RESEARCH

INDUSTRIALS

4 January 2012

BUY

12 Month Target	$4.80
Share Price	$3.27
Capital Return	47%
Dividend Return	8%
Total Return	55%

ISSUED CAPITAL

Shares on Issue	62.9m
Market capitalisation[1]	$206m
Options[2]	0.0m
Monthly Vol (12mth avg)	0.48m
12 month share low	$3.07
12 month share high	$5.15

1 Undiluted *Source: IRESS*
2 Various dates and exercise prices

DIRECTORS

William Hames	Non-Exec Chairman
Robert Brown	Non-Exec Director
Ronald Packer	Non-Exec Director
Paul Sadleir	Managing Director
Timothy Brown	Alternate Director

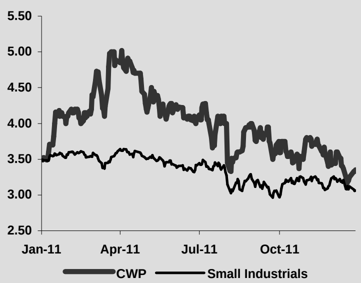
Source: CWP

MAJOR SHAREHOLDERS

RS & TR Brown Entities	15.4%
WG Hames Entities	14.5%
Acorn Capital Ltd	11.5%
Westoz Funds Mgmnt	6.1%
Invesco Australia Ltd	5.5%

Source: IRESS

12 MONTH PERFORMANCE



Source: IRESS

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Cedar Woods Properties Ltd (CWP)

Not all Property Developers are the same

CWP is a residential property developer with a portfolio of projects focussed on Western Australia and Melbourne. While residential property markets have remained subdued since the GFC, CWP has delivered strong earnings growth during a period where many of its peers have struggled. Good management has enabled CWP to achieve this performance through holding a diverse portfolio of well located projects, largely accumulated at attractive prices. With strong and stable management and a good quality portfolio of projects, we believe CWP is well positioned to continue delivery of ongoing earnings growth. We initiate coverage with a Buy recommendation and price target of $4.80.

Key Points:

- **Quality Management:** CWP has a strong and stable Board and management team. That CWP entered and subsequently emerged from the GFC in a much stronger position than most, if not all, of its peers is a testament to the quality of management.
- **Earnings Growth in the Existing Property Portfolio:** CWP's existing portfolio provides a good mix of product at various price points leaving CWP well placed to deliver earnings growth under a range of market conditions. In addition, with access to funding problematic for many property industry peers, recent competition for assets has been greatly reduced thus enabling CWP to acquire additional assets at attractive prices.
- **Williams Landing Town Centre:** There is potentially significant value in the development of the Williams Landing Town Centre. With a number of options in how to best realise this value we believe that as more clarity around the development and its potential returns arises, the market will gain a greater appreciation for the value of this asset.
- **Recommendation:** While sentiment toward the property sector is undoubtedly subdued, we believe that CWP's performance and solid outlook is a bright light amid the gloom. Trading on a PER multiple of 6.1x and offering a fully franked dividend yield of 8.0% we believe today's prices offer an attractive entry point to a quality business. We initiate coverage with a Buy recommendation and a price target of $4.80.

Financial Summary		2010A	2011A	2012E	2013E
Revenue	$m	106.9	129.8	150.5	175.7
Reported NPAT	$m	17.2	28.1	33.5	36.4
Adjusted NPAT	$m	17.5	28.7	33.5	36.4
EPS - Fully Diluted Adjusted	cps	29.4	46.9	53.5	56.5
EPS Growth	%	86.2%	59.7%	14.0%	5.6%
Dividend	cps	13.0	23.0	26.0	29.0
Payout Ratio - Reported	%	45%	50%	49%	51%
Dividend Yield	%	4.0%	7.0%	8.0%	8.9%
Net Debt	$m	39.7	55.1	58.4	92.7
Net Debt / EBITDA	x	1.5	1.4	1.2	1.7
Net Debt / (Net Debt + Equity)	%	27%	30%	28%	35%
Return on Equity	%	16%	22%	23%	21%
PER	x	11.1	7.0	6.1	5.8
EV/EBIT	x	9.6	6.4	5.5	5.8
EV/EBITDA	x	9.5	6.4	5.4	5.7

Company Overview

The Business

Cedar Woods Properties Limited (CWP) was established in 1987 and has been listed on the ASX since 1994.

CWP's focus is on property development. While this primarily involves the development of land for residential purposes, CWP also undertakes a number of built form (apartments, townhouses etc) developments.

CWP predominantly utilises its own balance sheet to hold and develop the underlying property assets. In addition to this direct ownership of assets, CWP has in more recent times entered into joint venture (JV) agreements with both Government and private bodies. CWP also has a small funds management business that is currently managing and developing one property asset.

Management & Directors

Both the Board and Management teams at CWP have been very stable for an extended period. We believe this stability has been to the benefit of the company, highlighted by CWP's consistent approach to its business and risk management.

- **Board**

Details of the directors and their shareholdings are shown in Figure 1. Mr Hames was a founding Director of CWP while all other Board members have wide ranging experience within the property industry.

Name	Position	Director Since	Shares	% of Issue
William Hames	Non-Executive Chairman		9,084,886	14.5%
Robert Brown	Non-Executive Deputy Chairman		9,653,418	15.4%
Ronald Packer	Non-Executive Director		138,632	0.2%
Paul Sadleir	Managing Director		932,930	1.5%
Timothy Brown	Non-Executive (Alternate for Robert Brown)		5,027,176	8.0%
TOTAL			**19,809,866**	**31.5%**

Figure 1: Directors *Source: CWP*

Note:

- Totals do not equal individual shareholdings shown as Messrs R & T Brown have a shared interest in 5,027,176 shares.

- **Senior Management**

The senior management team at CWP is shown in Figure 2.

Figure 2: Senior Management *Source: CWP*

Mr Sadleir has significant experience in the property sector having been CEO with CWP since 2000. Prior to this role Mr Sadleir was the Manager of the Bunnings Warehouse Property Trust (BWP). During his time with BWP Mr Sadleir established the Trust and was responsible for the growth of the trust to 30 properties.

Mr Freedman and Mr Blackburne have been with CWP since 1998 and 2002 respectively. Mr Duplock joined CWP in August 2009, with significant property experience, his prior role being as General Manager, Development with Hawaiian Property Group.

Strategy

CWP notes that its primary objective is to *"create value for shareholders through growth in earnings".*

Putting this in financial terms CWP seeks to achieve annual growth in earnings per share of at least 10% - a goal it has achieved in all but one year since 2002.

The major strategies adopted by CWP in order to achieve its targets are:

- Ongoing Development of Existing Projects
  CWP utilises its core competency in property development to maximise returns through industry-leading design, delivery and marketing of projects.

  We believe this is a key - CWP understands what it is good at and concentrates on delivering in this core area of property development.

- Diversification of Property Portfolio
  CWP utilises options over land and similar agreements as a way of securing new projects while progressing necessary approvals. Through this strategy CWP seeks to diversify and grow its portfolio.

  In addition to geographic diversity, we note that CWP's portfolio is diversified in relation to the type of product offered. At the time of the FY11 result announcement CWP commented that the result *"confirms the strength and diversity of our property portfolio, and importantly, the* *success of our business strategy to offer residential housing across a range of price points in Western Australia and Melbourne".*

We also note that in recent times CWP has indicated that this may include expansion into other states, in addition to further expanding on regional development opportunities.

- Identification and Acquisition of New Projects
  The focus of CWP's future acquisitions is on the medium to long term prospects that provide the potential to add greater value through rezoning and approvals rather than projects purchased for immediate development.

  CWP looks to maintain a solid project pipeline such that when current projects are expected to complete, new projects will then be ready to contribute to earnings. A good example of this is the Williams Landing project which is currently the biggest earnings contributor to CWP. The Williams Landing site was acquired for less than $10m in 1998 and did not make its initial earnings contribution until FY09.

  Continuing in this vein, recent CWP acquisitions are not expected to make material contributions for several years.

- Leveraging the Company's Skill Base
  CWP leverages its expertise through the use of joint ventures, syndicates and co-development arrangements which assists in diversifying CWP's earnings base in a capital efficient manner.

- Retaining Ownership of Income Producing Assets
  At this stage CWP has a very small portfolio of assets that provide an ongoing rental income stream. It is expected that this portfolio will be significantly enhanced by the commercial and retail property assets that will be developed at Williams Landing.

Funding

CWP presently has a $110m finance facility with ANZ. The facility commenced 31 August 2010 with an initial term of 3 years and the ability to extend the term for a further year on each anniversary of its commencement.

The facility has been established as a 'club' facility which enables other banks to enter should CWP's financing requirements grow.

At FY11 balance date, total facilities (including guarantees) utilised under the facility were $60.5m, with an additional $21m to be expended upon the settlement of the North Baldivis property acquisitions. This would provide ~$30m of headroom before taking into account any operational cashflows generated since balance date.

CWP believes that the facility limit combined with the cashflow generation of the business is sufficient at this stage to fund the company's existing operations, ongoing developments and future acquisitions.

We believe the structure of this funding arrangement provides CWP with added benefits:

- CWP can utilise the facility across its portfolio of developments (excluding the Cedar Woods Wellard Syndicate). Hence, for example, CWP are not encumbered by having to meet a certain level of pre-sales on a particular development before the bank will release funding. While CWP have their own internal measures as to when they will 'press the button' on a project, it is at their discretion, not dictated by the bank.

  For those developers of single projects or for those projects that are in individual syndicates the banks will generally require certain pre-sales levels before they will release funding. This can restrict the ability of the developer to move forward with the project.

- Since the onset of the GFC a number of banks have been seeking to exit from or reduce their exposure to the property sector. Property developers in particular have been significantly constrained in regard to the level of finance being made available. The reduced level of funding for the sector has greatly reduced the competition for assets as there are now relatively few developers around who have the balance sheet to finance these purchases and the resultant development.

  In addition, as lenders seek to reduce their exposure to the sector this is resulting in a number of assets coming to market at prices much lower than would have been expected in pre-GFC times.

GFC

While all sectors were undoubtedly impacted by the events and aftermath of the GFC it is fair to say that the property industry was more negatively impacted than most. The significant leverage at all levels of the property industry has made the recovery from the GFC a slow and painful one for the sector.

We believe the effects of the GFC and the resultant impact on listed property developers provides a good backdrop as to why we have a favourable view of the CWP business and management.

While CWP was undoubtedly impacted by the effects of the GFC its prudent approach to its capital structure and acquisitions in the period prior to the GFC left the company relatively well placed:

- No Capital Raising
  Outside of its ongoing Dividend Reinvestment Plan (DRP) CWP did not have the need to conduct any equity raisings during the GFC. CWP was one of the very few property related companies not to raise equity during the GFC – in many cases these capital raisings were conducted at deep discounts and were highly dilutive to existing shareholders.

- Limited Impairments
  CWP's prudent approach to acquisitions and its focus on longer term opportunities saw that, in general, CWP did not materially overpay for its assets. Figure 3 provides details of a number of CWP's land acquisitions.

Project	Acq. Date	Price ($m)
Mariners Cove	1993	6.8
Williams Landing	1998	10.0
Rivergums	2001	1.8
Kestrels	2003	17.0
Pinjarra	2005	2.1
Piara Waters - Lot2	2005	5.3
Banbury - Footscray	Jan-06	10.5
Carlingford	Mar-06	24.0
Cedar Woods Wellard	Aug-06	33.0
Bushmead (Hazelmere)	May-10	18.0
Piara Waters - Lot 6	Sep-10	6.8
North Baldivis	May-11	21.1

Figure 3: CWP Property Acquisitions *Source: CWP, DJC*

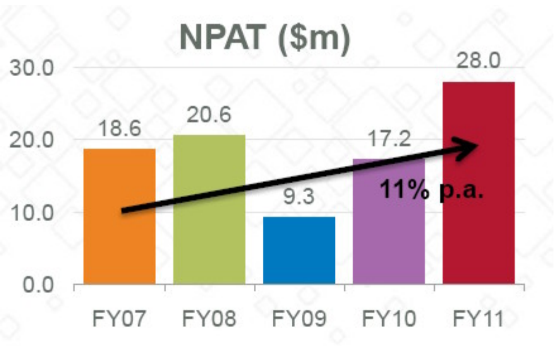
We have included all acquisitions announced since 2001. Of note is the fact that CWP made no acquisitions in the period leading up to the GFC – a time when property prices were escalating on the back of significant competition for assets.

Of interest we also note that while CWP has a number of assets in the hard hit Mandurah area, south of Perth, some of these assets such as Mariners Cove were acquired many years before the boom in prices in that region.

In the four years from FY08 through to FY11 CWP incurred impairments in relation to asset values of $4.2m in addition to $7.3m related to the write-down of options and related costs. These options related to money paid previously for options to purchase land at a later date – given the fall in land values CWP let a number of these options lapse.

The total impairments / write-downs over the period of $11.6m are relatively immaterial to the overall business and certainly very low in comparison to the write-downs that many peers were required to take.

Figure 4 shows that inclusive of all impairments CWP continued to generate profits through the GFC while also rapidly accelerating profit as the effects of the GFC subsided. Most importantly, given that CWP did not have the need to raise significant equity during the GFC, the profit growth generated by the business has fed through to growth in earnings per share.



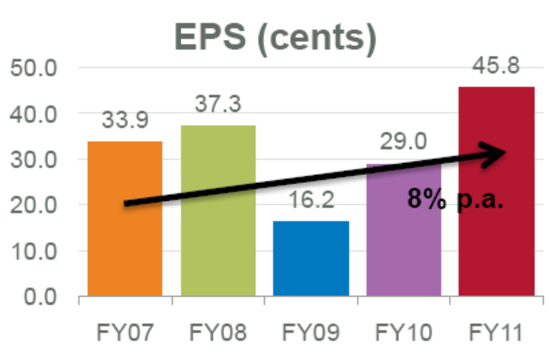


Figure 4: Cedar Woods NPAT and EPS – FY07 – FY11 *Source: CWP*

Overall, this strong operational performance has seen CWP significantly outperform its peers in share price terms over the last five years (Figure 5).

Figure 5: Share Price Returns since 31 December 2006 *Source: DJC, IRESS*

Note: The above chart does not take into account dividends paid during the period. If we were to include dividends paid, CWP's total return over the 5 year period would be -15%.

Project Portfolio

While the CWP portfolio of projects is concentrated in Western Australia and Melbourne the underlying projects are diversified across a range of price points from residential land available from around $150,000 to luxury apartments for well over $1m.

At any point in time within the portfolio of projects CWP has, it is reasonable to expect a number of projects to be going well while others may be struggling slightly.

In this section we look at the current portfolio of projects, discuss the future opportunities available to CWP and also consider the net tangible assets of the portfolio.

Current Portfolio

Details of CWP's current portfolio of projects are shown in Figures 6 and 7. CWP manages its portfolio to ensure that as some projects wind down other projects are in place ready to contribute earnings to the group. This was clearly evident in FY09 / FY10 as some of the successful Western Australian projects (e.g. Helena Valley, Kestrels) neared completion, the 'earnings slack' was filled from the initial contributions from the Williams Landing and Carlingford projects.

CWP believes that its current portfolio of projects is sufficient to generate medium term earnings per share growth in line with its target (10% per annum) without the need for further acquisitions.

	Location	Project Type	Status	Project Life							
				FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
WA projects											
Rivergums Baldivis	Southern corridor	Residential	Mature	■	■	■	■	■	■	■	■
North Baldivis	Southern corridor	Residential	Planning							■	■
Mariners Cove	Mandurah	Canal	Mature	■	■	■	■	■	■	■	■
Port Mandurah (Sutton)	Mandurah	Canal development	Planning				■	■			
The Kestrels	Tapping, Wanneroo	Residential	Complete	■							
Piara Waters - lot 2	SE corridor	Residential	Planning			■	■				
Piara Waters - lot 6	SE corridor	Residential	Planning					■	■		
Waterline stage 1	Mandurah	Apartments	Complete	■							
Waterline stage 2	Mandurah	Apartments	Planning					■	■		
The Jetty, Palm Beach	Rockingham	Apartments	Complete - settlements FY12		■						
Bushmead	Perth foothills	Residential	Planning						■	■	■
Pinjarra	Southern corridor	Residential	Planning								■
South Hedland	Pilbara	Residential	Planning				■	■			
Harrisdale Green	SE Corridor	Mixed Use	Mature	■	■	■	■	■	■	■	■
Carine	NW Corridor	Mixed Use	Planning			■	■	■			
Mangles Bay	Rockingham	Mixed use	Planning								
WA syndicate project	(CWP 25%)										
Cedar Woods Wellard (Emerald Park)	Southern corridor	Residential	Mature	■	■	■	■	■	■		
Melbourne projects											
Williams Landing Residential	Western Suburbs	Residential	Mature	■	■	■	■	■	■	■	■
Williams Landing Town Centre	Western Suburbs	Retail, Mixed Use	Planning, Design, Leasing				■	■	■	■	■
Carlingford, Lalor	Northern corridor	Residential	Mature	■	■	■	■	■			
Banbury Village	Footscray	Apartments & Houses	Mature	■	■	■	■	■			
Camberwell	Eastern suburbs	House & land packages	Design/Sales			■	■				

Figure 6: Cedar Woods Project Pipeline *Source: CWP*

Figure 7: Cedar Woods Property Portfolio *Source: CWP*

Future Opportunities

While CWP believes that its current portfolio of projects is sufficient to generate medium term earnings growth in line with its target, this does not imply that CWP will not consider further acquisitions. It does however give CWP the luxury of being very selective in regard to the new projects it seeks to acquire.

In assessing future opportunities CWP's objective is to acquire new projects that have the potential to enhance earnings growth in the medium to longer term. A prime example of this is the recent acquisition of two adjacent parcels of land in Baldivis, totalling 68ha. As shown in Figure 8 the site is in an area CWP know very well; located between two existing projects. CWP expect the site to ultimately deliver 800 lots with development anticipated to commence in five years.

As noted earlier, the lack of funding generally available to the sector has made this a 'buyers market' with CWP being very well placed given the dearth of funding being available to many other developers. We also expect that as banks continue to seek to reduce their property exposure that CWP will be presented with opportunities from banks and receivers alike to purchase property at what may in hindsight turn out to be heavily discounted prices. It is these opportunities available today that are likely to see CWP positioned very well for delivery of continued earnings growth over the next five to ten years.

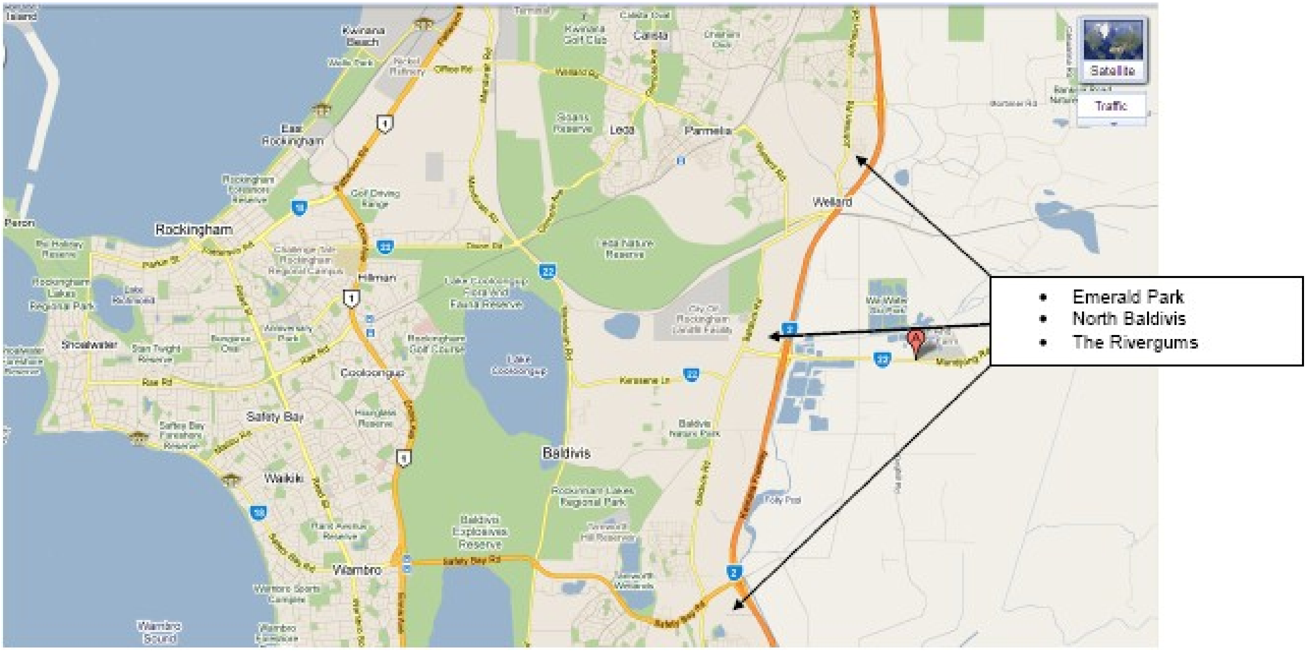


Figure 8: Location of Baldivis Properties *Source: CWP*

Net Tangible Assets (NTA)

CWP holds the value of its property assets on balance sheet at the lower of cost and net realisable value. Given that CWP bought a number of its property assets many years ago this valuation method tends to significantly understate the underlying value of the property assets held on balance sheet. At FY11 CWP had a stated balance sheet NTA of $2.10 per share.

In October 2010 CWP announced that at the time of arranging its new financing facility, independent valuations were obtained for a number of the company's property assets. On the basis of these independent valuations and management's assessment of other properties within its portfolio CWP estimated that its NTA was approximately $6.00 per share. This figure did not take into account any corporate tax that would be payable upon the sale of the properties, the value of franking credits ($30m at the time) or the value of any other projects under consideration.

Since the time this assessment was made, 12-15 months ago, we note that CWP has delivered materially higher profits than were forecast at the time, continued to progress developments at the Williams Landing Town Centre and made a number of land acquisitions that we expect will deliver strong profits in the future.

Notwithstanding the current fragile confidence in global markets and weak consumer confidence in Australia that has impacted house and land sales, at the very least we would expect that the current underlying NTA is in line with the $6.00 per share previously estimated.

Williams Landing

In 1998 CWP purchased the 275 hectare site of the former Laverton Airfield for $9.45m. The original intention was for the site to be developed as a major industrial and commercial business park.

However, given the site's location just 19km west of the Melbourne CBD (Figure 9) and with access to the Princess Freeway, the attractiveness of the site for a major residential development and associated town centre is now being realised.

Over the life of the project CWP expects that Williams Landing will include around 2,500 residential homes and accommodate significant areas of retail and commercial floor space.

- **Infrastructure**

Williams Landing is located within the City of Wyndham, the fastest growing municipality in Australia. In recognition of the importance of Williams Landing, the Victorian State Government is investing over $100m to provide infrastructure including a new train station, bus interchange, freeway interchange and 500 bay commuter car park. It is expected that the Williams Landing Train Station will open in late 2012.

Figure 9: Williams Landing *Source: CWP*

- **Residential**

Since first commencing sales in FY09, over 800 lots have been sold at Williams Landing. With an additional ~1,900 lots (at 30 June 2011) to be developed and settled over time it is expected that the project will run for a further 8-10 years.

Given its relative proximity to the CBD, Williams Landing has proven to be an attractive destination for white collar families. It is expected that this will only improve as the transport and town centre facilities are further developed.

Lot prices have risen strongly since the project launch with prices now averaging around $300,000 per lot up from ~$200,000 per lot at launch.

- **Town Centre**

The Town Centre at Williams Landing has the potential to add significant value to CWP. In May 2011 CWP announced that it had signed a 20 year lease agreement with Woolworths (WOW) for the development of a Woolworths supermarket, a Big W store and a Masters home improvement store, totalling 25,400m^2.

In addition to these sites, the first stage of the Town Centre development is expected to include an additional supermarket and a range of speciality shops, cafes, restaurants and offices.

Ultimately CWP believes that up to ~125,000m^2 of floor space has the potential to be developed within the Town Centre, comprising a mix of retail, commercial and residential developments. The first stage of the development will comprise ~41,500m^2, with completion expected in 2013/14 at a total cost of ~$130m. The total cost will be expended over the next three years with CWP anticipating it can utilise its balance sheet and internal cashflows to assist in funding this development.

We see that CWP has significant flexibility in regard to what it does with the Town Centre. CWP has noted that it intends to develop and retain significant precincts within the centre which will add significant assets to the company's property portfolio and provide a recurrent income stream through property rentals.

With the ability to fund stage 1 internally CWP will then have the option of deciding where the Town Centre assets or portions of the Town Centre assets best sit. In addition to holding the assets on balance sheet we see other potential options available to CWP to enable a realisation of value as:

- Subdivision and sale of some aspects of the Town Centre.
- Vend some assets (for example the three Woolworths tenancies) into a separate trust.

Williams Landing Valuation

Williams Landing has become the major asset within the CWP portfolio. We estimate that at present, Williams Landing has a value of approximately $170m, equivalent to $2.70 per CWP share. As we describe below, our estimate is predicated on the Town Centre being valued as is, without any value given to the potential upside that should occur as the asset is developed.

- **Residential**

Using a discounted cash flow analysis, we estimate the value of the Residential component of Williams Landing to be between $119m - $133m, equivalent to $1.89 - $2.12 per share (Figure 10).

Disc. Rate	NPV	Per Share
10%	$156,763,340	$2.49
11%	$150,317,733	$2.39
12%	$144,275,142	$2.30
13%	$138,604,355	$2.21
14%	$133,276,951	$2.12
15%	$128,267,025	$2.04
16%	$123,550,935	$1.97
17%	$119,107,085	$1.89
18%	$114,915,722	$1.83

Figure 10: Williams Landing Residential Valuation *Source: CWP, DJC*

Our main assumptions in deriving this figure are:
- 1,900 lots remaining for settlement (30 June 2011)
- 200 settlements per annum
- Average sale price of $300,000 (including GST)
- Escalation in sale price of 3%p.a.
- Escalation in development cost and project operating cost of 5%p.a.
- Assumed tax rate of 30%

In deriving our valuation we have only taken into account costs directly related to the project (i.e. we have not taken into account any head office costs).

- **Town Centre**

As it stands today, the Town Centre comprises undeveloped land that is zoned commercial. Based on a total area of 45 hectares and using a basic “rule of thumb” value of $1m/ha (equivalent to $100/m^2) we believe the Town Centre land has a value of at least $45m ($0.72 per CWP share).

As discussed above, we believe CWP has a number of options in regard to the financing and ultimate ownership structure of the Town Centre assets. Given the options available we believe that over time CWP has the potential to realise significant value from this asset.

Funds Management

CWP has a small funds management business, to date launching one wholesale syndicate, Cedar Woods Wellard Limited.

At the time of launching the Funds Management business in August 2006, CWP noted that *"the new funds management business provides greater diversity to our sources of funding, enabling the company to actively participate in more projects of a larger scale, while reducing financial risk and shareholder equity dilution".*

We see that the benefits of utilising a syndicate structure remain the same, i.e. they offer a means of acquiring larger parcels of land without significantly impacting balance sheet flexibility. In addition, they provide a diversified income stream through the receipt of ongoing project management fees.

While the appetite in the market for syndicate type investments is somewhat diminished at present, we expect that were the right opportunity to present itself, CWP would consider further investments via this type of vehicle.

- **Cedar Woods Wellard**

The Cedar Woods Wellard (CWWL) syndicate was launched as a wholesale syndicate in 2006 to enable the purchase of a 47 hectare parcel of land at Wellard in Perth's southern corridor for $33m (excluding GST). The syndicate comprised of four investors, including CWP which took a 25% stake. Other investors included Bank of Scotland (BOS), while its associate company Bankwest acted as the debt provider to CWWL.

Given the timing of the launch of CWWL the project ran straight into the GFC and has been impacted as a result. In addition, the decision by BOS to greatly reduce its presence in Australia, involving the sale of Bankwest to Commonwealth Bank of Australia (CBA), saw CWP step in and purchase an additional 7.5% of CWWL (taking its stake to 32.5%) in addition to providing mezzanine finance to CWWL.

The first two stages of the CWWL project, named Emerald Park, have now been completed with the estate entering a mature phase. At 30 June 2011, 478 lots remained to be developed which should see a further five to six year timeframe for this project. CWP remains very confident that along with generating ongoing management fee income its borrowing exposure to CWWL (currently $8.9m) will be repaid in full.

Takeover Approach

In March 2011 the Board of CWP announced that it had received a takeover approach for all of its issued shares. The proposal entailed a cash offer of $4.05 per share plus a fully franked special dividend of $1.00 per share. Headline value was therefore $5.05 per share with additional value from the franking credits of up to $0.43 per share (total of $5.48 per share) dependent on the tax situation of individual investors.

At the time, the Board noted that they had provided due diligence access to, and had engaged with, the 3rd party in an effort to negotiate modifications to the conditions attached to the offer. Among other items, the Board provided the following key reasons for not presenting the offer to shareholders:

- Takeover Proposal at a Discount to Assessed NTA
  This point is in relation to CWP's prior assessment of NTA at around $6.00 per share (as discussed earlier). CWP also noted that they believed the implied valuation to be insufficient when compared with the multiples on which peers traded (at the time).

- Expectation of Strong Profits in FY11 and FY12
  CWP has since delivered an FY11 profit of $28m (above guidance) while forecasting FY12 profit growth of 21% to $34m.

- Expectation of Exceeding 10% Earnings Growth Target
  The Board noted and has as recently as the FY11 AGM reiterated that it is well placed to exceed its annual earnings per share growth target of 10%.

- Cedar Woods Share Price Performance
  The Board noted that its increased engagement with the investment community had lead to a significant increase in its share price over the prior six months.

While the share price of CWP is now significantly below the offer price we believe on all other measures that the underlying CWP performance has been very strong, particularly when compared to the performance of its peers and the property market in general.

Given that many of CWP's investments / acquisitions take around five years before they contribute to earnings, we expect that unless an exceptional offer is received, it may prove difficult for a prospective buyer to offer a price that the CWP Board believes includes an appropriate premium for the existing opportunities in the portfolio, that will not contribute to earnings for a number of years.

Financial Information

Earnings Summary

Figure 11 provides a snapshot of CWP earnings since FY07.

Historical Financials		FY07	FY08	FY09	FY10	FY11	CAGR
Revenue	$m	89.8	81.9	106.3	106.9	129.8	10%
Gross Profit	$m	46.9	48.8	47.3	46.7	61.3	7%
EBITDA (pre Writedowns)	**$m**	**31.5**	**31.9**	**25.5**	**27.7**	**40.9**	**7%**
Writedowns / Impairments	$m	0.0	-0.5	-9.2	-2.1	-0.8	
EBITDA (Reported)	$m	31.5	31.4	16.2	25.7	40.1	6%
NPAT Reported	**$m**	**18.6**	**20.6**	**9.3**	**17.2**	**28.1**	**11%**
EPS Reported	**$m**	**33.9**	**37.3**	**16.2**	**29.0**	**45.8**	**8%**
EPS Growth - Reported	%	12%	10%	-57%	79%	58%	
GP Margin	%	52.2%	59.7%	44.5%	43.7%	47.2%	
EBITDA Margin - Reported	%	35.1%	38.4%	15.3%	24.0%	30.9%	

Figure 11: Financial Summary *Source: CWP; DJC*

Overall, we believe the earnings record of CWP is impressive. While FY09 shows a large fall in earnings at the peak of the GFC, we note that during that period CWP performed much better than many, if not all, of its peers. Interestingly while FY09 had a material level of writedowns and impairments the performance of the business when excluding these items was surprisingly robust given the uncertainty at the time.

We note the impressive rebound in earnings per share that was delivered in FY11; well above the pre-GFC peak in earnings generated in FY08.

Cashflow

Figure 12 shows how CWP has utilised the operating cashflow it has generated. Over the last five years CWP has generated strong operating cashflow. Of this a significant portion has been invested back into the business through the acquisition of additional property assets.

Use of Funds		FY07	FY08	FY09	FY10	FY11	Total
Operating Cashflow (pre Property Acqs.)	$m	31.1	0.4	34.1	25.5	40.7	131.9
Capital Expenditure	$m	-0.2	-0.6	-0.3	-0.2	-0.1	-1.5
Property Acquisitions	$m	-46.0	-8.0	-1.0	-7.7	-47.7	-110.4
Divestments / Other	$m	-12.4	-0.3	0.0	-7.7	-1.6	-21.9
Total Cash Outflows	**$m**	**-58.6**	**-8.9**	**-1.3**	**-15.6**	**-49.4**	**-133.8**
Excess / (Shortfall)	**$m**	**-27.4**	**-8.5**	**32.8**	**9.9**	**-8.7**	**-1.9**
Use of Funds / Funding Sources:							
Dividends Paid to Shareholders	$m	-7.3	-8.2	-4.0	-3.9	-7.3	-30.7
Reduction / (Increase) in Cash	$m	15.6	0.6	-1.1	1.1	0.2	16.3
Increase / (Repayment) of Debt	$m	19.2	16.2	-31.6	-9.2	15.8	10.4
Equity Issued / (Bought Back)	$m	0.0	0.0	3.9	2.1	0.0	6.1
Total	**$m**	**27.5**	**8.6**	**-32.8**	**-9.9**	**8.7**	**2.1**

Figure 12: Use of Funds *Source: CWP; DJC*

- ***Dividends***

Dividend payments made by CWP are shown in Figure 13. The current dividend policy is to pay 50% of after tax profits. At the end of FY11 CWP held franking credits of $33.6m.

Dividends		**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Earnings per Share	cps	33.9	37.3	16.2	29.0	45.8
Dividends per Share	cps	17.0	18.0	7.0	13.0	23.0
Payout Ratio	%	50%	48%	43%	45%	50%

Figure 13: Dividend Summary *Source: CWP; DJC*

Balance Sheet

Figure 14 provides a snapshot of CWP's balance sheet.

Total assets have been increasing as CWP continues to expand its property portfolio. Debt levels have been well managed right through the GFC period. CWP has a target debt / equity ratio of 20-75% and has been well within this range over the last three years. We note that the debt / equity ratio is somewhat overstated as it is calculated using the book value of the assets in lieu of the significantly higher market value.

Balance Sheet		**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Cash	$m	1	0	2	1	0
Land - Inventories	$m	143	163	148	189	212
Intangibles	$m	0	0	0	0	0
Other Assets	$m	11	22	13	16	21
Total Assets	**$m**	**156**	**185**	**163**	**206**	**234**
Debt	$m	67	82	50	40	55
Other Liabilities	$m	17	19	19	57	49
Total Liabilties	**$m**	**84**	**101**	**69**	**97**	**104**
Net Assets	$m	72	84	93	109	130
Net Debt / (Cash)	$m	66	82	48	40	55
Net Debt / Equity	%	92%	98%	52%	37%	43%

Figure 14: Balance Sheet *Source: CWP; DJC*

- ***Balance Sheet Returns***

Figure 15 shows the returns generated by CWP on its asset and equity bases.

Balance Sheet Returns		**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**Overall**
ROA (EBIT / Assets)	%	20%	17%	10%	12%	17%	15%
ROE (NPAT / Sh. Equity)	%	26%	24%	10%	16%	22%	19%

Figure 15: Balance Sheet Returns *Source: CWP; DJC*

Over the period in question, CWP has generated respectable balance sheet returns. We note that the returns generated have been well in excess of CWP's target Return on Equity of 12%. We do also note that the return figures are somewhat inflated due to the fact that the returns are calculated based on the book value of assets in lieu of the market value.

Summary

We summarise the recent historical performance of the company, noting that since FY07 CWP has:

- Generated respectable earnings growth over a period that has been particularly challenging for the property sector.

- Produced solid operating cashflows that has enabled reinvestment into the business via additional property acquisitions to drive future profit growth. This has been achieved whilst also delivering shareholders a solid stream of dividends.

- Maintained a balance sheet structure with debt / equity measures remaining sound. A very good result when most other property companies faced significant balance sheet related issues during and post the GFC.

- Generated solid returns on its asset and equity bases.

Earnings Forecasts

Macro Drivers

At a macro level there are a number of key drivers related to demand for residential property. While these macro drivers undoubtedly influence the overall level of activity in the sector, we note that despite a subdued macro environment over the last few years, CWP has managed to produce strong earnings growth. We believe this highlights the point that well located projects, which are attractive to prospective purchasers, will perform well under a variety of market conditions.

The key macro drivers for residential property include:

- ***Population Growth***
  Population growth in Australia for the year to June 2011 was 1.4%, representing an increase in population of 320,800 people. In percentage terms population growth continues to be strongest in Western Australia, while in real terms population growth was strongest in Victoria at 84,200 (Figure 16).

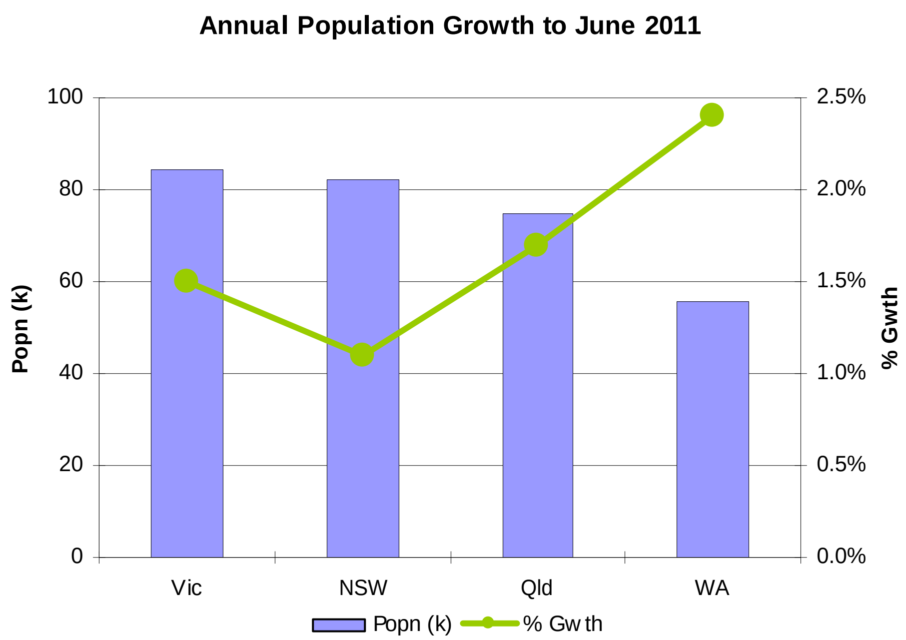


Figure 16: Australian Population Growth *Source: ABS Cat. 3101, DJC*

- ***Housing Affordability***
  The Housing Industry Association (HIA) has recently reported that housing affordability improved for the 3rd consecutive quarter in the period ended September 2011. Key inputs into the housing affordability index include house prices, household incomes and interest rates.

  According to the HIA, housing affordability has increased by 9% in Western Australia since the September quarter 2010, while it has improved by 3% in Victoria over the same period (Figure 17). The more subdued improvement in affordability in Victoria is primarily as a result of house prices in Victoria falling only 0.3% in the year to September 2011 according to ABS data (Cat. 6416) while over the same period prices in Western Australia fell 4.2%.

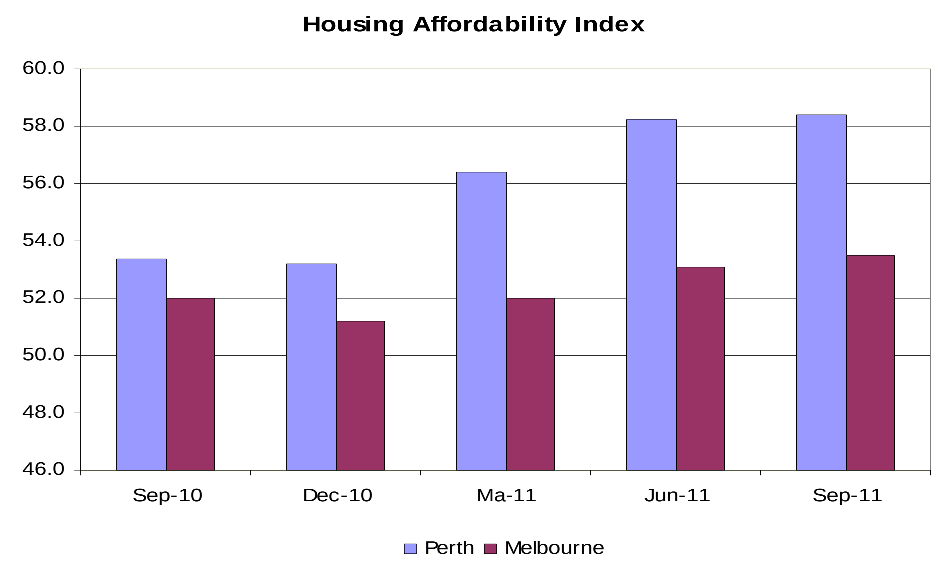


Figure 17: Housing Affordability – Perth & Melbourne *Source: HIA, DJC*

- ***Confidence***

  Confidence plays a significant part in the purchase decisions of individuals and families when it comes to significant items such as houses and land. Two key ingredients of confidence in this regard relate to employment and interest rates.

  Generally if people have a job, and are comfortable that they will not lose their job, then they have a much higher degree of confidence when it comes to making major purchasing decisions.

- ***Employment***

  Employment in Australia has remained relatively strong over the last 12 months, with the unemployment rate currently at 5.3%. Western Australia has experienced ongoing strength in its employment market with the unemployment rate currently at 4.3%. Victoria on the other hand has experienced some recent weakness with unemployment ticking up over recent months to now be sitting at a 12 month high of 5.5% (Figure 18).

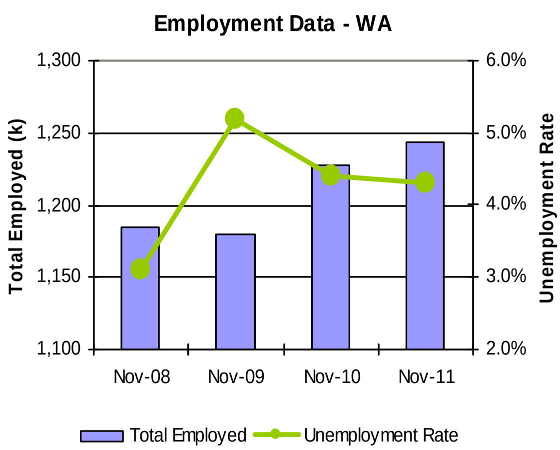


Figure 18: Employment Data – Western Australia & Victoria *Source: ABS Cat. 6202, DJC*

- ***Interest Rates***

  Interest rates (Figure 19) are obviously a key determinant in regard to affordability (see above) and also in regard to confidence. The recent RBA interest cuts of 25bps in both November and December will no doubt improve confidence after a period in which not only were rates held steady, but until recently the RBA had been maintaining a tone leaning more toward further policy tightening.

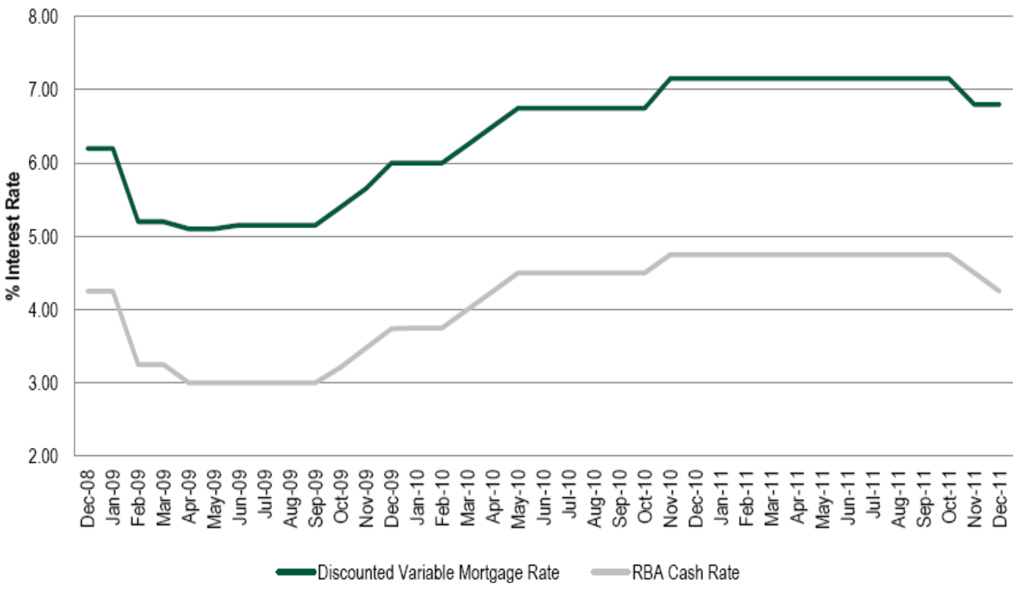


Figure 19: Interest Rates *Source: HIA*

Note: Since publication of this graph the major banks have all reduced their variable mortgage rates by 25bps, in line with the RBA.

- ***Housing Supply***

  Figure 20 shows that housing completions in Western Australia continue to fall short of the underlying dwelling requirements. In Victoria this situation has reversed in the last 12 months and is expected to continue into the next year. Despite this 'catch up' of supply in recent years the National Housing Supply Council's 2011 *State of Supply* report estimates that Victoria still has a total shortfall of around 17,600 dwellings. In comparison the shortfall of dwellings in Western Australia is estimated at 28,000 dwellings.

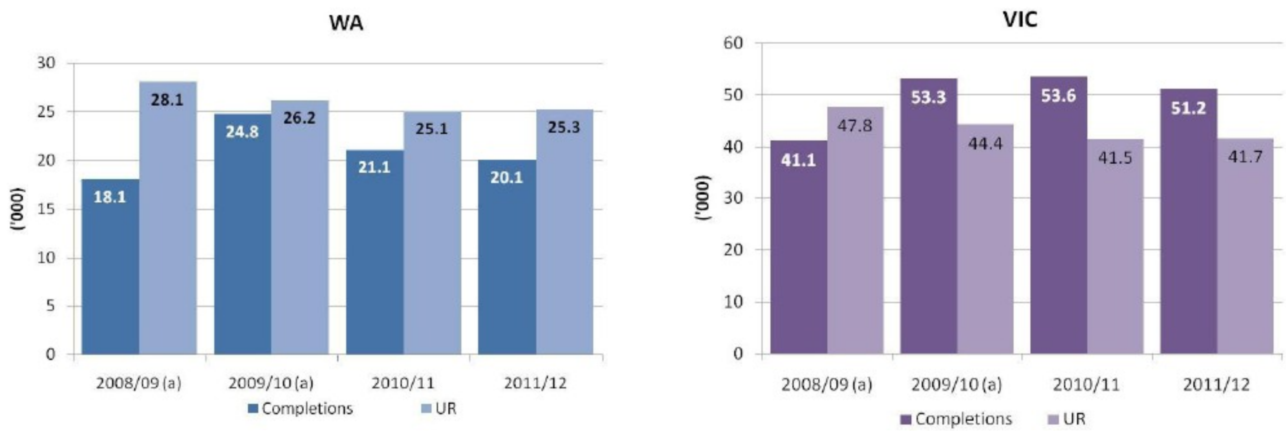


Figure 20: Underlying Housing Requirements v Dwelling Completions *Source: CWP*

- ***Availability of Finance***

  Post the GFC most lending institutions tightened their lending criteria making it more difficult for those seeking finance. In more recent times the banks have again become somewhat more competitive in seeking to provide home loans with price (interest rate) competition intensifying during the year. While this greater level of finance availability is a positive, to date the signs are mixed as to whether or not this will translate into increased demand for housing finance. The latest HIA data (Figure 21) shows that new home lending appears to have flattened through 2011 at levels that are below the decade average. HIA do however note that it is encouraging that there has been an improving trend in the total number of loans for both first time and trade up buyers. In addition, HIA notes that the recent interest rate cuts should help that recovery momentum.

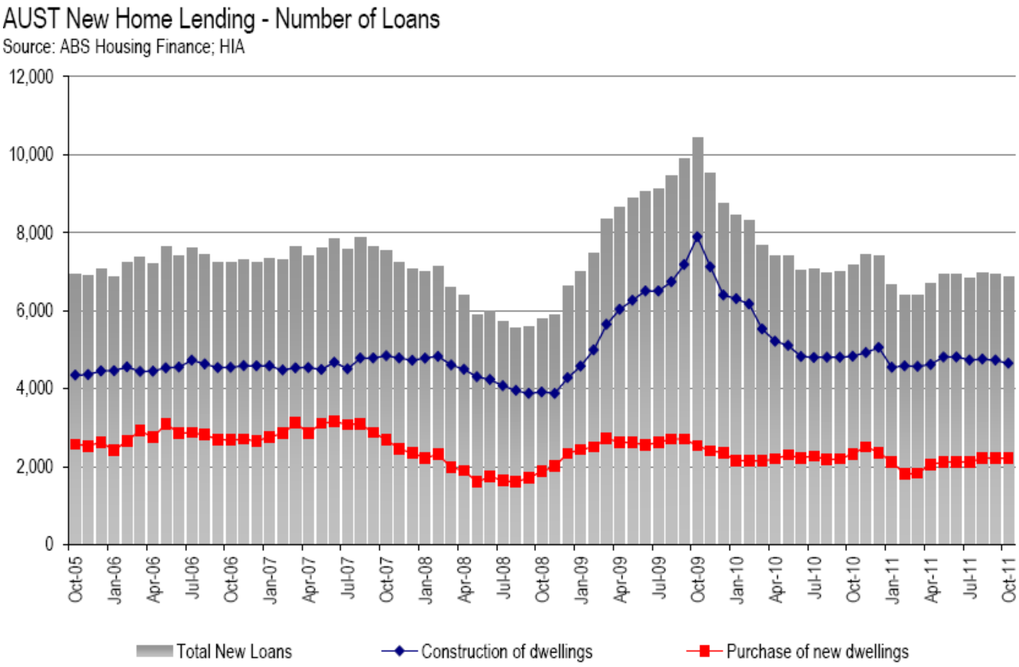


Figure 21: New Home Lending *Source: HIA*

- ***Incentives***

  The Federal and State Governments offer a range of incentives to encourage home ownership. These incentives can assist in driving housing related activity. At present the Federal First Home Owners Grant (FHOG) is $7,000. In addition, currently in Victoria there is an additional $13,000 First Home Bonus available for those first time home builders where the value of the property does not exceed $600,000. The First Home Bonus incentive is currently available until 30 June 2012.

  We note that the level of first home owners at each CWP project can vary significantly dependent on the type of product being offered. Overall we estimate that the percentage of revenue derived by CWP from first home buyers is around 20-30%.

Macro Outlook

In this section we consider the current overall outlooks for both Western Australia and Victoria. At present many of CWP's listed peers in the property sector have noted how tough conditions are. While CWP is not immune from these macro impacts we believe the company is better placed than most to adapt to the current market conditions given its variety of product across a range of price points.

Key indicators of the level of the current and (short-term) future demand for residential land and housing include:

- Housing Finance Approvals
- Building Approvals
- Dwelling Unit Commencements

- **Western Australia**

CWP notes that despite a strong economy in Western Australia property prices softened in the 2nd half of FY11. However CWP believes that strong inbound migration supported by the resources boom, coupled with low unemployment, provides the underlying fundamentals to support growing demand for residential property in the future. CWP notes that it is well placed for an upturn in Western Australian property markets as it has plenty of land available, with approvals in place that it can bring to market quickly when demand increases.

Data published by the Australian Bureau of Statistics shows weakening building approvals (Figure 23) and commencements (Figure 24), supporting CWP's view of the softening property markets within Western Australia. The improving housing finance approvals data (Figure 22) does however provide some sign that an overall improvement in Western Australian housing markets may be on its way.

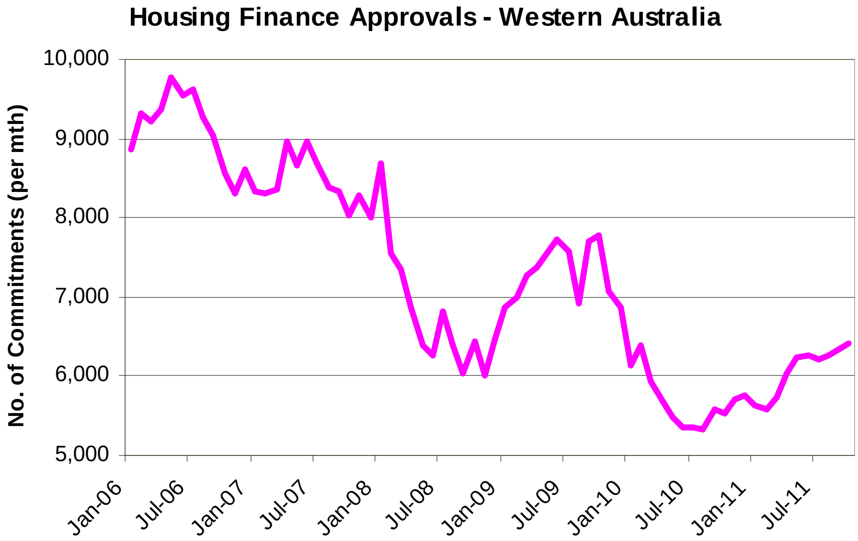


Figure 22: Housing Finance Approvals – Western Australia *Source: ABS Cat. 5609, DJC*

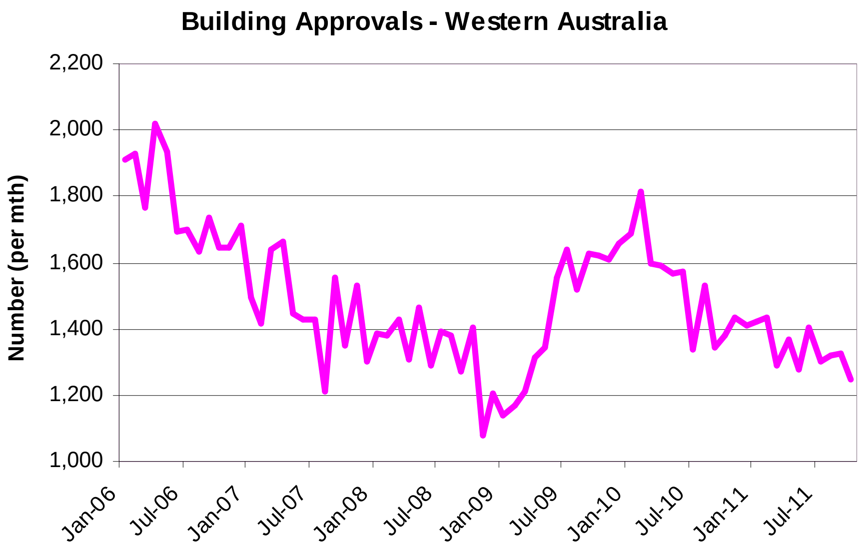


Figure 23: Building Approvals – Western Australia *Source: ABS Cat. 8731, DJC*

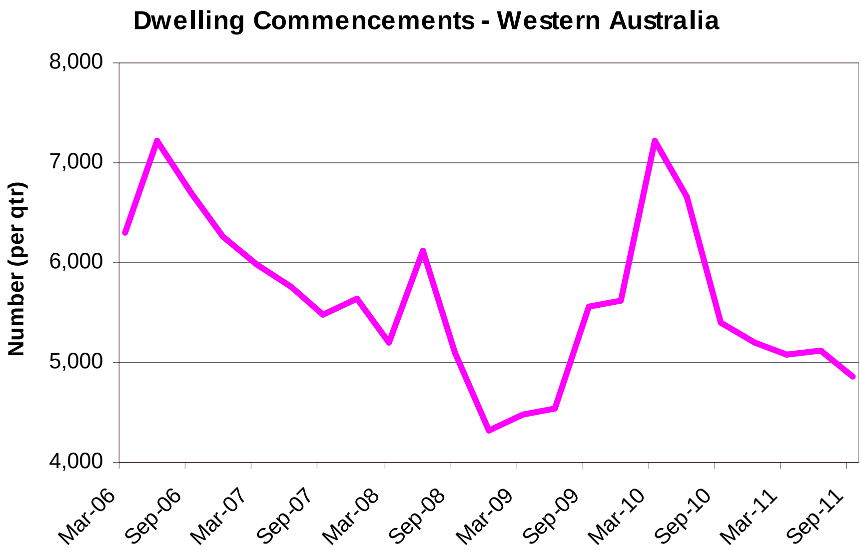


Figure 24: Dwelling Commencements – Western Australia *Source: ABS Cat. 8750, DJC*

- **Victoria**

CWP report that following a period of strong growth in the residential property market in Victoria, demand has moderated with property prices recently experiencing some softening. Notwithstanding this, CWP believes that with forecast population growth, low unemployment and a shortage of dwellings the platform is in place for increased demand in the medium term.

ABS data (Figures 25 – 27) show that building approvals and dwelling commencements have fallen sharply over the last 6 – 12 months.

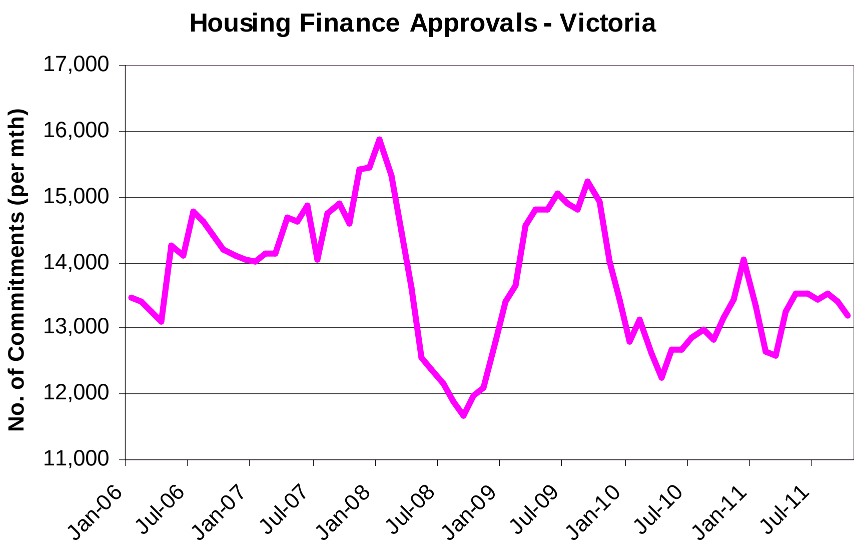


Figure 25: Housing Finance Approvals – Victoria *Source: ABS Cat. 5609, DJC*

Figure 26: Building Approvals – Victoria *Source: ABS Cat. 8731, DJC*

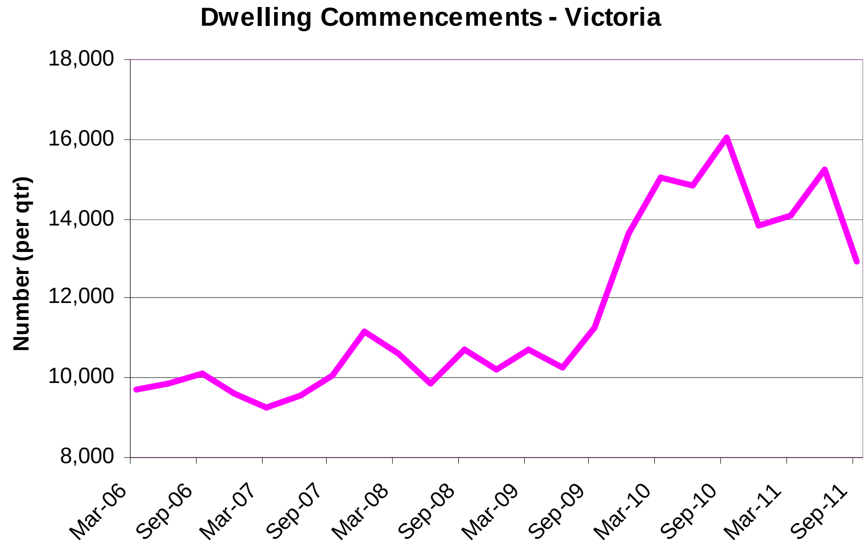


Figure 27: Dwelling Commencements – Victoria *Source: ABS Cat. 8750, DJC*

Cedar Woods Forecasts

Figure 28 summarises our forecasts for FY12 and FY13 against actual results for FY11.

Cedar Woods		FY11	FY12	FY13
Revenue	$m	129.8	150.5	175.7
EBITDA	$m	40.1	48.9	53.6
EBIT	$m	39.8	48.6	53.3
Net Interest	$m	0.8	-0.3	-0.6
PBT	$m	40.6	48.3	52.7
Tax	$m	-12.2	-14.5	-15.8
Associates	$m	-0.4	-0.3	-0.5
NPAT	$m	28.1	33.5	36.4
EPS - Weighted Fully Diluted	cps	46.9	53.5	56.5
EPS Growth	%	60%	14%	6%
DPS	cps	23.0	26.0	29.0
EBIT Margin	%	30.7%	32.3%	30.3%
NPAT Margin	%	21.6%	22.2%	20.7%

Figure 28: Earnings Forecast *Source: CWP; DJC*

- We note that a number of peers in the listed property sector have commented on the tough market conditions – particularly those being experienced at present in Victoria. While these conditions will also be impacting CWP to a certain degree, we draw comfort from the fact that CWP has a significant amount of pre-sales already in place for FY12.

  At its recent AGM CWP confirmed its FY12 NPAT guidance of $34m, noting that $140m of presales had already been secured, up from $130m in place at the time of the FY11 results announcement in late August 2011.

  Additionally we note that CWP's key Victorian project at Williams Landing has proven to be a desirable location for white collar families, which has resulted in continued demand.

  Notwithstanding the above we have been somewhat conservative, in recognition of the softening in Victorian markets, and have forecast FY12 NPAT of $33.5m slightly below CWP's guidance of $34m.

- At its recent AGM CWP confirmed its view that the company *is "well positioned to continue to achieve earnings per share growth in excess of 10% per annum going forward".*

  Notwithstanding this confident outlook we have also been somewhat conservative in our forecasts for FY13. Again our view here is largely predicated on potential price softness related to CWP's Victorian projects.

  During FY13 we expect to see initial contributions from projects at Camberwell (Victoria), South Hedland (WA) and Piara Waters (WA). We see potential for upside to our forecasts should these new projects make stronger earnings contributions than we are currently forecasting.

Valuation

Based on our forecasts CWP currently trades on FY12 and FY13 PER multiples of 6.1x and 5.8x respectively (Figure 29). This compares favourably to the multiples on which its peers trade.

				PER		EPS Gwth	Dividend Yield	
Stock		**Price**	**Mkt Cap ($m)**	**FY12**	**FY13**	**FY13**	**FY12**	**FY13**
Stockland	SGP	3.245	7,517	10.2	9.7	5%	7.4%	7.7%
Mirvac	MGR	1.185	4,049	10.9	10.7	2%	7.0%	7.4%
Australand	ALZ	2.430	1,402	10.5	10.0	6%	9.0%	9.2%
FKP Property	FKP	0.480	575	4.7	4.3	8%	6.7%	7.5%
Peet	PPC	0.790	253	13.2	8.2	60%	4.6%	7.3%
Sunland	SDG	0.665	134	7.1	5.1	38%	0.0%	6.0%
Devine	DVN	0.770	122	8.5	7.0	21%	7.4%	8.7%
AVJennings	AVJ	0.380	104	7.3	5.7	29%	6.6%	8.4%
Average - Overall				**9.0**	**7.6**	**21%**	**6.1%**	**7.8%**
Average - Smaller Peers				**9.0**	**6.5**	**37%**	**4.6%**	**7.6%**
Cedar Woods	CWP	3.27	206	6.1	5.8	6%	8.0%	8.9%
CWP Discount - Overall				**32%**	**24%**			
CWP Discount - Smaller Peers				**32%**	**11%**			

Figure 29: Comparative Valuations *Source: Bloomberg Consensus; DJC*

Note: ALZ financial year end is December. The Smaller Peer group includes PPC, SDG, DVN and AVJ.

- We have broken down the peer group to also show the averages of smaller peers. Direct comparisons with the larger peers can be problematic given the larger companies have much more diverse operations.

- On a PER basis, CWP trades at a significant discount to the overall peer average and also to the average of its smaller peers.

- The discount at which CWP trades compared to its peers, based on FY13 consensus earnings forecasts is lower than the discount on which it trades based on FY12 consensus earnings forecasts.

  This is largely due to the fact that overall consensus expectations are for material growth in FY13 earnings, particularly from the smaller peers. At this stage we remain somewhat cautious in relation to the expectation for strong earnings growth into FY13 as shown by our expectation of 6% earnings growth for CWP in FY13. We note that should the smaller peers actually deliver the strong earnings growth that has been forecast we would expect that CWP will also have been a beneficiary from the improved macro environment that would assist in driving this forecast earnings growth.

- CWP offers a dividend yield well above the average of its peers.

We find it difficult to justify why CWP trades at a discount to its peers. Our thoughts are based on both the historic performance of CWP and the very solid growth outlook the group has. In regard to historic performance, Figure 30 shows the earnings per share reported by peers in FY08 (pre-GFC) in comparison to the results expected to be delivered in FY12.

What Figure 30 highlights is that while most property companies are delivering earnings well below their pre-GFC levels, in contrast, CWP is expected to report earnings significantly above that produced in the year prior to the GFC impacting.

EPS	FY08	FY12 (f)	Chg
CWP	**37.3**	**53.5**	**43%**
AVJ	4.9	5.2	7%
DVN	12.1	9.1	-25%
MGR	14.9	10.9	-27%
SGP	46.2	31.8	-31%
ALZ	65.5	23.1	-65%
SDG	30.8	9.4	-69%
PPC	21.6	6.0	-72%
FKP	57.1	10.3	-82%
Average (ex CWP)			**-46%**

Figure 30: Earnings Comparison FY08 v FY12 *Source: Bloomberg; Company Reports, DJC*

Notes: ALZ FY08 eps is adjusted for subsequent 5 for 1 share consolidation

We believe CWP deserves to trade at a premium to its smaller peers given its strong track record and expectation of achieving earnings per share growth in excess of 10% per annum going forward. We note that the current FY12 multiple on which PPC trades has inflated the smaller peer average to a certain extent.

We believe an FY12 multiple of 9.0x earnings is justifiable for CWP. Based on our FY12 forecast earnings this values CWP at $4.80 per share.

At a PER multiple of 9.0x FY12 earnings, Figure 31 shows how CWP would be valued relative to its peers. We again note that the current FY13 earnings growth being factored in for the smaller peer group looks to be overly optimistic and as a result, we believe somewhat distorts this analysis.

				PER		EPS Gwth	Dividend Yield	
Stock		Price	Mkt Cap ($m)	FY12	FY13	FY13	FY12	FY13
Average - Overall				**9.0**	**7.6**	**21%**	**6.1%**	**7.8%**
Average - Smaller Peers				**9.0**	**6.5**	**37%**	**4.6%**	**7.6%**
Cedar Woods	CWP	4.80	302	9.0	8.5	6%	5.4%	6.0%
CWP Discount - Overall				**1%**	**-12%**			
CWP Discount - Smaller Peers				**0%**	**-31%**			

Figure 31: Comparative Valuations - CWP at 9.0x FY12 earnings *Source: Bloomberg Consensus; DJC*

- ***Net Tangible Assets***

CWP believes that its current NTA when utilising market values is approximately $6.00 per share. As we noted earlier, notwithstanding the current fragile confidence in global markets and weak consumer confidence in Australia that has impacted house and land sales, at the very least we would expect that the current underlying NTA is in line with the $6.00 per share previously estimated.

Share Price Movements

Figure 32 plots the earnings per share delivered each financial year (along with our FY12 and FY13 expectations) against the trading range in share price for the financial year in question.

The chart serves to highlight the significant volatility over recent years in CWP's share price. Additionally the chart further highlights the potential share price upside should CWP achieve our profit forecasts.

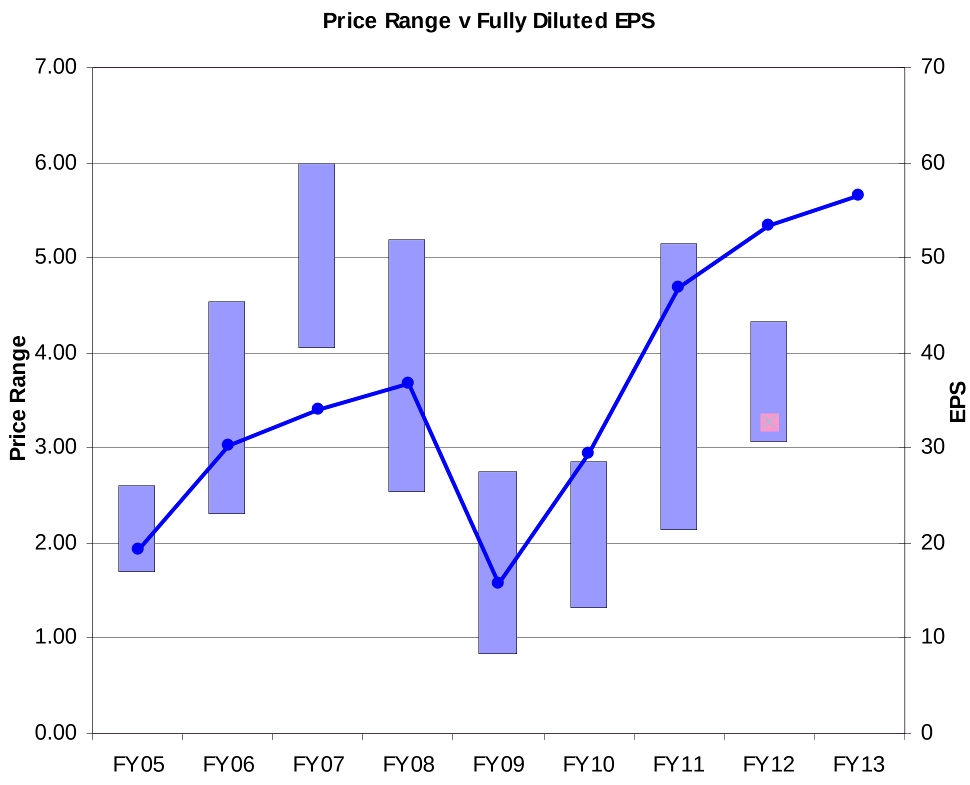


Figure 32: CWP Price Volatility *Source: IRESS; DJC*

Recommendation

CWP has a number of appealing attributes from an investment perspective:

- Quality Management and Board
  We believe the strong position in which CWP finds itself today is largely due to the quality of management within the company. The quality of the management was clearly highlighted by the GFC. While the management and business models of many other property companies were clearly exposed we believe that the prudent approach to property acquisitions in the period prior to the GFC enabled CWP to move through the GFC period in relatively good shape with shareholders not having their investments heavily impacted through large and dilutive capital raisings.

- Earnings growth in the existing property portfolio
  CWP believes that its existing portfolio leaves them very well placed to deliver earnings per share growth in excess of 10% per annum going forward. CWP continues to strengthen this portfolio through the addition of assets that are being purchased at prices reflective of today's tough property markets.

- Solid dividend stream
  CWP policy is to pay 50% of net profit in the form of fully franked dividends. On the back of an expected continuation in profit growth, investors can expect to receive a growing dividend stream.

In a sector with few barriers to entry, good quality management is essential. It is often how you manage the business in the good times that dictates how you will perform in the tough times. CWP's absence from the buyers circle during the pre-GFC boom times left the business very well placed for when the tough times came. The business is now reaping the rewards, not only at present through the generation of increased earnings but also through the acquisition today of property assets at attractive prices that will contribute to earnings in five to ten years time.

At present, sentiment toward the property sector is low and recent data on building and finance approvals has been somewhat lacklustre. Notwithstanding this, given its well located portfolio of projects, we believe CWP remains well placed to continue its impressive earnings history in a sector where many others have faltered.

Given CWP is a relatively illiquid small cap stock its share price can be quite volatile. Notwithstanding these share price movements we believe that the underlying CWP business is very solid and will continue to perform well in most market conditions – ultimately we expect that this performance will be recognised by the market in terms of higher share prices.

We initiate coverage with a Buy recommendation and a price target of $4.80.

Catalysts

- Ongoing result delivery
  It could be argued that CWP's recent strong results have not been rewarded by the market given the share price has fallen 18% from $4.00 per share since delivery of the strong FY11 result and guidance for >20% NPAT growth in FY12.

  We would expect that over time, with the delivery of an FY12 result in line with guidance and subsequent results in line with CWP expectations to exceed its annual earnings per share growth targets of 10%, that the market will re-rate CWP accordingly.

- Increased clarity around the value of Williams Landing
  At present we believe the potential of the Williams Landing Town Centre is not well understood by the market. Over time we would expect more clarity as to the value of this asset to emerge as the Town Centre development progresses and CWP are in a position to provide further detail as to how and where the asset will be housed and the financial returns it is expected to generate.

- Market sentiment toward the sector
  While overall conditions in financial and stock markets are lacklustre at best, it is fair to say that sentiment toward the property sector in particular is very poor. A change in sentiment toward the sector would obviously be favourable to CWP. With its strong earnings performance, an expansion in the current multiples on which CWP trades would assist in driving the stock price.

Risks

- Ongoing macro issues
  A worsening of the current global macro issues would undoubtedly be bad news for markets in general and certainly for the property sector. As noted earlier key macro drivers of the sector include items such as confidence and availability of finance. As we clearly saw during the GFC, the tightening of credit availability by banks coupled with prospective purchasers having concerns about keeping their jobs is not a good recipe for strong property markets. During the GFC CWP was impacted from an operational perspective but far more so from a share price perspective. However we believe that CWP entered the GFC in a much better shape than many of its peers and as a result has emerged from the GFC in a much stronger position given its strong balance sheet and funding flexibility when compared to the ongoing issues many of its peers continue to have.

- Continued weakness in property markets
  Continued weakness in property markets will have an impact on CWP. That being said, in recent times residential property markets have been a tough place to be, yet CWP has continued to drive record profits given its diverse portfolio of well located product.

- Cedar Woods Wellard (CWWL)
  As noted earlier, CWP has an exposure to CWWL both as an asset owner through its 32.5% holding and as a provider of mezzanine finance. While the CWWL project is now reaching maturity and CWP remains confident that their investment and borrowing exposure will be returned, there is the potential for impairments to be incurred in relation to this asset if property markets were to go through extended periods of softness.

Cedar Woods Properties Limited $3.27

Profit & Loss ($m)	2010A	2011A	2012E	2013E
Revenue	106.9	129.8	150.5	175.7
EBITDA	25.7	40.1	48.9	53.6
Depreciation & Amortisation	-0.2	-0.2	-0.3	-0.3
EBIT	25.4	39.8	48.6	53.3
Net Interest Expense	-0.6	0.8	-0.3	-0.6
Profit Before Tax	24.8	40.6	48.3	52.7
Income Tax Expense	-7.5	-12.2	-14.5	-15.8
Minorities	-0.1	-0.4	-0.3	-0.5
Reported NPAT	**17.2**	**28.1**	**33.5**	**36.4**
Abnormal Items	0.3	0.7	0.0	0.0
Adjusted NPAT	**17.5**	**28.7**	**33.5**	**36.4**

Cashflow ($m)	2010A	2011A	2012E	2013E
EBITDA	25.7	40.1	48.9	53.6
Net Interest	-3.7	-2.7	-3.0	-4.5
Tax Paid	-7.2	-5.6	-12.2	-14.5
Working Capital Change	14.4	-14.1	-6.0	-7.3
Other	-11.4	-24.7	0.0	0.0
Operating Cashflow	**17.8**	**-7.0**	**27.7**	**27.3**
Capital Expenditure	-0.2	-0.1	-0.3	-0.3
Acquisitions	0.0	0.0	0.0	0.0
Other	-7.7	-1.6	-20.8	-50.0
Net Investing Cashflow	**-7.9**	**-1.7**	**-21.1**	**-50.3**
Equity Raised	2.1	0.0	0.0	0.0
Dividends Paid	-3.9	-7.3	-9.9	-11.4
Increase / (Repay) Debt	-9.2	15.8	25.0	33.0
Other	0.0	0.0	0.0	0.0
Net Financing Cashflow	**-11.0**	**8.5**	**15.1**	**21.6**
Change in Cash	**-1.1**	**-0.2**	**21.7**	**-1.3**

Balance Sheet ($m)	2010A	2011A	2012E	2013E
Assets				
Cash	0.5	0.4	22.1	20.8
Receivables	0.8	4.0	4.6	5.4
Inventories	41.3	56.1	65.0	75.9
Other	0.0	0.0	0.0	0.0
Current Assets	**42.5**	**60.4**	**91.7**	**102.0**
Intangibles	0.0	0.0	0.0	0.0
Property, Plant & Equipment	1.0	1.0	1.0	0.9
Deferred tax assets	0.0	0.0	0.0	0.0
Other	162.1	172.2	192.7	244.9
Non Current Assets	**163.1**	**173.2**	**193.7**	**245.8**
Total Assets	**205.7**	**233.6**	**285.4**	**347.8**
Payables	28.1	33.5	38.9	45.4
Borrowings	0.0	0.0	0.0	0.0
Provisions	5.5	4.5	4.5	4.5
Tax liabilities	2.0	4.8	7.1	8.4
Other	19.5	0.0	0.0	0.0
Current Liabilities	**55.0**	**42.8**	**50.4**	**58.2**
Payables	0.0	0.0	0.0	0.0
Borrowings	40.2	55.5	80.5	113.5
Provisions	0.1	0.1	0.1	0.1
Tax liabilities	1.5	5.3	5.3	5.3
Other	0.0	0.4	0.4	0.4
Non Current Liabilities	**41.8**	**61.3**	**86.3**	**119.3**
Total Liabilities	**96.9**	**104.0**	**136.7**	**177.5**
Net Assets	**108.8**	**129.5**	**148.7**	**170.3**

Company Background

Cedar Woods is a residential property developer established in 1987 and listed on the ASX in 1994. Cedar Woods has a diverse portfolio of property assets across locations in Western Australia and Melbourne.

Ratios		2010A	2011A	2012E	2013E
Valuation					
PER	x	11.1	7.0	6.1	5.8
Enterprise Value	$m	245	261	266	307
EV/EBIT	x	9.6	6.4	5.5	5.8
EV/EBITDA	x	9.5	6.4	5.4	5.7
NTA per Share	$	1.80	2.10	2.34	2.60
Price / NTA	x	1.8	1.6	1.4	1.3
Price / Book Value	x	1.8	1.6	1.4	1.3
Price / FCFPS	x	11.1	-28.1	7.5	7.8
Dividends					
Dividend per Share	cps	13.0	23.0	26.0	29.0
Dividend Yield	%	4.0%	7.0%	8.0%	8.9%
Dividend Franking	%	100%	100%	100%	100%
Dividend Payout Ratio	%	44.9%	50.2%	48.6%	51.4%
Profitability					
Revenue Growth	%	0.6%	21.4%	16.0%	16.7%
EBIT Growth (Adj)	%	63.0%	57.6%	20.0%	9.7%
NPAT Growth (Adj)	%	94.3%	64.0%	16.6%	8.7%
EBITDA Margin (Adj)	%	24.2%	31.4%	32.5%	30.5%
EBIT Margin (Adj)	%	24.0%	31.2%	32.3%	30.3%
EPS - Reported	cps	29.0	45.8	53.5	56.5
EPS - Fully Diluted Adjusted	cps	29.4	46.9	53.5	56.5
EPS Growth	%	86.2%	59.7%	14.0%	5.6%
Effective Tax Rate	%	30.2%	30.0%	30.0%	30.0%
Cashflow					
Operating Cashflow	$m	17.8	-7.0	27.7	27.3
Maintenance Capex	$m	-0.2	-0.1	-0.3	-0.3
Free Cashflow	$m	17.6	-7.1	27.4	27.1
Free Cashflow per Share	cps	29.6	-11.6	43.8	42.0
Cash Conversion (FCFPS/EPS)	%	100.7%	-24.8%	82.0%	74.4%
Working Capital Utilised	$m	21.3	35.4	41.4	48.7
Change in Working Capital	$m	14.4	-14.1	-6.0	-7.3
Balance Sheet					
Net Debt / (Cash)	$m	39.7	55.1	58.4	92.7
Net Debt / (Net Debt + Equity)	%	26.7%	29.8%	28.2%	35.2%
Net Debt / EBITDA	x	1.5	1.4	1.2	1.7
Interest Cover - EBIT	x	12.6	33.3	22.1	17.0
Return on Equity	%	16.1%	22.2%	22.5%	21.4%
Return on Assets (EBIT)	%	12.5%	17.3%	17.0%	15.3%
Return on Avg. Assets (EBIT)	%	13.9%	18.4%	18.7%	16.8%
Shares on Issue					
Issued Shares (End of Period)	m	61	62	63	66
Diluted Weighted Avg Shares	m	60	61	63	64

Board of Directors	
William Hames	Non-Executive Chairman
Robert Brown	Non-Executive Director
Ronald Packer	Non-Executive Director
Paul Sadleir	Non-Executive Director
Timothy Brown	Non-Executive Director (Alternate)

Substantial Shareholders	
RS & TR Brown Entities	15.4%
WG Hames Entities	14.5%
Acorn Capital Ltd	11.5%
Westoz Funds Mgmnt	6.1%
Invesco Australia Ltd	5.5%

Disclosure Disclaimer **RCAN1012**

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Cedar Woods Properties Limited** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released **Cedar Woods Properties Limited**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions
SPECULATIVE BUY – 10% out-performance, but high risk
BUY – 10% out-performance
ACCUMULATE – 10% or more out-performance, buy on share price weakness
HOLD – 10% underperformance to 10% over performance
SELL – 10% or more underperformance
Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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