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SCA PROPERTY GROUP ANNOUNCES FY22 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") is pleased to announce its results for the year ended 30 June 2022 ("FY22").

Financial highlights:

- Net Profit After Tax of $487.1 million, up by 5.2% compared to last year ("FY21") (1)
- Funds From Operations ("FFO") of $192.7 million, up by 21.2% compared to FY21
    - FFO per unit of 17.40 cents per unit ("cpu") (2), up by 17.9% compared to FY21
- Adjusted Funds From Operations ("AFFO") of $169.5 million, up by 24.8% compared to FY21
    - AFFO per unit of 15.30 cpu, up by 21.3% compared to FY21
- Distributions of 15.20 cpu, up by 22.6% compared to FY21, a payout ratio of 99.8% of AFFO (2)
- Gearing of 28.3% at 30 June 2022, down from 31.3% at 30 June 2021 primarily due to valuation increases
- Average cost of debt for FY22 was 2.5% (FY21: 2.4%), with 69.6% of debt fixed or hedged at 30 June 2022 (30 June 2021: 50.8%). Post year end, the percentage of debt fixed or hedged was increased to 81%
- Investment property portfolio value of $4,460.9 million, up by $460.9 million since 30 June 2021, due to a valuation increase of $421.0 million and acquisitions of $347.5 million, offset by divestments of $307.6m
- Net tangible assets of $2.81 per unit at 30 June 2022, up by 11.5% from $2.52 at 30 June 2021 primarily due to the investment property valuation increase
- Management expense ratio ("MER") of 0.38% at 30 June 2022, down from 0.41% at 30 June 2021 due to increased assets under management

Operational highlights:

- Total comparable store MAT sales are 10.0% higher than pre-COVID (3)
- Portfolio occupancy of 98.1% by GLA at 30 June 2022 (compared to 97.4% at 30 June 2021), with specialty vacancy of 5.0% of GLA (compared to 5.1% at 30 June 2021)
- Leasing spreads improved to 2.0% in FY22, compared to (0.4%) in FY21, including 3.3% in the second half of the financial year
- Seven acquisitions for $347.5 million (excluding transaction costs) were completed during the year
- "SURF 3" fund was wound up during the period, crystalising an internal rate of return of 11% per annum for unitholders
- New fund with GIC ("SCA Metro Fund") commenced in April 2022. SCP divested seven seed assets to the fund for $284.5 million. Initial target fund size is $750 million

(1) Refer to the Financial Report for the year ended 30 June 2022 released today
(2) Based on weighted average units on issue of 1,107.7 million. FFO per unit is calculated as FFO of $192.7 million divided by 1,107.7 million. Payout ratio is calculated as FY22 distributions declared of $169.2 million divided by FY22 AFFO of $169.5 million
(3) Comparable tenant MAT as at 30 June 2022 compared to 31 December 2019

Chief Executive Officer, Anthony Mellowes, said: “Over the last twelve months, our convenience-based centres have remained resilient. Our tenant sales are now 10% above pre-COVID levels. Leasing spreads and cash collection rates were impacted by lockdowns in New South Wales and Victoria during the first half of the year, but improved in the second half. We have made solid progress on our sustainability program, including completing our LED rollout, and the installation of solar panels on our WA assets.”

Chief Financial Officer, Mark Fleming, said: “Pleasingly, our earnings per unit is now above the pre-COVID level. This has been the result of solid operational performance in a challenging environment and a strong balance sheet enabling investment in acquisitions, developments and funds management. Our gearing is at the lower end of our target range and post-year end 81% of our debt is fixed or hedged.”

“We have also progressed our funds management strategy during the year, commencing a new joint venture fund with GIC (named the SCA Metro Fund), and successfully winding up our final SURF fund. The SCA Metro Fund positions us to access relatively lower return metropolitan neighbourhoods, in partnership with a high quality and globally recognised partner, while growing asset-light management fee income. The GIC partnership is a strong endorsement of our expertise in the neighbourhood shopping centre segment.”

Financial performance

Earnings

The Group recorded a statutory net profit after tax of $487.1 million, which includes significant movements in non-cash fair value adjustments, including a $354.0 million increase in the like-for-like fair value of investment properties.

Excluding non-cash and one-off items, Funds From Operations (“FFO”) was $192.7 million, up by 21.2% compared to FY21. The main reasons for this increase were acquisitions and comparable net operating income (“NOI”) growth.

Adjusted Funds From Operations (“AFFO”) was $169.5 million, up by 24.8% compared to FY21. Maintenance capex of $12.9 million was higher than the prior period (FY21: $9.7 million) due to the increased size and ageing of the portfolio, while leasing costs and fitout incentives of $10.3 million were slightly lower than the prior period (FY21: $13.5 million) due to a deliberate strategy to allow an increase in holdovers during the year.

Property valuations

The value of investment properties increased to $4,460.9 million during the period (from $4,000.0 million at 30 June 2021), due to acquisitions of $347.5 million and a valuation increase of $421.0 million, offset divestments of $307.6 million. The valuation increase included a like-for-like increase of $354.0 million plus transaction costs of $17.3 million, net capital expenditure and straight lining net of amortisation of $13.1 million and development spend of $36.6 million. The like-for-like increase was primarily due to capitalisation rate tightening by 47bps.

The total portfolio weighted average capitalisation rate is now 5.43% (5.90% as at 30 June 2021), with sub-regional centres compressing to 5.87% (from 6.35% as at June 2021), neighbourhood centres compressing to 5.28% (from 5.77% as at June 2021) and freestanding centre compressing to 4.63% (5.50% as at 30 June 2021).

Net tangible assets

The Group’s net tangible assets (“NTA”) per unit is $2.81, an increase of 29 cpu or 11.5% from $2.52 at 30 June 2021. This is primarily due to the like-for-like investment property valuation increase.

Capital management

The Group has maintained a prudent approach to managing its balance sheet. Gearing was 28.3% at 30 June 2022 (compared to 31.3% at 30 June 2021). This is below the lower end of our target range of 30-40% (with a preference to remain below 35% at this point in the cycle). The decrease in gearing was primarily due to the valuation increase during the year.

At 30 June 2022, the Group had cash and undrawn facilities of $452.7 million, the average maturity of our debt was 5.3 years, the percentage of debt fixed or hedged was 69.6% and the weighted average fixed/hedged maturity was 4.9 years. Our average cost of debt for FY22 was 2.5%. We have no debt maturities until June 2024.

In August 2022, we amended a $150.0 million interest rate swap expiring in February 2032 at zero cost to a $250.0 million interest rate swap expiring in July 2024. As a result of this, at 15 August 2022, the fixed/hedged percentage increased to 81% and the fixed/hedged maturity has decreased to 3.0 years.

Distributions

SCP aims to deliver secure and growing distributions to its unitholders through the cycle. Distributions declared in respect of FY22 were 15.20 cpu compared to 12.40 cpu in FY21, an increase of 22.6%. The estimated tax deferred component for the FY22 distributions is (3%), which is lower than our expected normalised level of 20-25% due to the capital gains from the sale of $284.5 million properties to the SCA Metro Fund.

The distribution reinvestment plan (“DRP”) remained active for both the January 2022 and August 2022 distributions. The January 2022 distribution raised $17.5 million at $2.88 per unit, representing a take-up rate of 21.9%, while the August 2022 distribution was underwritten to 50% and will raise $44.7 million at $2.80 per unit (natural take-up was 23.8%)

Operational performance

Portfolio occupancy

SCP had a portfolio occupancy rate of 98.1% at 30 June 2022 (30 June 2021 was 97.4%) and the specialty vacancy rate was 5.0% of GLA (30 June 2021 was 5.1%). The increase in portfolio occupancy was driven by re-leasing of the former Gateway Target vacancy (with a new grocer/deli) and acquisitions with higher occupancy levels.

Sales growth

Comparable store sales MAT growth for the 12 months to 30 June 2022 was 1.3%. Discount Department Stores recorded a decline of (6.1%) due to unusually strong growth in the prior period. Sales for all tenant categories are higher than the pre-COVID period, with total portfolio MAT at 30 June 2022 being 10.0% higher than as at 31 December 2019.

Specialty key metrics

Our specialty tenants have remained resilient during the period:

- Sales productivity is $9,865 per square metre;
- Our rents remain amongst the lowest in the sector at $793 per square metre; and
- Specialty occupancy cost is 8.7%.

Our leasing strategy is focused on:

- Taking a considered position on tenants holding over while targeting positive renewal spreads and maintaining a high retention rate on renewals;
- Reducing specialty vacancy; and
- Continuing to remix toward non-discretionary categories.

Leasing spreads were 2.0% in FY22 (compared to -0.4% in FY21), including 3.3% in the second half of the financial year. We completed 252 leasing deals during the year, slightly lower than usual due to our deliberate strategy around holdovers. We expect to continue to achieve positive leasing spreads in FY23.

Acquisitions, disposals and developments

During the year, we completed seven acquisitions of convenience-based shopping centres and some adjacent sites for $347.5 million (excluding transaction costs). We also divested Ballarat (VIC) for $23.1 million and seven centres for $284.5 million to the SCA Metro Fund.

In July 2022, we settled the purchase of five convenience-based shopping centres from Primewest for a combined purchase price of $180.0 million (excluding transaction costs).

Our development pipeline continues to progress, with the Soda Factory in Brisbane (QLD) redevelopment successfully completed in December 2021.

Funds management

In April 2022, we established a new fund called the “SCA Metro Fund” in partnership with GIC. The fund is owned 80% by GIC and 20% by SCP. SCP is the Property Manager and Investment Manager for the fund. The fund targets metropolitan neighbourhood assets and has an initial target gross asset value of $750 million. The fund was seeded with seven assets from SCP for $284.5 million. In July 2022, the fund acquired a neighbourhood shopping centre at Beecroft in metropolitan Sydney (NSW) for $65.0 million, bringing gross asset value to $349.5 million.

During the year we wound up the SURF 3 fund, crystalising an 11% per annum IRR for investors, and generating performance fee of $0.4 million.

Sustainability

The Group has set itself a range of sustainability targets including to achieve Net Zero for scope 1 and 2 emissions by FY30. During the year we have invested $17.5 million in sustainability initiatives, which are expected to meet our investment hurdles. We have now completed 100% of LED lighting across our portfolio, and completed the installation of 6.22 MW of solar panels on our WA centres. We have also achieved a 6 star NABERS rating for our head office and improved our GRESB rating score.

More information is provided in the Group’s FY22 Sustainability Report that has been lodged with ASX and can be found on the Group’s website at https://www.scaproperty.com.au/investor/.

Strategy and outlook

Our focus continues to be to serve our local communities for their everyday needs, partner with our supermarket anchors to provide a convenient supermarket offering (including online fulfilment), actively manage our centres to ensure that we have sustainable specialty tenants paying sustainable rents, and execute on our sustainability initiatives.

We will continue to take a disciplined approach to acquisitions, progress our development pipeline, and grow the SCA Metro Fund.

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

SCP has a proven track record of delivering growing long-term returns to unitholders. In FY23, our earnings are expected to be negatively impacted by increases in floating interest rates. Our guidance for FY23 FFO per unit is 17.0 cpu and for FY23 AFFO per unit is 15.0 cpu.

This guidance assumes that there are no further acquisitions (either on balance sheet or in the SCA Metro Fund), and that the weighted average 3-month BBSW for FY23 will be 3.0%.

A webcast of the investor briefing will be available at www.scaproperty.com.au on Tuesday 16 August 2022 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).