

7<sup>th</sup> March 2019

## APN Regional Property Fund

### Strong record of returning cash to owners

APN Regional Property Fund owns two commercial properties, 26 and 28 Honeysuckle Drive, Newcastle. The Fund listed in October 2004, raising \$29.4m in partly-paid units at \$0.84/unit. The subsequent payment of \$0.16/unit in September 2005 brought the fully paid value to \$1.00/unit. At listing, the fund also owned retail assets- since sold with the last completed in February 2015. Following this sale, APR made a withdrawal offer to unitholders, returning \$5.5m in capital to those who participated. At 31 December 2018, the Fund's NTA was \$1.432 per unit, up from \$1.406 at June 30. The Fund went into trading halt on February 4 ahead of implementing a withdrawal offer and up to \$36m equity raising intended to maintain the fund's scale and purpose to 2024 while again returning cash to interested unitholders. The withdrawal offer and equity raising are priced at NTA and forecast to deliver a cash distribution of 7.0%, increasing to 7.4% in FY20.

### Business model

APR is managed by APN Funds Management, a company wholly owned by APN Property Group (APD.ASX). The fund earns its income from rent collected and capital growth from the independent revaluations of its two properties. The properties are leased to a range of tenants including government bodies and national corporates. Expenses of the fund are predominantly property management expenses, investment management costs and finance costs. APR had net debt of \$13.01m at 31 December.

### H119 result

APR reported H119 total income of \$3.16m up 1.86% on pcp. NPAT for the six months to December 31 was \$1.93m versus \$4.7m a year before which was enhanced by revaluations. NTA per unit at 31 December was \$1.432, up from \$1.406 at June 30 as the fund's property portfolio value increasing to \$51.1m following a further revaluation gain driven by improved leasing, building improvements and a fall in market capitalisation rates. The Fund loan to valuation ratio reduced to 29% from 30% at June 30. Property occupancy was at 96% at 31 December and the weighted average length of lease expiry is 3.2 years. The properties are currently valued using a 7.25% cap rate. In its recent PDS, APR announced the DPU is forecast to increase by 7.4% to 10.2cpu in FY20.

#### Earnings history (A\$m)

Year ended	Total Income	NPAT	EPU (c)	DPU (c)	Asset Valuation	Loan to Valuation Ratio	NTA per unit (\$)	Price to NTA (x)	Div Yield (%)
Jun-14	10.65	6.557	20.1	7.3	47.96	41.9%	0.856	1.34	10.1%
Jun-15	7.55	4.877	18.5	8.7*	39.25	38.2%	0.935	1.23	10.9%^
Jun-16	9.58	7.185	27.2	10.2*	43.50	34.5%	1.110	1.04	11.0%^
Jun-17	7.08	4.72	17.90	9.50	45.30	33.1%	1.189	0.82	9.7%
Jun-18	10.46	8.22	31.17	9.50	51.10	25.3%	1.406	0.85	7.9%

Source: Company data \* includes a special distribution of 1.2cpu in FY15 and 1.15cpu in FY16.  
^includes special distribution

#### Au`Units Summary (prior to offer)

Units Code	APR
Units Price at last close	\$1.20
Market Capitalisation	\$31.65M
Number of Units	26.37M
Net Debt at 31 Dec 2018	\$13.01M
Share Registry	APN Property Group

#### RaaS 5-Point Score\* = 4/5

Revenue increasing (1); EPU increasing (1), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

#### Upside Case

- Newcastle CBD improvements benefit property values
- Benefits from the efficiency of being managed in a large group of funds
- Highly experience board with majority independent directors

#### Downside Case

- Limited property portfolio
- Uncertainty regarding outcome of current withdrawal and re-capitalisation process.
- Limited exposure to potential population shift to regional Australia as properties only in Newcastle

#### Board of Directors

Non-Exec Independent Chair	Geoff Brunson
Non-Exec Independent Dir	Howard Brenchley
Non-Exec Independent Dir	Michael Johnstone
Non-Exec Independent Dir	Jennifer Horrigan
CFO and Alternate Director	Michael Groth

#### Catalysts

- Increase in NAV (reported monthly)
- Successful completion of equity raise and deployment of funds

#### Comparative Companies

AOF, CMA

#### RaaS Advisory contacts

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# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 26<sup>th</sup> November 2018**



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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