

# ASX release

4 February 2020

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## MANAGING DIRECTOR'S ADDRESS - UNITHOLDER BRIEFING - 4 FEBRUARY 2020

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Good morning and welcome ladies and gentlemen.

My name is Michael Wedgwood and I am the Managing Director of the responsible entity for BWP Trust.

### Outline

On the screen is an outline of what I will be covering in the next 20 minutes or so.

I will start with an overview of what we are currently focused on in BWP.

I will then briefly summarise BWP's performance for the six months to 31<sup>st</sup> December 2019 and provide an update on our property portfolio and how it is evolving.

I will finish up with some comments on our outlook.

There will be an opportunity at the end to take questions.

Before we conclude, the Chairman will provide you with the results of the poll, and we can then all head out for refreshments.

### Overview

In the last few years, the Australian economy has been characterised by low inflation, reducing interest rates and relatively benign GDP growth.

In this environment, the commercial property sector and listed real estate investment entities have been attracting significant investment capital in search of yield. This has provided good support for our asset valuations and our unit price.

We have not added to our portfolio during this time. Our existing portfolio generates a high return on invested capital. Finding property that generates a yield commensurate with the underlying asset risk is particularly challenging in this sustained strong commercial property market.

BWP has been an investor in Bunnings Warehouse properties for a long time. It is inevitable with the ongoing evolution of the Bunnings business that some properties no longer meet Bunnings' operational requirements. Periodically, vacancies in the portfolio do, and will occur.

There is generally good alternative use for property that Bunnings no longer occupies. We have already re-purposed several ex-Bunnings properties and are currently in the process of re-purposing several others. I will talk more about this in a moment.

BWP is a long-term investor. We only sell property if we believe it is the best opportunity to create or preserve value. There have been some good opportunities to divest a few ex-Bunnings properties over the last couple of years, which we have taken advantage of. Last financial year we sold four properties.



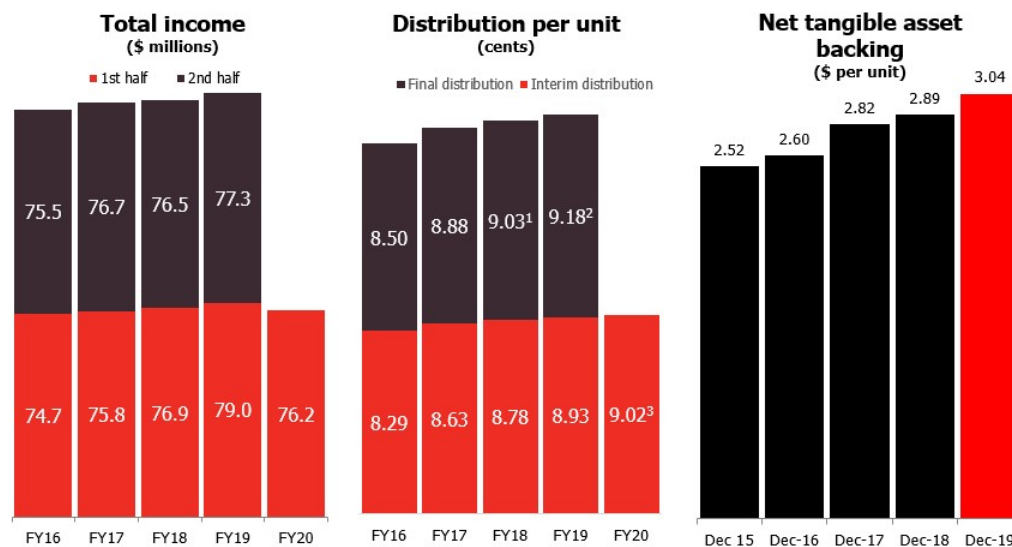
We are improving the returns from our existing assets by upgrading stores that Bunnings is occupying, re-purposing properties that Bunnings has moved on from, and improving the zoning on properties where there is an opportunity to do so.

BWP has a diverse and well-located property portfolio which is generally robust regardless of the external economic environment.

### Half-year results

This next slide shows key aspects of our half year results which were released to the ASX this morning. The trends for total income, distributions and net tangible backing are highlighted on this slide.

## Half-year results – 31 December 2019



<sup>1</sup> FY17/18 final distribution includes a partial distribution of capital profits of 0.19 of a cent per unit.

<sup>2</sup> FY18/19 final distribution as shown includes a partial distribution of capital profits of 0.08 of a cent per unit, but excludes a special distribution of 1.56 cents per unit.

<sup>3</sup> FY19/20 interim distribution includes a partial distribution of capital profits of 0.11 of a cent per unit.

More detail on the results is provided in the half year report and ASX release which are now available on our website.

Total income for the six months to 31 December 2019 was slightly lower than the previous corresponding period, reflecting rent foregone from properties sold last year, and from rent free periods while properties are being repositioned.

The distributable profit for the half year grew 1.0 per cent taking into account ongoing portfolio rental growth, a reduction in funding costs, and a release of capital profits generated from properties that we have recently divested.

The half-year distribution grew 1.0 per cent to 9.02 cents per unit in line with the distributable amount.



Net tangible asset backing has grown about 5.0 per cent to \$3.04 per unit over the last 12 months, as a result of a further uplift in the value of a number of properties in the portfolio.

In the last six months, we have completed capital works for the re-positioning of our ex-Bunnings Hoxton Park property in Sydney, which I will talk more about in a moment.

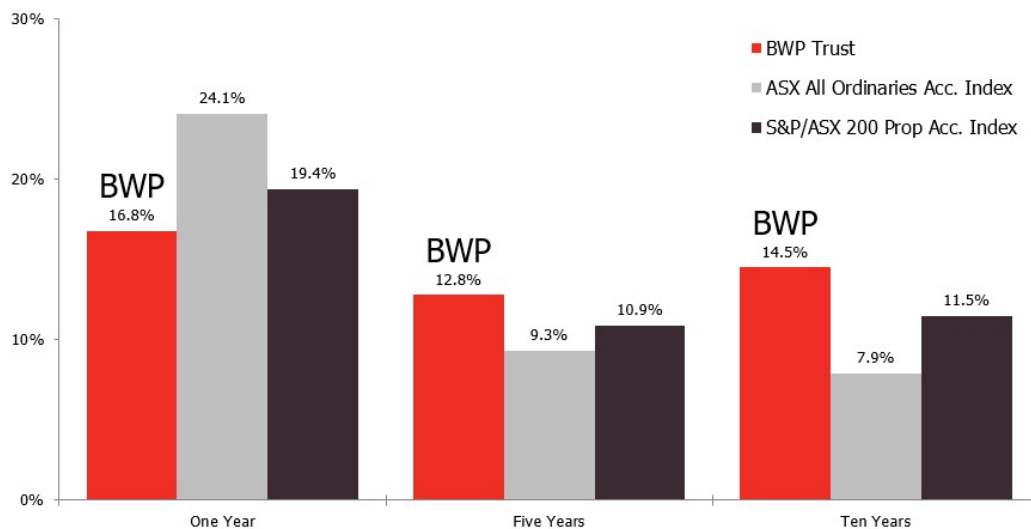
We have also finalised the re-zoning of our Mindarie property in Perth.

Other re-positioning and upgrade work is progressing in accordance with our plans.

## Returns

On this next slide you can see BWP's unit price and returns performance over one, five and ten year periods, compared to the All Ordinaries Accumulation Index, and the ASX 200 Property Accumulation Index.

## BWP Trust total returns compared to market-period ended 31 December 2019<sup>1</sup>



<sup>1</sup>Total returns include distributions and movement in price (assumed distributions are reinvested). Source UBS Australia

The first group of three bars on the left is the one year performance comparison to date. The second group of bars in the middle is the 5 year performance comparison and the last set of bars on the right represents a 10 year comparison.

BWP has generated a total unit holder return of 16.8 per cent for the year to 31 December 2019.

Over the longer term, as you can see with the 5 year and 10 year comparisons, BWP has consistently achieved returns in excess of the major indices.



## **Property Portfolio**

Turning now to our property portfolio.

We currently own 75 properties, 67 of which we consider core, and 8 of which are being transitioned from being Bunnings-leased properties to other purposes.

The core properties are generally at Bunnings' current standard, or they are in good locations and difficult to replace, or they have been re-purposed with new long term leases in place.

We have recently converted our Mandurah property to large format retail as a result of Bunnings moving to a nearby ex-Masters property, and we are in the process of finalising the leasing. As part of the upgrade we added roof-top solar, and we are currently in the process of installing a Tesla battery, both of which will significantly improve the energy efficiency of this property.

Our Port Macquarie property is also currently being converted to large format retail. We expect to complete capital works by March and we are well advanced with the leasing.

We are progressing with plans to re-develop our Cairns and Mindarie properties and are considering re-leasing options for our Morley and Northland properties.

Our Underwood and Belmont North properties are under option to sell, subject to planning approvals.

Our properties are typically large sites, with good access and visibility, and located in high population areas. This is good for Bunnings while they occupy the sites; .....it also provides BWP with optionality for the properties in the event Bunnings moves on.

## **Mentone**

On this next slide we show a photo of our recently re-developed Mentone property in Melbourne. This property has been successfully transitioned from a Bunnings warehouse and is now occupied by Officeworks and Crunch Fitness.

The financial outcome of this re-development has been a property valuation uplift, which is well in excess of the re-development cost. The rental income is higher than what it was previously, and, we have new long term quality leases in place.

The Mentone property is well located and is likely to have higher and better use potential in the medium term. We will continue to review the re-zoning potential of this property to ensure its longer term value is maximised.

## **Hoxton Park**

Hoxton Park is another of our property redevelopments, this time in Sydney. This property is being re-positioned for large format retail, as a result of Bunnings moving into a nearby ex-Masters store.

Bunnings surrendered its lease in late June last year, and construction was completed in December. The property is currently 92 per cent leased, with the two remaining tenancies expected to be leased by mid- 2020.

The fair-value of the property on completion is about \$58 million, a \$20 million uplift in value compared to what it was previously.

The project cost of the redevelopment is approximately \$13 million.



## Outlook

Finally, a few words on the outlook for BWP until the end of this financial year.

We are not expecting the Australian economy to change significantly in the near term. Low growth and low interest rates are likely to prevail for a while yet.

In this environment, demand for Bunnings Warehouse properties should remain stable. While this is positive for asset valuations, it will continue to make it difficult to find attractive investment opportunities.

We expect further rental growth from our core Bunnings portfolio from annual CPI and fixed rent reviews. We have a number of market rent reviews in the portfolio underway at the moment.

In most cases we believe current rents are close to market, so overall.... we are not expecting significant changes in rent as a result of the reviews.

Our short-term focus remains on achieving good outcomes for any properties vacated or likely to be vacated by Bunnings.

In relation to our Bunnings occupied stores, we will continue to progress with Bunnings all potential opportunities for further investment in those properties.

We will also continue to look for opportunities to expand the portfolio. Our focus will be on long term rental growth and occupancy, and potential for higher and better use over time.

BWP could expect the full year distribution for year ending 30 June 2020 to be about one per cent higher than the ordinary distribution paid for the year ended 30 June 2019, - a similar level of growth to the interim distribution.

Capital profits will be utilised to support distributions as necessary.

That completes our briefing for today.

I will now hand you back to the Chairman.

For further information please contact:

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