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SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY20 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the six months ended 31 December 2019.

Financial highlights:

- Statutory net profit after tax of $90.2 million, up by 129.5% compared to the same period last year primarily due to investment property valuation increase (vs decrease in the same period last year due to expensing of transaction costs)
- Funds From Operations ("FFO") of $78.5 million, up by 19.1% on the same period last year
- Funds From Operations per unit ("FFOPU") of 8.44 cents per unit ("cpu") (1), up by 4.2% on the same period last year
- Distribution of 7.50 cpu, up by 3.4% on the same period last year, a payout ratio of 89% (1)
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $70.1 million, up by 15.7% on the same period last year
- Weighted average cost of debt currently 3.4%pa. Gearing of 34.2% as at 31 December 2019, up from 32.8% at 30 June 2019
- Investment property portfolio value of $3,232.8 million, up by $85.8 million since 30 June 2019, largely due to acquisitions, development expenditure and like-for-like valuation uplift
- Net tangible assets of $2.29 per unit as at 31 December 2019, up by 0.9% from $2.27 as at 30 June 2019 primarily due to the like-for-like valuation uplift
- Management expense ratio ("MER") of 0.39% as at 31 December 2019, up from 0.37% as at 30 June 2019 due to increased D&O insurance costs and sale of SURF 1 assets
- FY20 FFO per unit guidance increased to 16.90 cpu (3.5% above FY19 actual) and FY20 Distribution per unit guidance of 15.10 cpu (2.7% above FY19 actual)

Operational highlights:

- Portfolio occupancy of 98.3% by GLA as at 31 December 2019 (up from 98.2% as at 30 June 2019), with specialty vacancy down to 4.8% of GLA (from 5.3% as at 30 June 2019)
- Supermarket moving annual turnover ("MAT") growth of 2.6%pa (up from 2.0%pa as at 30 June 2019) and specialty tenant MAT growth of 2.3%pa (up from 1.8%pa as at 30 June 2019)
- Average specialty tenant leasing spreads during the period were negative with average renewals at -1.7% and new leases at -3.9%
- Comparable NOI increase of 1.6% (prior year 2.5%)
- One acquisition of Warner Marketplace Brisbane QLD completed during the period for $78.4 million and one development at Shell Cove NSW completed during the period for $4.8 million
- Sale of properties in the "SURF 1" retail fund completed in December 2019, with winding up of that fund to be completed during CY 2020

(1) Based on weighted average units on issue of 929.8 million. FFO per unit is calculated as FFO of $78.5 million divided by 929.8 million. Payout ratio is calculated as distribution per unit (7.50 cents) divided by FFO per unit (8.44 cents)

Chief Executive Officer, Anthony Mellowes, said: "We are pleased to report another solid result for the six months to 31 December 2019. Our anchor tenants continue to perform well, with supermarket and discount department store MAT sales growth continuing to improve over the last six months and turnover rent also increasing. Our specialty tenants are displaying resilience with specialty sales growth improving, sales productivity increasing, specialty vacancy reducing and occupancy cost now at 9.8%. Against a backdrop of a softening in the broader retail market, our strategy has continued to be a bias toward non-discretionary categories, maintaining high retention rates on renewals, and reducing specialty vacancy by focusing on difficult long term vacancies. This strategy will ensure that we have sustainable tenants paying sustainable rents, and ultimately will support our strategy of generating defensive, resilient cash flows to support secure and growing long term distributions to our unitholders. In the last six months, while average leasing spreads were negative and average incentives were higher, we have achieved a sustainable improvement in occupancy and tenancy mix across the portfolio."

Chief Financial Officer, Mark Fleming, said: "We continue to take advantage of investment opportunities that meet our investment criteria and have completed the acquisition of Warner Marketplace in Brisbane for $78.4 million and the Shell Cove Stage 3 development for $4.8 million. We have recycled capital from lower growth assets by selling Cowes for $21.5 million (or 9.7% above June 2019 book value) and we also completed the divestment of all five properties in the SURF 1 retail fund at a 1.3% premium to the June 2019 book value and aim to wind up this fund and return capital to unitholders during calendar year 2020. In relation to the properties acquired from Vicinity in 2018, we are well advanced in our remixing project which we expect to be substantially completed by June 2020. The overall performance of these centres remains in line with our expectations, and the rental guarantee from Vicinity should cover any short term earnings shortfall during FY20."

<u>Financial performance</u>

Earnings

The Group recorded a statutory net profit after tax of $90.2 million, which was 129.5% above the same period last year. This was primarily due to a full period contribution from the Vicinity acquisitions, and an increase in the value of investment properties this half compared to a decrease in the same period last year due to expensing of acquisition transaction costs.

Excluding non-cash and one-off items, Funds From Operations ("FFO") was $78.5 million, up 19.1% on the same period last year. Key drivers of this increase were acquisitions and developments, and an increase in comparable net operating income ("NOI"). FFO per unit for the period was 8.44 cents, 4.2% above the same period last year.

Adjusted Funds From Operations ("AFFO") was $70.1 million, up by 15.7% on the same period last year. Maintenance capex of $1.9 million was below the same period last year, but leasing costs and fitout incentives of $6.5 million were up by $3.4 million due to our strategy to lease difficult long term vacancies and the repositioning project for the centres acquired from Vicinity.

Property valuations

The value of investment properties increased to $3,232.8 million during the period (from $3,147.0 million at 30 June 2019), primarily due to the acquisition of Warner Marketplace for $78.4 million, completion of the Shell Cove Stage 3 development for $4.8 million, and the valuation uplift on like-for-like properties of $22.2 million, offset by the disposal of the Cowes property for $21.5 million (June 2019 book value $19.6 million). The value of the properties acquired from Vicinity increased by $17.8 million to $594.2 million vs the acquisition price of $573.0 million. The total portfolio weighted average capitalisation rate is now 6.46% (6.48% as at 30 June 2019), with sub-regional centres averaging 6.74% and neighbourhood centres averaging 6.36%.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.29, an increase of 2 cpu or 0.9% from $2.27 as at 30 June 2019. This is primarily due to like-for-like investment property valuation uplifts.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 34.2% as at 31 December 2019 (compared to 32.8% as at 30 June 2019). This increase was largely due to debt funding the acquisition of Warner Marketplace, but remains within our gearing policy range of 30% to 40%. Adjusted for the January DRP, sale of Cowes and initial return of capital from SURF 1, gearing remains at 32.8%.

At 31 December 2019, the Group had cash and undrawn facilities of $145.8 million, the weighted average cost of debt is 3.4%, the average maturity of our debt is 5.6 years, the percentage of debt fixed or hedged is 65.2% and the weighted average fixed/hedged maturity is 4.3 years.

Our earliest debt maturity is the A$ Medium Term Note of $225 million expiring in April 2021. We currently expect to refinance this facility using a combination of existing undrawn facilities and additional debt raised prior to April 2021.

Distributions

SCP aims to deliver sustainable and growing distributions to its unitholders. In August 2019, SCP paid a final distribution in respect of the six month period to 30 June 2019 of 7.45 cpu. In January 2020 SCP paid an interim distribution in respect of the six month period to 31 December 2019 of 7.50 cpu, an increase of 3.4% on the same period last year, which represents a payout ratio of 89% of FFO and 100% of AFFO. The estimated tax deferred component for FY20 is 22%.

The distribution reinvestment plan ("DRP") remained active for both the August 2019 and January 2020 distributions. The August 2019 DRP raised $13.0 million at $2.48 per unit, and the January 2020 DRP raised $27.9 million at $2.71 per unit (comprising a "natural" take-up by unitholders of $14.1 million and an underwritten amount of $13.8 million).

Operational performance

Portfolio occupancy

SCP had a portfolio specialty vacancy rate of 4.8% of GLA as at 31 December 2019, compared to 5.3% as at 30 June 2019 and our target range of 3-5%. Our portfolio occupancy rate was 98.3% and has remained relatively stable since December 2014 at between 98% and 99%.

Specialty vacancy for the centres acquired during FY19 has reduced to 6.0% as at 31 December 2019 (from 7.3% as at 30 June 2019) and we expect it to return to our target range of 3-5% once our repositioning strategy has been fully implemented.

Sales growth

Our portfolio continues to generate sales growth. The comparable store sales MAT growth for the 12 months to 31 December 2019, for stores open more than 24 months was:

- Supermarkets: 2.6% (compared to 2.0% as at 30 June 2019)
- Discount department stores: 3.4% (compared to 2.2% as at 30 June 2019)
- Mini Majors: -1.0% (compared to -3.1% as at 30 June 2019)
- Specialty stores: 2.3% (compared to 1.8% as at 30 June 2019)

Supermarket sales continue to increase, with both Woolworths and Coles recording positive sales growth. Discount department stores sales growth has continued to be positive, with continuing improved performance from our Big W stores. Mini Majors sales growth continues to be impacted by underperformance in the discount variety and apparel categories. Specialty sales in our core non-discretionary categories continue to perform well, with MAT for Food/Liquor growing at 2.7%, Retail Services at 5.1% and Pharmacy at 3.0%.

Four of the centres acquired in FY19 are currently being impacted by competition from within their catchments. This was known at the time of acquisition. Sales growth for the acquired centres has gradually improved over the last six months, and we expect sales growth for these centres to turn positive once the immediate competition impacts cycle through and our repositioning strategy has been fully implemented.

Specialty key metrics

Our specialty tenants have displayed resilience over the last six months:

- Specialty sales MAT growth has improved to 2.3% (up from 1.8% as at 30 June 2019);
- Sales productivity has increased to $8,134 per square metre (up from $8,010 as at 30 June 2019);
- Our rents remain the lowest in the sector at $772 per square metre; and
- Specialty occupancy cost is 9.8% (down from 10.1% as at 30 June 2019).

Against a backdrop of a softening in the broader retail market, our strategy has been to:

- Maintain a high retention rate on renewals: up to 78% for the six months to December 2019 (compared to 77% for the 12 months to June 2019);
- Reduce specialty vacancy by doing a significantly increased volume of deals on difficult long term vacancies: 86 new deals done in six months to December 2019 (vs 87 in the 12 months to June 2019); and
- Remix toward non-discretionary categories.

During the six month period we completed 135 specialty renewals with an average negative rent reversion of -1.7%. We also completed 86 new lease deals with an average negative rent reversion of -3.9%. Average incentives on new lease deals have increased to 15.9 months on a new 5-year deal (up from 11.0 months in FY19) due to leasing difficult long term vacancies and a softening in the broader retail market. While average leasing spreads were negative and average incentives were higher, we have achieved a sustainable improvement in occupancy and tenancy mix across the portfolio.

Acquisitions, disposals and developments

During the period we completed the acquisition of Warner Marketplace in Brisbane QLD for $78.4 million, and the development of Shell Cove Stage 3 NSW for $4.8 million. We also sold Cowes for $21.5 million (9.7% above the June 2019 book value of $19.6 million) and all five assets in the SURF 1 retail fund for $69.3 million (1.3% above the June 2019 book value).

The repositioning project for the portfolio acquired from Vicinity is well advanced and will be substantially completed by 30 June 2020. While we are currently seeing negative sales growth and negative renewal spreads, our cost saving targets have been achieved and portfolio NOI is expected to be in line with acquisition NOI by FY21. The overall performance of these centres is in line with our expectations, and the rental guarantee from Vicinity should cover any short term earnings shortfall during FY20.

Strategy and outlook

Against a backdrop of a softening in the broader retail market, our strategy in FY20 is continuing to ensure we have sustainable tenants paying sustainable rents by continuing to improve our tenancy mix with a bias toward non-discretionary categories, maintaining high retention rates on renewals and reducing specialty vacancy by focusing on difficult long term vacancies.

As well as optimising the earnings from the existing portfolio, we will continue to execute further acquisitions of convenience-based shopping centres, recycle capital from lower growth assets to relatively higher growth assets, invest in value enhancing development opportunities within our existing portfolio and continue to grow our funds management business (subject to market conditions).

These initiatives will support our core strategy which is to generate defensive, resilient cash flows to support secure and growing long term distributions to our unitholders.

Earnings guidance

Our guidance for FY20 FFO is 16.90 cpu (3.5% above FY19, an increase from previous guidance of 16.70cpu) and our guidance for FY20 Distributions is 15.10 cpu (2.7% above FY19). The FFO guidance does not assume any further acquisitions or divestments during the second half of FY20.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 4 February 2020 at 10:00am (AEST).

This document has been authorised to be given to the ASX by the Board of SCP.

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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).