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MIRVAC GROUP HALF YEAR RESULTS – 31 DECEMBER 2016

Mirvac Group ("Mirvac") [ASX: MGR] today released its 1H17 Interim Results for the half year ended 31 December 2016.

Key highlights across the Group include:

- statutory profit increased by 7 per cent to $508 million (31 December 2015: $473 million);
- operating profit after tax increased by 39 per cent to $230 million (31 December 2015: $165 million), representing 6.2 cents per stapled security[1];
- half-year distribution of $182 million, representing 4.9 cents per stapled security;
- maintained strong portfolio metrics within the Investment portfolio, with solid occupancy of 98.6 per cent[2] and a weighted average lease expiry of 6.1 years[3];
- achieved over 95,500 square metres of leasing activity across the Investment portfolio;
- progressed with over $2 billion of committed commercial development projects;
- secured future income with a record $3.1 billion of residential pre-sales[4], with 93 per cent of expected residential earnings before interest and tax secured for FY17; and
- settled over 970 residential lots and remain on track to settle over 3,300 lots in FY17, with the majority of settlements expected to fall in the second half of the financial year.

Key financial and capital management highlights:

- net tangible assets (NTA)[5] per stapled security increased by 5 per cent to $2.01 (30 June 2016: $1.92);
- weighted average debt maturity increased significantly from 4.0 years to 6.4 years following over $1 billion of debt issuance over the past six months;
- maintained substantial available liquidity totalling $594 million of cash and committed undrawn bank facilities held, with $200 million of debt due for repayment in December 2017; and
- gearing remained within the Group's target range of 20.0 to 30.0 per cent at 25.8 per cent[6].

Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "We have delivered a solid set of results in the first half of FY17, reflecting our ambition to Reimagine Urban Life by creating, owning and managing high-quality urban assets in Australia's largest cities.

"Our investment portfolio continues to deliver positive metrics, while our proven in-house asset creation capability remains a key competitive advantage for the Group, allowing us to generate value through the strength of our integrated model.

1. Excludes specific non-cash items, significant items and related taxation.
2. By area, including investments in joint ventures and excluding assets held for development.
3. By income, including investments in joint ventures and excluding assets held for development.
4. Adjusted for Mirvac's share of JVA and Mirvac managed funds.
5. NTA per stapled security, based on ordinary securities including Employee Incentive Scheme securities.
6. Net debt (at foreign exchange hedged rate) excluding leases/(total tangible assets – cash).

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"While we expect a strong skew of earnings to the second half of the financial year due to the timing of residential settlements, we remain confident in our full-year earnings outlook and have tightened our EPS guidance to the upper end of between 14.2 and 14.4 cents per stapled security, representing growth of between 9 and 11 per cent."

Office portfolio highlights:

- occupancy increased to 97.2 per cent[1], with a long WALE of 6.9 years[2];
- strong valuation uplift of $230 million[3] (or 5.1 per cent) over the previous book value for the six months to 31 December 2016;
- over 56,800 square metres of leasing activity completed[4], with leasing spreads of 5.0 per cent and average incentives of 19 per cent;
- commenced construction at Australian Technology Park in Sydney and 477 Collins Street in Melbourne, which form part of the Group's $2 billion committed office development pipeline; and
- achieved practical completion of 2 Riverside Quay in Melbourne, two months ahead of schedule.

Ms Lloyd-Hurwitz commented, "Demonstrating the success of our urban strategy and our focus on well-located high-quality assets, we have maintained leading portfolio metrics in the half year, demonstrated by high occupancy, a long WALE and almost 57,000 square metres of leasing activity achieved. In addition to this, we have pre-leased a further 29,000 square metres in our office development pipeline.

"The quality of the office portfolio was further enhanced in the half year with the addition of 2 Riverside Quay in Melbourne, which was completed a full two months ahead of schedule and marks the fourth completed office development in the past 18 months.

"Our forward-looking office development pipeline will see us deliver approximately $2.8 billion of high-quality, innovative and collaborative workplaces in the coming years, highlighting our unique asset creation capability and the significant contribution we are making to Australia's urban landscape."

Industrial portfolio highlights:

- high occupancy maintained at 99.7 per cent[5] with a long WALE of 7.7 years[6];
- over 19,500 square metres of leasing activity achieved;
- completed the acquisition of an industrial site at 274 Victoria Road, Rydalmere in NSW for $48 million;
- achieved practical completion of Building 1 at Calibre, Eastern Creek NSW in December 2016 and secured CEVA Logistics in January 2017 to occupy the 18,970 square metre facility, with the lease commencing in February 2017; and

1. By area, including investments in joint ventures and excluding assets held for development.
2. By income, including investments in joint ventures and excluding assets held for development.
3. Includes investments in joint ventures.
4. Excludes leasing of assets under development.
5. By area.
6. By income.

- acquired 36 Gow Street, Padstow NSW in January 2017 for $30 million, a high-quality facility that provides Mirvac with an opportunity to add value through its leasing expertise.

"We have a high-quality industrial portfolio which has been further enhanced with the addition of Warehouse 1 at Calibre in Sydney. Our focus is to grow the industrial portfolio through development and selective acquisitions that provide us with an opportunity to add value through our leasing expertise or repositioning capability," Ms Lloyd-Hurwitz said.

Retail portfolio highlights:
- strong occupancy of 99.7 per cent[1], in line with Retail's target to achieve occupancy of greater than 99 per cent in FY17;
- comparable moving annual turnover sales growth of 4.1 per cent and comparable specialty sales growth of 3.5 per cent;
- total specialty sales productivity increased to $9,662 per square metre, while specialty occupancy costs reduced to 14.6 per cent;
- over 19,100 square metres of leasing activity achieved, with average leasing spreads of 3.1 per cent;
- completed the acquisition of a 50 per cent interest in East Village, Zetland NSW in July 2016 for $155 million. The centre ranked number one in Australia for total sales productivity in the Shopping Centre News' 2016 Little Guns awards; and
- entered into an agreement with PAYCE Consolidated to acquire a 50 per cent interest in the proposed South Village Shopping Centre development in Kirrawee, NSW.

Ms Lloyd-Hurwitz commented, "We have set some ambitious targets for the Retail business in FY17, such as occupancy of greater than 99 per cent, total sales productivity of $10,000 per square metre and 25 per cent EBIT growth. And while there has been recent pressure on certain retailers our continued focus on improved productivity and customer experience, along with a resilient tenancy mix, ensures that we are well positioned.

"We have identified significant opportunity to add value to our retail portfolio, with 14 of our 17 retail assets having repositioning potential. This represents a future retail development pipeline of over $1 billion.

"Our focus on high-quality assets in urban catchments with strong fundamentals is expected to support a continued outperformance in the retail sector."

Residential highlights:
- settled 977 residential lots, with the Group targeting over 3,300 residential lot settlements in FY17. The majority of settlements are expected to fall in the second half of the financial year;
- secured future income with $3.1 billion of residential pre-sales[2], with 93 per cent and 63 per cent of expected residential earnings before interest and tax secured for FY17 and FY18 respectively. Mirvac expects to achieve over 45 per cent earnings growth in its residential business in FY17;

1. By area.
2. Adjusted for Mirvac's share of JVA and Mirvac managed funds.

- released approximately 1,250 lots with 77 per cent of all released lots pre-sold. Successful launches included:
  - Brighton Lakes NSW (79 per cent of released lots pre-sold);
  - Gledswood Hills NSW (94 per cent of released lots pre-sold);
  - Woodlea VIC (93 per cent of released lots pre-sold); and
  - Tullamore VIC (86 per cent of released lots pre-sold); and
- remain on track to release approximately 1,900 lots in the second half of the financial year, supporting future sales momentum.

“Benefiting from our strategic overweight to the strong Sydney and Melbourne markets, we now have our highest-ever level of earnings visibility with a record $3.1 billion of residential pre-sales. In addition to this, we have secured 93 per cent of our residential expected earnings for the 2017 financial year.

“While we anticipate a strong skew of settlements to the second half of the financial year, our return profile is robust with gross margins expected to remain above our through-cycle target of between 18-22 per cent for the full year. Pleasingly, we are on track to deliver a residential return on invested capital of more than 15 per cent in FY17.

“Sales momentum within our masterplanned communities business continues to be strong, and we have substantially pre-sold our active apartment projects. Further, we continue to proactively manage our FIRB exposure and defaults remain at low levels,” Ms Lloyd-Hurwitz said.

Outlook
Mirvac has tightened its FY17 operating EPS guidance to between 14.2 and 14.4 cents per stapled security, and reaffirms distribution guidance of between 10.2 to 10.4 cents per stapled security.

“Overall, we have made a solid start to the 2017 financial year, with strong performance and high quality of earnings across each part of the business. This ensures we are well placed to achieve the targets we have set for FY17, including earnings growth of between 9 and 11 per and distributions growth of 3 and 5 per cent.

“While we still have over 2,300 lots to settle in the remainder of the financial year, we are comfortable with our revised operating earnings outlook and remain on track to deliver a residential return on invested capital of greater than 15 per cent,” Ms Lloyd-Hurwitz commented.

A management presentation of the results will be webcast live from 10:30am (AEDT) at www.mirvac.com.

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