

Dexus Convenience Retail REIT (ASX:DXC)

ASX release

12 August 2024

Continued income resilience supported by active capital management

Dexus Convenience Retail REIT (DXC) today announced its results for the year ended 30 June 2024, confirming a distribution of 21.0 cents per security.

Summary

- **Delivered FY24 Funds From Operations (FFO)¹ and distributions of 21.0 cents per security, at the upper end of the guidance range**
- **Increased like-for-like net property income growth to 2.8%** supported by average rent reviews of 3.4%
- **Retained balance sheet strength** with gearing of 32.9% around the midpoint of the target range, and 75% average debt hedged during the year providing material protection from higher interest rates
- **Maintained long weighted average debt maturity of 4.2 years** with no near-term debt maturities following \$130 million of facility extensions at lower margins
- **Settled \$23.3 million of divestments**, and post 30 June 2024 exchanged contracts on the sale of two assets for \$5.9 million at a 2.4% average premium to prior book values which is expected to reduce pro forma gearing by circa 50 basis points
- **Up to an additional circa \$40 million of divestments under negotiation** which would reduce pro forma gearing by a further 380 basis points
- Top tenants publicly committed to **investing in long-term site performance**

Jason Weate, DXC Fund Manager said: “We delivered FFO and distributions at the upper end of guidance, as our portfolio continues to deliver a resilient income stream backed by high-quality tenant covenants. Capital recycling and active debt management moderated the impact of higher interest rates. Gearing of 32.9% remains well positioned in the current environment and in the context of our defensive portfolio attributes.”

Strategy

“Today’s result demonstrates our ability to deliver on our investment proposition to generate secure and defensive income with embedded growth, supported by prudent capital and portfolio management.

“DXC benefits from a diverse and high-quality tenant base, with 95% of income derived from national and international major tenants. Pleasingly, three of our major tenants invested in their convenience retail capabilities through acquisitions during the year, demonstrating their commitment to the long-term performance of their sites.

“Despite a challenging interest rate environment, fuel and convenience transaction volumes have remained relatively robust, allowing for material price discovery to inform asset valuations and NTA. During the year, we settled on \$23.3 million of asset sales at an average 2.3% discount to prior book values. We also exchanged contracts to sell an additional two assets post period end for \$5.9 million, with the potential sale of up to a further circa \$40 million of assets in negotiation.

“We remain focused on redeploying capital into higher returning initiatives, including the Glass House Mountains redevelopment. The design of the Northbound site has been enhanced to include a new, expanded On The Run convenience retail offering focused on food-on-the-go, grocery convenience and an internal quick service restaurant. The redevelopment is expected to deliver strong returns and significantly increase its exposure to high-quality quick-service restaurant tenancies.”

Financial result

The statutory result reflected a net profit after tax of \$3.4 million, compared to a loss of \$8.4 million in the prior year, reflecting lower property devaluations than the prior year.

FFO of \$28.9 million or 21.0 cents per security was at the upper end of the 20.8 to 21.1 cents guidance range. The result reflected a decline of 2.9% on the prior year, primarily due to the impact of higher cost of debt. Portfolio like-for-like net operating income growth of 2.8% reflected the blend of fixed and CPI-linked rental escalators embedded within the portfolio.

DXC had 96 of its 100 investment properties independently valued during the year, with the remainder subject to internal valuations. The external and internal valuations resulted in a decline of 3.1% on prior book values, with contracted rental growth partly offsetting the impact of capitalisation rate expansion.

The asset revaluations largely contributed to the reduction in NTA per security of 19 cents or 5.1%, to \$3.56.

Gearing of 32.9% remains prudent, around the midpoint of the 25 – 40% target range, despite continued asset devaluation pressures. Hedged debt for the year averaged 75%, providing material protection from higher interest rates. During the year, \$130 million of existing debt facilities were extended at lower margins, with DXC

maintaining a long average debt maturity of 4.2 years. In addition, a \$30 million facility was retired to optimise overall debt costs.

Property portfolio and asset management

DXC's property portfolio includes 100 assets valued at \$741 million, skewed to the eastern seaboard. The portfolio is weighted toward high value land uses, with 89% of asset zoning to commercial, industrial, residential and mixed use. In addition, there is potential for circa 20 value-add opportunities over the long term, subject to commercial considerations.

The portfolio is 85% weighted (by value) to metropolitan and highway assets, with regional properties comprising the remainder. Metropolitan and highway assets benefit from higher traffic flow with greater flexibility to explore alternate land usage over time to support consumer trends toward greater convenience retail spend per visit.

The portfolio weighted average capitalisation rate expanded by 30 basis points to 6.40%, remaining above the marginal cost of debt. The portfolio experienced 20 basis points of capitalisation rate expansion in the first half, which reduced to 10 basis points in the second half. This reflects price discovery across relatively robust transaction market volumes in the current interest rate environment.

Portfolio occupancy increased to 99.7% and is underpinned by experienced national and global tenants, with 95% of rental income derived from major tenants, while 12% of income is generated from convenience retail tenancies. The portfolio offers strong income security and visibility with a weighted average lease expiry of 8.8 years and 89% of income expiring in FY30 or beyond.

Development

The Glass House Mountains project presents an opportunity to utilise excess land and significantly enhance the convenience retail offering across the 88,000 square metre dual highway site. The redevelopment comprises two stages with total project costs expected to be circa \$45 million.

Construction on the Northbound site is expected to begin in Q1 FY25. Total redevelopment costs of \$20 million is forecast to return a yield on cost of 5.5 – 6.0% and deliver strong development returns for DXC. Following a 12 month construction period, the income mix on the Northbound site would reflect 45% from quick service restaurant retailers, with the balance from Viva Energy on a new, expanded On The Run convenience retail offering focused on food-on-the-go, grocery convenience and an internal quick service restaurant.

Environmental, Social and Governance (ESG)

DXC is committed to delivering meaningful sustainability outcomes and aligns to the Dexus Sustainability Strategy, including an aspiration to unlock the potential of real assets to create a lasting positive impact and a more sustainable tomorrow.

Recognising the importance of climate action, 100% renewable electricity is sourced for assets where DXC has operational control. DXC also maintained a carbon neutral position across its business operations and controlled building portfolio for FY23 as part of the Dexus group submission under the Climate Active Standard².

DXC supports its tenants' ESG aspirations and their varied approaches to the shift in the energy mix, and DXC is currently engaging with five major tenants to progress solar PV and EV charging rollout across 22 sites.

For the Glass House Mountains Northbound redevelopment, sustainability initiatives have been embedded into the project design including plans for ten additional electric vehicle charging bays, rooftop solar, rainwater harvesting, grey water reuse and new fuel tank technology.

Overview and outlook

DXC is well placed to deliver defensive and growing property income and will retain its focus on:

- enhancing portfolio attributes that deliver income certainty and growth
- preserving balance sheet strength
- executing portfolio optimisation initiatives (including the redevelopment of Glass House Mountains)
- leveraging Dexus's capabilities across transactions, developments, asset management and treasury

In addition, DXC expects continued relative valuation resilience for service station and convenience retail assets due to their predictable cash flows, strong tenant covenants and a weighted average capitalisation rate that provides a positive spread against the marginal cost of debt.

DXC provides FY25 guidance for FFO and distributions of 20.6 cents per security, reflecting an attractive distribution yield of 7.3%³. Guidance has been provided based on contracted property income growth, current interest rate expectations, circa \$40 million of asset sales currently under negotiation and barring unforeseen circumstances.

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) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. At 30 June 2024, the fund's portfolio is valued at approximately \$741 million, is 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 asset 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") is 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).

The registered office for the Responsible Entity is Level 30, 50 Bridge Street, Sydney NSW 2000 and its principal place of business is Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000.

¹ The Directors consider the Property Council of Australia's (PCA) definition of FFO to be a measure that reflects the underlying performance of the Group. FFO comprises net profit/loss after tax attributable to stapled security holders, calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, derivative mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items, rental guarantees and coupon income.

² Covers scope 1, 2 and some scope 3 emissions. Refer to FY23 Sustainability Data Pack available on Dexus website for scope 3 inclusions.

³ Based on closing security price as at 8 August 2024.