Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
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convenience RETAIL REIT

ASX ANNOUNCEMENT (ASX code: CRR)

20 February 2018

Results for the half-year ended 31 December 2017

Convenience Retail REIT (**CRR** or the **Fund**) is pleased to announce its results for the period from the date of Allotment of 1 August 2017 to 31 December 2017.

Financial highlights

- FFO for the period of $6.4 million in line with PDS forecast (8.1 cents per security (cps))
- FY2018 FFO guidance[1] upgraded to 18.3 – 18.6 cps (an increase versus the IPO forecast of 18.2 cps)
- Distribution guidance[1] of 18.1 cps (annualised 19.7 cps), an increase versus the IPO forecast of 17.9 cps
- NTA growth of 8 cents per security to $2.81, representing a 2.8% increase on $2.73 at IPO
- Balance sheet gearing of 29.3%

Operational performance

- $7.2 million or 2.3% increase in portfolio value following revaluation process
- Valuation gains driven by a combination of market rent increases and capitalisation rate compression
- Settlement of 27 properties post IPO
- Two properties acquired for $9.6 million in addition to the initial portfolio and a commitment to acquire an additional 5 properties, subject to finalising due diligence enquiries

Chris Brockett, Convenience Retail REIT Fund Manager, commented “We are pleased to announce an upgrade to our earnings guidance as well as an increase in our NTA. The upgraded FFO guidance provides for up to a 2.2% increase on the PDS forecast, while revaluation gains have driven a 2.8% increase in NTA to $2.81. The half-year results reflect CRR’s strategy of providing investors with an attractive and defensive income stream underpinned by long term leases to high quality retailers. CRR offers investors a cash distribution yield of 7.3% with ongoing growth, gearing under 30% and a 13 year WALE.”

Revaluation uplift and accretive acquisitions

Net Tangible Assets (NTA) increased to $221.5 million as at 31 December 2017, equating to $2.81 per security. This represents a $6 million, or 2.8%, increase since IPO.

The portfolio comprises 68 properties valued at $324.4 million, a 5.5% increase on the initial portfolio value. The increase is attributable to $7.2 million in revaluation uplifts as well as the acquisitions of Durack and Dakabin for a combined $9.6 million.

The $7.2 million revaluation uplift was driven by a combination of the contracted annual rent increases as well as capitalisation rate compression. The portfolio’s weighted average capitalisation rate tightened by 6bps to 7.12%.

Overall, 23 properties, or 34%, of the portfolio was independently valued as at 31 December 2017, with the remainder of the portfolio being Director’s valuations.

The two properties acquired during the period, Durack and Dakabin, were acquired in November and December 2017 respectively, reflecting an average WALE of 12.7 years and a weighted average capitalisation rate of 6.8%. These acquisitions are accretive to earnings and have contributed to the upgraded earnings guidance.

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[1] Guidance provided from Allotment Date of 1 August 2017 to 30 June 2018.

“The acquisitions of Durack and Dakabin demonstrate our disciplined approach to property acquisitions, ensuring that they enhance the portfolio metrics and securityholder returns”, added Mr Brockett.

Capital management

Total drawn debt at the end of the period was $97.7 million resulting in a gearing ratio of 29.3%, which is at the lower end of the target range of 25 – 40%. The weighted average all-in cost of debt during the period was 3.9% and the interest cover was 6.7 times.

Drawn debt is 36% hedged, which dropped below our target hedge range of 50 – 100% following the recent acquisitions. We will continue to monitor the market with the intention of increasing the hedging level to within the target range while having regard to overall investor value.

CRR will continue to seek acquisition opportunities to grow the portfolio in a sensible and prudent manner. The fund is in an exclusive arrangement to acquire a further five properties, which remain subject to the satisfactory completion of due diligence enquiries and other conditions. These acquisitions will be funded from CRR’s existing debt capacity. Any further acquisitions including these five properties have not been included in CRR’s updated earnings guidance which will be reassessed on completion of further transactions.

Outlook

CRR continues to actively manage the portfolio to ensure that it delivers attractive and sustainable returns to securityholders.

The REIT is well positioned, it has sustainable income growth which is underpinned by long term leases with contracted annual rent increases, a conservative gearing level and we will continue to pursue accretive acquisitions.

Full year FFO guidance has been upgraded to 18.3 – 18.6 cents per security and distributions per security has also been upgraded to 18.1 cents, which equates to 19.7 cents on an annualised basis.

This guidance is subject to current market conditions continuing and no unforeseen events, and assumes no further acquisitions.

ENDS

For further information, please contact:

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