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Listed Property

August 2020 Reporting Season Results

Week 2:

GPT, CQE, SCP, CNI, GMG, CQR, ARF

A review of the major listed A-REITs reporting results during August 2020

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August 2020 Reporting Season for A-REITs – Week 2

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About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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August 2020

August 2020 Reporting Season – Week 2

Results for the June 2020 period

A-REITs reporting - Week 2		
For full reporting calendar see Appendix		
Monday 10 August 2020		
GPT	GPT Group	1H20
Tuesday 11 August 2020		
CQE	Charter Hall Social Infrastructure REIT	FY20
SCP	SCA Property Group	FY20
Wednesday 12 August 2020		
CNI	Centuria Capital Group	FY20
Thursday 13 August 2020		
GMG	Goodman Group	FY20
CQR	Charter Hall Retail REIT	FY20
ARF	Arena REIT	FY20

* 1H20 result is for 6-months to Jun-20
**FY20 result is for 12 months to Jun-20

Core Property has reviewed 7 results from property securities which reported in Week 2 of the August 2020 reporting season. Some key points include:

- **Rent Collections during COVID-19** have impacted retail portfolios with GPT reporting the lowest collection rate of 63% on its retail properties (-$75.5M rent impact). Convenience-based retailers fared better with CQR reporting 86% collections ($-10.7M rent impact) and SCP reporting a 77% collection rate (-$20.5M rent impact). The childcare based portfolio of ARF report a 96% collection rate (-$2.2M rent impact) and CQE reported an 86% collection rate ($-5.4M rent impact). Strong collections were reported in GPT's office portfolio (97% collection, -$9.6M rent impact) and GPT's logistics portfolio (99% collection, -$1.5M impact).
- **Distribution guidance for FY21** indicated lower distributions expected for CQE (-6.25%), and CNI (-12.4%). ARF is looking to increase distributions by 3%- 4%, while GMG is looking to hold distributions flat whilst increasing earnings. No distribution guidance was provided by retail-based portfolios GPT, SCP and CQR due to the uncertain COVID-19 environment.
- **Earnings guidance:** Weaker earnings guidance per unit was provided by CQE (estimated at around -6.25%) and CNI (-4.2% to -12.5%). No earnings guidance was provided by the retail portfolios of GPT, SCP and CQR, although weaker earnings are expected as a result of COVID-19. Fund manager GMG expects to continue its strong growth with 9% earnings growth expected across its industrial and logistics platform, whilst ARF is expected to deliver earnings growth of around 1.0% - 4.5%.
- **Valuation movements during the six-months** impacted GPT's retail portfolio significantly with a -10.5% movement. The convenience-based retail portfolios experienced lesser declines in valuations with SCP at -3.1% and CQR at -2.4%. The childcare based portfolios delivered increases with CQE delivering +2.1% and ARF +1.9% valuation gains in the six-month period.

The impact of COVID-19 has brought out the importance of one of the key investment criteria for property and that is to invest in a stable and reliable income stream. Rental income has been shown to be more volatile for discretionary based retailers than convenience-based centres which rely on supermarkets as anchors. Similarly, certain office markets provide relatively lower risk, whilst industrial and childcare assets are currently perceived to provide even lower risks. Core Property expects these risk profiles to evolve throughout the course of COVID-19 with potential opportunities for investors through an appropriate balance of risk versus return.

Key financial and valuation metrics

Code	Price (cps[1])	Operating earnings		Distributions		Leverage		Valuation		Guidance on EPS & DPS		
		EPS (cps)	(% chg)	DPS (cps)	(% chg)	Gearing (%)	Chg (%)	NTA (cps)	Prem/(Disc) to NTA %	FY21 EPS (cps)	FY21 DPS (cps)	Implied DPU yield
GPT[2]	385	12.55	-23.3%	9.30	-29.1%	25.1%	+3.0%	552	-30.3%	Not provided	Not provided	NA
CQE	247	16.5	0.0%	16.0	0.0%	16.4%	-6.1%	292	-15.4%	15.5[3]	15.0	6.1%
SCP	230	14.65	-10.3%	12.5	-15.0%	25.6%	-7.2%	222	3.6%	Not provided	Not provided	NA
CNI	180	12.0	-5.5%	9.7	+4.9%	3.1%	-14.4%	144	25.0%	10.5 – 11.5	8.5	4.7%
GMG	1793	57.5	+11.4%	30.0	0.0%	7.5%	-2.2%	584	207.2%	62.7	30.0	1.7%
CQR	330	30.56	-1.8%	24.52	-14.7%	25.3%	-7.6%	375	-12.0%	Not provided	Not provided	NA
ARF	236	14.55	+5.4%	14.0	+3.7%	14.8%	-7.3%	222	6.3%	Not provided	14.4 – 14.6	6.1%[4]

Note 1: Price is based on the closing price on the day of the results being released. Note 2: Reflects 1H20 result for 6-months to June 2020. Note 3: Based on historical payout ratio. Note 4: Assumes the midpoint of distribution guidance.
Source: Company Announcements, Core Property

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10 Aug 2020

The GPT Group (ASX: GPT) – 1H20 Results

GPT reported a poor 1H20 result with FFO per stapled security movement of -23.3% compared to the prior corresponding period. The result was dragged down by the Retail business which suffered a -49.7% movement in Net Income. Only 63% of Retail rent was collected during the six months, impacting rent by -$75.5M as GPTs retail portfolio of 12 properties were hot by COVID-19 shutdowns. The Office portfolio delivered a modest gain in Net Income of +0.9%, benefitting from the acquisition of Darling Park and like-for-like income growth of +1.2% being partially offset by COVID-19 related rental impact of -$9.6M. The Logistics portfolio performed strongly, with Net Income +12.8%, driven by acquisitions and completed developments and only a -$1.5M impact to rent from COVID-19.

Given the uncertainties from COVID-19, particularly on GPT's Victorian-based retail assets, GPT has not provided FFO or distribution guidance for the second half of the year.

GPT's current price of $3.85 per stapled security represents a 30.3% discount to NTA per unit, reflecting the uncertainty from the Retail assets, which make up around 40% of the portfolio.

1H20 Results to 30 June 2020

1H20 results	1H20	1H19	Change
Earnings			
Statutory Net Profit after tax*	**($519.1M)**	$352.6M	-247.2%
Net Income	**$307.7M**	$375.8M	-18.1%
Retail	**$79.2M**	$157.3M	-49.7%
Office	**$139.9M**	$138.7M	+0.9%
Logistics	**$64.4M**	$57.1M	+12.8%
Funds Management	**$24.2M**	$22.7M	+6.6%
Net Interest Expense	**($49.1M)**	($59.5M)	-17.5%
Corporate overheads & Tax expense	**($14.1M)**	($20.4M)	-30.9%
Funds From Operations (FFO)	**$244.5M**	$295.9M	-17.4%
FFO per stapled security	**12.55cpss**	16.36cpss	-23.3%
Distribution per stapled security	**9.30cpss**	13.11cpss	-29.1%
Payout ratio (of AFFO)	**99.6%**	104.9%	-5.3%

Movement over 6 months	As at Jun 2020	As at Dec 2019	Change
Balance Sheet			
NTA per security	**$5.52**	$5.80	-4.8%
Gearing %	**25.1%**	22.1%	+3.0%
Weighted average cost of debt	**3.1%**	3.6%	-0.5%
Weighted average debt maturity[1]	**7.8 years**	7.7 years	+0.1 years
Borrowings	**$4,488.2M**	$3,897.5M	+15.2%
Interest cover ratio	**6.0x**	6.7x	-0.7x
Portfolio			
Property Valuation	**$14,410M**	$14,850M	-3.0%
Occupancy rate	**98.1%**	96.5%	+1.6%
Weighted Average Capitalisation Rate	**5.00%**	4.95%	+5bps
WALE (Weighted Average Lease Expiry)	**4.9 years**	5.0 years	-0.1 years

Source: GPT, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes. *Property valuation includes GPT's equity interest in the GPT Wholesale Shopping Centre Fund.

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Key Points

- **Funds From Operations (FFO)** for 1H20 fell by 17.4% to $244.5M (compared to $295.9M in 1H19). On a per stapled security basis, FFO fell 23.3% to 12.55 cpss (16.36cpss at 30 June 2019); with the underperformance primarily driven by impacted rental collection across GPT's Retail portfolio.
- **Distributions** of 9.30cpss were declared for 1H20, which was -29.1% on the 13.11cpss delivered in the prior corresponding period. Before the onset of COVID-19, GPT had previously expected ~3.5% growth in distributions during 2020. The distribution policy is now aligned to free cash flow with a target payout ratio of 95% - 105%, and GPT will now declare distributions at the time of results announcements (ie around August and February).

GPT Commercial Property Metrics: 1H20

	Retail		Office		Logistics	
	1H20	1H19	1H20	1H19	1H20	1H19
No. of properties	**12**	13	**25**	24	**40**	34
Property Portfolio ($M)	**$5,700M**	$6,250M	**$6,070M**	$5,850M	**$2,640M**	$2,260M
Occupancy Rate	**98.0%**	99.5%	**94.4%**	97.1%	**99.8%**	93.4%
Capitalisation Rate	**5.04%**	4.86%	**4.85%**	4.94%	**5.29%**	5.54%[1]
WALE – years*	**3.8 years**	4.0 years	**5.2 years**	5.0 years	**6.9 years**	7.4 years
Like-for-like income growth	**Not Provided**	1.4%	**1.2%**	6.5%	**Not Provided**	2.2%
MAT (retail sales) growth	**-10.0%**	1.0%				
Specialty store sales	**-11.0%**	1.7%				
Specialty occupancy cost	**19.7%**	17.1%				

*WALE includes Signed Leases and Heads of Agreement. Note 1: Portfolio metrics includes acquisitions concluded post balance date. Source: GPT

- **Operating Segments (incl. COVID-19 Impact)**
  - **Office** grew by 0.9% to $139.9M ($138.7M at 30 June 2019) benefitting from portfolio like-for-like income growth of 1.2% and contribution from the acquisition of Darling Park. GPT's office portfolio was impacted by softened demand and delays to leasing deals due to COVID-19 and subsequent work-from-home arrangements. Nevertheless, rent collection figures were positive, averaging 97% throughout the first half – which equates to a rent impact of $9.6M.
  - **Logistics** increased by 12.8% to $64.4M ($57.1M at 30 June 2019) driven by contributions from acquisitions and developments fully leased on completion. The Logistics portfolio remained highly resilient to COVID-19 impacts, averaging 99% rent collections over the first half – which is estimated to be a reduction of $1.5M to net income.
  - **Retail** decreased by 49.7% to $79.2M ($157.3M at 30 June 2019). Sales at retail centres were dramatically impacted by COVID-19, with MAT down 10% and total specialty sales down 11% on the prior corresponding period. This included reasonably strong performances from supermarkets (up 1.2%) and Discount Department Stores (up 0.3%), compared to Department Stores (-15.0%), Cinemas (-32.7%), Specialties (-11.0%) and Other Retail (-29.3%). Government restrictions further resulted in significant customer visitation declines and store closures over the period with rent collection falling to 36% in the June quarter and averaging 63% over 1H20 – equating to a rent impact of $75.5M.

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Portfolio MAT Growth by Category

As at 30 June 2020	12 mth change in MAT %
Department Store	-15.0%
Discount Department Store	0.3%
Supermarket	1.2%
Cinemas	-32.7%
Other Retail	-29.3%
Total Specialties	-11.0%
>400sqm	-3.9%
<400sqm	-13.5%
Total Centre	**-10.0%**

As at 30 June 2020	12 mth change in MAT %
Fashion, Footwear & Access.	-16.1%
Technology & Appliances	-1.2%
Dining	-13.6%
Health & Beauty	-11.5%
Leisure	-12.2%
Food Retail	-4.7%
General Retail	-6.8%
Jewellery	-15.8%
Homewares	-9.8%
Retail Services	-21.9%
Total Specialties	**-11.0%**

Note 1: MAT stands for Moving Annual Turnover and measures the growth in sales over the last 12 months compared to the previous 12-month period. Source: GPT

- **Funds management:** Funds Management income grew by 6.6%, benefitting from acquisitions in the wholesale office fund (GWOF) as well as developments (up $0.4B on 1H19 to $8.9B), offset by asset devaluations in the wholesale shopping centre fund (GWSCF) (down $0.9B to $3.9B).

- **GPT's property portfolio** metrics include:
  - **Portfolio valuations** declined by 3.0% in the six-month period to $14.41B, from $14.85B in 31 December 2019. This was driven by total portfolio devaluations of -$711.3M, the largest of which came from the Retail portfolio (-10.5%) as well as a small decline in the Office portfolio (-1.7%) as a result of COVID-19. This was offset by an increase in the Logistics portfolio valuations (+2.3%) as well as acquisitions and development completions.
  - **Portfolio Occupancy** levels increased to 98.1% from 96.5% at December 2019, as a result of positive leasing activity over the period.
  - **Weighted Average Lease Expiry (WALE)** fell marginally to 4.9 years (from 5.0 years at December 2019).
  - **Weighted Average Capitalisation Rate** increased by 5bps to 5.00% (from 4.95% at December 2019), elevated by a 15bps increase across the retail portfolio.
- **Gearing** increased to 25.1%, (from 22.1% at December 2019) as a result of net asset devaluations of $711.3M, slightly offset by acquisitions and development completions. Over the half, GPT also issued an additional $300M in debt, bringing liquidity in excess of $1.2B; which fully funds all commitments to 2023.
- **NTA** per security experienced a decline of 4.8%, to $5.52 per unit (from $5.80 at December 2019).
- **Acquisitions** included two investment assets in Truganina and Port Melbourne for $74.6M and completion of three developments in Berrinba and Yennora totaling $89.1M in value.
- **Development Pipeline:** Including currently underway and future projects in the development pipeline, expected development costs are ~$1.79B. This includes 4 projects expected to cost $0.16B currently underway, 2 being in the Logistics segment, and 2 in the Office segment. Key developments include 128 Andrews Road, Penrith NSW, 42 Cox Place, Glendenning NSW and 32 Smith Street, Parramatta NSW. Additionally, the future development pipeline includes 13 projects from all three segments expecting to cost $1.64B. Key developments include Melbourne Central, Victoria and Rouse Hill Town Centre, NSW, which have seen developments deferred (previously est. 1H20 completion), NSW, targeting commencement in 2022 with a development IRR >12%,

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and Mamre Road, Kemps Creek NSW, which has seen accelerated progress targeting completion around 2022.

- **Trading Conditions:** GPT provided an update on trading conditions as at 31 July 2020:
  - **Retail:**
    - Excluding Victoria, retail assets are showing positive signs of recovery, with 95% of stores open and trading, and customer visitation levels reaching 85% of 2019. Further, GPT have begun to roll out marketing initiatives to assist its retailers, such as Retailer Runner, which can be expected to positively impact consumer engagement.
    - Victoria-based assets have 62% of stores open with traffic numbers at 73% of 2019 excluding Melbourne Central. Melbourne Central has been significantly impacted with traffic averaging 15% - 20% of normal levels and only 37% of stores trading.
  - **Office:** Management commented that it is seeing some strong leasing results in early 2H20, and considers its prime quality office assets to be well placed despite the near term economic and community conditions which present challenges.
  - **Logistics:** The Logistics portfolio has demonstrated its ability to remain highly resilient to COVID-19 impacts. Notably, COVID-19 has accelerated e-commerce penetration and delivery volumes, driving demand for logistics assets. GPT will continue to focus on its Logistics pipeline as a key source of growth, with an estimated end value of ~$1 billion.
- **FY20 Guidance:** Given the continuing economic uncertainty, GPT did not provide guidance for FFO or distributions for the full year 2020 period.

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Charter Hall Social Infrastructure REIT (ASX: CQE) – FY20 Results

CQE's FY20 result delivered flat Earnings Per unit of 16.5 cpu, and flat distributions of 16.0cpu. The result highlights the defensiveness of CQE's portfolio and its approach to delivering growth through accretive acquisitions combined with organic rental income growth. Throughout the COVID-19 pandemic, childcare centres were allowed to operate openly, and were declared an essential service. Childcare centres were further supported through government funding initiatives and relaxations in restrictions for centres. As such, CQE were able to deliver a solid result, with government provisions, limiting the level of rent abatements and deferrals to $5.4M for FY20.

Despite a relatively resilient portfolio, management is expecting distributions to reduce to 15.0cpu in FY21, (from 16.0cpu, a movement of -6.25%), implying a similar reduction in Earnings per Unit to 15.5 cpu (from 16.5cpu). At current price levels, CQE is trading at 15.4% discount to NTA and a distribution yield of 6.1%.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax*	**$85.9M**	**$68.7M**	+25.0%
Operating Earnings	**$51.1M**	**$44.2M**	+15.6%
Earnings Per Unit	**16.5cpu**	**16.5cpu**	No Change
Distribution Per unit	**16.0cpu**	**16.0cpu**	No Change
Payout ratio	**97.0%**	**97.0%**	No Change
Movement over 12 months	**As at Jun 2020**	**As at Jun 2019**	**Change**
Balance Sheet			
NTA per unit	**$2.92**	**$2.96**	-1.4%
Gearing %	**16.4%**	**22.5%**	-6.1%
Weighted average cost of debt	**3.1%**	**4.1%**	-1.0%
Weighted average debt maturity	**4.1 years**	**3.9 years**	+0.2 years
Borrowings	**$286.0M**	**$273.5M**	+4.6%
Interest cover ratio	**5.6x**	**4.9x**	+0.7x
Portfolio			
Property Valuation	**$1,195.2M**	**$1,100.9M**	+8.6%
Occupancy rate	**99.5%**[**]	**100%**	-0.5%
Number of properties	**371**	**391**	-20 properties
Passing yield	**6.2%**	**6.2%**	No Change
WALE (Weighted Average Lease Expiry)	**12.7 years**	**9.9 years**	+2.8 years

Source: CQE, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes. ** Includes two vacant properties contracted for sale.

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Key Points

- **Trading during COVID-19:** Despite the economic uncertainty caused by the COVID-19 pandemic, CQE's portfolio remained largely resilient throughout the period, benefitting from a high exposure to government-supported childcare centres. Throughout the pandemic, childcare centres remained open and operating with no required parent contributions; deemed by the government to be an essential service. Operators were further aided through the Early Childhood Education and Care Relief Package and access to JobKeeper payments. As such, CQE incurred limited financial impacts to rental income; with $2.7M in rent relief provided in 4Q20 (or 14% of 4Q20 rental income). Overall rent relief provided to operators during the six months was $5.4M, consisting of $3.4M in abatements, and $2.0M in deferrals (to be paid back over two years).
- **Operating Earnings** increased by 15.6% to $51.1M (from $44.2M in FY19) driven by rental growth from net acquisitions (+$4.3M), development contributions ($0.5M), organic income growth (+$1.6M), offset by increases in non-recoverable outgoings (-$0.6M), an increase in valuation fees for third party valuations (-$0.4M) and an increase in NZ income tax (-$0.5M). Whilst Distributable Income increased, earnings per unit (EPU) was flat at 16.5cpu due to the issue of new securities to fund growth initiatives.
- **CQE has 371 properties valued at $1,195.2M** including 24 development sites ($90.8M).
- **Key portfolio highlights**:
  - **Occupancy levels** fell marginally to 99.5%. This, however, includes two vacant properties that are being contracted for sale.
  - **Like-for-like rental growth** of 2.8% was recorded in FY20, higher than the 2.3% like for like rental growth in FY19. During FY20, 4 market reviews were undertaken, which delivered a 3.4% rental increase. CQE also completed a number of fixed reviews, including 40 new 20-year leases with Goodstart and 5 new 15-year leases with other tenants, increasing portfolio WALE and the proportion of portfolio fixed reviews to 53.6% (from 43%).
  - **During the period:**
    - 40 properties were disposed totaling $59.4M of gross proceeds.
    - 1 childcare development site and 14 existing childcare centres were acquired for a total completed value of $82.1M.
    - 5 development sites were completed by CQE for $27.1M at a 6.7% yield on cost.
  - **Weighted Average Lease Expiry (WALE)** increased significantly to 12.7 years, with CQE benefitting from new long-term leases, and disposals of shorter WALE assets.
  - **Property Valuations** increased by $94.3M to $1,195.2M (from $1,100.9M at FY19) driven by acquisitions and an uplift of $44.2M (+4.4%) on the existing portfolio, split evenly during the year (1H20: $21.3M and 2H20: $22.9M or +2.1%). The uplift included income growth from both annual and market rental reviews, with yields flat over the year.
- **Gearing** has decreased significantly to 16.4% (from 22.5% in FY19), primarily driven by the effects of CQE's May equity raising. Management have noted that CQE holds liquidity of $289.6M following an expansion of their debt facilities to $500.0M.
- **Net Tangible Assets (NTA) per Unit** decreased by 1.4% to $2.92 per unit (from $2.96 per unit in FY19) with revaluation gains offset by an increase in equity during the year.
- **Outlook and Guidance:** Going forward, CQE's portfolio is expected to remain largely resilient to the impacts of COVID-19. Even with the recent Victoria outbreak, which constitutes a major portion of its portfolio (VIC: 23%, Melbourne: 17%), CQE has noted that operators in Melbourne will be supported through the recommencement of the government Child Care Subsidy funding system, transition payments and temporary funding packages. As such, management has expressed that further rent deferrals, in the absence of unforeseen circumstances, are unlikely. Nevertheless, CQE has provided conservative guidance for FY21, forecasting distributions at 15.0 cpu. Assuming a consistent payout ratio, earnings are expected to be approximately 15.5 cpu.

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SCA Property Group (ASX: SCP) – FY20 Results

SCP's delivered FY20 results with Funds From Operations per Security impacted by -10.3% as a result of COVID-19. Around 77% of rent was collected during the COVID-19 period up to 30 June 2020, impacted earnings by -$20.5M. Distributions were impacted -15.0%, with 12.5cpu delivered (compared to 14.7cpu in FY19).

SCP's focus on convenience based retail centres provided support to income with supermarket anchors continuing to trade strongly throughout the period. Despite an overall increase in MAT of 4.2%, widespread government-enforced closures and reduced foot traffic drove significant sales declines across a number of specialty categories. Portfolio valuations declined by $87.9M for the year, with around $101.5M (or -3.1% movement) in the second half of the year.

Going forward, SCP have refrained from providing guidance for FY21 for both earnings and distributions, as a result of COVID-19. While SCP have enjoyed steady sales recovery across its portfolio, management have also noted the potential complications that may arise from the recent Victoria outbreak; with the state-imposed lockdown driving higher levels of rent relief for specialty tenants.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax*	**$85.5M**	$109.6M	-22.0%
Funds From Operations (FFO)	**$140.8M**	$141.8M	-0.7%
FFO per unit	**14.65cpu**	16.33cpu	-10.3%
Distribution per unit	**12.5cpu**	14.7cpu	-15.0%
Payout ratio	**85%**	90%	-5.0%

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
NTA per security	**$2.22**	$2.27	-2.2%
Gearing %	**25.6%**	32.8%	-7.2%
Weighted average cost of debt	**3.5%**	3.6%	-0.1%
Debt maturity	**5.1 years**	6.1 years	-1.0 years
Borrowings	**$1,083.6M**	$1,137.5M	-4.7%
Portfolio			
Property Valuation	**$3,138.2M**	$3,147.0M	-0.3%
Occupancy rate	**98.2%**	98.2%	No Change
Weighted Average Capitalisation Rate	**6.51%**	6.48%	+3bps
WALE (Weighted Average Lease Expiry)	**7.4 years**	7.9 years	-0.5 years

Source: SCP, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

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Key Points

- **Trading during COVID-19:** SCP's anchor tenants, predominantly supermarkets, delivered strong sales growth with increased turnover rent during COVID-19, however overall rent was impacted by weakness across specialty tenants. More than 600 specialty tenants were provided rental assistance across SCP's portfolio. Overall, SCP averaged 77% rent collection over the period, translating to an earnings impact of -$20.5M including $1.6M of additional property expenses, $4.5M in waived rent and $14.4M in Expected Credit Losses (ECL). Indirect impacts include reductions in FFO from equity raisings and higher specialty vacancies, reduced renewals and increased incentives. Despite complications, SCP continued to execute leasing deals with 55 new leases and 75 renewals agreed over the period; maintaining a strong retention rate at 76%.
- **SCP's portfolio remains focused on convenience based retail** with around 70% of income from anchors, fresh food and liquor, medical, discount variety and petrol. Around 30% of gross income is from apparel, services, food catering and other retail categories.
- **Funds From Operations (FFO)** of $140.8M was down 0.7% on the prior corresponding period, resulting from COVID-19 earnings impacts, partially offset by acquisition contributions. FFO per unit moved -1.68 cpu (or -10.3%) over the year. This consisted of -2.13 cpu impact from COVID-19 ($20.5M), equity raisings impact of -0.36 cpu, plus +0.81cpu benefit from acquisitions and a reduction in net interest expenses.
- **The property portfolio** saw Occupancy levels remaining at 98.2%.
  - **Sales growth at its centres differed dramatically across sectors** with overall MAT (Moving Annual Turnover) increasing 4.2% for the year. Supermarket MAT sales growth accelerated to 5.1%, with both Woolworths and Coles showing positive sales growth. Discount Department Store and Mini Majors benefitted from panic buying and high demand for home and living products, enjoying 7.6% and 2.9% growth respectively. Specialty store MAT was -1.1% for the year, impacted by store closures during COVID-19.
  - **SCP now has 39 anchor tenants paying turnover rent** (33 supermarkets, 3 Kmarts and 3 Dan Murphy's) representing 35% of portfolio anchor tenants. A further 14 supermarkets are within 10% of turnover thresholds. Turnover rent accounts for a small portion ($3.3M) of anchor rental income ($128.7M).

SCP: Sales Growth and Tenant metrics

Comparable Store MAT[1] Sales Growth by Category (%)

Total Portfolio	As at 30 June 2020	As at 30 June 2019
Supermarkets	5.1%	2.0%
DDS	7.6%	2.2%
Mini Majors	2.9%	(3.1)%
Specialties	(1.1)%	1.8%
Total	**4.2%**	**1.9%**

Specialty Tenant Metrics

Total Portfolio	30 June 2020	30 June 2019
Comparable sales MAT growth (%)[1]	**(1.1)%**	1.8%
Average specialty occupancy cost (%)[1]	**10.0%**	10.1%
Average specialty gross rent per square metre	**$778**	$772
Specialty sales productivity ($ per sqm)[1]	**$8,229**	$8,010

Note 1: MAT stands for Moving Annual Turnover and measures the growth in sales over the last 12 months compared to the previous 12-month period. Source: SCP.

  - **Weighted Average Lease Expiry (WALE)** reduced to 7.4 years (from 7.9 years). The portfolio derives 48% of gross rent from anchor tenants including Woolworths, Coles, Wesfarmers and other majors.
  - **SCP acquired Warner Marketplace for $78.4M**, a Woolworths and Aldi-anchored convenience centre in Brisbane QLD in December 2019. The centre exhibits a WALE of 6.4 years, occupancy of 96% and 34% of income derived from anchor tenants.
  - Over the period, SCP also acquired 6.78M units in Charter Hall Retail REIT (ASX: CQR) at a price of $3.35 per unit.

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  - **SCP also completed developments totaling $17.2M**, including the completion of Shell Cover Stage 3 for $4.8M. SCP now have a development pipeline of over $125M across 31 centres which it plans to execute over the next 5 years.
  - **SCP disposed of Cowes in Victoria for $21.5M**, reflecting a $1.9M uplift on its June 2019 book value. The SURF 1 successfully sold its 5 assets for $69.3M achieving an IRR of 11.0%. As such, a $0.4M performance as the fund is wound-up in FY21.
- **Valuation movements** were -$87.9M for the year, with a first half gain of $13.6M (+0.4%) offset by a second decline of $101.5M (-3.1%). The weighted average capitalisation rate moved +3bps for the year to 6.51%, with a first half movement of -2bps offset by a second half movement of +5bps.
- **Net Tangible Assets (NTA)** decreased to $2.22 per unit, from $2.27 at June 2019 due to dilutive equity raisings and valuation declines.
- **Gearing** decreased significantly by 7.2% to 25.6% and remains well below SCP's target range of 30% - 40%. The movement is a result of equity raising proceeds, reducing net debt. Look through gearing, which includes CQR and SURF investments is 26.0%. SCP currently holds cash and undrawn debt of $633.8M, a weighted average cost of debt of 3.5% and debt maturity of 5.1 years.
- **Distributions** per unit was 12.5cpu for FY20, down 15.0% on the prior corresponding period. This equated to decrease in payout ratio to 85% (from 90%).
- **Outlook and FY21 Guidance:** Given the ongoing economic uncertainty and SCP's exposure to COVID-19 impacts, management has refrained from providing FY21 guidance. Management has noted a recovery in sales across its portfolio, excluding Victoria, with 92% of tenants now open and trading and specialty vacancy and occupancy costs stabilising at 5.1% and 10.0% As at 30 June 2020, 63% of Victoria based tenants are operating, however, the recent lockdowns will have a significant impact on sales; resulting in higher waivers and deferrals.

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12 Aug 2020

Centuria Capital Group (ASX: CNI) – FY20 Results

CNI reported FY20 Operating Profit before Interest and Tax of $78.4M, an increase of 13.8% for the year. On a per unit basis, Operating Earnings per security was -5.5%, taking into account $205M in equity raisings during the year. CNI's Property Funds Management platform continues to deliver high growth with AUM, which increased to $6.3B during the year, from $5.3B. Growth was largely delivered from the listed property platform which acquired $0.9B during the year, with the unlisted platform roughly flat ($0.3M of acquisitions offset by $0.3M of divestments) and $0.1B in revaluation gains. The property platform appears well placed to deliver further growth in FY21 with $2.3B of acquisitions (or around 36% growth in AUM to $8.6B) already locked, including $1.8B from the acquisition of Augusta Capital in New Zealand.

Property Performance Fees of $21.5M were recorded (down 4.4%), generated from the sale of three major unlisted assets, whilst the Investment Bonds division performed weaker, as a result of the low interest rate environment hindering capital guaranteed product returns. Co-Investment Income increased strongly, benefitting from CNI's ownership of COF and CIP.

Despite continued strong growth in AUM, CNI has provided guidance for Operating Earnings per Security of 10.5 – 11.5 cps, representing a decline of 4.2% - 12.5% for the year. We expect this includes a conservative expectation for lower performance fees in FY21. Distribution guidance for FY21 is 8.5 cps, down 12.4%, which equates to a 4.7% yield at current prices.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Property Funds Management Fees	**$34.5M**	**$25.1M**	+37.4%
Property Performance Fees	**$21.5M**	**$22.5M**	-4.4%
Investment Bonds Management	**$2.5M**	**$3.5M**	-28.6%
Co-Investments	**$32.1M**	**$28.5M**	+12.6%
Corporate	**($12.2M)**	**($10.7M)**	+14.0%
Operating Profit before Interest & Tax	**$78.4M**	**$68.9M**	+13.8%
Finance Costs	**($12.5M)**	**($13.8M)**	-9.4%
Income Tax Expense	**($12.6M)**	**($9.4M)**	+34.0%
Operating NPAT	**$53.3M**	**$45.7M**	+16.6%
Statutory NPAT	**$22.1M**	**$50.9M**	-56.6%
Operating Earnings Per Security (cents per stapled security)	**12.0cps**	**12.7 cps**	-5.5%
Statutory Earnings Per Security	**4.7cps**	**14.2 cps**	-66.9%
Distribution Per Security	**9.70cps**	**9.25 cps**	+4.9%
Movement over 12 months	**As at June 2020**	**As at June 2019**	**Change**
Balance Sheet			
Net Assets per security[1]	**$1.44**	**$1.32**	+9.1%
Operating Gearing %	**3.1%**	**17.5%**	-14.4%
Borrowings	**$180.3M**	**$210.8M**	-14.5%
Assets Under Management			
Property Funds Management – AUM	**$6.3B**	**$5.3B**	+18.9%
Investment Bonds – AUM	**$835.9M**	**$870.0M**	-3.9%
Co-Investments - AUM	**$528.4M**	**$436.0M**	+21.2%

Note 1: Net Assets per Security includes Goodwill and Management Rights for the Property Funds Management business.
Source: CNI

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Key Points

- **CNI delivered Operating NPAT** of $53.3M for FY20, outperforming the prior corresponding period by 16.6% (FY19: $45.7M). On a per security basis, operating earnings of 12.0 cps was below FY19 (12.7 cps) after accounting for $205M in equity raised over the year.
  - **Property Management Fee Income** increased to $34.5M (from $25.1M in the prior corresponding period). The result stemmed from strong growth in property AUM, which increased 18.9% to $6.3B, from $5.3B at June 2019. This included $0.9M in listed property acquisitions, $0.3M in unlisted property acquisitions, $0.1M net revaluation gains and $0.3M in unlisted property divestments. Around 86% of FY20 earnings was generated from recurring revenue.
  - **Property Performance Fee Income** of $21.5M was also achieved, underpinned by the completion of three major property sales. CNI also has a further $32.6M in latent unrecognised performance fees which are yet to be distributed.
  - **Investment Bonds Earnings** decreased to $2.5M (from $3.5M in FY19), impacted by y the low interest rate environment which have impacted capital guaranteed product returns.
  - **Co-Investment Income** grew to $32.1M (from $28.5M in FY19), with CNI increasing its co-investment holdings. CNI remains the largest unitholder of Centuria Office REIT (ASX: COF) holding 15.22% and Centuria industrial REIT (ASX: CIP) holding 17.01%; which have both seen steady growth during the year.
- **Acquisitions:** The Group engaged in $1.2B of gross acquisitions, including 3 assets acquired for $637M by COF, 7 assets for $310M by CIP, and 7 assets for $335M acquired by Centuria Unlisted Funds. Growth in AUM is expected to continue in FY21 with CNI moving to acquire Augusta Capital in New Zealand (with AUM of ~A$1.8B). CNI has received a 96.4% acceptance by Augusta Capital unitholders will move to compulsory acquisition of Augusta Capital for the remaining stake. CNI is also expected to see AUM growth from the imminent launch of a $130M unlisted healthcare offering as well as the completion of $447M of acquisitions for CIP (including the Telstra Data Centre in Clayton, VIC and two additional industrial assets).
- **Divestments** totaled $320M over the period, generating a performance fee of $37.2M from unlisted property funds, the Centuria Zenith Fund, the Central Avenue Fund and Wentworth Street Fund.
- **Net Assets per Security** increased to $1.44 per security, from $1.32 at June 2019.
- **Gearing** has decreased significantly to 3.1%, down from 17.5% at June 2019, owing to equity raising proceeds and the repayment of borrowings.
- **Distributions** of 9.70 cps for FY19, was up 4.9% on the 9.25 cps in FY19, underpinned by 86% recurring revenues.
- **Outlook and FY21 Guidance** was positive, with several initiatives in place to further promote growth, including the integration of Augusta Capital, expansion of fund offerings (including the NZ market) and continued execution on direct property acquisitions. Given the composition of CNI's AUM, impacts from COVID-19 are expected to remain limited. Nevertheless, CNI has opted to remain conservative, forecasting earnings in the range of 10.5 – 11.5 cps (down 4.2% to 12.5% for the year) which we expect to include a conservative expectation for lower performance fees. Distribution guidance for FY21 is 8.50 cps (down 12.4% for the year).

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13 August 2020

Goodman Group (ASX: GMG) – FY20 Results

GMG delivered another strong result with Operating Profit up 12.5% for FY20 and Operating EPS up 11.4%. Growth was delivered across all divisions, stemming from considerable growth in AUM – particularly from development operations.

Property Investment Earnings increased 14.3% with strong like-for-like rental growth, cornerstone investments and completed developments offsetting impacts from asset sales. Management Earnings increased 8.8%, benefitting from a 12% increase in total and external AUM. Development Earnings increased by 13.1%, with completions of $2.4B.

Despite the COVID-19 pandemic, market conditions remained favourable with GMG benefitting from an increase in investment appetite for logistics and industrial properties globally. Growth is expected to continue into FY21 with management guidance for earnings to increase by 9%. Distributions are expected to be maintained at 30.0 cps as GMG once again utilises excess capital to support a strong pipeline of development projects globally. At a current price of $17.93 per unit, this translates to a distribution yield of just 1.7% for FY21, reflecting GMG's position as a high growth property fund manager with a leading position in the high demand sector.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax *	**$1,504.1M**	$1,627.9M	-7.6%
Property Investment Earnings	**$425.2M**	$372.1M	+14.3%
Management Earnings	**$511.2M**	$469.7M	+8.8%
Development Earnings	**$575.7M**	$509.2M	+13.1%
Operating expense	**($292.3M)**	($267.7M)	+9.2%
Operating EBITDA	**$1,219.8M**	$1,083.3M	+12.6%
Operating Profit	**$1,060.2M**	$942.3M	+12.5%
Operating earnings per security	**57.5cps**	51.6cps	+11.4%
Distributions per security	**30.0cps**	30.0cps	No Change
Movement over 12 months	**As at Jun 2020**	**As at Jun 2019**	**Change**
Balance Sheet			
NTA per security	**$5.84**	$5.34	+9.4%
Gearing %	**7.5%**	9.7%	-2.2%
Weighted average debt maturity	**5.8 years**	6.6 years	-0.8 years
Interest cover ratio	**15.3x**	19.6x	-4.3x
Assets Under Management	**$51.6B**	$46.0B	+12%
Property Investment Portfolio			
Portfolio Valuation (look through)	**$15,057.0M**	$13,797.2M	+9.1%
Occupancy rate	**97.5%**	97.6%	-0.1%
Like-for-like Net Property Income growth	**3.0%**	3.3%	-0.3%
Weighted Average Capitalisation Rate	**4.9%**	5.1%	-23bps
WALE (Weighted Average Lease Expiry)	**4.5 years**	4.7 years	-0.2 years

Source: GMG, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income.

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Key Points

- **Operating Profit** was up 12.5% to $1.06B for the year, with operating EPS of 57.5 cps, up 11.4%. The result in line with pre-COVID-19 guidance of 57.3 cps and was driven by strong global contributions across all divisions, particularly property investments and developments. Given the industrial composition of GMG's portfolio, COVID-19 impacts were largely insubstantial over the period and served to drive demand for technological-based development projects.
  - **Property Investment Earnings** (up 14.3%) benefitted from continuing like-for-like income growth of 3.0%, completed developments and income return on cornerstone interests in partnership investments, offset by asset sales from the UK balance sheet. GMG's cornerstone investments generated a $39M increase on FY19 earnings, stemming from like-for-like rental growth (+$12M) and $0.3B in additional investments (+$27M). Portfolio fundamentals remained strong, with the WACR tightening 23 bps to 4.9% for the year. This translated to a net revaluation gain of $670.2M (+4.7%) on GMG's investment portfolio, and $2.9B valuation gains across GMG's platform. Occupancy and WALE were maintained at reasonable levels falling marginally to 97.5% (FY19: 97.6%) and 4.5 years (FY19: 4.7 years) respectively.
  - **Management Earnings** were up 8.8%, off the back of a 12% increase in Total Assets Under Management to $51.6B (from $46.0B in FY19). External AUM also increased 12% to $48.0B (from $42.9B in FY19) and is expected to continue growing with the expansion of GMG's development pipeline. Revenue over the year stabilised at approximately 1.1% of average AUM and is expected to increase with increased visibility over future AUM growth.
  - **Development Earnings** were up 13.1% to $575.7M driven by $2.4B in completed developments over the year (85% committed). GMG continued to expand their development pipeline, with new Commencements at $4.5B and Work in Progress at $6.5B, driven by strong customer demand. A total of 79% of WIP is undertaken in partnerships. Commitments, WALE and yield on WIP remain positive at 76%, 15.1 years and 6.5% respectively. Development volumes are expected to continue rising, with WIP forecast to exceed $7B in 1H21.
- **Total distributions** for FY20 remained unchanged from FY19 at 30.0 cps, with the capital from increased earnings being used to support increased development work.
- **NTA** per unit was $5.84, up 9.4% for the year, largely due to $2.9B in revaluation gains.
- **Gearing** decreased to 7.5% (from 9.7% in June 2019), in line with the Group's target range of 0 – 25%. GMG remains well-positioned to undertake further development projects, with cash and undrawn debt of $2.8B.
- **The Outlook** remains favourable for GMG, supported by strong underlying demand for real estate in urban infill markets, and persisting industrial tailwinds; particularly with COVID-19 accelerating activity in the digital economy.
- **FY21 Guidance was provided** with GMG targeting Operating Profit of $1,165M, representing an increase of 9% for the year, translating to Operating EPS of 62.7cps. Distribution guidance has been held at 30.0 cps, with the additional capital from increased earnings once again being used to support GMGs strong development pipeline.

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13 Aug 2020

Charter Hall Retail REIT (ASX: CQR) – FY20 Results

CQR reported Operating Earnings per Unit for FY20 of 30.56 cpu, a movement of -1.8% for the year, and around 4% below pre-COVID-19 guidance of 31.84 cpu. The result was impacted by -$10.7M in rental income adjustments due to COVID-19, reflecting an 86% rent collection rate, offset by increased income from acquisitions.

Moving Annual Turnover (MAT) growth for the period was promising, up 3.9% driven predominantly by Supermarket MAT, which increased 5.2%. While demand for supermarket essentials grew throughout the period, CQR's discretionary specialty tenants suffered from government-mandated restrictions, which served to dramatically reduce general centre foot traffic. As a result, Specialty MAT fell a considerable 2.6% for the period. Second half valuation movement of -$44M were recorded with the retail portfolio (-$70M) being partially offset by the Long WALE retail portfolio (+$26M).

Going forward, CQR has refrained from providing FY21 guidance given the uncertainty of the current economic climate, particularly on the retail sector. Additional rent relief provisions may be necessary, as COVID-19 continues to drive uncertainty in the retail sector.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax *	**$44.2M**	$53.1M	-16.8%
Operating earnings	**$142.7M**	$128.0M	+11.5%
Operating earnings per unit	**30.56 cpu**	31.12 cpu	-1.8%
Distribution per security	**24.52 cpu**	28.76 cpu	-14.7%
Payout ratio	**80.2%**	92.4%	-12.2%

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
NTA per security	**$3.75**	$4.08	-8.1%
Portfolio Gearing %	**32.3%**	35.9%	-3.6%
Weighted average cost of debt	**2.8%**	3.0%	-0.2%
Weighted average debt maturity	**3.9 years**	5.0 years	-1.1 years
Borrowings	**$750M**	$946M	-20.7%
Interest cover ratio	**5.3x**	4.6x	+0.7x
Portfolio			
Property Valuation	**$3,252M**	$2,982M	+9.1%
Occupancy rate	**97.3%**	98.1%	-0.8%
Number of properties	**51**	58	-7 assets
Weighted Average Capitalisation Rate	**6.03%**	6.18%	-15bps
WALE (Weighted Average Lease Expiry)	**7.2 years**	6.5 years	+0.7 years

Source: CQR. Note*Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

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Key Points

- **Trading during COVID-19:** Over the period, CQR saw mixed results as demand for essentials strengthened sales across major tenants, and mandatory restrictions forced store closures across specialty tenants. This resulted in portfolio MAT increasing by +3.9% on FY19, driven by supermarkets and Discount Department Stores (DDS). MAT growth for CQR's specialty tenants fell 2.6%, with corresponding declines in retention rates and therefore, occupancy. Since April 2020, CQR have noted a gradual recovery in sales as stores resume trading and consumer footfall increases. The net impact has culminated in $10.7M of tenant support provided over 4Q20 (reflecting an 85% rent collection rate); 70% of which was provided as rent-free incentives. It is worth noting that 1) as at 30 June 2020, 6% of Q4 rent was unpaid (reducing to 3% currently), and 2) CQR secured lease extensions as part of some rent relief agreements.
- **Operating Earnings** of $142.7M were up 11.5% on FY19. Operating Earnings per unit, however, decreased by 1.8%, after adjusting for a $424M equity raising completed over the year.
- **Net Property Income (before COVID-19 adjustments) grew 6.7%**, impacted by the acquisition of Bass Hill Plaza, Pacific Square and the BP Convenience Retail portfolio, offset by asset divestments. Around 82% of rental income is generated from non-discretionary retailers, with 53% of income attributable to CQR's major tenants; Woolworths, Coles, Wesfarmers, Aldi and BP. Leasing spreads for the year were +0.9%, however, this includes a +4.1% spread in the first half of the year, with negative spreads in the second half as a result of COVID-19.
- **Total Moving Annual Turnover (MAT) increased by 3.9%** on a like-for-like basis (up from 2.8% growth recorded at June 2019). MAT growth by supermarkets was a strong +5.2% (from +3.7% at June 2019). Currently, 61% of supermarkets are trading in turnover rent, up with an additional 17% of supermarkets are within 10% of turnover rent. Specialty stores delivered negative MAT growth of -2.6% (from +0.7% at June 2019).

CQR: Sales Growth and Tenant metrics

Supermarket performance	Jun 19	Jun 20
MAT growth[1] – supermarkets in turnover	4.0%	5.2%
MAT growth[3]	3.7%	5.2%
Supermarkets in turnover[2]	56%	61%
Supermarkets within 10% of turnover	17%	17%

Specialty performance	Jun 19	Jun 20
MAT growth[1]	+0.7%	(2.6%)
Sales productivity (per sqm)	$9,672	$9,557
Average gross rent (per sqm)	$1,054	$1,131
Specialty occupancy cost	10.9%	11.8%
Average rental increase pa	4.2%	4.2%
Retention rate	82%	72%

Note 1: MAT stands for Moving Annual Turnover and measures the growth in sales over the last 12 months compared to the previous 12-month period. Source: CQR.

- **Key property metrics** include:
  - **Occupancy levels** fell 0.8% to 97.3%, predominantly from weaker occupancy in specialty stores.
  - **Weighted Average Lease Expiry (WALE)** increased slightly to 7.2 years (from 6.5 years at June 2019), on the back of CQR's acquisition of the long-WALE BP portfolio.
  - **Disposals** – CQR sold 8 non-core properties for a total of $177.4M – Katherine Central NT ($28.9M), Cooma Woolworths NSW ($15.5M), Bairnsdale Coles VIC ($18.4M), Moe Coles VIC ($21.1M), Kyneton Woolworths VIC ($22.9M), Erindale Shopping Centre & Grattan Court ACT ($39.0M), Carnarvon Shopping Centre WA ($16.1M) and Balo Square NSW ($15.5M). CQR also contracted to sell West Ryde Marketplace for $58.5M.

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  - **Acquisitions** – During FY20 CQR acquired a 20% interest in Bass Hill Plaza NSW and Pacific Square NSW for $57M and a 30% interest in the BP convenience retail portfolio for $258M in a joint venture with the Charter Hall Long WALE REIT and Charter Hall Group. Post period, CQR has acquired a 52% interest in the Coles Adelaide Distribution Centre for $111.8M, which exhibits a 14.5-year lease term with 2.75% annual rent reviews.
- **Valuation** movements of -$14M was recorded for the year, with the capitalisation rate moving -15bps to 6.03% for the year as a result of the inclusion of the BP portfolio. The retail portfolio experience valuation gains in the first half which were reversed in the second half due to COVID-19. The retail portfolio's first half valuation gain of +$30M (-2bps capitalisation rate) was followed by a second half movement of -$70M (+3bps capitalisation rate). The long WALE retail portfolio benefitted from a +$26M valuation gain in the second half.
- **Net Tangible Assets (NTA)** decreased to $3.75 per unit, from $4.08 at June 2019, driven predominantly by dilutive equity raisings over the period and revaluations of -$14M for the year.
- **Gearing** was down 32.3% with convenience retail gearing at 25.3%, below CQR's long-term target range of 30% - 40%. The lower gearing was delivered via equity raising proceeds used t pay down debt with the average cost of debt reducing to 2.8% (from 3.0% at June 2019) and debt maturity reducing to 3.9 years (from 5.0 years at June 2019).
- **Distributions** of 24.52cps was delivered for FY20, down 14.7% from the 28.76cps in FY19. The lower payout ratio reflects CQR's impacted operating cashflow as a result of COVID-19.
- **Outlook and FY21 Guidance:** Given the ongoing impacts of COVID-19, management have refrained from providing guidance for FY21. Within Victoria, CQR have reported that, as at 6 August 2020, two centres are in Stage 4 restrictions with two more in Stage 3 restrictions. Shops closed at these locations represent 2.5% of annual income. Going forward, further retail closures may be expected, given CQR's 14% portfolio exposure to Victoria, translating to further rent support provisions.

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13 Aug 2020

Arena REIT (ASX: ARF) – FY20 Results

ARF delivered a defensive FY20 result despite the impacts of COVID-19 impacting childcare and healthcare attendance numbers. Reasonable growth in earnings per security of 5.4% was driven by average like-for-like rent increases of 3.4%, as well as earnings contributions from $43.5M of acquisitions and development completions.

During the COVID-19 period, ARF benefitted substantially from government funding packages – allowing tenants to readily meet rental obligations and limiting the level of rent relief provided. Due to further government support, rent relief for July 2020, post-balance, has been restricted to just 3.5% in rent deferrals (or ~$1.9M) and 0.5% in rent waivers (~$0.3M). Management has noted that, beyond this, no additional rent relief discussions have been undertaken – even including Victoria based assets.

As such, ARF is well-positioned to generate similar growth in FY21, with ARF providing guidance for distributions per security to increase 3% - 4% to 14.4 – 14.6 cps. Based on ARF's historic payout ratios, this translates to earnings of ~14.7 – 15.2 cps, or growth of 1.0% - 4.5%. Growth is expected to be delivered through transparent rent increases and contributions from development completions and acquisitions. At a current price of $2.36, ARF is trading on a distribution yield of 6.1% and a 6.3% premium to its NAV per unit.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax *	**$76.6M**	$59.3M	+29.2%
Net operating profit	**$43.8M**	$37.7M	+16.3%
Earnings per security	**14.55cps**	13.8cps	+5.4%
Distribution per security	**14.0cps**	13.5cps	+3.7%
Payout ratio	**96%**	98%	-2%

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
Net Asset Value per security	**$2.22**	$2.10	+5.7%
Gearing %	**14.8%**	22.1%	-7.3%
Weighted average cost of debt	**3.15%**	3.65%	-0.5%
Weighted average debt maturity	**3.5 years**	3.3 years	+0.2 years
Borrowings	**$215.0M**	$188.5M	+14.1%
Interest cover ratio	**6.65x**	5.5x	+1.15x
Portfolio			
Property Valuation	**$914.0M**	$798.3M	+14.5%
Occupancy rate	**100%**	100%	No Change
Number of properties	**239**	226	+13 assets
Passing Yield	**6.22%**	6.38%	-16bps
WALE (Weighted Average Lease Expiry)	**14.0 years**	14.1 years	-0.1 years

Source: ARF. Note *Statutory Net Profit after Tax includes non-cash items which distorts operating income.

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Key Points

- **Trading during COVID-19:** ARF performed resiliently in the face of the COVID-19 pandemic, attributable a strong portfolio of Early Learning Centre (ELC) and healthcare assets. Throughout Q4 FY20, all assets within the portfolio remained open and trading. Although lockdowns significantly impacted attendance at ELCs, the government has intervened with a strong response including: the launch of the Early Childhood Education and Care Relief Package (ECECRP), the JobKeeper package, relaxation of the activity test and waive of gap fees and additional absence days for COVID-19 related reasons. These have assisted childcare operators to meet rental payments with ARF achieving 84% rent collection throughout Q4 FY20. Of the 16% not received, 14% was deferred with only 2% abated. For the 12 month period to 30 June 2020, 96% of rent was received, with 3.5% (~$1.9M) of rent deferred, and 0.5% (~$0.3M) in rent being waived/abated. The deferred rent has been included in property income for FY20 as it is expected to be collected, however the distribution payout has been reduced in FY20 to take this into account.
- **Net operating profit** of $43.8M was up 16.3% for the year with the key drivers including rental income growth from annual rent reviews – which averaged +3.4% across the portfolio, rental income from the acquisition of three operational Early Learning Centres and one medical centre, and the completion of development projects. Earnings per security grew by a lesser 5.4% due to the issue of new securities to fund acquisitions and strengthen the balance sheet.
- **ARF has 239 properties valued at $914.0M**. This includes 211 ELCs and 17 ELC development sites (85% by value) and 11 healthcare properties (15% by value). The portfolio increased by $115.7M during the twelve-month period, driven by acquisitions, development projects and a revaluation uplift of $36.9M (1H20: $20.3M, 2H20: $16.6M or +1.9%). The portfolio passing yield of 6.22% has reduced from 6.32% at December 2019 and 6.38% at June 2019.
- **Portfolio Activity:**
    - Acquired three Early Learning Centres for $15.5M and one healthcare properties for $11.1M. These properties were acquired at a net initial yield of 6.3% with 100% occupancy and an average WALE of 16 years
    - Completed development on three ELCs for a total cost of $16.9M, at a net initial yield on cost of 6.7% and initial WALE of 22 years.
    - Divested five ELC properties at an average premium to book value of 11.6%
- **ARF's portfolio metrics remained strong** during the period:
    - **Occupancy levels** remained at 100%.
    - **Weighted Average Lease Expiry (WALE)** remained flat at 14.0 years (14.1 years at June 2019), with the portfolio benefitting from long WALE development completions and acquisitions.
    - **An average like-for-like rent review increase of 3.4%** was achieved for the year. This included ten FY19 uncapped market rent review which were resolved in FY20 at an average increase of 18.9%.
- **ARF has a development pipeline** of 20 new ELCs with a forecast cost of $112M (with $57M of capital expenditure outstanding), and average yield on cost of 6.6%. 14 development projects are forecast to complete in FY21, with the remainder to be completed in FY22.
- **Gearing** was 14.8%, down from 22.1% as at June 2019, attributable to equity raising proceeds for the period. Currently, ARF has an undrawn debt capacity of $115M, combined with $76M in cash reserves, positioning them well to execute on their development pipeline or pursue new investments. ARF's average debt facility increased to 3.5 years (from 3.3 years at 30 June 2019) with the weighted average cost of debt decreasing to 3.15% (FY19: 3.65%).
- **Net Asset Value (NAV)** increased 6% to $2.22 per security up from $2.10 at June 2019.
- **Outlook and FY21 Guidance:** Given their strong capital position and resilient portfolio, ARF are well-positioned to continue executing on their growth strategy; achieving steady organic

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rental growth and pursuing development and acquisition opportunities. It is worth noting that, while 4% of rent relief was provided in July 2020, further government support packages – including the re-launch of the Child Care Subsidy package and transition payments limit the extent of future impacts to income. As such, ARF have provided promising FY21 distribution guidance, forecast at 14.4 – 14.6 cps (up 3% - 4%). This indicates EPS of ~14.7 – 15.2 cps (based on historic payout ratios of 96% - 98%), implying EPS growth of 1.0% - 4.5%.

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Appendix: August 2020 Reporting Timetable for Listed A-REITs

A-REITs Reporting Timetable – August 2020

Mon 3 Aug	Tue 4 Aug	Wed 5 Aug	Thu 6 Aug	Fri 7 Aug
		Week 1		
	BWP – FY20	**COF** – FY20		**CLW** – FY20
		CIP – FY20		
		LEP – FY20		

Mon 10 Aug	Tue 11 Aug	Wed 12 Aug	Thu 13 Aug	Fri 14 Aug
		Week 2		
GPT – 1H20	**CQE** – FY20	**CNI** – FY20	**GMG** – FY20	
	SCP – FY20		**CQR** – FY20	
			ARF – FY20	

Mon 17 Aug	Tue 18 Aug	Wed 19 Aug	Thu 20 Aug	Fri 21 Aug
		Week 3		
	AQR – FY20	**ADI** – FY20	**GDF** – FY20	
	ABP – FY20	**DXS** – FY20	**GOZ** – FY20	
		VCX – FY20	**WPR** – 1H20	
			MGR – FY20	
			CHC – FY20	
			APD – FY20	
			ENN – FY20*	
			ERF – FY20*	
			ECF – FY20*	
			*Indicative	

Mon 24 Aug	Tue 25 Aug	Wed 26 Aug	Thu 27 Aug	Fri 28 Aug
		Week 4		
AOF – FY20	**SGP** – FY20	**HMC** – FY20		
AVN – FY20	**SCG** – 1H20			
GDI – FY20				

To be advised
CMW
NSR
PWG

Source: Company Announcements, Core Property

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Ratings Process for A- REITs

Core Property Research evaluates recommendations on listed A-REITs continuously, based on a range of qualitative and quantitative criteria ranging from management, appropriateness of the A-REIT's capital structure and the property portfolio metrics. From a quantitative perspective, Core Property's recommendations are based on Total Expected Returns (forecast distribution yield plus forecast capital gain or loss) for a 12-month time horizon, using a range of valuation methodologies. The two most commonly used valuation techniques are Discounted Cash Flow (DCF), which uses an A-REI's expected free cash flow, and the net Asset Valuation (NAV) approach.

The 12-month Total Return is compared with set total return bands and assigned a 12-month recommendation based on the Recommendation Definitions below.

Recommendation Definitions

Recommendation	Definition
Buy	If the 12-month Total Expected Return is forecast to be 15% or more.
Accumulate	If the 12-month Total Expected Return is forecast to be at least 10% and less than 15%.
Hold	If the 12-month Total Expected Return is forecast to be at least 5% and less than 10%.
Reduce	If the 12-month Total Expected Return is forecast to be at least 0% and less than 5%.
Sell	If the 12-month Total Expected Return is forecast to be less than 0%.

At times of extreme volatility, it is quite possible that the recommendations will swing between each of our bands. During such times, Core Property will adopt a more flexible approach to recommending stocks, based on a slightly longer duration, and as such, recommendations may appear to be inconsistent when compared with the bands. This is to avoid clouding value judgments with short-termism.

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