AVJennings

ASX/Media Release

16 February 2023

AVJennings First Half FY23 Results

- Settlements revenue recognised of 415 lots, up 22.1%
- Revenue of $140.4m, up 20.1%
- Profit Before Tax (PBT) of $21.8m, up 105.7%
- Gross margins increased to 35%, up from 28.7%
- Fully franked interim dividend 1.1 cents per share
- Increased land bank underpins future growth in line with strategy: 14.4k lots, up 13% from June 2022

AVJennings Ltd, a leading Australian and New Zealand residential property developer (ASX:AVJ, The Company), today announced its first half results for the 2023 financial year, reporting strong growth in revenue and earnings.

Financial Results

The Company recorded Net Profit Before Tax of $21.8m, up 105.7% on the prior corresponding period (FY22: $10.6m) and Net Profit After Tax of $15.2m (prior corresponding period, FY22: $8.1m), an increase of 86.5%.

Revenue was $140.4m for the half-year, an increase of 20.1% over the prior corresponding period of $116.9m. AVJennings has been able to deliver and settle a high proportion of the pipeline of sales that had been built up during FY22, with 415 lots contributing to revenue compared to 340 lots for 1H FY22, representing an increase of 22% over the prior corresponding period. The Company's total long-term inventory pipeline, including land under option, increased by 13% to 14,395 lots (30 June 2022: 12,733 lots).

The strong financial performance during the period has been due to the quality, price point and location of the projects which means we are able to deliver land and homes that customers demand and are affordable.

There were notable contributions from:

- land sales at Orewa in Auckland, New Zealand;
- housing and land sales at 'Evergreen' in Spring Farm and housing sales at 'Arcadian Hills' in Cobbitty, NSW;
- In Queensland, housing and land sales at 'Riverton' in Jimboomba and land sales at 'Cadence' in Ripley; and
- In Victoria, land sales at 'Aspect' in Mernda.

The impact of skilled labour and material shortages affecting the civil and sub-contractor trade base is still being felt in our business. While the effect of government stimulus programs and homebuilder grants continue to flow through the sector, the Company has been impacted by adverse weather conditions which continue to affect production targets across all Australian and New Zealand sites.

The Company has been experiencing a transition in demand from land sales to integrated housing as completed housing supply across the industry is falling. At the same time, rapidly rising interest rates have resulted in a weakening of both consumer sentiment and borrowing capacity. This is having a significant impact on enquiries corresponding with a fall in sales rates and some softening of prices in certain regions.

Dividend

The Directors have resolved to pay a fully franked interim cash dividend of 1.1 cents per share (prior corresponding period 1.1 cents per share). After considering the final dividend of $0.67 cps fully franked paid on 21 September 2022 for the year ended 30 June 2022, this represents a grossed up fully franked annual yield of 6.2% (based on a share price of 41.0 cents).

Increased land bank in line with growth strategy

The Company remained active in acquiring land for future growth, in line with its growth strategy. During the first half of FY23, the Company made a number of strategic capital efficient acquisitions including:

- A large-scale urban infill site yielding 700+ mid-rise apartments and mixed uses located in the strong growth area of Macarthur/Campbelltown in south-west Sydney.
- A 308 lot site to be developed via a Development Rights Agreement at Mundamia, NSW, an urban release area of Nowra.
- 418 lots acquired via a Development Rights Agreement at Ripley south-west of Brisbane.
- A circa 1,146 lot appropriately zoned greenfield development in Beaudesert in south-east Queensland on deferred payment terms with forecast commencement in 2027.

As of 31 December 2022, the Company had 1,612 lots under development (30 June 2022: 1,888 lots). Management is focused on balancing project development with market demand to ensure that the Company is not carrying excessive amounts of unsold inventory. As at 31 December 2022 total completed and unsold stock represented only 3.5% of total lots under development.

The Company's financial position and capital structure remain strong with an existing $300m club loan facility and net debt at 31 December 2022 of $150.0m (30 June 2022: $105.9m). This represents a Net Debt to Total Assets ratio of 17.7% (30 June 2022: 14.5%).

Net Cash from Operations for the six months was negative $40.3m (31 December 2021: positive $31.2m), which includes $32.8m (31 December 2021: $12.0m) relating to land acquisitions during the period being the new sites in Mundamia and Macarthur in New South Wales and Beaudesert in Queensland, as well as a staged payment for Clyde in Victoria. The increase in expenditure is also in line with the strategic focus to increase built form throughout the business.

Outlook

The Company had 425 presold lots that are carried into the second half, of which a high proportion are forecast to be revenue-recognised this financial year.

Settlements are anticipated to be well-spread across the business from existing presold lots, with the 'Lyndarum North' at Wollert and 'Waterline Place' at Williamstown projects in Victoria; 'Rosella Rise' at Warnervale, New South Wales; 'Arbor' at Rochedale in Queensland; 'Eyre' at Penfield, South Australia; and 'Ara Hills' at Orewa in Auckland all expected to contribute meaningfully to second half performance.

However, in the short term, the impact of the RBA's actions of rapidly increasing the cash rate to 3.35% from a low of 0.1% in April 2022 is having a significant impact on the property industry. As a result, enquiry levels have softened to around half the peak activity levels from a year ago. Much will depend upon how the current economic cycle plays out, further government stimulus packages such as stamp duty concessions, low deposit mortgage schemes, and the length of time before interest rates begin to stabilise. The Company remains confident over the longer term. Over our 91 year history the business has navigated numerous cycles in the residential property industry and our experience sees us well placed to ready the business for the next upturn.

The Company is focused on matching production levels with sales demand to ensure adequate stock levels and appropriate product mix without holding excessive unsold stock. This includes meeting the changing demands of customers and ultimately the production mix from land to built-form.

Fundamentals for the industry and our business continue to be solid as there is an undersupply of housing affecting all sectors across social, affordable and market housing. As immigration levels are expected to increase, housing and land supply remain top priority for federal and all state governments. Unemployment levels remain at all-time lows and with rental vacancy rates at less than 1% there continues to be an elevated level of demand for housing from both owner occupiers and investors returning to the market.

As the Australian and New Zealand economies continue to reopen and net migration returns to more normal levels it is expected that underlying demand for housing will remain strong. Further, the banking sector's willingness to provide lending to our customers for appropriately priced and located housing, is expected to support sales. In the face of this, we are confident that we will continue to deliver strong returns over the medium to long term.

CEO Comments on the results

"We are very pleased with the results for the first half of the 2023 financial year, which reflect the strength and resilience of our business. We remain focused on delivering quality, affordable housing solutions to meet the growing demand from Australian and New Zealand consumers.

We are committed to delivering long-term growth for our shareholders and remain confident in our ability to achieve our goals, despite the shorter-term challenges posed by the current economic environment."

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