ASX/Media Release

Stockland

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STOCKLAND FY19 RESULT – FOCUS ON SUSTAINABLE RETURNS

Financial results for the full year ended 30 June 2019:

- Funds from operations (FFO) of $897 million, up 4.0% on FY18
- FFO per security of 37.4 cents, up 5.1% on FY18
- Adjusted funds from operations (AFFO) of $780 million, up 3.3% on FY18
- AFFO per security of 32.5 cents, up 4.2% on FY18
- Return on equity 11.9%, up 70 basis points on FY18
- Statutory profit down 69.6% to $311 million on FY18
- Net tangible assets (NTA) per security of $4.04, down from $4.18 at 30 June 2018
- Gearing 26.7%
- Distribution per security (DPS) of 27.6 cents, up 4.2% on FY18

Outlook for FY20:

We forecast flat growth in FFO per security in FY20, noting that market conditions remain variable and we are cautious about the pace of recovery in the residential market.

Stockland Managing Director and CEO Mark Steinert said: "I'm pleased to announce our FFO per security growth for FY19 was in line with expectations at 5.1 per cent, despite challenging market conditions. Funds from operations (FFO) were $897 million, an increase of 4.0 per cent on FY18. This reflects a strong performance in our residential and workplace and logistics businesses.

"Statutory profit was down 69.6 per cent to $311 million reflecting non-cash adjustments arising from devaluations in our retail town centre and retirement living portfolios, a retirement living goodwill write down, mark-to-market on financial instruments and a tax expense change.

"Our retail town centre strategy is focused on improving future income resilience and growth by divesting non-core properties, ensuring rents are sustainable, and remixing tenancies to reflect consumer trends around convenience and experience. Our retail town centre development pipeline has been reduced by around 50 per cent, with a focus on smaller placemaking projects which will redefine customer experience and convenience.

"Retail town centre devaluations totalled $474 million for the year. Thirty-five per cent of the devaluations were driven by capitalisation rate expansion. About half were driven by the softening of growth rates, and changes to rental income and capital cost re-forecasting, following the implementation of our strategy to remix tenancies and renew some leases at more sustainable levels. The remainder were driven by increased land taxes and rates.

Stockland

Stockland (ASX: SGP) was founded in 1952 and has grown to become one of Australia's largest diversified property groups – owning, developing and managing a large portfolio of shopping centres, residential communities, workplace and logistic assets and retirement living villages. Stockland is rated as the most sustainable real estate company in the world in 2018 by the Dow Jones Sustainability World Index (DJSI). Stockland is also an Employer of Choice for Gender Equality, as recognised by the Workplace Gender Equality Agency.

"Our core retail town centre portfolio FFO growth was positive, and we expect overall retail town centre income to stabilise through FY20 and grow moderately from FY21. Importantly, our comparable moving annual turnover (MAT) growth per square metre was 2.3 per cent, reflecting the benefits of our portfolio improvement strategy. The workplace and logistics market is performing strongly, and our weighting to this business continues to increase via development and strategic acquisitions.

"Our residential business also performed well, delivering almost 5,900 residential settlements, 8 per cent operating profit growth and increasing our market share by 3 per cent to 15 per cent nationally over the past 12 months. We are well positioned to benefit from an improving market, however we expect conditions to take some time to normalise as customers continue to experience challenges achieving loan approvals. Retirement living FFO increased 5.7 per cent, reflecting strong sales in development projects and non-core asset sales, offset by lower established sales in line with the broader housing market.

"We continue to execute on our strategic priorities during challenging conditions for the retail and residential markets. We've achieved strong momentum with our planned retail divestment program, with $505 million transacted, exceeding the initial $400 million target, and we have finalised a 50 per cent capital partnership for our Aura community. These initiatives are enabling us to accelerate our workplace and logistics development pipeline, which now exceeds $2 billion, and the re-stocking of our residential landbank to position us effectively for the future," said Mr Steinert.

Group highlights:

- Achieved $505 million of retail town centre divestments (Bathurst, Cleveland, Caloundra South, Kensington and Toowong; with contracts exchanged for Tooronga and Cammeray[1] in July, and Jesmond in August), exceeding our $400 million target of non-core retail divestments ahead of the anticipated timeframe. We will continue to assess up to a further $500 million of non-core retail divestments over time in a disciplined way
- Increased weighting to workplace and logistics, which now makes up 23 per cent of our assets, including $99 million of logistics developments completed (Ingleburn, Willawong and Yennora). On track to achieve a 25-35 per cent weighting for workplace and logistics in the next five years
- Acquired remaining 50 per cent share of Stockland Piccadilly for $347 million, following the sale of our 50 per cent share in 135 King Street, Sydney (including Glasshouse) for $340 million. We are progressing development discussions with the City of Sydney for the future redevelopment of Stockland Piccadilly
- Confirmed a 50 per cent capital partnership for our $5 billion Aura mixed use community on the Sunshine Coast at a 30 per cent premium to book value, with Capital Property Group in July. This normalises our weighting to the Sunshine Coast, while enabling us to deliver a substantial long term masterplanned community with a high quality and aligned partner
- Sale of three non-core retirement living villages for a combined total of around $60 million (Burnside Retirement Village, Taylors Hill Retirement Village and Keilor Retirement Village in Melbourne)
- Completed $192 million of our $350 million buy-back of Stockland securities to help support the resilience of securityholder returns into the future
- Employee engagement score of 81 per cent, 4 points above the Australian National Norm
- Continued focus on customer satisfaction: highest level of retirement living resident satisfaction since 2009 at 8.6 out of 10. Other business units also recorded strong results: residential communities resident satisfaction of 93 per cent, retailer satisfaction of 82.5 per cent, retail customer satisfaction of 80 per cent, and Workplace & Logistics tenant satisfaction of 84 per cent
- Reduced unallocated corporate overheads by $5 million to $61 million, and a commitment to further reduce our cost base in FY20.

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[1] *Conditional contract exchanged on 31 July 2019*

FINANCIAL & CAPITAL ALLOCATION

- Gearing 26.7%, within 20-30% target range
- Weighted average cost of debt 4.4% for the period, weighted average debt maturity 5.8 years
- Maintained investment grade credit ratings of A-/Stable (Standard and Poor's) and A3/Stable (Moody's)
- Renegotiated our debt documentation improving our borrowing capacity, with key terms and conditions updated in line with the market and our peers

Chief Financial Officer Tiernan O'Rourke highlighted the Group's focus on active capital management for this part of the cycle: "We've sustained disciplined capital management this year, and the strength of our balance sheet puts us in a good position to execute our strategic priorities. During the period, we secured new long-term debt totalling A$551 million across both the Australian and US capital markets. These issuances reconfirm our ability to access global debt capital markets at attractive prices and long tenors.

"Our target capital allocation mix remains on track, as we move towards 20-30 per cent allocation to communities, 25-35 per cent to workplace and logistics and 40-45 per cent to retail town centres, providing a balanced portfolio with long term and resilient income growth," said Mr O'Rourke.

COMMERCIAL PROPERTY

The Commercial Property business delivered comparable FFO growth up 2.1 per cent across the portfolio, at the lower end of our forecast, with the high-performing logistics and workplace sectors partially offsetting the weaker retail sector.

CEO of Commercial Property, Louise Mason said: "We have continued to actively reposition the retail town centre portfolio to respond to changes in customer spending habits, with a clear focus on convenience and experience. Our centres are focused on middle Australia, and have a strong emphasis on medical, health and wellbeing, government and non-government services, technology, fast casual dining, fresh food, household products and family entertainment.

"To execute this strategic priority, we are remixing tenancies to add growth businesses, rebasing existing rents to ensure sustainable occupancy costs, upgrading centre amenity including car parks and divesting non-core centres.

"We've defined core centres as the leading retail town centre in their trade area measured by share of sales, with the ability to evolve to meet future customer needs. The trade area for core centres should have limited competition, above average population growth and strong employment fundamentals. Some of our leading core centres include Green Hills, Wetherill Park and Merrylands.

"We are confident that this strategy, proactively executed by our new, highly experienced leadership team, will deliver sustainable growth from our core retail assets over the medium to long-term.

"The other key strategic priority for commercial property is to up-weight our logistics and workplace exposure by upgrading existing properties, and through development where sub-market fundamentals support taking this risk. We have added experienced professionals to the team to execute this strategy and strong progress has been made in relation to logistics developments and progressing approvals for our workplace developments," said Ms Mason.

Retail Town Centres

- Retail FFO: $432 million up 1.1%, comparable growth down 0.2%
- Achieved portfolio comparable MAT growth of 2.3%, maintained high occupancy at 99.3%

Ms Mason said: "We have maintained high occupancy across our retail town centres, achieving 2.5 per cent growth in MAT for comparable specialty sales per square metre to $9,251 on an adjusted moving lettable area basis, driven primarily by growth in health and wellbeing services, food retail and services.

“Our centres are focused on providing convenient, everyday shopping for our communities. Non-discretionary spend comprises around 70 per cent of our total sales, which provides some protection from the challenging retail environment. Our priority is curating experiences for our customers, and introducing placemaking initiatives across our portfolio, including the recently announced Night Quarter markets on the Sunshine Coast, which will help drive growth as the structural shift in the retail sector and consumer demand continues.

“Over time, we will have a measurably higher quality portfolio with around 30 centres leading in their respective trade areas. These centres will have been remixed, have placemaking initiatives applied to drive customer experience and foot traffic, and income rebased for current and forecast trading conditions,” said Ms Mason.

Workplace and Logistics

- Logistics FFO: $164 million, up 6.9%, comparable growth of 3.9%, Workplace FFO: $48 million, comparable growth of 10.4%
- Logistics portfolio value increased 13.9% to over $2.5 billion, and Workplace portfolio value increased 10% to $800 million, representing a combined 23% of the total Stockland portfolio
- Completed developments at Willawong, Ingleburn and Yennora, totaling $99 million, with risk adjusted IRR’s above 10 per cent and FFO yields above 7.5 per cent

Ms Mason said: “The logistics market continues to be supported by ongoing investment in infrastructure, export growth and growth in online retail, which is driving occupancy and rental growth. Our assets are predominantly based on the high-performing east coast, and we continue to pursue development opportunities in the strong Sydney, Melbourne and Brisbane sub-markets.

“Our logistics business has a clear growth strategy and a portfolio of quality, core assets, which provides customers with flexible, efficient and cost effective facilities from which to drive their businesses.

“We will leverage our $1 billion plus logistics development pipeline from our existing land bank to deliver assets for new or existing customers, providing significant accretive investment opportunities and quality returns. Facilities at Truganina, Willawong and Yatala are currently under construction, and we have secured 294 hectares of industrial land during the year, including Melbourne Business Park in Truganina in Melbourne’s west, and Gregory Hills in Camden in Sydney’s west.

“We are progressing development opportunities for our Sydney workplace assets, including the Piccadilly Centre in the CBD and 110 Walker Street in North Sydney, which are well-located for future workplace and mixed use development,” said Ms Mason.

COMMUNITIES

Residential

- Residential operating profit $362 million, up 8% on FY18, operating profit margin 19.9%
- 5,878 residential lots settled, 3,869 residential contracts on hand
- Restocked pipeline with acquisitions at Altona North and Kalkallo in Melbourne
- Strength of our brand, scale and land bank has seen our national market share[2] up 3% from FY18 to 15%

CEO of Communities Andrew Whitson said: “Our residential business has delivered a strong profit result despite a challenging market, achieving 5,878 settlements for the period, in line with our re-forecasted 5,900.

“In FY19, we’ve realised higher margins driven by the increased average price of lots settled in our Sydney and Melbourne projects, and we continued to gain market share over the year, as customers focus on the strength of our brand which is built on the quality and liveability of our communities.

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[2] *National Land Survey, June 2019, Research4*

“We’ve seen some improvement in market conditions since the federal election in May, with enquiry up around 50 per cent in Sydney and Melbourne, and a range of other positive macro-economic news including interest rate cuts and APRA’s amendments to guidance on mortgage lending criteria. Although sentiment has improved, conditions remain variable as we reach the bottom of the cycle and access to credit remains challenging for many of our customers.

“Our strong pipeline of activated projects means we are well positioned to deliver supply to the market as demand improves, and we expect our default rate, which is currently around 7 per cent, to improve in the year ahead. We are starting FY20 in a good position with almost 3,900 contracts on hand.

“Our residential business has significant competitive advantages including a strong and well-recognised brand, scale and landbank, which is skewed towards high population growth, rail-serviced corridors of Sydney, Melbourne and south-east Queensland. Ninety-five per cent of our portfolio is made up of masterplanned communities with built form focused on affordable townhome product.

“We remain the leading creator of liveable, affordable and connected masterplanned communities in the country, and we will focus on re-stocking our portfolio in key growth corridors connected to jobs, transport and schools in the year ahead. We are uniquely positioned to take advantage of the current cycle,” said Mr Whitson.

Retirement Living

- Retirement Living FFO $56 million, up 5.7%
- Settled 250 dwellings in villages under development, up 53%
- Future growth to be driven through 3,500 development units in pipeline, including ten new land lease communities identified

Mr Whitson said: “Through disciplined execution of our strategy, we are seeing solid sales and profit generation in our new development projects, and we continue to leverage our existing land bank to drive growth through development.

“We are continuously improving the quality of our portfolio: we sold three non-core villages at around book value earlier this year, and discussions to introduce a capital partner to this business are ongoing.

“Changes in key valuation assumptions, including re-pricing of stock to meet current market conditions, a change in the growth rate and vacancy assumptions, have reduced the fair value of our net retirement living assets by $53 million.

“In addition, a change in the quantum and timing of the forecast future development pipeline has resulted in a non-cash impairment of $38 million to the goodwill acquired on acquisition of the original retirement living portfolio in 2006.

“We remain committed to our customers by providing clarity, transparency and a strong customer proposition in our contract choice, together with high quality service and I’m pleased that we’ve maintained strong customer satisfaction levels,” said Mr Whitson.

Sustainability & Innovation

Mr Steinert said: “We continue to be a global sustainability leader. Since 2006, we have halved our carbon intensity, invested over $33 million in solar power generation across 20 retail and logistics properties, and saved over $106 million through energy efficiency innovations. Additionally, after committing to achieve gender balance (as defined by the Workplace Gender Equality Agency) across our workforce and all levels of management by FY20, I’m pleased that we reached this milestone earlier in the year.

“We’ve invested in building innovation capabilities and skills with continuous digital improvement now embedded in our business, particularly around customer service, and ways of working. We are also nurturing 10 start ups which have been selected through our BlueChilli PropTech accelerator to generate new business streams, and digitally enabled programs in our existing business.

“We are also trialling the delivery of pre-fabricated housing product at two of our residential communities, as we focus on new and innovative ways to deliver affordable and sustainable homes for customers.

“Importantly, we achieved our goal of adding one per cent to FFO through innovation initiatives in our business in FY19 and have set a similar target for FY20.”

OUTLOOK

Mr Steinert said: “Current market conditions remain mixed, with steady employment growth, record low interest rates, recent tax cuts and high investment in infrastructure, but there is broad uncertainty driven by reduced credit availability, weak consumer sentiment and low wages growth.

“We expect Retail FFO to stabilise through FY20, with growth forecast from FY21, as our remixing and placemaking initiatives enable us to adapt to the structural changes in the retail sector. We expect continued growth from our workplace and logistics portfolio from rental growth and new developments.

“Our residential business remains well positioned in under-supplied markets in growth corridors close to transport, and with 85 per cent of our buyers being owner occupiers, which is the strongest demand segment.

“However, despite an improvement in residential enquiry and the market bottoming, we expect the market to take some time to normalise as customers continue to experience challenges achieving loan approvals. In FY20, we expect to deliver over 5,000 residential settlements, and we anticipate residential profit margins of around 19 per cent, above our through cycle range of around 14 per cent.

“Retirement living FFO is forecast to grow moderately given improving market conditions, our quality service offering and new development projects.

“Based on the above, we forecast flat growth in FFO per security in FY20, noting that market conditions remain variable and we are cautious about the pace of recovery in the residential market.

“Distributions per security growth will also be flat, and our distribution payout will be at the bottom end of our 75-85% target ratio.

“We remain focused on creating Australia’s most liveable and sustainable communities, owning and managing leading retail town centres in strong trade areas, and growing our workplace and logistics portfolio.

“We are making good progress on the delivery of our strategic priorities and on broadening our capital base to put the business in a good position for the future. We have an experienced and highly committed team in place and a clear plan to deliver sustainable returns and build long-term securityholder value, leveraging our diversified platform,” said Mr Steinert.

ENDS

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Additional detail on Stockland’s results can be found in our fully integrated Annual Report, which can be accessed via our website at www.stockland.com.au

Stockland’s FY19 results presentation will be webcast via www.stockland.com.au at 11:30am (AEST) today. Toll free dial in 1800 059 809 or +61 2 9009 0729.