ASX/Media Release

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STOCKLAND ANNOUNCES STRONG FY22 RESULT; DELIVERING ON STRATEGY AND MAINTAINING A STRONG CAPITAL POSITION

- Statutory profit of $1,381 million, up 25.0% on FY21
- Funds from operations (**FFO**)[1] of $851 million, up 8.0% on FY21
- FFO per security of 35.7 cents, up 7.9% on FY21 and slightly above our guidance range of 35.1 to 35.6 cents
- Full year total distribution per security of 26.6 cents, up 8.1% on FY21
- Net tangible assets (**NTA**) of $4.31 per security, up 8.3% from 30 June 2021, reflecting solid revaluation gains from high quality portfolio
- Capital management metrics strong, with gearing at 23.4%[2] at 30 June 2022 and approximately 18% on a proforma basis post-completion of the sale of Retirement Living business in July 2022
- Strong operational metrics across the Commercial Property portfolio: rent collection at 99.7%[3] for FY22; comparable FFO growth of 3.3%[4]; Town Centres leasing spreads positive for FY22 at 1.5%[5]
- Momentum maintained across the Communities platform with Masterplanned communities contracts on hand up 19.4% vs FY21 and 18.3% operating profit margin despite upward cost pressure
- Recurring ROIC of 10%, above the target range of 6-9%[6] and Development ROIC of 16% within target range of 14-18%[6]
- Established two new capital partnerships, in Land Lease Communities and at M_Park, NSW
- Divestment of Retirement Living business completed post balance date[7]
- $41 billion[8] development pipeline across Commercial Property and Communities
- FY23 FFO per security guidance set at 36.4 to 37.4 cents on a pre-tax basis[9]. Tax payable is expected to be in the range of 5-10% of pre-tax FFO

1 Funds from operations (FFO) is determined with reference to the PCA guidelines.

2 Target range of 20-30%.

3 Rent collection rates across the portfolio up to 31 July 2022 on FY22 billings. Includes all provisioned COVID-19 abatements.

4 Excludes COVID-19 abatements and ECL.

5 Rental growth on stable portfolio on an annualised basis.

6 Indicative return on invested capital target. Recurring return comprises Management income and Property NOI (net of amortisation and straight-line rental adjustment) less divisional overheads plus revaluation movements. Development return includes realised development gains and profit on sale of inventories, net of divisional overheads and before interest and tax.

7 See ASX announcement lodged with the ASX on 29 July 2022.

8 Total development pipeline, includes projects in early planning stages, projects with planning approval and projects under construction.

9 All forward looking statements, including FY23 earnings guidance, remain subject to no material deterioration in current market conditions and the continued recovery from COVID-19.

FY22 overview

Stockland (ASX: SGP) has today released its results for the full year to 30 June 2022.

Stockland delivered a statutory profit of $1,381 million, up 25% from $1,105 million in FY21.

Our strong FY22 result includes $725 million of commercial property revaluation gains, equating to a 7.3% uplift versus June 2021 book values. These revaluation outcomes reflect the strong performance of our essentials-based Town Centres portfolio, a combination of market rental growth and further cap rate tightening over the year for high quality Logistics assets, and a broadly stable asset pricing environment for Workplace assets.

Funds From Operations of $851 million was up by 8.0% on FY21, while FFO per security of 35.7 cents rose by 7.9%.

A total distribution of 26.6 cents per security was declared, reflecting a payout ratio of 75% of FFO.

Managing Director and Chief Executive Officer, Tarun Gupta, said "We delivered a strong operational and financial result for FY22, slightly above our guidance range for FFO per security, in another year of significant market disruption. We have made significant progress toward implementing our strategy while maintaining our focus on operational performance."

"In February 2022, we announced the establishment of two significant capital partnerships with globally recognised, high-quality institutions – the Stockland Residential Rental Partnership (SRRP) with Mitsubishi Estate Asia, and the M_Park Capital Partnership with Ivanhoé Cambridge."

"We maintained a disciplined approach to capital management across our business and delivered on the strategy to divest the Retirement Living business, and on the sale of non-core assets in our Town Centres portfolio. This has put us in a strong capital position which provides significant capacity to pursue opportunities to generate superior returns on a sustainable basis."

Commercial Property

The Commercial Property business delivered FFO of $564 million in FY22, up 1.1% on FY21.

The combined portfolio delivered comparable FFO growth of 3.3%[10], with the overall result for the business reflecting the impact of non-core Town Centres disposals, COVID-19-related rental abatements and higher Commercial Property net overheads, offset by increased trading profits.

Approximately 98%[11] of the portfolio was independently valued during the year. This drove a net valuation uplift of $725 million[12], equating to 7.3% growth on previous book values.

As at 31 July 2022, 99.7% of contracted gross rent for FY22 had been collected across the portfolio (99.5% Town Centres, 99.9% Logistics, 99.9% Workplace).[13]

Logistics

Logistics FFO of $155 million was up by 37.2% on FY21. On a comparable basis, the portfolio delivered FFO growth of 5.5%[14]. This was underpinned by sustained high occupancy along with an acceleration of rental growth across the portfolio. New leases negotiated over FY22 delivered an average rental uplift of 8.5%[15].

Masterplanning undertaken on our existing landbank during the second half resulted in a doubling of the Logistics development pipeline to approximately $6.4 billion[16]. Projects with a combined value of approximately $300 million reached completion over FY22. A further circa $1.2 billion[16] of active developments were underway as at 30 June 2022, of which approximately $600 million[16] is expected to reach completion over FY23.

10 Excludes COVID-19 abatements and ECL.

11 By value.

12 Excludes sundry properties and stapling adjustment.

13 Rent collection rates across the portfolio up to 31 July 2022 on FY22 billings. Includes all provisioned COVID-19 abatements.

14 Excludes COVID-19 abatements.

15 Average rental growth on new leases negotiated and executed in FY22.

16 Forecast end value on completion, subject to relevant approvals.

CEO, Commercial Property, Louise Mason said,

"Our Logistics development pipeline continues to offer attractive returns on a risk-adjusted basis and significant future earnings growth, notwithstanding the impact of elevated construction costs. Our development pipeline is located in prime Eastern Seaboard markets that continue to benefit from constrained supply and elevated occupier demand and comprises land holdings that have been acquired at attractive points in the real estate cycle."

Workplace

The Workplace portfolio delivered FFO of $110 million (FY21: $111 million) and was flat on a comparable[17] basis (up 0.2% versus FY21).

Leasing activity increased over FY22 and rent collection was strong at 99.9%[18]. Leases completed over the period delivered solid rental growth of 2.3%. However, the result was impacted by the downsizing of one major tenant in November 2021. This contributed to a decrease in the portfolio's occupancy rate to 91.3%[19] at June 2022 from 94.5% at June 2021.

In February 2022 the Group entered into a capital partnership with Ivanhoé Cambridge for the staged development of the over $2 billion[20] of prime life sciences and technology space at M_Park in Sydney, NSW.

Piccadilly (Sydney CBD) and Affinity Place (North Sydney), NSW, development projects continue to progress through the authority approvals process. In June 2022, development approval was received for Affinity Place – a next-generation workplace that will be among the most sustainable buildings in the North Sydney precinct.

CEO, Commercial Property, Louise Mason said,

"We continue to progress our approximately $5.8 billion Workplace[20] development pipeline. We remain focused on leveraging our development and asset creation strengths to provide a clear point of difference in our Workplaces. We are adding value and optionality at each stage of the development process, prior to construction commencement. The timing of construction commencement will be subject to our assessment of market, rent growth and capitalisation rate outlooks as well as achieving target levels of tenant pre-commitments and securing third party capital."

Town Centres

The Town Centres portfolio generated FFO of $340 million compared with $363 million for FY21. On a comparable basis, this represents growth of 3.0%[21] vs FY21. COVID-19-related rental abatements (net of ECL provision release) reduced FY22 Town Centre FFO by $18 million vs $9 million in FY21.

Portfolio occupancy was maintained at 99.1%[22] (in line with June 2021) and rent collection remained strong at 99.5%[18] over the period.

Leasing transactions executed over the year resulted in a positive average spread of 1.5%[23]. This compares with an average spread of +1.2% for 1H22 and represents a marked improvement versus -6.1% for FY21.

Sales performance of the portfolio remained resilient, despite extensive COVID-19 trade restrictions in NSW and VIC over 1H22.

17 Excludes COVID-19 abatements.

18 Rent collection rates across the portfolio up to 31 July 2022 on FY22 billings. Includes all provisioned COVID-19 abatements.

19 As at 30 June 2022. By income.

20 Forecast end value on completion, subject to relevant approvals.

21 Excludes COVID-19 abatements and ECL.

22 Occupancy across the stable portfolio based on signed leases and agreements at 30 June 2022.

23 Rental growth on stable portfolio on an annualised basis.

Sales growth accelerated during the period as COVID-19 trade restrictions eased. For the eight months post lockdown to June 2022, total comparable sales grew by 8.1% and comparable specialty sales grew 10.1%, vs the pre-COVID-19 corresponding period in 2019[24].

For the 12 months to June 2022, the portfolio delivered total Moving Annual Turnover (MAT) growth of -0.2%[25], comparable MAT growth of -0.8%[26] and specialty MAT growth of -4.8%[26] over FY22, impacted by lockdowns in the earlier part of the financial year.

CEO, Commercial Property, Louise Mason said,

"Our Town Centres portfolio has performed well over FY22, demonstrating its resilience during the extensive COVID-19 restrictions of 1H22 and delivering strong sales growth in 2H22 as restrictions eased. The extensive remixing that we have undertaken in recent years has resulted in a sales mix skewed to essentials-based categories, positioning us well for the current economic environment. We continued to reshape the portfolio over the year, divesting $388 million[27] of non-core assets."

Communities

Masterplanned Communities

The Masterplanned Communities business reported FFO of $336 million in FY22, up 1.5% on FY21.

Operating profit margin of 18.3% was above the FY21 level of 18.0%, reflecting the benefit of sustained price growth along with a greater contribution from NSW projects.

The business achieved 6,922 net sales over FY22, reflecting elevated demand for most of the period and positive residential market fundamentals.

Successive increases to the official cash rate have impacted purchaser demand over the latter half of FY22. Though several fundamental drivers remain supportive, and demand has been running ahead of the industry's production capacity in recent years, we expect moderation in demand in response to the rapid increase in interest rates.

Settlement volumes totalled 5,964[28] lots, in line with previous guidance. This was achieved despite volumes being impacted by COVID-19 related construction delays and extreme wet weather, particularly across our Queensland projects.

CEO, Communities, Andrew Whitson said,

"We are strongly positioned for the next stage of the residential cycle with a record 5,908 contracts on hand, providing good visibility into FY23 earnings. These contracts on hand are at an average price point 12.9%[29] above FY22 settlements."

"With an average age of 10 years, our landbank has strong embedded margins. We restocked well in the early phases of the COVID-19 pandemic, capitalising on favourable conditions to underpin future margins, and under assumptions that allowed for a cyclical moderation of demand in the broader residential market."

"For FY23, we are targeting an average operating profit margin of approximately 18% and approximately 6,000 settlements, with a skew to the second half of the financial year, similar to FY22."

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24 8 months post lockdown (November 2021 to June 2022) vs pre-COVID-19 corresponding period (November 2018 to June 2019).

25 Sales data includes all Stockland managed retail assets, including joint venture assets.

26 Comparable basket of assets as per SCCA guidelines, which excludes assets which have been redeveloped within the past 24 months.

27 Includes disposal of Bundaberg, Townsville Nathan Street, and Cairns QLD, and asset held for sale Stockland Bull Creek, WA.

28 Includes 2,128 settlements under joint venture/project development agreements (FY21: 1,777).

29 Average price per lot of contracts on hand vs FY22 settlements.

Land Lease Communities

The integrated Stockland Halcyon Communities platform delivered FFO of $15 million (nil in FY21). The result reflects the part-period contribution of the Halcyon portfolio (acquired in August 2021).

Operational performance across the established portfolio was strong, with average rental growth of 6.3%[30] and a net operating margin of 65%.

The business achieved 405 net home site sales over FY22, reflecting strong purchaser demand for land lease product. Settlement was achieved on 248 home sites over the period, in line with previous guidance despite delays due to wet weather and COVID-19-related construction constraints.

CEO, Communities, Andrew Whitson said,

“Over FY22, the Stockland Halcyon platform has scaled up rapidly and now consists of approximately 9,000 home sites across our established portfolio and development pipeline.”

“The formation of the Stockland Residential Rental Partnership (SRRP) with Mitsubishi Estate Asia during the period allows us to accelerate the expansion of our land lease communities platform and the realisation of embedded upside within our landbank.”

“We are entering FY23 with 499 contracts on hand, at an average price ~18%[31] above FY22. This provides us with good visibility for the year ahead.”

“We are targeting approximately 350 home site settlements in FY23, with an average development operating profit margin within the range of 10-15%.”

Retirement Living

The Retirement Living business contributed $97 million of FFO in FY22, versus $54 million in FY21. The increase was driven primarily by the recognition of deferred management fees due to village disposals that were previously contracted but reached settlement in FY22[32]. The business also delivered an improved operational result with established settlement volumes up 5% on FY21.

The sale of the Retirement Living business completed on 29 July 2022[33].

Capital position and cashflow

Stockland’s balance sheet position remains strong. As at 30 June 2022 gearing stood at 23.4%, and available liquidity[34] totalled $1.0 billion.

Stockland maintains an investment grade rating of A-/A3 with stable outlook from S&P and Moody’s, respectively.

On a proforma basis, the completion of the sale of the Retirement Living business in July 2022 will result in a further 5% reduction to gearing (to approximately 18% and an increase in proforma liquidity to approximately $1.9 billion).

Stockland's weighted average cost of debt for FY23 is expected to rise to 4.4%[35] from an average of 3.4% over FY22, reflecting a higher interest rate environment. Hedging is in place over ~65% of forecast average FY23 borrowings.

30 Effective 1 July 2022.

31 Average price per home of reservations vs FY22 settlements.

32 Profit relating to settlements of previously contracted disposals of villages in Victoria in FY19 (Keilor, Burnside, Taylors Hill) and in 1H21 (Bundoora, Cameron Close, Latrobe, and Long Island).

33 See ASX announcement lodged with the ASX on 29 July 2022.

34 Cash and undrawn facilities.

35 Assuming an average BBSW of 3.15% over FY23.

Stockland CFO, Alison Harrop said,

“Stockland enters FY23 in a strong financial position. Post completion of the disposal of the Retirement Living business, gearing sits below our target range of 20-30%. While higher market interest rates are expected to result in a higher weighted average cost of debt for FY23, the majority of our interest rate exposure is either hedged or fixed.”

“We generated strong operating cash flow in FY23 of $918 million[36], or $1,536 million excluding payments for land acquisitions, comfortably covering our FY22 distribution.”

"The combination of our strong liquidity position, access to global debt capital markets, solid relationships with capital partners and ongoing discipline around cashflows, positions us well to deliver on our strategic priorities, while providing us capacity to take advantage of opportunities.”

The total distribution of 26.6 cents per security reflects a payout ratio of 75%, which is within the target range of 75-85% of FFO.

FY23 outlook and guidance

Managing Director and Chief Executive Officer, Tarun Gupta said,

“While macro-economic conditions remain uncertain, the underlying performance of our business segments give us good visibility for the year ahead.”

“Our Commercial Property business is positioned well, with our Town Centres portfolio’s essentials-based mix providing resilience in an inflationary environment. We are accelerating delivery of our Logistics pipeline to provide additional high-quality earnings and we continue to progress our Workplace development opportunities.”

“Our Communities business also enters the year in a strong position, with almost 6,000 Masterplanned Communities contracts on hand and strong embedded margins in our landbank. Our Land Lease Communities settlements are expected to continue rising, with almost 500 contracts on hand.”

“Importantly, we enter FY23 in a very strong capital position, with gearing sitting below our target range of 20-30% on a proforma basis.”

FY23 FFO per security is expected to be in the range of 36.4 to 37.4 cents on a pre-tax basis[37]. As previously announced, tax payable is expected to be in the range of 5-10% of pre-tax Group FFO, with the benefit of some remaining carry forward tax losses extending into FY23[37].

Distribution per security is expected to be within Stockland’s targeted payout ratio of 75-85% of post-tax FFO[37].

Current market conditions remain uncertain. All forward looking statements, including FY23 earnings guidance, remain subject to no material deterioration in current market conditions and the continued recovery from COVID-19.

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36 Cashflows include residential cash receipts of $1,822 million and residential costs of $726 million, comprising current year stage costs, future stage infrastructure costs, and SG&A and other costs. Future stage infrastructure costs represent ~60% of costs.

37 All forward looking statements, including FY23 earnings guidance, remain subject to no material deterioration in current market conditions and the continued recovery from COVID-19.

FY22 Results and market briefing

This ASX announcement should be read in conjunction with Stockland's FY22 corporate reporting suite available at https://www.stockland.com.au/investor-centre/results

Stockland will conduct a market briefing at 10.00am (AEST) today, Friday 19 August 2022. Please register for the webcast at: https://web.lumiconnect.com/#/353556845

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This announcement is authorised for release to the market by Ms Katherine Grace, Stockland's Company Secretary.

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