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SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY18 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the six months ended 31 December 2017.

Financial highlights:

- Funds From Operations ("FFO") of $56.1 million, up by 4.9% on the same period last year
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $51.6 million, up by 5.3% on the same period last year
- FFO of 7.52 cents per unit ("cpu") (1), up by 3.2% on the same period last year
- Distribution of 6.8 cpu, up by 6.3% on the same period last year, representing a payout ratio of 90% (1)
- Statutory net profit after tax of $69.6 million, down by 66.0% compared to the same period last year due to a smaller increase in investment property valuations compared to the prior period
- Weighted average cost of debt of 3.8%pa and gearing of 32.5% as at 31 December 2017
- Investment property portfolio value of $2,437.7 million, up by $73.1 million since 30 June 2017, largely due to acquisitions ($38.3 million), development expenditure ($12.7 million) and revaluations ($16.7 million)
- Net tangible assets of $2.23 per unit, up by 1.4% from $2.20 per unit as at 30 June 2017
- Management expense ratio ("MER") of 0.447%, down from 0.452% as at 30 June 2017
- FY18 FFO per unit guidance increased to 15.3 cpu, and FY18 Distribution per unit guidance increased to 13.9 cpu

Operational highlights:

- Portfolio occupancy of 98.4% by GLA as at 31 December 2017 (unchanged from 30 June 2017)
- Supermarket moving annual turnover ("MAT") increased by 2.7%pa, driven by Woolworths improved sales performance
- Continuing MAT sales growth for specialty tenants of 3.2%pa, with average rental renewal uplifts of 6.7% achieved on 74 renewals during the period
- Four acquisitions completed during the period for $38.3 million
- Completion of developments at Kwinana WA (Coles third anchor) and Mount Gambier SA (Bunnings replacing Masters). Development work is continuing at Bushland Beach QLD (new Coles anchored neighbourhood centre) and Shell Cove NSW (new Woolworths anchored neighbourhood centre)
- Preparations are well advanced for our third unlisted retail fund "SURF 3" due to launch in 2H FY18

(1) Based on weighted average units on issue of 745.8 million. FFO per unit is calculated as FFO of $56.1 million divided by 745.8 million. Payout ratio is calculated as distribution per unit (6.80 cents) divided by FFO per unit (7.52 cents)

Chief Executive Officer, Anthony Mellowes, said: "We are pleased to report another solid result for the six months to 31 December 2017. Our supermarket sales growth has increased as Woolworths continues to improve and our specialty tenants have continued to record healthy annual sales growth. Our relatively young centres have a lower specialty rent per square metre than more mature centres and our average specialty occupancy cost is a sustainable 9.9%. These metrics should continue to support increases in rent/sqm over the medium term. During the half year we had 74 specialty tenant renewals across 9,105 sqm of GLA, and an average rental uplift of 6.7% was achieved with no incentives paid. Comparable NOI growth of 2.4% is expected to improve in the second half as we benefit from the fixed 5% increases in certain anchor tenant leases. We expect to continue to generate solid comparable earnings growth as we progress through our first specialty rent renewal cycle through to FY20."

"We completed $38.3 million of acquisitions in the first half, which is below our historical average, but reflects our disciplined approach to investment as we assess opportunities against our investment return criteria. The competition to acquire quality neighbourhood shopping centres remains elevated, and yields continue to firm. Nevertheless, we are confident that we can continue to leverage our relationships, management capabilities and knowledge of the sector to source further transactions that meet our investment criteria."

"We continue to take advantage of the development opportunities in our portfolio. The developments at Kwinana and Mount Gambier have been completed successfully during the half year, with significant valuation uplifts achieved at both centres. In the second half a key focus will be on completing the new Coles anchored neighbourhood centre at Bushland Beach, and progressing the new Woolworths anchored neighbourhood centre at Shell Cove. We continue to identify and progress other development opportunities in our portfolio which we plan to complete progressively over the next five years."

"Plans are well advanced on the launch of our third unlisted fund "SURF 3" which will contain some of our remaining non-core assets. We expect this fund to be launched and closed during the second half of FY18."

Chief Financial Officer, Mark Fleming, said: "We also remain focused on appropriate capital management. During the last six month period, we refinanced our bank debt facilities expiring during 2018, extending them out to late 2022. We are pleased to have maintained our weighted average cost of debt at 3.8% and to have increased the weighted average term to maturity of our debt to 5.2 years. As at 31 December 2017 our gearing is 32.5% which is at the lower end of our target gearing range of 30% to 40%, and is consistent with our 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 $69.6 million, which was down by 66.0% on the same period last year, primarily due to a smaller increase in the value of investment properties compared to the prior corresponding period.

Excluding non-cash and one-off items, Funds From Operations ("FFO") was $56.1 million, up 4.9% on the same period last year. Key drivers of this strong performance were acquisitions and the increase in specialty rent per square metre. FFO per unit for the period was 7.52 cents, 3.2% above the same period last year.

Adjusted Funds From Operations ("AFFO") was $51.6 million, up by 5.3% on the same period last year. Maintenance capex of $1.5 million and leasing costs and fitout incentives of $3.0 million were relatively stable compared to the same period last year.

Property valuations

The value of investment properties increased to $2,437.7 million during the period (from $2,364.6 million at 30 June 2017), due to a combination of acquisitions, developments and valuation uplifts.

Acquisitions contributed $38.3 million. Stamp duty and other transaction costs were $2.5 million. Developments added $12.7 million (including $5.0 million on Kwinana and $7.0 million on Bushland Beach). Valuation uplifts contributed $16.7 million, with average capitalisation rates remaining flat at 6.47%. The remaining $2.9 million uplift was due to maintenance capex, fitout incentives, straight lining and amortisation adjustments.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.23, an increase of 3 cpu or 1.4% from $2.20 as at 30 June 2017. This is primarily due to property valuations (2 cpu) and other undistributed profits (1 cpu).

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 32.5% as at 31 December 2017 (compared to 31.4% as at 30 June 2017), which is well within our gearing policy range of 30% to 40%.

During the year we refinanced several bank facilities, cancelling $190.0 million of facilities expiring in November and December 2018 and replacing them with $125.0 million of new facilities expiring in November and December 2022. At 31 December 2017, the Group had cash and undrawn facilities of $144.0 million.

As a result of these initiatives, our weighted average cost of debt has remained stable at 3.8% as at 31 December 2017 (with higher cost of debt on our new facilities mitigated by lower excess line fees), our weighted average term to maturity has increased to 5.2 years, and 81% of our debt is fixed or hedged. Our earliest debt maturity is $25 million due in February 2019, which is well covered by our undrawn capacity in other longer-dated facilities. Our next debt maturity is $230.0 million in December 2019 and we expect to be extending or replacing this facility with longer-dated debt during 2018.

Distributions

SCP aims to deliver sustainable and growing distributions to its unitholders. In August 2017, SCP paid a final distribution in respect of the six month period to 30 June 2017 of 6.7 cpu. In January 2018 SCP paid an interim distribution of 6.8 cpu, an increase of 6.3% on the same period last year, which represents a payout ratio of 90%. The estimated tax deferred component of this distribution is 15% which assumes a capital gain on the sale of non-core assets to the upcoming SURF 3 fund.

The distribution reinvestment plan remained active for the January 2018 distribution, which raised $6.5 million of new equity at $2.25 per unit.

Operational performance

Portfolio occupancy

SCP had a specialty vacancy rate of 4.7% of GLA as at 31 December 2017, a slight decrease from 4.8% as at 30 June 2017 and within our target range of 3% to 5%. The centres we acquired during the six month period had a specialty vacancy of 12.6% as at 31 December 2017. Excluding those recently acquired centres, the portfolio specialty vacancy rate was 4.5%. Our portfolio occupancy rate is 98.4% and 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 $709 is lower than industry benchmarks for our type of centres, our specialty occupancy cost is around 9.9%, 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 six month period we completed 74 specialty renewals, with an average rental uplift of 6.7% achieved and no incentives paid.

As outlined in our FY17 full year results announcement, 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 from tenants, 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 panels on our roofs where appropriate and rolling out low-energy LED lighting in our centres.

Strong underlying sales growth continues

Our centres continue to experience growth. The comparable store sales MAT growth for the 12 months to 31 December 2017, for stores open more than 24 months, was:

- Supermarkets: 2.7%
- Discount department stores: (0.2%)
- Mini Majors: 2.2%
- Specialty stores: 3.2%

Supermarket sales growth continues to show an improving trend primarily due to our Woolworths stores, although Coles continues to also record positive sales growth. Discount department stores sales have stabilised, with an improved performance from our Big W stores which in December 2017 recorded positive month-on-month sales growth. Mini Majors sales growth improved due to an improved performance from the discount variety category. In relation to specialty sales, our core non-discretionary categories continue to perform strongly, with Food/Liquor MAT growing at 3.2%, Retail Services 6.6% and Pharmacy 6.6%.

Acquisitions, disposals and developments

During the period we completed four acquisitions for $38.3 million. We acquired one Coles anchored neighbourhood centre in Cairns QLD (Sugarworld) for $24.8 million representing an implied capitalisation rate of 7.01%. We also acquired one development site at Shell Cove NSW for $1.5 million which will become a Woolworths anchored neighbourhood centre, being developed by Frasers. Finally, we secured the remaining stratum interests at two of our existing neighbourhood centres being Belmont NSW and Coorparoo QLD. In both cases this will enable us to control the sites and open up potential future development opportunities.

During the period we successfully completed our developments at Kwinana in Western Australia and Mount Gambier in South Australia.

The Kwinana development involved filling the vacant third anchor location with a new Coles supermarket at an all-in cost of $20.2 million. The valuation of the Kwinana centre has increased from $98.0 million as at 30 June 2016 (prior to the development commencing) to $145.0 million as at 31 December 2017.

At Mount Gambier a new Bunnings warehouse has replaced the ex-Masters tenancy. This was our only Masters tenancy. The development cost of this project for SCP was zero, and we did not suffer any lost rental income. The valuation of the Mount Gambier centre has increased from $63.7 million as at 30 June 2016 to $74.5 million as at 31 December 2017.

Over the next six months a key focus will be completing the development of two new neighbourhood shopping centres. 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 $14.3 million), due to be completed in 2H FY18. The Shell Cove development involves building a new Woolworths anchored neighbourhood shopping centre for an all-in cost of $21.3 million (excluding $1.5 million already spent to acquire the land), with an expected completion date of November 2018.

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 $125 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, recycling capital from lower growth assets to relatively higher growth assets, investing in value enhancing development opportunities within our existing portfolio and continuing to grow our funds management business.

Earnings guidance

Our revised guidance for FY18 FFO is 15.3 cpu (4.1% above FY17 actual), and our guidance for FY18 Distributions is 13.9 cpu (6.1% above FY17 actual). This has increased from the previous FY18 guidance of 15.1 cpu for FFO and 13.7 cpu for Distributions primarily due to acquisitions and lower than expected cost of debt.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 6 February 2018 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).