28 August 2024

AVJennings FY24 Results[1]

Financials Outcomes

- Settlement of 584 retail lots[3], -23%
- Revenue $320M, +12%
- Normalised PBT[2] $19.4M, -44%
- PBT $1.6M, -95%

Disciplined Capital Management

- No final dividend
- No new acquisitions in FY24
- $60M of additional Balance Sheet capacity

Market Indicators

- Retail contract signings +70% to 590 lots[4]
- Enquiries +12%
- Pre-sales value carried forward $90M, -25%
- Sales enquiry conversions +44%

Strategic Progress

- Pro9 Australian factory established and producing walls
- Continued focus on modernising the business including Club Facility agreement and Board renewal

FY24 Financial Results

Revenue grew 12% to $319.7M while Gross Margin decreased 18% to $74.3M (FY23: $90.8M). Net Profit After Tax is $1.0M (FY23: $24.0M).

Profit Before Tax (PBT) of $1.6M, was down 95% on the prior corresponding period (PCP). Adjusting for the impact of the nonrecurring write-off of costs associated with termination of the Rocksberg option, Normalised Profit Before Tax is $19.4M, down 44%.

This weaker profit result was significantly impacted by the Company's decision to terminate its Option in relation to the Rocksberg project in Caboolture, Queensland. Consequently, the Company wrote off capitalised development expenses and payments to reimburse the landowners' transaction costs at a total expense of $17.8M.

A total of 874 lots were settled, an increase of 15% on the PCP. 584 of these settlements related to retail lots. Key retail contributors to FY24 settlements were Waterline (VIC), Lyndarum North (VIC), Eyre (SA), Aspect (VIC), Riverton (QLD) and Cadence (QLD) with an overall skew towards land settlements. The increase on the PCP was also driven by the successful execution of key capital management initiatives to resolve legacy balance sheet matters during the year.

Contract signings increased by 139% to 830 lots, valued at $269M. Retail contract signings were up 70% with the notable improvement in contract exchanges highly correlated with periods of interest rate stabilisation, leading to an improving outlook and price growth in some areas. The level of retail contract signings slowed through the second half of FY24 as uncertainty around the outlook for interest rates increased due to persistent inflationary pressures and general market commentary. Gross margin percentage at 23% has been affected by ongoing cost pressures in most markets, a significant slowdown in the New Zealand market and the impact of the capital management initiatives executed during the year.

1 PCP: Prior Corresponding Period is FY23. FY23 financial statements restated as per the 1H24 financial statements released to the market on 26 February 2024. Growth rates are measured against the PCP unless noted otherwise.

2 Operating PBT reflects normalisation for Rocksberg project write-off for $17.8m

3 Excludes disposal of Glenrowan (QLD) and large superlot sales at Elderslie (NSW) and Lyndarum (VIC)

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Customer enquiry levels are up 12% on FY23 and normalised to pre-COVID levels. Of note is an increasing proportion of enquiries for built-form housing as AVJennings diversifies its offerings and customers show more interest in turnkey options. A significant improvement in enquiry quality has led to a circa 44% increase in the conversion rate.

CEO Comments

AVJennings CEO & MD Mr. Phil Kearns, AM, said: “It was a productive year for AVJennings, marked by strategic decisions focused on improving the quality and future profitability of our portfolio. Our decision to terminate the Rocksberg option, sell the Glenrowan (QLD) project and other englobo sites across the portfolio, highlights our commitment to prudent capital management and recycling of capital. As expected, the Pro9 JV is showing great progress and has potential to transform our business model and revolutionise the industry. Decisions and progress made in FY24 demonstrate our commitment to achieving long-term growth and operational excellence while mitigating the effects of operating in challenging market conditions.”

Pipeline update

With 1,062 lots under development, the Company’s focus remains on delivering high-quality communities with diverse product offerings. Over 50% of the lots under development relate to current and intended future built-form homes. As of June 30, 2024, 114 lots were completed and available for retail sale, up from 72 lots in FY23, mainly due to the completion of the Merchant apartments at Waterline (VIC) in June 24.

The termination of the option associated with the Rocksberg (QLD) project reduced lots under control by 3,500.

This, in conjunction with no new acquisitions during the year, has resulted in our pipeline of lots under control reducing to 9,871. Acquisition activities are expected to remain scaled back until overall market sentiment, and buying conditions generally, improve.

Improved Capital Structure

In November 2023, a $30M equity raise was completed to support future investment in built-form housing and the modernisation of the business.

During the year, AVJennings also secured a $30M increase to its existing Club Banking facility, bringing the total facility limit to $330M. This increase provides further financial capacity and assists with completion of the settlement of pre-existing land acquisition contracts. The facility was extended to September 2025.

Milestone achievements for the Pro9 JV

During the year, the Pro9 Australian manufacturing facility was established on the NSW Central Coast. The factory recently commenced production with the first walls manufactured in August 2024 and due for installation at AVJennings’ Riverton project (QLD) in early September 2024. Walls for the first 80+ homes from the Australian factory are slated to be homes for AVJennings’ customers.

Prior to the production of walls from the new Australian manufacturing facility, the walls were imported from Europe and 24 Stellar Collection homes have been completed or are under construction, featuring the Pro9 walls.

The installation process continues to demonstrate significant efficiencies beyond traditional construction methods. We have successfully erected external walls for a single-storey home in one day and late in FY24, erected the full structure for six double-storey attached terrace homes at our Elderslie community in Sydney in 15 days. These terrace homes showcase a mix of innovation and efficiency with Pro9 external walls, traditional internal walls, off-site manufactured floor and roof cassette systems and prefabricated stairs, without impacting quality.

While we are expanding the use of the Pro9 walling system beyond our Stellar Collection homes, the Stellar Collection homes are designed to achieve a minimum 8-star energy rating and include other sustainability upgrades that are important to our customers.

There has also been growing industry and government interest as Pro9 has the potential to assist Australia's housing shortage and climate change goals and to transform AVJennings' income profile over time.

Modernising the business

In line with its strategic objectives, AVJennings continues to progress with the modernisation of the business, and improving capital structure and capital recycling initiatives as well as increasing utilisation of the Pro9 walling system to deliver construction efficiencies and improved customer outcomes. The Company continues to strive to enhance its people management practices to foster a highly performing, engaged culture and Directors intend to undertake a refresh of the Board over the balance of this year. Several departures are planned on a staggered basis including long tenure Directors. An overall reduction of Board size is also under consideration and searches are underway to identify new appointees. A further update will be provided at the AGM. Lisa Chung has advised the Chairman that she does not intend to stand for re-election at the AGM due to other board commitments.

Outlook

Entering FY25, AVJennings notes the market's supply and demand imbalance, and lead indicators which are slowly improving. Southeast Queensland is expected to continue to be the Company's strongest market in the near term. Other regions, especially Victoria and New Zealand remain challenging.

Looking ahead, the next twelve months will be highly impacted by expectations for, or changes in, interest rates which is highly correlated to purchaser confidence. We expect FY25 revenue to be roughly in line with the current year with continued pressure on gross margins until the macroeconomic environment improves further. Earnings are again expected to be heavily skewed to the second half.

The Pro9 factory has commenced production of walls and while we forecast measured growth in production across FY25, we don't expect the factory to materially contribute to AVJennings' earnings in FY25.

Directors decided not to declare a dividend for the full year, in line with Board policy to pay dividends from NPAT. However, Directors anticipate a return to a normal dividend cycle in 2025.

The Company looks forward to providing a Q1 trading update during October 2024 and remains focused on executing its strategy.

This announcement has been approved and authorised for release to the ASX by the Board of Directors of AVJennings Limited.

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