

ASX Release

Charter Hall Social Infrastructure REIT Results for the Half Year Ended 31 December 2019

12 February 2020

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Charter Hall Social Infrastructure REIT ("CQE") today announced its results for the half year ended 31 December 2019. Key financial and operational highlights for the period are:

Financial Highlights

- Operating earnings of \$25.5 million, up 20.3% on the previous corresponding period ("pcp");
- Operating earnings of 8.5 cents per unit, up 2.4% on pcp;
- NTA per unit of \$3.05, up 3.0% from \$2.96 per unit at 30 June 2019;
- Distribution of 8.35 cents per unit, up 4.4% on pcp;
- Statutory profit of \$49.0 million, up 16.1% on pcp; and
- Balance sheet gearing of 24.9% with undrawn debt capacity of \$179.5¹ million.

Operating Highlights

- 40 new 20-year leases agreed² with Goodstart Early Learning ("Goodstart") on improved terms for both parties and 5 new 15-year leases with other tenants;
- Settlement of 7 existing childcare properties for \$41.6 million, with a further 8 existing childcare properties under contract for \$45.9 million;
- 9 existing assets were sold for a total of \$13.8 million at a yield of 7.0% and a premium to book value of 9.9%; and
- Development pipeline of 30 sites, with a forecast completion value of \$184.8 million.

Charter Hall Social Infrastructure REIT's Fund Manager, Travis Butcher said: "CCS funding has been a positive for the industry through increased usage and overall affordability. This has provided additional confidence in the market, which has allowed CQE to negotiate 45 new leasing transactions for between 15 and 20 years, reducing the reliance on CPI for rental growth. We will continue to assess the pipeline of opportunities to provide investors with stable and secure income and capital growth."

Property Portfolio Performance

During the period, CQE has focussed on improving portfolio quality and tenant covenants through a combination of new leasing transactions, acquisitions, disposals and completion of developments.

This included securing 40 new 20-year leases² with Goodstart on improved terms for both parties, including fixed annual increases and 5 new 15-year leases with other tenants. In addition, 37 of 40 five-year options were renewed by operators, demonstrating the low substitution risk of these assets.

¹ As at 12 February 2020 based on credit approved terms.

² Subject to documentation of Goodstart leases.

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Combined with other portfolio activity, this has resulted in a significant improvement in the portfolio metrics as follows:

- Increase in WALE to 11.7³ years from 9.9 years;
- Reduced reliance on CPI based reviews reduced to 41% in FY21; and
- Reduction in the lease expiries within the next five years to 9.0%.

Acquisitions / Development Program

Acquisition activity during the period included the settlement of 7 existing childcare properties for \$41.6 million at a purchase yield of 6.3% with a further 8 existing childcare properties contracted for \$45.9 million at a purchase yield of 6.5%. All of the contracted properties are expected to settle in the second half of FY20. These acquisitions are all in strategic locations with strong childcare fundamentals and have strong lease covenants with quality tenants⁴ and average lease expiries of 16.5 years.

CQE's development pipeline comprises 30 properties with a forecast completion value of \$184.8 million. It is forecast that 9 developments will complete in the second half of FY20 and 20 in FY21 which will improve the quality of the portfolio and add to the earnings profile of CQE.

Moving forward, CQE's strategic preference is for existing centres and turnkey assets which provide immediate accretion. We are continually assessing a pipeline of both childcare and social infrastructure opportunities consistent with CQE's existing property attributes.

Property Valuations

During the period, 361 properties were valued, which resulted in a \$1.3 million or 2.8% increase in valuations. Overall yield compression of 10 basis points was achieved across the portfolio decreasing the portfolio yield from 6.2% at June 2019 to 6.1% at December 2019.

During the period, CQE adopted a 2-year independent revaluation cycle down from 3 years.

Capital Management

In February 2020, CQE increased its debt facilities to \$500⁵ million providing undrawn capacity of \$179.5 million to fully fund contracted existing property acquisitions (\$45.9 million) and the future development pipeline (\$72.8 million).

CQE has diversified funding sources with no debt maturity until February 2023 and a weighted average debt maturity of 4.3⁵ years including a \$100 million, institutional facility with AustralianSuper.

Childcare Market

The new Child Care Subsidy ("CCS") introduced in July 2018 has been a positive for the industry through increased usage and overall affordability. Long day care ("LDC") usage increased by 4.0% (29,930 children) from September 2018 to September 2019 and is up 12.5% since the CCS was introduced⁶. After the initial 11.8% fall in national childcare costs (impact of CCS) in the September 2018 quarter, childcare prices have climbed by 8.6% to the December 2019⁷ quarter.

As at 31 December 2019, there are 7,894⁸ LDC centres in Australia, an increase of 319 (4.2%) in CY19. Rolling annual growth since December 2015 in LDC centres has been 3.7%⁶, consistent with the growth in children using LDC centres of 3.7%⁶ over the corresponding period. Notwithstanding short-term fluctuations, the childcare market continues to remain well balanced with underlying demand meeting new supply.

³ Subject to documentation of Goodstart leases.

⁴ 9 of 15 acquisitions are leased to ASX listed tenants.

⁵ As at 12 February 2020 based on credit approved terms.

⁶ Child Care in Australia – Quarterly Reports.

⁷ ABS 6401.0 Consumer Price Index, Australia – Child Care Australia, December 2019.

⁸ ACECQA data.

Strategy and Outlook

CQE will continue with its strategy to provide investors with stable and secure income and capital growth. As part of this strategy, CQE continues to focus on enhancing income sustainability and resilience by improving the quality of tenants and leases within the diversified portfolio. New acquisitions will be consistent with the following attributes:

- specialist use with limited competition and low substitution risk;
- strategic locations with high underlying asset values; and
- predominantly triple net structure with minimal capex leakage.

CQE reaffirms that based on continued tenant performance and barring any unforeseen events and no material change in current market conditions, CQE's guidance for FY20 operating earnings remains unchanged at 17.0 – 17.2 cents per unit, which represents 3% – 4% annual growth on FY19 operating earnings per unit. The FY20 distribution guidance is 16.7 cents per unit with CQE continuing to pay quarterly distributions.

Investor Webcast and Teleconference

Management invites investors to join a webcast/teleconference where CQE's results and presentation will be discussed. If you are dialling into the conference call, please ensure to dial the numbers below at least 5 minutes prior to commencement of the briefing.

Date: Wednesday, 12 February 2020
Start Time: 10.00am AEDT
Dial In Numbers: Australia Toll-Free: 1800 148 258
International: +61 2 8038 5271
Conference ID: 4987346#

Pre-register for webcast: <https://edge.media-server.com/mmc/p/i4ap8gyz>

Charter Hall Social Infrastructure REIT (ASX: CQE)

Charter Hall Social Infrastructure REIT is the largest Australian ASX-listed real estate investment trust (A-REIT) that invests in childcare properties.

Charter Hall Social Infrastructure REIT is managed by Charter Hall Group (ASX:CHC). With over 28 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – office, retail, industrial and social infrastructure.

Operating with prudence, we've carefully curated a \$38 billion plus diverse portfolio of over 1,100 high quality, long leased properties. Partnership and financial discipline are at the heart of our approach. Acting in the best interest of customers and communities, we combine insight and inventiveness to unlock hidden value. Taking a long term view, our \$6.5 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

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