Charter Hall

ASX Release

Charter Hall
Retail Management Limited
ACN 069 709 468
AFSL 246996

Responsible entity of
Charter Hall Retail REIT
ABN 34 357 213 849

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

T +61 2 8651 9000
www.charterhall.com.au

Charter Hall Retail REIT
1H FY23 Results

16 February 2023

Charter Hall Retail REIT (ASX: CQR) (CQR or the REIT) today announces its 1H FY23 results for the period ended 31 December 2022.

Financial Highlights

- Operating earnings of $83.4 million up 1.6% over prior corresponding period (pcp)
- Operating earnings of 14.35 cents per unit (cpu) up 0.9% over pcp
- Statutory profit of $124.7 million
- Distribution of 13.0 cpu up 11.1% over pcp
- Net Tangible Assets (NTA) per unit of 5.01, up 2% from $4.91 at June 2022
- Portfolio look-through gearing of 32.6% and balance sheet gearing of 27.1%
- Weighted average debt maturity of 4.1 years and 79% debt hedged
- Available liquidity of $126 million consisting of cash and undrawn debt facilities

Operating Highlights

- $120 million off-market acquisition of Z Energy portfolio of 51 Long WALE convenience retail properties in New Zealand on a 5.50% cap rate with annual NZ CPI rent escalations, triple net leases (NNN) and a 15.3-year weighted average lease expiry (WALE)
- Divestment of Coles Distribution Centre, Adelaide at book value with $95.3 million proceeds net of asset level debt
- Shopping centre portfolio occupancy of 98.6%, up from 98.5% at June 2022
- Moving annual turnover (MAT) growth of 4.7% across the shopping centre portfolio
- Specialty leasing spreads of +3% with 112 specialty lease renewals and 82 new leases completed over the period
- Portfolio valuation growth of $119 million or 2.8%, inclusive of $46 million of capital investment

Charter Hall Retail's CEO, Ben Ellis said: "Today's result demonstrates the resilience and underlying strength of the CQR portfolio. CQR's unique portfolio of Long WALE and convenience retail assets with

59% of portfolio income growth linked to inflation continues to produce meaningful income growth for investors.

The blend of Long WALE assets providing income growth directly linked to inflation, combined with CQR's shopping centres providing inflation-linked income growth through turnover rent mechanisms, means CQR investors are currently enjoying growing income and distributions, despite the rapid rise in interest rates. This resilience is also being recognised in valuations, with the portfolio enjoying positive asset revaluations of 2.8% driven by the strong income growth generated by the portfolio."

Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors.

In August 2022, CQR announced the acquisition of a 49% interest in a portfolio of 51 Long WALE convenience retail properties leased to Z Energy Limited in New Zealand. This transaction was negotiated off-market and followed Ampol's acquisition of Z Energy, furthering CQR's relationship with Ampol. CQR's 49% interest was acquired for AUD $120 million (NZ$132 million) on a 5.50% cap rate with annual NZ CPI rent escalations (2% floor, 5% cap), NNN leases and a 15.3-year WALE. 78% of the portfolio's 51 assets are located in metropolitan areas.

At the same time, CQR also announced it had divested its 52% interest in the Coles Distribution Centre, Adelaide (CDC) at book value. The $95.3 million proceeds from the sale were used to fund the acquisition of the Z Energy portfolio. This generated an IRR for CQR unitholders of 29.4%.

Post the acquisition, Ampol is now CQR's 5th largest tenant customer and represents approximately 4.5% of portfolio income. The transaction was the result of Charter Hall Group's strong relationship with the tenant and demonstrates Charter Hall's ability to access off-market opportunities for the benefit of CQR unitholders.

100% of the CQR portfolio was independently revalued at 31 December 2022[1]. The REIT's total portfolio increased in value by $144 million with net acquisitions of $25 million and valuation growth of $119 million, inclusive of capital investment of $46 million. The total portfolio cap rate moved from 5.20% at June 2022 to 5.28% at December 2022. The shopping centre convenience retail portfolio cap rate moved from 5.45% at June 2022 to 5.52% at December 2022 while the long WALE convenience retail portfolio cap rate moved from 4.33% to 4.54% over the same period. The gain in valuations was predominantly driven by income growth.

Active management

The CQR portfolio continues to be strategically weighted towards high quality major convenience retail tenants. Major tenants Woolworths, Coles, bp, Wesfarmers[2], Aldi, Ampol and Gull represented 56% of rental income. The total portfolio WALE is 7.3 years and majors WALE is 10.8 years.

The Long WALE convenience retail portfolio represents 24% of total portfolio by value and 18% of total portfolio income. The leases are NNN with CPI reviews and a WALE of 16.6 years. CQR's Long WALE convenience retail portfolio is forecast to deliver 6.2%[3] rental growth in FY23, underpinning the broader CQR portfolio income growth.

Supermarkets in the convenience retail portfolio continued to perform well with 62% of supermarket tenants paying turnover rent[4] and those within 10% of turnover thresholds representing 19% of supermarkets. Supermarkets across the portfolio delivered 3.3% MAT growth. CQR now has click & collect and direct to book facilities operating at 95% of the Coles and Woolworths supermarkets within the portfolio.

[1] Excluding assets held for sale
[2] Kmart, Target, Bunnings, Officeworks and API
[3] FY23 forecast rental growth adopting known and capped CPI
[4] Includes supermarkets with fixed rent reviews

CQR also had an active period of leasing with 194 specialty leases completed at an average spread of +3.0%. This was made up of 82 new specialty leases completed at a flat average leasing spread +0.0% and 112 renewals completed at an average +3.7% leasing spread.

With no mandated store closures and trading restrictions impacting trading during the period, specialty productivity continued to improve and reached a portfolio record at $10,259 per sqm. Occupancy costs were stable and remain at a very sustainable 11.5%.

Capital Management

Prudent capital management remains central to CQR's strategy. As at 30 December 2022, CQR has $126 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. Following the refinancing of $254 million of joint-venture debt and extending maturities to FY28 and FY29, CQR now has no debt maturing until FY26.

CQR's weighted average debt maturity is 4.1 years, with an average hedge maturity of 1.7 years. Portfolio balance sheet gearing is 27.1% and look-through gearing is 32.6%, within the target 30-40% gearing range. CQR has 79% of debt hedged for the FY23 year. CQR expects its FY23 weighted average cost of debt to be 3.2%[5].

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "With 79% of debt hedged for FY23 and no debt maturing until FY26, we are well positioned in the current environment to deliver a resilient and growing income stream."

Summary and outlook

CQR's strategy is to be the leading owner of convenience retail property, delivering investors a resilient and growing income stream from Long WALE and convenience retail properties. Portfolio curation and active asset management will continue to enhance the portfolio quality through time.

Positive leasing spreads, high occupancy levels and MAT growth are expected to continue. Portfolio income is expected to benefit from direct and indirect inflation-linked rental growth, which will also underpin asset values.

Barring unforeseen events, CQR reaffirms that FY23 earnings per unit is expected to be no less than 28.7 cents per unit representing growth of no less than 1.0% over FY22 earnings per unit.

CQR reaffirms FY22 distributions per unit are expected to be no less than 25.8 cents per unit representing growth of no less than 5.3% over FY22 distributions per unit.

Announcement Authorised by the Board

[5] BBSY assumptions for FY23 are Actual Q1: 1.9%, Actual Q2: 3.0%, Actual Q3: 3.3%, Forecast Q4: 3.7%

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). Charter Hall is one of Australia's leading fully integrated property investment and funds management groups. We use our expertise to access, deploy, manage and invest equity to create value and generate superior returns for our investor customers. We've curated a diverse portfolio of high-quality properties across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure. With partnerships and financial discipline at the heart of our approach, we create and invest in places that support our customers, people and communities grow.

For further enquiries, please contact
Ben Ellis
Retail CEO
Charter Hall Retail REIT
T +61 2 8651 9350
ben.ellis@charterhall.com.au

Christine Kelly
Deputy Fund Manager CQR and Head of Retail Finance
Charter Hall Retail REIT
T +61 2 8651 9401
christine.kelly@charterhall.com.au

For media enquiries, please contact
Megan Moore
Senior Communications & Media Manager
Charter Hall
T + 61 434 225 643
megan.moore@charterhall.com.au

For investor enquiries, please contact
Philip Cheetham
Head of Listed Investor Relations
Charter Hall
T +61 403 839 155
philip.cheetham@charterhall.com.au
