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SCA PROPERTY GROUP ANNOUNCES FY19 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the year ended 30 June 2019.

Financial highlights:

- Statutory net profit after tax of $109.6 million, down by 37.4% compared to the same period last year primarily due to expensing transaction costs on acquisitions completed during the period and reduced investment property valuation uplift
- Funds From Operations ("FFO") of $141.8 million, up by 24.1% on the same period last year
- Funds From Operations per unit ("FFOPU") of 16.33 cents per unit ("cpu") (1), up by 6.7% on the same period last year
- Distribution of 14.70 cpu, up by 5.8% on the same period last year, a payout ratio of 90% (1)
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $127.4 million, up by 20.5% on the same period last year
- Weighted average cost of debt currently 3.6%pa. Gearing of 32.8% as at 30 June 2019, up from 31.2% at 30 June 2018
- Investment property portfolio value of $3,147.0 million, up by $693.2 million since 30 June 2018, largely due to acquisitions ($677.9 million) and development expenditure ($13.4 million)
- Net tangible assets of $2.27 per unit as at 30 June 2019, down by 1.3% from $2.30 as at 30 June 2018 primarily due to the expensing of transaction costs on acquisitions completed during the period
- Management expense ratio ("MER") of 0.37% as at 30 June 2019, down from 0.43% as at 30 June 2018
- FY20 FFO per unit guidance of 16.70 cpu (2.3% above FY19 actual) and FY20 Distribution per unit guidance of 15.10 cpu (2.7% above FY19 actual)

Operational highlights:

- Portfolio occupancy of 98.2% by GLA as at 30 June 2019 (down from 98.4% as at 30 June 2018)
- Supermarket moving annual turnover ("MAT") growth of 2.7%pa (excluding FY19 acquisitions) (2) (prior year 1.9%pa)
- Specialty tenant MAT growth of 2.6%pa (prior year 3.3%pa), with average rental renewal uplifts of 5.3% (prior year 6.1%) achieved on 146 renewals during the period (excluding FY19 acquisitions)
- Comparable NOI increase of 2.5% in FY19 (prior year 2.8%)
- Twelve acquisitions completed during the period for $677.9 million and completion of developments at Bushland Beach QLD (new Coles anchored neighbourhood centre) in July 2018 and Shell Cove NSW (new Woolworths anchored neighbourhood centre) in October 2018
- Launch of our third unlisted retail fund "SURF 3" in July 2018

(1) Based on weighted average units on issue of 868.4 million. FFO per unit is calculated as FFO of $141.8 million divided by 868.4 million. Payout ratio is calculated as distribution per unit (14.70 cents) divided by FFO per unit (16.33 cents)
(2) Adjusted to 52 weeks (comparable to FY18). On a 53 week basis, supermarket MAT growth was 4.6% and Discount Department Store MAT growth was 5.4%

Chief Executive Officer, Anthony Mellowes, said: “We are pleased to report another solid result for the year to 30 June 2019. Our existing centres continue to perform well, delivering continuing sales growth and a comparable net operating income increase of 2.5% due to positive rent renewal uplifts and expense control. During the period we acquired twelve convenience based centres for $677.9 million, completed two developments, and launched our third retail fund. The acquired centres are performing in line with our strategy and expectations at the time of acquisition. We are continuing to work toward improving the performance and value of these centers by applying our expertise in convenience-based shopping centres to improve tenancy mix, set sustainable rents and achieve cost efficiencies. We have a track record of successfully executing on these strategies and over time we expect the performance of the acquired centres to align with our existing centres.”

Chief Financial Officer, Mark Fleming, said: “We remain focused on appropriate capital management to support both growth initiatives and our ongoing operations. During the last twelve months we have raised approximately $1.3 billion in new debt and equity. We are pleased to have reduced our weighted average cost of debt to 3.6% with 70% of our drawn debt fixed or hedged. As at 30 June 2019 our gearing is 32.8% which is within our target gearing range of 30% to 40% and consistent with our preference for gearing to remain below 35% at this point in the cycle. Our successful debt and equity capital raisings during the period demonstrate the strong support we enjoy in both debt and equity markets, and we remain well placed to take advantage of investment opportunities in the future as they arise. We maintain our disciplined approach to ensure that any acquisitions meet our investment criteria.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $109.6 million, which was down by 37.4% on the same period last year. This was primarily due to expensing of acquisition transaction costs in FY19 that reduced the fair value of investment properties, compared to an increase in the fair value of investment properties in FY18 due to cap rate compression.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $141.8 million, up 24.1% on the same period last year. Key drivers of this increase were acquisitions and developments, and an increase in comparable net operating income (“NOI”). FFO per unit for the period was 16.33 cents, 6.7% above the same period last year.

Adjusted Funds From Operations (“AFFO”) was $127.4 million, up by 20.5% on the same period last year. Maintenance capex of $5.6 million was up by $2.2 million due to the larger size of our portfolio, and leasing costs and fitout incentives of $8.8 million were up by $3.6 million due to the larger size of our portfolio and the repositioning project for FY19 acquisitions.

Property valuations

The value of investment properties increased to $3,147.0 million during the period (from $2,453.8 million at 30 June 2018), primarily due to acquisitions of $677.9 million that were completed during the period (excluding transaction costs that were written off). Development expenditure added $13.4 million (including $7.5 million on Shell Cove, $2.2 million on Bushland Beach and $1.6 million on Whitsundays) offset by the disposal of an adjacent lot at Highett for $2.4 million. Valuations declined by $3.6 million, with NOI growth offset by weighted average capitalisation rates softening by 15 basis points to 6.48%. The remaining $7.9 million uplift was due to capitalisation of maintenance capex, fitout incentives, straight lining and amortisation.

Net tangible assets

The Group’s net tangible assets (“NTA”) per unit is $2.27, a decrease of 3 cpu or 1.3% from $2.30 as at 30 June 2018. This is primarily due to transaction costs on acquisitions which are written off.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 32.8% as at 30 June 2019 (compared to 31.2% as at 30 June 2018). This increase was largely due to acquisition funding, but remains within our gearing policy range of 30% to 40%. We expect that gearing will reduce further in FY20 with the sale of our remaining investment in CQR.

During FY19 we have raised $1.3 billion of new capital ($409.4 million in new equity and $887.3 million in new debt) as detailed below. This capital was used to fund acquisitions, developments and to repay existing debt facilities.

Equity capital raisings totaling $409.4 million as follows:

- Institutional Placement: $262.4 million institutional placement in October 2018 at $2.32 per unit (associated with the acquisition of ten assets from Vicinity);
- Unit Purchase Plan: $111.2 million Unit Purchase Plan in November 2018 at $2.32 per unit; and
- DRP: $9.2 million raised at $2.46 per unit in August 2018, and $26.6 million (underwritten) raised at $2.51 per unit in January 2019.

Debt capital raisings totaling $887.3 million as follows:

- USPP: US$150 million US private placement completed in September 2018 which swapped back to A$197.3 million;
- Acquisition Facility: a two-year $365 million acquisition facility provided by Citibank. This facility was fully repaid and cancelled prior to 30 June 2019;
- MTN: $50 million "tap" of our April 2024 A$MTN completed in April 2019; and
- Bank Debt: $275 million new bank facilities, including a $100 million syndicated facility.

In June 2019 we terminated $425 million of interest rate swaps with an average maturity of 5 years, and replaced them with $300 million of interest rate swaps with an average maturity of 7 years. The cost of terminating the interest rate swaps was $17.7 million. The reasons that we terminated and replaced interest rate swaps were:

- Our view that in the current interest rate environment the fair value of our interest rate swaps was unlikely to improve in the near term;
- A desire to reduce the fixed debt percentage to provide greater flexibility; and
- A desire to increase the weighted average maturity of our fixed interest rate swap portfolio.

At 30 June 2019, the Group had cash and undrawn facilities of $180.2 million, the weighted average maturity of our debt is 6.1 years, the percentage of debt fixed or hedged is 70.4% and the weighted average fixed/hedged maturity is 4.8 years. Our weighted average cost of debt in FY19 was 3.8%, but this is expected to reduce to 3.6% in FY20.

Our earliest debt maturity is the A$ Medium Term Note of $225 million expiring in April 2021. We currently expect to refinance this facility using a combination of existing undrawn facilities and additional debt raised prior to April 2021.

Distributions

SCP aims to deliver sustainable and growing distributions to its unitholders. In January 2019, SCP paid an interim distribution in respect of the six month period to 31 December 2018 of 7.25 cpu. In August 2019 SCP will pay a final distribution of 7.45 cpu bringing the full year distribution to 14.70 cpu, an increase of 5.8% on the same period last year and representing a payout ratio of 90%. The estimated tax deferred component for FY19 is 58%.

The distribution reinvestment plan ("DRP") remained active for both the August 2018 and January 2019 distributions. The August 2018 DRP raised $9.2 million at $2.46 per unit, and the January 2019 DRP raised $26.6 million at $2.51 per unit (comprising a "natural" take-up by unitholders of $11.8 million and an underwritten amount of $14.8 million).

<u>Operational performance</u>

Portfolio occupancy

Excluding the centres acquired in FY19, SCP had a specialty vacancy rate of 4.7% of GLA as at 30 June 2019, compared to 4.8% as at 30 June 2018 and our target range of 3-5%. Our portfolio occupancy rate was 98.5% and has remained relatively stable since December 2014 at between 98% and 99%.

Including the centres acquired in FY19, SCP had a specialty vacancy rate of 5.3% of GLA as at 30 June 2019 and the portfolio occupancy rate was 98.2%.

Centre optimisation

Excluding the centres acquired in FY19, SCP has average specialty rent per square metre of $726 which is lower than industry benchmarks for our type of centres (reflecting the relatively young age of our portfolio), our specialty occupancy cost is around 9.4%, and specialty sales grew by 2.6%. During the twelve month period we completed 146 specialty renewals with an average rental uplift of 5.3% (no incentives paid), and we completed 66 new lease deals with an average rental uplift of 2.4% (average incentive of 11.1 months paid on a new 5-year deal).

Including the centres acquired in FY19, specialty rent per square metre is $772, specialty occupancy cost is 10.1%, and specialty sales grew by 1.8%. We completed 215 specialty rent renewals with an average reversion of -1.7% and we completed 87 new lease deals with an average uplift of 4.9% (average incentive of 11.0 months paid on a new 5-year deal).

We continue to manage our property operating expenses closely and have realised the benefits of economies of scale as we grow our assets under management. Our property expenses as a percentage of gross property income has remained relatively stable.

Growth in underlying sales continues

Our centres continue to experience growth. The comparable store sales MAT growth for the 12 months to 30 June 2019, for stores open more than 24 months, excluding the centres acquired in FY19, was:

- Supermarkets: 2.7%[(3)] (2.0% including FY19 acquisitions)
- Discount department stores[(3)] 3.4% (2.2% including FY19 acquisitions)
- Mini Majors: -1.5% (-3.1% including FY19 acquisitions)
- Specialty stores: 2.6% (1.8% including FY19 acquisitions)

For the existing centres, supermarket sales growth remains robust, with both Woolworths and Coles recording positive sales growth. Discount department stores sales growth has continued to be positive, with continuing improved performance from our Big W stores. Mini Majors sales growth has declined due to volatility in the discount variety category, and softness in the apparel category. Specialty sales in our core non-discretionary categories continue to perform strongly, with MAT for Food/Liquor growing at 3.3% and Retail Services at 4.0%. Pharmacy MAT growth was 0.9% which is lower than prior periods due to increased generic prescription products and increased competition in the category.

Six of the acquired centres are currently being impacted by competition from within their catchments. This was known at the time of acquisition. Sales growth for these centres has gradually improved over the last six months, and we expect sales growth for these centres to turn positive once the immediate competition impacts cycle through and our remixing strategy has been fully implemented.

Acquisitions, disposals and developments

During the period we completed twelve acquisitions for $677.9 million. Ten convenience-based centres were acquired from from Vicinity for $573.0 million in October 2018 (an implied fully let yield of 7.47%, and weighted average valuation capitalisation rate of 6.66%). In addition, we acquired Sturt Mall in Wagga Wagga, NSW (Coles/Kmart) for $73.0 million (an implied fully let yield of 6.93%) and Miami One in Gold Coast, QLD for $31.9 million (an implied fully let yield of 6.89%).

(3) Adjusted to 52 weeks (comparable to FY18). On a 53 week basis, supermarket MAT growth was 4.6% and Discount Department Store MAT growth was 5.4%

The Vicinity portfolio has been fully integrated into our property management, facilities management and finance/invoicing systems. The remixing project is now more than 50% complete, and while we are currently seeing negative sales growth and negative renewal spreads, our cost saving targets have been achieved and portfolio NOI is expected to be in line with acquisition NOI by FY21. The overall performance of these centres is in line with our expectations, and the rental guarantee from Vicinity should cover any short term earnings shortfall during FY20.

During the period we successfully completed developments at Bushland Beach in Queensland and Shell Cove in New South Wales. The Bushland Beach development involved building a new Coles-anchored neighbourhood shopping centre at an all-in cost of $23.6 million. The Shell Cove development involved building a new Woolworths-anchored neighbourhood shopping centre at an all-in cost of $22.8 million. We continue to make progress in relation to a number of other potential development opportunities. In total, we have identified 23 centres in our portfolio with development potential amounting to over $110 million of investment opportunities over the next 5 years.

During the period we completed the divestment of four non-core assets to the SURF 3 retail fund for $57.9 million, and we also sold a parcel of non-core land and buildings adjacent to our Highett centre in Melbourne for $2.4 million.

Strategy and outlook

A key priority for FY20 is to ensure we deliver sustainable and growing earnings by continuing to improve our tenancy mix, setting rentals at sustainable levels, and maintaining centre standards. This should support ongoing sales growth for our specialty tenants, which in turn should enable further positive rent reversions and increasing rent per square metre over the next few years.

In relation to the Vicinity portfolio, this is expected to result in negative rent renewals over the next twelve months, before returning to growth. This was built into our assumptions when we acquired the centres.

We are aware of the pressures facing certain retailers at present, and we will continue to evolve our mix toward more resilient retail categories that suit our convenience offer across our entire portfolio, being food & liquor, retail services and pharmacy & medical.

We remain committed to our core strategy which is to deliver sustainable earnings and distribution growth to our unitholders by optimising the earnings from the existing portfolio, executing further acquisitions of convenience-based shopping centres, recycling capital from lower growth assets to relatively higher growth assets, investing in value enhancing development opportunities within our existing portfolio and continuing to grow our funds management business.

Earnings guidance

Our guidance for FY20 FFO is 16.70 cpu (2.3% above FY19 actual), and our guidance for FY20 Distributions is 15.10 cpu (2.7% above FY19 actual). The FFO guidance does not assume any further acquisitions or divestments during FY20.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 6 August 2019 at 10:00am (AEST).

ENDS

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Retail unitholders should contact SCA Property Group Information Line on 1300 318 976 (or +61 3 9415 4881 from outside Australia) with any queries.

About SCA Property Group

SCA Property Group (SCP) includes two internally managed real estate investment trusts owning a portfolio of quality neighbourhood and sub-regional shopping centres located across Australia. The SCA Property Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited, Coles Group Limited and companies in the Wesfarmers Limited group. The SCA Property Group is a stapled entity comprising Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788).