PEET

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asx release

25 August 2016

Peet Group delivers another year of growth

- **Operating profit[1] and statutory profit[2] after tax of $42.6 million, up 11%**
- **Earnings per share of 8.7 cents, up 5%**
- **FY16 dividends of 4.5 cents per share, fully franked, in line with FY15**
- **Revenue of $285 million with 2,865 lots settled**
- **EBITDA[3] of $89.8 million, down 3%**
- **Net EBITDA[3] margin of 32%, up 6%**
- **ROCE[4] of 13.2%**
- **Total of 3,253 lots sold**
- **Record 2,426[5] contracts on hand as at 30 June 2016**
- **Gearing[6] of 28.8%**

National property group, Peet Limited, today announced an operating profit after tax and statutory profit for the full-year ended 30 June 2016 of $42.6 million, which represents an 11% increase over the previous year.

Peet Limited's Managing Director and CEO, Brendan Gore, said the result reflected the strong performance in the Group's key eastern states' markets and, in particular, those in Victoria and ACT/New South Wales.

"The Group's increase in profit was achieved despite lower revenues which were largely the result of the Quayside apartment project in ACT and The Chimes residential land project in WA being completed during the previous financial year, as well as the weak market conditions across Western Australia and Northern Territory. The result has also been achieved despite the Group not having direct exposure to the strong Sydney market," said Mr Gore.

"The uplift in profit was supported by an improved EBITDA[3] margin, which increased by 6% to 32%," he added. "Price growth backed by strong demand across the Victorian land portfolio, as well as the Group's continued focus on operational efficiencies, were key contributing factors."

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[1] Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit includes the effects of non-cash movements in investments in associates and joint ventures totalling $16.7 million (FY15: $6.4 million). Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities.
[2] Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited.
[3] EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures totalling $16.7 million (FY15 - $6.4 million).
[4] Return on Capital Employed (ROCE) = EBITDA / (average net debt + average total equity).
[5] Includes equivalent lots. Excludes Arena englobo sales.
[6] Calculated as (Total interest bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets), excluding Syndicates consolidated under AASB10.

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The Group's performance resulted in earnings per share of 8.7 cents for the year ended 30 June 2016, compared to 8.3 cents per share for FY15, an increase of 5%.

"Peet has moved into the 2017 financial year with good momentum, a strong balance sheet and a number of new projects moving into development," said Mr Gore.

"We continue to be well-served by the diversity of our national land bank which enables us to manage variable market conditions, and the Group has continued to build the quality and breadth of its portfolio over the past year, with the capacity to pursue further growth as and when the right opportunities arise."

Peet secured three new projects during the year including Whole Green in Tarneit, Victoria; Redbank Plains, Queensland; and Tonsley, just 10 kilometres from the Adelaide CBD in South Australia. These projects comprise approximately 3,700 lots/dwellings with a gross development value of circa $930 million.

The Tarneit and Redbank Plains projects are already in development and expected to contribute to FY17 earnings, and both Redbank Plains and Tonsley represent an expansion of the Group's Funds Management platform.

During the year, Peet also entered into a conditional agreement with the University of Canberra for the proposed development of approximately 3,300 dwellings with an expected gross development value of circa $1.7 billion.

As previously announced, the Arena Greenvale project in Victoria was sold in August 2015 in line with Peet's strategy of managing its pipeline of projects with a focus on maximising return on capital. The sales proceeds are to be redeployed into lower cost base acquisitions. That focus on maximising return on capital has seen the Group maintain its ROCE[7] above 13% (13.2% in FY16 and 13.8% in FY15).

A $25 million retail land syndicate was also completed, closing over-subscribed and, since the end of the financial year, the first sales of lots at the project in Werribee, Victoria have been achieved.

In FY16, the Peet Group achieved 3,253 sales (with a gross value of $908.8 million) and 2,865 settlements (with a gross value of $757.1 million), representing an increase of 1% and a decrease of 12% respectively compared with FY15.

The lower settlements reflected, in part, continuing challenging conditions in the Western Australian and Northern Territory property markets; the completion in 2015 of highly successful syndicated projects (Warner Lakes in Queensland and Kingsford in Victoria) and the Quayside apartment Development project in ACT. These factors were partially offset by the continued strong performance of projects in the eastern states.

Approximately 55% of the Group's settlements were achieved in the second half of FY16 and it moved into the 2017 financial year with solid momentum with a record 2,426[8] contracts on hand at 30 June 2016, with a gross value of $545.7 million. This compares with 2,061[9] contracts on hand with a gross value of $440.9 million at 30 June in 2015. These increases are predominantly attributable to the strong sales performance in the eastern states' Funds Management projects.

[7] Return on Capital Employed (ROCE) = EBITDA / (average net debt + average total equity).
[8] Includes equivalent lots. Excludes Arena englobo sales.
[9] Includes equivalent lots.

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Capital management
In the second half of the financial year, Peet issued $100 million in new unsecured Peet Bonds, with a maturity date of June 2021, and announced the extension of its senior syndicated debt facility to October 2019.

The funds raised under the Peet Bonds were used to refinance the Peet Convertible Notes issued in 2011 and to diversify Peet's debt capital structure to further strengthen the Peet Group's balance sheet and to further support its growth objectives.

The Peet Bonds also increased the weighted average maturity of the Group's borrowings from 2.0 years as at 30 June 2015 to 3.7 years as at 30 June 2016.

While the Group's interest-bearing debt increased during the year as a result of the Whole Green, Tarneit acquisition, it has maintained its focus on prudent capital management, with gearing[10] of 28.8% as at 30 June 2016, compared to 30.6% at the half year.

Peet is well capitalised, however given the current tightening lending environment, considers it prudent to target gearing at the lower end of its target range of 20-30%. While gearing may rise above the target range to fund acquisition opportunities, the Group's preference for acquisitions through its co-investment funds management model is expected to see gearing revert back to within the target range in the short to medium term.

The Group had net cash and debt headroom of $96.8 million at 30 June 2016.

Dividend payments
Subsequent to year-end, the Directors have declared a final dividend for FY16 of 2.75 cents per share, fully franked. This brings the total dividend for FY16 to 4.5 cents per share fully franked, which is in line with the FY15 dividend and the 50% payout ratio and the Group's focus on targeting the lower end of its target gearing range. The dividend is to be paid on 14 October 2016, with a record date of 30 September 2016.

The Directors have resolved to keep the Company's Dividend Reinvestment Plan deactivated.

Group strategy and outlook
The Peet 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, but with a 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 more than 48,000 lots to achieve optimal shareholder returns;

[10] Calculated as (Total interest bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets), excluding Syndicates consolidated under AASB10.

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- continuing to assess opportunities to selectively acquire residential land holdings in a disciplined manner predominantly under our funds management platform;
- an ongoing focus on maximising return on capital employed in all our key markets; and
- maintaining a focus on cost and debt reduction.

Subsequent to year-end, Peet announced the establishment of a new wholesale fund between Peet and Supalai Public Company, a real estate developer listed on the Thailand stock exchange, with each being 50% co-investors. Peet will act as the development manager for the fund which has acquired the residential estate in Redbank Plains, Queensland previously mentioned. The project is expected to be developed out over six years with expected completion in late 2022, and complements the recent launch of Peet's Flagstone City project.

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

"Conditions across Victoria, ACT/ New South Wales and South Australia are expected to remain supportive, while Western Australia and Northern Territory are expected to remain subdued through the 2017 calendar year," said Mr Gore.

"Activity in the Queensland residential market continues to improve due to its relative affordability, which has been a factor in the recovery in interstate migration."

The Group has moved into FY17 well-positioned to target earnings growth, subject to market conditions and the timing of settlements, with FY17 earnings expected to be weighted to the second half of the year.

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