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ASX/MEDIA RELEASE: TENTATIVE SIGNS FOR OPTIMISM

Financial Results

Residential property developer AVJENNINGS (ASX: AVJ) recorded an after tax loss of $19.1 million for the half year to 31 December 2012 (31 December 2011: $3.3 million profit after tax). The result includes provisioning for loss on inventory of $16.1 million after tax.

Provisioning was the result of a review of the carrying values of assets and represents a 5.3% reduction in the book value of current inventory. Approximately, 79.3% of provisioning relates to Queensland projects.

Chief Executive Mr Peter Summers said the Queensland market has not recovered to the extent previously expected by either AVJennings, its competitors and most industry forecasters.

Additionally, one project in Victoria was impaired $2.2 million after tax as the downturn in that State has required a more aggressive pricing structure for that project.

AVJennings was also impaired by one of its New South Wales projects, which has suffered from long term planning and government charges issues.

Net assets were 90.1 cents per share (30 June 2012: 96.9 cents per share) after this impairment.

Revenue was $52.9 million, down from $92.2 million for the previous corresponding period in 2012. The decrease was due to reduced completed inventory and softer Victorian market conditions.

AVJennings is currently in discussions with its Club Lenders to renew its Club Facility and extend its expiry date from 30 September 2013 to 30 September 2015. Draft terms have been exchanged and AVJennings believes the terms of the renewal should be finalised shortly. The fact that the facility has not been formally renewed as at the balance date requires the Club Facility debt to be treated as a current liability in the financial statements.

AVJennings remains compliant with all lending covenants.

Net Debt at balance date on a proportionate consolidation basis was $119.8 million (31 December 2011: $108.4 million).

Mr Summers said “the increase in net debt is attributable mainly to increasing production, increased built form and settlement payments in respect of previous acquisitions. Whilst increased production levels, including funds spent on housing construction on Company controlled land increased debt in the short term, it also de-risks the balance sheet in that the inventory being created is more saleable.”

Business Overview

Mr Summers reflected that residential property development has many elements which now have longer lead times than many other industries. Consequently, reported results can sometimes not be totally reflective of current or even recent market fundamentals or conditions.

Firstly, there is a gap between fundamental market conditions and consumers transacting.

“In most markets in which AVJennings operates, with the exception of Victoria, underlying fundamentals are strong, or at least stronger, than they have been in recent times,” Mr Summers declared.

“Affordability has generally improved, primarily as a result of negative or subdued price growth, lower interest rates and income growth remaining ahead of inflation. Additionally, supply has often not kept pace with underlying demand.”

He said, however, that subdued market conditions have generally continued through calendar 2012. Residential property market conditions during the reporting period were adversely affected by weak consumer confidence which has subsisted for some time now.

“There are signs that some markets are starting to improve although this is taking time to translate into transactions.”

Secondly, even when markets show signs of recovery, time is required to rebuild work in progress levels and achieve sales and settlements to recognise revenue.

As previously advised to the market, one of AVJennings’ strategies was to address the poor market conditions which continued through 2012, by scaling down development expenditure.

“Whilst this has allowed AVJennings to conserve cash it has meant that less inventory has been available in the market for sale. This has also significantly affected revenues for the half year,” Mr Summers added.

The table below illustrates the slowdown in WIP during 2012 and the increase towards the end of the current reporting period and shows the number of lots under development (work in progress) at certain dates:

* 667 at 30 June 2011;
* 572 at 31 December 2011;
* 318 at 30 June 2012; and
* 554 at 31 December 2012.

He added that it will take time for new stock to be completed and sold before revenue increases, but the process is underway.

“Additionally, market sentiment over the last year has shifted such that customers in most markets respond more favourably to completed housing than to land only sales. AVJennings has responded to this change by increasing housing construction on controlled land. Whilst this requires greater use of capital in the short term, it also reduces sales risk by facilitating turnover.”

Finally, new projects take time to bring to site and become established. In late 2010 the Company expanded its land portfolio by some 3,000 lots.

“These projects have taken time either to get to revenue recognition stage or to achieve the type of maturity at which sales reach the types of volumes required to materially impact the business. Whilst some aspects of this have been slower than anticipated, and some outside of the Company's control, we are now significantly advanced in this process,” he added.

Mr Summers said that in relation to the main markets in which AVJennings operates, there have been mixed conditions.

The main reduction in revenue for the period has occurred in Victoria.

The Victorian market was overheated during 2010/11 and conditions have since softened considerably. Revenues declined by $31.8 million for the reporting period from December 2011 figures, however, margins on Victorian projects remain acceptable and sales performance over the December 2012 and January 2013 period improved and indicate that market conditions in Victoria appear to have stabilised.

The NSW market continues to show signs of improvement with increased enquiry levels at most projects. This is a significant improvement on very poor conditions which prevailed in NSW for nearly a decade.

Mr Summers pointed out that AVJennings’ operations in NSW have been impacted by delays out of the Company's control to its new project at Cobbitty. A combination of delays being overcome as well as improving market conditions should see better outcomes from our New South Wales operations.

He said that until relatively recently Queensland prices, particularly in the lower and middle segments, were high by historical levels compared to Sydney and Melbourne. This is no longer the case and the Queensland markets in which the Company operates are now priced at, or even below, historical levels and overall fundamentals are quite strong.

“Unfortunately, Queensland has suffered in recent times from many issues such as the effects of floods, lower population growth, the impact on tourism from the high Australian dollar and recent softening in the mining sector. This has impacted on consumer confidence, probably to an even greater extent than many other areas in Australia.”

Most industry forecasters remain of the view that the Queensland markets will see a recovery, however, current sales performance remains soft and land only sales are harder to achieve. As a consequence, the largest proportion of our inventory write-down relates to Queensland.

The South Australian property market remains stable but with low sales volume.

Mr Summers said the development status of AVJennings’ two main projects in South Australia should see improved performance in the short term. The St Clair project is now entering a significant stage of maturity and sales activity is increasing accordingly. The Eyre (Penfield) project is just underway with the first stage including a substantial display village comprising 8 contract builders and 20 display homes.

AVJennings joint venture with Hobsonville Land Company in Auckland, New Zealand, has shown significant signs of improved performance.

“Again, there is a lag between underlying business activity and revenue recognition but we are confident that significantly improved results will flow from the project in the short to medium term. The project is outstanding both in its own right and as an example of what can be achieved in partnership with government.”

AVJennings continued to focus on overheads and cost control during the period. However, this has not been to the detriment to aspects of the business that are critical to its future success, such as product and design innovation.

Total lots under control was 10,581 at balance date.

Outlook

Mr Summers said that market fundamentals remain positive, with improvements in affordability, low (and possibly further reductions in) interest rates, underlying housing shortages in some markets, notably NSW and Auckland NZ, relatively high population growth and relatively stable economic conditions expected to continue.

“Consumer confidence remains the key issue and until there is a positive change, market conditions will continue to remain challenging. However, there are tentative signs that provide some optimism that this change is underway,” Mr Summers concluded.

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