Centuria

## Australian Securities Exchange – Company Announcements Platform

# Centuria Property Funds Limited

# CENTURIA METROPOLITAN REIT

## 1H FY19 Financial Results

**Wednesday, 6 February 2019**

Centuria Property Funds Limited (**CPFL**), as Responsible Entity of Centuria Metropolitan REIT (ASX: **CMA**), is pleased to announce CMA's half year financial results for the period ended 31 December 2018.

### FINANCIAL HIGHLIGHTS

- Funds from operation (FFO) of $26.5 million[1]
- FFO per unit (EPU) of 9.39 cents per unit (cpu)
- Distributions per unit (DPU) of 8.88cpu
- Statutory profit of $14.7 million
- 12 month Return on Equity[2] (ROE) of 10.9% delivered to unitholders
- 2.1% Net Tangible Assets (NTA)[3] uplift to $2.47 per unit following October's portfolio acquisition
- $315 million of debt re-financed or established

### PORTFOLIO HIGHLIGHTS

- Transformed to a pure play office portfolio
- Portfolio value increased to $1.4 billion[4]
- Leases agreed[5] for sixteen separate lease transactions, totalling over 14,500sqm, representing 6.7% of portfolio NLA
- High portfolio occupancy[6] maintained at 98.8%, WALE[7] increased to 4.3 years

### 1H19 FINANCIAL RESULTS

| Earnings | | 1H19 | 1H18 |
|---|---|---|---|
| Statutory profit / (loss) | $m | 14.7 | 39.2 |
| Funds from Operations[1] | $m | 26.5 | 20.7 |
| Funds from Operations per unit[1] | cpu | 9.39 | 9.70 |
| Distribution per unit | cpu | 8.88 | 9.05 |
| Return on equity[2] | % | 10.9 | 10.8 |

| Balance sheet | | 1H19 | FY18 |
|---|---|---|---|
| Total Assets | $m | 1,432.9 | 902.8 |
| NTA per unit[3] | $ | 2.47 | 2.49 |
| Gearing[8] | % | 35.3 | 28.3 |

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Grant Nichols, CMA Fund Manager, commented, “CMA has executed a number of strategic initiatives to reposition the portfolio as Australia’s largest pure play listed office REIT.”

“During the half year, CMA completed the acquisition of four quality office buildings, settled on the completion of a new office development, whilst disposing the two remaining industrial assets from the portfolio. As a result of these transactions, CMA has evolved to a $1.4 billion[4] high quality office portfolio that is 89% exposed to Australia’s Eastern Seaboard, with an average building age of around 15 years.”

The acquisitions, which were completed at a 3.8% discount to valuation, were underpinned by a well supported $276 million equity raising. This has increased and diversified the unitholder base whilst the portfolio has improved asset quality, enhanced tenant diversification and a smoothed lease expiry profile.

Aside from these transactions, CMA has generated a strong 12 month rolling return on equity[2] of 10.9%. During the half year, CMA paid distributions of 8.88 cents per unit and NTA[3] increased by 2.1% to $2.47 per unit following October’s portfolio acquisition.

While there has been an increase in gearing[8] to 35.3% as at 31 December 2018, the gearing is forecast to fall below 35% following settlement of the last industrial property, 13 Ferndell Street, Granville NSW in January 2019[8]. CMA retains significant debt covenant headroom as at 31 December 2018 with an interest cover ratio (ICR) of 5.6x against a covenant of 2.0x and a loan value ratio of 36.8% against a covenant of 50%.

## PROPERTY PORTFOLIO

| Portfolio Snapshot | | 1H19[4] | FY18[9] |
|---|---|---|---|
| Number of assets | | 20 | 19 |
| Book value | $m | 1,376.4 | 930.5 |
| WACR | % | 6.32 | 6.68 |
| Occupancy by area | % | 98.8 | 98.9 |
| WALE by gross income | years | 4.3 | 4.0 |
| Leases agreed by area | sqm | 14,564 | 17,970 |
| Average NABERS rating (by value) | Stars | 4.6[10] | 4.3 |
| Average building age | years | 15.5 | 18.4 |

CMA completed sixteen separate lease transactions across 14,564sqm, representing 6.7% of the portfolio’s NLA. This included the renewal of Cisco at 201 Pacific Highway, St Leonards, who have renewed their 7,090sqm tenancy for five years.

The increase in portfolio value to $1.4 billion while mostly driven by acquisitions was aided by a $26.0 million like for like revaluation gain during 1HY19. The largest revaluation gain occurred at 201 Pacific Highway, St Leonards, which benefitted from the lease renewal to Cisco. As at 31 December 2018, the portfolio’s weighted average capitalisation rate (WACR) was 6.32%[4].

Grant Nichols commented, “CMA’s portfolio retains a high occupancy[6] of 98.8% and a portfolio WALE[7] of 4.3 years, benefitting from continued leasing success across the portfolio during 1H19. CMA’s portfolio is well positioned with nearly 60% of its income expiring at or beyond FY23. The management team remain focused on addressing near term lease expiries and maintaining a high portfolio occupancy.”

## CAPITAL TRANSACTIONS

During the period, CMA executed on transaction initiatives, including:

- Acquiring a portfolio of four high quality, prime grade office assets[11];
  - 818 Bourke Street, Docklands VIC for $223.3 million
  - 825 Ann Street, Fortitude Valley QLD for $169.5 million
  - 100 Brookes Street, Fortitude Valley QLD for $86.5 million
  - 465 Victoria Avenue, Chatswood NSW for $41.6 million (25% share)
- Settlement of Target's Australian office headquarters at 2 Kendall Street, Williams Landing, VIC for $58.2 million; and
- Divestment of CMA's two industrial assets:
  - 13 Ferndell Street, Granville, NSW for $24.2million, a 17.0% premium to book value, delivering a 14.5% IRR[11] under CMA's ownership
  - 14 Kerry Road, Archerfield QLD for $30.6 million, an 8.7% premium to book value, delivering an 12.5% IRR[11] under CMA's ownership

Grant Nichols commented, "1H19 saw CMA successfully execute on several strategic initiatives, resulting in improved quality of assets within the portfolio. The acquisition of four prime grade assets at a 3.8% discount to valuation, along with the settlement of Target's headquarters at Williams Landing is in line with the portfolio's strategy to acquire fit for purpose, quality office assets, which are complementary to CMA's existing portfolio. Furthermore, the divestment of the portfolio's remaining industrial assets was achieved at strong premiums to book value, delivering robust IRRs throughout CMA's ownership."

## SUMMARY & OUTLOOK

Grant Nichols commented, "The underlying fundamentals for Australian office markets remain solid, with positive leasing activity and falling vacancy rates evident in most major office markets across the country. With pending supply relatively in-check, this should underpin future market rental growth and continued investment demand, which remains strong. As Australia's largest pure play listed office REIT, CMA's scalable portfolio is positioned to benefit from investor and tenant demand alike."

CMA forecasts FY19 funds from operations of 18.7cpu[1] and distributions of 17.6cpu.

Remaining distributions are forecast to be paid in equal quarterly instalments of 4.358cpu.

## 1H19 RESULTS PRESENTATION

CMA has provided a market briefing that is available via the Centuria website

http://centuria.com.au/cma/annual-results/

**– Ends –**

**For more information or to arrange an interview, please contact:**


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## About Centuria Property Funds Limited

Centuria Property Funds Limited (CPFL) is the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA).

CMA is Australia's largest ASX listed pure play office REIT and is included in the S&P/ASX300 Index. CMA owns a portfolio of 20 high quality metropolitan office assets with a portfolio value of around $1.4 billion. The properties are located in core metropolitan submarkets throughout Australia.

CPFL, combined with Centuria Property Funds No. 2 Limited (CPF2L), are wholly owned subsidiaries of Centuria Capital Group (CNI) and have approximately $4.8 billion of assets under management across 15 unlisted property funds, one open-ended diversified property fund and two listed REITs.

CNI is an ASX-listed specialist investment manager with $5.6 billion in total funds under management.

**www.centuria.com.au**

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1. FFO is the Trust's underlying and recurring earnings from its operations. This is calculated as the statutory net profit adjusted for certain non-cash and other items
2. Return on Equity is calculated as closing NTA minus opening NTA plus distributions divided by opening NTA
3. NTA per unit is calculated as net assets less goodwill divided by closing units on issue
4. Excludes 13 Ferndell St, Granville, NSW (settled 31 January 2019)
5. Includes Heads of Agreement (HoA)
6. By area
7. By gross income
8. Gearing is defined as total borrowings less cash divided by total assets less cash and goodwill. Pro-forma gearing 34.2% post-settlement of 13 Ferndell Street, Granville NSW (settled on 31 January 2019)
9. Includes 2 Kendall St, Williams Landing, VIC as if complete
10. Excludes 13 Ferndell St, Granville, NSW, 14 Kerry Road, Archerfield, QLD and 35 Robina Town Centre, Robina, QLD
11. Before transaction costs
12. Unlevered IRR calculation commencing from December 2014