ASX ANNOUNCEMENT

14 February 2018

VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

Villa World Reports Results for Half Year Ended 31 December 2017

Villa World (ASX: VLW) is on track to deliver a full-year forecast profit growth of at least 10% and has set the scene for even stronger performances ahead.

The Company marked the half-year with a $17.3 million statutory profit after tax, within its guidance range of $17 million - $18 million, announced on 20 December 2017. The half-year guidance was increased at that time following a new joint venture project at Wollert, in Victoria, which has contributed $5.2 million net profit after tax ($7.3 million before tax).

Full year statutory profit after tax guidance is reaffirmed as at least $41.6 million which represents 10% growth on FY17. The Company will continue to monitor product delivery and land title registrations towards the end of 2H18 and will provide further guidance update if necessary.

Highlights

- Statutory profit after tax of $17.3 million (1H17: $19.6 million)
- EPS: 13.6 cps (1H17: 17.4 cps)
- FY18 guidance reaffirmed as profit after tax of at least $41.6 million, representing growth of at least 10% over FY17 ($37.8 million). EPS guidance of at least 32.8 cps (FY17: 32.5 cps)
- 8.0 cps fully franked interim dividend declared post balance date (1H17: 8.0 cps)
- Guidance for total dividend for FY18 reaffirmed as at least 18.5 cps fully franked
- 610 sale contracts carried forward with a gross value of $207.4 million[1]
- $8.0m in joint venture fee income, including Wollert JV fee
- Staged sale of the Company's Donnybrook parcels (51% joint venture) (still conditional) underpins forecast earnings from FY20-FY23.

Financial Result

The Company has reported a strong 1H18 result, including a statutory net profit after tax of $17.3 million (13.6 cps), compared to a net profit after tax of $19.6 million (17.4 cps) for 1H17.

Operational Performance

Continued sales momentum combined with an outstanding delivery of land and housing resulted in 619[2] wholly owned accounting settlements in 1H18 (1H17: 576). As a result, $202.2 million (1H17: $209.4 million) in revenue was recorded.

The reported gross margin was $49.6 million or 24.5% (1H17: $54.7 million or 26.1%), within the guidance range of 24%-26%. An increased proportion of capital lite projects contributed to profit in the half-year.

[1] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.
[2] 619 settlements of Company owned lots (1H17: 576), and 11 lots relating to joint ventures (1H17: 16), which are reflected in Share of Joint Venture Profits.

During 1H18 the Company continued to progress its strategy to grow development and project management income streams by deploying development management skills into joint venture arrangements.

The Company has entered into a joint venture with Ho Bee Land Limited to develop the ~15.73ha site located in Wollert, Victoria, 25km north of Melbourne CBD. The Company will receive fees for development management and sales and marketing coordination; and has the potential to receive a performance fee.

In 1H18, joint ventures delivered $8.0 million in fee income (1H17: $1.0 million) comprising a $7.3 million fee from the Wollert JV and $0.7 million project management fees from the Rochedale JV.

The Company anticipates development and project management fees will provide a growing revenue stream for the business.

The share of profit from equity accounted investments was $0.7 million in 1H18 (1H17: $0.9 million) related to land settlements from the Rochedale JV.

Sales Performance

The Company recorded 715 sales during 1H18, up 6% on 1H17 (673 lots).

The average sales rate increased to 119 per month (1H17: 112 per month), with strong contributions from flagship projects released in FY17, as well as 3 new project releases during the half including *Lilium* (Clyde). With a further 6 projects to commence selling in 2H18, including key projects *The Meadows* (Strathpine), *Chambers Ridge* (Park Ridge), *Covella* (Greenbank) and *Elyssia* (Wollert), the Company expects to achieve in excess of 1,400 sales.

CEO and Managing Director Mr. Craig Treasure said, “Villa World is on target to achieve another strong result in FY18 and has laid the foundations for further growth next year and right through until FY23 underpinned by earning from flagship projects and its share of income from the staged sale of the Donnybrook parcels.

“Queensland has continued to perform very well, contributing 63% of sales (1H17: 68%). Pleasingly, the Company has experienced continued strength in its Victorian projects, contributing 34% of sales (1H17: 26%), with New South Wales making up the remaining 3% of sales (1H17: 6%).”

The Company’s strategy of targeting growth corridors continues to reap excellent results in Queensland, with strong sales in all south east Queensland corridors and in Hervey Bay.

In Victoria, the Company achieved very strong sales at its two active land only projects, *Sienna Rise* (Frasers Rise) and *Lilium* (Clyde), as well as the sell-out of the penultimate stage at *Cascades on Clyde*. The Company’s housing product continues to be well received in Sydney’s north-west and south-west.

The Company maintains a solid position in all customer segments – the core being the retail market (comprising owner occupier including first home buyers), as well as builders and local investors[3].

The Company will carry forward into 2H18 610 sales contracts worth $207.4 million[4] . 36% of contracts (218 lots valued at $76.3 million) are anticipated to settle in 2H18, with the balance settling in FY19. The strong carried forward sales, when combined with the Company’s continued sales focus, places the Company in a very strong position for the remainder of FY18.

Cash Flow Performance

Strong operating cash flows of $92.8 million combined with headroom in the debt facility enabled the Company to expend $111.9 million on the acquisition of new land.

[3] Less than 5% of 1H18 sales were to international investors.

[4] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.

Balance Sheet

Net tangible assets at half year-end were $292.7 million (FY17: $287.7 million), representing $2.31 per share (FY17: $2.27) before the declaration of the interim dividend. The Company continues to maintain a prudent gearing level at 25.7% (12.9% as at 30 June 2017), within the targeted range of 15-30%. Net debt as at 31 December 2017 was $134.9 million.

Portfolio

In December 2017, the Company announced that the Donnybrook Joint Venture had entered into a conditional contract to sell its remaining parcel at 960 Donnybrook Road, having previously entered into a conditional contract to sell its adjoining parcel at 1030 Donnybrook Road to Satterley Property Group Pty Ltd. The site comprises ~208 ha, with the Donnybrook JV to retain certain portions of the site including non-residential components. The purchaser is 960 Blueways Pty Ltd, a wholly owned subsidiary of Blueways Holding Pty Ltd. The Company's share of revenue from the sale is $50 million which will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of PSP approval.

Mr Treasure said: “Based on current expectations, revenue from the sale will start being recognised from 1H20, or possibly as early as 2H19.

Income from this staged sale underpins forecast earnings from FY20 through to FY23.”

Following the deployment of capital into acquisitions in FY17, the Company will be selective in acquiring projects to build the pipeline beyond FY19. The Company expects to grow its well-established position in South-East Queensland, in what it considers to be the most undervalued market on the east coast. Capital allocated to New South Wales will be reinvested, enabling the Company to continue to grow its presence through further partnering. The Victorian land bank will be replenished, predominantly through partnerships and structured transactions.

At 31 December 2017, the Company had a portfolio of 6,348 lots[5] (FY17: 7,832) representing approximately 4.5 years of sales (at the FY18 sales guidance of 1400).

1H18 Dividend

The Board has declared an interim dividend of 8.0 cents per share fully franked post balance date.

The ex-dividend date for the interim dividend is 8 March 2018, the record date is 9 March 2018, and payment is scheduled for 30 March 2018.

Outlook

In 2H18 the Company’s focus will remain on delivering and settling carried forward sales and releasing flagship projects including *The Meadows* (Strathpine), *Chambers Ridge* (Park Ridge), *Covella* (Greenbank) and *Elyssia* (Wollert). With in excess of 15 substantial projects selling during the remainder of FY18, the Company expects to achieve at least 1,400 sales.

The Company continues to progress its strategy of growing joint venture arrangements. In FY18, these arrangements are expected to contribute ~$14.3 million to profit before tax comprising development and project management fees, and share of profit, primarily from the Rochedale and Greenbank joint ventures, as well as the Wollert JV fee.

The Company anticipates that development and project management fees will provide a growing revenue stream, as it continues to pursue opportunities to grow the business in a capital efficient way, with a strong focus on return on assets.

The FY18 gross margin is expected to be within the range of 24% to 26%, with an increased proportion of capital lite projects contributing to profit. While such projects may deliver a lower gross margin, they typically provide a stronger return on investment.

The Company expects cash outflow for acquisitions of $110 million to $130 million in FY18 funded from existing debt facilities and working capital, as well as $45 million in capital lite transactions.

[5] Reflecting the conditional sale of Donnybrook parcels.

FY18 Guidance

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting statutory profit after tax of at least $41.6 million in FY18, an increase of 10% on FY17 ($37.8 million). This represents EPS of at least 32.8 cps (FY17: 32.5 cps). The Company will continue to monitor product delivery and land title registrations towards the end of 2H18 and will provide a further profit guidance update if necessary.

FY18 Dividend Guidance

It is the intention of the Board to continue the payment of strong dividends, in accordance with the stated payout policy of 50% to 75% of annual NPAT, paid semi-annually and fully franked. The Board anticipates paying total dividends of at least 18.5 cents per share fully franked in FY18.

Governance and Leadership

At the AGM held in October 2017, Mark Jewell and David Rennick were re-elected to the Board with very strong support from shareholders. The Company expects that prior to full year end, it will be in a position to announce the appointment of another non-executive director to join the current four Board members.

The Company is pleased to advise of the appointment of Michael Vinodolac as Chief Operating Officer, effective form 1 March 2018. Mr Vinodolac is currently General Manager – Operations, and his new role is well deserved recognition of his leadership and valuable impact on the national operations of the business.

The Company has been continuing to identify suitable candidates for the role of Chief Financial Officer, with Brett Delaney having held the position of Acting CFO since July 2017. The Company anticipates that the permanent CFO role will be filled in the coming months, at which time the market will be updated.

1H18 Financial Results live audio stream

The Company's 1H18 results presentation will be webcast on Wednesday 14 February 2017 at 2pm AEDT at the following link http://webcast.openbriefing.com/4205/.

Subsequently, the webcast will be archived on the Company's website (http://www.villaworld.com.au/investor-centre/media-release/videos) and at http://www.openbriefing.com/OB/2777.aspx.

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