

ASX Release

CHARTER HALL EDUCATION TRUST RESULTS FOR THE YEAR ENDED 30 JUNE 2019

7 August 2019

Charter Hall
Social Infrastructure Limited
ABN 46 111 338 937
AFSL 281544

Responsible entity of
Charter Hall Education Trust
ABN 58 102 955 939

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704 Sydney NSW 2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au

Charter Hall Education Trust (“CQE” or the “Trust”) today announced its results for the year ended 30 June 2019.

Key Financial Highlights

- Distribution of 16.0 cents per Unit (“cpu”), an increase of 6.0 per cent on the previous corresponding period (“pcp”);
- Operating earnings of \$42.2 million, an increase of 5.5 per cent on pcp;
- NTA per Unit of \$2.96, an increase of 6.5 per cent from \$2.78 per Unit at 30 June 2018;
- Statutory profit of \$68.7 million, a decrease of 33.4 per cent from \$103.1 million on pcp due to lower property revaluation increments in the year; and
- Successful completion of \$120 million institutional placement and \$19.3 million unit purchase plan at an issue price of \$3.35 per unit.

Operating Highlights

- 6 developments were completed, with a completion value of \$30.7 million and a yield on cost of 7.1 per cent;
- 7 existing assets were sold for a total of \$9.2 million;
- Acquisition of 14 development sites and 5 existing childcare centres for a total completion value of \$118.7 million;
- Acquisition of 50% interest the Brisbane City Council Bus Network Terminal at Eagle Farm, Brisbane, a new social infrastructure asset for \$51.25 million; and
- CQE’s development pipeline is 31 sites, with an approximate completion value of \$190.2 million.

Property Portfolio Performance

Rent Reviews

The like-for-like rental growth across the portfolio for the 12 months was 2.3 per cent, taking into account both market and annual reviews. During the year, ten market rent reviews were finalised, resulting in a 5.2 per cent increase on the prior year.



Lease Renewals

During the year, 11 of 11 five-year options were exercised, increasing the lease term remaining on these properties from five years to ten years. The overall WALE for the portfolio as at 30 June 2019 has increased to 9.9 years after inclusion of the Brisbane City Council Bus Network Terminal.

Property Valuations

During the year, a total of 353 properties in the portfolio were revalued. Of these, 124 properties were independently revalued as part of the Trust's three-year independent rolling valuation cycle, with the remainder being Directors' valuations. The Directors' valuations were adopted utilising the parameters drawn from the current independent valuations, to ensure consistency across the portfolio. For FY20 and beyond, independent valuations will now be undertaken on a rolling two-year basis.

Development Program

Six developments were completed and commenced operations during the year, with a combined completion value of \$30.7 million. These projects have added asset and income quality to the portfolio with an average development margin of 16.5 per cent and an average yield on cost of 7.1 per cent.

Acquisitions

During the year, CQE acquired 14 childcare development sites and five existing childcare centres for a total completion value of \$118.7 million. The development sites are all located across Victoria, Queensland and Western Australia, and all have agreements for lease in place with quality childcare operators. The existing centre acquisitions provide quality additions to CQE's portfolio, with leases that are consistent with our triple-net structure, long term commitments (15 or 20 year initial terms with further options), fixed annual rent reviews and appropriate security provisions. The fund also acquired a 50% interest in the Brisbane City Council Bus Network Terminal, a prime industrial social infrastructure asset, for \$51.25 million. This acquisition was underpinned by a 19.2 year remaining, triple net lease to Brisbane City Council and introduced a secure government tenant to the portfolio.

Disposals

CQE's capital and portfolio management strategy includes the selective sale of non-core properties, with proceeds redeployed to new property purchases and/or developments. CQE disposed of seven properties during the year, totalling \$9.2 million of gross proceeds.

Capital Management

Equity Capital Raising

In March 2019, CQE completed a fully underwritten \$120 million institutional placement at an issue price of \$3.35 per Unit to fund the acquisition of 13 early learning centres (expected to be delivered at various stages before June 2020) and associated transaction costs. In addition, a \$19.3 million Unit Purchase Plan was completed in April 2019.

Debt Funding

As at 30 June 2019, CQE's debt facilities totalled \$397.0 million, comprising bank term debt facilities of \$297.0 million split equally with Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited and a \$100.0 million institutional loan from AustralianSuper. The facilities are drawn to \$273.5 million as at 30 June 2019 with a debt reduction of \$26.5 million occurring during the year, utilising partial proceeds from the equity raising. CQE has diversified funding sources with no maturity until September 2021 and a weighted average debt maturity of 3.9 years.



CQE's debt facilities were increased by \$50.0 million during the year to \$397.0 million, with \$123.5 million of available debt capacity to fund existing developments underway and future opportunities. CQE's gearing reduced during the year by 6.0 per cent to 23.1 per cent.

Hedging / Cost of Debt

During the year, CQE increased and extended its interest rate hedging positions. CQE has an average hedged position of 67 per cent through to December 2025 at a hedged rate of 1.75 per cent. The cost of debt as at 30 June 2019 is 3.7 per cent per annum, a reduction of 0.4 per cent from the cost of debt at 30 June 2018 of 4.1 per cent per annum. The all-in-cost of debt at 30 June 2019 is 4.1 per cent per annum which includes the amortisation of deferred borrowing costs.

Broadening CQE's Mandate

CQE announces today a broadening of its investment mandate to include additional Social Infrastructure sub-sectors. The objective is to increase CQE's long term income sustainability and therefore resilience through the introduction of further assets to the portfolio that are typically leased to Government, ASX Listed and large corporate entities.

CQE's primary focus will remain in the childcare sector. The broadening of the mandate is designed to strengthen and complement CQE's income and investment profile to provide greater opportunity for earnings and capital growth. Assets in other Social Infrastructure sub-sectors may include Education, Government Services, Transport and Health as areas of preference. The broadening of the mandate is anticipated to better position CQE to participate in what is expected to be increased demand for Social Infrastructure assets in the future. It is anticipated that a broader asset base, with stronger covenants, will also increase CQE's appeal to a wider range of investors.

The key characteristics that have contributed to CQE's success in the childcare sub-sector will remain Management's focus for all new assets. Activities with Government sponsorship, that are mandatory for social cohesion and provide economic benefits, typically through employment generation or support, form part of the criteria.

Additional criteria that CQE will pursue include strong lease covenants, leases with limited capital expenditure requirements, net effective rents and high land value as a second value driver to support income and capital growth. Further, premises with low substitution risk and high tenant retention rates, as well as assets that via location or specialisation, are of material value to their occupants, as is the case with childcare add additional security.

The broadening of the mandate is expected to provide CQE investors with greater security of income and growth than can be provided by one sub-sector alone. The purchase of the Brisbane Bus Terminal Facility in June 2019 is a good example of the asset and income quality that CQE will pursue. The facility is a mandatory economic and social service on valuable industrial land in Eagle Farm of over 6 hectares. It is leased to the Brisbane City Council on the basis of a 19.2 year remaining, triple-net lease and has limited operational prospects of substitution. Amongst other things, the transaction strengthens CQE's income profile and extends its WALE by over 4 per cent to 9.9 years.

Name Change

CQE is expected to change its name to better reflect its wider investment mandate. Unitholders will be advised of the formal change of name and new ASX code in due course.

Head of Social Infrastructure and Executive Director, Nick Anagnostou said "The enhanced investment mandate for CQE is expected to further strengthen a proven investment model, based on minimal capex leakage, net effective rents, long-term leases and high levels of tenant retention all of which are underpinned by high land values. Childcare will remain CQE's priority. The addition of Social Infrastructure assets that match and ultimately enhance the existing characteristics of CQE is a logical extension of a sound and predictable formula that captures the key thematic of population growth and support mechanisms for Australia's labour supply and economy. Improving CQE's income



sustainability and resilience through enhanced covenant quality should add value over and above what is achievable from childcare alone and in turn, should improve CQE's attractiveness to investors."

Early Learning Market

There is increased certainty for the sector post the implementation of the Federal Government's new Child Care Subsidy ("CCS") that has delivered a lower overall out-of-pocket cost to parents and has seen an average increase in participation levels, evidenced by an increase in the number of children now utilising childcare as well as an increase in the number of hours spent in care.

ABS data indicates significant out-of-pocket savings for parents under the CCS which is expected to continue to drive higher participation rates. Daily fees have increased on average by 4.4 per cent since the introduction of the CCS in July 2018, however affordability remains ~8 per cent better with less out-of-pocket cost for childcare.

Tenant demand for existing childcare centres softened during late 2018 as the market hesitated to assess the real impact of the new Childcare Subsidy scheme as well as the prospects of over-supply. The new scheme has subsequently reduced the out-of-pocket cost of childcare and concerns surrounding over supply have dissipated with some centre closures as well as an increasing utility rate. Property yields appear to have responded with initial yields for childcare centres, for the year on average were 6.1% for metropolitan locations and 6.6% for non-metro locations, providing an overall weighted average yield of 6.2%. The volume and quantum of childcare transactions was lower than in previous years at \$300 million (2018: \$450 million) which is in part recognition of the uncertainty caused by CCS and fears of over-supply which have since abated.

CQE estimates that 105 Long Day Care ("LDC") centres closed across Australia over the last year in addition to 65 the year before. These were typically centres of less than 50 LDC places and in less affluent demographics. This has reduced net centre supply levels, in contrast to what is an increase in utilisation in childcare particularly in Victoria where CQE's development program is concentrated.

Operator demand for premises has eased from the highs of 2017 as they assessed potential changes with the CCS as well as tightening lending conditions from their bankers. However, there remains good level of demand for well located centres and CQE's focus on demographic analysis indicates that new premises, suited to their demographic and with appropriate levels of demand, will prosper.

FY20 Guidance

The FY20 forecast earnings guidance is 3-4 per cent growth and distribution guidance of 16.7 cpa. This is a 4.4 per cent increase on FY19 distributions and is based on continued tenant performance and barring any unforeseen events and no material change in current market conditions. CQE will continue to pay quarterly distributions.

CQE continues to execute its strategy to be a leading provider of early learning accommodation in addition to building its social infrastructure portfolio by investing in properties with predictable and secure long-term income with the opportunity for capital growth and high underlying land value. CQE will focus on assets that provide services to communities that support, amongst other things, employment generation and its sustainability. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.



Investor Webcast and Teleconference

Management invites investors to join a webcast/teleconference where the Trust's results and presentation will be discussed. If you are dialing into the conference call, please ensure to dial the numbers below at least 5 minutes prior to commencement of the briefing.

Date: Wednesday, 7 August 2019
Start time: 10.00am AEST
Dial In Numbers: Australia Toll-Free: 1800 093 431
International: +61 2 8047 9393
Analyst PIN code: 52932599#

Pre-register for webcast [here](#)

About Charter Hall Education Trust

Charter Hall Education Trust (ASX:CQE), is an ASX listed Real Estate Investment Trust (A-REIT) that is the largest Australian property trust investing in social infrastructure properties within Australian and New Zealand.

Charter Hall Education Trust is managed by Charter Hall Group (ASX:CHC). With over 28 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, retail, industrial and social infrastructure.

Operating with prudence, we've carefully curated a \$30.2 billion diverse portfolio of over 820 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 \$7 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 information, please contact

Nick Anagnostou
Head of Social Infrastructure Funds
Charter Hall
T +61 3 9903 6170
nick.anagnostou@charterhall.com.au

For media enquiries, please contact

Angus Booth
Head of External Affairs & Communications
Charter Hall
T +61 2 8651 9223
angus.booth@charterhall.com.au

For investor enquiries, please contact

Lula Lioffi
Investor Relations Manager
Charter Hall
T +61 3 9903 6157
lula.liossi@charterhall.com.au

Philip Cheetham
Head of Listed Investor Relations
Charter Hall
T +61 2 8651 9214
philip.cheetham@charterhall.com.au