PEET

26 February 2019

Solid half-year performance from Peet

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Key results[1]

- **Operating profit[2] and statutory profit[3] after tax of $23.1 million, up 5.6%**
- **Earnings per share of 4.7 cents, up 6%**
- **1,417 lots[4] settled, up 32%**
- **Contracts on hand[5] as at 31 December 2018 of 1,804 with a value of $456 million**
- **Gearing[6] of 22.2%**
- **Fully franked interim dividend of 2.0 cents per share**

Financial commentary
The Peet Group today announced an operating profit[2] and statutory profit[3] after tax of $23.1 million for the half-year ended 31 December 2018, which represents an increase of 5.6% compared with the previous corresponding period.

Peet Managing Director and CEO, Brendan Gore, said the solid result was underpinned by an increase in settlements across the Group's national portfolio.

The Group's performance during the half year resulted in earnings per share of 4.74 cents, representing an increase of 6% compared with 1H18.

"There was, however, a decrease in the number of sales achieved across the Group's projects in the first half of the year," said Mr Gore. "This was due to changing lending conditions for purchasers, the completion of several Syndicates in Victoria and more moderate market conditions, particularly in that state. Peet does not have a direct exposure to the Sydney market.

"The change in lending conditions has seen delays in buyers being able to secure finance approvals and more stringent assessment criteria impacting the availability of finance, particularly for first home-buyers," added Mr Gore. "However, Peet expects a normalisation of the finance approvals process to emerge as property buyers become accustomed to financiers' new lending requirements."

Revenue for the period was impacted by lower project management fees as a result of lower sales activity and a strategic englobo land sale in Victoria in 1H18.

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1 Comparative period is half year ended 31 December 2017, unless stated otherwise. The non-IFRS measures have not been audited.

2 Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities.

3 Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited. The effective tax rate is lower than the statutory tax rate due to additional tax-deductible employee benefits and higher share of profits from associates and JVs.

4 Includes equivalent lots.

5 Includes equivalent lots. Excludes englobo sales.

6 Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes syndicates consolidated under AASB10.

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A core strength of the Peet Group has long been its Funds Management model and the Group continues to execute its Funds Management strategy which, in 1H19, contributed approximately 50% of the Group's earnings. Earnings from the Funds Management business include share of net profit of associates, which is an after interest and tax amount.

During the period, the Group achieved EBITDA[7] of $36.3 million, compared to $41.7 million in the previous corresponding period. The EBITDA[7] for 1H19, adjusted for interest, tax and depreciation on the net profit of associates, increases to $40.6 million.

"The Funds Management business continues to perform well, achieving a strong margin of 69% in 1H19, which is in line with the 70% achieved in 1H18," said Mr Gore. "It contributed to the Group's overall EBITDA[7] margin for 1H19 of 31% and this compares to an EBITDA[7] margin of 33% for the previous corresponding period," said Mr Gore.

The Group continues to maintain a strong balance sheet on the back of prudent capital management, including the active management of its landbank.

The Group has pro-actively managed the recent strong property cycle in Melbourne and, by FY20, excluding any new acquisitions, will have only three active projects in Melbourne.

Peet has avoided replenishing its land bank in Victoria and New South Wales and divested a number of assets in Melbourne over the last several years to capitalise on that strong cycle.

"The capital raised from these sales has been redeployed across strategically targeted opportunities in Queensland, Western Australia and South Australia over the past three years, ensuring a strong market position in improving markets with a low cost base, enabling the Group to deliver an affordable price point," said Mr Gore.

During the first half of the year, the Group secured an 80-hectare property in Perth's northern coastal corridor, with approvals in place to develop more than 1,000 lots. The property acquisition has been funded by the establishment of a new wholesale syndicate. Peet retains a 19.9% interest in the Syndicate and will act as development manager of the property.

Operational commentary

The Group achieved 964 sales[8] (down 28% on the corresponding period) and settlements of 1,417 lots[8] (up 32%) during the first half of the year.

As at 31 December 2018 there were 1,804 contracts on hand[9] with a gross value of $456 million, compared with 2,257 contracts on hand[9] with a gross value of $616 million at 30 June in 2018.

Capital management

The Group derived solid cash inflows from operations (before payments for purchase of land) in 1H19 and kept its gearing[10] at the lower end of its target range of 20% to 30% (22.2% at 31 December 2018, 18.2% at 30 June 2018).

[7] EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures.

[8] Includes equivalent lots.

[9] Includes equivalent lots. Excludes englobo sales.

[10] Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes syndicates consolidated under AASB10.

At the end of the period, the Group had interest-bearing debt (including Peet Bonds) of $238.4 million, compared with $217.2 million at 30 June 2018. Approximately 92% of the Group's interest-bearing debt was hedged as at 31 December 2018, compared with 91% at 30 June 2018.

Peet enters 2H19 with a strong balance sheet, including cash and debt facility headroom of approximately $100 million as at 31 December 2018 and a weighted average debt maturity of two and half years.

During 1H19, Peet Limited implemented a 12-month on-market share buy-back of up to 5% of its issued ordinary shares. As at 31 December 2018, the Company had acquired 6.4 million of its ordinary shares, representing approximately 26% of the total shares to be acquired.

Dividend payments
Subsequent to 31 December 2018, the Directors have declared an interim dividend of 2.0 cents per share, fully franked, in respect of the year ending 30 June 2019, which is in line with the interim dividend for the year ended 30 June 2018. The dividend is to be paid on 9 April 2019, with a record date of 22 March 2019.

Group strategy
The Group has continued to operate in line with its strategy which is based on leveraging the diversity of its national land bank; working in partnership with wholesale, institutional and retail investors; and continuing to meet market demand for a mix of product in the growth corridors of major Australian cities.

The key elements of Peet's strategy include:

- accelerating production where possible and appropriate, and active management of product mix;
- selectively acquiring residential land holdings, as cycles, markets and opportunities allow to restock the project pipeline with a focus on securing low cost projects, and predominantly under its Funds Management platform;
- expanding market share by broadening its product offering in Completed Homes and Medium Density product;
- delivering affordable product targeted at the low and middle market segments; and
- maintaining a strong balance sheet and cash flow position.

Outlook
Market conditions and the availability of credit for customers are expected to remain difficult for the next 12 months.

"Peet expects that Victorian residential property market conditions will continue to moderate as the current cycle changes," said Mr Gore.

Peet has avoided acquiring land holdings across Victoria and New South Wales during the past three years and has divested a number of non-core assets in Victoria and redeployed capital into improving and affordable markets.

“Peet’s large and diverse land bank with a low cost base that has exposure to affordable markets, its lowly geared balance sheet and with a strong visibility of future operating cash flows, including from new projects commencing development within the next two to three years, underpins Peet’s positive medium to long term outlook,” said Mr Gore

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