APN | Convenience Retail REIT

ASX ANNOUNCEMENT

16 February 2021

Results for half-year ended 31 December 2020

APN Convenience Retail REIT (the **Fund**) is pleased to announce its results for the half-year ended 31 December 2020.

Key highlights

- Distributions of 11.0 cents per security (**cps**), an increase of 0.5% on HY2020 (with a high tax deferral component of 90%)
- Funds From Operations (**FFO**) of $12.3 million or 10.8 cps, up 36.7% and 0.4% on HY2020 respectively reflecting new securities issued during the period and lower gearing
- Statutory profit of $21 million, up 8.1% on HY2020
- Portfolio revaluation uplift of $11.1 million or 2.5% during the period driven by a combination of cap rate compression (weighted average cap rate of 6.5%) and market rent increases
- Net Tangible Assets (**NTA**) up 8 cps to $3.35, a 2.4% increase on June 2020
- Long lease portfolio with a 10.6 year WALE
- $81.9 million of committed acquisitions in HY2021 with a further $44.5 million of acquisitions under exclusive due diligence
- $41.6 million of new equity raised during the period with a further $5.8 million raised post balance date
- Balance sheet gearing of 21.1%, and pro forma gearing adjusted for acquisitions and development pipeline of 30.7%, comfortably within 25% – 40% target range, providing significant investment capacity
- FY2021 FFO and distribution guidance of 21.8 – 22.0 cps reaffirmed

Financial Results

APN Convenience Retail REIT recorded a statutory profit of $21 million for the half-year ended 31 December 2020.

Funds from Operations (FFO) for the period was $12.3 million, representing an increase of 36.7% on HY2020. On a per security basis, FFO of 10.8 cents per security represents a 0.4% increase on HY2020 due to the issuance of new securities during the period. The increase in FFO was predominately driven by a 24.4% increase in net property income from like-for-like property rental growth of 2.8% as well as the contribution from acquisitions and development projects completed since HY2020.

Distributions for the period of 11.0 cents per security represent an increase of 0.5% on HY2020. The tax deferred component of the distributions has increased to 90.1%.

Net tangible assets (NTA) per security increased during the period by 8 cents, or 2.4%, to $3.35.

Chris Brockett, Fund Manager commented “This is a solid set of results in what has been another active period of portfolio growth for the Fund. We have continued to deliver on our strategy of providing investors with a defensive and growing income stream as well as actively diversifying and growing the portfolio, having committed to a acquire 11 properties totalling $81.9 million during the period and a further 7 properties valued at $44.5 million currently in exclusive due diligence.

The balance sheet remains in a very strong position with current gearing of 21.1%. After adjusting for the balance of the acquisitions and development pipeline, the pro forma gearing of 30.7% still sits comfortably within of our target gearing range of 25 – 40%, giving the Fund plenty of additional growth capacity."

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 national and global tenants, with 94% of the rental income derived directly from major service station tenants.

During the period, the Fund completed two new long-term lease deals, extending the lease expiries for 7-Eleven Maroochydore and 7-Eleven Raceview out to FY33 and FY34 respectively. In addition to these completed deals, the Fund has also agreed to commercial terms with EG Group regarding 10 year extensions to 13 leases due to expire in FY22, subject to documentation.[1]

The portfolio remains 100% occupied and is supported by a long weighted average lease expiry (WALE) of 10.6 years as well as an attractive lease expiry profile with 78% of rental income expiring in FY2030 and beyond, providing securityholders with a strong level of income security.

The portfolio also provides a sustainable and growing income stream with 84% of rental income being subject to annual increases of 2.75% or more and 16% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 2.9% per annum.[2]

As at 31 December 2020, the total portfolio comprised 88 properties, with the total portfolio value increasing by $83.3 million, or 18.6%, during the period. This increase was driven by $54 million of completed acquisitions (includes $2.9 million of land held for development), the completion of three development projects totalling $17.5 million and a $11.1 million revaluation uplift.

The portfolio's weighted average capitalisation rate tightened by 11 basis points to 6.47% with 17 properties being the subject of independent valuations during the period.

Continued execution of successful acquisition strategy

During the period the Fund successfully committed to $81.9 million of property acquisitions of which $51.1 million had settled by 31 December 2020, $20.6 million relates to acquisitions that were contracted but not settled as at 31 December 2020 (two properties valued at $13.9 million have subsequently settled) and $10.2 million are development projects due to complete by the end of June 2021 (of which $2.9 million of land settled by 31 December 2020).

In addition to the committed acquisitions, the Fund also has a further $44.5 million of property acquisitions currently under exclusive due diligence.

Mr Brockett commented, "These transactions have contributed to extending the portfolio WALE, improving geographic diversification and strengthening the quality and diversification of tenants. They also demonstrate that we continue to be active in sourcing and executing on new investment opportunities while taking a patient and focused approach to our acquisition growth strategy of developing partnerships with developers and tenants to enhance the portfolio and create long-term sustainable value for securityholders."

Capital management

Total drawn debt at 31 December 2020 was $120.3 million, resulting in a gearing ratio of 21.1%. After adjusting for the acquisitions and development pipeline, the pro forma gearing of 30.7% is comfortably within our target range of 25 – 40%. This provides the Fund significant capacity to deliver on its strategy of investing in strategically located convenience retail assets while maintaining a prudent balance sheet.

---

[1] Until such time that the documentation has been executed, there can be no guarantees that these extensions will successfully complete

[2] Assumes CPI of 0.9% p.a.

During the period, the Fund raised $41.6 million of new equity comprising:

- $30 million of fully underwritten institutional placement in December 2020
- $10 million security purchase plan in July 2020; and
- $1.6 million proceeds from the Fund's Distribution Reinvestment Plan (DRP) for the June 2020 and September 2020 quarters.

Subsequent to 31 December 2020, the Fund has also completed a $5 million security purchase plan in January 2021 while the DRP remained activated for the December 2020 quarter distribution, raising a further $0.8 million.

During the period, the Fund entered into a further $30 million of interest rate hedges, increasing the Fund's hedged position as well as extending the hedge maturity profile.

Subsequent to 31 December 2020, the Fund has increased its debt facility by $30 million, improving the Fund's debt maturity profile, diversity and flexibility that will support future initiatives. Proceeds from the new debt facility will be used to fund the acquisition and development pipeline and provide further investment capacity.

Additionally, the Fund extended $20 million of existing interest rate hedges, resulting in a lower fixed interest rate and longer hedge maturity profile.

Mr Brockett commented, "We continue to manage our capital and debt to ensure the Fund remains well placed. The equity raisings and our recent capital management initiatives have placed the Fund's balance sheet in a strong and healthy position, strengthening the Fund's capital position and allowing us to execute on our growth plans. We appreciate the ongoing strong support we receive from our securityholders and from our financiers."

Outlook

The Fund is well positioned with: a passive income stream and contracted annual rental increases providing sustainable income growth; a healthy balance sheet with a prudent level of debt and hedging, allowing the Fund to pursue additional acquisition opportunities that deliver further long-term sustainable earnings growth for securityholders.

FY2021 FFO and distribution guidance of 21.8 – 22.0 cents per security is reaffirmed, 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.

ENDS

For further information, please contact:

Chris Brockett
Fund Manager
E cbrockett@apngroup.com.au
T +613 8656 1000

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 88 properties valued at approximately $525 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.

www.apngroup.com.au