

# Challenger Wine Trust (ASX:CWT)

Results for the year ended 30 June 2008

Nick Gill  
Fund Manager  
7 August 2008



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# Highlights

- Strong ongoing financial performance
  - Revenue of \$32.7 million – up 11% on FY07
  - Profit from operating activities of \$16.0 million – up 12%
  - Net profit of \$13.5 million – up 72%
  - FY08 distribution per unit of 9.4 cents – up 3.3%
  - Debt refinanced – no expiries until 2011
  
- High quality portfolio
  - Portfolio strengthened – 3 acquisitions for \$39 million
  - WALE 5.7 years
  - All properties revalued in FY08 – no net change
  - Rent reviews delivering positive outcomes
  - Net Independent Valuation (NIV) of 94 cents per unit – no change on FY07
  
- Distribution guidance
  - FY09 distribution guidance of 9.5 cents per unit

# Financial results

# Solid financial performance

- Profit from operating activities \$16.0 million – up 12% on FY07
  - Net property income up \$2.7 million (9%) to \$31.6 million
  - Other income up \$0.6 million to \$1.1 million
  - Finance costs up \$0.9 million to \$11.6 million
  - Operating expenses up \$0.1 million to \$1.3 million
- FY08 distribution per unit 9.4 cents – up 3.3% on FY07

	FY08	FY07	Variance	
	\$000	\$000	\$000	%
<b>Profit from operating activities</b>	<b>16,010</b>	<b>14,331</b>	<b>1,679</b>	<b>12%</b>
Net profit	13,534	7,875	5,659	72%
<i>Adjusted for:</i>				
Net fair value movements	2,266	6,456		
Impairment of non-current assets	1,437	-		
Undistributed income carried fwd (realised gains)	(1,227)	(5)		
Distribution to unitholders	16,010	14,326	1,684	12%
<b>Distribution per unit (cents)</b>	<b>9.4</b>	<b>9.1</b>	<b>0.3</b>	<b>3.3%</b>

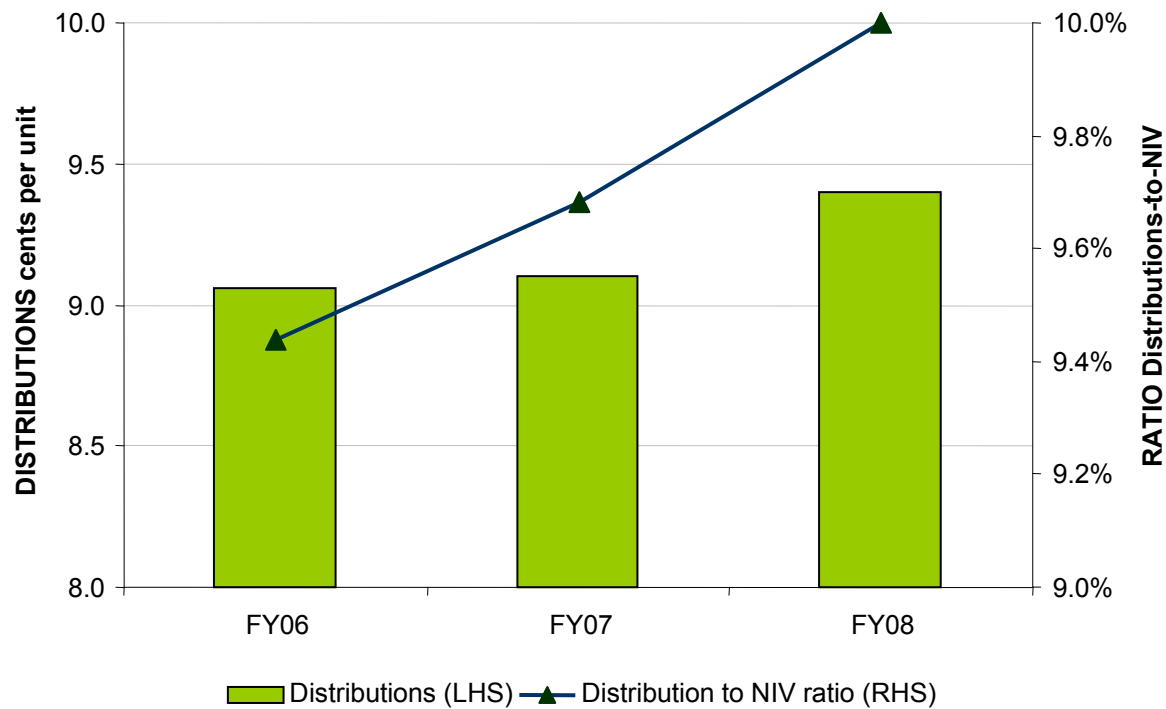
# NIV reflects full & fair value of CWT

- Access to water is critical for successful grape growing
- 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
- NIV holding steady at 94 cents per unit

	\$'000		Cents per unit		% change
	Jun-08	Jun-07	Jun-08	Jun-07	
Net Tangible Assets (NTA)	130.7	139.2	77	82	(6.1%)
Add: Water rights (at cost)	21.8	17.0			
Net Asset Value (NAV)	152.5	156.2	90	92	(2.2%)
Add: Water rights fair value increment (as per independent valuation)	8.4	4.2			
<b>Net Independent Value (NIV)</b>	<b>160.9</b>	<b>160.4</b>	<b>94</b>	<b>94</b>	<b>Nil</b>

# Distributions up 3.3%

- Distributable income \$16.0 million – up 12%
- Distribution per unit 9.4 cents – up 3.3%
- Ratio of distributions to NIV increased to 10.0% in FY08



# Financial position

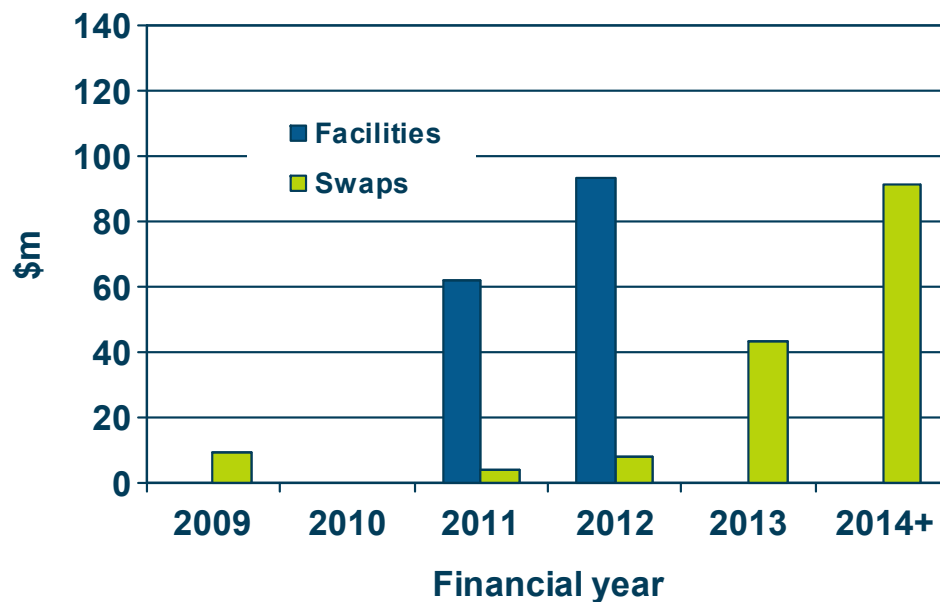
- Gearing 49.0% at 30 June 2008 (within preferred range 45-55%)
- Interest rates effectively 100% hedged for duration of lease terms
- New Zealand borrowings provide 92.4% natural foreign exchange hedge

	30-Jun-08	30-Jun-07	Change
Total assets (\$m)	316.2	297.6	6.2%
Borrowings (\$m)	155.0	134.4	15.3%
Gearing (%)	49.0	45.2	3.8pp
Weighted average cost of borrowings (incl margins) (%)	7.9	7.7	0.2pp
Interest cover ratio (x)	2.3	2.3	N/C

# All debt successfully refinanced

- Total facilities of \$166 million refinanced
  - Providing greater flexibility and longer maturity
  - No facility expiries before 2011
  - Only exposure in FY09 is on \$9.5 million swap expiring in line with lease expiries

**Borrowing facility & swap maturity profile**



# Financial covenants & headroom

- LVRs apply to borrowing facilities from banks (NAB & ANZ)
- LVRs vary by bank and tranche
  - Range 55% to 60%
  - Weighted average 58.6%
- Property security of \$307.2 million with debt of \$155.0 million (50.5% LVR)
- LVR headroom of \$55 million<sup>1</sup> equivalent to an 18% fall in property portfolio values
- No market capitalisation covenants

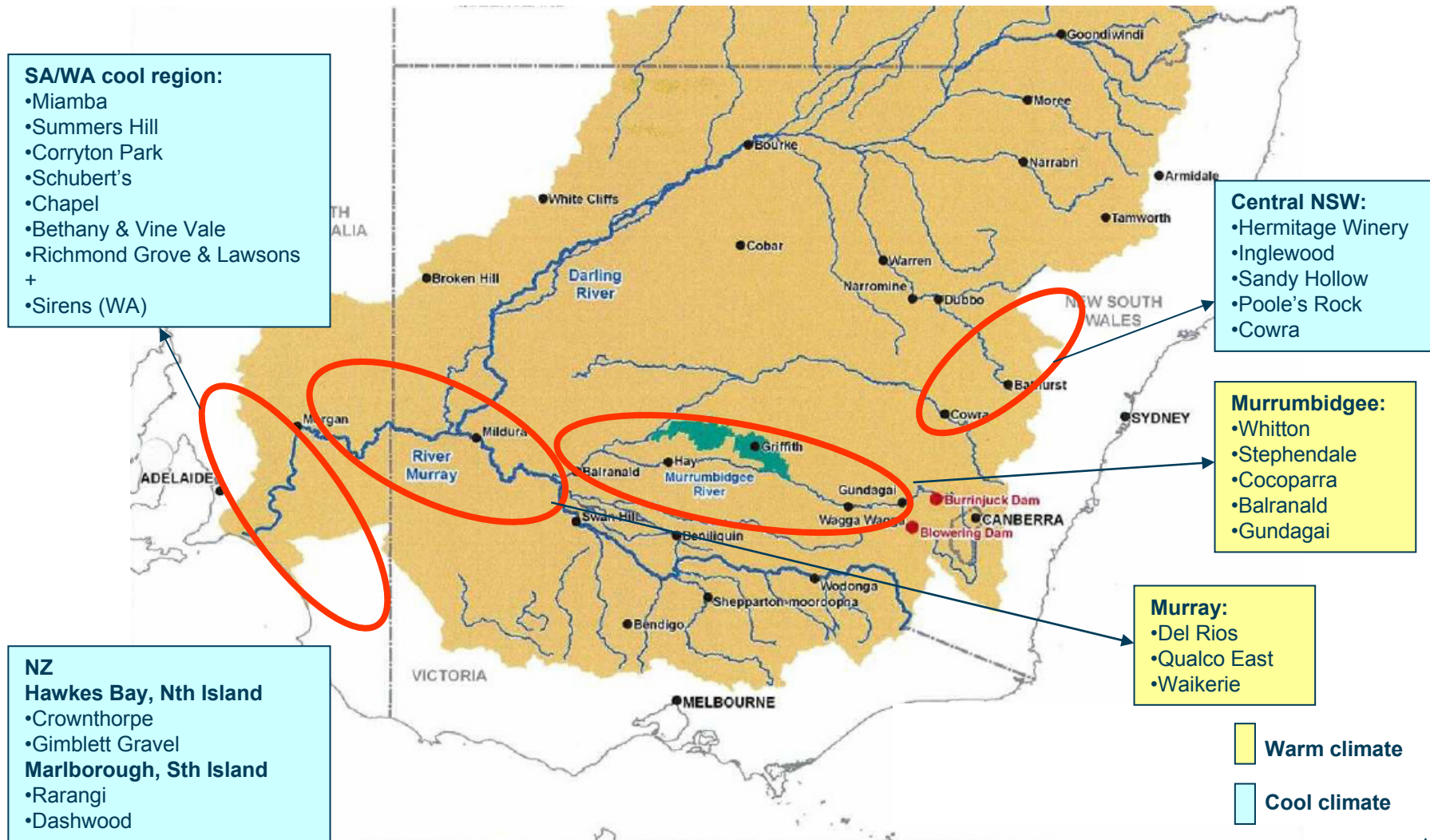
Notes:

1. Includes net cash of around \$7 million

# Portfolio update



# Regional map of CWT's eastern portfolio



# Portfolio activity: supporting re-alignment

- Re-alignment from Riverland (SA) on Murray River to Griffith (NSW) region on Murrumbidgee River with high security water
- Acquisitions total \$39.4 million<sup>1</sup>
  - Stephendale Vineyard (Griffith, NSW)
  - Miamba Vineyards (Barossa Valley, SA)
  - Final 2 of 13 lots at Balranald Vineyard (Balranald, NSW)
- Disposals total \$18.3 million
  - Gnangara Vineyard (Manjimup, WA)
  - Boh River Vineyard (Loxton, SA)
  - Trillians Hill Vineyard (Clare Valley, SA)
  - Grande Junction land (Wentworth, NSW)

Notes:

1. Excludes acquisition costs

# All properties revalued in FY08

- All assets independently revalued during period (100% of portfolio value)

Portfolio by region	% of portfolio	Fair Value at 30 Jun 08 \$m	Pre-valuation Fair Value \$m	Change
Murray River	21%	65.1	60.5	8%
New Zealand	23%	71.0	65.6	8%
Murrumbidgee River	26%	80.8	82.4	(2%)
SA/WA cool regions	24%	72.3	74.5	(3%)
Central NSW	6%	17.9	23.2	(23%)
<b>Total</b>		<b>307.2</b>	<b>306.2</b>	<b>0%</b>

- Vineyard values in central NSW (Cowra/ Hunter) impacted by changing demand profile for grapes in the region
- Murray River property benefited by large rent review uplift

# Portfolio snapshot at 30 June 2008

	Australia	New Zealand <sup>1</sup>	Total	30 June 2007
<b>Number of assets</b>	21	4	<b>25</b>	<b>29</b>
<b>Portfolio carrying value (\$m)</b>	227.8	71.0	<b>298.8</b>	<b>287.0</b>
<b>Portfolio fair (market) value (\$m)</b>	236.2	71.0	<b>307.2</b>	<b>291.2</b>
<b>% total portfolio value (%)<sup>2</sup></b>	76	24	<b>100</b>	<b>100</b>
<b>Total area (ha)</b>	4,961	745	<b>5,706</b>	<b>6,222</b>
<b>Area planted (ha)</b>	3,941	627	<b>4,568</b>	<b>4,191</b>
<b>Occupancy (%)</b>	100	100	<b>100</b>	<b>100</b>
<b>WALE (yrs)</b>	6.2	3.9	<b>5.7</b>	<b>5.9</b>
<b>Average passing rental yield (%)</b>	11.7	8.5	<b>10.9</b>	<b>10.1</b>
<b>Over/(under) renting (%)<sup>3</sup></b>	17.5	(17.2)	<b>8.9</b>	<b>6.6</b>

Notes:

1. New Zealand portfolio value at 30 June 2008 based on spot rate of 1.2609

2. Based on Carrying value

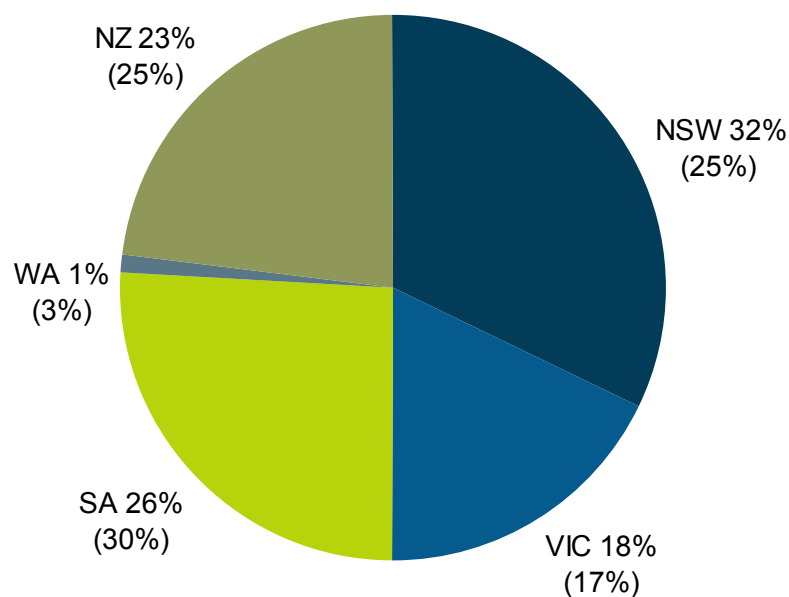
3. Over/(under) renting calculations are based on management's assumptions regarding achievable market rentals

# Portfolio diversification enhanced

- 77% of portfolio (by value) leased to major listed wine companies

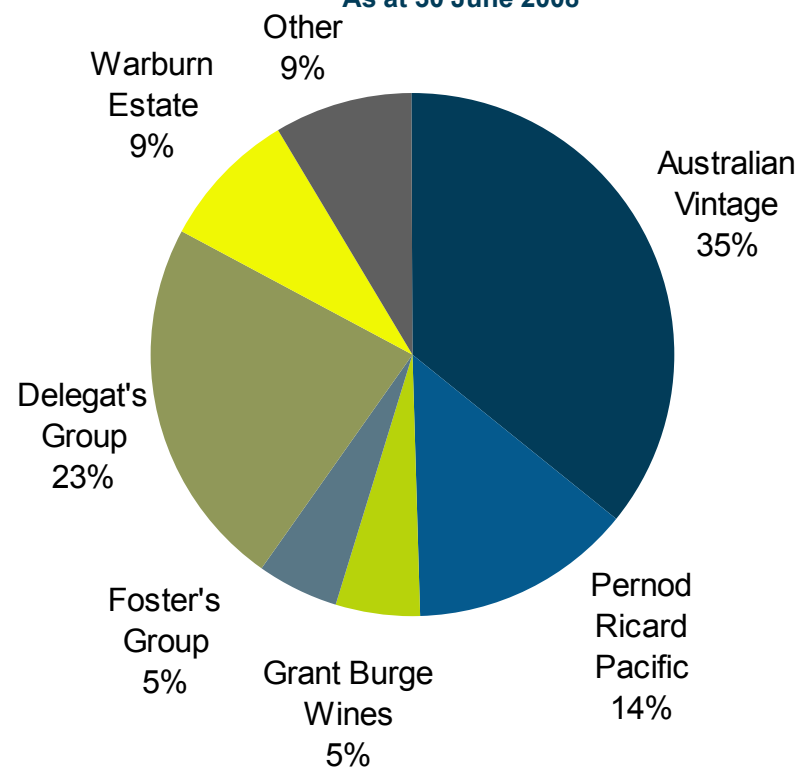
## Geographic diversification (by value)<sup>1</sup>

As at 30 June 2008



## Tenant diversification (by value)

As at 30 June 2008



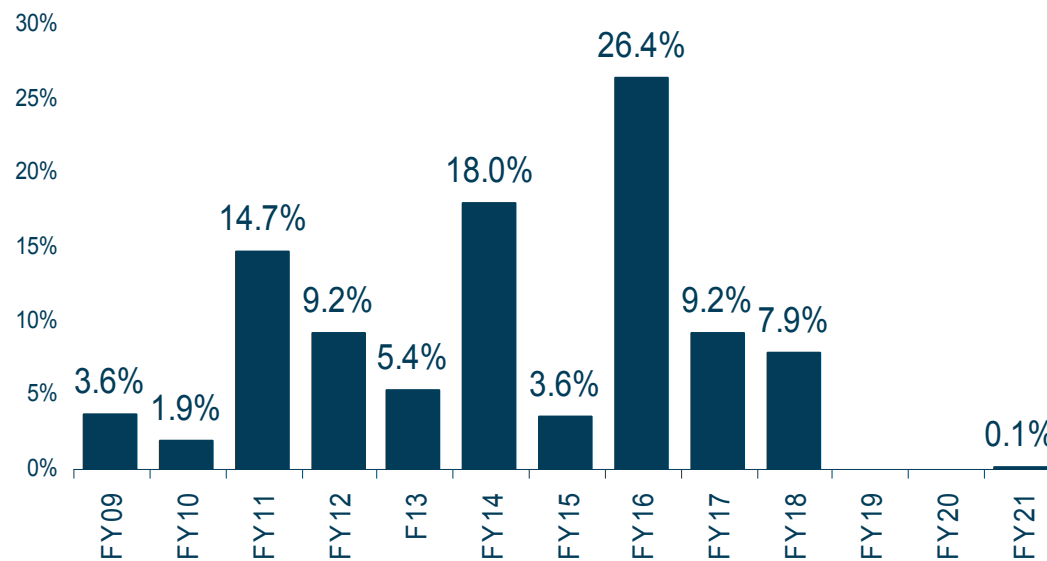
### Notes:

1. Prior year shown in brackets

# Actively managing lease expiry profile

- 100% portfolio occupancy at 30 Jun 08 (99% as at 7 Aug 08)
  - Hermitage Road Winery 10% leased
- WALE at 5.7 years
- 5.5% of portfolio income expiring over next 2 years

Weighted Maturity Profile as at 30 June 2008



**FY09 expiries:**

- Bethany Creek & Vine Vale – Oct 08
- Cowra and Sandy Hollow – Apr 09

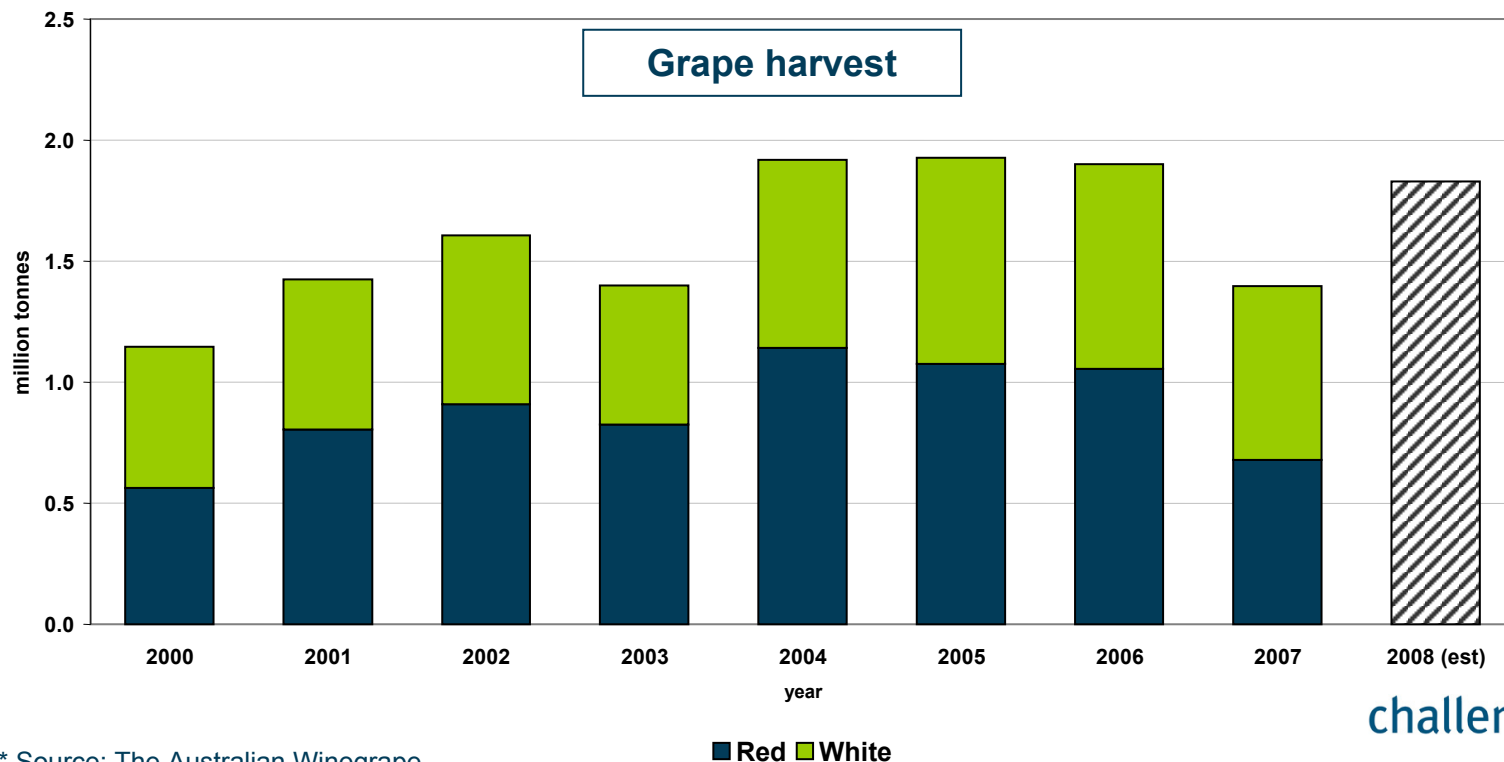
# Leasing supports proactive management

- Leasing activity extends WALE to 5.7 years
  - Cocoparra and Woods Vineyards - to Foster's Group for 5 years
  - Grant Burge Wines renewed at Corryton Park Vineyard for a further 5 years
  - Completed mid-term lease reviews on the Del Rios, Balranald and Qualco properties
  
- Looking ahead - focusing on property outcomes
  - Sandy Hollow Vineyard for sale. Lease expires in April 2009 and Australian Vintage Ltd has elected not to re-lease the vineyard
  - Continue to review options following advice from Australian Vintage that they will not be re-leasing Bethany Creek & Vine Vale Vineyards (expires October 2008) and Cowra Vineyard (expires April 2009)
  - The Hermitage Road Winery withdrawn from sale and new tenants are being sought for the winery following the lease expiry at 30 June 2008

# Australasian vineyard industry conditions

# Australian grape production

- 2006 grape harvest was 1.8 million tonnes\*
- 2007 grape harvest was 1.4 million tonnes\*
  - Impacted by frost and drought
  - Wine companies use inventory to meet demand
- 2008 harvest estimate of 1.8 million tonnes\* - higher than expected



\* Source: The Australian Winegrape Outlook 2007-2011

# Irrigation water current outlook:

- Southern dams at higher levels than this time last year however large quantity of committed carryover water for irrigators water.
- Irrigators with carryover water from 07/08 water year in better position
- Grape growers have less incentive to buy expensive temporary water, unlike last year, as grape price expectations from wine companies lower
- CWT rental is not directly impacted by shortfalls due to tenancy arrangements but impacts valuations.
- Murrumbidgee high security water expectations looks positive

Murrumbidgee high security allocation probability outlook:

**Water availability outlook**

Probability	1 August	1 October
9 chances in 10	High security 18% General Security 0%	High security 44% General Security 0%
3 chances in 4	High security 24 % General Security 0%	High security 95% General Security 1%
1 chance in 2	High security 40% General Security 0%	High security 95 % General Security 9%

Source: mdbc

# New Zealand wine market remains strong

- Exports up ten-fold in past decade
- 2008 harvest forecast up 39%
  - 205,000 tonnes in 2007; 285,000 tonnes in 2008
  - Experienced ideal climatic conditions
  - Yields 34% higher than long-term average of 7.9 tonnes per hectare
- Delegat's Wine Estate –
  - number one selling bottled white wine brand in Australia – Oyster Bay Sauvignon Blanc
  - Recently upgraded profit forecast of NZ\$18.5m with company's 2008 vintage (up 45% on 2007) and wine price rises contributing<sup>1</sup>

<b>NZ statistics:</b>	<b>1996</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Number of wineries	283	463	516	530	543
Producing area (hectares)	6,610	18,112	21,002	22,616	24,660 <sup>2</sup>
<b>Export volume (litres millions)</b>	<b>11.0</b>	<b>31.1</b>	<b>51.4</b>	<b>57.8</b>	<b>76.0</b>
Export value (NZ\$ millions FOB)	\$60.3	\$302.6	\$434.9	\$512.4	\$698.3

Source [www.nzwine.com](http://www.nzwine.com)

1. Source [www.nzx.com/markets/NZSX/DGL/announcements](http://www.nzx.com/markets/NZSX/DGL/announcements)

2. Estimate from [nzwine.com](http://nzwine.com)

# Outlook

# Summary

- ✓ **High quality portfolio**
  - Income stream backed by 99%<sup>1</sup> occupancy and long term leases to established industry participants
  - Significant diversification by region, tenant, water source and grape variety
- ✓ **Transaction activity focused on:**
  - Enhancing returns
  - Improving portfolio diversification
- ✓ **Stable & predictable income returns**
  - Favourable outcome from rent reviews marginally offsetting downside risk of lease expiries and property sales
- ✓ **Guidance**
  - FY09 distribution guidance of 9.5 cents per unit

Notes:

1. As at 7 August 2008

# Questions

# Contacts

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# Appendices

# Detailed income statement

	30-Jun-08	30-Jun-07	Variance	
	\$000	\$000	\$000	%
<b>Net property income</b>	<b>31,583</b>	<b>28,925</b>	<b>2,658</b>	<b>9.2</b>
Other income	1,148	505	643	127.3
Finance costs	(12,526)	(11,627)	(899)	(7.7)
Management fees	(2,443)	(2,274)	(169)	(7.4)
Operating expenses	(1,295)	(1,198)	(97)	(8.1)
Income tax expense	(457)	-	(457)	-
<b>Profit from operating activities</b>	<b>16,010</b>	<b>14,331</b>	<b>1,679</b>	<b>11.7</b>
Net realised gains from sale of assets	1,227	-	1,227	
Net fair value movements & impairment write-downs	(3,703)	(6,456)	2,753	
<b>Net profit</b>	<b>13,534</b>	<b>7,875</b>	<b>5,659</b>	<b>71.9</b>

# Movements in fair value and carrying value

	Fair value \$000	Carrying value \$000
<b>30-Jun-07</b>	<b>291,236</b>	<b>286,989</b>
Acquisitions & upgrades	42,913	42,913
Disposals	(17,990)	(17,356)
Revaluation changes	2,499	2,499
Impairment write-down	(1,437)	(1,437)
Water rights (decrease in carrying value due to recognising intangible assets at cost)	-	(4,765)
Depreciation	(210)	(210)
Foreign currency translation movements	(9,782)	(9,782)
<b>30-Jun-08</b>	<b>307,229</b>	<b>298,851</b>



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