

19 February 2015

Federation Centres Underlying Earnings Up 8.6%, Announces Planned Merger

Federation Centres (FDC) is pleased to announce its results for the half year ended 31 December 2014:
(Comparisons with the Half Year to 31 December 2013 results unless otherwise stated.)

Financial

- Statutory Net Profit of \$222.5 million, down 1.9% from \$226.7 million.
- Underlying Earnings of \$129 million up 8.6%. Balance Sheet gearing¹ remains conservative at 26.8%.
- Interim distribution of 8.4 cents per security, up 12%.
- Net tangible assets at \$2.44 per security up 3.0% from 30 June 2014.
- Portfolio weighted average capitalisation rate 7.01%, compared to 7.43%.
- Weighted average debt cost reduced to 4.5% as at 31 December.
- Overheads reduced by 3.3% or \$0.7 million on a larger portfolio.

Operational

- 65 retail assets owned or co-owned (FDC share valued at \$4.9 billion), up from 57.
- Occupancy rate maintained at 99.5%.
- Net Operating Income grew by up to 3.7% compared to 2.2%.
- Positive total rental growth of 3.2%, up from 2.0%.
- Specialty sales growth of 2.3% compared with 2.0% (on a moving annual turnover basis).
- Warnbro redevelopment completed ahead of budget at a yield of 9.7%.
- Portfolio enhancement and remixing on track with 322 new fitout upgrades completed.
- Portfolio repositioning on track through almost \$1 billion of asset transactions.

Merger Announcement with Novion Property Group 3 February 2015

- Merger implementation agreement signed with Novion Property Group (NVN) announced on 3 February 2015.
- Unique and compelling opportunity to create the largest Australian REIT invested across the full spectrum of retail assets.
- Unanimously supported by boards of FDC, NVN and NVN's major shareholder².

Overview

Federation Centres CEO and Managing Director, Steven Sewell said: "It is very pleasing that positive leasing spreads were achieved across all three centre types for both renewals and new leases.

"Careful management of overheads during the half year led to a significant reduction. An improved procurement process for costs such as electricity and cleaning was a key driver. The newly commissioned IT platform will provide ongoing opportunities to more efficiently manage our business as well. Simplification of the corporate structure from a quadruple to dual stapled security will also assist in managing the business efficiently.

¹ Balance Sheet gearing calculated as Drawn Debt less Cash/Total Tangible Assets less Cash.

² Subject to the usual conditions associated with such proposals.

“On the redevelopment front, the Warnbro project in Perth was completed ahead of budget at a yield of 9.7%. The first three months of trading exceeded expectations with a strong Christmas trading period, led by a strong performance by the new Big W store. Importantly the seamless integration of the new development combined with existing store upgrades, new flooring, lighting and amenities have been well received by customers.

“This was an excellent start to our program of asset redevelopments. Four projects with a combined value of approximately \$300 million are underway or scheduled to commence in the 2015 calendar year,” he said.

The Cranbourne project in Victoria is on schedule for stage one to open fully leased in March. Redevelopment at Colonnades in South Australia is underway with Harris Scarfe now open and trading with construction soon to commence on a new fresh food mall anchored by an expanded Woolworths and new Aldi supermarket.

Redevelopments at Warriewood in New South Wales and Halls Head Central in Western Australia are expected to commence shortly and will deliver substantial improvements to both these centres. Development applications have been lodged for major redevelopments at The Glen in Victoria and Mandurah Forum in Western Australia.

Novion Property Group and Federation Centres Merger Announcement

The proposed merger of Novion Property Group and Federation Centres will create one of Australia’s leading listed property owners and managers with a \$22 billion, fully diversified retail property portfolio.

This is a unique opportunity to create an investment portfolio that provides both immediate synergy benefits and material value creation along with significant long term benefits such as increased relevance to debt and equity investors, improved growth opportunities and enhanced asset, geographic and tenant diversification.

The merger proposal is entirely consistent with the Federation Centres strategic direction and provides benefits to investors from both groups. It also provides the opportunity to improve the offer to retailers and thereby the level of services and experiences enjoyed by Australian consumers.

The merger proposal is unanimously endorsed by the Board of Federation Centres, as well as the Novion Board and Novion’s largest securityholder the Gandel Group, subject to the usual conditions associated with such proposals.

Summary and Outlook

“The half year results are a further demonstration of the progress Federation Centres has made in terms of both financial and operational performance,” Mr Sewell said.

“Improved net operating income growth, an enhanced property portfolio performance reflecting the success of the repositioning and leasing strategies we have put in place, sound cost controls combined with conservative gearing levels and lower funding costs are the key elements of the strong result.

“There will be a continued focus on these key result areas for the balance of FY15,” he said.

Full year 2015 earnings for Federation Centres, subject to any unforeseen events, are expected to be in the range of 18.0 to 18.3 cents per security.

Distributions paid to investors are expected to be within the range of 90% to 95% of underlying earnings, or 95% to 105% of adjusted funds from operations (AFFO).

The merger proposal does not reduce the expectations for the total distribution to FDC securityholders for FY2015. If the merger with Novion proceeds Federation securityholders are expected to receive a final distribution for FY2015 that is at least equal to current guidance of 8.5 cents per security (based on full year FY2015 distribution guidance of 16.9 cents per security and the interim payment of 8.4 cents per security).

Summary segment income statement (Extract from Segment Information per Note 2 of the FDC Half Year Financial Report lodged with the ASX on 19 February 2015.)	HY14	HY13
	\$m	\$m
Direct property investment income	170.1	149.1
Syndicate investment income	1.8	7.9
Investment Income	171.9	157.0
Property management, development and leasing fees	7.0	7.6
Syndicate management fees	2.2	3.0
Total Income	181.1	167.6
Overheads (net of recoveries)	(20.6)	(21.3)
Financing costs	(30.7)	(26.6)
Depreciation and Amortisation	(0.8)	(0.9)
Underlying Earnings	129.0	118.8
Non-distributable items:		
Stamp duty	(22.8)	52.6
Asset revaluations	141.5	45.1
Fair value adjustments mark to market	(9.6)	(0.4)
Deferred debt costs written off and break costs paid	(9.1)	(0.9)
Net profit in consolidated syndicates net of distributions	2.3	8.7
Net loss from capital transactions and selling costs	(7.0)	(0.5)
Software implementation costs	(4.9)	-
Other	3.1	3.3
Net Profit After Tax	222.5	226.7
Underlying earnings per security (cents)	9.0	8.3
Distributions per security (cents)	8.4	7.5

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About Federation Centres (ASX: FDC)

Federation Centres (FDC) is a fully vertically integrated Australian real estate investment trust (A-REIT) specialising in the ownership and management of Australian shopping centres. With \$7.3 billion of shopping centres under management, FDC employs approximately 600 people with offices in Melbourne, Sydney, Brisbane and Perth. For more information, please visit the FDC website at www.federationcentres.com.au.