ASX/Media Release

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COMMUNITIES STRATEGY DRIVING SECURITYHOLDER RETURNS

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Financial results for the full year ended 30 June 2018

- Funds from operations (FFO) of $863 million, up 7.5% on FY17
- FFO per security of 35.6 cents, up 6.6% on FY17
- Adjusted funds from operations (AFFO) of $756 million, up 9.9% on FY17
- AFFO per security of 31.2 cents, up 9.1% on FY17
- Statutory profit of $1,025 million, down 14.2% on FY17
- Return on equity (ROE) of 11.2%, down 0.2% on FY17
- Net tangible assets (NTA) per security of $4.18, up 3.5% on FY17
- Distribution per security (DPS) of 26.5 cents, up 3.9% from FY17

Capital Management

- Gearing: 22.2%
- Weighted average debt maturity: 6.2 years, weighted average cost of debt: 5.2%
- Credit rating: A-/stable (S&P), A3 (Moody's)
- Disciplined debt refinancing and cash flow management

Communities

- Residential operating profit: $336 million, up 24.3%
- Residential operating profit margin: 18.3% compared with 15.3% for FY17
- Retirement Living operating profit: $53 million, down 16.7% on FY17

Commercial Property

- FFO: $614 million, comparable growth of 2.3%
- Retail Town Centres FFO: $428 million, comparable growth of 1.3%
- Logistics FFO: $152 million, comparable growth of 6%; Workplace FFO: $54 million, down 2%

Targets for FY19

- Targeting growth in FFO per security of 5-7%, assuming no material change in market conditions
- Targeting an estimated full year DPS of 27.6 cents, a 4% increase on FY18, assuming no material change in market conditions.

About Stockland
Stockland (ASX: SGP) was founded in 1952 and has grown to become Australia's largest diversified property group – owning, developing and managing a large portfolio of retail town centres, residential communities, retirement living villages, workplace and logistics assets. Stockland was recognised by the S&P Dow Jones Sustainability Indices (DJSI) as a global real estate leader for 2016-17 demonstrating world leadership across the areas of stakeholder engagement, customer relationship management, supply chain management, biodiversity and climate change strategy. www.stockland.com.au

Group Achievements

Stockland Managing Director and CEO Mark Steinert today announced a strong performance for the group for FY18, with FFO up 7.5% to $863 million, reflecting the resilience of our diversified business and our community building capabilities. Statutory profit was $1,025 million, down 14.2%, primarily reflecting lower mark to market gains on financial instruments and smaller revaluation gains.

Mr Steinert said: "We have continued to deliver on our key strategic priorities this year; creating the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.

"We have a proud track record of delivering sustainable, long-term growth for our securityholders. We have a clear vision to deliver into the future, and we are well positioned to benefit from the continued population growth and demographic trends being experienced in Australia, particularly given our focus on liveability, affordability and the owner occupier market.

"This result highlights that our community-building strategy is unlocking the potential of Stockland for our securityholders.

"Importantly, we are confident of continuing to deliver growth, and our FY19 guidance issued today underscores that belief."

Stockland Communities

Residential

Operating Profit: $336 million

- Strong profit growth of 24.3% and 6,438 settlements, commenced FY19 in a strong position with 5,478 contracts on hand
- Continued to deliver our townhome strategy, with over 350 settlements in FY18, and a target of over 400 in FY19
- Maintained focus on the most resilient parts of the market; land subdivision and townhomes. Over 75% of our buyers are owner occupiers, and over 50% are first home buyers
- Sales were underpinned by a number of successful project launches in Victoria and Queensland – Grandview, Mt Atkinson, Waterlea, Promenade – and the success of existing communities at locations like Willowdale and Elara in Sydney, and Highlands in Victoria.

Mr Steinert said: "The quality of our masterplanned communities, which are liveable, affordable and connected, and many close to heavy rail, is driving velocity of sales and increased market share. Our national market share in land sales is up over 3 per cent to 14.5 per cent for FY18.

"There is no doubt that Stockland is the leading creator of communities in Australia with our Residential and Retirement Living businesses providing customers with whole-of-life housing options.

"In driving our vision to create sustainable communities, we have built an exemplar residential portfolio which has grown its return on assets from 20.8 per cent to 22 per cent compared to FY17, and delivered impressive operating profit margins of over 18 per cent. We have also extended our capabilities through the creation of a built-form business, tripling our townhome volumes."

"We remain well positioned in the deepest part of the lending market, with over 75 per cent of our product now sold to owner occupiers. We are seeing continued demand for our range of affordable house and land and townhome product, despite some moderation in the market."

Retirement Living
Operating Profit: $53 million

- Profit was down 16.7% on FY17, with sales volumes impacted by adverse sector media coverage and reduced settlements due to the timing of development completions
- Sales are now improving, Q4 sales up 14.9% on the comparable quarter last year
- Delivering product choice with Aspire villages – non-Deferred Management Fee product for over 55s
- Contract choice and increased service offering improving customer experience.

Mr Steinert said: "The retiree market is responding well to investment in our existing villages and new developments, like Mernda Retirement Village in Melbourne and Willowdale in Sydney. These projects are primarily being funded by selling some of our non-core villages.

"We've continued to improve our customer offer with Benefits Plus home care partnerships and new contract choices, 'Capital Share' and 'Peace of Mind', which caps the Deferred Management Fee and secures the exit value for incoming residents."

Commercial Property

Retail town centres FFO: $428 million

- Improving sales results reflecting our active remixing program, with specialty sales increasing 4.2% to $9,378 per square metre and strongest growth in food, services, health and entertainment
- Completed $200 million of divestments, targeting up to an additional $400 million of divestments over the next 12-24 months.

Mr Steinert said: "Comparable Retail FFO growth was 1.3 per cent over the year, impacted by higher outgoings and retail remixing. The success of our remixing strategy is beginning to be reflected in higher retail sales growth, which has continued to improve over the year.

"This precinct remixing strategy continues to attract more customers into our centres with foot traffic up 2.5 per cent over the year, and will help ensure income resilience into the future. Income from growth categories including food, dining, leisure, cinemas and services now represents 41 per cent of our specialty store income.

"We continue to focus on improving customer experience to ensure that our retail town centres provide the convenience, services and lifestyle options customers are seeking in this changing retail environment.

"The $421 million redevelopment and launch of the new Stockland Green Hills is a prime example of our ability to successfully upgrade and reposition our retail town centres, to future proof them and deliver accretive returns.

“Following the official opening of Stockland Green Hills in March this year, like for like moving annual turnover (MAT) is up 5.7 per cent, with total MAT now at $368 million. The stabilised initial yield on development is estimated to be 7 per cent and the Internal Rate of Return (IRR) around 12 per cent.

“We also completed the $37 million redevelopment of Stockland Wendouree in June and remain on schedule with the first stage of the $86 million Stockland Birtinya greenfield town centre development on the Sunshine Coast, part of our $830 million Oceanside masterplanned community and the $5 billion health precinct,” said Mr Steinert.

Stockland is progressing its retail town centre development pipeline to prioritise future-proofing our retail town centres in high growth regions.

“We are proud of the investment we have made in creating exciting retail destinations across Australia. The benefits for our customers and for the communities they serve are clear, as is the economic growth and opportunity they create for thousands of Australian families,” Mr Steinert said.

Workplace and Logistics

Workplace FFO $54 million; Logistics FFO $152 million

- Comparable income growth down 2% for workplace and up 6% for logistics
- Divestment of 77 Pacific Highway for $112 million, a 23.8% premium to book value and 40 Cameron Ave, Belconnen in Canberra for $24 million post year end
- Successfully delivered the $77 million Warwick Farm logistics development in Sydney
- Further $99 million of logistics development projects underway (Yennora and Ingleburn in Sydney and Willawong in Brisbane).

Mr Steinert said: “High occupancy was maintained across the Logistics portfolio, with a robust leasing performance in Sydney and Melbourne. Overall, 324,000 square metres of space was leased over the period.

“Our office assets are largely located in the strongly performing Sydney market. Post balance date, we completed the sale of our non-core Canberra office asset for $24 million.

“Our logistics developments continue to progress very well. The successful delivery of the $77 million Coopers Paddock Logistics Centre in Warwick Farm this period, which is fully leased and saw a 24 per cent increase in valuation on completion, reflects the success of our focus on growing this portfolio. This project has achieved an initial yield of 7.3 per cent and is expected to reflect an IRR of 10.7 per cent.

“We are focussed on executing the $600 million development program on land we control, and have lodged a DA to redevelop Macquarie Technology Park with a masterplan vision for a $500 million state-of-the-art technology hub at Macquarie Park in Sydney, to cater to workers of the future.

“Under Louise Mason’s leadership, we have a clear strategy to improve the quality and growth potential of our portfolio. This will be achieved by reducing our retail town centre weighting and continuing to upgrade and grow our combined Workplace and Logistics portfolio (previously Office, Logistics and Business Parks) to greater than 25 per cent of total assets.”

Reshaping our business for future growth

Mr Steinert said: “Last week we announced the streamlining of our Executive Committee, combining our Residential and Retirement Living businesses into one integrated business, Stockland Communities, to be led by Andrew Whitson.

“We are proud of our position as the leading creator of liveable and affordable residential and retirement living communities across Australia. These changes will ensure we continue to execute on our communities strategy, taking advantage of our integrated model and leverage capabilities across the group.

“The Chief Operating Officer (COO) function has also been restructured with these responsibilities reallocated across the Executive Committee.”

These changes are effective 10 September 2018, and combined with other organisational changes, will deliver cost savings of $8 million per annum from FY20, some of which will be reinvested in innovation and technology.

Customer focus

Mr Steinert said: “We pride ourselves on being close to our customers and placing them at the centre of everything we do. The results of this commitment are evident - customer referrals continue to be our biggest sales driver, putting us in a strong position with 87 per cent of Residential customers believing that the community has met or exceeded their expectations and 91 per cent are likely to recommend Stockland to others.

“Retirement Living customer satisfaction also remains strong with eight out of 10 residents satisfied with Stockland, and sentiment continuing to improve for the industry as a whole. Our workplace and logistics customers rate their satisfaction with Stockland at 89 per cent.”

Capital management highlights

Stockland Chief Financial Officer Tiernan O’Rourke said: “We are in a strong capital management position, maintaining our S&P A- Stable credit rating for the past 17 years, and our Moody’s A3 credit rating obtained in August 2017. This reflects the ongoing strength of our balance sheet and cash flows – this has enabled us to continue to broaden our funding sources with a $478 million Euro bond and a $51 million Asian bond executed in the period to replace maturing US Private Placement (USPP) facilities, at competitive pricing.”

“We have maintained our focus on optimising capital allocation within each of our business units. The emphasis we place on acquiring Communities land efficiently continues to reduce our capital needs, with 66 per cent of land payments this year for land acquired on capital efficient terms. This has improved the velocity of capital within the business, by shortening the duration between cash outflows and settlement inflows.

“We continue to actively manage our debt program, which has seen weighted average cost of debt decline from 5.5 per cent in FY17, to 5.2 per cent in FY18, and expected to fall further to around 4.8 per cent in FY19. Weighted average debt maturity has increased to 6.2 years, and our interest rate fixed hedge ratio is within target range at 95 per cent.

“Gearing at the end of FY18 was 22.2 per cent, at the lower end of our 20-30 per cent target range, due to disciplined capital management and higher operating cash flows. Operating cash flows pre-land acquisitions were higher than last year reflecting higher development margins, positive Residential operating fundamentals and tight control of costs,” Mr O’Rourke said.

“We have revalued 76 per cent of our commercial portfolio in the last 12 months, to ensure we are aligned with current market conditions.”

Whilst some retail town centre assets recorded downward valuations, the portfolio overall saw a net $139 million increase, contributing to a 14 cents per security increase in Net Tangible Assets (NTA) to $4.18. The reduced valuations were primarily for assets located in Central and North Queensland, reflecting weak economic activity and proactive tenant remixing.

“We’ve deliberately focused on remixing towards new growth categories such as food, services and health, and away from apparel and jewellery, to create more sustainable income and future growth potential.”

“Overall we are in a very good position, with operating cash flow and liquidity improving, due to disciplined management and leveraging the timing, source and size of debt refinancing. Our strong balance sheet ensures that we are well positioned to take advantage of opportunities that may arise in this changing environment,” Mr O’Rourke said.

Stockland confirmed that the total distribution per security paid to securityholders included 13 cents in February 2018 and 13.5 cents which will be paid on 31 August 2018.

The group also today announced the termination of the Dividend/Distribution Reinvestment Plan (DRP).

Outlook

Mr Steinert said: “Economic conditions remain generally positive and overall real estate fundamentals continue to be largely supportive for our business, with strong population growth, solid employment growth, low inflation and low interest rates.

“The land and housing market is clearly moderating, driven by a range of factors including finance availability, however our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment. This reflects strong pre-sales, low cancellation rates and a continued focus on delivering product to a majority owner occupier market.

“In FY19, we expect to deliver over 6,000 residential settlements with future profit growth to be delivered through a diverse product mix and higher average sale prices on settlements, subject to market conditions. We anticipate residential profit margins of around 18 per cent in FY19, and around 17 per cent for the medium term.

“Our business will continue to benefit from price growth realised in the Sydney and Melbourne markets over recent years, strong housing demand and supply fundamentals, and increasing townhome settlements. We also expect improvement in Retirement Living market conditions in 1H19 given improving customer sentiment and sales velocity,” said Mr Steinert.

Stockland expects its Commercial Property business to maintain moderate growth in returns, with comparable FFO growth of 2-3 per cent as we continue to remix the retail town centre portfolio and divest non-core properties. Workplace and Logistics fundamentals for our portfolio are expected to remain strong.

Mr Steinert said: “We expect to achieve FFO per security growth of 5-7 per cent for the full year, and distributions per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.”

“We are confident in our diversified business model, and remain focussed on a disciplined approach to executing on our strategic priorities in the year ahead.

“Our business has very strong operational leverage to the key demand drivers of population growth, urbanisation, infrastructure improvement, ageing and a growing focus on health and wellbeing.

“We will continue to deliver liveable, affordable and connected communities, grow our workplace and logistics portfolio and create vibrant retail town centres across the country – this will underpin our success in the future,” said Mr Steinert.

ENDS

Stockland’s FY18 results presentation will be webcast via www.stockland.com.au on Thursday 23 August 2018 at 11:30am (AEST)

Webcast dial-in numbers:

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