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SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY16 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the six months ended 31 December 2015.

Financial highlights:

- Statutory net profit after tax of $90.8 million
- Funds From Operations ("FFO") of $48.8 million, up by 29.1% on the same period last year
- Adjusted FFO ("AFFO") of $45.8 million, up by 23.5% on the same period last year
- FFO per unit of 6.74 cents per unit ("cpu") (1), up by 6.5% on the same period last year
- Distribution of 6.0 cpu, up by 7.1% on the same period last year, representing a payout ratio of 89% (1)
- Bank facilities increased and extended in term, and $150 million of new interest rate swaps entered into, resulting in a reduction in weighted average cost of debt to 3.9%, weighted average debt maturity of 6.2 years and 75% of drawn debt fixed or hedged as at 31 December 2015
- Portfolio value of $2,076.1 million, up by $180.7 million since 30 June 2015, largely due to acquisitions and revaluations
- Net tangible assets of $1.85 per unit, up by 4.5% from $1.77 per unit since 30 June 2015
- Management expense ratio ("MER") of 0.53%, down from 0.61% for the same period last year
- FY16 FFO per unit guidance upgraded to 13.6 cpu (from 13.5 cpu), and FY16 Distribution guidance maintained at 12.2 cpu

Operational highlights:

- Specialty vacancy of 4.5% by GLA and total portfolio occupancy of 98.7% by GLA as at 31 December 2015
- Continued sales growth for supermarket anchors and specialties
- Four neighbourhood centre acquisitions completed during the period for $115.2 million. In addition, in December 2015 we entered into a contract to acquire Greenbank Shopping Centre in Queensland for $23.0 million and that acquisition completed in January 2016
- The launch of our first retail fund "SURF 1" containing five of SCP's non-core assets acquired from SCP for $60.9 million, a 12% premium to December 2014 book value

(1) Based on weighted average units on issue during the six months to 31 December 2015 of 723.8 million. FFO per unit is calculated as FFO of $48.8 million divided by 723.8 million. Payout ratio is calculated as 6.0 cpu divided by 6.74 cpu.
(2) As at 31 December 2015

Chief Executive Officer, Anthony Mellowes, said: "We are pleased to report another solid result for the 6 months to 31 December 2015. Our specialty tenants continue to perform strongly, again recording annual sales growth of over 5%, despite the slowdown in sales growth from our supermarket anchors. Our young centres have a lower specialty rent per square metre than more mature centres, and our average specialty occupancy cost is now 8.9%. As such, we are confident that we will be able to increase rent/sqm over the medium term. During the first half of FY16 we had 31 specialty tenant renewals across 2,902 sqm of GLA, and an average rental uplift of 9.8% was achieved. This is a positive start to our first rent renewal cycle which will continue through FY16 to FY20."

"We have continued to add to our portfolio through accretive acquisitions. While the competition to acquire quality neighbourhood shopping centres has increased, and yields continue to firm, we are confident that we can continue to leverage our relationships in and knowledge of the sector to source further off-market transactions that meet our investment criteria."

"We will continue to take advantage of the development opportunities in our portfolio. The refurbishment of Lismore is now complete, and we have commenced construction on our next development which is the $3.8 million expansion of the Chancellor Park supermarket expected to be completed by 30 June 2016. We have identified over $100 million of other development opportunities in our portfolio which we will progressively complete over the next five years, including the third anchor tenancy at Kwinana."

"In terms of capital management, we renegotiated some of our bank debt facilities and entered into additional interest rate swaps during the six month period. As a result of these initiatives we have further strengthened our balance sheet: we have diversified funding sources, the weighted average cost of debt has reduced to 3.9%, the weighted average term to maturity of our debt is 6.2 years, 75% of our drawn debt is fixed or hedged, and gearing is 34.2% which is well within our target range."

"Finally, we are pleased to have closed our first retail fund "SURF 1" in October 2015. SURF 1 contains five assets that SCP classified as non-core because they are relatively small freestanding assets. We have now commenced work on our second fund "SURF 2" which we expect to launch in the first half of financial year FY17. We believe that retail funds management offers further growth opportunities for our unitholders, with minimal incremental costs or capital investment required."

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $90.8 million, which was down by 7.5% on the same period last year due to a smaller increase in the value of investment properties ($38.0 million vs $46.8 million in the same period last year) and the mark-to-market value of derivatives ($14.4 million vs $35.9 million in the same period last year).

Excluding non-cash items, Funds From Operations ("FFO") was $48.8 million, up 29.1% on the same period last year. Key drivers of this strong performance were the reduction in specialty vacancy levels, increase in specialty rent per square metre, acquisitions and lower cost of debt.

Adjusted Funds From Operations ("AFFO") was $45.8 million, up by 23.5% on the same period last year. Maintenance capex of $0.9 million was up slightly as the average age and size of our portfolio increases. Leasing costs and fitout incentives were down to $2.1 million as we returned to a more normalised level of leasing activity.

FFO per unit for the period was 6.74 cpu being 6.5% above Distributable Earnings per unit for the same period last year. This is lower than the FFO growth rate as the number of units on issue has increased due to equity raisings over the last twelve months.

Property valuations

The value of investment properties increased to $2,076.1 million during the period (from $1,895.4 million at 30 June 2015), due to a combination of acquisitions and valuation uplifts. Acquisitions contributed $115.2 million to the value of investment properties plus $8.5 million in stamp duty and other transaction costs. Developments added $3.3 million (including $2.8 million on Lismore). Valuation uplifts contributed $38.0 million (representing approximately a 2.0% valuation increase on a like-for-like basis), and the appreciation of the New Zealand dollar contributed $11.0 million. The remaining $4.7 million uplift was due to straight lining adjustments and capital expenditure.

In Australia, the value of completed properties increased to $1,840.5 million (from $1,687.4 million as at 30 June 2015) with capitalisation rates firming from 7.48% to 7.32%. The value of our New Zealand properties increased to A$235.6 million (from A$208.0 million as at 30 June 2015) primarily due to firming of capitalisation rates from 7.56% to 6.92% and the appreciation of the New Zealand dollar.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $1.85, an increase of 8 cpu or 4.5% from $1.77 as at 30 June 2015. This is primarily due to property valuations (5 cpu), derivative mark-to-market (2 cpu), appreciation of the New Zealand Dollar (1 cpu) and undistributed profit (1 cpu), offset by increased A$ value of our US$ debt (-1 cpu).

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 34.2% as at 31 December 2015 (compared to 33.3% as at 30 June 2015), comfortably within our gearing policy range of 30% to 40%.

During the half year we renegotiated our bank facilities to extend maturity and increase facility limits. At 31 December 2015, the Group had cash and undrawn facilities of $108.0 million. We also entered into $150 million of new fixed interest rate swaps.

As a result of these initiatives our weighted average cost of debt has reduced to around 3.9% as at 31 December 2015 (from 4.0% as at 30 June 2015) and our weighted average term to maturity is 6.2 years (from 6.3 years at 30 June 2015).

We also raised $6.9 million in equity through the dividend reinvestment plan in August 2015.

Distributions

SCP aims to deliver sustainable and growing distributions to its unit holders. In August 2015, SCP paid a final distribution in respect of the six month period to 30 June 2015 of 5.8 cpu, and in January 2016 we paid an interim distribution in respect of the six month period to 31 December 2015 of 6.0 cpu, which represents a payout ratio of 89%, and an increase of 7.1% on the prior year. The estimated tax deferred component is 39%.

The Distribution Reinvestment Plan ("DRP") was active for the August 2015 distribution. SCP issued 3.4 million units to participants at an issue price of $2.09 per unit, representing an implied take-up rate of around 16% of units on issue. In January 2016 we issued 8.53 million units at an issue price of $2.04 per unit, an implied take-up rate of around 40% of units on issue with a natural take-up rate of 14% and the balance of 26% taken up by Moelis under an underwriting agreement.

Operational performance

Specialty vacancy

SCP had an average specialty vacancy rate of 4.5% of GLA as at 31 December 2015 (compared to 3.9% as at 30 June 2015), within our target range of 3% to 5%. The centres we acquired during the six month period had an average specialty vacancy of 8.0%, so excluding those recently acquired centres the portfolio average specialty vacancy rate was lower at 4.2%.

We are closely monitoring the potential sale or closure of the Dick Smith and Masters stores in our portfolio. We have four stores leased to Dick Smith paying gross annual rental of $1.0 million, and we have one site leased to Masters paying gross annual rental of $1.7 million. At present, Masters has paid rent up to 29 February 2016 and Dick Smith has paid rent up to 31 January 2016. We have not been contacted by either of these parties to notify us of their intentions in relation to the stores they lease in our portfolio or how they propose to deal with their obligations under these leases.

Centre optimisation

Our primary focus continues to be on centre optimisation. This will include some remixing of tenants, and preparation for renewal uplifts as specialty expiries occur over the next 3-4 years. Our specialty rent per square metre is lower than industry benchmarks for our type of centres, our specialty occupancy cost is around 8.9%, and specialty sales growth is strong. As such, we expect to be able to achieve rental renewal uplifts over coming years. During the first half of FY16 we completed 31 specialty rent renewals, with an average rental uplift of 9.8% achieved and no incentives paid.

As part of our centre optimisation strategy we are spending more on our centres in preparation for the rent renewal cycle. In the first half of FY16 this included more property management staff and increased repairs and maintenance spend.

In addition, we have reviewed our property management arrangements, and are currently conducting a tender to ensure that we have the best property managers for each of our centres. We expect to complete this process by 30 June 2016.

Strong underlying sales growth continues

Our centres continue to experience sales growth. The comparable store sales moving annual turnover (“MAT”) growth for the 12 months to 31 December 2015, for stores open more than 24 months, was:

- Australian supermarkets: 1.3%
- New Zealand supermarkets: 5.2%
- Discount department stores: (3.4)%
- Mini Majors: 3.4%
- Specialty stores: 5.6%

The higher sales growth rates in our centres can be attributed to the relative youth of our portfolio, larger than average supermarket store sizes, and that many of the properties are located in growth corridors.

Acquisitions, disposals and developments

During the year we acquired four neighbourhood centres for $115.2 million. In addition, we entered into an agreement to acquire another neighbourhood centre, Greenbank south of Brisbane, for $23.0 million (completed in January 2016). The Greenbank acquisition includes a call option for us to acquire ten hectares of adjacent development land for $10.0 million exercisable at any time within the next 5 years (and the vendor has a put option if we have not exercised the call option within that 5 year period). We also completed the sale of five non-core assets into the SURF 1 fund for $60.9 million in October 2015.

In February 2015 we commenced the refurbishment of our Lismore centre, which was completed in September 2015. In total, development capex of $7.3 million was spent on Lismore, and the book value of that centre has increased from $21.5 million as at 31 December 2014 to $30.0 million as at 31 December 2015. We have commenced our next project which is the $3.8 million expansion of the Chancellor Park supermarket, and we have entered into a Heads of Agreement with Coles in relation to the third anchor tenancy at Kwinana. We have also identified 15 other centres in our portfolio with development potential amounting to over $100 million of investment over the next 5 years.

Strategy and outlook

The key priority for the Group in FY16 is to optimise our centres by continuing to improve our tenancy mix and by ensuring that centre standards are maintained at a high level. This will support ongoing strong sales growth for our specialty tenants, which will enable further positive rent reversions and increasing rent per square metre over the next few years.

We remain committed to our core strategy which is to deliver sustainable earnings and distribution growth, by optimising the performance of the existing portfolio, by executing further acquisitions of convenience-based shopping centres, by investing in value enhancing development opportunities within our existing portfolio and by growing our funds management business.

Earnings guidance

We are increasing our guidance for FY16 FFO per unit to be 13.6 cpu (6.2% above FY15), and we are maintaining our guidance for FY16 Distributions to be 12.2 cpu (7.0% above FY15).

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 9 February 2016 at 10:00am (AEST).

ENDS

Media contact:

Anthony Mellowes
Chief Executive Officer
SCA Property Group
(02) 8243 4900

Institutional investor and analyst contact:

Mark Fleming
Chief Financial Officer
SCA Property Group
(02) 8243 4900

Retail unitholders should contact SCA Property Group Information Line on 1300 318 976 (or +61 3 9415 4881 from outside Australia) with any queries.

About SCA Property Group

SCA Property Group (SCP) includes two internally managed real estate investment trusts owning a portfolio of quality sub-regional and neighbourhood shopping centres and freestanding retail assets located across Australia and New Zealand. The Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited and companies in the Wesfarmers Limited group (such as Coles). The Group is a stapled entity comprising Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788).