

FY19 Financial Results

Tuesday, 6 August 2019

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 ended 30 June 2019.

FY19 FINANCIAL HIGHLIGHTS

- Statutory profit of \$88.8 million
- Distributable earnings of \$48.7 million¹
- Distributable earnings per unit (EPU)¹ of 18.8 cents per unit (cpu), above the midpoint of previous guidance²
- Distributions per unit (DPU) of 18.4 cents per unit delivered in line with guidance
- 12 month Return on Equity (ROE) of 13.8%³
- Balance sheet gearing of 37.4%⁴, pro forma balance sheet gearing reduced to 33.3%⁵

FY19 PORTFOLIO HIGHLIGHTS

- Leases agreed⁶ for more than 113,000sqm, representing 14% of the portfolio
- Occupancy⁷ increased to 95.9% with a WALE⁷ of 4.3 years
- Portfolio value increased to \$1.2 billion
- Total transactions of \$203.7m⁸ improve portfolio quality

Centuria's Head of Funds Management and CIP Fund Manager, Mr Ross Lees commented, "CIP has continued to grow in FY19 and re-enforce its market position as Australia's largest domestic pure play industrial REIT. Our growth has been a result of a well executed strategy to acquire quality industrial assets in key markets, whilst maintaining close relationships with our tenant customers to maximise occupancy, reduce near term expiry risk and maximise earnings for CIP's unit holders."

FY19 FINANCIAL RESULTS

Earnings		FY19	FY18
Statutory profit / (loss)	\$m	88.8	98.9
Distributable earnings ¹	\$m	48.7	47.6
Distributable earnings per unit ¹	cpu	18.8	19.5
Distribution per unit	cpu	18.4	19.4
Return on equity ³	%	13.8	17.3

Balance sheet		FY19	FY18
Total Assets	\$m	1,250.2	1,096.9
NTA per unit ⁹	\$	2.73	2.56
Gearing ⁴	%	37.4	38.4

Statutory profit of \$88.8m was reported for FY19. Distributable Earnings¹ of \$48.7m generated EPU of 18.8c per unit, which is at the mid-upper range of FY19 guidance of 18.5 - 19.0cpu. Total distributions of 18.4cpu was paid in line with guidance.

Total assets increased to \$1,250.2m as a result of the acquisition of 6 assets for \$147.4 million⁶ as well as revaluation gains of \$72 million¹⁰. Revaluation gains contributed to the 6.6% increase in CIP's Net Tangible Assets⁹ (NTA) per unit

ASX Announcement

to \$2.73. The revaluation gains continued to be driven by CIP's NSW & VIC portfolios, which account for the main concentration of CIP's portfolio at 63%. The portfolio's Weighted Average Capitalisation Rate (WACR) has reduced by 30bps over FY19 to 6.46%.

The increase in NTA, combined with the distribution of 18.4cpu for the year has generated a strong Return on Equity (ROE) of 13.8%³.

During the period, CIP strengthened its balance sheet, refinancing \$310m of short term facilities and securing an additional \$60m of facilities. Along with introducing a new lender to a diversified lender pool, CIP now has no debt maturities until FY22. Gearing³ continued to reduce to 37.4% in FY19 from a combination of equity funded acquisitions and revaluations. Following the recent acquisition of three quality industrial assets, associated \$70m Placement and Unit Purchase Plan of \$21.054m, CIP's pro forma gearing further reduced to 33.3%. CIP's balance sheet is now well positioned to capitalise on future growth opportunities.

To more closely align itself with industry standards and PCA guidelines¹¹, CIP will report on a Funds from Operations (FFO) basis going forward with its distribution policy based on 90–100% of FFO. FY19 equivalent FFO is 19.3 cents per unit and CIP forecasts FY20 FFO to grow by 2%-3%, with distributions forecast at 18.7 cents per unit.

PROPERTY PORTFOLIO

Portfolio Snapshot		FY19 ¹²	FY18 ¹³
Number of assets		43	37
Book value	\$m	1,221.3	999.0
WACR	%	6.46	6.76
Occupancy by income ⁵	%	95.9	94.5
WALE by income ⁵	years	4.3	5.1
Leases agreed GLA	sqm	113,932	238,189

CIP's property portfolio has grown to 43⁹ assets with a total value of \$1,221.3m, an increase of 22.2% over FY19.

Occupancy increased to 95.9% and is impacted by the vacant possession acquisition of 46 Gosport Street, Hemmant, QLD, which was acquired at the conclusion of FY19. Excluding this property, occupancy was 97.5%. CIP's high occupancy has been driven by another year of strong leasing results with over 113,000sqm leased. Importantly, all tenancies that expired within FY19 were either renewed or re-leased prior to the conclusion of FY19.

Continuing to build occupancy and stability in CIP's Victorian portfolio was a key deliverable in FY19, and total leasing of over 80,000sqm has increased occupancy in this sub-portfolio to 96.7%.

The portfolio remains well positioned with CIP's FY20 lease expiry representing only 8.1% of portfolio income.

CAPITAL TRANSACTIONS

During FY19, \$203.7m⁸ of transactions were executed, including \$147.4m of acquisitions^{8,12} at an average yield of 7.1%¹⁴. 73% of CIP's acquisitions were transacted off market.

CIP settled the divestment of 39-45 Wedgewood Drive, Hallam VIC for \$10.0 million. CIP also divested a 7.7% strategic stake in Propertylink Group for \$46.3 million, achieving a 13.3% IRR over an 11 month holding period¹⁵.

Finally, the commencement of FY20 continues to see CIP positioning for growth with:

- The settlement of 680 Boundary Road Richlands, QLD, a high-quality asset in the well established industrial market of Richlands acquired for \$19.5m⁸ at an initial yield of 7.4%

- The settlement of 75-95 & 105 Corio Quay Road, VIC, located directly opposite the Geelong Port and leased to a subsidiary of Boardriders Inc. Acquired for \$22.8m⁸ with capital earmarked to extend the WALE

SUMMARY & OUTLOOK

Ross Lees commented, “We are pleased with the result that CIP has delivered to unitholders in FY19. Our key priorities were delivered, The REIT’s quality improved and financial results were delivered in line with the guidance provided. Strategic transactions that have continued to grow the REIT will introduce quality, complimentary assets to the portfolio that will be relevant to our key tenant customers.

“With an average asset size of approximately 20,000 square metres, CIP’s portfolio remains well positioned with regards to the highest velocity of national leasing activity while continuing to service a diverse and quality tenant base. Quality industrial accommodation also remains in high demand from tenants, particularly those seeking to occupy smaller, flexible spaces that are well located in key industrial precincts or in close proximity to growing populations. Such locations remain desirable when supporting consolidating supply chains, balancing increased transport costs and promoting efficiencies within growing distribution volumes and advancing technologies.

“From a capital markets perspective, Australia remains an attractive destination for capital allocation due to transparent government and investment processes, the ability to access freehold opportunities and some of strongest population growth rates for a developed market that is increasing the nations appetite for, goods, services and quality space. Broadly speaking, these themes have continued to position Australia’s industrial real estate sector as one of the most in demand from domestic and offshore capital sources that have been faced with constrained investment markets where demand continues to outweigh supply.

“Looking forward to FY20, CIP will continue to build on its strong momentum in national leasing and transaction markets to re-enforce its presence as Australia’s largest domestic pure play industrial REIT with a portfolio that is relevant and attractive to a broad range of tenant customers.”

FY19 RESULTS PRESENTATION

CIP has provided a market briefing that is available via the Centuria website

<https://centuria.com.au/cip/annual-results/>.

– Ends –

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

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About Centuria Industrial REIT

CIP is Australia’s largest domestic pure play industrial REIT and is included in the S&P/ASX 300 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 \$6.2 billion¹⁶ in total assets under management and strong offerings across listed real estate investment trusts, unlisted real estate funds and investment bonds.

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- 1 Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standard ("AAS") 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 Distributable earnings guidance of 18.5 – 19.0 cents per unit
 - 3 Return on Equity is 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 minus cash and goodwill
 - 5 30 June 2019 gearing adjusted for i) acquisition of 75-95 & 105 Corio Quay Road, North Geelong, VIC; ii) acquisition of 680 Boundary Road, Richlands, QLD; iii) earmarked capital works; iv) \$70m institutional placement; v) \$21m unit purchase plan
 - 6 Includes Heads of Agreement (HOA)
 - 7 By income, assumes 12 month rental guarantee for Cargo Business Park, 1 International Drive, Westmeadows, VIC
 - 8 Before transactions costs
 - 9 NTA per unit is calculated as net assets less goodwill divided by closing units on issue
 - 10 Reflects gross increase. Does not include capital expenditure incurred
 - 11 Property Council of Australia's Voluntary Best Practice Guidelines for Disclosing FFO and AFFO December 2017. This is calculated as the statutory net profit adjusted for certain non-cash and other items
 - 12 Excludes 75-95 & 105 Corio Quay Road, North Geelong and 680 Boundary Road, Richlands which were exchanged, but not settled by 30 June 2019
 - 13 Excludes 39-45 Wedgewood Drive, Hallam, VIC, divested 13 July 2018
 - 14 Before transaction costs. Exclude 46 Gosport Street, Hemmant QLD which was acquired as vacant possession on 28 June 2019
 - 15 Realisation, profit and IRR all take account of transaction costs
 - 16 As at 31 July 2019 with pro forma adjustments to reflect Centuria Heathley transaction