AVJennings

First Half FY20 Results Presentation Speaker Notes
26 February 2020

Chief Executive Officer & Managing Director – Mr Peter Summers
Chief Financial Officer – Mr Larry Mahaffy

Welcome everyone to this teleconference on AVJennings' results for the six months ended 31 December 2019. As always, we appreciate you taking the time to dial into this teleconference and the continued interest you show in AVJennings.

The six months to 31 December 2019, and the months since, have seen a number of national and global challenges. The impact of droughts, then the devastating fires, have been felt by so many. I would like to add to previous comments about our thoughts and sympathies to those effected, especially those who have suffered loss of loved ones.

And, of course, the current uncertainties around the coronavirus, have added another level of anxiety to the global environment.

However, whilst not underplaying the seriousness of any of these matters, in many ways, underlying factors have continued along consistently with our expectations. Throughout this presentation I hope to provide more understanding of what I mean by this and how our actions have been consistent with those expectations.

For this presentation I will be using as my reference the Investor Briefing document we lodged with the ASX a short time ago. So, if possible, access to that document will prove beneficial in you following this teleconference.

Starting on Slide 3, I would like to begin this theme of consistency by reminding everyone once again what we do, and as importantly, what we don't do. In particular, recent years have seen significant movements both up and down in apartments, particularly CBD high rise apartments. We continue to focus on the traditional, deeper elements of the market, and as Slide 4 shows, we do that with an aim to supply those parts of the market that are also traditional and stable - and importantly, that means a strong focus on domestic buyers.

Slide 5 sets out the 3 main areas to cover in this presentation. Each will be expanded on later. But to set the background for this, can I explain, in a big picture way what this means.

Firstly, we believe the results were strong in light of market conditions. Importantly they were responsible in that we balanced short term outcomes against balance sheet stability and longer term outcomes. Market conditions have started to show signs of recovery and we are confident market fundamentals will see a continued improvement in those market conditions.

However, the recovery remains shallow at this stage and therefore we needed to manage our business accordingly. Our horizontal development profile allows us to do this by managing both timing and size of stages.

This is best seen through the reduction in work in progress numbers seen on Slide 12 which will be discussed shortly.

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This reduction in work in progress numbers was managed to not only protect our balance sheet but to also keep work in progress at a level which is historically strong, therefore placing us well for increasing activity levels as market conditions continue to improve.

Our confidence about the long term is such that we remain committed to growth and therefore continue to seek out acquisition opportunities.

With that introduction, I will now hand over to our CFO, Mr. Larry Mahaffy.

Thank you, Peter.

As set out in Slide 6, my part of the presentation will focus on the results and the balance sheet.

Turning to Slide 7 we see that revenue and statutory profit, both before and after tax, were well up on the prior corresponding period. This is due to a combination of more settlements and better gross margins from various projects in New South Wales and Queensland, together with recognition of the last remaining superlots from the Hobsonville Point project in Auckland, New Zealand. It also needs to be acknowledged that the prior period result was impacted negatively by delayed settlements.

Earnings per share followed suit and an interim, fully franked dividend of 1.2 cents per share has been declared. The interim dividend is 20% higher than that declared for the previous corresponding period and represents an annualised grossed up yield of approximately 6% based upon an average price of 60 cents per share (this is also referenced in Slide 16). We believe this strikes an appropriate balance between the desire to reward shareholders for a better half and conserving cash to fund growth and cater for contingencies.

Slide 8 depicts the contribution to revenue by land, housing and apartments, and demonstrates that revenue from housing continues to grow, with the corresponding effect upon average contract value observable in Slide 9.

Slides 10 and 11 show that the balance sheet remains strong, with Net Tangible Assets of 97.5 cents per share recorded; an increase of 3.4 cents per share since 31 December 2018. Gearing of 25.2% was down on that recorded for both the prior full and corresponding half year and remains well within the Company's target range of 15-35%. It continues to follow the traditional pattern of rising with production in the first half, before declining with stronger settlements in the second. The decline in gearing reflects the use of capital efficient acquisition models together with lower investment in work in progress in response to current market conditions.

These themes are further illustrated in Slides 12 and 13, which graphically depict work in progress and total inventory.

Slide 14 shows that the Company's Net Funds employed remain well spread, mainly across the eastern Australian capital cities and Auckland, New Zealand.

The summary cash flow statement on Slide 15 depicts the strong turnaround in net cash generated from operating activities, reflecting more settlements and lower investment in work in progress.

Finally, I mentioned earlier the interim dividend of 1.2 cents per share, fully franked, an increase of 20% on last year's interim dividend.

I will now hand back to Peter.

Thanks Larry.

In the interest of time I don't intend to go through Slides 17 to 22 in any great detail. I will be happy, though, to answer any particular questions following the formal part of the presentation.

What these Slides do show, however, is a continuing maturity in our projects.

Slide 23 covers a subject we are ever conscious of. In a world where trust is at a premium we understand its importance to our customers. It has been pleasing to therefore see tangible recognition in the forms of the awards set out on Slide 23.

Indeed, as Slide 24 addresses, this aspect of trust and respect continues to grow in importance in all areas. There is no doubt companies that succeed, and companies that thrive long term, will be companies that understand this and who deliver.

My last topic for this briefing relates to the outlook.

Sentiment started to improve late in FY19. It has continued to show signs of improvement in the first half of FY20. It hasn't been fast paced, nor consistent, but it is building and building in a positive direction.

Slide 25 looks at the key factors behind this improving sentiment. It is certainly a different list compared to a year ago when we had the instability of elections, the strong impacts on lending and other matters coming out of the Banking Royal Commission and so on.

From a more macro aspect, Slide 26 addresses the ongoing, long term issue of supply not meeting underlying demand. Other than the very occasional year, this has been a trend in Australia, as well as many areas around the world, including Auckland in New Zealand for many decades.

When coupled with the other economic fundamentals set out on Slide 27, all of which remain neutral to positive, we continue to be excited about the future of residential property in Australia and New Zealand.

As set out on Slide 28, the improved market sentiment is supported by economic fundamentals. From an AVJennings angle, we are more advanced as a business in terms of our projects and are therefore well placed to meet improving market conditions. And whilst acknowledging potential headwinds, we are expecting FY20 to be stronger than last year.

We continue to strive not only to do more but to do it better and we have significantly reviewed and enhanced the Company's operating model in recent years. And I remain committed to us continuing to be a Company that operates the right way; and to be a business we are proud to be part of and to represent; and one which is attractive to investors and to other key stakeholders.

That concludes the formal part of the teleconference and I will now open up the briefing to questions.

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