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Authorisation
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Dexus Cnv. Ret. REIT (DXC)

Convenient shelter amongst the noise

Recommendation
Buy (unchanged)
Price
$2.91
Target (12 months)
$3.35 (prev. $3.30)

Sector

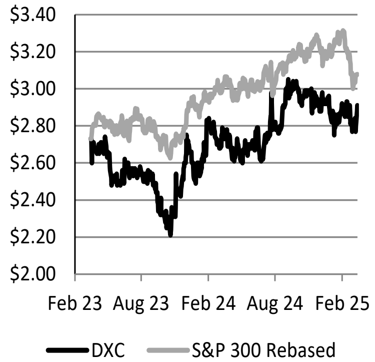
Real Estate

Expected Return	
Capital growth	**15.1%**
Dividend yield	**7.2%**
Total expected return	**22.3%**
Company Data & Ratios	
Enterprise value	**$621m**
Market cap	**$401m**
Issued capital	**137.8m**
Free float	**88.1%**
Avg. daily val. (52wk)	**0.51m**
12 month price range	**$2.59 - $3.10**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	2.85	2.96	2.73
Absolute (%)	2.11	-1.69	6.59
Rel market (%)	7.73	2.64	3.56

Absolute Price



SOURCE: IRESS

Channel checks point to improving industry optimism

We recently hosted a series of meetings with convenience retail (fuel station) industry experts spanning private buyers, valuers, agents and operators. Coupled with feedback from retail shopping centre industry participants, and improving cap trans market volumes we expect to see strong investor interest across the broader retail sub-sector universe driven by: **(1) Increased capital market interest** (vs. other sub-sectors, plus within categories eg petrol stations vs. pad sites); **(2) Opportunity for tenants to realise improving margins** from convenience retail (eg food on the go, higher margin categories); and **(3) Build-up of undersupply** but yet new operators looking to enter the market (both domestic and international).

Industry data & newsflow highlight fuel reliance for longer

In the last few weeks multiple car manufacturers (eg VW, Mercedes) have dropped plans for all-electric fleet targets, with new car sales data continuing to point to robust, and steadily growing fuel reliant sales (+9% CY24 vs. CY22) with more vehicles entering Australian roads.

Indeed, VFACTS and CarExpert data to February highlights: **(1) Aus vehicle sales +10.4% m/m, -7.9% y/y** with total monthly new vehicle sales (96.7k at Feb) remaining in a 90-110k band each month last 2yrs; **(2) Fuel reliant car sales** +10.0% m/m, -7.8% y/y; **(3) EV sales** +48.3% m/m, -43.8% y/y with no single month above 10k sales LTM.

Investment view & Earnings changes; Buy

No change to our Buy recommendation, as we make minor -1% to +1% changes to our FY25-27 FFO / share estimates accounting for CoD and asset sale timing. We see an improved valuation outlook (-10bp cap rate compression in our NAV), and also see the prospect for further industry consolidation and inbound (new to market) operator interest as the success of operators like OTR with high margin retail can translate to underinvested highway sites, and large-scale regional sites / areas. This should provide valuation upside (DXC trades at -19% discount to NTA) as we cycle trough levels, and receive a high 7.2% distribution yield on the way through.

Earnings Forecast

Year end 30 June	2024	2025e	2026e	2027e
Total revenue (A$m)	57.1	54.8	54.1	57.2
EBITDA (A$m)	39.3	38.6	39.7	42.2
Funds From Operations (A$m)	28.9	28.4	28.8	29.5
FFO (cps)	21.0	20.6	20.9	21.4
FFO growth (%)	-3%	-2%	1%	2%
PER (x)	12.6	14.1	13.9	13.6
Price/CF (x)	14.4	12.2	13.9	13.6
EV/EBITDA (x)	16.1	16.1	15.6	14.7
Dividend (¢ps)	21.0	20.6	20.9	21.4
Yield (%)	7.9%	7.1%	7.2%	7.4%
ROE (%)	5.9%	5.8%	5.8%	6.0%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

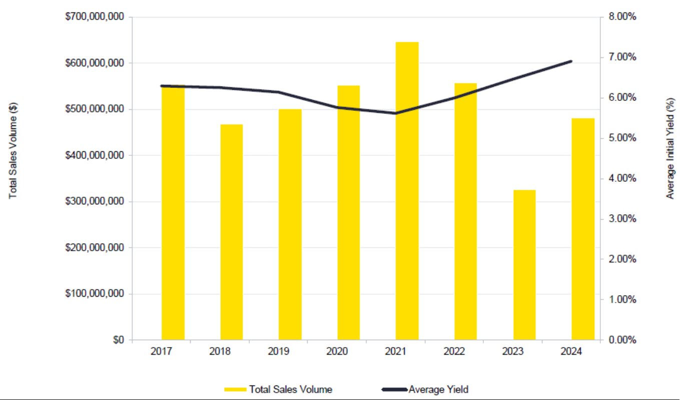
Channel checks point to favourable industry dynamics

We analyse the key considerations for DXC following recent industry channel checks which point towards an increasingly positive outlook as volumes return to capital markets, cost of capital / yields stabilise and industry operator expansion to capture improving market dynamics (eg new entrants, expansion of prior and re-setting industry OpCo / PropCo's) highlight strong thematics for groups that are long-term focused.

Capital market interest

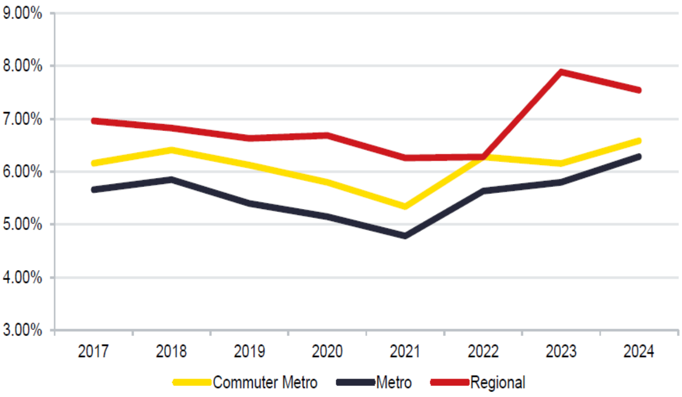
A combination of both valuer and agency insights point to improved expectations for volumes to increase in CY25, following recovery in CY24 from cyclical lows and stabilised, conducive interest rate outlook. While there is potential for moderate cap rate compression as syndicators, HNW retail, and super funds (for broader retail) return we maintain a conservative stance (-10bp cap rate compression in our NAV) but see the foundations for participation and sentiment to improve off a low base.

Figure 1 – National petrol station cap trans activity vs. yield



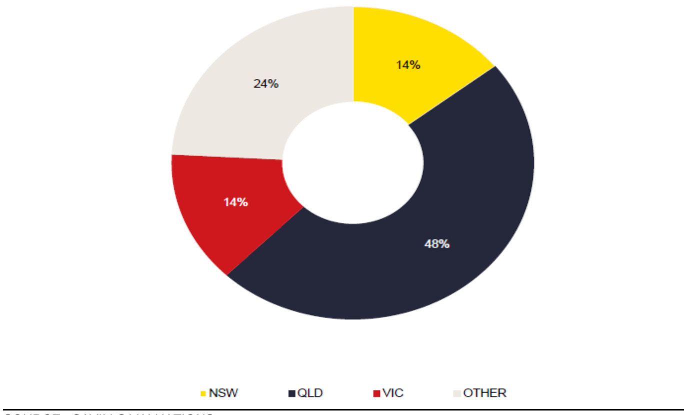
SOURCE: SAVILLS VALUATIONS

Figure 2 – Average yield / cap rate by petrol station type



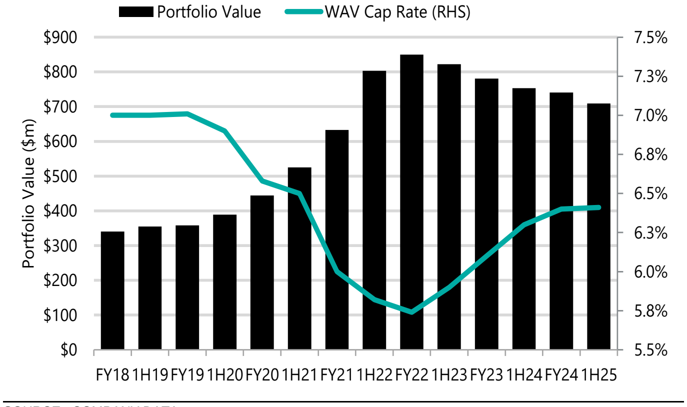
SOURCE: SAVILLS VALUATIONS

Figure 3 – CY24 cap trans volumes by state – limited bigger ticket, core transactions in VIC and NSW which we expect to see in improving markets



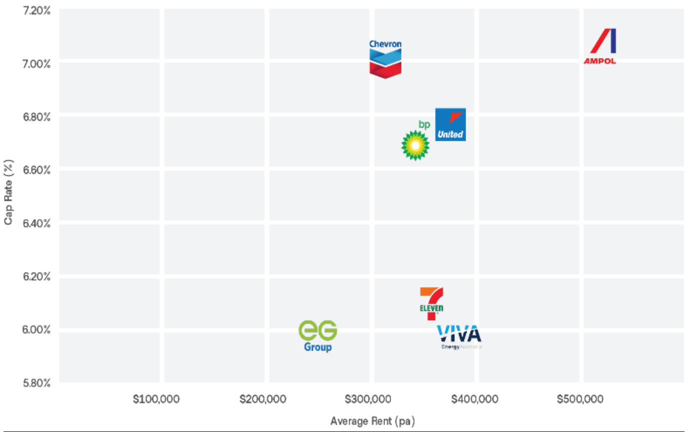
SOURCE: SAVILLS VALUATIONS

Figure 4 – Portfolio value vs. WAV cap rate – cap rate at peak based on industry feedback and above marginal CoD



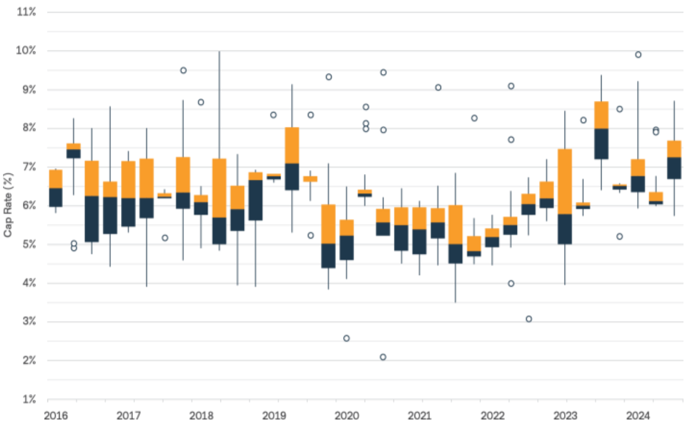
SOURCE: COMPANY DATA

Figure 5 – Avg cap rate vs. avg rent 2023-2024 by Operator



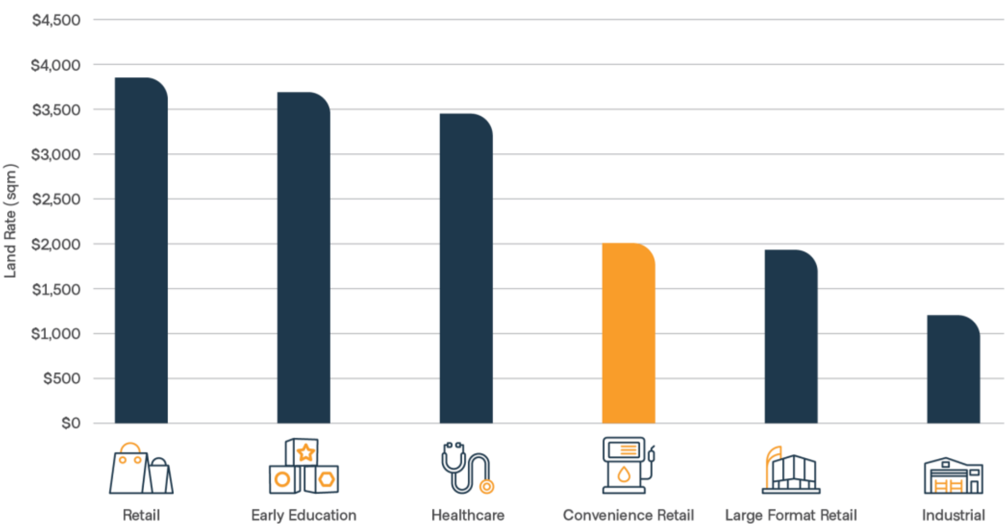
SOURCE: BURGESS RAWSON

Figure 6 – Convenience retail cap rate spreads as at 3Q24 – spreads tightening highlights appetite



SOURCE: BURGESS RAWSON

Figure 7 – Land values by category 2024 – average land rates of $2k is unchanged for convenience retail since 2020; but yet pad site demand has seen substantial cap rate compression



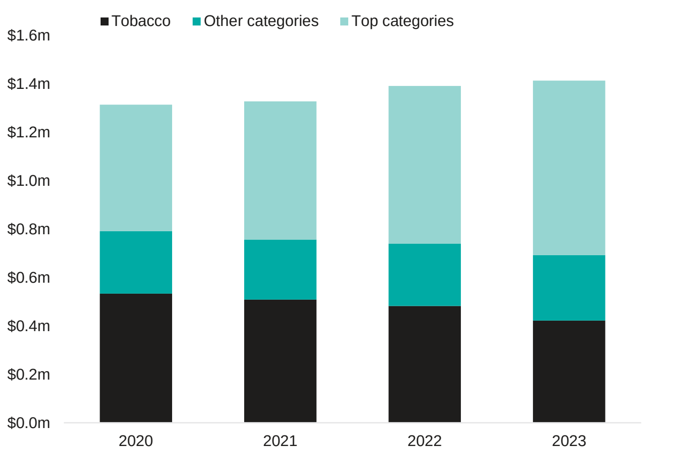
SOURCE: BURGESS RAWSON

Convenience retail operations, room to grow

Notwithstanding impacts from tobacco sales, gross margins have been improving for convenience (food-on-the-go), and operators including OTR which have not been able to rely on higher fuel margins, have pushed the envelope to improve profitability from non-fuel sources.

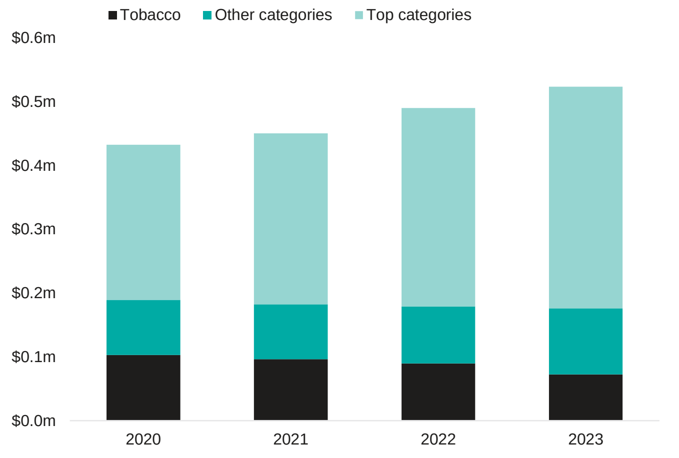
Indeed, industry feedback suggests there are offshore operators as well as previously successful local OpCo / PropCos looking to (re)-establish with a view that supply outstrips demand, and has been underinvested. This is a positive indicator to us in terms of existing operator profitability as well as sector cyclicality. Operators are increasingly seeing the opportunity to improve opportunity from food on the go, or higher margin categories (food service, hot drinks, beverages, confectionary). Impacts of higher costs, H&B use for metro has been supportive of restricted supply, yet growing car volumes and turn-ins at centres highlight stable and growing demand.

Figure 8 – Average convenience retail sales per site – Avg growth 3.0% p.a.



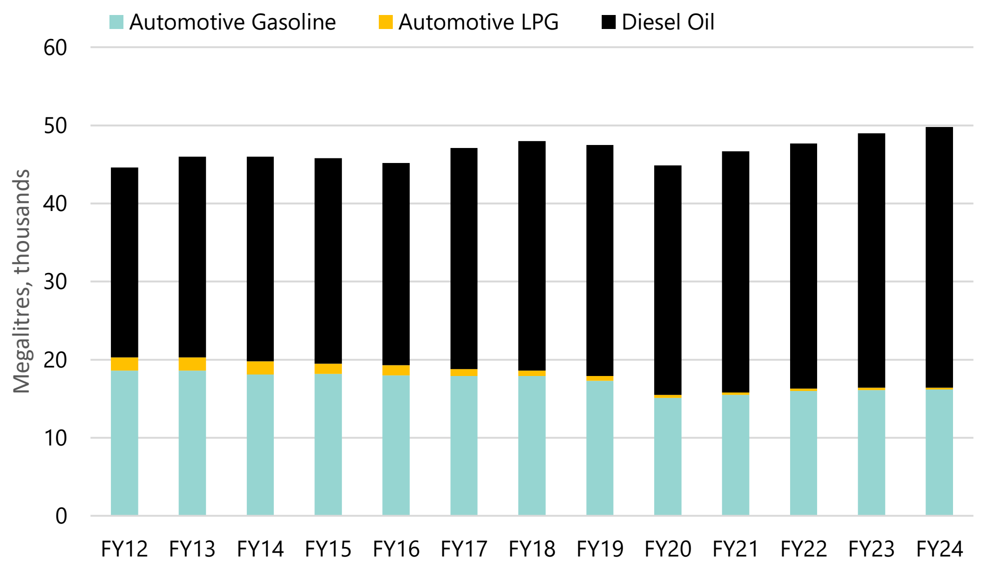
SOURCE: AACS; COMPANY DATA

Figure 9 – Average convenience gross profit per site – Avg growth 5.6% p.a.



SOURCE: AACS; COMPANY DATA

Figure 10 – Fuel sales volumes have grown steadily over time

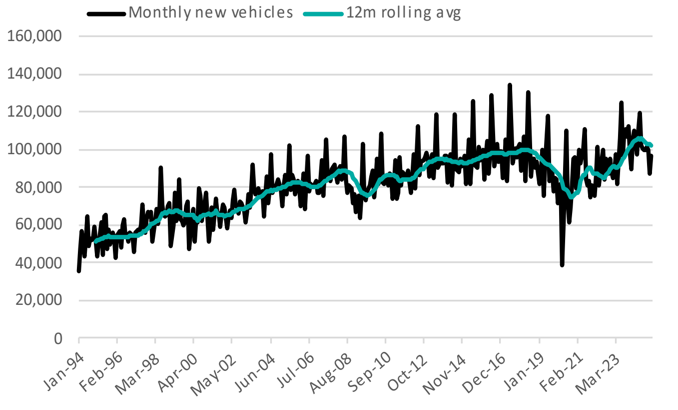


SOURCE: ENERGY.GOV.AU; AUSTRALIAN PETROLEUM STATISTICS

VFACTs & CarExpert data reflects EV market risks with stagnant sales / market penetration flat-lining

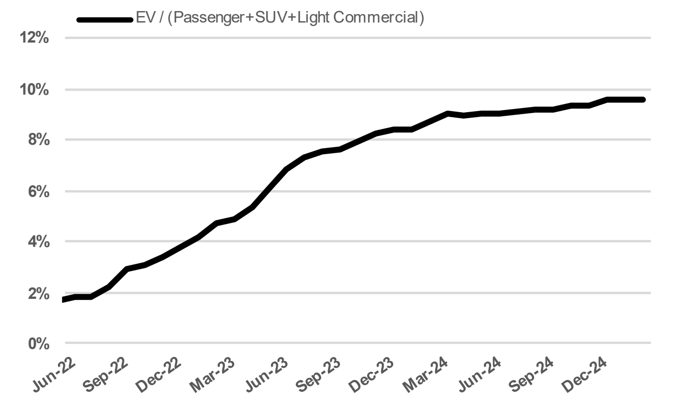
VFACTs and CarExpert Feb data highlights that EV market risk is starting to manifest with stagnant sales and market penetration flat-lining at 9.5% (has been in low 9% range since Mar '24). Macro issues as well as range anxiety, and declining investment from operators into EV segment growth we think has seen recent growth reach peak short term. While we would expect EV composition to gradually increase over time medium-to-longer term, we think shorter term growth is unlikely to remain at the level of FY23-24.

Figure 11 – Total new car sales in Australia – +10.4% m/m, -7.9% y/y to 96.7k in Feb '25 driven by c.50% lower EV contribution



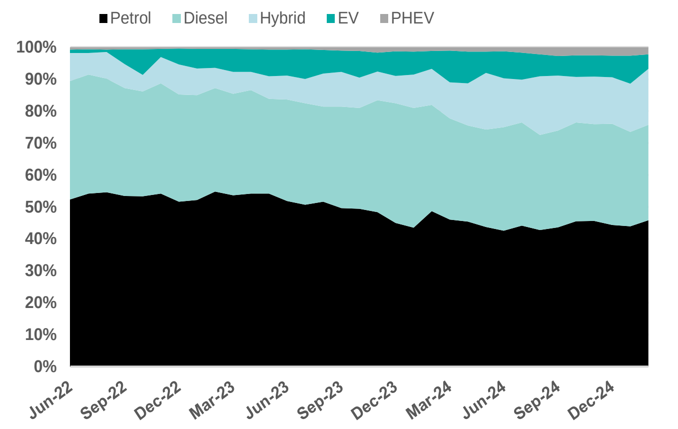
SOURCE: VFACTS; CAREXPERT

Figure 12 – EV proportional sales share of Light Duty Vehicles (LDVs) – stagnant at 9.5%



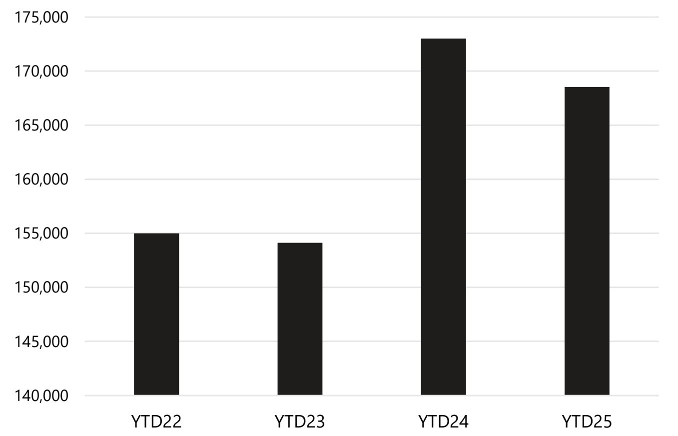
SOURCE: VFACTS; CAREXPERT

Figure 13 – Sales by propulsion method – fuel-reliant robust



SOURCE: VFACTS; CAREXPERT

Figure 14 – Cumulative fuel-reliant sales YTD – -3% y/y but +9% above prior 2 periods



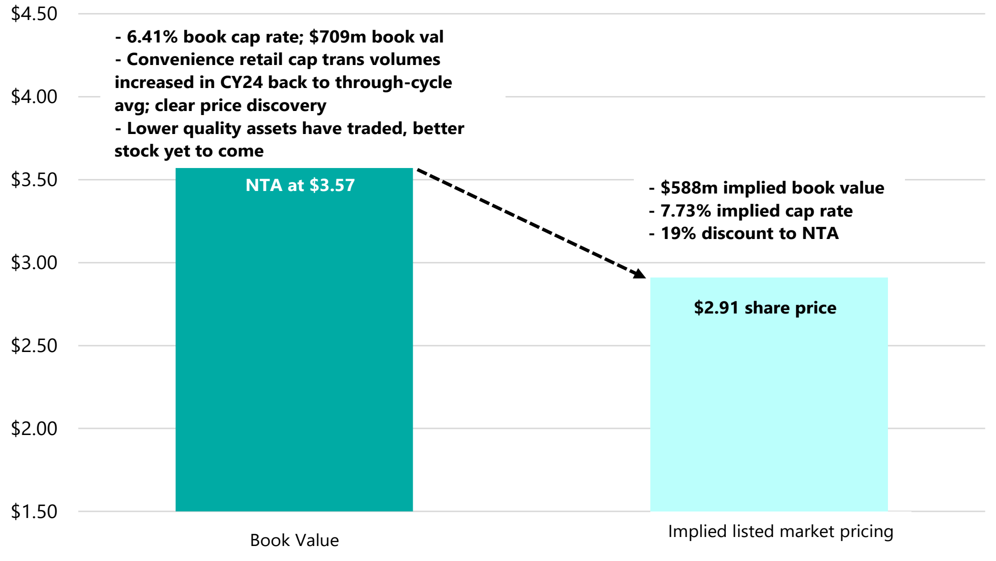
SOURCE: VFACTS; CAREXPERT

Valuation screens highlight disconnect between direct and listed markets

We have undertaken what's in the price analysis which highlights a material disconnect between direct and listed markets noting that direct market participants expect the see declining cap rates / improving valuations from here for DXC as well as more broadly across the industry sub-sector.

Considering cost of capital, risk profile of assets given long term covenant to large cap multinational corporations, and declining tail risk, a c.7.75% implied cap rate looks overlay punitive to us.

Figure 15 – What's in the price? Implies >130bp cap rate expansion yet clear price discovery



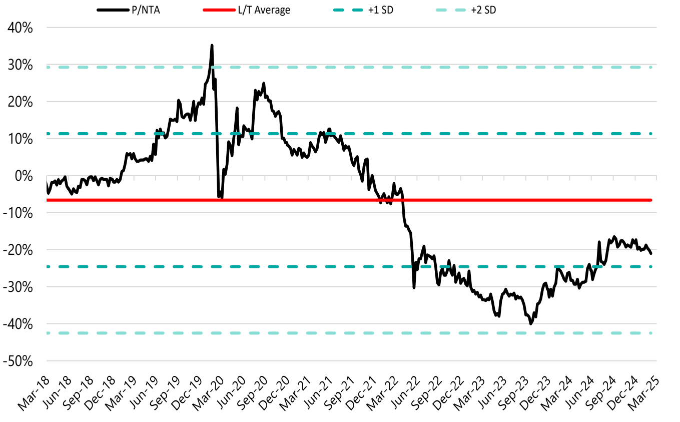
SOURCE: IRESS; COMPANY DATA; BELL POTTER SECURITIES ESTIMATES

Figure 16 – Sub-sector preferences – Convenience retail and broader retail most preferred, which we think will see positive valuation movements next 12m

Sub-Sector	View	Comments
Fuel Stations / Convenience Retail	++	Small cheque size assets with liqudity; strong covenants and reliable cash flows should underpin valuations which are close to peak; tail risks priced-in; strong operator reinvestment in CY24.
Retail	+	Good point in cycle. Capital transaction activity picked up materially back to through cycle levels in CY24; strong indications for cap rate compression as well as top line income growth with some tenant issues (Mosaic) but largely contained.
Residential	+	First of rate custs manifesiting with potential for more in CY25; building cost inflation easing, fundamental undersupply builds and limited pressure for acquirers in capital transaction markets.
Retirement Villages	+	Attractive thematics underpinned by aging population and affordability offering. Fundamental undersupply remains.
Land Lease	-	Strong thematics underpinned by aging population and affordability; Large number of new entrants but still fundamentally undersupplied; Question marks regarding different operator fee structures (eg tail end DMF).
Industrial	-	Slowing rental growth - preference for core infill markets vs outer locations; Most REITs valuations have recalibrated; Supply vs. demand dynamic looks ok but plenty of greenfield acquisition activity to provide supply.
Health Care / Life Sciences	-	Operators continue to face challenging conditions with excess capacity in the system, little Government support; life sciences largely untapped an a sector for growth in Aus med term
Office	-	Capital appetite improving but low, and while fundamentals are basing, the outlook for improvement is still someway off (JLL recent forecasts point to push out of recovery from CY25 to CY26); Vacancy remains high in most markets.

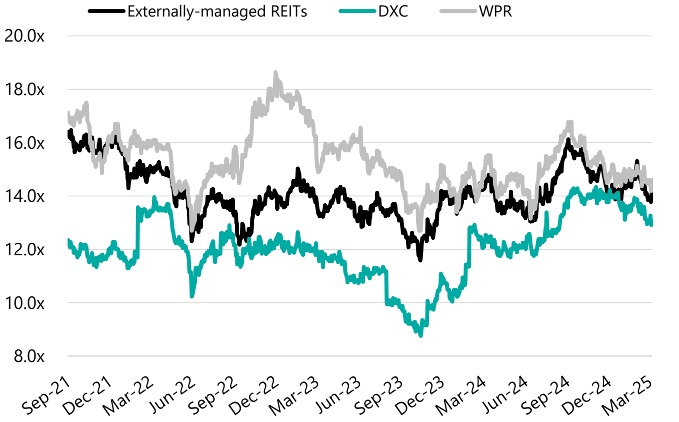
SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 17 – DXC historic P/NTA – still trading below long-term average level despite recent transactions at close to BV



SOURCE: IRESS; COMPANY DATA

Figure 18 – DXC historic PE vs. WPR and externally managed REITs – 1x lower than passive REITs and 1.5x lower vs. WPR



SOURCE: IRESS, REFINITIV; BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation changes

Small changes to FFO / share estimates

Minor changes to our FY25-27 FFO / share estimates accounting for updated CoD assumptions and asset sale timing. Our target price increases to $3.35 (was $3.30) as we roll forward our valuations and assume 10bp cap rate compression in our NAV. Our target price is based on 50 / 50 blend of our SOTP and DCF valuations.

Figure 19 – DXC earnings and valuation changes

	FFO (A$m)			FFO / share (A¢)			DPS (A¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
FY25E	28.4	**28.4**	0.0%	20.6¢	**20.6¢**	0.0%	20.6¢	**20.6¢**	0.0%
FY26E	29.1	**28.8**	-1.2%	21.2¢	**20.9¢**	-1.2%	21.0¢	**20.9¢**	-0.5%
FY27E	29.4	**29.5**	0.2%	21.4¢	**21.4¢**	0.2%	21.3¢	**21.4¢**	0.7%

		Old	New	% Chg
SOTP	*$ / share*	$3.14	**$3.18**	1.4%
DCF	*$ / share*	$3.44	**$3.49**	1.2%
Target Price	*$ / share*	$3.30	**$3.35**	1.5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Dexus Convenience Retail REIT

Company Description

Dexus Convenience Retail REIT (DXC) is an externally-managed REIT with over 90 wholly owned service stations and convenience retail assets positioned alongside major roads on the Eastern Australian seaboard. DXC is differentiated by the high-quality and long-term tenants that it leases these assets to including Chevron, 7-Eleven, United, Mobil and Ampol.

Investment Thesis

Our Buy recommendation on DXC is based on:

- **Valuation**: Our valuation of DXC, based on 50% SOTP / 50% DCF, is $3.35 which implies 22% total projected return.
- **Active management in a defensive sub-sector:** Sub-sector with a high level of ownership from privates and HNW's means petrol stations are typically more liquid that any commercial real estate that carries larger cheque sizes. Management has actively recycled capital leading to a balance sheet with low headroom & ICR risk.
- **Compelling risk-adjusted returns:** DXC offers a yield of c.7% based on FY25 DPS guidance. We think asset values have now troughed (BPe 10bp cap rate compression), and trading at a -19% discount to NTA and -9% discount to BPe NAV looks too punitive to us for a defensive sub-sector.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **EV penetration:** Increasing market share of Electric Vehicles (EV) is a long term risk for DXC, however substantial land parcels underwrite a residential level of land valuation, and while take up is accelerating we don't foresee short-term redundancy of this asset class.
- **Inflation & interest rates:** DXC has a longer than average WALE of c.8 years, with 75% of the portfolio on fixed 3.1% annual renewals and the remaining 25% linked to CPI. While DXC is a beneficiary of the income side from higher CPI, equally, outgoings increase through this period and therein a low interest rate environment can actually be a period in which DXC benefits most.
- **Asset values:** Petrol stations are typically a low volatility asset class given long term leases with strong covenants, however higher debt base rates are likely to see cap rate expansion ahead. Asset valuations however at a 6.4% portfolio cap rate do not look demanding to us vs. industry transactions and peer REITs.
- **Dilutive asset sales:** Disposal of high yielding assets above its marginal cost of debt (assuming fully debt funded) would result in earnings dilution ahead.

Dexus Conv. Retail REIT
as at 25 March 2025

Recommendation	Buy
Price	$2.91
Target (12 months)	$3.35

DXC Financial Summary

Dexus Convenience Retail REIT
DXC.AX

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Profit & Loss *(A$m)*					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
Revenue	**59.4**	**57.1**	**54.8**	**54.1**	**57.2**
Growth %	*7%*	*-4%*	*-4%*	*-1%*	*6%*
Other Income	-0.3	0.1	0.1	0.3	0.2
Operating Expenses	-14.1	-14.6	-14.6	-14.7	-15.1
Management EBITDA	0.0	0.0	0.0	0.0	0.0
Group EBITDA	**40.3**	**39.3**	**38.6**	**39.7**	**42.2**
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	**40.3**	**39.3**	**38.6**	**39.7**	**42.2**
Net Interest Expense	-10.6	-10.4	-10.2	-10.9	-12.8
Profit Before Tax	**29.8**	**28.9**	**28.4**	**28.8**	**29.5**
Tax Expense	0.0	0.0	0.0	0.0	0.0
Funds From Operations	**29.8**	**28.9**	**28.4**	**28.8**	**29.5**
Growth %	*-6%*	*-3%*	*-2%*	*1%*	*2%*
FFO / share	**21.6**	**21.0**	**20.6**	**20.9**	**21.4**
Growth %	*-7%*	*-3%*	*-2%*	*1%*	*2%*
AFFO / share	**20.4**	**19.8**	**19.5**	**19.8**	**20.2**
Growth %	*-5%*	*-3%*	*-2%*	*2%*	*2%*
DPS	**21.6**	**21.0**	**20.6**	**20.9**	**21.4**
Growth %	*-6%*	*-3%*	*-2%*	*1%*	*2%*

Cash Flow *(A$m)*					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
NOI	44.9	36.2	42.8	39.7	42.2
Interest Received / (Paid)	-10.5	-11.0	-9.9	-10.9	-12.8
Other - Incl. Tax	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**34.4**	**25.2**	**32.9**	**28.8**	**29.5**
Investing Cash Flow	**33.4**	**21.3**	**16.5**	**-13.0**	**-1.0**
Financing Cash Flow	**-67.5**	**-50.0**	**-45.4**	**-15.6**	**-28.1**
Net Change in Cash	0.3	-3.5	4.0	0.2	0.3
Cash at Beginning of Period	2.8	3.1	-0.4	5.9	6.1
Cash at End of Period	**3.1**	**-0.4**	**5.9**	**6.1**	**6.4**
Dividends Paid	-30.1	-29.2	-28.6	-28.6	-29.1
Change in Debt	-37.3	-20.8	-16.8	13.0	1.0

Balance Sheet *(A$m)*					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
Cash and Cash Equivalents	5.5	1.9	5.9	6.1	6.4
Other Current Assets	15.7	7.0	5.4	5.5	5.6
Investment Property	774.2	740.7	728.2	741.2	742.2
Equity Accounted Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	7.6	4.3	2.1	2.1	2.1
Total assets	**802.9**	**753.9**	**741.5**	**754.8**	**756.3**
Payables	12.0	9.5	13.0	13.8	14.8
Provisions	9.8	9.1	7.5	7.5	7.5
Interest Bearing Liabilities	263.4	243.2	226.4	239.4	240.4
Other Liabilities	1.3	1.2	1.4	1.4	1.4
Total Liabilities	**286.5**	**262.9**	**248.4**	**262.2**	**264.2**
Total Shareholders' Equity	**516.4**	**490.9**	**493.2**	**492.6**	**492.1**

Key Metrics					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
Petrol Station FFO Growth (%)	7.2%	-3.9%	-1.8%	2.3%	6.1%
WAV Cap Rate (%)	6.1%	6.4%	6.4%	6.3%	6.2%
Comp NOI Growth (%)	2.9%	2.9%	2.9%	3.0%	2.8%

Valuation Data					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
FFO (A$m)	29.8	28.9	28.4	28.8	29.5
FFO / share (cps)	**21.6**	**21.0**	**20.6**	**20.9**	**21.4**
Growth %	*-7%*	*-3%*	*-2%*	*1%*	*2%*
P/E Ratio (x)	**11.9**	**12.6**	**14.1**	**13.9**	**13.6**
3-yr EPS CAGR	**-1.1%**	**0.7%**	**4.6%**	**6.9%**	**7.8%**
PEG Ratio	-10.8	18.2	3.1	2.0	1.7
Earnings Yield	8.4%	7.9%	7.1%	7.2%	7.4%
Dividend Yield	**8.4%**	**7.9%**	**7.1%**	**7.2%**	**7.4%**
2-yr DPS CAGR	-1.6%	-0.1%	1.3%	2.5%	2.4%
CFPS (cps)	25.0	18.3	23.9	20.9	21.4
Price / CF (x)	10.2	14.4	12.2	13.9	13.6
Franking	0%	0%	0%	0%	0%
EV / EBITDA (x)	15.4	15.8	16.1	15.6	14.7
EV / EBIT (x)	**15.4**	**15.8**	**16.1**	**15.6**	**14.7**
NTA per share ($)	3.75	3.56	3.58	3.58	3.57
Premium / (Discount) to NTA (%)	**-32%**	**-26%**	**-19%**	**-19%**	**-19%**
Share Price ($)	2.56	2.64	2.91	2.91	2.91

Performance & Leverage Metrics					
Year End 30 Jun	**2023**	**2024**	**2025e**	**2026e**	**2027e**
EBIT Margin	67.9%	68.8%	70.3%	73.3%	73.9%
Return on Assets	3.7%	3.8%	3.8%	3.8%	3.9%
Return on Equity	**5.8%**	**5.9%**	**5.8%**	**5.8%**	**6.0%**
ROIC	5.0%	5.2%	5.3%	5.5%	5.8%
Payout Ratio	100.0%	100.0%	100.1%	100.0%	100.0%
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt / (Cash) (A$m)	258.0	241.3	220.5	233.3	234.0
Net Debt / EBITDA (x)	6.4	6.1	5.7	5.9	5.5
Gearing	32.4%	32.1%	30.0%	31.2%	31.2%
Interest Cover (x)	3.8	3.8	3.8	3.6	3.3

Valuation Summary		
Valuation Methodology	***Weight***	***A$ / share***
SOTP	50%	3.18
DCF	50%	3.49
Price Target		**3.35**

SOTP Components

Portfolio	**Stated Cap Rate**	**BPe Cap Rate**	**BPe Cap Value**
Petrol Stations	6.4%	6.3%	$720m

Corporation	**EBIT**	**Multiple**	**Value**
Funds Management EBIT	-	0.0x	$0m
Property Management EBIT	-	0.0x	$0m
Trading Profits / Other	-	0.0x	$0m
Unallocated Corporate Overhead	-$5m	8.0x	-$39m

Key WACC / DCF Components	
Risk Free Rate	4.5%
Equity Risk Premium	6.0%
Beta	0.90
WACC	8.7%
DCF / DDM Terminal Growth Rate	2.5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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