MEDIA ANNOUNCEMENT
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SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY19 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the six months ended 31 December 2018.

Financial highlights:

- Funds From Operations ("FFO") of $65.9 million, up by 17.5% on the same period last year
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $60.6 million, up by 17.5% on the same period last year
- FFO of 8.10 cents per unit ("cpu") (1), up by 7.7% on the same period last year
- Distribution of 7.25 cpu, up by 6.6% on the same period last year, a payout ratio of 90% (1)
- Statutory net profit after tax of $39.3 million, down by 43.5% compared to the same period last year primarily due to expensing transaction costs on acquisitions completed during the period and reduced asset valuation uplift
- Weighted average cost of debt stable at 3.8%pa and gearing of 34.2% as at 31 December 2018, up from 31.2% at 30 June 2018
- Investment property portfolio value of $3,153.1 million, up by $699.3 million since 30 June 2018, largely due to acquisitions ($677.9 million), development expenditure ($12.0 million) and revaluations ($8.9 million)
- Net tangible assets of $2.27 per unit as at 31 December 2018, down by 1.3% from $2.30 as at 30 June 2018 primarily due to the expensing of transaction costs on acquisitions completed during the period
- Management expense ratio ("MER") of 0.38% as at 31 December 2018, down from 0.43% as at 30 June 2018
- FY19 FFO per unit guidance of 16.20 cpu (5.9% above FY18 actual) and FY19 Distribution per unit guidance of 14.70 (5.8% above FY18 actual)

Operational highlights:

- Portfolio occupancy of 98.3% by GLA as at 31 December 2018 (down from 98.4% as at 30 June 2018)
- Supermarket moving annual turnover ("MAT") growth of 1.7%pa (excluding FY19 acquisitions)
- Specialty tenant MAT growth of 3.5%pa, with average rental renewal uplifts of 5.5% achieved on 115 renewals during the period (excluding FY19 acquisitions)
- Twelve acquisitions completed during the period for $677.9 million and completion of developments at Bushland Beach QLD (new Coles anchored neighbourhood centre) in July 2018 and Shell Cove NSW (new Woolworths anchored neighbourhood centre) in October 2018
- Launch of our third unlisted retail fund "SURF 3" in July 2018

(1) Based on weighted average units on issue of 813.7 million. FFO per unit is calculated as FFO of $65.9 million divided by 813.7 million. Payout ratio is calculated as distribution per unit (7.25 cents) divided by FFO per unit (8.10 cents)

Chief Executive Officer, Anthony Mellowes, said: “We are pleased to report another solid result for the six months to 31 December 2018. Our existing centres continue to perform well, delivering continuing sales growth and a comparable net operating income increase of 2.5% due to positive rent renewal uplifts and expense control. During the period we acquired twelve convenience based centres for $677.9 million, completed two developments, and launched our third retail fund. The acquired centres are performing in line with our expectations at the time of acquisition. We have an opportunity to improve performance and create value by applying our expertise in convenience-based shopping centres to improve tenancy mix, set sustainable rents and achieve cost efficiencies. We have a track record of successfully executing on these strategies and, over time we expect the performance of the acquired centres to align with our existing centres.”

Chief Financial Officer, Mark Fleming, said: “We remain focused on appropriate capital management to support both growth initiatives and our ongoing operations. During the last six month period we have raised over $1 billion in new debt and equity. We are pleased to have maintained our weighted average cost of debt at 3.8% with 68% of our drawn debt fixed or hedged. As at 31 December 2018 our gearing is 34.2% which is within our target gearing range of 30% to 40% and consistent with our preference for gearing to remain below 35% at this point in the cycle. Our successful debt and equity capital raisings during the period demonstrate the strong support we enjoy in both debt and equity markets, and we continue to be well placed to take advantage of investment opportunities in the future as they arise. We continue to remain disciplined to ensure that any acquisitions meet our investment criteria.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $39.3 million, which was down by 43.5% on the same period last year. This was primarily due to acquisition transaction costs (mainly stamp duty) of $36.9 million being expensed during the period.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $65.9 million, up 17.5% on the same period last year. Key drivers of this solid performance were an increase in comparable net operating income (“NOI”), acquisitions and completed developments. FFO per unit for the period was 8.10 cents, 7.7% above the same period last year.

Adjusted Funds From Operations (“AFFO”) was $60.6 million, up by 17.5% on the same period last year. Maintenance capex of $2.2 million was up by $0.7 million due to the larger size of our portfolio, but leasing costs and fitout incentives of $3.1 million were only up by $0.1 million compared to the same period last year.

Property valuations

The value of investment properties increased to $3,153.1 million during the period (from $2,453.8 million at 30 June 2018), primarily due to acquisitions of $677.9 million that were completed during the period. Development expenditure added $12.0 million (including $7.5 million on Shell Cove, $2.2 million on Bushland Beach and $1.6 million on Whitsundays) offset by the disposal of an adjacent lot at Highett for $2.4 million. Valuation uplifts contributed $8.9 million supported by NOI growth, despite weighted average capitalisation rates on existing centres softening by 4 basis points to 6.37%. Including acquisitions, the portfolio weighted average capitalisation rate is 6.43% (sub-regionals 6.64% and neighbourhoods 6.35%). 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 $2.27, a decrease of 3 cpu or 1.3% from $2.30 as at 30 June 2018. This is primarily due to transaction costs on acquisitions which are written off.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 34.2% as at 31 December 2018 (compared to 31.2% as at 30 June 2018). This increase was largely due to acquisition funding, but remains within our gearing policy range of 30% to 40%. We expect that gearing will reduce further in the current calendar year with the sale of our investment in CQR and the DRP underwrite in January 2019.

During the six-month period we have raised $1.07 billion of new capital ($382.7 million in new equity and $687.3 million in new debt) as detailed below. This capital was used to fund acquisitions, developments and to repay existing debt facilities.

Equity capital raisings totaling $382.7 million as follows:

- Institutional Placement: $262.4 million institutional placement in October 2018 at $2.32 per unit (associated with the acquisition of ten assets from Vicinity);
- Unit Purchase Plan: $111.1 million Unit Purchase Plan in November 2018 at $2.32 per unit; and
- DRP: $9.2 million raised under our Dividend Reinvestment Plan at $2.46 per unit, in relation to our August 2018 distribution

Debt capital raisings totaling $687.3 million as follows:

- USPP: US$150 million US private placement completed in September 2018 which swapped back to A$197.3 million. The maturity profile of these notes is US$30m expiring September 2028 (10 years), US$70 million expiring September 2031 (13 years) and US$50 million expiring September 2033 (15 years). All coupon obligations and the final principal repayment have been swapped back to Australian dollars, with a weighted average floating rate margin of 1.99% above 3-month BBSW;
- Acquisition Facility: a two-year $365.0 million acquisition facility provided by Citibank. As at 31 December 2018 the facility limit and outstanding amount under this facility is $246 million; and
- Bank Facilities: new bank facilities of $125.0 million expiring in FY23 and FY24 (refinancing and cancelling $230 million of facilities that were expiring in FY20).

At 31 December 2018, the Group had cash and undrawn facilities of $158.9 million, our weighted average cost of debt has been maintained at 3.8%, our weighted average term to maturity was 5.7 years, and 68.4% of our debt was fixed or hedged.

Our earliest debt maturities are the (partially paid down) acquisition facility of $246 million expiring in October 2020 and the A$ Medium Term Note of $225 million expiring in April 2021. We expect to refinance the acquisition facility before 31 December 2019 using proceeds from the January 2019 DRP ($26.6 million), the sale of our remaining CQR stake ($69.3 million) and a new debt capital markets issuance during this calendar year.

Distributions

SCP aims to deliver sustainable and growing distributions to its unitholders. In August 2018, SCP paid a final distribution in respect of the six month period to 30 June 2018 of 7.10 cpu. In January 2019 SCP paid an interim distribution of 7.25 cpu, an increase of 6.6% on the same period last year, which represents a payout ratio of 90%. The estimated tax deferred component for FY19 is 42%.

The distribution reinvestment plan (“DRP”) remained active for both the August 2018 and the January 2019 distributions. The August 2018 DRP raised $9.2 million at $2.46 per unit, and the January 2019 DRP raised $26.6 million at $2.51 per unit (comprised of a take-up by unitholders of $11.8 million and an underwritten amount of $14.8 million).

Operational performance

Portfolio occupancy

SCP had a specialty vacancy rate of 4.8% of GLA as at 31 December 2018, in line with the 4.8% as at 30 June 2018 and within our target range of 3% to 5%. The centres acquired during the six month period had a specialty vacancy of 5.1% as at 31 December 2018. Excluding the recently acquired centres, the portfolio specialty vacancy rate was 4.7%. Our portfolio occupancy rate is 98.3% and has remained relatively stable since December 2014 at between 98.3% and 98.8%.

Centre optimisation

A key focus continues to be on centre optimisation. This includes some remixing of tenants, and preparation for renewal uplifts as specialty leases expire. Our specialty rent per square metre of $775 is lower than industry benchmarks for our type of centres (reflecting the relatively young age of our portfolio), our specialty occupancy cost is around 10.2%, and specialty sales continue to grow. This should support continuing rental renewal uplifts over coming years. During the twelve month period we completed 147 specialty renewals, with an average rental uplift of 2.8% achieved and no incentives paid (excluding recent acquisitions, the average rental uplift on renewals was 5.5%).

We continue to manage our property operating expenses closely and have realised the benefits of economies of scale as we grow our assets under management. As a result, our property expenses as a percentage of gross property income has remained stable.

Growth in underlying sales continues

Our centres continue to experience growth. The comparable store sales MAT growth for the 12 months to 31 December 2018, for stores open more than 24 months, excluding recent acquisitions, was:

- Supermarkets: 1.7% (1.0% including new acquisitions)
- Discount department stores: 1.9% (-0.7% including new acquisitions)
- Mini Majors: 0.3% (-0.8% including new acquisitions)
- Specialty stores: 3.5% (1.9% including new acquisitions)

For the existing centres, supermarket sales growth remains robust, with both Woolworths and Coles recording positive sales growth. Discount department stores sales have continued to be positive, with continuing improved performance from our Big W stores which have recorded positive month-on-month sales growth during FY19 to date. Mini Majors sales growth has declined due to volatility in the discount variety category. In relation to specialty sales, our core non-discretionary categories continue to perform strongly, with MAT for Food/Liquor growing at 3.5% and Retail Services at 4.4%. Pharmacy MAT growth was 1.2% which is lower than prior periods due to increased generic prescription products and increased competition in the category. December 2018 sales and foot traffic growth remained positive, demonstrating the benefit of a convenience-based, non-discretionary tenancy mix.

The twelve recently acquired centres are performing in line with our expectations at the time of acquisition. We were aware that six of the acquired centres were being impacted by competition from within their catchments. We expect sales growth for these centres to turn positive once the immediate competition impacts cycle through and our remixing strategy has been implemented.

Acquisitions, disposals and developments

During the period we completed twelve acquisitions for $677.9 million. Ten convenience-based centres were acquired from from Vicinity for $573.0 million in October 2018 (an implied fully let yield of 7.47%, and weighted average valuation capitalisation rate of 6.66%). In addition, we acquired Sturt Mall in Wagga Wagga, NSW (Coles/Kmart) for $73.0 million (an implied fully let yield of 6.93%) and Miami One in Gold Coast, QLD for $31.9 million (an implied fully let yield of 6.89%).

In relation to the Vicinity portfolio acquisition, we have completed the integration of these centres into our property management, facilities management and finance/invoicing systems. The centres are performing in line with our expectations at the time of acquisition, with negative sales growth and negative renewal spreads. We have an opportunity to improve the performance of these centres and create value over time by applying our expertise in convenience-based shopping centres to improve tenancy mix, set sustainable rents and achieve cost efficiencies. The rental guarantee from Vicinity will cover any short term earnings volatility. We have a track record of successfully executing on these strategies, and over time we expect the performance of the acquired centres to align with our existing centres.

During the period we successfully completed developments at Bushland Beach in Queensland and Shell Cove in New South Wales. The Bushland Beach development involved building a new Coles-anchored neighbourhood shopping centre at an all-in cost of $23.6 million. The Shell Cove development involved building a new Woolworths-anchored neighbourhood shopping centre at an all-in cost of $22.8 million (current valuation $23.1 million). We continue to make progress in relation to a number of other potential development opportunities. In total, we have identified 26 centres in our portfolio with development potential amounting to $120 million of investment over the next 5 years.

During the period we completed the divestment of four non-core assets to the SURF 3 retail fund for $57.9 million, and we also sold a parcel of non-core land and buildings adjacent to our Highett centre in Melbourne for $2.4 million.

Strategy and outlook

A key priority for the existing centres in FY19 is to optimise earnings by continuing to improve our tenancy mix and by ensuring that centre standards are maintained at a high level. This should support ongoing 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.

In relation to the recently acquired centres, particularly the Vicinity portfolio, we will continue to execute on our tenant remixing strategy and cost saving initiatives. As part of this process, we will rebase some specialty rents to more sustainable levels, which could result in negative rent renewals over the next two years, before returning to growth. This was built into our assumptions when we acquired the centres.

We are aware of the pressures facing certain retailers at present, and we will continue to evolve our mix toward more resilient retail categories across our entire portfolio.

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 guidance for FY19 FFO is 16.20 cpu (5.9% above FY18 actual), and our guidance for FY19 Distributions is 14.70 cpu (5.8% above FY18 actual). The FFO guidance includes the acquisitions we have completed during the first half of FY19, but does not assume any further acquisitions or divestments.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 5 February 2019 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, Coles Group Limited and companies in the Wesfarmers Limited group. 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).