

Sunland Group

ESTABLISHED

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The Manager
Company Announcements
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SUNLAND GROUP STRATEGIC PLAN

Sunland Group Limited (ASX:SDG) (**Sunland Group**) is pleased to announce the Directors have undertaken a strategic review of its operations in consultation with external advisors.

Sunland Group (including via its controlled entities) proposes to:

- sell certain inventory which is not currently under development; and
- complete development of certain other projects,

over a period likely to be approximately three years (or more), with the intention to convert assets to cash, repay all liabilities and returning net asset value to its shareholders, subject to sale of the inventory, financiers satisfaction and, regulatory and legislative requirements (the **Strategy**).

The objective of the Strategy is to return to Sunland Group's shareholders current net asset value, where possible, of approximately \$2.56 per share (internal estimate as at 30 September 2020) by way of progressive dividend and capital payments. This is a premium to the 30 day volume weighted average price of \$1.33 per share.

Following consultation with ASX, Sunland Group notes Listing Rules 11.1 and 11.2 do not apply to the Strategy.

Annexed to this letter is an explanatory note detailing the background of the strategic review and general information regarding the Strategy.

This announcement has been authorised by the Board.

Yours faithfully,



Grant Harrison
Company Secretary

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Background

1. Historic Capital Management Initiatives and share performance

The Board of Sunland Group have been focused on delivering stable, consistent performance during a period of continued adjustment and consolidation in market cycles. Over the past 10 years, Sunland Group and/or its controlled entities (the **Group**) have progressively executed a risk management program aimed at reducing business and operating risks to assist with such endeavours. Initiatives implemented by Sunland Group have included (without limitation):

- share buy-back programs, which have reduced issued shares from some 320 million to 133 million (excluding Treasury shares);
- a dividend program, which has included consistent ordinary and special dividends paid on a fully franked basis;
- counter-cyclical acquisition and sale of inventory;
- outsourcing of multi-storey construction to third parties to reduce delivery and funding risks;
- reduction of capital and funding requirements by developing smaller mid-rise projects and the general delivery of the Group's development portfolio.

Over this 10 year period, capital of approximately \$680 million has been allocated in order to achieve these initiatives, with approximately \$400 million utilised for portfolio replenishment, approximately \$190 million for share buy-back programs and approximately \$90 million in dividend payments (which dividends have had \$39 million in franking credits attached to them).

The consolidated net asset value for Sunland Group per share has increased from \$1.20 to \$2.56 over this period.

During this 10 year period and despite these initiatives, the Board considers share price performance for Sunland Group:

- has been disappointing for a number of reasons, including because the inherent value of the business (including its substantial assets) has not been recognised by the market in the underlying share price.
- has been lacklustre. For example, the share price reached a low of \$0.55 (July 2011) and a high of \$2.00 (March 2015) and is currently at a level which is materially below the net tangible asset value per share for Sunland Group.

The Board has sought external advice on alternatives to return fair value to Sunland Group's shareholders and the Strategy is considered an appropriate methodology to return value, which the market is not recognising.

The objective of the Strategy is to return to Sunland Group's shareholders current net asset value, to the maximum extent possible, which is calculated to be approximately \$2.56 per share (as at 30 September 2020) by way of progressive dividend and capital distributions. This represents a premium to the 30 day volume weighted average price of \$1.33 per share.

2. Recent asset sales

Sunland Group has traditionally taken a counter-cyclical approach in managing its portfolio and continues to take advantage of market conditions, which recently has seen strong demand for development land despite the current economic uncertainty being experienced. Last financial year, the Group sold properties such as development land at Ingleside (New South Wales), The Heights (Queensland) and The Lakes Retail (Queensland) at contract prices in excess of book value. These sales have totalled approximately \$65 million which funds have been used by the Group to reduce debt, although further financial accommodation may be made available to assist the Group in the delivery of Sunland Group's current portfolio and the Strategy.

Most recently the Group sold the Mariners Cove development site (Queensland) for \$28 million at a premium of \$7.7 million (after tax) to book value as development approvals became restrictive having regard to Sunland Group's desired development options.

As part of the Strategy, Sunland Group intends:

- to develop and continue to develop certain property within its portfolio, in the ordinary course of business; and
- to offer for sale and sell certain other undeveloped land in an orderly fashion and having regard to the objectives of the Strategy.

3. Independent advice

The Board has engaged an independent external advisor to assess options available to achieve greater value for Sunland Group's shareholders given the current market conditions, historic strategies undertaken and the market performance of the shares of Sunland Group.

After reviewing identified options available to Sunland Group for the enhancement of its shareholder value, and having regard to the recent experience of Sunland Group of heightened buyer appetite for development land, the Board considers returning net assets to Sunland Group's shareholders by way of dividend and capital distributions (as the case requires) may be an appropriate mechanism to deliver value to Sunland Group's shareholders that in aggregate will exceed the prevailing Sunland share price. It is envisaged the dividend payments will be fully franked, to the extent franking credits are available and may be utilised. The franking credit balance available to Sunland at 30 June 2020 was \$81 million.¹

Plan for realising net assets

Execution of the Strategy will involve completing the development of part of the Group's portfolio (including where development is underway) in the usual course along with sell-off of certain development land – the Board currently considers this will likely take a period of approximately three years. The proceeds of sales are intended to be utilised to repay liabilities and meet other obligations of Sunland Group, and surplus cash is intended to be distributed to the shareholders of Sunland Group. The distribution of any dividends or capital shall at all times be subject to compliance with financiers' requirements (including any financial covenants), and any regulatory and legislative requirements and approvals, as the case may be. The key details of activities are as follows:

¹ Refer to note 23(c) of Sunland Group Annual report – 30 June 2020

Current development activities: Approximately 70% of the Group's inventory value is currently under development and programmed to be completed over the course of financial years ending 30 June 2021, 2022 and 2023. Completed products are intended to be sold and settled and, subject to repayment priorities and requirements of the Group's financiers, regulatory and legislative requirements, net proceeds may then become available for distribution (at the discretion of Board of Sunland Group). For further information, please refer to the full year results presentation for Sunland Group released through the ASX together with Sunland Group's 2020 financial statements, which sets out in further detail active projects within the portfolio.

New development activities: Sunland Group currently anticipates there will be a limited number of further projects which will commence development. Certain of the new developments which have currently been earmarked are Lanes Retail and Lanes Residences (West Village), which are both at Mermaid Waters, Queensland and the site at 154 Marine Parade, Coolangatta, Queensland. Commencement and delivery of such projects will at all times remain subject to usual presale/preleasing commitments, capital and debt requirements, and project program and delivery risks for Sunland Group.

Sale of completed inventory: The portfolio comprises completed unsold stock which are intended to be sold under usual commercial arrangements in the normal course. Refer to Sunland Group's full year results presentation released through the ASX with the Group's 2020 results which identifies product released for sale within the portfolio.

Sale of undeveloped inventory: Approximately 30% of the Group's inventory value is currently not under development, awaiting final concept designs or pending development approval for intended schemes. These assets are intended to be placed on the market through appropriate channels and sold at market price in an orderly fashion.

Payment of liabilities: Sunland Group currently intends to use available cash and bank funding to deliver those projects under development or to be developed, meet creditor commitments as and when they fall due, service and repay debt funding, pay taxation obligations, cover the Group operational costs and meet any other creditor commitments before assessing timing and amounts of funds to be distributed to Sunland Group's shareholders under the Strategy.

Parties to transactions: Sunland Group does not currently have full details of the counterparties involved nor the specific terms of all the transactions required to complete the Strategy. It is intended consultants, builders and suppliers will continue to be engaged in the usual course on arm's length commercial terms to deliver projects under development and realise value of the Group's assets. Further, it is currently intended commercial real estate agents will continue to be engaged, as appropriate, to assist in the marketing and selling processes. Further details of any material transactions will be announced to the market, as and when they occur, as required by the ASX Listing Rules.

Impact of the Strategy on Sunland Group

4. What effect may the Strategy have on Sunland Group?

Once all assets of Sunland Group have been realised and all liabilities of Sunland Group have been repaid (and accounted for), the impact of the Strategy on Sunland Group may likely result in the net asset value (equity) in Sunland Group being fully distributed to shareholders (as dividends and capital distributions).

It is envisaged equity will be distributed progressively, subject to any regulatory, legislative and third party financier approvals, over a period which is currently forecast through to 30 June 2023. Subject to the foregoing, and following completion of the Strategy, a final distribution (at the discretion of Sunland Group) may be paid.

Whilst material sales announced over the past 12 months have achieved a premium to book value, the Board has not forecast future sales revenue, operating expenses, earnings before interest and tax or net profit after tax through the forecast period to complete the Strategy. The objective of the Strategy is to achieve a premium to Sunland Group's usual trading price with a target of returning net asset value.

5. What effect may the Strategy have on Sunland Group's business model?

The Group's operating segments may reduce in size as projects are delivered and completed product is sold and settled, consistent with and as part of the Group's normal development activities.

As at the date of this explanatory note, the Board does not intend to reinvest surplus cash in replenishing the development portfolio of Sunland Group.

This means various roles associated with certain business segments of Sunland Group may become redundant, in which case the Group will be required to pay appropriate entitlements to employees.

Certain personnel who are required to implement and manage the Strategy may be retained by the Group, and Sunland Group may establish remuneration arrangements to ensure those persons remain with the Group through the delivery of the Strategy.

The Board currently anticipates the administrative and employee expenses for the Group will reduce as the Strategy is delivered.

6. ASX Confirmation

Sunland Group has consulted with the ASX in respect of the Strategy. The ASX has confirmed that Listing Rules 11.1 and 11.2 do not apply to the Strategy.

Other matters

This explanatory note contains forward-looking statements that are not based solely on historical facts but are based on current expectations about future events and results. These forward-looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the operations of Sunland Group, as well as general economic conditions, prevailing interest rates, conditions in the financial markets, government policies and regulations and competitive pressures. As a consequence, actual events or results may differ materially from the expectations expressed or implied in such forward-looking statements. The assumptions on which prospective financial information is based may prove to be correct or may be affected by matters not currently known to, or considered material by, Sunland Group.

None of Sunland Group or its Directors, officers, employees and advisers makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. Accordingly, shareholders are cautioned about placing undue reliance on forward-looking statements contained in this explanatory note.