

7 January 2019

Perfect Storm Causes Further Profit Downgrade of 12%

A number of issues have contributed to a further decrease in Tamawood's profitability for the first half FY19. These issues are:

1. Despite a drop in house prices, land prices have not retracted and oddly enough in some areas have actually increased. This may be due to land banking by major developers combined with the significant investment by large Japanese corporations buying large land parcels, similar to the late 1980's.
2. The continued effects of the banking royal commission left many potential customers unable to obtain finance due to stricter lending criteria currently in place.
3. The Labour policy on capital gains and negative gearing, with many investors staying away from housing at present. The Labour policy had merit 2-3 years ago when the housing industry was overheated, however in the current prevailing circumstances, we are seeing further declines in residential house sales due to the pending implementation of this policy.
4. The change in QBCC policies has created additional overhead expenditure in the first half FY19. The continued overvigorous regulatory behaviour and aggressive enforcement tactics of the QBCC has impacted many home builders viability, negatively affecting home sales in Queensland.
5. The changing in Prime Minister and resulting turmoil, caused a drop in sales for several weeks.
6. A period of wet weather in this half further negatively contributed to the result.
7. We were somewhat slow to react to the changing market conditions.

Despite the decline in profitability of 26.9% compared to the first half FY18, based on unaudited accounts, Tamawood is well placed to ride out this “Perfect Storm”

1. We have NO external debt and significant cash reserves.
2. We have NO land holdings.
3. We have NO spec or display homes.
4. Unlike many of our competitors, we are not aware of any contracts where funding proposals have been rejected due to bank valuations.
5. Our enquiry levels remain at an acceptable level and we are working to further improve our offering.
6. The SenterpriSys Limited listing on the NSX may allow us to realise some of the 24+% holding in the Company, positively impacting future financial results.
7. We are in the process of upskilling the Board and had upskilled the business in design, digital marketing and accounting functions.
8. We are beginning to see a positive contribution from recently opened regional offices, where market conditions appear to be less impacted.

Tamawood has, over the past 28 years, performed reasonably well in a downward market because of the lower overhead costs due to the scalability of the business and the reliance on office automation.

On the negative side, the upcoming Federal election may create further pressure on sales, particularly with the current focus on Labour policy in regards to capital gains tax and negative gearing.

Tamawood Dividends

The interim fully franked dividend will remain at 11cents. Unfortunately given the prevailing market conditions, the final fully franked dividend will need to be reviewed by the Board over the next 3 months. As part of this review the dividend reinvestment plan may be reinstated.

Robert Lynch

Chairman