Centuria

Australian Securities Exchange - Company Announcements Platform

Centuria Property Funds No. 2 Limited
CENTURIA INDUSTRIAL REIT

CIP FY2017 Financial Results

Monday, 14 August 2017

Centuria Property Funds No. 2 Limited (CPF2L), as Responsible Entity of Centuria Industrial REIT (ASX:CIP), is pleased to announce CIP's full year financial results for the period ending 30 June 2017.

Key Highlights

- Statutory net profit of $50.8 million
- Distributable earnings[1] of $43.5 million, representing 20.5 cents per unit ("cpu") in line with revised guidance
- Total assets of $921.5 million, with NTA increasing by 1.3% to $2.35 per unit
- Agreed leases over 134,000sqm; representing 17.7% of portfolio GLA[2]
- Portfolio occupancy at 92.1%[3], with a 4.4 year WALE[3]
- Reduced FY18 lease expiry below 5%[3]
- Refinanced entire debt book with new $450 million common terms facility
- Conducted $35 million placement on 29 June 2017
- Divested two dated assets for $30 million[4]; 7.9% premium to book value
- Acquired two assets, 100% occupied, for $65 million[5]

CIP Trust Manager Mr Ross Lees commented: "We have actively pursued strategies to stablise and reposition the portfolio for long-term success following the transition of management from 360 Capital to Centuria in January this year. We commence FY18 in a solid position to continue growing value for unit holders.

We have been active across all aspects of CIP's portfolio; in FY17 we achieved record leasing volumes, agreed to transact $95 million of assets and refinanced CIP's entire debt book. During this period of heightened activity we remained focused on our core objectives, and delivered earnings and distributions in line with the re-stated guidance provided in February."

1 Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash and significant items. The Directors consider that distributable earnings reflect the core earnings of CIP.
2 Portfolio GLA includes acquisitions announced on 29 June 2017
3 By income
4 Includes 39-45 Wedgewood Drive, Hallam which exchanged on 5 July 2017
5 Settlement of 207-219 Browns Road, Noble Park occurred on 17 July 2017. Lot 14 Sudlow Road, Bibra Lake, WA is expected to settle on 29 September 2017.

Centuria

FY17 Financial results

The statutory net profit of $50.8 million for FY17 reflects an increase of 2% over the prior year.

Distributable earnings of $43.5 million reflect a decrease of 10.3% over the previous year. The reduction in earnings is attributable to forgone income from assets divested in FY16[6] and FY17[7], along with reduced occupancy over the period following a number of tenant departures in Q3 FY17.

NTA per unit increased, driven by revaluation gains during the period, offset in part by costs associated with terminating interest rate swaps. At 30 June 2017 NTA had increased 1.3% to $2.35 per unit.

Distributions per unit of 20.5 cents were in line with the revised guidance provided by CPF2L in February 2017.

Capital management

During the year CIP's entire debt book was refinanced, replacing the existing $420 million bank debt with a new $450 million common terms facility. The new facility provides improved diversification of both lenders and maturities, significantly reducing future refinancing risk.

Following a review of the hedging profile, $320 million of interest rate swaps were terminated at a cost of $6.5 million. In keeping with CIP's conservative capital management philosophy, new hedging agreements have been executed for over 86% of drawn debt.

Balance sheet gearing of 43.1% is within all covenants and CIP maintains a strong interest cover ratio of 4.3 times.

CPF2L continues to take steps to deleverage the balance sheet, having conducted a $35 million placement on 29 June 2017, announcing a Unit Purchase Plan ("UPP") for up to $7.5 million and activation of the Distribution Reinvestment Plan ("DRP") for the September 2017 quarter. Additionally, CIP has entered into a contract to divest of 39-45 Wedgewood Drive, Hallam, for a price of $10 million, with settlement to occur on 29 June 2018.

Key indicator	FY17	FY16
Drawn debt ($m)	397.3	391.5
Facility limit ($m)	450.0	420.0
Gearing[8]	43.1%	42.6%
% of drawn debt hedged	86%	102%
All-in cost	4.0%	3.8%
Weighted average debt maturity (yrs)	3.4	1.7
Weighted average hedge maturity (yrs)	3.6	3.0

6 33-59 Clarinda Road, Oakleigh, VIC was divested in December 2015 for $10.5m
7 60 Marple Avenue, Villawood, NSW was divested in February 2017 for $20.0m
8 Gearing is defined as total borrowings minus cash / total assets minus cash and goodwill

Centuria

Property portfolio

Maximising occupancy and reducing near-term expiry risk is a key focus for CIP. New leases and renewals were agreed on 134,000sqm representing 17.7% of the portfolio's lettable area. Despite this significant achievement, occupancy has been impacted by a number of tenant departures in Q3 FY2017.

At 30 June 2017, CIP's portfolio was 92.1% occupied with a WALE of 4.4 years. Importantly, FY18 lease expiry represents less than 5% of portfolio income.

Portfolio average fixed rental growth remains underpinned at 3.3%, with 81% of CIP's leases having fixed annual reviews.

FY17 asset valuations

10 assets were independently valued at 30 June 2017 with the remaining 26 assets subject to Director's valuations. Over the past twelve months 22 of CIP's assets have been independently valued.

At 30 June 2017, the value of CIP's portfolio was $896.2 million[9], representing an increase of 1.1%[10] since 30 June 2016. The weighted average capitalisation rate of CIP's portfolio has remained relatively stable, firming 9 basis points to 7.31% as at 30 June 2017.

Consequently, NTA has increased 3 cents, or 1.3%, to $2.35 per unit.

Capital transactions

CPF2L has actively pursued and executed on opportunities to re-mix the portfolio, improving the underlying asset quality and predicatability of future income.

Two assets have been divested for a total price of $30m; the assets divested posed a heightened risk of vacancy and downtime, with the sale prices reflecting an average premium to book value of 7.9%.

On 29 June 2017, CIP announced the acquisition of two assets adjoining existing investments for a price of $65 million. The properties are 100% leased with a WALE of 6 years[11], providing predictable future income with embedded rental growth.

Earnings & distribution guidance

CPF2L advises that FY18 distributable earnings are expected to be in the range of 19.5 – 20.0 cpu, and currently intends to distribute 19.4 cpu, paid in quarterly installments of 4.85 cpu, consistent with March and June 2017 distributions.

9 Excludes acquisitions announced on 29 June 2017 due to complete in FY18
10 On a like-for-like basis, excludes 60 Marple Avenue, Villawood
11 Prior to lease extension with AWH Pty Ltd subsequently announced on 1 August 2017. Post lease extension the WALE improves to 8.4 years

Centuria

FY17 results presentation

CIP has provided a market briefing that is available to unit holders via the Centuria website (www.centuria.com.au/listed-property-funds).

- Ends -

For further information, please contact:

Ross Lees

Trust Manager - CIP

Centuria Property Funds No. 2 Limited
Phone: 02 8923 8923
Email: ross.lees@centuria.com.au

Natalie Powell

Chief Marketing Officer

Centuria Capital Limited
Phone: 02 8923 8923
Email: natalie.powell@centuria.com.au

Katy Lithgow

Media Enquiries

BlueChip Communication
Phone: 02 9018 8603
Email: katy@bluechipcommunication.com.au

About Centuria Property Funds No. 2 Limited

Centuria Property Funds No. 2 Limited (CPF2L), a wholly-owned subsidiary of Centuria Capital Group (CNI), is the Responsible Entity for the ASX listed Centuria Industrial REIT (CIP).

CPF2L, combined with Centuria Property Funds Limited (CPFL), the Responsible Entity for the ASX listed Centuria Metropolitan REIT (CMA), has approximately $3.2 billion of funds under management in 17 unlisted property funds and two listed REITs.

CNI is an ASX-listed specialist investment manager with more than $4 billion in total funds under management.