

## ASX / MEDIA ANNOUNCEMENT

7 August 2017

# SCA PROPERTY GROUP ANNOUNCES FY17 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the year ended 30 June 2017.

### Financial highlights:

- Statutory net profit after tax of \$319.6 million, up by 73.0% on the same period last year
- Funds From Operations ("FFO") of \$108.4 million, up by 8.3% on the same period last year
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of \$100.1 million, up by 8.5% on the same period last year
- FFO of 14.7 cents per unit ("cpu") <sup>(1)</sup>, up by 6.9% on the same period last year
- Distribution of 13.1 cpu, up by 7.4% on the same period last year, representing a payout ratio of 89% <sup>(1)</sup>
- Weighted average cost of debt of 3.8%pa and gearing of 31.8% as at 30 June 2017
- Investment property portfolio value of \$2,364.6 million, up by \$476.6 million since 30 June 2016, largely due to acquisitions (\$274.9 million) and revaluations (\$211.6 million)
- Net tangible assets of \$2.20 per unit, up by 14.6% from \$1.92 per unit as at 30 June 2016
- Management expense ratio ("MER") of 0.45%, down from 0.51% as at 30 June 2016
- FY18 FFO per unit guidance of 15.1 cpu, and FY18 Distribution per unit guidance of 13.7 cpu

### Operational highlights:

- Portfolio occupancy of 98.4% by GLA as at 30 June 2017
- Supermarket sales growth increased to 2.2%pa, driven by Woolworths improvement
- Continuing healthy sales growth for specialty tenants of 3.8%pa, with average renewal uplifts of 7.0% achieved
- Completed the disposal of our 14 New Zealand assets for NZ\$267.4m (A\$255.9m)
- Eight neighbourhood centre acquisitions completed during the period for \$274.9 million
- 4.9% interest in Charter Hall Retail ("CQR") acquired for \$83.4 million
- Construction commenced on developments at Kwinana near Perth WA (Coles third anchor), Bushland Beach near Townsville QLD (new Coles-anchored neighbourhood centre) and conversion to Bunnings in the ex-Masters tenancy at Mount Gambier
- Successfully launched our second unlisted retail fund "SURF 2" containing two non-core assets for \$55.1 million

(1) Based on weighted average units on issue during the year to 30 June 2017 of 737.6 million. FFO per unit is calculated as FFO of \$108.4 million divided by 737.6 million. Payout ratio is calculated as distribution per unit (13.1 cents) divided by FFO per unit (14.7 cents)

Chief Executive Officer, Anthony Mellowes, said: "We are pleased to report another solid result for the year to 30 June 2017. Our supermarket sales growth has increased as Woolworths continues to improve and our specialty tenants have again recorded healthy annual sales growth. Our young centres have a lower specialty rent per square metre than more mature centres, and our average specialty occupancy cost is a sustainable 9.7%. We remain confident that we will be able to achieve increases in rent/sqm over the medium term. During the year we had 81 specialty tenant renewals across 9,267 sqm of GLA, and an average rental uplift of 7.0% was achieved. Comparable NOI growth of 3.0% was pleasing and we expect to continue to generate solid comparable earnings growth as we progress through our first rent renewal cycle from FY17 through to FY20."

"We are pleased to have quickly completed the redeployment of the \$255.9 million New Zealand sale proceeds during the year by acquiring eight more neighbourhood shopping centres in Australia for \$274.9 million and acquiring a 4.9% stake in CQR for \$83.4 million. The shopping centre acquisitions and divestments are consistent with our strategy of selling lower growth standalone assets and redeploying funds into higher growth domestic supermarket anchored shopping centres. While the competition to acquire quality neighbourhood shopping centres has increased, and yields continue to firm, we are confident that we can continue to leverage our relationships, management capabilities and knowledge of the sector to source further off-market transactions that meet our investment criteria."

"We continue to take advantage of the development opportunities in our portfolio. Construction is well advanced on the expansion of the Kwinana shopping centre near Perth, the new Coles-anchored centre at Bushland Beach, and the new Bunnings at Mount Gambier (replacing Masters). All of these projects are expected to complete during FY18. We continue to identify and progress other development opportunities in our portfolio which we plan to complete progressively over the next five years."

"During this current half year we successfully launched our second retail fund "SURF 2" which acquired two of our non-core assets, being Katoomba Marketplace and Mittagong Village, for \$55.1 million. We plan to launch our third fund "SURF 3" containing more of our non-core assets during FY18."

Chief Financial Officer, Mark Fleming, said: "Our core strategy is to generate defensive, resilient cashflows to support secure distributions to our unitholders by focusing on convenience-based retail centres weighted to non-discretionary retail segments. As a result of the successful implementation of our strategies, we continue to deliver strong returns to our unitholders. Over the last 4 years we have delivered average growth in distributions per unit of 6% per annum, and we have consistently outperformed the ASX200 AREIT Index in total shareholder return."

"We remain focused on appropriate capital management. During the year we issued \$225 million of A\$MTN notes, we cancelled some interest rate swaps in conjunction with the sale of our New Zealand assets and we reactivated the distribution reinvestment plan. Our weighted average cost of debt is 3.8%, the weighted average term to maturity of our debt is 5.0 years, 86% of our drawn debt is fixed or hedged, and gearing is 31.8%. Our target gearing range is 30% to 40%, however we have a preference for gearing to remain below 35% at this point in the cycle."

## **Financial performance**

### ***Earnings***

The Group recorded a statutory net profit after tax of \$319.6 million, which was up by 73.0% on the same period last year, primarily due to a material increase in the value of investment properties.

Excluding non-cash and one-off items, Funds From Operations ("FFO") was \$108.4 million, up 8.3% on the same period last year. Key drivers of this strong performance were the increase in specialty rent per square metre, acquisitions and the lower average cost of debt. FFO per unit for the period was 14.7 cents, 6.9% above the same period last year.

Adjusted Funds From Operations ("AFFO") was \$100.1 million, up by 8.5% on the same period last year. Maintenance capex of \$3.1 million was slightly below last year, however leasing costs and fitout incentives of \$5.2 million were slightly higher than the same period last year due to leasing of vacancies in newly acquired properties.

### ***Property valuations***

The value of Australian investment properties increased to \$2,364.6 million during the period (from \$1,888.0 million at 30 June 2016), due to a combination of acquisitions and valuation uplifts.

Acquisitions contributed \$274.9 million. Stamp duty and other transaction costs were \$16.0 million. We also divested two assets (Katoomba and Mittagong) to SURF 2 for \$55.1 million. Developments added \$22.8 million (including \$14.3 million on Kwinana and \$5.6 million on Bushland Beach). Valuation uplifts contributed \$211.6 million, with average capitalisation rates firming from 7.13% to 6.47%. The remaining \$6.4 million uplift was primarily due to maintenance capex and fitout incentives less straight lining adjustments.

### ***Net tangible assets***

The Group's net tangible assets ("NTA") per unit is \$2.20, an increase of 28 cpu or 14.6% from \$1.92 as at 30 June 2016. This is primarily due to property valuations (28 cpu) and other undistributed profits (2 cpu), partially offset by the decreased value of derivatives (-2 cpu).

### ***Capital management***

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 31.8% as at 30 June 2017 (compared to 34.0% as at 30 June 2016), within our gearing policy range of 30% to 40%.

During the year we increased our A\$ medium term notes by \$225 million in two tranches: in July 2016 we increased our April 2021 notes by \$50m (the \$50m notes have a coupon of 3.75% and were issued at an effective yield of 3.47%), and in June 2017 we issued new June 2024 notes with a coupon of 3.90% (these notes have an effective yield of 3.94%). We also cancelled some interest rate swaps in conjunction with the sale of our New Zealand assets. At 30 June 2017, the Group had cash and undrawn facilities of \$264.6 million.

As a result of these initiatives our weighted average cost of debt has increased to 3.8% as at 30 June 2017 (up from 3.7% as at 30 June 2016 due to higher cost of debt on the June 2024 A\$MTN), our weighted average term to maturity is 5.0 years, and 86% of our debt is fixed or hedged (from 68% at 30 June 2016). Our earliest drawn debt maturity is more than 2 years away being December 2019.

### ***Distributions***

SCP aims to deliver sustainable and growing distributions to its unitholders. In January 2017, SCP paid an interim distribution in respect of the six month period to 31 December 2016 of 6.4 cpu and in August 2017 SCP will pay a final distribution of 6.7 cpu bringing the full year distribution to 13.1 cpu which represents a payout ratio of 89%, and an increase of 7.4% on the prior year. The estimated tax deferred component is 11% which is similar to the prior year and reflects the capital gain on the sale of the second tranche of our New Zealand assets.

The distribution reinvestment plan was suspended for the August 2016 distribution due to the sale of our New Zealand assets, however we reactivated it for the January 2017 distribution, pursuant to which we raised \$18.8 million of new equity.

## **Operational performance**

### ***Portfolio occupancy***

SCP had an average specialty vacancy rate of 4.8% of GLA as at 30 June 2017, an increase from 4.3% as at 30 June 2016 due to acquisitions, but still within our target range of 3% to 5%. The centres we acquired during the year had an average specialty vacancy of 5.7% as at 30 June 2017, so excluding those recently acquired centres the portfolio average specialty vacancy rate was 4.4%. Our portfolio occupancy rate has remained relatively stable since December 2014 at between 98.4% and 98.8%.

### ***Centre optimisation***

A key focus continues to be on centre optimisation. This will include some remixing of tenants, and preparation for renewal uplifts as specialty expiries occur. Our specialty rent per square metre of \$700pa is lower than industry benchmarks for our type of centres, our specialty occupancy cost is around 9.7%, and specialty sales continue to grow. As a result of this, we expect to be able to continue to achieve rental renewal uplifts over coming years. During the year we completed 81 specialty rent renewals, with an average rental uplift of 7.0% achieved and no incentives paid.

We have recently completed the renegotiation of electricity contracts representing approximately 70% of our total electricity expense across the portfolio. The average contract length across the portfolio is now 2.4 years. As a result of these renegotiations, the full-year cost of electricity across our portfolio is expected to increase by around 30% or \$1.8 million per annum, of which approximately two-thirds is recoverable, so the net impact on our earnings in FY18 is expected to be approximately \$0.6 million per annum. As electricity costs are expected to continue to increase in the future, our mitigation strategy includes extending fixed rate contract terms, installing solar on our roofs where appropriate and rolling out low-energy LED lighting.

### ***Strong underlying sales growth continues***

Our centres continue to experience growth. The comparable store sales moving annual turnover ("MAT") growth for the 12 months to 30 June 2017, for stores open more than 24 months, was:

- Supermarkets: 2.2%
- Discount department stores: (4.3%)
- Mini Majors: 1.4%
- Specialty stores: 3.8%

Supermarket sales growth continues to show an improving trend primarily due to our Woolworths stores. Discount department stores sales continue to be subdued for Big W and Target, while Kmart continues to perform well. Mini Majors sales growth was impacted by reduction in the sales of discount variety retailers (-3.6% in FY17 compared to +10% in FY16). In relation to specialty sales, our core non-discretionary categories continue to perform strongly, with Services recording 9.2% growth, Pharmacy 6.2% and Food/Liquor 3.7%.

### ***Acquisitions, disposals and developments***

During the period we completed the sale of our 14 New Zealand assets for NZ\$267.4 million (A\$255.9 million) at an implied after-tax yield of less than 6.00%. We also sold two non-core assets in Australia to SURF 2 for \$55.1 million, an implied yield of 6.45%.

We redeployed these funds into the acquisition of eight neighbourhood centres for \$274.9 million, at an average implied capitalisation rate of 6.90%. Six of those centres are anchored by Coles, and two by Woolworths. As at 30 June 2017, 26% of our anchor tenants are owned by Wesfarmers Limited.

The acquisition of these neighbourhood shopping centres is consistent with our strategy of selling lower growth standalone assets and redeploying funds into higher growth domestic supermarket anchored shopping centres.

We also acquired a 4.9% interest in Charter Hall Retail ("CQR") for \$83.4 million during the period. CQR holds a quality portfolio of shopping centres that are very similar in type to SCP's asset base. This

was considered an efficient and accretive way to complete the redeployment SCP's capital in the current environment, following the completion of the sale of our New Zealand assets.

During the period we commenced construction on our developments at Kwinana (Perth) in Western Australia, Bushland Beach (Townsville) in North Queensland, and the conversion to Bunnings at Mount Gambier in South Australia. The Kwinana development involves filling the previously vacant third anchor location with a new Coles supermarket at an all-in cost of \$20.2 million (of which we have already spent \$14.3 million). The Bushland Beach development involves building a new Coles anchored neighbourhood shopping centre for an all-in cost of \$19.6 million (of which we have already spent \$7.2 million). At Mount Gambier, Bunnings is replacing the ex-Masters store. All of these developments are expected to be completed in FY18.

We continue to make progress in relation to a number of other potential developments. In total, we have identified 22 centres in our portfolio with development potential amounting to over \$130 million of investment over the next 5 years.

### **Strategy and outlook**

A key priority for the Group in FY18 is to optimise the earnings from our centres by continuing to improve our tenancy mix and by ensuring that centre standards are maintained at a high level. This should support ongoing strong sales growth for our specialty tenants, which in turn should enable further positive rent reversions and increasing rent per square metre over the next few years.

We remain committed to our core strategy which is to deliver sustainable earnings and distribution growth to our unitholders by optimising the earnings from the existing portfolio, executing further acquisitions of convenience-based shopping centres, investing in value enhancing development opportunities within our existing portfolio and continuing to grow our funds management business.

### **Earnings guidance**

Our guidance for FY18 FFO is 15.1 cpm (2.7% above FY17), and our guidance for FY18 Distributions is 13.7 cpm (4.6% above FY17). The FFO guidance includes known impacts from electricity cost increases, higher weighted average cost of debt, DRP remaining active and the launch of SURF 3 but does not include any further acquisitions or divestments.

A webcast of the investor briefing will be available at [www.scaproperty.com.au](http://www.scaproperty.com.au) on Tuesday 8 August 2017 at 10:00am (AEST).

**ENDS**

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**About SCA Property Group**

*SCA Property Group (SCP) includes two internally managed real estate investment trusts owning a portfolio of quality neighbourhood and sub-regional shopping centres located across Australia. The SCA Property Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited and companies in the Wesfarmers Limited group (such as Coles). The SCA Property Group is a stapled entity comprising Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788).*