PEET

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asx release

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Strong first half performance for Peet

- **Operating profit[1] after tax of $17.1m, up 18% on 1H14**
- **Statutory profit[1] after tax of $17.1m, up 30% on 1H14**
- **EBITDA[2] of $45.9m, up 65% on 1H14**
- **EBITDA[2] margin of 25%, up from 23% in 1H14**
- **Earnings per share up 23%**
- **1,456 lots settled compared with 1,507 in 1H14**
- **2,232 contracts on hand as at 31 December 2014, compared with 1,990 at 30 June 2014**
- **Gearing[3] of 23.0%, down from 29.8% at 30 June 2014**
- **Fully franked interim dividend of 1.5 cents per share**

The Peet Group today announced an operating profit after tax for the half-year ended 31 December 2014 of $17.1 million – an 18% increase over the previous corresponding period.

The national property developer's statutory profit after tax was $17.1 million, compared to $13.2 million in the previous corresponding period, representing an increase of 30%. Earnings per share increased 23% to 3.8 cents.

Peet Limited Managing Director and Chief Executive Officer, Brendan Gore, said the half-year performance was very pleasing and reflected a sound performance from all parts of the business and a particularly strong contribution from Development projects.

"The improved performance in varying market conditions across the country was very pleasing and continued improvements in performance are expected in the second half of the financial year," said Mr Gore.

1. 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 includes the effects of non-cash movements in investments in associates and joint ventures. 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.

   Statutory profit measures profit in accordance with Australian Accounting Standards.

2. Pre write-downs and includes effects of non-cash movements in investments in associates and joint ventures.

3. (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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"Overall, property market fundamentals remain sound, however there has been a moderating of sales and stabilising of prices in the WA market, following a period of strong price and volume growth.

"The first half of the year also saw a number of traditionally high-selling estates (Warner Lakes (Qld), Kingsford (Vic) and The Chase (WA)) coming to an end. A number of new projects across the pipeline, including Flagstone City (Qld), are expected to commence contributing to sales in the short-term," he added.

These factors are reflected in Peet's slightly lower total sales (1,610) and settlements (1,456) for the first half of the year (down 7% and 3% respectively). However, as at 31 December 2014, there were 2,232 contracts on hand, with a gross value of $485 million. This compares with 1,990 contracts on hand as at 30 June 2014 and provides solid momentum into the second half of FY15.

The Group's strong first half performance resulted in EBITDA[4] of $45.9 million, compared to $27.9 million in the previous corresponding period, an increase of 65%.

"Peet has a well-diversified national portfolio and there were improved sales and settlements results in Victoria and Queensland and moderate price growth in key markets. Together with our continued focus on cost reductions and operational efficiencies, the Group's overall EBITDA[4] margin for the first half was 25%, compared to 23% in the previous corresponding period," said Mr Gore.

"A highlight of the first half was the acquisition of interests in six high-quality, strategic residential development projects and the associated equity raising of approximately $51 million.

"Three of the projects were acquired jointly with key investment partners, providing the Group with the opportunity to further leverage and grow its Funds Management business, with the two largest projects already in production and selling," said Mr Gore.

Capital Management

Peet continues to maintain a strong focus on capital management, with gearing[5] reducing to 23.0% as at 31 December 2014, compared to 29.8% as at 30 June 2014, and at the lower end of its target range of 20-30%.

At the same time, Peet continued its proactive approach to investment in the development of lots and infrastructure to meet market demand for product across its portfolio.

At the end of the period, the Group had interest-bearing debt (including its convertible notes) of $242.3 million, compared with $295.5 million at 30 June 2014. Approximately 51% of the Group's interest-bearing debt was hedged as at 31 December 2014, compared with 47% at 30 June 2014.

The Group has executed a number of forward starts, which will result in a lowering of future interest costs.

The net cash inflows from operations were significantly improved over the previous corresponding period and as at 31 December 2014, the Group had net cash and debt headroom of $91 million.

4. Pre write-downs and includes effects of non-cash movements in investments in associates and joint ventures

5. (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.

"Peet is well-positioned for ongoing growth and expansion in line with market conditions, and will continue to seek appropriate opportunities in key markets in a disciplined manner," said Mr Gore.

Dividend Payments

Following the recommencement of dividends during 2014, the Directors have declared an interim fully franked dividend of 1.5 cents per share in respect to FY15. The dividend is to be paid on Friday, 17 April 2015, with a record date of Thursday, 26 March 2015.

The Company's Dividend Reinvestment Plan, which provides shareholders with an opportunity to acquire shares in the Company, remains in place and further details are included in a separate announcement to the market.

Group Strategy and Outlook

Peet will continue to target the delivery of shareholder value and quality residential communities around Australia by leveraging its geographically diverse land bank; working in partnership with institutional and retail investors; and continuing to meet market demand for a mix of product in the growth corridors of major Australian cities.

Key elements of Peet's strategy for the remainder of FY15 and beyond include:

- Managing the Group's land bank of approximately 50,000 lots to achieve shareholder returns and deliver quality residential communities around Australia;
- Continuing to assess opportunities to acquire strategic residential land holdings in a disciplined manner under our funds management platform;
- Extending opportunities, where appropriate, for wholesale and retail investors;
- Extending our built-form activities to add value to our residential communities and extending our commitment to delivering affordable residential opportunities, with a short/medium-term pipeline of more than 1,700 units/apartments identified in the national portfolio;
- Maintaining a strong focus on cost and debt reduction; and
- Continuing to identify and assess growth opportunities in line with our strategic objectives and as appropriate in market conditions, optimising the flexibility afforded by our strong capital position and capital partner relationships.

"The Australian housing market fundamentals remain positive with a sustained period of record low interest rates, low inflation rate and continued population growth," said Mr Gore.

"However, the factors putting pressure on official cash rates – weaker jobs market, slow wages growth, and lower commodity prices – are also having some impact on consumer and business confidence, particularly in Western Australia."

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Sales volumes moderated in Western Australia during 1H15, where a combination of the lower iron ore price and the transition from the construction phase of major resource projects in particular has impacted the economy. However, while that trend is expected to continue, sales prices have stabilised in line with a market in or around equilibrium. These market conditions, together with:

- continued population growth;
- relatively low level of unemployment compared to the national average; and
- the diversity of Peet's WA land bank including the start of sales to the public from a new project in Perth's eastern suburbs,

are expected to help underpin a continued solid contribution from WA overall in FY15.

Activity in the Queensland residential market is increasing (though coming off historic low levels) and there has been an improvement in affordability, relative to other eastern states and conditions are expected to improve, despite a fall in investment in the mining sector.

Strong population growth in Victoria has supported increased activity in the residential housing market and price growth is also positive. We anticipate a stabilising of sales rates over the remainder of FY15.

The other States and Territories in which the Group operates are all expected to continue performing well, boosted by continued low interest rates.

"The Peet Group has a diversified national portfolio and is positioned to meet market demand in 2H15 with a range of product suited to the affordable and middle market segments," said Mr Gore.

"Peet has moved into the second half of FY15 in a good position to maximise growth opportunities, with strong relationships with our institutional partners, good support from builders, a stronger balance sheet and expectations of continued good performance in most key markets during 2H15.

"In February 2015 we released a new $10 million retail syndicate for a 21.7 hectare property west of Melbourne, Victoria which has been strongly received and, based on applications and commitments received to date, is more than 60% subscribed," said Mr Gore.

The Group is on track to achieve more than 3,400 settlements by 30 June 2015 and, subject to a continuation of current market conditions and the timing of lot settlements, anticipates full year earnings in the order of $38 million.

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