

# Dexus Convenience Retail REIT (ASX:DXC)

## ASX release

**8 August 2022**

### **2022 Annual Results presentation and property synopsis**

Dexus Convenience Retail REIT (ASX: DXC) releases its 2022 Annual Results presentation.

An investor conference call will be webcast today at 10.00am on [www.dexus.com/investor-centre](http://www.dexus.com/investor-centre)

The property synopsis excel workbook is also available at [www.dexus.com/convenience](http://www.dexus.com/convenience)

*Authorised by the Board of Dexus Asset Management Limited*

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### **About Dexus Convenience Retail REIT**

Dexus Convenience Retail REIT (ASX code: DXC) (formerly APN Convenience Retail REIT (ASX code: AQR)) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. At 30 June 2022, the fund's portfolio is valued at approximately \$850 million, is predominantly located on Australia's eastern seaboard and leased to leading Australian and international convenience retail tenants. The portfolio has a long lease expiry profile and contracted annual rent increases, delivering the fund a sustainable and strong level of income security. The fund has a conservative approach to capital management with a target gearing range of 25 – 40%. Dexus Convenience Retail REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real estate groups, with over 35 years of expertise in property investment, funds management, asset management and development. [www.dexus.com](http://www.dexus.com)

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") is the responsible entity and issuer of the financial products in respect of Convenience Retail REIT No. 1 (ARSN 101 227 614), Convenience Retail REIT No. 2 (ARSN 619 527 829) and Convenience Retail REIT No. 3 (ARSN 619 527 856) collectively the Dexus Convenience Retail REIT (ASX code: DXC) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

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# 2022 Full Year Results

8 August 2022



# Acknowledgement of country

Dexus Convenience Retail REIT acknowledges the Traditional Custodians of the lands on which our business and assets operate, and recognises their ongoing contribution to land, waters and community.

We pay our respects to First Nations Elders past, present and emerging.

**Artwork:** Changing of the Land by Sharon Smith.



# Agenda

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# Introduction and highlights

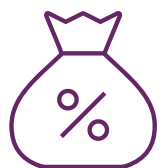




# FY22 highlights

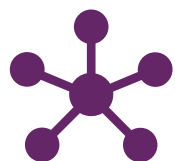
Resilient portfolio characteristics enhanced by active capital management

## Strong financial and portfolio performance



### Delivered upgraded guidance

FFO and distributions of 23.1 cents per security, up 5.5% on FY21



### Enhanced portfolio quality via 15 acquisitions

Long WALE of 10.3 years with enhanced tenant diversification



### 36 cent increase in NTA per security to \$4.03

Contracted rent growth driving 47% of valuation growth

## Active capital management



### Launched on-market buyback program

Capitalised on market volatility via repurchase of 1.4 million securities at average 15% discount to NTA



### Divested 4 assets at 3.8% premium to book<sup>1</sup>

Supports capital recycling and reinforces the high-quality nature of the underlying portfolio



### Strengthened capital position

Hedged debt of 58% across FY22, extended average debt facility maturity to 4.2 years and gearing within target range

1. Includes the sale of 656 Bruce Highway, Woree which exchanged on 19 July 2022 (settlement expected July 2024), as well as the sale of 2215 David Low Way, Peregian Beach which exchanged on 3 August 2022.

# Income certainty backed by high-quality tenant covenants



**112**

properties  
across Australia



**\$850m**

portfolio value



**83%**

weighted to metro  
and highway assets  
(by value)



**5.74%**

WACR



**99.7%**

occupancy  
(by income)

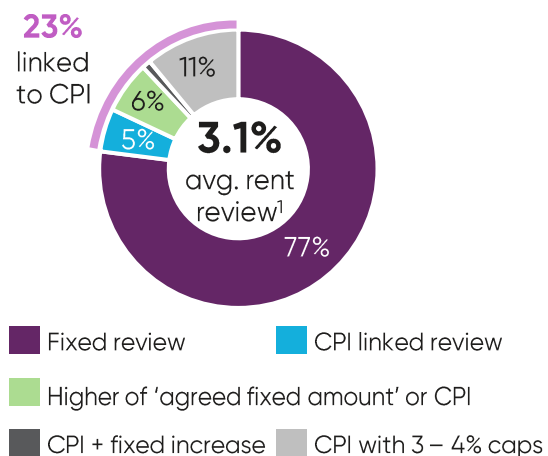


**89%**

of property income  
derived from  
10 major tenants

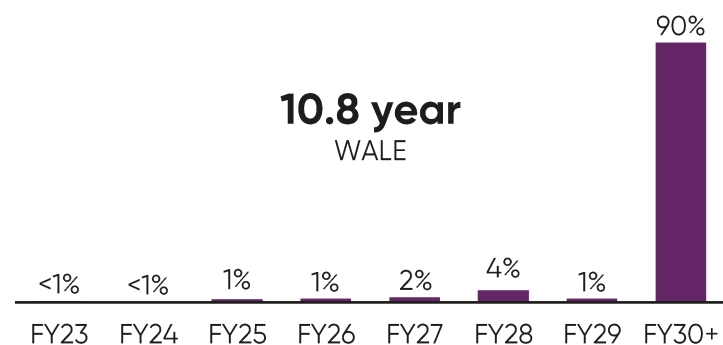
## Contracted fixed rental increases

Annual rent review structure (% by income)



## Longer-term income visibility

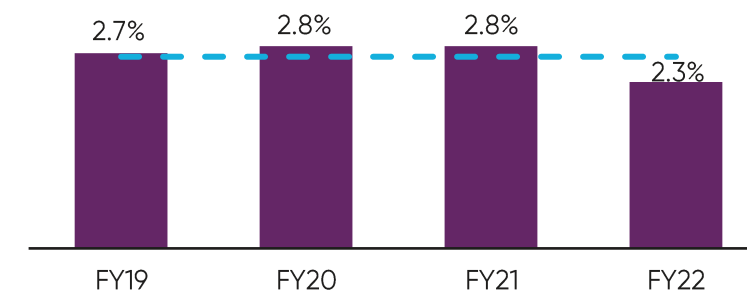
Lease expiry profile (% by income)



## Sustainable NPI growth

Like-for-like NPI growth (%)

**Average: 2.7%**



1. Assuming long-term average CPI of 3.0%.

# A reliable custodian of capital

## 1H22 – delivering growth during supportive market conditions

» **\$55.5m of new equity** raised at an average price of \$3.58 per security<sup>1</sup>

» **Increased debt facilities** by \$70m

» Strategic deployment of capital into **portfolio-enhancing acquisitions**

» Executing **developments and property enhancement** initiatives

## 2H22 – our response to changes in market conditions

» **Securities buyback** at an average price of \$3.24 per security

» **\$13m asset sales<sup>2</sup>**, with expanded **divestment program underway**

» **Reallocated capital away from development** activity

» **Increased hedging levels**, and **average debt maturity** by >1 year

1. Excludes proceeds from Distribution Reinvestment Plans.

2. Includes the sale of 656 Bruce Highway, Woree which exchanged on 19 July 2022 (settlement expected July 2024), as well as the sale of 2215 David Low Way, Peregrine Beach which exchanged on 3 August 2022.



# Supporting ESG initiatives through working with tenants



**Progress towards net zero emissions for managed portfolio<sup>1</sup>**



**3 sites with EV charging capability**



**Plans to rollout solar at 29 DXC properties leased to Chevron<sup>2</sup>**



**Supporting implementation of Dexus's Reflect RAP**



**16 suppliers engaged through annual ESG monitoring program**



**Environmental data tracking via Dexus's centralised systems**



Puma, Cluden QLD

1. Final certification is to be achieved post-reporting period as Dexus is in the final stages of quantifying DXC's greenhouse gas emissions over the financial year following the procurement of required renewable electricity and carbon offsets.
2. Installation works to begin in FY23.



# Financials, transactions and developments





# FY22 financial result

Strong result in line with upgraded guidance

Profit & loss	FY22	FY21	Change
Property FFO (\$m)	43.8	33.7	▲ 29.8%
Management fees (\$m)	(5.0)	(3.5)	▲ 43.4%
Net finance costs (\$m)	(6.4)	(3.8)	▲ 66.6%
Other expenses (\$m)	(1.0)	(0.5)	▲ 80.3%
FFO (\$m)	31.5	25.9	▲ 21.5%
FFO (cents per security)	23.1	21.9	▲ 5.5%
Distributions (cents per security)	23.1	21.9	▲ 5.5%
FFO payout ratio (%)	100%	100%	-
Balance sheet	30 Jun 2022	30 Jun 2021	Change
NTA per security (\$)	\$4.03	\$3.67	▲ 9.6%

- › Like-for-like portfolio income growth of 2.3%
- › Contributions from recent acquisitions

- › Average debt balance \$138 million higher

- › Includes impact of new securities issued

- › Majority of uplift (22 cents) attributable to \$30.8 million of valuation gains
- › Additional 10 cents of uplift attributable to \$13.1 million fair value gain on interest rate derivatives

# FY23 change in FFO approach

Profit & loss	FY22
<b>Reported</b>	
FFO (\$m)	31.5
FFO (cents per security)	23.1
<b>Restated FY22 in line with PCA guidelines</b>	
FFO (\$m)	31.1
FFO (cents per security)	22.8

- › From FY23 DXC will include amortised borrowing costs in FFO, aligned with PCA guidelines
- › In the FY23 statutory accounts, FY22 will be restated resulting in circa (1)% FFO impact:
  - › \$0.4 million decrease in FFO
  - › 0.3 cent decrease in FFO per security



# Balance sheet and capital management

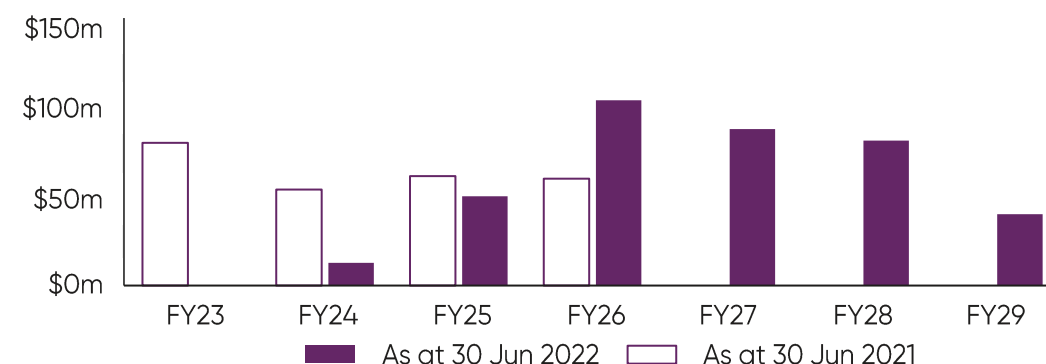
Actions taken in second half to respond to uncertain macroeconomic environment

Key metrics	30 Jun 2022	30 Jun 2021
Gearing	34.7% <sup>1</sup>	28.2%
Cost of debt <sup>2</sup>	2.6%	3.0%
Weighted average debt facility maturity <sup>3</sup>	4.2 years	2.9 years
Hedged debt (incl caps) <sup>4</sup>	58%	67%
Total debt	\$299.6m	\$180.8m
Headroom <sup>5</sup>	\$75.4m	\$74.3m <sup>6</sup>

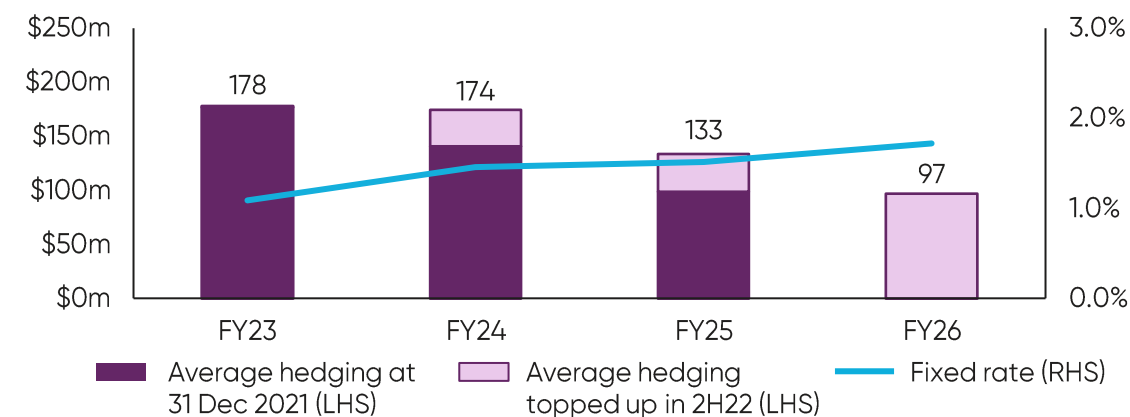
- Adjusted for cash. Reflects pro forma gearing for the sale of 2215 David Low Way, Peregrine Beach which exchanged on 3 August 2022. Gearing as at 30 June 2022 was 35.0%.
- Weighted average for the period, inclusive of fees and margins on a drawn basis.

- Weighted average maturity of total facility limits. Average for the period.
- Undrawn facilities plus cash.
- Excludes a \$20 million at-call accordion facility which was exercised in August 2021.

## Material extension of debt maturity profile (total facility limit)



## Top up of interest rate hedging



# Portfolio valuation movements

Predictable cashflows continue to support valuations

- › **3.8% (\$30.8m) total increase** on prior book values
- › **47% of valuation increase driven by contracted rental growth**, providing valuation support through the cycle
- › **Expect strong appeal** for service station and convenience retail assets due to defensive characteristics, noting uncertainty in the macroeconomic environment

## Property portfolio valuation summary – 30 June 2022

Portfolio	Properties	30 Jun 2022 book value (\$m)	Reval uplift (%)	Cap rate (%)	Cap rate 12 month mvmt (bps)	Reval uplift due to cap rate mvmt (%)	Reval uplift due to rental growth (%)
Metropolitan	78	\$547	4.6%	5.55%	(29) bps	56%	44%
Highway	9	\$158	Flat	5.70%	(15) bps	42%	58%
Regional	25	\$145	4.8%	6.48%	(34) bps	46%	54%
Total	112	\$850	3.8%	5.74%	(28) bps	53%	47%



# Portfolio activity

## Active management approach to portfolio optimisation

### Acquisitions

Portfolio enhancement

**15** acquisitions

**\$168m** total value

**5.5%** average yield

**10.3year** average WALE

### Divestments

Capital recycling and portfolio refinement

**4** divestments<sup>1</sup>

**\$13m** total value<sup>1</sup>

**3.8%** average premium to book value achieved<sup>1</sup>



expanded divestment program underway

### Developments

Embedding future value

- › Fund-throughs provide access to high-quality product with appropriate risk mitigation
- › Hillcrest development completed in Nov-21 at a cost of \$8.5 million (yield on cost of 5.5%), now valued at \$9.3 million
- › Completed Dubbo Stage 1 for \$8.4 million at yield on cost of 6.0%, including a strong retail offering through Carls Jr restaurant

## FY22 achievements



11% exposure to non-fuel tenants, up from 6% 12 months ago



average age of acquisitions 3.8 years including 4 new builds



site areas of acquisitions circa 9% above portfolio average



greater exposure to CPI rent increases from acquisitions



\$35m development pipeline

1. Includes the sale of 656 Bruce Highway, Woree which exchanged on 19 July 2022 (settlement expected July 2024), as well as the sale of 2215 David Low Way, Peregian Beach which exchanged on 3 August 2022.



# Summary





# Summary and FY23 guidance

Well positioned in an uncertain environment

## Strong appeal in defensive and growth attributes of convenience retail



### Enhancing property income and valuation resilience

via active portfolio management and selective capital works projects



### Focused on balance sheet strength

expanded divestment program underway to provide further balance sheet strength and redeployment optionality



### Capitalising on market volatility

allocation of capital toward higher-returning opportunities including potential buyback of securities



**FY23 FFO and distributions** of 21.2 – 22.0 cents per security, based on property income growth supported by contracted rental increases, current interest rate expectations and barring unforeseen circumstances<sup>1</sup>

1. Assumes average floating interest rates of 2.75% – 3.75% (90-day BBSW) and no further transactional activity.



7-Eleven, Southern River WA





# Appendices

# Consolidated profit & loss statement

\$'000	FY22	FY21
Net property income	42,678	33,232
Straight lining of rental income	5,166	4,492
Interest income	147	136
Other income	-	350
<b>Total revenue</b>	<b>47,991</b>	<b>38,210</b>
Management fees	(4,956)	(3,457)
Finance costs	(3,398)	(4,218)
Corporate costs	(970)	(538)
<b>Total expenses</b>	<b>(9,324)</b>	<b>(8,213)</b>
<b>Net operating income (EBIT)</b>	<b>38,667</b>	<b>29,997</b>
Fair value gain/(loss) on derivatives	13,136	1,603
Fair value gain/(loss) on investment properties	30,836	42,218
<b>Net profit after tax</b>	<b>82,639</b>	<b>73,818</b>



# FFO reconciliation

\$'000	FY22	FY21
Statutory net profit after tax for the period	82,639	73,818
Adjusted for:		
Net fair value (gain) / loss on investment properties	(30,836)	(42,218)
Net fair value (gain) / loss on derivatives	(13,136)	(1,603)
Incentive amortisation and rent straight-line	(5,042)	(4,335)
Rental guarantees, coupon income and other	980	-
Debt modification gain	(3,510)	-
Amortisation of borrowing costs	402	266
FFO	31,497	25,928
Distribution declared	32,037	26,372
Weighted securities on issue (thousands)	136,329	118,335
Payout ratio (Distribution per security / FFO per security)	100%	100%
Distribution per security (cents per Security)	23.1	21.9
FFO (cents per security)	23.1	21.9

# Consolidated balance sheet

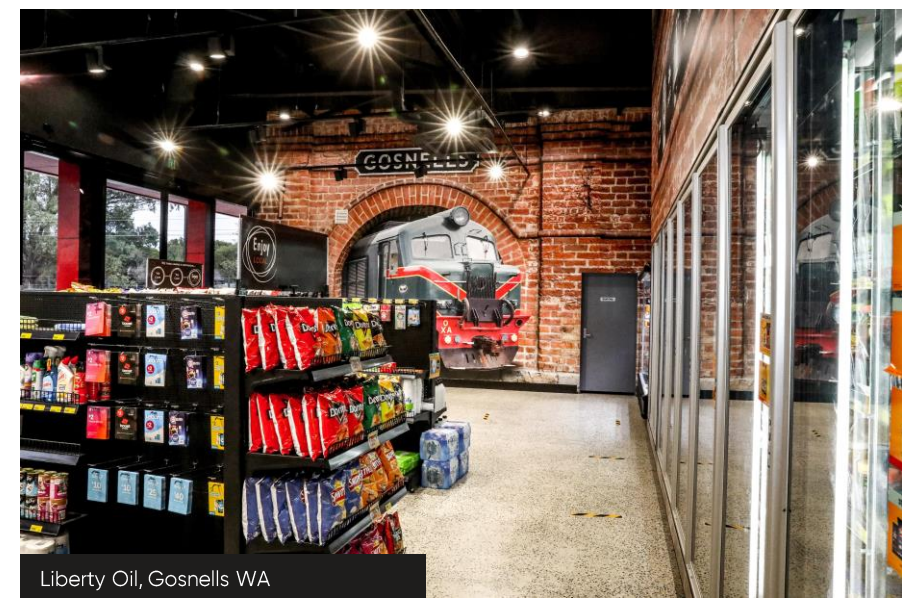
\$'000	30 Jun 2022	30 June 2021
Cash and cash equivalents	5,178	786
Investment properties	850,050	632,651
Other assets	17,894	13,357
<b>Total assets</b>	<b>873,122</b>	<b>646,794</b>
Borrowings	(299,611)	(180,769)
Provisions	(11,256)	(6,758)
Other liabilities	(7,737)	(5,996)
<b>Total liabilities</b>	<b>(318,604)</b>	<b>(193,523)</b>
<b>Net assets</b>	<b>554,518</b>	<b>453,271</b>
Stapled securities on issue (thousands)	137,757	123,430
<b>NTA per security (\$)</b>	<b>\$4.03</b>	<b>\$3.67</b>

# Fund-through developments

Completed	Total spend (\$m)	Yield on cost (%)	Completion date
Hillcrest, SA	\$8.5m	5.5%	Nov-21
Dubbo Service Centre Stage 1, NSW	\$8.4m	6.0%	Jul-22

Future pipeline	Est. total spend (\$m) <sup>1</sup>	Est. yield on cost (%)
Glasshouse Mountains Dual Service Centre, QLD	\$35m	5 – 6%

1. Future pipeline project totals have been rounded.

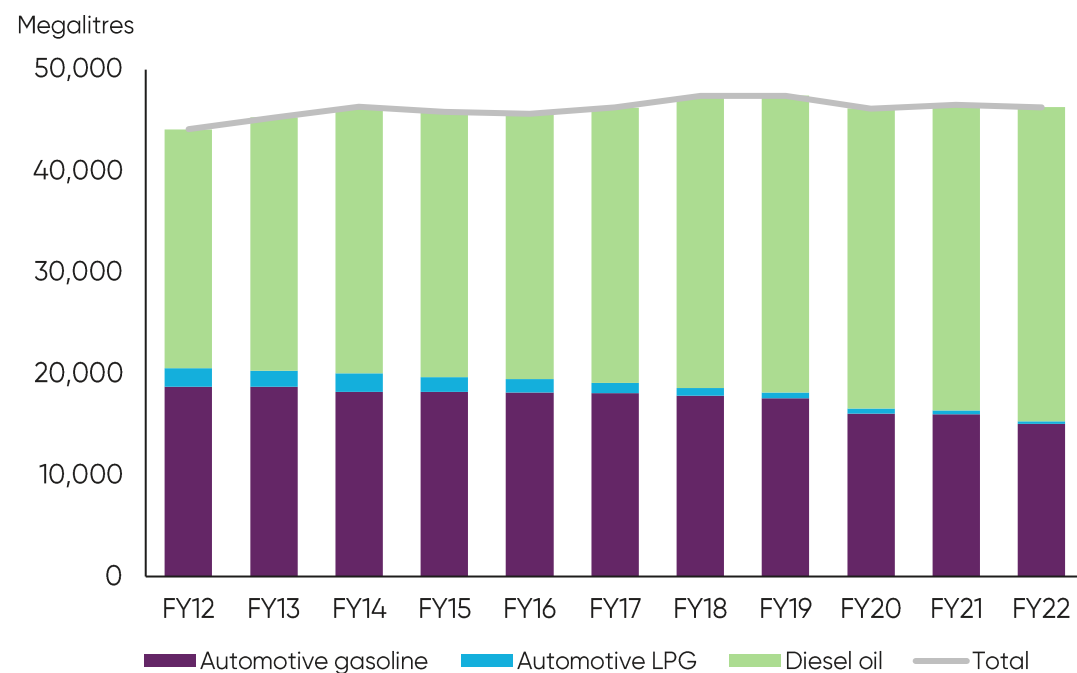




# Market dynamics

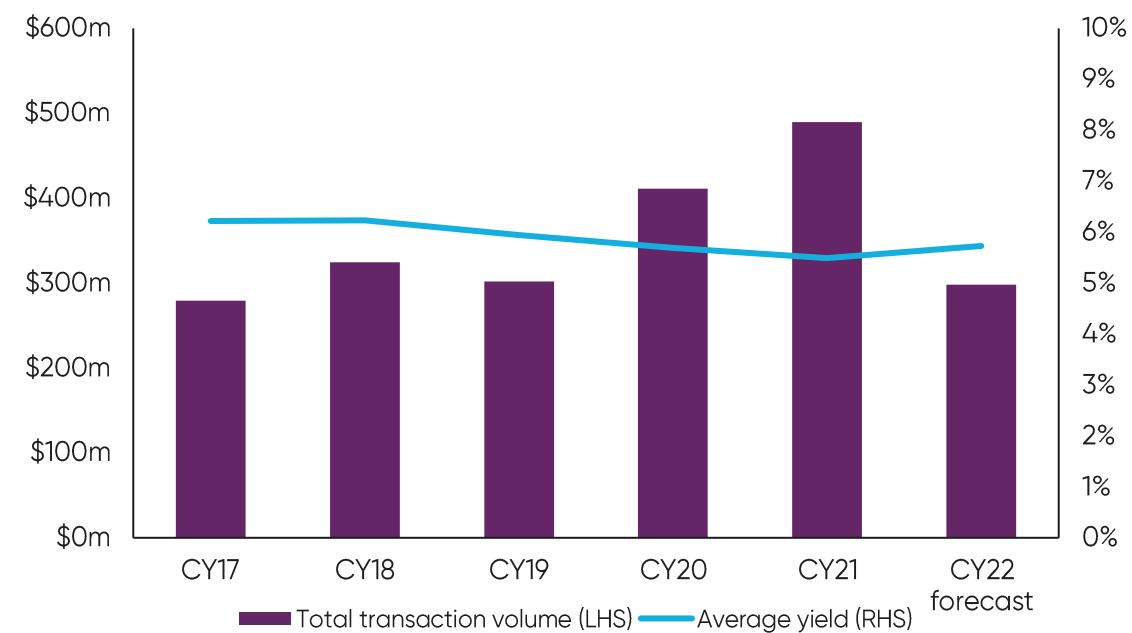
## Fuel sales volumes remain robust

Sales volumes of petroleum products<sup>1</sup>



## Transaction volumes in line with historical levels

National service stations transaction volumes<sup>2</sup>



Source: ABS, Dept of Industry, Science, Energy and Resources, energy.gov.au, Australian petroleum statistics, Dexus Research.

1. Premium diesel oil excluded from the chart due to limited data.

2. CY22 figures annualised based on HY22 data.

# Important information

This presentation ("Material") has been prepared by Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) ("DXAM") as the responsible entity of Convenience Retail REIT No. 1 (ARSN 101 227 614), Convenience Retail REIT No. 2 (ARSN 619 527 829) and Convenience Retail REIT No. 3 (ARSN 619 527 856), collectively the Dexus Convenience Retail REIT (ASX: DXC) stapled group. DXAM is a wholly owned subsidiary of Dexus (ASX: DXS).

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