

# Argosy Property

## Green Bond Offer

Argosy Property (ARG) is undertaking an offer of up to NZ\$75m (plus the ability to accept up to NZ\$25m of oversubscriptions) of seven year, senior secured, fixed rate green bonds. The green bonds will be used to partially refinance existing bank debt and will support “Green Assets” owned by ARG.

### Key Points:

- Senior secured fixed rate seven year bond
- Asset recycling has seen ARG continue to improve its portfolio
- No legal obligation on ARG to comply with green bond framework post issuance

### The offer

The bonds will be quoted on the NZDX as ARG020 and will be ARG's second NZDX quoted offer this year. It will use the proceeds of the bonds to repay bank debt which supports Green Assets.

The bond will rank equally with ARG's bank debt.

### The green component

This will be ARG's second green issue of the year, as the company looks to place more emphasis on sustainable investment. Within the ARG portfolio there are currently four properties which are accredited with Greenstar certification, with two more currently seeking accreditation.

The proceeds from the bond issue will be used to support the financing of these “green” properties. ARG has set out a green bond framework which it seeks to abide by, but once the bonds are issued there is no legal obligation for ARG to comply with the framework on an ongoing basis.

### Improvement through asset recycling

As the direct property market appears supportive of further capitalisation rate compression, ARG should be able to continue its ongoing asset recycling, which has seen the portfolio's quality improve over the past few years. The portfolio is relatively well diversified across industrial, office, and retail sectors. As of 31 March 2019, ARG's real estate portfolio totalled NZ\$1.67bn.

Issuer	Argosy Property
Security	Senior secured green bonds
NZDX Code	ARG020
Coupon (minimum)	2.85%
Margin (indicative)	1.75% to 1.95%
Amount on issue	NZ\$75m (plus NZ\$25m)
Interest frequency	Quarterly
Maturity date	29-Oct-26
Credit rating	n/r
ISIN	NZARGDT002C4
Supervisor	NZ Guardian Trust
Registrar	Computershare

### Important Dates

Opening	14-Oct-19
Closing	18-Oct-19
Rate set	18-Oct-19
Issue date	29-Oct-19
Interest payments	Jan, Apr, Jul, Oct
Maturity	29-Oct-26

Source: Forsyth Barr analysis

### Matt Sturmer

[matt.sturmer@forsythbarr.co.nz](mailto:matt.sturmer@forsythbarr.co.nz)

+64 4 495 8204

### Ashton Olds

[ashton.olds@forsythbarr.co.nz](mailto:ashton.olds@forsythbarr.co.nz)

+64 9 368 0127

### Argosy Property

Argosy (ARG) owns a portfolio of 60 investment properties valued at NZ\$1.7bn. Its portfolio is diversified across office, retail and industrial assets and regionally weighted to Auckland (71%). ARG has been active selling non-core assets in recent years and we expect this to continue. ARG was listed in 2002 (previously named ING Property Trust) with a portfolio of two Auckland office buildings and in June 2005 completed the takeover of Urbus Properties. ARG's management structure was internalised in 2011 and in 2012 it converted its corporate structure from a trust to a company.

Forsyth Barr Limited has been appointed Joint Lead Manager to the offer of Bonds and will receive fees in connection with this role. The offer is only being offered to investors who are resident in New Zealand. Full details of the offer are contained in the Terms Sheet. Potential investors should read the Terms Sheet thoroughly.

# Credit Insights

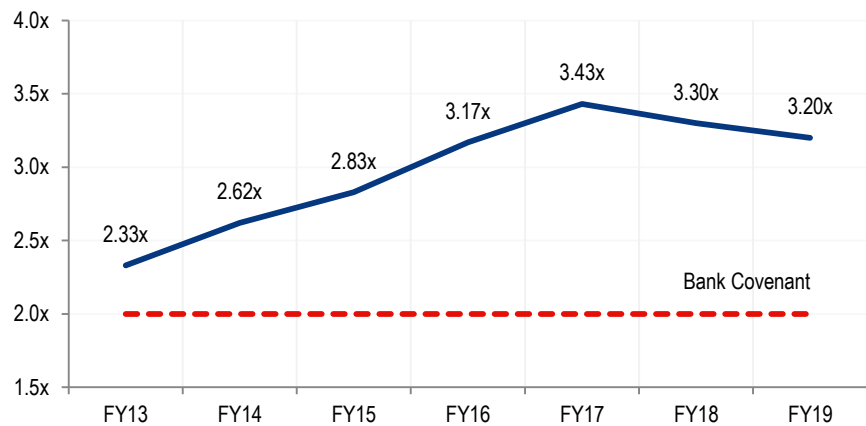
## Joining its peers

ARG does not maintain a credit rating, joining a number of other unrated listed property vehicles (LPV) without a credit rating to raise debt on the NZDX. Property for Industry (PFI), Precinct Properties (PCT) and Investore (IPL) have all raised debt without credit ratings, albeit at slightly wider margins to rated peers (i.e. GMT Bond Issuer, BBB+, and Kiwi Property Group, BBB+).

## Covenants

ARG's credit metrics have improved over time and are well within bank and bond covenants. Reported gearing over the past few years has remained steady between 35%–38% (currently 35.6%), significantly below the **bond covenant**, which requires that Borrowed Money Indebtedness is no more than 50% of the Mortgaged Property Value. Additionally, ARG's interest coverage ratio has improved over time and is comfortably higher than the 2.0x required under ARG's bank facility.

**Figure 1. Interest Coverage (versus Bank Covenant)**

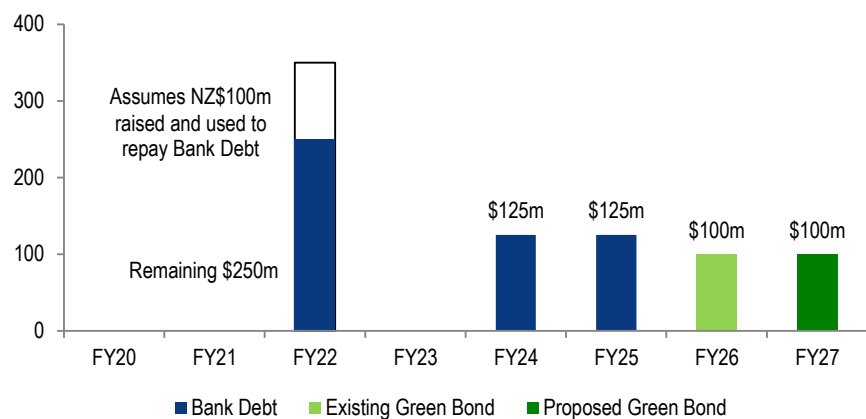


Source: Forsyth Barr analysis

## Diversifying and extending debt profile

ARG's debt profile currently consists of its existing green bond and bank debt via facilities with ANZ, BNZ, HSBC, CBA and Westpac. The proposed bond issue will see ARG diversify its debt profile and also extend the maturity profile. As per ARG's September 16 market release, ARG's current weighted average debt term is 3.6 years.

**Figure 2. Debt maturity profile**



Source: Forsyth Barr analysis

# The Green Component

## Green Bond Framework

The Green Bond Principles are voluntary process guidelines for issuing green bonds published by the International Capital Markets Association or ICMA. They may be amended at any time by ICMA. As at the date of the PDS, the Green Bond Principles establish four core components for an instrument to be considered to be a green bond:

- Use of proceeds: The proceeds of the green bond must be used to finance or refinance assets or other projects that have clear environmental benefits.
- Process for project evaluation and selection: The issuer should provide clear information to investors about the issuer's environmental sustainability objectives; the process for evaluating eligible projects; and the eligibility criteria.
- Management of proceeds: The issuer should have internal processes to track and attest to the use of the proceeds of the green bond.
- Reporting: The issuer should make, and keep, readily available up to date information on the use of the proceeds of the green bond.

There is, however, no legal obligation on Argosy to comply with the Green Bond Framework or the Green Bond Principles on an ongoing basis.

## Unused Proceeds

Under the Green Bond Framework, any proceeds that are not internally allocated to Green Assets will be temporarily invested in assets such as cash or cash equivalents.

This means that funds will not be used to support non-green assets.

## ARG's Green Asset Portfolio

Within the ARG portfolio there are currently four office properties which are accredited with certifications, while two more properties are currently seeking accreditation. The bond issue will be used to support the financing of these properties.

**Figure 3. Green Asset Portfolio (Valuations as at 31 March 2019)**

<b>Current Green Assets</b>				
<b>Address</b>	<b>Use</b>	<b>Current NABERSNZ Rating</b>	<b>Green Star Rating</b>	<b>Asset Value (NZ\$m)</b>
143 Lambton Quay	Office	4 Stars Energy Whole Building	5 Star Office Built	\$29.30
15-21 Stout Street	Office	Targeting 5.5 Stars Energy Whole Building	5 Star Office Built	\$111.00
82 Wyndham Street	Office	Targeting 5 Stars (in progress)	5 Star Office Built	\$44.70
Highgate, Parkway	Industrial	n/a	5 Star Industrial Built	\$29.50
<b>Total Existing Green Asset Value</b>				<b>\$214.50</b>
<b>Planned Green Assets</b>				
<b>Address</b>	<b>Use</b>	<b>Current NABERSNZ Rating</b>	<b>Green Star Rating</b>	<b>Asset Value (NZ\$m)</b>
8-14 Willis Street	Office	Targeting 5 Stars	Targeting 6 Star	\$94.00
107 Carlton Gore Road	Office	Targeting 4 Stars	Targeting 5 Star	\$44.60
<b>Total Planned Green Asset Value</b>				<b>\$138.60</b>
<b>Total Planned Green Asset Value</b>				<b>\$353.10</b>

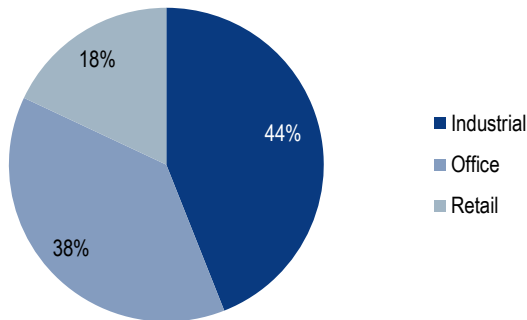
Source: Forsyth Barr analysis, ARG

## A Diversified Portfolio

Argosy's portfolio is well diversified in respect to property types (refer to Figure 4).

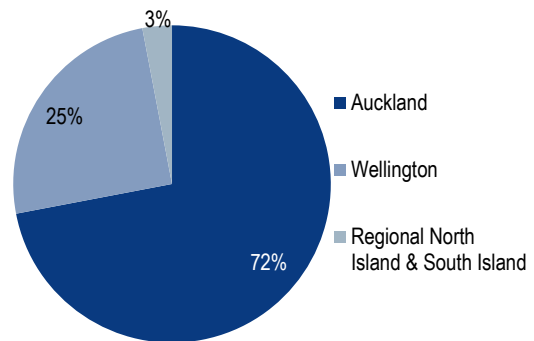
Argosy's government administration tenants constitute approximately 24% of Argosy's rental income as at 31 March 2019.

Figure 4. Total Portfolio Value By Sector (as at 31 March 2019)



Source: Forsyth Barr analysis

Figure 5. Total Portfolio Value By Region (as at 31 March 2019)

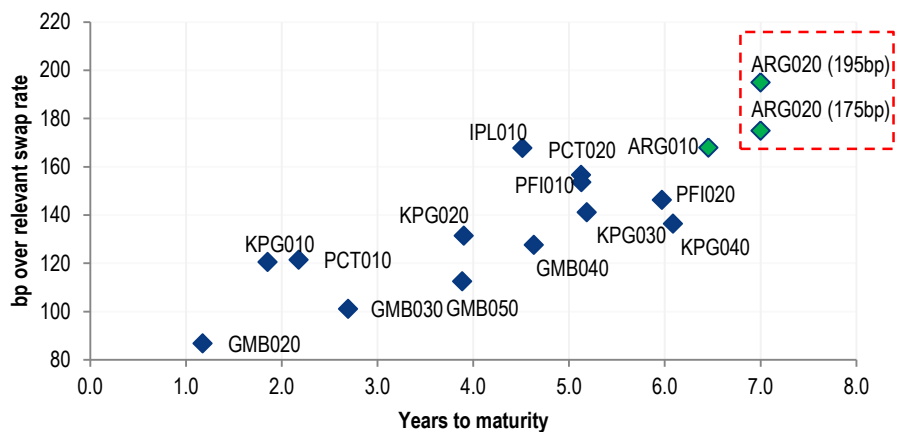


Source: Forsyth Barr analysis

## Comparative Securities

Argosy's last issue, ARG010, was the last bond issued by a company from the property sector. ARG010 was issued at a margin of 190bp and has traded at an average margin of ~184bps.

Figure 6. Secondary credit spreads (NZDX property bonds)



Source: Forsyth Barr analysis, Thomson Reuters

## Financial Summary

Figure 7. Financial Summary

Year to 31 March	2018A	2019A	2020E	2021E	2022E
<b>Total Revenue</b>	<b>101.0</b>	<b>102.5</b>	<b>100.0</b>	<b>106.7</b>	<b>113.2</b>
Total Costs	9.9	10.9	10.9	11.4	11.8
<b>EBITDA</b>	<b>91.1</b>	<b>91.5</b>	<b>89.0</b>	<b>95.3</b>	<b>101.3</b>
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>91.1</b>	<b>91.5</b>	<b>89.0</b>	<b>95.3</b>	<b>101.3</b>
Interest Income	0.0	0.0	0.0	0.0	0.0
Interest Expense	(25.5)	(24.3)	(24.9)	(26.5)	(30.6)
<b>Net Interest</b>	<b>(25.5)</b>	<b>(24.2)</b>	<b>(24.8)</b>	<b>(26.4)</b>	<b>(30.5)</b>
<b>EBT</b>	<b>65.6</b>	<b>67.3</b>	<b>64.2</b>	<b>68.9</b>	<b>70.8</b>
Tax	11.0	10.0	9.7	12.0	14.0
<b>NPAT</b>	<b>54.6</b>	<b>57.4</b>	<b>54.5</b>	<b>56.9</b>	<b>56.9</b>
Abnormal Items	(43.6)	(76.3)	(40.5)	(42.0)	(26.7)
<b>Reported Profit</b>	<b>98.2</b>	<b>133.7</b>	<b>95.1</b>	<b>98.9</b>	<b>83.5</b>
<b>Normalised Profit</b>	<b>54.6</b>	<b>57.4</b>	<b>54.5</b>	<b>56.9</b>	<b>56.9</b>
<b>Cashflow</b>					
Operating Cashflow	62.3	66.9	54.5	56.9	56.9
Capital Expenditure	63.1	94.8	88.1	37.4	5.6
<b>Interest Paid</b>	<b>(24.8)</b>	<b>(23.8)</b>	<b>(24.8)</b>	<b>(26.4)</b>	<b>(30.5)</b>
<b>Balance Sheet</b>					
Cash	1.3	2.2	2.2	2.2	2.2
Other Current Assets	30.0	2.4	2.4	2.4	2.4
Fixed Assets	1513.1	1667.0	1779.3	1842.4	1874.7
Other Non-Current Assets	0.5	3.5	3.5	3.5	3.5
<b>Total Assets</b>	<b>1544.8</b>	<b>1675.1</b>	<b>1787.3</b>	<b>1850.5</b>	<b>1882.7</b>
Net Debt	551.5	591.3	660.5	676.6	677.2
Other Liabilities	66.4	74.7	74.7	74.7	74.7
<b>Total Liabilities</b>	<b>617.9</b>	<b>666.1</b>	<b>735.2</b>	<b>751.3</b>	<b>752.0</b>
Shareholders Funds	926.9	1009.0	1052.1	1099.1	1130.8
<b>Total Shareholder Equity</b>	<b>926.9</b>	<b>1009.0</b>	<b>1052.1</b>	<b>1099.1</b>	<b>1130.8</b>

Source: Forsyth Barr analysis

Forsyth Barr Limited has been appointed Joint Lead Manager to the offer of Bonds and will receive fees in connection with this role. The offer is only being offered to investors who are resident in New Zealand. Full details of the offer are contained in the Terms Sheet. Potential investors should read the Terms Sheet thoroughly.

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Advisor. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisors are available on request and free of charge. **Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Forsyth Barr confirms no inducement has been accepted from the researched entity, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. **Analyst Disclosure Statement:** In preparing this publication the analyst(s) may or may not have a threshold interest in the financial products referred to in this publication. For these purposes a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the entity being researched. **Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction. **Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.