Atlantic Leaf

Atlantic Leaf Properties Limited
Incorporated in Jersey
Registration number: 128426
SEM share code: "ALPL.N0000"
JSE share code: "ALP"
ISIN: "MU0422N00009"
www.atlanticleaf.mu
("**Atlantic Leaf**" or "**the Company**")

ABRIDGED UNAUDITED SHORT-FORM RESULTS ANNOUNCEMENT

FOR THE SIX MONTHS ENDED 31 AUGUST 2019

DISTRIBUTION

- Interim dividend of 4.5 GBP pence per share declared

HIGHLIGHTS

- Successful sale of DFS retail warehouse joint venture
- Re-deployment of sale proceeds into five diversified industrial assets
- Increased debt hedging from 75% to over 90%
- New leases concluded at Haydock and Brecon Properties

FINANCIAL HIGHLIGHTS

	31 August 2018	31 August 2019	% Change
Revenue (GBP)	13 447 268	14 299 814	+6.3
Earnings per share (pence)	4.1	3.1	-24.4^
Headline earnings per share (pence)	5.0	4.6	-8.0
EPRA earnings per share (pence)	4.9	4.9	0.0
Adjusted Headline earnings per share (pence)	4.6	4.5	-2.2
NAV per share (GBP)	1.08	1.01	-6.5

^ Earnings per share impacted by property revaluations and capital loss on sale of JV

DIRECTORS' COMMENTARY

The board of directors of Atlantic Leaf (the "**Board**") is pleased to present the Company's results for the 6 months ended 31 August 2019. These reflect a positive outcome in what has been a challenging operating environment. Atlantic Leaf is also pleased to announce an interim dividend of 4.50 GBP pence per share (2018: 4.65 GBP pence per share).

Key events

On 23 April 2019, the Company finalised the sale of its joint venture investment in a portfolio of 10 retail warehouse and industrial properties in the United Kingdom ("**UK**") leased to DFS Trading Limited (the "**DFS Disposal**"). The sale effectively eliminated Atlantic Leaf's direct exposure to the UK retail sector whilst realising a positive internal rate of return of approximately 9% over the period of this investment. We have subsequently seen evidence of a further decline in the valuation of these types of assets which supports the timing of our decision to exit this investment.

In line with our strategy, the Company reinvested the DFS Disposal proceeds into five diversified industrial assets at a total cost of GBP 39.9 million. The new properties were purchased at a blended net initial yield of 6.7% and when combined with the competitive debt margin and swap rate secured are expected to yield an initial return on equity of 8.5%. The new acquisitions were purchased over the period from May 2019 to August 2019. For a period after the DFS Disposal, we held cash whilst we sought assets that met our overall investment criteria. While this did result in a small cash drag which has impacted our first half earnings, we are pleased with the quality of the properties acquired and these assets will contribute to earnings for the full second half period.

The overall outcome of this sectoral repositioning reaffirms our commitment to the Company's primary investment focus of industrial and distribution warehouse assets. This sector in the UK continues to benefit from increasing volumes in e-commerce and logistics business. Atlantic Leaf's industrial exposure by value is now 79%, up from 70% at the 2019 year-end.

Debt and Hedging

The five acquisitions were financed with the proceeds from the DFS Disposal and by drawing down on a new GBP 22 million 3-year revolving credit facility with Lloyds Bank Plc (the "**Facility**"). The Facility is secured against the five properties and the terms negotiated are attractive, interest-only at a margin of 1.80% and loan-to-value ratio ("**LTV**") of 48%.

To take advantage of the low interest rate environment, the Company increased the hedging on its portfolio and concluded GBP 36 million of additional swaps at a weighted average fixed rate of 65bps including costs. Some of these were concluded after 31 August 2019. This has increased the hedging on our portfolio from 75% to over 90% and strategically is a very positive outcome for the Company to almost completely protect it from any adverse movement in interest rates.

The effective interest rate on the portfolio is 3.53%, and the Company's LTV at half year was 48% with a strategy to gradually reduce this over the next few years. Atlantic Leaf has an interest cover ratio of over four times which is well in excess of its banking covenants and there is sufficient headroom in its LTV covenants to withstand reasonable downward valuation pressures.

New Long-term Leases Concluded

During the period under review, the Haydock property previously vacated by Palmer & Harvey was let to Law Distribution Limited on a 12-year lease at a headline rental of GBP 4.50 per square foot ("**psf**").

The building in Brecon, previously tenanted by Homebase and subject to a Company Voluntary Arrangement ("**CVA**"), has been re-let to B&M Limited ("**B&M**"). The new 15-year lease with B&M at a headline rental of GBP 12.61 psf compares favourably to the rent under the Homebase CVA of GBP 9.25 psf.

Both leases are positive developments in securing long-term income for the Company and each will result in an uplift in property valuation in due course.

Earnings

Reporting as a UK REIT for the first time, the Company will publish European Public Real Estate Association ("**EPRA**") performance measures going forward. EPRA sets out best practice reporting guidelines on a number of financial and operational performance indicators relevant to the real estate sector. Also new since being a REIT, the earnings for the current year no longer provide for taxation on rental income.

EPRA earnings per share during the period was 4.9 GBP pence per share (2018: 4.9 GBP pence per share). Adjusted headline earnings (which excludes straight line lease income) decreased by 2% to 4.5 GBP pence per share (2018: 4.6 GBP pence per share) mainly due to the impact of the cash drag whilst re-investing the proceeds from the DFS Disposal. The 2020 interim distribution of 4.5 GBP pence per share is marginally lower than the previous period and slightly below 50% of the full year distribution guidance.

Several rent reviews across the portfolio have recently been concluded or will soon be effective. Whilst these rent reviews will not have a material impact on the current year's earnings, it provides Atlantic Leaf with a positive growing base of income. During the period a rent review was finalised at the office property in Greenock tenanted by EE Limited. The rent review resulted in an uplift of 12%. The Booker properties are due for a contractual rent review on 28 February 2020 and this will provide a minimum rental uplift of 13% on those assets. The property in Runcorn tenanted by DHL Supply Chain Limited is due for a rent review in December 2019 and a strong uplift of between 12% – 20% is expected.

Balance Sheet

The industrial and logistics sectors of the UK property market have remained stable since our last external valuations as at 28 February 2019. The Company's valuation policy is to value assets annually at the year-end unless there are circumstances or factors that clearly evidence a valuation shift throughout the year. The next external valuations will be performed across the portfolio in January 2020 as part of the year end audit.

The Company considered it prudent to revalue the property in Peterborough down to GBP 24 million from GBP 25.6 million to reflect Thomas Cook Group UK Limited's ("**Thomas Cook**") liquidation and potential period of vacancy. This fair value adjustment along with the fair value adjustment on the listed share portfolio negatively impacted the Company's net asset value ("**NAV**") by 1.24 GBP pence per share at the end of the period.

IFRS 16 became effective for Atlantic Leaf from 1 March 2019. Atlantic Leaf will apply the modified retrospective approach and will recognise both the Right of Use Asset, which has been included in investment property and a lease liability of approximately GBP 16 million. The impact of the implementation of this standard on the statement of comprehensive income will result in the operating lease expense being replaced with an interest expense and a fair value adjustment to the investment properties. This will marginally lower basic earnings by GBP 100,000 to GBP 200,000 in the initial years and marginally increase earnings towards the end of the leases when compared with the prior recognition of an operating lease expense.

Subsequent Events

Thomas Cook liquidation

Thomas Cook occupies 65% of the Peterborough building and contributes 4.75% of Atlantic Leaf's income on an annualised basis. Thomas Cook had paid rent up to 28 September 2019 and will continue to pay rent while it remains in occupation during the liquidation process. The expectation is that Thomas Cook will continue to utilise the property until at least the end of the year. If this assumption is incorrect the liquidation could have an impact on the current year's earnings of 0.1 to 0.3 GBP pence per share.

The Company's debt against this asset is cross collateralised across several properties and is structured to withstand short-term valuation movements on individual properties. The lower valuation on the Peterborough building is not expected to result in a breach of any of the Company's debt covenants.

Thomas Cook are paying GBP 12.0 psf which is considered low for the area and for this quality of office space. The building is attractive and modern, and the Company has an action plan to bring the property to the market as soon as possible. It is expected that given the size of the unit the space may be split into smaller lots which could attract higher individual rentals.

Property disposals

As part of our strategy to reduce our single tenant exposure, in September 2019 the Company entered into an agreement to sell two of its non-core Booker properties located in Leicester and Barnsley at their current carrying value of GBP 7 million. This provides positive support for our existing valuations on our remaining Booker properties.

Distribution

The Board is pleased to announce a dividend of 4.50 GBP pence per share for the six months ended 31 August 2019. Further information regarding the dividend, including salient dates and exchange rates, will be announced separately. As a REIT, the distribution for the current year will be on a pre-UK withholding tax basis whereas previous distributions were made from tax-paid income.

Outlook

Brexit and general property market uncertainty has continued to weigh on sentiment and the trading conditions under which we operate are expected to remain challenging.

Atlantic Leaf is now invested 79% by value in the key industrial asset sector in the UK and has an average forward yield on its assets of over 7.4%, with debt hedged against adverse interest rate movements.

The Company is aiming for a distribution of 10 GBP pence per share for the 2020 financial year, however depending on the outcome of some key asset management initiatives including the outcome of the Thomas Cook liquidation, this distribution could be slightly lower. This forecast is based on existing leases in place.

This forecast statement and the forecasts underlying such statement are the responsibility of the Board and have not been reviewed or reported on by the Company's auditors.

Results presentation

Management will be presenting the financial results at 11:00 CAT on Wednesday, 16 October 2019 via live webcast which can be viewed at http://themediaframe.net/atlaticleaf191015.

Alternatively, the presentation may be accessed via the conference call numbers below:

South Africa: 011 535 3600

UK: 033 3300 1418

International: +27 11 535 3600

By order of the Board

Ocorian Secretaries (Jersey) Limited
Company Secretary

15 October 2019

This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details of the financial results and is the responsibility of the directors of the Company. Any investment decision should be based on consideration of the full announcement published on the Company's website at http://www.atlanticleaf.mu/investors/financials/ and on the JSE website at https://senspdf.jse.co.za/documents/2019/JSE/ISSE/ALP/ResAug2019.pdf.

This leaflet is not itself audited. Copies of the full announcement are available for inspection and may be requested at the registered office of the Company and the sponsor's office at no charge, during office hours. *Registered office: Ocorian Secretaries (Jersey) Limited, 26 New Street St Helier Jersey JE2 3RA; Sponsor's office: Java Capital, 2nd Floor, 6A Sandown Valley Crescent, Sandton, 2196, Johannesburg, South Africa.*

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