PEET

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Peet increases full year profit

Key results[1]

- **Operating profit[2] and statutory profit[3] after tax of $49.1 million, up 10%**
- **Earnings per share of 10.02 cents, up 10%**
- **Full year dividend of 5.0 cents per share, fully franked, up 5%**
- **Revenue[4] of $301.7 million with 2,924 lots settled**
- **EBITDA[5] of $101.3 million, up 11%**
- **EBITDA[5] margin of 34%**
- **Contracts on hand[6] as at 30 June 2018 of 2,257, with a value of $616 million**
- **Gearing[7] of 18.2%**
- **Strong operating cash flows of $118.0 million[8]**

Financial commentary

The Peet Group today announced an operating profit[2] and statutory profit[3] after tax of $49.1 million for the year ended 30 June 2018 (“FY18”), which represents an increase of 10% compared with the year ended 30 June 2017 (“FY17”).

Earnings per share were 10.02 cents, also representing an increase of 10% compared with FY17.

Peet Managing Director and CEO, Brendan Gore, said the results were underpinned by continuing favourable conditions across east coast markets.

“The benefits of the Group’s geographically diversified portfolio have underpinned the 2018 performance, with the favourable conditions on the east coast more than offsetting the subdued Perth market. Additionally, FY18 saw sales and settlements from the Queensland portfolio improve on the back of Flagstone and the Eden’s Crossing projects,” said Mr Gore.

The FY18 EBITDA[5] increased by 11% on FY17 and the EBITDA[5] margin for FY18 was 34%, compared to 29% for FY17.

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1 Comparative period is 30 June 2017 unless stated otherwise. The non-IFRS measures have not been audited.

2 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 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.

3 Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited.

4 Includes statutory revenue of $287.6 million (FY17: $296 million) and share of net profits from associates and joint ventures of $14.1 million (FY17: $15.3 million).

5 EDITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures totaling $14.1 million (FY17: $15.3 million).

6 Includes lot equivalents. Excludes englobo sales.

7 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.

8 Calculated before payments for purchase of land.

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"These increases are predominantly attributable to the price growth achieved across the Victoria and Queensland portfolios, the settlement of super lots and a continuing focus on efficiencies across the business," said Mr Gore.

Peet has maintained its focus on prudent capital management and during the first half of FY18, issued $50 million of Peet Bonds, which has further diversified its debt structure. This diversification helps underpin a strong balance sheet and, together with low gearing[9] of 18.2% (compared to 21.4% at 30 June 2017), provides Peet with the capacity to strategically replenish its landbank when opportunities emerge.

Operational commentary

The Group achieved 2,950 sales (down 2% on FY17) with a gross value of $714.5 million and 2,924 settlements (down 5% on FY17) with a gross value of $711.5 million.

"Sales were impacted by the varied market conditions around the country, with east coast markets performing strongly and the Western Australian and Northern Territory markets continuing to be subdued. Settlements were affected by the timing of lot settlements across projects and the substantial completion of several syndicated Victorian projects during FY17.

"Importantly, sales and settlements from the Group's Queensland portfolio increased 16% and 64%, respectively, compared to FY17, with the performance underpinned by the continued growth of the Flagstone estate and the first full year of sales from the Eden's Crossing project," said Mr Gore.

As at 30 June 2018 there were 2,257 contracts on hand[10] with a gross value of $616.0 million, compared with 2,186 contracts on hand[10] with a gross value of $545.7 million at 30 June in 2017. The pipeline of contracts on hand at year end provides strong momentum into the 2019 financial year ("FY19").

Capital management

The Peet Group continues to apply a prudent focus on capital management and during FY18 achieved a strong increase in cash inflows from operations (up 19% to $118 million before payments for purchase of land) and reduced gearing[9] to 18.2%, compared to 21.4% at 30 June 2017.

At the end of the reporting period, the Group had interest-bearing debt of $217.2 million, compared with $249.8 million at 30 June 2017. Approximately 91% of the Group's interest-bearing debt was hedged as at 30 June 2018, compared with 89% at 30 June 2017.

Peet enters FY19 with a strong balance sheet, including cash and debt facility headroom of $148.3 million as at 30 June 2018, and a weighted average debt maturity of over two years.

On the basis of this strong financial position and pending the emergence of growth opportunities, the Directors have resolved to implement an on-market share buy-back of up to 5% of the Company's issued shares, details of which will be provided in a separate announcement to the market.

[9] 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). Excludes syndicates consolidated under AASB10.

[10] Includes lot equivalents. Excludes englobo sales.

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Dividend payments
Subsequent to 30 June 2018, the Directors declared a final dividend for FY18 of 3.0 cents per share fully franked, bringing the total dividend for the year to 5.0 cents per share, fully franked, which is 5% higher than FY17.

The Dividend Reinvestment Plan remains deactivated.

Group strategy
Peet will continue to target the delivery of 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 more than 49,000 lots with a focus on maximising return on capital employed;

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

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

- broadening its product offering to Completed Homes and Medium Density.

Traditionally, Peet has been a residential land developer with a focus on replenishing its land bank in a disciplined manner under its funds management platform, in its core markets of Victoria, Queensland and Western Australia, with opportunistic acquisitions in other states and territories. However, the Group has evolved and broadened its capabilities and offerings to home-buying customers, increasing its focus on Completed Homes and Medium Density products, and to a lesser extent the apartment market.

"As new Completed Homes and Medium Density products are developed, the Group's EBITDA margin is expected to be approximately 28% in FY19, which is within its target through-cycle EBITDA margin range of 25% to 30%," said Mr Gore.

In recent times, Peet has secured projects to deliver Completed Homes and Medium Density products under its funds management, development and joint arrangements operating segments.

"One project, for example, that will deliver a mix of traditional residential land product, and newer Completed Homes and Medium Density products is the Brabham (WA) project," said Mr Gore.

During the second half of FY18, Peet announced it had entered the relevant agreements confirming its appointment as the Western Australian Government's development manager for the Brabham (WA) project, a 220-hectare landholding located in Brabham, 22 kilometres from the Perth CBD. The Brabham (WA) project will potentially yield more than 3,000 dwellings, as well as schools, neighbourhood shops and recreational areas.

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Outlook

The outlook for the Group is generally supported by market fundamentals with sustained low interest rates, strong population growth on the east coast and modest economic growth.

The Australian residential property market's varied conditions are expected to continue into FY19, with some moderation of conditions in Victoria and New South Wales expected.

The Peet Group enters FY19 with a strong balance sheet, low gearing[11] and a portfolio of residential development landholdings well positioned for sustainable long-term growth, and it is well-positioned to target growth on FY18 earnings, subject to market conditions and the timing of settlements.

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[11] 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). Excludes syndicates consolidated under AASB10.