Kiwi Property

UNIVERSITY OF AUCKLAND INVESTMENT CLUB

Pitched by Flynn Davies

Overview

NZX:KPG

Ticker	“KPG”	Price	0.86
PE Ratio	9.8	52-week range	1.70-0.74
Div. Yield.	8.09%	Market Cap	1.41B

- Kiwi Property is the largest listed property company (REIT) on the New Zealand Stock Exchange and is a member of the S&P/NZX 20 Index.
- Owns a $3.1 billion portfolio of real estate, comprising some of New Zealand's best shopping centers and prime office buildings.
- Aims to provide investors with a reliable investment in New Zealand property by targeting superior risk-adjusted returns over time through the ownership and active management of a diversified, high-quality portfolio.

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Investment highlights

- KPG pays a high, reliable and increasing dividend of 7.58%,
- Forecast long runway of earnings growth (67.03% per year)
- Strategic investment in value-add opportunities, delivering over $140 million in property developments in the past year, including a new fully-leased office building and new carpark at Sylvia Park
- Successful portfolio rebalancing have provided KPG with balance sheet flexibility, enabling them to focus on growth through developments and considered acquisitions while still maintaining conservative levels of debt

History and notable acquisitions

In August 1992, Kiwi Income Property Trust was established

In April 2001, acquired the Vero Centre. It remains one of Auckland's most desirable office locations.

In December 2014, changed their name to Kiwi Property and our New Zealand Stock Exchange ticker changed to KPG.

In April 2016, entered an agreement to acquire a 50% interest in The Base shopping center, in Hamilton for $192.5 million.

In March 2019, Kiwi Property announced a new executive team to align the business to growth opportunities and better position the business for continued success

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Asset location and diversification

- Strong bias for Auckland and the "golden triangle"

  -Favored for superior prospects for economic growth

  -Located in regions outside of Auckland with high growth potential

  -Diversified portfolio of high-quality property

- *Target prominent mixed use and retail properties*

  -locations favored by Auckland unitary plan

- Office assets

  - Auckland, prominent locations (Vero center)

  - Wellington offices are subject to long term crown leases

geographic diversification
by portfolio value

Auckland	**70%**
Hamilton	**9%**
Palmerston North	**6%**
Wellington	**7%**
Christchurch	**8%**

sector diversification
by portfolio value

mixed-use	**48%**
retail	**18%**
office	**28%**
other	**6%**

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Portfolio and management

Portfolio encompasses assets across retail, office, mixed use (and managed).

Mixed use

- Value of $1.53B, includes Sylvia park, Sylvia park lifestyle, Lynn mall and the base.

Office

- Value of $893.0M Includes Vero center, ASB North Warf, the aurora center and 44 the terrace.

Retail

- Value of $597.5M, includes Westgate lifestyle, centers place north, the plaza and northlands.

Managed

- Manage $370m of property of owner's behalf, includes iconic Wellington building, the majestic and center place south in Hamilton.

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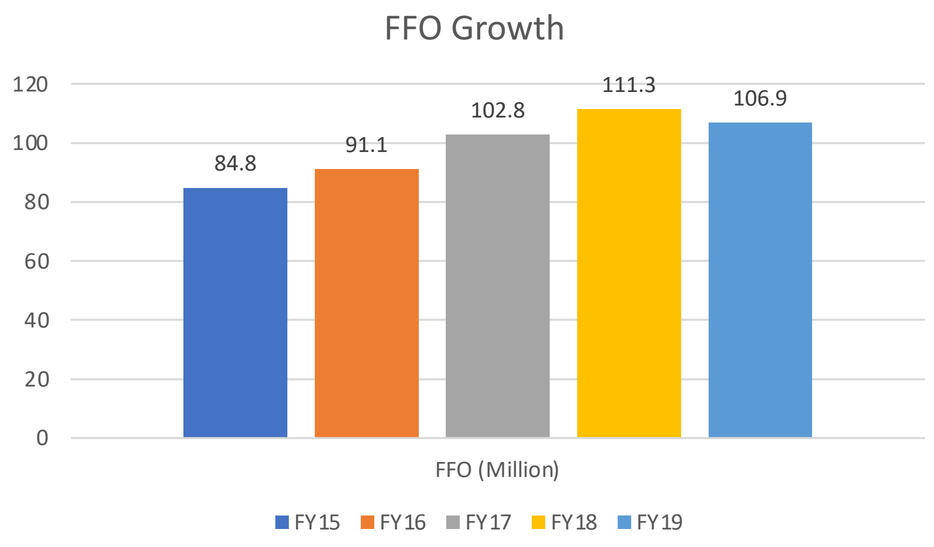
Funds From Operations (FFO)

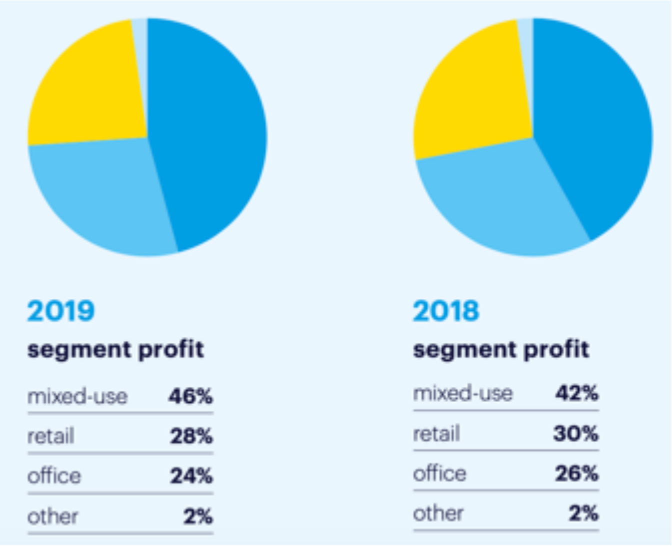
- Solid upward tick in FFO.

-Despite FFO decreasing over the 18/19 FY profits have been increasing, (profit after tax $138.1m FY18: $120.1m).

- Statement from the CEO.

"Repositioning our portfolio through asset sales and redevelopments naturally provides a short-term earnings impact. In line with this, our funds from operations declined year-on-year. However, we have grown our dividends, improved the quality of our portfolio and placed ourselves in an even stronger position to pursue growth opportunities for long-term benefit".





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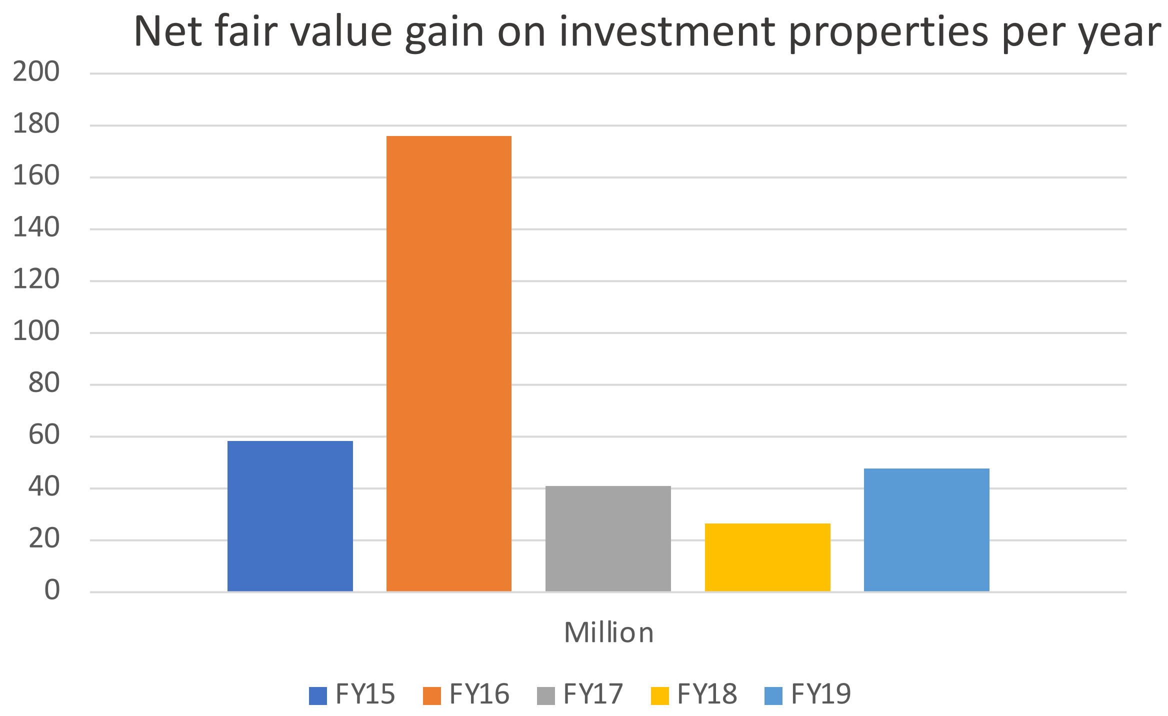
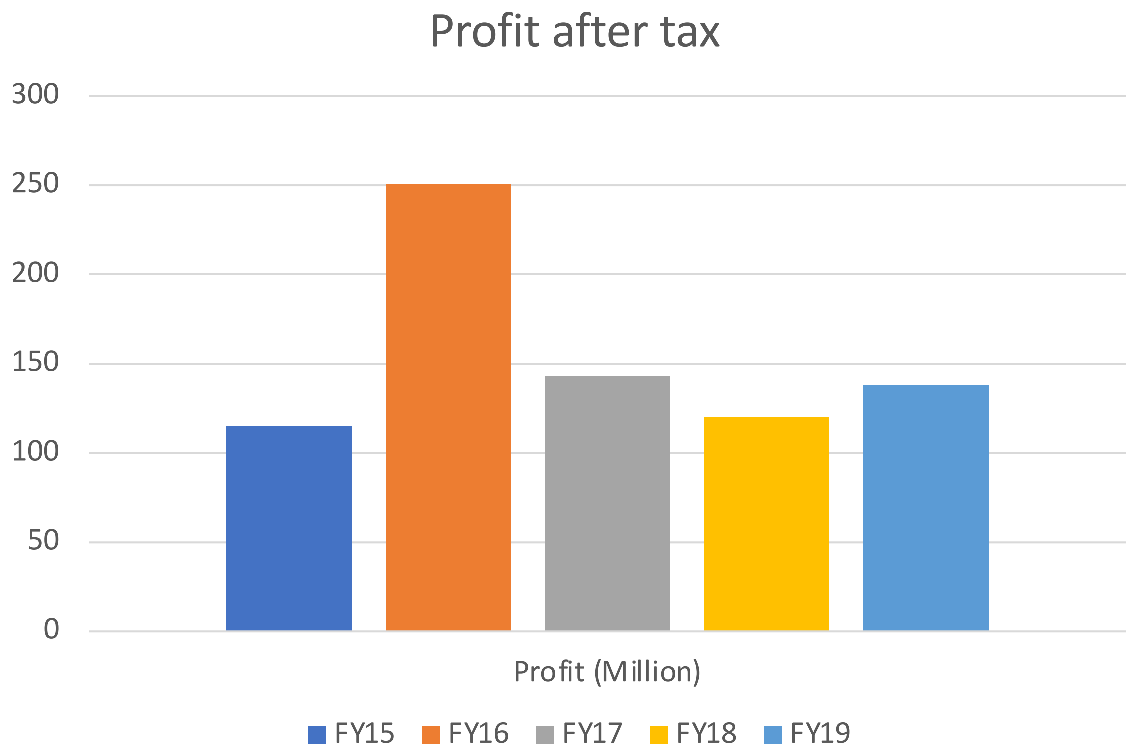
FFO Continued





In 2016 acquired Westgate lifestyle, and underwent large CAPEX.

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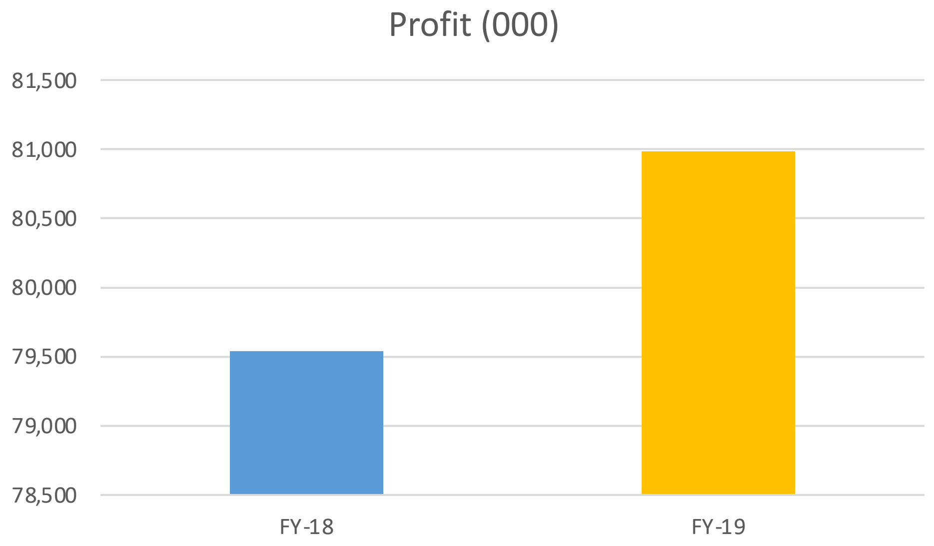
Portfolio breakdown (Mixed use)

- Auckland (86%) and Hamilton (14%)
- This $1.53B portfolio has has a weighted average capitalization rate of 5.71%
- High occupancy rate 99.5%
- Specialty stores (68%) make up the biggest proportion followed by mini majors (11%). WALE of 4.1 years.
- 4 assets, 521 tenants, 28 million annual customer visits per year



- Mixed-use communities combine complementary assets to create spaces for people to thrive and for businesses to prosper. These assets all enjoy great road and public transport access, that in turn create stronger prospects for long-term economic stability, increased cross sell and up sell opportunities.

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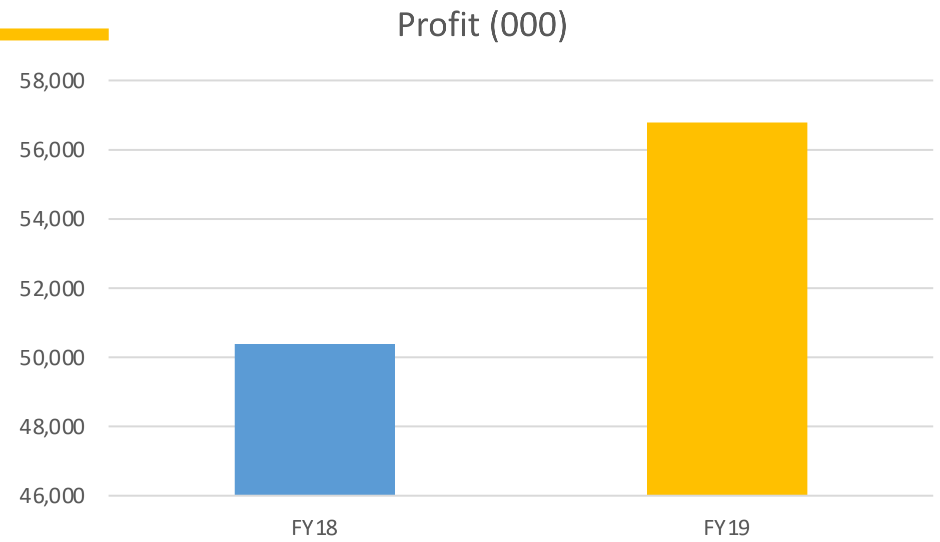
Portfolio breakdown (Retail)

- Mixed use makes up 28% of total portfolio.
- Retails value of $597.5m with a weighted Capitalization rate of 7.53%.
- 99.4% occupancy with a WALE of 3.3 years.
- Specialty stores make up 66% of occupancy followed by mini majors 11% .
- Three shopping centers account for 329 tenants, 20 million customer visits per year.

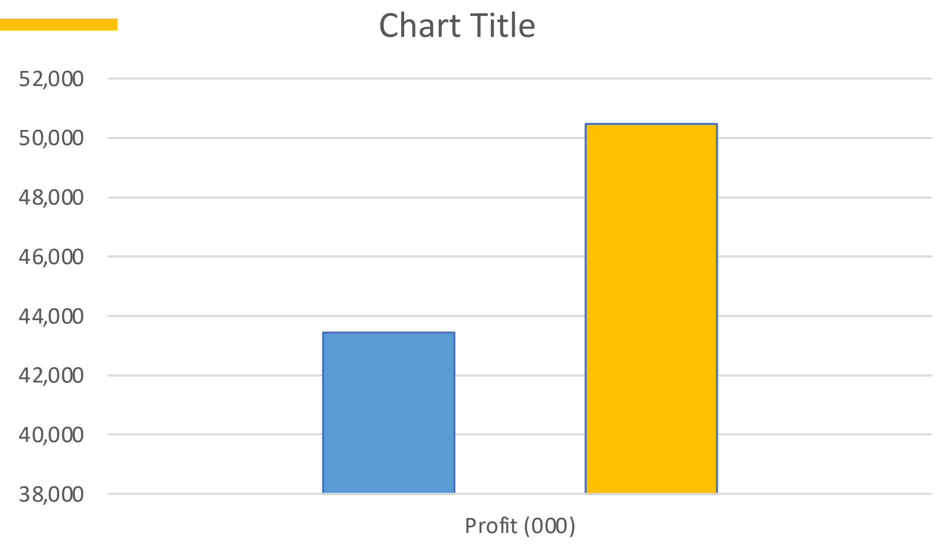


- New Zealand retail continues to outshine global retail markets, attributed to the relatively low supply of retail space per capita, good economic conditions, the proven ability of retailers to meet local consumer demands and population growth in our key areas of operation.

University of Auckland Investment Club

Portfolio breakdown (Office)

- 24% of total portfolio.
- $893.0m segment value weighted average. capitalization rate at an average 5.45% annually.
- 98.7% occupancy with a WALE of 9.3 years.
- 4 assets, 63 tenants. Exclusively in Auckland and Wellington, (76% and 24% respectively).
- Office buildings target premium long-term tenants All are strongly leased to some of New Zealand's most respected companies and government departments.



- Tennent diversification.

-government (25%)
-banking (24%)
-legal (20%)
-other (31%)

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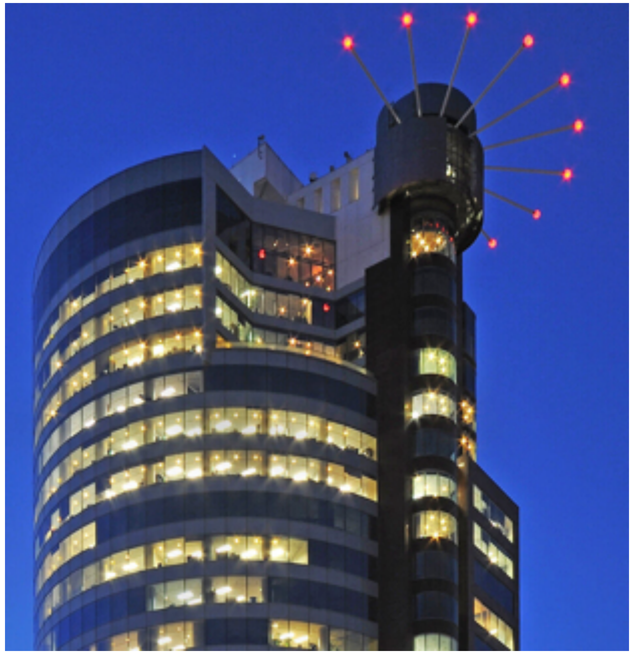
Assets under Management

- Manage $370m of property of owner's behalf, includes iconic Wellington building, the majestic and center place south in Hamilton.

- Management income has increased FY19 2.2 Million from FY18 1.75M .

- The Majestic Centre is a prominent landmark and an icon on the Wellington cityscape as well as its tallest building.

- Centre Place - South in Hamilton's CBD has a retail offer complemented by a great range of indoor and outdoor dining options, 5.5 million visitors per year.



Drury

- Recently purchased 51 hectares of land at Drury where KPG is looking to create a vibrant town center that will support the Drury community for years to come.

- Drury is a rural, lifestyle area situated approximately 5.5 kilometers south of Papakura and approximately 37 kilometers to the south-east of the Auckland CBD.

- The redevelopment of the town will transform it into a modern and highly desirable lifestyle location.

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Management

- Mr. Clive Mackenzie serves as Chief Executive Officer of Kiwi Property Group Limited since July 16, 2018. He has extensive experience in retail and mixed-use property development in New Zealand and the United States.

- The leadership team have an average tenure of 3.8yrs and all hold a minimum of 60k in company stock.

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Industry

The Property Market

- Commercial property sales had been strong in the last four to five years, largely due to low interest rates, good employment levels, healthy business environment and demand outstripping supply.
- The commercial property market - office, industrial and retail has benefited from a bull market since 2013 with lower interest rates in 2019 continuing to support investment and sales
- KPG has signaled that it will use the market downturn to their advantage and is looking into some new acquisitions.
- Removal of LVR Rates for residential mortgages, will provide financial stability from the server correction in housing prices
- With decreasing interest rates, investors can secure capital at lower rates.

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COVID's Impact

Kiwi property's portfolio value has decreased by $300 million down 8.5% from 3.39 billion.

- Significant uncertainty caused by Covid-19 has prompted valuers to include an assessment of its effects on property values.
- As a result, assumptions around rental growth, vacancy, downtime, leasing up allowances and trading conditions have all softened.
- The challenging investment market conditions and an expected decline in capital inflows are also contributing to an expansion in capitalization and discount rates."
- The uncertain environment is likely to continue for some time and KPG will regularly review further changes in asset values and make additional announcements as appropriate.

Competitive Advantage

- Kiwi property group strives for innovation in their asset portfolio.

  -New developments such as Drury and the Sylvia park extensions showcase their continued innovation towards better designed spaces for human interaction

- KPG's size balance sheet will see them through upcoming market downturns while competitors falter.

-Office will continue to provide steady cash flows.

- Focus on sustainability

-Saving on water, electricity and waste.

-While undergoing expansion KPG has managed to decrease carbon emissions by 47% since 2012

- While KPG focuses on retail and office development, other property company's such as Conrad property's and Barfoot and Thompson focus on residential and apartment buildings

Strategy, Looking ahead.

- Acquisitions and organic growth opportunities in the Auckland region, given its superior prospects for economic, population and employment growth.

- Core government office accommodation in Wellington, supported by long-term leases to the Crown.

- Retail and mixed-use acquisition opportunities can be expected to deliver superior investment performance over time:

-Dominating regional shopping centers providing the best shopping experience.
-Placing centers in locations favored by the proposed Auckland Unitary Plan.

- The completion of the Sylvia park redevelopment. Currently have $385 Million of developments complete or under way here.

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Risks

Mitigatable Risks

Risk

Interest rate risk

- Interest rate risk is the risk that fluctuations in interest rates impact KPG’s financial performance or the fair value of its holdings of financial instruments

Mitigation

- KPG reduces its exposure to changes in interest rates by utilizing interest rate derivatives to limit future interest cost volatility. KPG has established a treasury management group consisting of senior management and external treasury advisors to review and set treasury strategy within the guidelines of its treasury policy

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Mitigatable Risks

Risk

Credit risk

- Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial losses to KPG. KPG incurs credit risk in the normal course of business from trade receivables and transactions with financial institutions.

Mitigation

- The risk associated with trade receivables is managed with a credit policy that includes performing credit evaluations on tenants and imposing standard payment terms and the monitoring of aged debtors. Collateral is obtained where possible. The risk from financial institutions is managed by placing cash and deposits with high credit quality financial institutions only.

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Mitigatable Risks

Risk

Liquidity Risk

- Liquidity risk, KPG will not be able to meet their financial obligations as they fall due.

Mitigation

- KPG evaluates its liquidity requirements on an ongoing basis by forecasting cash flows. KPG generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls. KPG's approach to managing liquidity risk is to ensure it will always have sufficient liquidity to meet its obligations when they fall due under both normal and stress conditions.

Unmitigable Risks

Risk

- Changes in consumer spending

-Post Covid-19 consumer spending is likely to decrease, in areas such as retail and hospitality

- Increase in online shopping

-This represents a challenge to KPG's retail and mixed-use assets. Will have to provide an experience around shopping.

- Risks associated with construction

- Business uncertainty and bearish outlook.

Financials

Balance sheet

financial position

as at 31 March

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Assets					
Investment properties	**3,207.4**	3,052.0	2,969.4	2,669.9	2,275.8
Cash and cash equivalents	**9.9**	10.7	9.8	6.2	6.2
Other assets	**19.1**	18.6	16.5	15.4	8.4
Total assets	**3,236.4**	3,081.3	2,995.7	2,691.5	2,290.4
Liabilities					
Interest bearing liabilities	**1,001.7**	913.5	1,030.4	814.2	766.4
Deferred tax liabilities	**88.5**	91.7	89.2	85.4	85.0
Other liabilities	**95.3**	82.0	70.0	75.1	56.4
Total liabilities	**1,185.5**	1,087.2	1,189.6	974.7	907.8
Equity					
Share capital	**1,449.6**	1,432.9	1,272.6	1,241.1	1,079.1
Share-based payments reserve	**0.6**	0.4	0.5	0.2	-
Retained earnings	**600.7**	560.8	533.0	475.5	303.5
Total equity	**2,050.9**	1,994.1	1,806.1	1,716.8	1,382.6
Total equity and liabilities	**3,236.4**	3,081.3	2,995.7	2,691.5	2,290.4
Gearing ratio	**31.0%**	29.7%	34.5%	30.3%	33.5%
Net tangible assets per share	**$1.43**	$1.40	$1.39	$1.34	$1.21

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FFO and Conciliated cash flows

funds from operations

for the year ended 31 March

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Profit after income tax	**138.1**	120.1	143.0	250.8	115.2
Adjusted for:					
Net fair value gain on investment properties	**(47.6)**	(26.5)	(41.0)	(175.9)	(58.3)
Loss/(gain) on disposal of investment properties	**(1.0)**	7.1	1.3	–	0.8
Net fair value loss/(gain) on interest rate derivatives	**11.0**	2.4	(9.7)	17.6	13.1
Termination of management arrangements	**–**	–	–	–	2.1
Insurance adjustment	**–**	–	–	–	5.1
Litigation settlement expenses/(income)	**–**	–	0.8	(5.9)	1.3
Straight-lining of fixed rental increases	**(2.0)**	(2.1)	(2.1)	(2.3)	(4.1)
Amortisation of tenant incentives and leasing fees	**7.0**	7.8	6.7	6.4	5.6
Other one-off items	**4.5**	–	–	–	–
Deferred tax expense/(benefit)	**(3.1)**	2.5	3.8	0.4	4.0
Funds from operations[2]	**106.9**	111.3	102.8	91.1	84.8

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Income					
Property revenue and management income	**237.5**	251.0	239.6	208.6	206.3
Other income	**1.1**	0.3	0.3	6.5	0.4
Net fair value gain on investment properties	**47.6**	26.5	41.0	175.9	58.3
Net fair value gain on interest rate derivatives	**–**	–	9.7	–	–
Total income	**286.2**	277.8	290.6	391.0	265.0
Expenses					
Direct property expenses	**(54.6)**	(57.2)	(55.6)	(51.6)	(50.5)
Interest and finance charges	**(37.6)**	(42.6)	(43.2)	(33.5)	(52.6)
Employment and administration expenses	**(20.9)**	(20.5)	(18.0)	(16.2)	(15.1)
Net fair value loss on interest rate derivatives	**(11.0)**	(2.4)	–	(17.6)	(13.1)
Termination of management arrangements	**–**	–	–	–	(2.1)
Other expenses	**–**	(7.1)	(2.1)	(0.4)	(7.2)
Total expenses	**(124.1)**	(129.8)	(118.9)	(119.3)	(140.6)
Profit before tax	**162.1**	148.0	171.7	271.7	124.4
Income tax expense	**(24.0)**	(27.9)	(28.7)	(20.9)	(9.2)
Profit after tax[1]	**138.1**	120.1	143.0	250.8	115.2

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Dividend

dividends

for the year ended 31 March

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Funds from operations	**106.9**	111.3	102.8	91.1	84.8
Less amount retained	**(7.4)**	(14.1)	(15.5)	(7.2)	(14.5)
Cash dividend	**99.5**	97.2	87.3	83.9	70.3
Payout ratio	**93%**	87%	85%	92%	83%

	cps	cps	cps	cps	cps
Cash dividend	**6.95**	6.85	6.75	6.60	6.50
Imputation credits	**2.00**	1.89	1.92	1.62	0.44
Gross dividend	**8.95**	8.74	8.67	8.22	6.94

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