

# Cedar Woods Properties Ltd

## (CWP \$4.00) Buy

1 February 2011

- ▶ **Price Target:** \$5.47/sh
- ▶ **Reason For Update:** Unaudited Half Year Result Announced
- ▶ **What we know:**

CWP has announced an unaudited half year result of \$24m and increased full year guidance to \$27m.

As a consequence net debt decreased to 16%, representing a very strong balance sheet given CWP does not revalue inventory (market value net debt to equity would be significantly lower still).

CWP have \$100m in presales booked in for 2012 supporting further growth in 2012.

- ▶ **What we think:**

CWP will post \$24m for the first half, versus \$9.9m pcp and \$17.3m reported for full year 2010, a very strong result.

Full year guidance, now increased to \$27m implies a 2011 result up 57% on that achieved in 2010, consistent with the very strong 2011 we have been anticipating from CWP.

In 2012, we expect further, more modest growth, as Victoria continues to contribute strongly and conditions in WA, particularly for affordable product, improve.

Encouragingly CWP have locked in \$100m in sales for the first half of 2012, which well supports the growth we are looking for.

The net debt ratio, which the company has stated is reduced to 16%, implies net debt of approx \$20m (or less), which given CWP's facility limit of \$100m provides plenty of capacity for longer lead land acquisitions.

NTA has previously been stated at \$6.00 (before tax), by the company, all assets sold, as is, in an orderly manner, and this provides some comfort. This is consistent with our own previous analysis of NTA (refer previous research).

- ▶ **Investment Case:**

With the latest upgrade in earnings, CWP now trades at 9x 2011 and 8.1x 2012, very undemanding metrics for the growth profile supported by the landbank.

A 50% dividend payout ratio implies full year dividends of \$0.22, paid approx half at the interim and half full year. This implies current full year yield of 5.6%.

We believe CWP will beat guidance modestly, and prospects for 2012 remain robust, with upside possible should appetite for canal lots in the mandurah region improve.

We are upgrading our 12 month price target to \$5.47, being 11x our increased forecast EPS for 2012 of \$0.497, based on 2012 NPAT of \$30m. The PE multiple we are looking for is the mid point of the historical average for the sector.

This is supported by NTA calculated at \$6.00 (before tax).

## Contact Details

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# Cedar Woods Properties Ltd

# EUROZ

SECURITIES LIMITED

AUSTRALIAN EQUITIES RESEARCH

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

**Price (\$A):** 4.00  
**Target Price (\$A):** 5.47

**Market Cap (\$A):** 242.1m  
**Enterprise Value (\$A):** 301.3m

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	147.8	156.7
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>149.6</b>	<b>158.5</b>
COGS	-59.1	-57.8	-71.9	-81.3	-86.2
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>43.9</b>	<b>47.9</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>43.9</b>	<b>47.9</b>
Net Interest income/(expense)	-2.3	-2.0	-2.0	-1.7	-1.5
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>42.7</b>	<b>46.8</b>
Tax expense	-4.3	-7.4	-11.5	-12.8	-14.1
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>29.9</b>	<b>32.8</b>
Dividends	0.0	-3.9	-13.5	-14.9	-16.4
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>14.9</b>	<b>16.4</b>
<b>Normalized Net Profit</b>	<b>15.9</b>	<b>18.7</b>	<b>26.9</b>	<b>29.9</b>	<b>32.8</b>
Fully Diluted Net Profit	15.9	18.7	26.9	29.9	32.8
<b>Cash Flow (A\$m)</b>	<b>09A</b>	<b>10A</b>	<b>11F</b>	<b>12F</b>	<b>13F</b>
<b>Pretax Profit</b>	<b>13.5</b>	<b>24.7</b>	<b>38.4</b>	<b>42.7</b>	<b>46.8</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	-12.8	-14.1
+ 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>29.4</b>	<b>32.3</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>27.4</b>	<b>12.3</b>
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	0.0	-3.9	-13.5	-14.9	-16.4
+ 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	12.5	-4.1
Net debt at beginning of period	-81.9	-48.4	-59.2	-52.0	-39.5
Net debt at end of period	-48.4	-59.2	-52.0	-39.5	-43.5
<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	15.2	11.1
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>75.7</b>	<b>77.7</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>231.0</b>	<b>247.4</b>
Payables	-11.4	-28.0	-22.0	-30.0	-30.0
Interest bearing liabilities	-0.5	-19.5	-19.5	-17.8	-17.8
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>-49.0</b>	<b>-55.3</b>	<b>-55.3</b>
Payables	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	-49.5	-40.2	-40.2	-36.8	-36.8
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>-41.8</b>	<b>-38.4</b>	<b>-38.4</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>137.3</b>	<b>153.7</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	95.9	112.3
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>122.4</b>	<b>137.3</b>	<b>153.7</b>

PERFORMANCE RATIOS	09A	10A	11F	12F	13F
<b>Growth and Margins</b>					
Revenue Growth	31%	1%	25%	9%	6%
EBITDA Growth	-19%	14%	40%	9%	9%
EBIT Growth	-19%	13%	41%	9%	9%
Normalized Net Profit Growth	-22%	18%	44%	11%	10%
EBITDA margin	23%	26%	29%	29%	30%
EBIT margin	23%	26%	29%	29%	30%
Normalized net profit margin	15%	17%	20%	20%	21%
Effective tax rate	31%	30%	30%	30%	30%
<b>Liquidity</b>					
Capex/depreciation (x)					
Current ratio (x)	2.5	0.8	1.3	1.4	1.4
Quick ratio (x)	0.3	0.0	0.4	0.5	0.4
Receivable days	12	5	2	2	2
Inventory days	264	271	249	261	266
Payable days	71	124	127	117	127
<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 interest cover (x)	11.0	14.6	20.0	26.5	31.8
Net debt/equity (%)	52%	54%	42%	29%	28%
<b>Returns</b>					
Return on avg capital employed (%)	17%	20%	26%	26%	26%
Return on assets (%)	7%	9%	13%	13%	14%
Return on average equity (%)	10%	17%	23%	23%	23%
<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	49.4	54.2
YoY change (%)	-57%	80%	55%	11%	10%
Fully diluted EPS (c)	15.9	28.6	44.4	49.4	54.2
YoY change (%)	-57%	80%	55%	11%	10%
Fully diluted normalised EPS (c)	27.4	30.9	44.4	49.4	54.2
YoY change (%)	-26%	13%	44%	11%	10%
Dividend/share (c)	7	13	22	25	27
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	16	27	44	49	53
NBV/share (c)	160	180	202	227	254
NTA/Share (c)	154	174	196	220	246
<b>Valuation</b>					
PER (Basic) (x)	25.1	14.0	9.0	8.1	7.4
PER (Fully diluted) (x)	25.1	14.0	9.0	8.1	7.4
PER (Fully diluted, normalized) (x)	14.6	12.9	9.0	8.1	7.4
P/CFPS (x)	24.7	14.8	9.1	8.2	7.5
Price/NBV (x)	2.5	2.2	2.0	1.8	1.6
Price/NTA (x)	2.6	2.3	2.0	1.8	1.6
Dividend Yield (%)	1.8%	3.2%	5.6%	6.2%	6.8%
EV/EBITDA (x)	11.9	10.5	7.5	6.9	6.3
EV/EBIT (x)	11.9	10.5	7.5	6.9	6.3
EV/Revenue (x)	2.8	2.8	2.2	2.0	1.9
<b>OTHER INFORMATION</b>					
Estimated Free Float					64.0%
12-mth High/Low (A\$/sh)					\$4.00 - \$2.14
Average Daily Volume (A\$m)					0.25
ASX Code					CWP
Next Result					Feb'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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