STOCKLAND GROUP (SGP)

23 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Net Profit After Tax (NPAT) ($m)	1,025	1,195	-14.2%
NPAT Consensus ($m)	1,052		
Funds From Operations FFO ($m)	863	802	+7.5%
Revenue ($m)	2,775	2,744	+1.1%
Earnings Before Interest & Tax (EBIT) ($m)	1,041	1,026	+1.5%
EBIT Consensus ($m)	929		
Final Dividend ($)	0.135	0.129	+4.7%

Stockland Group's Funds From Operations (FFO) beats own guidance

- **Stockland Group (SGP)** has reported a statutory net profit after tax (NPAT) of $1,025 million, a fall of 14.2%, reflecting lower revaluation gains assets and financial instruments. FFO growth for the Group was 6.6% per security, slightly above our guidance range of 5.5 – 6.5%. **SGP's commercial Property** portfolio is comprised of 73 assets, including retail town centres, workplace and logistics assets, with a total value of $10.4 billion. The segment saw growth of 2.3% in comparable FFO, helped by evidence of improving retail sales, despite challenging market conditions. Specialty sales per square metre were up 4.2%, while SGP says that 81% of its centres are seeing specialty sales above the national benchmark. SGP is forecasting moderate growth in returns in the segment for the year ahead, with comparable FFO growth of 2 – 3% as they continue to remix the retail town centre portfolio and divest non-core properties. **SGP's residential business** performed well over the year. The segment has 60 communities in development across New South Wales, Queensland, Victoria and Western Australia. The portfolio is made up of 82,000 lots with a total value of approximately $22.2 billion. Profit grew by 24.3% to $336 million compared to the pcp, despite an easing in the number of lots settled which declined by 2.5% to 6,438. The operating margin however increased from 15.3% to 18.3% helped by the average price per lot increasing due to a change in product mix to NSW and Qld. Continued strength in the segment is anticipated in FY19 and beyond, despite moderating overall conditions. SGP anticipates residential profit margins to remain around 18% in FY19 and 17% over the medium term.

- **Retirement Living** saw its operating profit fall 16.7% compared to the pcp, while EBIT was down 19.4%. The portfolio has over 9,600 established units in 65 established villages across five states and the ACT. The portfolio includes a development pipeline of over 3,000 units. Sales volumes were affected by several factors, including reduced settlements due to the timing of development completions. SGP expects an improvement in Retirement Living market conditions in 1H19 driven by improving customer sentiment and sales velocity. SGP says that Q4 sales are up 14.9 % on the FY17 corresponding quarter as the group offers improved contract flexibility, village quality and more services to residents. **In looking ahead,** SGP sees economic conditions remaining generally positive, with real estate fundamentals continuing to be supportive, underpinned by strong population growth, solid employment growth, low inflation and low interest rates. SGP is forecasting FFO growth per security of between 5.0% and 7.0% for FY19. The forecast centres around factors including the settlement over 6,000 residential lots, with revenue and profit biased towards the second half of FY19. Operating profit margins are seen to be in the range of around 18% in FY19 and 17% over the medium term. SGP expects FY19 distribution per security growth of 4%, 27.6 cents, at the bottom end of the target payout ratio of 75 -85% of FFO.