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SCA PROPERTY GROUP ANNOUNCES FULL YEAR FY16 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the twelve months ended 30 June 2016.

Financial highlights:

- Statutory net profit after tax of $184.7 million, up by 22.7% on the same period last year
- Funds From Operations ("FFO") of $100.1 million, up by 25.0% on the same period last year
- FFO adjusted for other operating cashflows including maintenance capex and incentives ("AFFO") of $92.3 million, up by 25.2% on the same period last year
- FFO of 13.75 cents per unit ("cpu") [(1)], up by 7.3% on the same period last year
- Distribution of 12.2 cpu, up by 7.0% on the same period last year, representing a payout ratio of 89% [(1)]
- Weighted average cost of debt reduced to 3.7%pa; weighted average debt maturity of 5.7 years; and 68% of drawn debt fixed or hedged as at 30 June 2016
- Portfolio value of $2,141.1 million, up by $245.7 million since 30 June 2015, largely due to acquisitions and revaluations
- Net tangible assets of $1.92 per unit, up by 8.5% from $1.77 per unit since 30 June 2015
- Management expense ratio ("MER") of 0.51%, down from 0.55% for the same period last year
- FY17 FFO per unit guidance of 14.0 cpu, and FY17 Distribution guidance of 12.6 cpu, taking into account the impact of the sale of our New Zealand assets and the four centres we have acquired or agreed to acquire since 30 June 2016

Operational highlights:

- Portfolio occupancy of 98.6% by GLA as at 30 June 2016
- Continued sales growth for specialty tenants of over 5%pa
- Six neighbourhood centre acquisitions completed during the period for $145.3 million
- Launched our first unlisted retail fund "SURF 1" containing five of SCP's non-core assets acquired from SCP for $60.9 million
- Entered into agreements to dispose of our 14 New Zealand assets for NZ$267.4m (NZ$128.2m completed in July 2016, with the balance of NZ$139.2m expected to be completed in late September 2016)

(1) Based on weighted average units on issue during the twelve months to 30 June 2016 of 727.9 million. FFO per unit is calculated as FFO of $100.1 million divided by 727.9 million. Payout ratio is calculated as distribution per unit (12.2 cents) divided by FFO per unit (13.75 cents).

Chief Executive Officer, Anthony Mellowes, said: "We are pleased to report another solid result for the twelve months to 30 June 2016. 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 a sustainable 9.3%. We remain confident that we will be able to achieve increases in rent/sqm over the medium term. During the year we had 69 specialty tenant renewals across 7,208 sqm of GLA, and an average rental uplift of 7.5% was achieved. Comparable NOI growth of 3.4% was pleasing and we expect to continue to generate comparable earnings growth as we progress through our first rent renewal cycle from FY17 through 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 and the extension of Chancellor Park were completed during the year, and we have received development approval for the $20.0 million expansion of Kwinana shopping centre including the introduction of Coles as a third anchor tenant. We have identified around $150 million of development opportunities in our portfolio which we plan to complete progressively over the next five years."

"In terms of capital management, we renegotiated some of our bank debt facilities and entered into additional interest rate swaps during the year. As a result of these initiatives we have further strengthened our balance sheet. The weighted average cost of debt has reduced to 3.7%, the weighted average term to maturity of our debt is 5.7 years, 68% of our drawn debt is fixed or hedged, and gearing is 34.0% which is well within our target range."

"Finally, we are pleased to have announced the sale of our New Zealand portfolio for NZ$267.4 million, which represents an after-tax yield of less than 6%, and a 6.5% premium to our December 2015 book value. Since listing in December 2012 these assets have delivered an unlevered pre-tax New Zealand dollar return of 14% per annum for SCP. Redeployment of these proceeds into higher yielding and higher growth Australian neighbourhood centres is progressing well, with $118.8 million already having been completed or committed since 30 June 2016."

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $184.7 million, which was up by 22.7% on the same period last year, primarily due to underlying Net Operating Income growth.

Excluding non-cash items, Funds From Operations ("FFO") was $100.1 million, up 25.0% 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 $92.3 million, up by 25.2% on the same period last year. Maintenance capex of $3.7 million was higher primarily due to air conditioning replacements at 4 centres at a cost of $2.0 million. Leasing costs and fitout incentives were down to $4.1 million as we returned to a more normalised level of leasing activity.

FFO per unit for the period was 13.75 cents, 7.3% 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 two years.

Property valuations

The value of investment properties increased to $2,141.1 million during the period (from $1,895.4 million at 30 June 2015), due to a combination of acquisitions and valuation uplifts.

The value of our New Zealand assets increased to $253.1 million (from $208.0 million as at 30 June 2015) which reflects the agreed sale price with Stride/Investor and appreciation of the NZ$. There were no acquisitions in New Zealand during the period. The New Zealand properties have been reclassified as a "discontinued operation".

The value of the Australian investment properties increased to $1,888.0 million (from $1,687.4 million at 30 June 2015). Acquisitions contributed $145.3 million, plus $10.0 million in stamp duty and other transaction costs. Developments and capital expenditure added $9.1 million (including $2.8 million on Lismore and $3.9 million on Chancellor Park). Valuation uplifts contributed $26.9 million (including a $13.4 million reduction in the valuation of our Whitsunday centre which was partially destroyed by fire), with average capitalisation rates firming from 7.48% to 7.13%. The remaining $9.3 million uplift was due to other capital expenditure and straight lining adjustments.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $1.92, an increase of 15 cpu or 8.5% from $1.77 as at 30 June 2015. This is primarily due to property valuations (8 cpu), derivative mark-to-market (4 cpu), appreciation of the New Zealand Dollar (2 cpu) and undistributed profit (2 cpu), offset by increased A$ value of our US$ debt (-1 cpu).

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 34.0% as at 30 June 2016 (compared to 33.3% as at 30 June 2015), comfortably within our gearing policy range of 30% to 40%. The New Zealand sale will reduce pro-forma gearing by around 8% to 26%, prior to redeployment of proceeds. The $118.8 million of acquisitions since 30 June 2016 will increase gearing back up to approximately 30% on a pro-forma basis.

During the year we renegotiated our bank facilities to extend maturity and increase facility limits. At 30 June 2016, the Group had cash and undrawn facilities of $93.2 million (not including proceeds from the sale of our New Zealand assets). NZ$87.5 million of fixed interest rate swaps expired or were terminated as a result of the New Zealand sale.

As a result of these initiatives our weighted average cost of debt has reduced to around 3.7% as at 30 June 2016 (from 4.0% as at 30 June 2015), our weighted average term to maturity is 5.7 years (from 6.3 years at 30 June 2015), and 68% of our debt is fixed or hedged (from 65% at 30 June 2015).

We also raised $24.3 million in equity through the distribution reinvestment plan during the year, being $6.9 million in August 2015 and $17.4 million in January 2016 which was partially underwritten.

Distributions

SCP aims to deliver sustainable and growing distributions to its unit holders. In January 2016, SCP paid an interim distribution in respect of the six month period to 31 December 2015 of 6.0 cpu, and we have declared a final distribution in respect of the six month period to 30 June 2016 of 6.2 cpu, bringing the full year distribution for FY16 to 12.2 cpu which represents a payout ratio of 89%, and an increase of 7.0% on the prior year. The estimated tax deferred component is 14% which is down on the prior year due to capital gains on the sale of our New Zealand assets.

The distribution reinvestment plan is suspended for the August 2016 distribution due to the sale of our New Zealand assets, however we will consider turning it back on for the January 2017 distribution, subject to our progress on redeploying the New Zealand sale proceeds.

Operational performance

Specialty vacancy

SCP had an average specialty vacancy rate of 4.3% of GLA as at 30 June 2016 (compared to 3.9% as at 30 June 2015), within our target range of 3% to 5%. The centres we acquired during the year had an average specialty vacancy of 8.0%, so excluding those recently acquired centres the portfolio average specialty vacancy rate was 4.2%. Our specialty vacancy rate has remained relatively stable since December 2014.

During the last six months our four Dick Smith stores closed (three in Australia and one in New Zealand). They were paying gross annual rental of $1.0 million. We are pleased to announce that we have re-leased all three of the Australian stores with quality replacement tenants at similar rental levels. The New Zealand store was sold as part of the New Zealand disposal.

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 9.3%, and specialty sales growth is strong. As a result of this, we expect to be able to achieve rental renewal uplifts over coming years. During FY16 we completed 69 specialty rent renewals, with an average rental uplift of 7.5% achieved and no incentives paid.

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

We are also pleased to inform that we have completed the review of our property management arrangements, and have moved to a model of regional property managers, supported by a national finance and facilities management provider (Knight Frank).

Strong underlying sales growth continues

Our centres continue to experience growth. The comparable store sales moving annual turnover ("MAT") growth for the 12 months to 30 June 2016, for stores open more than 24 months, was:

- Australian supermarkets: 0.2%
- Discount department stores: (3.7)%
- Mini Majors: 5.1%
- Specialty stores: 5.6%

Woolworths and Big W continue to experience low to negative sales growth. Nevertheless, we are pleased that Woolworths continues to show positive volume and transactions growth, resulting in increasing foot traffic through our centres which has helped our specialty tenants to another year of over 5% sales growth.

Acquisitions, disposals and developments

During the year we acquired six neighbourhood centres for $145.3 million, at an average implied capitalisation rate of 7.09%. Four of those centres are anchored by Coles, and two by Woolworths. As at 30 June 2016 (and after the sale of our New Zealand portfolio), 20% of our anchor tenants are owned by Wesfarmers Limited.

Since 30 June 2016, we have acquired or agreed to acquire an additional four neighbourhood shopping centres for $118.8 million, of which three are anchored by Coles.

We completed the sale of five non-core assets into the SURF 1 fund for $60.9 million in October 2015. On 10 June 2016 we announced the sale of our 14 New Zealand assets for NZ$267.4 million. That sale became unconditional on 30 June 2016, and settlement of the first tranche for NZ$128.2 million occurred on 12 July 2016. Settlement of the second tranche for NZ$139.2 million is expected to occur in late September 2016.

During the year we completed the refurbishment of Lismore, and a supermarket expansion at Chancellor Park. At Lismore we spent development capex of $7.3 million, and the book value of that centre has increased from $21.5 million as at 31 December 2014 to $31.5 million as at 30 June 2016. At Chancellor Park we spent development capex of $3.9 million, and the book value of that centre has increased from $29.0 million as at 30 June 2015 to $38.5 million as at 30 June 2016.

We have received development approval for two additional projects at Kwinana in Western Australia and Bushland Beach in North Queensland. Kwinana is a $20.0 million development which includes the addition of a Coles supermarket as the third anchor tenant. We expect to complete that project by July 2017. We acquired the land at Bushland Beach for $5.5 million in June 2016, and have committed to the $19.6 million development of a new Coles-anchored neighbourhood shopping centre on that land, which is expected to open in May 2017. In total, we have identified 20 centres in our portfolio with development potential amounting to around $150 million of investment over the next 5 years.

Masters update and closure of Woolworths stores

We are closely monitoring the potential sale or closure of our only Masters store which is at Mount Gambier. Under that lease, Masters pays gross annual rental of $1.7 million and has over 18 years left to run on the initial lease term. We have not been contacted by Masters to notify us of their intentions in relation to this store or how they propose to deal with their obligations under this lease.

On 25 July 2016, Woolworths announced that it intends to exit 30 stores across the group (including 17 supermarkets) prior to the end of the lease term, and that it has identified an additional 34 stores (including 15 supermarkets) where there is significant uncertainty around whether they would renew the lease at the end of the lease term. In discussions with Woolworths we have been informed that none of these store closures apply to our portfolio.

Strategy and outlook

The key priority for the Group in FY17 is to optimise the earnings from 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 in turn 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 earnings from 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

Our guidance for FY17 FFO is 14.0 cpu (1.8% above FY16), and our guidance for FY17 Distributions is 12.6 cpu (3.3% above FY16). This guidance takes into account the impact of the sale of our New Zealand assets, and the four centres we have acquired or agreed to acquire since 30 June 2016.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 16 August 2016 at 9:30am (AEST).

ENDS

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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).