Charter Hall

ASX Release

Charter Hall Retail REIT 1H FY20 Results and Equity Raise

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Not for release to US wire services or distribution in the United States

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Charter Hall Retail REIT (ASX:CQR) (CQR or the REIT) today announced its 1H FY20 results for the period ended 31 December 2019.

Key financial results:

- Statutory profit of $66.7 million
- Operating earnings of $70.2 million or 15.88cpu up 1.7% on prior corresponding period (pcp)
- Distribution of 14.52cpu up 1.7% on pcp
- Balance sheet gearing of 33.3%[1]
- Weighted average debt maturity of 4.4 years, no debt maturing until FY22
- Moody's affirmed Baa1 issuer rating with stable outlook

Operating highlights:

- Portfolio occupancy maintained at 98.1%
- Like-for-like net property income (NPI) growth of 2.2%, up from 2.1% on pcp
- 4.5% Supermarket MAT growth[2], up from 4.0% in June 2019
- 2.1% Specialty MAT growth, up from 0.7% in June 2019
- 3.6% Total MAT growth[3], up from 2.8% in June 2019
- Supermarkets in turnover increased to 58%[4], up from 56% in June 2019
- 123 specialty leases renewals and 99 new leases delivering improved positive specialty leasing spreads of 4.1%
- Portfolio WALE increased to 6.9 years and majors WALE increased to 11.1 years from 6.5 years and 10.4 years respectively at June 2019
- Portfolio cap rate of 6.11%, down from 6.18% at June 2019, reflecting stable shopping centre valuations and the introduction of the BP portfolio
- Acquired 20% interest in two Sydney metropolitan convenience centres Pacific Square, Maroubra and Bass Hill Plaza along with 14.7%[5] interest in the BP portfolio of 225 Long WALE convenience retail centres

[1] Pro forma, adjusted for contracted divestments: Carnarvon, WA and Erindale, ACT (settled in January 2020) and impacts from DRP
[2] Comparable sales for stores in turnover, noting some major tenants reported a 53 week year for CY19 (estimated to be approximately 2.7% when adjusted to 52 weeks)
[3] Comparable sales, noting some major tenants reported a 53 week year for CY19 (estimated to be approximately 2.3% when adjusted to 52 weeks)
[4] Includes supermarkets with fixed rent reviews
[5] CQR acquired a 30% interest in a new Charter Hall managed Partnership, which acquired a 49% interest in the BP portfolio

Charter Hall's Retail CEO, Greg Chubb said: "It's been another active period for CQR curating our portfolio of convenience based retail assets. Pleasingly, the work we have done is delivering clear results that can be seen in our operating statistics, with strong MAT growth across our portfolio, healthy re-leasing spreads and valuation support for our centres.

"We've further enhanced the portfolio through the addition of two strong convenience based Sydney metropolitan assets being Pacific Square, Maroubra and Bass Hill Plaza. Both centres are the dominant convenience centres within their catchments and are ranked in Shopping Centre News Top 20 Mini Guns. In addition, we've been able to improve the portfolio and majors WALE through an investment in the BP portfolio of 225 long WALE convenience retail properties. This is a portfolio enhancing acquisition which extends CQR's position as the leading owner and manager of convenience based retail assets. The BP portfolio provides a stable and secure growing income stream with annual CPI increases and a very efficient triple-net lease structure. We continue to be focused on delivering investors reliable net property income growth and steady and consistent growth in operating earnings and distributions."

Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors through active asset management, portfolio enhancement and prudent capital management.

In September 2019 the REIT acquired a 20% interest in Pacific Square, Maroubra and Bass Hill Plaza, Sydney. Both centres are well established and strongly trading Sydney metropolitan convenience plus shopping centres. Each centre benefits from being the dominant convenience centre in their respective catchments and present strong income growth prospects for the fund.

In December 2019 CQR acquired a 14.7% interest in the BP Portfolio. The portfolio consists of the majority of BP's owned convenience retail properties in Australia. The portfolio has a WALE of 20 years, with staggered lease expiries from 18 to 22 years and triple-net lease structure with annual CPI increases.

During the period, CQR also contracted to divest five smaller assets to the value of $117 million consisting of four freestanding regionally located assets at Moe, Kyneton, and Bairnsdale in Victoria, Cooma in NSW and Erindale Shopping Centre, ACT. These assets were contracted for sale at a combined 3.5% premium to 30 June 2019 book values. In addition, CQR intends divesting a further $100 million approximately of non-core assets in an orderly divestment program to maintain portfolio gearing in the middle of the target 30-40% range.

The REIT's portfolio increased in value by $247 million due to valuation gains of $30 million and acquisitions exceeding divestments by $217 million. The shopping centre portfolio cap rate compressed from 6.18% to 6.16% while the addition of the BP Portfolio saw the overall portfolio cap rate move to 6.11%. 53%[6] of the portfolio was externally revalued at 31 December 2019.

Active management

The REIT's convenience based supermarket-anchored retail portfolio continued to deliver stable occupancy of 98.1% and like for like NPI growth of 2.2%, up from 2.1% at June 2019. With a firm focus on strong tenant relationships and creating convenient shopping experiences, CQR had an active leasing period with 222 specialty leases completed during the period at an average positive spread of 4.1%. This was made up of 99 new specialty leases completed at an average leasing spread of 4.6% and 123 renewals completed at an average 3.8% leasing spread.

The portfolio continues to be heavily weighted towards high quality major tenants. With the addition of the BP Portfolio, major tenants Woolworths, Coles, Wesfarmers, BP and Aldi now represent 49% of rental income. BP is now the fourth largest tenant customer at 6.1% of rental income. Aldi is now the sixth largest tenant customer with representation increasing from nine to eleven stores. The total

[6] By value. Excludes assets held for sale and BP portfolio

portfolio WALE has increased to 6.9 years following the addition of the BP Portfolio and majors WALE has increased to 11.1 years.

Supermarkets in the portfolio continued to perform well with 58% of supermarket tenants paying turnover rent[4]. Supermarkets across the portfolio delivered 3.9% MAT growth[3] whilst supermarkets in turnover delivered 4.5%[2].

Progress on our solar strategy via Power Purchase Agreements continues with solar installation at nine of the initial fourteen assets completed and today we announce a further thirteen assets have been added to the program. This will deliver 35% of CQR's energy needs. Additionally, 8.3MWh batteries are currently being constructed for installation at an initial four assets to reduce grid demand costs and support CQRs change adaption plan.

Capital management

CQR has continued to focus on diversifying and extending the debt profile and ensuring a sound capital footing for the REIT. During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. CQR also established a new $50 million bank debt facility with an existing bank.

CQR's weighted average debt maturity is now 4.4 years, with an average hedge maturity of 3.4 years. Balance sheet gearing is expected to remain in the middle of the target 30-40% gearing range given anticipated future asset sales.

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "We continue to proactively manage our capital and debt position to ensure a prudent capital structure. We have no debt maturing until FY22."

Increasing stake in BP portfolio

Today the REIT also announces it has entered into an agreement to acquire a further 17.5% investment in the Charter Hall managed partnership that owns 49% interest in the portfolio of 225 Long WALE convenience retail properties leased to BP ("Acquisition"). This increases CQRs ownership to 47.5% of the managed partnership. This represents a 23.3% interest in the portfolio with BP Australia maintaining a 51% interest in the portfolio.

Mr Chubb said "We are delighted to increase our investment in the BP Long WALE convenience retail portfolio. As we have previously highlighted, this is a portfolio enhancing acquisition and provides a stable and secure growing income stream with annual CPI increases and a very efficient triple-net lease structure".

Portfolio Impact

Portfolio snapshot	Dec-19	Post-Acquisition[7]
Portfolio value ($m)	3,228	3,251
Ownership interest (CHDWF)	30%	47.5%
Ownership interest (BP Portfolio)	14.7%	23.3%
% of Portfolio assets	8.0%	10.3%
Majors WALE	11.1yrs	11.7yrs
Total WALE	6.9yrs	7.4yrs
BP income as a % of the portfolio	6.1%	9.5%

[7] Pro-forma, Dec 19 is adjusted for contracted divestments: Carnarvon, WA, Erindale, ACT (settled in January 2020) and the acquisition of 17.5% interest in BP partnership

Equity Raising

The REIT will undertake a fully underwritten institutional placement to raise $90 million ("Placement") at an issue price of $4.81 per unit to fund the Acquisition. The issue price represents a:

- 4.8% discount to the last close of $5.05 per security on 19 February 2020
- 3.5% discount to the 5 day VWAP of $4.98 per security 19 February 2020
- 6.6% FY20 forecast operating EPU yield

The REIT will also undertake a non underwritten unit purchase plan ("UPP") capped at $10 million[8]

Under the UPP, eligible unitholders in Australia and New Zealand will be invited to subscribe for up to $15,000 in additional units, free of any brokerage or transaction costs, at the same issue price as investors in the Placement.

New units issued as part of the Placement and UPP will rank equally with existing CQR units and will be fully entitled to the distribution for the half year ending 30 June 2020.

FY20 operating earnings guidance upgrade

Following the announcement of the initial BP acquisition on 12 December 2019, CQR increased operating earnings growth per unit guidance to 2.2% over FY19.

Given the increased investment in the BP Portfolio announced today and barring unforeseen events, subject to timing of divestments and including the impact of the Acquisition and Placement, CQR's FY20 guidance is increased to 2.3% growth in operating earnings per unit over FY19.

The distribution payout ratio range is expected to remain between 90% and 95% of operating earnings.

[8] Any proceeds under the non-underwritten UPP which is capped at $10m will be utilised to reduce debt. CQR may, in its absolute discretion, scale back applications over this amount or apply a higher cap to the UPP and scale back applications over the higher cap.

Announcement Authorised by the Board

Charter Hall Retail REIT (ASX: CQR)

Charter Hall Retail REIT is a leading owner and manager of a portfolio of high quality convenience based retail.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC). With over 29 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, Charter Hall Group as manager of CQR has carefully curated a $38.9 billion 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 $6.8 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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