

Dexus Convenience Retail REIT (ASX:DXC)

ASX release

6 February 2023

Resilient portfolio supporting solid property income growth

Dexus Convenience Retail REIT (DXC) today announced its results for the half year ended 31 December 2022, confirming a distribution of 10.6 cents per security.

Highlights

- **Funds from Operations (FFO)** up \$0.3 million, or 2.0%, to \$15.6 million driven by property portfolio like-for-like net operating income growth of 2.4% and full period contributions from acquisitions, partly offset by the impact of higher net finance costs and reduced income from divestments
- **On a per security basis, FFO of 11.3 cents** was down 0.8%, reflecting the increase in securities on issue following the equity raising undertaken in HY22
- **Distributions of 10.6 cents per security**, reflecting an FFO payout ratio of 93.9%
- **Six divestments totaling \$25.4 million** reflecting an average discount to last stated book value of 1.3%, including \$10.1 million of assets expected to settle post 31 December 2022
- **Solid capital position** with gearing of 34.1% within the 25 – 40% target range, as well as 63% of debt hedged across HY23 with a weighted average hedge maturity of 3.7 years
- **Net Tangible Assets (NTA) per security of \$3.94**, with contracted rental growth partially offsetting the impact of capitalisation rate expansion on asset valuations

Jason Weate, DXC Fund Manager said: “Our portfolio continues to deliver solid top line growth, which provides income certainty backed by high-quality tenant covenants. While the macroeconomic environment remains uncertain, and higher net finance costs will continue to impact our results into the second half, we have narrowed our FY23 guidance range due to increased visibility into floating rates and remain well positioned for the long term.”

Strategy

“Today’s results demonstrate the capability of our portfolio to provide investors with a defensive portfolio income stream, further supported by our disciplined approach to capital allocation.

“We divested six assets at an overall discount to book value of 1.3% amidst complex market conditions with transaction volumes approximately 50% lower than the prior year due to cautious buyer sentiment in response to increases in cost of capital. \$10.1 million of proceeds from these sales are expected to be received in the coming months, which will further enhance balance sheet strength through reducing gearing and increasing hedging levels.

“The announced divestments have enhanced portfolio quality by reducing our exposure to older tank technology and regionally located assets, while also retaining a diverse tenant base and increasing our exposure to non-fuel tenants.”

Financial result

DXC reported a statutory net profit after tax of \$3.1 million for the half, down \$36.9 million, or 92.2%, primarily driven by \$14.9 million of valuation declines on investment properties, compared to valuation gains of \$18.5 million in HY22.

FFO increased 2.0% to \$15.6 million, with portfolio like-for-like net operating income growth of 2.4% and full period contributions from acquisitions in HY22, partially offset by higher net finance costs and reduced income from divestments.

On a per security basis, FFO decreased 0.8% to 11.3 cents, impacted by higher average securities on issue following \$56.3 million of equity raised in HY22.

DXC had 25 investment properties independently valued in the six months to 31 December 2022, with the remainder subject to internal valuations. The external and internal valuations resulted in a net devaluation of \$14.9 million, representing a 1.8% decrease on prior book values. NTA per security decreased nine cents, or 2.1%, to \$3.94 as at 31 December 2022.

Gearing was 34.1%, within the target range of 25 – 40%. The weighted average cost of debt increased 70 basis points to 3.4% compared to HY22, primarily driven by higher average floating interest rates. 63% of debt was hedged during the half with a weighted average hedge maturity of 3.7 years as at 31 December 2022. DXC’s weighted average debt maturity is 4.3 years.

Property portfolio and asset management

DXC's property portfolio includes 109 assets valued at \$822 million as at 31 December 2022. The portfolio is diversified by geography, tenant and site type.

The portfolio is 84% weighted (by value) to metropolitan and highway assets, with regional properties comprising the remainder. Metropolitan and highway assets benefit from higher levels of traffic flow and offer greater flexibility to explore alternate land usage to support the consumer trend towards greater convenience retail spend per visit.

The weighted average capitalisation rate for the portfolio is 5.90%, expanding 16 basis points over the past six months. During the half, the valuations of metropolitan assets decreased 1.7% on prior book values, while highway assets decreased 0.4% and regional assets decreased 3.8%.

The portfolio has a weighted average lease expiry of 10.2 years with limited lease expiry risk in the next 10 years, providing strong income visibility.

The portfolio generates strong organic rental growth with average rent reviews of approximately 3.1% per annum¹. 76% of rental income is subject to fixed increases, while 24% is linked to CPI with half of these subject to caps of 3 – 4%.

The portfolio remains 99.4% occupied by income and is underpinned by reliable and experienced national and global tenants, with 89% of rental income derived from 10 major tenants.

Environmental, Social and Governance (ESG)

DXC remains focused on driving long-term portfolio resilience. Approximately 11% of the portfolio's income is derived from non-fuel tenants, while three sites across the portfolio offer electric vehicle charging stations.

DXC supports its tenants' ESG aspirations and their continued investment in sustainability initiatives across the portfolio. During the half, DXC progressed agreements to rollout onsite solar at 29 Chevron sites in DXC's portfolio with works for the first installation expected to begin in February 2023.

Overview and outlook

DXC provides secure portfolio income in an uncertain environment, marked by inflationary pressures, rising interest rates and softening transaction volumes. DXC is well placed to deliver sustainable property income growth, underpinned by leases to high-quality international and national tenants generating 3.1% average rent growth per annum¹. DXC expects relative valuation resilience for service station and convenience retail assets due to their defensive characteristics.

DXC will continue to focus on enhancing balance sheet strength to position it for long-term growth, including through exploring additional asset sales to increase redeployment optionality.

DXC narrows its FY23 guidance range to FFO and distributions between 21.4 – 21.8 cents per security, based on property income growth supported by contracted rental increases, current interest rate expectations and barring unforeseen circumstances (assumes average floating interest rates of circa 3.25% (90-day BBSW) and no further transactional activity).

Authorised by the Board of Dexus Asset Management Limited

For further information please contact:**Investors**

Jason Weate
Fund Manager
+61 409 188 228
jason.weate@dexus.com

Media

Luke O'Donnell
Senior Manager, Media and Communications
+61 412 023 111
luke.odonnell@dexus.com

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 31 December 2022, the fund's portfolio is valued at approximately \$822 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

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).

Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000 Australia. PO Box 18011 Melbourne Collins Street East VIC 8003 Australia

¹ Assuming long-term average CPI of 3.0%.