

# Challenger Wine Trust (ASX:CWT)

Results for half-year ended 31 December 2008 (HY09)

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**Fund Manager**  
**5 February 2009**



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# Key points

- Operating performance remains solid
  - Net property income of \$16.6 million – up 5.3% on pcp
  - Profit from operating activities after tax of \$8.4 million – up 5.6%
  - Occupancy 98.4%; WALE 5.3 years with low level of expiries in FY09 (4.3%) & FY10 (nil)
  - 1st half distribution of 4.7 cpu
  - Financing in place; first expiry in May 2011
  - Interest rate swaps out of money by \$21.7 million; will unwind towards maturity of contracts
  - Net Independent Valuation (NIV): 78 cpu
  
- Challenging environment
  - Industry confronting an over-supply of grapes with lower export volumes
  - Pressure on property values in some regions
  - LVR headroom narrowed
  - Increase in bank lending margins
  
- CWT to maintain balance sheet strength and flexibility in uncertain times
  - Asset sales planned to strengthen balance sheet
  - Assessing implications of industry-wide write downs
  - Distribution guidance for FY09 under review

# Financial results

# Operating profit remains solid

- Profit from operating activities after tax \$8.4 million – up 5.6% on pcp
  - Net property income up \$0.8 million (5.3%) to \$16.6 million
  - Finance costs up \$0.5 million (8%) to \$6.6 million
  - Operating expenses down 24%; RE & Manager fees flat
- Half year ended 31 Dec 08 (HY09) distribution 4.7 cents per unit (cpu)
- Property revaluation decrement of \$5.6 million

	HY09	HY08	Variance	
	\$000	\$000	\$000	%
<b>Net property income</b>	<b>16,635</b>	<b>15,802</b>	<b>833</b>	<b>5.3</b>
<b>Profit from operating activities after tax</b>	<b>8,421</b>	<b>7,973</b>	<b>448</b>	<b>5.6</b>
Net profit	2,872	12,651		
<i>Adjusted for:</i> Net fair value movements	5,559	(3,817)		
Undistributed income <sup>1</sup>	(426)	(861)		
Distribution to unitholders	8,005	7,973	32	0.4%
<b>Distribution per unit (cents)</b>	<b>4.70</b>	<b>4.68</b>	<b>0.02</b>	<b>0.4%</b>

Notes:

1. HY09 includes \$10K net realised gain on sale of properties (HY08: \$861K)

# NIV at 78c

- Reduction in NIV mainly due to mark-to-market movement on interest rate swaps (13 cpu)
- Water rights are treated as intangible assets held at cost
- NTA excludes water rights; NAV includes water rights at cost
- NIV includes water rights at independent valuation – reflects real value to CWT

	\$'000		Cents per unit	
	Dec-08	Jun-08	Dec-08	Jun-08
Net Tangible Assets (NTA)	102.2	130.8	60	77
Add: Water rights (at cost)	21.8	21.8		
Net Asset Value (NAV)	124.0	152.6	73	90
Add: Water rights fair value increment <sup>1</sup>	9.2	8.4		
<b>Net Independent Value (NIV)</b>	<b>133.2</b>	<b>161.0</b>	<b>78</b>	<b>94</b>

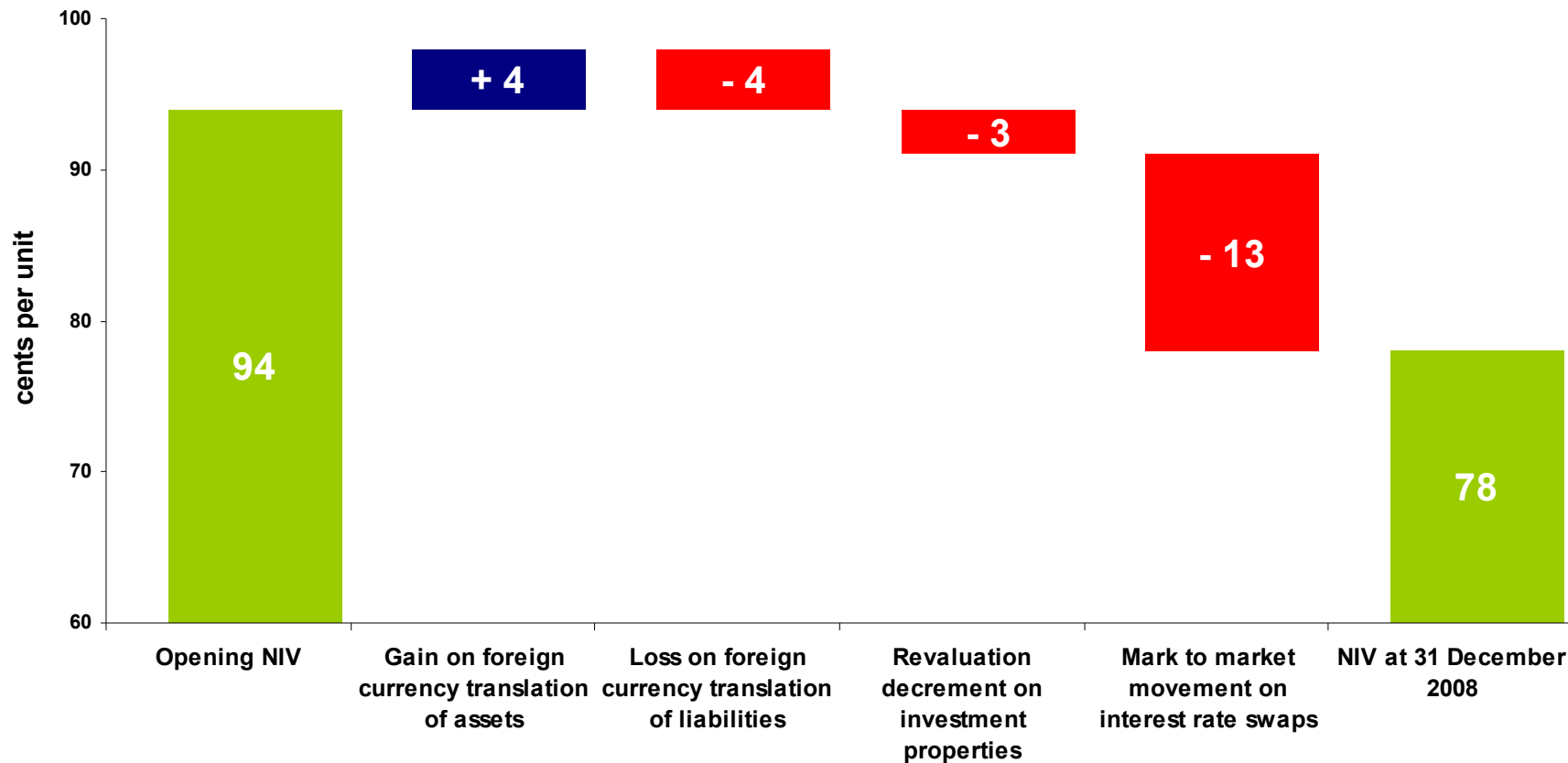
Notes:

1. As per independent valuation

# NTA & NIV impacted by interest rate swaps mtm

## ➤ NIV at 78 cpu as at 31 December 2008

- Impacted by mark-to-market (mtm) movement on interest rate swaps



# Financial position as at 31 December 2008

- Gearing<sup>1</sup> at 50.7%; no new borrowings in HY09
- Interest rates<sup>2</sup> effectively 100% hedged for duration of lease terms
- New Zealand borrowings provide natural currency hedge for NZ assets
- Weighted average cost of borrowings to increase to around 8.6% from March 09 due to increased bank margin

		31-Dec-08	30-Jun-08
Total assets	\$m	313.7	316.2
Borrowings	\$m	159.3	155.2
Gearing (debt to total assets)	%	50.7	49.0
Weighted average cost of borrowings (incl margins)	%	8.17	7.89
Interest cover ratio	x	2.3	2.3

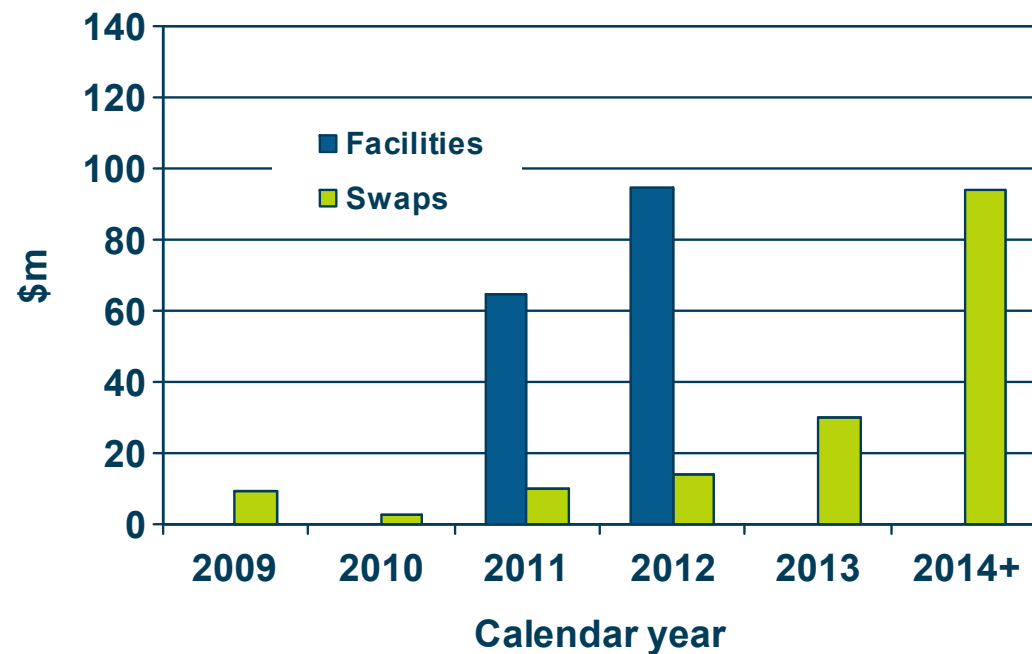
Notes:

1. Debt to total assets
2. Excluding margin

# Finance secured to 2011/2012

- Total facilities of \$167.6 million (from 2 Australian banks)
  - \$159.3 drawn
  - No facility expiries before 2011

**Borrowing facility & swap maturity profile**



# Financial covenants & headroom

- LVRs<sup>1</sup> apply to borrowing facilities from banks
- All covenants complied with during HY09

Facility	Covenant	CWT position at 31 December 08	Headroom on security value		Headroom on debt	
			\$m	%	\$m	%
1	Debt to security value < 57%	49.6%	\$16.9m	13.0%	\$9.6m	14.9%
2	Debt (including net fair value of hedge contract) to security value < 60%	55.5%	\$13.4m <sup>2</sup>	7.6%	\$8.0m	8.2%

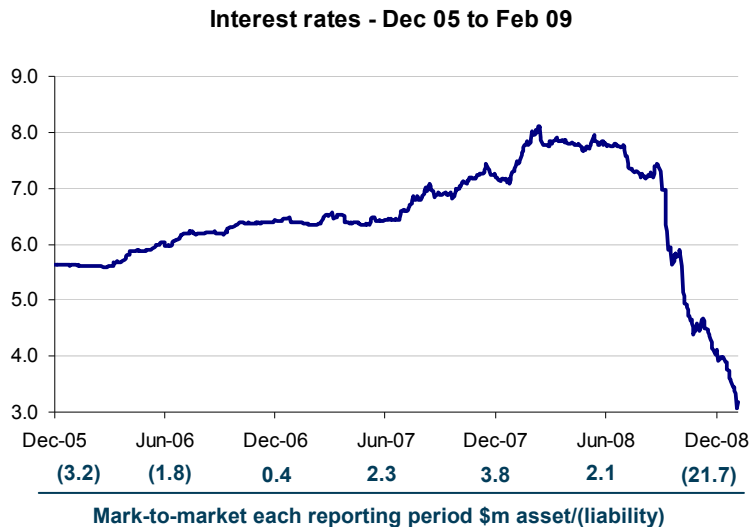
- No market capitalisation covenants

Notes:

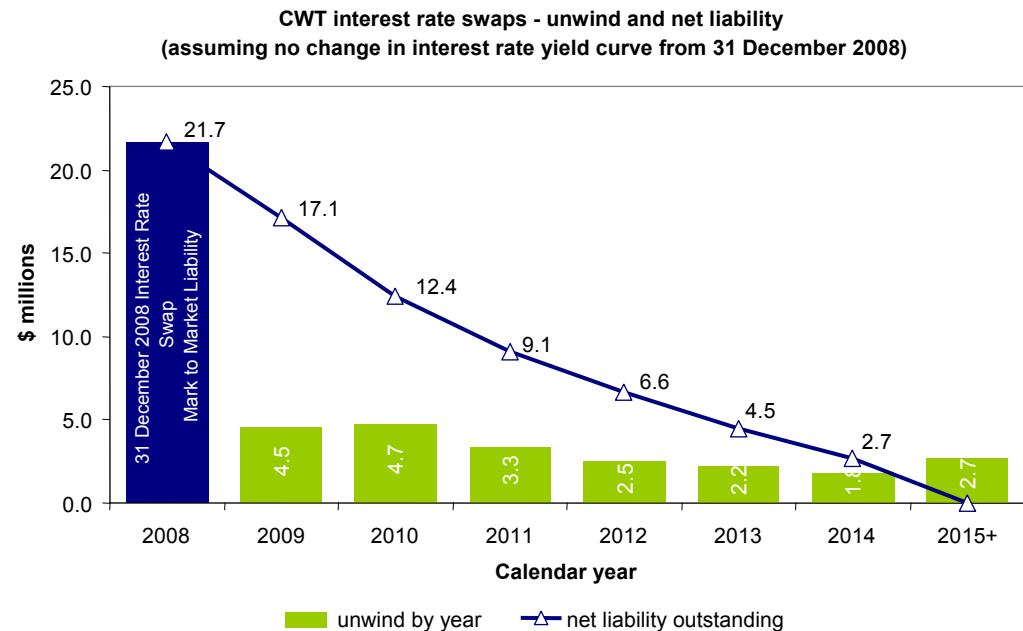
1. Loan-to-valuation ratios
2. All 31 December 08 property revaluations were against facility #2

# Derivative financial instruments – interest rate (IR) swaps

- IR swaps remove volatility by hedging exposure to interest rate fluctuations
  - At 31 Dec 08 CWT effectively 100% hedged for movements until lease expiry
- IR swaps are recorded on balance sheet at fair value (mark-to-market) with gains or losses taken directly to equity
  - Fair value at 31 Dec 08: net liability of 21.7m (30 Jun 08: net asset of \$2.1m)
  - Interest rate forward curve assumed further interest rate cut of circa 1%
- CWT anticipates holding swaps to maturity unless properties sold
  - If held to maturity liability will unwind at no cost to CWT



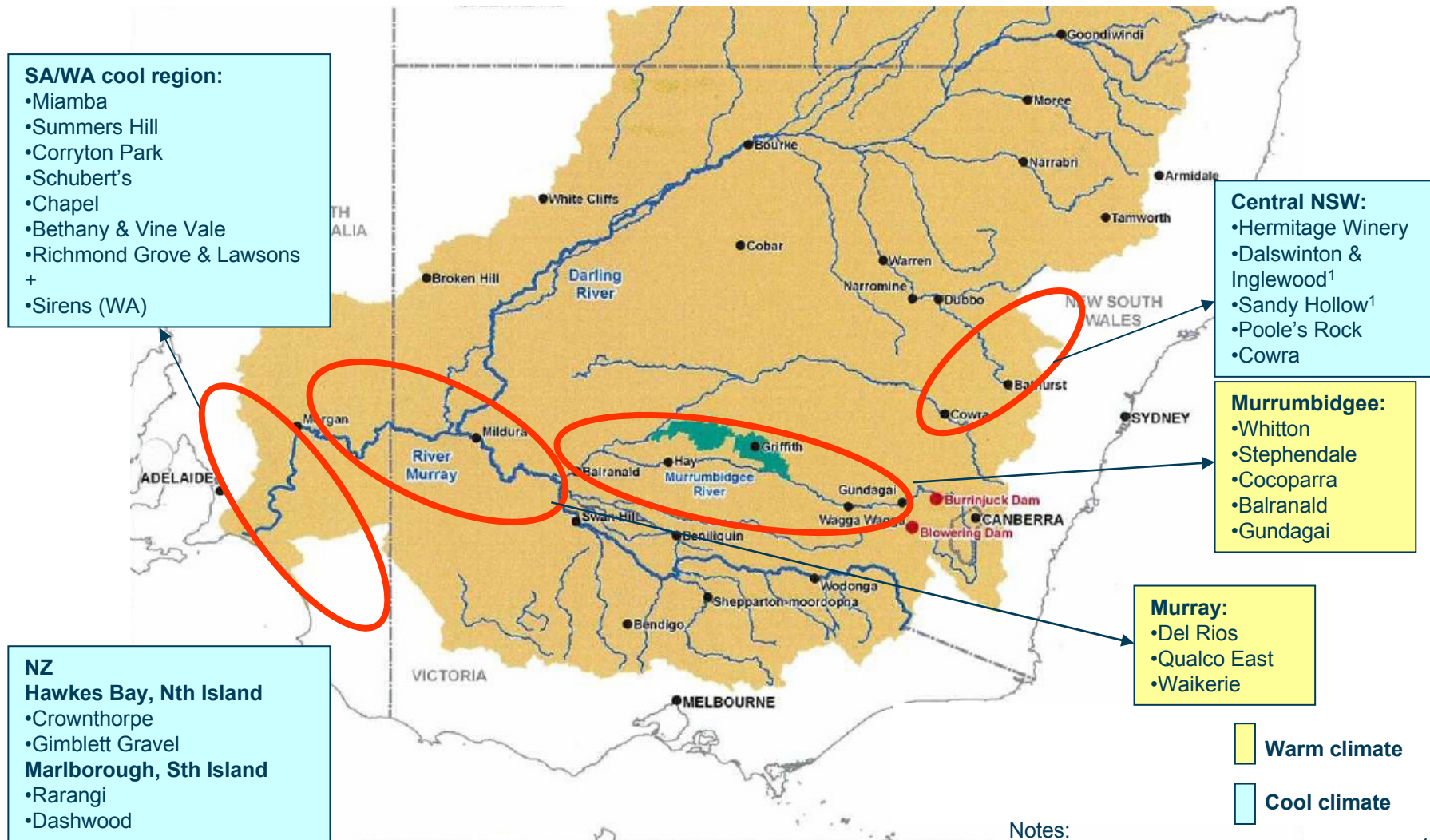
Source: RBA 90 day bank bills



# Portfolio update



# Regional map of CWT's eastern portfolio



Notes:

1. Contract for sale exchanged

# Revaluations reduce values by \$5.6m

- 9 of 25 properties independently revalued (21% of portfolio value)
- Dalswinton/Inglewood and Sandy Hollow vineyards written down in line with sales prices
- All properties independently revalued since June 2008 (except Sirens, WA)

Portfolio by region	% of portfolio	Fair Value at 31 Dec 08 \$m	Fair Value pre revaluation \$m	Change \$m	Change <sup>1</sup> %
Murray River	21%	64.8	65.1	(0.3)	(0.5%)
New Zealand	24%	74.2	75.0	(0.8)	(1.1%)
Murrumbidgee River	26%	78.8	81.0	(2.2)	(2.7%)
SA/WA cool regions	23%	71.8	72.6	(0.8)	(1.1%)
Central NSW	6%	17.1	17.7	(0.6)	(3.5%)
<b>Total decrement in fair values</b>		<b>306.7</b>	<b>311.5</b>	<b>(4.8)</b>	<b>(1.5%)</b>
Less: reduction in carrying values due to recognising water rights at cost				<b>(0.8)</b>	
<b>Total decrement in carrying values</b>				<b>(5.6)</b>	

Notes:

Numbers may not add due to rounding

1. Across total portfolio

# Portfolio snapshot at 31 December 2008

		Australia	New Zealand <sup>1</sup>	Total	30 June 2008
<b>Number of assets</b>		21	4	<b>25</b>	<b>25</b>
<b>Portfolio carrying value</b>	\$m	223.3	74.2	<b>297.5</b>	<b>298.8</b>
<b>Portfolio fair (market) value</b>	\$m	232.5	74.2	<b>306.7</b>	<b>307.2</b>
<b>% total portfolio value<sup>2</sup></b>	%	76	24	<b>100</b>	<b>100</b>
<b>Total area</b>	ha	5,067	743	<b>5,809</b>	<b>5,809</b>
<b>Area planted</b>	ha	3,934	624	<b>4,558</b>	<b>4,558</b>
<b>Occupancy</b>	%	98.1	100	<b>98.4</b>	<b>100</b>
<b>WALE</b>	yrs	5.7	3.5	<b>5.3</b>	<b>5.7</b>
<b>Average passing rental yield</b>	%	11.9	8.0	<b>10.9</b>	<b>10.9</b>
<b>Over/(under) renting - Portfolio</b>	%	18.9	(11.1)	<b>12.2</b>	<b>8.9</b>
Over/(under) renting <sup>3</sup> - AU	%	18.9	n/a	<b>18.9</b>	<b>17.5</b>
Over/(under) renting <sup>3</sup> - NZ	%	n/a	(11.1)	<b>(11.1)</b>	<b>(17.2)</b>

Notes:

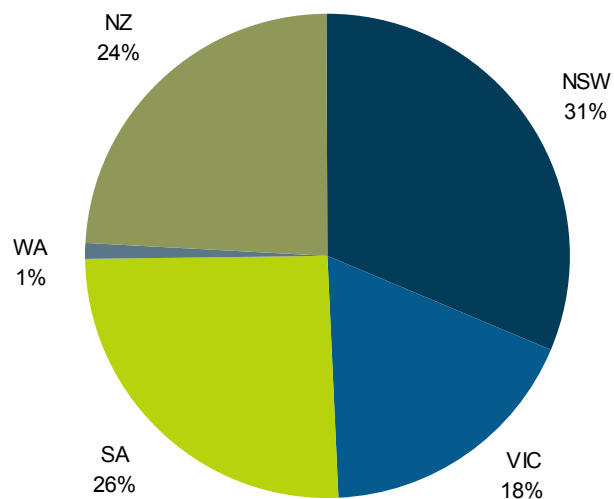
1. New Zealand portfolio value at 31 December 2008 based on spot rate of 1.1930
2. Based on fair value
3. Over/(under) renting calculations are based on management's assumptions regarding achievable market rentals

# Portfolio diversification

- 76% of portfolio (by fair value) leased to major listed wine companies

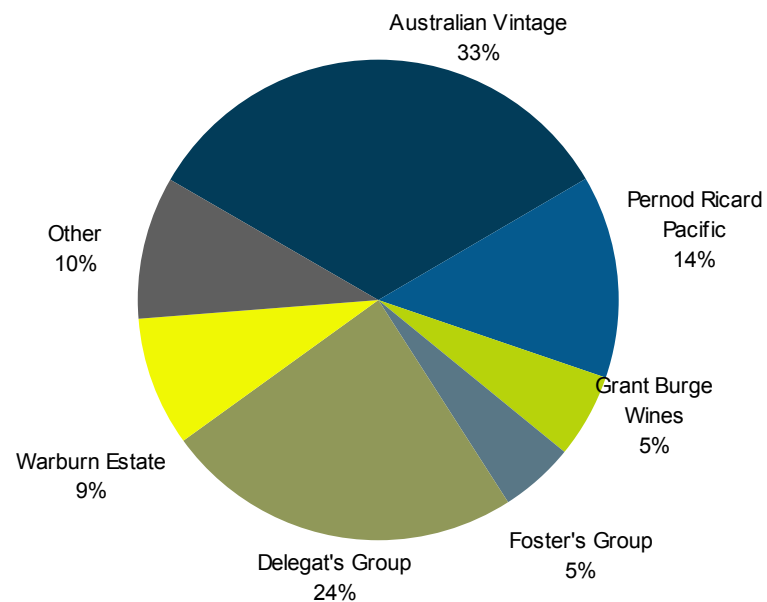
## Geographic diversification (by fair value)

As at 31 December 2008



## Tenant diversification (by fair value)

As at 31 December 2008

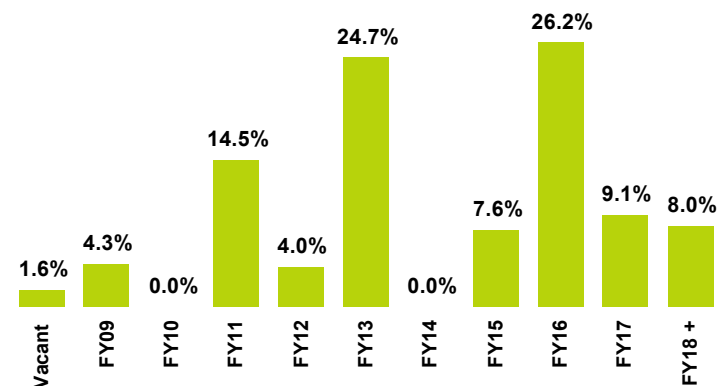


# Lease expiry profile and activity

- 98.4% portfolio occupancy at 31 Dec 08 (99% as at 7 Aug 08)
- WALE at 5.3 years
- 4.3% of portfolio by income expiring over FY09 and FY10

Property	Lease expiry	Activity
Hermitage Road Winery	Part leased	Main crushing plant untenanted
Bethany Creek & Vine Vale	Vacant	Vacated October 2008. In negotiation with interested party
Dalswinton & Inglewood	Apr 09	Inglewood: contracts exchanged for settlement on 30 Mar 09. Sale price \$0.6m. Dalswinton: marketed for sale
Cowra Station	Apr 09	Marketed for sale
Sandy Hollow	Apr 09	Contracts exchanged for settlement by 21 May 09. Sale price \$2.0m.

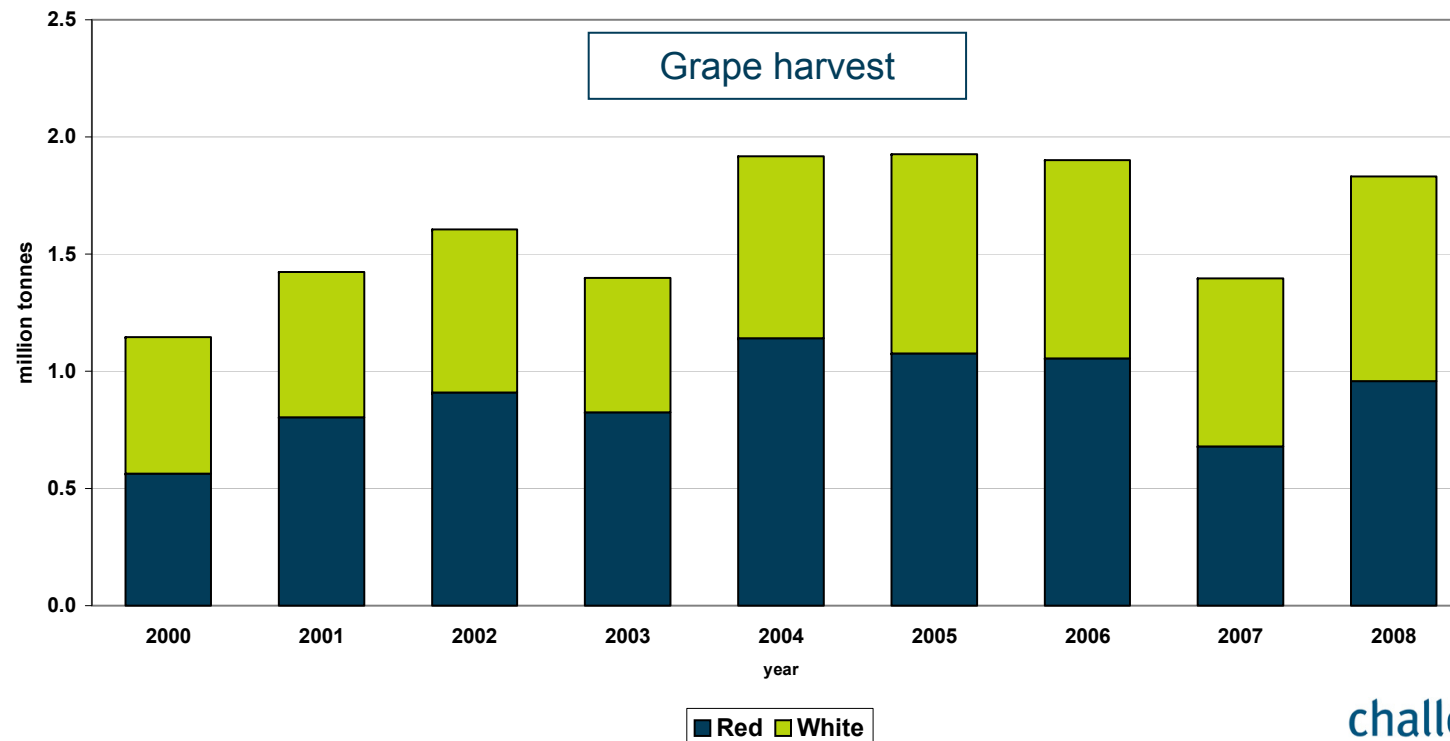
Weighted Maturity Profile as at 31 December 2008



# Australasian vineyard industry conditions

# Australian grape production

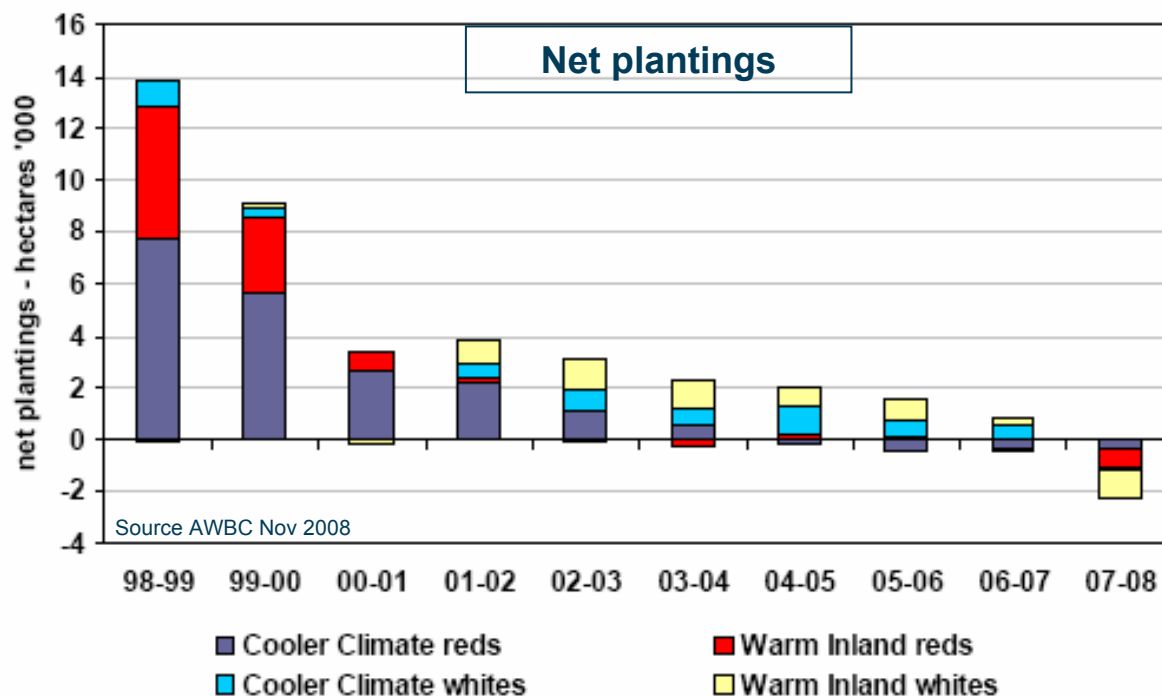
- 2007 grape harvest: 1.4 million tonnes
  - Impacted by frost and drought
  - Wine companies use inventory to meet demand
- 2008 grape harvest: 1.8 million tonnes
- 2009 grape harvest – circa 1.75 million tonnes (but grapes expected to be left on vine)



\* Source: The Australian Winegrape & ABS

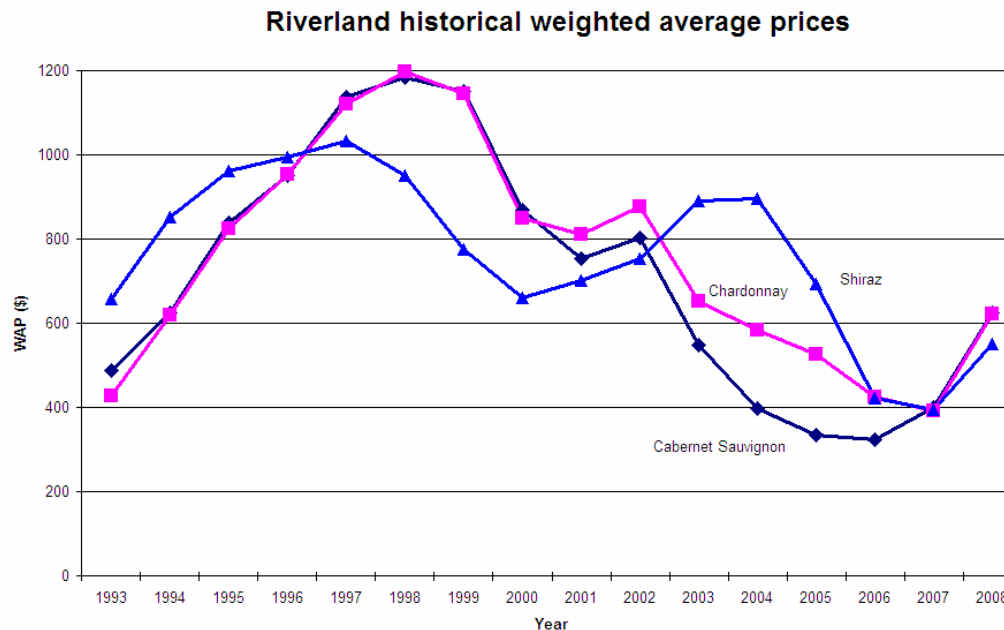
# Supply no longer increasing

- 07/08 was first year of net vine removals – mainly warm climate/white grapes
- Expect greater net removals in 08/09 - lack of water availability & lower profitability
- Supply outlook:
  - less production as vines get older
  - global consumption increasing
  - long lead time for production to increase as vines mature
  - potential for under supply in the future



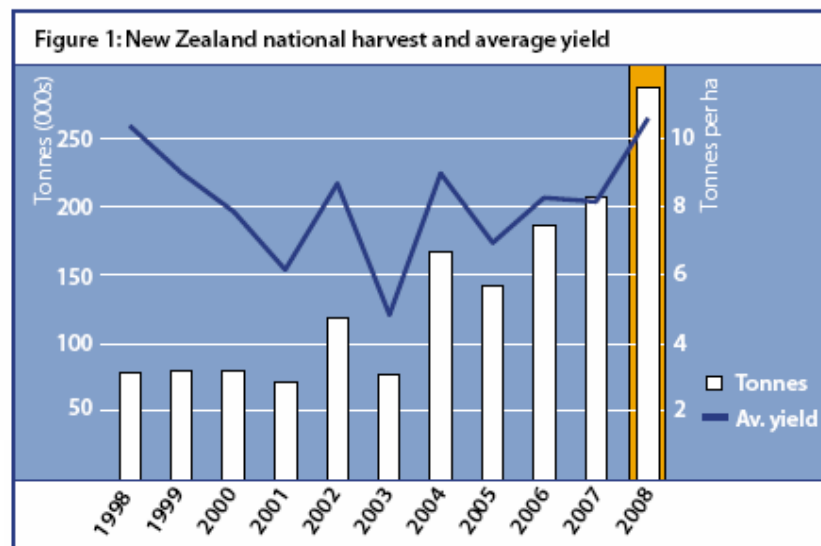
# Grape prices

- Expected lack of grapes caused higher contract grape prices in 2008
- Grape prices expected to reverse in 2009 toward 2007 levels due to oversupply
- Caution: grape supply can be quickly impacted by weather causing supply shortfalls i.e. frost, hot temperatures



# New Zealand wine market remains strong

- 2008: large yields with larger than anticipated inventories of sauvignon blanc – lower Australian prices for NZ wine
- Demand for NZ wine globally expanding particularly sauvignon blanc
- Sauvignon blanc is now No.1 consumed variety in Australia
- CWT NZ portfolio primarily chardonnay, sauvignon blanc, pinot noir and merlot
- 24% of CWT portfolio in NZ
- CWT tenant - Delegat Group - experienced record profits last year
- Delegat's Oyster Bay remains No.1 NZ brand in UK and Australia



Source: NZ Wine 2008 Vintage Survey and Rabobank

# Summary

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# Questions

# Contacts

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# Appendices

# Detailed income statement

	<b>HY09</b>	<b>HY08</b>	<b>Variance</b>	
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>%</b>
<b>Net property income</b>	<b>16,635</b>	<b>15,802</b>	<b>833</b>	<b>5.3</b>
Other income	476	333	143	42.9
Finance costs	(6,627)	(6,150)	(477)	(7.8)
Management fees	(1,211)	(1,217)	6	0.5
Operating expenses	(606)	(795)	189	23.8
<b>Profit from operating activities before tax</b>	<b>8,667</b>	<b>7,973</b>	<b>694</b>	<b>8.7</b>
Income tax expense	(246)	-	(246)	
<b>Profit from operating activities after tax</b>	<b>8,421</b>	<b>7,973</b>	<b>448</b>	<b>5.6</b>
Net realised gains from sale of property	10	861	(851)	
Net fair value movements	(5,559)	3,817	(9,376)	
<b>Net profit</b>	<b>2,872</b>	<b>12,651</b>	<b>(9,779)</b>	<b>(77.3)</b>

# Movements in fair value and carrying value

	Fair value \$000	Carrying value \$000
<b>30-Jun-08</b>	<b>307,229</b>	<b>298,851</b>
Acquisitions & upgrades	481	481
Disposals	(154)	(154)
Revaluation changes	(4,743)	(4,743)
Water rights (decrease in carrying value due to recognising intangible assets at cost)	-	(816)
Depreciation	(155)	(155)
Foreign currency translation movements	4,038	4,038
<b>31-Dec-08</b>	<b>306,696</b>	<b>297,502</b>



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