ASX Announcement

15 February 2024

Vicinity Centres delivers resilient operating and financial results and demonstrates execution of long-term growth strategy

Vicinity Centres ('Vicinity', 'the Group' ASX:VCX) today announced its results for the six months ended 31 December 2023 ('1H FY24').

Result headlines

- 1H FY24 result reflects a resilient, but moderating retail environment
  - Statutory net profit after tax ('NPAT') of $223.5m (1H FY23 $176.3m)
  - Headline Funds From Operations ('FFO') down 3.2%, to $345.6m or 7.6 cents per security, on 1H FY23. Adjusted for one-off items, FFO up 2.9%[1]
  - Interim distribution per security of 5.85 cents
- Demonstrated execution of investment strategy
  - Acquired 49% of iconic premium retail mall, Chatswood Chase Sydney at a discount to June 2023 book value[2]
  - Divested circa $316m of retail assets at a blended 13.2% premium to combined June 2023 book values[2]
  - Major retail development of Chatswood Chase Sydney to commence in March 2024; 64% of income secured via heads of agreement
- Continued resilience observed and high-quality leasing activity delivered
  - Occupancy increased to 99.1% supported by robust tenant demand (Jun-23: 98.8%)
  - 1H FY24 leasing spread of 3.3% and average escalator on new leases of 4.8% per annum
- NTA[3] reduced one cent, or 0.6%, to $2.29 in 1H FY24 driven by a modest expansion in capitalisation rates partially offset by strong income growth
- Low gearing and strong credit metrics maintained, enabling investment in Vicinity's growth priorities
- Vicinity continues to be on track to achieve Net Zero for Scope 1 and Scope 2 emissions for common mall areas across wholly-owned assets by 2030
- FY24 FFO per security and AFFO per security expected to be around the top end of the 14.1 to 14.5 cents and 11.8 to 12.2 cents ranges, respectively. Full-year distribution payout expected to be at the lower end of Vicinity's target range of 95%-100% of AFFO[4]

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[1] One-off items include reversal of prior year waivers and provisions and the impact of divestment of Broadmeadows Central.
[2] Transactions settled and/or executed binding contracts for transactions due to settle in 2H FY24.
[3] Net tangible assets per security. Growth rate calculated based on NTA rounded to four decimal places.
[4] Guidance assumes no material deterioration in economic conditions.

Financial performance
Statutory NPAT of $223.5 million comprised $345.6 million of FFO, $20.9 million of other statutory and non-cash items, offset by a non-cash net property valuation loss of $143.0 million[5].

The reduction in FFO in 1H FY24 was driven by higher reversals of prior year waivers and provisions in 1H FY23 relative to 1H FY24, as well as the disposal of a 50% interest in Broadmeadows Central in 2023. Excluding the reversals and the impact from the asset disposal, FFO increased 2.9%.

Comparable NPI[6] growth in 1H FY24 was 4.0% which compares favourably to Management's prior expectation of approximately 3%[7]. The outperformance reflects strong rental growth, continued recovery in CBDs, and higher portfolio occupancy.

Lower net corporate overheads reflect a reduction in insurance costs, concerted focus on corporate efficiencies and capitalisation of development costs. Higher net interest expense was principally driven by rising interest rates.

The Board declared an interim distribution per security of 5.85 cents, (1H FY23: 5.75 cents), representing a payout ratio of 84% of AFFO (1H FY23: 79%). The full-year distribution payout ratio is expected to be at the lower end of the target range of 95-100% of AFFO.

Consistent with Vicinity's prudent approach to managing its balance sheet, Vicinity maintained gearing at the lower end of the 25%-35% target range at 26.3%, as at 31 December 2023. Vicinity has entered into contracts for asset sales which are sufficient to fully fund the acquisition of the remaining 49% of Chatswood Chase Sydney ('Chatswood Chase'). Adjusting for the sale of Roxburgh Village, Kurralta Central and Dianella Plaza and the acquisition of Chatswood Chase, pro-forma gearing is 26.6%.

Vicinity's weighted average cost of debt[8] for 1H FY24 was higher at 4.9% (FY23: 4.6%) and the weighted average duration was 3.6 years on drawn debt.

Vicinity enters 2H FY24 with 87% of drawn debt hedged, with a modest step down in FY25, and will maintain an active focus on managing interest rate risk. Vicinity maintained its credit ratings of A/stable (S&P) and A2/stable (Moody's).

Vicinity's CEO and Managing Director, Mr Peter Huddle said: "Vicinity has had a strong start to FY24. Our operating and financial metrics highlight our continued focus on executing at pace to embed earnings resilience and prudently managing our balance sheet, while delivering on our long-term growth priorities.

"With an elevated cost of capital, a disciplined approach to project prioritisation and focus on sustained value growth remain our guiding principles when deploying capital.

"1H FY24 was a busy period of strategic execution and investment, and I am delighted with the momentum that has been set and the progress we have made since we refreshed Vicinity's strategy in June 2023."

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[5] Excludes statutory accounting adjustments.
[6] Comparable NPI excludes reversals of prior year waivers and provisions, the impact of divestment of Broadmeadows and development impacts.
[7] Provided to the market in Vicinity's FY23 result announcement on 16 August 2023.
[8] The average over the 6 months (ended 31 Dec) and 12 months (ended 30 Jun). Inclusive of margin, line fees and establishment fees.

Notably, as announced to the market on 31 October 2023, Vicinity agreed to acquire the remaining 49% interest in Chatswood Chase for $307 million, with settlement planned for 15 March 2024.

In addition to the previously announced sale of Roxburgh Village[9] for $124 million, Vicinity has entered into contracts to sell Kurralta Central for $74 million[10] as well as Dianella Plaza for $76 million[11]. Vicinity has also divested several ancillary properties.

In total, Vicinity has entered into contracts for and/or settled on asset sales totalling approximately $316 million and which have collectively delivered a 13.2% premium to combined June 2023 book values.

Mr Huddle added, "These transactions demonstrate disciplined execution of our active and ongoing investment program where we are upweighting our portfolio to premium retail assets, such as Chatswood Chase, that offer superior long-term growth potential and enhanced value accretion opportunities."

To create further value for securityholders, Vicinity has entered into a long-term partnership with Cartology (part of Woolworths Group Limited) whereby Cartology will operate over 1,100 digital small and large format advertising screens across our centres (commencing in 2H FY24). This new model is expected to deliver greater certainty of income and enhanced commercial value.

Asset valuations

Vicinity's portfolio recorded a 1.0% or $143 million decline[12] in total asset valuation for the six months to 31 December 2023. The valuation result reflects an 18 basis point softening of the portfolio's weighted average capitalisation rate to 5.65% (Jun-23: 5.47%), partially offset by income growth delivered by consistently strong operating metrics.

Notably, in 1H FY24, income growth offset approximately 90% of the adverse impact of capitalisation rate expansion, adding 3.0% to the portfolio valuations. Income growth was recognised across all centre types, led by Chadstone and the Outlet portfolio.

Retail sales

Total portfolio retail sales growth of 1.5% in 1H FY24 was largely driven by food including fresh food, dining, and supermarkets as well as sporting goods, cosmetics, and retail services.

Month on month retail sales growth moderated over 1H FY24, reflecting the softening of consumer demand amid cost-of-living pressures, together with the cycling of particularly strong trading in the prior comparable period.

Shoppers continue to show a willingness and capacity to spend, but are more discerning and value-conscious, highlighted by the strong patronage across the portfolio during the Black Friday and Boxing Day sales events.

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[9] Announced to the market on 31 October 2023. Sold to JY Group and expected to settle on 8 March 2024.
[10] Sold to Coles Group and expected to settle on 29 February 2024.
[11] Sold to Greenpool Capital and expected to settle on 8 March 2024.
[12] Excludes statutory accounting adjustments.

October was the first month where portfolio sales growth was negative since the recovery from the pandemic, however combined November and December retail sales were up 1.3% relative to a strong prior year, highlighting that shoppers are viewing Black Friday as a key part of the broader Christmas trading period.

Lower Apparel & Footwear, Homewares and Jewellery sales in 1H FY24 reflect cycling of exceptional growth rates in recent years, compounded by significantly elevated living costs Australian households face today.

Small and Medium Enterprise ('SME') retailers are well positioned in a moderating retail environment, with sales increasing 6.1% in 1H FY24, as shoppers continue to show a strong preference for SME-oriented categories including services, food and dining, and other experiential retail.

Same-store luxury sales were up 0.7% for 1H FY24, also rolling off exceptional growth rates in the prior year. Furthermore, brand performance was mixed, with the flagship luxury houses continuing to outperform.

Mr Huddle said, "There is no doubt that elevated living costs for Australian households are now impacting consumption, particularly across the discretionary goods categories. That said, with international tourism nearing pre-pandemic levels, migration at historical highs and with a tight employment market, we continue to observe resilience. This resilience is supporting retailer confidence which continues to be reflected in our operating metrics.

"The performance of the retail sector in 2024 ultimately depends on the level of inflation, when interest rates will peak and the extent to which employment markets remain tight."

Portfolio performance

Mr Huddle commented, "The structure, tenure, and value of rents on new leases written in the period reflects our laser focus on locking in long-term, traditional specialty leases with fixed annual escalators despite a moderating retail sales environment.

"We achieved an uplift in the occupancy rate compared to 30 June 2023 by leasing almost 16,000 sqm of vacant store space. Consequently, occupancy of 99.1% is now at its highest point since 2019, up from 98.8% at 30 June 2023, and 98.0% at the peak of the pandemic (Dec-20). We have also continued our focus on minimising our income at risk having again reduced the number of leases on holdover in the period."

In 1H FY24, Vicinity completed 676 comparable leasing deals. Leasing spreads remained favourable, with a positive leasing spread for 1H FY24 of +3.3%, relative to +0.3% over FY23.

Highlighting robust retailer confidence, the Apparel & Footwear, Leisure, and Jewellery categories performed strongly post-pandemic and while retail sales have moderated, collectively these categories delivered a high single digit leasing spread in 1H FY24.

Given their weighting to these categories, Chadstone and the Outlet portfolio collectively delivered a +12.6% leasing spread for 1H FY24.

Vicinity's specialty occupancy cost ratio remains at 13.7% which compares to 15.0% immediately pre-COVID and continues to demonstrate the resilience of current rents.

Critical to embedding resilience in Vicinity's business model, the Group maintained its traditional specialty retail lease structure of five-year leases with fixed annual escalators. During the period, the average annual escalator of new leases was 4.8% per annum (FY23: 4.6% per annum average increase).

A concerted effort to minimise income at risk resulted in a reduction of holdovers to 364 at 31 December 2023, from 488 at 31 December 2022, and from 375 at 30 June 2023. Of the current leases on holdover, one third were deliberately held on holdover due to pending redevelopments.

Mr Huddle added, "In the context of softening retail sales growth, notably in 2Q FY24, we are particularly pleased with the strong operating metrics delivered in the first half. Having anticipated a moderation in retail sales, we have acted at pace to lock in long-term leasing deals, minimise income at risk and increase occupancy to closer to pre-pandemic levels. Consequently, while we have a cautious near-term outlook, we enter 2H FY24 with the benefit of a strong first half and a relatively resilient income growth profile."

Development pipeline progress

Mr Huddle said: "In an environment of elevated costs of capital and ongoing dislocation in construction markets nationally, we have naturally tightened our focus on capital deployment across our retail and mixed-use development pipeline.

"Delivering project returns above our cost of capital remains a key priority and is enabled by intense de-risking of projects from both an income and cost perspective."

In terms of development projects in progress, Vicinity is pleased to report that the development of the One Middle Road office tower and redeveloped fresh food and dining precinct at Chadstone is well progressed. The fresh food and dining precinct is opening in stages, with the new Coles and Aldi having opened prior to Christmas 2023.

The redevelopment of Chatswood Chase remains a critical and exciting project for Vicinity in CY24 and CY25. Paving the way for the redevelopment of the major retail offer, the construction of the lower ground fresh food and dining precinct is on track to be completed by April 2024, at which point the major development is expected to be ramping up. Retailer interest in the redeveloped Chatswood Chase is strong, with 64% of the income secured, via heads of agreement.

Vicinity now expects investment capital expenditure in FY24 to be approximately $350 million (previously, $400 million) reflecting delayed redevelopment of Galleria in Western Australia, and additional development spend following settlement of the acquisition of the remaining 49% interest in Chatswood Chase.

Guidance

Vicinity expects FY24 FFO per security and AFFO per security to be around the top end of ranges of 14.1 to 14.5 cents and 11.8 to 12.2 cents respectively[13], reflecting the stronger than expected trading conditions in 1H FY24.

Vicinity expects its full year distribution payout to be at the lower end of its target range of 95-100% of AFFO.

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[13] Guidance assumes no material deterioration in economic conditions.

Mr Huddle concluded, "In closing, together with the Board and the Executive Leadership Team, I would like to acknowledge and thank everyone who is affiliated with Vicinity for their ongoing support, most especially our securityholders, retail partners, joint venture and capital partners, customers and of course, the Vicinity team."

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Additional detail on Vicinity's 1H FY24 results can be found in the investor presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast from 10.30am (AEDT) today and can be accessed via vicinity.com.au.

Authorisation

The Board has authorised that this document be given to ASX.

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About Vicinity Centres

Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated asset management platform, and $23 billion in retail assets under management across 59 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 59 shopping centres (including the DFO Brisbane business) and manages 29 assets on behalf of Strategic Partners. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has 23,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit vicinity.com.au or use your smartphone to scan this QR code.