AVJennings

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AVJennings Announces First Half FY21 Results

Australian and New Zealand residential community developer AVJennings (ASX:AVJ, The Company) is pleased to provide financial results for the half year ended 31 December 2020 (H1 FY21).

Financials and Operations

As was reported at the time of our FY20 results, there had been some increase in contract signings leading into FY21 and the first half of the 2021 Financial Year has seen the Company continue its recovery from the significant impact of the COVID-19 pandemic.

Whilst revenue was down 33.2% compared to the same period last year, contract signing volume was up 47.7% to 415 sales in the first half. Pleasingly, the relationship between contract signings and revenue has reversed. In the previous corresponding period, turnover considerably exceeded contract signings ($171.4M compared to $112.1M). For the six months to 31 December 2020, contract signings exceeded revenue ($138.6M compared to $114.6M), which indicates a stronger positive trend heading into the second half of FY21.

The Company had previously reported that the second half of FY21 was expected to be the stronger of the two halves. Apart from the stronger underlying contract signings over revenue trend, the second half of FY21 will see revenues recognised for two projects for which pre-sales have been on hand for some time but, due to their nature, are lumpy in terms of revenue and profit recognition.

The next apartment stage, "Empress" at Waterline Place in Williamstown, Melbourne, is due to complete during the second half of FY21. Additionally, the Company will record its first revenue from its Ara Hills project at Orewa, New Zealand, in the second half of FY21. Achieving revenue recognition for the first stage of any project is always challenging and now this point has been reached, Ara Hills will be a significant contributor to revenue and profit in the second half of FY21 and beyond.

Profit before tax of $9.5M was down 24.9%, compared to the previous corresponding period. Profit before tax for the immediately preceding 6 months (2H FY20) was $0.5M. Profit after tax was down 37.7% compared to the previous corresponding period, the difference partly due to adjustments required to the way our investment in the Fine China project in Perth is recognised following the Company acquiring a full interest in this project in the first half of FY21.

The reduced profit compared to the previous corresponding period shows how important support for the housing industry via the Federal HomeBuilder and various State Government Stamp Duty rebate and other schemes, has been. Other general economic stimulus measures such as JobKeeper have had a positive impact and have enabled the Company to continue to operate throughout the pandemic, thereby enabling the Company to continue to provide support to its suppliers and employees.

Average gross margin rose to 24.3% (31 December 2019: 22.2%) on the back of good margins earned from the various Cobbitty and Spring Farm estates in Sydney, Cadence in Brisbane and Lyndarum North in Melbourne.

Balance sheet and land holdings

Net cash from operations for the six months was positive at $17.4M (31 December 2019: $25.0M), resulting in net debt at 31 December 2020 of $167.6M. This represents a net debt to total assets ratio of 24.7% which places the Company in a good position for future growth.

Much of the positive cashflow was due to a reduction in production levels. The fact the Company was able to do this demonstrates one of the advantages of its focus on traditional housing markets which reflect a horizontal development approach.

Planning and design work continued largely unabated, allowing the Company to commence lifting production during the period under review, as Government stimulus measures were introduced, and buyer confidence began to return. However, the Company has taken a somewhat cautious approach and interruptions caused by extended or snap lockdowns have also impacted production levels.

The Company also took a cautious approach to new acquisitions, only practically recommencing activity in this area in the latter part of calendar year 2020. Pleasingly, one transaction was entered into very late in 2020 with the Company entering into a contract over a site at Calderwood in Shell Harbour, New South Wales which is forecast to yield some 390 lots. The Company also progressed an agreement over another land parcel in the Ripley Valley, Queensland (449 lot equivalents that will effectively extend the Company's existing Cadence project).

Total inventory including controlled land under option or conditionally acquired stands at 12,669 lots (31 December 2019: 12,433 lots).

Interim Dividend

The Directors have declared an interim fully franked dividend of 0.7 cents per share. In reaching this decision the Directors considered factors including the correlation between earnings and dividends, with earnings in this period being 2x the value of the declared interim dividend.

The Directors also acknowledge the continuing volatility around COVID-19 while remaining confident about the continuing strengthening economic recovery. Additionally, they remain confident in the Company's future. They also considered the level of strong pre-sales on hand for the second half of FY21.

In declaring the dividend, Directors have given due consideration to the principles behind the JobKeeper scheme and the amounts received which enabled the Company to continue to directly support employees and, indirectly, suppliers. The dividend declared is well short of the amount the Company would have been able to declare from profits excluding JobKeeper receipts.

Directors also noted the importance of continuing support from shareholders and considered the fact no final dividend had been declared for FY20.

Outlook

AVJennings has a strong balance sheet, with moderate gearing and good liquidity. The Company continues to benefit from industry and other support mechanisms provided by Government and is experiencing an increasing level of activity as its markets recover from the shock of the pandemic.

The second half of FY21 will see significant revenues flow from our Waterline Place and Ara Hills projects. Pre-sales of 408 were carried over from 31 December 2020, of which 331 with a contract value of $121.0M (ex GST) are expected to settle or be revenue-recognised in the second half. Around 118 additional contracts to 23 February 2021 have so far been signed in calendar 2021. This forms a solid base for the second half of FY21.

There is no doubt the HomeBuilder scheme has been successful. Rather than create significant new demand it is the Company's view that its primary benefit has been to give confidence and incentive to demand that existed at the time the pandemic impacted. Even allowing for the cessation of the HomeBuilder scheme the Company is cautiously optimistic that the recovery will consolidate through calendar 2021, with consumer confidence returning with the support of access to low cost finance, slowly rising employment levels and the rollout of COVID-19 vaccines which are now underway in Australia and New Zealand.

The timing of resumption of a meaningful level of international migration will become increasingly important as latent domestic demand is absorbed. However, there are already strong signs of expats returning or planning to return to both Australia and New Zealand and once borders do reopen, the Company believes that Australia and New

Zealand will be seen as attractive destinations that managed the impact of the virus relatively better than some comparable jurisdictions.

The second half of FY21 is also forecast to see the commencement of three new projects: Prosper at Kogarah in Sydney, Rosella Rise at Warnervale on the NSW Central Coast and Aspect at Mernda in Melbourne's strong northern corridor, all due to commence on-site development.

ENDS.

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