Dexus Convenience Retail REIT (ASX:DXC)

ASX release

6 February 2023

2023 Half Year Results presentation and property synopsis

Dexus Convenience Retail REIT (ASX: DXC) releases its 2023 Half Year Results presentation.

An investor conference call will be webcast today at 10.00am on www.dexus.com/investor-centre

The property synopsis excel workbook is also available at 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 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).

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Dexus Convenience Retail REIT

2023 Half Year Results

6 February 2023

Dexus Asset Management Limited ACN 080 674 479 AFSL 237 500
as responsible entity for Dexus Convenience Retail REIT

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

Introduction and highlights

HY23 highlights

Resilient portfolio supporting solid property income growth

Financial & property performance

Resilient property income
2.4% like-for-like income growth

Narrowed FY23 guidance range
FFO & distributions of 21.4 – 21.8 cents per security

Divestments enhancing portfolio quality
Reduced exposure to regional assets and older tank technology

Capital management

Divested 6 assets for $25.4 million[1]
1.3% average discount to book
Sale proceeds used to repay debt

Solid balance sheet
Gearing of 34.1% within 25 – 40% target range

Prudent debt management
Average maturity of debt of 4.3 years
Average maturity of hedges of 3.7 years

Ampol, Warrego QLD

Mobil, Hillcrest SA

Income certainty backed by high-quality tenant covenants

109
properties across Australia

$822m
portfolio value

84%
weighted to metro and highway assets (by value)

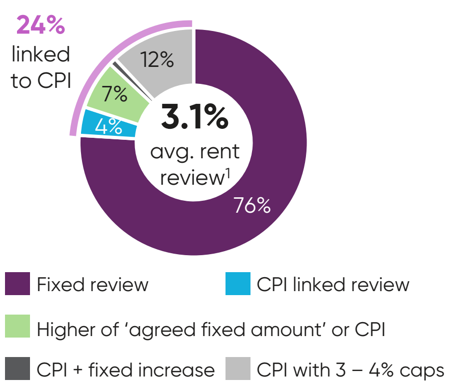
5.90%
WACR

99.4%
occupancy (by income)

89%
of property income derived from 10 major tenants

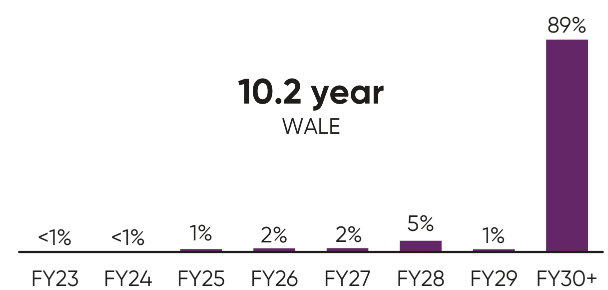
Contracted fixed rental increases

Annual rent review structure (% by income)



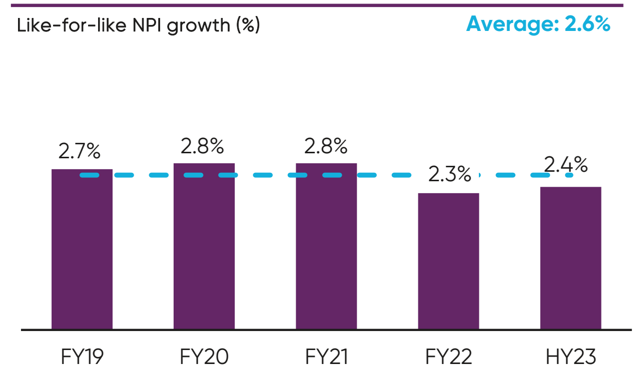
Longer-term income visibility

Lease expiry profile (% by income)



Sustainable NPI growth

Like-for-like NPI growth (%)



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

Financials and transactions

HY23 financial result

Resilient portfolio income partly offsetting impact of higher net finance costs

Profit & loss	HY23	HY22		Change
Property FFO ($m)	23.9	21.3	▲	12.1%
Management fees ($m)	(2.7)	(2.5)	▲	10.8%
Net finance costs ($m)	(5.1)	(3.2)[1]	▲	59.9%
Other expenses ($m)	(0.5)	(0.4)	▲	24.0%
FFO ($m)	15.6	15.3[1]	▲	2.0%
FFO (cents per security)	11.3	11.4[1]	▼	(0.8)%
Distributions (cents per security)	10.6	11.5	▼	(7.4)%
FFO payout ratio (%)	93.9%	100.6%[1]	▼	(6.7)ppt
Balance sheet	**31 Dec 2022**	**30 Jun 2022**		**Change**
NTA per security ($)	$3.94	$4.03	▼	(2.1)%

- Full-period contributions from acquisitions in HY22, partly offset by divestments
- Like-for-like portfolio income growth of 2.4%

- Average debt balance $58 million higher
- Average cost of debt 70bps higher, primarily driven by higher floating interest rates

- Increase in securities on issue following $56.3 million of equity raised in HY22

- Predominantly driven by $14.9 million of property portfolio devaluations

1. HY22 restated to include amortised borrowing costs in FFO, aligned with PCA guidelines. Reported HY22 FFO payout ratio was 99.4%.

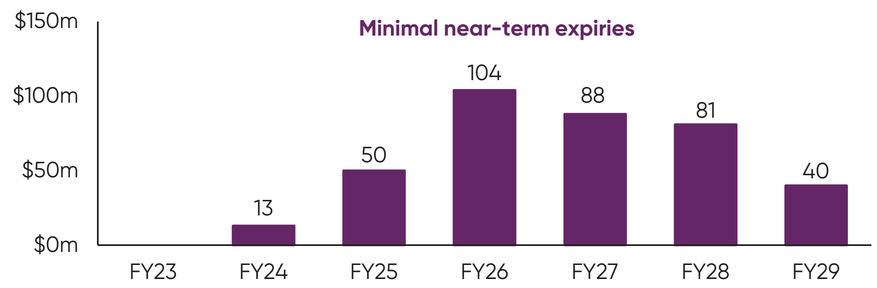
Balance sheet and capital management

Prudent approach in an uncertain macroeconomic environment

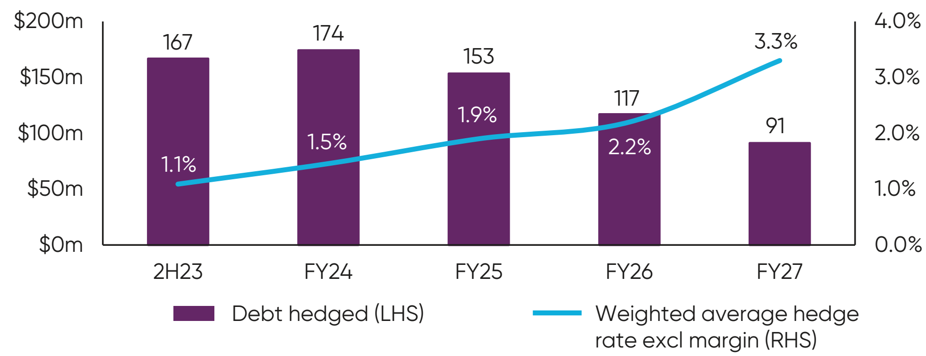
Key metrics	31 Dec 2022	30 Jun 2022
Gearing[1]	34.1%	35.0%
Cost of debt[2]	3.4%	2.6%
Average maturity of debt[3]	4.3 years	4.7 years
Hedged debt (incl caps)[4]	63%	58%
Average maturity of hedges	3.7 years	3.8 years
Total borrowings	$282.8m	$299.6m
Headroom[5]	$93.2m	$75.4m

1. Adjusted for cash.
2. Weighted average for the period, inclusive of fees and margins on a drawn basis.
3. Weighted average maturity of drawn debt. 30 Jun 2022 is restated and was previously reported as 4.2 years based on a weighted average maturity of total facility limits.
4. Average for the period.
5. Undrawn facilities plus cash.

Debt maturity profile (total facility limit)



Interest rate hedging profile



Portfolio valuation movements

Predictable cashflows providing valuation support

- **1.8% ($14.9m) total decrease** on prior book values
- **Contracted rental growth partially offsetting 16bps of cap rate expansion**
- **Expect relative valuation resilience** for service station and convenience retail assets due to defensive characteristics, noting continued uncertainty in the macroeconomic environment

Property portfolio valuation summary – 31 Dec 2022

Portfolio	Properties	31 Dec 2022 book value ($m)	Total reval change (%)	Cap rate (%)	Cap rate 6 month mvmt (bps)
Metropolitan	77	$536	(1.7)%	5.75%	20 bps
Highway	9	$158	(0.4)%	5.83%	13 bps
Regional	23	$129	(3.8)%	6.63%	15 bps
Total	109	$822	(1.8)%	5.90%	16 bps

Asset divestments

Solid outcomes in a challenging market

$25.4m total divestments

1.3% average discount to book value

7.06% average cap rate[1]

Property	Property type	Settlement
2215 David Low Way, Peregian Beach, QLD	Metropolitan	19-Sep-22
4545 Flinders Highway, Reid River, QLD	Regional	14-Nov-22
25 Kiernan Drive, Roseneath, QLD	Regional	16-Dec-22
282 Wardell Street, Enoggera, QLD	Metropolitan	6-Feb-23
Lot 401 Great Northern Highway, South Hedland, WA	Regional	31-Mar-23
656 Bruce Highway, Woree, QLD	Metropolitan	18-Jul-23

1. Based on last reported book value capitalisation rate of assets prior to divestment.

Mobil X, Paradise SA


Liberty Oil, Gosnells WA

Summary


AMPOL
FOODARY
KEBAB'N
Carl's Jr.
CHARGRILLED BURGERS
woolworths
Save 4¢

Summary

Strong appeal in defensive and growth attributes of convenience retail

Providing secure portfolio income in an uncertain environment marked by inflationary pressures, rising interest rates and softening transaction volumes

Well placed to deliver consistent property income growth underpinned by leases to high-quality international and national tenants generating >3% average contracted rent growth per annum[1]

Continued focus on enhancing balance sheet strength via exploring additional asset sales to increase redeployment optionality

FY23 FFO and distributions range narrowed to 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[2]

Viva Energy, Acacia Ridge QLD

1. Assuming long-term average CPI of 3.0%.
2. Assumes average floating interest rates of circa 3.25% (90-day BBSW) and no further transactional activity.

Appendices

Portfolio tenancy mix

Tenant	% portfolio income
Chevron	37%
7-Eleven	12%
Viva Energy	12%
EG Australia	9%
Mobil	4%
OTR	4%
United	4%
Ampol	3%
Coles Express	2%
BP	2%
Top 10	89%
Other	11%
Total	100%

Puma, Cluden QLD

Fund-through developments

Optionality to significantly increase convenience retail offering

Future pipeline (uncommitted)	Est. total spend ($m)[1]	Est. yield on cost (%)
Glasshouse Mountains Dual Service Centre, QLD	$35m	5 – 6%

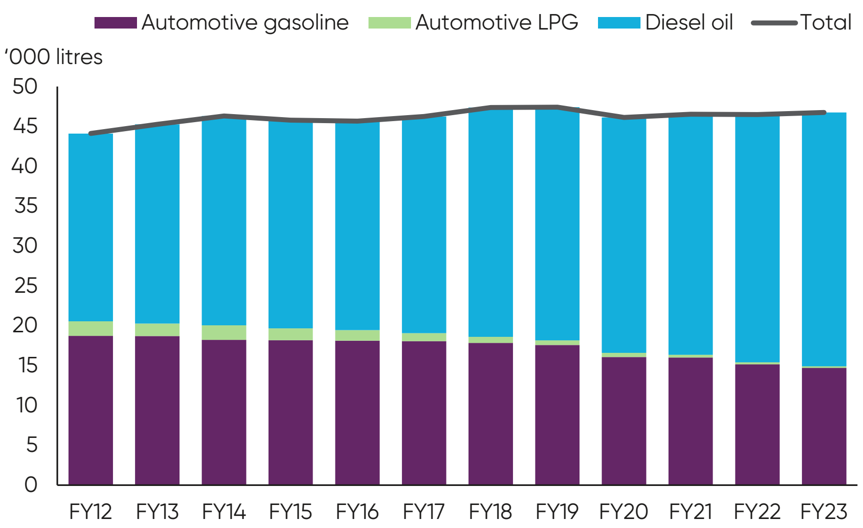
Glasshouse Mountains Dual Service Centre (Southbound site), QLD

1. Future pipeline project total has been rounded.

Market dynamics

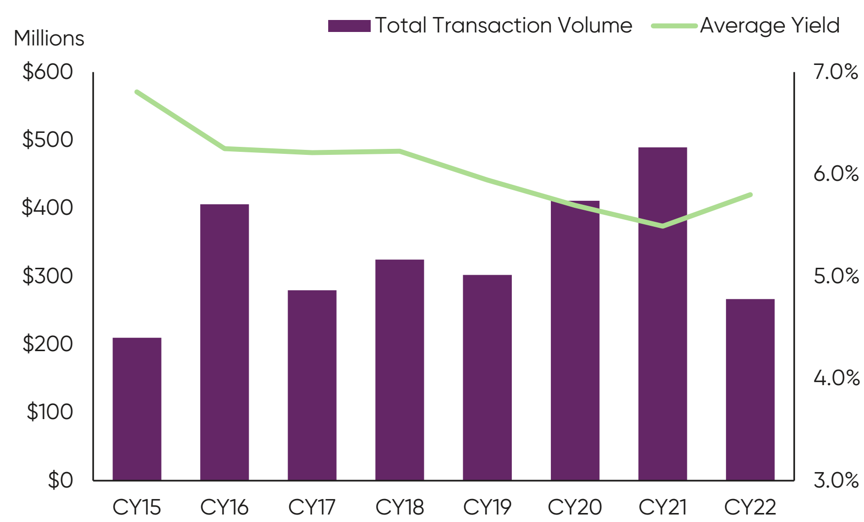
Fuel sales volumes remain robust

Sales volumes of petroleum products[1]



Transaction volumes slowed

National service stations transaction volumes

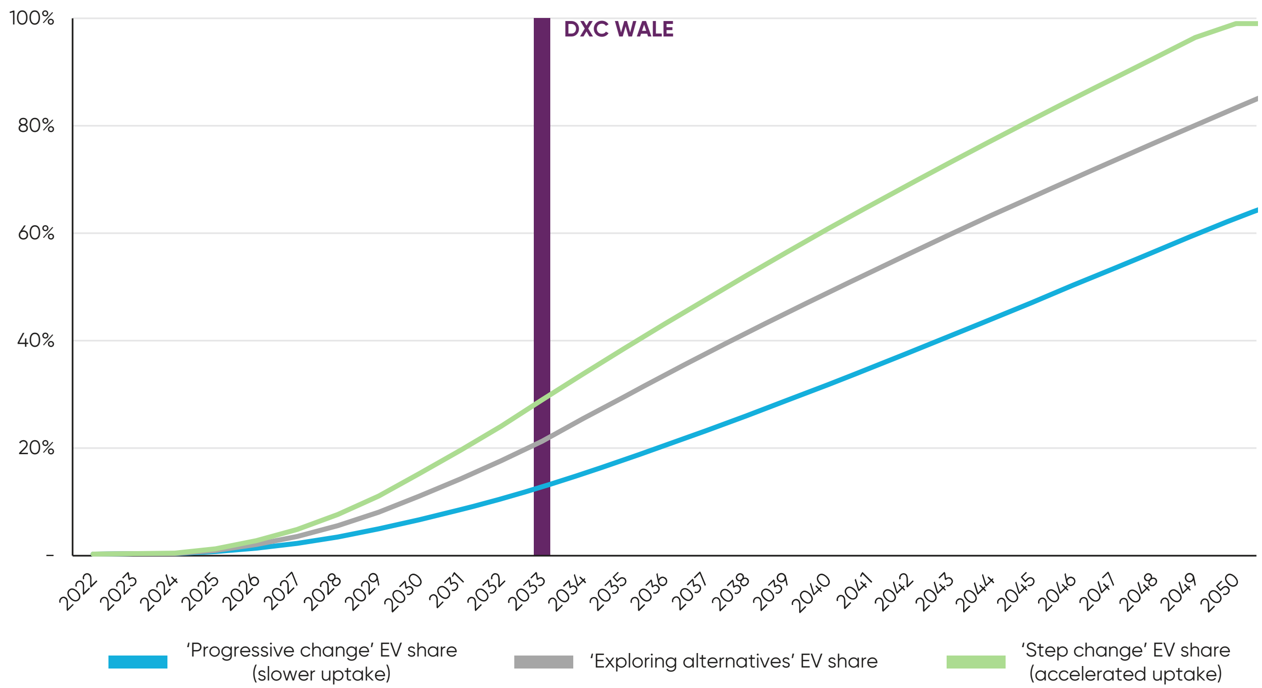


Source: ABS, Dept of Industry, Science, Energy and Resources, energy.gov.au, Australian petroleum statistics, Dexus Research, CBRE.
1. Premium diesel oil excluded from the chart due to limited data. FY23 data projected for Dec-22 to Jun-23.

DXC WALE and electric vehicle take-up

- Electric vehicles (EV) currently represent **~3% of new car sales** and <1% of the Australian vehicle fleet
- Internal combustion engine (ICE) vehicles expected to represent the **majority of Australian fleet over next ~20 years** under varying EV take-up rate scenarios
- Impact of EV adoption expected to be **longer-dated in regional areas**
- **DXC well positioned**
  - Metro (65% of portfolio) assets well-located with broad alternate use possibilities
  - Highway (19% of portfolio) assets essential to long-haul travel and freight
  - Opportunity to adapt product offering
  - **Long WALE and strong tenant credit quality provides cashflow certainty** as alternative energy vehicle technology and service centre convenience offerings continue to evolve

CSIRO forecast scenarios for domestic EV penetration rates



Source: CSIRO - Electric vehicle projections November 2022, Australian Energy Market Operator, Electric Vehicle Council.

Consolidated profit & loss statement

$'000	HY23	HY22
Net property income[1]	26,815	23,776
Interest income	22	146
Total revenue	26,837	23,922
Management fees	(2,725)	(2,460)
Finance costs	(5,459)	(3,172)
Corporate costs	(547)	(441)
Total expenses	(8,731)	(6,073)
Net operating income (EBIT)	18,106	17,849
Fair value gain / (loss) on derivatives	(113)	3,657
Fair value gain / (loss) on investment properties	(14,892)	18,473
Net profit after tax	3,101	39,979

1. Includes straight lining of rental income.

FFO reconciliation

$'000	HY23	HY22
Statutory net profit after tax for the period	3,101	39,979
Adjusted for:		
Net fair value (gain) / loss on investment properties	14,892	(18,473)
Net fair value (gain) / loss on derivatives	113	(3,657)
Incentive amortisation and rent straight-line	(2,514)	(2,767)
Debt modification expense	367	-
Rental guarantees, coupon income and other	(400)	168
FFO	15,559	15,250[1]
Distribution declared	14,602	15,933
Weighted securities on issue ('000)	137,757	134,046
Payout ratio (Distribution per security / FFO per security)	93.9%	100.6%[1]
Distribution per security (cents per security)	10.6	11.5
FFO (cents per security)	11.3	11.4[1]

1. HY22 has been restated to include amortised borrowing costs in FFO, aligned with PCA guidelines. Reported HY22 FFO payout ratio was 99.4%.

Consolidated balance sheet

$'000	31 Dec 2022	30 Jun 2022
Cash and cash equivalents	5,693	5,178
Investment properties	822,295	850,050
Other assets	16,092	17,894
Total assets	844,080	873,122
Borrowings	(282,802)	(299,611)
Provisions	(7,947)	(11,256)
Other liabilities	(10,314)	(7,737)
Total liabilities	(301,063)	(318,604)
Net assets	543,017	554,518
Stapled securities on issue (thousands)	137,757	137,757
NTA per security ($)	$3.94	$4.03

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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