Core Property
Fund Research & Ratings

Listed Property

Reporting Season Results August 2018

A review of results reported by the listed property securities

Weeks 1 & 2:

BWP, SCP, IOF, FET, MGR, CLW

Reporting Season Review – Weeks 1 & 2

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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August 2018

Reporting Season – Weeks 1 & 2

A-REIT results covered in this report:		
For full reporting calendar see Appendix		
Wednesday 1 August 2018		
BWP	BWP Trust	FY18
Tuesday 7 August 2018		
SCP	SCA Property Group	FY18
Wednesday 8 August 2018		
IOF	Investa Office Fund	FY18
FET	Folkestone Education Trust	FY18
Thursday 9 August 2018		
MGR	Mirvac Group	FY18
Friday 10 August 2018		
CLW	Charter Hall Long WALE REIT	FY18

FY18 result is for 12 months to 30 June 2018

Throughout August 2018 the listed property securities will be reporting their results for the June 2018 period. This report provides a summary of Core Property's review of the key results reported in weeks 1 and 2.

BWP Trust (BWP) reported modest growth in Distributable Profit of 1.7%. The result included a 1.0% contribution from the release of capital profits from asset sales, leaving only a 0.7% growth rate for distributions if we exclude this capital profit release. The portfolio continues to remain under pressure as further assets undergo repositioning over the next 3 years. Management indicated that it may use capital profits to further support distribution growth in FY19.

SCA Property Group (SCP) delivered a strong result with FFO increasing a healthy 5.4% and distributions increasing 6.1% for FY18. Whilst SCP has indicated FY19 guidance of 2% growth in FFO, Core Property considers this to be a conservative as it assumes higher interest rate assumptions and no further acquisitions. Historically, SCP has outperformed its initial guidance and a 2% growth rate in the face of higher interest costs, is reflective of SCP's defensive portfolio characteristics.

Investa Office Fund (IOF) reported growth of 0.8% in FFO with earnings being impacted by the sale of two assets in early 2017. Underlying income remained healthy with a 3.6% increase in like-for-like FFO growth due to the strong Sydney and Melbourne office markets. Guidance for FY19 is for FFO growth of -4.6%, with earnings impacted by refurbishments and asset sales. Currently IOF is under a takeover offer from Blackstone equivalent to $5.1485 per unit with securityholders expected to vote on the offer on 21 August.

Folkestone Education Trust (FET) delivered an impressive 8.6% increase in Earnings per unit largely off the back of a net increase in new childcare centres during the period, as well as healthy income growth from existing centres. Whilst FY19 EPU growth is forecast to be lower at 1.8%, FET is forecasting distribution growth of 6.0% (mainly due to a higher payout ratio). An increase in value accretive acquisitions may provide additional upside to earnings to support the growth in distributions, especially if FET continues its strategy of recycling out of its non-core assets into higher quality centres.

Key financial and valuation metrics

Code	Price (cps[1])	Operating earnings		Distributions		Leverage		Valuation		Guidance on EPS & DPS		
		EPS (cps)	(% chg)	DPS (cps)	(% chg)	Gearing (%)	Chg (%)	NTA (cps)	Prem/ (Disc) to NTA %	FY19 EPS (cps)	FY19 DPS (cps)	Implied DPU yield
BWP	325	17.8	1.7%	17.8	1.7%	19.3	(1.1%)	285	14.0%	18.1	18.1	5.6%
SCP	243	15.3	4.1%	13.9	6.1%	31.2	(0.2%)	230	5.7%	15.6	14.3	5.9%
IOF	516	30.6	3.0%	20.3	0.5%	23.0	(1.6%)	547	(5.7%)	29.2	20.3	3.9%
FET	272	16.5	8.6%	15.1	6.3%	29.1	1.4%	278	(2.2%)	16.8	16.0	5.9%
MGR	235	16.4[2]	8.3%	11.0	6.0%	21.3%	(2.1%)	231	1.7%	16.8 - 17.1	11.6	4.9%
CLW	422	26.4	3.9%	26.4	3.9%	30.6%	0.7%	405	4.2%	26.4 - 26.6	26.4 - 26.6	6.3%

Note 1: Price is based on closing price on day of results announcement. Note 2: MGR has restated EPS to 16.4 cps (from 15.6 cps) to include security-based payments expenses and to exclude the amortization of lease incentives/costs. Source: Company Announcements, Core Property

Mirvac Group (MGR) delivered a healthy 8.3% increase in Operating EPS with growth predominantly from the strong Sydney & Melbourne office markets as well as the completion of 664 Collins St development, whilst the Retail and Residential portfolios delivered a marginal ~1% decline in earnings. Over the next 3 years MGR announced that it will be looking to increase its weighting to passive income producing property and lowering its reliance on developments. The development pipeline will be more focused on commercial and Masterplanned Communities, with a lower weighting on Apartment developments. EPS guidance for FY19 is for an increase of 2-4%, which we consider to be reasonable, with distribution growth of 5% to 11.6 cpu. This implies an FY19 distribution yield of ~4.9%.

Charter Hall Long WALE REIT (CLW) reported robust Earnings per security growth of 3.9% in FY18 underscored by rental growth and $97M of net acquisitions during the year. FY19 earnings though is likely to come under pressure due to $127M of net divestments already committed. Currently CLW expects to have the funds redeployed in September and November 2018 which would be required to meet its FY19 guidance of 0% - 0.7% growth in EPS. Notwithstanding the pressure to redeploy funds efficiently, CLW is currently trading on a distribution yield of around 6.3%, which remains reasonably attractive for a portfolio of long WALE assets.

Our review of the results is presented on the following pages.

1 Aug 2018

BWP Trust (ASX: BWP) – FY18 Results

BWP delivered a pedestrian FY18 result with earnings growth being supported by the release of capital profits from asset sales. Whilst Distributable Profit grew by 1.7%, the growth included a 1.0% contribution from the release of capital profits from asset sales. Although BWP had flagged such a measure, it was disappointing to see that the majority of the growth was delivered by the release of profits, leaving only a 0.7% growth rate for distributions if we exclude this capital profit release.

Rental income increased by a modest 0.6% across the portfolio. While the core portfolio has recorded 2.1% - 2.5%p.a. growth in like-for-like rental income over the past 2 years, it was the Alternate Use (Non-Core) portfolio (13 out of the 79 properties) which dragged down the overall growth rate.

The drag from the Alternate Use Portfolio is expected to continue in FY19 as BWP has flagged that it may utilise capital profits once again to support its expectations to "at least maintain" its distribution growth rate of 1.7%.

At a current price of $3.25, BWP is trading on a yield of 5.6% for FY19, and a 14.0% premium to its NTA of $2.85 per unit.

FY18 Results to 30 June 2018

FY18 results	FY18	FY17	Change
Earnings			
Statutory Net Profit after tax*	**$183.1M**	$223.8M	(18.2%)
Total Revenue	**$153.4M**	$152.5M	+0.6%
Distributable profit	**$114.4M**	$112.5M	+1.7%
Distribution per unit	**17.81cpu**	17.51cpu	+1.7%
Payout ratio	**100%**	100%	No change

Movement over 12 months	As at Jun 2018	As at Jun 2017	Change
Balance Sheet			
NTA per security	**$2.85**	$2.74	+4.0%
Gearing %	**19.3%**	20.4%	(1.1%)
Weighted average cost of debt	**4.6%**	4.6%	No change
Weighted average debt maturity	**2.2 years**	2.8 years	(0.6 years)
Borrowings	**$457.6M**	$471.1M	(2.9%)
Interest cover ratio	**6.5x**	6.3x	0.2x
Portfolio			
Property Valuation	**$2,352.7M**	$2,294.6M	+2.5%
Occupancy rate	**98.8%**	99.9%	(1.1%)
Number of properties	**79**	80	(1)
Weighted Average Capitalisation Rate	**6.48%**	6.59%	(11 bps)
WALE (Weighted Average Lease Expiry)	**4.5 years**	5.0 years	(0.5 Years)

Source: BWP, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income.

Key Points

- **Distributable profit** increased 1.7% on the prior corresponding period to \$114.4M. The result included \$1.2M in capital released from the sale of properties. BWP management had previously indicated that its growth in Distributable Profit would include capital releases. Excluding this amount, Distributable Profit increased a modest 0.7% during the 12-month period, highlighting the fact that the majority of the growth was derived from \$1.2M release of capital.
- **Property Revaluations:** The portfolio of 79 properties was revalued at 30 June 2018 with 20 properties receiving independent valuations (12 in 1H18 and 8 in 2H18). The portfolio value increased 2.5% (or \$58.1M) to \$2,352M, with an 11 bps compression in the capitalisation rate to 6.48% at June 2018.
- **Key property metrics** include:
  - **Occupancy levels** reduced to 98.8% (from 99.9% at June 2017), with the Altona and Cairns properties currently vacant. Altona is under contract for sale (settlement September 2018) and BWP is currently undertaking a releasing campaign at Cairns whilst also exploring development options at the site.
  - **Weighted Average Lease Expiry (WALE)** reduced to 4.5 years (from 5.0 years at June 2017) with management indicating that it expects the WALE to remain in the 4 - 5 years range.
  - **Acquisitions/Disposals** – The Dandenong property was sold in November 2017 for \$16.4M and BWP did not acquire any properties during the year. With market rates on new Bunnings properties being sold on capitalisation rates of 5.0%-5.5%, we do not expect any accretive acquisitions to be undertaken by BWP. The proceeds from properties sold will likely be used to reduce debt in the short term.
  - **Core Portfolio:** The Core Portfolio consists of 66 out of 79 properties and delivered a reasonable like-for-like rental growth of 2.5%. This includes Market Rent Reviews (+5.5% average), Fixed rent increases (+3.1% average) and CPI rent increases (+2.0% average) across the 66 properties.
  - **Alternate Use Properties (Non-Core):** Out of the 13 non-core properties, 1 was sold in November 2017 (Dandenong) and 4 are expected to sell/settle between September 2018 and February 2019 (Altona, Epping, Burleigh Heads, Oakleigh South). The site at Mentone is currently being repositioned as a large format retail centre and is expected to be complete by February 2019 with a potential \$5.7M valuation uplift (after \$4.5M of capex). A further 7 properties are earmarked for repositioning (and/or sale), ahead of their lease expiries over the next 3 years to September 2021.
- **Net Tangible Assets (NTA) per security** increased to \$2.85 per unit, up 4% from the prior corresponding period.
- **Gearing** has reduced to 19.3% (from 20.4% at June 2017). The reduction was largely driven by a \$13.6M reduction in borrowings following the sale of the Dandenong property.
- **Distributions** grew by 1.7% over the prior corresponding period to \$17.81cpu. A final distribution of 9.03 cents was declared in June 2018 (ex-distribution date of 28 June 2018).
- **Earnings Guidance for FY19:** Management has indicated that rental income will continue to grow from its core Bunnings warehouse property portfolio. The divestment of up to 4 properties will likely occur by the end of FY19 and the other ex-Bunnings warehouses will be repositioned for alternative use. Management is targeting to "at least maintain" its distribution growth in FY19, implying FY19 distributions will be at least 18.11 cpu (an increase of 1.7% on FY18). Once again, BWP has indicated that capital profits will be used to support distributions as required in FY19, implying that underlying earnings growth will be lower.

7 Aug 2018

SCA Property Group (ASX: SCP) – FY18 Results

SCP delivered a strong result, with Funds From Operations (FFO) increasing a healthy 5.4%, and distributions increasing 6.1% for the FY18 period. The result highlights the resilience of SCP's portfolio, which is focused on convenience-based retail centres. Sales growth at its supermarkets increased 1.9%, with positive sales growth also recorded at its discount department stores (+1.9%), mini majors (+2.7%) and specialty stores (+3.3%).

Whilst SCP has indicated FY19 guidance of only 2% growth in FFO, Core Property considers this to be a conservative estimate as it assumes higher interest rate assumptions and no further acquisitions (SCP currently has $130M in undrawn debt which it can use for growth). Historically SCP has outperformed on its initial guidance and a 2% growth rate in the face of higher interest costs, is reflective of SCP's defensive portfolio characteristics.

SCP's forecast distribution for FY19 of 14.3 cpu implies a 5.9% yield at current prices. At $2.43 SCP is trading at a 5.7% premium to its current NTA of $2.30 per unit.

FY18 Results to 30 June 2018

FY18 results	FY18	FY17	Change
Earnings			
Statutory Net Profit after tax*	**$175.2M**	$319.6M	(45.2%)
Funds From Operations (FFO)	**$114.3M**	$108.4M	+5.4%
FFO per security	**15.3 cps**	14.70 cps	+4.1%
Distribution per security	**13.9 cps**	13.1 cps	+6.1%
Payout ratio	**91%**	89%	+1.9%

Movement over 12 months	As at Jun 2018	As at June 2017	Change
Balance Sheet			
NTA per security	**$2.30**	$2.20	+4.5%
Gearing %	**31.2%**	31.4%	(0.2%)
Weighted average cost of debt	**3.8%**	3.8%	No change
Debt maturity	**4.9 years**	5.0 years	(0.1 years)
Borrowings	**$867.5M**	$817.4M	+6.1%
Portfolio			
Property Valuation	**$2,453.8M**	$2,364.6M	+3.8%
Occupancy rate	**98.4%**	98.4%	No change
Weighted Average Capitalisation Rate	**6.33%**	6.47%	(14 bps)
WALE (Weighted Average Lease Expiry)	**9.1 years**	9.8 years	(0.7 years)

Source: SCA, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

Key Points

- **Statutory net profit after tax** of $175.2M for FY18 was down 45.2% on FY17, largely due to a $74.1M increase in the value of properties during FY18 (compared to $211.6m in FY17).
- **Funds From Operations (FFO)** of $114.3M was up a strong 5.4% on the prior corresponding period, driven by a combination of comparable net operating income growth of 2.8% as well as the inclusion of income from acquisitions.
- **The property portfolio** remains resilient with Occupancy levels maintained at 98.4%.
  - **Sales growth at its centres remain healthy** with MAT (Moving Annual Turnover) increasing 2.1% for the year. Supermarket MAT sales growth moderated slightly to 1.9%,

with both Woolworths and Coles showing positive sales growth. Woolworths growth has been stronger than Coles for the majority of the year, although Coles growth was stronger in the last 3 months. Discount Department Store growth benefitted from an improvement at Big W, whilst Mini Majors and Specialties continued with healthy growth.

- **SCP now has 20 anchor tenants paying turnover rent** (17 supermarkets, 2 Kmarts and 1 Dan Murphy's) out of its 89 anchor tenants. A further 14 supermarkets are within 10% of turnover thresholds. Turnover rent accounts for a small portion ($1.4M) of anchor rental income ($108.6M).

SCP: Sales Growth and Tenant metrics

Comparable Store MAT[1] Sales Growth by Category (%)

	As at 30 June 2018	As at 30 June 2017
Supermarkets	1.9%	2.2%
Discount Department Stores (DDS)	1.9%	(4.3%)
Mini Majors	2.7%	1.4%
Specialties	3.3%	3.8%
Total	**2.1%**	**1.8%**

Specialty Tenant Metrics

	30 June 2018	30 June 2017
Comparable sales MAT growth (%)[1]	3.3%	3.8%
Average specialty occupancy cost (%)[1]	9.8%	9.7%
Average specialty gross rent per square metre	$716	$700
Specialty sales productivity ($ per sqm)[1]	$7,758	$7,801

Note 1: MAT stands for Moving Annual Turnover and measures the growth in sales over the last 12 months compared to the previous 12-month period. Source: SCP.

- **Weighted Average Lease Expiry (WALE)** reduced to 9.1 years (from 9.8 years). The portfolio derives 53% of gross rent from Woolworths/Wesfarmers tenancies (52% at FY17).
- **SCP acquired $38.3M of property in FY18**, with the main acquisition being the Sugarworld Shopping Centre in Cairns for $24.8M (October 2017). Two smaller acquisitions included the Belmont Bowling Club, above SCP's Belmont Shopping Centre in NSW ($4.8M Dec 2017) and the Coorparoo Childcare Centre above SCP's existing Coorparoo Shopping Centre, Qld ($7.2M Dec 2017). SCP also acquired a land site for $1.5M in Shell Cove, NSW where it is currently developing a $22.8M Woolworths anchored neighbourhood centre (expected completion in November 2018). More recently, on 2 August 2018 SCP has acquired Sturt Mall in Wagga Wagga, NSW for $73M, which will contribute to FY19 results.
- **SCP sold 4 properties for $57.9M into its unlisted SURF 3 Fund** on 10 July 2018. which will contribute $0.5M to FY19 earnings. SCP is expecting a further $0.5M contribution from establishment of a further SURF 4 Fund in the FY19 result. We estimate SURF3 and SURF4 to contribute around 1.3 cpu in growth for FY19.

- **Net Tangible Assets (NTA)** increased to $2.30 per unit, from $2.20 at June 2017. The portfolio value increased to $2,453.8M, up 3.8% on FY17 driven by a 13bps capitalisation rate compression across the portfolio in the second half of the year.
- **SCP continues to hold 19.9M units**, or 4.9% of the Charter Hall Retail REIT (ASX: CQR), which is valued at $83.4M. The investment has been accretive, delivering a 6.9% yield in FY18.
- **Gearing** reduced slightly to 31.2% from 31.4% and is at the lower end of SCP's 30 – 40% target range. SCP has cash and undrawn debt of $130.7M. The weighted average cost of debt remained flat at around 3.8% for the year, however SCP indicated that it is expecting this to increase to 4.1% in FY19 as a result of 1) a recent US private placement at higher interest rates, 2) current increases in the 90 day BBSW rates, 3) expected replacement of bank facilities at higher rates, and 4) SCP expecting to increase its hedging positions (currently 81.6% of debt is hedged).
- **Distributions** per security was 13.9cps for FY18, up 6.1% on the prior corresponding period. The payout ratio increased to 91% (from 89%).
- **FY19 Guidance** by SCP is for FFO per security of 15.6 cpu, representing growth of around 2%. SCP is forecasting FY19 distributions to be around 14.3 cpu, up 2.9% on FY18. Core Property notes that SCP is typically conservative in its initial guidance for the year, with its FY18 FFO of 15.3 cpu outperforming initial guidance of 15.1 cpu.

Core Property
Fund Research & Ratings

8 Aug 2018

Investa Office Fund (ASX: IOF) – FY18 Results

IOF reported 0.8% growth in Funds From Operations (FFO) for FY18 with earnings impacted by two asset sales in early 2017. However underlying income has remained healthy with like-for-like FFO increasing by 3.6% in FY18 as a result the strong Sydney, North Sydney and Melbourne office markets. IOF expects like-for like FFO to moderate to 2.2% growth in FY19, which we consider to be reasonable.

Guidance is for short term earnings to be impacted by refurbishments and asset sales, with IOF expecting overall FFO growth to be -4.6% in FY19. Distributions expected to remain stable at 20.3 cpu.

Currently IOF is under a takeover offer from Blackstone equivalent to $5.1485 per unit which is subject to securityholder vote on 21 August 2018. The offer is below the current NTA of $5.47 per unit, and the independent expert considers the offer to be "not fair but reasonable" and in the best interests of IOF unitholders in the absence of a superior offer. The opinion is, in part, based on the historical trading price of IOF, the current low distribution yield, the cash nature of the offer and the expectation that the price may fall if the in the absence of the offer or a superior offer.

At the current price, IOF is trading at a marginal 0.2% premium to the current Blackstone offer, a 5.7% discount to NTA per unit and a distribution yield of 3.9% for FY19.

FY18 Results to 30 June 2018

1H18 results	FY18	FY17	Change
Earnings			
Statutory Net Profit after tax*	**$521.6M**	$471.6M	+10.6%
Funds From Operations	**$184.0M**	$182.6M	+0.8%
FFO per unit	**30.6cpu**	29.7cpu	+3.0%
Distribution per unit	**20.3cpu**	20.2cpu	+0.5%
Movement over 12 months	**As at Jun 2018**	**As at June 2017**	**Change**
Balance Sheet			
NTA per security	**$5.47**	$4.79	+14.2%
Gearing (look through)	**23.0%**	21.4%	+1.6%
Weighted average cost of debt	**4.0%**	4.1%	(0.1%)
Weighted average debt maturity	**4.4 years**	4.7 years	(0.3 years)
Borrowings	**$1,089.7M**	$890.5M	+22.4%
Interest cover ratio	**4.9x**	4.8x	+0.1x
Portfolio			
Property Valuation	**$4,356.4M**	$3,824.3M	+13.9%
Occupancy rate	**97%**	97%	No change
Number of properties	**20**	20	No change
Weighted Average Capitalisation Rate	**5.48%**	5.74%	(26 bps)
WALE (Weighted Average Lease Expiry)	**4.9 years**	5.1 years	(0.2 years)

Source: IOF, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

Key Points

- **Funds From Operations (FFO)** increased 0.8% to $184.0M for FY18 (from $182.6M in FY17). The result includes a 3.6% increase in like-for-like FFO driven by strong Sydney, North Sydney and Melbourne markets and also offset by the sale of two assets in early 2017 (383 La Trobe St and 800 Toorak Rd). Although FFO grew by 0.8%, FFO per unit increased by 3.0%, benefitting from the buy-back of securities during FY18.
- **The IOF portfolio** consists of 20 properties with a value of $4.3B (up 13.9% from 30 June 2017). This increase in valuation was due to an uplift of $399.2M due to:
  - $80.8M valuation uplift in December 2017 for 5 assets;
  - $316.1M revaluation in May 2018 on the entire portfolio as part of the Blackstone takeover offer;
  - $2.3M uplift in June 2018 from the agreement to sell 836 Wellington St, Perth.

  The portfolio is diversified across NSW (50%), VIC (10%), QLD (25%), WA (10%) and ACT (5%). The portfolio weighted average capitalisation rate reduced 26bps to 5.48% (5.74% at 30 June 2017).
  - **Portfolio WALE** decreased to 4.9 years (5.1 years at 30 June 2017). Occupancy levels were maintained at 97% since 30 June 2017 with 83% of expiries within the next two years coming from the Sydney/North Sydney assets.
  - **Like-for-like net property income growth** decreased to 2.1% (4.7% at 30 June 2017). Whilst there was a like-for-like NPI growth of 3.0% in Sydney, 4.2% in North Sydney the reduction is due to the full year impact of the asset sales in early 2017.
  - **151 Clarence St, Sydney (Barrack Place)** is on track for completion in October 2018 with 84% of lettable area already leased with a WALE of 9.6 years. This development project has cost about $130M excluding incentives with an estimated $31M to complete the project.
  - **347 Kent St Sydney** will incur around $40M-$45M in capital expenditure, with the lift refurbishment expected to be completed 9-12 months from January 2019. ANZ occupies 68% of the property and has renewed for a further 5 years.
  - **388 George St, Sydney** is expected to incur $55-75M in capital expenditure (for IOF's 50% share of the property) following the exit of IAG tenant in October 2018. The site has recently lodged a development application for a new retail podium and is expected to undergo an extensive 18-month refurbishment across 39,000 sqm. IOF has entered into a non-binding Heads of Agreement on 8,024sqm (22% of office NLA).
  - **Total Capital Expenditure** for FY19 is expected to be $95M-$105M, including $25M - $30M in maintenance capex and $70M-$75M in incentive capex.
- **Net Tangible Assets (NTA)** increased by 14.2% to $5.47 per unit ($4.79 per unit at June 2017) primarily driven by the property valuation uplift of $399.2M.
- **Gearing** (on a look through basis) has increased to 23.0% (21.4% at 30 June 2017), well below IOF's long-term target of 25-35%. The increase in debt includes anticipated capital expenditure spending. The weighted average cost of debt reduced slightly to 4.0% (4.1% at 30 June 2017). IOF significantly increased its hedging to 77.9% of the portfolio (50.1% at June 2017), which is at the upper end of its target hedging range of 50-80% and indicated that it intends to remain at the upper end of this range.
- **The on-market buyback** announced on the 24 August 2017 has resulted in IOF purchasing 15.6M securities (2.5% of the 614.0M securities on issue at time of announcement).
- **Distributions** of 20.3 cpu for FY18, an increase of 0.5% from 20.2 cpu in FY17.
- **Guidance for FY19** is for FFO of 29.2 cpu representing growth of -4.6% (from 30.6 cpu for FY18). The lower FFO is largely due to reduced income as a result of anticipated refurbishments at 388 George St and 347 Kent St, Sydney as well as the sale of 836 Wellington St, Perth.

8 Aug 2018

Folkestone Education Trust (ASX: FET) – FY18 Results

FET delivered an impressive FY18 result with Distributable Income increasing 10.8% and Earnings per unit (EPU) increasing 8.6% for the year. The growth was delivered largely off the back of a net increase in new centres during the period, as well as healthy income growth from existing centres.

Growth in FY19 is currently expected to be lower with FET providing guidance of EPU growth of 1.8%, although it is targeting a 6.0% increase in distributions from a higher payout ratio. An increase in value accretive acquisitions may provide additional upside to earnings, especially if FET continues its strategy of recycling out of its non-core assets into higher quality centres.

At current price levels, FET provides a reasonable distribution yield of 5.9% for FY19 supported by a robust portfolio of childcare centres. Industry dynamics continue to remain strong, especially with the Federal government's "Jobs For Families" funding package which came into effect on 1 July 2018, providing an additional $3.5 billion in funding for childcare.

FY18 Results to 30 June 2018

FY18 results	**FY18**	**FY17**	**Change**
Earnings			
Statutory Net Profit after tax*	**$103.1M**	$121.4M	(15.1%)
Distributable Income	**$41.9M**	$37.8M	+10.8%
Earnings Per Unit	**16.5cpu**	15.2cpu	+8.6%
Distribution Per Unit	**15.1cpu**	14.2cpu	+6.3%
Payout ratio	**91.5%**	93.4%	(1.9%)

Movement over 12 months	**As at June 2018**	**As at June 2017**	**Change**
Balance Sheet			
NTA per security	**$2.78**	$2.51	+10.8%
Gearing %	**29.1%**	27.7%	+1.4%
Weighted average cost of debt	**4.4%**	4.5%	(0.1%)
Weighted average debt maturity	**2.4 years**	3.5 years	(1.1 years)
Borrowings	**$300M**	$249.9M	+20.0%
Interest cover ratio	**4.3x**	4.9x	(0.6x)
Portfolio			
Property Valuation	**$984.2M**	$858.8M	+14.6%
Occupancy rate	**100%**	99.5%	+0.5%
Number of properties	**410**	407	+3 assets
Passing yield	**6.3%**	6.7%	(0.4%)
WALE (Weighted Average Lease Expiry)	**9.9 years**	9.1 years	+0.8 years

Source: FET, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Distributable Income is a more appropriate measure to assess changes

Key Points

- **Distributable income** increased by an impressive 10.8% to $41.9M (from $37.8M in FY17) driven by organic income growth of $1.4M as well as new income from acquisitions (net of disposals) of $2.9M. Earnings per unit increased by 8.6% to 16.5cpu (from 15.2cpu in FY17).
- **FET has 410 properties valued at $984.2M** with 387 operational early learning centres ($921.3M) and 23 development sites ($62.9M).
- **Key portfolio highlights**:
  - **Occupancy levels** increased to 100% (from 99.5% at 30 June 2017).
  - **Like-for-like rental growth** of 2.8% was recorded in FY18, marginally lower than the 3.1% like for like rental growth in FY17. This included 34 market rent reviews which delivered an average 4.7% increase overall.
  - **During the period** FET benefitted from a net increase in centres. The overall net increase contributed to the strong increase in earnings for FY18.
    - 19 centres were sold for $45.6M, at an 8.9% premium to their carry value
    - 23 centres were purchased for $146.9M in total (14 development sites with an end value for $83.7M, plus 9 existing sits worth $63.2M)
    - 6 development sites were completed by FET for $43.1M at a 7.2% yield on cost.
  - **Weighted Average Lease Expiry (WALE)** increased to 9.9 years (from 9.1 years at 30 June 2017), with FET benefitting from new leasing transactions, acquisitions and completed developments.
  - **Property Valuations** increased by $125.4M to $984.2M (from $858.8M FY17) driven by the acquisition of 9 existing centres valued at $63.2M and an uplift of $56.7M on the existing portfolio. The uplift included yield compression of 40 bps to 6.3% (from 6.7% in FY17) and income growth from both annual and market rental reviews.
- **Gearing** has increased to 29.1% (from 27.7% in FY17), however is still conservatively below the FET's target range of 30% – 40%. FET has confirmed it has an undrawn facility of $47.0M which will be utilised for the development pipeline.
- **Net Tangible Assets (NTA) per Unit** increased by 10.8% to $2.78 per unit (from $2.51 in FY17) driven primarily by revaluations of $56.7M.
- **Distributions per unit** increased by 6.3% to 15.1cpu (from 14.2cpu in FY17).
- **FET provided guidance for FY19** of a 6.0% increase in distributions to 16.0 cpu. However, earnings per unit is expected to increase by 1.8% to around 16.8 cpu. The higher growth in distributions comes from a higher payout ratio of ~95% (compared to 91.5% in FY18). FET advised the earnings growth is expected to come from 8 development completions, 14 market rent reviews and 11 renewals where the tenant has the option to extend the lease. We see potential upside to earnings if FET undertakes further value accretive acquisitions.

9 Aug 2018

Mirvac Group (ASX: MGR) – FY18 Results

MGR's delivered a healthy 8.3% increase in Operating Earnings per Security for FY18 with growth predominantly from the strong Sydney & Melbourne office markets as well as the completion of 664 Collins St development. The Retail and Residential portfolios delivered a marginal ~1% decline in earnings.

Strategically MGR has announced a shift towards more passive property investments, where it will target an 85-90% allocation of capital, with the remaining 10-15% allocation for developments. This should provide a lower risk portfolio with a greater focus on income. The development pipeline will also look to increasing its weighting to Masterplanned Community developments, thereby reducing its reliance on Apartment developments.

Guidance for FY19 is for EPS to increase by 2-4%, which we consider to be reasonable, with the top end of the range likely to be achieved through higher residential settlements. Distributions are forecast to increase by 5% to 11.6 cpu, providing an FY19 yield of ~4.9%.

FY18 Results to 30 June 2018

FY18 results	FY18	FY17	Change
Earnings			
Statutory Net Profit after tax*	**$1,089M**	$1,164M	(6.4%)
Operating EBIT	**$807M**	$750M	+7.6%
○ Office & Industrial	**$381M**	$319M	+19.4%
○ Retail	**$154M**	$156M	(1.3%)
○ Residential	**$300M**	$302M	(0.7%)
○ Corporate & Other	**($28M)**	($27M)	+3.7%
Operating profit after tax	**$580M**	$534M	+8.6%
Funds From Operations	**$608M**	$556M	+9.4%
Operating Earnings per security	**15.6cpu**	14.4cpu	+8.3%
Distribution per security	**11.0cpu**	10.4cpu	+5.8%
Payout ratio	**70%**	72%	(2.0%)

Movement over 12 months	As at Jun 2018	As at Jun 2017	Change
Balance Sheet			
NTA per security	**$2.31**	$2.13	+8.5%
Balance sheet gearing[1]	**21.3%**	23.4%	(2.1%)
Weighted average cost of debt	**4.8%**	4.8%	No change
Weighted average debt maturity	**6.8 years**	6.2 years	+0.6 years
Borrowings	**$2,997M**	$2,898M	+3.4%
Portfolio			
Property Valuation	**$10,014M**	$9,097M	+10.1%
Occupancy rate	**98.7%**	97.3%	+1.4%
Number of properties	**62 assets**	64 assets	(2 assets)
Weighted Average Capitalisation Rate	**5.66%**	5.87%	(21bps)
WALE (Weighted Average Lease Expiry)	**5.6 years**	5.9 years	(0.3 years)

Source: MGR, Core Property, Note 1: Net debt at foreign exchange hedge rate (excluding leases/total tangible assets – cash).
* Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating EBIT is used by MGR as a more appropriate measure to assess changes

Key Points

- **Funds From Operations (FFO)** increased 9.4% to $608M with FFO per unit increasing 8.3% to 15.6 cpu for FY18. Total distributions of 11.0 cpu was up 6.0%, reflecting a lower payout ratio of 70%, compared to 72% in the prior year.
- **Capital Allocation:** MGR announced that it is targeting an 85-90% weighting of its capital to passive investment assets, which are generally properties which earn a rental income. Previously this target was 80%, and the shift reflects a lower reliance on development activity which will comprise the remaining 10-15% of capital. The development activity will be focused more on commercial developments and Masterplanned Commuities, with a lesser reliance on Apartment developments.

MGR Commercial Property Metrics: FY18

	Office		Industrial		Retail	
	FY18	FY17	FY18	FY17	FY18	FY17
No. of properties	28	28	17	19	17	17
Property Portfolio ($M)	$5,718M	$4,937M	$809M	$873M	$3,223M	$3,062M
Occupancy Rate	97.5%	97.6%	100%	95.3%	99.2%	99.4%
Capitalisation Rate	5.69%	5.92%	6.19%	6.37%	5.49%	5.67%
Lease Expiry (WALE)[1] - years	6.6 years	6.5 years	7.1 years	7.0 years	3.8 years	4.2 years
Like-for-like income growth	12.7%	4.7%[2]	1.3%	2.0%	3.0%	3.0%
MAT (retail sales) growth					3.1%	4.1%
Specialty store sales growth					3.7%	5.6%
Specialty occupancy cost					15.3%	15.0%

Source: Mirvac, Core Property. Note 1: WALE is accounted by income, 2) Excluding 101 Miller and 60 Margaret.

- **Operating EBIT** increased a strong 7.6% to $807M driven by the Office & Industrial portfolio.
  - **Office & Industrial** (47% of EBIT) increased by a very strong 19.4% to $381M. The result was largely due 1) Like for like NOI growth of 12.7% with Office NOI increasing 11%, 2) the completion of 664 Collins St, Melbourne (fully leased) contributing to the result, and 3) assets under management increasing 17% to $12.6 billion (from $10.8 billion in FY17) providing higher fee income.
  - **Retail** (19% of EBIT) declined slightly by 1.3% to $154M. Like-for-like NOI growth was 3% and the purchase of the remaining share of East Village, Sydney was offset by lower asset and funds management fees as well as the 50% sale of Kawana, QLD.
  - **Residential** (37% of EBIT) declined slightly by 0.7% to $300M. MGR settled 3,400 lots during the year with strong gross margins of 25.4%. Gross margins are expected to remain ~25%, above through-cycle 18-22% range and an existing residential pipeline supporting over 12,000 lot settlements over the next four years. FY19 earnings appear to be on track with $2.2B of pre-sales on hand and 60% of residential EBIT currently secured.
  - **Corporate & Other Expenses** increased to $28M (from $27M).

- **MGR's portfolio** enjoys some strong metrics, including:
  - **Portfolio valued** at $10,014M, an uplift of $487.7M for FY18.
  - **Occupancy** levels increased to 98.7% from 97.3% at June 2017.
  - **Weighted Average Lease Expiry** reduced to 5.6 years from 5.9 years.
  - **Weighted Average Capitalisation Rate** on the portfolio reduced by 21 bps to 5.66% over the 12-month period.

- **Restated Earnings:** Operating Earnings per security have been restated by MGR to include security-based payments expenses and to exclude the amortization of lease incentives and leasing costs. The reported Operating Earnings of 15.6 cpu are equivalent to 16.4 cpu on the revised definition, which is more aligned to the Property Council of Australia's definition of Funds From Operations or FFO.
- **Gearing** reduced to 21.3% (from 23.4%) and is at the lower end of the target range of 20-30%. MGR has $906M of cash and undrawn debt which it can call on, if required.
- **NTA** increase by 8.5% to $2.31 per unit, driven by revaluations and development completions.
- **FY19 Guidance was provided for** EPS to grow by 2-4%, implying EPS of 16.8 – 17.1 cpu on MGR's revised definition of operating earnings, with the higher end likely to be achieved if higher residential settlements are booked in FY19. Distributions are forecast to increase 5% to 11.6 cpu for FY19.

10 Aug 2018

Charter Hall Long WALE REIT (ASX: CLW) – FY18 Results

CLW reported robust Earnings per security growth of 3.9% in FY18 underscored by rental growth and $97M of net acquisitions during the year. However, FY19 earnings are likely to come under pressure due to $127M of net divestments already committed. Currently CLW expects to have the funds redeployed in September and November 2018 which would be required to meet its FY19 guidance of 0% - 0.7% growth in EPS. Notwithstanding the pressure to redeploy funds efficiently, CLW is currently trading on a distribution yield of around 6.3%, which remains reasonably attractive for a portfolio of long WALE assets.

FY18 Results to 30 June 2018

FY18 results	FY18	FY17[1]	Change
Earnings			
Statutory Net Profit after tax*	**$83.3M**	$34.6M	+140.7%
Operating Earnings	**$58.4M**	$33.6M	+73.8%
Operating earnings per security	**26.4cps**	25.4cps	+3.9%
Distribution per security	**26.4cps**	25.4cps	+3.9%
Payout ratio	**100%**	100%	No change

Movement over 12 months	As at Jun 2018	As at June 2017	Change
Balance Sheet			
NTA per security	**$4.05**	$3.93	+2.9%
Balance sheet gearing	**30.6%**	29.9%	+0.7%
Weighted average cost of debt	**4.2%**	4.0%	+0.2%
Weighted average debt maturity	**4.3 years**	5.1 years	(0.8 years)
Borrowings	**$430.1M**	$359.0M	+19.8%
Portfolio			
Property Valuation[2]	**$1,525.2M[2]**	$1,397.2M[2]	+9.2%
Occupancy rate	**100%**	100%	No change
Number of properties	**81**	80	+1 asset
Weighted Average Capitalisation Rate	**6.13%**	6.20%	(7bps)
WALE (Weighted Average Lease Expiry)	**10.8 years**	11.8 years	(1.0 years)

Source: CLW, Core Property Note 1: Reflects financial period from IPO (8 November 2016) to 30 June 2017 with annualised EPS and DPS numbers. Note 2: Valuation represents 100% of property values. CLW share is $1,368.4M ($1,162.7M in FY17).
* Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes

Key Points

- **Operating Earnings** for FY18 were $58.4M. CLW listed on the ASX on 8 November 2016 and operating earnings for the prior corresponding period of $33.6M represents the 8-month period 8 November 2016 – 30 June 2017. Operating Earnings per unit increased 3.9% on an annualized basis.
- **Portfolio Activity** during FY18 included $101M of acquisitions and $4.1M of divestments.
  - The Virgin Australia head office at 56 Edmondstone Rd, Brisbane was acquired for $90.8M. The A-grade freehold asset is 100% leased to Virgin Australia on an 8.4-year WALE at the time of settlement.
  - Through its 45% stake in the Long WALE Investment Partnership (LWIP), CLW acquired an interest in the Bridge Inn Hotel, Mernda VIC for $10.1M. The asset had a new 15-year ALH lease at the time of settlement.
  - CLW sold its interest in the Bridge Inn Hotel, Preston VIC for $4.1M.

- **Key property metrics** include:
    - **Occupancy levels** were maintained at 100%.
    - **Weighted Average Lease Expiry (WALE)** reduced to 10.8 years (from 11.8 years at June 2017), reflecting the 12-month movement.
    - **Portfolio Valuations** increased by $128M to $1.53B for the period driven by net acquisitions and $32.2M in gross property revaluations. Portfolio capitalisation rates reduced by 7bps to 6.13%.
- **The Woolworths Distribution Centre, Dandenong** was completed in March 2018 and is leased to Woolworths on a 20-year lease with fixed 2.75% annual rent reviews. CLW owns a 26% interest in the site with other Charter Hall managed funds.
- **Net Tangible Assets (NTA)** increased to $4.05 per unit, up 2.9% from $3.93 at 30 June 2017.
- **Gearing** increased slightly to 30.6% from 29.9% at FY17, and in the mid-point of its target of 25% – 35%.
- **Post Balance date,** CLW has committed to net divestments of $127.2M representing:
- <u>Divestments of $173.7M</u> from 1) the sale of the Grace Worldwide Facility, Willawong, Brisbane QLD for $38.7M, which has a capitalization rate of 7.0%, and 2) the sale of a 50% interest in the ATO office at 12-26 Franklin St, Adelaide SA to the Charter Hall Direct Office Fund for $135M. CLW will retain the remaining 50% share of the asset, which has a capitalisation rate of 5.9%.
- <u>Acquisitions of $46.5M</u> representing 50% of the office asset at 40 Tank St, Brisbane QLD on an initial yield of 5.84%. The Charter Hall Direct PFA Fund will acquire the other 50% interest in the property.
- **Guidance** for FY19 is for minimal EPS growth of between 0% and 0.7%, to deliver an EPS of 26.4 – 26.6cpu. The low guidance is largely due to the sale of the Grace Willawong and ATO Adelaide interests which will impact rental income in FY19 and assumes that $100M is reinvested in mid-September 2018 on a 6.1% yield. The top end of the range would be achieved if a further $30M is reinvested by November 2018 on a 6.0% yield. CLW has a 100% payout ratio, so distributions of 26.4 – 26.6 cpu represents an FY19 yield of around 6.3%.

Appendix: A-REITs Reporting Timetable

The following is a timetable of reporting dates for the A-REITs in August 2018.

A-REITs Reporting Timetable – August 2018

Mon 30 Jul	Tue 31 Jul	Wed 1 Aug	Thu 2 Aug	Fri 3 Aug
		Week 1		
		BWP – FY18		
Mon 6 Aug	**Tue 7 Aug**	**Wed 8 Aug**	**Thu 9 Aug**	**Fri 10 Aug**
		Week 2		
	SCP – FY17	**IOF** – FY18	**MGR** – FY18	**CLW –** FY18
		FET – FY18		**AVN –** FY18
		LEP - FY18		
Mon 13 Aug	**Tue 14 Aug**	**Wed 15 Aug**	**Thu 16 Aug**	**Fri 17 Aug**
		Week 3		
GPT – 1H18	**PLG –** FY18	**DXS –** FY18	**CQR –** FY18	**GMG –** FY18
		VCX – FY18	**GOZ –** FY18	**ABP –** FY18
Mon 20 Aug	**Tue 21 Aug**	**Wed 22 Aug**	**Thu 23 Aug**	**Fri 24 Aug**
		Week 4		
GDI – FY18	**CMA –** FY18	**IDR –** FY18	**APN –** FY18	**GDF –** FY18
	CIP – FY18	**CHC –** FY18	**VVR –** FY18	**AOF** – FY18
	CRR – FY18		**SGP –** FY18	
	SCG – 1H18		**CMW –** FY18	
	ARF – FY18			

Source: Company Announcements, Core Property

Ratings Process for A- REITs

Core Property Research evaluates recommendations on listed A-REITs continuously, based on a range of qualitative and quantitative criteria ranging from management, appropriateness of the A-REIT's capital structure and the property portfolio metrics. From a quantitative perspective, Core Property's recommendations are based on Total Expected Returns (forecast distribution yield plus forecast capital gain or loss) for a 12-month time horizon, using a range of valuation methodologies. The two most commonly used valuation techniques are Discounted Cash Flow (DCF), which uses an A-REI's expected free cash flow, and the net Asset Valuation (NAV) approach.

The 12-month Total Return is compared with set total return bands and assigned a 12-month recommendation based on the Recommendation Definitions below.

Recommendation Definitions

Recommendation	Definition
Buy	If the 12-month Total Expected Return is forecast to be 15% or more.
Accumulate	If the 12-month Total Expected Return is forecast to be at least 10% and less than 15%.
Hold	If the 12-month Total Expected Return is forecast to be at least 5% and less than 10%.
Reduce	If the 12-month Total Expected Return is forecast to be at least 0% and less than 5%.
Sell	If the 12-month Total Expected Return is forecast to be less than 0%.

At times of extreme volatility, it is quite possible that the recommendations will swing between each of our bands. During such times, Core Property will adopt a more flexible approach to recommending stocks, based on a slightly longer duration, and as such, recommendations may appear to be inconsistent when compared with the bands. This is to avoid clouding value judgments with short-termism.

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