

19 January 2012

Half Year guidance

- ▶ **Price Target:** \$6.00
- ▶ **Investment Case:**

CWP has issued half year 2012 guidance, looking for \$10m NPAT for 1H 2012 on the way to \$34m guided for 2012 (which is unchanged). The full year result is nearly entirely supported by pre sold stock and the much stronger second half reflects the timing of settlements. CWP has \$50m presold for 2013 and with 3 new projects commencing, can deliver further growth in 2013 from current sales rates. NTA we have previously calculated at \$6.00 per share (before tax). Recent signs, including interest rate decreases, and an increasingly strong WA economy point to possible improving property sentiment which would provide upside. In the meantime CWP trades at 6.1x 2012 and yields 8.2% fully franked.

- ▶ **Key Points:**

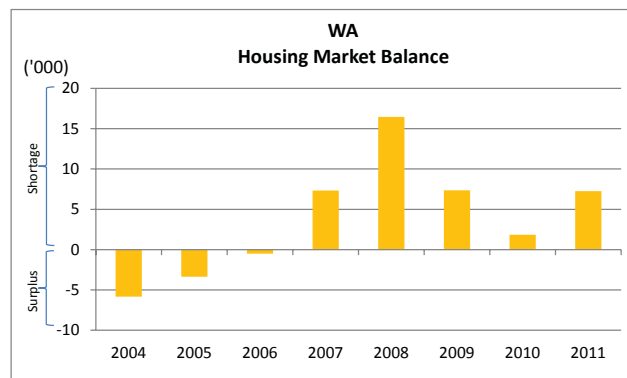
- CWP has issued guidance looking for NPAT of \$34m in 2012.
- There will be a skew to the second half, due to timing of settlements and CWP has guided 1H 2012 NPAT of approx \$10m
- NTA we calculate at beyond \$6.00, everything sold as is tomorrow (before tax)
- The existing land bank supports 10% growth for 5+ years.
- Williams Landing, a key CWP project, will have a town centre developed by CWP during 2013 and 2014, offering a longer term rental stream of income.
- Overall CWP is managing what was been a weak property market well, with strong presales and settlements in key projects, and is well placed for the change in sentiment that is showing first signs of improving.

- ▶ **Analysis:**

Often in the media and in the comments of property developers is the concept of a fundamental shortage of housing.

This is the idea that the number of available dwellings is insufficient to meet the demands of a growing population.

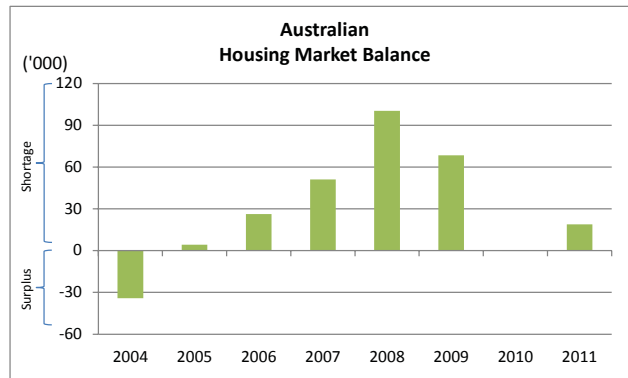
We have done our own analysis of this concept, which we present below:



Contact Details

Analyst
Gavin Allen

Telephone: +61 8 9488 1413
Facsimile: +61 8 9488 1479
Email: gallen@euroz.com.au



Source : ABS and EZL estimates. Data divides building approvals (per ABS) into population growth (per ABS) and assumes 2 people per dwelling.

This pretty basic analysis seems to suggest a shortage of dwellings generally (perhaps not as severe as we have seen depicted elsewhere), but evident nonetheless.

Add to this high employment levels, a decreasing interest rate trend and, particularly in WA (where most of the CWP properties reside) a strong economy, and fundamentals look positive.

This is at odds with what has been physically happening on the ground, where sales slowed during 2011.

That said, we have seen in recent times a much more positive sentiment expressed in the media recently, particularly in WA, and early signs point to a much stronger 2012.

In the meantime, perhaps a little ironically, CWP is set for a record 2012 earnings performance, notwithstanding the weak general sentiment, on the back of very strong presales achieved during fiscal 2011 that are currently settling.

CWP has weathered the storm better than most.

► Investment Metrics:

CWP exhibits strong fundamental attributes including:

- CWP trades at 6.1x 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 a orderly manner, tomorrow.
- We forecast CWP to yield 8% in 2012 fully franked.
- Management and the 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.

Overall we see a change in sentiment on the horizon, which should provide share price traction based on fundamentals; in the meantime the dividend supports the investment case.

Cedar Woods Properties Ltd

EUROZ

SECURITIES LIMITED

AUSTRALIAN EQUITIES RESEARCH

Sector: Property
Recommendation: Buy

Price (\$A): 3.35
Target Price (\$A): 6.00

Market Cap (\$A): 207.2m
Enterprise Value (\$A): 266.3m

CEDAR WOODS PROPERTIES LTD (CWD)	YEAR END 30 JUNE				
	10A	11A	12F	13F	14F
Income Statement					
Sales	108.4	131.9	151.2	160.3	169.9
Fund management fees	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	0.0	0.0	0.0
Revenue	108.6	131.9	151.2	160.3	169.9
COGS	-57.8	-68.6	-78.6	-83.3	-88.3
Other	-22.0	-21.8	-22.1	-23.1	-24.1
EBITDA	28.8	41.5	50.5	53.9	57.5
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
EBT	24.7	40.2	49.2	52.4	56.2
Tax expense	-7.4	-12.0	-14.8	-15.7	-16.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported Earnings	17.3	28.1	34.4	36.6	39.3
Dividends	-3.9	-7.3	-17.2	-18.3	-19.7
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
Retained earnings	13.4	20.8	17.2	18.3	19.6
Normalized Net Profit	18.7	28.1	34.4	36.6	39.3
Fully Diluted Net Profit	18.7	28.1	34.4	36.6	39.3
Cash Flow (A\$m)	10A	11A	12F	13F	14F
Pretax Profit	24.7	40.2	49.2	52.4	56.2
+ 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
Gross Cashflow	16.3	24.8	34.4	36.6	39.3
- 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
Operating Free Cashflow	-10.8	11.4	0.8	16.6	39.3
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	-3.9	-7.3	-17.2	-18.3	-19.7
+ 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	19.6
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	-53.6
Balance Sheet (\$m)	10A	11A	12F	13F	14F
Cash	0.5	0.4	2.0	0.3	19.9
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
Current Assets	42.5	60.6	85.4	89.7	109.3
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
Non Current Assets	163.1	173.0	180.0	194.0	194.0
Total Assets	205.6	233.6	265.3	283.7	303.2
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
Current Liabilities	-55.0	-42.7	-39.2	-39.2	-39.2
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
Non Current Liabilities	-41.8	-61.4	-79.4	-79.4	-79.4
Total Liabilities	-96.7	-104.1	-118.6	-118.6	-118.6
Net Assets	108.9	129.6	146.8	165.1	184.7
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	139.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total equity	108.9	129.6	146.8	165.1	184.7

PERFORMANCE RATIOS	10A	11A	12F	13F	14F
Growth and Margins					
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%
Liquidity					
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
Risk Measures					
Dividend Cover (x)	4.4	3.9	2.0	2.0	2.0
Payout ratio (%)	42%	50%	50%	50%	50%
Net interest cover (x)	14.6	34.6	38.2	35.6	43.4
Net debt/equity (%)	54%	43%	49%	44%	29%
Returns					
Return on average 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%
SHARE DATA/VALUATION	10A	11A	12F	13F	14F
Share Data					
Issued shares (m)	61	62	63	63	63
Weighted ave shares (m)	61	62	63	63	63
Fully diluted shares (m)	61	62	63	63	63
Basic EPS (c)	28.6	45.5	54.8	58.3	62.6
YoY change (%)	80%	59%	21%	6%	7%
Fully diluted EPS (c)	28.6	45.5	54.8	58.3	62.6
YoY change (%)	80%	59%	21%	6%	7%
Fully diluted normalised EPS (c)	30.9	45.5	54.8	58.3	62.6
YoY change (%)	13%	47%	21%	6%	7%
Dividend/share (c)	13	23	27	29	31
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	27	40	55	58	63
NBV/share (c)	180	210	234	263	294
NTA/Share (c)	174	204	228	258	289
Valuation					
PER (Basic) (x)	11.7	7.4	6.1	5.7	5.4
PER (Fully diluted) (x)	11.7	7.4	6.1	5.7	5.4
PER (Fully diluted, normalized) (x)	10.8	7.4	6.1	5.7	5.4
P/CFPS (x)	12.4	8.4	6.1	5.7	5.4
Price/NBV (x)	1.9	1.6	1.4	1.3	1.1
Price/NTA (x)	1.9	1.6	1.5	1.3	1.2
Dividend Yield (%)	3.8%	6.8%	8.2%	8.7%	9.4%
PEG ratio (x)					
EV/EBITDA (x)	9.3	6.4	5.3	4.9	4.6
EV/EBIT (x)	9.3	6.4	5.3	4.9	4.6
EV/Revenue (x)	2.5	2.0	1.8	1.7	1.6
OTHER INFORMATION					
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.ASX
Next Result					Aug 2011
COMPANY DESCRIPTION					
Cedar Woods is a residential property developer with large ongoing developments in Western Australia and Victoria					

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