



12 February 2014

## ASX/Media Release

### STOCKLAND ANNOUNCES HALF-YEAR RESULTS

#### Key points

- Underlying Profit \$267 million, up 5% on 1H13
- Statutory Profit \$298 million
- Good progress executing strategy: allocating capital within a disciplined risk/return framework and driving returns from our assets while tightly controlling costs
- Residential Operating Profit up 39% reflecting strategic focus and market improvement
- On track to achieve upper end of guidance, and have tightened this to 5-6% EPS growth in FY14, assuming no material decline in market conditions

Stockland delivered an Underlying Profit of \$267 million for the half year to 31 December 2013, an increase of 5% on the previous corresponding period. The result was underpinned by a significant improvement in the performance of its Residential business, which was up 39% on 1H13.

Statutory profit for the half was \$298 million and Statutory earnings per security (EPS) was 12.9 cents.

Underlying earnings per security was 11.6 cents, the same as 1H13 and up 7.4% on 2H13, noting the full effect of impairments and more conservative future assumptions implemented during 2H13. Distribution for the half was steady at 12.0 cents per security.

Funds from operations (FFO) per security was in line with underlying EPS at 11.7 cents and up 4.5% on 1H13. FFO is a measure of operating performance based on the Property Council of Australia guidelines.

Stockland Managing Director and CEO Mark Steinert said: "This is a good result that demonstrates the progress we are making in improving our operational performance.

"The strategy we began implementing in May last year has ensured that we are focused on allocating capital to assets that deliver the best risk-adjusted returns. We have maintained our strong balance sheet and actively managed our assets and projects to improve their profitability.

"The operating environment during the half was mixed, with challenges in retail and office markets balanced by a significant improvement in residential. Pleasingly Retail, our largest business, continued to prove resilient with our shopping centres achieving a solid result for the period despite soft conditions. Our Residential business capitalised on the improved housing market with a substantial uplift in sales.

"I'm particularly pleased that at the same time as driving improvements in our returns, we have been recognised once again for our commitment to sustainable business practices with our naming in the Corporate Knights Global 100 most sustainable companies. This follows being named the most sustainable property company in the world in the 2013-14 Dow Jones Sustainability Index.

"These achievements reflect our commitment to operate in a way that creates shared value for Stockland, our investors and the community, which in turn will help ensure our long-term success."

## FINANCIAL MANAGEMENT

**Gearing: 24.0%**

**Weighted average debt maturity: 5.7 years**

Chief Financial Officer Tiernan O'Rourke said the group had maintained its strong balance sheet with a continued focus on active capital management.

"We have a strong foundation from which to grow our business," Mr O'Rourke said. "Through recent debt issues and closing swaps we have tightly managed our average cost of debt in a narrow range while at the same time increasing the average maturity. Our recent USPP issuance in February 2014 further extends the weighted average debt maturity to over six years. We also reinstated the dividend reinvestment plan to help fund our accretive development pipeline. This was well supported by investors with a 28% take up."

"At 24.0% gearing remains comfortably within our 20-30% target range and we have retained our A/stable credit rating."

## COMMERCIAL PROPERTY

**Retail Net Operating Income (NOI)<sup>1</sup>: \$174 million,  
Funds from Operations (FFO)<sup>2</sup>: \$184 million**

Retail delivered a solid result in a challenging environment with NOI up 9% on 1H13 and Comparable NOI growth of 2.6%. Stockland continued to achieve rental growth on both lease renewals and new leases.

Recently completed centres at Townsville, Shellharbour and Merrylands performed particularly strongly, confirming the effectiveness of Stockland's Retail growth strategy. The next wave of redevelopments is well progressed with Hervey Bay in Queensland, Wetherill Park in Sydney and Baldivis in Perth underway.

Although the retail environment has remained soft, there were signs of improvement in retail sales growth in the second quarter.

**Industrial NOI: \$31 million, FFO:\$35 million**

The renewed focus on the Industrial business has meant that this business is now well positioned for future growth. Good progress has been made on a number of strategic initiatives including appointing key management, the completion of one acquisition and identification and planning of opportunities for redevelopment within the existing portfolio.

While NOI was 3% lower than 1H13 due to vacancies, continued leasing (176,268 sqm leased in the half) and refurbishment focus resulted in an increase in weighted average lease expiry and puts the business on track to achieve NOI growth in FY14.

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<sup>1</sup> Net Operating Income is based on Underlying Profit

<sup>2</sup> Funds from Operations (FFO) is determined with reference to the PCA guidelines

### ***Office NOI: \$53 million, FFO:\$62 million***

Stockland improved weighted average lease expiry across the Office portfolio and increased comparable NOI by 1.6% in a challenging market. Leases were executed on 38,364 sqm during 1H14. The team continued to execute its tactical approach to office with the disposal of 78 Waterloo Rd and entry into a joint venture arrangement on Optus Centre, both at Macquarie Park, resulting in an improved lease profile and yield. A strategic partnership was also achieved with Investa at 135 King St and Glasshouse, Sydney.

## **RESIDENTIAL**

### ***EBIT: \$120 million, Operating Profit: \$39 million***

Residential Operating Profit was up 39% on 1H13 reflecting efficiency improvements, the reshaping of the residential portfolio and improvement in the residential market. The business is well placed for the second half with 2,872 contracts on hand at the end of December 2013, over 900 more than June 2013.

Volumes and margins were both stronger in the half, although operating profit continues to be impacted by the large number of low margin and impaired lots sold during the period.

Stockland's new Willowdale community in south west Sydney performed particularly strongly and will deliver its first settlements in 2H14, demonstrating the quality of the new projects coming to market. Other key new projects are also progressing well with Calleya in WA launched, Marsden Park in NSW set to commence in 2H14 and the recently acquired Craigieburn site adjacent to Highlands in Victoria on track to launch in FY15.

The medium density strategy is also well progressed with a focus on delivering opportunities within the existing land portfolio. The first project consisting of 71 townhouses will commence at Stockland's highly successful community Highlands in Victoria in 2H14.

## **RETIREMENT LIVING**

### ***Operating Profit: \$17 million***

The Retirement Living business performed well in the first half with Operating Profit up 42% on 1H13. Established unit settlements were strong, reflecting improvements in efficiency and capability. Development settlements in the first half were impacted by the timing of development completions which are skewed to the second half.

The business remains focused on organic growth with a strong development pipeline. There are currently new stages under development at five successful villages with additional stages set to commence in 2H14.

## **OUTLOOK**

Mr Steinert said while the business was well positioned, the group remained conservative in its outlook for FY14 due to continuing uncertain economic conditions.

"We have made good progress reshaping our business over the last 12 months and this has been reflected in our result for 1H14. We are confident we can continue to implement our strategy to deliver reliable and growing returns for our securityholders.

"It is however, important to note that economic indicators have been mixed, creating some uncertainty about what we should expect from the market in the second half.

"We also continue to work through impaired projects in our Residential business and optimising assets in our Industrial portfolio as we position these businesses for stronger future growth. In the short to medium term this will constrain our earnings.

"In the second half we expect a positive seasonal skew in Residential and Retirement Living earnings, underpinning a stronger second half EPS.

"We are confident we are on track to achieve the upper end of our guidance, and have therefore tightened this to 5-6% EPS growth in FY14, assuming there is no material decline in market conditions."

Stockland's first half FY14 results presentation will be webcast via [www.stockland.com.au](http://www.stockland.com.au) on Wednesday 12 February 2014 at 11.30am (AEDST).

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#### 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 shopping centres, residential communities, retirement living villages, office and industrial assets. Stockland was recognised by the S&P Dow Jones Sustainability Indices (DJSI) as the Australian Real Estate Industry Group Leader for 2013 – 14 and was also named one of the Global 100 Most Sustainable Corporations in the World at the World Economic Forum in Davos, Switzerland in 2014, for the fifth consecutive year.

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## KEY METRICS

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	1H14	1H13	Change
Statutory Profit/(Loss)	\$298m	\$(147)m	nm
Statutory Earnings per Security	12.9 cents	(6.7) cents	nm
Underlying Profit <sup>1</sup>	\$267m	\$255m	4.8%▲
Underlying Earnings per Security	11.6 cents	11.6 cents	-
Distribution per Security	12.0 cents	12.0 cents	-
Funds from Operations (FFO) <sup>2</sup>	\$269m	\$247m	9.0%▲
FFO per Security	11.7 cents	11.2 cents	4.5%▲
Net Tangible Assets per Security	\$3.52	\$3.49	0.9%▲
Gearing (D/TTA)	24.0%	27.6%	▼
Return on Equity <sup>3</sup>	5.7% <sup>4</sup>	6.0%	▼

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1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to Statutory Accounts for the complete definition
2. Funds from Operations (FFO) is determined with reference to the PCA guidelines
3. Return on Equity (ROE) is a measure that accumulates individual business Return on Assets and incorporates the cash interest paid and average drawn debt for the period. Comparative is based on FY13
4. ROE impacted by utilisation of impairment provision, due to disposal of non-core projects. ROE would increase by 0.4% if impaired projects were excluded