



ASX ANNOUNCEMENT
Announcement No. 02/14

23 January 2014

The Manager
Australian Stock Exchange

ALE Property Group (ALE)
Results for Half Year Ended 31 December 2013

Highlights

- Distributable profit¹ of 8.43 cents per security exceeded guidance by 2.8%
- Half year distribution guidance of 8.20 cents per security is expected to be around 93.8% tax deferred
- Property valuations increased by 2.2% to \$803.2 million
- Positive outlook for future market rent reviews reflected in portfolio valuation analysis released at November 2013 AGM
- Capital position remains strong
 - no final debt maturities until 2016
 - interest rates hedged at the low end of cycle until 2022
 - covenant net gearing reduced to 49.5% provides significant headroom
 - DRP participation of 30.2%. On-market buyback in progress
- Full year distribution guidance of at least 16.35 cents per security reaffirmed and expected to be at least 75% tax deferred
- Net Assets per security increased to \$1.96 from \$1.90 at 30 June 2013
- ALE continues to outperform all benchmarks. 2003 investment of \$1.00 in ALE's stapled securities has a current accumulated value³ of \$7.32
- ALE named AREIT of the year by Property Investment Research.

Result for Six Month Period Ending 31 December 2013

ALE today announced a distributable profit of \$16.5 million for the six months to 31 December 2013 and confirmed the distribution of 8.20 cents per security.

A summary of the Distributable Profit results versus the comparative half year are shown in the table below:

Half Year Ended	December 2013 \$m	December 2012 \$m	Change \$m
Revenue from Properties	26.9	26.4	0.5
Other Revenue	1.0	1.7	(0.7)
Borrowing Expense	(8.2)	(9.4)	1.2
Management Expense	(2.2)	(1.8)	(0.4)
Land Tax Expense	(1.1)	(1.1)	-
Distributable Profit ¹	16.5	15.8	0.7
Distributable Profit (per security)	8.43c	8.18c	0.25c
Distributed Payment (per security)	8.20c	8.00c	0.20c

Note: Differences occur due to rounding.

Accounting Result

ALE's operating profit after tax of \$27.7 million for the six months to 31 December 2013 includes non-cash adjustments for the increase in the properties and reduction in the interest rate derivatives fair values. The profit also includes other non-cash items including amortisation of pre-paid financing costs and CIB accumulating indexation. A full reconciliation of accounting profit to distributable profit has been provided in the Directors' Report.¹

Distributable Profit

There were a small number of factors that influenced the distributable profit outcome during the half year.

Property income increased by CPI and borrowing expense continued to benefit from the low base rates achieved as a result of the hedging restructure completed in December 2012. As expected interest income was lower due to lower balances and interest rates. Management expense increased as a result of a number of one-off costs including the portfolio valuation analysis. These factors led to ALE delivering a distributable profit ahead of guidance.

Distribution Payment and DRP

The distribution per stapled security of 8.20 cents will be paid on 5 March 2014 to stapled securityholders on ALE's register as at 5.00pm on 31 December 2013. The first half distribution is expected to be 93.8% tax deferred.

For the half year ending 31 December 2013, participation by securityholders in ALE's Distribution Reinvestment Plan (DRP) stood at approximately 30.2% of the current stapled securities on issue. DRP securities will be supplied from the current on-market buyback to be completed on or before 27 February 2014 and the balance through the issuance of new securities.

The DRP continues to provide convenience to participating securityholders and no scale back was applied to around 700 holders electing to participate. ALE will give ongoing consideration to the operation of DRP having regard to ALE's potential future capital needs.

Capital Management and Refinancing

ALE's strengthened capital management position has been maintained over the six months to 31 December 2013. ALE's net debt of around \$407 million equates to a covenant net gearing ratio² of 49.5% and has an average remaining final debt maturity of 4.8 years. The first maturity for ALE Notes 2 is in August 2014 and ALE has the option of extending by one or two years. At the current time, no decision has been made to extend.

At this level of gearing ALE continues to enjoy significant headroom to the ALE Notes 2 debt covenant. ALE's average capitalisation rate would need to expand by 242 basis points to 9.01% before that covenant is met. The covenant only restricts further borrowings and also distributions above the greater of taxable profit and distributable profit.

ALE has noted that the credit markets continued to strengthen during the period and the focus remains on considering the opportunity for any margin savings and other benefits from completing a refinancing of any of its debt securities. At this time no decision has been taken to extend the 20 August 2014 maturity date for redemption of ALE Notes 2.

ALE completed the restructure and simplification of its interest rate hedging arrangements in December 2012 and in doing so entered new hedging at a base interest rate of 3.83% p.a. being a rate that was close to 100+ year lows. If the same transaction was completed today the rate would be more than 4.50% p.a. The hedging arrangements may be reviewed as part of any future financings.

ALE's net assets per security, has increased from \$1.90 to \$1.96 during the half year. This movement includes property and derivative revaluations and an increased number of securities on issue relating to the DRP.

Statutory Property Revaluations

In November 2013, the substantial majority of ALE's properties' gross rents were reviewed to State based CPI producing an average 2.25% increase in rent.

Independent valuers, CBRE and Urbis, expressed the view that it would be reasonable for the Directors of ALE to maintain the capitalisation rates adopted as at 30 June 2013 for 87 properties and that the valuations should be increased by an amount representing the increase in rental income during the half year. The property values reflected the independent valuer's opinion and increased by \$17.2 million over the half year to \$803.2 million. The average value of each property is now \$9.2 million.

At 30 June 2013 ALE's independent valuers, CBRE and Urbis, valued a representative sample of 30 properties and the directors valued the remaining 57 properties based upon independent advice from the valuers.

The June 2013 independent valuations included a discounted cash flow analysis which for each of the properties contemplated a 10% increase in 2018. However the valuations attributed little if any value to the open market rent reviews which will be determined in 2028 for most of the leases. If these open market rent reviews were to be considered in this valuation approach, the underlying property valuations may change.

Furthermore, ALE currently considers that a portfolio purchaser may be prepared to pay a premium for the value inherent in both the unique leasing arrangements and the positive outlook for market rent held by the valuers.

In November 2013 ALE released an analysis of a range of portfolio values so that investors may better understand the potential value arising from the present under rented position of ALE's properties.

The sale of ALE's Victoria Hotel, Shepparton, Victoria was exchanged in September 2013 at capitalisation rate of 6.35% demonstrating that ALE's properties' market values remain strong. Settlement is expected before 31 March 2014.

Distribution Guidance and Outlook

The Board's full year FY14 distribution guidance of at least 16.35 cents per security has been reaffirmed.

FY14 first half distribution is expected to be 93.8% tax deferred and full year tax deferred component expected to be at least 75%.

ALE's continuing objective is to grow distributions by at least CPI until the next refinancing. The distribution guidance includes benefit from in the money counter hedges which will be fully amortised in FY14. A reduced gearing position provides the opportunity to maintain a stable distribution profile past the amortisation of counter hedge benefits. All guidance assumes the existing portfolio, hedging and capital structure continues unchanged from the current position.

As the credit markets have improved, ALE remains focussed on taking advantage of opportunities to complete a debt refinancing at lower ongoing costs, longer tenor or both. Specifically, in the coming year we will review opportunities to refinance the 2016 debt maturities early, if this is valuable for securityholders.

ALE's acquisition strategy and criteria remains consistent with past announcements.

ALE's Performance

According to UBS, during the year to 31 December 2013 ALE delivered an annual total return of 23.6% p.a. compared to the ASX/S&P A-REIT 300 index at 7.3% p.a. total return.

Since listing in 2003, ALE has outperformed all other A-REITs in the ASX/S&P 300, delivering a compound annual total return of 21.3% p.a.*

From an initial \$1.00 investment at listing to March 2014, distributions to investors will have totalled more than \$2.37 per security.

The \$1.00 investment in 2003 has a current accumulated value of \$7.32³.

- Ends -

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Further Notes

1. ALE pays distributions subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG.
2. Net gearing = $(\text{Net Finance Debt} - \text{Cash}) / (\text{Total Assets} - \text{Cash} - \text{Derivatives Assets})$ as per ALE Notes 2 covenant. This ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that is most relevant for assessing the headroom available.
3. Accumulated value includes security price of \$2.72 at 31 December 2013 and the reinvestment of all distributions to 5 March 2014 and the 2009 renunciation payment.