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FKP.AX - Preliminary 2011 FKP Property Group Earnings Conference Call

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PRESENTATION

Peter Brown - ***FKP Property Group - MD & CEO***

Okay, I think it's - my watch tells me we're spot on nine o'clock. I know everyone has got a busy day, so we'll keep pretty accurate with our timing.

Good morning, everyone. Welcome to FKP's full year presentation for the 2011 financial year.

Waking on this beautiful Sydney morning amongst the world financial markets, which are at best described as extremely volatile and almost scary, and property markets in Australia which I think can probably be best described as patchy, I was reflecting on the fact that this is now my 18th presentation, profit presentation, as CEO of FKP, and haven't I seen some interesting times over those 18 presentation periods. But what I was really reflecting on was very much the quality of the profit result that we've had and I have to say that I believe the profit result for the last financial year is the best we've had. It's the best we've had for a few reasons. There's the obvious - that we're delivering on our targets which shows the real strength of the FKP Management team to set a tough target and deliver it and that's really been the great skill of FKP over the years.

But it's the best result as you'll see in this presentation for other reasons. What it is it's seeing our whole strategy coming together and the strategy was put in place to buffer the earnings and to buffer the companies through all circumstances.

So it's not just what we've done in the last year which of course is past, it's where we're going this year and where we're going in the years ahead of that and what I would say or, you know, as we came out and did the equity raise two years ago and everything we talked about, wanting to do at FKP, we've done everything and everything's worked as per plan in terms of the earnings, in terms of delivery of our projects, in terms of the retirement business, but even the cash side. The cash side's all gone very much as planned. When we raised the money two years ago we raised with what our strategy and what our needs would be in setting the amount and everything has actually fitted well into that strategy.

So today we'll be going through the overview. I'll be then going through the divisional commentary. I will move through fairly quickly today because I know everyone is busy. And I'll be then handing over to David Hunt to quickly run through the capital management position, finishing on the strategy and outlook and then opening up for any questions that might come through.

In terms of the overview, the assets delivering earnings potential. So what's that about is really about delivering on the operating profit of AUD121 million, up 11% on the prior year. Pretty well right where we thought it would be, maybe slightly lower than where we hoped it was going to be, but as I said, patchy property markets have still resulted in what I think is a very strong result.

Distribution of AUD 0.03 per security, up 100% on the FY10 distributions. Again coming out of the GFC you're seeing that growth come through on the distribution.

Benefits -- benefits from the extensive pipelines are set to continue. So the investment's really gone into the land bank. FKP's got a very large land bank. It's got a land bank in the residential land area, it's got a land bank in the residential apartment area and it's got a land bank in the commercial development area, as well as having a property trust, as well as having the biggest retirement portfolio.

We're carrying a lot of assets. We carried those assets all the way through the GFC. We added value to those assets. Those assets are all on the starting line ready to go. We've done, in terms of the management of FKP, I think a first class job in getting those assets ready to go. The markets, as I said earlier, at best patchy, but I don't believe it's as bad as what you'll read about in the papers and what a lot of people are predicting and I think you'll see that theme as we go through.

The capital metrics, as I said, remain sound. It is very much as per planned that we set two years ago in terms of the cash in cash out and being able to fund our pipeline going forward.

In terms of the key outcomes, statutory profit of AUD82.3 million against last year at AUD50 million. Underlying profit, as I mentioned, up 11% in line with our guidance. EPS at AUD0.103 per security. Recurring income percentage driven very much by a very strong result from our retirement business of 60%. Distribution AUD0.03 per security. NTA goes up from AUD1.23 to AUD1.25. Gearing around 28.9%

For those that asked last year when we were still talking around that 28%, 29% gearing, we talked about what our gearing would be in 12 months' time and I think we said we'd be about 28%, 29% and again that's the cash coming in, the cash going out and that's really my point. In terms of our cash flow management, it's all been very much to plan.

Divisional contributions -- we've seen the residential communities and apartments up 8%. That result actually was looking much strong partway through the year, but there was a bit of an accounting change in terms of the treatment of marketing costs and other things, but David can talk in more detail to anyone that's particularly interested in that fact. But a very good result there.

Retirement operations up 15%. We talked last year and we've been talking for a number of years about the cash position in retirement and as you'll see when we get on to our retirement slide shortly, basically our sales were down and they were at what I'd call the lower end in terms of retirement, yet our cash distribution and our profit was up and that again shows the strength of this retirement business and the quality of the portfolio that we have.

The commercial industrial was down. We've obviously seen quite a buildup in commercial development over the last six years. We're coming towards the end of that just as we actually start some more exciting commercial projects which I'll talk about shortly as well.

Funds management and investment was down. The big drivers of that have really been the winding down of our Core Plus Fund. The other big driver of course is RVG which has for some time been I guess the wart on our nose and I believe we're finally starting to make some ground with that wart on the nose.

So that really leads to the underlying profit of AUD $121 million, up 11%.

In terms of the divisional commentary, we've put a few extra slides in on the residential side just so we can probably get the full impact of what we believe these sort of world class assets are capable of delivering for us.

If you look at that chart, it's a very simplistic chart which talks about contracts on hand. Very simply, if you look at where we were 12 months ago with contracts in hand, we're in a very similar position right now. We've had obviously settlements through that period and additional deposits, but more or less we're holding the same sort of forward order book as we did a year ago. It gives us a lot of confidence, but I think the really telling part of this slide and our residential community's business generally has been the average margin increase. If you look at those average margins, you know, to be getting 31% including interest is pretty good margins. You'd be struggling, in fact I challenge anyone to try to buy anything out there that you would get anything close to a margin like that, even in the current circumstances that we have now.

So very strong margins coming through and to be excluding interest at 40% shows great strength and what it goes to is really the quality of the asset base and I guess the fact that they were bought well and of course rule number one in property -- buy quality and buy well. Then you need to be able to deliver it.

Record settlements for Saltwater Coast. We did bring settlements in for Saltwater Coast for the first time last year. We did more settlements but we did generate higher margins, seeing price growth coming through down at Point Cook and that is obviously reflected in a 53% increase in profit.

If you look at the increase of 8% for the division and 50% for Saltwater Coast, really the big one that disappointed us for the year was Peregian Springs and it was generally south-east Queensland and I can go into a little bit more detail about that, as well as some accounting treatment things that have gone through such as the marketing costs.

The remaining lots of A2, at Rosebery, our first apartment project taken on in Sydney is finally finished and out. So we're done so we don't have to try to talk about that one ever again. Work's completed and the initial stages of The Rochedale Estates.

Everyone will remember we actually budgeted last year for Rochedale to go into last year's profit and we then warned at the half year that it was looking unlikely and we weren't betting on it. Well we may have been able to push it getting last year's profit. We really didn't feel we needed to do that. We wanted to let the trees grow a little bit higher before we forced settlement on our buyers. So what we lost in last year we actually gained going into this year with 100 lots already made.

Secured pre-sale target at Luxe and we'll talk about that in the slide coming up -- continued focus on achieving the preapproved targets for Albion Mill and The Milton.

In terms of the pipeline, I think this graph is probably one of the best graphs I've seen FKP produce. So well done to the team who produced it because I've often talked about this. If you talk about residential business for FKP, I've often talked about the fact that we've got Peregian Springs going, we're going to bring on -- I called it restarting the engine -- we're going to bring on Saltwater Coast.

We're then going to bring on Rochedale, we're going to bring on our apartment projects and what you're going to see is this gradual building. The strength of those land banks are of course they're occurring over a number of years which you'll see slightly. So what we're seeing is this build up and for a CEO of a growth company, it's a lot better to be in a growth company seeing all that in train and ready to start delivering than it is to be actually heading down the other way where you've got projects finishing off without replacement projects and replacement land. There actually aren't too many groups that are in this position to see that growth.

So we often talked about the focus on the growth and the residential has been our target over the last three to four years for that growth and that really is the chart that best depicts that.

In terms of the outlook for the business and just looking purely on the land, Saltwater Coast, of course our biggest development that we have down in Melbourne, we do expect to see that normalise. We've been talking about that for some time, but we go into this year with a number of presales. In the presales in place in the graph that you saw two slides ago, in fact this week we just signed another englobo deal for 40 lots which is now unconditional. So what that does, it gives us confidence going into this year. Despite the fact that we're seeing a bit of a normalisation in the Melbourne market that we can achieve our goals and in fact the last couple of months have seen a bit of an improvement in Saltwater Coast. The most important thing to remember about Saltwater Coast, there's not much competing stock. Anything that's close to us I think is inferior but of course I'm going to say that, but most of those other ones that are even within Cooee which is not really anything are discounting. What we haven't done at Point Cook is discount and as anyone that's followed us for some time, is we're very loathe to discount and it's something we see these assets as high quality assets and discounting is just selling those assets too cheaply.

So we the sales coming through. Not at boom time areas but in normal area having sales like englobo sales coming through, gives us a lot of confidence going forward in terms of our targets for this year and beyond.

Peregian Springs, as I said, was the disappointment last year. I think it's delivered about 90 lots. Anyone that's spoken to me long enough would know I've always targeted 150 to 200, so it’s about half of what we should have been doing. Really disappointing; the market has been tough. South-east Queensland's been tough, the Sunshine Coast has been tough, but we are actually seeing a pretty good improvement. We go into this year with some goods sales on Peregian Springs. Last time I looked I think we were already up to around about 27 or something. We are seeing reaction to the stamp duty rebate that the Queensland Government announced and so we are seeing some early signs of improving and that really goes through the other areas of our south-east Queensland residential, as well as our retirement area and I'll talk through a bit more.

Rochedale's just a beautiful piece of land; there's no other word for it. The first day I ever saw The Rochedale Estates which was probably five years ago, I thought we must have this land and it came with Point Cook and it came with Aerial, so it was just too good a deal, being the Wilbow deal, to say no to.

Rochedale is, you know I talk about land being like gold or a gold mine, Rochedale is really good quality, really high grade ore.

In terms of what you get at Rochedale, you really have very little competition apart from one Nev Pask who's across the road, but apart from that - who is delivering a very different product at a very different price point to us - we really have no competition in what is a well sought after area.

So as we have said we go into this year with pre-sales of 100 sales into Rochedale, which we'll settle, plus the new sales we'll make into this financial year. Mulgoa Rise, joint venture here out near Penrith with Mulpha, after many many years of tussling with the State Government we are finally getting going. Civil works are underway so we would expect to see the first lots deliver in the second half of this year.

Then other smaller projects such as Shearwater on the Island, Maitland and Kellyville and so on make up the remaining lots.

So I think a pretty strong target. The biggest theme about the land banks which I have harped on for a long time - we're not a volume player. We don't go out saying we've got 70,000 lots and we worry a lot about the economics and what it does and all the rest of it. We're very deliberate in looking at quality assets which deliberately target the second, third, fourth home buyer where there's little competition to really hurt us. What that allows us to do is to continue through the tough times with good margins, as you're seeing in the result today.

In terms of the apartment outlook, the sales levels continues to progress as Luxe, so where we are today - Aerial down in Camberwell is a really successful project, only 25 units left to sell, so we see that settling in the second half of this year. Construction is on target. I talk about a CEO looking at the year ahead, it is very comforting to start the year with sales such as Rochedale. Englobo sales as I talked about at Point Cook, as well as having, knowing that you're going to have Aerial landing in the second half. That gives you a lot of confidence in terms of moving forward.

Luxe, Woolloomooloo has 57% sold, so you're seeing that movement. Last weekend I think - I was talking to the Development Manager just yesterday - I think we made three sales on the weekend, so you're seeing movement, so this talk about that residential has gone, it's shot, it's no good - we're not seeing it. It's hard, don't get me wrong, it's very hard, but I've been in residential now for 25 years and you know when the going gets hard in residential that's when the good guys really do get going.

The Milton we've actually - I talked about the stalling of The Milton. The Milton did get impacted at the early year and the sales sort of got stuck around that 80 pre-sales mark. We've actually seen some good movement only in the last sort of six weeks in terms of The Milton, and I think it was only two weeks ago I think we made eight sales in one weekend. So we are seeing some progress there as we move forward on The Milton. I talked about re-engineering it, resetting the sales and marketing side, that all happened. We're now starting to see the results.

That then leads on to the next launch which will be next month, being Albion Mill, which has a total residential units of 350. I think the first stage is about 120, 140, that sort of area. Again, quietly confident that - I don't think it's going to walk out the door in one month - but quietly confident that with the hard work and the right sales team and the right strategies in place that we'll be able to get our targets on that – this leaves then the biggest holding we have on the residential apartments being The Gasworks where we're probably looking at a sales launch in the second half of financial year 12.

There is a staggering of these and the staggering of these has to do with two things - (1) it's obviously looking at where the markets are at and where we think they're going to be, but of course it's the cash flow. There's not much use us trying to do all these things in one go. We don't have the cash flow to do that. What it's about - we've always talked about when we raised our equity - raising enough so that we can stagger it.

So if you want to ask me what the perfect world is in terms of the cash flow, well we settle Aerial in say April, May next year and we start The Milton in May, June. Fits in very well. It's a sales target to hit which I believe they will be.

In terms of retirement - the retirement business - the story there is, as I alluded to in the introduction, one of the sales were disappointing. I've often talked about a range of resale turnover - as you can see in that middle of the graph, or towards the bottom of that chart - portfolio turnover of 8%. I have always talked about a range between 8% and 12%. So there we are right on the bottom of that range.

It was a tough year. You know our sales people and our sales teams really don't have too much hair left. It was tough to get through that 8%. South-east Queensland, Gold Coast in particular, very tough. But what's pleasing, to go through such a touch year, is actually to see the fact that not only have we got the 8% of sales made, we've increased our cash and we've increased our divisional profit by 15% as you can see in top line.

What's the main driver of that? Well the main driver of that is very much that line average DMF capital gain per transaction. We've seen that AUD79,000 per transaction move up to AUD91,000. We've talked about our modeling. We've talked about the cash profiling of our retirement business. We've talked about the increasing cash. We've talked about the quality. We've talked about the age. We've talked about the mature metropolitan nature of our location. We've talked about the aging population. All those things make for what I believe is one of the best property businesses in Australia - being the FKP retirement business, and this, in what's been a very hard year, is further evidence of that.

The next slide really shows it in graphic form. You will see that - you can see there that we've got an average growth rate in terms of SDMF capital gain of 22% over the last five years. Very solid growth. It's solid growth that we've been predicting. Again one of the strengths of our retirement business is of course scale. With having up to a bit over 9000 units it does normalize so it does become quite predictable, so every time we sort of look at our models going forward and then we backtrack to actually correlate how our performance has gone, we've always been pretty accurate, and that graph really shows the increasing margin that we're getting as a lot of these contracts improve, as a lot of the values go up, and we see our nominal rate.

We are sticking in terms of our assumptions, in terms of our retirement valuation, the 12.5% discount rate, the 5% nominal growth rate. We've done better than that in the last year in terms of the 5% nominal growth rate, so really is a strong cash generating business, being the FKP retirement business.

The outlook going forward - I talked about the total villages being in excess managed by us of 9000 units; does give us the scale. The resale volumes we have seen a pick up. It hasn't translated to sales just yet. July is traditionally a slow month for retirement. We do tend to push our sales people towards June for some obscure reason. There is a bit of a rest that usually happens in July. August, July we have actually seen a pretty strong pick up in inquiry and what our sales funnel tells us in retirement, it averages about a three months period from initial inquiry through to a sale in retirement. So it is pleasing to go into this year and see a pick up from where we were last year in that retirement business, particularly in the south-east Queensland side of the business.

Expected increases in resale transaction levels and margin to exist. We don't see that increase that's been happening over these last five years as stopping. We do see increased margins going forward.

We're expecting to deliver approximately 80 new units. This obviously takes a while post-GFC to get the new development pipeline moving, so we're seeing that. You can see down the bottom there 75% of our pipeline is actually Brownfield; much safer development than Greenfield. You've already got a village, you know your price points, you know what works, you know what doesn't. Community centre is already there - is a much safer way to go. 60% of it in Queensland, 34% of it in New South Wales, with the remainder in Victoria.

Commercial industrial - well commercial is coming off in terms of Energex of course the completion of Energex, but with the completion of Energex comes the new project which is the Gasworks Stage 2. Energex was Stage 1. Very successful project for us off our balance sheet. It was the start of many stages on what I think is the best urban renewal project in the country. So we're ready to go onto Stage 2. About 8000 square meters of retail, 8000 square meters of office. More or less we've got a quarter of that office spoken for, and we've got two-thirds of the retail office for. Woolworths will be going in. It was pretty keenly fought over by the two major supermarket chains. Has been fought over for many many years. Woolworths will be going in, so construction, early works have actually started and construction will be proceeded through this.

So the next stage at Gasworks is that commercial and retail development and that is all ahead of the future residential apartment developments which will be obviously Stages 3 and beyond going forward.

So when you look at our cash flow and what I talked about before - and David will be talking about this very shortly - we actually have cash flows that will be starting Gasworks Stage II and that will be starting Luxe and we'll be completing Aerial in the current financial year.

Recurring income - we have seen a bit of a drop. You have seen better distribution coming in from Browns Plains, really coming into the Trust. That was of course a development that was done within the Trust, but there's also been the disposals of Bridge Street, Illawong and Indooroopilly in that period.

Obviously we are looking very closely at our opportunities in terms of disposing of those assets because that cash can of course be used to much better use being the development pipeline that we have.

We continue to explore the - the Vero Tower in Chatswood - we looked at a number of options for that with Suncorp vacating on 30 June - which we always knew was going to happen. We're actually doing about a AUD13 million refurbishment of that project. It's a really - best location for a commercial office in Chatswood. Chatswood vacancy hasn't been the best, but we're bringing it right up to proper A Grade standard with all the right neighbors ratings and so on.

In terms of funds management - well Core plus is winding down so you're seeing the impact on that. RVG - I talked about the water on our nose over the last two years. It has been very frustrating for everyone. There is a bit of light at the end of the tunnel. I think we're finally about to get some resolution. One point I do make on RVG, it's actually made some very successful asset sales this year, and those asset sales go a long way towards relieving the problem. They don't totally solve the problem, but they do go a long way to relieving the problem. We are still working with the investors and our partner Macquarie Bank. The investors have a strong desire to move to a single manager. I think we're getting very close to being able to do that and I think we're going to see resolution of this fund over the next two to three months, which personally will be very satisfying.

Port Bouvard it obviously had its first settlements. If you think about Port Bouvard, it had two real assets when we made our investment. It had the Oceanique apartments which two-thirds were pre-sold, so call it 77 or so units; two-third pre-sold, one-third of those are settled. We're working through the other third to get those settled, or as many of those settled as possible. That leaves the final third to do. Meanwhile the focus has really been on Point Grey. Land is very limited, particularly in that Mandurah area. The market is not great the moment so we're not missing too much, but I think that market will bounce back and bounce back very strongly when it comes back. Perth is a small market. It's a lineal development market where everyone likes to stay close to the coast. They don't like to go in east as it is over there, and what you do have is very very good quality land bank in Point Grey.

With that I will just hand over to David.

David Hunt - ***FKP Property Group - CFO***

Thanks Peter and good morning to everyone.

First I'd like to take you through the near-term funding requirements for the Group. Capital management for the next 12 months is expected to be funded out of a mix of existing debt facilities and surplus operating cash flows. This is best shown in the chart on the slide on 17, which has a development focus.

Starting with the current capacity of AUD207 million the development (inaudible) and Wilbow facilities contribute AUD120 million. The other AUD60 million is driven by Aerial project finance - which was achieved through the period - and some minor facilities and cash.

The recurring parts of the business or the non-development and the overhead corporate - the corporate overheads result in AUD12 million of increased cash coming in, which is shown in the other net receipts.

The key part of this slide is the development part of the business which I want to concentrate on. So firstly is the inventory receipts for the next 12 months. 85% of those come from four projects. Those four projects are Aerial with AUD120 million; Rochedale Estates AUD60 million; Saltwater Coast at Point Cook at AUD55 million; and Peregian Springs and its Ridges precinct at just over AUD30 million.

On the inventory spend side of the equation, six projects are where most of the spend is allocated. Aerial is around AUD60 million; Saltwater Coast at Point Cook AUD50 million; Rochedale Estates AUD45 million; The Gasworks at just over AUD30 million; Peregian Springs and Luxe at AUD18 million each. That makes up 85% of the AUD259 million of spend.

If you look at the net inventory receipt, inventory spend, AUD313 million less AUD259 million, giving AUD54 million of cash inflows into the Group from our development business over the next 12 months.

The financing outflows is made up of two parts - interest payments of just over AUD75 million, and dividends, net of the DRP of around AUD20 million. The other investment there relates to the RVG reinvestment of our PSA fees.

The Group then has a forecast of surplus capacity at 30 June 2012 of around AUD161 million. That there is AUD46 million lower than the current position, but still a very comfortable position.

At that time we have two major facilities expiring - one being the Property Trust facility at AUD90 million in June 2012, followed shortly after that by the development MOF of AUD225 million in July 2012.

We are well progressed with discussions with the current financiers and we expect that those facilities will be refinanced in calendar year 2011.

It's important to note that any sale of surplus Property Trust assets or additional project finance facilities, like Luxe which we have a credit approved offer on, will add to the available capacity shown below.

Onto the capital management metrics - the reported gearing is stable at 29% at 30 June. All covenants have been met. Undrawn lines - which I talked about in the previous slide - and available security are consistent with what we reported in previous periods.

The Group has an additional AUD250 million of new interest rate swaps entered into in the period and it has also restructured a further AUD275 million pre-GFC interest rate swaps.

The Group's weighted average cost of borrowings has reduced from 6.3% down to 5.38% at 30 June.

Looking at the all-in costs, over that same period they have reduced from 9.8% down to 8.48%. That has an annual saving to the Group of over AUD10 million which have been achieved through capital initiatives employed during the period.

The weighted average debt maturity was extended to 2.2 years from 1.6 years, post the refinance of the retirement facility and also the launch of the convertible bond during the period.

We are currently hedged at 85% which is just above our 60% to 80% preferred range and we expect to be back within that range in FY12.

The hedge maturity is at 3.9 years up from 1.6 years in the previous period as a result of the restructuring of hedges during the period.

The Group is in a better capital management position today than what it was 12 months ago.

I'll hand you back to Peter now.

Peter Brown - ***FKP Property Group - MD & CEO***

Thanks David, and just wrapping up the presentation with the last two slides.

In terms of the wrap up, it's continuing to execute on the strategy. The strategy has been very much simplified. It's really building our recurring base through our retirement business mainly and [that's the] active management really leading to that cash generation going forward, we obviously really want to see some more sales coming through and see that 8% turnover picked up this year; continue the rollout of the development pipeline and increased focus on refurbishment of the program.

We have often talked about the age of our retirement assets; what it does, if offers a great opportunity to refurbish at the end of it, and then you get obviously the very strong property price growth that comes out of that.

The development pipeline to provide the complementary earnings to that - I talked through the residential side. We obviously continue on with our further stages on the current large land banks. We have Aerial to come in this year, but really we have new projects coming online - being The Rochedale Estates, Aerial, and Mulgoa Rise into this year, which is that buildup of the earnings and the buildup of where we're going.

The commencement of construction at Luxe and The Gasworks Stage 2 - so Luxe I think started this week in terms of its construction, so pleasing to see that commencing and of course having Gasworks Stage 2 move forward as well is positive, with the sod turning happening next Wednesday. Progressing apartments on both Stage 3 The Gasworks, The Milton and Albion Mill.

The efficient use of capital - well what this is about - it's about continued streamlining of the operations. A lot of work has been done on that and the best indicator of that of course is our reduction in overheads that's happened over the Group. So there has been a lot of focus put into the cost side for the Group to put us in the optimal position going forward. That of course is something that needs to be constantly looked at in these very volatile markets.

Optimizing the retirement platform - the retirement, I talked about the quality of the assets; the structure is not necessarily optimal. We have assets on balance sheet, we have the lion's share of ownership of Forest Place and we had RVG. The dream is to bring all those together at some point in time and that would be what - that is what we continue to work through.

The first base in getting to that home base if you want to call it that, is actually sorting our RVG. I think we're quite close to that. The next stage of that will be looking at what opportunities there are between RVG and potentially Forest Place and then the home base of course would be to see a united uniform portfolio coming together which would very much be the - easily the best portfolio within the country and New Zealand.

Then of course it's the continuation of the asset recycling that's happened or started already with the Property Trust assets going forward. Cautiously optimistic outlook. We're back to that sort of line. It's unfortunate. I think we all hoped that we were going to come bouncing out a lot faster, and I'm not trying to stand up here today and say the world is rosy, but what I am saying is that I think FKP's very well positioned. We can't control the markets, we certainly can't control the financial markets. But we can't control the property markets either.

But as I said at the beginning, the property markets are patchy at best and we are eking out our sales. They're not walking in the door. We're having to work for it. We're having to be quite inventive about it, but we're getting our sales and we are actually seeing improvement in those sales. We have the asset base and we have the team. There's many things said about FKP. I don't think anyone's ever criticized the management team's ability to deliver on our assets and I don't think anyone's ever criticized the quality of our assets. Now it's about making those work and for a lot of the reasons I said through the presentation, I see that happening.

The new development projects end of financial year '12 being The Rochedale Estates, Aerial, Mulgoa Rise are adding to the point, adding to Peregian Springs, all of that really give the confidence of the business going forward. Presale levels of projects still underwrite that business going forward, and I talked about the extra 40 just in Point Cook that happened this week, which is not even reflected in this presentation.

Cautiously optimistic on the future performance. So a lot of uncertainty financial, a lot of patchiness in the property market. Where do we see our forecasts - well we think we're going to grow our underlying profit this year. That's how we see it and that's how we plan it out. We're targeting a bit better than that and we're probably targeting around about the 5% growth line, but we do see an improvement in terms of operating profit. We're also targeting a distribution increase of 10% to be AUD0.033 per security.

So with that I'll conclude the presentation and I will open it up to the floor, or the phone lines to any questions. Phone first I think.

QUESTION AND ANSWER

Operator

Your first question comes from the line of John Richmond from Merrill Lynch. Your line is now open. Please go ahead.

John Richmond - ***Merrill Lynch - Analyst***

Thanks very much. Maybe a question for David. Just wondering if you could give us a little bit more color around the timing of the refinance of those major facilities and also margin expectations.

David Hunt - ***FKP Property Group - CFO***

We've appointed ANZ to assist us with the refinance of those facilities and we're looking at a number of options, including one just refinancing the current facilities, or looking at bringing them together into a syndicated facility and we've commenced discussions with the four major banks and we would expect that it'd probably be in the last quarter of 2011 that we would see those refinancing complete.

John Richmond - ***Merrill Lynch - Analyst***

And when would your next step (inaudible) be after that is done?

David Hunt - ***FKP Property Group - CFO***

That would actually put us in a very good position. It would be the Retirement refinance, which would be three years out from last May - from March this year.

John Richmond - ***Merrill Lynch - Analyst***

Terrific. Peter, I'm just wondering if you can talk about your current staff levels and where that has moved to over time - over the last 12 months say.

Peter Brown - ***FKP Property Group - MD & CEO***

Sorry, the staff levels?

John Richmond - ***Merrill Lynch - Analyst***

Yeah.

Peter Brown - ***FKP Property Group - MD & CEO***

Yes John. We have consolidated as I said. There has unfortunately been a number of staff that are no longer with us and it really has been this streamlining process that we've looked to do. I can't, off the top of my head, quote the actual numbers that we have today. But we did streamline through the GFC. I think we took a view, which obviously has a hard human element to it, of - the middle of last year - of continuing that reduction. Worrying about the world wasn't going to be as rosy as everyone thought, and I think we probably played that card pretty well right.

So we've brought it down - I wouldn't say we've brought it down to the bones though. I think what we have is we're focused very much on making sure that our projects are properly geared up together with our retirement business. So I think we're in a fairly comfortable position where we are right now. Of course if we were to acquire something or do something, then we'd have to look at that. But if you look at where our share price is at the moment, I don't think that's really on the radar right at this moment.

David Hunt - ***FKP Property Group - CFO***

John, as far as numbers on that one - we look at the head count excluding all of the Village staff and this time last year we were in the high 300s and we're now in the high 200s.

John Richmond - ***Merrill Lynch - Analyst***

Okay. Quite (inaudible). If I can ask about your guidance breakdown. Given that you're expecting that AUD10 million benefit from lower interest costs, also growth in retirement, the sort of flat to 5% growth - am I correct in reading that you're expecting somewhat of a decline in Communities' earnings next year, despite the increased contribution from Rochedale, Aerial and Mulgoa?

David Hunt - ***FKP Property Group - CFO***

John, the interest savings actually won't fall through in FY12 because most of our projects are qualifying assets that we capitalise interest. So the interest savings will actually come back through cost of goods sold over the next five to six years as those projects mature. From our baseline EBIT data, we would see that that is around flat to positive from the FY11 level.

John Richmond - ***Merrill Lynch - Analyst***

Across the Group or in Communities specifically?

David Hunt - ***FKP Property Group - CFO***

In Communities - we would expect really good growth coming out of Communities because of Aerial coming in, in Quarter 4, FY12 and so we would expect well over 25% growth in our Residential Communities division.

John Richmond - ***Merrill Lynch - Analyst***

That's really - it's really C&I that is falling away.

David Hunt - ***FKP Property Group - CFO***

C&I is falling away because we don't have Energex--

John Richmond - ***Merrill Lynch - Analyst***

Energex yep.

David Hunt - ***FKP Property Group - CFO***

--coming through and also we have 465 Victoria Avenue, Chatswood, which is under construction or refurbishment and not income generating during the period.

John Richmond - ***Merrill Lynch - Analyst***

Thank you. Just last question from me. With your cash flow - operating cash flow came in about AUD53 million, falling on last year and well below your profit. I'm assuming given the investment into inventory over the next 12 months that we should expect another period of low-ish operating cash flow?

David Hunt - ***FKP Property Group - CFO***

I think that's fair to say. You can see that from that slide which I took you through.

John Richmond - ***Merrill Lynch - Analyst***

Okay, terrific. Thanks very much.

David Hunt - ***FKP Property Group - CFO***

Thanks John. Next question.

Operator

Your next question comes from the line of Paul Checchin from Macquarie. Your line is now open. Please go ahead.

Paul Checchin - *Macquarie - Analyst*

Thanks guys. Just a couple of questions. The first one is just in relation to RVG. It looks to me like your stake in RVG's gone up, yet the book value hasn't gone up in the same proportion. I'm just wondering, was there actually a write-down taken in (inaudible) on RVG?

David Hunt - *FKP Property Group - CFO*

RVG produced a negative result for the Group and where the increase in the interest is because of the reinvestment of our PSA fees over the period. So we've gone from 19% to just over 20% during that period.

Paul Checchin - *Macquarie - Analyst*

Right. So you're saying your earnings contribution for RVG is negative in--

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David Hunt - *FKP Property Group - CFO*

The earnings contribution above the line is positive.

Paul Checchin - *Macquarie - Analyst*

Oh yes, yep.

David Hunt - *FKP Property Group - CFO*

But when you take into account the fair value of the portfolio it then becomes negative on a statutory basis.

Paul Checchin - *Macquarie - Analyst*

Yep. Got you. Then a second question from me. Peter I'm just trying to marry up your comments about the Retirement business and in particular on slide 11. You were saying that your targeted portfolio turnover rate is kind of 8% to 12%. If you just mathematically work out what nine years on the ILUs and four years on the [SA] kind of works out to be, given about one-fifth of your book is SA. It means that your evaluation implies turnover of closer to 14%. I'm just wondering, is that right and do you expect that that's going to be the case?

Peter Brown - *FKP Property Group - MD & CEO*

Oh you've got me on the run on the maths. I don't - I'm not even going to try to do that. I'd [lie]. What I think - just on that Paul, the target's not 8% and 12%. Our target is to make as many sales as we possibly can. There's obviously two parts to that. There's - it's a bit different to having a land project or an apartment project. You actually have to have a unit on the resale side become available. Someone has to vacate and want to sell. So there's a supply side scenario to it. Then there's the ability to sell it and what price you sell it for.

So what we do is we target. We used to actually run in a range of sort of 7% to 14%. What I've seen, and it's really my observation - you know, I can't say I've sat down and done my modeling that proves it. I've seen a narrowing of that range due to the size and the quality and the diversification of it. I think, if you asked for my basic logic, if it stays low for too long you've probably are either got your rollovers wrong, which I don't believe we have, or you are going to have some years where you get some pretty serious turnovers. I think you'll find the latter will be the case.

Paul Checchin - *Macquarie - Analyst*

Okay. All right. Just a third question just in relation to the restructure of the hedge book. Can you provide any indication as to what the cost of restructuring that hedge book was and also when it was done?

Peter Brown - *FKP Property Group - MD & CEO*

It was a nil cost and it was done in mid-June.

Paul Checchin - *Macquarie - Analyst*

So the fact that it was a nil cost would imply that your hedges were at the money - is that right?

Peter Brown - *FKP Property Group - MD & CEO*

It was a blend and extend Paul.

Paul Checchin - *Macquarie - Analyst*

Okay, thank you very much.

David Hunt - *FKP Property Group - CFO*

Paul, with that one, we had hedges which matured in the next 12 months and we took an opportunity to restructure those early.

Paul Checchin - *Macquarie - Analyst*

Okay. All right. Thank you very much.

Peter Brown - *FKP Property Group - MD & CEO*

Thanks Paul.

Operator

Your next question comes from the line of Michael Scott from JP Morgan. Your line is now open. Please go ahead.

Michael Scott - *JP Morgan - Analyst*

Hi guys. Just a couple of questions if I may. Just on RVG - I'm just wondering if you could provide a better clarity around the expected equity injection there. I think it's about AUD28 million and how that's going to be funded.

David Hunt - *FKP Property Group - CFO*

Michael, the AUD28 million is from--

Peter Brown - *FKP Property Group - MD & CEO*

I think Michael is talking about AUD140 million at 20%.

David Hunt - ***FKP Property Group - CFO***

Look I don't really want to say too much about RVG because we're an investor in RVG and a joint manager - it's not really FKP as such, Michael. But what has been - what I've read in the papers is that RVG was looking at AUD140 million equity raising and I'm assuming you're calculating that to come back to what our contribution would be?

Michael Scott - ***JP Morgan - Analyst***

Yep.

David Hunt - ***FKP Property Group - CFO***

I don't think that will be happening. I did allude in the presentation to the fact that asset sales have been made. There may well be a requirement for an equity raise, but it's probably more in the order of half that amount you may have read in the newspapers. So that would be - dependent on assets sales, a potential raising for RVG which could be one of the outcomes and then of course that would then leave it open to whether FKP was participating in that or not, and we'd obviously have to look at the benefits of it and the cash implications of anything before doing such a thing.

Michael Scott - ***JP Morgan - Analyst***

(Inaudible). Just with the - your DRP. Considering where you're trading relative to MTA, is there any thought on turning DRP off?

Peter Brown - ***FKP Property Group - MD & CEO***

Look that's a very good question. We haven't discussed it at the Board level for some time. When we put it on we took a decision, I think that was about five years ago or so, we took a decision that we'd keep it on through all times, just for consistency. So to answer your question, we haven't really reconsidered that policy. But it is certainly something the Board would - should be looking at into the future.

Michael Scott - ***JP Morgan - Analyst***

Okay. Just with the gearing - can you give us a sense with your forecasting where you expect that to be as at June '12?

David Hunt - ***FKP Property Group - CFO***

Once again, we expect it to be around that 29%.

Michael Scott - ***JP Morgan - Analyst***

Right. Okay. Just on the FY12 earnings guidance - just if you can provide a bit more clarity on that. You're saying that you expect it to be above FY12. Is that on an EPU basis as well do you think?

David Hunt - ***FKP Property Group - CFO***

Yes it should be, because the only capital which will be issued during the period is the DRP and that's small. So positive growth on the underlying profit will mean that there will be earnings growth - earnings per unit growth.

Michael Scott - ***JP Morgan - Analyst***

That's great. That's it for me. Thanks guys.

Peter Brown *- FKP Property Group - MD & CEO*

Thanks Michael. Anymore?

Operator

Your next question comes from the line of Winston Sammut from Maxim Asset Management. Your line is now open. Please go ahead.

Winston Sammut *- Maxim Asset Management - Analyst*

Good morning. I'm just referring to slide 15 and the Port Bouvard investment. Port Bouvard announced a profit after tax of AUD800,000 and you've got a contribution on the line profit contribution there of AUD3.3 million. Also can I just clarify the book value of AUD24.8 million, that compares to a market value as at 30 June of AUD9.8 million. How is the difference being treated in the accounts as at 30 June?

David Hunt *- FKP Property Group - CFO*

We equity account our investment into Port Bouvard and so when we acquired Port Bouvard we acquired it at AUD0.13 per share. The NTA of Port Bouvard is around that AUD0.23, AUD0.24. So we acquired it at a discount of just under 50%. So when we recognise our profits we use the cost base which we acquired our investment into Port Bouvard and that is why we achieved a AUD3 million contribution during the period.

The value which we've put on the Oceanique Apartments is lower than what's in the books of Port Bouvard.

The answer to your next question, of course, because with equity account it we take up 29% in the net assets of Port Bouvard based on our initial investment, not the market value of the shares which are trading.

Peter Brown *- FKP Property Group - MD & CEO*

Thanks Winston. So that's it for the phone questions. Any questions from the floor? John.

Unidentified Participant

Can I ask a question about RVG and the sales done in a year. I think you sold two retirement villages? Could you just tell us about what that tells you about the valuation for the portfolio? So, what did they sell at in terms of cash yields relative to the valuation?

David Hunt *- FKP Property Group - CFO*

A number of sales were made during the year from RVG. I'm just remembering - I think there were four village sales made and there was one retirement development site sold during the year.

The amount, the sale price and the relativity of the book value of those sale prices hasn't been released by the RVG Board so I'm not really privy to do that. But what I would say, there were two sales that were made very close to book, and there were three sales that were at a bit of a discount to book.

Unidentified Participant

Stockman has commented, I think, that the cash yields were around nine. Does that match up with what you're looking at.

Peter Brown *- FKP Property Group - MD & CEO*

I couldn't - I don't think David would have that number as well, John. I think that would test us today.

Unidentified Participant

Okay. Just a quick question on Chatswood. I assume you looked at the possibility of doing a residential development but difficult to get the planning change?

Peter Brown *- FKP Property Group - MD & CEO*

You're talking to the guy who loves residential and everyone told me it's resi, resi, resi. Years ago I did a big thing in Chatswood called Chatswood Regency and the sales have been going through the roof up there in Chatswood.

So I actually went there with our head of C&I, Andrew Hall and walked through the whole building. I said, as far as residential versions go, this is a really good commercial building because it's the best located, because it's obviously opposite the train line, but it's surrounded by commercial. It's not the best look when you're watching Wide World of Sports on Saturday afternoon in your undies to have all these office buildings looking into your apartment.

Unidentified Participant

Fair enough, although they would be empty. Just a - not if it was UBS though. We have a life.

In terms of your leadership, obviously you put out the announcement prior to 30 June, I know it's difficult to comment on, what sort of process are you going through from here in terms of succession planning? Do you see internal candidates, do you see - what's the process and what do you feel the timing is? Are there drivers as to what the timing is from your point of view?

Peter Brown *- FKP Property Group - MD & CEO*

Look, the reality is, there is a succession plan going through and a process going through by the Board and the reality is all options are open and it's about what obviously is what's best for the Company going forward.

It's unfortunately been moved into the public sphere through the nature of having fixed term contracts which - take a mental note on that in terms of fixed term contracts do force this kind of thing to happen. So my comment to the Board was very much that it's not my intention to enter into a new fixed term contract. However I'm happy to do whatever is required to make sure the transition is done in an orderly way, because FKP must come first.

Obviously I've put a lot of time into FKP and have had a lot of involvement in the buildup that we've had and also last time I looked I think I'm in the top 30 shareholders of FKP as well, so I've got a financial interest in making sure it happens the right way.

It's quite a difficult time, if you think it through, for a property company. I think a CEO of a property company is hard at the best of times, particularly one that has a large amount of development, but it's particularly hard right now when you look at the market. Do you want a CEO who's going to come in and charge ahead and want to conquer the world? Do you want one that's really going to consolidate and just deliver on what we have?

So these are all the issues the Board's been running through over the last few months.

I think we are making some progress and I don't think it's going to be that long. In doing that we have bolstered our senior management ranks. Mark Jewell, who's just in front of you, has come on as an Executive Director. I was only reading on the weekend that he was going to be my replacement. I don't think that's on the agenda, although Mark might have different views.

But what that was about was bringing Mark on from his experience with Sunland to really get this Queensland side particularly going and to really strengthen what we're going, and as you can see from the presentation.

So look, John, to answer your question there is a process going through. It's a very thorough process and my (inaudible) about that process completing, but also the Company being in a good shape. Whilst I can't say the property market's in a good shape I think the Company is in very good shape at the moment.

Unidentified Participant

Are there things that you want to finish off before you go though? Is that part of it?

Peter Brown - *FKP Property Group - MD & CEO*

There are a number of things--

Unidentified Participant

(Inaudible) been mentioned, obviously.

Peter Brown - *FKP Property Group - MD & CEO*

A number of things but RVG is certainly top of the list.

Unidentified Participant

Okay. Thank you.

Peter Brown - *FKP Property Group - MD & CEO*

No more questions? I'd like to thank everyone for their time this morning.

David Hunt - *FKP Property Group - CFO*

Thank you.