ASX Release

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Charter Hall Retail REIT FY20 Results

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Charter Hall Retail REIT (ASX:CQR) (CQR or the REIT) today announces its FY20 results for the period ended 30 June 2020.

Key financial results:

- Statutory profit of $44.2 million, down 16.8% on FY19 primarily due to valuation movements
- Operating earnings of $142.7 million or 30.56 cents per unit (cpu), down 1.8% (cpu) on FY19
- Net cashflow from operating activities of $132.9 million or 28.45 cents per unit (cpu)
- COVID-19 tenant support of $10.7 million provided during the period
- Distribution of 24.52cpu, down 14.7% on FY19
- Portfolio look-through gearing of 32.3%[1] comprising shopping centre convenience retail portfolio gearing of 25.3%[1] and Long WALE convenience portfolio gearing of 45.5%[1]
- Weighted average debt maturity of 3.9 years, no debt maturing until FY22
- Moody's affirmed Baa1 issuer rating with stable outlook
- Liquidity of $434 million[1] consisting of cash and undrawn debt facilities

Operating highlights:

- 5.2% Supermarket MAT growth, up from 4.0% at June 2019
- Supermarkets in turnover increased to 61%[2], up from 56% at June 2019
- Total MAT growth[3] of 3.8%, up from 2.8% at June 2019
- Contribution from major tenants to portfolio income 51.4%, up from 46% at June 2019
- Major tenant WALE 11.5 years, increased from 10.4 years at June 2019
- 196 specialty leases renewals and 149 new leases delivering positive specialty leasing spreads of 0.9%
- A further 69 speciality lease extensions (average 19 months) completed as part of COVID-19 tenant support negotiations
- Portfolio cap rate of 6.03%, compressed from 6.18% at June 2019 primarily due to changes in portfolio composition
- Acquired interest in two Sydney metropolitan convenience plus centres, comprising the Coles and Aldi anchored Pacific Square, Maroubra and the Woolworths, Aldi and K Mart anchored Bass Hill Plaza
- Additionally, acquired 47.5% interest in the BP portfolio partnership which owns a 49% interest in the BP Australia portfolio of 225 Long WALE retail assets, in joint venture with BP

[1] Pro-forma for the acquisition of Coles Adelaide Distribution Centre and disposition of West Ryde Marketplace
[2] Includes supermarkets with fixed rent reviews
[3] Like-for-like sales

Charter Hall's Retail CEO, Greg Chubb said: "It's been another year of portfolio curation to enhance the portfolio quality of CQR extending our breadth of exposure to convenience retailing, in a year where convenience retailing has demonstrated resilience and relative stability. We've actively worked to maintain the resilience, improve the anchor tenant proportion of CQR income, extend the portfolio WALE and navigate the challenges of COVID-19 on our tenant customers. As result, I am pleased to see the security of CQR's income improve from growing the proportion of income from our major leading convenience retailers, partnering with them to meet their property needs.

"The defensive and resilient nature of CQR's portfolio has been demonstrated through the COVID-19 period, with our major tenants all having traded through the year to June 2020. The non-discretionary and essential nature of many of our specialty retailers also meant many of these traded through mandated closure periods. We've partnered with our tenants to ensure they have been supported through this challenging trading period, while also ensuring our centres have adapted to meet social distancing and increased health and safety requirements. Pleasingly for CQR unitholders, as at 30 June 2020, footfall at most centres was back to pre-COVID-19 levels with the majority of specialty tenants open and trading, while tenant support continues to reduce on a month-on-month basis."

COVID-19 Impacts

The CQR portfolio has demonstrated its resilience through the COVID-19 period, with convenience retail centres and BP convenience retail outlets benefitting from customers shopping closer to home. All major tenants remained open and traded positively for the year ended 30 June 2020. Speciality MAT declined, reflecting temporary store closures. However, speciality tenant trading has also recovered with store re-openings. As at 30 June 2020, footfall at the majority of centres had recovered to pre-COVID-19 levels.

CQR provided $10.7 million in COVID-19 tenant support during 4th quarter FY20. 70% of this support was provided as rent-free incentives. The level of tenant support reduced each month over the quarter as footfall and sales progressively improved. As at 30 June 60% of FY20 COVID-19 tenant support had been agreed. Following agreements reached in July 85% of FY20 COVID-19 tenant support has now been agreed.

CQR collected 79% of rent due in the 4th quarter, with 15% of rent provided as tenant support and 6% of rent unpaid at the end of the period. Following collections in July only 3% of Q4 rent now remains unpaid.

As at 6 August 2020, two CQR shopping centres in Victoria were subject to stage 4 restrictions and two centres remain under stage 3 restrictions. Shops closed across these assets represent 2.5% of annual portfolio income.

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 an initial interest in the BP portfolio partnership and further increased this to a 47.5% stake in February 2020. The portfolio consists of the majority of BP's owned convenience retail properties in Australia. The portfolio has a WALE of 19.4 years and triple-net lease structure with annual CPI increases. Importantly, BP retains a 51% interest in the portfolio and is a new major partner for CQR, improving the resilience of income for unitholders.

Post balance date, CQR has also acquired a 52% interest in the Coles Adelaide Distribution Centre, located in the prime industrial precinct of Edinburgh Park, approximately 25kms from Adelaide CBD. This asset is utilised by Coles as its sole distribution centre to service all of its retail stores in South Australia and the Northern Territory. This purchase further deepens CQR's partnership with Coles, providing exposure to the convenience supply chain while providing income security and growth through fixed annual 2.75% rental increases and a 14.5 year WALE.

During the period, CQR also divested nine smaller lower growth assets at a 1.9% premium to book value and which delivered a weighted IRR of 12% to CQR unitholders. This ongoing program of asset recycling continues to re-weight the CQR portfolio into more metropolitan locations, growing the proportion of income from major tenants and improving the resilience of income by increasing portfolio WALE.

The defensive and resilient nature of the portfolio is evident in the fund's property valuations. 99% of the portfolio by value was externally revalued over FY20. The REIT's total portfolio increased in value by $270 million with net acquisitions of $284 million offset by value decline of $14 million. The total portfolio cap rate moved from 6.18% at June 2019 to 6.03% at June 2020 primarily due to changes in portfolio composition.

Looking specifically at valuations within the second half of FY20, with 67% of the portfolio by value externally revalued, the decline for the shopping centre convenience retail portfolio was $70 million (2.4%), offset by a $26 million (6.2%) gain in the BP Long WALE retail valuation. The shopping centre convenience retail portfolio cap rate expanded in the second half by 4bps to 6.19% while the BP Portfolio cap rate firmed from 5.50% to 5.00%.

Active management

The portfolio is strategically weighted towards high quality major convenience retail tenants. With the addition of the BP Portfolio, major tenants Woolworths, Coles, Wesfarmers, BP and Aldi represented 51.4% of rental income as at June 2020, up from 46% at June 2019. With the addition of the Coles Adelaide Distribution Centre post balance date, this increases further to 53%. BP is now the third largest tenant customer at 9.6% of rental income. Aldi is now the sixth largest tenant customer with representation increasing from nine to eleven stores. The total portfolio WALE has increased to 7.2 years following the addition of the BP Portfolio and majors WALE has increased to 11.5 years.

Supermarkets in the portfolio continued to perform well with 61% of supermarket tenants paying turnover rent[2] and those within 10% of turnover thresholds representing 17% of supermarkets. Supermarkets across the portfolio delivered 5.2% MAT growth. CQR completed five new supermarket leases or extensions during the year, while Coles and Woolworths refurbished seven stores over the period. Click and Collect installations were completed or are underway at 47 Coles and Woolworths supermarkets across the portfolio. Contactless pick-up has been rolled out at 23 supermarket locations since the commencement of the COVID-19 period.

CQR had an active leasing period with 345 specialty leases completed during the year at an average positive spread of 0.9%. This was made up of 149 new specialty leases completed at an average leasing spread of 0.5% and 196 renewals completed at an average 1.1% leasing spread. An additional 69 lease extensions were completed as part of COVID-19 tenant support negotiations with an average extension of 19 months.

Progress on our solar strategy continues with 8.5MW of solar installation completed at 11 assets and a further 3.9MW of installations at four assets nearing completion. Solar installations complete and nearing completion represent 60% of CQR's contracted solar power purchasing program. Energy contracted from the power purchasing program equates to 46% of CQR's current energy needs. Charter Hall is targeting net zero carbon emissions by 2030[4].

Capital management

Prudent capital management remains a core focus of CQR and ensures we can successfully execute our growth strategy and deliver a secure and growing income stream to unitholders. During FY20, CQR successfully raised equity twice. In February, CQR raised equity to increase its investment in the BP Portfolio, growing its exposure to this major tenant and improving the defensiveness and resilience of CQR's income stream.

In April, CQR raised additional equity to ensure the balance sheet was in a sound position to weather any valuation or earnings impact from COVID-19 and position CQR for growth as the effects of COVID-19 diminished. CQR has pro-forma available liquidity of $434 million[5], meaning we are well placed to enhance portfolio quality and fund future activity.

[4] Scope 1 and Scope 2 emissions in Charter Hall operational control
[5] Pro-forma liquidity for the acquisition of Coles Adelaide Distribution Centre and disposition of West Ryde Marketplace

During the period, Moody's affirmed CQR's Baa1 issuer rating and senior unsecured rating with a stable outlook. CQR's weighted average debt maturity is now 3.9 years, with an average hedge maturity of 4.6 years. Portfolio look-through gearing is expected to remain within the target 30-40% gearing range.

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."

Summary and outlook

CQR's portfolio continues to offer defensive and resilient earnings through its focus on meeting the property needs of convenience retailers. As we commence FY21, our expectation is that supermarket sales will continue to be strong, driven by stay-at-home and COVID-19 factors. Visitations to CQR centres have normalised in most regions and highlight the essential need associated with convenience retail. Our strategy remains focused on partnering with non-discretionary convenience retailers and providing income resilience and growth through a continuation of our acquisition and divestment strategy.

CQR has $434 million of liquidity and capacity to further enhance portfolio quality where deemed appropriate, given gearing remains at the low end of our long term target range.

In light of current COVID-19 uncertainty and associated impacts, CQR will not provide FY21 earnings guidance.

Distributions will continue to be paid with reference to operating cashflow.

Announcement Authorised by the Board

Charter Hall Retail REIT (ASX: CQR)
Charter Hall Retail REIT is the leading owner and manager of property for convenience retailers.
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 $40 billion diverse portfolio of over 1100 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.

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