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Ingenia announces 2014 half year results and further MHE acquisitions

Key highlights:

- Exchanged contracts to acquire three immediately accretive MHEs in NSW including two in Sydney
- Net profit of $4.3 million, up 80% on the prior comparative period
- Operating Income from continuing operations of $4.0m, up 215% from prior comparative period reflecting strong growth in Australian business
- Interim distribution of 0.5¢ per stapled security – targeting near term distribution growth
- Formal sales process now underway for New Zealand student accommodation business
- Key group focus on finalising current acquisitions, accelerating build out of development pipeline and recycling capital from low yielding assets into the acquisition and development pipeline

Ingenia Communities Group (ASX: INA) today announced its half year results for the six months ended 31 December 2013. Operating income from continuing operations was $4.0 million, up 215% on prior comparative period resulting from the strong contributions across the Garden Villages rental business and the recently entered Manufactured Home Estate (MHE) business. Overall the Group reported a net profit of $4.3 million, principally attributable to investment of new and recycled capital into the Australian business.

Ingenia has declared an interim distribution of 0.5¢ per stapled security, with payment to be made on 21 March 2014. The Group is committed to growing distributions in the near term while maximising value to securityholders through prudent capital allocation across the portfolio.

Ingenia Communities Chief Executive Officer Simon Owen said, “Today’s result shows the first meaningful contribution from our MHE business. It is important to note that we only owned two communities for the full six month period being The Grange and Ettalong, and as recent acquisitions contribute for the full period this should deliver a significant increase in maintainable earnings and cashflows.”

“The acquisition of Town and Country Estate in Sydney and Sun Country in Mulwala combined with a third community in Sydney, consolidates Ingenia’s position as the largest owner and operator of MHEs in NSW, with a total of 15 acquisitions completed or under contract since entering the market in February 2013.”

New Manufactured Home Estate Acquisitions

As announced today, the Group has signed conditional contracts to acquire three additional villages in NSW including two in the tightly held Sydney market.

Contracts have been exchanged to acquire Town and Country Estate in Marsden Park (Sydney) for $18 million and Sun Country Holiday Village in Mulwala (South West NSW) for $7 million. Both acquisitions are subject to completion of due diligence and if finalised, will add 258 permanent homes, 237 short term sites and over 288 development sites to the Group's growing pipeline.

Conditional contracts have also been exchanged for a third MHE in Sydney with due diligence now underway. These acquisitions consolidate Ingenia's position as the largest owner and operator of MHEs in NSW with a total of 15 acquisitions completed or under contract since entering the market in February 2013.

Financial Highlights

Key financial metrics	**6 months to 31 Dec 2013**	**6 months to 31 Dec 2012**	**Change**
Net profit / (loss)	$4.3m	$2.4m	80% ↑
EBIT– continuing operations	$4.9m	$4.3m	13% ↑
Operating income – continuing operations	$4.0m	$1.3m	215% ↑
Operating income per security – continuing operations	0.7¢	0.3¢	125% ↑
Operating cashflow – continuing operations	$3.4m	$2.4m	42% ↑
	31 Dec 2013	**30 Jun 2013**	
Loan to value ratio (LVR)	22.9%	37.9%	40% ↓
Net asset value (NAV) per security	35.0¢	34.4¢	1.7% ↑
Interest Cover Ratio (ICR)	1.98x	1.96x	1% ↑

Portfolio Update

Rental and MHE portfolios now account for 64% of the Group's total asset value (post announced acquisitions). This strong focus on recurrent cash earnings will underpin future acquisitions and development activities and support higher distributions to securityholders in the near term.

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Active Lifestyle Estates - MHEs

- EBIT contribution of $1.3 million (full contributions from two and partial contributions from eight assets)
- Eight new acquisitions transitioned into the portfolio
- New homes delivered or under construction for four villages with orders soon to be placed for another four communities – Ingenia well advanced on its FY15 strategy to have homes being delivered to 10 communities

Over the six month period, the Group transitioned eight recently acquired MHE communities into the Active Lifestyle Estates portfolio. These management intensive transitional periods typically take between three to six months and vary for each village. Process priorities include recruitment and retention of village management, rebranding, systems implementation, compliance integration and operational process improvements.

Significant residential development and tourism masterplanning is also undertaken across the portfolio to support the future development pipeline and capitalise on market opportunities.

New homes are currently under construction and anticipated to be delivered in the coming months for Mudgee Tourist, Albury Citygate and Nepean, with Valley Vineyard, Mudgee Valley, Drifters and Lake Macquarie expected to follow shortly. Supplier diversification is also in place with two additional builders currently being used for our new manufactured homes and several other builders being assessed.

Garden Villages - Rental

- Occupancy increasing to 86% as at 31 Dec, and trending towards long term target of 92%
- EBIT up 20% to $4.9 million
- Successful launch of *Ingenia Care Assist* has facilitated an increase in resident tenure and attracted new residents.
- Five villages acquired from receivers in December 2013 which are expected to be a key contributor to future earnings and cashflow growth

During the period, the Group announced the acquisition of an additional five highly accretive villages across VIC, NSW and TAS, reaffirming Ingenia's position as the largest owner and operator of seniors rental villages in Australia.

One of the key drivers of the occupancy growth is the *Ingenia Care Assist* program, a virtual care model to facilitate the delivery of government funded home care packages to our villages through accredited local care providers. Since its trial launch in October last year across an initial four villages, 70 residents are currently accessing the program, resulting in 20 move-out saves and six new move-ins in this four month period. This represents a $0.4 million increase in annualised gross income, and a 100 basis point increase to year end occupancy. Management is now rolling out the program across the entire Garden Villages portfolio which is expected to occur by end of May 2014.

Settlers Lifestyle - DMF

- Softer sales in first half expected to improve with 30 contracts in place for stronger second half earnings
- EBIT down 35% to $1.7 million due to lower sales particularly in the Queensland market
- Strong interest in the new release of 17 recently completed homes at Ridge Estate in Hunter Valley with 12 contracts in place

Ridge Estate is expected to be a key driver of a stronger second half as existing contracts in place on the 17-home Stage 2 village expansion settle. Plans are underway for the commencement of Stage 3 which will see the 11-home development scheduled for completion in October 2014.

New Zealand Students

A formal sales campaign is now underway for the upgraded New Zealand student accommodation business. Selling into a firming New Zealand commercial property market and following significant unsolicited interest, the Group is confident that a sale in line with book value can be concluded in the next six months.

The projected net proceeds of A$15 million will be recycled into further MHE acquisitions and the Group's growing development pipeline.

Valuations

For the six months to 31 Dec, external valuations were completed on 11 of the Group's 48 Australian communities representing 17% of total portfolio by value.

The Garden Villages rental village valuations marginally increased by 1.9% driven by improved earnings and continuing occupancy growth.

The Group had its first two MHE acquisitions (The Grange and Ettalong) externally valued during the period which supported the prices paid at acquisition.

Capital Management

The Group remains committed to maintaining a disciplined approach to capital management. Pending acquisitions presently contracted or under due diligence, Ingenia's Australian LVR will increase from 22.9% at 31 Dec 2013 towards the upper end of the Group target of 30-35% by 30 June 2014.

The Group has also commenced a process to expand its debt funding sources.

Ingenia's key focus for the next 12 months will be to recycle capital from low yielding assets into higher yielding acquisition opportunities and its increasing development pipeline.

Outlook

The Group will continue to capitalise on its first mover advantage in the MHE market segment with further accretive acquisitions expected to be announced in the coming months. The growth of the MHE portfolio will be a key focus of the Group to drive earnings and cashflows and increase distributions to securityholders.

Another key priority lies in the build out of the Group's MHE development pipeline which presently comprises over 860 homes with an end value of over $208 million. Operationally, the Group is confident that the solid pipeline of DMF sale contracts in place, and the full period contribution from recently acquired and integrated MHEs will underpin stronger second half earnings.

A portfolio wide roll-out of the successful Ingenia Care Assist program is expected to improve earnings from the Garden Villages rental business, supplemented by the contribution of five recently acquired villages.

Presentation/Webcast

Ingenia's 1H14 results presentation will be webcast via www.ingeniacommunities.com.au on Tuesday 25 February 2014 at 11:00am (AEDT).

About Ingenia Communities Group

Ingenia Communities Group (ASX: INA) is a leading operator, owner and developer committed to providing quality affordable seniors housing to older Australians. The Group has 57 villages across Australia, comprising over 6,000 homes. In September 2013, the Group was included in the S&P/ASX 300.

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