21 February 2024

Stockland 1H24 result reflects positive operational and strategic momentum with material 2H FFO skew

Financial results for the six months ended 31 December 2023 (1H24)

1H24 highlights

- Statutory profit of $102m, compared with $301m in 1H23
- Pre- and post-tax Funds From Operations[1] (FFO) of $266m versus $353m in 1H23, reflecting the material skew in Masterplanned Communities (MPC) settlement volumes to 2H24
- FFO per security (pre- and post-tax) of 11.2 cents and 1H24 distribution per security of 8.0 cents
- Net tangible assets (NTA) of $4.20 per security, compared with $4.24 per security at 30 June 2023
- Positive operational metrics:
  - Strong comparable FFO growth of +3.1%[2] across the Commercial Property portfolio, with positive re-leasing spreads of +3.5%[3] for Town Centres and +39.6%[4] for Logistics
  - 1,614[5] MPC settlements (versus 1,872 in 1H23), at 18.0% development operating profit margin, reflecting mix shifts and a larger skew to 2H in FY24 than in FY23
  - Strong performance from the Land Lease Communities (LLC) business, with 242 sales and 155 settlements at 22.3% development operating profit margin
- Accelerated execution of strategy:
  - Reshaped the portfolio via the ~$1.06bn acquisition of 12 actively trading MPC assets announced in December 2023[6], and five additional LLC projects acquired in August 2023
  - Established two high-quality partnerships within the Communities business, SCP and SSRCP[7]
  - Positioning for a step change in production rates across MPC and LLC, with ~66 communities expected to be active by the end of FY24 versus ~36 active communities at June 2023[8]
- Disciplined capital management, with gearing at 26.8% and available liquidity of ~$2.6bn at 31 December 2023:
  - Actively positioning the balance sheet for increased development activity in targeted growth areas, with ~$380m[9] of capital recycling over 1H24
  - Gearing expected to remain within the top half of the 20% to 30% target range at 30 June 2024
- FY24 pre-tax FFO per security guidance maintained at 34.5 to 35.5 cents, with tax expense expected to be a high single-digit percentage of pre-tax FFO[10]
- FY24 Distribution per security expected to be within Stockland's targeted payout ratio range of 75% to 85% of post-tax FFO[10]

[1] Funds from operations (FFO) is determined with reference to the PCA guidelines.
[2] Includes comparable assets; excluding acquisitions, divestments and assets under development.
[3] Rental growth on stable portfolio on an annualised basis.
[4] Reflects re-leasing spreads on new leases and renewals negotiated over the period.
[5] Includes 706 settlements under joint venture/project development agreements (1H23: 724).
[6] On a 100% basis (Stockland 50.1%, Supalai 49.9%), excluding transaction costs and subject to adjustments at completion. Subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals, including the ACCC. Settlement of certain Project Delivery Agreement (PDA) projects are also conditional on the vendor obtaining relevant landowner Change of Control (CoC) consents. SSRCP may also exercise its right to acquire (at its election) certain additional parcels of land for an additional payment of up to $239m.
[7] Established Stockland Communities Partnership (SCP) with Mitsubishi Estate Asia (MEA) and Stockland Supalai Residential Communities Partnership (SSRCP) with Supalai Australia Holdings Pty Ltd (Supalai).
[8] Subject to relevant approvals. Active defined as communities that have launched and are selling. Includes the 12 MPC assets acquired in December 2023.
[9] Includes disposal of Stockland Townsville, QLD and assets held for sale Stockland Nowra, NSW, and Stockland Balgowlah, NSW at an aggregate 4.9% discount to book value.
[10] All forward looking statements, including FY24 earnings guidance, remain subject to no material change in market conditions.

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1H24 Overview

Stockland (ASX: SGP) has today released its financial results for the half year to 31 December 2023.

Stockland's 1H24 result reflects a larger skew in MPC settlement volumes to the second half in FY24 than in FY23, as previously guided.

Stockland delivered a statutory profit of $102m in 1H24, compared with $301m in 1H23. Pre- and post-tax Funds From Operations (FFO) was $266m, compared with $353m in 1H23. 1H24 FFO per security (pre-and post-tax) was 11.2 cents, with no tax expense recognised due to the impact of the MPC settlement skew on FFO.

A distribution of 8.0 cents per security was declared, reflecting a payout ratio of 72% of FFO.

Managing Director and Chief Executive Officer, Tarun Gupta said: "Over 1H24, we have accelerated the execution of our strategic priorities and made meaningful progress in reshaping our portfolio."

"We announced a ~$1.06bn[11] acquisition of 12 high-quality, actively trading MPC projects in partnership with Supalai, extending our residential and capital partnership platform while providing Stockland with attractive returns and new sources of recurring income. The acquisition represents a strategic restocking of our pipeline and increases our capital allocation to the residential sector, consistent with our focus on deploying capital towards our targeted growth sectors. We expect the transaction to be accretive to our FFO per security from FY25."

"We are seeing early signs of improvement in residential markets and are positioning our MPC and LLC businesses for increased production rates to meet demand in future periods. By the end of FY24, we expect to be actively trading from ~66 Communities projects across MPC and LLC, up from ~36 communities at June 2023[12]. We also expect to commence construction on the majority of our $1.1bn[13] active Logistics developments during FY24."

"Our high-quality Commercial Property portfolio continues to deliver strong performance and we are focused on maximising income generation opportunities across our well-located Logistics portfolio and pipeline. We maintain a disciplined approach to capital management and a strong balance sheet, with active capital recycling to fund our secured pipeline and redeploy into our growth sectors."

Commercial Property

The Commercial Property segment delivered FFO of $329m in 1H24, up by ~3% relative to the previous corresponding period. This reflected strong comparable growth of 3.1%[14] from the ~$10.6bn[15] Commercial Property investment portfolio, driven by positive leasing spreads across the Logistics and Town Centres portfolio, and ongoing contributions from Development and Management Income.

Approximately 69% (by value) of the Commercial Property portfolio was independently revalued over 1H24, with a 0.5%, or $51m decrease on previous book values[16]. This reflected the softer capitalisation rate environment, which was partially offset by strong income growth across our high-quality portfolio.

[11] On a 100% basis (Stockland 50.1%, Supalai 49.9%), excluding transaction costs and subject to adjustments at completion. Subject to Foreign Investment Review Board (FIRB) and associated regulatory approvals, including the ACCC. Settlement of certain Project Delivery Agreement (PDA) projects are also conditional on the vendor obtaining relevant landowner Change of Control (CoC) consents. SSRCP may also exercise its right to acquire (at its election) certain additional parcels of land for an additional payment of up to $239m.
[12] Subject to relevant approvals. Active defined as communities that have launched and are selling. Includes the 12 MPC assets acquired in December 2023.
[13] Forecast end value on completion, subject to relevant approvals.
[14] Includes comparable assets; excluding acquisitions, divestments and assets under development.
[15] Excludes sundry properties and stapling adjustment.
[16] Excludes sundry properties and stapling adjustment, includes investment properties under construction (IPUC) and Stockland's share of equity accounted investments.

Table 1: Commercial Property 1H24 FFO summary table

$m	1H24	1H23	Change
Commercial Property (CP) FFO	**$329m**	**$320m**	**2.9%**
Logistics	$80m	$67m	20.1%
Workplace	$57m	$54m	6.9%
Town Centres	$187m	$185m	0.9%
Commercial Property – Development Income	$20m	$27m	(26.5)%
Commercial Property – Management Income	$12m	$16m	(21.0)%
Commercial Property net overheads	$(28)m	$(29)m	(3.5)%

Logistics

The ~$3.7bn[17] Logistics portfolio delivered FFO of $80m in 1H24, up 20.1% relative to 1H23. The portfolio delivered strong comparable FFO growth of 6.0%[18] for 1H24. Re-leasing spreads on new leases and renewals negotiated over the period (including those yet to be executed) increased to 39.6% over 1H24, up from 23.9% over 2H23.

The Logistics portfolio delivered a net valuation gain of $70m, or 2.1% over 1H24, with the 46 basis point softening in the portfolio's weighted average cap rate more than offset by strong income growth.

CEO, Investment Management, Kylie O'Connor said: "Our high-quality portfolio continues to benefit from favourable supply-demand dynamics for well-located assets, attracting strong tenant demand and accelerating leasing spreads. We are focused on capturing rental growth opportunities presented by the portfolio's weighted average lease duration of 3.5 years[19], and the ongoing delivery of the development pipeline."

Stockland is progressing the delivery of its ~$6.5bn Logistics development pipeline, with the majority of the $1.1bn active pipeline expected to commence construction during FY24[20].

Workplace

Stockland has a ~$1.9bn[17] Workplace portfolio, the majority of which is being positioned for future mixed use opportunities. The portfolio delivered FFO of $57m for 1H24, up 6.9% from 1H23, and comparable FFO growth of 2.8%[18], driven by rental escalations on existing leases.

The smaller scale of Stockland's Workplace portfolio is reflected in the variability of its operating metrics over 1H24, with releasing spreads of -0.4%[21,22], impacted by rental reversion at one asset. Portfolio occupancy of 91.6%[19,22] and WALE of 5.6 years[19,22] reflect the two recently completed buildings at MPark Stage 1.

The valuation of Stockland's Workplace portfolio declined by $79m, or 4.1%, reflecting 23 basis points of cap rate expansion.

Stockland continues to add value while maintaining optionality regarding development opportunities. Over 1H24, Stockland achieved completion of the first two buildings at MPark Stage 1 and commenced construction on the final two buildings. MPark Stage 2 development is currently going through the masterplanning approvals process.

Town Centres

The Town Centre portfolio delivered 1H24 FFO of $187m, up 0.9% relative to 1H23. Comparable FFO growth slowed to 2.1%[18] from 5.0% for 1H23, largely due to higher non-recoverable outgoings.

[17] Excludes WIP and sundry properties.
[18] Includes comparable assets; excluding acquisitions, divestments and assets under development.
[19] By income.
[20] Forecast end value on completion, subject to relevant approvals.
[21] Reflects new leases and renewals negotiated over 1H24.
[22] 1H24 excludes Walker Street Complex and 601 Pacific Highway in NSW.

Leasing spreads accelerated to 3.5% over 1H24, versus 2.5% for 1H23[23], and occupancy levels were maintained above 99%[24] while occupancy costs remained at sustainable levels at 15.1%[25].

On a MAT basis, total comparable sales grew by 5.4% and comparable specialty sales was up by 2.6%, versus the prior corresponding period[26]. Portfolio MAT growth rates are stabilising from previously elevated levels that reflected post-COVID-19 sales recovery.

CEO, Investment Management, Kylie O'Connor said: "Our Town Centres portfolio delivered a resilient operational and financial performance in a moderating retail environment."

"As expected, increasing cost-of-living pressures have led to a slowing of sales growth in discretionary categories. Sales growth for the essentials categories to which our portfolio is heavily skewed is tracking in line with inflation, supporting positive releasing spreads and sustainable occupancy costs across our portfolio. Over the period, we have continued to reshape and optimise the portfolio, with ~$380m[27] of non-core Town Centre disposals."

The valuation of the Town Centre portfolio declined by $43m, or 0.8%, with market rent growth largely offsetting 27 basis points of cap rate softening.

Commercial Property Management and Development Income

The Commercial Property business generated Management Income of $12m in 1H24 (versus $16m in 1H23). This comprises ongoing fees from third parties for property management services provided across our existing Commercial Property portfolio, development-related management fees and initial fee income from a renewable energy partnership with Energy Bay.

Development Income was $20m in 1H24, compared with $27m in 1H23, reflecting the completion of the first two buildings in MPark Stage 1 and lower development income from build-to-sell Logistics developments.

Communities

The Communities segment FFO contribution in 1H24 was $40m, compared with $113m in 1H23. This is primarily driven by the larger skew in MPC settlement volumes to 2H in FY24 than FY23.

CEO, Development, Andrew Whitson said: "We have proven delivery capabilities and are focused on unlocking our pipeline with accelerated development activity. By the end of FY24, we expect to be trading from ~66 MPC and LLC communities, up from ~36 active communities in FY23[28]."

Table 2: Communities FY23 FFO summary table

$m	1H24	1H23	Change
Communities FFO	**$40m**	**$113m**	**(64.3)%**
MPC Development FFO	$88m	$138m	(35.9)%
LLC Development FFO	$12m	$38m	(67.9)%
Communities – Rental Income	$9m	$6m	46.9%
Communities – Management Income	$17m	$20m	(15.8)%
Communities net overheads	$(86)m	$(89)m	(2.6)%

[23] Rental growth on stable portfolio on an annualised basis.
[24] Occupancy across the stable portfolio based on signed leases and agreements at 31 December 2023.
[25] Occupancy cost reflects stable assets, adjusted to reflect tenants trading more than 24 months.
[26] Comparable basket of assets as per the Shopping Centre Council of Australia (SCCA) guidelines, which excludes assets which have been redeveloped within the past 24 months.
[27] Includes disposal of Stockland Townsville, QLD and assets held for sale Stockland Nowra, NSW, and Stockland Balgowlah, NSW at an aggregate 4.9% discount to book value.
[28] Subject to relevant approvals. Active defined as communities that have launched and are selling. Includes the 12 MPC assets acquired in December 2023.

Masterplanned Communities

MPC Development FFO was $88m for 1H24, down from $138m in 1H23. The business delivered 1,614 settlements[29] over the period, in line with expectations for a larger skew in settlements to the 2H in FY24 than FY23.

The development operating margin for 1H24 of 18.0%, (versus 24.2% in 1H23) reflects a higher proportion of MPC settlements from WA and relatively low settlement volumes over the period. For FY24, we expect the MPC business to achieve development operating profit margins in the low 20%s and settlements of 5,200-5,600 lots.

The business achieved net sales of 2,172 lots over 1H24, compared with 1,804 lots in 1H23, with sales rates improving through the period (1,181 net sales in 2Q24 versus 991 in 1Q24). Enquiry levels reflected a similar quarter-on-quarter improvement.

Default and cancellation rates are running slightly above historical averages[30] but remain below previous cyclical peaks.

CEO, Development, Andrew Whitson said: "The stabilisation of the interest rate environment has led to improvements in net sales and enquiries in 2Q24. Positive momentum has continued in January 2024, with net sales of 371 compared with 343 sales in January 2023, and enquiries up 23% year-on-year."

"While differences in the availability of supply, interstate migration and affordability are driving mixed performance across residential corridors in the shorter term, the structural drivers for the residential market remain supportive. These include resilient labour markets, elevated net overseas migration levels, and low rental vacancy rates in an environment where housing supply remains constrained."

"We continue to position the business for market recovery and expect to launch up to six new communities during FY24. The acquisition of 12 actively trading projects announced in December 2023 will provide further scope to increase development activity and expand affordable alternatives."

"Construction and sale-to-settlement timeframes have seen some improvement over 1H24 but remain elongated as the residual impact of wet weather and supply chain disruption moves through the system. Encouragingly, construction cost escalations have returned to normalised levels."

The business ended the period with 4,833 contracts on hand, at average price points ~7% above 1H24 settlements[31].

Land Lease Communities

The LLC development business delivered Development FFO of $12m for the period, compared with $38m in 1H23. 1H23 included cash-backed gains from the transfer of development communities[32] into the SRRP partnership.

Over 1H24, LLC settlement volumes totalled 155 homes, at a development operating profit margin of 22.3%. The LLC business continues to target ~400-450 settlements for FY24, with development operating profit margins slightly below the long-term target range of 22%-27% due to launch costs associated with production ramp-up.

Sustained demand for LLC development product is reflected in 1H24 net sales of 242 homes (versus 127 in 1H23), and further growth in the average sale price per home versus FY23.

CEO, Development, Andrew Whitson said: "The sales rate and price growth achieved by our LLC communities reflect sustained demand for our LLC development product. The average sale price per home across our existing communities in 1H24 was above FY23 levels, and enquiries on both existing and newly launched communities were up strongly. We ended the period with good earnings visibility into 2H24 with 474 contracts on hand, at an average price approximately 9% higher versus 1H24 settlements[33]."

"Our Land Lease platform is positioned for further growth. We launched five new communities in 1H24 and expect to launch a further seven by the end of FY24, which will see our LLC business trade actively from 17 communities."

[29] Includes 706 settlements under joint venture/project development agreements (1H23: 724).
[30] On a rolling 12-month basis.
[31] Average price per lot of contracts on hand versus 1H24 settlements.
[32] Stockland Halcyon Nirimba, QLD and Stockland Halcyon Berwick, VIC.
[33] Average price per home of contracts on hand versus 1H24 settlements (1H24 average settlement price per home: ~$703,000).

Communities Rental and Management Income

Communities Rental Income was $9m for the period, relative to $6m for 1H23. This reflects rental growth across an increasing number of established LLC home sites (~2,500 established home sites in 1H24 versus ~1,940 in 1H23) as well as solid ongoing contributions from Community Real Estate[34] assets from within the Communities portfolio.

1H24 benefited from strong operational performance across the established LLC portfolio, with CPI-linked rental growth[35], high occupancy rates and net operating margins at ~65% across the stabilised portfolio.

Communities Management Income was $17m in 1H24, compared with $20m in 1H23, reflecting the impact of the MPC settlement skew to 2H24 on development-related management fees across Stockland's capital partnerships and existing MPC joint ventures.

Capital Management

Stockland maintained a disciplined approach to balance sheet management. As at 31 December 2023, gearing was 26.8%, within the Group's target range of 20% to 30%, with substantial available liquidity of ~$2.6bn.

Stockland CFO, Alison Harrop said: "Stockland continues to maintain strong discipline around capital management. Our gearing levels at 31 December reflect ongoing capital deployment into our active pipeline as well as the material 2H24 skew in MPC settlements."

"Our ~$2.6bn of available liquidity provides funding flexibility for the Group and we remain active in recycling capital toward our targeted growth areas. We expect gearing levels to remain within the top half of our 20% to 30% target range at 30 June 2024."

"The combination of our strong liquidity position, ongoing discipline around capital management, access to domestic and global debt capital markets and strong relationships with capital partners positions us well to deliver on our strategic priorities and capitalise on redeployment opportunities."

Stockland maintained significant headroom under its financial covenants[36], and strong investment grade credit ratings of A-/A3 with stable outlook from S&P and Moody's, respectively.

The Group's weighted average cost of debt was 5.1%[37] for 1H24 and is expected to average ~5.2%[38] for FY24. The weighted average debt maturity sits at 4.1 years. The fixed hedge ratio averaged 56%[37] for the 6 months to 31 December 2023 and is expected to average ~60% for FY24.

The 1H24 distribution of 8.0 cents per security reflects a payout ratio of 72%, slightly below the target range of 75-85% of post-tax FFO.

FY24 Outlook and Guidance[39]

FY24 FFO per security guidance is maintained at a range of 34.5 to 35.5 cents on a pre-tax basis, with tax expense expected to be a high single-digit percentage of pre-tax FFO.

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

Current market conditions remain uncertain. All forward looking statements, including FY24 earnings guidance, remain subject to no material change in market conditions.

[34] Comprising stand-alone medical and childcare centres.
[35] Typical site agreement – annual rent escalations at the greater of CPI or 3.5%, and a market rent review every 10 years.
[36] Covenant levels: less than 50% Financial Indebtedness / Total Tangible Assets (FI / TTA), and Interest Coverage Ratio (ICR) of more than 2:1. FI / TTA as at 31 December 2023 was 31.0%, and the ICR was 4.8x.
[37] Average over the 6-months to 31 December 2023.
[38] Assuming average BBSW of ~4.3% over FY24.
[39] All forward looking statements, including FY24 earnings guidance, remain subject to no material change in market conditions.

1H24 Results and market briefing

This ASX announcement should be read in conjunction with Stockland's 1H24 corporate reporting suite available at https://www.stockland.com.au/investor-centre/results

Stockland will conduct a market briefing at 11.00am (AEST) today, Wednesday 21 February 2024.

Please register for the webcast at: https://web.lumiconnect.com/#/m/338030098

Ends

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

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Stockland (ASX:SGP)

We are a leading creator and curator of connected communities with people at the heart of the places we create. For more than 70 years, we have built a proud legacy, helping more Australians achieve the dream of home ownership, and enabling the future of work and retail. Today, we continue to build on our history as one of Australia's largest diversified property groups to elevate the social value of our places, and create a tangible sense of human connection, belonging and community for our customers. We own, fund, develop and manage one of Australia's largest portfolios of residential and land lease communities, retail town centres, and workplace and logistics assets. Our approach is distinctive, bringing a unique combination of development expertise, scale, deep customer insight, and diverse talent - with care in everything we do. We are committed to contributing to the economic prosperity of Australia and the wellbeing of our communities and our planet.