

ASX Release

Charter Hall Retail REIT FY21 Results

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Charter Hall Retail REIT (ASX:CQR) (CQR or the REIT) today announces its FY21 results for the period ended 30 June 2021.

Key financial results:

- Statutory profit of \$291.2 million, up from \$44.2 million in FY20
- Operating earnings of \$156.2 million, up 9.5% on FY20
- Net cashflow from operating activities of \$154.5 million, up 16.3% on FY20
- Operating earnings of 27.30 cents per unit (cpu), down 10.7% on FY20
- Distribution of 23.40cpu, down 4.6% on FY20
- Net Tangible Assets (NTA) per unit of \$4.01, up 6.9% on FY20
- COVID-19 tenant support of \$6.7 million provided during the period, or 2.3% of FY21 rent
- Portfolio look-through gearing of 33.1% and balance sheet gearing of 25.7%
- Weighted average debt maturity of 4.1 years, no debt maturing until FY24
- Available investment capacity of \$308 million consisting of cash and undrawn debt facilities

Operating highlights:

- Total MAT growth¹ of 5.4%, up from 3.9% at June 2020
- Supermarket MAT growth of 4.3% over 12 months and 10.3% over 2 years to June 2021
- Portfolio Occupancy of 98.3%, up from 97.3% at June 2020
- Supermarkets in turnover increased to 66%², up from 61% at June 2020
- Contribution from major tenants to portfolio income of 53.5%, up from 51.4% at June 2020
- Portfolio Weighted Average Lease Expiry (WALE) of 7.5 years, up from 7.2 years at June 2020
- Specialty leasing spreads of +1.6% with 242 specialty lease renewals (+0.2% leasing spread) and 215 new leases (+3.8% leasing spreads)
- Property portfolio value increased to \$3,647 million, up 12.1% from June 2020, following acquisitions and valuation growth
- Portfolio cap rate firmed to 5.81% from 6.03% at June 2020
- Acquisition of interests in the bp New Zealand portfolio and Coles Distribution Centre, Adelaide
- Bringing forward target for net zero carbon emissions from 2030 to 2025³

¹ Moving Annual Turnover, like-for-like sales

² Includes supermarkets with fixed rent reviews

³ Scope 1 and Scope 2 emissions in Charter Hall operational control

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Charter Hall's Retail CEO, Greg Chubb said: "FY21 has seen a strong demonstration of the resilience of the CQR portfolio. In FY21 we've seen net operating earnings grow, portfolio occupancy improved, positive leasing spreads, valuation gains and NTA growth. Where COVID-19 mandated closures and restrictions have occurred, we've seen tenants trading rebound quickly in the period that follows. Our strategy of partnering with the leading convenience retailers gives CQR a highly defensive and resilient income stream, with 53.5% of portfolio income coming from these major retailers. The portfolio remains in a strong position to continue delivering resilient and sustainable income growth in the future."

COVID-19 Impacts

The CQR portfolio has continued to demonstrate its resilience through COVID-19 mandated closures and restrictions. The 53.5% weighting towards major retailers and heavy bias towards non-discretionary focused specialties has ensured continuity of trading for the majority of CQR's tenants through FY21.

CQR provided \$6.7 million, or 2.3% of FY21 rent in COVID-19 tenant support during the year. This compares to \$10.7 million of tenant support in the 4th quarter of FY20. \$5.4 million of this support was provided as rent-free incentives with \$1.3 million provided as rent deferrals. Significantly, \$2.7 million or 60% of total COVID-19 deferred rent (including deferred rent from Q4, FY20) had been repaid by 30 June 2021.

Only \$1.8 million, or 0.6% of FY21 rent remained outstanding as at 30 June 2021.

Post-balance date COVID-19 Update

As at 17 August 2021, 428 specialty stores representing 10.8% of the portfolio's total monthly income or \$2.6 million, are temporarily non-trading due to COVID-19 lockdown and trading restrictions across multiple jurisdictions.

Of these 428 specialty stores, 274 stores representing 5.5% of the portfolio's total monthly income, or \$1.3 million are classified as small to medium enterprises (SME).

Support for genuinely impacted SME tenants will be provided in accordance with recently announced Commercial Codes in Victoria and New South Wales.

Portfolio rent collections for the month of July 2021 were 93% with New South Wales and Victoria at 89% and 90% respectively.

Importantly, specialty sales and customer traffic have rebounded strongly and quickly after recent lockdowns in South Australia, regional Victoria and South-East Queensland.

Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors through active asset management, portfolio enhancement and prudent capital management.

In July 2020, CQR acquired a 52% interest in the Coles Adelaide Distribution Centre, located in the prime industrial precinct of Edinburgh Park, approximately 25kms from Adelaide CBD. This asset is utilised by Coles as its sole distribution centre to service all of its retail stores in South Australia and the Northern Territory. This purchase further deepens CQR's partnership with Coles, providing exposure to the convenience supply chain while providing income security and growth through fixed annual 2.75% rental increases and a 14.5yr WALE at acquisition. Since acquisition, this asset has experienced strong valuation growth and cap rate compression, delivering both NTA and income growth for CQR unitholders.

Following on from CQR's initial investment in the bp portfolio partnership in FY20, CQR built upon the success of its Australian partnership and expanded the bp portfolio to another 70 properties in New Zealand in December 2020 with initial lease terms ranging from 18 to 22 years. This takes the total bp portfolio size to 295 properties demonstrating conviction in triple net leased (NNN) long WALE convenience retail. Under the NNN lease bp is responsible for all outgoings, maintenance and capital expenditure associated with the properties delivering a highly capital efficient investment for CQR unitholders.

This purchase further deepens CQR's partnership with bp, while providing income security and growth in an effective NNN lease structure. Following the acquisition, bp is CQR's third largest tenant customer and represent 12.3% of portfolio income. Similar to the Coles Distribution Centre, Adelaide, this portfolio has experienced strong valuation growth and cap rate compression, delivering both NTA and income growth for CQR unitholders.

During the period, CQR also divested West Ryde Marketplace, NSW delivering a property IRR of 11.3% since acquisition.

The defensive and resilient nature of the portfolio is evident in the fund's property valuations. 100% of the portfolio was externally revalued at least once over FY21. The REIT's total portfolio increased in value by \$395 million with net acquisitions of \$207 million, capital investment of \$58 million and net valuation gains of \$130 million. The total portfolio cap rate moved from 6.03% at June 2020 to 5.81% at June 2021. The shopping centre convenience retail portfolio cap rate compressed from 6.19% at June 2020 to 6.12% at June 2021 while the long WALE convenience retail portfolio cap rate firmed from 5.00% to 4.69% over the same period.

Active management

The portfolio is strategically weighted towards high quality major convenience retail tenants. Major tenants Coles, Woolworths⁴, bp, Wesfarmers⁵ and Aldi represented 53.5% of rental income as at June 2021, up from 51.4% at June 2020. The total portfolio WALE has increased to 7.5 years and majors WALE is 11.4 years.

Supermarkets in the portfolio continued to perform well with 66% of supermarket tenants paying turnover rent² and those within 10% of turnover thresholds representing 17% of supermarkets. Supermarkets across the portfolio delivered 4.3% MAT growth, with the 2-year MAT growth of supermarkets a record at 10.3%. CQR completed 10 new supermarket leases or term extensions during the year, while 14 supermarkets, or 20% of supermarkets in the portfolio were refurbished over the period. Click and Collect installations are now operating at 49 Coles and Woolworths supermarkets across the portfolio with another five planned to provide 95% coverage.

CQR had a record year of leasing with 457 specialty leases completed at an average spread of +1.6%. This was made up of 215 new specialty leases completed at an average leasing spread of +3.8% and 242 renewals completed at an average +0.2% leasing spread.

Specialty MAT grew by 7.1% in the 12 months to 30 June 2021 reflecting the strong rebound in trading conditions post mandated closures. Sales productivity also rose strongly, up 6.9% over the year to \$10,213 per sqm, while specialty occupancy costs decreased to 11.2%.

CQR continues to invest in its assets with \$58 million of capital investment across the portfolio in FY21 that was captured in valuation uplift. A number of capital initiatives were undertaken across the year including the completion of the Bass Hill, NSW redevelopment; the development of two free standing childcare facilities at Secret Harbour, WA and Wanneroo, WA; Target store conversions across the portfolio; drive through food offerings at Lansell Square, Vic and Campbellfield Plaza, Vic as well as on-going investment in CQR's sustainability initiatives.

100% Net Zero Carbon Emissions by 2025

CQR is also pleased to announce today that it is bringing forward its target for net zero carbon emissions from 2030 to 2025³. Progress on our solar strategy continues, with 16.7MW of solar installation commissioned across 23 centres. CQR expects to have 100% renewable energy across the portfolio by 2025. In addition, a further 2.9MW of installations have been completed by Coles and Woolworths at CQR assets under roof licence agreements. CQR continues to partner with both major and specialty tenants to address Scope 3 emissions. All of CQR's major tenants have set net zero or renewable energy targets.

⁴ Includes Endeavour Group at 0.6%

⁵ Kmart, Target, Bunnings and Officeworks

Capital management

Prudent capital management remains a core focus of CQR and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. As at 30 June 2021, CQR has \$308 million of available liquidity to fund capital investment and enhance portfolio quality.

During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. CQR's weighted average debt maturity is 4.1 years, with an average hedge maturity of 3.7 years. Portfolio balance sheet gearing is 25.7% and look-through gearing is 33.1%, within the target 30-40% gearing range.

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "We continue to proactively manage our capital and debt position to ensure a prudent capital structure. We have no debt maturing until FY24 and \$308 million of available liquidity."

Summary and outlook

CQR's portfolio continues to offer defensive and resilient earnings through its focus on meeting the property needs of convenience retailers. Our operational and financial performance in FY21 has put us in a strong position heading into FY22. As we commence FY22, our expectation is that supermarket and convenience retail sales will continue to be strong, driven by customers preference to shop closer to home and focus on everyday needs, subject to COVID-19 lockdowns.

Our strategy remains focused on partnering with non-discretionary convenience retailers and providing income resilience and growth through a continuation of our acquisition and divestment strategy.

Specialty sales and traffic have rebounded strongly and quickly after lockdowns, our expectations are that this pattern will continue.

In light of current COVID-19 lockdowns across multiple jurisdictions and uncertainty as to when these restrictions will be lifted and the ongoing risk of additional measures, CQR will not be providing FY22 earnings guidance at the current time.

Distributions will continue to be paid with reference to operating cashflow.

Announcement Authorised by the Board

Charter Hall Retail REIT (ASX: CQR)

Charter Hall Retail REIT is the leading owner of property for convenience retailers.

Charter Hall Retail 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, Charter Hall Group has carefully 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

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