Sunland Group

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FULL YEAR PROFIT $2.4M FOLLOWING ADJUSTMENTS OF $13.9M

Sunland Group Limited (ASX:SDG) today announced a profit of $2.4 million after tax for the full year ended 30 June 2020 (2019: $17.7 million). The result includes after tax adjustments totalling $13.9 million to projects in respect to the net realisable value of certain inventory; and the expensing of consultants' costs previously capitalised for designs that are now obsolete for certain projects to be developed. The full year operations excluding these adjustments contributed underlying earnings of $16.4 million after tax (2019: $26.7 million).

Operating highlights for the period are detailed below:

- Net profit after tax of $2.4 million following after tax adjustments totalling $13.9 million to certain projects' values. Underlying earnings of $16.4 million before inventory adjustments;
- Earnings per share based on the number of consolidated shares on issue as at the balance date was 1.8 cents (2019: 12 cents). Earnings per share on underlying earnings was 12 cents;
- The Group entered into a contract for the sale of its Mariners Cove property at Gold Coast for $28 million which, following settlement due 1 September 2020, will contribute $8.1 million profit after tax in the 2021 financial year;
- No interim dividend was declared; however the Group has declared a fully franked final dividend of 7 cents per share. This represents a dividend payout ratio of 58% based on underlying earnings;
- Directors have declared a fully franked special dividend of 3 cents per share reflecting the sale of Mariners Cove. Both the final and special dividends will be paid 18 September 2020;
- Cash position of $13.1 million and $139.9 million in undrawn working capital lines;
- Strategic sale of the Lakeview Retail (Gold Coast) and Ingleside (Sydney) properties earlier in the year generated $37.9 million in cash and $11.5 million profit after tax;
- Net tangible assets per share (based on consolidated issued shares) of $2.56 (FY19: $2.56);
- Acquisitions included a residential housing development in Sydney for $6.8 million;
- Gearing is 33% debt to assets and 55% debt to equity;
- The Group achieved a 26% development margin (excluding the project value adjustments), exceeding the target of 20% return on costs.

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Managing Director, Mr Sahba Abedian said the underlying result before project adjustments of $16.4 million represents a sound earnings profile despite the economic conditions currently facing Australian businesses. "The Group is not immune from the economic implications brought about by the COVID-19 pandemic on the property industry and the broader market, which have flowed through to the Group's performance and strategies as we manage through these unique and challenging times" Mr Abedian said.

Project value Adjustments

The Group has experienced a shift in market demand: "It is evident there is an increase in demand from downsizers and our response to these changes and buyer demographic is to place a higher emphasis on designing for the owner-occupier market" Mr Abedian said.

The changing demands of purchasers require Sunland to design to the increasing number of downsizers and end user purchasers. To this end, the Group has taken a view that the design of some projects would not meet current market demand and consequently the design and other consultants' costs incurred on projects such as Grace, Mariners Cove, Greenmount and Lanes Retail are obsolete and therefore have been scrapped. These costs have been previously capitalised to the respective projects and have now been expensed to the amount of $8.5 million after tax. A new design approach to satisfy the future market demands would be required for the future launch of these projects.

The Group has also revisited the net realisable value of its Bushland Beach and Labrador projects and have adjusted carrying value by $5.5 million after tax. The combination of these project adjustments has resulted in the reduction of headline profit after tax by $13.9 million this financial year.

Operational Highlights

Sunland's development activities continued to generate strong underlying earnings for the Group. Projects in South East Queensland and New South Wales have contributed revenue from The Heights, Magnoli (Gold Coast) and The Hills (Brisbane). Both the Gardens (Melbourne) and 18 MacPherson Street (Sydney) are now fully settled, with a further two projects in Sydney recently commencing construction.

Sales volume has increased despite the COVID-19 shut down period earlier in the calendar year. Sales activity for the year totalled 357 lots for a value of $236.9 million (FY19: 237 sales for value of $214.6 million). Contracted presales in hand for projects released across the development portfolio as at 30 June 2020 total 192 lots with a combined value of $296 million (FY19: 177 lots for a value of $192.4 million).

The Group generated revenue from property sales of $159.8 million (2019: $277.6 million) during the period representing 236 settlements (2019: 382 settlements). Settlements for the medium-rise apartment building Magnoli at Palm Beach commenced this period with the completion of the south tower. Settlements will continue through 2021 financial year as the north tower completes September 2020.

Multi-storey projects under construction include The Lanes Residences (medium-rise) at Mermaid Waters scheduled for completion first calendar quarter 2021 and 272 Hedges (high-rise) which is currently up to level seven of 44 levels and should be completed first calendar quarter 2022. "The 272 Hedges Avenue project is a testament to the strength of the owner occupier, luxury residential market with only six apartments available for sale" Mr Abedian said.

Other multi storey projects such as Greenmount Residences in Coolangatta (medium-rise), Grace on Coronation in Toowong (medium-rise) and future stages at The Lakes in Mermaid Waters (medium-rise) remain in the design and planning phase for now.

Capital Management and Dividends

Sunland has undertaken a series of share buy-back programs over the past 10 years, reducing consolidated shares on issue by nearly 60%. During this financial year the Group finalised an on market buy-back program, acquiring 4.1 million shares for value of $6.5 million. Whilst directors withdrew its capital allocation for an off-market buyback earlier in the year due to the COVID-19 pandemic, the Board remains focused on appropriate capital management measures for the Group.

Directors also note the inherent value of the business is not being recognised by the market, with the share price persisting well below the Group's net tangible asset value per share. "Sunland has traditionally taken a counter-cyclical approach with its portfolio" Mr Abedian said, "and during this time of uncertainty directors have a more conservative approach to capital management". The Group continues to take advantage of market conditions and during this period has sold a number of properties such as development land at Ingleside (NSW) and The Heights (QLD), and The Lakes Retail (QLD). These sales have totalled approximately $65 million which have reduced debt but is otherwise available for other capital management initiatives.

Directors have decided to distribute fully franked interim and special dividends totalling 10 cents per share and intend to focus on increased dividends as projects are completed and cash realised, subject to delivery of existing projects whilst maintaining the Group's debt covenants.

The final dividend of 7 cents and special dividend of 3 cents will both be paid 18 September 2020.

Future Outlook

The Group's portfolio provides strong earnings visibility through the delivery of its current projects. Directors will continue to be conservative when it comes to reinvesting for new project acquisitions, preferring to deliver the current portfolio and increase returns to shareholders through dividends as the projects are delivered. It is envisaged directors will continue to realise premiums through the sale of projects that are not currently available for development whist allocating appropriate capital to the development of those projects where development approvals are already held.

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Accordingly, Sunland Group's strategy is focused on maintaining the Company's financial position as well as increasing returns to shareholders through dividends.

This announcement has been authorised by the Board of Directors.

Yours faithfully,

Grant Harrison
Company Secretary