For personal use only

ASX / MEDIA ANNOUNCEMENT
8 February 2021

SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY21 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the half year ended 31 December 2020 ("1H FY21").

Financial highlights:

- Net Profit After Tax of $102.9 million, up by 14.1% compared to the same period last year ("1H FY20") due to an increase in the fair value of investment properties (1)
    - Funds From Operations ("FFO") and Adjusted Funds From Operations ("AFFO") have decreased compared to 1H FY20, which was prior to the COVID-19 pandemic
- FFO and AFFO have improved strongly compared to the second half of the FY20 financial year ("2H FY20"), as the negative impact of COVID-19 begins to recede:
    - FFO of $72.3 million, up by 16.1% compared to 2H FY20
    - FFO per unit of 6.72 cents per unit ("cpu") (2), up by 8.2% compared to 2H FY20
    - AFFO of $62.4 million, up by 15.1% compared to 2H FY20
    - AFFO per unit of 5.80 cpu, up by 7.4% compared to 2H FY20
    - Distributions of 5.70 cpu, up by 14.0% compared to 2H FY20, a payout ratio of 98% of AFFO (2)
- Weighted average cost of debt currently 3.2% pa. Gearing of 29.1% as at 31 December 2020, up from 25.6% at 30 June 2020 primarily due to $178.9 million in acquisitions completed during the period
- Investment property portfolio value of $3,403.3 million, up by $265.1 million since 30 June 2020, primarily due to a like-for-like valuation increase and acquisitions
- Net tangible assets of $2.25 per unit as at 31 December 2020, up by 1.4% from $2.22 as at 30 June 2020 primarily due to the like-for-like valuation increase
- Management expense ratio ("MER") of 0.46% as at 31 December 2020, up from 0.38% as at 30 June 2020 due to increased D&O insurance costs and no KMP STIP in FY20

Operational highlights:

- Supermarket moving annual turnover ("MAT") growth of 8.6% (up from 5.1% as at 30 June 2020) and discount department store MAT growth of 15.0% (up from 7.6% as at 30 June 2020)
- Portfolio occupancy of 98.2% by GLA as at 31 December 2020 (no change from 30 June 2020), with specialty vacancy of 4.8% of GLA (down from 5.1% as at 30 June 2020)
- Leasing activity continuing with 96 renewals and 63 new lease deals completed during the period. Average leasing spreads were -4.6% for renewals and +0.8% for new leases
- Acquisitions of Bakewell (NT) for $39.4 million and Auburn Central (NSW) for $129.5 million (excluding transaction costs) were completed during the period
- "SURF 1" fund was wound up during the period, crystalising an internal rate of return of 11% per annum for unitholders

(1) Refer to the Interim Financial Report for the half year ended 31 December 2020 released today
(2) Based on weighted average units on issue of 1,075.1 million. FFO per unit is calculated as FFO of $72.3 million divided by 1,075.1 million. Payout ratio is calculated as total 1H FY21 distributions declared of $61.4 million divided by 1H FY21 AFFO of $62.4 million.

For personal use only

Chief Executive Officer, Anthony Mellowes, said: “Throughout the COVID-19 pandemic, our convenience-based centres have benefited from the shift to shopping locally. Our anchor tenants have experienced strong sales growth and our specialty tenant sales have recovered following the easing of restrictions. We have continued to conclude leasing deals with 96 renewals and 63 new lease deals completed during the first half. Specialty vacancy is stable at 4.8% and specialty occupancy costs are stable at 9.9%.”

“Nevertheless, the COVID-19 pandemic has impacted some of our specialty tenants who have experienced sales declines. We have provided rental assistance to over 800 tenants, including both SME tenants under the Mandatory Code of Conduct and also non-SME tenants on a case-by-case basis. Total cash collection rates stabilised at around 99% by the end of the period.”

“We have continued to progress our sustainability program, including commencing a new partnership with The Smith Family, investing in energy saving initiatives such as efficient lighting and building automation systems, and increasing our focus on our ESG aspiration and strategy.”

Chief Financial Officer, Mark Fleming, said: “The COVID-19 pandemic has continued to negatively impact our financial results in the first half of the financial year. The direct impact of COVID-19 on first half FY21 FFO is approximately $6.9 million, with the largest contributor to this being a rental income shortfall due to waivers, deferrals and unpaid rent.”

“In addition, in response to the COVID-19 pandemic, we raised $279.3 million of new equity in April and May 2020 which continues to have a dilutive impact on our earnings per unit. We are well progressed in redeploying this equity, with $178.9 million of acquisitions completed during the period. As at 31 December 2020 we had cash and undrawn facilities of $201.9 million and our gearing was at 29.1% which is below the lower end of our target range of 30%-40%. This means that we could debt fund approximately $250 million of acquisitions and still keep our gearing below 35%.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $102.9 million, which includes significant movements in non-cash fair value adjustments, including a $63.0 million increase in the fair value of investment properties, a $74.7 million decrease in the fair value of derivatives, and a $46.5 million foreign exchange gain. The decrease in the fair value of derivatives relates to our USPP swaps and is driven by both an increase in the value of the Australian dollar and a decrease in the interest rate curve. The foreign exchange gain is due to the increase in the value of the Australian dollar which decreases the value of our US$ debt.

The directly attributable COVID-19 earnings impact was $6.9 million, compared to a $20.5 million impact in 2H FY20. This COVID-19 impact includes $4.8 million of waivers granted during the period and $3.8 million of other direct COVID-19 impacts (such as increased cleaning expenses and rent freezes), offset by a reduction in the ECL allowance running through property expenses of $1.7 million. The ECL allowance has reduced because increased allowances for deferred and unpaid rent during 1H FY21 were offset by greater than expected collections of FY20 unpaid rent.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $72.3 million, up by 16.1% compared to 2H FY20. The main reason for this increase was a reduction in the COVID-19 earnings impact from $20.5 million in 2H FY20 to $6.9 million in 1H FY21. FFO per unit for the period was 6.72 cpu, 8.2% above 2H FY20 also impacted by the full period of dilution from the equity raisings in April/May 2020.

Adjusted Funds From Operations (“AFFO”) was $62.4 million, up by 15.1% compared to 2H FY20. AFFO per unit was 5.80 cpu, up by 7.4% compared to 2H FY20. Maintenance capex of $3.9 million was slightly below 2H FY20 ($4.1 million), while leasing costs and fitout incentives of $6.0 million were higher than 2H FY20 ($4.0 million) due to payment of incentives relating to deals completed during FY20 but stores not opening until 1H FY21.

The Group has not received any funds from the Australian Government under its JobKeeper scheme.

For personal use only

Property valuations

The value of investment properties increased to $3,403.3 million during the period (from $3,138.2 million at 30 June 2020), primarily due to the acquisitions of Bakewell (NT) for $39.4 million and Auburn Central (NSW) for $129.5 million, vacant land adjacent to our Greenbank Shopping Centre for $10.0m (plus $10.2 million transaction costs), and an increase in the fair value of like-for-like properties of $63.0 million. The like-for-like valuation increase was due to capitalisation rate tightening by 11bps, a 0.7% increase in valuation NOI, and a reduction in the COVID-19 once off rent relief adjustments from $27.4 million at June 2020 to $4.0 million at December 2020.

The total portfolio weighted average capitalisation rate is now 6.39% (6.51% as at 30 June 2020), with sub-regional centres remaining at 6.84% but neighbourhood centres compressing to 6.25% (from 6.39% as at June 2020).

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.25, an increase of 3 cpu or 1.4% from $2.22 as at 30 June 2020. This is primarily due to the like-for-like investment property valuation increase and the decrease in the A$ value of our US$ debt, partially offset by decrease in the mark-to-market value of our USPP cross-currency interest rate swaps.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 29.1% as at 30 December 2020 (compared to 25.6% as at 30 June 2020). This is below our target range of 30-40% (with a preference to remain below 35% at this point in the cycle). The increase in gearing was due to the acquisitions completed during the half year.

At 31 December 2020, the Group had cash and undrawn facilities of $201.9 million, the weighted average cost of debt is 3.2%, the average maturity of our debt is 6.2 years, the percentage of debt fixed or hedged is 56.4% and the weighted average fixed/hedged maturity is 5.2 years.

We have no debt maturities until FY24. Our earliest debt maturities are a $25 million bank facility in December 2023, followed by a $50 million bank facility in June 2024 and the $225 million A$MTN in June 2024.

Distributions

SCP aims to deliver secure and growing distributions to its unitholders. In January 2020, prior to the impact of COVID-19, SCP paid a distribution in respect of the six month period to 31 December 2019 of 7.50cpu. In August 2020, SCP paid a distribution in respect of the six month period to 30 June 2020 of 5.00 cpu, and in January 2021 SCP paid a distribution in respect of the six month period to 31 December 2020 of 5.70 cpu (representing a payout ratio of 98% of AFFO). The last two distributions reflect the impact of the COVID-19 pandemic on AFFO, and we expect to continue to increase distributions as the pandemic recedes. The estimated tax deferred component for January 2021 is 35%, which is higher than our expected normalised level of 20-25% primarily due to the timing of deductions associated with the ECL allowance.

The distribution reinvestment plan ("DRP") remained active for both the August 2020 and January 2021 distributions. The August 2020 DRP raised $9.5 million at $2.22 per unit, and the January 2021 DRP raised $8.2 million at $2.40 per unit.

Operational performance

Portfolio occupancy

SCP had a portfolio specialty vacancy rate of 4.8% of GLA as at 31 December 2020, compared to 5.1% as at 30 June 2020 and is within our target range of 3-5%. Our portfolio occupancy rate was 98.2% and has remained relatively stable since December 2014.

For personal use only

Sales growth

The comparable store sales MAT growth for the 12 months to 31 December 2020, for stores open more than 24 months was:

- Supermarkets: 8.6% (compared to 5.1% as at 30 June 2020)
- Discount department stores: 15.0% (compared to 7.6% as at 30 June 2020)
- Mini Majors: 6.3% (compared to 2.9% as at 30 June 2020)
- Specialty stores: 0.5% (compared to -1.1% as at 30 June 2020)
- Total portfolio: 7.9% (compared to 4.2% as at 30 June 2020)

The relatively strong sales performance is due to a continuation of the shopping local trend and a relaxation of restrictions in most States (except for Victoria) over the last six months. Some specialty tenants are still experiencing sales declines, particularly in the categories of Apparel, Cafes/Restaurants and some Retail Services.

Specialty key metrics

Despite COVID-19, our specialty tenants have been relatively resilient over the last six months:

- Sales productivity has increased to $8,367 per square metre (up from $8,229 as at 30 June 2020);
- Our rents remain amongst the lowest in the sector at $788 per square metre; and
- Specialty occupancy cost is 9.9% (down from 10.0% as at 30 June 2020).

Against a backdrop of COVID-19 and a softening in the broader retail market, our focus continues to be to:

- Improve tenancy mix with a bias toward non-discretionary categories;
- Maintain a high retention rate on renewals: 78% for the six months to December 2020 (compared to 76% for the year to June 2020); and
- Maintain low specialty vacancy by working proactively with our tenants during these challenging times: 63 new deals done in the six months to December 2020 (vs 146 in the year to June 2020).

Rent reversions and incentives have begun to stabilise as the pandemic recedes. During the six month period we completed 96 specialty renewals with an average negative rent reversion of -4.6%. We also completed 63 new lease deals with an average positive rent reversion of 0.8%. Average incentives on new lease deals have decreased to 11.8 months on a new 5-year deal (down from 13.8 months in FY20).

Acquisitions, disposals and developments

During the period we completed two acquisitions of convenience-based shopping centres. In September 2020 we completed the acquisition of the Bakewell Shopping Centre in Darwin, NT for $33.0 million and in December 2020 we acquired the adjacent petrol station for $6.4 million. In December 2020 we completed the acquisition Auburn Central Shopping Centre in Sydney NSW for $129.5 million. Also in December 2020 we acquired vacant land adjacent to our Greenbank Shopping Centre near Brisbane QLD for $10.0 million.

In December 2020 we agreed terms to acquire Katoomba Marketplace in the Blue Mountains NSW for $55.1 million from the SURF 2 fund, and in January 2021 we agreed terms to acquire Cooloola Cove QLD for $18.6 million. Both of these acquisitions are expected to settle by the end of February 2021.

Funds management

During the year we wound up the SURF 1 fund, crystalising an 11% per annum IRR for investors, and generating a performance fee of $0.5 million.

The SURF 2 fund agreed terms to sell to SCP its last property being Katoomba Marketplace for $55.1 million and is expected to be wound up before June 2021, crystalising an expected IRR of 12% per annum for investors. The SURF 3 retail fund continues to operate with three properties valued at $43.2 million.

For personal use only

Strategy and outlook

Our primary objective over the next 6 months is to ensure that our centres emerge from the COVID-19 pandemic in a stronger position as we get back to business as usual. As such, our focus continues to be to serve our local communities for their everyday needs, partner with our supermarket anchors to provide a convenient supermarket offer (including online fulfilment), actively manage our centres to ensure that we have sustainable specialty tenants paying sustainable rents, and to ensure the long term sustainability of our business by building strong communities, environmentally efficient centres and responsible investing.

We will continue to take a disciplined approach to acquisitions. Our balance sheet is in a strong position, with cash and undrawn debt facilities of $201.9 million and gearing of 29.1% which is below our target range.

These initiatives will support our core strategy which is to generate defensive, resilient cash flows to support secure and growing long term distributions to our unitholders.

Earnings guidance

Our guidance for FY21 FFO per unit is at least 14.4cpu (1.7% below FY20) and for FY21 AFFO per unit is at least 12.2cpu (5.7% below FY20). This guidance assumes that there are no further major outbreaks of COVID-19 and no significant new government restrictions. The guidance does not assume any further acquisitions, other than the Katoomba Marketplace and Cooloola Cove properties described above.

Our medium term target is to return AFFO per unit to the pre-COVID level of 7.5cpu per half (or 15.0cpu per annum) once the impacts of the COVID-19 pandemic have ended and the equity raising proceeds are fully redeployed.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 9 February 2021 at 10:30am (AEST).

This document has been authorised to be given to the ASX by the Board of SCP.

ENDS

Media, institutional investor and analyst contacts:

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

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 neighbourhood and sub-regional shopping centres located across Australia. The SCA Property Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited, Coles Group Limited and companies in the Wesfarmers Limited group. The SCA Property 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).