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Initiation of Coverage

HOLD

Target Price (average): \$2.36

Current Price \$2.26

Upside: 2.65%

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Equity Research Report: Vicinity Centres

Vicinity Centres (ASX: VCX)

This report provides an in-depth valuation of Vicinity Centres, an Australian Real Estate Investment Trust specialising in the ownership and management of Australian shopping centres. Despite macroeconomic pressures, VCX delivered resilient earnings in FY2024, supported by 4.1% comparable Net Property Income (NPI) growth and strong net profit after tax (\$547.1M). Strategic repositioning towards premium, high-performing assets, such as acquisition of Lakeside Joondalup and complete control of Chatwood Chase, was funded through \$550M in non-core divestments at a 9% premium. With a strong balance sheet, disciplined capital management, and a shift in focus towards premiumisation, Vicinity Centres is well-positioned to benefit from structural retail trends and an improving macroeconomic outlook. VCX's commitment to ESG initiatives and sustainable income growth is at the centre of their long-term strategy.

Company Overview

Headquartered in Melbourne, Vicinity Centres (ASX:VCX) is one of Australia's leading retail property groups, with a \$14.7 billion diversified asset portfolio of 56 shopping centres across Australia. Major assets, including Chadstone, Emporium Melbourne, and Queen Victoria Building, are strategically positioned within a 30-minute drive of two-thirds of the Australian population. VCX's portfolio is primarily weighted towards specialty and mini-major tenancies, which contribute to 70% of rental income. Additionally, Vicinity Centre's manages \$8.4 billion in partner assets through joint ventures, supported by its strong operational foundation and leasing expertise.

Vicinity's strategy focuses on curating a premium, high-performing portfolio through active capital recycling and development. Supported by investment grade credit ratings by S&P and Moody's, the company continues to invest in retail innovation and client satisfaction. Its dominant position of the luxury, outlet, and CBD retail markets differentiates it from competitors and strengthens partnerships in other emerging retail sectors.

Company Highlights

Chadstone Development Progress:

VCX advanced construction on Chadstone's fresh food precinct and One Middle Road office tower, with over 95% of space pre-leased to significant tenants including Kmart and Adairs. The initiative serves to further establish Chadstone as a top-tier retail and commercial destination.

CBD Portfolio Recovery:

Retail sales rose by 5.4% in Vicinity's CBD centres, driven by the return of international tourists, students, and office workers. Occupancy rates of (99.6%) in the CBD portfolio exceeded pre-pandemic levels.

Leasing Momentum and Occupancy:

In FY2024, over 2,000 leasing deals were carried out, contributing to a portfolio-wide occupancy increase to 99.3% and a rise in the weighted average lease expiry (WALE) from 3.3 to 3.6 years. Further, leadings spreads improved to +1.1%.

Capital Management Initiatives:

VCX obtained \$675 million in new or extended bank debt facilities and issued an additional \$500 million in 10-year fixed AMTNs. In view of preserving financial flexibility, gearing was maintained at 27.2%, at the lower end of Vicinity's target range.

Industry Outlook

The Australian Real Estate Investment Trust (A-REIT) sector demonstrated resilience in FY2024, with the A-REIT Index outperforming in the S&P/ASX200 Index by 12.1%, yielding a total return of 19.9% (BDO Australia, 2024). Despite office and diversified sectors underperforming, strong performance was driven by significant returns in various A-REIT sectors, dovish interest rate expectations, and resilience in the property market.

Specifically, retail REITS have experienced strong recovery, with Q1 2024 tenant sales reaching \$6.5 billion and portfolio occupancy nearing full capacity. Scentre Group, a major player in the sector, forecasts Funds From Operations (FFO) growth of up to 5.4% in 2024 and a distribution increase of at least 3.6% (Bristow, 2024).

At an industry level, revenue has grown at a compound annual rate of 0.9% over the past five years and is projected to reach \$20.9 in 2025. REITs continue to attract investor interest, supported by superannuation fund allocations and a shift towards alternative asset classes. The industrial sector has grown its revenue share due to rising demand and upwards rent pressure.

Looking forwards, the REIT sector is well-positioned to benefit from improving economic conditions, population growth, and elevated business confidence, which are expected to support rent hikes. Retail REITs, in particular, are buoyed by strategic asset repositioning and sustained tenant demand, reinforcing the sector's outlook for continued expansion (Reilly, 2025).

Overall, the retail REIT sector is benefitting from strategic asset repositioning, strong tenant demand, and investor confidence, positioning it for continued growth.

Economic Outlook

Australia's current economic landscape presents a diversified outlook for REITS. The International Monetary Fund (IMF) has downgraded Australia's GDP growth forecast for 2025 to 1.6% from 2.1%, citing global trade tensions and domestic economic challenge. Inflation is expected to rise from 2.0% to 2.5%, potentially impacting consumer spending patterns and, by extension, retail REIT performance (Jackson, 2025).

Despite these challenges the RBA has maintained the official cash rate at a steady 4.53% post increasing it by 25 basis points in Q1 FY2024, creating a stable monetary environment that supports long-term financing and investment strategies for REITs. While international central banks, such as the European Central Bank have shifted to easing, advanced economies are still navigating through the tail end of pandemic-induced inflationary pressures (LDB, 2025).

Australia narrowly avoided recession in 2024, with GDP growth of just 1.5%, significantly below the historical average of 3.35%. Headline annualised inflation eased substantially from a peak in 7.8% in Q4 FY2022 to 3.1%. This moderation in inflation has provided a degree of consumer relief, however, the cost-of-living crisis, specifically the housing crisis, continues to persist, with house rents rising to 11.1% and units rents by 8.6% year-on-year (Feng, 2024).

However, these conditions incited legislative and investment shifts, including the strive for Build-to-Rent (BtR) projects and asset reallocations. Various A-REITS have taken advantage of the stable environment to restructure, refinance, or issue capital, positioning themselves ahead of expected monetary easing in the coming financial year.

Looking forward, easing inflation and stable interest rates are expected to support household disposable income and discretionary spending across FY2025 - directly benefitting Vicinity Centres' lifestyle and fashion tenants. Tourism recovery provides further upsides, specifically for leading destinations like Chadstone and CBD centres. Low unemployment and improving wage growth create a cautiously optimistic macroeconomic backdrop for retail REITs.

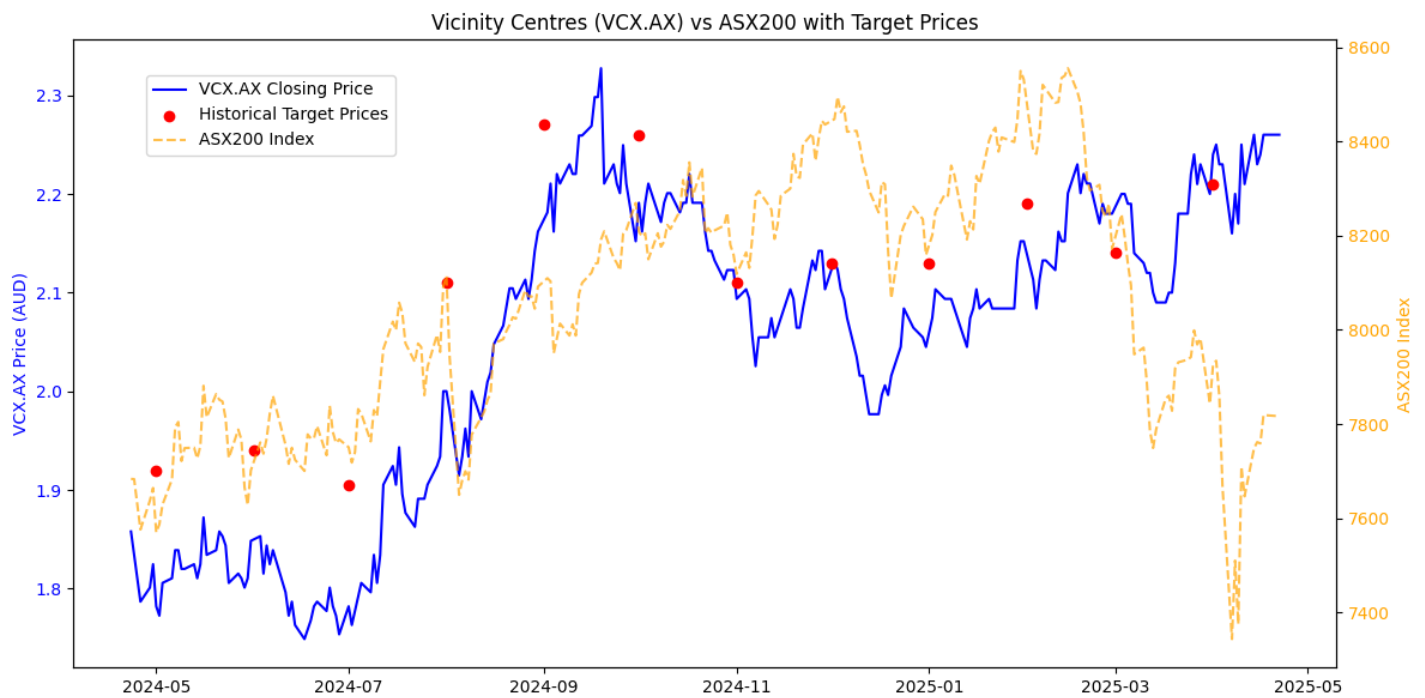
Financial Ratios

[To be generated using financial API functions.]

DCF Valuation

[Extracted from Excel - handled by teammate.]

Price Performance and Analyst Sentiment



Price Performance and Analyst Sentiment Analysis

Over the last 12 months, Vicinity Centres has displayed a steady upward price trend, broadly mirroring the ASX200 Index but with higher volatility. From August to November 2024, VCX notably outperformed the ASX200, likely reflecting favourable investor sentiment following earnings announcements, strategic asset repositioning, or improved consumer outlook. This outperformance moderated in early 2025 as macroeconomic uncertainty affected broader market expectations.

The red markers on the chart reflect historical analyst price targets, which ranged from ~\$1.90 to \$2.30 throughout the period. While not tightly clustered, the upward revisions in prices in Q4 2024 suggest improving sentiment around Vicinity's retail strategy and earnings trajectory. However, given the current trading price of \$2.26, analyst targets recently clustering between \$2.21 and \$2.33 suggest that Vicinity Centres is fairly valued by the market. While there is a slight implied upside at the top of the range, the dispersion of estimates and absence of a strong consensus for significant appreciation reflect a balanced view of the company's near-term prospects. As such, the market appears to be pricing in Vicinity's operational stability and strategic initiatives, but with limited room for material re-rating. This supports a HOLD recommendation, consistent with a neutral-to-cautiously optimistic sentiment.

Investment Theses

Vicinity Centres presents various compelling investment theses that underpin its long-term value proposition. First, Vicinity's portfolio repositioning strategy is enhancing earnings resilience and growth potential by focusing on and acquiring premium, high-performing retail assets such as Chadstone and Chatswood Chase, while divesting non-strategic centres. This repositioning secures higher occupancy and retail income as well as diversifying revenue streams through expansion into mixed-use developments that integrate retail, residential, office, and hotel spaces.

Further, Vicinity's strong financial performance strengthens its investment appeal. The company maintains investment-grade credit ratings and exercises disciplined capital management, positioning it to fund long-term growth while delivering consistent returns to securityholders. The group maintains a conservative gearing profile, with asset sales at a premium to book value funding redevelopment opportunities without excessive leverage. This disciplined approach supports long-term value creation and cash flow resilience.

Vicinity's commitment to ESG targets and community engagement fortifies its strategic positioning. Through the development of inclusive, climate-resilient assets, a focus on renewable energy and Net Zero objectives, and active partnerships with local communities, Vicinity enhances its long-term appeal to investors and supports broader environmental and social outcomes. Together, these factors position Vicinity Centres as a resilient and adaptable player in the evolving retail landscape.

Investment Risks and Mitigations

While Vicinity Centres is strategically positioned for long-term growth, several investment risks warrant consideration. Macroeconomic headwinds, such as the potential for a sharp economic downturn or sustained elevated inflation, could dampen tenant sales performance and heighten leasing risk across the portfolio. However, Vicinity's exposure to premium, necessity-based retailers, and its strategy of maintaining staggered lease expiries across its centres, provides meaningful resilience against cyclical downturns.

Another key risk is the ongoing shift in consumer preferences toward e-commerce, which may structurally reduce demand for physical retail space over time. Vicinity actively mitigates this through strategic omni-channel partnerships with tenants, experiential leasing initiatives, and ongoing investment in technology-enabled shopping environments that enhance customer engagement and drive visitation.

Additionally, Vicinity's earnings profile is concentrated among a select group of flagship assets, creating some concentration risk. However, this risk is partially offset by geographic diversification of Vicinity's broader portfolio and the consistently strong performance of its premium centres, which continue to attract high levels of foot traffic and tenant demand. Collectively, these strategies ensure Vicinity remains well-positioned to navigate emerging headwinds while continuing to deliver stable, long-term returns.

Final Recommendation

Based on our valuation and industry analysis, we issue a HOLD recommendation for Vicinity Centres (VCX), with a target price of \$2.36, representing a modest 4.4% upside from the current share price of \$2.26.

Vicinity's strategic repositioning toward premium and resilient retail, disciplined capital management, and focus on mixed-use development initiatives provide a strong foundation for long-term value creation. Additionally, a stable interest rate environment and recovering discretionary spending trends offer supportive tailwinds for flagship centres such as Chadstone and key CBD locations.

However, near-term upside appears limited, with macroeconomic headwinds, evolving consumer preferences toward e-commerce, and asset concentration risk presenting challenges to earnings momentum. While Vicinity remains fundamentally sound, we believe the current valuation appropriately reflects both its strengths and potential risks.

We recommend maintaining exposure, with periodic reassessment aligned with earnings updates and leasing performance across leading centres.