

Strong 1H11 result and should exceed FY11 guidance

Investment Summary

- CWP reported an Adjusted NPAT of \$25.0m for 1H11, which was up 120% pcp. Underlying EPS was also up 114%. Management had identified a much stronger first half within its guidance but this result was still ahead of our forecasts!
- Sales revenue grew by 62% pcp, gross margins increased from 46% to 49%, and EBIT margins increased from 28% to 38%. The result was particularly supported by strong sales rates and price increases in the Melbourne market. While the Western Australian property market was steady over the first half, performance differed markedly from sector to sector.
- Due to increased settlement income, the company's net debt reduced from 19% to 10%, under the company's target range of 20%-75%.
- For the second half, the company has approximately \$30m in presales from stages expected to be delivered prior to 30 June, 2011. The company has achieved 95% of the presales it requires in order to meet its full-year profit forecast, and has already pre-sold a significant number of lots and units for delivery in the next financial year, FY2012.
- Despite the current lack of affordability in Australian House prices we believe land developers like CWP are in the sweet spot given the significant undersupply of housing. The key for them is to ensure they meet the right price point.
- Following this result we have increased our FY11 eps estimate by 6% and our price target from \$4.60 to \$4.65. This price target is based on our DCF valuation of \$4.64 and by adopting a 9x P/E multiple to FY12 earnings. We maintain our BUY recommendation.

23 February 2011

12mth Rating		BUY
Price	A\$	4.15
Target Price	A\$	4.65
12m Total Return	%	16.8

RIC: CWP.AX		BBG: CWP AU
Shares o/s	m	61.4
Free Float	%	70.0
Market Cap.	A\$m	254.7
Net Debt (Cash)	A\$m	39.7
Net Debt/Equity	%	36.5
3m Av. D. T'over	A\$m	0.08
52wk High/Low	A\$	4.20/2.15
2yr adj. beta		0.65

Valuation:

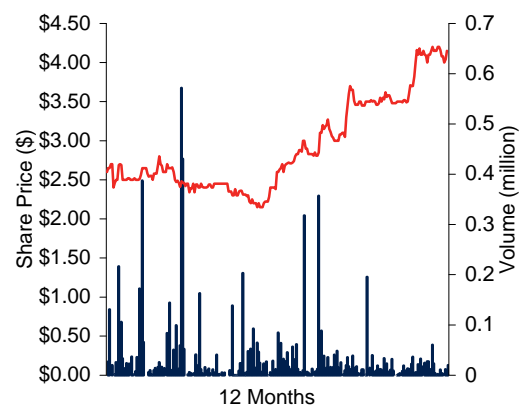
Methodology		DCF & P/E
Value per share	A\$	4.65

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Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	9.3	17.2	28.2	31.9	35.7
Recurrent NPAT (\$m)	15.4	18.9	28.7	31.9	35.7
Recurrent EPS (cents)	27.0	31.6	47.3	51.9	58.2
EPS Growth (%)	(28.3)	17.4	49.6	9.6	12.2
PER (x)	15.4	13.1	8.8	8.0	7.1
EBITDA (\$m)	25.4	27.9	42.6	46.9	52.0
EV/EBITDA (x)	11.3	10.3	7.0	6.4	5.8
Free Cashflow	33.1	17.8	25.8	20.9	24.0
FCFPS (cents)	57.9	29.9	42.4	34.0	39.2
PFCF (x)	7.2	13.9	9.8	12.2	10.6
DPS (cents)	7.0	13.0	19.9	21.8	24.5
Yield (%)	1.7	3.1	4.8	5.3	5.9
Franking (%)	100.0	100.0	100.0	100.0	100.0

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	13.5	41.6	48.0
Rel. S&P/ASX 300	15.1	39.9	61.0

Highlights

Headline Numbers

CWP reported an Adjusted NPAT of \$25.0m for 1H11, which was up 120% on pcp (our adjusted NPAT takes into consideration the affects of inventory write-downs). Underlying EPS was up 114%. Management had identified a strong first half within its guidance but this result was still ahead of our forecasts!

Guidance

Directors reaffirm guidance of FY11 NPAT of \$27m.

Figure 1: Performance			
\$millions	1H10	1H11	Change
Revenue	59.4	95.9	62%
NPAT Reported	9.9	24.2	144%
NPAT Adjusted	11.3	25.0	120%
EPS Adjusted	19.3	41.3	114%
Weighted average no. shares	59m	60m	
DPS	5.0	11.0	120%

Source: Patersons

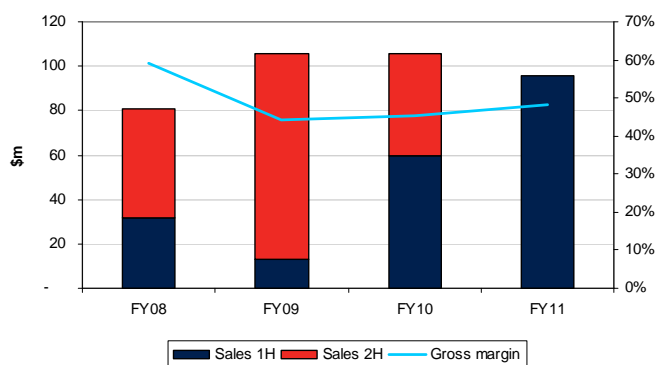
Overall revenue grew by 62% pcp, gross margins increased from 46% to 49%, and EBIT margins increased from 28% to 38%. The result was also very strong when compared to the 2H10 period.

The result was particularly supported by strong sales rates and price increases in the Melbourne market. While the Western Australian property market was steady over the first half, performance differed markedly from sector to sector.

While measuring CWP's performance on number of lot settlements is not really relevant given the unhomoginised nature of its product, we do note a 13% increase in lots settled during the period, from 346 to 390 lots.

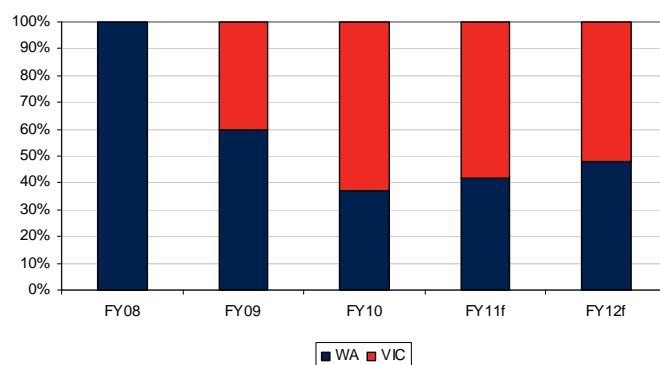
Earnings were roughly split 60% from VIC and 40% from WA. CWP successfully made the transition into the Victorian market.

Figure 2: Sales & Gross Margin



Source: Patersons

Figure 3: Lot Sales by geography



Source: Patersons

Individual Project Commentary from management

"The final stage at the company's 'Kestrels' estate in Perth's Northern Corridor was keenly sought and all but the last eight lots, which have yet to be released, have sold out. Similar demand has also been experienced at Cedar Woods' 'Cambridge Waters' estate in Canning Vale which also sold out, and demand improved in Baldivis and Wellard.

Cedar Woods' apartment project on the foreshore at Palm Beach, just west of the Rockingham beachfront is now nearing completion. Known as 'The Jetty' and comprising 15 luxury ocean-view apartments and a ground floor retail tenancy, the project is more than 60% sold, with completion due early in the 2012 financial year.

Development of the 'Harrisdale Green' project progressed in the first half with the initial residential stage completed. This project, in Perth's South East Corridor, is a joint venture for the development and sale of land owned by the Department of Housing. Settlement of the first lots commenced shortly after the end of the half. The first stage incorporates a builders' display village and is expected to generate over 500 dwellings over a five-year period.

Releases at Williams Landing continue to be met with keen buyer demand, demonstrated by a February release that saw 21 of 24 lots sold on the opening weekend and the balance shortly after. The project has already achieved its entire sales budget for FY2011 and a significant number of presales for FY2012. Two new stages were completed in the first half with a further stage due for completion in the second half.

At 'Carlingford' estate at Lalor in the city's northern suburbs, the company completed one stage in the first half and has another under construction for completion in the second half. All presales budgeted for FY2011 have been achieved.

At 'Banbury Village' in Footscray, the first nine stages, comprising 20 detached and semi-detached four bedroom homes and 72 townhouses, are now fully sold. The first four stages of these presold homes were delivered and settled in the first half and the balance is due for delivery in the second half of FY2011 or early FY2012. A recent release of 32 heritage apartments has also been in high demand and this stage is now 80% sold."

Development pipeline remains strong

CWP's land bank is roughly 9,500 lots (value of \$2.0 billion) with an average age of 7 years. This is a relatively small land bank compared to other listed developers but reflects the size of CWP. There is however a healthy 10 years of supply based on current rates. The current portfolio consists of 21 different development project, 60% in Western Australia and 40% in Victoria.

Figure 4: Project Summary

	Location	Project Type	Status	Project Life								Total Lots	Lots Remaining	Pricing Guide (\$)
				FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18			
WA Projects														
Rivergums	Southern Corridor	Residential	Mature									1,200	650	170-185k
Cambridge Waters	SE Corridor - Canning Vale	Residential	Completed									135	8	200k
Mariners Cove	Mandurah	Canal	Mature									850	215	500-600k
Mandurah Country Club	Halls Head, Mandurah	Townhouses	Completed									25	2	450k
Kestrels	Tapping, Wanneroo	Residential	Completed									530	43	280k
Waterline	Halls Head, Mandurah	Apartments	Completed									19	9	1,000-1,500k
The Jetty	Rockingham	Apartments	Under Constr.									16	16	1,000-1,500k
Port Mandurah (Sutton)	Port Mandurah	Canal Apartments	Planning									90	90	Not yet released
Forrestdale	SE Corridor	Residential	Planning									150	150	250k
Carine	NW Corridor	Mixed Use	Planning									60-100	60-100	TBA
Harrisdale	SE Corridor	Mixed Use	Under Constr.									546	546	Not yet released
Bushmead	Perth Foothills	Residential	Planning									600-900	600-900	Not yet released
Pinjara	Southern Corridor	Residential	Planning									920	920	Not yet released
WA Syndicate Project														
Cedar Woods Wellard	Southern Corridor	Residential	Mature									628	571	175-205k
Investment Properties														
Aria Apartments	Rockingham	Retail	Completed									1	-	N/A
Nautilus Apartments	Rockingham	Retail	Completed									7	-	N/A
Victorian Projects														
Carlingford	Northern Corridor	Residential	Mature									600	345	140-270k
Williams Landing	Western Suburbs	Mixed Use	Mature									2,200	1,875	200-280k
Banbury Village	Footscray	Residential	Mature									358	358	Avg 525k
Camberwell	Eastern Suburbs	Residential	Planning									70+	70+	Over \$1m

Estimated Market Value NTA / Share⁽²⁾

Source: CWP

Strong Capital Position

CWP's capital position is strong.

Due to increased settlement income, the company's net debt reduced from 19% to 10%, under the company's target range of 20%-75%.

The company's \$110m corporate finance facility with ANZ is available until 30 August 2013, providing ample capacity to fund operations and growth.

Outlook

Management's comments were:

"For the second half, the company has approximately \$30m in presales from stages expected to be delivered prior to 30 June, 2011. The company has achieved 95% of the presales it requires in order to meet its full-year profit forecast, and has already pre-sold a significant number of lots and units for delivery in the next financial year, FY2012."

We also note the record first half NPAT of \$24.2m is 90% of the full year forecast. CWP looks certain to achieve its full year guidance, but investors should expect a much weaker second half due to timing of settlements.

Despite the current lack of affordability in Australian House prices we believe land developers like CWP are in the sweet spot given the significant undersupply of housing. The key for them is to ensure they meet the right price point.

Patersons Estimates & Valuation

Following this result we have lifted our FY11 estimates by 6% and FY12 by 4%. Our medium term forecasts assume average sales growth of 9% p.a. and stable margins. This leads to 5yr avg eps growth of 11%, slightly above management's target of 10%.

We have increased our price target from \$4.60 to \$4.65. This is based on a combination of DCF and P/E methods. Our DCF valuation is \$4.64. For our P/E valuation we have adopted a 9x multiple on FY12 earnings to derive a valuation of \$4.67. This considers comparable developers and broader industrial stocks.

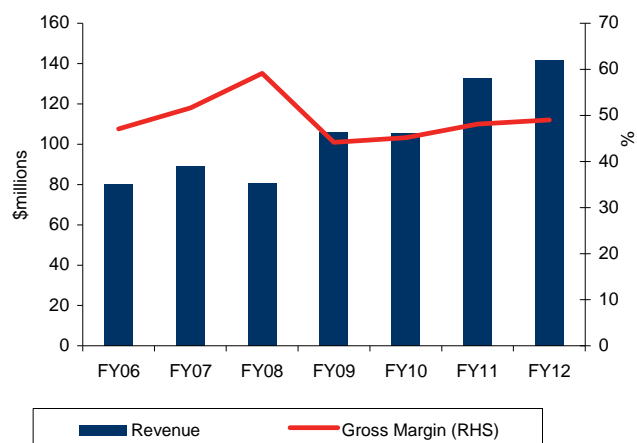
Our recommendation however remains a BUY.

Figure 5: Comparables

Company	Code	Market Cap (\$m)	Price	EPS		EPS Gwth	P/E	
				FY11	FY12		FY11	FY12
Stockland	SGP	9,007.9	\$3.78	31.5	33.2	5%	12.0x	11.4x
Mirvac	MGR	4,406.4	\$1.30	10.6	11.0	4%	12.3x	11.8x
Australand	ALZ	1,736.3	\$3.01	23.4	25.3	8%	12.9x	11.9x
Peet Limited	PPC	580.2	\$1.92	15.0	16.4	9%	12.8x	11.7x
FKP Group	FKP	1,009.7	\$0.86	8.4	9.7	15%	10.2x	8.8x
Devine Limited	DVN	190.5	\$0.30	3.4	4.6	35%	8.8x	6.5x
Sunland	SDG	179.3	\$0.79	8.3	9.9	19%	9.5x	8.0x
Average						14%	11.2x	10.0x
Cedar Woods	CWP	254.7	\$4.15	47.3	51.9	10%	8.8x	8.0x

Source: Patersons

Cedar Woods Properties Ltd (CWP)				\$4.15
Cash Flow (\$m)	2010A	2011F	2012F	2013F
Operating Cashflow	17.8	25.8	20.9	24.0
Capex	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Acquisitions	-0.6	-19.5	0.0	0.0
Other	-7.3	0.0	0.0	0.0
Investing Cashflow	-7.9	-19.5	0.0	0.0
Equity Raised	2.1	0.0	0.0	0.0
Increase (Repay) Debt	-9.2	5.9	0.0	0.0
Distributions Paid	-3.9	-9.3	-12.1	-14.2
Other	0.0	0.0	0.0	0.0
Financing Cashflow	-11.0	-3.4	-12.1	-14.2
Change in Cash Held	-1.1	2.8	8.7	9.8
Closing Cash Balance	0.5	3.3	12.0	21.9

Revenue & Margins**Valuation**

P/E Multiple	DCF
FY12 EPS	51.9 Beta 1.2
P/E Multiple	9x WACC 10.4%

Valuation: \$ 4.67 **Valuation:** \$4.64

Directors & Shareholders

Cedar Woods (CWP) is a property developer operating in VIC and WA. Its main interests are in urban land subdivision for residential, commercial and industrial purposes.

Board of Directors

Name	Position
William Hames	Chairman
Mr Paul Sadlier	Managing Director
Robert Brown	Non Executive Director
Ronald Packer	Non Executive Director
Timothy Brown	Non Executive Director

Shareholder

Shareholder	%
Robert Brown	16%
William Hames	14%
Acorn Capital	14%
Kingston Capital	13%
Subtotal	56%

Profit & Loss (\$m)	2010A	2011F	2012F	2013F
Land Sales	105.5	132.7	141.8	154.8
COGS	-57.9	-68.8	-72.3	-79.0
Gross Profit	47.7	63.8	69.5	75.9
Other Income	1.6	0.4	0.4	0.5
Operating Expenses	-21.3	-21.3	-23.0	-24.4
Associates	-0.1	-0.3	0.0	0.0
EBITDA	27.9	42.6	46.9	52.0
Depn & Ammort	-0.2	-0.2	-0.2	-0.2
EBIT	27.6	42.4	46.7	51.7
Net Interest	-0.6	-1.2	-1.2	-0.7
Non-Operating Income	-2.1	-0.8	0.0	0.0
PBT	25.0	40.4	45.5	51.1
Tax expense	-7.5	-12.2	-13.7	-15.3
Minority Interests	0.0	0.0	0.0	0.0
NPAT (Reported)	17.2	28.2	31.9	35.7
NPAT (Adjusted)	18.9	28.7	31.9	35.7

Balance Sheet (\$m)	2010A	2011F	2012F	2013F
Cash	0.5	3.3	12.0	21.9
Receivables	0.8	2.1	2.1	2.1
Inventories	184.8	167.2	178.4	190.4
Investment Properties	2.1	2.1	2.1	2.1
Associates	3.8	3.4	3.4	3.4
Other	13.8	20.2	19.9	19.7
Assets	205.7	198.3	218.0	239.5
Payables	28.1	7.4	7.4	7.4
Borrowings	40.2	45.4	45.4	45.4
Other liabilities	28.6	17.8	17.8	17.8
Liabilities	96.9	70.7	70.7	70.7

Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	108.8	127.6	147.3	168.9
EPS/DPS	2010A	2011F	2012F	2013F
EPS (Reported)	28.9	46.4	51.9	58.2
EPS (Adjusted)	31.6	47.3	51.9	58.2
EPS growth (%)	17.4	49.6	9.6	12.2
DPS	13.0	19.9	21.8	24.5
Payout Ratio (%)	41.1	42.0	42.0	42.0
Distribution Yield (%)	3.1	4.8	5.3	5.9

Ratios	2010A	2011F	2012F	2013F
Profitability				
NPAT Growth (%)	22.4	52.4	10.8	12.2
Sales Growth (%)	-0.2	25.7	6.9	9.2
Gross Margin (%)	45.2	48.1	49.0	49.0
EBITDA Margin (%)	26.4	32.1	33.1	33.6
ROA (%)	9.2	14.5	14.6	14.9
ROE (%)	17.3	22.5	21.6	21.2
Tax Rate (%)	30.0	30.2	30.0	30.0

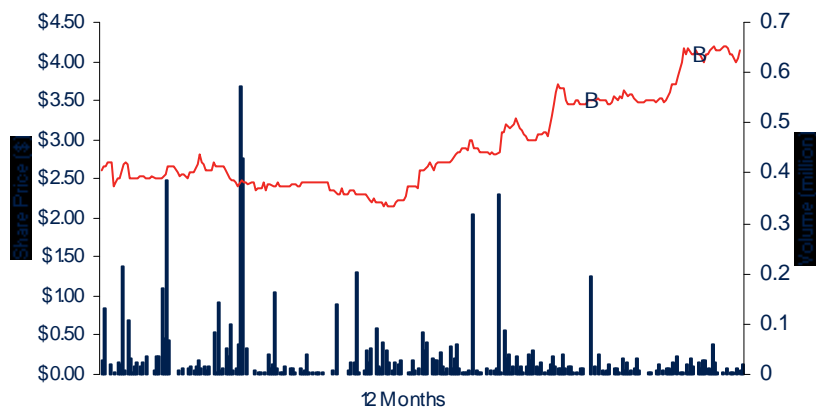
Valuation

Price/Earnings (x)	13.1	8.8	8.0	7.1
EV/EBITDA (x)	10.4	7.0	6.1	5.4
Price/NTA (x)	2.3	2.0	1.7	1.5

Balance Sheet

Net Debt/Equity (%)	36.5	33.0	22.7	14.0
Net Debt/Assets (%)	19.3	21.2	15.3	9.8
Interest Cover (x)	5.4	51.2	12.7	14.1
NTA (\$/share)	1.8	2.1	2.4	2.8
Shares (m)	60.1	61.4	61.4	61.4

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
30 Nov 10	Research Note	4.20	3.50	B	
20 Jan 11	Event Impact Email	4.20	4.00		14.3%
31 Jan 11	#N/A	4.60	4.09	B	
	Current Share Price		4.15		1.5%

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