

6th April 2018

APN Regional Property Fund

Strong NTA growth in H118, trading below peers

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 owned retail assets in Gosford, Grafton and Parkes in addition to the Newcastle commercial properties. These retail assets have since been sold with Parkes, the last to sell in February 2015 for book value of \$10.2m. Following this sale, APR made a withdrawal offer to unitholders, returning \$5.5m in capital to those who participated. At 31 December 2017, the Fund's NTA was \$1.32 per unit, up from \$1.19 at June 30. The Fund is trading at price to NTA of 0.87 times which is at a discount to the December average of Australian REITs of 1.18 times.

Business model

APR is managed by APN Funds Management, a company wholly owned by APN Property Group (APD.ASX). The fund earns the bulk of its income from rentals and, to a lesser extent, independent revaluations of its properties. The properties are leased to a range of tenants including government bodies and publishers. Most of the leases are due to expire by the end of FY21. Expenses of the fund are predominantly property management expenses, investment management costs and finance costs. APR had net debt of \$12.86m at 31 December. Its \$15m facility is due to be repaid in December 2018.

H118 result

APR reported H118 total income of \$5.79m up 79% on pcp. NPAT for the six months to December 31 was \$4.75m versus \$2.01m a year before. As a result, earnings per unit lifted more than two-fold to \$0.18 versus \$0.076 in H117. NTA per unit at 31 December was \$1.32, up from \$1.19 at June 30 as a result of the fund's property portfolio value increasing to \$48.6m from \$45.3m following a revaluation of the fair value. The loan to valuation ratio reduced to 30.9% from 33.1% at June 30. Property occupancy was at 100% at 31 December and the weighted average length of lease expiry is 2.4 years.

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	4.723	17.9	9.5	45.30	33.1%	1.190	0.97	9.7%

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

^includes special distribution

Units Summary

Units Code	APR
Units Price	\$1.15
Market Capitalisation	\$30.33M
Number of Units	26.37M
Net Debt at 31 Dec 2017	\$12.86M
Share Registry	APN Online

RaaS 5-Point Score* = 2/5

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

Upside Case

- H118 result was substantially ahead of H117
- 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
- Most of the funds' leases expire by the end of FY21
- Limited exposure to 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

- Renewal of key leases over the next three years
- Renegotiation of debt facility by December 2018

Comparative Companies

AOF, CMA

RaaS Advisory contacts

Finola Burke	+61 414 354 712 finola.burke@raasgroup.com
Moirra Daw	+61 418 697 275 moirra.daw@raasgroup.com

* The RaaS 5-Point score is based on the company's performance in its last reported full year. Past performance is not a reflection of future performance.

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FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Level 2, 129 Robertson Street, Fortitude Valley QLD, 4006

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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