Charter Hall

ASX Release

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Charter Hall Retail REIT FY22 Results

23 August 2022

Charter Hall Retail REIT (ASX: CQR) (CQR or the REIT) today announces its FY22 results for the period ended 30 June 2022.

Financial Highlights:

- Operating earnings of $164.4 million up $8.2 million or 5.2% over prior corresponding period (pcp)
- Operating earnings of 28.40 cents per unit (cpu) up 4.0% over pcp
- Statutory profit of $663.6 million, up $372.4 million over pcp
- Distribution of 24.50 cpu up 4.7% over pcp
- Net Tangible Assets (NTA) per unit of $4.91, up 22.4% from $4.01 at June 2021
- Portfolio look-through gearing of 32.1% and balance sheet gearing of 25.5%
- Weighted average debt maturity of 3.9 years and 83% hedging for FY23
- Available liquidity of $245 million consisting of cash and undrawn debt facilities

Operating Highlights:

- $106 million off-market investment into Ampol Australian portfolios of 225 Long WALE convenience retail properties
- $58 million off-market investment into Gull New Zealand portfolio of 18 Long Wale convenience retail properties
- Contribution from major tenants to portfolio income 56%, up from 53.5% at June 2021
- Shopping centre portfolio occupancy of 98.5%, up from 98.3% at June 2021
- Specialty leasing spreads of +2.3% with 311 specialty lease renewals (+1.8% leasing spread) and 169 new leases (+3.7% leasing spreads)
- Portfolio valuation growth of $498 million or 13.1%, inclusive of $71 million of capital expenditure
- Portfolio cap rate firmed to 5.20% from 5.81% at June 2021

Charter Hall Retail's CEO, Ben Ellis said: "FY22 was another year of the CQR portfolio demonstrating its resilience. Notwithstanding the on-going impacts of the pandemic affecting store openings during the year, we delivered earnings growth of 4% and distribution growth of 4.7% per unit. The quality of our assets was evident in the 22.4% growth in our net tangible assets to $4.91 per unit.

"We've also been active further improving the earnings growth the portfolio can deliver, growing our exposure to major retailers with triple-net (NNN) and CPI-linked leases. Majors retailers now make up 56% of rental income, up from 53.5% a year ago and 50% 5-years ago. 31% of those major retailers rent reviews are also CPI based, providing an important avenue of earnings growth in a high-inflation environment. The CQR portfolio is setup to deliver a resilient and growing earnings stream into the future."

Investment strategy

The REIT has continued its disciplined investment strategy to provide a resilient and growing income stream for investors.

In December 2021, CQR announced the off-market acquisition of a 49% interest in a portfolio of 20 triple-netleased Ampol fuel and convenience retail centres for $50.5 million on an attractive 5.0% cap rate. The portfolio of 20 triple-net Long WALE convenience retail centres provides CQR with a long-term stable and growing income stream underpinned by the portfolio's 15.6-year WALE and CPI-linked annual rent escalations. The portfolio is heavily weighted to metropolitan locations with all sites benefiting from prominent main road locations with high existing land values and further flexibility for alternate uses in the future.

In June 2022, CQR acquired a 5% interest in an existing Charter Hall partnership which owns a 49% interest in a separate portfolio of 205 Ampol convenience retail assets. These assets are well positioned with 85% located on the Australian eastern seaboard, and 83% in metro or commuter-metro locations. The portfolio has a 17.7-year WALE and the purchase price of $43.6 million represents an initial yield of 4.53% prior to the CPI rent review in Q2FY23.

Post-balance date in August 2022, CQR acquired a portfolio of 18 Gull service stations in New Zealand. The portfolio is predominantly located in metropolitan centres, with 56% located in Auckland and 5% in Wellington. The portfolio WALE is 15-years and the purchase price of NZD$64.5 million (AUD $58.1 million) represents a core cap rate of 6.40%. The portfolio was secured off-market through a sale and leaseback agreement negotiated directly between Charter Hall and the vendor.

All leases for the Gull and Ampol portfolios are capex light, NNN and with annual CPI linked reviews. In combination, these acquisitions have further increased CQR's exposure to direct inflation-linked earnings, improving the resilience and growth characteristics of the portfolio.

The defensive and resilient nature of CQR's portfolio is evident in the fund's property valuations. 100% of the portfolio was externally revalued at 30 June 2022. The REIT's total portfolio increased in value by $498 million with acquisitions of $154 million, capex of $71 million and net valuation growth of $427 million. The total portfolio cap rate moved from 5.81% at June 2021 to 5.20% at June 2022. The shopping centre convenience retail portfolio cap rate compressed from 6.12% at June 2021 to 5.45% at June 2022 while the long WALE convenience retail portfolio cap rate firmed from 4.69% to 4.33% over the same period. The valuation growth of 13.1% for the year was split 5.6% for income growth and 7.5% for cap rate movement.

Active management

The portfolio is strategically weighted towards high quality major convenience retail tenants. Major tenants Woolworths, Coles, bp, Wesfarmers[1], Aldi, Ampol and Gull represented 56% of rental income. The total portfolio WALE is 7.4 years and majors WALE is 10.9 years.

The Long WALE convenience retail portfolio represents 23.4% of total portfolio by value and 18% of total portfolio income. The leases are predominantly NNN with CPI reviews and a WALE of 16.5 years.

1 Kmart, Target, Bunnings, Officeworks and API

CQR's Long WALE convenience retail portfolio is forecast to deliver 5.1%[2] rental growth in FY23, underpinning the broader CQR portfolio income growth.

Supermarkets in the convenience retail portfolio continued to perform well with 62% of supermarket tenants paying turnover rent[3] and those within 10% of turnover thresholds representing 18% of supermarkets. Supermarkets across the portfolio delivered 3.2% MAT growth. CQR now has click & collect and direct to book facilities operating at 95% of the Coles and Woolworths supermarkets within the portfolio.

CQR also had an active year of leasing with 480 specialty leases completed at an average spread of +2.3%. This was made up of 169 new specialty leases completed at an average leasing spread of +3.7% and 311 renewals completed at an average +1.8% leasing spread.

Specialty productivity remained strong at $9,894 per sqm despite the impacts of mandated store closures and trading restrictions, Similarly, occupancy costs remain sustainable at 11.5% which after adjusting for COVID-19 rent support reduces to 10.8%.

Capital Management

Prudent capital management remains central to CQR's strategy. As at 30 June 2022, CQR has $245 million[4] of available liquidity to fund capital investment and enhance portfolio quality.

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 3.9 years, with an average hedge maturity of 2.2 years. Portfolio balance sheet gearing is 25.5% and look-through gearing is 32.1%, within the target 30-40% gearing range. CQR has 83% of debt hedged for the FY23 year.

Head of Retail Finance and Deputy Fund Manager CQR, Christine Kelly commented: "With 83% of debt hedged for FY23 and no debt maturing until FY24, we are well positioned in the current environment to deliver a resilient and growing income stream"

Summary and outlook

CQR's strategy is to be the leader owner of convenience retail property, delivering investors a resilient and growing income stream. Portfolio curation and active asset management will continue to enhance the portfolio quality through time.

Positive leasing spreads, high occupancy levels and MAT growth are expected to continue as market conditions normalise.

Portfolio income is expected to benefit from inflation-linked rental growth, while investor demand for high quality non-discretionary convenience-based assets will continue to support valuation growth.

Barring unforeseen events, FY23 earnings per unit is expected to be no less than 28.6 cents per unit representing growth of no less than 0.7% over FY22 earnings per unit.

FY22 distributions per unit are expected to be no less than 25.7 cents per unit representing growth of no less than 4.9% over FY22 distributions per unit.

Announcement Authorised by the Board

[2] FY23 forecast rental growth adopting forecast capped CPI growth of 5.7%
[3] Includes supermarkets with fixed rent reviews
[4] FY22 pro forma investment capacity following the acquisition of Gull NZ portfolio is $187 million

Charter Hall Retail REIT (ASX: CQR)
Charter Hall Retail REIT is the leading owner of property for convenience retailers.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC). With over 30 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, Industrial & Logistics, Retail and Social Infrastructure.

Operating with prudence, we've curated a diverse $61.3 billion property portfolio of 1,516 high quality properties. With partnership at the heart of our approach, we're creating places that help grow communities, turning them into the best they can be and unlocking hidden value. Taking a long-term view, our $13.2 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

Charter Hall has also extended its Fund Management capability into another asset class with the 50% acquisition of the $18.2 billion listed equities Fund Manager Paradice Investment Management (PIM), which invests on behalf of wholesale and retail investors across domestic and global listed equities.

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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