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Centuria Property Funds No. 2 Limited CENTURIA INDUSTRIAL REIT

CIP 1H2018 Financial Results

Thursday, 8 February 2018

Centuria Property Funds No. 2 Limited (**CPF2L**), as Responsible Entity of Centuria Industrial REIT (ASX:**CIP**) is pleased to announce CIP's half year financial results for the period ended 31 December 2017.

Key Highlights

- Statutory net profit of \$49.6 million
- Distributable earnings¹ of \$24.2 million representing 10.1 cents per unit ("cpu")
- Distributions of 9.7cpu paid in 1H18
- Total assets increased 16.7% to \$1,075.0 million², with NTA increasing by 4.7%² to \$2.46 per unit
- Continued to deleverage with gearing reduced to 40.6% (43.1% at Jun-17)
- Agreed leases over 159,502sqm; representing 20.8% of portfolio GLA
- Portfolio occupancy increased to 95.9% (92.1% at Jun-17)³, with a 4.9 year WALE³
- \$31 million⁴ revaluation gain, driven primarily by leasing success
- Acquisition of 7.7% strategic interest in Propertylink Group⁵
- Acquisition of four strategic, geographically diversified properties for \$78.4 million before transaction costs

Ross Lees, CIP Trust Manager, commented, "Significant leasing volumes in 1H18 have continued momentum from FY17, with key occupancy and WALE metrics continuing to improve, ultimately driving re-valuation gains and a 2.5% reduction in gearing.

The results for the first half of FY18 are a clear demonstration of Centuria's active management approach creating value from CIP's high quality portfolio of Australian industrial assets."

1 Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash and significant items. The CPF2L Directors consider that distributable earnings reflect the core earnings of CIP

2 Since 30 June 2017

3 By income, includes Heads of Agreement

4 Reflects gross increase, does not include capital expenditure incurred since 1 July 2017, excludes mark to market movement for PLG securities

5 Centuria Capital Group ("CNI") hold a 9.3% interest in PLG. CNI and CIP hold 17% of PLG when viewed in combination



1H18 FINANCIAL RESULTS

CIP recorded a statutory net profit of \$49.6 million for 1H18, an increase of 58.2% on 1H17, the increase is predominantly driven by revaluation gains from the portfolio.

Distributable earnings of \$24.2 million¹ reflect 10.1cpu, with total distributions paid of 9.7cpu.

NTA per unit increased to \$2.46, a 4.7% increase over 30 June 2017. The increase in NTA was predominantly driven by asset revaluations.

CAPITAL MANAGEMENT

Over the past six months, CIP has successfully reduced its gearing to 40.6%⁶ (from 43.1%) through a combination of equity funded asset acquisitions, revaluations and asset disposals. The contracted sale of 39-45 Wedgewood Drive, Hallam⁷ will further reduce gearing to 40.0% on a pro-forma basis.

CIP's stated strategy is to deleverage the balance sheet and it continues to review a number of capital management initiatives to reduce gearing.

CIP completed the re-financing of \$55 million of debt during the period. CIP now has no further maturities over the next 12 months, and operates with a strong interest cover ratio of 4.1 times.

PROPERTY PORTFOLIO

Portfolio Snapshot		1H18	FY17 ⁸	1H17
Number of assets		39	38	37
Book value	\$m	1,005.2	961.2	911.9
WACR	%	7.02	7.33	7.42
GLA	sqm	766,539	757,944	693,620
Average asset size	sqm	19,655	19,945	18,746
Occupancy by income	%	95.9	92.1	96.1
WALE by income	years	4.9	4.4	4.4

New leases and renewals were entered into over 159,502sqm, representing 20.8% of the portfolio's gross lettable area. Leasing volumes were driven by early renewals of FY20 expiries, with FY20 lease expiries reducing from 24.8% to 14.2% over the past six months. CIP's retention rate over the half year was 100%, recorded on 122,903sqm of leasing transactions.

The portfolio's occupancy has increased by 3.8% since June 2017 to 95.9%³ with portfolio WALE increasing by 0.5 years to 4.9 years³.

Portfolio average fixed rental growth remains underpinned at 3.3% per annum, with 81% of CIP's leases having fixed annual reviews.

⁶ Gearing is defined as total borrowings minus cash / total assets minus cash and goodwill

⁷ Settlement of 39-45 Wedgewood Drive, Hallam is expected on 29 June 2018

⁸ Includes acquisition of Lot 14 Sudlow Road, Bibra Lake, WA and 207-219 Browns Road, Noble Park, VIC, exchanged on 29 June 2017



1H18 ASSET VALUATIONS

During the period CIP independently valued 100% of its portfolio. The valuations resulted in a gross uplift of \$31 million⁴, a 3.2% increase compared to 30 June 2017. The portfolio recorded a weighted average capitalisation rate of 7.02%, a 31 basis point reduction since 30 June 2017.

Consequently, NTA has increased by 4.7% since 30 June 2017 to \$2.46 per unit.

CAPITAL TRANSACTIONS

During the period, CIP settled the acquisition of four strategic, off-market acquisitions for a combined \$78.4 million⁹. The acquisitions reflected an average WALE² of 7.5 years and 100% occupancy.

CIP contracted to divest of 39-45 Wedgewood Drive, Hallam, VIC for \$10.0 million in July 2017. Settlement is expected to occur on 29 June 2018 and the sale price reflects a premium to book value of 7.5%.

In 1H18, CIP acquired a 7.7% interest in Propertylink Group (**PLG**) for \$44.2 million. Centuria Capital Group (**CNI**) concurrently acquired a 9.3% interest in PLG – when viewed in combination CIP and CNI hold 17% of PLG.

SUMMARY & OUTLOOK

Ross Lees commented, “Our team’s ability to understand and anticipate the needs of our customers has once again driven significant leasing volumes in the portfolio. Increases in occupancy and WALE combined with a standout 100% retention rate ensure CIP is well placed to deliver for the balance for FY18.

CIP has now been under Centuria’s management for twelve months, over this short time we have aggressively pursued strategies to build a portfolio with greater scale and stability for unitholders. As a result of recent leasing and transactional activity, the total portfolio’s value now exceeds \$1.0 billion, with occupancy of 95.9%³ and a WALE of 4.9 years³.

Our management team remains focused on continuing to identify and execute opportunities to create value for unitholders from within the portfolio and through transactional activity to ensure we remain Australia’s leading ASX-listed pure play industrial investment vehicle.”

FY18 distributable earnings guidance is maintained at 19.5-20.0 cpu and with distributions forecast at 19.4 cpu, paid in quarterly installments.

- Ends -

1H18 results presentation

CIP has provided a market briefing that is available to securityholders via the Centuria website (www.centuria.com.au/listed-property-funds).



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About Centuria Property Funds No. 2 Limited

Centuria Property Funds No. 2 Limited (CPF2L), a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Industrial REIT (CIP).

CIP is Australia's largest ASX-listed income focused industrial investment vehicle and is included in the S&P ASX300 index. CIP owns a portfolio of 39 high quality industrial assets with a value exceeding \$1 billion, the properties are located in key metropolitan locations throughout Australia.

CPF2L, combined with Centuria Property Funds Limited (CPFL), the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA), has \$3.7 billion of funds under management in 17 unlisted property funds, one open-ended diversified property fund and two listed REITs.

CNI is an ASX-listed specialist investment manager with \$4.6 billion in funds under management.

www.centuria.com.au