Dexus Industria REIT (ASX:DXI)

ASX release

9 August 2023

Guidance delivered, balance sheet strengthened and positioned for growth

Dexus Industria REIT (DXI) today announced its result for the year ended 30 June 2023, confirming a distribution of 16.4 cents per security.

Summary

- **Delivered FY23 guidance** with Funds From Operations (FFO) per security of 17.1 cents and distributions of 16.4 cents
- **Statutory net profit after tax of $0.3 million**, impacted by $56.3 million of net fair value losses on investment properties reflecting a 3.5% decline on prior book values
- **Executed $250 million of divestments**[1] to recycle into higher risk-adjusted returning opportunities
- **Strengthened balance sheet with pro forma look-through gearing of 27.3%**[2], below the target range
- **Record 135,700 square metres of leasing achieved**[3]
- **Built momentum in second half with 24% industrial re-leasing spreads**, resulting in 16.5% re-leasing spreads on a full-year basis
- **Completed 50,400 square metres of high-quality developments**, including a 21,700 square metre facility leased to Amazon

Alex Abell, DXI Fund Manager said: “We have delivered on our guidance statement while actively positioning for future growth. Dexus re-leased a record 19%[3] of the total portfolio at re-leasing spreads of 16.5%, while divesting $250 million[1] of assets to recycle capital into higher-returning opportunities, including the development pipeline.

Strategy

“Our active management has positioned us to generate superior risk-adjusted returns for investors seeking listed industrial real estate exposure in Australia.

“The strategic divestments have strengthened DXI’s balance sheet and resulted in pro forma look-through gearing of 27.3%[2], below the target 30-40% band.

“The divestments reflected an average yield of 4.2%, and will be reinvested over future periods into the development pipeline at target yields on cost of 6%.”

Financial result

Statutory net profit after tax was $0.3 million, predominantly due to $56.3 million of net fair value losses on investment properties compared with the $100.3 million net fair value gain recorded in the prior year.

FFO increased 1.5% to $54.4 million (17.1 cents per security). This was supported by average rent reviews of 4.9% and a full period contribution from Jandakot Airport industrial precinct, and was partially offset by higher average look-through debt and floating interest rates.

All assets were independently valued in the 12 months to 30 June 2023[4]. The external independent valuations resulted in a like-for-like devaluation of $22.9 million, representing a 1.5% decrease on prior book values[4]. Market rental growth and escalated CPI reviews partly offset 47 basis points of like-for-like capitalisation rate expansion.

Net Tangible Assets per security decreased 16 cents, or 4.4%, to $3.44[5].

Pro forma look-through gearing was 27.3%[2], below the target range of 30 – 40%. Whilst 68% of debt was hedged during the year, the weighted average cost of debt increased 110 basis points to 3.5%, primarily driven by higher average floating interest rates. Following the cancellation of $175 million of surplus facilities, the nearest debt maturity is in FY25 and the weighted average debt maturity is 3.1 years.

Property portfolio and asset management

DXI’s property portfolio comprises interests in 94 properties valued at $1.6 billion with a weighted average capitalisation rate of 5.38%. The portfolio weighted average lease expiry is 6.3 years and total occupancy remained strong at 97.5%.

Property FFO increased $9.8 million, or 13.3%, supported by rent reviews during the period that averaged 4.9%, driven by 50% of the portfolio income that is linked to CPI. A record 135,700 square metres was leased[3], representing 19% of the portfolio.

Industrial:

The industrial portfolio delivered average rent reviews of 5.0%. Like-for-like income growth was impacted by approximately 2% due to inter-period vacancy, resulting in growth of 3.2%[6]. Re-leasing spreads strengthened to 24% in the second half, and were 16.5% for the full year.

Jandakot Airport industrial precinct delivered average rent reviews of 5.4%, supported by 61% of income linked to CPI escalations. Jandakot Airport industrial precinct leasing volumes totaled 45,300 square metres[7], with re-leasing spreads of 21.6%.

Brisbane Technology Park:

Brisbane Technology Park assets recorded like-for-like growth of 5.8%[8], supported by positive leasing outcomes across 8,700 square metres with continued interest from technology and life sciences tenants.

Development

DXI has $237 million of remaining spend on its committed and uncommitted development pipelines, of which $87 million is committed. The total pipeline of $318 million equates to interests in 398,200 square metres in major hubs in Sydney and Perth, providing an opportunity to capture strong market rental growth and further enhance portfolio quality.

At Jandakot Airport industrial precinct, Dexus partnered with national and international customers Amazon, Hello Fresh and Tyremax to deliver three facilities across 50,400 square metres.

In Sydney, planning progressed on the 42,300 square metre fund-through project in Kemps Creek and the 17,800 square metre last mile development project in Moorebank. These projects are expected to be delivered in FY25.

Environmental, Social and Governance (ESG)

The DXI managed portfolio has retained its carbon neutral[9] certification since being one of the first A-REITs to be certified in August 2021. The average NABERS Energy and Water rating across the portfolio is 4.9 stars[10]. DXI continues to deploy solar PV across the portfolio, with total solar PV capacity of 2.3 megawatts installed and an additional 6.0 megawatts committed for deployment in FY24. The fund will continue to leverage the Dexus platform to scale its approach to ESG.

Overview and outlook

DXI is well positioned with gearing below the target band, substantial liquidity and no debt maturities until FY25. Capital management initiatives will continue to be explored to further reduce debt and support potential higher returning opportunities, while providing additional capacity to fund the development pipeline.

Strong tailwinds from development completions, annualisation of double-digit re-leasing spreads and 50% of portfolio income linked to CPI rental escalations positions DXI well for FY24, despite higher floating interest rates which will impact growth.

Barring unforeseen circumstances, FY24 guidance for FFO is 17.1 cents and for distributions is 16.4 cents per security, reflecting a distribution yield of 5.9%[11].

Authorised by the Boards of Dexus Asset Management Limited and Industria Company No. 1 Limited

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About Dexus Industria REIT

Dexus Industria REIT (ASX code: DXI) is a listed Australian real estate investment trust which is primarily invested in high-quality industrial warehouses. At 30 June 2023, the fund's portfolio is valued at $1.6 billion and is located across the major Australian cities, providing sustainable income and capital growth prospects for security holders over the long term. The fund has a target gearing range of 30 – 40%. Dexus Industria REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real asset groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

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[1] Includes the sale of 3 & 4 Forbes Close, Knoxfield VIC and 16-28 Quarry Road, Stapylton QLD for combined proceeds of $89.8 million which are expected to be received post 30 June 2023.
[2] Pro forma for the sale of 3 & 4 Forbes Close, Knoxfield VIC and 16-28 Quarry Road, Stapylton QLD which are expected to settle in August 2023 and October 2023 respectively. At 30 June 2023, look-through gearing was 31.2%.
[3] Excludes development. At 100%, or 105,500sqm at DXI ownership.
[4] Excluding held for sale assets.
[5] Calculated as total net assets less goodwill on a look-through basis, divided by total securities on issue.
[6] On a face basis, or 2.3% on an effective basis.
[7] Excludes development. At 100%, or 15,100 square metres at DXI ownership.
[8] On a face basis, or 5.1% on an effective basis.
[9] Accounted on a look-through basis across managed assets only.
[10] Applies to eligible Brisbane Technology Park assets.
[11] Based on closing security price as at 8 August 2023.