

INVESTMENT STRATEGY ON TRACK

HY19 HIGHLIGHTS AND STRATEGY UPDATE

- Statutory profit of \$111.1 million, up 37.5% (HY18 \$80.8 million);
- Operating profit of \$82.6 million, up 7.6% (HY18 \$76.8 million);
- Net Tangible Assets (NTA), up \$0.06 to \$0.99 (HY18 \$0.93);
- 2 for 13 non-renounceable rights offer raises \$228 million;
- Group gearing of 33.7% below bottom of target range;
- Weighted Average Lease Expiry (WALE) of 7.2 years and debt tenor of 4.7 years; and
- Total assets under management (AUM) of \$11.5 billion.

Real Estate Investor and Manager Cromwell Property Group (ASX: CMW) (Cromwell) today reported half-year (HY19) statutory profit of \$111.1 million, up 37.5% on the prior period (HY18 \$80.8 million).

Operating profit, considered by the Directors to best reflect the underlying earnings of Cromwell, was \$82.6 million, up 7.6% on the prior period (HY18 \$76.8 million).

As at 31 December 2018, Cromwell managed more than 3,700 tenant customers in 15 countries, leasing over 3.8 million sqm of space. Total AUM is \$11.5 billion.

“The objectives of the Invest to Manage strategy we highlighted in August are to build enterprise value, add to medium-term earnings and generate higher total securityholder return,” said Cromwell CEO Paul Weightman.

The strategy will see Cromwell continue its successful value add and asset recycling initiatives, and use existing investment capacity, the proceeds from recycling and some cash from operating earnings to invest in opportunities that will create new recurring revenue streams.

“Over the last six months we have made progress on the value-add opportunities in our direct property portfolio, we have allocated additional capital to our indirect property portfolio including the Cromwell European REIT, or CERET, and worked with our institutional capital partners on funds and mandates that meet their investment criteria,” he said.

“We have lodged an application for Development Approval for Victoria Avenue, Chatswood, and are examining options for assets in Melbourne, Canberra and Adelaide.”

“The existing conversion of Tuggeranong Office Park to a 390-apartment, 500-resident Seniors Living village, through our Seniors Living Joint Venture, LDK Healthcare, is also progressing well.”

Earlier this week Cromwell and LDK announced the \$60 million acquisition of a premium Seniors Living village, ‘The Landings at Turramurra’ on the Upper North Shore in Sydney.

“The Landings provides LDK with an operational environment to roll out its unique membership model before residents start arriving at Tuggeranong at the end of the calendar year,” said Mr Weightman.

“Seniors Living, particularly at the premium end of the market, is a theme which we believe has potential and further updates will be provided as we hit key milestones,” he added.

“The Group has a clear strategy, a strong value-add pipeline of domestic opportunities, a successful and growing business in Singapore, the largest wealth management centre in Asia and an established platform in Europe.”

“Having spent the last six months engaging with our capital partners, we are quietly confident about our current position and the opportunities that lie ahead,” he said.

DIRECT PROPERTY INVESTMENT SEGMENT UPDATE

The direct property investment segment reported segment profit of \$62.7 million, a 1.6% increase on the prior year. The portfolio is valued at \$2.5 billion and has three components:

1. The Core portfolio comprises ten assets representing two thirds of the portfolio by value and has a WALE of 9.7 years. It has full occupancy (99%) and has generated Net Operating Income (NOI) growth of 4.2%, above Cromwell’s rolling target of 3.0%;
2. The Core+ portfolio comprises seven assets or 29% of the portfolio, has 95% occupancy, a WALE of 3.6 years and has generated NOI growth of 8.3%; and
3. The Active portfolio consists of three assets or 4.3% of the portfolio. The WALE is 2.4 years, and, as might be expected for active assets, has occupancy of 62% and showed a decline in NOI growth of 3.6% as buildings identified for redevelopment become vacant.

During the year, the weighted average cap rate tightened by 0.20% to 5.84% with a fair value increase in investment property of \$44.4 million net of property improvements, lease costs and incentives.

The tenant customer profile remains weighted to the strongly performing New South Wales and Victorian markets which provided nearly 63% of gross passing income between them.

The WALE was 7.2 years due to strong leasing outcomes with 45 transactions executed for 46,350 sqm split between 15,007 sqm of new deals and 31,343 sqm of renewals.

Mr Weightman stated, “Our Core and Core+ portfolios are performing well. Combined they are over 95% of the portfolio by value and generated 5.5% NOI growth.”

“We also have a number of value add projects to focus on, including:

1. Tuggeranong Office Park which, as I have mentioned, is being repositioned to Seniors Living, with the first sales suite to open next month and residents moving in at the end of the calendar year;
2. Victoria Avenue, Chatswood, where we are awaiting the approval of a DA to add a new four-storey office building, as well as a hotel, retail and other amenities to the site;
3. 700 Collins Street where we are investigating options to increase value of the site; and
4. Wakefield Street, Adelaide, where we are considering options including selling, reletting and repurposing the site.”

“There are also other, early stage opportunities in the pipeline. While they will all obviously not happen simultaneously, they will keep our property team busy in the medium term,” he added.

INDIRECT PROPERTY INVESTMENT SEGMENT

The segment includes Cromwell’s 35.3% interest in CEREIT, a 50% ownership interest in Cromwell Partners Trust which owns Northpoint as well as other smaller co-investments in Europe and Australia.

Operating profit for the segment was \$19.4 million up from \$7.9 million in the prior year. Cromwell's equity accounted share of CEREIF's operating profit for the year was \$19.0 million (2017: \$2.8 million).

CEREIT announced its maiden full year 2018 annual results to the Singapore Exchange Securities Trading Limited yesterday. Net Property Income was €90.2 million, 3.7% higher than the IPO Forecast and adjusted 13-month distributions per unit, of 4.70 Euro cents, above IPO forecast by 1.4%.

CEREIT raised equity during the half-year to acquire another 23 properties across The Netherlands, Finland, Poland, Italy and France at a total purchase price of €384 million.

Cromwell took up its full entitlement under the rights issue as CEREIF's property portfolio increased to 97 assets and €1.8 billion in value. As at 31 December 2018, CEREIF represented 45% of the total AUM managed by Cromwell in Europe.

"We are very pleased with our investment, and the efforts of the manager and the CEREIF management team, and all those in the Cromwell Platform who have contributed to its success," said Mr Weightman.

"Our CEREIF investment is accretive to Cromwell and has exceeded its IPO forecasts to date. It has a strong pipeline of potential opportunities which should see it continue on its current growth trajectory."

FUNDS AND ASSET MANAGEMENT SEGMENT UPDATE

Cromwell's funds and asset management business deploys capital into commercial real estate opportunities sourced by local teams in Europe, Australia and New Zealand is responsible for the execution of asset management strategies for the funds and mandates managed by Cromwell.

Segment profit was \$18.6 million, down from the prior year amount of \$25.4 million. Total AUM was unchanged at \$8.7 billion.

In Europe, as per the previously declared strategy of broadening capital sources, 45% of the \$6.0 billion (€3.7 billion) under management is now more permanent capital, up from nil 18 months ago.

"Private equity will continue to be an important source of capital for us," said Mr Weightman.

"Nevertheless, we will continue to recycle shorter dated mandates into longer dated longer term funds and match the opportunities we identify in our unique platform with capital partners focused on long term income, in order to build recurring revenue streams for Cromwell," he added.

"As part of our strategy we have just recently executed contracts on a c.€90 million asset in Italy which we will manage on behalf of a new Korean capital partner."

"This is the first of what we anticipate will be a series of single asset mandates for Asian investors who are keen to access our unique operating platform in Europe," he added.

In Australia, unitholders overwhelmingly voted in favour to extend the term of the Cromwell Ipswich City Heart Trust to June 2023. The extension realised a performance fee of \$4.1 million.

"This single asset trust, leased to the Queensland State Government, has returned 13.7% per annum since inception in December 2011 and is a great example of Cromwell's original back-to-basics syndicated trusts," said Mr Weightman.

The Cromwell Direct Property Fund (DPF) purchased the Energy Queensland building in Townsville for \$63.5 million before Christmas. DPF has a highly recommended rating from independent research house Lonsec and annualised performance since inception (August 2013) of 10.5%.

“Direct gearing is a very conservative 17% and although the fund is ready for further growth, given the prices being paid for assets, we will continue to be cautious in the immediate future,” he added.

In New Zealand, Oyster Group’s AUM was NZ\$1.5 billion. The purchase of ASB Bank’s Technology and Innovation Hub in Albany, Auckland for NZ\$50.5 million was the highlight of the period and went unconditional in December 2018. Interests in the asset are currently being marketed to retail investors.

OUTLOOK AND GUIDANCE

Global trade tensions, Brexit and the possibility of slower economic growth in China, Europe and the US have resulted in downward revisions to global growth forecasts.

In Australia, uncertainty around the upcoming federal election and potential changes to taxation policies, the residential market downturn as well as implications for the financial services sector from the Hayne Royal Commission have contributed to significant falls in Australian consumer confidence and business conditions generally.

“We see downside risk in all markets in which we operate,” said Mr Weightman.

“We have positioned Cromwell to be in a strong position to manage those risks, and indeed to be able to capitalise on opportunities that may arise should those risks eventuate.”

Cromwell completed its 2 for 13 non-renounceable rights offer in December and the proceeds have been used to repay debt and increase liquidity

“We are positive but cautious and have a strong balance sheet with liquidity and optionality. NTA is up, gearing is below our target range, our WALE is 7.2 years and we have low upcoming incentive and maintenance capex requirements,” he added.

“Everything we have done so far is on strategy and we are ahead of run-rate at the half year, with strong transactional earnings booked in the period.”

“We maintain the 8.00 cents per security (cps) full year earnings guidance previously provided to the market and will prudently deploy capital and execute transactions when and where we see opportunities to do so, with an eye to long-term value creation,” Mr Weightman stated.

Cromwell maintained FY19 guidance. Operating profit is expected to be no less than 8.00 cps and distributions no less than 7.25 cps, representing an operating profit per security and distributions per security yield of 7.31% and 6.62% respectively based on a closing price of \$1.095 per security on 27 February 2019.

Ends.

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ABOUT CROMWELL PROPERTY GROUP

Cromwell Property Group (ASX:CMW) is a diversified real estate investor and manager with operations on three continents and a global investor base. As at 31 December 2018, Cromwell had a market capitalisation of \$2.2 billion, a direct property investment portfolio in Australia valued at \$2.5 billion and total assets under management of \$11.5 billion across Australia, New Zealand and Europe.