27 October 2015

September 2015 quarterly update

Federation Centres (the Group, ASX:FDC) provides this update for the September 2015 quarter.

Mr Angus McNaughton, Chief Executive Officer, said: "It has been an active period for the Group in our first quarter as a merged entity. We have made great progress on the integration workstreams with the majority of our teams having co-located, the preferred IT platform locked in and further refinement of the composition of our debt profile.

"Operationally, we have maintained our focus on applying our intensive asset management approach. We were also pleased to complete the expanded Cranbourne Park development in the period at returns in excess of the original approval.

"Comparable specialty store moving annual turnover (MAT) growth to 30 September 2015 remains solid at 3.2% and we are encouraged by a notable improvement in the apparel category."

Merger and integration update

Mr McNaughton said: "An important piece of the integration plan and establishing a unified culture is to have our teams co-located and working on one IT platform. The co-location of teams is largely complete and with the selection of JD Edwards as the preferred IT platform, we have now begun the consolidation of a number of IT systems.

"In the quarter, we made progress on extending our debt profile post merger, pricing A$433 million of 10 and 15-year US Private Placement notes (the Notes). Post settlement in December 2015, the Notes will have increased our debt sourced from capital markets to almost $2.0 billion and extended our weighted average debt duration by approximately 0.6 years.

"Earlier this month, we were pleased to appoint Michael O'Brien as Chief Investment Officer. Michael's significant retail property industry and investment experience will further strengthen the Group's management team.

"The Group is also well progressed in planning for the roll-out of our new Vicinity Centres brand on 2 November 2015 assuming the approval of the change in name of Federation Limited at the Annual General Meeting tomorrow."

Retail environment

The retail environment overall remains positive despite mixed economic signals. This is also reflected in our Direct Portfolio sales performance. Department stores and discount department stores both reported an improvement in MAT growth over the past three months; while there was further weakness in supermarket sales over the same period, impacted by price deflation. The Group's comparable specialty store MAT growth was 3.2% to 30 September 2015, down marginally from 3.3% reported at 30 June 2015.

"We are encouraged by the continued improvement in apparel retailers' MAT growth, a segment that has had its share of challenges over recent years. MAT growth has increased notably to 2.8% over the quarter, up from 2.1% as at 30 June 2015 and 1.5% as at 30 June 2014," Mr McNaughton highlighted.

More detail on the Group's retail sales for the period can be found in Appendices A and B.

Development pipeline

Mr McNaughton said: "Solid progress was made on the development pipeline during the quarter, including the completion of Cranbourne Park in Victoria and lodging a development application for the major redevelopment of Roselands in New South Wales. Good progress has also been made on the redevelopment planning of Mandurah Forum in Western Australia with construction likely to commence in the second half of FY16."

In September 2015, the $110 million (FDC share: $55 million) Cranbourne Park development was completed. The project involved the creation of new Coles and Target stores, a refurbished Kmart store, new mini majors and 65 new specialty stores.

Mr McNaughton said: "Pleasingly, at Cranbourne Park, the team was able to expand the project scope to include the refurbishment of the existing centre to seamlessly integrate the old and new sections of the centre, while also delivering increased returns. The project will deliver a forecast year one yield of 8.5% and an expected IRR in excess of 14%."

The Group's development pipeline currently totals $3.0 billion (FDC share: $1.5 billion). The Group's share of projects currently under construction is $419 million with approximately $280 million remaining to be spent.

Capital transactions

As previously reported, the Group's ongoing portfolio enhancement continued during the September quarter with the sale of five non-core assets. Goulburn Plaza and Westside Plaza in New South Wales and Katherine Oasis in Northern Territory were sold for a collective value of $128.4 million in line with book value (on average) and all three transactions settled in August 2015. The sales of Lutwyche City in Queensland and Mount Gambier Central in South Australia both remain on track for settlement this calendar year.

Outlook

Mr McNaughton said: "We remain focused and on track to deliver the forecast merger cost synergies and on progressing integration tasks. This includes the consolidation of our existing systems following the selection of our preferred IT platform and launching the Vicinity Centres brand across the business.

"We will continue to enhance the portfolio through refurbishment, progressing the Group's development pipeline, targeted acquisitions, and the identification and subsequent divestment of non-core assets, ensuring that we continue to create high quality retail property outcomes for all of our stakeholders.

"While we forecast a continuance of mixed economic indicators for the remainder of the financial year, overall we expect domestic retailing conditions to benefit from improving consumer sentiment and a lower Australian dollar."

As outlined in August 2015 in the FY15 annual results announcement, full year 2016 underlying earnings are forecast to be in the range of 18.8 to 19.1 cents per security (underlying EPS) inclusive of five asset sales (~$220 million)[1] which reduced underlying EPS guidance by ~0.3 cents per security.[2] The Group's payout ratio is expected to be 90% to 95% of underlying earnings.

Federation Centres' Annual General Meeting will be held at 3.30pm tomorrow, 28 October 2015, at Park Hyatt Melbourne.

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Contact:

Media

Brandon Phillips
+61 3 9236 6321
brandon.phillips@vicinity.com.au

Investors

Penny Berger
+61 2 8229 7760
penny.berger@vicinity.com.au

About Federation Centres (ASX:FDC)

Federation Centres is one of Australia's leading retail property groups. Following the merger with Novion Property Group implemented in June 2015, Federation Centres has over $22 billion in retail assets under management.
For more information about Federation Centres, please visit www.federationcentres.com.au.
For information about Novion Property Group, please visit www.novion.com.au.

1 Goulburn Plaza, Katherine Oasis, Lutwyche City, Mount Gambier Central and Westside Plaza.
2 Subject to no unforeseen deterioration of economic conditions or further asset sales.

Appendix A - Direct Portfolio total retail sales by store type

Store type	Actual MAT Sep-15		Comparable[a] MAT growth	
	MAT ($m)	Proportion of portfolio (%)	Sep-15 (%)	Jun-15 (%)
Specialty stores	6,302	37.5	3.2	3.3
Supermarkets	5,048	30.0	(0.3)	0.4
Mini-majors	1,830	10.9	2.6	2.7
Discount department stores	1,741	10.3	(1.1)	(1.6)
Other retail[b]	1,090	6.5	0.3	0.7
Department stores	814	4.8	(0.8)	(1.6)
Total portfolio	**16,825**	**100**	**1.1**	**1.3**

a. Comparable portfolio which excludes development-impacted centres.
b. Other retail includes cinemas and sales-reporting tenancies including travel agents, auto accessories, lotteries and other entertainment and non-retail stores.
Note: totals may not sum due to rounding.

Appendix B - Direct Portfolio specialty store sales by category

Category	Actual MAT Sep-15		Comparable[a] MAT growth	
	MAT ($m)	% of specialty sales (%)	Sep-15 (%)	Jun-15 (%)
Apparel	2,142	34.0	2.8	2.1
Food catering	925	14.7	2.0	2.4
General retail[b]	601	9.5	3.5	4.1
Food retail	584	9.3	0.9	1.9
Retail services	532	8.4	7.4	7.2
Homewares	430	6.8	1.6	3.0
Jewellery	423	6.7	3.2	1.3
Leisure	400	6.4	(0.7)	0.5
Mobile phones	266	4.2	14.3	17.0
Total specialty stores	**6,302**	**100**	**3.2**	**3.3**

a. Comparable portfolio which excludes development-impacted centres.
b. General retail includes giftware, pharmacy and cosmetics, pets, discount variety, tobacconists, florists and toys.
Note: totals may not sum due to rounding.