

**Analyst: Gavin Allen****Published 3 November 2011****Cedar Woods Properties Ltd (CWP \$3.70) Buy**

**CWP has been sold off steadily since a \$5.05 per share offer was rejected by management in March 2011. The sell off reflects soft property market sentiment in a volatile share market generally. While we continue to believe the offer should have been presented to shareholders, the investment fundamentals here cannot be ignored. In a first quarter update provided recently, CWP re-iterated it was on track for a record \$34m in NPAT for 2012 and expect to beat this again in 2013, by comfortably more than 10% (the stated corporate target). NTA we have previously calculated at \$6.00 per share (before tax), were all assets to be sold as is, tomorrow. In the meantime, CWP trades at 6.4x 2012 guided earnings (most of which is associated with presold stock) and yields 8% paying out 50% of earnings. The recent interest rate cut may also help sentiment. Buy.**

**2012 guidance re-iterated.** CWP have re-iterated 2012 earnings guidance, looking for a record \$34m NPAT compared to \$28m in 2011. The guidance is supported by approx \$140m in presold stock, scheduled for settlement in fiscal 2012. This compares to \$132m in revenues delivered in 2011. The key question is timing, with a number of projects now settling in the second half as construction completes and title is achieved. While uncontrollable issues such as weather provide some inherent risk to construction, we see a sufficient mix of "back up" projects to suggest the \$34m guided is likely very achievable.

**2013 and beyond.** Management have stated they expect to comfortably exceed 10% growth again in 2013. CWP have the landbank required to do so however with price increases perhaps unlikely, growth will require an increase in volume. The Jetty project will complete in 2012 (yielding perhaps \$15m in revenue 2012) and this is replaced in 2013 with: i) Piara Waters (perhaps \$15m to \$20m), ii) Carine (perhaps \$5m) and Camberwell (perhaps \$20m). Therefore to achieve growth in 2013, all other projects equal, and prices stable year over year, CWP will be relying heavily on success at Camberwell, which is a 78 dwelling project, currently undergoing presales. Upside is however available should demand return for canal lots in Mandurah, on which CWP makes very good margin. Beyond 2014, CWP will see first contribution from the town centre at Williams Landing and a new project at South Hedland.

**Sentiment and fundamentals.** CWP is exposed primarily to residential housing demand in Victoria and Western Australia. Much of the product is affordable product aimed at first or second home buyers or investors, both in dry lots and built form. In both markets employment levels are high and population and economic growth continues. WA in particular has strong economic growth prospects fuelled by the mining sector. Sentiment has however been weak, as potential buyers sit tight, and consequently average selling days are up and the sector lacks momentum. That said, a recent interest rate drop will improve confidence and sentiment can remain weak in the face of strong fundamentals for only so long. Finally we note the weak sentiment, which is impacting the CWP share price by association, is not reflected in the company's actual performance, which as depicted above, we expect to be very strong again in 2012.

<b>Key Financial Metrics</b>	<b>2010A</b>	<b>2011A</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>
NPAT Normalised (A\$m)	18.7	28.1	34.4	36.6	39.3
Fully Diluted Normalized EPS (A\$)	0.31	0.45	0.56	0.59	0.64
PER (x)	12.0	8.1	6.6	6.2	5.8
EPS growth (%)	13%	47%	22%	6%	7%
EV/EBITDA (x)	10.0	6.9	5.7	5.3	5.0
Cashflow per share (A\$)	0.27	0.40	0.56	0.59	0.64
P/CFPS (x)	13.7	9.2	6.6	6.2	5.8
Dividend (A\$)	0.13	0.23	0.28	0.30	0.31
Dividend Yield (%)	3.5%	6.1%	7.5%	8.0%	8.4%
ROE (%)	17.1%	23.6%	24.9%	23.5%	22.4%
NBV/share (A\$)	1.80	2.10	2.37	2.67	3.00
P/NBV (x)	2.1	1.8	1.6	1.4	1.2
Net Debt/Equity (%)	54%	43%	49%	44%	29%

**Sector:** Property  
**Recommendation:** Buy

**Price (\$A):** 3.70  
**Target Price (\$A):** 6.13

**Market Cap (\$A):** 219.5m  
**Enterprise Value (\$A):** 278.7m

CEDAR WOODS PROPERTIES LTD (CWP)	YEAR END 30 JUNE				
	10A	11A	12F	13F	14F
<b>Income Statement</b>					
<b>Sales</b>	<b>108.4</b>	<b>131.9</b>	<b>151.2</b>	<b>160.3</b>	<b>169.9</b>
Fund management fees	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>108.6</b>	<b>131.9</b>	<b>151.2</b>	<b>160.3</b>	<b>169.9</b>
COGS	-57.8	-68.6	-78.6	-83.3	-88.3
Other	-22.0	-21.8	-22.1	-23.1	-24.1
<b>EBITDA</b>	<b>28.8</b>	<b>41.5</b>	<b>50.5</b>	<b>53.9</b>	<b>57.5</b>
Depreciation & amortisation	-0.2	-0.2	0.0	0.0	0.0
Other non cash	0.0	0.0	0.0	0.0	0.0
EBIT	28.6	41.3	50.5	53.9	57.5
Net Interest income/(expense)	-2.0	-1.2	-1.3	-1.5	-1.3
Associates	0.1	0.0	0.0	0.0	0.0
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Abnormal items (pretax)	-2.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>24.7</b>	<b>40.2</b>	<b>49.2</b>	<b>52.4</b>	<b>56.2</b>
Tax expense	-7.4	-12.0	-14.8	-15.7	-16.8
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>17.3</b>	<b>28.1</b>	<b>34.4</b>	<b>36.6</b>	<b>39.3</b>
Dividends	-3.9	-7.3	-17.2	-18.3	-19.1
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
<b>Retained earnings</b>	<b>13.4</b>	<b>20.8</b>	<b>17.2</b>	<b>18.3</b>	<b>20.2</b>
<b>Normalized Net Profit</b>	<b>18.7</b>	<b>28.1</b>	<b>34.4</b>	<b>36.6</b>	<b>39.3</b>
Fully Diluted Net Profit	18.7	28.1	34.4	36.6	39.3
<b>Cash Flow (A\$m)</b>	<b>10A</b>	<b>11A</b>	<b>12F</b>	<b>13F</b>	<b>14F</b>
<b>Pretax Profit</b>	<b>24.7</b>	<b>40.2</b>	<b>49.2</b>	<b>52.4</b>	<b>56.2</b>
+ writedowns	0.2	0.2	0.0	0.0	0.0
-/+ associates profit/loss	-0.1	0.0	0.0	0.0	0.0
+ associates dividends	0.0	0.0	0.0	0.0	0.0
Deferred development costs	0.0	-4.9	0.0	0.0	0.0
- Tax Paid	-7.4	-12.0	-14.8	-15.7	-16.8
+ inc (- dec) in provisions	-1.1	2.7	0.0	0.0	0.0
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	0.0
+/- Other	0.0	-1.4	0.0	0.0	0.0
<b>Gross Cashflow</b>	<b>16.3</b>	<b>24.8</b>	<b>34.4</b>	<b>36.6</b>	<b>39.3</b>
- Capital expenditure	0.0	0.0	0.0	0.0	0.0
+/- Changes in working capital	-27.2	-13.4	-33.6	-20.0	0.0
<b>Operating Free Cashflow</b>	<b>-10.8</b>	<b>11.4</b>	<b>0.8</b>	<b>16.6</b>	<b>39.3</b>
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	-3.9	-7.3	-17.2	-18.3	-19.1
+ Proceeds from equity raised	2.2	0.0	0.0	0.0	0.0
+/- Proceeds from disp of subs/FAs	0.0	0.0	0.0	0.0	0.0
+/- Minority interests	0.0	0.0	0.0	0.0	0.0
+/- Other	1.8	0.0	0.0	0.0	0.0
Net cashflow	-10.7	4.1	-16.4	-1.7	20.2
Net debt at beginning of period	-48.4	-59.2	-55.1	-71.5	-73.2
Net debt at end of period	-59.2	-55.1	-71.5	-73.2	-53.0
<b>Balance Sheet (\$m)</b>	<b>10A</b>	<b>11A</b>	<b>12F</b>	<b>13F</b>	<b>14F</b>
Cash	0.5	0.4	2.0	0.3	20.5
Receivables	0.8	4.0	4.0	4.0	4.0
Inventories	41.2	46.6	69.8	75.8	75.8
Other	0.0	9.6	9.6	9.6	9.6
<b>Current Assets</b>	<b>42.5</b>	<b>60.6</b>	<b>85.4</b>	<b>89.7</b>	<b>109.9</b>
Receivables	7.4	8.9	8.9	8.9	8.9
Inventories	147.8	155.8	162.8	176.8	176.8
Equity accounted investments	3.7	3.3	3.3	3.3	3.3
Property/Plant/Equipment	1.0	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Other	3.2	4.0	4.0	4.0	4.0
<b>Non Current Assets</b>	<b>163.1</b>	<b>173.0</b>	<b>180.0</b>	<b>194.0</b>	<b>194.0</b>
<b>Total Assets</b>	<b>205.6</b>	<b>233.6</b>	<b>265.3</b>	<b>283.7</b>	<b>303.9</b>
Payables	-28.0	-33.5	-30.0	-30.0	-30.0
Interest bearing liabilities	-19.5	0.0	0.0	0.0	0.0
Provisions	-5.5	-4.5	-4.5	-4.5	-4.5
Current tax liabilities	-2.0	-4.7	-4.7	-4.7	-4.7
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>	<b>-55.0</b>	<b>-42.7</b>	<b>-39.2</b>	<b>-39.2</b>	<b>-39.2</b>
Payables	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	-40.2	-55.5	-73.5	-73.5	-73.5
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	-0.1	-0.5	-0.5	-0.5	-0.5
Deferred tax liabilities	-1.5	-5.4	-5.4	-5.4	-5.4
<b>Non Current Liabilities</b>	<b>-41.8</b>	<b>-61.4</b>	<b>-79.4</b>	<b>-79.4</b>	<b>-79.4</b>
<b>Total Liabilities</b>	<b>-96.7</b>	<b>-104.1</b>	<b>-118.6</b>	<b>-118.6</b>	<b>-118.6</b>
<b>Net Assets</b>	<b>108.9</b>	<b>129.6</b>	<b>146.8</b>	<b>165.1</b>	<b>185.3</b>
Contributed equity	40.5	44.7	44.7	44.7	44.7
Reserves	0.9	0.6	0.6	0.6	0.6
Retained profits	67.5	84.3	101.5	119.8	140.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>108.9</b>	<b>129.6</b>	<b>146.8</b>	<b>165.1</b>	<b>185.3</b>

PERFORMANCE RATIOS	10A	11A	12F	13F	14F
<b>Growth and Margins</b>					
Revenue Growth	1%	22%	15%	6%	6%
EBITDA Growth	14%	44%	22%	7%	7%
EBIT Growth	13%	45%	22%	7%	7%
Normalized Net Profit Growth	18%	50%	22%	6%	7%
EBITDA margin	26%	32%	33%	34%	34%
EBIT margin	26%	31%	33%	34%	34%
Normalized net profit margin	17%	21%	23%	23%	23%
Effective tax rate	30%	30%	30%	30%	30%
<b>Liquidity</b>					
Capex/depreciation (x)					
Current ratio (x)	0.8	1.4	2.2	2.3	2.8
Quick ratio (x)	0.0	0.1	0.2	0.1	0.8
Receivable days	5	7	10	9	9
Inventory days	271	234	270	319	313
Payable days	124	164	147	131	124
<b>Risk Measures</b>					
Dividend Cover (x)	4.4	3.9	2.0	2.0	2.1
Payout ratio (%)	42%	50%	50%	50%	49%
Net interest cover (x)	14.6	34.6	38.2	35.6	43.6
Net debt/equity (%)	54%	43%	49%	44%	29%
<b>Returns</b>					
Return on avg capital employed (%)	20%	25%	25%	23%	23%
WACC (%)					
Return on assets (%)	9%	12%	13%	13%	13%
Return on average equity (%)	17%	24%	25%	23%	22%
<b>SHARE DATA/VALUATION</b>	<b>10A</b>	<b>11A</b>	<b>12F</b>	<b>13F</b>	<b>14F</b>
<b>Share Data</b>					
Issued shares (m)	61	62	62	62	62
Weighted ave shares (m)	61	62	62	62	62
Fully diluted shares (m)	61	62	62	62	62
Basic EPS (c)	28.6	45.5	55.7	59.3	63.6
YoY change (%)	80%	59%	22%	6%	7%
Fully diluted EPS (c)	28.6	45.5	55.7	59.3	63.6
YoY change (%)	80%	59%	22%	6%	7%
Fully diluted normalised EPS (c)	30.9	45.5	55.7	59.3	63.6
YoY change (%)	13%	47%	22%	6%	7%
Dividend/share (c)	13	23	28	30	31
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	27	40	56	59	64
NBV/share (c)	180	210	237	267	300
NTA/Share (c)	174	204	232	262	294
<b>Valuation</b>					
PER (Basic) (x)	12.9	8.1	6.6	6.2	5.8
PER (Fully diluted) (x)	12.9	8.1	6.6	6.2	5.8
PER (Fully diluted, normalized) (x)	12.0	8.1	6.6	6.2	5.8
P/CFPS (x)	13.7	9.2	6.6	6.2	5.8
Price/NBV (x)	2.1	1.8	1.6	1.4	1.2
Price/NTA (x)	2.1	1.8	1.6	1.4	1.3
Dividend Yield (%)	3.5%	6.1%	7.5%	8.0%	8.4%
EV/EBITDA (x)	10.0	6.9	5.7	5.3	5.0
EV/EBIT (x)	10.1	7.0	5.7	5.3	5.0
EV/Revenue (x)	2.7	2.2	1.9	1.8	1.7
NPV/SOP (A\$)					
WACC (%)					
<b>OTHER INFORMATION</b>					
Estimated Free Float					64.0%
12-mth High/Low (A\$/sh)					\$5.15 - \$3.05
Average Daily Volume (A\$m)					0.25
ASX Code					CWP.ASX
Next Result					Feb 2012
<b>COMPANY DESCRIPTION</b>					
Cedar Woods is a residential property developer with large ongoing developments in Western Australia and Victoria					

## Investment Case

CWP exhibits very strong fundamental attributes including:

- CWP trades at 6.4x the guided 2012 NPAT expectation of \$34m – property developers have typically traded between 10 and 12 times forward earnings.
- As indicated in previous research we calculate market value NTA beyond \$6.00 (before tax), all land bank sold as is, in an orderly manner tomorrow.
- We forecast CWP to yield 8% in 2012 fully franked.
- Management and board have a proven track record developing residential property.
- The land bank supports earnings for at least the next 4 or 5 years.
- Upside exists as the Town Centre at Williams landing is developed.

CWP is undervalued in our opinion, on any fundamental analysis, and will trade up with a shift in sentiment, which we expect over the next 6 months.

In the meantime the stock yields 8% full franked. Buy maintained.