AVJennings

17 February 2022

AVJennings Delivers Strong Growth in Earnings and Dividends

Financial Highlights (H1 FY22 growth over H1 FY21 unless specified)

- PBT up 11.6%; PAT up 47.2%
- EPS up 47.1% to 2.0 cents per share
- Dividends declared +57.1% to 1.1 cents per share
- Contract signings +21.0% to 502 lots

Financial Results

The Company recorded Net Profit Before Tax of $10.6M for the half year ended 31 December 2021 up 11.6% and Profit After Tax of $8.1M, up 47.2% on H1 FY21.

The profit before tax excluding severance and entitlements payable to the previous CEO, approved by shareholders at the AGM in October 2021, was up 42.7%.

Business Overview

While 340 lots settled was lower than H1 FY21, average contract value was higher and revenue rose by 2% to $116.9M (31 December 2020: 395 settlements, $114.6M).

Revenue from built form (integrated housing and apartments) predominated, accounting for 53.5% of total revenue (H1 FY21 51.1%), although the mix differed from the prior corresponding half. There was a more significant contribution from apartments, as the bulk of dwellings in the 'Empress' building at 'Waterline Place' Williamstown, Melbourne settled, together with some legacy apartments in the 'Indigo' and 'Viridian' buildings in Subiaco Perth.

Average gross and net margins rose to 28.7% (up 4.4pp) and 9.1% before tax (up 0.8pp) respectively, on the back of good margins from various Cobbitty and Spring Farm estates in Sydney, 'Lyndarum North' in Wollert Melbourne, 'Cadence' in Ripley Brisbane, Ara Hills in Auckland New Zealand, and 'Eyre' in Penfield Adelaide.

Earnings per share rose to 2.0 cents, up 47.1% from H1 FY21.

Interim Dividend +57.1%

The quality of the first half result, coupled with the strong level of presales carried over balance date and their positive outlook for the second half, led Directors to declare a fully franked cash dividend of 1.1 cents per share, an increase of 57.1% on H1 FY21.

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Balance Sheet and Land Holdings

Net Cash from Operations for the six months rose strongly by 78.9% to $31.2M, resulting in net debt on 31 December 2021 of $102.5M (30 June 2021: $125.4M). This represents a Net Debt to Total Assets ratio of 15.5% (30 June 2021: 20.1%), which leaves the Company well placed to expand activity in the second half of fiscal 2022 and beyond.

Work-In-Progress stood at 1,748 lots, well up on the prior two balance dates (31 December 2020: 1,225 lots and 30 June 2021: 1,537 lots) as the Company worked to recover ground lost in the earliest phase of the pandemic. We expect to complete around 715 of these lots in the second half of fiscal 2022 (comprises land-only lots, integrated houses, and apartments). This increase in work-in-progress is expected to result in higher completions/settlements during the second half.

The Company acquired 663 lots in the south-east of Melbourne at Clyde South. Quality sites remain scarce and competition is strong, however we are confident that we will continue to convert our pipeline of opportunities to meet our future demands and further grow the business.

Total inventory including controlled land under option (3,500 lot equivalents in Caboolture, Queensland and 390 lot equivalents at Calderwood, NSW) stands at 12,117 lots (30 June 2021: 12,180 lots). This includes the 663 lot equivalents acquired in Clyde South bringing total inventory in line with the balance at the end of the prior period.

Outlook

Contract signings rose 21.0% to 502 lots.

586 presold lots were carried over first half balance date (31 December 2020: 408 presales), 452 of which (having a contract value of $151M) are expected to settle or be revenue-recognised in the second half of the current financial year (31 December 2020: 331 lots/ $121M). A further 46 lots have been contract signed since balance date (to 31 January 2022), collectively supporting second half performance.

Activity is anticipated to be well-spread across the business, with the Spring Farm and Cobbitty communities in south-western Sydney; 'Riverton' and 'Cadence' in Brisbane; 'Lyndarum North' and 'Waterline Place' in Melbourne; as well as Ara Hills in Auckland all expected to contribute meaningfully to second half performance. Pleasingly, substantial revenue is also expected to flow from new projects 'Rosella Rise' in Warnervale New South Wales and 'Aspect' in Mernda Melbourne.

AVJennings has a strong balance sheet, with moderate gearing and good liquidity that will enable it to continue to expand its acquisition, land development and building activities. While much will depend upon how the pandemic evolves, the Company believes that demand in its major eastern Australian markets and in Auckland, New Zealand will remain firm over the next 12-24 months, as we adjust to living with COVID-19 and net migration gathers pace with borders gradually reopening (and remaining open).

This view is maintained notwithstanding some expected softening in the rate of price escalation and marginal demand from cyclical highs reached over the past 12 months in response to strong government stimulus, as affordability measures once again exhibit pressure and lenders tighten portfolio controls, individual loan to valuation ratio and servicing thresholds. Additionally, core inflation is beginning to rise albeit from a very low level.

Pandemic-induced supply chain constraints on key material and labour inputs will lengthen land development and built form production timeframes, slowing the delivery of completed product and the ability of some end purchasers to contract by at least several months. However, this will simultaneously assist to maintain demand-side pressure.

While cognisant of the risk of further volatility created by the pandemic, and the potential for further weather delays as have been experienced in 2021, Directors have confidence in the Company and believe that the economic recovery will continue.

CEO Appointed as Managing Director

Finally, the Board is pleased to announce the appointment of the CEO Mr Philip Kearns, AM as Managing Director of the Company effective 17 February 2022. There are no changes to his financial arrangements.

CEO Comments on the Results

Commenting on the results, AVJennings CEO Philip Kearns, AM, said:

"We are pleased with the improved operating results which have led to the growth in earnings and dividends. Despite the continued challenges of responding to business conditions impacted by COVID-19 related restrictions and supply chain interruptions, as well as wet weather delays on the east coast, the business has strong foundations and the capability to deliver sustained growth.

I am excited by our growth opportunity and the continued strong demand for AVJennings' affordable residential offerings across Australia and New Zealand. During the first half our acquisition of almost 700 lots at Clyde South in Melbourne's fast growth south-east corridor, and other nearly completed acquisitions in Melbourne and Brisbane, only enhance our growth profile and potential."

ENDS.

This announcement was authorised for release to the market by the Board of Directors of AVJennings Limited.

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