APN | Convenience Retail REIT

ASX ANNOUNCEMENT

18 August 2020

Results for the financial year ended 30 June 2020

APN Convenience Retail REIT (the **Fund**) is pleased to announce its results for the year ended 30 June 2020.

Key highlights

- Distributions of 21.8 cents per security (**cps**), an increase of 4.3% on FY2019 (63.7% tax deferred)
- Funds From Operations (**FFO**) of $19.3 million or 21.6 cps, up 13.3% and 0.4% on FY2019 respectively reflecting securities issued during the year and lower gearing
- Statutory profit of $45.8 million, up from $24.0 million in FY2019
- Minimal COVID-19 impact; relief of 1.2% of portfolio rent provided to tenants in FY2020 – split 50% deferred and 50% waived
- Portfolio revaluation uplift of $31.9 million or 5.0% during the year driven by a combination of cap rate compression (weighted average cap rate of 6.6%) and market rent increases
- Overall credit quality of the portfolio enhanced following Chevron's acquisition of Puma Energy Australia (representing 46 properties)
- Net Tangible Assets (**NTA**) up 31 cps to $3.27, a 10.5% increase during the year
- $90.2 million of committed acquisitions in FY2020 with a further $38 million contracted post balance date
- $101.6 million of new equity raised, providing significant investment capacity
- Balance sheet gearing of 16.5%, and pro forma gearing adjusted for development pipeline and contacted acquisitions of 24.8% (bottom of the target range of 25% – 40%), ideally positioning the Fund pursue further additional acquisition opportunities
- $105 million of debt refinanced an increased debt facility limit of $40 million achieved, extending the weighted average debt maturity by 2.2 years to 3.8 years and reducing the weighted average interest cost by 0.20% p.a.
- FY2021 FFO and distribution guidance of 21.8 – 22.0 cps

Financial Results

APN Convenience Retail REIT recorded a statutory profit of $45.8 million for the financial year ended 30 June 2020.

Funds from Operations (FFO) for the period was $19.3 million, representing an increase of 13.3% on FY2019. On a per security basis, FFO of 21.6 cents per security represents a 0.4% increase on FY2019 due to the issuance of new securities during the period. The increase in FFO was primarily driven by a 6.9% increase in net property income from like-for-like property rental growth of 2.8% as well as the contribution from 12 acquisitions completed during the period and a full year's contribution from the Mount Larcom acquisition in August 2018.

Distributions for the period of 21.8 cents per security represent an increase of 4.3% on FY2019. Distributions are 63.7% tax deferred.

ASX Code: AQR
Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
Convenience Retail REIT No. 3 ARSN 619 527 856

Responsible Entity:
APN Funds Management Limited
ACN 080 674 479 AFSL No. 237500

Level 30, 101 Collins Street
Melbourne, Victoria 3000, Australia
T +61 (0) 3 8656 1000
F +61 (0) 3 8656 1010
W www.apngroup.com.au

Net tangible assets (NTA) per security increased during the period by 31 cents, or 10.5%, to $3.27.

Chris Brockett, Fund Manager commented “In what has been an extraordinary and challenging year, APN Convenience Retail REIT has delivered an outstanding result in FY2020. We have continued to deliver on our strategy of providing investors with a defensive and growing income stream as well as actively diversifying and growing the portfolio, having acquired $90.2 million of property in FY2020 and contracting a further $38 million post balance date.

The balance sheet remains in a very strong position with current gearing of 16.5%. After adjusting for the balance of the development pipeline and contracted acquisitions, the pro forma gearing of 24.8% will still sit at the bottom of our target gearing range of 25 – 40%, giving the Fund plenty of additional growth capacity.”

Portfolio performance

The portfolio continues to be resilient in the midst of the COVID-19 pandemic, with all sites remaining open and trading and with minimal impact on rental income. We expect service station and convenience retail properties to remain highly sought after as a stable and defensive asset class due to their long leases, strong lease covenants and exposure to non-discretionary spending.

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

The portfolio remains 100% occupied and is supported by a long weighted average lease expiry (WALE) of 10.6 years as well as an attractive lease expiry profile with 74% of rental income expiring in FY2030 and beyond, providing securityholders with a strong level of income security.

The portfolio also provides a sustainable and growing income stream with 80% of rental income being subject to annual increases of 3% or more and 20% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 2.8% per annum.[1]

As at 30 June 2020, the total portfolio comprised 79 properties, with the total portfolio value increasing by $89.9 million, or 25.1%, during the financial year. This increase was driven by $58 million of net acquisitions and a $31.9 million revaluation uplift.

On 30 June 2020, Chevron (AA/Aa2 credit ratings), who are one of the world’s leading integrated energy companies, operating in excess of 19,500 service stations in 84 countries, announced that they had successfully completed the acquisition of Puma Energy Australia. Puma Energy Australia is the tenant at 46 sites in the Fund’s portfolio, representing 58% of the Fund’s rental income at the time of the acquisition.

The portfolio’s weighted average capitalisation rate tightened by 33 basis points to 6.58% with 76 of the 79 properties being the subject of independent valuations during the period.

The revaluation uplift is a strong endorsement of the portfolio and reflects the enhanced credit quality of a Chevron lease covenant for 46 of our properties.

Continued execution of successful acquisition strategy

During the period the Fund successfully committed to $90.2 million of property acquisitions of which $67.8 million has settled, while $22.4 million relates to development projects which are forecast to complete in FY2021. In addition to these acquisitions, we also completed $9.8 million of divestments during the period. Subsequent to financial year end, the Fund has also contracted a further $38 million of property acquisitions which are due to settle by the end of September 2020.

Mr Brockett commented, “These transactions have contributed to extending the portfolio WALE, improving geographic diversification and strengthening the quality and diversification of tenants. They also demonstrate that we continue to be active in sourcing and executing on new investment opportunities while taking a patient and focused approach to our acquisition growth strategy of developing partnerships with developers and tenants to enhance the Fund and create long-term sustainable value for securityholders.”

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[1] Assumes CPI of 1.8% p.a

Capital management

Total drawn debt at 30 June 2020 was $76.5 million, resulting in a gearing ratio of 16.5%. After adjusting for the remaining $22.4 million development pipeline and $38 million of contracted acquisitions, the pro forma gearing of 24.8% is at the bottom of our target range of 25 – 40%. This provides the Fund significant capacity to deliver on its strategy of investing in strategically located convenience retail assets while maintaining a prudent balance sheet.

During the period, the Fund raised $101.6 million of new equity comprising:

- $88 million of fully underwritten institutional placements and an $8.1 million security purchase plan; and
- $5.5 million proceeds from the Fund's Distribution Reinvestment Plan (DRP) for the September 2019 and December 2019 quarters.

Subsequent to 30 June 2020, the Fund also completed a $10 million security purchase plan in July 2020 while the DRP remained activated for the June 2020 quarter distribution, raising a further $0.7 million.

During the period, the Fund refinanced $105 million of existing debt facilities as well increased the total debt facility limit by $40 million. The overall result was an increase in the weighted average debt maturity by 2.2 years to 3.8 years, a 0.3% reduction in the weighted average interest margin and improved funding and flexibility that will support our growth plans.

Mr Brockett commented, "The equity raisings and refinancing have placed the Fund's balance sheet in a very strong position, allowing us to continue to deliver on our strategy of investing in strategically located convenience retail assets while maintaining a prudent level of gearing, and with the comfort of having no debt maturity until February 2023. We appreciate the ongoing strong support we receive from our securityholders and from our lenders."

Outlook

The Fund is very well positioned with a strong balance sheet that has significantly reduced gearing of 16.5% or 24.8% pro forma (versus 32.3% at June 2019) allowing the Fund to pursue additional acquisition opportunities that deliver further long-term sustainable earnings growth for securityholders.

FY2021 FFO and distribution guidance is 21.8 – 22.0 cents per security, subject to current market conditions continuing and no unforeseen events.

This guidance includes the acquisitions contracted post balance date but assumes no further transactions.

This document has been authorised to be given to the ASX by the Board of APN Funds Management Limited.

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For further information, please contact:

Chris Brockett
Fund Manager
E cbrockett@apngroup.com.au
T +613 8656 1000