



New Zealand Rural Land Co

The Rural Land Investors

25 August 2023

New Zealand Rural Land Company (NZL:NZX) FY23 1HY Report

New Zealand Rural Land Co (NZX: NZL) is pleased to announce its financial results for the six months ended 30 June 2023. NZL recorded a net profit after tax of \$2.5m for the period and adjusted funds from operations (AFFO) of \$2.7m.

NZL owns 14,487 hectares (35,798 acres) of high quality productive rural land in New Zealand which is 100% tenanted on long-term leases with regular CPI adjustment provisions. NZL generates shareholder value through a combination of asset value appreciation and cash flows from its long-term leases.

Results Summary for the six months ending 30 June 2023

	30 June 2023*	31 December 2022**
Total Assets	\$362.6M	\$298.8M
Total Liabilities	\$148.1M	\$107.9M
Net Profit After Tax	\$2.5M	\$5.3M
AFFO ¹	\$2.7M	\$2.5M
Net Assets	\$214.5M	\$190.9M
Net Asset Value per Share	\$1.533	\$1.652

A detailed results presentation is available at: <https://www.nzrlc.co.nz/reports-presentations>

Acquisitions

In April 2023, NZL announced the settlement of approximately 3,137 hectares of forestry estate. The total acquisition cost was approximately \$70m. Both forestry estates are leased to New Zealand Forest Leasing (NZFL), one for a 20 year period, the second (737 total hectares) being a 16 year period - both have annual CPI lease adjustments.

The purchase was funded in part with NZL's inaugural Green Loan via Rabobank of \$25.2m, the proceeds of NZL's pro-rata rights issue and a \$12m convertible note issued to an entity associated with NZFL.

*6 month period from 1 January 2023 to June 2023

**6 month period from 1 July 2022 to 31 December 2022.

¹AFFO is a proxy for free cash flow commonly used by real estate investment trusts. AFFO is intended to provide investors with a clearer picture of the company's dividend paying ability.

Corporate Actions and Share Buyback

On 26 May 2023, NZL announced an upgrade to FY24 earnings guidance, suspension of the FY23 interim dividend and an on-market share buyback.

Due to the accretive nature of NZL's forestry acquisitions, NZL upgraded its FY24 AFFO guidance. FY24 is the first full financial year in which the forests will be owned by NZL. FY24 AFFO is now forecast to be in the range of \$8.0m - \$8.5m equating to 5.25 - 5.75 cents per share (a +4.8% increase on the 5.00 - 5.50 cps previously forecast).

The NZL Board considers that the current market price of NZL shares materially undervalues both the assets and the free cashflow profile of the business making shares purchased at this level attractive and accretive on an asset and free cashflow basis for shareholders.

Following the interim dividend suspension, NZL utilised available cash flow to:

- acquire NZL shares through an on-market share buyback programme (306,327 purchased to date); and
- reduce the convertible note balance recently issued to acquire the forestry assets (\$300,000 reduced to date).

Outlook

NZL's strategy is to own quality rural land in New Zealand, and to grow and diversify its portfolio while delivering attractive risk-adjusted returns.

NZL's leases incorporate regular, uncapped, CPI reviews. This means higher inflation results in higher than anticipated rental growth. NZL is insulated from inflation-impacted and all other operational on-farm costs by owning only the land.

NZL has interest rate hedging arrangements in place for 53% of its total borrowings at an average cost of 5.33%. NZL's remaining debt is borrowed on a floating rate (BKBM plus bank margins) and the average cost of NZL's floating debt as at 24 August 2023 is 7.63%. Accordingly, NZL's weighted average interest cost (fixed and floating) is 6.42%.

From 1 July 2024, NZL will start to see the positive impact of rental growth with approximately 55% of the portfolio (by lease income) due for CPI review. CPI accumulated since the leases began (1 June 2021) totals +12.6% to 31 December 2022 and is forecast to be more than +22.3% for the three years to 30 June 2024.

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Chair

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