16 August 2016

MIRVAC GROUP FULL YEAR RESULTS – 30 JUNE 2016

Mirvac Group ("Mirvac") [ASX: MGR] today reported its full-year results for the year ended 30 June 2016 ("FY16").

Key highlights include:

- statutory profit after tax increased by 69 per cent to $1.03 billion (30 June 2015: $610 million)[1];
- operating profit after tax increased by six per cent to $482 million[2] (30 June 2015: $455 million), representing 13.0 cpss which was at the top end of guidance;
- full year distributions of $366 million, representing 9.9 cpss, also at the top end of guidance;
- acquired approximately $370 million of acquisitions in key urban locations across the office, industrial and retail sectors;
- achieved non-aligned office asset sales of approximately $787 million at a 7 per cent premium to book value;
- maintained strong portfolio metrics within the Investment portfolio supported by over 340,000 square metres of leasing activity;
- secured a record $2.9 billion in residential pre-sales[3] and settled 2,824 residential lots;
- achieved a 13.8 per cent development Return on Invested Capital ("ROIC") exceeding the 12 per cent target one year early;
- continued to attract third party capital to continue to grow the business securing two new partners, Ping An Real Estate and China Investment Corporation; and
- ranked third in BRW's Most Innovative Companies list for 2015, awarded BRW's Best Innovation Program, as well as receiving the Property Council of Australia's inaugural Diversity Award and remaining a WGEA Employer of Choice for Gender Diversity.

Key financial and capital management highlights:

- maintained gearing within the Group's target range of 20.0 to 30.0 per cent at 21.9 per cent[4];
- reduced average borrowing costs to 5.0 per cent per annum (including margins and line fees);
- executed an oversubscribed $536 million USPP issuance in June 2016, which once settled, will see the weighted average debt maturity increase from 4.0 years to 5.4 years;
- received Baa1 long-term issuer rating from Moody's and maintained S&P BBB+ credit rating; and
- net tangible assets ("NTA")[5] per stapled security of $1.92, up from $1.74 (30 June 2015).

Commenting on the results, Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "We have delivered another solid result for FY16 at the top of our guidance range, reflecting our well defined urban strategy and the substantial transformation of the business over the past four years.

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1 For further details refer to 30 June 2016 financial statements.
2 Excludes specific non-cash items, significant items and related taxation..
3 Adjusted for Mirvac's share of JVA and Mirvac managed funds.
4 Net debt (at foreign exchange hedged rate) excluding leases/(total tangible assets – cash).
5 NTA per stapled security, based on ordinary securities including Employee Incentive Scheme ("EIS") securities.

"Our focus on repositioning the business has significantly improved the quality of our office, industrial and retail portfolios, through our unique asset creation capability and a targeted acquisition and divestment program.

"Our residential business has benefited considerably from our disciplined approach to allocating capital and is now delivering outstanding earnings and solid returns, with a robust future pipeline.

"The strength of our capital position and our continued focus on capital partnering provides us with a solid platform to deliver sustainable growth over the long term."

Office portfolio highlights:

- solid portfolio occupancy of 96.5 per cent[1] and a WALE of 6.5 years[2];
- completed 105 leasing deals over approximately 215,800 square metres of office space;
- total office asset revaluations provided an uplift of $405 million[3] (or 9.2 per cent) over the previous book value;
- divested $787 million of non-aligned suburban office assets representing a combined premium to book value of 7 per cent[4];
- completed the developments of 200 George Street, Sydney and Treasury Building in Perth, which has a 25-year lease to WA State Government; and
- achieved a 5.1 Star NABERS Energy rating average across the office portfolio.

"The office portfolio continued its evolution into one of Australia's highest quality portfolios, delivering solid results and strong metrics for the financial year. Record leasing activity improved the occupancy to 96.5 per cent and the WALE increased to 6.5 years by income.

"Non-aligned divestments further enhanced the quality of the office portfolio, as we continue to position the Group towards key urban locations. The office portfolio now has an 81 per cent weighting to the strongest markets of Sydney and Melbourne, and 93 per cent exposure to Prime grade assets.

"We continued to demonstrate our unique asset creation capability with the completion of 200 George Street, Sydney and Treasury Building in Perth, with these projects again improving the quality of the portfolio and achieving returns in line with expectations.

"We remain focused on delivering the balance of our committed office developments on time and on budget, including 2 Riverside Quay in Melbourne, scheduled for completion in FY17, and Australian Technology Park in Sydney that is 100 per cent pre-committed to CBA and scheduled for completion from FY20."

Industrial portfolio highlights:

- achieved 100 per cent[5] occupancy and a long WALE of 7.9 years[6];
- like-for-like net operating income growth of 3.2 per cent;

1 By area, including equity accounted investments and owner-occupied properties, and excluding assets held for sale and assets held for development.
2 By income, including equity accounted investments and owner-occupied properties, and excluding assets held for sale and held for development.
3 Includes 8 Chifley Square, Sydney NSW and Treasury Building, Perth WA. After adjustment for owner-occupied properties, the net uplift was $373 million.
4 Excludes the value of the 1 Woolworths Way carpark development.
5 By area.
6 By income.

- completed over 79,500 square metres of leasing activity; and
- acquired $76 million of industrial facilities at 26-38 Harcourt Road in Altona North, VIC ($28 million), and 274 Victoria Road, Rydalmere NSW ($48 million on 1 July 2016).

"With these outstanding portfolio metrics, combined with a full year impact of the new acquisitions and the completion of Warehouse 1 at Calibre, Eastern Creek, we expect the industrial portfolio to continue to outperform.

"Furthermore, the concentration to the strong Sydney market at over 85 per cent means the portfolio is well-placed to benefit from Sydney's continuing economic growth", said Ms Lloyd-Hurwitz.

Retail portfolio highlights:

- maintained high portfolio occupancy of 99.4 per cent[1];
- like-for-like net operating income growth at 2.4 per cent;
- achieved comparable MAT sales growth of 5.4 per cent and leasing spreads of 3.5 per cent;
- increased specialty sales productivity by 9 per cent to $9,623 per square metre;
- reduced specialty occupancy costs to 15.3 per cent (30 June 2015: 16.0 per cent);
- acquired Toombul Shopping Centre in Brisbane for a total consideration of $233 million and acquired 50 per cent of East Village in Sydney for a total consideration of $155 million[2]; and
- disposed of Como Centre, Melbourne VIC at a 32 per cent premium to December 2015 book value.

Ms Lloyd-Hurwitz said, "Our continued focus on executing our urban retail strategy has resulted in a solid performance, including superior metrics and strong leasing activity across the portfolio.

"Reflecting the team's dedication and focus on active asset management, the portfolio is almost entirely leased and our total comparable MAT growth and specialty sales productivity continues to be sector leading.

"The acquisition of assets such as East Village in Sydney and Toombul in Brisbane, along with the continued repositioning of our existing portfolio, will ensure we can continue to deliver a strong performance."

Residential highlights:

- secured a record $2.9 billion[3] of exchanged pre-sales contracts, up from $2.0 billion as at 30 June 2015;
- achieved a record 2,824 residential lot settlements, up 24 per cent from 30 June 2015;
- activated over 3,400 residential lots across masterplanned communities and apartments;
- acquired over 1,900 new residential lots in line with strategic mandates and return hurdles;
- Residential ROIC improved to 12.4 per cent from 9.3 per cent at FY15; and
- entered in to a joint venture partnership with Ping An Real Estate for the development of projects, The Finery and St Leonards Square, NSW.

1 By area.
2 Settlement occurred on 1 July 2016.
3 Adjusted for Mirvac's share of JVA and Mirvac managed funds.

Ms Lloyd-Hurwitz commented that the continued investment and repositioning of the Residential business has delivered an outstanding result for the Group, with earnings up by 51 per cent.

"Our record $2.9 billion in exchanged residential pre-sales and settlement of over 2,800 lots is driven by our strategic overweight exposure to the strong markets of Sydney and Melbourne. During the year we also fast-tracked the release of a number of new projects to capture market demand. Sales within these projects were strong and reflects the resilience of our pipeline with quality projects in enviable locations designed to meet our customer needs.

"With over 40 years of experience in managing settlement risk, we continued our robust and well-established sales and settlement process, underpinning a default rate of less than one per cent.

"We anticipate strong earnings growth in our residential business in FY17, with an increase of over 15 per cent in expected lot settlements to over 3,300 lots. Importantly we have secured 84 per cent of expected development EBIT for FY17 through pre-sales, and 55 per cent of FY18.

"Our strong residential pipeline provides us with more than 14,000 potential lot settlements over the next four years, which gives us excellent visibility of future earnings, and allows us to continue to be selective in where and how we acquire new sites."

Outlook
Mirvac has provided a FY17 operating EPS guidance range of between 14.0 to 14.4 cpss and a distribution guidance range of 10.2 to 10.4 cpss.

Ms Lloyd-Hurwitz concluded, "We have done a considerable amount of work to transform the business over the past four years and this has positioned us extremely well to deliver strong operating EPS growth of 8 to 11 per cent in FY17, the potential to deliver at least a 9 per cent average ROIC over the next three years, and importantly, long-term value for our securityholders.

"Our integrated, diversified and focused approach, which is at the core of what we do, is underpinned by our expertise as a creator, owner and manager of urban assets, as well as our deep understanding of our customers.

"Our multi-sector exposure allows us to flex our activities through cycles, and our unique asset creation capabilities allow us to extract value through redevelopment and repositioning opportunities.

"In order to continue delivering on our strategy, we maintain an appropriate capital structure by prudently managing our balance sheet and leveraging third party capital," said Ms Lloyd-Hurwitz.

A management presentation of the results will be webcast live from 10:30am (Sydney) at www.mirvac.com.

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