

Cedar Woods Properties Ltd

(CWP \$4.20) Buy

4 May 2011

Sector: Property
CWP.ASX

Key Metrics

12M price target	\$6.13
+/- up/downside	40%
Methodology	PER & NTA
Market Cap	\$254.3m
Shares on issue	61m
Free float (est.)	64.0%
12M avg daily volume	0.25
12M high/low	\$5.15 - \$2.14

Share Price Performance



CWP has had a busy 6 months, and recently issued its third earnings upgrade for the year, now looking for 2011 NPAT of \$28m. In addition, CWP expect to deliver earnings growth in 2012 that "comfortably" exceeds the long term company goal of 10% earnings growth per annum. Our forecasts look for \$33.8m in 2012 (supported by approx 75% of our revenue forecasts in presold stock) and on this basis, CWP trades at 7.5x forward earnings, a clear discount to larger peers. Add a strong balance sheet and "market value" NTA beyond \$6.00 (before tax), and the investment case for us is clear. This is just as well, as the CWP board and management knocked back a \$5.05 offer for the company in March 2011, and will be now well aware of what needs to be done to justify this decision. In our view this requires 2012 NPAT of at least our 2012 forecast of \$33.8m and on balance, we believe CWP are very well placed to achieve this. Buy maintained.

2011 very strong as Victoria leads the way. CWP is having a very successful year in 2011. The company is now forecasting 2011 NPAT of \$28m, up 63% on 2010. The significant increase was driven primarily by strong price appreciation, particularly in Melbourne. Flag ship project, Williams Landing in Melbourne's West is contributing strongly, as have stronger settlements at Banbury Village in Footscray. WA in the meantime was steady.

2012 and beyond. At Williams Landing a further 200 lots are presold for 2012, driving \$50m to \$60m of our 2012 revenue forecast (of \$160m) on its own. In addition, Banbury Village settlements will make a stronger contribution in 2012, as the construction timetable enables settlement of presold product. WA is expected to be steady and overall CWP has 75% of our overall revenue forecast locked away. The presold CWP product supports our forecasts, during what might otherwise prove a tricky macro environment in some residential markets. Longer term, CWP has a land bank of 6868 lots that is sufficient product to support steady earnings growth for 6.5 years (demand permitting). In addition, CWP will look to development of the Williams Landing Town Centre from perhaps 2013 onwards. We would expect CWP to add annuity type rental income to its balance sheet over time.

Overall macro environment. The macro environment continues to be somewhat of a contradiction, with a gambit of research and commentary talking to a fundamental shortage of housing Australia wide, at apparent odds to clear weakness in some residential markets. For the time being Victoria remains a positive market, although pricing growth has eased. WA has a surplus of established houses for sale, which has seen prices reduce. On the other hand, the rental market is tightening. It would seem affordability (or concern around future affordability) has seen an increase in supply of housing and corresponding increase in demand for rental properties. That said, much of the pressure would appear to be in higher end product and demand for affordable product would appear to be steady. While the overall macro environment for 2012 may prove tricky, with so much product presold CWP is in good shape.

Contact Details

Analyst
Gavin Allen

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

Key Financial Metrics	2009A	2010A	2011F	2012F	2013F
NPAT Normalised (A\$m)	15.9	18.7	28.1	33.8	37.0
Fully Diluted Normalized EPS (A\$)	0.27	0.31	0.46	0.56	0.61
PER (x)	15.3	13.6	9.1	7.5	6.9
EPS growth (%)	-26%	13%	50%	20%	9%
EV/EBITDA (x)	12.4	10.9	7.5	6.3	5.8
Cashflow per share (A\$)	0.16	0.27	0.46	0.55	0.60
P/CFPS (x)	25.9	15.6	9.1	7.6	7.0
Dividend (A\$)	0.07	0.13	0.23	0.28	0.31
Dividend Yield (%)	1.7%	3.1%	5.5%	6.6%	7.3%
ROE (%)	10.5%	17.1%	24.2%	25.7%	24.8%
NBV/share (A\$)	1.60	1.80	2.03	2.31	2.61
P/NBV (x)	2.6	2.3	2.1	1.8	1.6
Net Debt/Equity (%)	52%	54%	42%	26%	25%

Cedar Woods Properties Ltd

EUROZ

SECURITIES LIMITED

AUSTRALIAN EQUITIES RESEARCH

Sector: Property
Recommendation: Buy

Price (\$A): 4.20
Target Price (\$A): 6.13

Market Cap (\$A): 254.3m
Enterprise Value (\$A): 313.4m

CEDAR WOODS PROPERTIES LTD (CWP)	YEAR END 30 JUNE				
	09A	10A	11F	12F	13F
Income Statement					
Sales	107.1	108.4	139.1	160.0	169.6
Fund management fees	0.0	0.0	0.9	1.8	1.8
Other	0.3	0.2	0.0	0.0	0.0
Revenue	107.4	108.6	140.0	161.8	171.4
COGS	-59.1	-57.8	-73.7	-88.0	-93.3
Other	-23.1	-22.0	-24.4	-24.4	-24.4
EBITDA	25.2	28.8	41.9	49.4	53.7
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
EBIT	25.2	28.6	41.9	49.4	53.7
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
EBT	13.5	24.7	40.1	48.2	52.8
Tax expense	-4.3	-7.4	-12.0	-14.5	-15.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported Earnings	9.3	17.3	28.1	33.8	37.0
Dividends	0.0	-3.9	-14.0	-16.9	-18.5
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
Retained earnings	9.3	13.4	14.0	16.9	18.5
Normalized Net Profit	15.9	18.7	28.1	33.8	37.0
Fully Diluted Net Profit	15.9	18.7	28.1	33.8	37.0
Cash Flow (A\$m)					
Pretax Profit	13.5	24.7	40.1	48.2	52.8
+ 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	-12.0	-14.5	-15.8
+ 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
Gross Cashflow	9.4	16.3	27.9	33.3	36.5
- 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
Operating Free Cashflow	32.8	-10.8	21.9	31.3	16.5
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	0.0	-3.9	-14.0	-16.9	-18.5
+ 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	7.8	14.4	-2.0
Net debt at beginning of period	-81.9	-48.4	-59.2	-51.4	-36.9
Net debt at end of period	-48.4	-59.2	-51.4	-36.9	-38.9
Balance Sheet (\$m)					
Cash	1.6	0.5	8.3	17.7	15.7
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
Current Assets	48.5	42.5	65.8	78.2	82.3
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
Non Current Assets	114.2	163.1	147.9	155.3	169.8
Total Assets	162.7	205.6	213.6	233.5	252.0
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
Current Liabilities	-19.6	-55.0	-39.2	-46.3	-46.3
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
Non Current Liabilities	-49.8	-41.8	-51.6	-47.4	-47.4
Total Liabilities	-69.4	-96.7	-90.7	-93.7	-93.7
Net Assets	93.3	108.9	122.9	139.8	158.3
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	81.5	98.4	116.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	93.3	108.9	122.9	139.8	158.3

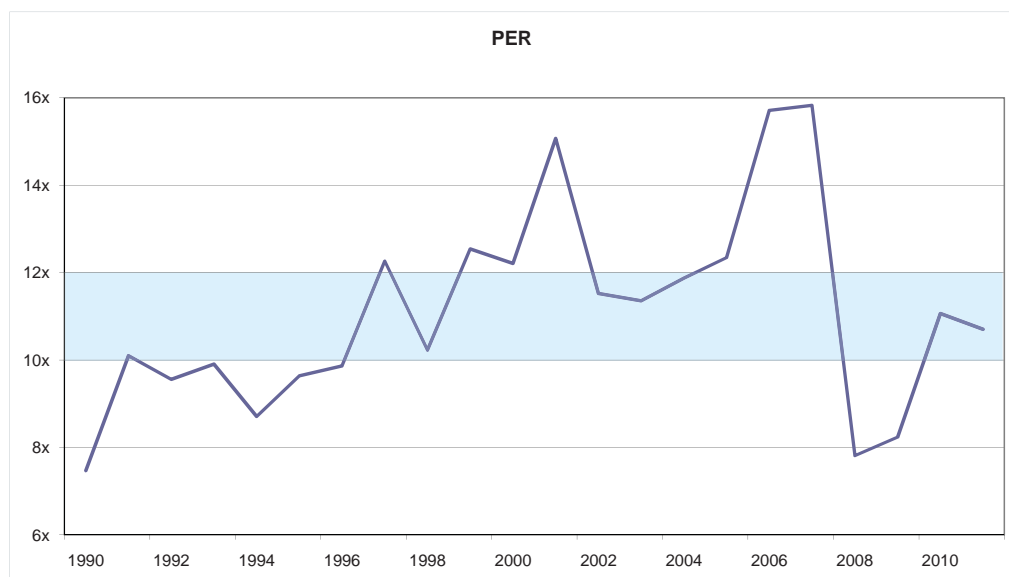
PERFORMANCE RATIOS	09A	10A	11F	12F	13F
Growth and Margins					
Revenue Growth	31%	1%	28%	15%	6%
EBITDA Growth	-19%	14%	46%	18%	9%
EBIT Growth	-19%	13%	47%	18%	9%
Normalized Net Profit Growth	-22%	18%	50%	20%	9%
EBITDA margin	23%	26%	30%	31%	31%
EBIT margin	23%	26%	30%	31%	31%
Normalized net profit margin	15%	17%	20%	21%	22%
Effective tax rate	31%	30%	30%	30%	30%
Liquidity					
Current ratio (x)	2.5	0.8	1.7	1.7	1.8
Quick ratio (x)	0.3	0.0	0.4	0.6	0.6
Receivable days	12	5	2	2	2
Inventory days	264	271	242	241	245
Payable days	71	124	124	108	117
Risk Measures					
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	20.9	30.8	39.0
Net debt/equity (%)	52%	54%	42%	26%	25%
Returns					
Return on avg capital employed (%)	17%	20%	26%	28%	28%
Return on assets (%)	7%	9%	14%	15%	15%
Return on average equity (%)	10%	17%	24%	26%	25%
SHARE DATA/VALUATION	09A	10A	11F	12F	13F
Share Data					
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	46.4	55.8	61.0
YoY change (%)	-57%	80%	62%	20%	9%
Fully diluted EPS (c)	15.9	28.6	46.4	55.8	61.0
YoY change (%)	-57%	80%	62%	20%	9%
Fully diluted normalised EPS (c)	27.4	30.9	46.4	55.8	61.0
YoY change (%)	-26%	13%	50%	20%	9%
Dividend/share (c)	7	13	23	28	31
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	16	27	46	55	60
NBV/share (c)	160	180	203	231	261
NTA/Share (c)	154	174	197	224	254
Valuation					
PER (Basic) (x)	26.4	14.7	9.1	7.5	6.9
PER (Fully diluted) (x)	26.4	14.7	9.1	7.5	6.9
PER (Fully diluted, normalized) (x)	15.3	13.6	9.1	7.5	6.9
P/CFPS (x)	25.9	15.6	9.1	7.6	7.0
Price/NBV (x)	2.6	2.3	2.1	1.8	1.6
Price/NTA (x)	2.7	2.4	2.1	1.9	1.7
Dividend Yield (%)	1.7%	3.1%	5.5%	6.6%	7.3%
EV/EBITDA (x)	12.4	10.9	7.5	6.3	5.8
EV/EBIT (x)	12.4	11.0	7.5	6.3	5.8
EV/Revenue (x)	2.9	2.9	2.2	1.9	1.8
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
Next Result					Aug 2011
COMPANY DESCRIPTION					
Cedar Woods is a residential property developer with large ongoing developments in Western Australia and Victoria.					

Investment Case

CWP trades at 9.1x guided 2011 NPAT of \$28m and 7.5x our forecasts for 2012 of \$33.8m.

We are forecasting dividend yield in the range 6% to 6.5% based on a 50% pay out ratio.

Historical trading metrics for the sector are provided below:



In general the sector has traded between 10x and 12x forward earnings, other than during periods of exceptional growth.

In our view 10x to 12x earnings is fair for the sector, with a positive long term view (driven by fundamental undersupply, continued population growth and a growing economy), offset by some short term headwinds, with dwelling approvals down in recent times and further interest rate rises possible.

We set our 12 month price target at 11x our forecast 2012 NPAT of \$33.8m which translates to \$6.13.

This is roughly consistent with NTA, which management have identified as approx \$6.00 (before tax and franking credits).

Catalysts

- Strong full year results and associated commentary.
- Earnings updates by the AGM which should firmly point to a positive 2012.

Risks

- Further interest rate rises that further dampens sentiment.

APPENDIX A - CWP Landbank

Location	Project Type	Status	Project Life							Total Lots	Lots Remaining	Pricing Guide (\$)	Valuation Basis ⁽¹⁾
			FY11	FY12	FY13	FY14	FY15	FY16	FY17				
WA Projects													
Rivergums	Southern Corridor	Mature								1,200	650	170-185k	I
Cambridge Waters	SE Corridor - Canning Vale	Completed								135	8	200k	D
Mariners Cove	Mandurah	Mature								850	215	500-600k	I
Mandurah Country Club	Halls Head, Mandurah	Completed								25	2	450k	N/A
Kestrels	Tapping, Wanneroo	Completed								530	43	280k	I
Waterline	Halls Head, Mandurah	Completed								19	9	1,000-1,500k	I
The Jetty	Rockingham	Under Constr.								16	16	1,000-1,500k	I
Port Mandurah (Sutton)	Port Mandurah	Under Constr.								90	90	Not yet released	I
Forrestdale	SE Corridor	Planning								150	150	250k	I
Carine	NW Corridor	Planning								60-100	60-100	TBA	D
Harrisdale	SE Corridor	Under Constr.								546	546	Not yet released	D
Bushmead	Perth Foothills	Planning								600-900	600-900	Not yet released	D
Pinjarra	Southern Corridor	Planning								920	920	Not yet released	I
WA Syndicate Project													
Cedar Woods Wellard	Southern Corridor	Mature								628	571	175-205k	I
Investment Properties													
Aria Apartments	Rockingham	Completed								1	-	N/A	I
Nautilus Apartments	Rockingham	Completed								7	-	N/A	I
Victorian Projects													
Carlingford	Northern Corridor	Mature								600	345	140-270k	I
Williams Landing	Western Suburbs	Mature								2,200	1,875	200-280k	I
Banbury Village	Footscray	Mature								358	358	Avg 525k	I
Camberwell	Eastern Suburbs	Planning								70+	70+	Over \$1m	C
Estimated Market Value NTA / Share⁽²⁾											6868	\$6	

Source: Cedar Woods Management Presentation

Disclaimer

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.