Level 4, 108 Power Street, Hawthorn VIC 3122

131 878
avjennings.com.au

Queensland
New South Wales
Victoria
South Australia
Western Australia
New Zealand

ASX/ Media Release

20 February 2017

AVJennings lays Foundation for Business Expansion

- NPAT $14.1 million (pcp $16.5 million)
- Results reflect change in product mix and timing as outlined at AGM
- Interim dividend maintained at 1.5 cents per share fully franked
- Continued project and product diversification
- Land controlled by AVJennings up by 3.4% to 10,387 lots

Australian residential property developer AVJennings (ASX:AVJ) today announced a profit before tax of $20.4 million for the half year ended 31 December 2016 and maintained its interim dividend at 1.5 cents per share fully franked. The profit before tax result was 14.4% below the result in the corresponding half last year. Profit after tax was $14.1 million (31 December 2015: $16.5 million). The result is in line with Company expectations foreshadowed at the Annual General Meeting in November 2016.

At the Company's AGM held last November, AVJennings Chairman, Simon Cheong, noted that "changes to product mix and timing of revenue recognition may dampen first half results" which was a predicted outcome of taking decisions aligned with this long-term focus.

In terms of this long-term focus, the overall business outcomes from the first half have been very successful and actions taken support continuing confidence in the market and reflect underlying long-term growth.

“The change in our product mix is aimed at providing more built form choice, that is, completed housing to customers. This change allows the Company to continue to strengthen its ability to deliver great communities and good quality, affordable housing options,” AVJennings Managing Director, Mr Peter Summers, said.

Housing requires longer construction periods than just land only. As sales are recognised on settlement, this change in mix has impacted the first half reported results, but will provide the basis for strong results going forward. This change in mix also better protects the Company from any potential change in market dynamics.

In relation to timing, some delays are caused by lengthy approval processes. The Victorian Government has this month approved the PSP for Wollert, seven years after it was included in the 2010 Urban Growth expansion plan. The Company’s 2,000 lot Lyndarum North joint venture with AustralianSuper can now move to production phase. Income has been further affected by the fact that six new projects have or will commence in this financial year and nine for 2017 calendar year, compared to one last financial year. Whilst underlying activity levels with respect to these projects have been extensive, in most cases profit recognition will occur in later financial periods.

Looking to the longer term, the Company has continued to acquire significant sites both in terms of scale and type. The land bank grew for the period to 10,387 lots. The recent joint venture for a substantial greenfields site in Jimboomba, approximately 40 kilometres southwest of Brisbane, will underpin the Company's activities in Queensland for the next five years. Civil works on the first stage are expected to commence this calendar year.

Directors have declared a fully franked interim dividend of 1.5 cents per share (previous corresponding period 1.5 cents per share fully franked). The confidence the Board has in the positive outcomes flowing from the work done in the first half, coupled with the result to December 31, has supported this decision. The Directors reaffirm the Company’s annual dividend target payout range of 40-50% of profit after tax for financial year 2017.

The after-tax result includes a net $3.5 million release of impairment provision predominantly driven by projects in New South Wales and South Australia. This is moderately higher than the impairment released in the first half of financial 2016.

Operating Momentum

There continues to be strong demand for our product and we have experienced firmer gross margins in key jurisdictions.

Activity in Melbourne was constrained by lack of stock available for sale, primarily due to planning approval delays in relation to the Lyndarum North project. Revenue was also impacted by timing of revenue recognition for the Company’s flagship apartment project, Waterline at Williamstown. This should change in the second half of this financial year with the completion and settlement of the first two stages expected late in the period. These stages are largely sold-out and will realise substantial cash and profitability. The first stage of the new ‘Lyndarum North’ project virtually sold out within a few hours of its online release in early December 2016.

While Queensland enjoys buoyant market conditions, its turnover and profit contribution dipped because of reduction in inventory available for sale resulting from a greater focus on built form production.

The Company remains confident of a strong second half result and beyond. Work in progress was up half on half to 1,698 lots at balance sheet date (31 December 2015: 1,623 lots). The level of completed unsold stock remains very low at 3.0% of total number of lots under control.

Capital Management

Gearing (net debt/ total assets) remains low at 25.8% (total net debt $180.8 million). It is up from 17.9% at 30 June 2016 (31 December 2015: 22.9%) reflecting seasonal build-up in production and new acquisitions.

The overwhelming majority of the Company's projects, including sites acquired within the last six months, are under or will, within the forthcoming 12 months, enter active production.

Outlook

Activity levels in the Company's key markets of Sydney, Brisbane, Melbourne and Auckland remain high, with demand for residential land lots, detached dwellings, townhouses and low-rise apartments remaining strong.

The Company continues to invest in the acquisition of land in the outer areas of Australia's major capital cities and in Auckland. However, the Company will continue to diversify its product mix through the acquisition of medium density brownfield projects.

Key economic drivers are positive, with strong consumer confidence to transact in housing supported by expectations of continuing low interest rates and inflation, positive population growth and shortages of detached and low rise dwellings in Sydney, Melbourne and Auckland. "As has been the case for a number of years, the Company anticipates a significantly stronger second half, with contract signings for the year to be at a similar level to last year," Mr Summers said.

Ends.

Media:

David Lowden
Head of Corporate Communications
Ph: + 61 428 711 466

Investor Relations:

Carl Thompson
Company Secretary
Ph: +61 3 8888 4802

Andrew Keys
Keys Thomas Associates
Ph: +61 400 400 380