Equity Research Report: Vicinity Centres

Date: 23 April, 2025

Initiation of Coverage

HOLD

Target Price (average): $2.36

Current Price $2.26

Upside: 2.65%

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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, Vicinity Centres delivered resilient earning 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 drives their long-term strategy.

Company Overview

Headquartered in Melbourne, Vicinity Centres (ASX:VCX) is among Australia's leading retail property groups, with a $14.7B diversified asset portfolio of 56 shopping centres across Australia and $23B in under management cumulatively. VCX invest predominantly in retail properties with major asset 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 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 offering a range of office space, retail and residential, while fully integrating asset management services, exemplified by its management of 29 assets on behalf of Strategic Partners with 28 co-owned by the group. Vicinity's strategy focuses on curating a premium, high-performing portfolio through capital recycling and development. Supported by investment grade credit ratings by S&P and Moody's, the company continually invests in retail innovation and client satisfaction. Its dominant position of the luxury, outlet, and CBD retail markets differentiates it from competitors with strengthened partnerships in emerging retail sectors. Additionally, VCX's offers advertising, brand activation, leasing, and pop-up retail consultancy.

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 3.3-3.6 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.

Growing Real Value Per Share:
Net tangible assets increased 5 cents to $2.35 per share with valuations increasing 1.2% on dominant comparator NPI growth of 4.2%, with cap rate remaining flat at 5.64%. Furthermore gearing rose 130 basis points half-on-half to 28.5%, indicative of VCX's performance in light of properly values increasing, bolstering NTA with stable cap rates driving good returns eliciting higher valuations.

Higher Rents and Occupancy Rates:
Releasing spreads are on average 3.5% higher, with +2.4% increase on FY24, alongside abovementioned premium malls realising +10.5% complementing of a +6.7% premium mall spread, bolstering revenues.

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, robust tenant demand and strategic repositioning across key assets classes particularly in the retail and industrial property space.

Specifically, retail REITS have experienced strong recovery, with Q1 FY2024 tenant sales reaching $6.5B 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), highlighting the sectors operational robustness.

At an industry-wide level, revenue has grown at a compound annual rate (CAGR) 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, paired with strong income visibility and inflation hedging characteristics appealing to institutional investor return profiles. The industrial sector has grown its revenue share due to rising demand and upwards rent pressure, alongside capital appreciation driving robust demand for Australian property as an asset class.

Looking forwards, the REIT sector is well-positioned to benefit from improving macroeconomic 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 through elevated household savings and government fiscal support (Reilly, 2025).

Overall, the retail REIT sector is benefitting from strategic asset repositioning, strong leasing outcomes, demand, and investor confidence with conducive capital market conditions, positioning it for continued growth. Retail focussed REITs such as VCX are poised to capitaliser on these conditions, reinforcing their market position as a defensive cash generative investment, with a diversified real asset portfolio.

Economic Outlook

Australia's current economic landscape presents diverse conditions for the REITS sector entering FY2025. 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 such as inflationary pressures and a broader slowdown across developed economies. Inflation is expected to rise from 2.0% to 2.5%, potentially impacting consumer spending patterns and, by extension impacting discretionary exposed retail REIT performance, while simultaneously reinforcing the strategic positioning of prime retail assets (Jackson, 2025).

Despite these macro headwinds, the RBA has maintained the official cash rate at a steady 4.53% post increasing it by 25 basis points in Q1 FY24, creating a stable monetary environment that supports long-term financing and investment strategies for REITs conducive to long term fundibng, refinancing and capital investments strategies. 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 with Australia's economic conditions remaining more accommodative, benefitting debt laden sectors such as retail real estate (LDB, 2025).

Australia narrowly avoided a technical 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 presenting ongoing pressures on housing affordability (Feng, 2024).

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

Looking forward, a combination of 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 reinforcing the core portfolio philosophy. Tourism recovery is expected to provide a second industry tailwind, specifically for leading destinations like Chadstone and CBD centre. Low unemployment and improving wage growth create a cautiously optimistic macroeconomic backdrop for retail REITs, further augmenting foot traffic and specifically retailer sales performance.

Intruinsic Valuation (DCF)

Metric	FY24	FY25	FY26	FY27	FY28	FY29
Revenue	1,312.0	964.5	991.5	1,072.8	1,169.4	1,274.6
EBITDA	760.9	884.8	921.3	982.0	1,075.8	1,172.6
EBIT	756.4	883.5	920.4	984.0	674.2	734.8
Tax on EBIT	167.4	195.5	203.7	217.8	149.2	162.6
NOPAT	589.0	688.0	716.7	766.2	525.0	572.2

DCF Valuation Summary

Metric	Perpetuity	EBITDA Exit (Mid)
nan	-	-
WACC	0.07	0.07
TV	18,190.16	18,339.85
EV	15,674.12	15,785.42
Net Debt	4,573.20	4,573.20
Equity Value	$11,101	$11,212
Shares Out.	4,563.56	4,563.56
Implied Share Price	$2.43	$2.46

The Discounted Cash Flow (DCF) valuation for Vicinity Centres (AXS: VCX) was based on a combination of a perpetuity growth model and an EBITDA exit multiple approach in cross checking and validating valuation results. Under the perpetuity method, the valuation assumes a modest terminal growth rate of 2.5% to reflect the long-term stabilisation of retail property income in mature low growth environments. Concurrently, the EBITDA exit multiple method applies a conservative terminal multiple to the projected EBITDA in the final forecast year, based on peer derived multiples ensuring market aligned calibration. Both valuation methods produced consistent outputs, with the implied equity value and share price estimates showing minimal dispersion with 2.43 (Perpetuity) and 2.48 (EBITDA Exit) respectively, indicating minimal dispersion and reinforcing robustness of valuation assumptions.

An assumed 7% WACC reflects the relatively defensive nature of VCX's assets, supported by strong balance sheet metrics and resilient cash flows. Given VCX position as a leading retail REIT in Australia, the DCF valuation incorporates assumptions for moderate earnings growth, stable occupancy rates, and disciplined capital management over the forecast horizon. Recent portfolio repositioning driving outcomes supports this thesis, with VCX reallocating ~1.7 billion of capital into premium assets since EOFY FY22, yielding the strong growth contributor acquisitions of Chadstone and Chatwood Chase. Speciality productivity for premium commercial assets standing at $15,971 was a 23% increase YoY, indicative of stronger rents and tenant quality.

Looking ahead, VCX remains well positioned to capture incremental through strategic concentration in high end retail. Focalising high end malls is eliciting better income, tenants and rent growth, with a further $520 million CAPEX commitment to expand premium retail sites (Jones, 2025). This commitment across key premium assets sites reinforces a floward earnings trajectory, tenant diversification strategy and thus defensible intrinsic valuations.

Financial Ratios

P/E Ratio: 14.59x	**EV/EBITDA Ratio:** 20.14x	**P/S Ratio:** 6.06x
P/B Ratio: 0.76x	**EV/Sales Ratio:** 11.25x	**Return on Equity (ROE):** 5.1%
Return on Assets (ROA): 3.5%	**Gross Margin:** 0.71	**Operating Margin:** 55.5%
Net Margin: 41.5%	**Net Margin Growth:** 95.0%	**Revenue Growth:** 3.3%
Debt to Equity Ratio: 0.43x	**Interest Coverage Ratio:** 3.91x	**Free Cash Flow Yield:** 8.6%
Current Ratio: 0.47x	**Asset Turnover:** 0.08x	

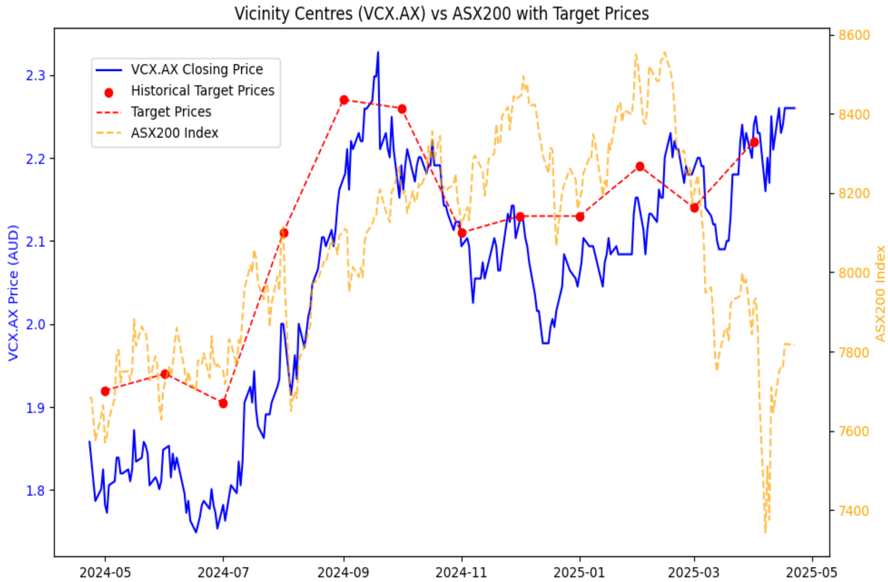
Vicinity Centres' financial ratios for FY24 demonstrate a strong balance sheet profile, providing strong foundations for continued operational performance. VCX maintains a conservative leverage position, as reflected in its low Debt to Equity Ratio of 0.43x and healthy Interest Coverage Ratio of 3.91x, ensuring ample capacity to service debt obligations. This prudent balance sheet management underpins VCX's flexibility in potentially pursuing strategic investment opportunities to enhance resilience against interest rate volatility.

Profitability metrics, including a Net Margin of 41.5% and Operating Margin of 55.5%, highlight efficient cost control and operational strength across the Groups profile. The Return on Equity (ROE) of 5.1% is moderate, reflecting both the stability of the retail property income streams and the defensive nature of the underlying asset base, characterised by stable tenant demand across premium real estate centres eliciting stable cash flows.

Liquidity metrics are similarly sound with a Current Ratio of 0.47x, consistent with typical REIT liquidity profiles, while modest asset turnover reflects the capital-intensive nature of retail property operations. Overall, the financial ratios reinforce Vicinityâ€™s solid platform for future cash flow generation and sustainable distributions to security holders while retaining strategic flexibility to capture growth opportunities.

Recent operating metrics illustrate the strength of VCX's operations. Groupwide sales growth accelerating 2.1% in FY24 with specialities (stores boutiques, and cafÃ©) delivering resilient performance. Specialty occupancy costs, despite increasing 40 bps remain materially below pre COVID 19 averages fo ~15% suggesting tenants have capacity to absorb future rental growth. Furthermore, portfolio valuations increasing ~1.2% during FY24 reflected in the underlying asset strength in the backdrop of soldi income growth and stable cap rates at 5.64%. Managements capital recycling strategy of divestment in 457 million worth of non core assets at >5% premiums to book value evidenced disciplined asset management and value maximization. Overall profitability, liquidity and solvency ratio analysis supports the sustainability of VCX's cash flow generation and future asset preservation.

Price Performance and Analyst Sentiment



Over the past 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 Thesis

Vicinity Centres presents various compelling investment theses that underpin its long-term value proposition, strategic repositioning, disciplined capital managements and strong focus on sustainability.

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, stronger speciality sales productivity and diversifying revenue streams through expansion into mixed-use developments that integrate retail, residential, office, and hotel spaces. These initiative position VCX to capture broader secular trend in urban diversification and retail.

Further, VCX's strong financial performance strengthens its investment appeal. The company maintains investment-grade credit ratings and interest coverage ratio 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. VCX's development pipeline anchored by flagship projects such as Chadstone offer significant medium term source of value creation, with management current capital deployment priorities focussed on unlocking the approximately $ 3 billion development pipeline, which will support margin income growth with complete d projects .

Appealingly, portfolio valuation have stabilities with +1.2% revaluation and cap rates remaining steady underpinning AV 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, vicinity Centres as a resilient and adaptable player in the evolving retail landscape offering a combination of high quality assets, strategic execution, discipline financial management and capable leadership positioning the firm for continued cash flow resilience and long term value creation.

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.

Shift in consumer preferences toward e-commerce and general structural retail disruption presents risks of uncertainty, 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. VCX's investment into technology enabled, customer centric environments positions it to adapt to evolving consumer preferences and preserve foot traffic resilience.

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. Moreover the premium nature of these assets provide a level of defensiveness through economic cycles.

Capital market and funding risk are also relevant amongst the current valuation environment with uncertainty surrounding interest rates and property valuations. However, VCX reenforced liquidity position, conservative gearing and robust interest rate coverage alongside active reinvestment strategies insulate it against long term refinancing risk. Furthermore with VCX's debt being materially hedged, sensitivity to future interest rate volatility it enabled.

Finally, while share price volatility has remained modest compared to peers with a 1YR beta of ~0.88 and above seen high correlation with the ASX200 index (~77%), VCX's defensives within the listed REIT sector presents at highly attractive to risk adverse investors seeking stable income streams. Collectively, these strategies ensure Vicinity remains well-positioned to navigate emerging headwinds while continuing to deliver stable, long term returns (LSEG Stock Reports Plus, 2025).

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.

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