

Active research delivers results: AVJennings Ltd



About the stock

AVJennings is a leading residential property development company with a name that continues to be one of the most recognised housing brands in Australia.

AVJennings has been part of the Australian landscape for 80 years with experience in home building, land development, pre-planned integrated housing and medium density activities.

AVJennings' unique ability is to provide a diverse range of property purchase options under the one brand, be it a block of land, a completed home, a townhouse, a terrace or an apartment. This provides the company with a unique competitive advantage to adapt to changing market conditions and this flexibility in delivery methods ensures that AVJennings provides property options that are most suitable to the needs of the consumer, today and in the future.

AV Jennings strategy:

- Continue to be a **pure residential developer** with bias towards horizontal development (i.e. low exposure to high rise apartments)
- Focus on acquiring sites that are well placed within their catchments
- Ensure projects have strong alignment with their brand and what they are known for - especially focused on affordability
- In-house integrated building capability - key to maximising land utilisation leading to improved affordability
- Geographic diversity.

AVJennings in brief:

Established: 1932

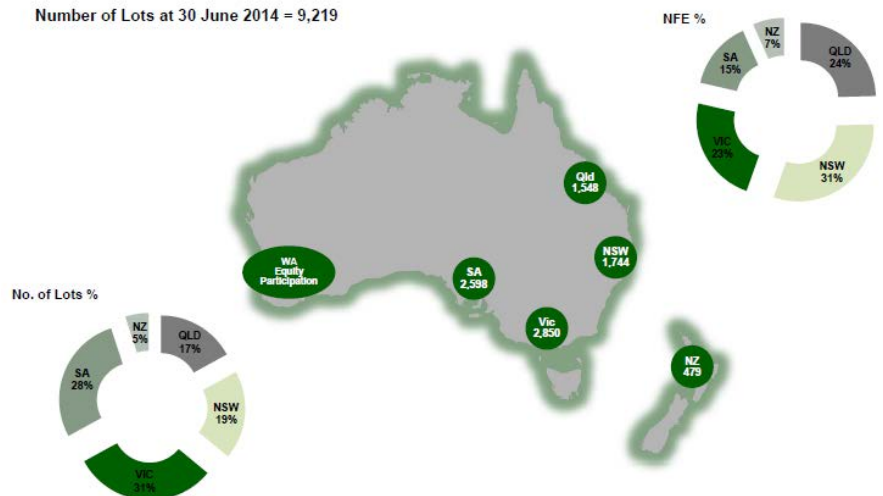
Listed on ASX: January 1994

Market capitalisation: ~\$254m

Sector: Real Estate

Geographic Spread & Inventory

Number of Lots at 30 June 2014 = 9,219



Source: AVJennings, Full Year Results 2014

Adding AVJennings to the Trust: Our fundamental research approach

Why we took and held a position in AVJennings:

- ▶ Trading at a discount to NTA
- ▶ Ongoing low interest rate environment supportive of the housing sector & AVJennings
- ▶ Strong FY14 results & outlook



Cavanstone at Eastwood, NSW



Cobbitty, Arcadian Hills, NSW

AVJennings had long been on the investment radar of Perennial Value given the large discount to NTA at which the shares were trading. The team had been catching up with MD, Peter Summers, regularly since 2008 and conducted extensive site tours during 2011, but had held off from investing given the lack of obvious catalysts to close the NTA gap.

The cuts in interest rates throughout 2012 and the clear language from the RBA suggesting ongoing support for the housing sector improved the outlook for AVJennings considerably.

In early 2013 Perennial Value was able to bid for a substantial stake in AVJennings (5.3% of the company) as a major shareholder liquidated all of its ASX listed positions. This provided an attractive entry point at a steep discount to NTA (39c versus 90c NTA).

As a large shareholder Perennial Value was supportive of the strategy to raise capital in May 2013 to allow AVJennings to accelerate its building program on its existing land bank. This was likely to lift the sales rate and therefore cash generation of the business.

A recent site visit (see photos on the left) revealed the lift in building activity on AVJennings land and the FY14 result showed a 72% increase in contracts signed with the benefit of these settlements underpinning a strong FY15.

The gap to NTA has started to narrow with a stronger share price but the valuation is still compelling. The re-rating is likely to continue as it comes onto the radar of more investors (a second broker recently began coverage in August). As at 31 August 2014, AVJennings was our second largest holding (and our largest active weight) in the portfolio.

Portfolio Managers Grant Oshry and Andrew Smith



Source: Perennial, IRESS. As at 12 September 2014

Signatory of:



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