

## ASX / MEDIA ANNOUNCEMENT

14 February 2014

# SCA PROPERTY GROUP ANNOUNCES FIRST HALF FY14 RESULTS

SCA Property Group (ASX: SCP) ("SCP" or "the Group") announces its results for the six months ended 31 December 2013.

### Financial highlights:

- Statutory net profit after tax of \$43.0 million
- Distributable Earnings<sup>(1)</sup> of \$39.5 million, or 6.1 cents per unit ("cpu")
- Distribution of 5.4 cpu, implying a payout ratio of 88.5% (compared to 86% for the prior half year)
- Debt facilities re-financed, reducing the weighted average cost of debt to 4.8% pa and extending weighted average maturity to 4.0 years
- Portfolio value of \$1,638.3 million<sup>(2)</sup>, up by \$133.9 million since 30 June 2013
- Net tangible assets of \$1.59 per unit, up from \$1.57 per unit as at 30 June 2013
- Management expense ratio ("MER") of 0.65%, down from 0.71% for the six-and-a-half month period to 30 June 2013 (annualised)
- On-market buyback for up to 5% of issued units at a price of up to NTA (currently \$1.59 per unit)
- FY14 Distributable Earnings guidance increased to 12.3 cpu, an increase on the original PDS forecast (11.8 cpu) of 4.2%
- FY14 cash Distributions guidance increased to 11.0 cpu, an increase on the original PDS forecast (10.4 cpu) of 5.8%

### Operational highlights:

- Strong underlying sales growth, with Australian Supermarket "MAT" sales growth<sup>(3)</sup> of 9.6% pa for stores open more than 24 months, 14.9% pa for stores open between 12 and 24 months, and 9 anchor tenants now contributing turnover rent
- Solid specialty leasing progress, with specialty vacancy reduced to 11.1% of specialty gross lettable area (from 19.2% in December 2012). Total portfolio occupancy is now 97.1%
- Active portfolio management, with 7 centres contracted for acquisition during the period, and 7 centres contracted for sale (for \$3.1 million greater than book value).

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") and rental guarantee  
3. MAT stands for "Moving Annual Turnover" and is calculated as sales growth over the 12 months to 31 December 2013 for the 34 stores that have been open for more than 24 months.

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Chief Executive Officer, Anthony Mellowes, said: "We continue to build on the solid foundations that have been laid over the last 12 months, and are pleased to be able to deliver another strong result."

"Our primary focus has been to reduce our specialty vacancy level, and I'm pleased to report that our new leasing team has made substantial progress during the six month period, agreeing terms over 4,107 sqm of space, and reducing our specialty vacancy as a percentage of GLA from 19.2% in December 2012 to 11.1% as at 31 December 2013. To get to the mid-point of our target 3% to 5% specialty vacancy range, we need to lease another 8,600 sqm of space before December 2014, and we are on track to achieve this target."

"We are also pleased with the performance of our portfolio, demonstrated by the strong sales growth being delivered by our Australian Supermarket anchor tenants, with MAT growth of 9.6% pa for the 34 stores that have been open more than 24 months. We now have 9 anchor tenants generating turnover rent, including one of the original stores acquired from Woolworths, assisting to improve our overall earnings growth rate."

"In addition, we have continued to grow through accretive acquisitions, with the November 2013 purchase of seven quality neighbourhood shopping centres in Tasmania on a cap rate of 8.0%. This follows the acquisition of seven centres in Victoria in June 2013. These off-market acquisitions further diversify our portfolio, enhance our growth profile, and provide tangible evidence of SCP's growth potential in the fragmented neighbourhood segment. We also continued to actively manage our portfolio, with the divestment of 7 smaller centres on an average capitalisation rate of 7.3% and \$3.1 million above the June 2013 book value."

## **Financial performance**

### ***Earnings***

The Group recorded a statutory net profit after tax of \$43.0 million. Distributable Earnings after tax was \$39.5 million (or 6.1 cpu), and a distribution of 5.4 cpu has been paid.

Rental income for the period was \$77.9 million, benefiting from the reduction in specialty vacancy, new casual mall leasing revenues, and the commencement of turnover rent from a number of our major anchor tenants.

Property operating expenses are tracking slightly higher than expected due to higher statutory property valuations resulting in higher statutory charges. We continue to manage all aspects of our property operating expenses, and overall we are operating at or better than industry benchmarks.

Our MER reduced to 0.65% (from 0.71%), helped by reduced registry costs and increased asset base.

Net interest expense benefited from the decline in floating rates during the period, and we expect to see the benefits of our recent refinancing flow through into the second half result.

The Woolworths rental guarantee is designed to compensate us for specialty vacancy in the properties we acquired from Woolworths as if they were 100% leased. As such, we have again included a notional Structural Vacancy Allowance in our calculation of Distributable Earnings. This allowance has been set at 4% of fully-leased specialty income, to adjust for a "normalised" level of specialty vacancy. While we are confident that we will achieve the normalised level of vacancy, there is a risk that our FY15 earnings could be impacted if we are not able to do so before the Woolworths rental guarantee begins to expire in December 2014. We will continue to review our progress on specialty leasing, and the quantum of the structural vacancy allowance, with the intention that it will be removed once the Woolworths rental guarantee ends.

### ***Property valuations***

The value of investment properties increased to \$1,638.3 million during the period (from \$1,504.4 million at 30 June 2013), principally through acquisitions. In Australia, the value of properties increased to \$1,342.4 million (from \$1,210.5 million as at 30 June 2013). In New Zealand, the value of properties increased to A\$207.1 million (from A\$174.2 million as at 30 June 2013). In addition, there are \$31.8 million of properties under contract for sale and \$57.0 million of investment properties under development. Australian cap rates tightened from 8.07% to 8.03% and New Zealand cap rates tightened from 7.88% to 7.70%.

### ***Net tangible assets***

The Group's net tangible assets ("NTA") per unit has increased to \$1.59 cpu (from \$1.57 cpu as at 30 June 2013), due mainly to positive property revaluations, and a stronger New Zealand dollar.

### ***Capital management***

The Group maintains a prudent approach to managing the balance sheet. Gearing is 33.5% as at 31 December 2013 which is comfortably within the policy range of 25%-40%. At 31 December 2013, the Group had cash and undrawn facilities of \$40.7 million. Following completion of the sales of Mildura (expected in March 2014) and Bright (settled on 10 February 2014), gearing is expected to reduce. Gearing will subsequently increase following the final settlements for Katoomba (April 2014), Greystanes and Clarendon (October 2014), to between 34% and 35% by October 2014 (excluding any buyback impact).

As at 31 December 2013, the Group's all-in cost of debt was around 4.8% pa, weighted average debt maturity was 4.0 years, and 64% of the Group's debt was hedged.

### ***Distributions***

SCP paid a distribution in respect of the period of 5.4 cpu on 30 January 2014, representing a payout ratio of 88.5% of Distributable Earnings. The tax deferred component was 14% which is below the normalised level due to capital gains realised on the disposal of properties during the half.

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 after taking into account an allowance for structural vacancy during the period of the rental guarantee as well as allowing for ongoing future capital expenditure.

### **Operational performance**

#### ***Specialty leasing on track***

SCP has further reduced its specialty vacancy to 11.1% of specialty gross area (from 19.2% in December 2012). During the six months to 31 December 2013 we agreed terms over 4,107 sqm of specialty store space. Total portfolio occupancy increased from 96.6% to 97.1%. We remain confident of achieving normalised specialty vacancy of between 3% and 5% by 31 December 2014.

The Group's leasing strategy is 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 performance of the portfolio.

#### ***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 9.6% pa sales growth over the last 12 months, compared to 3% to 4% pa average comparable store sales growth across the Woolworths and Coles portfolios. For the 13 Australian supermarkets open for between 12 and 24 months, the sales growth rate was 14.9% pa 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 with an average age of 5.1 years, and the resilience of the non-discretionary retail sector. New Zealand Supermarket sales performance was also strong with stores open for more than 24 months delivering 6.0% sales growth over the last 12 months, and stores open for between 12 - 24 months achieving sales growth of 14.0% 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 retailers and provides a solid base to deliver on the specialty leasing program.

### ***Development properties***

During the period, we completed the acquisition of three development properties from Woolworths: Lilydale (Victoria) in July 2013 for \$80.5 million, St. James (New Zealand) in November 2013 for NZ\$12.0 million, and Kwinana Dan Murphy's in December 2013 for \$5.0 million.

There are now only two development properties remaining to be completed by Woolworths: Katoomba (scheduled for April 2014) and Greystanes (scheduled for October 2014).

### ***Tasmanian acquisition and associated 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. The acquisition was funded by the divestment of 7 smaller centres for \$75.7 million, a \$10 million placement to the vendor, and the balance by drawing on existing debt facilities.

The acquisition is expected to be accretive to the Group's future earnings and property income growth profile. Given the mature nature of the centres, most anchor tenants are achieving sales levels close to or above their turnover rent thresholds. Specialty tenants generally have fixed annual rental increases of close to 4% pa.

The acquisition further demonstrated the Group's ability to originate accretive off-market transactions that complement the existing portfolio.

### **On-market buyback**

SCP's stapled units have recently been trading at a discount to net tangible assets. At current price levels, a buyback of SCP staples units would be accretive to both earnings and NTA. For this reason, we have initiated the regulatory approval process to allow SCP to commence an on-market buyback for up to 5% of our issued capital (approximately \$50 million) at a price of up to NTA (currently \$1.59 per unit) over the next 12 months. We intend to continue to pursue attractive growth opportunities as and when they arise.

### **Strategy and outlook**

The key 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 forecast stabilised occupancy levels before the end of the rental guarantee period.

We continue to focus on achieving sustainable earnings and distributions growth, by both optimising the performance of the existing portfolio, and by executing further acquisitions of convenience-based shopping centres.

## **Earnings guidance**

FY14 Distributable Earnings guidance is increased to 12.3 cpu (up from 12.2 cpu), and Distribution guidance is increased to 11.0 cpu (up from 10.8 cpu). Our guidance for FY14 is now 4.2% above the original PDS forecast (11.8 cpu), and our distribution is 5.8% above (10.4 cpu).

This increase reflects greater confidence in our full year result as we get closer to the end of the period, as well as the benefit of the recently announced debt refinancing and Tasmanian portfolio acquisition.

A webcast of the investor briefing will be available at [www.scaproperty.com.au](http://www.scaproperty.com.au) on Friday 14 February at 11:30am (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).*

*Retail unitholders should contact SCA Property Group Information Line on 1300 318 976 (or +61 3 9415 4881 from outside Australia) with any queries.*