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GROWTHPOINT PROPERTIES

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Growthpoint posts 6.5% distribution growth and achieves key strategic successes

Growthpoint Properties today announced distribution growth of 6.5% per share for its full year to 30 June 2018 for investors, delivering a solid set of results that match its market guidance.

For the first time Growthpoint's distribution exceeded 200 cents per share for the year, paying out 208.6 cents per share. Its distributable income also exceeded the R6bn mark for the first time; it increased annual distributions by 10.1%, paying R6.1bn to shareholders this financial year. Group property assets increased 8.7% to R132.9bn with most of the growth coming from Growthpoint's internationalisation.

Norbert Sasse, Group CEO of Growthpoint Properties, attributes this positive performance to the strong contributions from its investment in Central and Eastern Europe (CEE) and the V&A Waterfront, as well as a solid performance by its South African property portfolio and rigorous cost controls.

Sasse reports: *"At half-year we indicated that this may well be the toughest domestic operating environment that Growthpoint has yet faced, and the second six months of the year confirmed this. Any growth is good growth in this market and we are pleased to have achieved a solid set of results that deliver on our guidance and strategies. Growthpoint performed well to continue its 15-year-plus track record of uninterrupted dividend growth."*

Growthpoint is set for another year of dividend growth ahead. However, taking into account the concerning and persistently weak economy that has permeated domestic property fundamentals, its growth in the dividend per share for the financial year ending 30 June 2019 will be approximately 4.5%, subject to no unforeseen circumstances arising.

Growthpoint is the largest South African primary listed REIT. It creates value for its stakeholders with innovative and sustainable property solutions that provide space to thrive. It is the most liquid and tradable way to own commercial property in South Africa with an average of R5.9bn of shares traded each month. Its size and diversity on three continents and across property sectors make Growthpoint strongly defensive, and its quality earnings are underpinned by high-quality physical property assets.

Growthpoint owns and manages a diversified portfolio of 512 property assets including 454 properties across South Africa valued at R78.6bn and Growthpoint's 50% interest in the properties at V&A Waterfront, Cape Town, valued at R9.1bn. Growthpoint owns 57 properties in Australia valued at R33.6bn through its investment in ASX-listed Growthpoint Properties Australia (GOZ). It also owns 48 properties in Romania and Poland, 100% valued at EUR2.1bn through its 29% share in LSE AIM-listed Globalworth Investment Holdings (GWI) and its 21.6% share in Warsaw-listed Globalworth Poland Real Estate (GPRE).

Currently the 23rd largest company in the FTSE/JSE Top 40 Index, Growthpoint is a Top 10 constituent of the FTSE EPRA/NAREIT Emerging Index. It is also a constituent of the FTSE4Good

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Emerging Index for the second successive year and has been included in the FTSE/JSE Responsible Investment Index for nine years running.

Growthpoint's balance sheet remains well capitalised. Continuing its conservative gearing, its loan-to-value ratio stayed well within its covenants remaining flat at 35.2%.

Growthpoint is one of only three corporates in South Africa with a Moody's national scale rating of AAA.za. Because of its operational concentration in South Africa, its global scale rating is capped at the sovereign rating of Baa3.

Leveraging its sustainability credentials, during the year Growthpoint became the first South African corporate to issue green bonds on the JSE and raised R1.1bn, with five, seven- and 10-year paper. This was significant in Growthpoint's drive to extend its debt book. Its fixed debt moved from 3.0 years to 3.7 years on average, with an all-in weighted average cost of debt of 9.1% and 6.9% including AUD and EUR cross-currency interest rate swaps and EUR debt.

Growthpoint also accessed international debt capital markets to match its international investment strategy, diversify its investors and benefit from access to larger and more liquid markets. It issued its inaugural US$-denominated Eurobond with a five-year maturity, which it swapped from US$425m to EUR350m to fund new investment and refinance some of its original investment in the CEE region. This successfully introduced a new source of debt funding to the business along with 25 new investors.

Growthpoint enjoys good access to funding. Its unsecured debt increased by R6.6bn to 54.3% of total debt from 42.6% at FY17. Some 81.5% of its debt is fixed and debt capital markets now account for 40% of total debt versus 24.7% at FY17.

Growthpoint progressed its three key strategies during the year; optimising and streamlining its South African portfolio, internationalising and introducing new income streams to its business, including funds management and third-party trading and development.

Growthpoint's investment focused on growing its international footprint, which now accounts for 27.7% of its assets by book value and 20.5% of its earnings before interest and tax (EBIT). The significant progress made this year takes it in close range of its target of 30.0% by the end of 2020.

Its investments were funded from R2.2bn equity raised through its Distribution Re-Investment Programme, R5.8bn in net new borrowings and R1.5bn in property disposals.

Growthpoint continued to strengthen its South African portfolio of properties and recycle capital out of non-core assets and into strategic accretive investments. It disposed of 30 properties, with R4bn of sales agreed during the year of which R2.5bn are awaiting transfer. It is also in advanced stages of negotiation for a sectorally diverse portfolio disposal of 58 properties for c. R5.8bn to a BEE consortium.

The inaugural capital raises for both Growthpoint Investec African Properties (GIAP) and Growthpoint Healthcare Property Holdings (GHPH) gave real momentum to Growthpoint's new funds management business and placed it firmly on track for its target of reaching R15bn in assets in the next four years.

GIAP received US$212m (R2.7bn) of commitments including US$50m from Growthpoint while GHPH, which has R2.5bn worth of assets, raised R285m of third-party funds. The funds are expected to list seperately when reaching critical mass and there is an accretive acquisition and development pipeline in place for both.

“Our first two funds will remain our immediate focus as we will seek to build their scale before exploring new opportunities. An additional R400m capital raise is imminent for the GHPH, along with accretive acquisitions and developments. There are also many exciting opportunities to deploy the GIAP capital. Given the positive prospects for funds management for Growthpoint, we will continue to seek innovative partnerships and ways of investing,” notes Sasse.

In line with its strategy to generate new revenue streams, Growthpoint’s goal is to generate consistent, recurring income from third-party development fees and trading profit that is no more 2% of its distributable income and limited to 5% of the value of the South African portfolio. It made good progress by securing a strong pipeline of assets for third parties and trading profits expected to flow in FY19. Growthpoint invested in portfolio enhancing developments for its own balance sheet amounting to R1.6bn during the year. A highlight was completing the landmark new Discovery Head Office in Sandton Central with partners Zenprop.

Growthpoint’s South African portfolio contributed to its overall growth in distributions with steady performance albeit at lower levels than previously in the exceedingly difficult environment. It contributed a solid 72.5% to EBIT compared to 74.6% in the prior year.

Growthpoint let over a million square metres in its South African portfolio and achieved vacancy levels below industry benchmarks. Even so, its vacancies crept up from 4.4% to 5.4%. Growthpoint is still achieving 7.4% average future escalations on rentals and the overall expense ratio of its domestic portfolio remained under control at 27.5%.

For the first time, key metrics in all three of its South African sectors weakened in tandem with the tough economy and depressed property cycle. Even in a fiercely competitive market the quality of Growthpoint’s portfolio ensured a solid performance overall.

“The strategic portfolio sale will streamline our South African portfolio even further in the year ahead. Despite the tough market where rental reversions are likely to remain under pressure and retaining tenants and attracting new ones costs much more, our commitment to offering quality, relevant and sought-after spaces backed by excellent service is stronger than ever,” says Sasse.

Distributions from Growthpoint’s 50.0% stake in the V&A Waterfront, Cape Town, made a 7.0% contribution to its EBIT, compared with 6.6% for the prior year. This asset was a strong performer relative to Growthpoint’s other investments and delivered good organic growth and additional returns from the incremental investment in the precinct, which this year amounted to R296m.

V&A Waterfront achieved 14% in net property income growth with new office and hotel accommodation coming on stream during the year, adding to its returns. Vacancies at the precinct are a low 1.8%, it has a 92.4% tenant retention rate and hotel occupancies that are 15% to 20% higher than the Western Cape average.

Development of the Silo District was completed during the year, introducing the Zeitz Museum of Contemporary Art Africa (MOCAA), Radisson Red, PWC, Werksmans, sold-out apartments and the Silo Boutique hotel to the precinct. Hotels in the precinct are performing well despite Cape Town’s temporary decline in tourism on the back of Day Zero publicity around the water crisis.

Visitor numbers across the V&A Waterfront grew, while footfalls at the Victoria Wharf Shopping Centre remained flat. Coming off a high base and signalling a consumer under pressure and lower tourist numbers, it achieved retail sales growth of 1.1% and trading density growth of negative 0.8%

There is still strong demand for space at the V&A Waterfront, especially from blue-chips seeking corporate offices. Its short to medium-term focus includes completing the Battery Park parkade and public park, the Canal District, and activating its connections between the district and the city.

"*We expect continued good growth in earnings from the V&A Waterfront, despite some uncertainty about when tourism numbers in the Western Cape will recover. We will continue to unlock value at the V&A Waterfront through development and enhancing its organic growth potential*," adds Sasse.

The V&A Waterfront and Growthpoint's properties in the Western Cape were all impacted by the region's severe water crisis. The V&A Waterfront has successfully reduced its water consumption by 52% since 2010. This year it provided land space to the City of Cape Town for a temporary desalination plant and commissioned a R200m desalination plant to take the precinct off the water grid. Growthpoint's properties cut water use by 254 kilolitres during the year. Growthpoint also took The District building in Woodstock completely off the municipal water grid to become Growthpoint's first 'water net-positive' building. Growthpoint intends to take more of its Cape Town properties off-grid.

Growthpoint's investments in CEE were a significant contributor to its performance this year. The GWI dividend declared was in line with expectations, in addition Growthpoint earned a R35m underwriting fee for its subscription into GPRE's EUR450m capital raise in June 2018. Together GWI and GPRE contributed 4.5% to EBIT compared to 1.0% in the prior year.

Expanding its investment in the region and furthering its internationalisation strategy, Growthpoint grew its footprint into Poland. It invested EUR113.8m into GWI and EUR150m into GPRE. Both businesses showed significant growth with low vacancies and robust leasing activity to global blue-chip tenants.

"Our CEE investment continues to surpass our original expectations and deliver on distribution guidance. We are excited by opportunities in Globalworth's markets, which show good economic growth prospects. The projected 2018 GDP growth for Romania is 5.2%, which is double the average Eurozone growth for 2017, and 4.2% for Poland. Investment dynamics are attractive with positive yield spreads," says Sasse.

GOZ had a great year with a good set of results that delivered on its improved 3.3% distribution growth market guidance. Unfortunately additional withholding tax and the prevailing AUD:ZAR exchange rate wiped out Growthpoint's gains from GOZ. Distributions from GOZ made a 15.8% contribution to its EBIT, compared with 17.8% for the prior year.

With sound economic growth driving favourable property fundamentals, the Australian property market is more competitive than ever. Record-low capitalisation rates are being achieved in the office and industrial sectors, consequently acquiring direct assets remains challenging.

Responding to this, GOZ sold several properties into strong demand, made its first foray into development, and identified new markets in Perth to invest in. It also reduced its gearing to 33.9%, well below its target range, and with the GOZ share price at near record high levels, it is well positioned for quality accretive growth opportunities that present themselves.

"GOZ is guiding 3.6% growth in distributions for FY19 and we have taken advantage of the recent ZAR weakness to put currency hedges in place that will help counter the continued high dividend withholding tax. GOZ is keeping merger and acquisition opportunities on its radar as a cheaper and more efficient way to grow the business. It will also continue its strategy to realise upside from the sale of assets with future residential conversion potential," explains Sasse.

With economic growth prospects insufficient to repair depressed property fundamentals in South Africa, Growthpoint will continue to pursue its strategic thrusts of internationalisation, growing its new income streams for the business and strengthening its South African portfolio.

"Our portfolio is now more diversified than ever and strongly defensive. We will continue to create value for all stakeholders in the year ahead. We expect the strongest growth in dividends to come from GWI and GPRE, in addition to above average growth from the V&A Waterfront. Driving our internationalisation, we will continue to support the growth of GWI, GPRE and we also expect a net positive contribution from GOZ in FY19 as well as exploring opportunities in other markets," concludes Sasse.

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