AVJennings

ASX/Media Release

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AVJennings FY22 Results

- Revenue of $222.8 million, down 28.4%
- Gross margins increased to 28.8%, up from 22.6%
- Profit Before Tax (PBT) of $17.9 million, down 32.8%
- Increased value of pre-sales carried forward to $245M
- Land bank improved and increased by acquisitions for 1,501 lots across greater Brisbane and Melbourne

Financial Results

AVJennings' Profit Before Tax (PBT) of $17.9M for the year ended 30 June 2022, is down on the prior year PBT of $26.7M (FY21). Profit After Tax was $13.1M (FY21 $18.7M).

The result was at the top end of the range provided by the Company in July 2022. The results have been significantly impacted by persistent and abnormal wet weather particularly affecting our projects in Sydney, Brisbane and Auckland. In addition, production delays as a result of supply chain blockages, material and labour shortages as well as ongoing COVID-19 related interruptions have delayed timing of settlements.

Particular projects affected are Rosella Rise at Warnervale and Evergreen at Spring Farm in New South Wales (NSW), Ara Hills at Orewa in New Zealand (NZ), Lyndarum-North in Victoria (Vic) and Cadence at Ripley and Riverton at Jimboomba in Queensland (Qld) amongst others.

Contract signings of 250 lots, with revenue of $98M (excl GST) which were expected to settle during the financial year are now expected to settle in the first half of FY23. The Company had 683 sale contracts on hand at 30 June 2022, the vast majority of which are expected to settle during FY23.

Average gross margins of 28.8% improved from the prior year (FY21 22.6%), indicating strong pricing growth experienced during the year which offset cost increases experienced by the business.

Dividend

The lower than expected result was caused mainly by timing differences for revenue recognition as discussed above, however the strong financial position of the Company has allowed the Directors to declare a final dividend of 0.67 cents per share fully franked. Together with the interim dividend of 1.1 cents per share fully franked brings the total dividend declared, in respect of FY22 to 1.77 cents per share fully franked. Based on VWAP of 46.12 cents per share (June 22), this represents a yield of 3.8% before franking credits (fully franked 5.5% grossed up).

Business Overview

The business experienced a series of unprecedented events including ongoing effects of COVID-19 disruptions on our staff and that of suppliers and sub-contractors. Supply chain issues lead to material shortages and cost increases mainly affecting timber, steel, tiles, gyprock, glass, concrete and aluminium amongst other products. Additionally, skilled labour shortages affecting the sub-contractor trade base, local councils and authorities and, most of all, the persistent relentless adverse weather events affected our projects in NSW, Qld and Auckland (NZ). These all impacted the ability to meet production targets. NSW alone has experienced three natural disaster flooding events over the last 15 months.

Pleasingly, strong enquiry levels and solid sales activity was maintained through FY22. Both launched at the end of FY21, Rosella Rise in Warnervale, NSW, and Aspect in Mernda, Vic achieved strong sales in the early stages, and demand for subsequent stages remains high.

In NSW, Arcadian Hills at Cobbitty and Evergreen at Spring Farm maintained a strong performance with escalated price growth. Ara Hills at Orewa in Auckland remains sought after as a premium development on the North Side and all lots released have sold. In Queensland, Riverton at Jimboomba and Cadence at Ripley continue a strong sales momentum with all stages released currently sold out. All current stages at Lyndarum-North in Victoria have sold out due to high demand.

Throughout FY22, the Company made strategic acquisitions including:

- 1,168 lots to be developed across 4 projects in Clyde, a fast-growing area in the City of Casey in the south-east of Melbourne. This increases and further diversifies the Company's land bank given the Company has no existing community developments within the region; and
- 333 lots acquired via development rights across a new project at Ripley, south-west of Brisbane. This project provides continuity in the area from our strong Cadence project with high demand for land and built form product to be offered in a sought-after location.

The Company also remains active with strong opportunities in the growth corridors of Sydney, Melbourne, Brisbane and regionally, including the Southern Highlands, South Coast and Western regions of NSW and Geelong in Vic.

Planning approvals were obtained, and construction commenced during FY22 at Harvest Square in Brunswick West, a project undertaken in partnership with the Victorian Government that will result in a much-needed increase in the supply of high-quality social housing in a great community setting.

Both the Merchant (Waterline Place, Williamstown, Vic) and the Kogarah (NSW) apartment projects have completed planning, with construction set to begin in 1H23. Progress was also made in the planning and approval process for our large-scale, master-planned project in Caboolture (Qld).

As of 30 June 2022, the Company had 1,888 lots under development (FY21: 1,537 lots). This continues the momentum carried forward from FY22 where increases in land and housing construction activity was ramped up to meet demand.

Balance Sheet and Land Holdings

While settlements of 608 lots were lower than FY21 at 905 lots, the Company's cash position remains strong with cash from operations at $33.1M. This enabled the Company to reduce net debt and gearing to $105.9M and 14.45% (net debt/total assets) respectively (FY21: $125.4M and 20.1%), creating headroom to fund increased investment in work-in-progress and a programme of future acquisitions in line with the Company's growth ambitions.

Total inventory including land under option stood at 12,733 lots (FY21: 12,180 lots), the highest inventory total in over 14 years, reflecting success in the strategy to grow the development pipeline.

Outlook

Market fundamentals for our industry remain solid with low unemployment levels, underlying housing demand remaining greater than supply, wages starting to lift, and immigration forecast to return to pre-pandemic levels by 2024 all despite the recent interest rate rises and inflationary pressures. This provides the Company a solid platform for the future.

Sales pricing remains steady and we have not seen reductions in house values as evidenced in some established markets or prestige markets.

The lack of suitable affordable housing in the markets we are in provides the Company the basis to grow the built form on our projects. We are now at the early stages of introducing a prefabrication and modular housing strategy to radically cut built form construction time frames, improve energy ratings of the dwellings and improve their affordability.

Whilst the head winds of 2022 remain, such as potential further interest rate rises, the Company believes that our customer base will remain active as the need for good quality affordable land and housing remains fundamental to the needs of the community. We will also be focused on Environmental, Social and Governance (ESG) outcomes and incorporating these principles such as a focus on energy efficient houses into our production and procurement processes to achieve improved results.

AVJennings remains committed to deliver the outcomes our customers, stakeholders and the community expect given the 90 year anniversary milestone recently achieved.

CEO Comments on the results

Commenting on the results, AVJennings CEO Philip Kearns, AM, said: "We are extremely grateful for the efforts of our employees and contractors and the support of our customers during such a challenging year.

Despite all the challenges in FY22 the business remained profitable, increased gross margins, continued to pay fully franked dividends and maintain a strong financial position.

We're confident the fundamentals for our sector remain strongly supportive for future growth. The foundations for sustained growth in our business are strong. We have implemented a growth strategy focused on growing Earnings per Share and Return on Equity. Acquisitions in south-east of Melbourne and south-west of Brisbane have further diversified our land bank and will contribute to future growth."

ENDS.

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

CONTACT:

Investor Relations:
Carl Thompson
Company Secretary
Ph: +61 417 143 411

Investor Relations & Media:
Andrew Keys
Keys Thomas Associates
Ph: +61 400 400 380