Centuria Industrial REIT (CIP)

ASX Announcement

Centuria

HY21 Financial Results

SYDNEY (Tuesday, 2 February 2021) - Centuria Property Funds No.2 Limited (**CPF2L**), as Responsible Entity of Centuria Industrial REIT (**ASX: CIP**), has announced its interim financial results for the period ended 31 December 2020.

HY21 Financial Highlights

- Statutory net profit of $99.6 million
- FY21 Funds from operation (FFO)[1] guidance upgraded to no less than 17.6 cents per unit (cpu)[2]
- FFO of $42.8 million[1], equivalent to 8.8 cpu
- Distributions per unit (DPU) of 8.5 cents, in line with FY21 guidance
- Inclusion in the S&P/ASX 200 Index
- 12 month Return on Equity (ROE) of 11.9%[3]
- Strong balance sheet, with 29.6% gearing[4], $146m of undrawn debt

HY21 Portfolio Highlights

- Portfolio expanded to 59 industrial assets, total portfolio value increased to $2.4 billion
- $694m of high quality industrial acquisitions building on the quality of the portfolio
- $104m of re-valuations supported by major leasing success across the portfolio
- Significant leasing volume with terms agreed for more than 140,000sqm, representing 13% of the portfolio GLA
- Occupancy[5] of 97.7% driven by leasing success; strong WALE[5] of 9.8 years

Jesse Curtis, CIP Fund Manager, said, "The first half of FY21 has been a transformative period for CIP driven by landmark acquisitions and significant portfolio leasing which has continued to position CIP as Australia's largest domestic pure play industrial focused REIT. The industrial sector has continued to strengthen with sector tailwinds from e-commerce and tenant demand supporting investor appetite and driving asset values.

"The portfolio expanded with the acquisition of nine new high quality industrial assets providing exposure to a range of industrial sub-sectors including cold storage, data centres, manufacturing, transport logistics and distribution centres. Growth of the portfolio led to inclusion in the S&P/ASX 200 Index and the REIT is now well positioned for potential future inclusion in the FTSE/EPRA NAREIT Index.

"Significant leasing was achieved during the half with over 140,000sqm of terms agreed and occupancy[5] of 97.7%. Portfolio WALE[5] increased to 9.8 years and tenant retention was high at 81%, evidencing the active and hands-on management approach to customers across the portfolio. Major near-term expiries were successfully secured including the renewal of Woolworths at Warnervale NSW and renewal of Visy at Warwick Farm NSW. This leasing success and buoyancy of the market delivered 6.5% ($103.8m) in valuation uplift across the portfolio, on a like for like basis[6].

"By applying an active approach to the management of CIP's portfolio, we have delivered market leading portfolio metrics and provided upgraded full year FY21 FFO guidance to no less than 17.6 cents per unit, from 17.4 cents per unit at the commencement of FY21[2]."

HY21 Financial Results

Earnings		HY21	HY20
Statutory profit	$ million	99.6	31.5
FFO[1]	$ million	42.8	30.0
FFO per unit	cpu	8.8	9.9
Distribution per unit	cpu	8.5	9.4
Return on equity[3]	%	11.9	13.4

Balance sheet		HY21	FY20
Total Assets	$ million	2,437	1,636
NTA per unit[7]	$	2.99	2.82
Gearing[4]	%	29.6	27.2

Statutory profit of $99.6 million was reported for HY21. Guidance has been upgraded to deliver FFO of no less than 17.6cpu above initial FY21 guidance of 17.4cpu[2]. Total distributions of 8.5cpu were paid in line with HY21 guidance, representing a distribution yield of 5.5%[8]. Distributions continue to be supported by diversified income streams and leasing success across CIP's portfolio.

Total assets increased to $2.437 billion, underpinned by the acquisition of nine high quality industrial assets for $694 million as well as like for like revaluation gains of $103.8 million in HY21[6]. Revaluation gains contributed towards the 6% increase in CIP's Net Tangible Assets (NTA) per unit to $2.99 over HY21. Valuation uplift was driven by strong leasing success across the portfolio and favourable market fundamentals. 29 of the portfolio's assets were externally valued in December 2020, contributing towards valuation growth. The portfolio's Weighted Average Capitalisation Rate (WACR) firmed to 5.42%.

The increase in NTA, combined with distributions of 17.7cpu delivered a Return on Equity (ROE) of 11.9% to CIP unitholders over the 12 months to 31 December 2020.

CIP continues to operate with a robust balance sheet and significant covenant headroom with an interest coverage ratio of 5.8x (covenant 2.0x) and loan to value ratio of 30.6% (covenant 55%) along with gearing of 29.6% and undrawn debt of $146m. CIP's balance sheet benefits from a staggered debt profile to diversified lenders, a weighted average debt maturity of 3.3 years and no debt maturities until FY22. The balance sheet is well positioned to accommodate CIP's operating requirements and further growth opportunities.

The CIP portfolio continued to maintain its strong position throughout the COVID-19 affected period with rent collections averaging over 98% from July 2020 to December 2020.

Capital Transactions

During HY21, nine high quality industrial acquisitions were executed for $693.7 million at an average yield of 4.8%[9] transforming portfolio quality and expanding exposure across multiple industrial sub-sectors. The acquisitions were completed with 100% occupancy, increased portfolio WALE to 9.8 years and introduced eight new industry leading tenant customers to CIP's portfolio. Key acquisitions included:

- The Telstra Data Centre, Clayton VIC for $416.7 million
- Four cold storage assets across NSW, VIC & QLD for a combined $214.1 million
- Four high quality industrial assets for a combined $62.9 million

The acquisitions in HY21 provided CIP with valuable exposure to the compelling and tightly held data centre and cold storage sub-sectors. Exposure to these sub-sectors provides unitholders with further diversification through geographic locations, tenant income streams and asset usages across the Australian industrial real estate sector.

73% of the acquisitions were completed with triple net lease structures removing any maintenance capex obligations and generating secure long term income for unitholders.

In HY21, CIP entered into an agreement to divest of 136 Zillmere Road, Boondall QLD for $39.6m[10], representing a premium to the 30 June 2020 valuation of $32.5m. Settlement is expected to occur in March 2021.

These transactions continue to demonstrate CIP's strong market relationships and ability to secure attractive acquisition opportunities and scale in a highly competitive market for industrial assets. CIP commenced the second half of FY21 with the off-market acquisition of two modern industrial facilities located in Derrimut VIC. These assets were secured for $37.3 million[9] and previously announced on 29 January 2021.

Property Portfolio

Portfolio Snapshot		HY21	FY20
Number of assets		59	50
Book value	$ million	2,399	1,602
WACR	%	5.42	6.05
Occupancy by income	%	97.7	97.8
WALE by income	years	9.8	7.2
Terms agreed GLA[11]	sqm	140,074	122,008

CIP's property portfolio grew to 59 assets with a total book value of $2.4 billion, an increase of 50% over HY21.

CIP retains a high occupancy[5] of 97.7%. CIP's occupancy has been underpinned by considerable leasing success across the portfolio with leases agreed[11] across 140,074sqm over 14 leasing deals in HY21. During the half, major near term lease expiries were successfully secured, notably:

- Renewal of Woolworths over 54,196sqm at 1 Woolworths Way, Warnervale NSW for a new 5 year term
- Renewal of Visy over 27,599sqm at Scrivener Street, Warwick Farm NSW for a new 10 year term
- New Lease to Complete Supply Company over 10,839sqm at 324-332 Frankston Dandenong Road, Dandenong South VIC for a new 6 year lease with no downtime from previous occupier.

The leasing success was underpinned by high customer retention of 81%. CIP's WALE[5] sits at 9.8 years with an expiry profile significantly de-risked holding less than 8.5% of the portfolio expiring over the 18 months to 30 June 2022 and no single tenant expiry of over 2.5% of portfolio income for the next four years.

Given high occupancy across the portfolio and favourable leasing conditions, a commercial agreement was reached with the tenant at 14-17 Dansu Court, Hallam VIC to surrender their lease early. An active marketing campaign is well progressed with strong interest from multiple new customers for the property.

CIP continues to be supported by a portfolio of 117 diverse and high quality tenant customers skewed towards customers directly linked to the production, packaging and distribution of consumer staples, pharmaceuticals and telecommunications providing reliable income streams. Across CIP's portfolio, 26% of tenant income is now derived from triple net leases, providing a strong cashflow ballast whilst allowing CIP to unlock select value-add initiatives for the portfolio.

Environmental, Social and Governance (ESG)

CIP has sought to enhance energy and water efficiency through partnerships with customers and refurbishment and development of its assets. CIP's development at 42 Hoepner Street, Bundamba QLD is on target to be certified by the Green Building Council of Australia as one of the first five-star, Green Star as-built industrial properties in Australia. Sustainable features include solar panels, a recycled water system for irrigation, drought-resistant landscape and recycled building materials.

Summary & Outlook

CIP commences 2H21 in a strong position, with FY21 FFO guidance upgraded to no less than 17.6cpu, from 17.4cpu at the commencement of FY21[2].

DPU guidance is reiterated at 17.0cpu with distributions paid in quarterly instalments.

Jesse Curtis commented, "CIP has delivered a strong result for HY21 having secured nine new high quality industrial assets and substantially de-risked near term expiry through leasing to grow the portfolio value to $2.4 billion. As a result of this success CIP is pleased to upgrade earnings guidance to no less than 17.6 cents per unit[2].

"Portfolio quality continues to be improved through building critical mass in key industrial markets and growing portfolio scale having increased investor relevance with inclusion in the S&P ASX 200 Index. Our active approach to the portfolio has resulted in market leading portfolio metrics whilst maintaining a balance sheet capacity to capitalise on future growth opportunities.

"As Australia's largest domestic pure play industrial REIT, CIP's strategy is to deliver income and capital growth to investors from a portfolio of high quality Australian industrial assets. Sector tailwinds continue to support investment fundamentals for industrial assets drawing both domestic and international capital to the sector. Tenant demand remains robust, particularly for high quality industrial assets located within infill locations close to major infrastructure. In a tightly held industrial market CIP's portfolio will continue to be a key beneficiary of these sector themes."

HY21 Results Presentation

A playback of HY21 results webcast will be made available on CIP's website.

– Ends –

For more information or to arrange an interview, please contact:

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Authorised for release by *Anna Kovarik, Company Secretary.*

About Centuria Industrial REIT

CIP is Australia's largest domestic pure play industrial REIT and is included in the S&P/ASX 200 Index. CIP's portfolio of high-quality industrial assets is situated in key metropolitan locations throughout Australia and is underpinned by a quality and diverse tenant base. CIP is overseen by a hands on, active manager and provides investors with income and an opportunity for capital growth from a pure play portfolio of high quality Australian industrial assets.

Centuria Property Funds No. 2 Limited (CPF2L), is the Responsible Entity for the ASX-listed Centuria Industrial REIT (CIP). CPF2L, is a wholly owned subsidiary of Centuria Capital Group (CNI). CNI is an ASX-listed specialist investment manager with $10.2 billion in total assets under management and strong offerings across listed real estate investment trusts, unlisted real estate funds and investment bonds.

www.centuria.com.au

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[1] FFO is CIP's underlying and recurring earnings from its operations. This is calculated as the statutory net profit adjusted for certain non-cash and other items
[2] Guidance remains subject to unforeseen circumstances and material changes in operating conditions
[3] Return on equity calculated as (closing NTA minus opening NTA plus distributions) divided by opening NTA
[4] Gearing is defined as total borrowings less cash divided by total assets less cash and goodwill
[5] By income
[6] Reflects gross increase, excluding capital expenditure incurred
[7] NTA per unit is calculated as net assets less goodwill divided by number of units on issue
[8] Annualised yield based on CIP unit closing price of $3.09 on 31 December 2020
[9] Before transaction costs
[10] Price is prior to adjustments for outstanding tenant incentives
[11] Includes Heads of Agreement (HOA)

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