ASX / MEDIA ANNOUNCEMENT
16 August 2021

SCA PROPERTY GROUP ANNOUNCES FY21 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the year ended 30 June 2021 ("FY21").

Financial highlights:

- Net Profit After Tax [(1)] of $462.9 million, up by 441.4% compared to the same period last year ("FY20") primarily due to an increase in the fair value of investment properties
- Funds From Operations ("FFO") of $159.0 million, up by 12.9% compared to FY20
    - FFO per unit of 14.76 cents per unit ("cpu") [(2)], up by 0.8% compared to FY20
- Adjusted Funds From Operations ("AFFO") of $135.8 million, up by 9.3% compared to FY20
    - AFFO per unit of 12.61 cpu, down by (2.6%) compared to FY20
- Distributions of 12.4 cpu, down by (0.8)% compared to FY20, a payout ratio of 98.5% of AFFO [(2)]
- Weighted average cost of debt currently 2.4% pa. Gearing of 31.3% as at 30 June 2021, up from 25.6% at 30 June 2020 primarily due to acquisitions completed during the period
- Investment property portfolio value of $4,000.0 million, up by $861.8 million since 30 June 2020, due to a like-for-like valuation increase of $409.4 million and acquisitions of $452.4 million
- Net tangible assets of $2.52 per unit at 30 June 2021, up by 13.5% from $2.22 at 30 June 2020 primarily due to the like-for-like valuation increase
- Management expense ratio ("MER") of 0.41% at 30 June 2021, up from 0.38% at 30 June 2020 due to increased D&O insurance costs and no KMP STIP in FY20

Operational highlights:

- Supermarket moving annual turnover ("MAT") growth of 3.2% (compared to 5.1% at 30 June 2020) and specialty store MAT growth of 9.7% (compared to (1.1%) at 30 June 2020)
- Portfolio occupancy of 97.4% by GLA as at 30 June 2021 (compared to 98.2% at 30 June 2020), with specialty vacancy of 5.1% of GLA (no change from 30 June 2020)
- Leasing spreads improved to (0.4%) in FY21, compared to (4.6%) in FY20
- Seven acquisitions for $452.4 million (excluding transaction costs) were completed during the period
- "SURF 1"and "SURF 2" funds were wound up during the period, crystalising an internal rate of return of 11% and 12% respectively per annum for unitholders

(1) Refer to the Financial Report for the year ended 30 June 2021 released today
(2) Based on weighted average units on issue of 1,077.3 million. FFO per unit is calculated as FFO of $159.0 million divided by 1,077.3 million. Payout ratio is calculated as total FY21 distributions declared of $133.8 million divided by FY21 AFFO of $135.8 million.

Chief Executive Officer, Anthony Mellowes, said: “Over the last twelve months, our convenience-based centres have benefited from the shift to shopping locally. Our anchor tenants have experienced strong sales growth and turnover rent has increased. Specialty tenant sales recovered quickly following the easing of restrictions and leasing spreads were positive in the second half of the financial year.

“We have continued to grow our portfolio in a disciplined manner, contracting to acquire nine convenience-based centres during the period, progressing with our development pipeline, and successfully winding up our SURF 1 and SURF 2 funds.

“We have also continued to progress our sustainability program, including setting a Net Zero target for Scope 1 and 2 carbon emissions by 2030 and committing $21.2 million in investment toward that objective over the next twelve months.”

Chief Financial Officer, Mark Fleming, said: “The COVID-19 pandemic has continued to negatively impact our financial results in FY21. During the financial year we provided $10.5 million in rental assistance to over 800 tenants (comprising rent waivers of $6.9 million and rent deferrals of $3.6 million), however rent collection rates returned to pre-pandemic levels by the end of the period.

“Our balance sheet remains in a strong position. As at 30 June 2021 we had cash and undrawn facilities of $290.6 million and our gearing was at 31.3% which is towards the lower end of our target range of 30%-40%. We will also raise $72.4 million in new equity by underwriting our DRP in August 2021, and this means that we could debt fund approximately $190 million of further acquisitions during FY22 and still keep our gearing below 35%.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $462.9 million, which includes significant movements in non-cash fair value adjustments, including a $354.2 million increase in the fair value of investment properties (being the capitalisation rate tightening by 61bps, valuation NOI increasing by 1.3% and removal of $27.4 million of COVID-19 allowances).

The directly attributable COVID-19 earnings impact was $7.3 million (compared to a $20.5 million impact in FY20) including $6.9 million of waivers granted during the period and $4.4 million of other direct COVID-19 impacts (such as increased cleaning expenses and rent freezes), offset by a reduction in the ECL allowance running through property expenses of $4.0 million. The ECL allowance has reduced because increased allowances for deferred and unpaid rent during FY21 were offset by greater than expected collections of FY20 unpaid rent.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $159.0 million, up by 12.9% compared to FY20. The main reasons for this increase were a reduction in the COVID-19 earnings impact (from $20.5 million in FY20 to $7.3 million in FY21) and acquisitions that were completed in FY21. On a per unit basis the FFO per unit increase was lower due to the full year effect of equity raisings completed in late FY20.

Adjusted Funds From Operations (“AFFO”) was $135.8 million, up by 9.3% compared to FY20. Maintenance capex of $9.7 million was higher than the prior year (FY20: $6.0 million) due to the increased size and ageing of the portfolio, while leasing costs and fitout incentives of $13.5 million were also higher than the prior year (FY20: $10.5 million) due to payment of incentives relating to deals completed during FY20 but stores not opening until FY21.

The Group did not receive any funds from the Australian Government under its JobKeeper scheme.

Property valuations

The value of investment properties increased to $4,000.0 million during the period (from $3,138.2 million as at 30 June 2020), due to acquisitions of $452.4 million and like-for-like valuation increase of $409.4 million. The like-for-like valuation increase was due to capitalisation rate tightening by 61bps, valuation NOI increasing by 1.3% and removal of $27.4 million of COVID-19 allowances.

The total portfolio weighted average capitalisation rate is now 5.90% (6.51% as at 30 June 2020), with sub-regional centres compressing to 6.35% (from 6.84% as at 30 June 2020) and neighbourhood centres compressing to 5.77% (from 6.39% as at June 2020).

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.52, an increase of 30 cpu or 13.5% from $2.22 as at 30 June 2020. This is primarily due to the like-for-like investment property valuation increase.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 31.3% at 30 June 2021 (compared to 25.6% as at 30 June 2020). This is toward the lower end of our target range of 30-40% (with a preference to remain below 35% at this point in the cycle). The increase in gearing was due to the acquisitions completed during the year.

At 30 June 2021, the Group had cash and undrawn facilities of $290.6 million, the weighted average cost of debt is 2.4%, the average maturity of our debt is 5.3 years, the percentage of debt fixed or hedged is 50.8% and the weighted average fixed/hedged maturity is 3.0 years. During the year we cancelled $300.0 million of interest rate swaps at a cost of $9.1 million.

We have no debt maturities until FY23. Our earliest debt maturity is a $200.0 million bank facility in November 2022.

Distributions

SCP aims to deliver secure and growing distributions to its unitholders. Since the COVID-19 pandemic began we have increased distributions per unit each half year, from 5.0cpu in 2HFY20 to 5.7cpu in 1HFY21 (paid in January 2021) and 6.7cpu in 2HFY21 (payable in late August 2021). The estimated tax deferred component for the August 2021 distribution is 37%, which is higher than our expected normalised level of 20-25% primarily due to the timing of deductions associated with the ECL allowance and deductibility of swap termination costs.

The distribution reinvestment plan ("DRP") remained active for both the January 2021 and August 2021 distributions. The January 2021 DRP raised $8.2 million at $2.40 per unit, while the August 2021 distribution is underwritten and will raise $72.4 million at $2.42 per unit.

Operational performance

Portfolio occupancy

SCP had a portfolio specialty vacancy rate of 5.1% of GLA as at 30 June 2021 which is at the higher end of our target range of 3-5%. Our portfolio occupancy rate declined to 97.4% as at 30 June 2021 (30 June 2020 was 98.2%) partly due to the Target store at The Gateway closing. We are actively seeking a replacement for this vacancy.

Sales growth

The comparable store sales MAT growth for the 12 months to 30 June 2021, for stores open more than 24 months at centres owned by the Group for the entire period was:

- Supermarkets: 3.2% (compared to 5.1% as at 30 June 2020)
- Discount department stores: 9.2% (compared to 7.6% as at 30 June 2020)
- Mini Majors: 6.4% (compared to 2.9% as at 30 June 2020)
- Specialty stores: 9.7% (compared to (1.1)% as at 30 June 2020)
- Total portfolio: 4.6% (compared to 4.2% as at 30 June 2020)

The relatively strong sales performance is due to a continuation of the shopping local trend and strong sales rebounds for most specialty tenants whenever restrictions are eased.

Specialty key metrics

Our specialty tenants have been relatively resilient over the last twelve months:

- Sales productivity has increased to $9,954 per square metre (up from $8,229 as at 30 June 2020);
- Our rents remain amongst the lowest in the sector at $793 per square metre; and
- Specialty occupancy cost is 8.6% (down from 10.0% as at 30 June 2020).

Our leasing strategy is focused on:

- Taking a considered position on tenants holding over while targeting positive renewal spreads and maintaining a high retention rate on renewals;
- Reducing specialty vacancy; and
- Continuing to remix toward non-discretionary categories.

Leasing spreads improved strongly in the second half of the financial year. Second half renewal spreads were 1.6% (first half was negative (4.6%)), while second half new lease spreads were 3.0% (first half was 0.8%). Over the full year average leasing spreads were (0.4%) (compared to (4.6%) in FY20). We completed 325 leasing deals during the year, plus 75 COVID-19 extensions.

Acquisitions, disposals and developments

During the period we completed seven acquisitions of convenience-based shopping centres and some adjacent sites for $452.4 million (excluding transaction costs). In July 2021 we also completed the acquisitions of Raymond Terrace (NSW) for $87.5 million (excluding transaction costs) and Drayton Central (QLD) for $34.3 million (excluding transaction costs).

Our development pipeline continues to progress, with good progress made at Soda Factory in Brisbane (QLD) due to open before the end of 2021.

Funds management

During the year we wound up the SURF 1 and SURF 2 funds, crystalising an 11% and 12% respectively per annum IRR for investors, and generating performance fees of $0.5 million and $0.7 million respectively. The SURF 3 retail fund continues to operate with three properties valued at $50.2 million.

We will explore additional funds management opportunities in FY22.

Sustainability

During FY21 we have invested $4.1 million in sustainability initiatives such as the installation of building management systems and LED lighting at some of our centres. We have also achieved a 40/40/20 gender split, established a partnership with the Smith Family, achieved a 6 star NABERS rating for our head office and continued to maintain a GRESB rating.

The Group has also set itself a range of sustainability targets including to achieve Net Zero for scope 1 and 2 carbon emissions by 2030, to divert 60% of operational waste from landfill by 2030 and to reduce water use by 25% at our largest consumption sites by 2025. More information is provided in the Group's FY21

Sustainability Report that has been lodged with ASX and can be found on the Group's website at https://www.scaproperty.com.au/investor/.

Strategy and outlook

Our focus continues to be to serve our local communities for their everyday needs, partner with our supermarket anchors to provide a convenient supermarket offer (including online fulfilment), actively manage our centres to ensure that we have sustainable specialty tenants paying sustainable rents, and execute on our ESG initiatives.

We will continue to take a disciplined approach to acquisitions, progress our development pipeline, and explore additional funds management opportunities.

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

Due to the continued uncertainty created by the COVID-19 pandemic, we will not provide FY22 guidance at this time. We will continue to target a Distribution payout ratio of approximately 100% of AFFO.

Our target is to return AFFO per unit to the pre-COVID level of 7.5cpu per half (or 15.0cpu per annum) once the impacts of the COVID-19 pandemic have ended.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 17 August 2021 at 11:00am (AEST).

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

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).