Dexus Convenience Retail REIT (ASX:DXC)

ASX release

8 February 2022

5.5% FY22 distribution growth on track following strong HY22 result and acquisition growth

Dexus Convenience Retail REIT (DXC) today announced its results for the half year ended 31 December 2021, confirming a distribution of 11.5 cents per security.

Highlights

- **Statutory net profit** of $40.0 million, up 90.0% on the previous corresponding period, primarily driven by valuation gains on investment properties
- **Funds from Operations (FFO)** up $3.2 million, or 25.9%, to $15.4 million, supported by 2.3% like-for-like net operating income growth and the impact of recent acquisitions
- **Distribution of 11.5 cents per security**, up 4.6% on the previous corresponding period, in line with cash flow and representing an FFO payout ratio of 99.4%
- **FY22 guidance was upgraded during the half** to FFO and distributions of 23.1 cents per security, representing a 5.5% increase on FY21
- **$73.7 million of acquisitions** announced during the half across six modern facilities at an average yield of 5.6%, weighted average lease expiry of 10.5 years and average annual rent reviews of approximately 3%[1]
- **$21.1 million of property valuation gains[2]** drove a 4.4% increase in **Net Tangible Asset (NTA)** backing per security to $3.83. The weighted average capitalisation rate of DXC's high-quality portfolio tightened to 5.82%, with stronger pricing being achieved on recent direct market transactions for comparable assets
- **Balance sheet remains well positioned** with gearing of 32.0%

Chris Brockett, DXC Fund Manager said: "We delivered a solid financial result for the six months, culminating in an upgrade to our FY22 guidance in December as a result of $73.7 million of acquisitions announced during the half. The portfolio's concentration in quality non-discretionary retail assets underpinned like-for-like net operating income growth of 2.3%, in addition to valuation uplifts and NTA per security growth."

Strategy

"Today's results demonstrate that we continue to deliver on our strategy of providing investors with a defensive and growing income stream, as well as actively diversifying and enhancing the overall quality of the portfolio.

"We remain focused on delivering value for investors over the long term through supporting our tenants to meet their future requirements, particularly by enhancing their sustainability endeavours at their sites, and leveraging our development capabilities to unlock additional value within the portfolio. We continue to maintain a disciplined approach to capital allocation, including adhering to strict investment criteria for potential acquisitions while remaining opportunistic regarding property sale opportunities and capital recycling.

"Our current portfolio is focused on service stations, however our investment mandate includes the entire convenience retail landscape which we are attracted to for its defensive qualities and secure underlying cash flows.

"Working closely with our tenants remains at the core of what we do. It was pleasing to complete several initiatives during the first half that will deliver further value to all stakeholders, including the development of the Redbank Plains site to include car wash facilities, and the repositioning of the Murarrie and Canning Vale sites with expanded retail offerings including a new Pizza Hut restaurant.

"During the half, DXC announced six strategic acquisitions to strengthen the portfolio. The assets are modern, recently built convenience retail facilities with a strong focus on non-discretionary retail. The acquisitions are underpinned by a long weighted average lease expiry of 10.5 years with strong lease covenants and favourable annual rent review structures providing sustainable income growth for investors."

Financial result

DXC reported a statutory net profit of $40.0 million for the half year ended 31 December 2021, up $18.9 million, or 90.0%, on the previous corresponding period. The increase in net profit was primarily driven by revaluation gains of investment properties of $21.1 million[2], which were $10.0 million higher than the previous corresponding period.

FFO increased 25.9% to $15.4 million, supported by 2.3% like-for-like net operating income growth and contributions from recently acquired assets. On a per security basis, FFO increased 6.6% to 11.5 cents, reflecting the issuance of new securities to fund acquisitions during the period.

47 of DXC's investment properties were independently valued by external valuers in the six months to 31 December 2021. The valuations of metropolitan assets increased 3.5% on prior period book values, while

highway assets and regional assets increased 0.4% and 1.9% respectively[2]. Total property portfolio valuation gains contributed to the 16 cent, or 4.4%, increase in NTA per security to $3.83 as at 31 December 2021.

DXC raised a total of $56.3 million during the half, comprising $45.0 million via an institutional placement in August 2021, $10.5 million via a securities purchase plan in September 2021 and $0.8 million via the Distribution Reinvestment Plan for the June 2021 quarter. The proceeds have assisted in funding acquisitions and have ensured that gearing remains within the 25 – 40% target range at 32.0%. DXC's weighted average debt maturity was 2.5 years and its weighted average cost of debt remained favourable at 2.7%.

Property portfolio and asset management

DXC's property portfolio includes 112 assets valued at $803 million. DXC also settled on the $9.1 million acquisition of BP Brendale on 4 February 2022. The portfolio is diversified by geography, tenant and site type.

The portfolio is 83% weighted (by value) to metropolitan and highway assets, with regional properties comprising the remainder. Metropolitan and highway assets benefit from higher levels of traffic flow and offer greater flexibility to explore alternate land usage to support changing consumer trends toward non-fuel retail.

The weighted average capitalisation rate for the portfolio is 5.82%, tightening 20 basis points over the past six months, primarily driven by a tightening in the weighted average capitalisation rate of metropolitan assets from 5.84% to 5.65%. The weighted average lease expiry by income of the portfolio is 11.5 years with limited lease expiry risk in any given year to FY30, providing strong income visibility.

The portfolio generates strong organic growth, with average portfolio rental growth of 3.0% per annum[2]. 78% of rental income is subject to contracted annual increases of 3.0% or more[2], while 19% is linked to CPI escalations.

The portfolio remains 99.7% occupied and is underpinned by reliable and experienced national and global tenants, with 90% of rental income derived from major tenants.

During the half, three new long-term lease deals were completed, including the introduction of a car wash operator on a 15-year lease at Redbank Plains, as well as extending the lease expiry for 7-Eleven at Redbank Plains from FY30 to FY37. Additionally, DXC also secured Liberty, who are wholly-owned by Viva Energy Australia, on a 15-year lease at the Lawnton site, extending the lease expiry at this site from FY22 to FY37.

Developments

During the half, DXC completed the $8.5 million Hillcrest, South Australia fund-through development comprising a Mobil service station and a standalone Hungry Jack's with drive-through. The site was revalued at $9.1 million as at 31 December 2021.

In September 2021, DXC acquired Dubbo Service Centre, NSW via a fund-through structure. The development project comprises a Mobil service station and a standalone Carl's Jr restaurant with drive-through. Construction is progressing well despite some weather delays and is expected to complete by April 2022. A potential second stage opportunity is under investigation, with several other longer-term development opportunities also currently being assessed.

Environmental, Social and Governance (ESG) update

DXC's portfolio is well positioned to ensure it remains resilient over the long term. Approximately 10% of the portfolio's income is derived from non-fuel tenants, while two sites across the portfolio offer electric vehicle charging stations.

DXC supports its tenants' ESG aspirations and their continued investment in sustainability initiatives across the portfolio, with six of DXC's top 10 tenants committing to net zero targets. During the half, DXC facilitated an agreement to rollout onsite solar at 40 Chevron sites in DXC's portfolio throughout Queensland and Western Australia, with works expected to begin later this year.

DXC will continue to leverage and align with Dexus's ESG approach to support the creation of sustainable long-term value, including increased environmental auditing of all sites to better track sustainability performance.

Overview and outlook

DXC is well placed to deliver on its strategy. The portfolio comprises high-quality assets that offer sustainable sources of income growth, underpinned by long-term leases to major tenants and 3.0% average annual rental increases[2].

DXC has achieved strong momentum into FY22 and remains focused on addressing the trading performance gap to NTA through the on-market securities buyback program, while also continuing to leverage its flexible balance sheet to take advantage of acquisition opportunities as they arise.

Dexus's fully-integrated real estate management platform, coupled with the continuation of the existing management team, provides greater asset management capabilities and future growth opportunities for DXC.

DXC reiterates its FY22 guidance at FFO and distributions of 23.1 cents per security, representing a 5.5% increase on FY21. This is subject to a continuation of current market conditions and no unforeseen events.

Authorised by the Board of Dexus Asset Management Limited

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About Dexus Convenience Retail REIT

Dexus Convenience Retail REIT (ASX code: DXC) (formerly 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 is valued at $803 million, predominantly located on Australia's eastern seaboard and leased to leading Australian and international convenience retail tenants. The portfolio has a long lease expiry profile and contracted annual rent increases, delivering the fund a sustainable and strong level of income security. The fund has a conservative approach to capital management with a target gearing range of 25 – 40%. Dexus Convenience Retail REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real estate groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") as the responsible entity and issuer of the financial products in respect of Convenience Retail REIT No. 1 (ARSN 101 227 614), Convenience Retail REIT No. 2 (ARSN 619 527 829) and Convenience Retail REIT No. 3 (ARSN 619 527 856) collectively the Dexus Convenience Retail REIT (ASX code: DXC) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

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[1] Assuming CPI of 2.25%.
[2] Before rent straight lining adjustments.