Core Property
Fund Research & Ratings

Listed Property

February 2021 Reporting Season Results

Week 1:

CIP, BWP, COF

A review of the major listed A-REITs reporting results during February 2021.

Reporting Season Review for February 2021 results

Contents

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.

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February 2021

February 2021 Reporting Season – Week 1

Results for the February 2021 period

A-REITs reporting this week:

For full reporting calendar see Appendix

Tuesday 2 February 2021

CIP	Centuria Industrial REIT	1H21

Wednesday 3 February 2021

BWP	BWP Trust	1H21

Thursday 4 February 2021

COF	Centuria Office REIT	1H21

Core Property has reviewed 3 results from property securities which reported in the first week of the February 2021 reporting season. Some of our key thoughts are provided below, as well as summaries of the results on the following pages.

- **Rent Collections** improved, as expected, in the six-months to December 2020, following the initial COVID-19 peak in the June 2020 quarter. CIP increased to 98% (from 97%), BWP increased to 99% (from 98.8%) and COF increased to 96.7% (from 92%).
- **Earnings Guidance for FY21** was increased for CIP off the back of stronger rent collections, whilst COF, which previously did not provide guidance, has now provided a new guidance range.
- **Distribution Guidance for FY21** was maintained for CIP and COF. Once again BWP maintained its distribution guidance whilst advising that a portion of distributions may be paid out of capital profits.
- **Portfolio Quality** continues to remain a focus as investors seek some degree of earnings certainty. CIP provided a well-diversified industrial portfolio. BWP provides the strength of the Bunnings tenancy, albeit with an increase in the number of properties requiring repositioning. COF maintained a strong portfolio however was impacted by the loss of some key tenants (Infosys moving to another site in Docklands VIC, and the loss of Foxtel from Robina QLD).
- **The industrial sector remains in high demand** as investors continue to position their capital to take advantage of a renewed focus on logistics and distribution centres. CIP, the largest Australian listed industrial REIT, reported capitalisation rates compression of 36 bps on its existing properties during the six-month period. **The office sector** remains on edge with uncertainty over how the return-to-work environment will play out. COF's office portfolio, which focused on metropolitan locations, reported a small 3 bps compression in capitalisation rates. The demand for **Bunnings anchored properties**, which continued to trade exceptionally well during the COVID-19 pandemic in 2020, supported a 24 bps compression in BWP's portfolio capitalisation rates.

Core Property expects the demand for industrial properties will continue unabated in 2021, possibly at the expense of the office and retail sectors. Whilst economic factors still remain uncertain, we expect investors will continue to scrutinise the quality of earnings throughout reporting season. More than ever, we expect a greater focus on the strength of tenant covenants, diversification of portfolios and a review of upcoming lease expiries to assess the sustainability of income.

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
CIP	306	17.6	+77.8%	8.5	-9.6	29.6%	+2.4%	299	2.3%	17.6	17.0	5.6%
BWP	422	9.02	0%	9.02	0%	17.9%	-1.9%	320	31.9%	18.29	18.29	4.3%
COF	198	11.2	+16.7%	8.3	-6.7%	34.6%	-0.8%	245	-19.2%	19.4 – 19.9	16.5	8.3%

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

2 Feb 2021

Centuria Industrial REIT (ASX: CIP) – 1H21 Results

CIP delivered a solid 1H21 result in line with expectations. FFO per unit of 8.8 cpu was 11.1% lower, which was expected as a result of recent acquisitions which improved the quality of the portfolio. Occupancy levels remained stable at 97.7% (from 97.8% at FY20) and the portfolio WALE improved to 9.8 years (from 7.2 years at FY20) as a result of the acquisitions. Like-for-like income growth was a strong 3.1%.

Leasing success and market demand drove an impressive 6.0% increase in valuations for the six-month period. CIP's portfolio capitalisation rate compressed by 63bps to 5.42% (from 6.05% at June 2020), with 36bps delivered from valuation gains and 27bps from the inclusion of acquisitions.

Earnings guidance for FY21 was upgraded to 17.6 cpu (from 17.4 cpu) as CIP has benefitted from an uptick in rent collections to 98% (from 97% in FY20). Distributions guidance has been maintained at 17.0 cpu, implying a ~97% payout ratio.

CIP has acquired a well-diversified portfolio which is well position to benefit from structural tailwinds in the industrial sector. Debt is at the low end of its target range, which provides the potential for acquisitions to further improve diversification and earnings quality. At current levels CIP trades at a 2.3% premium to its NTA of $2.99 per unit and forecast distribution yield of 5.6%.

1H21 Results to 31 December 2020

1H21 results	1H21	1H20	Change
Earnings			
Statutory Net Profit after tax[1]	**$99.6M**	$31.5M	+216.2%
Funds from Operations (FFO)	**$42.8M**	$30.0M	+42.7%
Distribution	**$45.0M**	$30.3M	+48.5%
FFO per unit	**8.8 cpu**	9.9 cps	-11.1%
Distribution per unit	**8.5 cpu**	9.4 cps	-9.6%
Payout ratio	**96.9%**	94.9%	+2.0%
Movement over 6 months	**As at Dec 2020**	**As at Jun 2020**	**Change**
Balance Sheet			
NTA per unit	**$2.99**	$2.82	+6.0%
Gearing %	**29.6%**	27.2%	+2.4%
Cost of debt[2]	**2.7%**	3.4%	-0.7%
Weighted average debt maturity	**2.8 years**	3.3 years	-0.5 years
Borrowings	**$733.5M**	$454.4M	+61.4%
Portfolio			
Property Valuation	**$2,399M**	$1,602M	+49.7%
Occupancy rate	**97.7%**	97.8%	-0.1%
Number of properties	**59**	50	+9 properties
Weighted Average Capitalisation Rate	**5.42%**	6.05%	-63 bps
WALE (Weighted Average Lease Expiry)	**9.8 years**	7.2 years	+2.6 years

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

Key Points

- **COVID-19 Impact:** Over the period, the industrial sector has continued to accelerate due to the growth of online sales (32% over last 12 months) and the direct correlation of businesses requiring more fulfillment centres, logistics and cold storage units. Faster delivery expectations from consumers have driven acquisitions of high value, key metropolitan sites capable of meeting these expectations. The transaction volumes of Sale and Leasebacks have increased because of businesses looking to free capital, presenting opportunities of high valued, strong tenanted properties becoming available. As a result, CIP has performed strongly despite challenging conditions, collecting 98% of rents in 1H21, (up from 97% in the June 2020 quarter). Total rental waivers of $0.8M were provided in 1H21, a reduction from the $1.0M provided in the June 2020 quarter.

- **Funds from Operations (FFO)** reduced to 8.8 cpu for 1H21, a decline of 11.1% on the prior corresponding period. The decline was largely due to acquisitions undertaken by CIP to diversify and strengthen the portfolio. New units were issued in September and December 2020 to fund the acquisitions, which are dilutive to earnings in the short term, until the full year earnings benefit of the acquisitions are included.
- **The Property portfolio** metrics include:
  - **Occupancy levels** marginally decreased to 97.7% from 97.8%, with 140,074 sqm of lease terms agreed during the half year period (representing 13% of the portfolio). CIP has around 8.5% of the portfolio expiring in the 18 months to FY22.
  - **Portfolio WALE** increased to 9.8 years, a 2.6-year increase from June 2020. The portfolio benefitted from 9 acquisitions which were undertaken on an average WALE of 19-years including the Telstra Data Centre Complex, Clayton VIC with a WALE of 29.7 years.
  - **Portfolio valuation** increased to $2,399M (up 49.7% from $1,602M at June FY20) uplifted by the $694.0M of acquisitions and divestments of $40.0M. The portfolio capitalisation rate reduced by a significant 63 bps to 5.42%. Around 36 bps was attributable to valuation movements as the demand for industrial properties continued to increase throughout 2020. The remaining 27 bps movement was due to acquisitions impacting the overall portfolio capitalisation rate. Twenty-nine of the 59 assets were externally valued at December 2020. Major leasing activity included the renewed lease to Visy at Warwick Farm, NSW creating a 20% increase in value following the 10-year lease extension, and the 17% value increase in the Arnott's properties in QLD and SA.
  - **Diversification:** CIP's acquisitions have provided strong diversification across key-sub sectors of the industrial sector. Most notably, the acquisitions of the Telstra Data Centre Complex in Clayton, VIC as well cold storage facilities in NSW, QLD and VIC has provided improved diversification into highly sought after sectors with strong tenant covenants. The portfolio spread is across:
    - Manufacturing 32%
    - Distribution Centres 27%
    - Transport Logistics 15%
    - Data Centres 17%
    - Cold Storage 17%
- **Gearing increased to 29.6%**, a 2.4% increase from 27.2% in FY20, which remains at the low end of CIP's target range between 30%-40%. The weighted cost of debt decreased to 2.7% (from 3.4% at June 2020) with the average debt expiry decreasing by 0.5 years to 2.8 years (from 3.4 years at June 2020). Gearing levels are expected to stay in the low 30% range with additional acquisitions expected to continue through FY21.
- **NTA** increased by 6% to $2.99 per unit (from $2.82 per unit at June 2020), largely driven by valuation gains.
- **Acquisitions Post-Balance Date:** On 29 January 2021, CIP announced the acquisition of two modern industrial facilities in Derrimut, VIC, for $37.3M with an average initial yield of 5.1%.
  - 179 Studley Court, Derrimut is 100% leased to Volkswagen Group with a 4.2-year WALE
  - 513 Mount Derrimut Road is 100% leased to Tasman Logistics Services with a 5.0-year WALE.
- **Outlook and FY21 Guidance:** Management continues to focus on active leasing and asset management to ensure existing income streams are protected and enhanced. FY21 Earnings Guidance has been upgraded to be no less than 17.6 cpu (previously 17.4 cpu). We expect this will be achievable on the basis of: 1) half the amount, 8.8 cpu, has already been delivered in the first half, 2) rent collections have ticked up to 98% (from 97%), and 3) prior acquisitions contributing to second half earnings. Management also reaffirmed FY21 distributions of 17.0 cpu.

3 Feb 2021

BWP: BWP Trust (ASX: BWP) – 1H21 Results

BWP reported a stable 1H21 result with revenue essentially flat for the period. Distributions were held flat, with BWP once again using a small component of capital profits maintain the 9.02 cpu for the period. The portfolio was revalued up by 3.6% for the half, as Bunnings anchored sites continue to be remain in high demand.

The result highlights the continued stability of BWP's earnings, whereby rental income growth is being offset by lease expiries requiring repositioning. The Core Portfolio of 64 properties continue to deliver steady income growth with like-for-like rental growth of 2.0%, driven by fixed annual and CPI increases. Rent collections were 99.0% (from 98.8% at June 2020) with only $0.4M rental abatements due to COVID-19.

However the increase in the Non-Core Portfolio to 11 properties (from 7 properties at June 2020) continues to limit BWP's growth. Although 2 of these properties are under contract for sale, management is taking a measured approach to ensure the Non-Core properties provide sufficient returns for investors.

Management has maintained guidance for FY21 distributions to be similar to FY20, at 18.29 cpu. Once again, a portion of distributions may be paid out of capital profits. We consider this reflects management's expectations that the Non-Core Portfolio will continue to impact on BWP's earnings in the short term.

Nevertheless, BWP's earnings profile has provided stability for investors during 2020 in an uncertain economic climate brought about by COVID-19. At current price levels, BWP is now trading on a 4.3% yield for FY21 and a 31.9% premium to NTA of $3.20 per unit, which is reflective of this stability.

1H21 Results to 31 December 2020

1H21 results	1H21	1H20	Change
Earnings			
Statutory Net Profit after tax[1]	**$144.0M**	$135.6M	6.2%
Total Revenue	**$76.1M**	$76.2M	-0.1%
Distributable profit	**$57.9M[2]**	$57.9M[2]	No change
Distributable profit (excl. capital profits)	**$56.9M**	$57.2M	-0.4%
Distribution per unit	**9.02 cpu**	9.02 cpu	No change
Payout ratio (% of FFO)	**100%**	100%	No change
Movement over 6 months	**As at Dec 2020**	**As at Jun 2020**	**Change**
Balance Sheet			
NTA per unit	**$3.20**	$3.06	+4.6%
Gearing	**17.8%**	19.7%	-1.9%
Weighted average cost of debt	**3.2%**	3.4%	-0.2%
Weighted average debt maturity	**2.7 years**	3.2 years	-0.5 years
Borrowings	**$458.6M**	$503.2M	-8.9%
Portfolio			
Portfolio Value	**$2,574.6M**	$2,484.2M	3.6%
Occupancy rate	**97.4%**	98.0%	-0.6%
Number of properties	**75**	75	No change
Weighted Average Capitalisation Rate	**5.84%**	6.08%	-24bps
WALE (Weighted Average Lease Expiry)	**4.3 years**	4.0 years	+0.3 years

Source: BWP, Core Property Note 1: Statutory Net Profit after Tax includes non-cash items which distorts operating income.
Note 2: Includes capital profits released for 1H21 of $1.0M and 1H20 of $0.7M

Key Points

- **COVID-19 Impact:** BWP's tenants continued to deliver resilient trading throughout the COVID-19 pandemic, given its portfolio mix of Bunnings sites (88% of gross income), other national tenants (est.11.3% of gross income) and small portion of non-national tenants (est. 0.7% of gross income). Rent collection rates for July – December 2020 remained high at 99.0%, in line with the 98.8% during March – June 2020. Rental abatements of $0.4M was provided, primarily to gym tenancies, in line with the prior period. Bunnings (owned by Wesfarmers, ASX: WES) has reported 25.2% sales growth for the July – October 2020 period, with comparable sales growth of 30.9%.
- **Distributable profit** was flat at $57.9M for the period, however included $1.0M of capital profits, or 0.16 cpu ($0.7M from the prior corresponding period). Excluding this amount, Distributable Profit was $57.2M, compared to $56.9M in the prior corresponding period. We note that since 2018, BWP has paid a portion of distributions out of capital profits (between 0.08 – 0.19 cpu, on distributions of 17.51 – 18.29 cpu) and management has indicated that it may continue to do so again for FY21.
- **Property Revaluations:** The portfolio value increased 3.6% to $2,574.6M, with an 24bps compression in the capitalisation rate to 5.84% at December 2020 (from 6.08% at June 2020). 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. 11 independent valuations were undertaken with directors' valuations on 64 properties.
- **Key property metrics** include:
  - **Occupancy levels** reduced to 97.4% (from 98.0% at June 2020).
  - **Weighted Average Lease Expiry (WALE)** increased to 4.3 years (from 4.0 years at June 2020) off the back of negotiated lease deals. Management had previously indicated that it expects the WALE to remain in the 4-5 year range.
  - **Core Portfolio:** The Core Portfolio consists of 64 out of 75 properties and delivered a resilient like-for-like rental growth of 2.0% for the 12 months to December 2020. Rental outcomes over the past 6 months included 6 Market Rent Reviews (-1.4% average) and 46 properties with fixed annual or CPI reviews (+1.4% average).
  - **Alternative Use Properties (Non-Core):** The Non-Core Portfolio represents 11 properties (previously 7 properties) that are slated for repositioning and/or divestment.
    - Cairns QLD has been vacant since February 2018 and is being considered by BWP for an industrial development. More recently the Queensland Government has undertaken a short term lease on the site for use as a pop-up sports arena, contributing around $0.2M in rent to the 1H21 result, with the lease on a monthly holdover arrangement.
    - Belmont North NSW has a lease expiry in March 2021 with BWP still considering redevelopment and divestment options.
    - Port Kennedy WA has a lease expiry in May 2021 with Bunnings advising that it will vacate the site and service the catchment from its other existing stores in the area. Bunnings' exit was not expected by BWP who are considering options for repositioning the property.
    - Underwood QLD has been vacant since October 2018 when Bunnings relocated to a nearby site. BWP had previously received an offer for the site, which did not proceed and BWP retained the deposit paid. BWP advised that it has a new unconditional contract in place to sell the site the a private owner occupier for $16.0M with settlement expected in May 2021.
    - Port Macquarie NSW has now been fully repositioned and 100% leased to Amart Furniture, Body Fit Gym and Sydney Tools.
    - Morley WA is vacant with the Bunnings lease expired in July 2020 and is being considered for repositioning.
    - Midland WA has the Bunnings lease expiry in September 2021, with Bunnings relocated to a nearby site in December 2020. BWP are in discussions with several operators to lease the site from October 2021.
    - Mindarie WA has a lease expiry in September 2021 and is under a conditional contract for sale with settlement expected in July 2021.

   - Albany WA (expiry Oct 2024) and Northland VIC (expiry Aug 2025) are being considered for redevelopment or divestment.
- **Net Tangible Assets (NTA) per security** increased to $3.20 per unit (up 4.6% from $3.06 per unit in FY19). The increase was off the back of valuation gains of +3.6% in the past 6 months. Management has indicated that has rebated a portion of its management fee back to the Fund. The rebated portion reflects the management fee on the increased valuation component of the portfolio.
- **Gearing reduced to 17.8**% (from 19.7% at June 2020) which is below BWP's preferred range of 20% to 30%. The reduced gearing was driven both by a reduction in debt as well as valuation increases.
- **Distributions** for 1H21 were held flat at 9.02 cpu, in line with prior corresponding period of 1H20.

Outlook and Guidance for FY21: Management's focus for the remainder of FY21 will be on leasing vacancies in the portfolio, progressing store upgrades and extending leases with Bunnings through the exercise of options. Guidance was reaffirmed with management expecting distributions 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, with second half distributions expected at 9.27 cpu.

4 Feb 2021

Centuria Office REIT (ASX: COF) – 1H21 Results

COF reported a strong headline 1H21 result, with Funds From Operations (FFO) increasing to 11.2 cpu (from 9.6 cpu in 1H20), boosted by a one-off surrender lease payment. Excluding this, we estimate a more subdued FFO of around 8.9 cpu.

COF's portfolio is underpinned by diverse, quality tenants with 80% of income from government, listed or multinational tenants. Rent collections improved to 96.7% in 1H21 (up from 92% in the June 2020 quarter). However occupancy levels fell to 91.5% (from 98.1% at June 2020) as the portfolio was impacted by major lease exits from Infosys (at 818 Bourke St, Melbourne VIC) and Foxtel (at 35 Robina Town Centre Drive, Robina QLD).

Whilst the office market is facing some headwinds, we expect management will focus on re-leasing the vacant space in addition to working on upcoming lease expiries (4.3% due in 2H21, and 6.4% in FY22).

FY21 earnings guidance was provided at 19.4–19.9 cpu with distributions reaffirmed at 16.5 cpu. Despite the leasing risks faced by COF, Core Property considers that much of the downside risks appears to be already priced in – at current price levels COF is currently trading on a 19.2% discount to its NTA of $2.45 per unit, with a forecast FY21 distribution yield of 8.3%.

1H21 Results to 31 December 2020

1H21 results	1H21	1H20	Change
Earnings			
Statutory Net Profit after tax[1]	**$21.5M**	$24.7M	-12.8%
Funds From Operations (FFO)	**$57.7M[2]**	$39.0M	+47.8%
FFO per unit	**11.2 cpu[2]**	9.6 cpu	+16.7%
Total Distributions	**$42.4M**	$38.7M	+9.6%
Distribution per unit	**8.3 cpu**	8.9 cpu	-6.7%
Payout ratio	**73.6%**	92.3%	-18.7%

Movement over 6 months	As at Dec 2020	As at Jun 2020	Change
Balance Sheet			
NTA per unit	**$2.45**	$2.49	-1.6%
Gearing	**34.6%**	34.5%	+0.1%
Cost of debt[2]	**2.2%**	2.2%	No change
Weighted average debt maturity	**2.8 years**	3.3 years	-0.5 years
Borrowings	**$749.0M**	$749.0M	No change
Portfolio			
Portfolio Value	**$2,032.4M**	$2,053.3M	-1.0%
Occupancy rate	**91.5%**	98.1%	-6.6%
Number of assets	**23**	23	No change
Weighted Average Capitalisation Rate	**5.90%**	5.93%	-3 bps
WALE (Weighted Average Lease Expiry)	**4.5 years**	4.7 years	-0.2 years

Source: COF, Core Property Note 1: Statutory Net Profit after Tax includes non-cash items which distorts operating income. Note 2: Includes surrender payment for exit of Foxtel lease (Core Property estimate $12.0M).

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Key Points

- **COVID-19 Impact:** COF's rent collection improved to 96.7% in 1H21, up from 92% in the June 2020 quarter. For the six months to December 2020, around $2.6M of rent relief was provided, comprising $1.7M of rent waivers and $0.9M of rent deferrals to tenants. This compares to $3.2M of COVID-19 impacts in FY20 ($1.5M of rent waivers, $1.0M in rent deferrals and $0.7M additional cleaning costs).
- **Funds From Operations (FFO)** increased by 47.8% to $57.7M for 1H21. FFO increased as a result of prior acquisitions as well as a one-off surrender payment following the exit of Foxtel at 35 Robina town Centre Drive, Robina QLD. Core Property estimates the surrender payment to be around $12.0M (which includes around $1.9M of rent for the six-month period). FFO per unit increased by a lesser 16.7% to 11.2 cpu (from 9.6 cpu 1H21) after factoring in the issue of new securities to fund acquisitions.
- **Distributions** of 8.3 cpu, declined by 6.7% to the prior corresponding period distribution of 8.9 cpu, and is in line with COF's guidance for 16.5 cpu for the full year.
- **Key Property metrics** include:
  - **Occupancy levels** reduced to 91.5% (from 98.1% at FY20). The drop in occupancy was largely impacted by:
    - 35 Robina Town Centre Drive, Robina QLD has reduced to 33.8% (from 100% at June 2020). Foxtel had previously leased the whole building and have now exited and have paid a surrender payment on the balance of the lease which expires in October 2023. Core Property estimates the surrender payment to be around $12.0M, which includes around $1.9M of rent which would have been incurred in the half year period 1H21. Foxtel had subleased 23.3% of the space to other tenants. The sub-leases have agreed to new direct leases with COF further improving occupancy to 33.8% from additional tenants. Management expects to further subdivide the space in the building to suit a number of smaller tenancies to fill the remaining space. Core Property notes that the surrender payment effectively means that COF will receive double rent on any space that is relet before October 2023.
    - 818 Bourke Street, Docklands VIC has reduced to 59.2% occupancy (from 99.2% at June 2020) following the exit of Infosys from 3 floors of the 9 level building. The building provides large floor plates of around 3,575 sqm and management will be looking to relet the space to large corporate tenants.
  - **WALE** of the portfolio reduced to 4.5 years (from 4.7 years at June 2020) with new leasing deals partially offsetting the roll forward of leases.
  - **Leasing** transactions were undertaken on a total of 28,306 sqm (for 31 leases) representing 9.3% of NLA.
  - **Portfolio value** decreased by $20.9M, or -1.0%, to $2,032.4M. COF undertook independent valuations on 13 out of the 23 assets in the portfolio, representing 49% of the portfolio value. The portfolio capitalisation rate reduced marginally by 3 bps to 5.90% (from 5.93% at June 2020), predominantly due to a $12M valuation decline for the Robina QLD property as a result of the lease surrender payment.
  - **Subsequent to the reporting period,** COF settled the sale of its 25% interest in 465 Victoria Avenue, Chatswood NSW for $44.7M with the proceeds from the sale used to pay down debt.
  - **The tenant profile of the portfolio** remains strong with 81% of portfolio income derived from large tenants including the federal and state government tenants (27%), ASX listed tenants (26%) and multinational tenants (28%).
- **Gearing** of 34.6% at December 2020 was marginally higher than the 34.5% at June 2020, due to the small valuation decline of the portfolio. The sale of 465 Victoria Avenue, Chatswood NSW reduces gearing to 33.2% on a pro forma basis, which still remains at the high end of COF's target gearing range of 25% - 35%. Weighted average debt expiry decreased 0.6 years to 2.8 years (from

3.3 years at FY20)

- **Net Tangible Assets (NTA) per security** decreased by -1.6% to $2.45 per unit (from $2.49 per unit at FY20) as a result of the decline in valuation of the portfolio.
- **Strategy:** Management continues to work on reducing its current vacancies, with key focus on leasing 818 Bourke Street, Docklands VIC and 35 Robina Town Centre Drive, Robina QLD to full capacity. In addition, management will also be working on upcoming lease expiries with tenants.
- **FY21 Guidance:** Management maintained its FY21 distribution guidance of 16.5 cpu. Earnings guidance has now been provided of between 19.4 – 19.9 cpu which represents an 83% - 85% payout ratio. Management indicated that the higher end of the earnings is likely to be achieved if favourable leasing deals are achieved.

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Appendix: A-REITs Reporting Timetable

A-REITs Reporting Timetable – February 2021

Mon 1 Feb	Tue 2 Feb	Wed 3 Feb	Thu 4 Feb	Fri 5 Feb
		Week 1		
	CIP – 1H21	BWP – 1H21	COF – 1H21	

Mon 8 Feb	Tue 9 Feb	Wed 10 Feb	Thu 11 Feb	Fri 12 Feb
		Week 2		
CLW – 1H21	DXS – 1H21	LEP – 1H21	CQE – 1H21	ARF – 1H21
	SCP – 1H21	CNI – 1H21		MGR – 1H21

Mon 15 Feb	Tue 16 Feb	Wed 17 Feb	Thu 18 Feb	Fri 19 Feb
		Week 3		
CQR – 1H21	AQR – 1H21	CHC – 1H21	ABP – 1H21	GMG – 1H21
GPT – 1H21		VCX – 1H21	APD – 1H21	
		HDN – 1H21	GDF – 1H21	
		ADI – 1H21		

Mon 22 Feb	Tue 23 Feb	Wed 24 Feb	Thu 25 Feb	Fri 26 Feb
		Week 4		
GDI – 1H21	AOF – 1H21	SCG – FY20	AVN – 1H21	WPR – FY20
ENN – 1H21		HMC – 1H21	SGP – 1H21	
ERF – 1H21			GOZ – 1H21	
ECF – 1H21				

TBC
NSR
CMW
PWG

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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Fund Research & Ratings