



**ASX  
ANNOUNCEMENT**



20 May 2020

**CHAIRMAN'S ADDRESS TO SHAREHOLDERS**

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Attached, in accordance with listing Rule 3.13.3, is a copy of the speech to be delivered by Devine Chairman, David Robinson, at the company's Annual General Meeting today.

ENDS

**Issued by** Devine Limited ABN 51 010 769 365 [www.devinegroup.com.au](http://www.devinegroup.com.au)

**Authorised by** the Devine Limited Board

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### Introduction

Before we commence the formal part of the meeting, I would like to provide an overview of our position and update you on our performance during 2019.

At the AGM last year, I advised you of the steps we took to improve the stability of the business by extending the term of our financing facility, finalising legacy issues and accelerating sales and construction where possible.

Since then, we have made further progress, and our financial outlook is more stabilised. However, we are now facing the uncertainty of the consequences of COVID-19 on the business.

Our progress during 2019 included:

- Continuing to finalise legacy issues;
- Leveraging the performance of our Communities business; and
- Extending the term of our primary financing facility.

Whilst this is progress, it remains the case that there is still a lot to achieve.

First, let's look at the progress in 2019.

### Financial results

Our 2019 financial results comprised:

- Revenue from continuing operations of \$18.1 million;
- A loss before tax from continuing operations of \$20.4 million; and a
- A total loss after tax of \$20.5 million

At December 2019:

- Our Net Assets were \$73 million
- Our debt level was \$37 million, an increase of \$1 million over the prior year.

This result was impacted by asset impairments of \$15.7 million on inventories held at Riverstone Rise in Gladstone, and Mountview in Ipswich – two of our Queensland Communities business projects.

We continue to pursue a number of contractual and insurance claims for the reimbursement of costs arising from legacy residential construction contracts which might result in commercial resolutions during 2020 or, if not, extended legal processes.

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Assisting the Company's financial stability, our land development business has continued to generate cash.

In addition, our operations continue to generate efficiencies and cost-savings as a result of re-sizing initiatives undertaken in prior years and which continue today.

### **Operational review of 2019**

Operationally, the key highlights for the year included:

- The performance of the Communities business in Victoria;
- The recovery of \$5.2m of infrastructure credits at the Mountview project in south-east Queensland;
- The progression of a number of contract and insurance claims relating to the construction business resulting in the initial receipt of \$300,000 during 2019 and a further \$424,000 in Q1 2020; and
- Securing an extension to the primary funding facility for two years.

#### Devine Communities

Turning first to Devine Communities.

Development is ongoing at the Stonehill project at Bacchus Marsh in Victoria. We had 64 new sales and 83 settled allotments. Construction commenced on 193 lots during 2019. The project had a pipeline of 190 contracted sales at 31 December 2019 which are forecast to settle in 2020.

We also progressed our joint venture land development project Newbridge, at Wallan in Victoria. A total of 154 residential lots and 4 englobo lots settled during the year ending December 2019. Stages 3 and 5A (comprising a total of 59 lots) have commenced settling and the remaining 202 lots have been brought to market with 3 stages nearing completion of construction. Of the remaining lots, more than 150 lots have been pre-sold, which will assist the Company to recycle capital from the project.

The projects in South Australia (Mawson Green at Meadows and Orleana Waters at Evanston Gardens) continue to generate stable turnover with sales rates in line with equivalent markets in Adelaide.

Land sales in the Queensland markets of Gladstone and Townsville continue to experience low demand. We continue to monitor these markets and we are ready to respond when demand returns.

We continue to investigate new development opportunities of appropriate scale, in market corridors with existing demand, in order to build on our future development pipeline.

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### **Funding arrangements**

Turning now to our funding arrangements.

Our primary funding facility, provided by ANZ, was varied during December to extend the term by two years. The \$55 million facility now expires on 31 March 2022.

This extended facility allows the Company to fully focus on our core Communities land development business unit.

The facility remains secured by a guarantee provided by our majority shareholder, CIMIC Group Limited.

We have been able to reduce the level of securities (being bank guarantees and insurance bonds) required to be provided as part of our business operations, achieving a reduction of \$5.6 million over the year to \$13.2 million as at 31 December 2019.

### **Focus for 2020**

This brings me to 2020 and our focus for the year ahead.

In March we announced the appointment of James Mackay as Chief Executive Officer and Executive Director.

James has held senior executive roles across a range of industries and was formerly our Chief Financial Officer and Company Secretary.

James retains his role as Chief Financial Officer and Company Secretary. He succeeds John Campbell, who I would like to thank for his commitment and contribution to Devine.

James has more than 18 years' experience in the construction and development sectors, including four years with Devine. He has the right expertise to lead the company during our next phase.

Our focus is to continue to progress existing projects in our Communities land development business including our residential development pipeline of approximately 4,600 future allotments.

We will seek to further position Devine for the purchase of new development sites where good value exists, taking a low-capital intensive approach for future development opportunities, working in partnership with land owners.

We will target projects of appropriate scale in markets with existing demand, and take a considered and strategic approach.

We will continue to actively pursue the commercial opportunities for the KSD2 site in the Brisbane suburb of Hamilton.



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Resolving the remaining contractual and insurance claims in the construction business also continues to be a priority. Details of the remaining claims, including the amounts and the debtors, are commercially sensitive. As the outcomes may be negotiated or taken through a court process, we cannot be sure of the final position.

### **Conclusion**

Coming now to our future.

#### Market conditions

Market conditions in our various communities and land markets are mixed.

National building approval figures released in early 2020 showed that the residential building market had made some improvement; up 11.8% month on month at November 2019 to recover some of the decline that started to occur in late 2017. However the national figures for the 12 month period remain down 20% (November 2018 to November 2019).

State by state the conditions vary.

The Victorian property market stabilised and entered a recovery phase throughout the second half of 2019.

In Queensland, building approvals showed some modest signs of recovery at the end of the year after significant declines earlier in the period.

In the north of the state, where Devine has landholdings, Townsville's property market was stabilising during 2019 and the Gladstone market has reportedly entered its long-awaited recovery phase following a number of years of falls in the median price.

In South Australia, the housing market was showing signs of improvement.

However, conditions in our markets are expected to change again, as a consequence of COVID-19 – an impact we are still determining.

All of the current land inventory of the company was acquired prior to 2012 during more robust times in the various geographic property cycles.

Over recent years we have made significant impairments reducing the inventory valuations of the properties to reflect our judgment as to balance date value and thus impacting heavily on our results. This is based on our revised estimates of future sale prices, development costs and timing of stages. These valuations are reviewed by our auditors and are reassessed every balance date.

Your Board continues to hold the view that it is in the best interests of shareholders for the

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business to continue as a going concern and realize the value inherent in our portfolio and to look responsibly for opportunities that may arise. It has been suggested from time to time that we should liquidate all of our portfolio. We view this as not in shareholders' best interests particularly in the current environment.

### Outlook

In summary, our financial outlook has stabilised

We have continued to finalise legacy issues and take actions to preserve our position and maintain business liquidity.

We continue to monitor and respond to developments in the economy, the interest rate environment and the availability of credit.

And we will continue to deliver on our property development strategy, which is centred on the Communities land development business, by developing our existing project portfolio.

We will also continue to monitor the market for commercial development opportunities for our various land holdings and will investigate new opportunities in order to rebuild our pipeline within the constraints of the current financial markets.

And we have an ever present focus on keeping our costs down.

However, while our circumstances have improved, there is more to do to improve the company's position, and we face mixed market conditions in the current economic environment.

Given this present position, it is not appropriate to provide guidance for our 2020 full year result.

We remain committed to maximising the value of the business.

I would like to take this opportunity to thank our equity partners for their support and express our appreciation to our employees for their loyalty and endeavour.

Thank you.

*ENDS*

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