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30 August 2013

Peet's FY13 operating earnings in line with guidance

- Operating profit after tax of $15.2 million[1], compared with $20.3 million in FY12.
- Statutory profit after tax of $0.2 million, compared with $5.4 million in FY12.
- 2,308[2] lots sold compared with 1,776 in FY12[3].
- 1,956[4] contracts on hand as at 30 June 2013, with a gross value of $485 million compared with 958 with a gross value of $267 million at 30 June 2012[3].
- Revenue of $205 million, compared with $147 million in FY12.
- Market value NTA[5] of $1.05 per share as at 30 June 2013.
- Gearing[6] of 29% as at 30 June 2013.
- Net bank debt[7] down 46% to $135 million.
- Cash and available debt facilities[7] of $138 million as at 30 June 2013.

National property group, Peet Limited, today announced an operating profit[1] after tax for the year ended 30 June 2013 of $15.2 million – slightly above the market guidance range provided in April 2013.

Peet's statutory profit for the full year ended 30 June 2013 was $0.2 million (FY12: $5.4 million) and includes write-downs after tax of $13.3 million on long-dated landholdings in Queensland, other non-core assets in Victoria identified for sale and a small developing asset on the Sunshine Coast in Queensland.

Peet Managing Director and Chief Executive Officer, Brendan Gore, said the 2013 financial year was a year of significant achievement including the acquisition of 86% of CIC Australia Limited ("CIC") and the successful completion of Peet's first retail land syndicate since 2010.

"The last two to three years have been some of the most challenging the residential property market has seen. Despite this, we have confirmed our strategy in the context of our capital management program and at the same time we have invested in our future by securing a controlling interest in CIC and successfully completing the Peet Greenvale Syndicate," said Mr Gore.

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[1] Operating profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of Peet in a way that appropriately reflects its underlying performance. Operating Profit is the basis on which dividends are determined. Operating profit excludes items such as unrealised gains/(losses) (such as write-downs in the carrying value of inventories and development costs) and adjustments for realised transactions occurring infrequently and outside of the core ongoing business activities (such as CIC acquisition-related costs) from the Statutory Profit.

[2] Including CIC for the period from 17 May 2013 to 30 June 2013. Includes 100% of Googong sales.

[3] Sales, settlements and contracts on hand referred to throughout this release include super lots.

[4] Including CIC contracts on hand as at 30 June 2013. Includes 100% of Googong sales.

[5] NTA is based on independent bank instructed mortgage valuations with no value attributed to the funds management and joint venture business segments.

[6] (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes Peet Yanchep Land Syndicate and CIC.

[7] Excludes Peet Yanchep Land Syndicate and CIC.

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After taking into account acquisition-related costs, CIC contributed $2.2 million to net profit after tax for the period from 17 May 2013 to 30 June 2013.

Peet Limited's $17 million Peet Greenvale Syndicate closed over-subscribed in March 2013. The strong response, including 20% of applications from new investors, meant that Peet took up its minimum commitment of 10% in the Syndicate.

On behalf of the Peet Greenvale Syndicate, Peet is already working towards subdivision and pre-sales of a new residential community on 40 hectares of land on Mickleham Road, Greenvale in one of Melbourne's fastest growing areas, about 24 kilometres from the CBD. The project is expected to contribute to earnings in FY14.

The Peet Group achieved a significant increase in sales during FY13 across its business segments with more than 2,300 lots sold for a total of $552 million. This represents a 30% increase in the number of lots sold, and a 27% increase in their value over FY12.

Almost 2,100[8] lots were settled during the year for a total of $548 million. This represents a 2% increase in the number of lots settled and a 14% increase in their value, compared with FY12.

However, mixed market conditions around the country throughout the year, as well as the continued uncertainty and poor levels of consumer sentiment impacting the property sector had a significant impact on prices and margins, particularly in the first half.

As expected in these challenging market conditions, the Group's EBITDA[9] margin was lower, down from 32% in FY12 to 23% in FY13. The majority of the Group's portfolio is within the Funds Management business, and the EBITDA margin in this segment, while lower than in FY12, was a still sound 59%.

In FY13, Peet has managed its operations appropriately for market conditions while positioning itself for a greater level of activity and further growth in the years ahead, as market conditions continue to normalise and improve.

At 30 June 2013, there were more than 1,950 contracts on hand, with a gross value of $485 million. This represents a 104% increase in contracts on hand and an 82% increase in gross value when compared to 30 June 2012.

"The Group's results have been achieved despite difficult market conditions particularly during the first half, weather events in Queensland impacting the Group's Gladstone project, and continued uncertainty impacting the property sector and the wider economy," said Mr Gore.

"They also reflect the strategic decisions taken during the year and our continued rigorous capital management strategy, which have strengthened Peet's balance sheet.

"We will continue with our current strategy through FY14, with an ongoing focus on further debt reduction, efficiencies across the business, and the strategic deployment of development and infrastructure capital appropriate to the relevant market conditions."

[8] Including CIC for the period from 17 May 2013 to 30 June 2013. Includes 100% of Googong sales.

[9] All EBITDA numbers referred to throughout this release are pre write-downs and CIC acquisition-related costs.

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Capital Management[10]
The key focus of the Group's capital management strategy has been to continue to reduce debt levels via the sale of non-core assets, the reduction of operating costs and a capital raising on the back of the earnings accretive CIC acquisition.

The Group has previously reported a targeted $100 million in non-core asset sales and, as at 30 June 2013, the value of non-core asset sales settled had risen to $64 million, with another $24 million in non-core assets targeted for sale in FY14, subject to market conditions.

During the year, the Company raised some $124 million via placements, with a further $3 million raised via a share purchase plan in July 2013, to fund the takeover of CIC and for additional working capital to meet demand from the strengthening WA market and improving Victorian market.

Together with targeted cost reductions across the business, part proceeds from non-core asset sales and the capital raising were applied to reduce bank debt by more than $100 million during the year.

"Our debt reduction strategy has resulted in a stronger balance sheet, which positions the Group well for growth in the years ahead and for the strategic allocation of capital into new projects in improving markets," said Mr Gore.

The level of debt reduction achieved during the year was ahead of expectation and resulted in gearing[11] reducing to 29% as at 30 June 2013, compared to 40% at 30 June 2012. This reduced level of gearing compares to the Group's target of 35% gearing by 30 June 2013 and less than 30% by 30 June 2014.

For the year ended 30 June 2013 the Group's weighted average cost of debt was 9.14% (including interest on convertible notes), and its interest cover ratio was 1.54 times. The Group's interest cover ratio is expected to improve as earnings recover during 2014.

As at 30 June 2013, Peet had interest-bearing debt[12] (including its convertible notes), net of cash, of $181 million, compared with $293 million at 30 June 2012.

This significant reduction in variable interest debt has resulted in 97% of the Group's interest-bearing debt being hedged at year end, compared with 63% at the end of FY12. The average hedge maturity profile for the Group at 30 June 2013 was 2.1 years compared with 3.1 years at 30 June 2012.

The Group's cash and available facilities totalled $138 million at year end, and it remains compliant with all bank covenants.

The Group's bank facilities have an existing maturity date of 31 October 2014. The Company is in negotiations with its incumbent banks to vary and extend its facilities on terms appropriate to its improved and expanded balance sheet and that align with the Group's strategy.

[10] Excluding Peet Yanchep Land Syndicate and CIC.

[11] (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets adjusted for market value of inventory less cash, less intangible assets). Excludes Peet Yanchep Land Syndicate and CIC.

[12] Excluding land vendor liabilities.

Dividend Payments
The Directors consider it prudent in the current market to defer dividend payments until market conditions improve. There will therefore be no dividend paid in respect to the 2013 financial year. However, the Directors intend to reinstate the Company's dividend for FY14 onwards, targeting a 50% payout ratio.

Group Strategy
Peet's strategy for FY14 includes building on the growth and improvements emerging in the second half of FY13, within the context of the Group's ongoing capital management program, continuing a tailored response to the different market conditions around the country.

Key elements of our strategy for the year ahead include:

- Managing the Group's land bank of more than 51,000[13] lots to achieve shareholder returns and deliver quality residential communities around Australia, including:
    - through the strategic allocation of capital in projects where there is greater certainty of sales and settlements; and
    - meeting market demand with a mix of desirable and affordable projects in locations well serviced by existing or planned infrastructure;
- Continuing our program of divesting non-core assets, which will be applied to further reduction of debt. The targeted $100 million divestment program has achieved $64 million in settlements to date, with a further $24 million in non-core assets targeted for sale in FY14;
- Maintaining a strong focus in relation to cost reduction and business efficiencies; and
- Continuing to assess opportunities to acquire strategic residential landholdings under our funds management platform.

At year-end, the Peet Group is well positioned for growth in the medium to long-term with a stronger balance sheet; a more geographically diverse and significant land bank; a talented and committed team; and embedded business strategies proving appropriate for market conditions.

Outlook
The 2013 financial year has seen some recovery in the residential property market, which comes after a long challenging period for the sector.

"While continued rate cuts by the Reserve Bank to record low levels have been welcome encouragement for homebuyers, they also reflect the prevailing low levels of consumer and business confidence, and concerns about employment levels and Australia's economic performance," said Mr Gore.

"Nonetheless, there have been some encouraging signs of improvement in the Western Australian property market during the year and moderate improvement in the Victorian market. Peet expects these markets to continue to improve in the year ahead, along with southeast Queensland, which is coming off a very low base."

[13] Including CIC.

Mr Gore added that the long-term fundamentals of the Australian property market including population growth, an under-supply of housing and a tight rental market remain sound, though it is yet to be seen whether consumer confidence will rise enough to underpin a sustained improvement in the short to medium-term demand in the residential property market.

“The Peet Group has moved into FY14 with a strengthened balance sheet; a proven long-term business model including an expanding wholesale and retail funds management business; and a robust strategy. It is well positioned and prepared for further growth as the residential market improves across our traditional markets of Western Australia, Victoria and Queensland,” said Mr Gore.

“Additionally, conditions in our new markets (via the CIC acquisition) of NSW/ACT, Northern Territory and South Australia remain generally positive and are expected to remain so for FY14.”

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