Stockland

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STOCKLAND 1H20 RESULT – ON TRACK FOR FULL YEAR GUIDANCE

Financial results for the half year ended 31 December 2019:

- Statutory profit up 68.1% to $504 million on 1H19
- Funds from operations (FFO) of $384 million, down 5.6% on 1H19 due to the expected second half skew
- FFO per security of 16.1 cents, down 4.2% on 1H19 due to the expected second half skew
- Adjusted funds from operations (AFFO) of $338 million, down 4.2% on 1H19
- AFFO per security of 14.2 cents, down 2.7% on 1H19
- Net tangible assets (NTA) per security of $4.12, up from $4.04 at 30 June 2019
- Distribution per security (DPS) of 13.5 cents, distribution payout ratio of 84%

Outlook for FY20:

We forecast FFO per security of 37.4 cents and DPS of 27.6 cents for FY20, assuming no material change in market conditions.

Stockland Managing Director and CEO Mark Steinert said: "I'm pleased to announce that our results for the first half of FY20 are in line with expectations, with the anticipated profit skew to the second half continuing to support our full year guidance. FFO was down 5.6 per cent to $384 million and FFO per security was 16.1 cents. Statutory profit is up 68.1 per cent, primarily reflecting $199 million of positive net revaluations.

"As a scale creator of property assets, we have a clear strategy to leverage our diversified business model to maximise securityholder returns through community creation. We are achieving this by setting and delivering on challenging strategic priorities including increasing our workplace and logistics weighting, improving portfolio quality and accelerating growth opportunities in our Communities business.

"We've continued to make good progress on the re-weighting of our portfolio to balance our exposure to Communities, Workplace and Logistics, and Retail, which will deliver resilient and sustainable securityholder returns. We expect that this portfolio rebalancing will be achieved over the next five years.

"We have achieved strong momentum on the delivery of our strategic priorities. Highlights included:

- Increased our workplace and logistics allocation by 7 per cent over the last 18 months, and now represents 26 per cent of our portfolio by asset value
- Doubled our workplace and logistics development pipeline from over $2 billion to $4.3 billion[1]
- Strategic acquisitions to consolidate 100 per cent ownership of Piccadilly in the Sydney CBD and additional sites in Walker Street, North Sydney have created significant redevelopment opportunities

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which are progressing well. This will allow us to develop a premium workplace portfolio on the eastern seaboard
- Broadly stable retail valuations reflect proactive resetting of rents, stable capital expenditure and remixing, with rent reversions in line with budget
- Delivered 2,158 residential settlements, including 266 townhomes. We are on track to deliver over 5,200 settlements for the full year at a margin of around 19 per cent
- Increased our residential market share from 15 per cent to 16 per cent (over the six months to 31 December 2019), reaffirming our position as the leading community creator in the country
- Restocking our land bank early in the cycle, with the acquisition of three sites including 1,500 lots in Donnybrook, Melbourne and a number of further significant opportunities to be finalised in the near term
- Strong operating cash flows, demonstrating our ability to recycle cash at speed, and a forecast cost of debt which is decreasing from 4.4 per cent at 31 December 2019 to around 4.0 per cent at 30 June 2020. Gearing is at 26.1 per cent, which is within our target range.

“We are well positioned to take advantage of the improving residential cycle, deliver a series of exciting new workplace and logistics developments, and to deal with structural changes in the retail sector,” said Mr Steinert.

COMMERCIAL PROPERTY

The Commercial Property business delivered FFO of $308 million, down 1.7 per cent as we divested non-core retail properties and re-weighted the portfolio towards workplace and logistics. The result reflected a solid overall operating performance, with positive net revaluations and strong occupancy levels.

CEO of Commercial Property Louise Mason said: "We have increased our workplace and logistics development pipeline to $4.3 billion[1] as the market continues to perform strongly, and we are continuing to enhance our capabilities to deliver large scale projects over the coming years.

“Improving portfolio quality and returns remains our focus. We are actively repositioning our retail town centres to create a core portfolio of convenience-based, competitive and curated assets, providing resilient recurring income and generating high customer and tenant satisfaction.”

Workplace and Logistics

- Logistics FFO: $81 million, comparable growth of 3.9%. Workplace FFO: $26 million, comparable growth of 6.1%
- Completed approximately 45,000 square metres of new developments over the period
- Around $1.2 billion of new workplace and logistics developments on the eastern seaboard

Ms Mason said: “We have progressed our $4.3 billion[1] workplace and logistics development pipeline over the half, gaining important development approvals for M_Park and Optus Campus in Sydney, and Melbourne Business Park. We are progressing development plans for our workplace assets at Walker Street in North Sydney and Piccadilly Centre in the Sydney CBD, with development application lodgement planned for both projects by the end of this calendar year.

“The $230 million valuation uplift for the portfolio has been primarily driven by the successful lease extension at the Optus Campus in Macquarie Park and capitalisation rate compression in the logistics portfolio. Our recently completed development at KeyWest Distribution Centre in Truganina, Victoria also contributed and is now fully leased to tenants JB Hi-Fi and BrandLink, demonstrating tenant demand for our high quality, well-positioned supply chain assets.

“During the period, we entered into a conditional agreement with Fife Group to consolidate a 71 hectare land holding at Kemps Creek in Western Sydney, and acquired two properties in Brisbane’s prime industrial zone, on an initial yield of around six per cent.

“We continue to see accretive acquisition opportunities in the market where Stockland can apply its capital and internal capabilities to enhance value for securityholders.”

Retail Town Centres

- Retail FFO: $209 million, comparable growth up 0.7%
- Achieved portfolio comparable MAT growth of 3.3%, maintained high occupancy at 99.4%

Ms Mason said: "We've had a solid sales performance for the half, with comparable speciality sales growth of 2.7 per cent, and we've continued to improve our online resilience, through remixing from fashion and jewellery to food, services and experiences via our placemaking initiatives. Administrations are above long-term averages, but we have active re-leasing plans in place, and our overall occupancy remains high as we rebased rents.

"Enhancing the convenience of our centres through increased accessibility and last mile initiatives, and a focus on technology and innovation, gives us an opportunity to deliver a seamless shopping experience for customers and retailers, merging the physical and the digital in this new retail environment.

"We continue to assess a further $500 million of non-core divestments over time in a disciplined way."

COMMUNITIES

Residential

- Residential FFO $134 million, down 6.0%; and operating profit margin 17.2% (compared to around 19% forecast for FY20)
- Results reflect the second half skew to high margin Sydney projects and settlement timing of The Grove and Merrylands Court
- 2,158 residential lots settled including 266 townhomes.

CEO of Communities Andrew Whitson said: "Our residential business has delivered a strong profit result, with a profit skew to the second half in line with expectations, and we're well placed to take advantage of the strengthening residential market and deliver our forecast full year result.

"The strength of our brand and quality of our offering has seen us grow our market share, increasing from 15 per cent to 16 per cent over the six months to 31 December 2019, more than four times that of our nearest competitor.

"We continue to see improved market conditions with price growth emerging in Sydney and Melbourne, and lending conditions remain favourable for owner occupiers as access to credit improves. We achieved 1,350 net sales for the December 2019 quarter, up 60 per cent on the June 2019 quarter. Default rates have declined, reducing to 3.5 per cent in the December 2019 quarter.

"In December 2019, we announced the acquisition of a site in Donnybrook, Melbourne and have fast-tracked the launch of that project to capitalise on improving conditions, with the first sales release expected in the middle of this calendar year. We are focused on finalising a number of further re-stocking opportunities in the near term, and on progressing our built form strategy, including a meaningful apartment pipeline.

"Our strong pipeline of active projects and our reputation as Australia's leading community creator means we are well positioned to meet increasing demand, and with over 4,200 contracts on hand we have good visibility of settlement volumes in FY20.

"Strong sales results and a normalised default rate are expected to drive settlements to the top end of our through the cycle range, with current expectations of around 5,800 lots in FY21."

Retirement Living

- Retirement Living FFO $17 million, down $3 million or 13.8%, due to development product mix and second half skew due to settlement timings and village disposal profit
- Over 12.0% improvement in established sales in 1H20 compared with 1H19, on track to deliver over 850 settlements in line with expectations
- Progressing pipeline of 11 land lease communities, which includes over 2,000 future dwellings

Mr Whitson said: “Improving market conditions and operational improvements have driven an increase in sales at established villages, while development sales were impacted by the timing of project completions.

“We have continued to improve the quality of the portfolio and reduce overheads, and returns are expected to increase as the market recovers and the business is streamlined.

“We are leveraging our existing land bank to drive growth through development, and are actively progressing our pipeline of land lease communities with two development applications lodged in the first half at Aura on the Sunshine Coast and North Shore in Townsville.

“We are confident that Stockland has the capability, experience, product offering and customer focus to drive excellence in customer satisfaction and generate improved returns.”

CAPITAL MANAGEMENT

- Gearing 26.1%, within 20-30% target range, compared to 26.7% at 30 June 2019, due to increased operating cash flows and commercial property revaluations
- Weighted average cost of debt 4.4% for the period, weighted average debt maturity 5.4 years
- Maintained investment grade credit ratings of A-/Stable (Standard and Poor’s) and A3/Stable (Moody’s)

Chief Financial Officer Tiernan O’Rourke highlighted the Group’s continued focus on active capital management: “Strong operating cash flows mean we’re in a good position to support growth in the business, with our cost of debt decreasing from 4.4 per cent at 31 December 2019 to around 4.0 per cent at 30 June 2020.

“Active capital management through a diversified debt portfolio, a high velocity of cash, use of capital efficient structures for land acquisitions and ongoing support from global debt investors are all contributing to the lower cost of debt and will allow us to take advantage of growth opportunities as they arise.”

OPERATIONAL EXCELLENCE

Mr Steinert said: “With the impacts of climate change being felt across Australia, and many regions recovering from the devastating bushfires and drought, successful companies of the future will need to prioritise the delivery of sustainable outcomes which reduce environmental impact and create liveable and resilient communities. This continues to be an important priority for Stockland.

“We are proud to be consistently recognised as a global sustainability leader and recently signed an agreement with the Clean Energy Finance Corporation (CEFC) for a $75 million debt facility. This will help finance sustainability initiatives aligned with our 2030 net-zero emissions target across our commercial property, retirement living and corporate head offices.

“We continue to invest in technology, innovation and data capability so that we can turn disruption into business opportunities and drive additional income streams.

“Importantly, we achieved our goal of delivering one per cent to FFO through business innovation initiatives in FY19 and are targeting two per cent for FY20.”

OUTLOOK

Mr Steinert continued: “Economic conditions remain mixed, with consumer confidence remaining low, modest wages growth and increased global uncertainty. Broader market fundamentals remain supportive for our business, with a continued low interest rate environment, strong population growth, increased infrastructure investment and low unemployment.

“Assuming no material change in market conditions in FY20, we remain on track to deliver around one per cent comparable FFO growth across our Commercial Property business.

“Our Communities business is on track to deliver over 5,200 residential settlements and over 850 settlements across retirement living for the full year. In line with historical trends, we expect a significant residential and retirement living profit skew to the second half.

“Assuming no material change in market conditions, we reiterate our forecast for FFO per security of 37.4 cents for FY20, and distribution per security of 27.6 cents, with distribution payout at the lower end of our 75-85 per cent target ratio.”

ENDS

[1] Stockland share of expected incremental development spend, excluding land cost and subject to planning approval.

This announcement is authorised for release to the market by Ms Katherine Grace, Stockland’s Company Secretary.

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Stockland’s 1H20 results presentation will be webcast via www.stockland.com.au at 11:30am (AEDST) today.

Teleconference details

Register for the teleconference here.

Upon registration, participants will receive a dial number and conference pin.