PEET

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asx release

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Peet Group posts solid first half performance

- **Operating profit[1] and statutory profit[2] after tax of $18.5 million, up 8% on 1H15**
- **EBITDA[3] of $40.3 million**
- **EBITDA[3] margin increased to 29%, compared to 25% in 1H15**
- **Earnings per share of 3.8c**
- **1,275 lots settled**
- **Record 2,318[4] contracts on hand as at 31 December 2015 with a value of $523 million**
- **Gearing[5] of 30.6%**
- **Fully franked interim dividend of 1.75 cents per share, up 17% on 1H15**

The Peet Group today announced an operating profit after tax for the half-year ended 31 December 2015 of $18.5 million – an 8% increase over the the previous corresponding period.

The national Group's statutory profit after tax was $18.5 million compared with $17.1 million in the previous corresponding period, also representing an increase of 8%. Earnings per share were 3.8 cents, in line with the previous corresponding period but achieved on an expanded capital base.

Peet Limited Managing Director and Chief Executive Officer, Brendan Gore, said the Group had achieved a good half-year performance that reflected the supportive conditions across the Group's key east coast markets, in particular Victoria and ACT/ New South Wales.

"The strong result was driven by price growth across the Victorian land portfolio as well as the Group's continued focus on operational efficiencies.

"It confirms that the ongoing disciplined implementation of our strategy is delivering improved operating performance, and underlines the benefits of Peet's diverse national portfolio.

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[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.

[2] Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited.

[3] Pre write-downs of $ nil and includes effects of non-cash movements in investments in associates and joint ventures.

[4] Includes lot equivalents. Excludes Arena englobo sale.

[5] 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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"Improvement in the Group's return on capital employed and operating margins continued through active asset management, such as the divestment of the Arena, Greenvale project; the commencement of new projects and improved business operational effectiveness," said Mr Gore.

The Group delivered EBITDA[6] of $40.3 million during the period with a margin of 29%, compared with 25% in the previous corresponding period and 26% for the full year ended 30 June 2015.

The Group achieved a total of 1,659 sales during the first half, representing an increase of 3% on the previous corresponding period and settlements were 12% lower compared to the previous corresponding period.

The continued weakening of conditions in Western Australian and Northern Territory was a key factor in the reduction in the number of sales and settlements in those markets, though this was largely offset by the strong performance of projects on the east coast.

A record number of contracts on hand as at 31 December 2015 – 2,318[7] contracts with a gross value of $523 million, compared with 2,061[7] contracts on hand as at 30 June 2015 (with a gross value of $441 million) – provides good momentum moving into the second half of FY16.

During the first half of FY16, Peet progressed preparations for the launch of sales at Flagstone in South East Queensland, and the Group is also currently preparing to launch its next retail syndicate opportunity in Victoria.

Capital Management

The Peet Group maintains a disciplined focus on capital management.

The Group continued to identify growth opportunities and to manage its pipeline of projects with a focus on maximising its return on capital, and continued its proactive and disciplined approach to investment – developing a mix of product and infrastructure to meet market demand, particularly in the stronger performing east coast markets.

As at 31 December 2015, the Group's gearing[8] was 30.6%, following the acquisition of a 123-hectare developing residential estate in Tarneit (Vic) in December 2015, with settlement to occur over three years.

This acquisition followed the Group's sale of its Arena residential estate in Greenvale (Vic) for $93.1 million with the settlement of that property also to occur in instalments over three years. Part of the proceeds from this sale have been redeployed to fund the acquisition of Tarneit at a substantially lower cost base than the Greenvale land.

Peet expects that its gearing will return to within its 20-30% target range by 30 June 2016.

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[7] Includes lot equivalents. Excludes Arena englobo sale.

[8] 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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At the end of the period, the Group had interest-bearing debt (including its convertible notes) of $235.1 million, compared with $234.9 million at 30 June 2015. Approximately 53% of the Group's interest-bearing debt was hedged as at 31 December 2015, compared with 51% at 30 June 2015.

The Group has entered 2H16 with a solid balance sheet, including cash and facility headroom of $99 million as at 31 December 2015, and is currently in advanced discussions in relation to new finance facilities. The Group's current intention is to redeem the convertible notes maturing in June 2016 from operating cash flows and existing debt facilities.

Dividend

Subsequent to 31 December 2015, the Directors have declared an interim dividend of 1.75 cents per share, fully franked, in respect to the half-year ended 31 December 2015. This represents an increase on the dividend for the previous corresponding period of 17%. The dividend is to be paid on 15 April 2016, with a record date of 24 March 2016.

The Dividend Reinvestment Plan remains deactivated.

Group Strategy and Outlook

The Group's strategy continues to be based around 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.

Key elements of Peet's strategy for the remainder of FY16 and beyond include:

- continuing to deliver high-quality, masterplanned communities, adding value and facilitating additional investment in amenity and services wherever possible;
- managing the Group's land bank of approximately 48,000 lots to achieve optimal shareholder returns;
- continuing to assess opportunities to selectively acquire strategic residential land holdings in a disciplined manner under our funds management platform;
- an ongoing focus on maximising return on capital employed in all our key markets;
- extending opportunities, where appropriate, for wholesale, institutional and retail investors including the anticipated launch of a new retail syndicate opportunity in Victoria in 2H16;
- maintaining a 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.

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A level of uncertainty about the economic outlook for Australia contributed to mixed conditions in the Australian residential property market in 1H16. However, conditions should remain generally supportive with sustained low interest rates and modest economic growth.

“Conditions across Victoria, New South Wales/ ACT and South Australia are expected to remain supportive, while Western Australia and Northern Territory are expected to remain subdued through the 2016 calendar year,” said Mr Gore.

“Activity in the Queensland residential market continues to improve due to its relative affordability, which has seen a recovery in interstate migration. This market recovery is expected to support the launch of the Group’s 12,000-lot Flagstone project in 2H16.

“Peet has a diversified national portfolio of projects, has demonstrated its ability to manage through variable cycles and is well-positioned for sustainable long-term growth and value creation,” said Mr Gore.

Peet is well-positioned to achieve earnings growth, subject to market conditions and the timing of settlements.

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