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Conference Call Transcript

FKP.AX - Preliminary 2010 FKP PROPERTY GROUP Earnings Presentation and Webcast

Event Date/Time: Aug 25, 2010 / 11:00PM GMT



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PRESENTATION

Peter Brown - FKP Property Group - CEO and MD

Good morning, everyone. Hopefully all our technologies are working this morning and everyone in here can obviously hear me and everyone sitting in their offices and different places around Australia or wherever can also hear.

This full year results presentation represents now I think my eighth full year results presentation for FKP. Eight, for many, is a very good number, and I would like to think that - and I do think - that this presentation is a very good presentation, not just in terms of the results for last year, which I think should have been well expected by the market given the forecasts that we've made, but also where we're headed. What it, I think, validates is the very strong quality of FKP's assets, and the very strong ability of the FKP management team to deliver on those assets.

I think, moving forward, we're going to see an acceleration of that delivery. At the half year presentation, I talked about letting our numbers do the talking, and I think what we see in this full year result is really very much just the start of that, of FKP showing what it does best - and that's actually deliver. That needs to be put in the context of obviously continued volatility in markets.

What I should point out is that that volatility is very much, as far as FKP is concerned, in the financial markets, not in the property markets. When we look at our Retirement business and our residential business in particular, we're not really seeing much impact from the volatility in those businesses, and that will be a theme that we'll look through in terms of this presentation as we go through.

Today obviously we'll be starting with an overview in terms of the full year result. We'll be giving a divisional commentary. I'm then going to ask David Hunt, our CFO, to run through a couple of slides on capital management, and then we'll be finishing up on strategy and outlook. At the end of the presentation, it will be open for questions from the floor, and then we'll be taking questions online, both via the phone and also via email.

So with that, I'll start on the presentation. In terms of the result, I think the title of this slide says it all -- solid performance and positioning. We talk, and I've talked obviously about letting our numbers do the talking. It's delivering on our priorities. And what are those priorities? Well, we gave a strong guidance in terms of where we thought our profit would be.

The underlying profit is AUD108.6 million, up 38% on the prior corresponding period last year. Reduced debt gearing levels to 28.5% -- again, if you look at FKP, the debt level in total is probably somewhere near half of where that total debt level was only two or three years ago. So you've seen major focus by management in terms of debt reduction, obviously as a result of the global financial crisis.

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Increased distribution policy to reflect the positive earnings outlook -- we talked at the half year of the Board of FKP reviewing our dividend policy. We've done that. I think we've struck a very even balance in distribution policy between being able to fund a very strong growth platform whilst at the same time giving our security holders some cash as the business grows.

We've repositioned our investments through the sale of non-core assets, obviously some of the bigger asset sales during the last year - Energex being the biggest - and some other smaller sales that happened. It obviously goes two ways -- one is about actually being able to perform and sell in what have been quite turbulent markets; the other is, of course, all focused at that reduction of debt.

We're position to deliver the growth in returns into the future. I think, as I've talked to a lot of analysts and investors, I don't think anyone denies the quality of the asset pool that FKP has and owns. What it's now down to is to FKP's management to show that we can deliver on it. What we're seeing and what this presentation will really reinforce is the strong residential pipeline that we have, together with of course the mature quality, well located Retirement assets that we have in key areas.

The positive outlook -- as we move forward, we do work to a balance. I talk about this being my eighth presentation. If you go back to the first one, we really had no recurring income. So not only has FKP grown substantially, we've actually reinvented the balance sheet or reworked the makeup of the balance sheet, obviously with a big shift towards recurring income, being represented mainly by Retirement but also of course the Property Trust and Funds Management as well.

The guidance, moving forward, into the current financial year is for a 10% to 15% increase in underlying profit, of course assuming that markets remain as they are presently; and there's not much we're seeing right now that has us too worried about that.

In terms of the earnings in line with the guidance, I've talked through about the AUD108.6 million being just on the slightly higher than the middle point in terms of our guidance of AUD105 million to AUD110 million, underlying EPS of AUD0.097 per share being up 11%. Statutory profit after tax AUD50.8 million; a number of valuation items there, and that's actually explained in the appendices in terms of a couple of valuations, but very much non-cash items coming into that figure. I think that's a very strong indication, when you compare it to our result one year ago, of the recovery and the very strong recovery of FKP, with the valuations probably just lagging a little bit and expected to catch up in the current year.

The recurring income percentage for the year of 62% -- if you go back to what I just mentioned about only six or seven years ago virtually having zero recurring income, obviously a huge change in terms of FKP to see such a high number, particularly when you're starting to see the actual growth or trading parts of the business - being the development part of the business - really start to kick in and perform.

Operating cash flow, a very strong AUD262.0 million before development investment spend. The two biggest ones of that of course have been the first settlements coming through in May and June of this year on Point Cook, and of course the very large lump coming from the Energex sale that also occurred in the year.

Distribution wise, we actually have already given guidance of AUD0.015 per security, which is 100% increase; and we've also, as mentioned earlier, given our dividend policy going forward. NTA per unit is currently, as of 30 June, AUD1.26; and, as mentioned earlier, gearing at 28.5%.

In terms of the divisional contributions, which is really what it is all about in terms of FKP, you look at the Retirement operations - and what we've done in this presentation is broken up Retirement operations from Retirement valuation. Obviously the two go hand in hand, but what you're seeing in that top line of Retirement operations is a very strong 53% increase on the prior year. Now, the real driver of that increase on the operational is cash. There's a slide coming up on that which indicates that strong cash growth.

For those who have been talking to myself and earlier Darryl Guihot, our former CFO, we've been saying that all our modeling in Retirement is indicating stronger cash growth. What you're now seeing is that cash growth coming through. I'll talk a little bit more of that.

It's not to say that the Retirement valuation number is meaningless. What tends to happen as your cash grows and as your Retirement operation profit grows, your Retirement valuation number comes down. But the Retirement valuation is also very meaningful because it's giving you an idea of the growth that's still to come in this sector, and more importantly the growth in the cash that's still to come in this Retirement business.

We've really seen our Residential Communities kick in, and we're looking for the Residential Communities to continue that improvement, maybe not quite a 305% but certainly in very strong growth; and we'll talk about that in terms of the platform going forward in this presentation.

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Commercial and Industrial, a very credible AUD36.7 million. A number of items generating there; we obviously had quite a number of current inventory that was the focus in terms of selling down, but also the Energex sale being quite a big part of that profit as well.

Funds and Investments, up 71% to AUD25.2 million. Really the big driver there was a lot of our Property Trust assets have been going through a reinvention stage; in other words, moving B-grade type assets to A-grade type assets. That can be seen in the Spring Streets, in the Clarence Streets and in the Bridge Street type assets. So what you're seeing is the rents starting to kick in, and that's really what's driving that strong growth in terms of Funds and Investments.

So that really breaks down to the divisions. What that, I'll move on to the actual divisional commentary. Obviously Retirement is the largest driver of our recurring income - not the only driver, but by far the largest driver. What I want to focus on in this slide is very much that right-hand table. We've talked through the 53% increase in the operating profit. But the second line, the cash DMF and capital gain generated, what you see there is AUD44.2 million generated out of our Retirement business, up from AUD30 million, which is an increase of 47%.

Significantly, we've been saying the predictability of our modelling in Retirement is pointing to that and pointing to a few years of pretty strong growth. Of course, Darryl Guihot, prior to his resignation, gave quite a detailed presentation to the market in the last financial year on this exact point. What we're seeing now is the generation of that.

And let's look at Retirement -- what generates the cash? Well, the biggest generator of cash is resales, that line underneath, which you can see is up 38% from 346 to 477. What that means is it's reflected in the portfolio turnover; so we did a 10% turnover last year. I've often said that FKP historically - and we have over 20 years experience in this sector and we have over 20 years data of what happens in this sector over all types of economic conditions - and typically this business has traded between 8% and 12% in terms of turnover.

You can see, last year - probably what hopefully will be our darkest year for a while - we were down to the 8%, bottom of that range, and last year we've delivered 10% turnover. As scale comes through on the portfolio, I think the expectation is that potentially you'll see narrowing of that range of 8% to 12% but certainly very comfortable sitting in that 10%.

The average DMF rate - look, it's marginally up. It shows as 29% up to 29%; it is a marginal increase. It's just the rounding that brings it there, but again with scale, these things are very hard to shift in any one period. Average capital gain share maintaining at 50%; average age of residents tweaking up. Our residents are getting older; we're all getting older. That's of course a positive in terms of turnover and where it leads in terms of the business going forward and the underlying property value has held very strongly at the AUD1.8 billion across the assets.

Looking at the investment property valuation and I know this is obviously quite a topical area of debate at the moment and rightly so. If you talk about the journey FKP's had in Retirement over 20 years, you talk about the journey I've had in Retirement over the last seven years. It's really seeing Retirement on a progression from a cottage industry for want of a better word where a lot of syndicates and private investors are there to an institutionalisation. I think it's fair to say that FKP have very much led that journey and obviously FKP is very much the first mover in this business, is very much the leader in this business. We have a better understanding, I believe, than anyone. Of course, the next players to really start seeing it were Babcock & Brown and Macquarie Bank, then followed by Lend Lease and Stockland.

I think it's great that we've seen this institutionalisation, because I go back to when I first started at FKP and there are actually only two banks - and they weren't majors - that you could talk to about funding Retirement. Now you can talk to any of the majors about funding Retirement, so we're seeing this progression. I think it's very important that we give as much information to the market on how this valuation works. We've done that in the presentation that was given at the end of the last financial year by Darryl Guihot. That's now public information and a good starting point.

But what we also did for these results, we actually had Deloitte do an independent valuation. Deloitte came at it from a totally different way than what our own valuation comes at it, and what's very encouraging is that the end result actually merged with our end result in terms of validation of that number. So I think a very important point at a time where obviously it is quite topical, the valuation of Retirement.

The discount rate we've held at 12.5%, I think I've mentioned to quite a few investors over the last 6 months, I'm really not seeing much pressure to move that. The real key in terms of that discount rate goes down to the quality of the portfolio. Just like an office building, you can't compare two different office buildings to be the same investment class. You can't actually compare two retirement portfolios to be the same. You need to look at a number of things -- you need to look at maturity, location, all of these issues which are brought up on the next slide.

Future property price growth at 5%, held again the same. We are talking about a 25-year-old cash flow so it's not a number you'd expect to change. I reinforce the point that we did make last year is that our average in terms of property price growth is closer to 6%, in fact very close to

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6% over the whole life of our assets. So we believe at 5% we're still being quite conservative; and I think the number even for the last year actually came up at right on 5% in one single period. Already this year our sales are showing closer to the 6% in terms of July sales that we've made in Retirement, and then the resident tenure in terms of staying the same.

I talked about the advantages of FKP's leading Retirement portfolio, and I talked about the cash DMF capital gains growth. That's the graphical version of that in terms of that slide. It needs to be broken down into why is that; and it goes to this debate over valuation very much. It's very much experience; with over 20 years, there is experience. We've seen all the sectors. We actually understand better how this business works. We've got the people, we've got the procedures, we've got the assets.

So what that does, it means that we can actually drive better results out of our villages, I believe, than any other manager in terms of the retirement business. That has advantages -- without even buying any more villages or developing any more villages, we can actually drive better growth - property price growth - and better cash through resales. What that is, it's actually a win-win, because the way it works with villages, the happier your village is, the better your village performs. What the focus for us is all about is actually getting the best-run, happiest villages, and then the actual results come through very strongly. So you actually see a very strong win-win between investors of the Company of FKP doing the management and the actual residents in terms of the villages.

Maturity's a very important part. We talk about the discount rate between different portfolios. I think it goes without saying, if you have an average age of mid 70s, low 70s, you're not going to see the same cash profile as having an average of 82. So with that, there must be an adjustment in the discount rate and that needs to be taken into consideration.

Equally important is the location. If you're in a regional area where there's a lot of land, lot of scope to build more villages, a lot of scope for competitors to come in, well it's fair to say that it's not the same value of having real estate in a mature, metropolitan, urbanised area where there can't be any competition brought in because there's, one, no land, and even if there were, it'd probably be cost prohibitive for someone to set up in competition to you.

So again, this goes to this very important issue of Retirement valuation. I talked about the growth, the very strong growth in cash; and as you can see in that top point there, we're forecasting a 20% lift in the cash DMF capital gains for FY2011. We're also reactivating the roll out, which of course through the financial crisis was put on hold. This is a very important area because it gives us greater control over our assets. So it allows us to actually buy back units, improve those units and actually sell those units improved. That actually recycles our capital nicely, often leads to a nice little profit in the process, but also has a huge impact on the property price growth.

So when we look at it, we look at the age of a village; it's a very big driver for property price growth. If you have a brand new country club type retirement village, it's very hard to get the property price growth. If you have a much older village which - we have a lot of very old villages, which I think is a wonderful thing - there's a lot more scope for property price growth as residents move to another level of care. Obviously, we're also moving in terms of our development profits. We've got quite a sizeable land bank, so we're reactivating that land bank also. It's never been a major part of our driver, but it's a very handy growth tool for our Retirement business as well.

Residential communities -- well, we've sort of spent - since the Wilbow acquisition, which was our last major acquisition which is about 3 years ago now, we've been full tilt towards rebalancing the balance sheet to residential in terms of our development assets. It hasn't been an exit from Commercial Industrial, but it's really picking where we see the market. I maintain that we're still very happy with where we see the housing market generally. Retirement itself is an extension of the housing market, so we are very leveraged to the housing market.

I think it's fair to say there's a lot of debate at the moment. I was in the US only a couple of months ago and there was certainly a lot of debate over in the US about the housing market in Australia. I might come back to that a little bit towards the end of the presentation. But I want to reinforce what I said earlier -- there's nothing we're seeing in our sales that has us terribly worried in the short to medium term about the housing market in Australia. We did see quite a strong period earlier in this calendar year of strong growth, of strong sales. We did see an easing back of that, but we've seen a normalisation of [rate], and again I'll talk to that.

So with that in mind, we've actually acquired another site here in New South Wales to add to the platform that you'll see on the next slide. So a very strong increase in terms of the earnings from AUD8 million to AUD33.6 million, land lot sales obviously being the driver of that. Built product sales coming off and that's really a reflection of, during the financial crisis, not putting a lot of investment into new apartment buildings. So the end result of that is not having a lot of sales settling in the financial period.

But most importantly I talk about the retirement platform and the growth, but you're starting to see a build up in terms of our contracts on hand. And I'll come back to this point towards the end. But you look at the built form, of the jump from 18 to 201, and you're going to see you know an

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increase in terms of that contract on hand for built form as some of the projects you'll see on the next slide come through and also the land build up also coming up through the period, leaving 503 contracts on hand.

The pipeline that I talked about, I think a key part is you break it down into the land and the apartments market. The key to the land market of course is that all our land is zoned. A lot of that land wasn't very easy to get zoned and a lot of it took an awful lot of time, over 10 years in some cases. But it is all zoned and so it's a key. So all that's actually required to roll out those land blocks now are obviously to have a good market and operational works, which is a mechanical process.

So it means that whilst we might not be sitting there and saying well we've got 50,000 lots and all the rest of it, what we're saying is we believe we've got 5000 plus lots in extremely well located places which are very much geared to second, third and beyond home buyers, not first home buyers - a business we've never been in - where we're seeing very good sales evidence, and that continues today. I'll talk about that a bit further in this presentation.

Obviously the big kick for us in the last financial year was Point Cook. It's interesting that we're sitting there at Point Cook, zeroing in on something like 500 lot sales, as we sit here today, and we still haven't got one resident living there. We're very close to having the first resident living there, the first batch of houses are being built. But it's quite phenomenal when you can think that can be the case. And only a year ago, or a little bit more than a year ago, when we released it, our first sales were around the AUD180,000 per lot mark. And the current stages are sitting very close to the average of AUD300,000. So you've seen very strong price growth, combined with very strong sales, which is a very nice double in terms of for our investors, if it can be pulled off, which it has been.

The other focus of course is the urban renewal projects, another focus of ours. We have some very exciting projects coming up. Aerial in Victoria - in Camberwell was again, was bought out of the Wilbow portfolio. When I look at Wilbow and I look at what Point Cook's done, I look at what Rochedale will do in terms of it releasing to market, and I look at Aerial, I'm very happy with the buy we made three years ago in terms of what's generating our growth right now.

Aerial's been another success story. I think, as we sit here today, of 144 units, we have 92 sold. And whilst we've started demolition, we haven't actually put a crane up and started building the building, which we expect to do shortly. So again a very strong result at an average price of pretty close to AUD10,000 a square metre over that development. So to see that level of presales ahead of actually putting a crane up and seeing the building going up very much vindicates our investment decisions, I believe.

The Milton is the next one off the block. It hasn't been released yet. Hopefully we'll have the Queensland Premier launching that soon. The government's really helped us out in terms of getting approvals finally and working through all the red tape that can occur in Queensland in terms of getting approvals. So we're looking to release that to the market. But already, without it being released to the market, just from people that have come to us and really wanting to get into this exciting location, I think we're zeroing in on 60 sales before we've even launched this to the market. So again, vindicating the quality of the apartment product offering we have.

The next two Queensland ones being Gasworks and The Mill in Albion - don't be too scared by the number of units. We're not going to be building 900 at once, or we would if they all sold at once, but they're over multiple stages on both those two developments. So it allows us to move forward. The other advantage, which I'm sure David will touch on, is that with these projects and the strong sales, it allows project financing to be put in place, which has already been put in place for Aerial.

In terms of the future outlook, I've probably discussed most of the points on this in terms of where we go. I'll come back to that at the end of this presentation in terms of the sales, because it is a very important driver in terms of our forecast for the current financial year and where the Group's going. But again it's showing the geographic distribution that we have and also the pipeline distribution. So again it's - there's a very strong level of comfort in terms of where we're sitting residentially for the growth into the future.

Commercial Industrial -- a very strong performance from Commercial Industrial. The Energex development - the first development of our Newstead project. The Newstead will be going in - you'll be hearing Newstead for probably about the next eight years. There's many stages to that. It's a GFA of 185,000 in total. I talked about the 900 apartments in the previous slides. This is the first 32,000 square metres of that 185,000 of GFA at Newstead.

We obviously had Mirvac adjacent on the site; but really, very much probably the most exciting urban renewal project currently happening in Australia, not just in South East Queensland. So good to see that Energex development come to a completion. We're right on the cusp of PC of that now. Of course it was presold to Cromwell and a very successful story and anyone driving past that Newstead area going into Brisbane won't be able to miss the Energex building which now sits there - the first part of our Newstead development.

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I talked through in terms of the trading and the recurring increases. So obviously trading, Energex being the biggest driver of jump in that trading profit, and then also we're seeing some rental increases, as discussed earlier. We've seen the number of properties held reduce from 12 to 10 - part of looking at what's not core for us going forward. So a very strong performance for the last financial year for C&I.

You're not going to see great profit growth for this division in the future, simply because a lot of our investment money has been put into the residential and retirement area and that's where the main focus is. But a very strong platform and of course those two projects down the bottom, being Newstead and Circa, give a very strong land bank for this business into the future - Circa being at Norwest here in Sydney.

Funds Management and Investment - obviously the Funds Management, as all listed groups went through hard times over the last few years, unlisted tended to go through as hard times if not harder, but obviously not in the public spotlight. So we've actually worked in terms of our Core Plus Funds with the investors in terms of working with them and their needs and how we can best work together to get the right results in those funds; all about relationship in this area, all about keeping those relationships.

RVGs also had a few testing times. If we look at coming out of the GFC, probably RVG is the last one that we'd like to see neaten up and see moving forward on the right platform. We're in a lot of discussions at the moment with our partner, Macquarie Bank, in terms of that, and of course the investors. But it's very much the investors that drive that, because we're about 18% of that fund in terms of RVG.

Investments we also sort of look forward a bit in terms of Perth. Perth's been one area that I've had in my sights for, well the whole time I've been at FKP. And I've had a few goes over there, not that it's sort of got into the public sphere. But very happy to finally get a small investment into what we believe is a very strong platform. We're very happy with what we've seen to date in terms of that investment over there. It's not a big investment, but it's a very strategic investment I think which will allow for a lot of growth into the future as we leverage off that investor.

The US Senior Living Group, well look I think this US one's just gone on too long. We did buy this business post GFC and we felt very confident in that and we have seen a further decline in terms of occupancy in this business. It's a 50% share owned with Macquarie Bank. It is disappointing, but it's not a big investment for us. And that's probably an investment that if the right opportunity came up in the next year we'd be quite willing to exit.

With that, I'll hand over to David just to run through the capital management side.

David Hunt - FKP Property Group - CFO

Thanks Peter, and good morning to everyone. Firstly, the distribution policy -- as reported to the market on 17 June, the Group has a new distribution policy commencing in FY11.

The key element of this policy is to align the distributions paid to the Group's long term recurring income, net of borrowing costs and tax. This allows the cash generated by trading activities to be reinvested back into the business and to fund the Group's long term AUD4 billion development pipeline.

Future distributions will exclude the non-cash component of the retirement valuation and will allow for the timing of major development projects. The target distribution will be in the range of 40% to 60% of realised underlying profits, and the distribution guidance for FY11 is AUD0.03 per security.

The gearing policy -- today the Group is announcing a formal gearing policy to provide the market with an increased level of certainty regarding FKP's long term capital structure. In determining the appropriate maximum gearing level, management assessed other comparable property entities with the recurring income and active trading businesses, and also considered the Group's need to have sufficient flexibility to execute its planned growth strategy.

The Group's target gearing level, measured as net debt divided by cash adjusted assets, will be less than 35%. This definition is consistent with previously quoted gearing ratios to the market.

Now, turning to slide 17, capital management -- senior debt facilities; the Group's major refinance within the next 12 months is the AUD375 million retirement syndicate, which expires in March 2011. One of the current syndicate members is expected to exit the facility. However, management are well progressed in negotiations with other current and new financiers to refinance the facility for a further three years.

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The Group has received credit approval for a three year evergreen facility in respect of the Wilbow development which finances the Point Cook, Shearwater and Rochedale projects. This has not been reflected in the current debt maturity profile chart on this slide.

Project financing -- given the large AUD1.7 billion development pipeline in respect of built form product, the Group's strategy is to move towards project financing as it better matches the development risk with the specific development assets. Major built form projects, to proceed, require each project to meet strict internal requirements which are similar to thresholds by the banks. As a first step, we have just received credit approval for the aerial project in Melbourne.

Capital management metrics -- during the year the Group reduced debt by 31% to AUD792 million, primarily due to the AUD324 million entitlement offer completed in July 2009. As a result, the Group's gearing reduced from 42% at 30 June 2009 to 28.5% at year end. Interest coverage ratio is comfortable at 3.2 times.

The short term nature of the weighted average debt facility reflects the upcoming retirement syndicate expiry. Refinancing the retirement facility for a further three years increases the maturity to 2.6 years from the current 1.6 years. The Group is currently 65% hedged, which is within our 12 month preferred range of 60% to 80%. With the yield curve currently flat, we see an opportunity over the next three to six months to lengthen the maturity and improve the rate.

At 30 June the Group had undrawn lines of AUD264 million; and, importantly, all covenants have been met.

I'll now pass back to Peter for the strategy and outlook section.

Peter Brown - FKP Property Group - CEO and MD

Thanks very much, David. What I'll do is I'll conclude this presentation, in terms of the strategy and outlook, before we open up for questions.

I talked earlier about this overall drive, in terms of the mix of recurring income and the 50% trading income. When we set this strategy eight years ago, what it was about was building the recurring income to survive the down periods. Well, we're still here, so we survived the down period.

What the trading income was about was allowing the growth. As I sort of referred to earlier, I think it's one balance that FKP historically has pulled off very well is being able to build that recurring income whilst also getting stronger growth than our peers. I think this presentation, in terms of delivering on next year and our outlook, is all part of that.

When we look at Retirement, when I talk about growth it's not about necessarily going and just buying more villages or even developing new villages. We tended not to develop too many new villages. What it's about is actually working the assets that we own, the great quality assets that we own, much better through things like buybacks, through things like happier villages, through things like sales programs. That's really where we can add the most value for our security holders, in terms of the Retirement business.

The Commercial Industrial, well, that's a very important part in the Trust. We obviously monitor what assets we see. It's fair to say we do look to add value in those assets. So when we have a building like Clarence Street, for instance, one that we totally had vacant, we actually reworked and refurbished the building from a B-grade to an A-grade. Obviously, with where incentives were in the market, we'd be holding that asset for a long time before we actually saw some very good value coming out of that. We actually had a very strong offer. We took the offer because it made a lot of sense in terms of the value we'd added already to that asset.

Funds management -- well it's really about the investors; it's working with the investors. Because what the strategy is, moving forward, for FKP is to have investors that actually like FKP and want to work with FKP so that we can do a lot more in terms of growth platforms, in potentially our Commercial Industrial areas, working with those investors going forward.

Trading income -- well, the giant slayer over the next few years has to be residential communities. It's hard to see it being anything else. Point Cook's already started delivering. Point Cook continues to deliver into this year. Rochedale comes online this year. Peregian we're quite happy with the level of current sales coming through at Peregian. So really the land side's very strong, but the apartment side, of course, starts coming up; and already, we've banked some two thirds of the sales on Aerial in Hawthorne. So that will see, in the 2012 financial year, a nice big lump of profit coming through in that year; then to be followed by the Miltons and the other apartment projects as they happen.

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Commercial Industrial trading side - really focusing on Circa and Gasworks, two very exciting projects we have going, and really looking to get some positive returns out of those.

Investment wise -- obviously strategic, the small investment into WA, which I think will leverage to other development opportunities over there, be it through that vehicle or joint ventures with FKP, and also, potentially, retirement opportunities over there into WA, going forward. What that's about, it's about balancing those two to get strong growth by getting some sort of certainty in terms of the earnings going forward.

So finally, I'll just finish on this line, which is a solid start across the divisions. We talked about restarting the engine of FKP coming out of the global financial crisis. I think a very credible start, in terms of the last financial year, to that. I think we're about a third of the way towards restarting the engine. We've got some more projects coming online, some very positive projects coming online. Retirement, we're expecting strong growth again into this financial year. Just this week I was reviewing the July sales. The July sales, unfortunately, were slightly down. We often do get that. There's a bit of a hangover from a 30 June sort of cut off date and a big push on sales to 30 June. We had a similar thing happen in January this year, where January was a very slow time in retirement sales, so I'm not reading too much into that.

Residential Communities hasn't missed a beat, particularly in Melbourne, and also in terms of Peregian, but also in Norwest here in Sydney. The sales have been very strong. We had built product around about the million dollar mark; hit the market we had - I think it was eight - call them luxury townhouses - hit the market around a million dollars two weeks ago, over the weekend, and we sold seven on the first day. It shows you the strength that's holding up in this housing market. We're seeing that in the land sales here in Norwest. We're obviously seeing it in Point Cook.

If you look at the numbers, when we talk about where we are in Residential Communities and where we're heading, and when we talk about the forecast, in terms of our growth, what gives me the confidence on that is if I look at Peregian we're budgeting this year to make 150 sales in Peregian. Already - and we're not even at the end of August, although we're getting close, we're pretty close - we've got 72 sales put away for Peregian.

When you look at Rochedale, we haven't launched Rochedale yet. We budgeted to do 118 sales in Rochedale this year. But without launching, and just with people that have called us and contacted us about wanting to go, we've got 50 sales at Rochedale already, at very strong prices.

When we go to Point Cook, we budgeted 300 a year. We like to say we don't really want to sell more than 300 a year; we'd prefer to see price growth go up rather than sell more because it's obviously a wasting resource if you sell too quickly. But of the 300 budgeted for the year, we've got 213 sold already going into the financial year.

Aerial I talked about, 92 sales there; Milton close to 60 without even launching that project. So it's with that confidence of the residential sort of sales and the continuity of that coming through that we really face into the current financial year. The Commercial Industrial will be positioning for the quality growth. The Funds Management I talked about, consolidation with the investors and the platform and working on those.

So with all that, that's where we're really targeting that profit growth of 10% to 15%. We have a certain amount of certainty in terms of where we know we're already sitting with the sales that we've got only in the second month of the financial year; and with that, in terms of our new distribution policy that David described, we're probably facing up to a distribution of about AUD0.03 per security.

So with that I'd like to thank everyone for listening and open up the floor for any questions.

QUESTION AND ANSWER

John Richmond - Merrill Lynch - Analyst

John Richmond from Merrill Lynch. Just wondering on the retirement business what the cash yield was after the overheads excluding developments?

Peter Brown - FKP Property Group - CEO and MD

I think we'd have to take them offline, John. It's not a number that I've sort of got floating around in my head.

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John Richmond - Merrill Lynch - Analyst

Just secondly on Communities, wondering if you could talk through some margin expectations and also any opportunities in the market to buy further sites?

Peter Brown - FKP Property Group - CEO and MD

I'll answer the second part first. If you look at the history of FKP, we've tended not to buy too many sites. We've tended to buy more sort of - take more corporate opportunities. Wilbow is a very good example of that and of course Retirement's a very good example of that. I think we're in quite a unique position now where, when I look at our forecasts and when I look at our land bank, I feel very comfortable that we can grow quite strongly for the next five years without acquiring any more sites.

So the focus right now is on - actually I talked about the engine being probably one third restarted. The focus right now, and I believe for the next year, will be on getting that other two-thirds kick-started in terms of that residential platform. In terms of further sites, we're not actively looking. If the right opportunities come, of course that gets our attention. We do see some opportunities coming from time to time, and if the right one came I don't think we'd be shy about that, but I think the key is we're not actually having to buy in terms of growing the business.

In terms of the returns, generally speaking on the land side we target 30% return on costs for our land development. Now if you break that down, Peregrine makes many times that as a return, as everyone should be aware. Point Cook started off a year ago being below that. Point Cook's probably above that now and obviously with price growth, as we're having, your costs tend to be quite stable. The price growth is your big driver of those returns.

Rochedale, it was probably a bit below that target now but we'd like to see the price growth coming there. Rochedale, a bit like Point Cook, is a very unique piece of land. There's a lot of land coming up in Brisbane around the sort of west, Ipswich, Springfield sort of direction but there's no land around Rochedale. There're really just us and one other holding as the only land in those desirable locations coming up. So that allows for I think much stronger margins.

On the built product or apartment type product, we target a 20% return on costs. The last time I looked, I think we're covering that on all our apartment developments; and on our first one, Aerial, where we're covering that by quite a bit. It's a very handy project, Aerial, from a profit perspective.

John Richmond - Merrill Lynch - Analyst

Just on to sort of your forward capital management and asset allocation I guess, what's the intent for your retirement portfolio on balance sheet over the long run? Is there any sort of interest from funds to potentially buy any of that and where do you sort of see your asset mix in three years' time?

Peter Brown - FKP Property Group - CEO and MD

I think the key is, from an overall strategy, we target over a period of time 50% recurring income. That's been the case - well, it's been the case since I've been at FKP anyway, and we've achieved that. But the idea is not to lock in stone that we must be 50% plus at all times, it's about averaging. So when we build up to our current 62, obviously retirement was our biggest driver of that because we saw a unique first mover advantage in the retirement space.

We also moved into funds management but not through acquisition, through organic growth, so with that comes I guess a tempering of speed, of growth which was probably to our advantage through the global financial crisis. Also the property trust, we're looking to build that. The strategy for FKP still is to look to average 50% recurring income but that's not to mean that our strategy can't also include things like at some period in the long term, medium to long term, looking to move retirement assets off our balance sheet.

I don't think that's anything new to the market. It's something we've been talking about for some time. RVG is obviously one potential there. RVG has had and continues to have a few issues to iron out before it would be in a position to consider that; and obviously we all know that there've

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been discussions with others about moving the assets off our balance sheet. The point I'd make, we're not necessarily looking to exit retirement but we would like to see the recycling of the retirement assets in the medium to long term away from our balance sheet.

David Hunt - FKP Property Group - CFO

John, just going back to your first question on the cash yield, on slide 36 we provided a reconciliation there on the cash yield; and if you look there, you've got AUD48.3 million of cash coming in from the cash DMF and other resident receipts. So if you take the value of the portfolio of just over AUD1 billion, you're around that 5%. What's also important is on the first line there is the retirement cash flow from operations. That's increased by 20% from the previous year. Last year was AUD42.5 million and it's increased to AUD52.7 million so that's good cash growth.

John Richmond - Merrill Lynch - Analyst

And if you were to take that 5% and take off divisional overheads, where would it move to?

David Hunt - FKP Property Group - CFO

The corporate overheads. That's included in the corporate, yes.

John Richmond - Merrill Lynch - Analyst

Okay, good. Just given that your turnover is currently 10% and expected to remain around 10%, we can therefore assume that that 5% roughly stays flat, growing incrementally with underlying organic growth, but you're not talking any sort of step change there?

Peter Brown - FKP Property Group - CEO and MD

The age old problem with retirement is because it's got strong growth the valuations tend to move very quickly so your yield is sort of chasing always while that strong growth comes through.

John Richmond - Merrill Lynch - Analyst

I suppose then that leads to the question of the underlying valuations, which you've addressed, but it's just a point to consider.

Peter Brown - FKP Property Group - CEO and MD

Sure.

Okay, I'll open it up to any questions via the phone.

Operator

Your first question comes from the line of Paul Checchin from Macquarie Securities. Please ask your question.

Paul Checchin - Macquarie Securities - Analyst

Good day Peter, I've just got a couple of questions, and I promise they're not in relation to Stockland. But the first one, just on RVG, the operating profit contribution if I'm not mistaken was AUD22 million for the full year but at the half year it was only AUD3 million. I'm just wondering why there was such a material step up in operating profit contribution there?

Peter Brown - FKP Property Group - CEO and MD

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Thanks for that courtesy, Paul. I'll hand that one to David.

David Hunt - FKP Property Group - CFO

Thanks Paul. The main part of that there is that the cash coming through from the business has increased in the second half which is very consistent with our portfolio and what we've seen in our portfolio as well. They've had good property price increase through the portfolio and that's been the major driver of that increase.

Paul Checchin - Macquarie Securities - Analyst

So I mean is it fair - I mean it sounds a bit aggressive to be thinking that AUD19 million a half is a new run rate. Is it fair to assume that it kind of moderates from here?

David Hunt - FKP Property Group - CFO

Yes, I would be looking at around the full year rate going forward at growth from that.

Paul Checchin - Macquarie Securities - Analyst

Great, thank you. Then just the second question was just in relation to these [resi] contracts on hand. Sorry Peter, I might have misunderstood whether you were saying some of these numbers were actually pre-sold or whether they were enquiries, but the presentation talks of 309 contracts on hand and you were talking about 72 presales at Peregian, 213 at Point Cook, 62 at Milton, and when I kind of add those up I get over 309.

Peter Brown - FKP Property Group - CEO and MD

Yes, we're mixing concepts. The ones I'm talking about are sort of hot off the press where our sales are. So it would include, for instance, sales that were made yesterday morning, and that doesn't mean that that's an unconditional sale at this point. But that just means that someone has come in and said we'll buy that. The accurate numbers, in terms of unconditional sales and all of that, should be taken out of the documentation.

Paul Checchin - Macquarie Securities - Analyst

The 309, okay. I suspect not all of those 309 are expected to settle in fiscal year '11, is that fair?

Peter Brown - FKP Property Group - CEO and MD

We're targeting - if you take Point Cook for instance, we're targeting those numbers I said. And so our expectation - if you go back to the presentation as I read, I actually telescoped our budgets, if you like. The expectation I'd have is our management will deliver on those budgets in terms of settlements.

Paul Checchin - Macquarie Securities - Analyst

Okay, great. Thank you very much.

Operator

Your next question comes from the line from Rohan Sundram of Austock, please ask your question.

Rohan Sundram - Austock - Analyst

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Morning guys, just a couple of questions.

Firstly, with Point Cook and Rochedale, roughly what kind of uplift in pricing did you see during the financial year and what are your expectations for the next year?

With the dividends - with the distributions, what's the capacity to frank those going forward?

Peter Brown - FKP Property Group - CEO and MD

With the price uplift, you know we obviously saw at Point Cook around 100% price uplift over the year; very strong. The expectation, moving forward, I talked about the average being just under AUD300,000. I've been talking to you sometime of having a goal of average price at AUD300,000.

Look, a lot of factors come into that such as size of lots and what you're selling, I wouldn't expect to see 100% growth over the next year. The target is to see that averaged just a bit over AUD300,000, I still think that's a very affordable level for people. If you think about it AUD300,000 for a building lot 20 minutes drive from the CBD of Melbourne, you're building a house for between AUD200,000 and AUD300,000, so you're talking about finished product at the AUD500,000 to AUD600,000 mark.

So I think there will be a stabilisation of that with some slight increase in terms of Point Cook. But we're very comfortable with the margins that come through with that stabilisation still and the focus will be on selling those number of sales.

Peregian we haven't seen a lot of price growth. What it's been about - we had that stalling of sales through the GFC, so it's encouraging to see the sales coming through.

The point I'd make at Peregian is the sales that are coming through - for those of you who have been to Peregian would know that there is various lots; there is the old-fashioned dry and wet lots, or in this case smaller lots that aren't on the golf course as compared to large lots that are on the golf course, which can lead from price point movement from AUD200,000 to anything up to AUD750,000 in this Estate's case.

A lot of our sales in the last year, which have really happened in this calendar year, have all been focused around the sort of AUD250,000 and below mark, in terms of the land. So what we'd like to see is some of those larger sales coming in on Peregian.

Rochedale is just too early to tell. We haven't launched it yet. We're talking probably starting in the sort of the low to mid AUD300,000s, which will be a pretty strong start. Then we'd like to see some price growth come in there because there really is scarcity in supply in this area going forward.

I think in terms, Rohan, of the presentation I talked at fair length about Norwest and the strength there. You know, on a personal level, I grew up not far away from Norwest and Norwest, you know that area, used to always suffer through financial crises and I don't know what happened this time it just powered on, that whole sort of Castle Hill area, right throughout the financial crisis it's been phenomenal and we're seeing a continuation of that.

David, did you want to--?

David Hunt - FKP Property Group - CFO

Rohan, on the distribution for FY10 the AUD0.015 is all out of the Trust, so there is going to be no franking credits required for that.

Going forward we've got around about AUD10 million of franking credits which we would still expect the large proportion of our future distributions to come out of the Trust. So we would expect for at least the mid-term that we would have franking credits to fully frank dividends coming out of the corporate side.

Rohan Sundram - Austock - Analyst

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Okay, thank you.

Operator

On the line is Anthony Cay of Perpetual, please ask your question.

Anthony Cay - Perpetual - Analyst

Good day, thanks Peter. Just with regards to the - I refer to Paul's question about contracts on hand and with regards to your outlook statement at the end, with - I mean the total contracts on hand of 503 at the end of the financial year, not including those 309, is that right?

Peter Brown - FKP Property Group - CEO and MD

The 503 includes the 309. The difference between the 503 and the 309 is contracts which we expect to settle post FY11. So the majority of those is a built-form product which won't settle in FY11 but will be FY12 and post.

Anthony Cay - Perpetual - Analyst

Okay, thank you. Now I understand that better, regardless of that the total contracts on hand is a massive increase from the year before and when I look to your outlook statement at the end where you're saying certain projects have got 50% of budget, in terms of number of lots et cetera, that tells me - please excuse me for stating the obvious - but your budgets, in terms of lot sales, for FY11 are considerably higher than FY10. Am I right?

Peter Brown - FKP Property Group - CEO and MD

Not necessarily. We - if you take Point Cook, for instance, where we'd be setting the management there is to sell 300 every year and we asked them to sell 300 last year. They came in a bit shy there because some of the settlements didn't come through because of water delays. But what we lost in sale numbers for that last financial year at Point Cook we more than made up in sort of price growth for that.

So Peregian you know we've always said we'd target between 150 to 200 a year. You know last year we fell a bit short of that and so we're targeting to get back to that 150 this year.

So rather than sort of put bigger numbers or targets, Anthony, on the number of sales, as I said earlier, the real preference is to actually target a number of sales and push the prices if the sales market holds up to allow that to happen and that's because of the fact that these are obviously these are wasting assets in terms of the residential land bank, as opposed to the retirement business, which obviously keeps performing in perpetuity.

Anthony Cay - Perpetual - Analyst

Okay. Yeah, that makes sense. This might be too hopeful a question, but anyway There's a couple of key projects where you're going to get a bunch of settlements in FY11 is that concerning you at all, in terms of FY11 for residential looks like it's going to be a healthy number is there a lumpiness to that that is hard to repeat in FY12?

Peter Brown - FKP Property Group - CEO and MD

The big driver in FY11 are land sales as the presentation has pointed out. If you park Rochedale to the side, which is going through a launch phase, Point Cook now will stabilise. As I said, the first residents - you know we're zeroing in on 500 sales, the first residents will start moving in and what that does it means it starts normalising as a master plan community.

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So it means you're rolling out stages. You know those stages could be 50 lots or it could be 150 lots or it could be 200 lots, but it does normalise, if you like, and become quite predictable. You have your - you know what's in the ground, you have your civil contractors; it's a working relationship, your sales people are in place.

So I think there's not too much on the Point Cook's or the Norwest's or the Peregrine's that would worry me. Rochedale is a launch, you know with that comes risk. We're looking at towards the end of financial year settlements for whatever sales we make.

We haven't cut ground yet. Anything can happen, you know you can end up getting floods or anything can happen. It's the same risk we had this time last year on Point Cook, for which the management team have delivered. I feel very comfortable that they will deliver. But what I would point out is while we expect a good contribution from Rochedale, I don't think we're totally dependent on it in terms of our growth. We have back-ups, as you need to have in our business.

So, moving beyond that, financial year '12 is where it starts getting pretty exciting because that's when your big apartment projects start landing which I probably alluded to, from what we're seeing at the moment, they carry quite a bit of profit in those.

If you take Aerial for instance, I think from an investor's point of view or from an analyst's point of view, there is going to be very good visibility into those apartment projects because you'll broadly know - we've probably given enough tips away on margin and you'll broadly know where our level of sales are and you'll broadly know if the crane is up and it's working and what our estimate completion date is. So out of that will allow you know a fair idea of when those lumps of monies are going to come in.

So, as I said, we'd currently see Aerial landing at the end of financial year '12 and then the next year we'd look for Milton to be coming in.

Anthony Cay - Perpetual - Analyst

Right, thank you.

Peter Brown - FKP Property Group - CEO and MD

I think what's important is that we see in our forecasting that the three years after FY11 to be as strong as FY11, with those apartment projects coming on.

Anthony Cay - Perpetual - Analyst

Right thank you. Thanks for your time.

Operator

At this time, there are no further questions on the phones. Please continue.

Unidentified Company Representative

(inaudible - microphone inaccessible)

Peter Brown - FKP Property Group - CEO and MD

Okay, the two major shareholders - does it actually say where it's coming from? The two major shareholders, being Stockland and Mulpha, I think two very different shareholders - one circa 25% and the other circa 15%. I think it's fair to say that Stockland are not involved in the Group, have not representation on the Board. There's not really a lot of discussion.

The discussion that we do have is very much on an operational level. So an example of that is currently at Mulgoa. Our Norwest joint venture has a large development ready for launch at Mulgoa in Penrith in Sydney. Stockland have Glenmore Park next door.

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So we have a very strong working relationship with them, in terms of joint infrastructure and joint works and infrastructure agreements, voluntary agreements, all those sorts of things. So, we have a healthy relationship with Stockland and that happens very much on the operational level.

In terms of their shareholding, well we treat them like all shareholders. We're working our bums off trying to produce good results for all of our shareholders in terms of the earnings and the cash.

Mulpha is a very different shareholder to Stockland. Mulpha obviously has a larger shareholding. They have board representation, two seats on the Board, including the chair of the Board. That's a relationship that's built up over the last six years. We did the Mulpha Norwest joint venture with them.

So obviously on the operational level there's very strong cooperation and it's fair to say that there's cooperation across many different levels in terms of Mulpha. I think there's great advantages there, particularly the Mulpha connection into Asia and the knowledge of financial markets and so on in Mulpha, I think Mulpha adds an awful lot to FKP going forward and as a shareholder, albeit a 25% shareholder, I couldn't think of a better shareholder to have in that position than Mulpha.

Is that it for the emails? All right, that's a new one on me, the emails.

So thank you everyone for coming along this morning, and listening. So thank you.

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