ASX / MEDIA ANNOUNCEMENT

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SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY17 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the six months ended 31 December 2016.

Financial highlights:

- Statutory net profit after tax of $204.7 million, up by 125.4% on the same period last year
- Funds From Operations ("FFO") of $53.5 million, up by 9.6% on the same period last year
- FFO adjusted for maintenance capex, incentives and leasing costs ("AFFO") of $49.0 million, up by 7.0% on the same period last year
- FFO of 7.29 cents per unit ("cpu") (1), up by 8.2% on the same period last year
- Distribution of 6.4 cpu, up by 6.7% on the same period last year, representing a payout ratio of 88% (1)
- Weighted average cost of debt reduced to 3.6%pa, weighted average debt maturity of 5.1 years, and 70% of drawn debt fixed or hedged as at 31 December 2016
- Australian portfolio value of $2,201.4 million, up by $313.4 million since 30 June 2016, largely due to acquisitions ($144.3 million) and revaluations ($150.6 million)
- Net tangible assets of $2.12 per unit, up by 10.4% from $1.92 per unit as at 30 June 2016
- Management expense ratio ("MER") of 0.48%, down from 0.51% as at 30 June 2016
- FY17 FFO per unit guidance increased to 14.6 cpu, and FY17 Distribution per unit guidance increased to 13.1 cpu

Operational highlights:

- Portfolio occupancy of 98.4% by GLA as at 31 December 2016
- Continuing healthy sales growth for specialty tenants of 3.7%pa, and mini-major tenants of 5.8%pa
- Completed the disposal of our 14 New Zealand assets for NZ$267.4m (A$255.9m)
- Five neighbourhood centre acquisitions completed during the period for $144.3 million
- 4.9% interest in Charter Hall Retail ("CQR") acquired for $83.4 million
- Construction commenced on developments at Kwinana near Perth WA (Coles third anchor) and Bushland Beach near Townsville QLD (new Coles-anchored neighbourhood centre)
- Bunnings signed agreement for lease over the ex-Masters tenancy at Mount Gambier

(1) Based on weighted average units on issue during the six months to 31 December 2016 of 734.1 million. FFO per unit is calculated as FFO of $53.5 million divided by 734.1 million. Payout ratio is calculated as distribution per unit (6.4 cents) divided by FFO per unit (7.29 cents).

Chief Executive Officer, Anthony Mellowes, said: “We are pleased to report another solid result for the six months to 31 December 2016. Our specialty and mini-major tenants continue to perform strongly, again recording healthy annual sales growth, despite the continuing subdued sales growth from our supermarket anchors. Our young centres have a lower specialty rent per square metre than more mature centres, and our average specialty occupancy cost is a sustainable 9.7%. We remain confident that we will be able to achieve increases in rent/sqm over the medium term. During the year we had 49 specialty tenant renewals across 5,311 sqm of GLA, and an average rental uplift of 7.6% was achieved. Comparable NOI growth of 2.9% was pleasing and we expect to continue to generate comparable earnings growth as we progress through our first rent renewal cycle from FY17 through to FY20.”

“We are pleased to have quickly completed the redeployment of our New Zealand sale proceeds during the half year by acquiring five more neighbourhood shopping centres in Australia for $144.3 million, and acquiring a 4.9% stake in CQR for $83.4 million. This asset recycling is consistent with our strategy of selling lower growth standalone assets and redeploying funds into higher growth domestic supermarket anchored shopping centres. While the competition to acquire quality neighbourhood shopping centres has increased, and yields continue to firm, we are confident that we can continue to leverage our relationships in and knowledge of the sector to source further off-market transactions that meet our investment criteria.”

“We continue to take advantage of the development opportunities in our portfolio. Construction has commenced on the $20.2 million expansion of Kwinana shopping centre including the introduction of Coles as a third anchor tenant. Construction has also commenced on the $19.6 million project to build a new Coles-anchored neighbourhood shopping centre at Bushland Beach. Both of these projects are expected to complete in first half FY18. Overall, we have identified around $150 million of development opportunities in our portfolio which we plan to complete progressively over the next five years.”

“We remain focused on capital management. During the period we increased the A$MTN notes on issue by $50m, we cancelled some interest rate swaps in conjunction with the sale of our New Zealand assets and we reactivated the distribution reinvestment plan. The weighted average cost of debt has reduced to 3.6%, the weighted average term to maturity of our debt is 5.1 years, 70% of our drawn debt is fixed or hedged, and gearing is 31.0% which is at the lower end of our target range.”

“Finally, during this current half year we look forward to launching our second retail fund, “SURF 2”, which will acquire two of our non-core assets, being Katoomba Marketplace and Mittagong Village, for $54.9 million.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $204.7 million, which was up by 125.4% on the same period last year, primarily due to a material increase in the value of investment properties.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $53.5 million, up 9.6% on the same period last year. Key drivers of this strong performance were the increase in specialty rent per square metre, acquisitions and the lower average cost of debt. FFO per unit for the period was 7.29 cents, 8.2% above the same period last year.

Adjusted Funds From Operations (“AFFO”) was $49.0 million, up by 7.0% on the same period last year. Maintenance capex of $1.7 million and leasing costs & fitout incentives of $2.8 million were slightly higher than the same period last year due to acquisitions.

Property valuations

The value of investment properties increased to $2,201.4 million during the period (from $1,888.0 million at 30 June 2016), due to a combination of acquisitions and valuation uplifts.

Acquisitions contributed $144.3 million. Stamp duty and other transaction costs were $8.3 million. Developments added $4.8 million (including $2.0 million on Kwinana and $1.2 million on Bushland Beach). Valuation uplifts contributed $150.6 million, with average capitalisation rates firming from 7.13% to 6.62%. The remaining $5.4 million uplift was primarily due to maintenance capex, fitout incentives and straight lining adjustments.

Net tangible assets

The Group's net tangible assets ("NTA") per unit is $2.12, an increase of 20 cpu or 10.4% from $1.92 as at 30 June 2016. This is primarily due to property valuations (21 cpu), mark-to-market of derivatives (-2 cpu), other undistributed profits (2 cpu), offset by the increased A$ value of our US$ debt (-1 cpu).

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 31.0% as at 31 December 2016 (compared to 34.0% as at 30 June 2016), comfortably within our gearing policy range of 30% to 40%.

During the half year we increased our A$MTN by $50 million and cancelled some interest rate swaps in conjunction with the sale of our New Zealand assets. At 31 December 2016, the Group had cash and undrawn facilities of $160.8 million.

As a result of these initiatives our weighted average cost of debt has reduced to around 3.6% as at 31 December 2016 (from 3.7% as at 30 June 2016), our weighted average term to maturity is 5.1 years, and 70% of our debt is fixed or hedged (from 68% at 30 June 2016).

Distributions

SCP aims to deliver sustainable and growing distributions to its unitholders. In January 2017, SCP paid an interim distribution in respect of the six month period to 31 December 2016 of 6.4 cpu which represents a payout ratio of 88%, and an increase of 6.7% on the prior year. The estimated tax deferred component is 10% which is down on the prior year due to capital gains on the sale of our New Zealand assets.

The distribution reinvestment plan was suspended for the August 2016 distribution due to the sale of our New Zealand assets, however we reactivated it for the January 2017 distribution, pursuant to which we raised $18.8 million of new equity at $2.18 per unit.

Operational performance

Portfolio occupancy

SCP had an average specialty vacancy rate of 4.8% of GLA as at 31 December 2016, an increase from 4.3% as at 30 June 2016 due to acquisitions, but still within our target range of 3% to 5%. The centres we acquired during the year had an average specialty vacancy of 9.2% as at 31 December 2016, so excluding those recently acquired centres the portfolio average specialty vacancy rate was 4.3%. Our portfolio occupancy rate has remained relatively stable since December 2014 at between 98.4% and 98.8%.

Centre optimisation

A key focus continues to be on centre optimisation. This will include some remixing of tenants, and preparation for renewal uplifts as specialty expiries occur over the next 2-3 years. Our specialty rent per square metre of $685pa is lower than industry benchmarks for our type of centres, our specialty occupancy cost is around 9.7%, and specialty sales growth is strong. As a result of this, we expect to be able to achieve rental renewal uplifts over coming years. During the half year we completed 49 specialty rent renewals, with an average rental uplift of 7.6% achieved and no incentives paid.

Strong underlying sales growth continues

Our centres continue to experience growth. The comparable store sales moving annual turnover ("MAT") growth for the 12 months to 31 December 2016, for stores open more than 24 months, was:

- Supermarkets: 0.3%
- Discount department stores: (2.0%)
- Mini Majors: 5.8%
- Specialty stores: 3.7%

Supermarket sales growth improved towards the end of the half year period, with November 2016 sales growth of 2.0% (vs. November 2015) and December 2016 sales growth of 2.4% (vs December 2015).

Acquisitions, disposals and developments

During the period we completed the sale of our 14 New Zealand assets for NZ$267.4 million (A$255.9 million) at an implied after-tax yield of less than 6%.

We redeployed these funds into the acquisition of five neighbourhood centres for $144.3 million, at an average implied capitalisation rate of 7.18%. Four of those centres are anchored by Coles, and one by Woolworths. As at 31 December 2016 (and after the sale of our New Zealand portfolio), 23% of our anchor tenants are owned by Wesfarmers Limited.

The acquisition of these neighbourhood shopping centres is consistent with our strategy of selling lower growth standalone assets and redeploying funds into higher growth domestic supermarket anchored shopping centres.

We also acquired a 4.9% interest in Charter Hall Retail ("CQR") for $83.4 million during the period. CQR holds a quality portfolio of shopping centres that are very similar in type to SCP's asset base. This was considered an efficient and accretive way to redeploy SCP's capital in the current environment, following the completion of the sale of our New Zealand assets.

During the period we commenced construction on our developments at Kwinana near Perth in Western Australia and at Bushland Beach near Townsville in North Queensland. The Kwinana development involves filling the previously vacant third anchor location with a new Coles supermarket at an all-in cost of $20.2 million. That development will solve many of the issues our specialty tenants have experienced at the centre, and should result in NOI uplift and capitalisation rate compression for that centre. The Bushland Beach development involves building a new Coles anchored neighbourhood shopping centre for an all-in cost of $19.6 million. With the land having been acquired for $5.5 million, we expect the completed centre valuation to be at least $25.1 million. Both of these developments are expected to be completed in first half FY18.

We continue to make progress in relation to a number of other potential developments. In total, we have identified 21 centres in our portfolio with development potential amounting to over $150 million of investment over the next 5 years.

Masters update

During the half year Woolworths Limited announced the closure of all of its Masters stores, including our store at Mount Gambier, which is the only Masters store in the SCA portfolio.

We are pleased to report that we have signed an Agreement for Lease with Bunnings to occupy the former Masters premises for an initial term of 12 years at a commencing annual net rental of $0.3 million less than Masters. SCA has also entered into an agreement with Home Consortium and with Woolworths Limited which provides for a rental top up for the shortfall in base rent until expiry of the Masters lease in 2035 or the sale of the centre by SCA, irrespective of whether Bunnings exercises its options to renew.

Development consent has been obtained and the premises are currently being converted to a Bunnings store. The Masters lease will be terminated on the date of commencement of the new Bunnings lease.

Strategy and outlook

A key priority for the Group in FY17 is to optimise the earnings from our centres by continuing to improve our tenancy mix and by ensuring that centre standards are maintained at a high level. This should support ongoing strong sales growth for our specialty tenants, which in turn should enable further positive rent reversions and increasing rent per square metre over the next few years.

We remain committed to our core strategy which is to deliver sustainable earnings and distribution growth to our unitholders by optimising the earnings from the existing portfolio, by executing further acquisitions of convenience-based shopping centres, by investing in value enhancing development opportunities within our existing portfolio and by growing our funds management business.

Earnings guidance

Our guidance for FY17 FFO is 14.6 cpu (6.2% above FY16), and our guidance for FY17 Distributions is 13.1 cpu (7.4% above FY16). This has increased from the original FY17 guidance of 14.0 cpu for FFO and 12.6 cpu for Distributions due to the redeployment of the New Zealand sale proceeds occurring more quickly than previously anticipated, and the resolution of the ex-Masters store at Mount Gambier.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 7 February 2017 at 10:00am (AEST).

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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. 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).