ASX/Media Release

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STOCKLAND DELIVERS STRONG PERFORMANCE IN FY16

FY16 results

- Statutory profit of $889 million, down 1.6% on FY15
- Funds from operations (FFO) of $740 million, up 12.5%[1]
- FFO per security of 31.1 cents, up 11.1%
- Underlying profit of $660 million, up 8.5%
- Underlying earnings per security (EPS) of 27.8 cents, up 7.3%
- Profit growth in all core businesses, with Residential operating profit up 38.8%
- Return on equity (ROE) of 11.0%, up 1.1%
- Net tangible assets (NTA) per security of $3.82, up 3.8%
- Distribution per security (DPS) of 24.5 cents, up 0.5 cents

FY17 targets

- Targeting growth in FFO per security of 5.0 – 7.0%, assuming no material change in market conditions
- From FY17, our distribution policy will be based on FFO and will reflect a payout ratio of 75 – 85%. We are targeting an estimated distribution per security of 25.5 cents, a 4.1% increase on FY16, assuming no material change in market conditions

Stockland performed strongly in FY16, growing asset returns, broadening its customer base and taking advantage of supportive market conditions.

Stockland generated substantial profit growth from its business activities, with FFO of $740 million, up 12.5% on FY15. Residential, Commercial Property and Retirement Living all made solid contributions.

Statutory profit was $889 million, down 1.6% on the prior year due to a number of unrealised fair value items, including the mark to market movement in Stockland's debt and derivatives and the prior year realised gain of $73 million on the sale of our investment in Australand.

[1] FFO is as per PCA guidelines and is considered the most meaningful measure of underlying and recurring earnings.

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Stockland delivered solid Underlying EPS growth of 7.3%, FFO per security growth of 11.1% and delivered its target distribution per security (DPS) of 24.5 cents in FY16. This represents a payout ratio of 88% of underlying EPS and 79% of FFO. Statutory EPS was 37.4 cents.

Return on Equity increased 1.1% to 11.0%, excluding workout assets.

Stockland Managing Director and CEO Mark Steinert said: "We've achieved strong results in FY16 by executing our strategy and delivering our purpose in our communities and properties. I'm very pleased that each of our Commercial Property, Residential and Retirement Living businesses have made significant contributions to the performance of the Group. Our Commercial Property business delivered comparable FFO growth of 4.5% and we achieved a record number of settlements in both our Residential and Retirement Living businesses.

"We've been disciplined in the implementation of our three strategic priorities to grow our asset returns and customer base, deliver operational excellence, and maintain and improve our capital strength. Over the last three years we have positioned each business to take advantage of generally good market conditions and deliver sustainable profit growth.

"We continue to build resilience into our businesses so that we're well placed to deliver above sector average FFO growth through the cycle."

Financial Management
Gearing: 23.8%
Pro forma weighted average debt maturity: 5.9 years
Credit rating: A-/stable

Chief Financial Officer Tiernan O'Rourke said the Group had maintained its strong balance sheet and A-/stable credit rating, supporting investment in the future growth of the business. Gearing at the end of FY16 was 23.8%, at the lower end of our 20 – 30% target range, due to disciplined capital management, the strong and increasing velocity of operating cash flows and growth in the value of our investment portfolio.

Mr O'Rourke said: "Our active debt management program has seen us improve our weighted average cost of debt and, partly as a result of our recent USPP, increase our average weighted debt maturity to 5.9 years on a pro forma basis."

Retail
Funds from Operations (FFO): $402 million
Retail Net Operating Income (NOI): $371 million

Stockland's retail portfolio performed well in FY16 with high occupancy and positive leasing spreads on operating lease deals.

The retail portfolio recorded 3.7% growth in comparable FFO and continued sales growth, with total Moving Annual Turnover up 4.6%, driven by 6.0% growth in specialty retail. The best performing categories continued to be communication and technology, retail services, food catering and fast casual dining.

Some areas of specialty retail, such as apparel, slowed in the June quarter due to unseasonably warm weather and comparable growth in supermarket sales has been impacted by strong competition in pricing.

Group Executive and CEO Commercial Property John Schroder said: "Consumer sentiment has been mixed and there has been a slightly elevated number of retailer closures in the last 6 months. Retail trade at some centres has moderated, but we've continued to produce sales growth and our centres are highly productive. Comparable specialty sales per square metre are 9.8% above the Urbis average.

"We've made good progress on our major redevelopment projects, opening Stage 3 of our $228 million redevelopment of Stockland Wetherill Park, Sydney, which is trading well. We completed construction of our new $51 million Harrisdale neighbourhood centre in Piara Waters, Perth, which is an excellent new neighbourhood centre and a key part of our Newhaven community development. Our remodelled Pitt Street Mall asset in Sydney, incorporating flagship H&M and Zara Home stores, has been very successful.

"We are very excited to have commenced our $372 million redevelopment of Stockland Green Hills in the Hunter Valley, which will be anchored by David Jones, JB Hi-Fi Home and a new Harris Scarfe department store, and is targeting an accretive FFO yield of 7.0% and IRR of 12.6%.

"During FY16, we also commenced and completed a number of relatively small, but important projects, creating new casual dining precincts at Rockhampton and Shellharbour and undertaking anchor retailer redevelopment and remixing activities at Point Cook in Melbourne and Cairns in Queensland. All of these projects have been very well received by our customers."

Stockland has a future retail development pipeline of $1.0 billion and is targeting stabilised FFO yields of 7 – 8%, and incremental Internal Rates of Return (IRR) of 11 – 14% from this activity.

Logistics and Business Parks
FFO: $132 million, NOI: $119 million

Our Logistics and Business Parks portfolio delivered good profit growth with comparable FFO up 3.7%, reflecting positive leasing momentum.

Mr Schroder said: “We’ve been very active in our asset management, executing leases on more than 300,000 square metres in FY16, representing more than 25% of the portfolio.

“We’ve been disciplined in our acquisition strategy, buying three new assets including Wonderland Drive in Sydney on an 8.0% initial FFO yield, Mulgrave in Melbourne on a 7.1% initial FFO yield and a development site at Erskine Park in Sydney.

“We continue to grow our Logistics and Business Parks portfolio, in line with our strategy. We are making good progress on our development pipeline with more than $67 million worth of accretive projects underway and a further development pipeline of $400 million. We are targeting IRRs of 11 – 14% and stabilised FFO yields of 7 – 8%. Our business is well positioned to achieve solid growth and deliver consistent returns.”

Office
FFO: $68 million, NOI: $53 million

Comparable Office FFO increased 9.9%, reflecting good leasing momentum and the strength of the Sydney market, where the bulk of our assets are located. We completed the disposal of Waterfront Place and Eagle Street Pier, Brisbane, in October 2015.

“Our exposure to the office sector remains tactical, reflecting our view on the state of the market. The majority of our portfolio is located in the improving Sydney market, with our assets in this market fully occupied. The Perth and ACT markets remain very challenging,” Mr Schroder said.

Residential
EBIT: $354 million, Operating Profit: $230 million

Our Residential business settled a record 6,135 lots in FY16, achieved significant operating profit growth of 38.8% and lifted return on assets (ROA) to 19.6% on the core portfolio.

Group Executive and CEO Residential Andrew Whitson said: “This result reflects our repositioning of the business over the last three years to enhance our community creation capabilities and capitalise on supportive market conditions in key growth corridors. Our results have also benefited from the positive impact of new projects, efficiency improvements and our broader product range.

“We’ve achieved sustained growth in operating profit and ROA and this is a direct result of our strategy to activate the highest possible proportion of our residential portfolio. More than 90% of our net funds employed (NFE) are in projects that are actively selling, up from 60% in FY13.

“We launched five major new projects in FY16 including Aura, Pallara and Newport in south east Queensland; Altrove in north west Sydney; and Cloverton in northern Melbourne.

“We’ve also broadened our market reach with the introduction of medium density homes and completed homes within a number of our communities. We settled 110 completed homes and 74 medium density homes in FY16. We are now exploring mixed use apartment opportunities within our portfolio, with a DA lodged for over 500 apartments at Merrylands in western Sydney.

“We continue to focus on affordability and community creation within our Residential business, and more than 75% of our buyers are owner-occupiers.

“We commenced FY17 with 4,567 residential contracts on hand, a record for the Group.”

Retirement Living
Operating Profit: $57 million

Operating profit in Retirement Living was up 19.7% on FY15, reflecting strong sales, active management and improved efficiency. Cash ROA increased to 5.8%.

Group Executive and CEO Retirement Living Stephen Bull said: “We sold more than 1,000 homes and apartments in FY16, which is a record number of settlements, and we achieved significant improvements in operating profit and ROA.

“We lifted our cash ROA by 50 basis points in the last 12 months, reflecting our continued focus on operational efficiencies and growing our development pipeline. Our development margin was 16.8% in FY16, which is at the top end of our target range.

“We completed and sold the first 57 apartments in two buildings at Cardinal Freeman The Residences in Sydney, with the next building of 40 apartments due for completion in 2H17. We also launched a new village within our Willowdale community at Denham Court in south west Sydney in 2H16.

“We have continued to reshape our business, embedding the eight new South Australian villages into our portfolio, and selling five relatively small, low ROA villages in Western Australia in July 2016. We will continue to recycle capital, drive our development pipeline, which currently comprises 400 homes under development, and grow profits and returns.”

Outlook

Mr Steinert said Stockland was broadening and deepening its market reach across all businesses to improve community creation capabilities and appeal to a wider variety of customers. The strategy is designed to generate profitable business growth in FY17 and beyond.

“We’ve been refining our business strategy to improve our customer experience and take advantage of new, synergistic opportunities to create a business that is more stable and resilient to any potential changes in market conditions. Our approach to maintaining project contingencies within the Residential business is a key part of this,” Mr Steinert said.

“The low interest rate environment is supportive of economic growth and we have set our business on a course that provides us with a positive outlook for FY17, despite considerable uncertainty in macroeconomic conditions.

“We’ve maintained our highly disciplined approach to acquisitions and asset sales; activated 90% of our Residential land; completed all major Retail projects on budget, on time or ahead of schedule; we continued to reshape and redevelop our Logistics and Business Parks portfolio, and continued our active management and capital recycling within our Retirement Living business.

“Assuming no material change in market conditions, we are targeting growth in FFO per security of 5 – 7% in FY17, with a skew towards the second half. Distribution per security is targeted at 25.5 cents.

“Commercial Property should maintain moderate growth in returns with comparable FFO growth of 2 – 3%, including comparable Retail FFO growth of 3 – 4%. We expect to achieve more than 6,000 residential lot settlements, with a strong profit skew towards 2H17 as a result of medium density settlements and project timing. We expect to achieve further improvement in Retirement Living returns as we continue to focus on operational efficiencies and our development pipeline.”

FFO performance measure

FFO will replace underlying profit as Stockland’s primary performance measure from FY17, in line with our peers in the AREIT sector. As referenced in the PCA guidelines, FFO is considered to be the most meaningful measure of underlying and recurring earnings. From FY17, our distribution policy will be based on FFO and will reflect a payout ratio of 75 – 85%. We will continue to report underlying profit.

Stockland’s FY16 results presentation will be webcast via www.stockland.com.au on Wednesday 17 August 2016 at 11.30am (AEST).

KEY METRICS

	FY16	FY15	Change
Statutory Profit[1]	$889m	$903m	1.6%▼
Statutory Earnings per security	37.4 cents	38.5 cents	2.9%▼
Funds from Operations (FFO)[2]	$740m	$657m	12.5%▲
FFO per security	31.1 cents	28.0 cents	11.1%▲
Underlying Profit[3]	$660m	$608m	8.5%▲
Underlying Earnings per security	27.8 cents	25.9 cents	7.3%▲
Distribution per security	24.5 cents	24.0 cents	2.1%▲
Net Tangible Assets per security	$3.82	$3.68	3.8%▲
Gearing (D/TTA)	23.8%	23.4%	
Return on Equity[4]	11.0%	9.9%	

1. Statutory profit includes $171m unrealised mark to market decline in the value of our debt and derivatives book. Prior year included $73m gain from sale of our investment in Australand
2. Funds from Operations (FFO) is determined with reference to the PCA guidelines
3. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of Directors and Management, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions have been determined for FY16. Refer to Annual Financial Report for the complete definition. Recognising the importance of FFO to managing our business, as well as the comparability of our performance in the Australian property industry, our primary reporting measure will switch from Underlying Profit to FFO from FY17. We expect to continue to report Underlying Profit.
4. 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.