11 August 2016

Vital delivers strong full-year result

Vital Healthcare Property Trust ('Vital') today announced an audited net profit after tax for the full year to 30 June 2016 of $117.2m, up 21.4% from the prior year. NTA increased 18.9% to $1.51 and the portfolio WALE[1] is now 18.4 years. Vital will pay investors a final quarter cash distribution of 2.125 cpu and confirmed its 2017 cash distribution guidance at 8.5 cpu.

2016 highlights include

- 12 month total return of 43%, outperforming the S&P / NZX All Real Estate Index return of 17.4%
- Annualised cash distribution increased to 8.5 cpu (+5%) from FY16 third quarter, 71% payout ratio
- Gross rental income of $70.4m, up 15.7%
- Operating profit before tax of $53.3m, up 9.9%
- Net distributable income of $40.2m, up 10.9%
- Revaluation gain of $101.9m, a 12.2% increase on carrying book value
- Portfolio WACR[2] firmed 80 basis points to 7.2%
- Announced A$83.1m of brownfield development projects and A$20m of targeted strategic acquisitions
- Acquisition of four Australian residential aged care properties for A$41m on an 8.0% initial yield
- Post balance date, successful $160m capital raising and settlement of Boulcott Private Hospital for $31.7m

Independent Chairman of Vital Healthcare Management Limited ('the Manager') Graeme Horsley said "Vital has had another outstanding result in 2016. Vital's 12 month total return of 43% was two and a half times the S&P / NZX All Real Estate Index and a clear endorsement by the market of our activities and direction.

Brownfield development activity over the last few years has been transformational in delivering significant financial and portfolio outcomes for investors. The long-term characteristics of the healthcare sector and strong real estate fundamentals continue to be drivers of the portfolio revaluation gains achieved in 2016. These gains have directly strengthened the balance sheet and underpinned solid net tangible asset growth for investors. Vital's ever improving asset quality and operator performance adds to a great platform for the continued delivery of our strategy. All of these factors support the Board's guidance around the sustainability of the current annual distribution of 8.5 cents per unit."

David Carr, Chief Executive Officer of the Manager said "It's great to have again delivered on our strategy and achieved some fantastic results in 2016. The business continues to perform very well, with the portfolio in the best shape ever. This has been driven by events like the new 30-year lease at Kensington Hospital in Whangarei, and the 10-year lease extension, back to a 20-year term at Epworth Eastern Hospital in Melbourne. As a result Vital's WALE has further eclipsed recent highs and remains market leading at 18.4 years, with the team's ability to proactively execute on portfolio management matters key to this performance. The incremental brownfield development programme continues to deliver excellent outcomes, providing our established operating partners with new, high quality facilities to deliver exceptional patient care.

Following the success of the recent capital raising we see another busy year ahead. We remain focussed on maintaining the quality portfolio characteristics we have worked hard to attain and execute on further acquisitions and developments as part of the Board's scale and diversification strategy."

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[1] Weighted average lease term to expiry
[2] Weighted average capitalisation rate

Financial performance and revaluations

Gross rental income increased 15.7% on the prior year driven principally by development rents which commenced during the period. After property expenses, net property income rose 14.9% for the year.

Finance expenses of $15.2m were 25.3% higher than last year reflecting higher overall debt levels over the year compared to the prior period. Vital renewed its bank facility in December 2015 and will continue to benefit from the revised terms over the respective tranche durations.

Other expenses of $15.0m were up $4.0m and include management and incentive fees of $12.5m. The incentive fee of $6.3m is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over the past three years, and is payable by the Trust issuing units to the Manager.

The independently assessed annual portfolio revaluation resulted in an increase of $101.9m, with the investment properties now valued at $951.9m.

The Australian portfolio delivered approximately 90% of the increase. Of this, approximately 55% was attributable to assets which have been redeveloped, with the balance of the gains achieved from stabilised assets. These gains can be attributed to structured rent growth, continued high occupancy levels, long WALEs and a sector-wide firming of capitalisation rates. Firming capitalisation rates have been driven by several factors including lower interest rates, strong transactional evidence, increased investor appetite and strong capital inflows.

The Australian WACR as at 30 June was 7.2%, firming 90 basis points on last year. The New Zealand portfolio delivered a total revaluation gain of $10.9m above the 30 June carrying book value and has a WACR of 6.9%, firming 60 basis points over the 12 month period. Vital's portfolio WACR firmed by 80 basis points to 7.2% as at 30 June.

Mr Carr said "All things being equal, we envisage a continuation of the sector-wide firming of capitalisation rates, backed by a lower for longer interest rate outlook and some recent healthcare real estate transaction evidence further supporting this view. There remains a favourable differential between healthcare real estate capitalisation rates and those in the wider commercial property sector for quality assets. This highlights the ongoing relative attraction of healthcare real estate as a long term investment, particularly when supported by strong underlying demand characteristics including a growing and ageing population."

NTA growth delivered

As at 30 June 2016, Vital's NTA per unit was $1.51 or 18.9% higher compared to the prior period (2015: $1.27). The NTA change was driven by a range of factors but predominantly driven by the value add development programme, giving rise to strong portfolio revaluation gains over the year.

Treasury & capital management

Vital's loan-to-value ratio ('LVR') as at 30 June 2016 was 36.3% (2015: 32.9%) well below bank and Trust Deed covenants of 50%. Although Vital had a higher drawn debt position at year-end, LVR remained relatively stable due to the strong portfolio revaluation gains achieved during the period.

We note that Vital's LVR post year-end is now approximately 21% with the acquisition of Boulcott Private Hospital and the successful completion of the $160m capital raising the main factors contributing to this change. This provides approximately $300m of balance sheet capacity at a 40% LVR.

The interest rate environment continues to be described as lower for longer. This environment has seen Vital's weighted average interest rate reduce to 4.38% inclusive of bank line and margin fees (2015: 5.32%). The continued improvement in funding position also reflects the continued low Australian interest rates where Vital's debt is sourced and a hedged position of 62% compared to the prior year-end of 84%.

Market leading portfolio metrics

Vital's core portfolio metrics remain market leading, with occupancy at 99.6% and a portfolio WALE of 18.4 years.

Approximately 88% of the 2016 lease expiries were renewed. With 2.5% of total income forecast to expire in 2017, we envisage a continuation of Vital's high tenant retention rate.

A long dated WALE remains a clear point of difference for Vital's investors. While Vital has achieved strong leasing outcomes through the year including at Kensington (30-year lease) and Epworth Eastern (10 years, extending lease term back to 20 years) we continue to proactively review future lease expiries to retain a market leading WALE. Vital's average lease expiry now sits at approximately 1.8% per annum over the next ten years, providing investors with a long-term low risk income expiry profile. Over the next ten years, the single largest tenant expiry accounts for only 2.2% of total income.

Over the year Vital achieved an average rental increase of 1.9% across total rent subject to review. For 2017 83% of total income is subject to structured, fixed or CPI related reviews.

Acquisition and development activity

Over the financial year Vital undertook acquisitions and development activities to support delivery of its strategy.

In March Vital settled its first acquisition of residential aged care assets for A$41.0m on an 8.0% initial yield. Hall & Prior are one of Australia's leading private aged care providers and our partnership adds diversification to Vital's healthcare real estate assets and underpins the long-term sustainability of earnings to investors.

Post year-end, Vital also settled the acquisition of Boulcott Private Hospital in Lower Hutt, adjacent to the public Hutt Hospital, delivering further tenant and geographic diversification benefits. An adjacent property was also purchased, future proofing the long-term strategic value of Boulcott.

Strategic acquisitions, included Hopkins Street (adjacent to Lingard Private Hospital, Merewether, New South Wales) for A$7.8m and A$5.2m for two parcels of land adjacent to Sportsmed Private Hospital in Adelaide, South Australia. These and other targeted strategic acquisitions as previously announced of A$20m will provide long-term incremental benefits to Vital as we expand existing facilities or collaborate with new operator partners.

Vital has a strong pipeline of brownfield development projects to deliver over the next 18 months with A$83.1m of projects committed or underway across six hospitals. This follows the completion of A$69.5m of developments during the year at Hurstville Private (A$34.5m), Belmont Private (A$9.5m), Maitland Private (A$13.0m) and Marian Centre (A$12.5m). Vital expects to see a continuation of the development pipeline due to rising demand for healthcare services, underpinned by a growing and ageing population.

Fourth quarter 2016 distribution

For the fourth quarter of the 2016 financial year, the Board has confirmed that investors will receive a distribution of 2.125 cpu with 0.2831 cpu of imputation credits attached. The record date for the distribution is 9 September 2016 and payment will be made on 23 September 2016. Vital's Distribution Reinvestment Plan will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

All new units issued under the renounceable rights offer that closed in July will participate in the fourth quarter distribution.

Strategy & outlook

Mr Carr said "Vital has had another successful year, with strong operational, financial and portfolio results. After completing the $160m capital raising post year-end it's been great to see the unit price trading at a 15 day VWAP of $2.23, versus an issue price of $2.08. We continue to have an excellent platform to deliver on our scale and diversification strategy into 2017 and beyond. Key to this is remaining focussed as long-term investors in healthcare real estate to benefit from the sectors favourable underlying characteristics.

We expect to widen and strengthen our relationships across the sector to support the growth aspirations of our partners, applying creativity and flexibility in our value-add approach to all opportunities as required. Executing on a range of opportunities that further enhance Vital's overall position and deliver sustainable long-term outcomes to investors remains a real focus for the team through 2017."

2017 cash distribution guidance

Having finished the 2016 financial year in a strong position and with a good measure of stability across the business, the Board remains comfortable guiding to a 2017 cash distribution of 8.5 cpu, and views this as a sustainable distribution.

Vital's management team will present these results via a live webcast from 11am NZ time today. Please refer to our market release dated 2nd August 2016 for details or click here.

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ENQUIRIES

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About Vital Healthcare Property Trust

Vital Healthcare Property Trust (NZX: VHP) is Australasia's largest listed investor in healthcare real estate. Tenants include hospital operators and healthcare practitioners who deliver a wide range of medical and healthcare related services. The Manager of Vital Healthcare Property Trust is Vital Healthcare Management Limited.

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