

# Centuria Capital No. 2 Fund

19 November 2018

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## Issuer Outline

Centuria Capital No. 2 Fund (Centuria) is a 100% owned subsidiary of Australian ASX listed specialist investment manager, Centuria Capital Group. The issuer holds strategic equity investments in a number of listed and unlisted property investments, including Centuria Industrial REIT (ASX: CIP), Centuria Metropolitan REIT (ASX: CMA) and Propertylink Group (ASX: PLG). As at 30 September 2018, the market value of Centuria's shares in these three funds was AUD305m. Accounting for the value of shares in unlisted funds, Centuria's total assets were valued at AUD405m, equivalent to a loan-to-value (LTV) of 30.5%. Centuria currently has AUD125m of senior secured debt outstanding maturing in April 2021.

Centuria is guaranteed by Centuria Group an ASX listed specialist investment manager with AUD4.9bn in funds under management at the end of FY18. Centuria Group's primary lines of business include property funds management – managing a portfolio of 16 unlisted funds, and two listed funds – and investment bonds, offering a range of investment products including tax effective bonds and prepaid funeral plans.

Security  
AUD60m7.00% Apr 2021

ISIN  
AU3CB0243749

Currency  
AUD

Type  
Secured

## Key Financials (AUDm)\*

LTM (30 June)	2018
Revenue	134.5
EBITDA	91.0
Interest expense	19.6
Total assets	1,138.1
Cash	101.9
Debt	269.2
Debt/Assets	23.7%
EBITDA/Interest	4.6x

Source: FIIG Securities. \*Centuria Capital Group

## Key Terms

Coupon Type	Fixed	Minimum Amount	AUD10,000
Rate	7.00%	Denomination	AUD1,000
Frequency	Semi annual	Issuer Credit Rating	NR
Domicile	Australia	Issue Credit Rating	NR
Amount Issued/Outstanding	AUD60m/AUD60m	AU Withholding Tax Exempt	Yes

## Key Dates

Issue Date	21 April 2017	Maturity Date	21 April 2021
Call Dates	21 April 2019 @102.00	21 April 2020 @101.00	

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## Centuria Capital No. 2 Fund

### Strengths

- **Market position:** The primary assets of the issuer comprise holdings in ASX listed entities and unlisted property syndicates. As at 30 September 2018, the value of the ASX listed investments (being investments in CIP, CMA and PLG) totalled AUD305m. Unlisted investments (being investments in Centuria Diversified Property Fund, Centuria 111 St George's Terrace Fund) and equity investment in Centuria Capital No. 3 Fund bring Centuria's total asset values to AUD405m.
- **Reasonable Loan to Value ratio (LVR):** As at 30 September 2018, Centuria had AUD125m of senior secured debt, representing a LTV of 30.5%. The proposed transaction (debt raising and acquisition) will increase the LTV to about 40%, a level still considered reasonable.
- **Predictable cash flows:** Centuria's main investments are in real estate investment trusts (REITs). One of the key characteristics of REITs is that they have to distribute at least 90% of their income to shareholders, thereby removing the discretionary nature of dividends for traditional corporates and ensuring uninterrupted cash flows to service its debt.
- **Diversified portfolio:** Centuria's investments are characterised by the diversity of their portfolio, both in terms of location and tenants which include the likes of Woolworth's, Insurance Australia Group, Bluescope Steel and GE Capital.
- **Noted are guaranteed:** The notes will be unconditionally and irrevocably guaranteed by Centuria Capital Ltd. Centuria Capital Ltd is an Australian ASX listed specialist investment manager, founded in 1998. As at 30 September 2018, it had a market capitalisation of AUD416m and total assets at the end of FY18 of AUD579m. Over the past two years, Centuria Capital has raised about AUD250m of equity to support the growth of its asset base by AUD389m.

### Risks

- **Inherently linked to property market fluctuations:** Centuria Group is subject to the prevailing property market conditions. The ongoing value of properties held by funds managed may fluctuate due to a number of factors including rental levels, occupancy assumptions, vacancy periods, rental incomes and capitalisation rates, all of which may change for a variety of reasons. The property assets managed by Centuria Group are, by their nature, illiquid investments.
- **Highly regulated industry:** Centuria Group operates in a highly regulated environment. Regulatory breaches may affect Centuria's operational and financial performance.
- **Fees on FUM is a large source of revenue:** The group manages a number of funds on behalf of third party investors. The majority of income is derived from fees calculated with reference to the value of funds under the control. Centuria Group's financial performance may be adversely affected if it was not able to appropriately respond to several risks.
- **Reliance on additional equity investment:** As a fund manager, growth in Centuria Group's earnings may be impacted by the ability to establish new funds. Specifically such income growth is dependent on the ability to continue to source and maintain equity from new and existing investors for current and future funds.
- **Financial performance of funds:** Centuria Group's long term strategy is to continue holding co-investment positions in a number of the funds it manages. Factors influencing the financial performance of these managed funds may adversely impact the value of Centuria Group's assets or quantum of its earnings, which may in turn impact the market price of Centuria's bonds.
- **Refinancing risk:** The group and funds managed rely on access to various sources of capital, along with the refinancing and/or variation of existing debt facilities. An inability to obtain the necessary funding on acceptable terms or a material increase in the costs of funding may have an adverse impact.
- **Reliance on technology:** Centuria relies on its infrastructure and information technology in order to operate its business. A severe disruption to or failure of Centuria Group's information technology systems may adversely impact operations.

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## Centuria Capital No. 2 Fund

### Other risks

- Call risk: A decision to call the bonds ahead of the maturity date depends on a number of factors, including the relative cost of entering new debt financing, the company's liquidity position, and the availability and attractiveness of new funding opportunities at the call date.
- Duration risk: n/a
- Interest deferral/cancellation: n/a
- Non-viability trigger: n/a

### Summary

Centuria Capital No. 2 Fund offers clients exposure to a diversified funds management business.

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