APN | Convenience Retail REIT

ASX ANNOUNCEMENT

18 February 2020

Results for half-year ended 31 December 2019

APN Convenience Retail REIT (the **Fund**) is pleased to announce its results for the half-year ended 31 December 2019.

Key highlights

- Distributions per security of 10.9 cps (an increase of 4.3% on HY2019) with a high tax deferral component of 76%
- Funds From Operations (**FFO**) of $9.0 million or 10.8 cps, up 6.8% and 0.5% on HY2019 respectively[1]
- Statutory profit of $19.5 million
- Portfolio revaluation uplift of $12.3 million or 3.5% during the period driven by a combination of cap rate compression (weighted average cap rate of 6.9%) and market rent increases
- Long lease portfolio with an 11 year WALE
- Net Tangible Assets (**NTA**) up 17 cents per security to $3.13, a 5.7% increase on June 2019
- $78.7 million of acquisitions taking the total portfolio value to $438.3 million upon completion of the fund-through development pipeline
- Balance sheet gearing of 24.6%, and pro forma gearing adjusted for fund-through development pipeline of 32.7%, within 25% – 40% target range
- Debt facility increased by $40 million and refinanced a further $105 million, extending the weighted average debt maturity to 3.8 years and reducing the weighted average interest cost by 0.20%.
- FY2020 distribution guidance of 21.8 cps reaffirmed
- FY2020 FFO guidance range of 22.3 – 22.5 cps reaffirmed

Financial Results

APN Convenience Retail REIT recorded a statutory profit of $19.5 million for HY2020.

FFO for the period was $9.0 million, representing an increase of 6.8% on HY2019. On a per security basis, FFO of 10.8 cents per security which represents a 0.5% increase on HY2019 reflects the issuance of new securities during the period. The increase in FFO was primarily driven by a 3.3% increase in net property income due to like-for-like property rental growth of 2.9% and the completion of five earnings accretive acquisitions during the period.

Distributions for the period of 10.9 cents per security represent an increase of 4.3% on HY2019. Distributions are 75.9% tax deferred.

Net tangible assets (NTA) per security increased during the period by 17 cents, or 5.7%, to $3.13.

Chris Brockett, Fund Manager commented "APN Convenience Retail REIT has delivered another strong result in HY2020 as we continue to deliver on our strategy of providing investors with an

[1] FFO per security reflects the issuance of new securities during the period.

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attractive, defensive and growing income stream which is underpinned by long term leases to quality tenants. It has been an active period for the Fund, having acquired $78.7 million of property which will take the total portfolio size to $438 million once the remaining fund-through development projects are completed.

The balance sheet remains in a strong position with current gearing of 24.6%. After adjusting for the balance of the fund-through development pipeline, the pro forma gearing of 32.7% still sits comfortably within our target 25 – 40% gearing range."

Portfolio performance

The portfolio is well diversified by geography, tenant and site type. It is underpinned by long-term leases to high quality and experienced global operators, with 97% of the rental income derived directly from major service station tenants.

The portfolio is 100% occupied and is supported by a long WALE of 11 years as well as an attractive lease expiry profile with 73% of rental income expiring in FY30 and beyond, providing the Fund with a strong level of income security.

The portfolio also provides a sustainable and growing income stream with 80% of rental income being subject to annual increases of 3% or more and 20% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 2.9% per annum.[2]

Net Tangible Assets increased to $290.1 million as at 31 December 2019, equating to $3.13 per security.

During the period, AQR successfully committed to $78.7 million of property acquisitions, of which $35.4 million has settled[3] while $43.3 million relates to fund-through development projects which are forecast to complete in 2020. The Fund also completed $9.4 million of divestments.

Mr Brockett commented, "These transactions will contribute to extending the portfolio WALE, improving geographic diversification and strengthening the quality and diversification of tenants. They also demonstrate our patient and focused approach to our acquisition growth strategy of developing partnerships with developers and tenants to enhance the Fund and create long-term sustainable value for securityholders."

Overall, the total portfolio value has increased by $32.1 million to $390.4 million for the period, driven by $19.8 million of net acquisitions and a $12.3 million revaluation uplift as a result of cap rate compression and annual rental increases. The portfolio's weighted average capitalisation rate tightened to 6.91% with 21 properties being the subject of independent valuations during the period.

In December 2019, Puma Energy announced that it had entered into a conditional Share Sale Agreement to sell its Australian fuel business to Chevron. The change of control lease consent process is underway in respect of the Fund's 46 leases with Puma Energy (representing 63% of total rental income) to Chevron, who are one of the world's leading integrated energy companies, operating in excess of 19,500 service stations in 84 countries with AA/Aa2 credit ratings.

Capital management

Total drawn debt at 31 December 2019 was $99.1 million, resulting in a gearing ratio of 24.6%. After adjusting for the $43.3 million fund-through development pipeline, the pro forma gearing of 32.7% remains comfortably within our target range of 25 – 40%.

During the period, AQR raised $46.5 million of new equity comprising:

- A completed a fully underwritten $38 million institutional placement and an $8.1 million security purchase plan to fund the acquisitions; and
- $0.4 million proceeds from AQR's distribution reinvestment plan for the September 2019 quarter.

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[2] Assuming CPI of 2.0%

[3] Includes Orana which settled in January 2020 for $6.2 million

The distribution reinvestment plan continues to operate with the December 2019 quarterly distribution fully underwritten, raising a further $5.0 million post balance date.

The Fund is also pleased to announce the refinancing of $105 million of existing debt facilities as well as a $40 million increase in the total debt facility limit. The overall result is an increase in the weighted average debt maturity to 3.8 years (up from 1.6 years), and a 0.2% reduction in the weighted average interest margin (inclusive of line fees).

Mr Brockett commented, "We are pleased to announce the refinancing which delivered improved pricing and tenor and provides AQR with the capacity to execute on its growth plans. We appreciate the ongoing strong support we receive from our securityholders and from our lenders. Our capital management initiatives remain an ongoing priority, and we will consider alternative funding sources and further extension of duration as the portfolio evolves and market conditions allow."

Outlook

APN Convenience Retail REIT aims to actively manage its portfolio and balance sheet to deliver attractive and sustainable returns to investors.

The Fund is well positioned to do this with a passive income stream with contracted annual rental increases providing sustainable income growth, while maintaining a healthy balance sheet with a prudent level of debt and hedging.

FY2020 Distributions guidance is reaffirmed at 21.8 cents per security, up 4.3% on FY2019.

FY2020 FFO guidance range of 22.3 – 22.5 cents per security is also reaffirmed, reflecting growth of 4.0 – 4.8% on FY2019.

This guidance includes the remaining contracted fund-through development projects but no further acquisitions and is subject to current market conditions continuing and no unforeseen events.

This document has been authorised to be given to the ASX by the Board of APN Funds Management Limited.

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About APN Convenience Retail REIT

APN Convenience Retail REIT (ASX code: AQR) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. The Fund's portfolio of 72 properties valued at approximately $389 million, is predominantly located on Australia's eastern seaboard and is leased to leading Australian and international convenience retail tenants. The portfolio provides a long lease expiry profile and contracted annual rent increases delivering the Fund a sustainable and strong level of income security. Convenience Retail has a target gearing range of 25 – 40% as part of its conservative approach to capital management.

APN Convenience Retail REIT is governed by an Independent Board of Directors and is managed by APN Property Group, a specialist real estate investment manager established in 1996 with approximately $2.9 billion in assets under management.

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