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24 August 2017

Strong full-year performance for Peet Group

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Key results

- **Operating profit and statutory profit after tax of $44.8 million, up 5%**
- **Earnings per share of 9.1 cents, up 5%**
- **FY17 dividends of 4.75 cents per share, fully franked, up 6%**
- **Revenue of $311.4 million with 3,077 lots settled**
- **EBITDA of $91.1 million, up 2%**
- **EBITDA margin of 29%**
- **2,186 contracts on hand as at 30 June 2017**
- **Gearing of 21.4%**

Financial commentary

The Peet Group today announced an operating profit and statutory profit after tax of $44.8 million for the year ended 30 June 2017, which represents an increase of 5% compared with last financial year.

The national property developer also announced an increase of 5% in earnings per share to 9.1 cents for the reporting period, compared to 8.7 cents per share in FY16.

Managing Director and CEO, Brendan Gore, said the results were achieved on the back of continuing strong conditions across the Group's east coast markets.

"The Group has continued to achieve price growth in these key markets and particularly across the Victoria portfolio. There were also signs of improvement in the Queensland portfolio, with increased levels of enquiry and sales," said Mr Gore.

Peet has reported EBITDA of $91.1 million during FY17, compared to $89.8 million in FY16, with a solid margin of 29%, slightly less than the FY16 margin of 32%.

Mr Gore said the margin is always impacted by the product mix developed and sold in line with prevailing market conditions; and in FY17 the margin was also affected by the substantial completion in FY16 of several successful projects across the country.

"Significantly, FY17 also saw a ramping up of production across the Queensland portfolio, particularly at Flagstone, where the initial focus has been on building market share and momentum," he added.

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"The Group was also pleased to announce the establishment of two new wholesale funds during the year. These funds involve the co-ownership of residential land development projects with Supalai Public Company, a real estate developer listed on the Thailand Stock Exchange, and projects in the strong western growth corridor of Melbourne (Newhaven, Tarneit) and Redbank Plains (Eden's Crossing) less than 30 kilometres from Brisbane.

"These projects are expected to be strong contributors to the Group's earnings over the next decade," said Mr Gore.

In line with its strategy of managing its pipeline of projects with a focus on maximising return on capital, Peet sold an undeveloped englobo parcel in Rockbank, west of Melbourne, Victoria for $30.5 million. The sale is subject to planning-related conditions, with settlement expected to occur in FY18.

Operational commentary
The Peet Group achieved 3,000 sales during the year, with a gross value of $860.3 million, and 3,077 settlements with a gross value of $844.3 million for the full year. This represented a decrease of 8% and an increase of 7%, respectively, compared with FY16.

A number of new estates were successfully launched by the Group during the year, including Cornerstone and Newhaven in Victoria; Flagstone City and Eden's Crossing in Queensland; Mt Pleasant in NSW/ACT; and Movida in Western Australia. Together with the continuing strong conditions in Victoria, the activity from these new estates partially offset the effects of the completion in FY16 of successful projects such as Quarters and Livingston in Victoria, and Flagstone Rise and Warner Lakes The Reserve in Queensland.

More than half of the Group's settlements were achieved in the second half of FY17 and, as at 30 June 2017, there were 2,186 contracts on hand, with a gross value of $545.7 million, providing strong momentum into FY18. This compares with 2,426 contracts on hand with a gross value of $545.7 million at 30 June 2016 and, while there is a decrease in the number of contracts on hand, their value is the same as last year reflecting, in part, strong price increases achieved across the east coast portfolio and the product mix sold during the year.

"The strength of the east coast portfolio also underpinned a pleasing increase in contribution from the Group's Development business. Aston in Victoria made a significant contribution to earnings during the year and we received our first settlement revenue from the Little Green project in Victoria and Greenlea in Western Australia," said Mr Gore.

Capital management
The Peet Group maintains a disciplined focus on capital management, and at 30 June 2017, the Group's gearing stood at 21.4% (at the lower end of the target range of 20% to 30%), compared to 28.8% at 30 June 2016, following a strong increase in cash inflows from operations.

At 30 June 2017, the Group had interest-bearing debt (including Peet Bonds) of $249.8 million, compared with $266.9 million at 30 June 2016. Approximately 89% of the Group's interest-bearing debt was hedged as at 30 June 2017, compared with 84% at 30 June 2016.

Peet enters FY18 with a strong balance sheet that will be applied towards the funding of significant opportunities secured over the last 12 to 18 months, and the development of existing projects. These include the Tonsley urban renewal project in South Australia, the University of Canberra project in the ACT and the Brabham project in Western Australia. These projects are expected to be long-term drivers of earnings in the years ahead.

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Subsequent to 30 June 2017, Peet issued $50 million of Series 2, Tranche 1 Peet Bonds, which further diversifies the Group's debt structure and increases the weighted average maturity of Peet's debt to more than three years.

Dividend payments

Subsequent to 30 June 2017, the Directors declared a final dividend for FY17 of 3.0 cents per share, fully franked. This brings the total dividend for FY17 to 4.75 cents per share, fully franked, which is an increase of 6% on the previous year (FY16: 4.50 cents per share, fully franked). The dividend is to be paid on Wednesday, 4 October 2017, with a record date of Friday, 22 September 2017.

Group strategy and outlook

The Group will continue to target the delivery of shareholder value and quality residential communities around Australia by leveraging its land bank; working in partnership with wholesale, institutional and retail investors; and continuing to meet market demand for a mix of product in the growth corridors of major Australian cities, with a primary focus on affordable product.

Key elements of the Group's strategy for the year ahead and beyond include:

- continuing to deliver high-quality, masterplanned communities, adding value and facilitating additional investment in amenity and services wherever possible;

- managing the Group's land bank of approximately 52,000 with a focus on maximising return on capital employed;

- continuing to assess opportunities to selectively acquire residential land holdings in a disciplined manner under our funds management platform and as appropriate in market conditions; and

- maintaining a focus on cost and the level of debt.

FY18 will see the commencement of development of a further three projects on the east coast.

Subsequent to the year end, it was announced that Peet was the Western Australian Government's preferred proponent for final negotiations as development partner for a housing project on a 220-hectare landholding in Brabham – 22 kilometres from the Perth CBD. As part of the Brabham joint venture, Peet will establish a new fund with a wholesale investor to jointly develop the project, with Peet appointed as the development manager.

The Peet Group's portfolio of residential development landholdings, supported by a strong balance sheet, is well positioned for sustainable long-term growth and the outlook is generally supported by market fundamentals with sustained low interest rates and modest economic growth.

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The Australian residential property market conditions continued to differ across the States during FY17 and this is expected to continue during FY18 with conditions across Victoria, NSW/ACT and South Australia expected to remain supportive and the Queensland residential market expected to continue to improve due to its relative affordability. Conditions in Western Australia, while stabilising, are expected to remain subdued throughout FY18 and into FY19.

“The Peet Group has moved into FY18 well-positioned to target growth on FY17 earnings, subject to market conditions and the timing of settlements, with earnings expected to be weighted to the second half,” said Mr Gore.

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