

### Centuria Office REIT (COF)

Finance

**HOLD**

**COF A\$1.70**

**TARGET PRICE \$1.95**

Centuria Office REIT (COF) engages in the investment in office and industrial assets in metropolitan markets of Australia. It comprises of registered managed investment schemes such as Centuria Metropolitan REIT 1 and Centuria Metropolitan REIT 2. The company was founded in 2005 and is headquartered in Sydney, Australia.

Number of shares	597.3M
Market Capitalisation (\$m)	1,108.1
Free float (%)	63.8
12-month high/low	\$2.57/\$1.70
Average Daily Turnover (\$m)	0.91
% S&P/ASX200	0.054%
DDM Ranking	42
% All Ordinaries	0.042%
GICS Industry Group	REITs

Source: FactSet, BPC

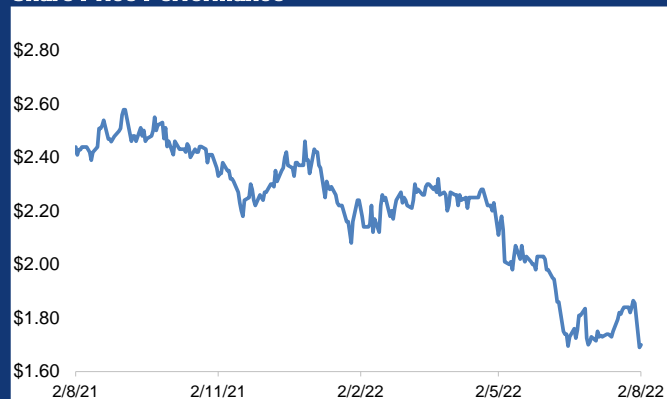
#### Earnings Summary (AUD)

Year end June	2022A	2023F	2024F
Revenue (\$M)	176.6	128.7	132.9
Reported NPAT (\$M)	115.0	98.6	100.0
Adjusted NPAT (\$M)	115.0	91.3	92.6
Reported EPS (c)	19.9	14.9	15.2
Adjusted EPS (c - FD)	19.9	15.7	15.9
Adjusted EPS growth (%)	-0.2	-0.8	1.2
Adjusted P/E (x)	-11.4	9.0	8.8
Dividend (c/sh)	16.6	14.1	14.2
Gross yield (%)	12.8	7.6	7.6
Net yield (%)	8.9	7.6	7.6
ROIC (%)	5.9	3.9	3.9

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Smartkarma.

#### Share Price Performance



Source: FactSet, Barclay Pearce Capital

### 2022 Full Year Results

On the 2<sup>nd</sup> of August 2022, Centuria Office REIT (COF) announced its full year financial results for the period ended 30 June 2022, with the following highlights:

#### Financial Highlights:

- Total revenue of \$176.6m;
- \$104.9m Funds From Operations (FFO) or 18.2 cents per unit (cpu);
- \$115.0m statutory net profit, a 50% increase from FY21;
- Basic EPS of 19.9c;
- \$99.0m distributions paid or 16.6 cpu;
- \$2.50 per unit Net Tangible Assets (NTA);
- 98.2% average rent collection throughout FY22;
- \$257.5m debt refinanced, increased debt maturity to 3.7 years, no debt expiry until FY25; and
- \$130.5m debt headroom.

#### CEO comment:

COF Fund manager and Centuria Head of Office Grant Nichols said, "COF has generated solid results in FY22, delivering an increased net profit while providing FFO and distributions consistent with guidance despite the impacts of rising interest rates. The most pleasing aspect of the results was the significant amount of leasing that COF continued to execute, with over 40,000sqm leased during FY22. Since the outbreak of COVID-19, COF has leased 120,000sqm, equivalent to 40% of its net lettable area (NLA).

Throughout FY22, we saw the impact of COVID retreating as more workers returned to the office and employment rates strengthened. However, prevailing inflation, and subsequent rising interest rates, have impacted our FY23 FFO guidance, though we expect COF to have like-for-like net operating income growth through FY23. In making FY23 guidance, we have adopted an interest rate forecast with suitable buffers to manage potential further interest rate volatility<sup>16</sup>. Based on the recent trading price, the FY23 distribution guidance represents a yield of 7.7%"

#### Guidance:

- COF provides FY23 FFO guidance of 15.8cpu and distribution guidance of 14.1cpu (distribution yield of 7.7%), which are expected to be paid in equal quarterly instalments.

### Earnings changes

COF has provided FY23 distribution guidance of 14.1cpu, which is 13% below market expectations of 16.2cpu. Hence, we expect negative earnings revisions of 13% for FY23 and for future periods.

### Valuation

We are updating our 12-month price target from \$1.78 to \$4.00 and updating our recommendation from UNDERPERFORM to HOLD. The price target is underpinned by our valuation.

**Russell Wright**

02 August 2022

[russell@barclaypearce.com.au](mailto:russell@barclaypearce.com.au)

Barclay Pearce Capital Management

Level 17, 115 Pitt St Sydney NSW 2000

[www.barclaypearce.com.au](http://www.barclaypearce.com.au)

ACN: 619 189 847

AFSL: 503 261

Tel: (61) 2 8288 6900

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**Buy** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

**Russell Wright**

02 August 2022

[russell@barclaypearce.com.au](mailto:russell@barclaypearce.com.au)

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**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for BPCM to assign a Buy or Underperform rating.

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)