15 August 2018

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

# Villa World Reports Results for Full Year Ended 30 June 2018

Residential house and land developer Villa World has delivered at the top end of its upgraded guidance, achieving a 15% increase in net profit after tax and a strong dividend to its shareholders.

Last month, Villa World advised that it was expecting FY18 net profit after tax to be in the range of $42 million to $44 million. Today the Company posted a profit of $43.6 million, up 15% on FY17's result of $37.8 million.

The Board declared total full year dividends of 18.5 cents per share fully franked, representing a yield of 8.6%[1].

**Key highlights:**

- Statutory profit after tax: $43.6 million (FY17: $37.8 million) up 15%.
- EPS: 34.4 cps (FY17: 32.5 cps) up 6%.
- Dividend: 10.5 cps fully franked final dividend declared post balance date; full year dividend of 18.5 cps fully franked (FY17: 18.5 cps).
- 845 sale contracts carried forward with a gross value of $278.1 million[2] (FY17: 526 contracts worth $175.7 million).
- $441.6 million in revenue (FY17: $386.8 million).
- 1,678 sales recorded, up 39% on FY17 (1,207 lots).
- FY19 guidance of statutory profit after tax of approximately $40 million. Earlier than expected resolution of approval delays impacting Victorian projects may lead to delivery of significant carried forward sales in FY19 rather than FY20.
- Staged sale of the Company's Donnybrook parcels (51% joint venture) (still conditional) to underpin forecast earnings from FY20 - FY23.

**Financial Result**

Villa World Limited (ASX: VLW) ended the 2018 financial year with a strong full year result, reporting statutory net profit after tax of $43.6 million (34.4 cps), up 15% on the prior period's result of $37.8 million (32.5 cps). This is at the top end of guidance released on 9 July 2018 of NPAT of between $42 million and $44 million.

**Operational Performance**

Continued sales momentum combined with an outstanding delivery of land and housing resulted in 1,290[3] accounting settlements of wholly owned lots in FY18 (FY17: 1,116). As a result, $441.6 million in revenue was recorded (FY17: $386.8 million).

The reported gross margin was $117.6 million or 26.6% (FY17: $106.3 million or 27.5%), ahead of the guidance range of 24% - 26%. Strong margins were achieved at land only estates in Queensland and Victoria.

*[1] At closing price of $2.16 on 10 August 2018.*
*[2] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST. $108.4m (266) lots to settle in 1H19. $61.2m (181 lots) to settle in 2H19. Balance of $108.5m (398 lots) to settle in FY20.*
*[3]Total lots settled in FY18 was 1,364; 1,290 settlements of Company owned lots (FY17: 1,116), and 74 lots (50% share) relating to joint ventures (FY17: 38), which are reflected in Share of Joint Venture Profits.*

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During FY18 the Company continued to progress its strategy to grow development/project management income streams by deploying its management skills into joint venture arrangements. These ventures delivered $17.5 million in fee income during the reporting period (FY17: $5.4 million).

This comprised of $11.1 million in development and project management fees, including the $7.3 million fee from the Wollert Joint Venture[4]. Further, the share of profit from equity accounted investments was $6.4 million (FY17: $3.0 million) related to strong land settlements from the Rochedale joint venture and initial land settlements from the Greenbank joint venture.

The Company anticipates development and project management fees, and share of profit from equity accounted investments will provide an ongoing revenue stream for the business.

**Sales Performance**

The Company recorded 1,678 sales during FY18, up 39% on FY17 (1,207 lots). The average sales rate increased to 140 per month (FY17: 101 per month), with a strong full year contribution from flagship projects released in FY17[5] and *Lilium* which was launched in early 2Q18. Several smaller projects[6] sold well, approaching sellout, and initial sales were recorded from new flagship projects which commenced selling in 4Q18[7].

CEO and Managing Director Mr. Craig Treasure said, "Villa World is well positioned with diversity in terms of our product and our markets, with significant development projects now selling across major growth corridors and in three states."

Villa World's Queensland projects continued to perform very well, contributing 64% of sales (FY17: 71%) with strong sales in all south east Queensland corridors and in Hervey Bay.

The Company's strategy of targeting growth corridors continues to reap excellent results. Continued strength in its Victorian projects, contributed to 33% of sales (FY17: 21%), including very strong sales at land-only projects.

Sales in New South Wales made up the remaining 3% (FY17: 8%) with the Company's housing product continuing 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 predominantly local investors[8].

The Company will carry forward 845 sales contracts worth $278.1 million[9] into FY19. 32% of contracts (266 lots valued at $108.4 million) are anticipated to settle in 1H19, 21% of contracts (181 lots valued at $61.2 million) in 2H19, with the balance of 47% of contract (398 lots valued at $108.5 million) settling in FY20.

The Company is carrying forward significant unconditional sales at its projects in Plumpton and Clyde with commencement of delivery impacted by delays with planning authorities. It is apparent that Victorian authorities are experiencing significant challenges flowing from an industry-wide peak in construction and the resolution of laws regarding infrastructure charges, resulting in abnormal approval delays. The Company expects to commence delivery of *Sienna Rise* and *Lilium* in 1H19 however future stages will be delayed into FY20.

Earlier than expected resolution of approval delays may lead to delivery of these pre-sold stages in 2H19, bringing forward up to $65 million in carried forward sales at *Sienna Rise* (248 lots), and up to $39 million in carried forward sales at *Lilium* (134 lots).

*[4] In 1H18, the Company entered into a joint venture with Ho Bee Land Limited for a site located in Wollert, Victoria. The Company will receive fees for development management, sales and marketing coordination, and has the potential to receive a performance fee.*
*[5] Killara (Logan Reserve), Arundel Springs (Arundel), Sienna Rise/North (Plumpton) and Seascape (Redland Bay - which approached sell out).*
*[6] The Orchard (Doolandella), Silvan Rise (Dakabin) and Rochedale Grand (Rochedale).*
*[7] The Meadows (Strathpine), Chambers Ridge (Park Ridge), Covella (Greenbank) and Elyssia (Wollert).*
*[8] Less than 5% of FY18 sales were to international investors (FY17: less than 5%).*
*[9] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST. (FY17: 526 sales contracts worth $175.7 million).*

The Company will continue to monitor delivery commencements and will provide further guidance updates if necessary.

**Adoption of AASB 15**

Effective for reporting periods from 1 January 2018 the Company has reassessed its revenue recognition policy in accordance with the new standard which moves away from the risks and rewards of ownership towards a five step recognition model. The Company has assessed that land only and house and land contracts will be recognised at cash settlement which is when control is passed to the purchaser. This is a change in recognition for contracts entered into in Queensland and Victoria. A one off adjustment to retained earnings and other impacted accounts will be made on 1 July 2018. Further information of the adoption of the new standard refer to note E5(h) New accounting standards and interpretations.

**Cash Flow Performance**

Strong net cash flow from trading activities of $123.6 million combined with headroom in the debt facility enabled the Company to expend $155.5 million on the acquisition of new land and still retain a strong year-end cash and debt position. The land acquisition payable at 30 June 2018 is $33.7 million (FY17: $139.3 million). Since year end, $4.4 million has been paid, and the balance will be settled from operating cash flows, existing debt facilities and settlement proceeds from third party settlements.

**Balance Sheet**

Net tangible assets at year-end were $309.7 million (FY17: $287.7 million), representing $2.44 per share (FY17: $2.27) before the declaration of the final 10.5 cps dividend. The Company has transitioned into a strong delivery phase. Consequently, gearing at 30 June 2018 was 29.7% (12.9% as at 30 June 2017), at the top end of the Company's gearing target of 15% to 30%. Net debt as at 30 June 2018 was $171.1 million (FY17: $73.8 million).

**Portfolio**

During FY18, the Company announced that the Donnybrook Joint Venture had entered into a conditional contract to sell its remaining land parcel in Donnybrook, having previously entered into a conditional contract to sell its adjoining parcel. The Company's share of revenue from these sales will be recognised progressively in line with the staged settlements, and will therefore be dependent on timing of PSP approval. The Company expects revenue from these staged sales to commence in 2H20. Income from these staged sales will underpin forecast earnings from FY20 through to FY23.

Following the deployment of capital into acquisitions in FY17, the Company has been selective in acquiring projects to build the pipeline beyond FY20. In FY18, the Company acquired 701 lots, including significant land parcels in Logan and Plumpton, which will provide product continuity for several years in these strong markets.

The Company will continue its selective acquisition approach, with the intention of growing 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.

As at 30 June 2018 the Company had a portfolio of 6,191 lots (FY17: 7,832 lots), representing approximately 4 - 5 years of sales.

**FY18 Dividend**

The Board is pleased to have declared a total of 18.5 cents per share fully franked dividends in relation to the financial year ended 30 June 2018 - an interim dividend of 8.0 cents per share and a final dividend of 10.5 cents per share declared post balance date.

The ex-dividend date for the final dividend is 3 September 2018, the record date is 4 September 2018, and payment will be made on 28 September 2018.

**Outlook**

The Company will continue to focus on operational delivery and cash settlement of carried forward sales. Sales are expected to remain strong, underpinned by full year contributions from eight flagship projects in sought-after residential corridors in Queensland (North Brisbane, Logan and Gold Coast) and Victoria (North, North-West and South-East Melbourne).

The Company continues to progress its strategy of growing joint venture arrangements. In FY19, these arrangements are expected to contribute in excess of $6 million to profit before tax comprising development/ project management fees, and share of profit, primarily from the Rochedale and Greenbank joint venture projects, with the Donnybrook and Wollert joint ventures to contribute from FY20.

Development/project management fees will continue to provide a continuing revenue stream, as the Company continues to pursue capital-efficient growth opportunities that provide a strong return on assets.

The FY19 gross margin is expected to be within the range of 24% to 26%.

The Company expects cash outflow for acquisitions of $40 million to $60 million in FY19, inclusive of $7 million in capital lite transactions, with the balance funded from existing debt facilities.

**FY19 Guidance**

The Company is targeting a statutory profit after tax of approximately $40 million in FY19, assuming general consumer confidence is maintained, interest rates remain low, consumer credit conditions do not deteriorate, and first home buyer grants remain in place. There remains a possibility that resolution of delays with planning authorities in Victoria may lead to delivery of revenue from certain projects in FY19 rather than FY20. The Company will update the market as necessary.

**FY19 Dividend Guidance**

The Villa World Board intends to continue the stated payout policy of 50% to 75% of annual NPAT, paid semi-annually. The Board anticipates paying total dividends of 18.5 cents per share fully franked in FY19. The 1H19 dividend is expected to be 8 cps.

**FY18 Financial Results live audio stream**

The Company's FY18 results presentation will be webcast on Wednesday 15 August 2018 at 1pm AEST at the following link http://webcast.openbriefing.com/4578/

Subsequently, the webcast will be archived on the Company's website http://www.villaworld.com.au/investor-centre/media-release/brief-video and at http://www.openbriefing.com/OB/2944.aspx

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