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ASX/ Media Release

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A Strong Year for AVJennings – Operating Profit up 22%

- Strong results with continued growth in revenue +32.7%, PBT +22.0% and EPS +18.6%
- Fully franked final dividend of 3.5 cents per share to be paid in September (5.0 cents for FY16)
- Healthy balance sheet provides flexibility to grow with gearing at a prudent 17.9%

Leading residential property developer AVJennings Limited (ASX: AVJ) today announced strong results for the year ended 30 June 2016. These included revenue growth of 32.7% to $421.9 million, growth in profit before tax of 22.0% to $58.8 million and growth in earnings per share of 18.6% to 10.71 cents.

AVJennings Chairman Mr Simon Cheong attributed the result to the Company's continued commitment to its clear and sustainable strategy of delivering quality traditional housing at affordable prices in diversified locations.

"We have resisted the temptation to expand into more volatile market segments and have instead focused on pursuing opportunities in the deepest part of the market developing land, detached housing and townhouses at prices that are affordable for Australians," Mr Cheong said.

AVJennings' Managing Director and CEO, Mr Peter Summers said the results for the year were strong and consistent with previous comments about conditions in traditional housing markets.

"As we entered the 2016 financial year we continued to grow our level of stock under production in anticipation of continuing favourable conditions in the traditional housing markets. We saw issues as being primarily related to certain CBD high-rise apartment markets," Mr Summers said.

Whilst avoiding what the Company sees as more volatile markets, especially those with a high reliance on overseas based investors, the Company has continued to seek opportunities to further diversify its project mix.

"We will continue to diversify our product by producing low rise, medium density apartments outside CBD areas as suitable opportunities arise, but only if it is consistent with our strategic focus of building quality affordable housing in well-planned communities where people want to live," Mr Summers said.

Operations

Contract signings of 1,832 lots were up on last year (1,737 lots) as too were settlements, which rose to 1,596 lots. Full year revenue increased 32.7% to $421.9 million (30 June 2015: $317.9 million) on the back of changes in product mix and project share, with the Company benefitting from announcements made in prior periods that it would acquire the interests of joint venture partners in the 'Argyle', Sydney and 'St Clair', Adelaide projects.

Work in progress was up 11.2% year-on-year to 1,681 lots and reflects the Company's continuing confidence in its markets. That its strategy is accepted by customers is demonstrated by the fact that the level of completed unsold stock remained insignificant at only 2.8% (by value) of total lots under control. As a predominantly horizontal developer the Company has greater flexibility to actively manage product mix and production levels in response to market signals.

Particularly good contributions were made by 'Arcadian Hills', 'The Ponds' and 'Argyle' in Sydney and 'Magnolia' on the Central Coast of New South Wales. 'Nottingham Square' in Brisbane, 'Big Sky' in Coomera and 'Creekwood' in Caloundra all performed well for Queensland. 'Hazelcroft' and 'Lyndarum' demonstrated the ongoing strength of demand in the north of Melbourne, while 'St Clair' in Adelaide and 'Catalina' in Hobsonville Auckland had particular appeal for customers in those markets.

Capital Management

Mr Cheong said, "the Directors are pleased to declare that a final, fully franked dividend of 3.5 cents per share be paid in September 2016, taking total dividends declared for FY2016 to 5.0 cents per share (4.0 cents per share for FY2015).

Gearing remained low with net debt/ total assets of only 17.9% (total net debt of $132.4 million), moderately above the position at 30 June 2015 (13.6%) but well below that at 31 December 2015 (22.9%).

At 10,048 lots, inventory was maintained at a similar level to last year (30 June 2015: 10,198 lots) despite the solid level of sales. Acquisitions included:

- the remaining 50% of the Argyle Elderslie, New South Wales joint venture;
- two separate land parcels in Bridgeman Downs, Queensland (approximately 114 townhouse and land lots);
- a large land parcel at Spring Farm, New South Wales (up to 540 lots); and
- additional land parcels at Hobsonville Auckland (approximately 414 lots).

The Company's production profile remains mature despite its ongoing stock replenishment programme. This was achieved as a result of acquisitions being either related to existing projects or often at advanced stages of planning.

Outlook

The Company believes that its markets are fundamentally strong and that its strategy of delivering traditional housing solutions at affordable prices in well-planned sustainable communities, should continue to provide shareholders with healthy returns.

In terms of specific market conditions, Sydney and the Central Coast of New South Wales remain very active with good demand driven by inadequate land supply and building delivery constraints, although the rate of sale of developed land lots is showing early signs of moderating as price points test the limits of affordability.

Auckland is a strong market and the high quality, master-planned Hobsonville project continues to experience significant demand with excellent sales and margins being generated, leading the Company to explore further opportunities there.

Land sale rates and prices seem to be stabilising at more sustainable levels in Brisbane, Caloundra and Coomera in Queensland, while the Adelaide South Australia residential market remains subdued but positive signs are emerging.

The Melbourne residential land market remains buoyant with the Company all but selling out its Lyndarum estate. Future results will be enhanced by development of the new flagship 'Waterline Place' project and the 'Lyndarum North' development. Construction of the first stages of Waterline have commenced and settlements from the 'Ellery' townhouses and 'Rosny' apartment building are expected in late FY2017. Development of the first stage of Lyndarum North is scheduled to commence prior to Christmas.

Despite the disruption of a protracted federal election campaign and some ongoing policy uncertainties, the outlook for key residential property industry demand drivers remains positive. Low interest rates and inflation, positive population growth and continuing shortages of detached and semi-detached houses and low rise apartments in Sydney, Melbourne and Auckland should all help underpin demand from the owner-occupiers and local investors targeted by AVJennings.

While confident of the future, the Company recognises that rates of growth in some markets are changing and so may increase its focus on built form in those areas. Although this may affect the timing of recognition of accounting profits in the short term it will build greater value for shareholders overall. "The Company has consistently focussed on strategies which are in the best long term interest of shareholders" said Mr Summers.

Housing Affordability

The Company continues to welcome more focus on housing affordability and housing policies. "We believe the last 12 months or so has provided a better understanding that we need to supply not just housing but housing in areas where people want to live," Mr Summers said.

"Unfortunately the understanding and debate around affordability has not been as clear. Governments continue to focus on property from a revenue raising aspect. They also continue to implement short term reactionary measures, often creating further longer term volatility."

"We hope governments start to focus more on their role in planning and other areas where they can work with developers to increase the supply of suitable, appropriately located, affordable housing," concluded Mr Summers.

Ends.

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