

Challenger Wine Trust (ASX:CWT)

Results for year ended 30 June 2009 (FY09)

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Fund Manager
6 August 2009



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Key points

- Operating performance remains strong
 - Net property income of \$32.6 million – up 3% on prior year
 - Profit from operating activities after tax of \$16.1 million (FY08: \$16.0m) or 9.5 cpu
 - Occupancy 98.5%; WALE 5.0 years with no lease expiries in FY10
 - 4Q09 distribution of 1.2 cpu; FY09 total distributions of 7.1 cpu
- Challenging environment continues
 - Industry confronting an over-supply of grapes with lower export prices
 - CWT portfolio revalued down by net \$40.5 million¹ in FY09
 - Net Independent Valuation (NIV): 66 cpu
 - Gearing at 54.0%²; asset sales continue
- Conservative capital management focus continues
 - Operating within all banking covenants, no refinancing required before May 2011³
 - Net liability from interest rate swaps reduced to \$8.1m (from \$21.7m at 31 Dec 08)
 - Distribution cycle to move from quarterly to half-yearly

Notes:

1. At carrying value
2. Debt to total assets at fair value
3. Excludes \$2.2 million facility repayment made in July 2009

Financial results

Operating profit holding firm

- Profit from operating activities after tax \$16.1 million or 9.5 cpu – up 0.8%
 - Net property income up \$1.0 million (3.3%) to \$32.6 million
 - Finance costs up \$0.6 million (4.8%) to \$13.1 million
- FY09 distributions: 7.1 cents per unit (cpu)
- FY09 Property revaluation decrement of net \$40.5 million

	FY09	FY08	Variance	
	\$000	\$000	\$000	%
Net property income	32,620	31,583	1,037	3.3
Profit from operating activities after tax	16,137	16,010	127	0.8
Net profit / (loss)	(24,331)	13,534		
<i>Adjusted for:</i> Impairment of non-current assets	813	1,437		
Net fair value movements	39,715	2,266		
Undistributed income ¹	(4,105)	(1,227)		
Distribution to unitholders	12,092	16,010	(3,918)	(24.5)
Distribution per unit (cents)	7.10	9.40	(2.30)	(24.5)

Notes:

1. FY09 undistributed income represents the unamortised fair value of derivatives on closed hedged positions

NIV at 66c

- Reduction in NIV mainly due to revaluation decrement on properties (22 cpu) and mark-to-market movement on interest rate swaps (8 cpu)
- NIV includes water rights at independent valuation – reflects real value to CWT
- Water rights are treated as intangible assets held at cost
- NTA excludes water rights; NAV includes water rights at cost

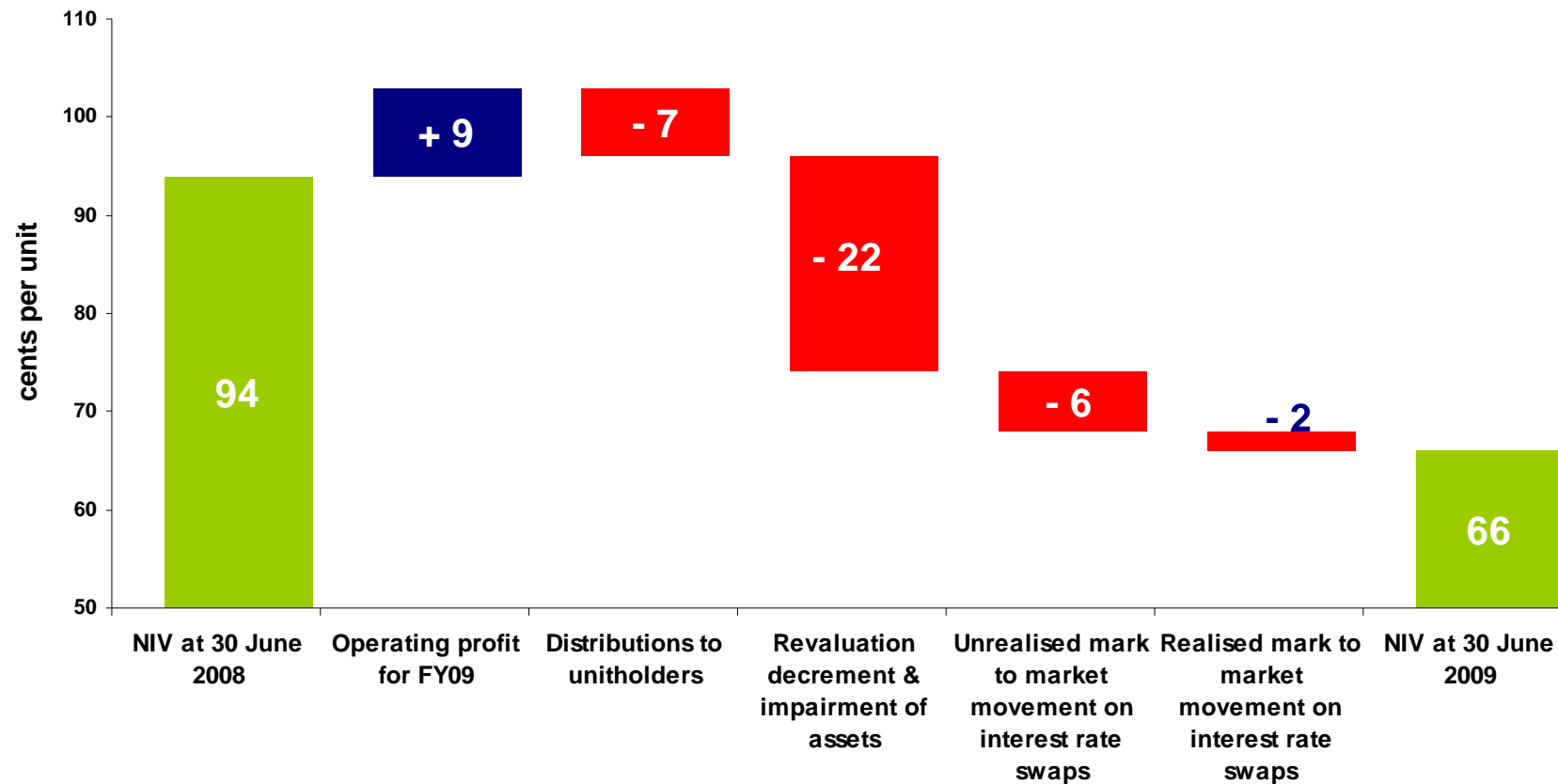
	\$'000		Cents per unit	
	Jun-09	Jun-08	Jun-09	Jun-08
Net Tangible Assets (NTA)	80.1	130.8	47	77
Add: Water rights (at cost)	21.8	21.8		
Net Asset Value (NAV)	101.9	152.6	60	90
Add: Water rights fair value increment ¹	11.0	8.4		
Net Independent Value (NIV)	112.9	161.0	66	94

Notes:

1. As per independent valuation

NIV at 66 cents per unit

- NIV at 66 cpu as at 30 June 2009
 - Impacted by revaluation decrements on investment properties and mark-to-market (mtm) movement on interest rate swaps



Financial position as at 30 June 2009

- Gearing¹ at 54.0%;
 - Majority of interest rate² exposure hedged for duration of lease terms
- New Zealand borrowings provide natural currency hedge for NZ assets
- Weighted average cost of borrowings 8.04% at year end

		30-Jun-09	30-Jun-08
Total assets (at carrying value)	\$m	265.6	316.2
Add: Water rights fair value increment ³	\$m	11.0	8.4
Total assets (at fair value)	\$m	276.6	324.6
Borrowings	\$m	149.4	155.2
Gearing (debt to total assets at fair value)	%	54.0	47.8
Weighted average cost of borrowings (incl margins)	%	8.04	7.89
Interest cover ratio	times	2.3	2.3

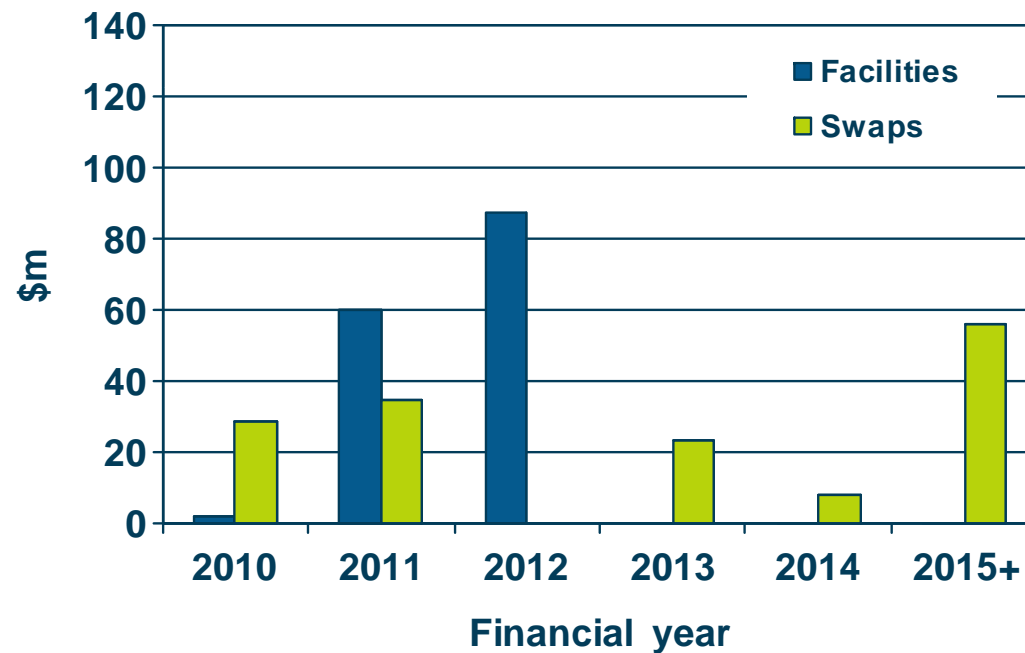
Notes:

1. Debt to total assets at fair value
2. Excluding margin
3. As per independent valuation

Finance secured to 2011

- Total drawn liabilities of \$149 million (from 2 Australian banks)
 - \$2.2m facility expiry on 31 July 2009 covered by cash on deposit
 - No further facility expiries until May 2011

Borrowing facilities & swap maturity profile



Financial covenants & headroom

- \$7.1m borrowings repaid in FY09
- LVRs¹ apply to borrowing facilities from banks
- All covenants complied with during FY09

Facility	Covenant	CWT position at 30 June 2009	Headroom on security value ²
1	Debt to security value < 57%	53.5%	6.1%
2	Debt (including net fair value of hedge contracts) to security value < 60%	57.2%	4.6%
2	Interest cover ratio ³ > 2.0 times	2.3 times	
2	EBIT cover ratio ⁴ > 1.75 times	2.3 times	

- Net liability from interest rate swaps reduced to \$8.1m (from \$21.7m at 31 Dec 08)
- No market capitalisation covenants

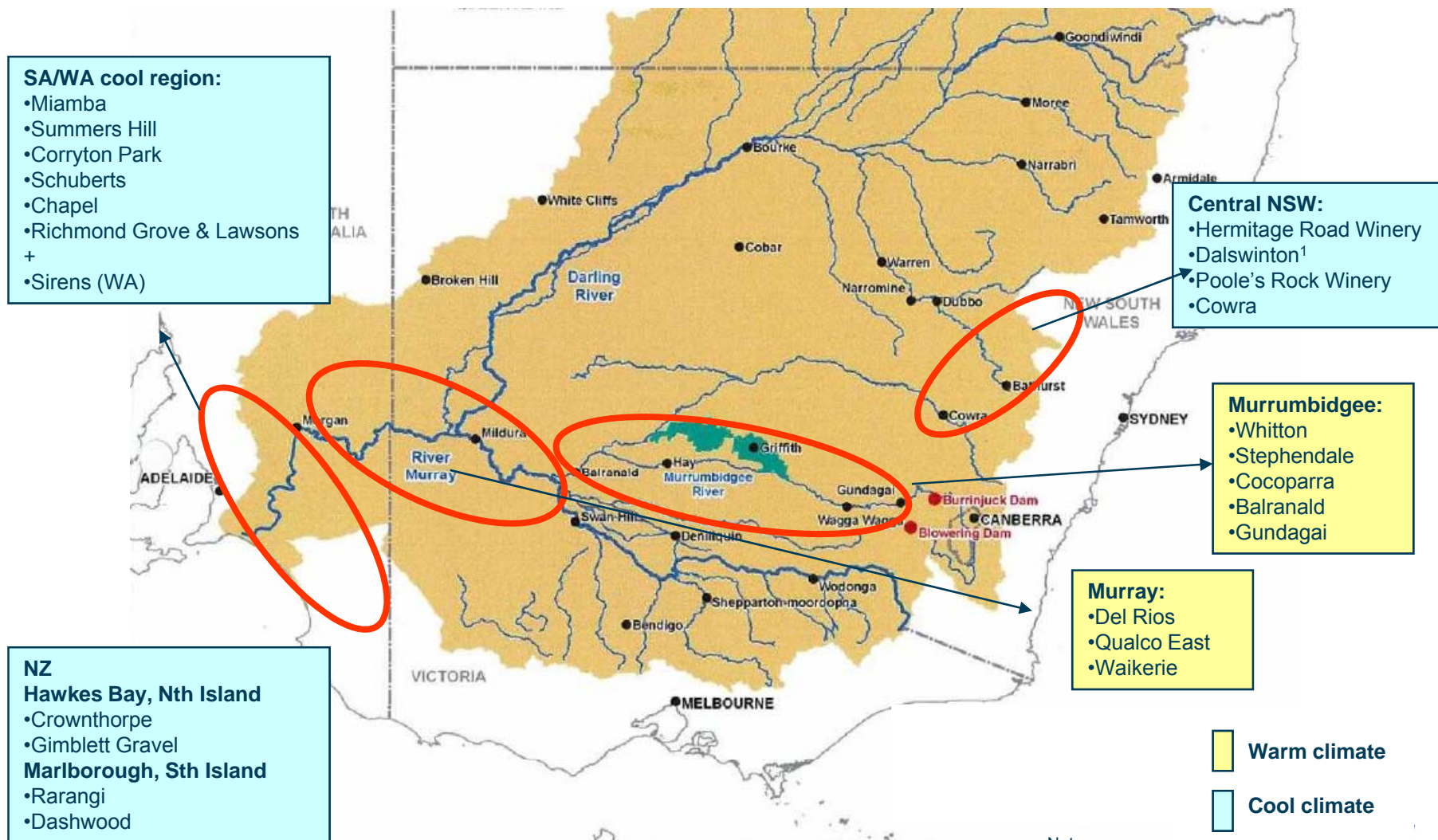
Notes:

1. Loan-to-valuation ratios
2. Headroom on security value is the % fall in security value against current debt levels to remain within LVR covenants
3. Applies to secured properties
4. Applies to the fund

Portfolio update



Regional map of CWT's eastern portfolio



Notes:
1. Contract for sale exchanged

Revaluations impact by net \$40.5m in FY09

- 20 of 24 properties revalued (18 independently) as at 30 Jun 09 (90% of portfolio value)
 - Remaining properties last independently revalued as at 31 December 2008

Portfolio by region	% of portfolio	Fair Value at 30 Jun 09 \$m	Fair Value pre revaluation \$m	Change \$m	Change %
Murray River	21%	55.1	64.8	(9.7)	(15.0%)
New Zealand	19%	51.0	55.3	(4.3)	(7.8%)
Murrumbidgee River	26%	69.3	74.2	(4.9)	(6.6%)
SA/WA cool regions	20%	53.2	64.3	(11.1)	(17.3%)
Central NSW	4%	11.9	14.9	(3.0)	(20.1%)
Decrement in fair values	90%	240.5	273.5	(33.0)	(12.1%)
Properties not revalued at 30 June 2009	10%	27.7	27.7	0.0	
Total decrement in fair values	100%	268.2	301.2	(33.0)	(11.0%)
Reconciliation to financial accounts					
Less: reduction in carrying values due to recognising water rights at cost				(1.9)	
Decrement in carrying values				(34.9)	
Decrement in carrying values at 31 December 2008				(5.6)	
Total FY09 decrement in property carrying values				(40.5)	

Portfolio snapshot at 30 June 2009

		Australia	New Zealand ¹	30 June 2009 Total	30 June 2008 Total
Number of assets		20	4	24	25
Portfolio carrying value	\$m	190.5	66.6	257.1	298.8
Portfolio fair (market) value	\$m	201.5	66.6	268.2	307.2
% total portfolio value²	%	75	25	100	100
Total area	ha	4,828	747	5,575	5,706
Planted area	ha	3,780	627	4,407	4,568
Occupancy	%	98.2	100	98.5	100
WALE	yrs	5.5	3.0	5.0	5.7
Average passing rental yield	%	13.1	8.7	12.0	10.9
Over/(under) renting - Portfolio	%	31.7	(16.2)	19.4	8.9
Over/(under) renting ³ – AU	%	31.7	n/a	31.7	17.5
Over/(under) renting ³ – NZ	%	n/a	(16.2)	(16.2)	(17.2)

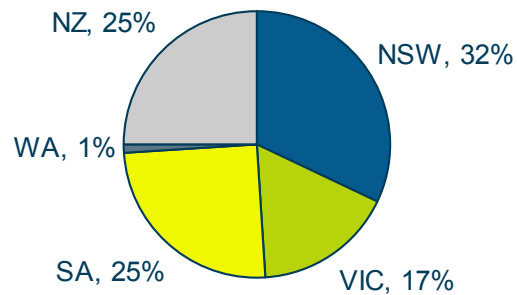
Notes:

1. New Zealand portfolio value at 30 June 2009 based on spot rate of 1.2480
2. Based on fair value
3. Over/(under) renting calculations are based on management's assumptions regarding achievable market rentals

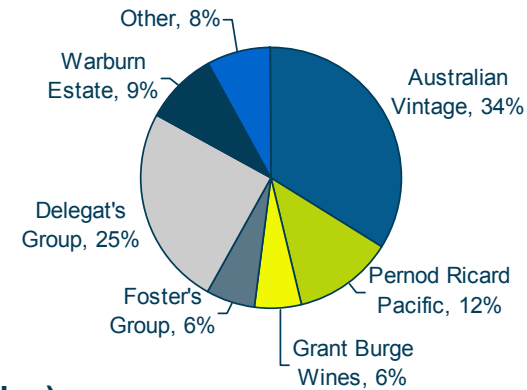
Portfolio diversification

- 94% of portfolio (by fair value) leased to wine companies

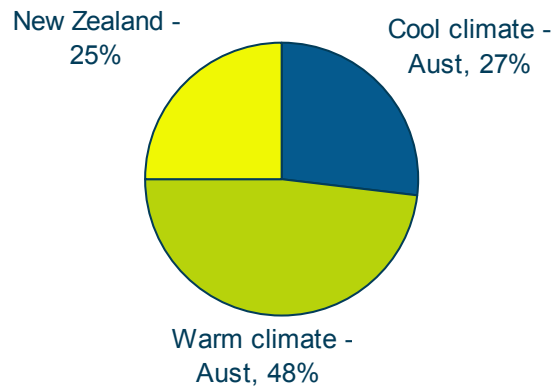
Geographic diversification (by fair value)
as at 30 June 2009



Tenant diversification (by fair value)
as at 30 June 2009



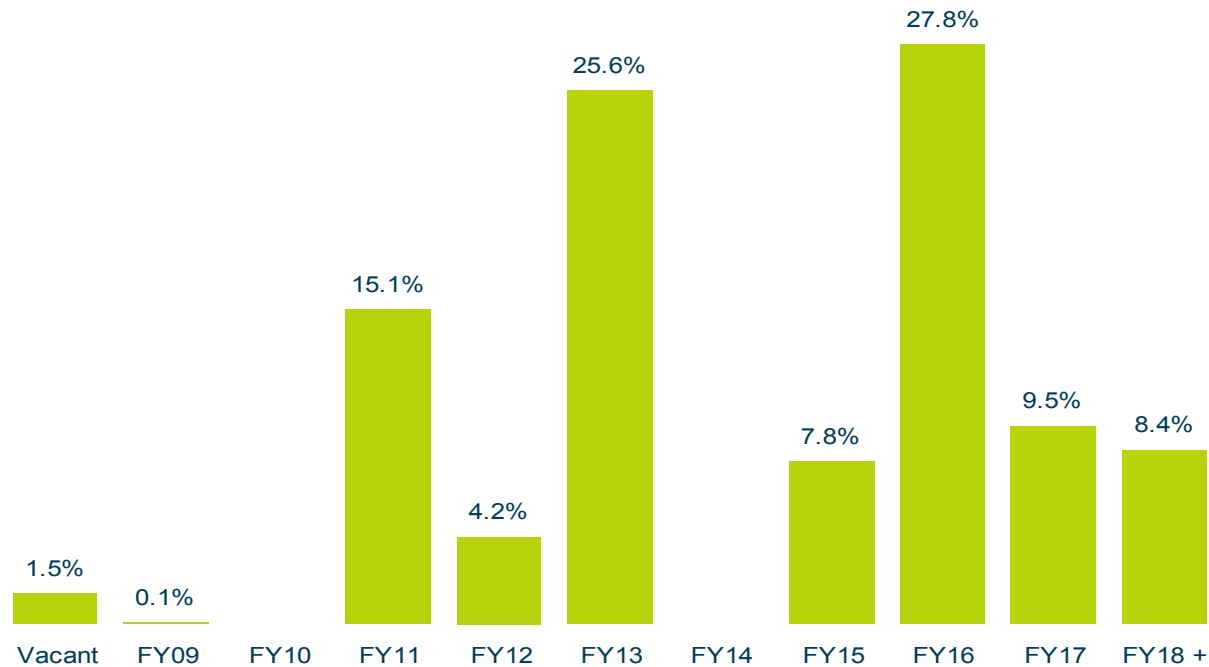
Climate diversification (by fair value)
as at 30 June 2009



Lease expiry profile and activity

- 98.5% portfolio occupancy at 30 Jun 09 (98.4% at 31 Dec 08)
- WALE at 5.0 years (5.3 years at 31 Dec 08)
- No expiries in FY10 and 15.1% of portfolio by income expiring in FY11

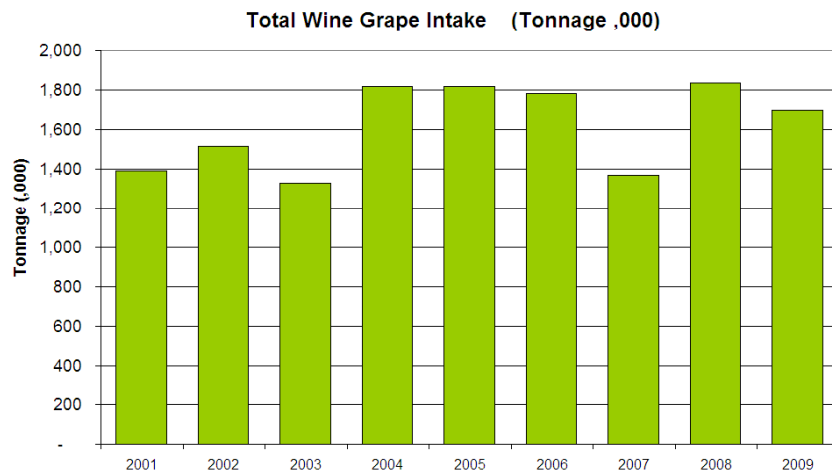
Weighted Maturity Profile as at 30 June 2009



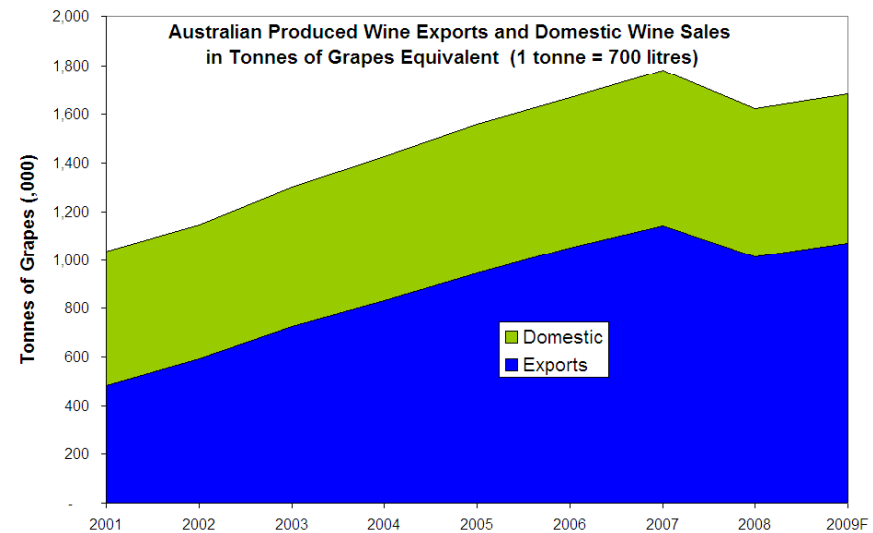
Australasian vineyard industry conditions

Australian production and sales

- 2009 grape intake: 1.7 million tonnes
 - Impacted by drought and January heatwave
 - 2008 grape intake: 1.83 million tonnes
- 2009 wine sales forecast to be 1.7 million grape tonnes equivalent



* Source: ABS and WFA

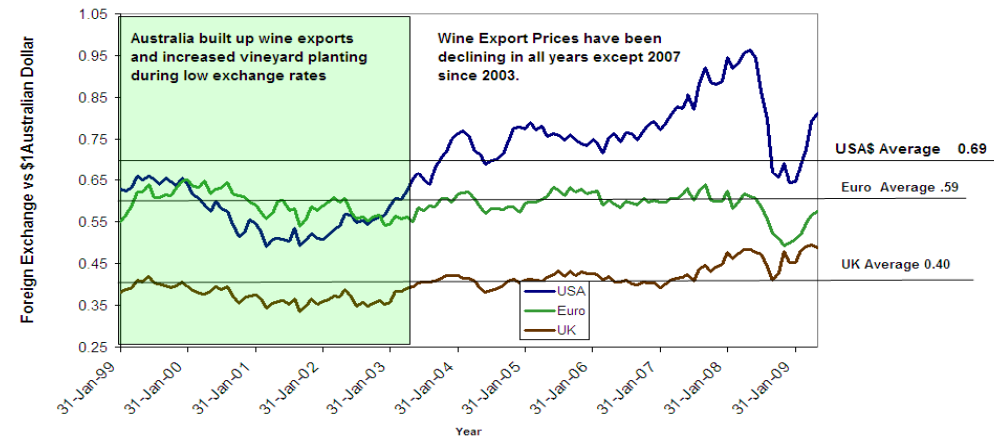


Source : AWBC

Currency trending higher - grape prices trending lower

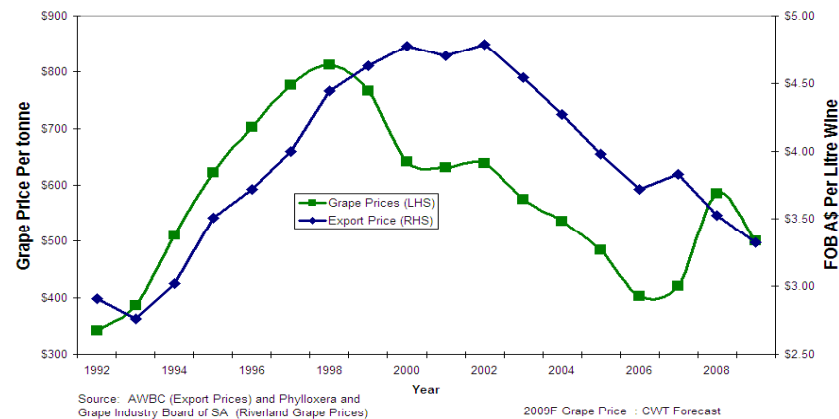
- Since 2003 AUD has been strengthening against the GBP and USD
- There was a short term reprieve in late 2008/ early 2009 as AUD weakened, but since then has reversed
- Not all “New World” wine export countries exchange rates have strengthened (eg. Argentina), leading to price competition in USA.

Australian Dollar Exchange Rate versus a Wine Export Destination Currencies



- A stronger AUD impacts domestic grape prices.
- As the AUD strengthens, the cost to import Australian wine increases. During GFC UK and USA retailers struggle to pass extra cost to consumers
- Grape shortfall from drought conditions in 2008 resulted in a one off spike in grape prices

Wine Export Prices vs Riverland SA Grape Prices

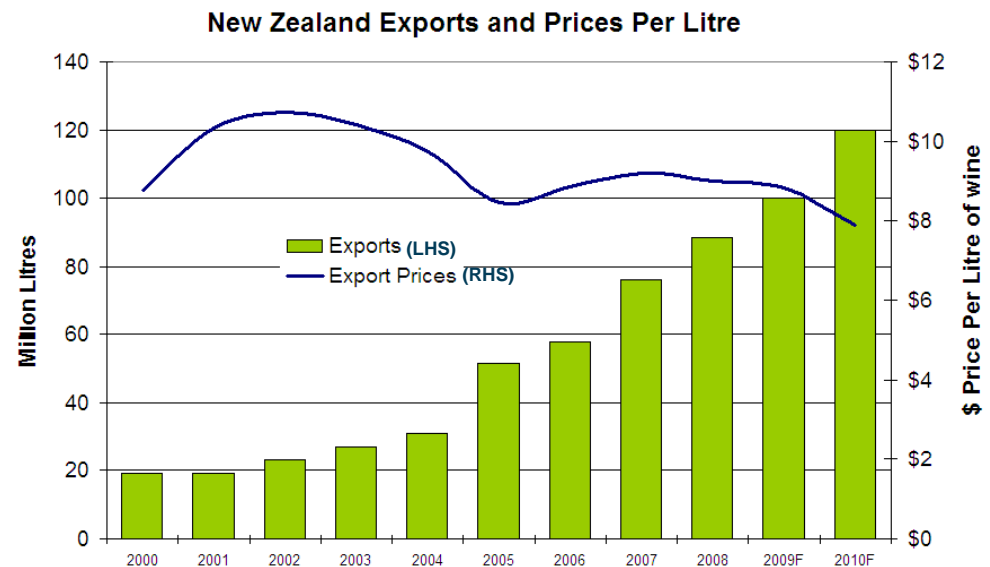


Over-supply of grapes

- Unprofitable bulk wine markets have led to lower demand for grapes
- 50m litres of wine (circa 9,000 ha of Australian vineyards) sold at under \$1 per litre
- Market changes have led to an estimated 20,000 ha over-supply of vineyards, primarily in cool climate regions
- Vineyard reduction has commenced in 2008 - a further 6-8,000 ha is expected during 2009 and 2010
- The majority of 2008 vineyard reduction has been in warm climate areas due to continuing low availability of irrigation water
- Federal Government offering exit assistance to the sector in return for water rights acquisitions
- Over supply of wine globally being addressed
 - EU agreed to a voluntary removal of up to 175,000 ha over next three years

New Zealand

- 2009 grape production was 8% lower than the large 2008 harvest as limits on grape yields were enforced
- Sauvignon Blanc represents 76% of exports
- UK and Australia are NZ's largest markets as Sauvignon Blanc continues its popularity
- CWT's NZ tenant, Delegat's Group recently announced a 61% surge in full-year profits
- Export prices forecast to decline as export volumes increase. Although prices remain significantly higher than Australian wine export prices



Source: NZ Wine, Statistics NZ and MAF

Summary

Summary

- Operating performance remains strong
 - Net property income of \$32.6 million – up 3% on prior year
 - Profit from operating activities after tax of \$16.1 million (FY08: \$16.0m) or 9.5 cpu
 - Occupancy 98.5%; WALE 5.0 years with no lease expiries in FY10
 - 4Q09 distribution of 1.2 cpu; FY09 total distributions of 7.1 cpu
- Challenging environment continues
 - Industry confronting an over-supply of grapes
 - Strong Australian dollar
- Conservative capital management focus continues
 - Operating within all banking covenants, no refinancing required before May 2011¹
 - Distribution cycle to move from quarterly to half-yearly
 - Asset sales continue
 - Capital management options remain under review

Notes:

1. Excludes \$2.2 million facility repayment made in July 2009

Questions

Contacts



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Appendices

Detailed income statement

	FY09	FY08	Variance	
	\$000	\$000	\$000	%
Net property income	32,620	31,583	1,037	3.3
Other income	712	1,148	(436)	(38.0)
Finance costs	(13,122)	(12,526)	(596)	(4.8)
Management fees	(2,350)	(2,443)	93	3.8
Operating expenses	(1,356)	(1,295)	(61)	(4.7)
Profit from operating activities before tax	16,504	16,467	37	0.2
Income tax expense	(367)	(457)	90	19.7
Profit from operating activities after tax	16,137	16,010	127	0.8
Net realised gains from sale of assets	60	1,227	(1,167)	
Impairment of non-current assets	(813)	(1,437)	624	
Net fair value movements in non-current assets	(39,715)	(2,266)	(37,449)	
Net (loss) / profit	(24,331)	13,534	(37,865)	(Large)

Movements in fair value and carrying value

	Fair value \$000	Carrying value \$000
30-Jun-08	307,229	298,851
Acquisitions & upgrades	933	933
Disposals	(2,708)	(2,601)
Revaluation changes	(36,950)	(36,950)
Water rights fair value increment	-	(2,765)
Impairment of assets	(813)	(813)
Depreciation	(313)	(313)
Foreign currency translation movements	769	769
30-Jun-09	268,147	257,111



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