SCA Property Group

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SCA PROPERTY GROUP ANNOUNCES FY20 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the year ended 30 June 2020.

Financial highlights:

- Statutory net profit after tax of $85.5 million, down by 22% compared to last year primarily due to COVID-19 earnings impact of $20.5 million, and investment property like-for-like valuation decrease of $87.9 million
- Funds From Operations ("FFO") of $140.8 million, down by 0.7% compared to last year
- Funds From Operations per unit ("FFOPU") of 14.65 cents per unit ("cpu") (1), down by 10.3% compared to last year
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $124.3 million, down by 2.4% compared to last year
- Distributions of 12.50 cpu, down by 15.0% compared to last year, a payout ratio of 99.4% of AFFO (1)
- Weighted average cost of debt currently 3.5% pa. Gearing of 25.6% as at 30 June 2020, down from 32.8% at 30 June 2019 primarily due to $279.3 million equity raised in April and May 2020
- Investment property portfolio value of $3,138.2 million, down by $8.8 million since 30 June 2019, due to like-for-like valuation decrease offsetting acquisitions
- Net tangible assets of $2.22 per unit as at 30 June 2020, down by 2.2% from $2.27 as at 30 June 2019 primarily due to the like-for-like valuation decrease
- Management expense ratio ("MER") of 0.38% as at 30 June 2020, up from 0.37% as at 30 June 2019 due to increased D&O insurance costs

Operational highlights:

- Supermarket moving annual turnover ("MAT") growth of 5.1% (up from 2.0% as at 30 June 2019) and discount department store MAT growth of 7.6% (up from 2.2% as at 30 June 2020)
- Portfolio occupancy of 98.2% by GLA as at 30 June 2020 (no change from 30 June 2019), with specialty vacancy down to 5.1% of GLA (from 5.3% as at 30 June 2019)
- Increased leasing activity in FY20 with 232 renewals (FY19: 215 renewals) and 146 new lease deals (FY19: 87 new leases). Average specialty tenant leasing spreads during the period were negative with average renewals at -1.1% and new leases at -7.7%
- One acquisition of Warner Marketplace Brisbane QLD completed during the period for $78.4 million (excluding transaction costs) and one development at Shell Cove NSW completed during the period for $4.8 million
- One divestment of Cowes VIC completed during the period for $21.5 million ($1.9 million above 30 June 2019 book value)
- Sale of properties in the "SURF 1" retail fund completed in December 2019, with winding up of that fund to be completed during FY21

(1) Based on weighted average units on issue of 960.9 million. FFO per unit is calculated as FFO of $140.8 million divided by 960.9 million. Payout ratio is calculated as total FY20 distributions declared of $123.5 million divided by FY20 AFFO of $124.3 million.

Chief Executive Officer, Anthony Mellowes, said: "Throughout the COVID-19 pandemic, our convenience-based centres have been relatively resilient. Our anchor tenants have experienced strong sales growth, turnover rent has increased and we have continued to conclude leasing deals with 75 renewals and 55 new lease deals completed during the COVID-19 period of March to June 2020. Specialty vacancy is stable at 5.1%, specialty occupancy costs are stable at 10.0% and approximately 92% of tenants are now open and trading including approximately 63% in Victoria."

"Nevertheless, the COVID-19 pandemic has impacted many of our specialty tenants who have experienced sales declines. We have provided rental assistance to over 600 tenants in accordance with the Mandatory Code of Conduct. Our rental collection rate was 77% during the COVID-19 period, and we will continue to pursue payment from tenants of all of the outstanding amounts not covered by agreed waivers or deferrals."

"Our focus continues to be to improve the tenancy mix in our centres with a bias toward non-discretionary categories, to maintain high retention rates on renewals, and to maintain low specialty vacancy by working pro-actively with our tenants in these challenging times. This will ensure that we have sustainable tenants paying sustainable rents, supporting our strategy of generating defensive, resilient cash flows to support secure and growing long term distributions to our unitholders."

Chief Financial Officer, Mark Fleming, said: "The COVID-19 pandemic has negatively impacted our financial results in the second half of the financial year. The direct impact of COVID-19 on FY20 FFO is $20.5 million, with the largest contributor to this being expected credit loss allowances due to increased rental arrears. In addition, the like-for-like valuation of our investment properties decreased by $87.9 million with $27.4 million of that decrease due to the expected impact of the COVID-19 pandemic on FY21 cash flows."

"In response to the COVID-19 pandemic we raised $279.3 million of new equity in April and May 2020 through an institutional placement and a unit purchase plan. The purpose of those equity raisings was to strengthen the Group's balance sheet and to provide funding flexibility to continue to deliver on the Group's strategy of investing in convenience-based supermarket-anchored centres as opportunities arise. As at 30 June 2020 we had cash and undrawn facilities of $622.8 million and our gearing was at 25.6% which is below the bottom end of our target range of 30%-40%. This means that we could fund approximately $300 million of acquisitions and still keep our gearing below 32.5%."

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $85.5 million, which was 22% below the same period last year. This was primarily due to a direct COVID-19 earnings impact of $20.5 million and an $87.9 million decrease in the like-for-like valuation of investment properties. The direct COVID-19 earnings impact of $20.5 million comprises $1.6 million of additional expenses due to COVID-19 such as cleaning and security, $4.5 million of waived rent that is not included in rental income, and an incremental expected credit loss allowance ("ECL") of $14.4 million against rental arrears.

Excluding non-cash and one-off items, Funds From Operations ("FFO") was $140.8 million, down by 0.7% compared to the same period last year. The main reason for this decrease was the COVID-19 earnings impact which offset the benefit of acquisitions. FFO per unit for the period was 14.65 cents, 10.3% below the same period last year primarily due to the dilutive effect of the equity raisings in April and May 2020.

Adjusted Funds From Operations ("AFFO") was $124.3 million, down by 2.4% on the same period last year. Maintenance capex of $6.0 million was slightly above the same period last year (FY19: $5.6 million), and leasing costs and fitout incentives of $10.5 million were higher than the previous year (FY19: $8.8 million) due to higher average incentives and an increased number of new lease deals completed.

The Group has not received any funds from the Australian Government under its JobKeeper scheme.

Property valuations

The value of investment properties decreased to $3,138.2 million during the period (from $3,147.0 million at 30 June 2019), primarily due to the acquisition of Warner Marketplace for $78.4 million (plus $5.0 million

transaction costs), completion of the Shell Cove Stage 3 development for $4.8 million, offset by the valuation decrease on like-for-like properties of $87.9 million and the disposal of the Cowes property for $21.5 million. The like-for-like valuation decrease was due to a $27.4 million allowance for the expected COVID-19 impact on FY21 cash flows, with the balance of the decrease due to a combination of capitalisation rate softening, valuation net operating income decreasing, and discounted cash flow valuations adopting more conservative let-up assumptions and lower market rent growth. The total portfolio weighted average capitalisation rate is now 6.51% (6.48% as at 30 June 2019), with sub-regional centres averaging 6.84% and neighbourhood centres averaging 6.39%.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.22, a decrease of 5 cpu or 2.2% from $2.27 as at 30 June 2019. This is primarily due to the like-for-like investment property valuation decrease, partially offset by an increase in the mark-to-market value of our USPP cross-currency interest rate swaps.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 25.6% as at 30 June 2020 (compared to 32.8% as at 30 June 2019). This is below our target range of 30-40% (with a preference to remain below 35% at this time). The decrease in gearing was largely due to the $279.3 million of new equity raised in April and May 2020.

At 30 June 2020, the Group had cash and undrawn facilities of $622.8 million, the weighted average cost of debt is 3.5%, the average maturity of our debt is 5.1 years, the percentage of debt fixed or hedged is 91.1% and the weighted average fixed/hedged maturity is 3.8 years.

Our earliest debt maturity is the A$ Medium Term Note of $225 million expiring in April 2021. Under the terms of the MTN it can be repaid (with appropriate notice) from October 2020 with no make whole obligation. The current intention is that the MTN will be repaid from existing cash, term deposits and undrawn debt facilities in October 2020.

Distributions

SCP aims to deliver secure and growing distributions to its unitholders. In January 2020, SCP paid an interim distribution in respect of the six month period to 31 December 2019 of 7.50 cpu. In August 2020 SCP will pay a final distribution of 5.00 cpu bringing the full year distribution to 12.50 cpu, an decrease of 15.0% on last year and representing a payout ratio of 99.4% of AFFO. This decreased distribution reflects the impact of the COVID-19 pandemic on AFFO in the second half of the financial year. The estimated tax deferred component for FY20 is 11%, which is lower than our expected normalised level of 20-25% primarily due to the timing of deductions associated with the ECL allowance.

The distribution reinvestment plan ("DRP") remained active for both the August 2019 and January 2020 distributions. The August 2019 DRP raised $13.0 million at $2.48 per unit, and the January 2020 DRP raised $27.9 million at $2.71 per unit (comprising a "natural" take-up by unitholders of $14.1 million and an underwritten amount of $13.8 million).

<u>Operational performance</u>

Portfolio occupancy

SCP had a portfolio specialty vacancy rate of 5.1% of GLA as at 30 June 2020, compared to 5.3% as at 30 June 2019 and our target range of 3-5%. Our portfolio occupancy rate was 98.2% and has remained relatively stable since December 2014.

Sales growth

Our portfolio has continued to generate sales growth throughout the COVID-19 pandemic to date. The comparable store sales MAT growth for the 12 months to 30 June 2020, for stores open more than 24 months was:

- Supermarkets: 5.1% (compared to 2.0% as at 30 June 2019)
- Discount department stores: 7.6% (compared to 2.2% as at 30 June 2019)
- Mini Majors: 2.9% (compared to -3.1% as at 30 June 2019)
- Specialty stores: -1.1% (compared to 1.8% as at 30 June 2019)
- Total portfolio: 4.2% (compared to 1.9% as at 30 June 2019)

Supermarket sales increased during the COVID-19 period as customers engaged in panic buying, shopped locally and ate more at home. Discount department stores sales also increased during the COVID-19 period due to panic buying and high demand for home and living categories. Mini Majors' sales growth improved with discount variety and pharmacy sales increasing due to COVID-19 buying activity. Specialty sales performance was volatile, with some categories performing well and others seeing a decrease in sales. The most negatively impacted categories were those that either closed voluntarily during the COVID-19 period (such as apparel stores) or were subject to government restrictions (such as cafes, restaurants, gyms, massage, nail bars and beauty).

Specialty key metrics

Despite COVID-19, our specialty tenants have been relatively resilient over the last six months:

- Sales productivity has increased to $8,229 per square metre (up from $8,010 as at 30 June 2019);
- Our rents remain amongst the lowest in the sector at $778 per square metre; and
- Specialty occupancy cost is 10.0% (down from 10.1% as at 30 June 2019).

Against a backdrop of COVID-19 and a softening in the broader retail market, our focus continues to be to:

- Improve tenancy mix with a bias toward non-discretionary categories;
- Maintain a high retention rate on renewals: 76% for the year to June 2020 (compared to 77% for the year to June 2019); and
- Maintain low specialty vacancy by working proactively with our tenants during these challenging times: 146 new deals done in the year to June 2020 (vs 87 in the year to June 2019).

This strategy has seen negative rent reversions and higher incentives during this period. During the year we completed 232 specialty renewals with an average negative rent reversion of -1.1%. We also completed 146 new lease deals with an average negative rent reversion of -7.7%. Average incentives on new lease deals have increased to 13.8 months on a new 5-year deal (up from 11.0 months in FY19) due to leasing difficult long term vacancies and a softening in the broader retail market.

Acquisitions, disposals and developments

During the period we completed the acquisition of Warner Marketplace in Brisbane QLD for $78.4 million, and the development of Shell Cove Stage 3 NSW for $4.8 million. We also sold Cowes for $21.5 million (9.7% above the June 2019 book value of $19.6 million).

In July 2020 we agreed terms to acquire Bakewell in Darwin NT for $33.0 million (implied fully-let yield of 7%), subject to due diligence and final valuation support. This property is expected to settle by September 2020.

Funds management

During the year we sold all five assets in the SURF 1 retail fund for $69.3 million ($0.9 million above the June 2019 book value), in accordance with the 5-year term set out in the original PDS. This fund is expected to deliver an IRR to investors of 11.0%, with a potential performance fee of $0.4 million to be realised once residual proceeds are distributed to unitholders. The wind-up process will be completed during FY21.

The SURF 2 retail fund sold its Mittagong property in June 2020 for $9.7 million ($0.1 million above 31 December 2019 book value), and the SURF 3 retail fund sold its Swansea property in July 2020 for $15.6 million (in line with 31 December 2019 book value). In both cases the proceeds were used to repay the secured debt facility and reduce gearing.

Strategy and outlook

Our primary focus in FY21 is to ensure that our centres emerge from the COVID-19 pandemic in a strong position, with sustainable tenants paying sustainable rents. This may mean continuing to offer waivers and deferrals to tenants that are part of our long-term tenancy mix plans, that leasing spreads may remain negative and that lease incentives may remain elevated.

We will continue to take a disciplined approach to acquisitions. Our balance sheet is in a strong position, with cash and undrawn debt facilities of $622.8 million and gearing of 25.6% which is below our target range. We note that demand for quality neighbourhood assets remains strong, with recent transaction capitalisation rates of less than 6%.

These initiatives will support our core strategy which is to generate defensive, resilient cash flows to support secure and growing long term distributions to our unitholders.

Earnings guidance

Due to the continued uncertainty created by the COVID-19 pandemic, we will not provide FY21 guidance at this time. We will continue to target a Distribution payout ratio of approximately 100% of AFFO.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 11 August 2020 at 10:00am (AEST).

This document has been authorised to be given to the ASX by the Board of SCP.

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 neighbourhood and sub-regional shopping centres located across Australia. The SCA Property Group invests in shopping centres predominantly anchored by non-discretionary retailers, with long term leases to tenants such as Woolworths Limited, Coles Group Limited and companies in the Wesfarmers Limited group. The SCA Property 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).