

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 low 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.

Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec") is a wholly owned, but non-guaranteed, subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and both entities are incorporated in Australia with limited liability. This information is directed and available to and for the benefit of Australian residents only and is not a recommendation or forecast. This information has been prepared without taking account of the objectives, needs, financial and taxation situation of any particular individual. For this reason, any individual should, before acting on the information on this site, consider the appropriateness of the information, having regards to their own objectives, needs, financial and taxation situation, and, if necessary, seek appropriate independent financial, foreign exchange and taxation advice. CommSec, and its related bodies corporate, do not accept any liability for any loss or damage arising out of the use of all or any part of this information. We believe that this information is correct as at the time of its compilation, but no warranty is made as to its accuracy, reliability or completeness.