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STOCKLAND DELIVERS STRONG FY15 RESULTS

Key points

- Underlying profit of $608 million, up 9.4% on FY14
- Statutory profit of $903 million, up 71.4%
- Underlying earnings per security (EPS) of 25.9 cents, up 7.8%
- Funds from operations (FFO)[1] per security up 13.0% on FY14 to 28.0 cents
- Successfully implementing strategy: growing asset returns and customer base, maintaining capital strength, and driving operational excellence
- Profit growth in all core businesses, with Residential operating profit up 73.5% on FY14
- Targeting in FY16 underlying EPS growth of 6 – 7.5%, FFO growth of 8.5 –10% and distribution per security (DPS) of 24.5 cents, assuming no material change in market conditions

Stockland has lifted underlying profit 9.4% to deliver $608 million for the full year ended 30 June 2015, reflecting the disciplined implementation of the group's strategy and supportive market conditions. FFO, which is a measure of underlying and recurring earnings defined by the Property Council of Australia, was up 14.7%.

Stockland Managing Director and CEO Mark Steinert said: "This result demonstrates our significant success implementing our strategy to deliver sustainable growth, now and through the cycle. All core business areas contributed with Residential, Retirement Living and Logistics and Business Parks each up more than 15%. Retail, which reliably provides around 60% of the group's earnings, was up 4.2% on a comparable basis."

Statutory profit for the year grew significantly to $903 million and statutory EPS was 38.5 cents. This included $297 million in revaluation uplift on Commercial Property assets and $80 million gross profit from the sale of our securityholding in Australand. Return on Equity increased 110 basis points to 9.9%, excluding workout assets.

[1] FFO is as per PCA guidelines

Distribution for the year was 24.0 cents per security, representing a payout ratio of 93% of underlying earnings per security.

Mr Steinert said: “I am pleased to report that all business units delivered solid growth in earnings and are well placed to achieve continued growth. We have been disciplined in implementing our strategy to deliver strong returns in FY15 while setting up our business for future success. We have capitalised on supportive market conditions through the year, while ensuring the decisions we make now will serve our business well through the cycle.

“We have clear strategic priorities: growing asset returns and our customer base; capital strength; and operational excellence. We made good progress in each of these areas in FY15 with key examples including $591 million in acquisitions across Retail, Logistics and Business Parks, Residential and Retirement Living; broadening our customer reach with medium density residential products; maintaining a strong balance sheet; high customer satisfaction across all areas of our business; and significant cost savings through ongoing procurement improvements.

“Our Residential business achieved a substantial 73.5% uplift in profit and ended the year with a record 3,742 contracts on hand. This result reflected generally positive market conditions in the corridors where we operate and the progress we’ve made launching six key projects in two years and broadening our customer reach with diverse product offerings.

“Commercial Property remains a key driver of the Group’s success. On a comparable basis we achieved operating profit growth of 4.3% across the portfolio, with 4.2% in Retail, 3.1% in Logistics and Business Parks and 6.4% in Office, reflecting our strong focus on property fundamentals.

“Our Retirement Living business continues its steady growth, with record profit and improved ROA. I am confident we will continue this trend with our active portfolio management approach and focus on development.

“Sustainability remains a key focus for Stockland and we are proud to have been named one of the most sustainable real estate companies in the world in the Dow Jones Sustainability Index for the eighth consecutive year. Since FY06 we’ve saved over $60 million through carbon intensity reductions. This year we were the first Australian corporate to issue a green bond which, among other things, has been used to fund the largest single rooftop solar system in the country at our Shellharbour shopping centre.”

Financial Management
Gearing: 23.4%
Weighted average debt maturity: 4.6 years

Chief Financial Officer Tiernan O'Rourke said the Group had maintained its strong balance sheet and A-/stable credit rating, supporting investment in the future growth of the business. Gearing at the end of FY15 was 23.4%, at the lower end of the 20 – 30% target range, due to disciplined capital management, but is expected to increase within the range over the FY16 year.

Mr O'Rourke said: "Our active debt management program has seen us improve our weighted average cost of debt and maintain average weighted debt maturity of 5.3 years on a pro forma basis.

"We maintain a proactive focus on operating efficiency. In FY15 we commenced a project to outsource some activities in finance and IT to provide more flexible and scalable functional support. This will build on the significant reduction in overheads we achieved in FY14. Our FY15 underlying profit was $4.2 million (net of tax) lower due to a provision taken to facilitate this project."

Retail
Retail Net Operating Income (NOI): $351 million,
Funds from Operations (FFO): $379 million

Stockland's retail portfolio performed strongly in FY15 with high occupancy, positive leasing spreads on new leases and renewals and lower incentives (which are only paid on new leases).

The portfolio recorded the strongest specialty sales growth in four years of 7%, with total Moving Annual Turnover up 4.5%. The best performing categories were food catering and fast casual dining, communication technology, services, homewares and apparel.

Group Executive and CEO Commercial Property John Schroder said: "In FY15 we achieved comparable specialty sales per square metre 12.6% above the Urbis average. This reflects the success of our active management approach which has seen us undertake small projects and remixing in a number of centres to meet the specific needs of their customer base.

"We are also starting to see the benefit of the major redevelopments we have undertaken over recent years as these assets progressively stabilise. In FY15 we opened major redevelopments at Hervey Bay in Queensland, Baldivis in Perth and the first stage of Wetherill Park in Sydney. The final stages at Wetherill Park, Point Cook in Melbourne, Glasshouse in the Sydney CBD and Harrisdale stage one in

Perth are all underway and will complete in FY16. These developments represent a combined investment of $550 million with an expected stabilised average yield of 7 – 8%.

Logistics and Business Parks
NOI: $120 million, FFO: $131 million

Our Logistics and Business Parks portfolio delivered strong profit growth with comparable FFO up 5.1%, reflecting positive leasing momentum.

Mr Schroder said: "We are steadily building up a strong portfolio of assets that delivers solid returns and presents opportunities for future growth. In FY15 we acquired three new sites in Sydney and Melbourne and made good progress repositioning our portfolio with improvements under way at a number of assets.

"In FY15 we also internalised management of all business parks and our industrial portfolios in Victoria and NSW and have identified a growing development pipeline. We are well positioned to continue to grow returns in this portfolio."

Office
NOI: $64 million, FFO: $78 million

Comparable Office FFO improved 4.2% following good leasing activity in all Sydney office markets.

"Our exposure to the office sector remains tactical, reflecting our view on the state of the market. The majority of our portfolio is located in the improving Sydney market. Brisbane, Perth and ACT markets remain challenging and in late FY15 we entered into a conditional put and call option to sell our half share of Waterfront Place and Eagle Street Pier in Brisbane," Mr Schroder said.

Residential
EBIT: $290 million, Operating Profit: $166 million

Our Residential business settled 5,876 lots, achieved significant profit growth and lifted return on assets (ROA) to 17% on the core portfolio, reflecting supportive market conditions, the positive impact of new projects, efficiency initiatives and our broader and more diverse product mix.

Group Executive and CEO Residential Andrew Whitson said: "Over the last two years we have launched six new projects and these have contributed strongly to our result. We are on track to launch a further five new projects in FY16.

"We've also broadened our market reach with the introduction of medium density homes and completed homes at a number of our projects. Providing our customers with more choices is proving successful and we are now ramping up production for FY16 at selected projects. We are set to start construction on more than 500 town homes this year, reflecting margins in line with our Residential operating profit margins.

“During FY15 we continued to replenish our pipeline with the acquisition of 4,000 lots. In line with our strategy these sites are in priority metropolitan growth corridors, close to transport and in many cases leverage our existing brand presence. We have also been quick to activate many of these with the majority of new projects on track to deliver profit within two years of acquisition. The Address in Melbourne already contributed sales in FY15 and construction is underway at Schofields in Sydney.”

Retirement Living
Operating Profit: $48 million

Operating profit in Retirement Living was up 19.9% on FY14 reflecting strong sales, active management and improved efficiency. Cash ROA increased to 5.3%.

Group Executive and CEO Retirement Living Stephen Bull said: “It’s great to see our Retirement Living business continue to mature. We’re now two years into our five year plan to achieve a 7% cash ROA, which is marked by taking a much more active approach to how we manage the portfolio.

“By optimising the use and mix of our assets, recycling capital, driving our development pipeline and maintaining disciplined operating practices, we continue to improve our returns and growth prospects.

“During FY15 we made good progress reshaping our portfolio via capital recycling with the sale of two non-core villages and the acquisition of eight villages in SA, which is a particularly strong market for retirement living. This acquisition also provides development opportunities, further enhancing our development pipeline which is a key to growing returns.

“Our flagship apartment development at Cardinal Freeman in Sydney’s inner west is progressing very well and contributes to the 500 homes we have under construction or available for sale around the country.”

Outlook
Mr Steinert said Stockland was well placed to continue to deliver profitable growth from its core businesses in FY16 and beyond.

“While the outlook for specific markets remains uneven, with some caution among businesses and consumers, we expect conditions to remain reasonably supportive,” Mr Steinert said. “We have commenced the new year with a high level of residential contracts in hand and retirement living net reservations, and with good momentum in retail sales. Interest rates are anticipated to be stable and we expect the economy to continue to grow, albeit at below trend levels.

“We are targeting growth in underlying earnings per security in FY16 of 6 – 7.5% and FFO per security of 8.5 – 10%, assuming there is no material change in market conditions. Commercial Property should maintain moderate growth in returns with comparable NOI growth expected to be 2 – 3% and comparable FFO growth 3 – 4%. We expect to achieve around 6,000 residential lot settlements, allowing for some production constraints in Victoria and NSW and continued slowing in the WA market.

“We have updated our distribution policy to pay the higher of 100% of Trust taxable income or 80 – 90% of underlying profit. In line with this, FY16 distribution is targeted at 24.5 cents per security, assuming no material change in market conditions.”

Stockland’s FY15 results presentation will be webcast via www.stockland.com.au on Wednesday 19 August 2015 at 11.30am (AEST).

KEY METRICS

	FY15	FY14	Change
Statutory Profit	$903m	$527m	71.4%▲
Statutory Earnings per security	38.5 cents	22.8 cents	68.9%▲
Underlying Profit[1]	$608m	$555m	9.4%▲
Underlying Earnings per security	25.9 cents	24.0 cents	7.8%▲
Distribution per security	24.0 cents	24.0 cents	-
Funds from Operations (FFO)[2]	$657m	$573m	14.7%▲
FFO per Security	28.0 cents	24.8 cents	13.0%▲
Net Tangible Assets per security	$3.68	$3.53	4.2%▲
Gearing (D/TTA)	23.4%	25.0%	
Return on Equity[3]	9.9%	8.8%	

1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors and Management, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to Annual Financial Report for the complete definition
2. Funds from Operations (FFO) is determined with reference to the PCA guidelines
3. Return on Equity accumulates individual business Return on Assets and incorporates the cash interest paid and average drawn debt for the 12 month period. Excludes workout and other.