APN | Convenience Retail REIT

ASX ANNOUNCEMENT

18 February 2019

Results for half-year ended 31 December 2018

APN Convenience Retail REIT (the **Fund**) is pleased to announce its results for the half-year ended 31 December 2018.

Key highlights

- Statutory profit of $14.5 million
- Funds From Operations (**FFO**) of $8.5 million (10.7 cps), 3.7% above PDS forecast
- Distributions per security of 10.45 cps, 3% above PDS forecast
- $7.5 million or 2.2% increase in portfolio value, driven by market rent increases
- Net Tangible Assets (**NTA**) up 8 cents per security to $2.95, representing a 2.8% increase since June 2018
- Balance sheet gearing of 32.5%, within 25% – 40% target range
- FY19 distribution guidance remains unchanged at 20.9 cps (7.2% annual cash distribution yield[1])
- Active portfolio management – Woolworths covenant maintained following proposed sale of their fuel business

Chris Brockett, Fund Manager, commented "This is another positive set of results and we are pleased to report that we remain on track to meet FY19 guidance and exceed the PDS forecast by 3.4 – 5.3%.

In addition, the Fund's portfolio value has grown by a further 2.2% during the period as a result of organic rental increases. This revaluation uplift has delivered a 2.8% increase in NTA to $2.95. These results are great reflection of Convenience Retail's strategy of providing investors with an attractive, defensive and growing income stream underpinned by long term leases to quality tenants."

Active portfolio management

In November 2018, Woolworths announced that it had entered into a binding agreement to sell its fuel business to EG Group, which is still subject to foreign investment review board approval. If the sale proceeds, as it is expected to do so, the Fund's 13 leases to Woolworths will be assigned to EG Group. Woolworths will however, continue to guarantee performance of these leases.

Mr Brockett said in respect of this sale "The sale of the Woolworths fuel business to EG Group presents a great opportunity for the industry. EG Group is a global leader in fuel and convenience retailing and has a strong track record of responding to convenience consumer trends and demands, so they will no doubt arrive with a fresh set of ideas and innovations for the Australian market.

It was important for our investors however, that this transaction does not impact the underlying value of our 13 Woolworths sites, so we are pleased that Woolworths will continue to guarantee these leases until the end of the current term and on any exercise of existing option periods."

[1] Based on closing share price of $2.91 on 15 February 2019.

The Fund continues to actively review acquisition opportunities and fund-through proposals received through our relationships with developers, as well as divestment opportunities to enhance the overall portfolio and create long term value for investors.

Portfolio performance

The portfolio is well diversified by geography, tenant and site type. It is underpinned by long-term leases to high quality and experienced global operators, with 97% of the rental income derived directly from the major service station tenants.

The portfolio is 100% occupied and is supported by a long WALE of 12.1 years as well as an attractive lease expiry profile with 76% of rental income expiring in FY30 and beyond, providing the Fund with a strong level of income security.

The portfolio also provides a sustainable and growing income stream with 78% of rental income being subject to annual increases of 3% or more and 22% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 2.9% per annum.

Net Tangible Assets increased to $232.5 million as at 31 December 2018, equating to $2.95 per security. This represents a $6.2 million, or 2.8%, increase from 30 June 2018.

As at 31 December 2018, the portfolio comprises 70 properties valued at $355.2 million, which is a $7.5 million, or 2.2%, increase during the period. The revaluation uplift was solely driven by annual rental increases during the period. There has been no change to the portfolio's 7.03% weighted average capitalisation rate.

All properties were the subject of Directors' valuations as at 31 December 2018, however 50% of the portfolio is due to be independently revalued as at 30 June 2019.

Capital management

During the period, the Fund expanded its debt finance syndicate by introducing a third financier, improving the Fund's debt maturity profile, diversity and flexibility that will support future initiatives. Proceeds from the new 5 year $20 million facility were used to partially repay and cancel existing facilities.

In addition, the Fund also entered into a further $10 million of interest rate hedges, increasing the Fund's hedged position as well as enhancing the hedge maturity profile.

Total drawn debt at 31 December 2018 was $116.7 million resulting in a gearing ratio of 32.5%, comfortably within our target range of 25 to 40% and the weighted average debt maturity was 2.6 years, with 60% of debt hedged.

Active capital management remains an ongoing priority and we will continue to consider alternative funding sources and further extensions of duration as market conditions allow. In this regard, the Board has reviewed opportunities to source and apply capital including selective property acquisitions and divestments, opportunities to invest across the portfolio to enhance the overall portfolio and create long term value for investors, as well as the opportunity to acquire the Fund's own securities. Accordingly, as announced separately today, the securities buyback program has been reinstated to complement APN Convenience Retail REIT's strategy of creating long term value for investors by actively managing capital where opportunities arise.

Outlook

Effective from 19 February 2019, the Fund will be renamed '**APN Convenience Retail REIT**' and the ASX ticker code will change to 'AQR'. This simple change will ensure that the Fund is clearly recognised by all stakeholders as being a part of APN Property Group Limited (APN), and be able to better leverage from its sponsorship from APN and capture all opportunities to generate greater value for all investors.

APN Convenience Retail REIT will continue to actively manage its portfolio and capital to deliver attractive and sustainable returns to investors.

The Fund is well positioned to do this with a passive income stream and contracted annual rental increases providing sustainable income growth, while maintaining a healthy balance sheet with a prudent level of debt and hedging.

FY19 FFO guidance remains unchanged at 21.3 – 21.7 cents per security, representing an increase of 5.4 – 7.4% on FY18 (annualised) and an increase of 3.4 – 5.3% on the PDS forecast.

Distributions guidance is 20.9 cents per security, which is 3% above the PDS forecast.

This guidance is subject to current market conditions continuing and no unforeseen events and assumes no further acquisitions.

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About APN Convenience Retail REIT

APN Convenience Retail REIT (ASX code: AQR) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. The Fund's portfolio of 70 properties valued at approximately $355 million, is predominantly located on Australia's eastern seaboard and is leased to leading Australian and international convenience retail tenants. The portfolio provides a long lease expiry profile and contracted annual rent increases delivering the Fund a sustainable and strong level of income security. Convenience Retail has a target gearing range of 25 – 40% as part of its conservative approach to capital management.

APN Convenience Retail REIT is governed by an Independent Board of Directors and is managed by APN Property Group, a specialist real estate investment manager established in 1996 with approximately $2.8 billion in assets under management.

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