ASX/Media Release

Stockland

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# STOCKLAND DELIVERS FY20 RESULT REFLECTING BENEFITS OF A DIVERSIFIED PORTFOLIO

## Financial results for the 12 months ended 30 June 2020

- Proactive execution of key strategic priorities including non-core asset divestments, increased capital allocation to Workplace and Logistics, Communities restocking and strong Residential settlements
- Funds from operations (**FFO**) of $825 million, down 8.0% on FY19 largely due to COVID-19 impacts on operations
- FFO per security of 34.7 cents, down 7.2% on FY19
- Statutory loss of $14 million includes COVID-19 impacted net devaluations in Commercial Property of $464 million[1] and net fair value decline of $116 million in Retirement Living
- Adjusted funds from operations (**AFFO**) per security of 31.0 cents, down 4.6% on FY19
- Distribution per security (**DPS**) of 24.1 cents, distribution payout ratio of 70%, slightly below target range, and fully covered by operating cashflows
- Net operating cashflows of over $1.1 billion reflects strong residential settlements; gearing of 25.4% an improvement from 26.7% at 30 June 2019
- Net tangible assets (**NTA**) of $3.77 per security, down 6.7% from $4.04 at 30 June 2019 primarily as a result of property devaluations
- Retail Town Centre weighting of 39% portfolio value (proforma)[2] reduced from 45% at 30 June 2019 due to divestments and the impact of property devaluations; strategic increase in Workplace and Logistics weighting to 29% portfolio value (proforma)[2], up from 23% at 30 June 2019 reflecting developments and transactions
- Commercial Property rent collection at 31 July 2020 of 70%[3] for 4Q20 and 83%[3] of 2H20.

## COVID-19 response to date

Stockland's response to the pandemic has focused on the following priorities:

- Safety and wellbeing
- Industry and government engagement
- Cost savings
- Capital management and financial health
- Tenant support

**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 consistently rated as one of the most sustainable real estate companies in the world 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.

- Residential production levels, sales conversion and settlements
- Customer centric innovation leveraging digital product representation and data analytics.

The Group has not applied for or received any funds from the Federal Government's JobKeeper scheme.

**FY20 Overview**

Stockland (ASX:SGP) has today released its results for the 12 months to 30 June 2020 (FY20).

Managing Director and CEO, Mark Steinert, said: "I am pleased to announce a full year result which reflects the benefits of our diversified portfolio, particularly in light of the economic challenges presented by the Australian bushfires and the COVID-19 pandemic. We have tackled these challenges proactively and decisively, responding to these unprecedented events to both protect our business and position us well for the future.

"We continued to successfully execute our group strategy throughout the year despite these challenges and this is reflected in the underlying performance of the business. FFO was down 8.0% to $825 million and FFO per security was 34.7 cents down 7.2%, reflecting COVID-19 impacts across our business particularly on our Retail Town Centres, offset by growth in Communities, Workplace and Logistics.

"We proactively reduced costs, curtailed non-essential expenditure, boosted liquidity and improved gearing as a result of strong cash flow performance. Investment grade credit ratings were reaffirmed with Moody's and S&P. As restrictions eased our business has been able to scale rapidly to meet demand as foot traffic returned to Retail Town Centres and government stimulus re-energised the residential sector.

"Communities performed well during the year, with a solid rebound in our Residential sales and enquiries during May 2020 and June 2020. Residential settlements of over 5,300 lots were strong reflecting customer preference for masterplanned communities and demand driven by government stimulus. We have approximately 4,300 contracts on hand at 31 July 2020 giving reasonable coverage for FY21 settlement volumes.

"We continued to rebalance our portfolio to provide future growth and deliver stable long-term margins. We strategically allocated capital towards Workplace and Logistics through acquisitions that more than doubled our development pipeline to $5.5 billion and increased our weighting to 29% of portfolio asset value on a proforma[2] basis, after adjusting for post balance date transactions. Over the last 24 months our non-core retail asset disposals have totalled $923 million.

"In August 2020, we implemented an end-to-end enterprise platform, CORE, leveraging SAP and Salesforce and we continue to drive digital and data initiatives to underpin customer centric innovation and operational excellence. During the year, the development of our digital platform was accelerated to enable the entire residential customer journey to be completed virtually. We also leveraged our data science capabilities to optimise our retail shopper experience," said Mr Steinert.

There has been steady progress made on rental negotiations with our Commercial Property tenants affected by the COVID-19 pandemic to provide appropriate levels of support. Rental abatements and provisioning for expected credit losses against lease rent receivables have been provided under the Federal Government's Commercial Code of Conduct (**Code**), as implemented under state government legislation, for small and medium enterprise (**SME**) businesses and on a case by case basis for other impacted tenants. We have finalised approximately 52% of retail rental negotiations, by number[4] of relevant tenants, seeking support. Over 85% of agreements negotiated with non-SME retailers include lease extensions and / or new store deals.

Accounting recognition for these negotiations is in line with the recent ASIC guidelines and reflects at 30 June 2020 a $29 million charge to FFO for tenant abatements agreed or estimated for deals yet to be completed, and a $38 million expected credit loss (**ECL**) provision[5] against a net lease receivable of $73 million.

The entire Commercial Property portfolio (excluding sundry properties) was independently valued resulting in a net valuation decline of $464 million[1] compared to the estimated book value at 30 June 2020. The difficulty in predicting the future implications of COVID-19 on the Australian real estate sector has resulted in independent valuers adopting a range of qualifications, including material uncertainty clauses. We will continue to closely monitor the impact of market conditions on asset values, particularly in the context of ongoing restrictions in Victoria and other hotspot locations.

**Strong capital position**

Our balance sheet is supported by the retention of our investment grade credit ratings of A-/A3 with stable outlook from S&P and Moody's respectively.

In the second half of the financial year, Stockland raised $790 million in long-term and short-term debt to maintain capital strength through the current period of economic disruption. At 30 June 2020 the Group had available liquidity of $2.0 billion with $260 million of debt maturing through to June 2021. Our weighted average debt maturity is 5.7 years.

We have reported strong operating cashflow and capital management metrics, including free cashflow, covenant headroom and a reduction in our weighted average cost of debt to 4.0% per annum.

Chief Financial Officer, Tiernan O'Rourke, said: "As a result of the actions undertaken during the COVID-19 pandemic, the Group's gearing improved to 25.4%, well within our target range of 20 to 30%. This was achieved despite material devaluations in Commercial Property and Retirement Living assets.

"Our Communities operations can scale quickly and, towards the end of the financial year as restrictions eased in some jurisdictions and activity increased, we were able to increase development and capital expenditure in preparation for activity in FY21 to align with expected settlements from deposits taken.

"In determining our final distribution, we carefully considered our capital needs to navigate the current market disruption and position us well for the future, while remaining mindful of the importance of this distribution to our securityholders. As a result, our full year distribution of 24.1 cents per security was fully covered by operating cashflows and represents a payout ratio of 70%, slightly below target range," said Mr O'Rourke.

**Diversified business model providing resilience**

<u>Commercial Property – Retail Town Centres</u>

- FFO $343 million, comparable growth down 17.0%
- Portfolio total moving annual turnover (**MAT**) up 0.8%
- Minimal leasing activity conducted in 4Q20 with ~190 tenants on holdover (leases yet to be renewed) at 30 June 2020, higher than the long term average, reflecting the continued uncertainty around COVID-19
- Specialty occupancy cost ratio moderately increased to 15.5%
- Net devaluations of 10.7% or $715 million reflects current market conditions impacted by COVID-19
- 40% portfolio weighting at 30 June 2020; 39% proforma[2] weighting

Prior to the impact of the COVID-19 pandemic on the Retail Town Centre portfolio, we had begun to see success from our rebasing and remixing strategy. Solid retail comparable sales growth of approximately 3% was achieved for the eight months to February 2020. Comparable sales performance was significantly impacted in 4Q20 with a specialty sales decline of 30.1%, offset by supermarket growth of 8.0%. We saw a faster than expected rebound in sales through May 2020 and June 2020 following the easing of government restrictions. For July 2020 comparable total sales growth was 2.4% and comparable specialty sales growth was 1.4%.

During FY20 the portfolio delivered slightly positive MAT growth, with the impacts of the pandemic primarily on specialty stores largely offset by supermarkets, mini-majors and discount department stores.

During the year, total retail turnover across the portfolio remained flat with the comparable sales rate slightly negative. The underlying result reflects the success of our remixing strategy and future proofing of our Retail Town Centres, and the portfolio exposure to locations less affected by the pandemic. Retail Town Centres have seen significant improved trading performance where government restrictions have been relaxed.

Foot traffic has since improved in line with the easing of government restrictions with around 94% of stores by rental income now trading[4] across the entire portfolio. Retail assets located in Victoria, which are affected by increased government restrictions implemented in August 2020, currently have around 54% of stores trading[4].

Group Executive and CEO Commercial Property, Louise Mason, said: “During FY20 we settled $220 million non-core retail asset divestments contracted to sell in FY19 and executed contracts for an additional $418 million post balance date in line with 30 June 2020 valuations. Our exposure to retail, on a proforma[2] basis, is now 39% of our total portfolio weighting.”

Over 85% of COVID-19 rental support agreements negotiated with non-SME retail tenants include lease extensions or new store deals.

Commercial Property – Workplace and Logistics

- Logistics FFO $160 million, comparable growth of 1.7%
- Workplace FFO $54 million, comparable growth of 1.7%
- Completed approximately 58,000 square metres of new logistics developments, with a combined value of $88.3 million and a weighted average lease expiry of 7.8 years
- Logistics leasing demand remains strong, completing 423,579 square metres
- Net revaluations up $251 million from 30 June 2019
- Acquired or contracted to acquire strategic Workplace and Logistics sites valued at over $1 billion: Piccadilly Sydney (NSW), Walker Street North Sydney (NSW), Carole Park (QLD), Richlands (QLD), and entered into an option for the acquisition of Kemps Creek (NSW) land and Khartoum Road, Macquarie Park (NSW)
- $5.5 billion Workplace and Logistics development pipeline on the eastern seaboard
- 28% portfolio weighting at 30 June 2020; 29% proforma[2] weighting

The Workplace and Logistics key operating and financial metrics demonstrate the strength and quality of the portfolio with stable valuations largely unaffected by COVID-19 with approximately $2 million in rental abatements and approximately $3 million billings outstanding compared to approximately $63 million in 4Q20 billings.

The Logistics portfolio had a high occupancy of 96.3% and a weighted average lease expiry of 5.2 years at 30 June 2020 as the sector benefited from online retail and improvements in infrastructure reducing costs of supply chain management.

Ms Mason said: “Our $5.5 billion Workplace and Logistics development pipeline continues to progress with preparatory work underway for most major projects, requiring minimal capital in the near term due to early stages of planning. We will continue to carefully assess market conditions before commencing new developments.

“In December 2019 the $123 million M_Park Stage 1 development application at Macquarie Park (NSW) was approved, comprising a net lettable area of 16,000 square metres, and construction is expected to commence in 1H21. Tenant enquiry has been strong, reflecting the quality of the development. We are planning a new 10,000 square metre head office for Johnson & Johnson, and a Heads of Agreement has also been executed with a large multinational tenant over another whole building.

“Most of our developments are in the planning stage providing significant flexibility to incorporate design elements reflecting new ways of working influenced by COVID-19. Development planning approval was lodged for Piccadilly, Sydney (NSW) Stage 1 in August 2020 and lodgement for Walker St, North Sydney (NSW) is expected at the end of 2020. We will continue to carefully assess market conditions before commencing new developments,” said Ms Mason.

Residential Communities

- FFO $372 million, up 2.5%; operating profit margin 19.9%
- Results reflect strengthening demand for masterplanned communities and asset disposal profits
- 5,319 residential lots settled, including 607 townhomes reflecting continued strategic momentum
- Approximately 4,300 contracts on hand at 31 July 2020, providing reasonable coverage for FY21 settlement volume
- 849 finished lots available for sale
- Strategic restocking of our land bank, with $535 million of acquisitions across three sites adding an estimated 3,600 lots to our future pipeline
- Established strategic capital partnerships at projects Aura (QLD) and Katalia[6] (VIC) with an end value of approximately $3 billion
- 23% portfolio weighting at 30 June 2020, remaining unchanged on a proforma[2] basis

Our residential business delivered a good profit result, driven by strong operating profit margins on existing and high quality new community launches combined with trading profits on the sale of the second tranche of The Grove (VIC) and the capital partnership of Aura (QLD) totalling $79 million and Merrylands Court (NSW). We do not expect further material transactions in FY21 but the business will benefit from underlying margin growth in New South Wales and a full year of settlements from new project releases in Victoria, subject to easing of restrictions.

The impact of the COVID-19 pandemic and associated restrictions contributed to a material decline in sales in April 2020. We saw a gradual recovery in May 2020, with the market significantly buoyed by the government’s HomeBuilder program in June 2020.

Settlements are completing within similar timeframes to pre-COVID-19 levels and the default rate in 4Q20 was approximately 7% and is expected to remain elevated reflecting the ongoing uncertainty presented by COVID-19.

The FY20 net deposits of 4,995 reflects a 14% increase on FY19. Strength in demand in June 2020 and July 2020 is driven by an increase in customer preference towards community living, affordability relative to the established market, government stimulus, credit availability and continuing low interest rates.

Group Executive and CEO Communities, Andrew Whitson, said: “We continue to be the market leader with 13% market share, more than three times that of our nearest competitor, reflecting the strength of our brand built on the quality of the communities we create and scale of our landbank.

We completed $535 million in strategic restocking of our pipeline during FY20 all on capital efficient terms. Acquisitions included $415 million for The Gables (NSW), $105 million for Katalia (VIC), of which a 50% interest is now in partnership[6] with Thai-based Supalai Group, and $15 million for Brunswick (VIC), all of which contribute to our built form strategy and the prudent allocation of capital driving stable long-term margins.

Mr Whitson continued: "Our deep pipeline of active projects and our reputation as Australia's leading community creator means we are well positioned to meet increasing demand and respond to shifting customer sentiment with a demonstrated ability to scale production quickly and have started to do so for FY21 settlements.

"The current low interest rate environment, positive credit conditions and government stimulus are expected to continue to support the market," said Mr Whitson.

Our sales offices are currently fully operational in Western Australia, New South Wales and Queensland. Residential sales in Melbourne have reduced due to Victorian Stage 4 restrictions, which will impact 1Q21 net deposits, albeit construction is still operating in Victoria.

We have accelerated the development of our end-to-end digital platform, including virtual display villages to drive enquiries and sales conversion. This is helping ease the impact of COVID-19 restrictions with the entire customer journey able to be completed virtually. Over June 2020 and July 2020, 87% of customer enquiry was generated online.

Retirement Living

- FFO $58 million, up 4.8%
- 22% growth of established contracts on hand
- 860 settlements, up 3.6%
- Commenced construction of and planning for land lease communities at Aura (QLD), and Minta (VIC) respectively, with both projects delivering a total of 420 dwellings
- 9% portfolio weighting at 30 June 2020, remaining unchanged on a proforma[2] basis

Mr Whitson said: "Our Retirement Living business achieved 800 net reservations for FY20. Increasing customer preferences for the safety and support of community based living in a village style environment has driven an improvement in established sales in FY20 of more than 11.3% compared to FY19. We expect sales to increase over time, supported by these ongoing customer preferences and the continued growth in this demographic."

Development contracts on hand are lower than FY19 as we phase out of current projects and realign our pipeline towards land lease communities.

The net fair value of the portfolio reduced by $116 million driven by a reduction in near term growth rates primarily due to COVID-19, increased discount rates to reflect the age of some villages and a reduction in the carrying value of vacant established stock. Residual goodwill was also written off due to changes in our development strategy towards land lease.

The Retirement Living sector remains a target for institutional investors and we will continue to explore options here in line with our broader strategic priority around capital partnering.

**FY21 outlook remains uncertain**

Due to ongoing uncertainty around the impacts of COVID-19 on business performance, Stockland will not at this time be providing FFO and distribution guidance for FY21.

There are several factors driving uncertainty around business performance. Additional risk around further pandemic restrictions and gaining clarity on deteriorating consumer sentiment driven by unemployment, consumer credit access, liquidity in credit markets, and length and nature of government stimulus will all contribute to confidence in re-establishing our forecast.

Stockland will continue to monitor the impact of COVID-19 and its implications for our strategy and business. We will provide further disclosures as and when appropriate.

**Summary**

Mr Steinert said: "We remain focused on creating Australia's most liveable and sustainable communities, accelerating our Logistics development pipeline and future proofing our Retail Town Centres.

"The impact of COVID-19 is extensive and has created significant and continuing uncertainty. We have seen reasonable resilience to the impact of the pandemic due to the provision of essential services, our sub-regional and non-metropolitan retail exposure, and the strength of our leading Communities business. Nonetheless, there have been significant impacts on our people, customers, residents and different parts of our business. We will continue to monitor the impacts of COVID-19 and the implications for our business, while remaining agile in our execution of strategic priorities.

"In June 2020 I announced my intention to retire. My continuing focus is leading Stockland through COVID-19 and ensuring a seamless leadership transition.

"With a strong liquidity position, we are well placed to respond to increased demand in housing and logistics and relative strength of convenience based retail centres. I am incredibly proud of how the team and business is performing. Whilst it is difficult to predict the outcome of FY21 with certainty, in the coming months, we are committed to the continuing execution of our strategy and positioning the business for the future," said Mr Steinert.

**ENDS**

1. Excludes stapling adjustment for owner-occupied space and includes Stockland's share of revaluation gains relating to properties held though joint venture entities.
2. Reflects portfolio weightings at 30 June 2020 adjusted for post balance date transactions including $418m non-core retail divestments, the disposal of Balcatta Distribution Centre, 22 Geddes Street Balcatta (WA) for $59m and exchanged undeveloped land at 20 Kenhelm St, Balcatta (WA) for $4.5m post balance date to reinvest in accretive development pipeline, disposal of 50% interest (subject to FIRB approval) in Katalia (VIC) and acquisition of logistics land in Willawong (QLD) capital partnership with Fife.
3. Before rental abatement and expected credit loss provisions are applied.
4. At 17 August 2020.
5. Despite the ECL booked in FY20, Stockland reserves the right to collect rent under its lease agreements.
6. The capital partnership with Thai-based Supalai Group is subject to FIRB approval.

This announcement is authorised for release to the market by Ms Katherine Grace, Stockland's Company Secretary.

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