



# Directors' Comments

## Half-Year Ended 31 December 2011

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8 February 2012

The Directors of Devine Limited are pleased to announce the following results for the half-year ended 31 December 2011. Devine's product and market diversity helped underpin a solid result for the half-year from the company's Apartment and Construction Divisions whilst Housing and Land operations were adversely affected by the difficult market conditions that exist in the residential market in Australia:

- Net profit after tax of \$7.3 million (corresponding period to December 2010, \$9.5 million);
- Total revenue from operations of \$196.9 million (corresponding period to December 2010, \$229.8 million). Revenue of \$179 million from settlements of apartments at the Hamilton Harbour project are not included in the above revenue figure;
- A strong balance sheet maintained with a gearing level of 29% and core debt facilities extended out to October 2014;
- 85% of sold apartments settled in the first two residential towers at Hamilton Harbour;
- 4 new land projects (Stonehill, Bacchus Marsh in Vic.; Pennyroyal Kurunjang in Vic.; Waverley Parks, Willow Vale in Qld.; and The Glenn, Morphett Vale in SA) launched in the December 2011 half which will contribute to settlements and profits in the June half and beyond.

Directors announce the payment of an interim dividend of 2.0 cents per share fully franked (last year 4.0 cents) and payable on 30 March 2012.

### **Market Conditions and Operating Highlights**

As has been widely reported, the Residential sector in most major markets in Australia remained weak or slowed significantly during 2011. This was evidenced by a fall in building approvals and a reduction in construction activity during the last 12 months.

Housing affordability has improved but buyer confidence is still fragile given the uncertain economic and employment conditions in Australia and concerns about the economic conditions overseas. With this background, banks and valuers remain cautious when assessing loans for new home buyers and this has exacerbated the already tight market conditions.

Contrasting with the above, rental vacancy rates are at historical lows in most major markets, interest rates are trending down, there is growth in real wages and there is an undersupply of housing in most markets.

The above market conditions are reflected in the trading figures for housing and land for the six months to December 2011 which are summarised below together with a number of positive operating highlights:

- Settlements commenced in November on the first two residential towers at Hamilton Harbour with 384 apartments settled to the date of this report;
- Completion by Devine Constructions of the first two residential towers at the company's Hamilton Harbour project in Brisbane five months ahead of schedule;
- 360 residential lots settled in the six months to 31 December 2011 (929 residential lots to December 2010) and 277 housing starts during the six months to December 2011 (657 to December 2010) with a stronger second half being forecast. The trading to December reflects the difficult market conditions that exist across the majority of Australian residential markets and planning and government delays that resulted in a limited stock of land being available for sale in the December half in Devine's Victorian operations;
- Secured development approval for a \$1.4 billion masterplanned residential community in Gladstone which will be the largest residential project to be undertaken in the region. It is forecast to house approximately 7,500 people in up to 3,000 dwellings over the next 12 to 15 years. Marketing has commenced in February 2012 with profits from the project contributing to financial year 2012/13;
- The company's development pipeline totalled approximately 15,500 equivalent lots at December 2011 with no new acquisitions occurring in the latter part of 2011. Any future growth in the pipeline will be undertaken in a capital efficient manner ensuring a strong balance sheet is maintained;
- Devine Homes secured contracts to build housing and retirement unit product for external corporate clients and, through its presence in Gladstone, participating in Australia's mining boom by being awarded contracts to build housing for companies servicing the coal seam gas industry;
- The strong resources sector also contributed to an improved outlook in the Townsville market where Devine has a strong presence;

- Devine Constructions awarded a \$70 million contract to build the third residential tower at Hamilton Harbour with construction having commenced in September 2011 and;
- Planning approval secured in September 2011 for a new residential apartment development at Teneriffe in Brisbane's CBD fringe. The project will deliver 111 apartments with marketing and sales to commence in late February 2012 and profits in financial year 2013/14.

## **Results Summary**

A summary of the financial results for the half-year ended 31 December 2011 is provided below:

	Half- Year Ended	
	December 2011	December 2010
Revenue from operations	* \$196.9m	\$229.8m
Profit before Tax	\$10.4m	\$13.6m
Net Profit after Tax	\$7.3m	\$9.5 m
Net Tangible Assets per share	\$2.15	\$2.12
EPS	4.6 c	6.0c
Interim Dividend (Fully Franked)	2.0c	4.0c

\* Excludes revenue of \$179m from settlements of apartments in the company's Hamilton Harbour joint venture project.

## **Board Changes**

After 18 years as a Director of Devine Limited, Mr Peter Ferris AM retired from the Board immediately after the AGM held on 28 October 2011. Appropriate recognition was given to Peter at the AGM for his valuable contribution as a Director of the company since it listed in November 1993 including as Chairman of the company's Audit and Risk Committee over those 18 years. There are no plans to fill the vacancy that has arisen as a result of Peter's retirement.

Mr Graeme McOrist who was already a non-executive Director member of the committee has assumed the role as Chairman of the Audit and Risk Committee. Mr McOrist joined the Devine Limited Board in May 2007 and has extensive experience in accounting, finance and risk management having held a number of senior executive positions in those disciplines during his 37 year career with Leighton Holdings Limited.

Mr Rick Parris who has been a non-executive Director of Devine Limited since Devine listed on the ASX and who previously served on the Audit Committee from November 1993 to August 2010 was re-appointed to fill the vacancy on the Committee.

## **Strategy**

Despite the current difficult market conditions, the company continues to pursue its Strategic Plan which is focused on the residential sector and a growth strategy centered around product, market and geographic diversity undertaken in a capital efficient manner.

In pursuing its growth strategy, the company will further expand and diversify its product offering, price points and the geographic locations in which it operates. This includes launching an expanded product range incorporating medium-density housing options in response to both housing affordability opportunities and governments' focus on increased densities across Australia's urban landscape. Devine will however be taking a cautious approach when implementing its growth strategy and ensuring that its strong balance sheet is maintained.

## **Outlook**

The National Housing Supply Council's "State of Supply Report 2011" was released in December 2011. It paints a positive picture in relation to the medium to longer term outlook for the housing sector with the supply of new housing continuing to fall well short of the underlying demand. The report forecasts a significant increase in the deficiency in housing stock in the major Australian markets over coming years.

Devine's development pipeline and integrated housing capability together with its Apartment and Construction divisions positions the company well for the upturn in activity levels when they occur and for it to realise its growth objectives.

The weak market conditions across most Australian property markets and the resultant trading and short-term outlook has had an adverse impact on the company bringing new projects to market and contributing to profits in the 2011/12 year. These projects will now contribute to profit in FY13 and beyond.

Directors confirm the updated profit guidance provided to the market on 21 December 2011 that, based on current market conditions, Devine expects to report a profit after tax result for the 12 months to June 2012 of around \$14 million.

### ***For further information contact:***

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