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Oceania Healthcare reports completion of key development projects and strong sales momentum for the year ending 31 May 2019

Highlights

- Three key development projects completed on time and on budget, adding $131.8m to total assets. FY2020 development programme on track with 265 beds and units to be delivered, slightly higher than previous guidance.
- Strong sales rate and pricing at recently completed development sites tracking ahead of expectation.
- Operating revenue increased by $5.4m (2.9%) due to increased aged care occupancy, higher income from premium rooms and increased income from retirement village operations.
- Reported net profit after tax of $45.4m was $31.6m below last year primarily due to existing village valuations remaining stable.
- Underlying net profit after tax from continuing operations of $49.7m was consistent with last year. Improved development margins were offset by increased costs to improve care earnings in future years and interest costs to fund development activity.
- Operating cashflow increased 8.6% to $89.3m as a result of sale proceeds from developments completed in the last financial year.
- Total assets increased by 22.0% to $1.4bn which reflects the significant development capital expenditure, greenfields acquisitions and revaluations.
- Aged care occupancy of 92.8% at aged care sites not impacted by redevelopment activity.
- Final dividend per share declared of 2.6 cents per share (not imputed) payable on 26 August 2019 with record date 12 August 2019, maintaining a full year dividend of 4.7 cents per share (not imputed).

$ million	Year to 31 May		Growth	
	2019 (this year)	2018 (last year)	$m	%
Operating Revenue	189.4	184.0	5.4	2.9%
Reported NPAT	45.4	77.0	(31.6)	(41.0)%
Underlying NPAT*	49.7	50.6	(0.9)	(1.8)%
Operating Cash Flow	89.3	82.2	7.1	8.6%
Total Assets	1399.4	1147.2	252.2	22.0%
Final Dividend (cents/ share)	2.6	2.6	-	n/a
Total Dividend (cents/ share)	4.7	4.7	-	n/a

**From continuing operations. Adjustment is included to both 2019 and 2018 for sites divested during 2019*

Aged Care and Retirement Village Operator and Developer Oceania Healthcare reported a net profit after tax for the year ending 31 May 2019 of $45.4m which is below its reported profit last year due to the valuation of existing villages remaining stable this year when compared with the last financial year.

Oceania Healthcare CEO Earl Gasparich advised that “while Oceania Healthcare’s reported profit includes the increase in fair value generated from the completion of our two Auckland investment property developments this year, it excludes the increase in value of property, plant and equipment from the care suites completed at these two Auckland sites as well as at The BayView (Tauranga). Together, these 159 new care suites added $23.8m to our assets this year”.

Mr Gasparich said “given Oceania Healthcare’s current position in the redevelopment and conversion cycle of its existing facilities, our underlying net profit after tax from continuing operations, which excludes the impact of unrealised movements in the fair value of investment property, was relatively consistent with last year at NZ$49.7 million. This reflects the completion of our two key development sites (Meadowbank Stage Four and The Sands, Auckland) at the end of our financial year, which only allowed for a small number of residents to move in before the end of May. Sales have been very strong at these two sites during June and July to date, and we expect this to continue as they are sold down over the coming year. While underlying profit reflected improved development margins in FY2019, there were also increased interest costs to fund the development activity.” In total, Oceania Healthcare’s asset base increased by 22.0% to $1.4bn in 2019.

Mr Gasparich was pleased to report aged care occupancy increased to 92.8%, compared to 90.8% last year, primarily due to the investment made in refurbishing Oceania Healthcare’s existing portfolio and in particular converting older, standard aged care rooms into its premium care suite product, which is sold under occupation right agreement. Oceania Healthcare’s care suite model is popular with residents across the country, who are increasingly demanding rooms and common areas that are of a significantly higher standard than the traditional rooms that are funded by Government contributions alone.

Earnings from aged care were $2.7m (9.8%) below last year due to rooms being unavailable during the redevelopment and refurbishment process, the impact of sector-wide wage cost increases and start-up costs incurred in opening new aged care sites. “We are now well into the cycle of decommissioning older sites and replacing them with our new, premium offering” said Mr Gasparich. “This redevelopment process means there is a period at the beginning of the cycle where earnings from our aged care segment are negatively impacted, and we have seen this in the 2019 financial year as we opened The BayView in Tauranga and neared completion of Awatere in Hamilton”.

Oceania Healthcare’s current development programme remains on track to deliver a further 265 beds and units in the next financial year. In addition, new resource consents were obtained at five redevelopment sites during the year. “With the projects recently completed, our development pipeline is 1,995 retirement village units and aged care beds, with 67.3% of this already having resource consents in place”.

Mr Gasparich said “at Oceania Healthcare we are investing in our people with record numbers of Healthcare Assistants achieving new qualifications and staff at all levels receiving increases in wage rates during the year. I am also delighted to announce that an employee share scheme is being introduced for our permanent employees. This will give staff an opportunity to own a stake in Oceania Healthcare and share in our growth”.

Oceania Healthcare Chair Liz Coutts advised that Directors had declared a final 2019 dividend of 2.6 cents per share (not imputed) to be paid on 26 August 2019 with a record date of 12 August. This maintains full year dividend of 4.7 cents per share (not imputed) and represents a dividend payout ratio of 57% of underlying net profit after tax. The Board also approved the implementation of a dividend reinvestment plan for New Zealand and Australian shareholders to take effect from the dividend payable on 26 August 2019. Participating shareholders will be able to reinvest their final dividend, or part thereof, with a discount of 2.5% on the five day volume weighted average price commencing from the ex-dividend date.

ENDS

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Oceania Healthcare Limited is New Zealand’s third largest residential aged care provider and sixth largest retirement village operator. Oceania Healthcare has a total of 2,654 beds, suites and units located at 46 sites in the North and South Islands.

This release should be read in conjunction with the Financial Statements contained within the Annual Report.

Appendix

Reconciliation of reported net profit after tax to underlying net profit after tax

$ million	2019 (this year)	2018 (last year)	Growth
Reported net profit after tax	**45.4**	**77.0**	**(31.6)**
less: Change in fair value of investment property and impairment of PPE	(39.6)	(69.5)	29.8
add: Impairment of goodwill	8.1	0.0	8.1
add: Realised gains on resales	15.1	16.9	(1.8)
add: Realised development margin	29.2	21.1	8.1
less: Deferred tax	(13.6)	(1.1)	(12.5)
add: Rental expenses in relation to right to use asset	6.2	7.8	(1.6)
add: Other	(0.7)	(0.1)	(0.5)
Underlying NPAT	**50.2**	**52.1**	**(1.9)**
less: Divested site earnings	(0.5)	(1.5)	1.0
Underlying NPAT - Continuing operations	**49.7**	**50.6**	**(0.9)**