

ASX Release

Charter Hall Social Infrastructure REIT FY21 Results

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Charter Hall Social
Infrastructure Limited
ABN 46 111 338 937
AFSL 281544

Responsible Entity of
Charter Hall Social
Infrastructure REIT
ABN 58 102 955 939

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704
Sydney NSW 2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au

Charter Hall Social Infrastructure REIT ("CQE") today announced its results for the financial year ended 30 June 2021. Key financial and operational highlights for the period are:

Financial Highlights

- Statutory profit of \$174.1 million, up 103.4% on previous corresponding period ("pcp")
- Operating earnings of \$58.0 million, up 13.5% on pcp
- Operating earnings of 16.0 cents per unit ("cpu"), down 3.0% on pcp
- Distribution of 19.7¹ cpu
- Gross assets of \$1.6 billion, up 13.3% on pcp
- NTA of \$3.25 per unit up 11.3% on pcp
- Balance sheet gearing of 24.5%² with investment capacity of \$207² million

Operating Highlights

- Weighted Average Lease Expiry ("WALE") increased by 2.5 years to 15.2 years
- Extension of 106 Goodstart lease expiries by an average of 13 years
- Acquisition of Mater Health corporate headquarters and training facilities for \$122.5 million
- Acquisition of South Australian Emergency Services Command Centre for \$80 million
- Divestment of 44 existing childcare assets for \$85.3 million including remaining 20 New Zealand assets and interest in the unlisted Charter Hall CIB Fund for \$18.4 million
- Property portfolio valuation increase of \$119.4 million or 11.1%³

Charter Hall Social Infrastructure REIT's Fund Manager, Travis Butcher said: "CQE has continued delivering on its strategy of enhancing income resilience and capital growth. It has been an active year which has included the acquisition of two new social infrastructure properties with strong tenant covenants and the extension of 106 leases to an average 20 years with CQE's major tenant customer, Goodstart. CQE is well positioned with low gearing and \$207 million of investment capacity to deliver secure income and capital growth to investors".

¹ Comprising ordinary distribution of 15.7 cpu and special distribution of 4.0 cpu

² Adjusted to include the completion of SA Emergency Command Centre, childcare development pipeline and payment of the June quarter distribution. As at 30 June 2021, CQE's gearing was 19.2% and look-through gearing was 20.4%

³ Excluding properties acquired and development projects completed during FY21

Property Portfolio Performance

During the year, CQE has continued delivering on strategy, improving portfolio quality and metrics. CQE has increased the portfolio's weighting to larger social infrastructure assets, diversifying from a pure childcare focus, resulting in the following:

- Increase in WALE to 15.2 years from 12.7 years;
- 100% occupancy;
- Majority of leases (73.2%) now on fixed rent reviews up from 53.6% as at 30 June 2020 resulting in a forecast WARR of 2.9%; and
- Lease expiries within the next five years at 3.4% of rental income.

Social Infrastructure Acquisitions

During the period, CQE acquired two social infrastructure properties with a combined on-completion value of \$202.5 million, providing improved income quality and diversification.

In June 2021, CQE settled the acquisition of the Mater Misericordiae Limited ("Mater") corporate headquarters and training facilities located in Newstead, approximately 2.6 kilometres north-east of the Brisbane CBD. The purchase price of \$122.5 million reflects a passing yield of 4.84%, underpinned by a new 10-year lease to Mater and fixed annual rental increases of 3.0%.

CQE acquired the property in a sale and leaseback transaction with the Mater, Queensland's largest Catholic, not-for-profit health provider, with net assets of over \$1 billion.

In November 2020, CQE contracted to purchase the new purpose-built South Australian Emergency Services Command Centre and adjacent multi-deck carpark currently under construction for a total consideration of \$80 million. On completion, it will be leased to the South Australian Government (85% of the property's total income) and occupied by four Government emergency services agencies on a 15-year lease, with fixed 2.5% annual rent escalations and two 5-year options.

The settlement of land and works completed to date occurred in December 2020. As at 30 June 2021 CQE had funded \$50.4 million of the development with the remaining \$29.6 million of development funding to be provided on a progressive basis through to completion which is expected to occur in November 2021. The total fixed cost of \$80 million reflects a passing yield of 4.8%.

Childcare Portfolio

Childcare acquisition activity during the year included the settlement of 3 brand new childcare properties for \$12.6 million at a purchase yield of 6.4%. These acquisitions are all leased to ASX listed tenants on average lease expiries of 20 years and are well-located for childcare and to also deliver long term capital growth.

CQE continued to divest non-core assets to recycle capital into properties with more favourable property fundamentals to improve the quality of the portfolio. During the period, there were 44 property divestments totalling \$85.3 million which included the remaining 20 New Zealand assets. These divestments comprised smaller centres (average of 67 places), short WALE (average 6.6 years) and lower socio-economic locations. The average yield achieved on these divestments was 5.9% resulting in a 5.7% premium to book value.

Ten developments were completed in FY21 with a completion value of \$69.7 million at a yield on cost of 6.1%. CQE's childcare development pipeline comprises a further 14 projects, of which 9 are forecast to be completed during FY22, contributing to continued improvement in the quality of the portfolio and adding to the earnings profile of CQE.

Property Valuations

Revaluations of the property portfolio completed through FY21 resulted in an aggregate valuation uplift of \$119.4 million over 30 June 2020 values, reflecting a 11.1% increase net of capital expenditure and a passing yield of 5.6%.

Childcare transaction volumes remain strong with approximately \$550³ million in sales during FY21. Childcare property yields continue to compress, reflecting limited supply and ongoing strong demand for long WALE assets in 'essential' sectors with stable income.

The average yield covering 61 transactions (\$289 million) during the last six months was 5.5%, with the average yield on transactions within metropolitan Melbourne at 5.2%.

Capital Management

In June 2021, CQE increased its debt facilities to \$600 million with the additional \$100 million being provided by a new financier, further diversifying CQE's funding sources. This will provide CQE with investment capacity of \$207 million after adjusting for contractual commitments⁴.

As at 30 June 2021, CQE's balance sheet gearing is 24.5% and look-through gearing is 25.6%.

CQE has diversified funding sources with no debt maturity until May 2024 and a weighted average debt maturity of 4.1 years.

Childcare Market

The essential nature of childcare has been demonstrated with centres remaining open during the COVID-19 pandemic and associated restrictions. Childcare continues to be an essential labour supply mechanism to the Australian economy, in addition to providing significant learning benefits to young children. Importantly, there has not been any structural change to the market as a result of COVID-19 and occupancy for operators has returned to pre COVID-19 levels.

Government funding, which was critical to support the operators during the pandemic period continues to grow, underlining the importance to the economy and educational and learning benefits being provided. The Federal Government through the Child Care Subsidy provides funding of approximately \$9.0 billion per annum and as announced in May 2021, additional funding of \$1.7 billion per annum will be provided to improve childcare affordability commencing in FY23. The additional funding is targeted at lower-middle income families and expected to benefit approximately 250,000 families.

As at 30 June 2021, there are 8,332⁵ LDC centres in Australia, a net increase of 297 (3.7%) for FY21. The annual growth rate of 3.7% has moderated from 3.8% growth which occurred in FY20. The softening in supply growth is evidenced by 159 new centres opening between January and June 2021, being lower than the corresponding period in previous years (2020: 181; 2019: 204).

Outlook

CQE is well positioned, with resilient and growing income, low gearing and \$207 million of investment capacity. CQE will continue to execute on its strategy to pursue new social infrastructure opportunities.

Recent acquisitions and completion of developments will continue to drive earnings and distribution growth in future years.

CQE is pleased to announce that based on information currently available, continued tenant performance and barring any unforeseen events or a further deterioration in the COVID-19 environment, the FY22 forecast distribution guidance is 16.7 cpa, an increase of 6.4% from FY21. CQE will continue to pay quarterly distributions.

Announcement authorised by the Board

³ Charter Hall data

⁴ Adjusted to include the completion of SA Emergency Command Centre, childcare development pipeline and payment of the June quarter distribution

⁵ ACECQA data

Charter Hall Social Infrastructure REIT (ASX:CQE)

Charter Hall Social Infrastructure REIT is the largest Australian ASX-listed real estate investment trust (A-REIT) that invests in social infrastructure properties.

Charter Hall Social Infrastructure REIT is managed by Charter Hall Group (ASX:CHC). With over 30 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure.

Operating with prudence, we've curated a diverse \$52 billion portfolio of 1,400 high quality, long leased properties. With partnership at the heart of our approach, we're creating places that help grow communities; turning them into the best they can be and unlocking hidden value. Taking a long-term view, our \$7 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

For further enquiries, please contact

Travis Butcher

Fund Manager - CQE

Charter Hall

T +61 3 9903 6171

travis.butcher@charterhall.com.au

For media enquiries, please contact

Megan Moore

Communications & Media Manager

Charter Hall

T +61 2 8651 9953

megan.moore@charterhall.com.au

For investor enquiries, please contact

Lula Lioffi

Investor Relations Manager

Charter Hall

T +61 3 9903 6157

lula.liossi@charterhall.com.au

Philip Cheetham

Head of Listed Investor Relations

Charter Hall

T +61 403 839 155

philip.cheetham@charterhall.com.au
