

# SCENTRE GROUP

## FACT SHEET

NOVEMBER 2024

I A M  
INCOME ASSET  
MANAGEMENT

### Issuer Outline

Scentre Group Limited owns and operates pre-eminent living centre. The Company specializes in the management, development, construction, leasing, and retail solutions. Scentre Group serves customers in Australia.

<b>Sector:</b>	Financial
<b>Sub-Sector:</b>	REITS
<b>Country:</b>	AU
<b>Ownership:</b>	Public

### Key Performance and balance sheet metrics

<b>FY (31 Dec)</b>	<b>FY23</b>	<b>FY22</b>
Customer Visits (m)	512	480
Business Partner Sales (A\$ bn)	28.4	26.7
Portfolio Occupancy (%)	99.2	98.9
Ave Specialty lease term (yrs)	6.8	6.9
Ave Specialty Leasing spread (%)	3.1	-3.6
Ave Specialty rent escalations (%)	7.5	6.8
Total Assets under management (A\$m)	50.2	51.2
- SCG share	34.3	35.0
Net Operating Income (NOI) (A\$m)	1950.7	1792.9
FFO (A\$m)	1,094.2	1,039.9
Total Borrowings (A\$m)	10,767.7	9,941.9
Subordinated notes (A\$m)	3,698.8	4,109.6
Gearing (Debt/Total Tangible Asset) (%)	30.4	27.3
FFO/Debt (%)	12.9	13.0
Debt/EBITDA (x)	5.7	5.7
Interest cover (x)	3.9	4.0
Liquidity (A\$bn)	3.5	4.8
Weighted ave cost of debt (%)	5.6	4.8
Weighted ave debt maturity (years)	3.5	3.6
Interest rate hedging (%)	92.0	85.0

Source: Company reports

### Issuer Credit Rating & Outlook

<b>Agency</b>	<b>Rating</b>	<b>Outlook</b>
S&P	A	STABLE
Moody's	A2	STABLE
Fitch	A	STABLE

For more information call 1300 784 132 or email [adviserservices@incomeam.com](mailto:adviserservices@incomeam.com)

# SCENTRE GROUP

## FACT SHEET

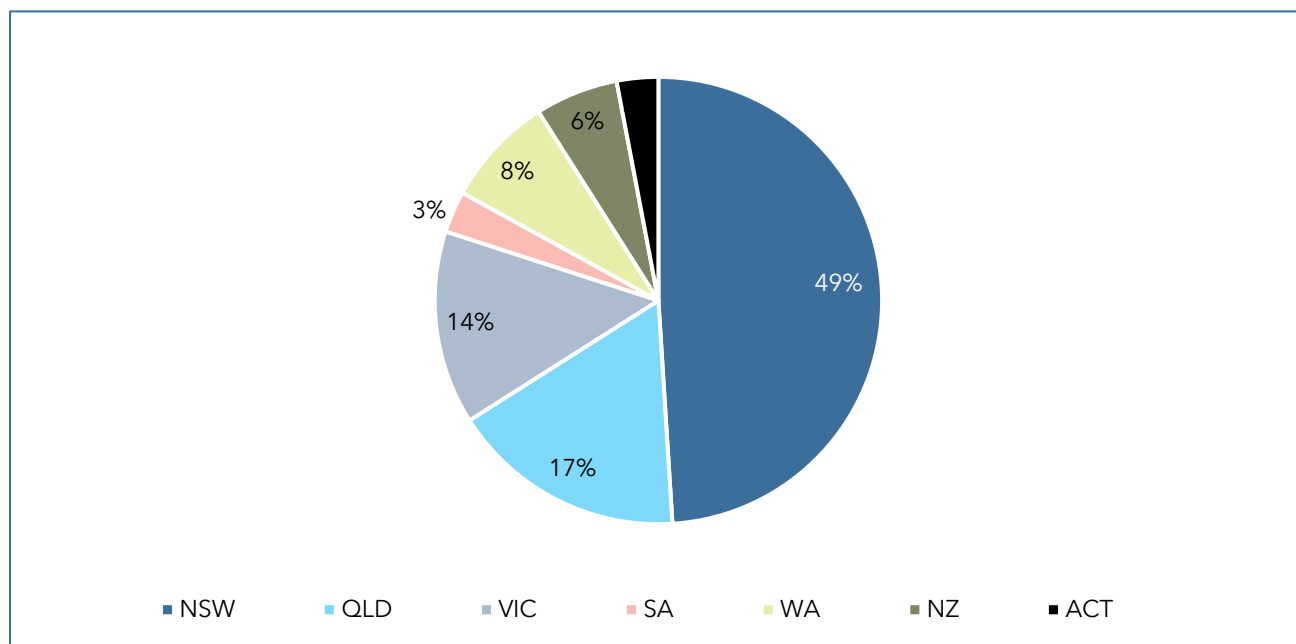
NOVEMBER 2024

I A M  
INCOME ASSET  
MANAGEMENT

### Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call <sup>1</sup>	Maturity Date	Issue Rating (S&P/Moody's/Fitch)
AU3CB0303907	AUD400m	Sr Unsecured	6.500%	Semi-annual	31 January 2031	1 May 2031	A / A2 / WD
AU3FN0091567	AUD600m	Subordinated	3mBBSW + 2.30%	Quarterly	10 September 2029	10 September 2054	BBB+ / Baa1 / -
AU3CB0313310	AUD300m	Subordinated	5.875%	Semi-annual	10 September 2029	10 September 2054	BBB+ / Baa1 / -

### Scentre Group's portfolio value by geography



Source: Company reports

### IAM Credit View

We have a positive view of Scentre Group underpinned by its strong business profile as the leading retail REIT in Australia and New Zealand, its portfolio of high quality and well located retail assets, demonstrated track record of maintaining strong operating metrics and favourable lease structures providing strong, predictable cash flows. Scentre Group also benefits from strong liquidity and good financial flexibility due to its ability to potentially recycle capital from A\$19B of 100% owned assets. Scentre has performed strongly in recent years post the pandemic, with key metrics improving. Occupancy is back well over 99% and foot traffic recovered to over 500M customer visits per annum. Re-leasing spreads have turned positive and net operating income (rent less associated outings) have continued to grow solidly despite cost-of-living pressures thanks to Scentre's CPI plus rental uplifts on most of its leases, well located assets and favourable tenant mix. We expect Scentre's large and stable cash flow generation to support credit metrics at around current levels in the next 12-18 months, including adjusted gearing of less than 45%.

Clients who are interested in Scentre Group but would like to achieve a higher credit spread offered by senior unsecured bonds may consider moving down the capital stack and invest in the group's subordinated bonds which are rated Baa2/BBB by Moody's and S&P respectively. Scentre Group has a good track record of refinancing its subordinated debt on the call date, having recently issued an AUD900M of subordinated bonds to complete the cash tender for its USD656M 2080 subordinated bond with a call date in 2026.

### Company Background

Scentre Group (ASX:SCG) owns, develops, designs, constructs, manages, leases and markets its Westfield destinations. As of 31 December 2023, SCG's portfolio comprised 42 Westfield centres including 37 centres in Australia and five in New Zealand, comprising more than 12,000 retail outlets. The group reported total retail assets under management of AUD50.2 billion, represented by AUD34.3 billion SCG investment and AUD15.9 billion of third-party funds.

Scentre Group was created on 30 June 2014 through the de-merger of Westfield Group, and the merger of its Australian and New Zealand operating platform and management with Westfield Retail Trust.

### Strengths of Scentre Group

- Strong business profile with leading positions in shopping centres in Australia and New Zealand, where planning regulations and high urbanisation of the population are more favourable to retail REITS relative to other developed economies. Scentre's centres are located in premier positions in capital cities and major regional areas. Assets are 80% in gateway cities Sydney, Melbourne and Brisbane.
- Consistently strong operating metrics and supportive lease structures. Average weighted lease expiry is high at around 6.8 years and occupancy is over 99%, having fallen only marginally to 98.5% during the pandemic. Specialty leases which account for over 90% of Net Operating Income are on CPI + 2% or 4% average annual rent escalations which provides strong visibility for future cash flows.
- Demonstrated strong access to debt capital. During the pandemic, Scentre was able to raise A\$2.3B of long-term bonds and A\$4.1B of subordinated bonds, as well as A\$1.9B of additional bank facilities to shore up liquidity and defend the balance sheet from a potential ratings downgrade.
- Low development with low near term spending. Scentre Group has ~A\$4B in its development pipeline with annual spending around ~A\$400M area, which is manageable under its A-band credit ratings.

### Weaknesses of Scentre Group

- Exposed to macroeconomic slowdowns and periods of high inflation which pressures retail sales and leasing outcomes for retailers that are more exposed to non-discretionary sectors. However, given high occupancy, and favourable leasing structures including rent escalations as well as a positive tenant mix, we expect Scentre's rental income grow even in challenging periods.
- Higher gearing relative to similarly rated Australian REIT peers. That said gearing has improved steadily from the highs during COVID (including Net Debt/EBITDA of 10x vs 5.7x currently) and we expect this to remain relatively steady around below 6x in the next 12 months. Reported gearing (Debt/Assets) is 12.9% but rises to ~40% if you include subordinated bonds, which is higher than industry average. We think this is mitigated by the group's twelve 100% owned assets with a book value of AUD19B which could be partially sold down to repay debt if required to support adjusted leverage of < 45% (a potential rating downgrade trigger) if required.
- Higher RBA interest rates to continue to see relatively low interest coverage despite strong earnings growth. However, Scentre has material hedging in place which tempers this impact in the next 12-18 months.
- Increasing e-commerce penetration. However, we think this is likely to be a slow burn, longer term issue and currently Scentre benefits from the prevailing omni-channel retail model, and its defensive mix of tenancies towards more services and experiences.

# SCENTRE GROUP

## FACT SHEET

NOVEMBER 2024

IAM  
INCOME ASSET  
MANAGEMENT

### Disclosure

© 2024 IAM Group | Income Asset Management Group Limited ACN 010 653 862 (ASX: IAM) and wholly owned subsidiaries, IAM Capital Markets Ltd ACN 111 273 048 AFSL 283119, IAM Cash Markets Pty Ltd ACN 164 806 357 as corporate authorised representative (no. 001295506) of AFSL 283119, Trustees Australia Limited ACN 010 579 058 AFSL 260038 and IAM Funds Pty Ltd ACN 643 600 088 as corporate authorised representative (no. 001296921) of AFSL 260038, together the IAM Group.

**Disclaimer:** The information in this document is for general information purposes only and does not purport to contain all matters relevant to any particular or financial instrument. It is not intended to be a recommendation, offer or invitation to purchase, sell or otherwise deal in securities or other investments. Before making any decisions in respect to a financial product, you should read the relevant Financial Services Guide and Product Disclosure Statement and seek independent and specific advice from an appropriately qualified professional. Income Asset Management Group and its subsidiaries shall not be liable for any errors, omissions, defects, or misrepresentations in the information or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information contained here. The Group is fundraising for The Smith Family. For every client who opens an IAM Capital Markets account, IAM Group will donate \$150 to The Smith Family. The Group is authorised by The Smith Family (Level 9, 117 Clarence Street, Sydney NSW 2001, Ph: 1300 326 459) to fundraise on its behalf in ACT, NSW, NT, QLD, SA, VIC, WA, and TAS. All funds raised will go directly to Australians.

IAM Group offers general financial product advice only. As a result, any information or advice, has been provided without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from IAM consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If the information or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain and consider the product disclosure statement or documents relating to the product before making any decision about whether to acquire the product. Neither IAM Group, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of any information or advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, any information or advice. IAM Group, its staff and related parties earn fees and revenue from dealing in the securities as principal or otherwise and may have an interest in any securities mentioned. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). IAM Group does not provide tax advice and is not a registered tax agent or tax (financial) advisor, nor are any of the IAM Group staff or authorised representatives. IAM Group does not make a market in the securities or products that may be mentioned.

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product is not a reliable indication of future performance. Any forecasts are predictive in character and based on specified assumptions generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. IAM may quote to you an estimated yield when you purchase a bond. This yield may be calculated by IAM on either A) a yield to maturity date basis; or B) a yield to early redemption date basis. Some bond issuances include multiple early redemption dates and prices, therefore the realised yield earned by you on the bond may differ from the yield estimated or quoted by IAM at the time of your purchase.

For more information call 1300 784 132 or email [adviserservices@incomeam.com](mailto:adviserservices@incomeam.com)