

ASX Release

Charter Hall Retail REIT 1H FY21 Results

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Charter Hall Retail REIT (ASX:CQR) (CQR or the REIT) today announces its 1H FY21 results for the period ended 31 December 2020.

Key financial results:

- Operating earnings of \$75.2 million up \$5 million or 7.1% on 1H FY20 of \$70.2 million
- Operating earnings of 13.17 cents per unit (cpu) down 17.1% on 1H FY20 of 15.88 cpu
- Statutory profit of \$82.8 million, up \$16.1 million or 24.1% on 1H FY20 of \$66.7 million
- Net cashflow from operating activities of \$75.7 million up \$6.5 million or 9.4% on 1H FY20 of \$69.2 million
- Net cashflow from operating activities of 13.26 cpu down 15.4% on 1H FY20 of 15.67 cpu
- Distribution of 10.7cpu up 7.0% from 10.0 cpu on 2H FY20
- COVID-19 tenant support of \$5.8 million provided during the period down from \$10.7 million for 2H FY20
- Portfolio look-through gearing of 34.6%¹ up from 32.3% at 30 June 2020
- Weighted average debt maturity of 3.8 years, no debt maturing until FY22
- Moody's affirmed Baa1 issuer rating with stable outlook
- Liquidity of \$304 million consisting of cash and undrawn debt facilities

Operating highlights:

- 8.2% Supermarket MAT growth, up from 5.2% at June 2020
- Supermarkets in turnover increased to 65%², up from 61% at June 2020
- Total MAT growth³ of 7.1%, up from 3.9% at June 2020
- Contribution from major tenants to portfolio income 54.1%, up from 51.4% at June 2020
- Shopping centre portfolio occupancy of 97.8%, up from 97.3% at June 2020
- Specialty leasing spreads of +2.5% with 119 specialty lease renewals (+0.6% leasing spread) and 105 new leases (+5.9% leasing spreads)
- Specialty tenant retention rate normalised to 82%, up from 72% at June 2020
- Portfolio cap rate of 6.03%, unchanged from June 2020
- Expansion of bp partnership with acquisition of 70 Long WALE convenience retail properties leased to bp in New Zealand

¹ 31 December balance sheet gearing is 27.0%

² Includes supermarkets with fixed rent reviews

³ Like-for-like sales

Charter Hall's Retail CEO, Greg Chubb said: "It's been another period where CQR's portfolio has demonstrated its resilience and the strength of its defensive characteristics. We saw very strong MAT growth from our supermarkets of 8.2%, up from an already strong 5.2% at June. This lifted the percentage of supermarkets paying turnover rent to 65%, reflecting the quality of the CQR's convenience retail centres and their dominant positions within their respective catchments. The gradual normalisation of conditions also saw leasing activity recover strongly, with a record 224 specialty leases completed at an average +2.5% leasing spread. Pleasingly, we also saw occupancy lift to 97.8%, up from 97.3% at June 2020. Importantly, COVID-19 related tenant support progressively diminished over the period.

"We were also delighted to expand our partnership with bp by acquiring a 24.5% interest in 70 triple net leased (NNN) long WALE convenience retail properties leased to bp in New Zealand. This aligns with our strategy of partnering with leading convenience retailers to deliver a resilient and growing income stream for CQR unitholders. Following this transaction, major retailers now make up 54% of CQR's portfolio income. The security and steadily growing nature of this income underpins CQR's future growth in distributions."

COVID-19 Impacts

The CQR portfolio has continued to demonstrate its resilience to the impacts of COVID-19 and government mandated shutdowns. All CQR's convenience centres and bp convenience retail outlets remained opened and traded positively during the period, demonstrating the essential nature of CQR's assets.

CQR provided \$5.8 million or 4% of 1H FY21 rent as tenant support for COVID-19 affected retailers. The level of tenant support continued to diminish over the course of the period. \$133 million or 94% of rent for the period was successfully collected and only \$2.5 million, or 2% of 1H FY21 rent remained outstanding for collection at 31 December 2020. Following collections in January, outstanding rent has now been reduced to less than 1% of rent for the six month period.

Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors through active asset management, portfolio enhancement and prudent capital management.

In December, CQR expanded its partnership with bp by acquiring a 24.5% interest in an AUD\$500 million portfolio of 70 Long WALE NNN Convenience Retail properties leased to bp in New Zealand.

The portfolio, consisting of the majority of bp's owned Convenience Retail properties in New Zealand, was acquired in a sale and leaseback transaction with a 20-year WALE at acquisition with annual CPI rent increases (plus up to 0.5% in the first five years⁴) on a 6.25% initial yield.

This purchase further deepens CQR's partnership with bp, while providing income security and growth in an effective NNN lease structure. Following the acquisition, bp is CQR's third largest tenant customer and represent 12.3% of portfolio income.

The defensive and resilient nature of the CQR's portfolio was also evident in the fund's property valuations. 59% of the portfolio by value was externally revalued during the period. The REIT's total portfolio increased in value by \$252 million with net acquisitions of \$207 million, capital investments of \$30 million and a valuation uplift of \$15 million. The total portfolio cap rate was stable at 6.03%.

Looking at the component parts of the portfolio, the REIT's shopping centre portfolio valuation increased by 1.2% or \$34 million including capital investment, with the shopping centre portfolio cap rate softening from 6.19% to 6.21% between June and December 2020.

The REIT's Long WALE convenience retail portfolio valuation increased by 2.4%, or \$11 million, while the cap rate moved from 5.00% to 5.28% reflecting the acquisition of the Coles Adelaide Distribution Centre and the bp New Zealand portfolio.

⁴ In the first five years if NZ CPI ≤ 2.0%, rent escalation is NZ CPI (0% floor) + 0.5%; if NZ CPI > 2.0% and < 2.5%, rent escalation is 2.5%; and if NZ CPI ≥ 2.5%, rent escalation is NZ CPI (4% cap)

Active management

The portfolio is strategically weighted towards high quality major convenience retail tenants. With the extension of the bp partnership, major tenants Woolworths, Coles, bp, Wesfarmers⁵ and Aldi represented 54.1% of rental income as at December 2020, up from 51.4% at June 2020. The portfolio is well balanced between the major supermarket retailers with Coles and Woolworths both 16.6% of rental income. Aldi has grown across the portfolio via store expansions and is the sixth largest tenant customer with representation of eleven stores. The total portfolio WALE has increased to 7.7 years and majors WALE has increased to 11.6 years.

It was a strong period of trading activity in CQR's convenience retail centres. Total MAT growth⁶ was 7.1%, up from 3.9% at June 2020. Supermarkets in the portfolio continued to perform strongly, with 65% of supermarket tenants paying turnover rent⁷ and those within 10% of turnover thresholds representing 17% of supermarkets. Supermarkets across the portfolio delivered 8.2% MAT growth, up from 5.2% at June 2020. CQR completed five new supermarket leases or extensions during the period, while Coles, Woolworths and Aldi refurbished six stores over the period. Click and Collect facilities now operate at 44 Coles and Woolworths supermarkets across the portfolio with another six planned.

CQR had a record leasing period with 224 specialty leases completed during the period at an average positive spread of 2.5%, the second highest positive spread over the last five years. This was made up of 105 new specialty leases completed at an average leasing spread of 5.9% and 119 renewals completed at an average leasing spread of 0.6%. The specialty tenant retention rate improved to 82%, up from 72% at June 2020, reflecting conditions normalising. Shopping centre portfolio occupancy also improved to 97.8%, up from 97.3% at June 2020.

Specialty MAT declined 1.5% as at 31 December 2020 reflecting the impacts from temporary store closures and ongoing trading restrictions for Food Catering and Retail Services categories. However, Speciality sales progressively improved, with 3.9% growth for the December half, 6.7% for the December quarter and 9.2% for the month of December.

Progress on our strategy towards net zero emissions by 2030⁸ continues, with 64% of electricity use⁹ at December 2020 being generated by on-site solar. CQR's partnership with Cleanpeak Energy and Solgen will deliver 19.8MW of solar across the portfolio and has minimised the capital deployed, leveraged technical expertise to accelerate the roll out program and provided a higher level of cost certainty in a volatile energy market. In addition, Coles and Woolworths installed 2.8MW of additional solar PV systems at a further 16 centres under roof licence agreements.

Capital management

Prudent capital management remains a core focus of CQR and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. As at 31 December 2020, CQR has \$304 million of available liquidity to fund capital investment and enhance portfolio quality.

During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. CQR's weighted average debt maturity is 3.8 years, with an average hedge maturity of 4.2 years. Portfolio balance sheet gearing is 27.0% and look-through gearing is 34.6%, within the target 30-40% gearing range.

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "We continue to proactively manage our capital and debt position to ensure a prudent capital structure. We have no debt maturing until FY22 and \$304 million of available liquidity."

⁵ Kmart, Target, Bunnings, Officeworks

⁶ Like for like sales

⁷ Includes supermarkets with fixed rent reviews

⁸ Scope 1 and Scope 2 emissions in operational control

⁹ Electricity use within operational control represents scope 2 emissions

Summary and outlook

CQR's portfolio continues to offer defensive and resilient earnings through its focus on meeting the property needs of convenience retailers. We continue to expect that supermarket sales and convenience retail sales will continue to be strong, driven by customers preference to shop closer to home and focus on everyday needs. Visitations to CQR centres have normalised in most regions and highlight the essential need associated with convenience retail. Our strategy remains focused on partnering with non-discretionary convenience retailers and providing income resilience and growth through a continuation of our acquisition and divestment strategy.

Barring any unforeseen circumstances or further extended COVID-19 lockdowns and government mandated restrictions, CQR provides FY21 operating earnings guidance no less than 27.3 cents per unit and expects the 2H FY21 distribution to be no less than 12.7 cents per unit.

Announcement Authorised by the Board

Charter Hall Retail REIT (ASX: CQR)

Charter Hall Retail REIT is the leading owner and manager of property for convenience retailers.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC). With over 29 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors - office, industrial & logistics, retail and social infrastructure. Charter Hall Group as manager of CQR has carefully curated a \$45 billion diverse portfolio of over 1,300 high quality, long leased properties. Partnership and financial discipline are at the heart of our approach. Acting in the best interest of customers and communities, we combine insight and inventiveness to unlock hidden value. Taking a long term view, our \$6.8 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

For further enquiries, please contact

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