Market Release

12 August 2015

Vital announces strong full year result, 2016 distribution increased to 8.1 cents per unit

Vital Healthcare Property Trust ('Vital' or 'the Trust') today announced its audited 2015 full year result. Core highlights included a net profit after tax of $96.5m, up 158%, NTA increased from $1.04 to $1.27 and the portfolio WALT increased from 15.1 years to 17.6 years. Vital confirmed it will pay investors a full year cash distribution of 8.0 cents per unit and has increased its 2016 cash distribution guidance to 8.1 cents per unit.

Highlights

- 12 month total return of 27.7%
- Gross rental income of $60.8m, up $1.4m
- Operating profit before interest and tax of $48.5m
- Net distributable income of $36.3m, up 4.6%
- Revaluation gains of $84.0m, 12.1% above year-end book value, largely driven by redeveloped assets
- Portfolio WACR[1] firmed 95 basis points to 8.0%
- NTA increase of 22.5% to $1.27 as at 30 June 2015, portfolio value now $781.9m
- $44.1m commitment to additional value enhancing and earnings accretive brownfield development
- Resolved Allamanda lease expiry with a new long term partnership with Ramsay Health Care ('Ramsay')
- Ramsay (ASX: RHC) commitment lifts portfolio WALT[2] to 17.6 years
- Occupancy remains strong at 99.4%, with a 5 year average above 99%

Graeme Horsley, Independent Chairman of Vital Healthcare Management Limited (the 'Manager') said "Vital's 2015 annual result has culminated in another outstanding year for unitholders. The strong position of the Trust reflects 5 years of prudent and astute execution of Vital's strategy by David Carr and his team with the portfolio position unrivalled in our market. A key indicator of this remains our WALT which now sits at 17.6 years, in excess of 3 times our locally listed property peers, providing long term contractual rental income stability and growth.

The external drivers of Vital's performance include strong underlying healthcare trends due to an ageing population and an increased prevalence of chronic illnesses, all of which is backed by a more demanding generation of patients seeking timely, high quality care. For these reasons I continue to have a robust and positive outlook for the future of Vital as a specialist healthcare real estate investor.

While Vital is in a strong position there is more to be done to create a truly diversified healthcare real estate vehicle with a dominant local presence. Strategically we continue to focus on scale and diversification to further enhance Vital's long term defensive and sustainable position. Whilst we are extremely positive and have a high conviction in our current portfolio mix and tenant partners, we continue to actively explore opportunities that will further diversify Vital and provide appropriate risk adjusted returns that unitholders have come to expect" said Mr Horsley.

"As a unitholder representative on the Board of the Manager now for 8 years I can say that management and the Board are committed to a disciplined approach to opportunities and capital management. Recognising this, the Board has collectively confirmed a final 2015 quarter distribution of 2.0 cents per unit, bringing the annual distribution to 8.0 cents per unit as we confirmed throughout the year. The Board is also comfortable guiding to an 8.1 cents per unit cash distribution for 2016. I look forward to updating you at the Annual Meeting of the Trust as we move through the first half of the 2016 financial year" said Mr Horsley.

[1] Weighted Average Market Capitalisation Rate
[2] Weighted Average Lease Term effective 1 July 2015

David Carr, Chief Executive of the Manager said “It was also great to see the market validate execution of our strategy and operational plan through 2015. This was evident with Vital’s unit price reaching an all-time high of $1.74 and closing the year having delivered a 27.7% total return to investors. This was further endorsed with the independent market valuations of the portfolio delivering a 12.1% increase over the pre year-end book value.”

“When undertaking brownfield developments we often mention value-add, which directly connects into our ‘creating capacity to meet demand’ theme. The specific success of this programme is evident with approximately 70% of the total 2015 revaluation gain coming from development properties. This is also a strong reflection of the underlying strength of the healthcare sector and deep working relationships we have with our key hospital operating partners. This collaboration is intently focused on delivering quality outcomes for operators and their patients, together with enhanced financial performance. Investors can expect more of the same moving forward.”

Mr Carr said “Over the last few years we had been asked some tough questions by unitholders and the wider market about resolving certain material lease expiry events. These questions have been answered through action.

After concluding the new 30 year lease with Mercy Ascot at Ascot Hospital in Auckland, our attention then continued on resolving the lease expiry at Allamanda Private Hospital on the Gold Coast. In April 2015 we announced that we had re-leased Allamanda to Ramsay Health Care, some two and a half years prior to the expiry of the current lease. Ramsay is Australia’s largest private hospital operator and listed on the ASX with a current market capitalisation of approximately A$13bn. This was an outstanding result by Vital’s Australian team led by Richard Roos, and substantiates our credibility and capability in managing and mitigating end of term lease expiry risks well ahead of time.”

“Looking at these outcomes in isolation, the results are excellent, but as the Chairman notes, on an objective basis there is more to be achieved. The team’s attention continues to focus on proactive asset management outcomes but also executing on the Board’s strategy to provide greater scale and diversification to ensure we further manage and enhance the sustainable long term results achieved to date” said Mr Carr.

Financial performance

Gross rental income pre currency movements was up approximately 4.5% driven by the combination of built-in rental growth and part period contributions from acquisitions and completed projects. The post currency impact on gross rental income was $60.8m, up $1.4m (+2.3%).

Vital’s finance expense of $12.1m reduced by $5.4m (-31%) on the back of lower interest rates, renewed bank funding on more favourable terms and a marginally higher New Zealand dollar over the period. Unrealised marked to market movement on interest rate swaps resulted in a loss of $5.4m at period end compared to a $0.8m gain in the comparable period.

The independently assessed annual portfolio revaluation resulted in an increase of $84.0m for the year ended 30 June 2015 (2014: +$15.2m). The Australian portfolio contributed 93% of the total revaluation uplift with a gain of A$68.9m. Of this uplift, approximately 70% of the total gain was from properties that had recently undergone redevelopment. Other gains came from stabilised assets overlaid with structured rent growth, continued high occupancy and long dated leases supported by a general market firming of capitalisation rates. The New Zealand portfolio delivered a $6.1m net gain. Across the portfolio 20 assets had gains and 5 declined in value. The weighted average market capitalisation rate firmed by 95 basis points to 8.0% and the portfolio is now valued at $781.9m.

Other expenses were up $3.0m for the year. Savings in other operating expenses led to a reduction of 18% which was offset by the incentive fee of $3.8m (2014: $0.5m). The fee 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 in Vital units to the Manager.

The year-end current tax expense was $4.7m (+$4.4m). The tax increase related to tax payable on income received in advance in relation to the Mercy Ascot lease transaction, whilst the comparative period reflected the benefit from an Inland Revenue binding ruling. The net profit after tax of $96.5m (+158%) was influenced by the revaluation gain during the year.

For the fourth quarter of the 2015 financial year, the Board are pleased to confirm that investors will receive a distribution of 2.0 cents per unit with no imputation credits attached.

The record date for the distribution is 10 September 2015 and payment will be made on 24 September 2015. Vital’s Distribution Reinvestment Plan (DRP) will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price. This will bring the full year cash distribution per unit for 2015 to 8.0 cents.

Treasury and capital management

Vital’s loan-to-value ratio (LVR) as at 30 June 2015 was 32.9% (2014: 31.4%) and well below bank and Trust Deed covenants of 50%. Although Vital had a higher drawn debt position at year-end, Vital’s LVR remained relatively stable principally due to the strong portfolio revaluation gains achieved during the period.

The weighted average interest rate at period end was 5.32% (2014: 5.66%) and includes bank line and margin fees. The improved funding position reflects lower Australian interest rates, where Vital's debt is sourced and naturally hedged against the Australian assets, and a higher unhedged position compared to the prior year-end.

Vital sold Hibiscus Coast Community Health Centre in Whangaparaoa for $4.2m during the year. This was part of Vital's on-going capital management strategy to recycle out of low value, lower growth assets into more strategic long term opportunities within the portfolio.

As at 30 June 2015, Vital's NTA per unit was $1.27 or 22.5% higher compared to the prior period (2014: $1.04). The net NTA change was driven by a range of factors - primarily portfolio revaluation gains, a gain in the exchange translation of the net Australian based assets and a component surplus of profits retained in the Trust.

Expert management driving performance

Proactive asset management delivered strong metrics with Vital's WALT increasing from 15.1 to 17.6 years as at 1 July 2015, now in excess of 3 times the New Zealand listed property sector average. With year-end occupancy at 99.4%, Vital maintains a 5 year average occupancy level above 99%.

The increase in Vital's WALT by 2.5 years includes the effect of the new 21.3 year lease to Ramsay Health Care at Allamanda Private Hospital commencing 1 November 2016.

Approximately 90% of the 2015 lease expiries were renewed, reflecting the typically entrenched occupancy characteristics of medical and healthcare tenants. Recognising the Manager's proactive asset management, only 1.1% of total forecast 2016 income remains subject to lease renewal or expiry.

Vital's average lease expiry now sits at approximately 3.0% per annum over the next 10 years. In the next 3 years the largest single tenant expiry comprises less than 0.5% of total income.

Over the year Vital achieved an average rental increase of 2.3% on rents subject to review.

Organic growth continues and is embedded through strategic acquisitions

Vital announced six new value-add brownfield capital projects totalling A$55.3m over the year driven by strong healthcare sector fundamentals and rising demand for health services. These projects continue to reflect our overarching theme of creating capacity to meet demand. The developments are forecast to complete between September 2015 and June 2016.

Recognising a degree of maturity in our brownfield development programme over recent years and continued forecast capacity constraints by operators, we have now completed several acquisitions adjacent to existing strategic properties. These incremental acquisitions secure the ability to execute on operator growth demands as and when the need arises.

Outlook

Mr. Carr said "Vital has finished the 2015 financial year with solid financial results and a strong portfolio of properties. We expect that in the coming year we will continue to be the leading owner and consolidator of high quality healthcare real estate. The fundamental drivers of healthcare – an ageing population, growing private health insurance and high demand for outpatient and hospital services remain positive tailwinds in executing our strategy.

These drivers support our core investments in stable hospital properties, and they also bolster other real estate assets tied to healthcare, including aged care facilities, life sciences laboratories, medical office and supporting distribution facilities. We will consider appropriate opportunities to grow our scale, diversify our tenant base and improve our leading portfolio metrics through further astute acquisition and investment decisions."

Mr Carr said "With a stable platform and strong underlying performance balanced with a prudent capital position, the Board is pleased to confirm an increase in cash distribution guidance for the 2016 financial year to 8.1 cents per unit."

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ENQUIRIES

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About Vital Healthcare Property Trust

With a portfolio value of over NZ$780m, Vital Healthcare Property Trust (NZSX: 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. Vital currently has a portfolio of 25 properties with 79% by value located in Australia and the balance in New Zealand. Vital aims to deliver a low-risk, medium-return investment profile for unitholders. The Manager of Vital Healthcare Property Trust is Vital Healthcare Management Limited.

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