALSI Top 40 Index company. It owns and manages a diversified portfolio of 431 properties in South Africa, 51 properties in Australia through its investment in GOZ and a 50% interest in the properties at V&A Waterfront, Cape Town. At the close of its half-year, it also held listed investments of R5,3 billion comprising a 34.6% stake in Acucap Properties and a 15.6% stake of Sycom Property Fund. Growthpoint's consolidated property assets and investments were valued at R83,5 billion.

This makes Growthpoint the most liquid and tradable way to own commercial property in South Africa. Its size and diversity also means it is strongly defensive. It has a R3,2 billion acquisition and development pipeline driving its immediate growth. Growthpoint has also been included in the JSE Socially Responsible Investment (SRI) Index for six consecutive years.

Growthpoint's recent growth has seen staff numbers increase by some 15% to 530 employees. Yesterday, Growthpoint announced that Estienne De Klerk has been appointed Managing Director of Growthpoint Properties, having taken on additional responsibility for certain company functions. De Klerk was previously an Executive Director.

Growthpoint's South African property portfolio contributed 65.6% to its distributable income. Even with tough local economic conditions, it delivered net property income growth of 21.2%, boosted by its Tiber and Abseq acquisitions. This also resulted in net property income from its office portfolio reaching R1 billion for the first time ever in a half-year.

Its South African portfolio vacancies remain low, but increased slightly during the half-year, moving from 4.9% to 6.4%, of which around 1,0% can be attributed to portfolio exposure to Ellerines. Retail vacancies are 4.4%, of which around 2.0% account for offices at shopping centres, and vacancies left by Ellerines. Growthpoint's office vacancies are at 8.4% and well below the national vacancy level of 11.1%. Industrial vacancies moved 3.0% to 5.8%, almost all attributable to three Ellerines distribution centres.

"We're aggressively marketing these top-notch industrial properties to tenants," says Sasse. "We're also actively promoting several excellent opportunities in our office portfolio with our highly incentivised Smartmove campaign, which launched this week."

In the face of continued increasing cost pressures, Growthpoint improved the property expense ratio for its South African portfolio from 24.6% at the prior half-year to 23.8%. Its overall expense-to-income ratio remained constant at around 28.0%.

"We continue to find ways to optimise our operations. Our focus on energy-efficiency and sustainability is also creating cost benefits, for Growthpoint and our clients," says Sasse.

Growthpoint's South African operations achieved a lease renewal success rate of 65.2%, improving the rental growth rate on renewal from 3,0% to 5.4% during the period. It is also achieving rental escalations of over 8,0%, whilst portfolio arrears remain under control at low levels.

In South Africa, Growthpoint acquired the remaining 50% interest of Inyanda 1, 2, 3 and 4 in Parktown, Johannesburg, totalling a combined 16,799sqm of offices for R388 million. It also acquired an industrial property, Monte Carlo in Pinetown, Durban, for R21 million. It disposed of six properties for R107 million, achieving a combined R18 million profit on cost. Growthpoint invested R804,7 million in value-enhancing redevelopments and improvements to its properties.

Growthpoint has further secured a R3,2 billion development and acquisition pipeline in South Africa, the largest development being Growthpoint's 55% share in the new R3,0 billion Discovery head office in Sandton. It also acquired key industrial development land in Samrand for R360 million.

Growthpoint's strategic holding in GOZ delivered a 26.4% annualised total return for the six months, making a strong 17.0% contribution to its total distributable income. Attaining a 50/50 portfolio split between office and industrial properties, GOZ grew to an ASX 300 inclusion for the first time during the period. Growthpoint elected to reinvest its August 2014 distributions from GOZ, increasing its GOZ investment from R5,3 billion to R5,6 billion. It acquired land for an office property development for R66,8 million and has further commitments to develop this land and other properties amounting to R790,2 million.

"We continue to support GOZ's growth," notes Sasse. "GOZ is well positioned to grow, with an AUD150 million war chest at its immediate disposal."

Distributions from Growthpoint's 50% stake in the V&A Waterfront, Cape Town, contributed 8.8% to its distributable income. Here, net property income showed 9.3% growth. Its retail sales delivered 18.7% growth on a rolling 12-month period to 31 December 2014, and its retail trading densities also saw strong growth at 15.9% - both figures are above IPD national benchmarks for super-regional shopping centres. The precinct's offices are reporting positive activity with a low 3.3% vacancy percentage. V&A Waterfront hotel occupancies and rates are moving up and the fishing and industrial facilities remain fully let and reflect positive rent reversions. To meet demand, it continues to introduce more residential opportunities.

Growthpoint invested R173 million in development and capital projects at the V&A Waterfront during the period representing its 50% share. It has also committed R459,2 million for its contribution to new, enhancing developments, including the burgeoning Grain Silo precinct, which remains a focus. It includes the iconic development of the new Zeitz Museum of Contemporary Art Africa, the PwC and Werksmans office development, residential apartments for sale, a state-of-the-art Virgin Active Classic Club and a new midmarket hotel.

Adding to the many attractions at V&A Waterfront, it will soon house a new museum: The South African Golf Hall of Fame. It's extended and improved Aquarium will launch later this month.

Growthpoint's listed investments, comprising its stakes in Acucap and Sycom, contributed 8.6% to distributable income. Growthpoint first acquired stakes in these counters in April 2014. In August 2014, Acucap and Growthpoint announced they were in merger discussions. In November 2014, they together announced an implementation agreement for a potential offer by Growthpoint to acquire all the shares in Acucap that it didn't already own.

Accepting the scheme, 91% of Acucap shareholders present or represented at a general meeting in February 2015 voted in favour of Growthpoint's offer. The Competition Commission has recommended to the Competition Tribunal that the transaction be approved without conditions. The Competition Tribunal ruling is expected during the second week in March 2015.

Sasse explains: "If we receive approval from the Competition Tribunal, and also from the Takeover Regulation Panel, the deal could be effective from as early as 1 April. It would then be implemented on 1 May 2015, when Acucap would be delisted and become a wholly-owned subsidiary of Growthpoint."

Implementing the scheme would increase the property assets of Growthpoint by approximately R18 billion – around R11 billion of retail centres and R7 billion of offices - to nearly R100 billion. Growthpoint's South African property portfolio alone would grow to just over R75 billion.

"This transaction is set to add 5% to Growthpoint's retail weighting, bringing retail properties to 39% of the value of our portfolio, with offices at 46% and industrial assets at 15%," explains Sasse.

"While the transaction stands to create South Africa's largest retail property portfolio by value, we'd still like to grow our retail exposure some more, as retail is outperforming offices"

Growthpoint's conservative loan-to-value ratio was 26,9.% for its South African balance sheet. Its debt was well hedged with 80.1% of interest rate exposure fixed with a weighted average term of debt of 3.5 years, an average fixed interest rate hedge profile of 4.0 years and an all-in weighted average rate of 9.4%.

"Raising funding in the debt capital markets is now more challenging, yet Growthpoint still enjoys excellent access to funding. In fact, we diversified our funding base even further during the period," says Sasse.

Growthpoint's net asset value increased by 3.9% to R23.01 per share. It raised an added R1 billion in capital through its September 2014 Distribution Re-Investment Programme.

"Growthpoint has an exciting time ahead. Should the Acucap merger be approved, we'll prioritise its integration. We'll also continue to find revenue enhancing opportunities that support Growthpoint in delivering sustainable income distributions and capital appreciation for our shareholders," says Sasse.

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