17 August 2016

VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

Villa World Reports Financial Results for Year Ended 30 June 2016

Villa World has marked its 30th year as a listed property company by exceeding profit guidance and outlining a refreshed business strategy to deliver long-term value and strong dividends for shareholders.

The Company consolidated its strength in the affordable to mid-price house and land market with a number of strategic acquisitions, a continued focus on operational efficiency, diverse sales channels focused on the domestic retail market and a strong cash flow.

The Board declared total full year dividends of 18 cents per share fully franked, representing a yield of 7%.

Other highlights included:

- Profit before tax of $47.2 million (exceeds guidance)
- Statutory profit after tax of $33.7 million (FY15: $25.6 million) up 32%
- EPS: 30.6 cps (FY15: 25.6 cps) up 19%
- 10.0 cps fully franked final dividend declared post balance date; full year dividends of 18.0 cps (FY15: 16.0 cps)
- 464 sale contracts carried forward into FY17 with a gross value of $165.6 million[1]
- FY17 guidance of profit after tax growth of at least 5% ($35.4 million)

Financial Result

Villa World Limited (ASX:VLW) has finished the 2016 financial year with a strong full year result, reporting a statutory net profit after tax of $33.7 million (30.6 cps), compared to a net profit after tax of $25.6 million (25.6 cps) for the prior period.

The Company has reported a profit before tax of $47.2 million, exceeding guidance of $46.6 million.

Operational Performance

Continued sales momentum combined with an outstanding delivery of land and housing resulted in 1,073[2] accounting settlements in FY16 (FY15: 816). As a result, revenue increased by 20% to $387.0 million (FY15: $321.6 million).

The reported gross margin was $100.6 million or 26.0% (FY15: $77.8 million or 24.2%).

[1] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.
[2] 1,073 settlements of Company owned lots (FY15: 814), and nil lots relating to joint ventures (FY15: 2), which are reflected in Share of Joint Venture Profits.

This includes a net provision for legacy litigation issues of $1.9 million (FY15: $8.9 million). An additional provision of $2.8 million was raised in 2H16 relating to the Silverstone litigation which is expected to be concluded in FY17[3]. All outstanding aspects of the Thornleigh proceedings were concluded in 2H16, with $0.9 million released back into profit[4].

During 1H16 the Company progressed its strategy to grow development and project management income streams by deploying development management skills into further joint venture arrangements. These ventures delivered $1.2 million in fee income in FY16 and the Company anticipates development and project management fees will provide an ongoing revenue stream for the business.

The Eynesbury sale transaction settled in 1H16, with an increase in selling price and extension fees contributing $3.6 million to profit.

Sales Performance

The Company achieved its sales target of 1,000 to 1,200 sales, with a total of 1,185 sales during FY16 (FY15: 843).

Queensland has continued to perform very well, contributing 74% of sales and we are pleased to see further growth in our Victorian projects, making up the remaining 26% of sales. The Company's land estates continued to sell very strongly in Melbourne, while sales from the Company's turnkey housing model continued to grow. The Company's strategy of targeting growth corridors continued to reap excellent results in Queensland, with the bayside estates contributing 28% of sales, northside representing 23% of sales, and 17% from the Brisbane Gold Coast corridor on the south side.

The Company has a solid position in all customer segments – our core being the retail market (comprising owner occupier including first home buyers), as well as builders and predominantly local investors.

CEO and Managing Director Mr Treasure said, "In FY16 we hit our sales target with a total of 1,185 sales – almost double our result from three years ago. The domestic market has been our focus with less than 5% of FY16 sales to international purchasers."

The Company will carry forward 464 sales contracts worth $165.6 million[5] into FY17. 72% of contracts (335 lots; $120.0 million) are anticipated to settle in 1H17, with the balance settling in 2H17.

Cash Flow Performance

Strong operating cash flows of $131.5 million and head room in the bank facility enabled the Company to expend $162.9 million on the acquisition of new land, whilst ending the year in a strong cash and debt position.

Balance Sheet

Net tangible assets at year-end were $236.9 million (FY15: $220.6 million), representing $2.15 per share (FY15: $2.00) before the declaration of the final dividend. The Company continues to maintain a prudent gearing level at 25.6% (16.9% as at 30 June 2015), within the targeted range of 15-30%. Net debt as at 30 June 2016 was $120.2 million.

[3] Mediation and court trial scheduled for FY17.
[4] Refer note B4(d) Financial Statements.
[5] Contracts are included on the basis of 100% for Company projects and 50% of Joint Venture projects. Represents gross sales price including GST.

Tax Position

Carried forward tax losses were fully utilized in 1H16 and the effective tax rate was 28.6%. The Company has returned to paying cash tax in 2H16[6].

Portfolio

The Company continues to execute on its acquisition strategy to replenish land stock through strategic purchases in proven growth corridors, and take advantage of opportunities to diversify our geographic footprint along the east coast.

In FY16, the Company has acquired 2,139 lots, including the acquisition of three sizeable projects in South East Queensland, which will provide product continuity for four to six years, as our very successful Park Vista and Mt Cotton projects complete.

The Company will progress the expansion of its foot print, by re-entering the New South Wales market through capital efficient partnering arrangements. The Company will soon finalise a development agreement with Greenfield Development Corporation in south west Sydney, for delivery of an initial ~90 homes.

In Victoria, the Company's Donnybrook joint venture has entered into a conditional contract to sell a part of the project[7]. This has significantly improved the joint ventures commercial position and will free up capital to develop the remainder of the project and reinvest in new sites.

As at 30 June 2016 the Company has a portfolio of 5,937 lots, representing approximately 5 years of sales.

FY16 Dividend

The Board is pleased to have declared a total of 18.0 cents per share fully franked dividends in relation to the financial year ended 30 June 2016 - an interim dividend of 8.0 cents per share and a final dividend of 10.0 cents per share declared post balance date.

The ex-dividend date for the final 10.0 cent dividend is 1 September 2016, the record date for this dividend is 2 September 2016, and payment scheduled for 30 September 2016.

Outlook

In FY17 the Company's delivery focus will remain on delivering and settling carried forward sales and releasing[8] flagship projects at *Killara*, Logan and *Arundel Springs*, Arundel. With 28 projects at various points in the lifecycle selling during the FY17 year, the Company expects to better its FY16 sales performance.

The Company's strategy of pursuing joint venture arrangements will begin to contribute to profit in FY17 initially with the Rochedale JV and the Donnybrook JV to follow in FY19. The FY17 contribution from Rochedale will be $3.4 million comprising of $1.5 million in development and project management fees and $1.9 million share of profit, representing a very strong return on the investment (30 June 2016: $8.9 million).

[6] Refer note A5(a) Financial Statements.
[7] The Donnybrook joint venture has entered into a conditional contract to sell ~67.9 ha (~1,000 lots, VLW 51% share being 510 lots) to Satterley Property Group Pty Ltd. The sale contract is conditional on PSP Approval being obtained by 6 April 2020, and this process has commenced. The total sale price for the Property is $34 million (plus GST), subject to adjustment based on final developable land yield. Cash settlement and title transfer is to occur in four equal stages, commencing 30 days after PSP approval and then 12, 24 and 36 months after the first settlement. The joint venture intends to retain and develop the remaining parcel of land comprising ~206.1ha (~1,196 lots, VLW 51% share being 610 lots). The entire property was purchased by the Donnybrook joint venture in late CY14 for $22.8 million.
[8] Arundel Springs, Arundel mid-year and Killara, Logan in 4Q17.

The Company anticipates that development and project management fees will provide an ongoing and growing revenue stream, as the company continues to pursue opportunities to grow the business in a capital efficient way, with a strong focus on return on assets.

The gross margin for the coming year on wholly owned projects is expected to be 24% - 26%. Several existing high margin projects have recently completed, new flagship projects will commence contributing to profit in 2H17, and it is anticipated that margins at these projects will improve as they mature beyond FY17. Further, in FY17, several capital lite projects will contribute to profit. While such projects deliver a lower margin, they provide a strong return on investment.

The Company has a continued commitment and capacity to acquire development sites. The near term focus will remain on the continued replenishment of the portfolio in South East Queensland, growing the Victorian land bank with a focus on the South Eastern and Northern growth corridors of Melbourne, and growing a presence in New South Wales.

The Company's use of capital efficient means, such as the capital lite model and joint ventures, will enable it to progress the expansion of our footprint, with a longer-term strategy of cementing our place as a leading east coast residential developer. The Company expects cash outflow for acquisitions of $60 million - $85 million in FY17 funded from existing debt facilities and working capital and $40 million in capital lite transactions.

FY17 Guidance

Assuming general consumer confidence is maintained, interest rates remain low and first home buyer grants remain in place, the Company is targeting statutory profit after tax growth of at least 5% ($35.4 million) in FY17.

This is underpinned by strong carried forward sales, continued sales momentum across Queensland and Victoria, and an increased delivery capability.

Mr Treasure said, "This result is a continuation of our year-on-year growth and the successful execution of our business strategy.

"Against the backdrop of continued strong performance across the business, Villa World is well-positioned for the future."

FY17 Dividend Guidance

It is the intention of the Board to continue the payment of strong dividends, in accordance with the stated payout policy of 50% to 75% of NPAT, paid semi-annually. The Board anticipates paying a dividend of at least 18 cents per share fully franked in FY17.

FY16 Financial Results live audio stream

Villa World's FY16 results presentation will be webcast on Wednesday 17 August 2016 at 2pm AEST at the following link http://webcast.openbriefing.com/2949/ . Subsequently, the webcast will be archived on the Company website (http://www.villaworld.com.au/investor-centre/shareholder/financial-reports) and at http://www.openbriefing.com/OB/2240.aspx.

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