Dexus Convenience Retail REIT (ASX:DXC)

ASX release

10 February 2025

Portfolio enhancement through divestment and development activity

Dexus Convenience Retail REIT (DXC) today announced its results for the half year ended 31 December 2024, confirming a distribution of 10.3 cents per security.

Summary

- **On-track to deliver FY25 guidance**, achieving Funds From Operations (FFO)[1] and distributions of 10.4 cents and 10.3 cents per security respectively
- **Resilient top line growth** with like-for-like net property income growth of 2.8% and average rent reviews of 3.1%
- **Positioned the balance sheet for growth** with gearing of 28.7%, at the lower end of the 25 – 40% target range following $38.8 million of strategic divestments
- **Optimised overall debt costs through $46.3 million of surplus facility cancellations**
- **Recently commenced redevelopment of the Glass House Mountains Northbound site,** which is fully pre-leased on an average 18-year lease term
- **Revaluations turned positive,** supporting stabilisation in Net Tangible Assets (NTA) per security, up 0.3%

Jason Weate, DXC Fund Manager said: "We strategically divested circa 5% of our portfolio on solid price terms, which has enhanced portfolio quality and balance sheet flexibility. We are actively pursuing future growth initiatives and have begun redeploying capital into the high-quality Glass House Mountains redevelopment, which will materially increase DXC's exposure to high-quality convenience retail service centres.

Strategy

"Today's result demonstrates our ability to deliver on our investment proposition to generate secure and defensive income with embedded growth, supported by our disciplined approach to capital management.

"We strengthened our balance sheet through executing $38.8 million of strategic divestments at an average 1.8% discount to book value. In isolation, the divestments provided a 3.6 percentage point gearing reduction and enhanced our interest hedging levels. The divestments have also enhanced portfolio quality by reducing DXC's exposure to regional and regional city assets.

"We are well placed to fund future growth initiatives, including the Glass House Mountains redevelopment. We recently commenced construction on the Northbound site following a redesign of the project to allow for an expanded On The Run offering focused on food-on-the-go, grocery convenience and an internal quick service restaurant. We have also secured an 18-year average lease term on the project, which is expected to deliver strong development returns above DXC's cost of capital.

"The recovery of fuel and convenience transaction volumes in 2024 now sits broadly in line with historic levels, despite a challenging interest rate environment. This has allowed for material asset price discovery and supported revaluations turning positive, which underpins our NTA."

Financial result

The statutory result reflected a net profit after tax of $14.7 million, compared to a loss of $1.7 million in the prior corresponding period, primarily reflecting property valuation gains recorded this half compared to valuation losses in the prior corresponding half.

FFO was $14.3 million, or 10.4 cents per security, reflecting a decline of 1.0% on the prior corresponding period primarily due to higher interest rates. The portfolio delivered like-for-like net operating income growth of 2.8%, reflecting the attractive blend of fixed and CPI-linked rental escalators.

DXC had 38 of its 91 investment properties independently valued during the half, with the remainder subject to internal valuations. The external and internal valuations resulted in a net revaluation uplift of $3.2 million, reflecting a 0.5% increase on prior book values. Contracted rental growth offset the impact of six basis points of capitalisation rate expansion on a like-for-like basis across the portfolio.

The asset revaluations largely contributed to the stabilisation in NTA per security, up 1 cent or 0.3%, to $3.57.

Gearing of 28.7% is at the lower end of the 25 – 40% target range, with proceeds from asset sales utilised to repay debt. Hedged debt averaged 78% for the half and is expected to average above 70% for FY25[2], providing material protection from higher interest rates. During the half, $46.3 million of surplus debt facilities were retired to optimise overall debt costs. DXC maintained a long average debt maturity of 3.9 years with no debt expiries until FY27.

Property portfolio and asset management

DXC's property portfolio includes 91 assets, valued at $709 million with a weighted average capitalisation rate of 6.41%.

The portfolio is weighted toward high value land uses, with 89% of asset zoning to commercial, industrial, residential or mixed use. In addition, there is potential for circa 20 value-add opportunities over the long term, subject to commercial considerations.

The portfolio is 86% weighted to metropolitan and highway assets, with regional properties comprising the remainder. Metropolitan and highway assets benefit from higher traffic flow with greater flexibility to explore alternate land usage over time to support consumer trends toward greater convenience retail spend per visit.

Portfolio occupancy remained strong at 99.4% and is underpinned by experienced national and global tenants, with 95% of rental income derived from major tenants.

The portfolio offers strong income visibility with a weighted average lease expiry of 8.2 years and 88% of income expiring in FY30 or beyond.

In February 2025, development commenced at the Northbound site of the Glass House Mountains redevelopment. Total redevelopment costs of $24 million over a 12-month period are expected to generate a yield on cost of circa 5.8% and deliver strong development returns for DXC.

The site is 100% pre-leased to Viva Energy, McDonalds, Guzman y Gomez and KFC on an 18-year average lease term, with 43% of income directly from quick service restaurant retailers.

Environmental, Social and Governance (ESG)

DXC is committed to delivering meaningful sustainability outcomes and aligns to the Dexus sustainability strategy, including an aspiration to unlock the potential of real assets to create a lasting positive impact and a more sustainable tomorrow. This also includes delivering against the sustainability priority areas of Customer Prosperity, Climate Action and Enhancing Communities.

Recognising the importance of climate action, 100% renewable electricity is sourced for assets where DXC has operational control. DXC maintained its carbon neutral position for Scope 1, 2 and some Scope 3 emissions across its business operations and controlled building portfolio for FY24 as part of the Dexus group submission under the Climate Active Standard[3].

DXC supports its customers' ESG aspirations and their varied approaches to the shift in the energy mix. Over the half, DXC supported customers with the installation of solar at its Orana, WA site as well as agreeing commercial terms for EV charger installation across three DXC assets.

For the redevelopment of Northbound site at Glass House Mountains, sustainability initiatives have been embedded into the project design including plans for ten electric vehicle charging stations, rooftop solar, rainwater harvesting, grey water reuse and new fuel tank technology.

Overview and outlook

DXC is well placed to deliver defensive and growing property income and will retain its focus on:

- Enhancing portfolio attributes that deliver income certainty and growth
- Preserving balance sheet flexibility underpinned by a disciplined approach to capital allocation
- Pursuing value-enhancing activities, including the Glass House Mountains redevelopment and potential restocking of the development pipeline
- Leveraging Dexus's capabilities across transactions, developments, asset management and treasury

Despite the observed recovery in transaction market volumes and pricing, DXC continues to trade at a circa 20% discount to NTA[4]. DXC's service station and convenience retail assets benefit from predictable cash flows and strong tenant covenants are expected to support valuation resilience. In addition, the portfolio weighted average capitalisation rate provides a positive spread against the marginal cost of debt.

Barring unforeseen circumstances, DXC reiterates its FY25 guidance[5] for FFO and distributions of 20.6 cents per security, reflecting an attractive distribution yield of 7.3%[4].

Authorised by the Board of Dexus Asset Management Limited

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About Dexus Convenience Retail REIT

Dexus Convenience Retail REIT (ASX code: DXC) is a listed Australian real estate investment trust which owns high quality Australian service stations and convenience retail assets. At 31 December 2024, the fund's portfolio is valued at approximately $709 million, is predominantly located on Australia's eastern seaboard and leased to leading Australian and international convenience retail tenants. The portfolio has a long lease expiry profile and contracted annual rent increases, delivering the fund a sustainable and strong level of income security. The fund has a conservative approach to capital management with a target gearing range of 25 – 40%. Dexus Convenience Retail REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), a leading Australasian fully integrated real asset group with four decades of expertise in real estate and infrastructure investment, funds management, asset management and development. www.dexus.com

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") is the responsible entity and issuer of financial products in respect of Convenience Retail REIT No.1 (ARSN 101 227 614), Convenience Retail REIT No.2 (ARSN 619 527 829) and Convenience Retail REIT No.3 (ARSN 619 527 856) collectively the Dexus Convenience Retail REIT (ASX code: DXC) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

The registered office for the Responsible Entity is Level 30, 50 Bridge Street, Sydney NSW 2000 and its principal place of business is Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000.

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1 The Directors consider the Property Council of Australia's (PCA) definition of FFO to be a measure that reflects the underlying performance of the Group. FFO comprises net profit/loss after tax attributable to stapled security holders, calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, derivative mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items, rental guarantees and coupon income.
2 Assuming no further transactions.
3 Covers scope 1, 2 and some scope 3. In line with Climate Active Carbon Neutral Standard for Organisations, net emissions for the year ended 30 June 2024 include offsets purchased and allocated for retirement during the year and up to the date of this report. Final Climate Active certification expected to be achieved post-reporting period. Refer to Sustainability Data Pack available on Dexus website for scope 3 inclusions.
4 Based on closing security price as at 7 February 2025.
5 Based on property income growth supported by contracted rental increases, current interest rate expectations and barring unforeseen circumstances.