Core Property
Fund Research & Ratings

Listed Property

August 2020 Reporting Season Results

Week 1:

BWP, COF, CIP, CLW

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

Reporting Season Review for June 2020 results

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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 covers 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.

August 2020

August 2020 Reporting Season – Week 1

Results for the June 2020 period

A-REITs reporting - Week 1

For full reporting calendar see Appendix

Tuesday 4 August 2020		
BWP	BWP Trust	FY20

Wednesday 5 August 2019		
CIP	Centuria Industrial REIT	FY20
COF	Centuria Office REIT	FY20
LEP	ALE Property Group	FY20

Friday 7 August2019		
CLW	Charter Hall Long WALE REIT	FY20

The August 2020 reporting season for listed property securities has kicked off with Core Property covering a number of results in this report. Some of the key findings are summarised below, whilst more details can be found in the pages following.

Some key points from Week 1 include:

- **COVID-19 rent waivers during April -June 2020** have been relatively limited with rent waivers by BWP ($0.4M), COF ($1.5M), CIP ($1.0M) and CLW ($0.3M). These portfolios performed well due to their focus on Bunnings properties, metropolitan office assets, industrial assets and a long WALE portfolio leased to large corporate tenants.
- **Distribution guidance for FY21** was provided for BWP, COF, CIP and CLW, indicating a certain level of confidence during the COVID-19. CLW indicated an increase in distributions, BWP is looking to maintain distributions, whilst COF and CIP are looking to reduce distributions.
- **Earnings guidance:** Whilst there is some level of confidence about distributions, in many cases management remain uncertain about where earnings will land as a result of COVID-19. BWP indicated that it may need to dip into capital profits to support distributions. COF did not provide earnings guidance, although it has guided to a reduced level of distributions. CIP's lower earnings guidance was driven by its acquisition of higher quality, yet lower yielding assets. CLW's earnings guidance was predicated on a portfolio of larger corporate tenants.
- **Valuation movements during the six-months** included BWP (+0.6%), COF (-0.5%) and CIP (+1.3%). Average portfolio capitalisation rates over the past six months were flat for BWP (at 6.08%), +1 bps for COF (at 5.93%) and -14bps for CIP (at 6.05%).

The reported results highlight the market views of the portfolios in the current environment. BWP has shown its resilience with its Bunnings anchored portfolio being one of the few retail beneficiaries during COVID-19. The office market has shown a small amount of weakness, which is reflected in COF's result. The CIP result highlights a market preference for the industrial sector, and in particular logistics properties which benefit from increased an increase in ecommerce. Across all markets, we also expect to see strength in long WALE assets leased to large corporate tenants with strong lease covenants, as highlighted in CLW's results.

A summary of the results from Week 1 is provided in the following pages.

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 (%)	Move (%)	NTA (cps)	Prem/ (Disc) to NTA %	FY21 EPS (cps)	FY21 DPS (cps)	Implied DPU yield
BWP	398	18.23	1.0%	18.29	1.0%[2]	19.7%	+2.4%	306	30.1%	Not provided	~18.29	4.6%
COF	195	18.6	-0.1%	17.8	+1.1%	34.5%	+0.3%	249	(20.5%)	Not provided	16.5	6.6%
CIP	319	18.9	-2.1%	18.7	+1.6%	27.2%	-10.2%	282	13.1%	17.4	17.0	5.3%
CLW	497	28.3	+5.2%	28.3	+5.2%	24.2%	-3.3%	447	11.1%	29.1	29.1	5.9%

Note 1: Price is based on the closing price on the day of the results being released. Source: Company Announcements, Core Property

4 Aug 2020

BWP Trust (ASX: BWP) – FY20 Results

BWP reported a solid FY20 result, with management delivering on the distribution guidance made before the onset of COVID-19. The result highlights the relative resilience of BWP's property portfolio, dominated by Bunnings anchored properties (88% of income), national tenants (~11.2% of income), with only around 0.8% exposure to non-national tenants.

The key points from the result include: 1) like for like rental income growth of +2.4%, driven by CPI and fixed increases, 2) Total Revenue was marginally lower (-0.3%) due to the sale of assets in the prior year as well as rental abatements of $0.4M due to COVID-19, 3) Distributable Profit was up +1.0%, supporting Total Distributions growth of 1.0%, 4) Strong portfolio valuations gains of +5.3% for the year, including +0.6% in the second half. Capitalisation rates compressed to 6.08% in December 2019 and remained at 6.08% at June 2020, and 5) the result was boosted by a $2.7M cash benefit to BWP from the receipt of forfeited deposits on two properties that BWP did not sell due to conditions not being met (mainly planning approvals). Excluding this amount, Distributable Profit would have been -1.3% for FY20.

Management remained cautious about guidance for FY21, stating that the Trust could expect distributions to be similar to the 18.29 cpu paid in FY20, however this may be reviewed if the COVID-19 impacts are more severe or prolonged than anticipated. A small amount of distributions (less than $0.1M) was paid out of capital profits, with management indicating that capital profits may be utilised again in FY21 as necessary.

At a current price of $3.98, BWP is trading on a yield of around 4.6% for FY21 and 30.1% premium to NTA of $3.06 per unit. The price is reflective of the resilient portfolio and relative stability of income in the current environment.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax*	**$210.6M**	$169.4M	+24.4%
Total Revenue	**$155.8M**	$156.3M	-0.3%
Distributable profit	**$117.5M**	$116.4M	+1.0%
Distribution per unit	**18.29 cpu**	18.11cpu[1]	+1.0%
Payout ratio	**100%**	100%	No Change
Movement over 12 months	**As at Jun 2020**	**As at Jun 2019**	**Change**
Balance Sheet			
NTA per security	**$3.06**	$2.92	+4.8%
Gearing %	**19.7%**	17.3%	+1.6%
Weighted average cost of debt	**3.4%**	4.3%	-0.9%
Weighted average debt maturity	**3.2 years**	3.6 years	-0.4 years
Borrowings	**503.2M**	$412.7M	+21.9%
Interest cover ratio	**8.6x**	6.8x	+1.8x
Portfolio			
Property Valuation	**$2,484.2M**	$2,358.2M	+5.3%
Occupancy rate	**98.0%**	97.4%	+0.6%
Number of properties	**75**	75	No Change
Weighted Average Capitalisation Rate	**6.08%**	6.30%	-22 bps
WALE (Weighted Average Lease Expiry)	**4.0 years**	4.4 years	-0.4 years

Source: BWP, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income.
Note 1: Excludes special distribution of 1.56 cpu

Key Points

- **Trading during COVID-19:** BWP has remained highly resilient throughout the COVID-19 pandemic, given its skewed exposure to Bunnings (88% of gross income) and other national tenants (est 11.2% of gross income), which were able to operate on an unrestricted basis. Non-national tenants (less than 10 tenants) are estimated to account for 0.8% of the portfolio, with a small amount ($0.4M) of rental abatements provided during the period. BWP has received 98.8% of rent due during the period March to June 2020, taking into account COVID-19 impacts. Bunnings (owned by Wesfarmers, ASX: WES) has reported 11.3% sales growth for the year to date, or 5.8% in the first half and 19.2% in the second half to May 2020.
- **Distributable profit** increased 1.0% on the prior corresponding period to $117.1M. The result included $2.7M in cash which BWP received as deposits from the potential sale of two of its properties. The properties were not sold due to pre-conditions not being met (mainly planning approvals) on two Alternate Use properties (Underwood and Belmont North) with BWP retaining the deposits under option agreements. Excluding this amount, Distributable Profit was -1.3% over the 12-month period.
- **Property Revaluations:** The portfolio value increased 5.3% to $2,484.2M, with an 22bps compression in the capitalisation rate to 6.08% at June 2020 (from 6.30% at June 2019). In the second half the portfolio increased in value by around 0.6%. The increase is attributable to the strength of the Bunnings tenant covenants, which continues to drive demand for BWP's properties even throughout the COVID-19 pandemic. The average portfolio capitalisation rate remained flat during the second half period (December 2019 to June 2020), with valuation gains driven by income growth rather than capitalization rate compression.
- **Key property metrics** include:
  - **Occupancy levels** increase marginally to 98.0% (from 97.4% at June 2019).
  - **Weighted Average Lease Expiry (WALE)** reduced to 4.0 years (from 4.4 years at June 2019) with management indicating that it expects the WALE to remain in the 4-5 year range.
  - **Core Portfolio:** The Core Portfolio consists of 68 out of 75 properties and delivered a reasonable like-for-like rental growth of 2.4%. This includes Market Rent Reviews (+1.0% average), Fixed rent increases (+3.0% average) and CPI rent increases (+1.6% average) across the portfolio.
  - **Alternative Use Properties (Non-Core):** BWP reduced its Non-Core properties to 7 (from 9) following upgrades and repositioning works completed on the recently-vacated Hoxton Park and Port Macquarie properties. Upgrade work was also completed at the Bunnings Villawood store (capex of $5.0M) resulting an additional 1,792 sqm of retail area and a new seven-year lease with Bunnings. Terms were also agreed for the upgrade of Croydon, Coburg and Port Melbourne, with an anticipated completion of mid-2021 and cost of $6.6M for Port Melbourne. Management are continuing to look for redevelopment, divestment or repositioning opportunities for the remaining Alternative Use properties.
- **Net Tangible Assets (NTA) per security** increased to $3.06 per unit (from $2.92 per unit in FY19), largely due to valuation gains.
- **Gearing** increased to 19.7% (from 17.3% at June 2019) which is slightly below BWP's preferred range of 20% to 30%. The slight increase was largely driven by management's decision to increase liquidity early into the COVID-19 pandemic.
- **Distributions** grew by 1.0% over the prior corresponding period to $18.29 cpu, excluding the special distribution of 1.56 cpu in FY19.
- **Outlook and Guidance for FY21:** Management expects the distribution for FY21 to be similar to the ordinary distribution paid in FY20, with capital profits being used to support distributions as necessary. This implies that earnings and distributions are likely to be around the 18.29 cpu level. A small portion of capital profits (less than $0.1M) was used to support distributions in FY20. Whilst there remains continued uncertainty about the duration and extent of COVID-19, particularly in Melbourne, we expect the short term impact to revenue will be largely around the 0.8% of income from non-national tenants, implying a maximum exposure of about $1.2M p.a.

5 Aug 2020

Centuria Office REIT (ASX: COF) – FY20 Results

COF reported FY20 results with Funds From Operations (FFO) of 18.6 cpu. This was 2.1% below the pre-COVID-19 guidance of 19.0 cpu and takes into account about 8% of uncollected rent in the fourth quarter. The portfolio remains robust, providing: 1) 23 properties valued at $2.1B, including $636M of acquisitions during FY20, 2) 98.1% occupancy (down slightly from 98.4% at FY19), and 3) a WALE of 4.7 years (3.9 years at FY19). Tenancy across the portfolio comprises 79% ASX listed/government/multinational tenants, 8% national tenants and 13% other tenants. Portfolio valuations declined marginally by -0.5% in the second half of the period, due to revised income assumptions and a slight increase in the capitalization rate to 5.93% (from 5.92% at December 2019).

Guidance for FY21 is for distributions for 16.5 cpu. Whilst no guidance was provided for earnings due to the uncertainty of COVID-19, we note that this provides a buffer of around 11% from FY20 earnings of 18.6cpu. At current price levels of $1.95, COF is trading on an attractive yield of 8.5% and a 21.7% discount to NTA of $2.49 per unit.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax[1]	**$23.1M**	$53.6M	-57.0%
Funds From Operations (FFO)	**$85.4M**	$61.2M	+39.5%
FFO per unit	**18.6 cpu**	18.7 cpu	-0.5%
Distributions	**$84.5M**	$57.6M	+46.7%
Distribution per unit	**17.8 cpu**	17.6 cpu	+1.1%
Payout ratio (% of FFO)	**95.8%**	94.2%	+1.6%

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
NTA per unit	**$2.49**	**$2.49**	No Change
Gearing	**34.5%**	**34.2%**	+0.3%
Weighted average cost of debt[2]	**2.2%**	**3.2%**	-1.0%
Weighted average debt maturity	**3.3 years**	**4.0 years**	-0.7 years
Borrowings	**$749.0M**	**$498.5M**	+50.3%
Portfolio			
Portfolio Value	**$2,053.3M**	**$1,400.0M**	+46.7%
Occupancy rate	**98.1%**	**98.4%**	-0.3%
Number of assets	**23**	**20**	+3 assets
Weighted Average Capitalisation Rate	**5.93%**	**6.22%**	-29bps
WALE (Weighted Average Lease Expiry)	**4.7 years**	**3.9 years**	+0.8 years

Source: COF, Core Property Note 1: Statutory Net Profit after Tax includes non-cash items which distorts operating income.
Note 2: Including weighted average swap rate, facility establishment fees and all-in margins (base & line fees).

Key Points

- **COVID-19 Impact:** COF's property and tenant portfolio has remained resilient to the COVID-19 pandemic. Around 79% of COF's tenancy mix (by income) is composed of listed/government/multinational tenants, with a further 8% national tenants and 13% non-national tenants. Around 92% of rent was collected during the final quarter April-June 2020, with management noting that the balance was from a number of smaller tenancies including retailers, cafes etc. that were located in the office buildings. The FY20 results included $3.2M in provisions for COVID-19, equating to a reduction in earnings of 0.7 cpu. The provisions included $1.5M of rent waivers, $1.0M of rent deferrals and $0.7M of additional costs such as cleaning.
- **Funds From Operations (FFO)** increased by 39.5% for the year, driven by additional earnings from acquired properties. During the period, COF acquired three additional properties for $636.5M. COF also negotiated leases on 32,378 sqm of space, or 10.6% of the portfolio. FFO per unit was down marginally to 18.6 cpu (from 18.7 cpu in FY19), and below COF's pre-COVID guidance of 19.0 cpu. We note that COF would have delivered an FFO of 19.3cpu, before the 0.7 cpu impact of COVID-19.
- **Distributions** of 17.8 cpu for FY20, increased by 1.1% over FY19. COF delivered on original guidance for 17.8 cpu distributions, despite the impact of COVID-19 on earnings. In doing do, the payout ratio increased to 95.8% (from 94.2% in FY19).
- **The Property Portfolio metrics** were maintained during the year:
  - **Occupancy levels** decreased to 98.1% (from 99.2% at December 2019 and 98.4% at June 2019).
  - **WALE** increased to 4.7 years (from 3.9 years at June 2019). COF highlighted their healthy lease expiry profile with 22.0% of expiries due in FY21 and FY22, and 78.0% of lease expiries occurring at or beyond FY23.
  - **Portfolio value** increased to $2,053.3M (up 46.7% from $1,400.0M at June 2019) due to:
    - The acquisition of three office buildings for $636.5M including William Square, Northbridge WA for $189.5M, Nishi in Canberra ACT for $256.0M and a 50% interest in 8 Central Avenue, South Eveleigh NSW for $191.0M. The assets were acquired on a combined 5.6% average yield, with 100% occupancy and a WALE of 8.0 years.
    - Valuation gains of $23.3M on a like-for-like basis with gains largely attributable to the NSW and WA portfolios – most notably the leasing activity on 144 Stirling Street, Perth, which saw the WA Government become the portfolio's second largest tenant.
  - **The portfolio weighted average capitalisation rate** of 5.93% reduced by 29bps since June 2019). Average portfolio capitalisation rates reduced by 30bps in the first half and increased by 1bps in the second half. Average capitalisation rates were largely unchanged in the second half, through COVID-19, with adjustments made to valuations to take into account rent waivers provided. COF's portfolio remains heavily weighted to the eastern seaboard of Australia, with 26% of assets in NSW, 16% in ACT, 24% in QLD and 17% in VIC.
- **Gearing increased** marginally to 34.5% (from 34.2% at June 2019), which management have expressed is a comfortable level. Drawn borrowings increased 50.3% to $749.0M (from $498.5M in FY19) as a result of the acquisitions, with five new tranches established. This saw COF's weighted average debt expiry decrease to 3.3 years (4.0 years in FY19) with the all-in cost of debt reduced to 2.2% (from 3.2% in FY19).
- **NTA** remained flat at $2.49 per unit for the year.
- **Outlook:** Going forward, COF have underlined the leasing of upcoming expiries, notably 818 Bourke Street, Docklands, and 35 Robina Town Centre Drive, Robina, as key priorities. Despite ongoing COVID-19 complications, COF appears well-positioned to maintain a high level of rent collections, benefitting from the strength of its tenancy portfolio, diversification across markets and focus on metropolitan assets over CBD. The portfolio has a relatively low concentration of SME tenants, with assets that appear to be well placed to benefit from any potential shifts in demand out of the CBD locations and into metropolitan workings hubs as a result of COVID-19.

- **FY21 Guidance:**
  - No guidance was provided on FFO earnings, given the ongoing impact of COVID-19 on business operating conditions.
  - Management provided FY21 distribution guidance of 16.5 cpu (a decline of 7.3% on the 17.8cpu delivered in FY20).

  Core Property considers the distribution guidance provides a resetting yield for COF in the current COVID-19 environment. We consider the distribution to be well supported, and we note that: 1) this represents an 89% payout ratio, based on FY20 earnings. To put this another way, FY21 earnings can fall by a further 11% and COF will still be able to meet target FY21 distributions of 16.5 cpu, and 2) We estimate COF will benefit by around +1.8 cpu in earnings in FY21 from the receipt of a surrender payment on the Foxtel lease at the Robina, QLD property. Foxtel is looking to pay out the remaining 3.2 years on the lease, and vacate the site by 31 August 2020.

5 Aug 2020

Centuria Industrial REIT (ASX: CIP) – FY20 Results

CIP delivered a solid FY20 result with its industrial portfolio benefitting during the current COVID-19 crisis. Funds From Operations (FFO) of 18.9 cpu was at the lower end of CIP's guidance of 18.9 – 19.3cpu, with the result impacted by $1M (or 0.3cpu) due to COVID-19. CIP met its distribution guidance of 18.7cpu, which was up 1.6% on FY19, through an increase in the payout ratio to 99%. The portfolio benefited from 3.2 like-for-like income growth, 97% average rent collections during the COVID-19 period April – June 2020, and a 1.3% increase in valuations during the second half period to June 2020.

CIP also announced the acquisition of three properties for $447.1M. The largest, the Telstra data centre at Clayton VIC will be acquired for $416.7M on a 30-year sale and leaseback arrangement. The acquisitions will be funded via a $240M institutional placement at $3.15 per unit, a $100M retail offer at $3.15 per unit with the balance to be funded by an increase in debt. The acquisitions increase the CIP portfolio to $2.1B (from $1.6B), occupancy to 98.2% (from 97.8%) and WALE to 10.2 years (from 7.2 years).

Management guidance for FY21 is for FFO of 17.4 cpu and distributions of 17.0 cpu. down 7.9% and 9.1% respectively. The lower guidance takes into account the Telstra, Clayton VIC acquisition which improves the property portfolio metrics for CIP, albeit on a lower yield. At current levels, CIP is trading on a 5.3% yield and a 13.1% premium to NTA of $2.82 per unit.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax[1]	**$75.3M**	$88.8M	-15.2%
FFO	**$63.5M**	`$50.0M	+27.1%
FFO per unit	**18.9cpu**	19.3 cpu	-2.1%
Distribution	**$65.3M**	$48.4M	+34.8%
Distribution per unit	**18.7cpu**	18.4cpu	+1.6%
Payout ratio	**99%**	95%	+4.0%

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
NTA per unit	**$2.82**	$2.73	+3.3%
Gearing	**27.2%**	37.4%	-10.2%
Cost of debt[2]	**3.4%**	3.9%	-0.5%
Weighted average debt maturity	**3.3 years**	3.6 years	-0.3 years
Borrowings	**$454.4M**	$469.9M	-3.3%
Portfolio			
Portfolio Value	**$1,602.4M**	$1,221.3M	+31.2%
Occupancy rate	**97.8%**	95.9%	+1.9%
Number of assets	**50**	43	+7 assets
Weighted Average Capitalisation Rate	**6.05%**	6.46%	-41bps
WALE (Weighted Average Lease Expiry)	**7.2 years**	4.3 years	-2.9 years

Source: CIP, Core Property Note 1: Statutory Net Profit after Tax includes non-cash items which distorts operating income.
Note 2: Including weighted average swap rate, facility establishment fees and all-in margins (base & line fees).

Key Points

- **COVID-19 Impact:** Over the period, the industrial sector has benefitted from accelerating e-commerce tailwinds brought on by COVID-19. This has seen the online penetration rate of retail sales increase to 10.1% in May 2020 (from 6.2% in May 2019), and a 45% growth in online retail sales over the 5 months to May 2020, compared to the prior corresponding period. As a result, CIP has performed strongly despite complications to operating conditions, with the consumer shift to online retail driving demand for industrial assets and services. Over the June quarter, around 99% of CIP's tenant portfolio remained in operation, facilitating 97% rent collection and only $1.0M in rent relief to tenants.
- **Funds From Operations (FFO)** increased by 27.1% over the year, driven by like-for-like rental growth of 3.2% and the acquisition of seven new industrial properties for $315.4M. FFO per unit declined by 2.1% after accounting for the new issue of securities to fund acquisitions and transaction costs. At 18.9 cpu, FFO per unit was at the bottom end of CIP's pre-COVID-19 guidance of 18.9 – 19.3 cpu. We note that the $1.0M impact of COVID-19 on the results, translates to around 0.3cpu in earnings, which would have improved FFO to 19.2cpu, at the top end of original pre-COVID-19 guidances. CIP delivered total FY20 distributions of 18.7 cpu, in line with guidance.
- **The Property Portfolio metrics** at June 2020 remained robust:
  - **Occupancy levels** improved to 97.8% (from 95.9% at June 2019), with leases agreed on 122,008 sqm of space or 12.9% of the portfolio.
  - CIP highlighted that all leases falling due in FY19 were either renewed or leased to new tenants. Excluding the acquisition of the vacant 46 Gosport Street, Hemmant, Queensland asset occupancy levels would have increased to 97.5%.
  - **Portfolio WALE** increased significantly to 7.2 years (from 4.3 years at June 2019), buoyed by the acquisition of the long WALE Arnott's portfolio. Going forward, CIP enjoys a healthy and staggered lease expiry profile, with only 27.5% of expiries due over the next three years, and 59.6% of leases expiring onwards of FY25.
  - **Portfolio value** increased to $1,602.4M (up 31.2% from $1,221.3M at June 2019) uplifted by $315.4M in acquisitions and a 41bps reduction in the portfolio weighted average capitalisation rate to 6.05% (from 6.46% at June 2019, and 6.19% at December 2019). Revaluation gains were driven by leasing success and the increasing demand for defensive industrial assets; totaling $48.5M over the year. Development and refurbishment completions in Townsville QLD and Hemmant QLD also contributed to the valuation uplift, with the latter asset enjoying a capitalisation rate compression of 75bps.
- **Gearing reduced to 27.2%**, significantly lower than FY19 figures of 37.4%, below the target gearing range to 30% - 40%. Over the year, cost of debt decreased to 3.4% (from 3.9% in FY19), and the weighted average debt expiry decreased to 3.3 years (from 3.6 years in FY19).
- **NTA** increased to $2.82 per security (up 3.3% from $2.73 per unit at June 2019) largely driven by $48.5M in revaluation gains.
- **Acquisitions Post-Balance Date:** On 5 August 2020, CIP announced it had entered an agreement to acquire three assets for $447.1M:
  - The Telstra Data Centre Complex in Clayton Victoria on a sale and leaseback arrangement for $416.7M (excl. costs). The lease terms include a 30-year term with annual CPI rent reviews and a triple-net structure.
  - Two additional industrial assets at 144 Hartley Road, Smeaton Grange NSW ($16.4M) and 51-73 Lambeck Drive, Tullamarine VIC ($14.0M).

  Following the acquisitions, CIP's portfolio WALE is estimated to increase to 10.2 years (from 7.2 years), with triple-net leases comprising 24% of income. The acquisitions will be funded by an equity raising for $340.8M at $3.15 per unit, and $151.1M in debt. Following the acquisition, CIP's pro forma gearing is expected to be 28.5% with NTA increasing to $2.83 per unit (from $2.82 per unit).

- **Outlook and FY21 Guidance:** Going forward, CIP is expected to maintain its strong performance despite COVID-19, bolstered by persisting structural tailwinds and a resilient portfolio composition. In the absence of unforeseen events, management has forecasted FY21 FFO to be 17.4 cpu and FY21 distributions to be 17.0 cpu. This represents declines of 7.9% and 9.1% respectively and takes into account the inclusion of the Telstra Data Centre and other announced acquisitions. CIP closed at $3.19 per unit following an institutional placement for the acquisition. At this price, CIP represents a 5.3% yield, and is a 13.1% premium to NTA of $2.82.

7 Aug 2020

Charter Hall Long WALE REIT (ASX: CLW) – FY20 Results

CLW delivered a FY20 results with management meeting its upgraded guidance targets for Operating Earnings and distributions; despite COVID-19. This saw Operating Earnings per security and distributions per security grow by 5.2%, buoyed by 2.6% like-for-like income growth and $1.4B in transactions (which contributed to 43.5% of earnings).

A highly acquisitive period also delivered improvements across CLW's portfolio; improving occupancy to 99.8%, WALE to 14.0 years and increasing diversification across key industries (no more than 17% weighted to a specific tenant class). Despite the ongoing impacts and uncertainty of COVID-19, CLW's portfolio (0.4% SMEs), positions it well to resist significant rent waivers or deferrals.

As such, strong growth is expected to continue in FY21, with management forecasting growth of 2.8%, as CLW benefits from a full year contribution across its acquisition portfolio. Given a 100% payout ratio, this indicates OEPS and DPS of 29.1 cpu in FY21. At a closing price of $4.97 CLW is trading at a 11.1% premium to its NTA of $4.47 per unit and a FY20 distribution yield of 5.9%.

FY20 Results to 30 June 2020

FY20 results	FY20	FY19	Change
Earnings			
Statutory Net Profit after tax*	**$122.4M**	$69.6M	+75.9%
Operating Earnings	**$121.9M**	$70.8M	+72.2%
Operating earnings per unit	**28.3cpu**	26.9cpu	+5.2%
Distribution per security	**28.3cpu**	26.9cpu	+5.2%
Payout ratio	**100%**	100%	No Change

Movement over 12 months	As at Jun 2020	As at Jun 2019	Change
Balance Sheet			
NTA per security	**$4.47**	$4.09	+9.3%
Balance sheet gearing	**24.2%**	27.5%	-3.3%
Weighted average cost of debt	**3.1%**	4.0%	-0.9%
Weighted average debt maturity	**3.9 years**	4.5 years	-0.6 years
Borrowings	**$832.7M**	$527.8M	57.8%
Portfolio			
Property Valuation[1]	**$3,630.0M**	$2,133.3M	+70.2%
Occupancy rate	**99.8%**	99.6%	+0.2%
Number of properties	**386**	118	+268 properties
Weighted Average Capitalisation Rate	**5.42%**	5.95%	-53bps
WALE (Weighted Average Lease Expiry)	**14.0 years**	12.5 years	+1.5 years

Source: CLW, Core Property Note 1: Valuation represents 100% of property values. CLW share is $2.92B ($1.88B in FY19).
*Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes

Key Points

- **Trading during COVID-19:** CLW have incurred minimal impacts from the COVID-19 pandemic, attributable to the strength of its tenancy portfolio. With only 0.4% of income represented by SMEs, CLW has limited rent relief incentives to only 0.2% of net rent – or $0.3M in total. Further, demand for CLW's asset portfolio remains healthy, exhibiting a net valuation uplift of 2.7% on the portfolio over the year.
- **Operating Earnings** for FY20 were $121.9M, driven by like-for-like rental growth and acquisitions completed throughout FY20 (contributing $53.0M to earnings). This represented a 72.2% increase on the prior corresponding period. Operating Earnings per unit increased 5.2% to 28.3 cpu, after accounting for the issue of new securities to fund acquisitions and transaction costs.
- **Portfolio Activity** during FY20 included $1.4B of property acquisitions and $101.3M of asset divestments.
    - Acquired a 50% interest of a national portfolio of 225 convenience retail properties, 100% leased to BP Australia. The portfolio exhibited a 20-year WALE at acquisition with triple net lease structures.
    - Acquired two long WALE retail assets including: 1) a large format Bunnings store under development in Palmerstone with expected completion in August 2020, and 2) the Indooroopilly Hotel in Brisbane.
    - Acquired a 50% interest in a portfolio of 36 Telco Exchange properties 100% leased to Telstra Corporation, for $349.0M. The portfolio exhibited a 21-year WALE at acquisition, with triple net lease structures.
    - Acquired $353.8M of office properties including: 1) a 50% interest in The Glasshouse, Macquarie Park in Sydney, which is 70% leased to the NSW Government on a 12-year lease, 2) a 15% interest in 242 Exhibition Street, Melbourne, a 47-storey CBD building predominantly leased to Telstra with a 12-year remaining lease term, and 3) 28 MacGregor Street in Brisbane, which is predominantly leased to the Commonwealth Government with a remaining lease term of 7.1-years.
    - Acquired $213.9M of industrial property including: 1) a 50% interest of Arnott's Huntingwood; Arnott's primary manufacturing facility on a 32-year triple-net lease, and 2) a SUEZ Waste Transfer facility in North Ryde Sydney
    - Secured lease extensions with Linfox in Hoppers Crossing (to 6.5-years), the Coles Distribution Centre in Perth (to 15 years) and SUEZ in Welshpool (to 15-years).
    - Post balance date, CLW divested $101.2M interest held in Waypoint REIT (ASX: WPR), increasing liquidity to approximately $290M.
- **Key property metrics** include:
    - **Occupancy levels** slightly decreased to 99.8% due to recent acquisitions, which saw an aggregate 100% occupancy.
    - **Weighted Average Lease Expiry (WALE)** increased to 14.0 years (from 12.5 years at June 2019), due to lease extensions and acquisitions; with an average WALE of 18.7 years on acquisition properties. Management have highlighted the portfolio's healthy lease expiry profile, which sees only 1.8% of expiries falling due by FY23.
    - **Portfolio Valuations** increased by $1.4B to $3.6B for the period driven by $1.2B of net acquisitions and $96M in gross property revaluations. Portfolio capitalisation rates reduced by 53bps to 5.42%.
- **Net Tangible Assets (NTA)** increased to $4.47 per unit, up 9.3% from $4.09 at 30 June 2019. The increase was driven by a net valuation uplift and acquisitions.
- **Gearing** decreased to 24.2% from 27.5% at FY19 and is slightly below its target range of 25% – 35%. Over the period, CLW secured three new bilateral debt facilities, bringing undrawn debt and cash levels to approximately $290M. Gearing on a look-through basis (inclusive of joint venture facilities) is 37.8%.

- **Capital management in FY20:** During FY20, CLW raised $875M of equity and raised $304.9M of debt. The equity raising involved multiple institutional placements and security purchase plans, as well as proceeds from CLW's distribution reinvestment plan. The debt raising included three new five-year debt facilities totaling $350M. Further joint venture debt facilities were established as part of the Telstra portfolio transaction, the BP portfolio transaction and the acquisition of 242 Exhibition Street, Melbourne VIC.
- **Virgin HQ, Bowen Hills QLD (3% of portfolio):** Virgin Australia, the tenant of CLW's Virgin Australia Head Office property at Bowen Hills QLD, has filed for voluntary administration. The asset was initially purchased at $90.8M, representing around 2.5% of CLW's portfolio, and exhibits a remaining lease term of 5.8 years. Management have advised that Virgin Australia are continuing to meet rent payments, with discussions in place regarding the terms of a lease termination. The property was written down to $52.5M (from $95.5M) during the six-month period to June 2020.
- **Guidance** for FY21 is for Operating EPS growth of no less than 2.8% to deliver an Operating EPS of 29.1cpu. CLW has a 100% payout ratio, so distributions of 29.1 represents an FY20 yield of around 5.9%. Minimal impacts are expected from COVID-19, given CLW's limited exposure to SMEs across its portfolio.

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

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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