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STOCKLAND'S COMMUNITY FOCUS DELIVERS STRONG RESULT FOR 1H17

Key points

- Statutory Profit of $702 million, up 0.7% on 1H16
- Funds from Operations (FFO)[1] of $369 million, up 7.8%
- FFO per security of 15.4 cents, up 6.2%
- Gearing at 23.9%, well within target range
- Return on Equity of 11.0%, excluding workout assets
- Diversified model delivers growth across all business units
- Guidance for FFO growth tightened to 6-7% per security in FY17, which is at the higher end of previous guidance of 5-7%, assuming no material decline in market conditions
- 1H17 Distribution of 12.6 cents per Ordinary Stapled Security and on track to return FY17 Distribution Per Security (DPS) of 25.5 cents, up 4.1% on FY16

Stockland has achieved good growth across its diversified property portfolio, delivering a strong result for the half year to 31 December 2016. Stockland made a statutory profit of $702 million and generated funds from operations of $369 million, an increase of 7.8% on the previous corresponding period.

Stockland improved its Return on Equity by 70 basis points to 11.0%, excluding workout assets. FFO per security was 15.4 cents, a 6.2% increase on 1H16. Distribution for the half year will be 12.6 cents per Ordinary Stapled Security, supporting its target full year distribution of 25.5 cents per Ordinary Stapled Security, assuming no material decline in market conditions.

Stockland's Residential business achieved 2,853 settlements in the December half and entered 2017 with a record 5,807 contracts on hand. The positive results are being driven by an ongoing strategy to create liveable, desirable communities, growing market share and continued favourable market conditions. Residential operating profit margin reduced to 14.1% in 1H17, reflecting project timing, with the full year operating profit margin expected to be 15-16%. The business is benefiting from continued strong price growth on the eastern seaboard and is strongly positioned for the full year.

[1] FFO has been determined with reference to the Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations.

Stockland's Commercial Property business generated 3.7% growth in comparable FFO, and its Retirement Living business increased its operating profit by 43.8% to $26 million, which reflected a 1H17 skew, largely due to improved margins and occupancy and the timing of superlot and asset sales.

Stockland Managing Director and CEO, Mark Steinert, said: "We're pleased to deliver another strong first half result, which has been driven by our ability to create thriving, vibrant communities. We're implementing our strategy to reshape our portfolio, growing our asset returns and customer base, improve operational efficiency and maintain a strong balance sheet, which has enabled us to increase our distribution to investors.

"In Residential, we're focused on delivering high quality communities and maximising the number of projects and lots in active development. We're also broadening our customer reach beyond detached home sites to develop new townhouses in both infill locations and key growth areas. We accelerated production and settled more residential lots in the first half than we originally expected, resulting in a slight reduction in our expected skew towards 2H17.

"Our Commercial Property business continued to deliver solid growth with a 3.7% increase in comparable FFO to $312 million. We maintain our guidance for FY17 comparable FFO growth from this business in the 2-3% range.

"In Retirement Living, we've once again delivered strong growth in both operating profit, up 43.8%, and cash Return on Assets (ROA), which was 6.4% at 31 December 2016, reflecting the timing of superlot and asset sales.

"We're continuing to create a more diversified property company that is stable and resilient and more responsive to both market opportunities and our customers' needs. We're also proud of the leadership we've demonstrated in sustainability, which is providing tangible benefits to our customers and shareholders and creating a lasting legacy in the communities we create," Mr Steinert said.

Stockland has once again been identified as a global leader in sustainability. Stockland was named the S&P Dow Jones Sustainability Indices (DJSI) Global Real Estate Sector Leader and achieved Global Sector and Regional Sector Leader status in the 2016 Global Real Estate Sustainability Benchmark (GRESB) survey in the category Diversified - Retail/Office. Stockland was also recognised by CDP with a position on the highly-coveted Climate A List.

FINANCIAL MANAGEMENT

Gearing: 23.9% (1H16: 23.1%)
Weighted average debt maturity: 5.9 years (1H16: 5.7 years)

Chief Financial Officer, Tiernan O'Rourke, said Stockland had maintained its strong balance sheet and A-/Stable credit rating with gearing at 23.9%, well within its target range of 20 - 30%. During the first half, Stockland continued to lower its weighted average cost of debt (WACD) to 5.6% for the period, compared to 6.1% in 1H16.

“We’ve continued to diversify our funding sources, reducing our WACD and maintaining our weighted average debt maturity. We’ve also either fixed or hedged 96% of our period end debt, up from 82% in the previous corresponding period, lowering the WACD and providing a reasonable buffer against any possible short to medium term increases in interest rates,” Mr O’Rourke said.

Stockland’s Dividend Reinvestment Plan remained active for 1H17, achieving a take-up rate of 19.3%.

COMMERCIAL PROPERTY

Retail Funds from Operations (FFO): $207 million (1H16: $197 million)

In Retail, comparable FFO was up 3.5% on 1H16. This result was supported by high stable retail occupancy levels of 99.5% and blended average rental growth on lease renewals and new leases of 2.7% in the stable portfolio. Comparable FFO excludes approximately 25% of our centres by total annual sales, which have been recently redeveloped, or are currently under construction. Total FFO grew by 5.2%, which includes all centres in our Retail portfolio.

Commercial Property CEO, John Schroder, said: “Retail sales were stable in the first half and the important Christmas trading period. Our strategy to continuously improve our shopping centre portfolio and actively remix our retail around food, health, services, lifestyle, leisure and technology to match customer demographic changes and trends has helped to drive specialty sales productivity growth of 2.0% to $9,025 per square metre, exceeding the Urbis sub-regional average by 7.7%.

The strongest specialty categories in Stockland centres were retail services, up 7.8%, fast casual dining and food catering, up 6.6%, and communication and technology, up 3.6% on a comparable basis.

“The rapid stabilisation of Stockland Wetherill Park, following the completion of our $228 million redevelopment well ahead of schedule and before Christmas 2016, is an excellent example of how we are reshaping our portfolio. It achieved a development yield of 7.3% and a strong 15.8% incremental IRR in 1H17, ahead of our 10-14% target range.

“Our $412 million redevelopment and expansion of Stockland Green Hills in the Hunter Valley is progressing well and, in addition to the forthcoming opening of the first new format David Jones and JB Hi-Fi Home stores in the Hunter Valley, we will also be introducing a new Hoyts cinema to enhance the leisure and entertainment experience we provide to our customers,” Mr Schroder said.

Logistics and Business Parks FFO: $72 million (1H16: $66 million)

Stockland’s Logistics and Business Parks business achieved comparable FFO growth of 2.9% in 1H17 following strong leasing activity. Total FFO growth of 8.7% was largely due to acquisitions, and completion and leasing of new developments.

Portfolio occupancy increased from 94.6% in 1H16 to 96.1% in 1H17 and portfolio WALE increased marginally to 4.6 years. Average rents on total lease deals decreased by 2.5% during the period, reflecting negative rental reversions in some western Melbourne assets. Importantly, achieved rents were 2.9% above valuation-assumed rents.

Stockland continues to expand the portfolio through acquisition and development with its ownership interests now valued at more than $2.0 billion. It is making good progress on its $400 million development pipeline, completing projects at Ingleburn and Erskine Park in Sydney and Oakleigh (Stage 1) in Melbourne in 1H17. It is actively developing sites at Warwick Farm and Waterside in Sydney and Oakleigh (Stage 2). It has also submitted Development Applications for Ingleburn (Stage 2), Willawong in Brisbane and Balcatta in Perth.

Mr Schroder said: "We've been successful in leasing our newest developments at Oakleigh, Erskine Park and Ingleburn. In total, we executed leases on 160,000 square metres in 1H17 and have reached heads of agreements on a further 152,000 square metres.

Office FFO: $34 million (1H16: $36 million)

Office comparable FFO was up 6.6% on 1H16. The result reflects strong leasing activity and a full period of high occupancy, with the majority of assets held in the high demand Sydney market. The slight reduction in total FFO reflects the sale of Waterfront Place and Eagle Street Pier in Brisbane in FY16.

"We continue to assess development opportunities to add value to our portfolio in Sydney. We expect some deterioration in comparable FFO for Office in 2H17 as we work through the expiry and renewal of leases in our only remaining Perth asset," Mr Schroder said.

RESIDENTIAL

Operating Profit: $100 million (1H16: $98 million)

Residential operating profit increased by 1.4% on 1H16, with a positive skew in profit to 2H17 as previously highlighted. Core ROA increased by 120 basis points to 19.2%.

Sales volumes increased in the first half, with 2,853 lots settled, representing a 3.0% increase on the corresponding period. Contracts on hand at the start of January 2017 totalled 5,807, a new record for Stockland and an increase of 1,698 on the prior corresponding period. Stockland accelerated production and increased settlements in 1H17, which will reduce the previously anticipated skew in settlements and profit in 2H17. As a result, Stockland expects to meet its FY17 target of more than 6,000 lot settlements.

Residential CEO, Andrew Whitson, said: "We've positioned our business to take advantage of positive conditions, particularly in Sydney, Melbourne and the strengthening south east Queensland market, and continue to have more than 90% of our net funds employed in projects that are actively selling.

"We've launched a number of significant new projects over the last 12 months, including two of Australia's largest ever master planned new cities at Aura on the Sunshine Coast and Cloverton in the northern suburbs of Melbourne, and we have so far sold more than 600 lots at each respective community.

"We have also seen strong demand for our other new communities at Newport on Moreton Bay; Pallara in south west Brisbane; and Altrove at Schofields in north west Sydney. All of these projects are performing well, making a significant contribution to settlements and allowing us to maintain our brand presence as we trade out of some of our more established communities in each region.

"We're also maintaining our disciplined approach to acquisitions, restocking our pipeline in priority metropolitan growth corridors that are close to transport. For example, in December 2016 we agreed to acquire the 114 hectare Minta Farm property in the urban infill location of Berwick, south east Melbourne, which will yield around 1,700 lots. It is well located close to transport and urban amenity.

"Throughout the first half we have continued to broaden and strengthen our Residential business by ramping up the production of new townhouses in our communities and at standalone sites. Our disciplined re-entry into apartments, with a focus on the Sydney market, will further diversify our earnings."

Stockland maintained guidance for its Residential operating profit margin at 15-16% for FY17. With continuing favourable market conditions, we are targeting our Residential operating profit margin to remain above 15% over the short to medium term.

RETIREMENT LIVING

Operating Profit: $26 million (1H16: $18 million)

Stockland's Retirement Living business performed well in the first half with operating profit up 43.8% due largely to improved margins and occupancy, and the timing of superlot and asset sales. Cash return on assets increased to 6.4% at 31 December 2016.

Stockland generated a significant improvement in its profit margin, which increased by around 200 basis points for established and newly developed homes. Stockland's increase in operating profit margin reflects the product mix and timing of sales during 1H17.

Stockland is planning to replicate the success it has achieved on the redevelopment of its Cardinal Freeman Village at Ashfield in Sydney's inner west by redeveloping a number of other older villages. It sold five small, low ROA villages in WA in July 2016 to recycle the capital into more accretive opportunities within its Retirement Living portfolio.

Stockland's plans to redevelop some of its older villages will reduce reservations and sales within those villages in the short term, however, Stockland Retirement Living CEO Stephen Bull is confident the strategy will help to position the business for long term growth as it meets the changing needs and expectations of Australia's ageing population.

Stephen Bull said: "We're reshaping our portfolio, producing well-designed, high quality new homes and enhanced community facilities. This is creating better communities and a better way to live for our residents."

OUTLOOK

Mr Steinert said: "We expect favourable economic conditions to continue and interest rates to remain relatively low. We've made excellent progress over the last few years, broadening our business and customer base and we are well positioned to take advantage of future opportunities.

"We have tightened our FY17 guidance to 6-7% FFO growth, which is at the higher end of our previous guidance of 5-7%, reflecting the strong first half, and we're on track to deliver a full year distribution of 25.5 cents per Ordinary Stapled Security, assuming no material decline in market conditions."

Stockland's 1H17 results presentation will be webcast via www.stockland.com.au on Wednesday 22 February 2017 at 11.30am (AEDST).

KEY METRICS

	1H17	1H16	Change
Statutory Profit	$702m	$696m	0.7%▲
Funds from Operations (FFO)[1]	$369m	$342m	7.8%▲
Statutory Earnings per security	29.3 cents	29.4 cents	0.3%▼
FFO per security	15.4 cents	14.5 cents	6.2%▲
Distribution per security	12.6 cents	12.2 cents	3.3%▲
Net Tangible Assets per security	$4.00	$3.87	3.4%▲
Gearing (D/TTA)	23.9%	23.1%	
Return on Equity[2]	11.0%	10.3%	

1. Funds from Operations (FFO) is determined with reference to the PCA guidelines
2. Return on Equity accumulates individual business Return on Assets and incorporates cash interest paid and average drawn debt for the 12 month period. Excludes residential communities workout projects.