

# Cedar Woods Properties Ltd

## (CWP \$5.05) Buy

25 March 2011

- ▶ **Price Target:** \$6.00/sh
- ▶ **Reason For Update:** Takeover offer received and rejected
- ▶ **What we know:**

CWP has rejected a takeover offer valued at \$5.05 per share.

The potential buyer has walked away from the transaction.

CWP have cited a number of reasons for rejecting the deal, including:

- The offer was a discount to NTA (CWP have previously calculated this at \$6.00 before tax)
- The takeover proposal was insufficient when compared to peers trading multiples.
- Strong growth is anticipated beyond the stated target of 10% per annum, particularly in 2012.

- ▶ **What we think:**

On balance we believe the indicative offer was fair, without being compelling, and while we continue to believe CWP offers longer term upside beyond the offer, there are likely shareholders who would have expected to make the decision.

Proof will be in the numbers, and the onus is now squarely on CWP management to deliver the earnings required to justify rejection of the offer, particularly as the party involved would appear to have left the negotiating table.

We address each of the individual reasons for rejecting the offer as follows:

### NTA

CWP have previously guided the market to underlying NTA of \$6.00 before tax.

Our own evaluation of value is relatively consistent with this.

CWP have stated that the offer price was less than assessed NTA. The announcement did not clarify exactly how much management have calculated this to be. We take this to mean that the after tax impact for the majority of shareholders of liquidating all assets as is, in timely manner (after considering franking credits), is greater than the \$5.05 offer price. This argument does not of course address the time involved in doing so, so is not a particularly compelling reason for rejecting the offer on its own. There is comfort there however, that the offer price is well supported by the underlying assets.

## Contact Details

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## The takeover proposal was insufficient when compared to peers.

The sector typically trades at between 10 and 12x forward earnings.

We provide some examples below:

		<b>PER 2011</b>	<b>Yield 2011</b>
Stockland	SGP	11.9x	6.3%
Lend Lease Corporation Limited	LLC	13.9x	3.8%
Mirvac Group	MGR	11.9x	6.8%
FKP Property Group	FKP	7.9x	3.6%
Peet Limited	PPC	12.0x	5.0%
Cedar Woods Properties Limited	CWP	11.4x	4.4%
Australand Property Group	ALZ	12.6x	7.3%
Diploma Group	DGX	7.6x	5.6%
Watpac	WTP	7.3x	7.6%
Finbar Group Limited	FRI	5.6x	8.9%
Average		10.2x	5.9%

Based on the takeover offer price of \$5.05, which is now essentially the current share price, CWP now trades on a 2011 PE of 11.4x.

This clearly suggests to us that CWP look to 2012 with significant optimism, (otherwise they would not have rejected the offer).

Indicatively, NPAT in 2012 of \$33m (up \$25% from the \$27m guided for 2011), translates to a 2012 PE of 9.2x, and we are of the view this is the ilk of earnings CWP management must now be looking at in order to have knocked the offer back.

We are increasing our forecasts for 2012 as a consequence from \$29.9m to \$33m.

With \$100m in presales already locked in for 1H 2012, CWP are well placed to achieve this in our view.

## Strong growth is anticipated beyond 10%, particularly in 2012.

As discussed above, given the indicative offer was rejected, we believe CWP are in fact looking at 2012 EPS growth more like 25%, growth we think is very achievable.

### Overall

We have long maintained the outlook for CWP is positive and as an investment idea it has been one of our favourites for some time.

We continue to believe they have a solid landbank that should continue to generate solid cashflows over time.

In addition, with Williams Landing, and the proposed town centre in particular, CWP has an important long term asset, the value attached to which can further increase.

Ultimately time will determine whether the decision to reject the offer was the right one, and in our view this requires a share price of circa \$6.00 in 12 months, a further 20% from here, to take into account the rejection of a liquidity event and the associated opportunity cost.

As mentioned, we believe to achieve this is no longer about NTA, but about earnings, and earnings of circa \$33m in 2012, with a positive outlook for 2013, will be required to do so.

In summary, the offer was fair, and fair offers should generally be taken to shareholders. That said, the outlook for 2012 is positive, and in our view, the stock will continue to trade up with runs on the board.

▶ **Investment Case:**

CWP trades at 11.4 x forecast 2011 and 9.2x our revised forecasts for 2012.

This is fair on 2011 numbers and a discount on 2012 numbers.

We set our 12 month price target at \$6.00, being 11x our 2012 forecasts.

This is a reasonable expectation 12 months from now, provided CWP hit our forecasts.

**Risks**

Failure to hit numbers will now be harshly dealt with.

**Catalysts**

CWP will provide a third term update which will be positive generally in our view, and may in fact see CWP increase 2011 guidance slightly.

By the full year result CWP will have a pretty good handle on how 2012 is tracking (in terms of presales), and any indications that the \$33m we are looking for is on track, could be a further catalyst.

# Cedar Woods Properties Ltd

# EUROZ

SECURITIES LIMITED

AUSTRALIAN EQUITIES RESEARCH

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

**Price (\$A):** 5.05  
**Target Price (\$A):** 6.00

**Market Cap (\$A):** 305.7m  
**Enterprise Value (\$A):** 364.9m

CEDAR WOODS PROPERTIES LTD (CWP)	YEAR END 30 JUNE				
	09A	10A	11F	12F	13F
<b>Income Statement</b>					
Sales	107.1	108.4	135.6	158.7	168.2
Fund management fees	0.0	0.0	0.9	1.8	1.8
Other	0.3	0.2	0.0	0.0	0.0
<b>Revenue</b>	<b>107.4</b>	<b>108.6</b>	<b>136.5</b>	<b>160.5</b>	<b>170.0</b>
COGS	-59.1	-57.8	-71.9	-87.3	-92.5
Other	-23.1	-22.0	-24.4	-24.4	-24.4
<b>EBITDA</b>	<b>25.2</b>	<b>28.8</b>	<b>40.2</b>	<b>48.8</b>	<b>53.1</b>
Depreciation & amortisation	0.0	-0.2	0.0	0.0	0.0
Other non cash	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>25.2</b>	<b>28.6</b>	<b>40.2</b>	<b>48.8</b>	<b>53.1</b>
Net Interest income/(expense)	-2.3	-2.0	-2.0	-1.6	-1.4
Associates	-0.2	0.1	0.2	0.5	0.5
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Abnormal items (pretax)	-9.2	-2.0	0.0	0.0	0.0
<b>EBT</b>	<b>13.5</b>	<b>24.7</b>	<b>38.4</b>	<b>47.6</b>	<b>52.1</b>
Tax expense	-4.3	-7.4	-11.5	-14.3	-15.6
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>9.3</b>	<b>17.3</b>	<b>26.9</b>	<b>33.3</b>	<b>36.5</b>
Dividends	0.0	-3.9	-13.5	-16.7	-18.2
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
<b>Retained earnings</b>	<b>9.3</b>	<b>13.4</b>	<b>13.5</b>	<b>16.7</b>	<b>18.2</b>
<b>Normalized Net Profit</b>	<b>15.9</b>	<b>18.7</b>	<b>26.9</b>	<b>33.3</b>	<b>36.5</b>
Fully Diluted Net Profit	15.9	18.7	26.9	33.3	36.5
<b>Cash Flow (A\$m)</b>					
<b>Pretax Profit</b>	<b>13.5</b>	<b>24.7</b>	<b>38.4</b>	<b>47.6</b>	<b>52.1</b>
+ writedowns	0.0	0.2	0.0	0.0	0.0
-/+ associates profit/loss	0.2	-0.1	-0.2	-0.5	-0.5
+ associates dividends	0.0	0.0	0.0	0.0	0.0
+ Foreign Exchange loss/(gain)	0.0	0.0	0.0	0.0	0.0
- Tax Paid	-5.7	-7.4	-11.5	-14.3	-15.6
+ inc (- dec) in provisions	-0.8	-1.1	0.0	0.0	0.0
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	0.0
+/- Other	2.2	0.0	0.0	0.0	0.0
<b>Gross Cashflow</b>	<b>9.4</b>	<b>16.3</b>	<b>26.7</b>	<b>32.9</b>	<b>36.0</b>
- Capital expenditure	-0.3	0.0	0.0	0.0	0.0
+/- Changes in working capital	23.7	-27.2	-6.0	-2.0	-20.0
<b>Operating Free Cashflow</b>	<b>32.8</b>	<b>-10.8</b>	<b>20.7</b>	<b>30.9</b>	<b>16.0</b>
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	0.0	-3.9	-13.5	-16.7	-18.2
+ Proceeds from equity raised	0.0	2.2	0.0	0.0	0.0
+/- Proceeds from disp of subs/FAs	0.0	0.0	0.0	0.0	0.0
+/- Minority interests	-0.6	0.0	0.0	0.0	0.0
+/- Other	1.3	1.8	0.0	0.0	0.0
Net cashflow	33.5	-10.7	7.2	14.2	-2.2
Net debt at beginning of period	-81.9	-48.4	-59.2	-52.0	-37.7
Net debt at end of period	-48.4	-59.2	-52.0	-37.7	-39.9
<b>Balance Sheet (\$m)</b>	<b>09A</b>	<b>10A</b>	<b>11F</b>	<b>12F</b>	<b>13F</b>
Cash	1.6	0.5	7.7	16.9	14.7
Receivables	2.3	0.8	0.8	0.8	0.8
Inventories	44.6	41.2	56.7	59.7	65.7
Other	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>48.5</b>	<b>42.5</b>	<b>65.2</b>	<b>77.4</b>	<b>81.2</b>
Receivables	0.2	7.4	7.4	7.4	7.4
Inventories	103.4	147.8	132.3	139.3	153.3
Equity accounted investments	3.5	3.7	3.9	4.3	4.8
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	6.1	3.2	3.2	3.2	3.2
<b>Non Current Assets</b>	<b>114.2</b>	<b>163.1</b>	<b>147.9</b>	<b>155.3</b>	<b>169.8</b>
<b>Total Assets</b>	<b>162.7</b>	<b>205.6</b>	<b>213.1</b>	<b>232.7</b>	<b>251.0</b>
Payables	-11.4	-28.0	-22.0	-30.0	-30.0
Interest bearing liabilities	-0.5	-19.5	-9.7	-8.8	-8.8
Provisions	-4.7	-5.5	-5.5	-5.5	-5.5
Current tax liabilities	-3.1	-2.0	-2.0	-2.0	-2.0
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>	<b>-19.6</b>	<b>-55.0</b>	<b>-39.2</b>	<b>-46.3</b>	<b>-46.3</b>
Payables	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	-49.5	-40.2	-50.0	-45.8	-45.8
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	-0.2	-0.1	-0.1	-0.1	-0.1
Deferred tax liabilities	-0.1	-1.5	-1.5	-1.5	-1.5
<b>Non Current Liabilities</b>	<b>-49.8</b>	<b>-41.8</b>	<b>-51.6</b>	<b>-47.4</b>	<b>-47.4</b>
<b>Total Liabilities</b>	<b>-69.4</b>	<b>-96.7</b>	<b>-90.7</b>	<b>-93.7</b>	<b>-93.7</b>
<b>Net Assets</b>	<b>93.3</b>	<b>108.9</b>	<b>122.3</b>	<b>139.0</b>	<b>157.3</b>
Contributed equity	34.8	40.5	40.5	40.5	40.5
Reserves	1.1	0.9	0.9	0.9	0.9
Retained profits	57.3	67.5	81.0	97.6	115.9
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>93.3</b>	<b>108.9</b>	<b>122.3</b>	<b>139.0</b>	<b>157.3</b>

PERFORMANCE RATIOS	09A	10A	11F	12F	13F
<b>Growth and Margins</b>					
Revenue Growth	31%	1%	25%	17%	6%
EBITDA Growth	-19%	14%	40%	21%	9%
EBIT Growth	-19%	13%	41%	21%	9%
Normalized Net Profit Growth	-22%	18%	44%	24%	9%
EBITDA margin	23%	26%	29%	30%	31%
EBIT margin	23%	26%	29%	30%	31%
Normalized net profit margin	15%	17%	20%	21%	21%
Effective tax rate	31%	30%	30%	30%	30%
<b>Liquidity</b>					
Current ratio (x)	2.5	0.8	1.3	1.4	1.5
Quick ratio (x)	0.3	0.0	0.4	0.6	0.5
Receivable days	12	5	2	2	2
Inventory days	264	271	249	244	247
Payable days	71	124	127	109	118
<b>Risk Measures</b>					
Dividend Cover (x)	n/a	4.4	2.0	2.0	2.0
Payout ratio (%)	26%	42%	50%	50%	50%
Net debt/equity (%)	52%	54%	42%	27%	25%
<b>Returns</b>					
Return on avg capital employed (%)	17%	20%	26%	29%	29%
Return on assets (%)	7%	9%	13%	15%	15%
Return on average equity (%)	10%	17%	23%	26%	25%
<b>SHARE DATA/VALUATION</b>	<b>09A</b>	<b>10A</b>	<b>11F</b>	<b>12F</b>	<b>13F</b>
<b>Share Data</b>					
Issued shares (m)	58	61	61	61	61
Weighted ave shares (m)	58	61	61	61	61
Fully diluted shares (m)	58	61	61	61	61
Basic EPS (c)	15.9	28.6	44.4	55.1	60.3
YoY change (%)	-57%	80%	55%	24%	9%
Fully diluted EPS (c)	15.9	28.6	44.4	55.1	60.3
YoY change (%)	-57%	80%	55%	24%	9%
Fully diluted normalised EPS (c)	27.4	30.9	44.4	55.1	60.3
YoY change (%)	-26%	13%	44%	24%	9%
Dividend/share (c)	7	13	22	28	30
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	16	27	44	54	60
NBV/share (c)	160	180	202	230	260
NTA/Share (c)	154	174	196	222	252
<b>Valuation</b>					
PER (Basic) (x)	31.7	17.7	11.4	9.2	8.4
PER (Fully diluted) (x)	31.7	17.7	11.4	9.2	8.4
PER (Fully diluted, normalized) (x)	18.4	16.3	11.4	9.2	8.4
P/CFPS (x)	31.2	18.7	11.5	9.3	8.5
Price/NBV (x)	3.1	2.8	2.5	2.2	1.9
Price/NTA (x)	3.3	2.9	2.6	2.3	2.0
Dividend Yield (%)	1.4%	2.5%	4.4%	5.5%	6.0%
EV/EBITDA (x)	14.5	12.7	9.1	7.5	6.9
EV/EBIT (x)	14.5	12.8	9.1	7.5	6.9
EV/Revenue (x)	3.4	3.4	2.7	2.3	2.1
<b>OTHER INFORMATION</b>					
Estimated Free Float					64.0%
12-mth High/Low (A\$/sh)					\$5.15 - \$2.14
Average Daily Volume (A\$m)					0.25
ASX Code					CWP
Next Result					Aug'11
<b>COMPANY DESCRIPTION</b>					
Cedar Woods is a residential property developer with large ongoing developments in Western Australia and Victoria.					

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