AVJennings

AVJennings First Half FY24 Results[1]

26 February 2024

Stronger Lead Indicators
- Contract signings +75% to 294 lots
- Enquiries +26%
- Value of contracts on hand $159M, +34%
- Sales enquiry conversions +38%

Settlements and Financials
- Settlement of 270 lots, -35%
- Revenue $120.4M, -14%
- PBT $4.2M, -81%

Prudent Capital Management
- No interim dividend
- No acquisitions in 1H

Portfolio Summary
- WIP lots 1,299, -14%
- 28 Communities | ~14k lots

1HFY24 Financials

Whilst revenue was down 14% at $120.4M compared to the same period last year (1HFY23 Revenue: $140.4M), contract signing volume was up 75% to 294 sales in the first half as an improvement in consumer confidence was seen in the six months to 31 December 2023 following periods of interest rate stabilisation.

The Company earned Profit Before Tax (PBT) of $4.2M, down 81% on the Prior Corresponding Period (PCP) (1HFY23 PBT: $21.8M) and Net Profit After Tax (NPAT) of $2.8M (1HFY23 NPAT: $15.2M). EPS was down 84%, reflecting lower earnings and an increase in the number of shares following the equity raise completed during the period.

Gross margin remained solid at 26%, albeit down on the prior period (1HFY23: 35%). This result was impacted by both cost pressures, particularly in Victoria, and the structure of our Brunswick project in partnership with the Victorian government.

During the period, 270 lots were settled, representing a 35% decrease compared to 415 lots in the PCP. This decrease was primarily driven by overall market sentiment and reduced purchaser borrowing capacity following 13 interest rate rises over an 18-month period. The PCP also benefited materially from settlements carried over from FY22 when wet weather significantly impacted construction programs.

Key contributors to 1HFY24 settlements were Wollert (VIC), Lyndarum North (VIC), Mernda (VIC) and Rosella Rise (NSW) with an overall skew towards land settlements.

Net operating cash outflow for the first half of $110M was $69M more than the PCP. This was driven by a significant increase in production activities, primarily for the construction of in-progress apartment projects and upfront investment in large, early-stage land projects. Within operating cashflow, $57M of expenditure related to land payments on committed acquisitions.

CEO Comments

Commenting on the half year results, AVJennings CEO Philip Kearns, AM, said:

"The Company remains focused on delivering quality and affordable housing solutions to meet the increasing accommodation need across Australia and New Zealand. With the utilisation of prefabricated walls to deliver homes faster, we are also committed to ensuring that our customers have access to homes that are not only built efficiently but uphold our values of quality, sustainability and environmental responsibility.

1 Growth rates are the change against the prior corresponding period (PCP) which is 1HFY23

Despite a soft first half, we are confident of a solid 2HFY24. The lead indicators for our business have improved. Enquiries have increased 26% year on year, and we've reported a 75% increase in contract signings with $159M of contracts on hand. Most of these contracts are expected to settle this calendar year resulting in a significant revenue and earnings skew to 2HFY24."

Prudent Capital Management

While there are early signs of market improvement, the Board decided not to declare a dividend during the period in line with the Company's prudent capital management approach with a focus on capital conservation. Consistent with the prudent approach, no new acquisitions were undertaken in the first half or are expected to be undertaken in the second half.

In November 2023, a $30M equity raise was completed to support future investment in built-form housing and the modernisation of the business. Alongside the equity raise, an increased amount of debt was drawn down to fund production and payments on committed acquisitions.

Our gearing level increased to 25.7% but remains comfortably within the Company's 15%-35% target range.

Business Overview

Following the settlement of 270 lots and no new acquisitions during the period, the pipeline of lots under control has decreased to 13,905 lots. With 1,299 lots currently under development, the Company remains focused on delivering high-quality communities that surpass our customers' expectations. Over 50% of the lots under development relate to current and future built-form construction.

With the improvement in consumer confidence, there was a noticeable increase in demand across Queensland, Victoria and South Australia over the period. We have 329 unconditional contracts on hand at a value of $159M as at 31 December 2023, the majority of which are expected to settle through late FY24 and into early FY25. Enquiry rates have increased by 26% on the PCP following periods of interest rate stabilisation and improved sentiment regarding the interest rate cycle. The Company also lifted sales efficiency, delivering a 38% improvement in conversion of enquiries into sales compared with a year ago.

Pro9 JV Progressing as Planned

The Joint Venture with Pro9 to establish an Australian manufacturing facility is a key enabler for the Company to accelerate the delivery of built-form housing. The utilisation of prefabricated walls to speed up home construction also results in substantially enhanced customer outcomes in terms of sustainability, quality, and reliability, as well as broader business benefits, which will become a competitive advantage.

Production equipment is on site at the factory on the Central Coast of NSW with production testing scheduled for April 2024 and first production scheduled for mid-CY2024.

The Pro9 prefabricated walling system features in our Stellar Collection of homes. To date we have 18 Stellar Collection homes completed or under construction and 36 in the near-term pipeline.

The use of Pro9 walls in the building process has demonstrated potential for improved working capital in the construction process with substantial time savings achieved to date albeit on small scale production.

Outlook

Despite the persistent challenges within the residential property market, the Company remains confident it can continue to execute effectively against its strategy as macroeconomic conditions improve for residential development.

With the record population growth, there is a corresponding flow-on increase in demand for housing. The limited supply of housing across land, built-form housing and apartments continues to present a significant opportunity for AVJennings. The modernisation work around our business and capital structure are already under way and these elements set us up well to take advantage of the future market recovery.

Although currently restrained, improvement in consumer confidence is expected to translate through to further improvements in conversion rates as the macroeconomic environment stabilises. We will continue to prioritise quality, customer satisfaction, innovation and disciplined capital management to position ourselves as a resilient and leading player in the residential development market.

Regarding its FY24 financial and operating outlook AVJennings provides the following:

- Consistent with previous guidance, FY24 revenue and earnings skew to be heavily weighted towards the fourth quarter.
- Settlement profile for FY24 against FY23[2] expected to result in a lower PBT this year.
- Merchant apartments at Waterline Place are scheduled to commence settling in late FY24.
- Acquisitions are not anticipated during the second half of FY24.

ENDS.

This announcement was authorised for release to the market by the Board of Directors of AVJennings Limited.

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2 Restated, refer Appendix 4D for the half year ended 31 December 2023.