SCA Property Group

ASX / MEDIA ANNOUNCEMENT
7 February 2022

SCA PROPERTY GROUP ANNOUNCES 1H FY22 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the half year ended 31 December 2021 ("1H FY22").

Financial highlights:

- Net Profit After Tax of $432.4 million, up by 320.2% compared to the same period last year ("1H FY21") primarily due to an increase in the fair value of investment properties [(1)]
- Funds From Operations ("FFO") of $94.3 million, up by 30.4% compared to 1H FY21
  - FFO per unit of 8.57 cents per unit ("cpu") [(2)], up by 27.5% compared to 1H FY21
- Adjusted Funds From Operations ("AFFO") of $80.9 million, up by 29.6% compared to 1H FY21
  - AFFO per unit of 7.35 cpu, up by 26.7% compared to 1H FY21
- Distributions of 7.20 cpu, up by 26.3% compared to 1H FY21, a payout ratio of 99% of AFFO [(2)]
- Cost of debt currently 2.4% pa. Gearing of 32.5% as at 31 December 2021, up from 31.3% at 30 June 2021 primarily due to acquisitions completed during the period
- Investment property portfolio value of $4,426.4 million, up by $426.4 million since 30 June 2021, due to a valuation increase of $386.5 million and acquisitions of $347.5 million, offset by transfer of properties to "held for sale" of $307.6m
- Net tangible assets of $2.84 per unit at 31 December 2021, up by 12.7% from $2.52 at 30 June 2021 primarily due to the valuation increase
- Management expense ratio ("MER") of 0.38% at 31 December 2021, down from 0.41% at 30 June 2021 due to increased assets under management

Operational highlights:

- Supermarket moving annual turnover ("MAT") growth of (0.1)% (compared to 3.2% at 30 June 2021) and specialty store MAT growth of 5.5% (compared to 9.7% at 30 June 2021)
- Portfolio occupancy of 98.1% by GLA as at 31 December 2021 (compared to 97.4% at 30 June 2021), with specialty vacancy of 5.0% of GLA (compared to 5.1% at 30 June 2021)
- Leasing spreads improved to (0.2%) in 1H FY22, compared to (0.4%) in FY21
- Seven acquisitions for $347.5 million (excluding transaction costs) were completed during the period
- "SURF 3" fund was wound up during the period, crystalising an internal rate of return of 11% per annum for unitholders
- New fund with GIC ("SCA Metro Fund") to be launched in 2H FY22. SCP to sell seven seed assets to the fund for $284.5 million. Initial target fund size is $750 million

(1) Refer to the Financial Report for the half year ended 31 December 2021 released today
(2) Based on weighted average units on issue of 1,100.2 million. FFO per unit is calculated as FFO of $94.3 million divided by 1,100.2 million. Payout ratio is calculated as 1H FY22 distributions declared of $79.9 million divided by 1H FY22 AFFO of $80.9 million.

Chief Executive Officer, Anthony Mellowes, said: "Over the last six months, our convenience-based centres have remained resilient. Specialty tenant sales grew, while supermarket sales were flat compared to the elevated levels in the prior year. Leasing spreads and cash collection rates were impacted by lockdowns in New South Wales and Victoria but improved toward the end of the half year period. We have made solid progress on our sustainability program, including commencing the rollout of solar panels on our WA assets."

"We have continued to grow our portfolio in a disciplined manner during the period, contracting to acquire seven convenience-based centres. We have also progressed our funds management strategy, announcing a new joint venture fund with GIC (named the SCA Metro Fund), and successfully winding up our final SURF fund. The SCA Metro Fund positions us to access relatively lower return metropolitan neighbourhoods, in partnership with a high quality and globally recognised partner, while growing asset-light management fee income."

Chief Financial Officer, Mark Fleming, said: "Pleasingly, our earnings per unit forecast for FY22 is now above the pre-COVID level. This has been the result of solid operational performance in a challenging environment and a strong balance sheet enabling investment in acquisitions, developments and funds management. Following the sale of assets to the SCA Metro Fund our gearing will be less than 29%, 70% of our debt will be fixed or hedged and we will have over $450 million of cash and undrawn facilities."

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $432.4 million, which includes significant movements in non-cash fair value adjustments, including a $349.4 million increase in the like-for-like fair value of investment properties.

Excluding non-cash and one-off items, Funds From Operations ("FFO") was $94.3 million, up by 30.4% compared to 1H FY21. The main reasons for this increase were acquisitions and a reduction in the COVID-19 earnings impact.

Adjusted Funds From Operations ("AFFO") was $80.9 million, up by 29.6% compared to 1H FY21. Maintenance capex of $7.6 million was higher than the prior period (1H FY21: $3.9 million) due to the increased size and ageing of the portfolio, while leasing costs and fitout incentives of $5.8 million were slightly lower than the prior period (1H FY21: $6.0 million) due to a deliberate strategy to allow an increase in holdovers during the period.

Property valuations

The value of investment properties increased to $4,426.4 million during the period (from $4,000.0 million as at 30 June 2021), due to acquisitions of $347.5 million and a valuation increase of $386.5 million, offset by a transfer of properties to "investment properties held for sale" being the seven properties being sold to the SCA Metro Fund ($284.5 million) and Ballarat ($23.1 million). The valuation increase included a like-for-like increase of $349.4 million plus transaction costs of $17.3 million, net capital expenditure and straight lining net of amortisation of $7.3 million and development spend of $12.5 million. The like-for-like increase was due to capitalisation rate tightening by 45bps and valuation NOI increasing by 0.5%.

The total portfolio weighted average capitalisation rate is now 5.45% (5.90% as at 30 June 2021), with sub-regional centres compressing to 5.88% (from 6.35% as at June 2021), neighbourhood centres compressing to 5.30% (from 5.77% as at June 2021) and freestanding centre compressing to 4.75% (5.50% as at 30 June 2021).

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.84, an increase of 32 cpu or 12.7% from $2.52 at 30 June 2021. 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 32.5% at 31 December 2021 (compared to 31.3% as at 30 June 2021). 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 31 December 2021, the Group had cash and undrawn facilities of $177.4 million, the cost of debt is 2.4%, the average maturity of our debt is 5.8 years, the percentage of debt fixed or hedged is 57.4% and the weighted average fixed/hedged maturity is 4.0 years. We have no debt maturities until June 2024.

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 2H FY20 to 5.7cpu in 1H FY21, 6.7cpu in 2H FY21 and 7.2cpu in 1H FY22 (paid in January 2022). The estimated tax deferred component for the January 2022 distribution is -12%, which is lower than our expected normalised level of 20-25% due to the expected capital gains from the sale of $284.5 million properties to the SCA Metro Fund.

The distribution reinvestment plan ("DRP") remained active for both the August 2021 and January 2022 distributions. The August 2021 DRP was underwritten and raised $72.4 million at $2.42 per unit, while the January 2022 distribution raised $17.5 million at $2.88 per unit, representing a take-up rate of 21.9%.

Operational performance

Portfolio occupancy

SCP had a portfolio occupancy rate of 98.1% as at 31 December 2021 (30 June 2021 was 97.4%) and the specialty vacancy rate was 5.0% of GLA as at 31 December 2021 (30 June 2021 was 5.1%). The increase in portfolio occupancy was driven by re-leasing of the former Gateway Target vacancy (with a new grocer/deli) and acquisitions with higher occupancy levels.

Sales growth

The comparable store sales MAT growth for the 12 months to 31 December 2021, for stores open more than 24 months was:

- Supermarkets: (0.1)% (compared to 3.2% as at 30 June 2021)
- Discount department stores: (4.2)% (compared to 9.2% as at 30 June 2021)
- Mini Majors: 1.4% (compared to 6.4% as at 30 June 2021)
- Specialty stores: 5.5% (compared to 9.7% as at 30 June 2021)
- Total portfolio: 0.3% (compared to 4.6% as at 30 June 2021)

The lower MAT growth experienced by our supermarket and discount department store tenants was due to the unusually strong growth in the prior period. Sales for all tenant categories are higher than the pre-COVID period, with total portfolio MAT in December 2021 compared to December 2019 up by 8.2%.

Specialty key metrics

Our specialty tenants have remained resilient during the period:

- Sales productivity is $9,842 per square metre;
- Our rents remain amongst the lowest in the sector at $795 per square metre; and
- Specialty occupancy cost is 8.8%.

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 remained stable at -0.2% (compared to -0.4% for the 12 months to 30 June 2021). We completed 131 leasing deals during the half year, lower than usual due to our deliberate strategy around holdovers. We expect to achieve positive leasing spreads once the impact of COVID-19 subsides.

Acquisitions, disposals and developments

During the period we completed seven acquisitions of convenience-based shopping centres and some adjacent sites for $347.5 million (excluding transaction costs). We also entered into agreements to sell Ballarat Victoria for $23.1 million (completed in January 2022) and seven centres for $284.5 million to the SCA Metro Fund (expected to complete during 2H FY22).

Our development pipeline continues to progress, with the Soda Factory in Brisbane (QLD) redevelopment successfully completed in December 2021.

Funds management

In December 2021 we entered into agreements with an affiliate of Singapore-based GIC (GIC) to create a new fund called the "SCA Metro Fund". The fund will target metropolitan neighbourhood assets and will be seeded with seven assets from SCP for $284.5 million and has an initial target fund size of $750 million. The fund will be owned 80% by GIC and 20% by SCP and will have target gearing of 60%. SCP will be the Property Manager and Investment Manager for the fund.

During the period we wound up the SURF 3 fund, crystalising an 11% per annum IRR for investors, and generating performance fee of $0.4 million.

Sustainability

During the half year we have invested $5.5 million in sustainability initiatives, which are expected to meet our investment hurdles, such as the installation of building management systems and LED lighting at some of our centres, and commencing work on the rollout of solar panels on our rooves in WA (expected to be completed by June 2022). We have also achieved a 6 star NABERS rating for our head office and improved our GRESB rating score.

The Group has also set itself a range of sustainability targets including to achieve Net Zero for scope 1 and 2 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 sustainability initiatives.

We will continue to take a disciplined approach to acquisitions, progress our development pipeline, and grow the SCA Metro Fund.

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 FY22 FFO per unit is at least 17.5 cpu (18.6% above FY21) and for FY22 AFFO per unit is at least 15.2 cpu (20.5% above FY21). This guidance assumes that there are no further major outbreaks of COVID-19, no significant new government restrictions, and no further acquisitions (either on balance sheet or in the SCA Metro Fund).

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 8 February 2022 at 10:00am (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).