

ASX Release

Charter Hall Social Infrastructure REIT FY20 Results

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Charter Hall Social
Infrastructure Limited
ABN 46 111 338 937
AFSL 281544

Responsible Entity of
Charter Hall Social
Infrastructure REIT
ABN 58 102 955 939

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704
Sydney NSW 2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au

Charter Hall Social Infrastructure REIT ("CQE") today announced its results for the year ended 30 June 2020. Key financial and operational highlights for the period are:

Financial Highlights

- Operating earnings of \$51.1 million, up 15.6% on the previous corresponding period ("pcp");
- Operating earnings of 16.5 cents per unit, unchanged on pcp;
- Distribution of 16.0 cents per unit, unchanged on pcp;
- Statutory profit of \$85.9 million, up 25.0% on pcp; and
- Balance sheet gearing of 16.4% with liquidity of \$289.6¹ million.

Operating Highlights

- Weighted Average Lease Expiry ("WALE") increased by 2.8 years or 28% to 12.7 years;
- Settlement of 11 existing childcare properties for \$64.8 million, with a further 3 existing childcare properties under contract for \$12.6 million;
- 37 existing assets were sold for a total realised value of \$55.9 million; and
- Net property valuation increase of \$44.2 million or 4.4%.

Charter Hall Social Infrastructure REIT's Fund Manager, Travis Butcher said: "The COVID-19 pandemic has resulted in significant challenges for the childcare sector, however the Government support has demonstrated the essential nature of the sector. Our focus has been to strengthen CQE's balance sheet with gearing reduced to 16.4% whilst focussing on improving the overall WALE of the portfolio. CQE is well capitalised to manage the ongoing impact of the COVID-19 pandemic and to take advantage of any attractive long WALE social infrastructure opportunities that may arise in the future."

Property Portfolio Performance

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

This included finalising new 20-year leases on 40 properties operated by Goodstart with improved terms for both parties, including fixed annual increases. Five new 15-year leases were concluded with other tenants. In addition, 48 of 52 five-year options were renewed by tenants, demonstrating the low substitution risk of these assets.

¹ Comprising cash balances of \$75.6 million and undrawn debt facilities of \$214.0 million

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Rental relief provided by CQE to operators as a result of COVID-19 has amounted to \$5.4 million which has assisted them to trade through the pandemic period. This included \$3.8 million of rental relief which was provided in exchange for an average 6.2 years in lease extensions across 40 leases.

Overall, CQE has seen a significant improvement in the portfolio metrics through FY20, as follows:

- Increase in WALE to 12.7 years from 9.9 years;
- Majority of leases (53.6%) now on fixed rent reviews for FY21 and beyond; and
- Improved lease expiry profile with only 4.4% of leases expiring within the next five years as at June 2020, down from 18.9% at June 2019.

Acquisitions / Development Program

Acquisition activity during the period included the settlement of 11 existing childcare properties for \$64.8 million at a purchase yield of 6.3% with a further 3 existing childcare properties contracted for \$12.6 million at a purchase yield of 6.4%. These acquisitions all have strong lease covenants with quality tenants² and average lease expiries of 16.2 years.

CQE continued to dispose of non-core assets to recycle capital into properties with more favourable property fundamentals. During the year, there were 40 property disposals totalling \$59.4 million which included 26 New Zealand assets disposed in April 2020, with the majority of these being smaller properties with an average WALE of 5.7 years.

CQE's development pipeline comprises 24 properties with a forecast completion value of \$149.2 million. Five developments were completed in FY20 with a completion value of \$27.5 million at a yield on cost of 6.7%. Another 2 developments have completed since 30 June 2020 with a completion value of \$15.3 million. It is forecast that a further 9 developments will complete in FY21 which will improve the quality of the portfolio and add to the earnings profile of CQE.

Property Valuations

During the period, 348 properties were valued, which resulted in a valuation increase of 5.8% over 30 June 2019 values. Overall yield has remained constant across the portfolio at 6.2%.

Importantly, evidence of relative stability in valuations for childcare centres has been seen through market transactions of \$43 million during June and July 2020 at average yields of 5.9%.

Capital Management

In March 2020, CQE increased its debt facilities to \$500 million, providing undrawn capacity of \$214.0 million to fully fund contracted existing property acquisitions and development pipeline.

Following CQE's institutional placement of \$100 million in May 2020, gearing reducing to 16.4%, leaving CQE well positioned to manage the ongoing impact of the COVID-19 pandemic and capitalise on long WALE social infrastructure opportunities that may arise.

CQE has diversified funding sources with no debt maturity until March 2023 and a weighted average debt maturity of 4.1 years.

Childcare Market

The key drivers of increasing childcare demand remain:

- Essential labour supply mechanism, critical to allowing Australians to return to work during/post COVID-19; and
- Significant learning benefits to young children with the quality of early learning services continuing to improve.

Long day care ("LDC") usage increased by 3.6% (27,800 additional children) from December 2018 to December 2019.

² 10 of 14 acquisitions are leased to ASX listed tenants

Anecdotally, attendances at centres reduced to 25 – 35% during the height of the COVID-19 pandemic in April, however, have subsequently recovered to 55 – 70%, noting that Melbourne centres have significantly reduced attendances due to Stage 4 restrictions in place. Attendances are expected to recover as Australians return to their workplaces.

As at 30 June 2020, there are 8,035³ LDC centres in Australia, a net increase of 291 (3.8%) for FY20. Rolling annual growth since June 2016 in LDC centres has been 3.8%³, consistent with the growth in children using LDC centres of 3.8%³ over the corresponding period.

Strategy and Outlook

CQE will continue with its strategy to provide investors with stable and secure income and capital growth through exposure to social infrastructure property. As part of this strategy, CQE will pursue new opportunities in social infrastructure to enhance income sustainability and resilience.

CQE confirms that based on information currently available (including with respect to the COVID-19 pandemic), continued tenant performance and barring any unforeseen events, the FY21 forecast distribution guidance is estimated to be 15.0 cpa. CQE will continue to pay quarterly distributions.

Announcement authorised by the Board

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 social infrastructure properties.

Charter Hall Social Infrastructure 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 as manager of CQE, has carefully curated a \$40 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 \$7.3 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.

For further enquiries, please contact

Travis Butcher

Fund Manager
Charter Hall
T +61 3 9903 6171
travis.butcher@charterhall.com.au

For media enquiries, please contact

Adrian Harrington

Head of Capital and Product Development
Charter Hall
T + 61 457 560 179
adrian.harrington@charterhall.com.au

For investor enquiries, please contact

Lula Liossi

Investor Relations Manager
Charter Hall
T +61 3 9903 6157
lula.liossi@charterhall.com.au

Philip Cheetham

Head of Listed Investor Relations
Charter Hall
T +61 403 839 155
philip.cheetham@charterhall.com.au

³ ACECQA data.