

25 February 2021

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Scentre Group

Real Estate

BUY

SCG A\$2.82 **TARGET PRICE A\$3.13**

Scentre Group (SCG) is the owner and operator of Westfield in Australia and New Zealand with interests in 42 Westfield Living Centres, encompassing more than 12,000 outlets. It is involved in ownership, development, design, construction, asset management, leasing and marketing activities with respect to its Australian and New Zealand portfolio of retail properties.

Company Data

Number of shares	5,190.4 M
Market Capitalisation	\$14,896.4M
Free float (%)	95.6
12-month high/low	\$3.68/\$1.43
Average Daily Turnover (\$m)	88.92
% S&P/ASX200	0.78%
DDM Ranking	97
% All Ordinaries	0.636%
GICS Industry Group	Real Estate

Source: FactSet, Barclay Pearce Capital

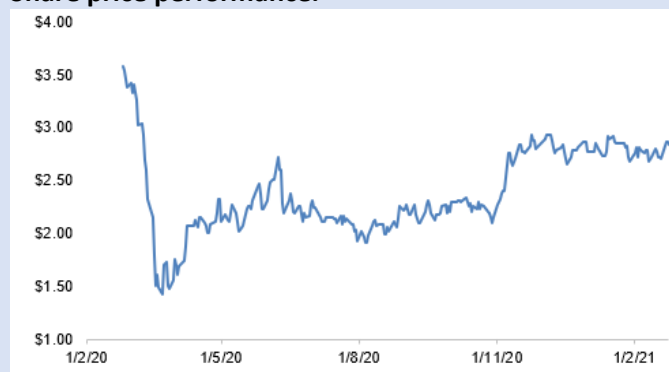
Earnings Summary (AUD)

Year end December	2020A	2021F	2022F	2023F
Revenue (\$M)	2,274.6	1,798.3	1,904.9	1,943.9
EBITDA (\$M)	1,510.7	1,722.3	1,814.4	1,883.3
Reported NPAT (\$M)	-3,731.8	1,027.6	1,102.3	1,185.1
Adjusted NPAT (\$M)	763.4	971.9	1,054.1	1,185.1
Reported EPS (c)	17.3	19.4	20.9	22.6
Adjusted EPS (c - FD)	14.7	18.7	20.5	22.6
Adjusted EPS growth (%)	-0.4	29.6	10.1	10.0
Adjusted P/E (x)	19.1	15.4	14.0	12.7
Dividend (c/sh)	7.0	15.5	16.8	15.3
Gross yield (%)	3.6	5.4	5.9	5.3
Net yield (%)	2.5	5.4	5.9	5.3
ROIC (%)	2.2	3.9	4.3	4.6

Source: Barclay Pearce Capital

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

Share price performance.



Source: FactSet, Barclay Pearce Capital

Full Year Results Press Release

On 24th February, Scentre Group (SCG) released their Interim results for the full year ended 31 December 2020 with the following highlights:

- Underlying NPAT of \$763.4 million (14.71 cents per security);
- Funds from Operations (FFO) for the year was \$766.1 million (14.76 cents per security);
- Gross cash inflow of \$2,357 million;
- Net operating cash flows (after interest, overheads and tax) grew by 95.7% in the second half of the year resulting in \$771 million for the 12-month period;
- Distribution of \$363 million in the second half of 2020; and
- Completed 2,625 new leasing deals including 848 new merchants, with occupancy of 98.5%;
- Strategic Capital Management actions strengthened the firm; financial position and preserved securityholder value, including; and ss
 - \$10.1 billion of new extended funding, with available liquidity of \$6.9 billion, sufficient to cover all debt maturities to early 2024.
- The group had more than 450 million customer visits in 2020, including an average of 46 million visits per month during Q4.

Outlook

- Scentre Group is well positioned to deliver long-term growth for securityholders;
- Subject to no material change in conditions, the Group expects to distribute at least 14.00 cents per security for 2021;
- The Distribution is expected to continue to grow in future years; and
- The Group plans to retain earnings to cover operating and leasing capital expenditure, fund strategic initiatives and reduce net debt.

SCG CEO Peter Allen said:

“Our business fundamentals remain strong and our strategy focused on the customer, positions the Group for long-term growth.”

“Every Westfield Living Centre has remained open every day, providing our retail and brand partners the opportunity to connect with the customer. During 2020, we had more than 450 million customer visits, including an average of 46 million per month during the fourth quarter. Customers spent approximately one and a half hours of their time on each visit.”

“We accelerated strategic customer initiatives such as our Westfield Plus membership program, which continues to grow and now has more than 1.2 million members.”

Earnings changes

For FY20, SCG reported an underlying NPAT of \$763.4 million, which is mostly in line with the market consensus NPAT of \$754.8 million. Hence, we don't expect any significant earnings revisions.

Valuation

We are initiating on SCG with a price target of \$3.13 and a BUY recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)