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SCA Property Group

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SCA PROPERTY GROUP ANNOUNCES FY14 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") announces its results for the twelve months ended 30 June 2014 (the first full financial year result for the Group).

Financial highlights:

- Statutory net profit after tax of $111.6 million
- Distributable Earnings[(1)] of $80.4 million, or 12.4 cents per unit ("cpu")
- Distribution of 11.0 cpu, representing a payout ratio of 88.7%
- US private placement completed in August 2014 (subsequent to year end), increasing weighted average debt maturity to over 6.5 years, with overall weighted average cost of debt currently around 5.1%
- Portfolio value of $1,640.8 million[(2)], up by $152.9 million since 30 June 2013, largely due to acquisitions and revaluations
- Net tangible assets of $1.64 per unit, up by 4.6% from $1.57 per unit as at 30 June 2013
- Management expense ratio ("MER") of 0.65%, down from 0.70% for the six-and-a-half month period to 30 June 2013 (annualised)
- FY15 Distributable Earnings guidance of 12.5 cpu, and FY15 cash Distributions guidance of 11.3 cpu

Operational highlights:

- Solid specialty leasing progress, with specialty vacancy as at 30 June 2014 reduced to 8.6% [(4)] of specialty gross lettable area (from 14.0% in June 2013), and overall portfolio occupancy increased to 97.8% (from 96.6% in June 2013)
- Continued strong underlying MAT sales growth [(3)], with Australian Supermarkets growing at 8.4% pa, and New Zealand Supermarkets growing at 5.9%, reflecting the relative youth of the portfolio
- Active portfolio management, with seven centres acquired for $145.7 million, seven non-core centres divested for $75.7m (representing a 4.3% premium to book value), and four development properties completed.

1. Distributable Earnings represents the underlying earnings in the period as set out in the Directors' Report
2. Includes properties under construction subject to Development Management Agreements ("DMA")
3. MAT stands for "Moving Annual Turnover" and is calculated as sales growth over the 12 months to 30 June 2014, compared to the 12 months to 30 June 2013, for the 42 Australian and 7 New Zealand stores that have been open for more than 24 months.
4. Specialty vacancy of 8.6% excludes Lismore which is currently being held for development.

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Chief Executive Officer, Anthony Mellowes, said: “This result continues to build on the same themes as previous results, as we focus on delivering on our strategies. We have again been able to exceed the guidance targets we set at our half year result, and Distributable Earnings for FY14 of 12.4 cpu is 5.1% above the original PDS guidance of 11.8 cpu, and our Distribution of 11.0 cpu is 5.8% above the PDS forecast of 10.4 cpu.”

“A key focus has been to reduce our specialty vacancy level, and during the last twelve months we have reduced our specialty vacancy as a percentage of GLA from 14.0% in June 2013 to 8.6% *(4)* as at 30 June 2014. To get to our 31 December 2014 target of less than 5% specialty vacancy, we need to lease another 4,100 sqm of space before then, and we are on track to achieve this target.”

“Strong sales growth has been generated across our portfolio, led by the Australian and New Zealand supermarkets which continue to perform well above Woolworths and Coles group averages, and well above the levels being achieved by other retail AREITs. This reflects the relative youth of our portfolio, larger average supermarket store sizes, and locations in growth corridors. The level of growth gives us confidence in the fundamental health of our centres, that our turnover rentals will increase, and that we will achieve our specialty leasing targets.”

“We have continued to grow our portfolio through a combination of accretive acquisitions and completed Woolworths’ developments, with $162.4 million invested during the year. We have maintained a disciplined approach to portfolio management, with the divestment of seven smaller non-core centres at above book value for $75.7 million. While the competition to acquire quality neighbourhood shopping centres has increased, we are confident that we can continue to leverage our relationships and knowledge in the sector to source further off-market deals that meet our investment criteria. As a further demonstration of that, we are today announcing the acquisition of a Woolworths-anchored neighbourhood centre in Prospect Vale, Launceston Tasmania for $26.8 million, at a yield of 7.6% We have also identified 17 of our centres that have development potential, with the opportunity to invest in excess of $100 million over the next five years. ”

<u>Financial performance</u>

Earnings

The Group recorded a statutory net profit after tax of $111.6 million. Distributable Earnings after tax was $80.4 million (or 12.4 cpu), and Distributions were 11.0 cpu.

Rental income for the period was $158.4 million, benefiting from the acquisitions and completed Woolworths’ developments, reduction in specialty vacancy, casual mall leasing and turnover rent.

Property operating expenses continue to track at or better than industry benchmarks.

Corporate costs included $3.2 million of unitholder and registry-related expenses due to our large unitholder base of around 112,000. We will conduct another ”small unitholding sale facility” with the aim of reducing these expenses. The offer will go out to around 29,000 unitholders whose holding is worth $500 or less at the record date. Our MER reduced to 0.65% (from 0.70%), helped by cost control and the increased asset base.

Net interest expense benefited from our refinancing in the first half of the year.

Rental guarantee receipts from Woolworths will decline as we continue to lease up more specialty store space, and the guarantee will begin to expire on the initial portfolio from December 2014.

Property valuations

The value of investment properties increased to $1,640.8 million during the period (from $1,487.9 million at 30 June 2013), due to a combination of acquisitions, completed developments, valuation uplifts, and the strong New Zealand dollar. In Australia, the value of completed properties increased to $1,406.7 million (from $1,210.5 million as at 30 June 2013). In New Zealand, the value of completed properties increased to NZ$226.4 million (from NZ$205.7 million as at 30 June 2013). During the year, the

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weighted average capitalisation rates for the Australian portfolio tightened from 8.07% to 7.86% and the New Zealand portfolio weighted average cap rates tightened from 7.88% to 7.68%.

Net tangible assets

The Group's net tangible assets ("NTA") per unit has increased by 4.6% to $1.64 cpu (from $1.57 cpu as at 30 June 2013), predominately due to positive property revaluations, and a stronger New Zealand dollar.

Capital management

The Group maintains a prudent approach to managing its balance sheet. Gearing was 32.6% as at 30 June 2014. We have refined our gearing policy to be within the range of 30% to 40%, with a preference to be below 35%. At 30 June 2014, the Group had cash and undrawn facilities of $56.8 million. Following completion of the Greystanes development and the Claremont and Prospect Vale acquisitions in late calendar year 2014, we expect gearing to increase to around 35%.

In May 2014, we entered into $100 million of additional 3 and 5 year interest rate swaps, such that 86% of our debt was fixed rate hedged as at 30 June 2014. For the 12 months to 30 June 2014, the Group's all-in weighted average cost of debt was around 4.9% pa, and the weighted average debt maturity was 3.5 years as at 30 June 2014.

In June 2014, we agreed terms with US private placement ("USPP") investors to issue unsecured Notes to raise A$210 million. On 14 August 2014, the Notes were issued and the cash was received. The cash was used to repay existing debt and for working capital. The Notes have been rated Baa1 by ratings agency Moody's. All amounts received have been swapped to A$ floating rate obligations. As a result of the USPP, the weighted average term to maturity of our debt has increased to over 6.5 years, and the weighted average cost of debt is around 5.1%.

In February 2014, we announced the commencement of an on-market buyback, to be implemented only if our unit price trades below NTA. Since that time, our units have consistently traded at a premium to NTA, therefore no units have been bought back to date. The buyback remains active until February 2015.

Distributions

SCP paid a distribution in respect of the six month period to 31 December 2013 of 5.4 cpu, and has declared a final distribution in respect of the six month period to 30 June 2014 of 5.6 cpu, bringing full year distributions to unitholders to 11.0 cpu. This represents a payout ratio of 88.7% of Distributable Earnings. The estimated tax deferred component was 26% which is below the normalised level due to capital gains realised on the disposal of properties during the year.

SCP's investment objective is to deliver regular distributions to investors based on a defensive and stable income stream from a geographically-diverse portfolio of convenience-based retail centres, with a strong weighting toward the non-discretionary retail segment and anchored by long term leases to quality tenants. The distribution policy reflects this with a target payout ratio of 85-95% of Distributable Earnings.

Operational performance

Specialty leasing on track

SCP has further reduced its specialty vacancy to 8.6% of specialty gross area (from 14.0% in June 2013, and 19.2% at IPO). Total portfolio occupancy by GLA increased from 96.6% to 97.8%. We remain confident of achieving specialty vacancy of below 5% by 31 December 2014, which will result in overall portfolio occupancy of over 98.5%.

The levels of incentives on new leases has increased over recent months, and are skewing toward capital fitout incentives, rather than rent-free periods. To date, the majority of these incentives have

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been paid for by Woolworths. As the Woolworths rental guarantee expires, SCA will need to fund more of these incentives going forward.

The Group's leasing strategy and focus remain to ensure we are securing the right tenant for the right location in order to create a sustainable and long-term tenant mix to optimise the income generation performance of the portfolio. SCA has increased its bias toward national tenants, being 61% of all specialty tenants. Where appropriate, SCA enters into leases or licences with a range of tenants including franchisees, kiosk operators and others typical of convenience based shopping centres.

Strong sales growth in non-discretionary retail segment

Anchor supermarket tenants in the Australian portfolio with a trading history of more than 24 months delivered 8.4% sales growth over the last 12 months, compared to 3% to 4% average comparable store sales growth across the entire Woolworths and Coles portfolios. For the 10 Australian supermarkets open for between 12 and 24 months, the sales growth rate was 14.7% over the same period. This result reflects the location of centres predominantly in growth corridors characterised by strong population growth, the relatively young age of the assets (average age of 5.4 years), and the resilience of the non-discretionary retail sector. New Zealand Supermarket sales performance also continued to be strong with stores open for more than 24 months delivering 5.9% sales growth over the last 12 months, and the seven stores open for between 12 - 24 months achieving sales growth of 8.3% over the same period.

While sales growth is likely to moderate to more normalised levels over time, the strong foot-traffic is a key attraction to specialty retailers and provides a solid base to deliver on the specialty leasing program.

Development properties

During the period, we completed the acquisition of four development properties from Woolworths: Lilydale (Victoria) in July 2013 (final completion payment $18.2 million), St. James (New Zealand) in November 2013 (final completion payment NZ$12.0 million), Kwinana Stage 2 (Dan Murphy's) in December 2013 (final completion payment $5.0 million), and Katoomba Marketplace in April 2014 (final completion payment $16.3 million).

There is now only one development property remaining to be completed by Woolworths, being Greystanes which is scheduled for completion late in calendar year 2014.

We have also commenced the first development opportunity from our existing portfolio, with the decision to refurbish the Lismore neighbourhood shopping centre at a cost of $7.5 million during FY15. As an older centre in a prime town-centre location, we expect that this refurbishment will meet our investment criteria and return hurdles.

In addition, we have identified development opportunities for a further 16 of our centres, with total estimated investment potential of over $100 million, to be completed progressively over the next five years.

Acquisitions and divestments

In November 2013 the Group acquired a portfolio of seven mature neighbourhood shopping centres in an off-market transaction with a private group for $145.7 million. We also divested seven non-core centres for $75.7 million, representing a 4.3% premium to book value.

We will continue to pursue value-accretive neighbourhood shopping centre acquisitions, with a bias toward off-market transactions that meet our financial and strategic investment criteria.

Strategy and outlook

The key short term priority for the Group remains the leasing of specialty vacancies in the existing portfolio. Based on progress to date, and the pipeline of leasing deals, the Group is on track to achieve a forecast portfolio occupancy level of over 98.5% by 31 December 2014.

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We continue to investigate and consider a range of potential strategic initiatives, but remain committed to our core strategy which is to deliver sustainable earnings and distributions growth, by optimising the performance of the existing portfolio, by executing further acquisitions of convenience-based shopping centres and by investing in selected development opportunities within our existing portfolio.

Earnings guidance

FY15 will require a continued focus on reducing specialty tenant vacancies across the portfolio as the Woolworths rental guarantee ends for most of our properties on 11 December 2014. Taking this into account, we expect FY15 Distributable Earnings to increase to 12.5 cpu (up 0.8% on FY14), and FY15 cash Distributions to be 11.3 cpu (up 2.7% on FY14).

We will provide an update on leasing progress at our AGM in November 2014, and will update earnings guidance at our half year results announcement in February 2015.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Thursday 21 August at 9:00am (AEST).

ENDS

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About SCA Property Group

SCA Property Group (SCP) includes two internally managed real estate investment trusts owning a portfolio of quality sub-regional and neighbourhood shopping centres and freestanding retail assets located across Australia and New Zealand. The Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited and companies in the Wesfarmers Limited group (such as Coles). The Group is a stapled entity comprising Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788).